Q2 2017 Earnings Call

Company Participants

- Belmiro de Figueiredo Gomes, Cash & Carry Officer and Member of the Executive Board
- Christophe Jose Hidalgo, CFO, Corporate Services Officer and Member of the Executive Board
- Daniela Sabbag Papa, IR Officer and Member of the Executive Board
- Luis Moreno, Unknown
- Marcos Batista, Unknown
- Marcos Samaha, Unknown
- Ronaldo Iabrudi dos Santos Pereira, CEO and Director
- Unidentified Speaker, Unknown

Other Participants

- Guilherme Assis, Analyst
- Gustavo Piras Oliveira, Executive Director, Head of LatAm Research. And Latin America Consumer Analyst
- Irma Sgarz, Equity Analyst
- Joseph Giordano, Senior LatAm Healthcare Analyst
- JoÃ£o Mamede, Co
- Marcel Moraes, Senior Analyst of the Brazilian Retail and Household Personal Care sectors
- Richard M. Cathcart, LatAm Retailers Senior Analyst
- Thiago Capucci Macruz, Research Analyst
- Tobias Stingelin, Director

Presentation

Operator

Good morning. And thank you for waiting. Welcome to the GPA conference call to discuss the company's results of the Second Quarter of 2017. This event is being simultaneously transmitted through the Internet via webcast and can be accessed at www.gpari.com.br, where the respective presentation is found. The selection of the slides will be controlled by the participants. The replay of this event will be available soon after its closure. We inform you that the press release regarding the company's result is also available in the Investor Relations website. This event is being recorded. (Operator Instructions)

Before proceeding, we would like to clarify that statements made during this conference call regarding GPA's business prospects, projections and operational and financial goals are based on the beliefs and assumptions of the company's management as well as on information currently available.

Future considerations are no guarantees of performance. They involve risks, uncertainties and assumptions as they refer to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general conditions, industry conditions and other operating factors may affect the future performance of GPA and may lead to results that differ materially from those expressed in such forward-looking statements.

Now we would like to give the floor to Mrs. Daniela Sabbag, the company's Investor Relation Officer.

Daniela Sabbag Papa {BIO 22210225 <GO>}

Good morning, to everyone. Welcome to our conference call of the earnings results of the Second Quarter. Before I give the floor to Ronaldo, I would like to introduce the officers that are present. We have Ronaldo Iabrudi, CEO; Christophe Hidalgo, CFO of the company; Luis Moreno, CEO of Multivarejo; Belmiro, CEO of AssaÃ and then the other officers of the business units. I would like to give the floor to Ronaldo now to -- for his presentation.

Ronaldo Iabrudi dos Santos Pereira {BIO 20052606 <GO>}

Thank you, Danny. Thank you, to my entire team that helped us to prepare our material, especially to all of you that are participating in our second conference call meeting of the year 2017. As in the past months, I am going to be very brief. So I can give time to Christophe, Moreno. And to Belmiro so that they can show you in details our different operations. I believe that a word that summarizes our Second Quarter is continuity. I would also say that it is the continuity of everything that we have done in the past quarters. And this has resulted in perfecting the execution in services in our stores. As a consequence, we have gained market share in all our business units. Even Via Varejo, that is here with us. And we are continuing with all the efforts that we have carried out. And we have also improved in our indicators and our financial results. Continuity -- also when we see the macroeconomic environment, I believe that we continue undergoing a very complex environment and not very different from what we reported last time that we were together.

After saying this, I would like to draw your attention to AssaÃ's performance. Very briefly, I will talk about each one of the business units. But what have we observed in AssaÃ. And #1 was a very important impact on commodity deflation. Last year, during this period, we had commodity inflation of 2 digits average to high. And we are undergoing a period of commodity deflation. But although this, AssaÃ continues striving in a very positive way in its revenues. And this has also helped us positively. And we will see this in Belmiro's presentation, the dilution of fixed cost that as a consequence has helped us in an important fashion in our profitability. For AssaÃ, I believe the word that expresses AssaÃ-today is growth. Growth, it is growth through a very assertive plan and there was great internal consensus regarding the store conversion and that we -- and we will see the growth -- the opening of -- opening stores -- organic opening. Now and this -- so AssaÃ- will increase its share in a business and it will also increase its profitability. Now in Multivarejo, we also had and we will have the opportunity to see in detail in Moreno's presentation. We had important evolutions in a number of projects that I will not go into detail. But I would like to mention one project that for me is a project of utmost importance that uses all our database, that is My Discount project. It is a project that allows us to communicate and to carry out promotions in a very specific and customized fashion together with our customers. Moreno will give you details about this program. Here we're talking about initiatives like My Discount. Another initiative that Moreno will approach that has allowed us to continue working. And these are initiatives that we call transversal initiatives because they affect all the flags of Multivarejo. And these initiatives have allowed us to grow our market share after a number of months in Multivarejo. And this way we will be able to increase the gains or profitability within all the flags of Multivarejo. Another business that you had the opportunity to follow and to see the presentation yesterday is Via Varejo. Well we continue once again the word continuity, the word of order. We trust on the progress and the integration of the physical and online business. Peter and his team yesterday communicated what we're doing, how we are doing and how the results are emerging. And now we're also -- in addition to this point, I would like to strengthen the important agreement that we celebrated. And today, we can say that it has been approved because it was an agreement that depended on the approval of CDB and Via Varejo, a recommendation actually of the independent committees of CDB and Via Varejo. This agreement was approved in the respective boards of Via Varejo and CDB this week. This was approved by the board of directors of Via Varejo on Monday and yesterday this was approved by CDB. This is an agreement that was carried out with an important partner that is the client family. And this resolves past (pendant) issues and that in my view it defines clear criteria for the future operations of the company. And this is something that reassures the company's management. Now the figures that you saw and the evolution of the integration with physical and online shows us that we continue on the right path. And this is a path that we established some time ago. This means to conduct a disposal process of the company, to find a good balance between timing that is very important and the value to shareholders. We continue evolving in this direction.

Now from the financial point of view, I believe there was an important evolution in terms of net income. And this way we can strengthen our financial capacity with a drop of the net debt. Christophe is going to give you details about this point. Another remark that I would like to make is that, in my view, the greater visibility that the wholesale market has and what the stock exchange market has had because we will have better appreciation of the progress of the GPA as soon as we have more official indicators. And this will allow investors to invest and to compare the different operations of Brazilian wholesale market. And now I believe that the continuity of the efforts of the team that is being represented here because we are talking about over 100,000 people. I believe that this team is very assertive. We have worked in a gradual fashion but always following a trend to gradually evolve, be it in the growth of revenue, in the growth of market share, in the growth of profitability. And we have been able to do this despite a macroeconomic scenario that the team will also approach here. But it's still very challenging and very complex. Despite all of these facts and everything that we've seen in terms of results, the team is reassured and trusts the future. And we believe that if we follow this pace of work, we will continue presenting the results that we will present today.

Now I will give the floor to Christophe that will show you the financial indicators and then we will continue at another meetings and then we will be -- we will entertain questions.

Christophe Jose Hidalgo {BIO 17982648 <GO>}

Good morning, to everyone. Thank you, Ronaldo. Before we start, I would like to remind you that these results, they reflect the enforcement of RFA 5. And also the participation in (Ckey) and Cdiscount.

Now I want to go to Slide #1 -- #2. I will start by the performance of the food segment. Here we saw a growth of sales that was already announced of 9% ex calendar, a growth rate very close to the First Quarter despite the closing of Hipers, mainly undergoing conversion process, we're talking about 11 stores closed; and the significant deflation in some categories, especially fruit and produce and meat. AssaÃ, once again, drove performance with growth of over 29% in the period. I would also like to highlight the continued share gains, both AssaÃ and Multi, highlighting the hypermarket. When we see the gross margin in the quarter, we had tax credits related to the new tax replacement, which refers to the reimbursement of the ICMS paid between the presumed and actual sales price. These nonrecurring credits that is related to prior periods were of approximately BRL 447 million. And took place exclusively in Multivarejo.

AssaÃ did not record credits referring to historical periods of the quarter. Now regarding the monetization of these credits. As a consequence, the gross margin of the food segment during this period increased, 26.9%. Now when we see the gross profit shown in these tax credits, the margin is of 22.7%. In Multivarejo, the margin is of 27.4% and it is in line with the First Quarter. And the margin of AssaÃ was 15.8% as expected.

Now the adjusted EBITDA by other operating expenses normalized with a positive effect of credit was BRL 551 million. This is a growth of over 100%, retotaling a margin of 22.5 -- 5.2%. Now the control of expenses, especially Multi, coupled with the expansion of the gross margin in AssaÃ and Multi, allowed this important increase in profitability that showed the (assertiveness) of the company.

Additionally, I would like to comment on the adjustment of other operating expenses line. We had BRL 307 million of expenses in this quarter. Now the main points that were accounted are regarding BRL 183 million of the deferred tax amnesty, special tax regulation program. This is due to the good conditions that the program offered. And also the credits of the contingencies. The contingencies are regarding the period before 2008. And this is regarding 2 matters; one, CPMF and the ICMS credits in the import of soy that the group carried out before the year 2008. Now the addition to the tax amnesty allowed a reduction of approximately BRL 500 million in total contingencies. We also believe that the decision was very timely, because we also had positive nonrecurrent effects to offset the impact from the net income. The second part of these nonoperating expenses, BRL 183 million. Another part, BRL 115 million regarding the restructuring and mainly to the write-off of assets of the stores that would be converted from Extra to AssaÃ. We calculate that most of the restructuring expenses regarding the conversion are already reflected and we -- this should not impact the future periods. At last, highlighting the net income, the significant evolution of net income of the controlling shareholders. That was BRL 165 million, a margin of 1.5%. It is important to analyze this net income. If we adjust it by other expenses and also tax credits, we believe that our income would have been BRL 76 million vis-Ã -vis a loss of BRL 110 million last year.

Now going to Slide #3. On Slide 3, I'll briefly comment on the performance of Multi and AssaÃ. As for Multi, concerning sales, Multi showed a stable growth due to the closing of some stores, which are now being converted into AssaÃ. The positive highlight is the Extra Hiper, which was leveraged by the positive leverage from non-food. The gross margin on Multivarejo reached the level of 27.4% without factoring in the nonrecurrent fiscal credits which have been mentioned. That is a margin which is quite in line with the level we delivered in the First Quarter. I'd like to reinforce that this level of gross margin is a representative level of what we expect for the remainder of the year.

As for EBITDA, the adjusted EBITDA, also excluding the effects from tax credits, was a significant growth when compared to the Second Quarter of last year, with EBITDA margin reaching 4.9% or 220 basis points when compared to the previous period. And with the strong control of SG&A with a nominal drop of 3%, I also would like to highlight the fact that we should close the year with growth in expenses below the inflation for the Multivarejo arm.

In summary, we could say that Multivarejo has been recomposing its margins and being more assertive in its commercial initiatives. And also leveraging an important control of expenses and has also focused on recomposing the store portfolio. If we look closer at AssaÃ results, we can see that once again the growth was robust, also a result from a consistent growth in terms of conversion of stores. The same-store performance in the quarter was above 13%, which also showed a growth when compared to the First Quarter of the year on top of a higher flow of clients and also a higher volume of sales, which partially offset the negative effect of deflation in food items.

I'd like also to highlight AssaÃ once again, reaching 40% of sales in the food segment in the Second Quarter. As for gross margins, a growth of 15.8%, a very important leap when compared to the previous year, the First Quarter of last year and this year as well. And that can be explained mainly by the new tax landmark and the remaining impact driven mainly by operating improvement and to a better consumer mix. Looking forward. And taking into account a deflation scenario and this continuous change of mix, we believe that AssaÃ will continue to operate with a very good gross margin at around 14.8%, which is a level which we consider to be very competitive for this industry.

Also for AssaÃ, expenses dropped 20 basis points, showing that the speed of growth of sales have -- has offset expenses related to expansion and conversion of stores and also through a higher participation of individuals. Consequently, adjusted EBITDA reached a level of 5.6% in the quarter and our expectation for EBITDA margin for 2016 (sic) (2017) sits around 5%.

Moving on to Slide #4 now. We see the financial result and net debt. We saw a financial result of 1.8%, 60 basis points better than last year, accounting for a nominal reduction of 21%. Debt improvement arises from a drop in the gross debt at BRL 440 million when compared to last year, on top of lower level of the Selic rate, which went from 14.1% in the Second Quarter of last year to 10.9% in the Second Quarter of 2017. With an expectation of a lower Selic for the coming months and also with operating improvements that we expect to implement in the business, we can estimate that we'll keep financial results at the level of 1.7% of sales or even below that for this year.

As for the leverage level, we have reached a level of 0.9x EBITDA, which is below the -- below by 0.5% (sic) (0.5x) when compared to last year. The company has kept a robust financial position with available cash at BRL 2.4 billion and a balance of receivables -- or nondiscounted receivables at BRL 329 million or BRL 2.7 billion in terms of reserves.

Before I conclude our financial comments, I have to mention the very good performance shown by Via Varejo, a double-digit growth and a recovery of profitability levels with an EBITDA of 5.8%. The synergy projects conducted about -- throughout many months, along with (Viva), were very successful and brought along several benefits and led us to be in line with the objectives we have set before which are BRL 50 million (sic) ($50 million) in synergy for 2017. That number has to do with the LATAM market as a whole. I here now close my comments and I give the floor over to Luis to talk about Multivarejo. Thank you.

Luis Moreno {BIO 16351507 <GO>}

Thank you, Christophe. Good morning, everyone. In the Second Quarter of 2017, Multivarejo recorded an adjusted EBITDA of BRL 311 million which accounted for 4.9% of sales, which represent a growth of 1.3percentage points when compared to the Second Quarter of last year. And some instability when compared to the First Quarter of this year. As for the commercial margin, excluding tax credits, we see a stabilization at the level of 27.5% at the same level of the First Quarter of this year and an improvement of 160 bps when compared to the First Quarter of last year. As for expenses, we saw a reduction of 3% when compared to last year, with a dilution of 60 bps of SG&A as a percentage of sales. This improvement was shown in the reduction of our consumption of energy and the rollout of our energy efficiency programs. As for headcount, because of better productivity of our stores, we see also an improvement of 220 bps in EBITDA when compared to the Second Quarter of last year, which is made up of 60 bps of improvement in expenses and 160 bps in terms of improvement of the margin. Sales saw a growth -- same-store growth excluding the calendar effect of 1.2%. Those sales came in a very challenging economic context, with high unemployment, still 240 bps above last year. And a strong drop in inflation, especially for food items. The inflation figures are way below expectations with an accumulated rate of 1.6% in the First Quarter and 0.16% in June, which is the lowest level since 2006. This food deflation has significantly impacted the perishables categories, which have a higher weight in our grocery store format for PÃ£o de AÃ§Ã°car and Extra. For vegetables, we saw prices reducing by more than 5%. It's also important to remember that our total sales suffered a very relevant impact from the conversion effect from Hiper to AssaÃ. Today, we have 16 fewer Extras than we had in the First Quarter of last year. Out of those 16 stores, we closed 14 in 2017. We have already reopened 5 AssaÃ stores this year, with a significant growth in sales and higher-than-expected results. I'd like also to share that we recently announced our market share for May. And we are once again gaining more market share in the market when we talk about same-stores. It's worth mentioning that we saw gains in all periods of 2017 until today. Numbers from June have not been announced yet by Nielsen.

As for our transformational projects, we launched on June 29 the My Discount program which consists of offers which are 100% customized and made available through an mobile app. This solution is 100% digital and it's free and it's made for our loyalty clients -- loyalty program clients. This launch was very successful and generated high levels of interest of our clients both at Extra and PÃ£o de AÃ§Ã°car. In the first 2 weeks, we reached more than 1.4 million downloads. And we still see a stable and consistent flow of new downloads every day. Besides and even though we already have more than 12.5 million clients in our loyalty base, by the way, the largest loyalty base in Latin America, more than 400,000 new clients have filed, which entail a growth of 3.2% in our loyalty base. In only 20 days, 1 in out of every 6 clients which have become loyal clients have already used this new digital tool. The involvement of our suppliers in this (new platform) is very stable and robust. And our partners are maturing and improving their capacity of using this tool to generate important gains in their respective promotional investments. Besides additional investments made by our suppliers, My Discount also offers the possibility for all of us to increase our own promotional investment. And we have been doing this for the past few years anyway. Our brands now focus on an increase of share from each client.

As for our e-commerce platform, we have changed our value proposition with the launch of paodeacucar.com with a new platform and a new layout, which is 100% adaptable to smartphones and focused on the comfort of the clients in terms of use. Besides, in order to ensure a high fluidity and experience of our clients. And as a complement of our next day delivery, have launched the express delivery. And click and pick. At the end of July, we already have 40 stores with express service already in place in 4 states; SÃ£o Paulo, Rio, GoiÃ¡s and CearÃ¡. And our objective for 2017 is to end the year with 70 stores operating in this format. I'd like to call your attention to this initiative. Each store working with the express program reaches an additional sales level as that of the Minuto PÃ£o de AÃ§Ã°car stores. It is a high level of growth with a very low level of investment. On top of the express program, we also implemented a click and pick up, which is very good for our clients. We already have that in place in 5 stores and we expect to reach 15 stores at the end of the year.

As for our client satisfaction, I'd like to share the results of our quarterly survey with 25 satisfaction attributes for our clients. Specifically for PÃ£o de AÃ§Ã°car indicators, amount of cash and waiting time at the cash registers have improved when compared quarter-on-quarter and have reached the best level of results since we launched this satisfaction survey one year ago. This improvement of results reflects work done by our teams, which drove our multitalent or multiskilled program which allowed us to optimize the cost of personnel. I'd like to reinforce the success that we've had in this program and also to recognize and acknowledge the efforts conducted by all our teams. About 12,000 employees who did not work directly in cash registers are now being trained and were trained to operate cash registers. And with that, our stores now have doubled their capacity to service clients at peak hours. On top of that, we have also implemented a program to encourage 100% of our 55,000 employees. So that the teams who show better efficiency gains will be able to complement their salary with financial bonuses at the end of the period.

As for the business units, as for Extra, I'd like to reemphasize that we continue to have excellent performance since the launch of our new commercial dynamics. At the line-for-line, we saw a growth of market share in the year-to-date numbers and also for each period since the beginning of the year. Part of that performance is still driven by the excellent performance by the non-food items for the past nine months, which comes to reaffirm the success of our new concept for our textile categories and also consumer electronics and home appliances. As for Extra Super, we have reactivated our share in nonperishable items, an opportunity which was identified after we conducted a survey with clients. We have worked strongly to communicate this new way of selling. And with this we're able to better position both brands. As for PÃ£o de AÃ§Ã°car, we continue with our plan to have between 15 and 24 revampings this year. Those revampings will follow the model used in the AnÃ¡lia Franco store with some concept adaptations and a strong emphasis on digital and multichannel platforms. As for expansion, we will be opening at least 2 new PÃ£o de AÃ§Ã°car stores for PÃ£o de AÃ§Ã°car, which reinforces our intention to continue to grow in that format. On top of that, we have also launched a new model of communication for PÃ£o de AÃ§Ã°car, with a revisit (of the reviewed) leaflet with more assertive offerings for that brand. Besides. And to establish brand image, we have identified a series of iconic products for that brand, which the client will always find at a lower price. For example, Italian bread, orchids, special cheese, Parmesan cheese, imported items, roasted chicken with our specific brand. Too -- also our (egg) brand, which will focus on health products. As for proximity, we continue to -- with our digital transformation, have developed a map to create a communication channel which will be more efficient with our allies, which allows us to have -- to be more nimble in terms of sending purchases. At the end of the First Quarter, we have reached 236 allies. As a conclusion, we have managed to achieve an important growth in results in terms of profitability, even though we are facing a very challenging economic and political scenario. We have been managing to balance results delivery in the short-term with a long-term view through a digital transformation, which was (deep) in our business, always trying to make our decisions more accurate, more precise, our investments more assertive and our operation more efficient. Thank you very much. I now give the floor to Belmiro, who'll be talking about AssaÃ.

Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Good morning, everyone. Thank you, Luis. AssaÃ, as Ronaldo and Christophe mentioned, continues to show strong growth in the Second Quarter with growth of 29% in gross revenue. Numbers arise from a high acceptance of the format and also because of our positive flow of clients, which have allowed us -- even with a strong basis coming from previous years allowed us to grow in volume. And that growth in volume and flow will result in a growth of same-store sales of 13%, even though we are facing a more complicated scenario. And even though we are coming from a strong basis in previous years. We have also to highlight a strong contribution coming from the new stores, especially those from last year. But also from those which were opened this year. They have matured quicker than expected. They did not require as strong investments as we saw in the past. So those new stores have contributed significantly to this quarter's results. As Christophe has mentioned, with this growth, AssaÃ now accounts for 40% of GPA food in the Second Quarter. There is a significant difference because we are operating with an inflation horizon which is quite different from last year's. I'd like to call your attention to that as well because when we look at growth last year and compare that to this year, in nominal terms we have a lower number but the real growth in the Second Quarter, which was 29%, is higher than the 37% recorded last year because we have an inflation delta of something close to 15% in the Second Quarter. So when we look at the growth in volume, both for the same-store basis. And therefore the total basis, we see a growth in 2017 which is higher than that recorded last year. That's not visible nominally because of the inflation delta. In June and July -- the end of June, we saw deflation for some product categories. So that difference arises from a drop in commodities, dairy products, meat, fruits and vegetables. So there was almost a whole step of drop in inflation, which of course impacts the total sales numbers. If we were to keep last year's levels, we would be growing at 40%. But in terms of volume, market share gain, AssaÃ follows on the same path of growth of previous years. We also see a highlight in margin, even with this drop in prices, the opening of 4 stores on top of the stores opened last year. And also the recognition of this new tax milestone, which was mentioned by Christophe, we saw a significant growth in margin when compared to the previous year, even with the 0.8% incurred by the change in the tax milestone.

Now the expenses is a matter that we control something amongst our management, AssaÃ presenting growth with deflation in prices vis-Ã -vis the expenses. Our processes of cost control, optimization of process -- optimization and automation of processes within the shop floor, with the introduction of new tools that allowed our employees, our personnel from the store to operate with more productivity in inventory, personnel control, products, reception. So this has allowed us to drop our expenses 0.20 in 2017 vis-Ã -vis 2016, although we already have preoperating costs due to the expansion plan, due to the amount of new store openings for the third and Fourth Quarter. As a result of this margin improvement and the expense control, we have a significant increase, Christophe -- Ronaldo has shown us regarding our EBITDA margin. And it's -- without being adjusted, it is 4.8% vis-Ã -vis 3.9% last year, an increase of 0.9percentage point. And EBITDA totaling 5.6% -- the adjusted EBITDA because you have the impact. So when compared EBITDA of 4.8% of the quarter together with a drop of the financial expense of 0.50. And this is a significant growth in net income that is BRL 96 million, an increase of 150% vis-Ã -vis last year. This is the closing of the Second Quarter as a general context. We would have -- we have to highlight of opening of 4 new stores. AssaÃ is strongly focused, expansion is very strong. And we have opened 4 stores. Out of these 4 stores, 3 are a result of conversions of Hiper markets to AssaÃ stores. We are reaping the results. We opened (39th) store in (inaudible), also another one in Santander, Carapicuiba. This is a result of our converting programs, that we have been very assertive, the regions, the location of the store. (Until the moment, we) have increased the influx of 50%. And increase of sales 3x the former operation. And this is above our target that was 2.5x. I would like to highlight an organic store in (inaudible). This unit is the organic unit that was built and it has a special characteristic. We incorporated the greatest solar plant with 8,000 square meters of solar photovoltaic panels. And they generate a lot of energy. This is a store that in the best time of (sun), 100% of the power is generated by the solar panel. This is a strong investment that we're carrying out to optimize for sustainability, reduce expenses. And the panel generates a drop of cost of 40%. Now Carapicuiba is the 110th store. Carapicuiba project is the greatest store, the biggest store that we have. And this also has greater expertise in terms of adaptation regarding the conversion. And with this store, we can learn more about process, procedure, adaptation in order to transfer this to other stores.

We have to highlight that during this quarter, AssaÃ launched its own brand card. This is a pilot card in 2 stores. The results of this -- the results are above expectation and it's being implemented in 15 additional units of the network with a great range of customer profile. In the past year, the end consumer have gone after the wholesale market. Therefore, we understand that this is the right moment to work with a card of our own flag, Lauro de Freitas and SÃ£o Paulo will have had results above expectation. And we are implementing this card in 15 additional units. Currently, we have 17 stores under construction. AssaÃ has 12 stores being converted -- Extra stores converted to AssaÃ, plus 5 organic stores. So with this, we -- during the Fourth Quarter, we will grow a lot like in the past year. So these 17 units will add approximately over 100 square meters to AssaÃ's area so that we continue to maintain the consistency of growth. Now when we see the future in all dimensions, I believe that we will visualize -- in terms of inflation, there will be an impact on the Third Quarter. This will lower in the Third Quarter with the excess of harvest, lower demand, low exchange rate of the dollar and the economic situation of the country. A number of products have dropped prices more than expected. But AssaÃ has a very strong model, highly accepted from little entities, individuals. The commercial policies, assortment and pricing policies has allowed us to grow in volumes and customers strongly. Now when you see the market share that AssaÃ achieved in this quarter vis-Ã -vis last year, over 4percentage points in one year. This increase of growth in market share and total growth in terms of influx of customers of 30%. I believe that we will maintain this now with this calendar of new clients. The team is focused. We continue focus in improvement of sales, reduction of expenses and delivery of results. This is what I had to say regarding AssaÃ. And I give the floor to Daniela Sabbag.

Daniela Sabbag Papa {BIO 22210225 <GO>}

So now we can entertain questions and answers.

Questions And Answers

Operator

Now we will open to our Q&A session. (Operator Instructions) Our first question from Mr. JoÃ£o Mamede at Santander.

Q - JoÃ£o Mamede

I would like to ask 2 questions regarding your guidance, one regarding the EBITDA of 5.5% in food. I would like to understand how you break this out business by business. I ask you this because you talk about 5.5% with stability for Multivarejo and more gain for AssaÃ. So if we analyze the first semester of this year, Multi already presents a margin gain when you compare it to last -- the first semester of last year. I don't know if I didn't understand the interpretation. You expect a drop in margin year-on-year when you compare it to Multi last year or the stability of the second semester. And the difference comes from AssaÃ. And moreover, what do you believe is margin for AssaÃ for this year?

What is implicit to reach this 5.5%? This is what you said in your guidance. Now regarding your guidance again, now the $50 million that you will capture in synergies from the LATAM operation. If you could elaborate, where does the -- do the synergies come from? What sources of value do you visualize in order to attain this $50 million?

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

Well. Good morning, JoÃ£o, this is Christophe speaking. Now regarding our guidance of 5.5% of margin of adjusted EBITDA -- normalized EBITDA margin, well, this implies as our first semester delivered an EBITDA margin of 5%. And this implies in delivering something around 5.6%, 5.7% for the second semester. That is more important than the first semester in terms of results. This 5.6%, it's difficult. 5.6%, 5.7% is difficult to break out because the flows migrate a lot, as we see in different channels. But what I can say here is that the last year during the second semester, we delivered an EBITDA margin of 5.3%. This EBITDA margin would take into account an AssaÃ profitability that was much lower than what we expect this year. So this is why we can maintain this guidance of 5.5%. This is a yearly view, not a semester view. The EBITDA around 5% could be higher depending on the effects of the deflation on AssaÃ and an EBITDA superior in Multivarejo but relatively stable regarding to what we observed last year. Now in terms of the LATAM synergies, I believe that Ronaldo will answer this question.

A - Ronaldo Iabrudi dos Santos Pereira {BIO 20052606 <GO>}

Now the LATAM synergies, we communicated this during the beginning -- no, in the middle of 2015. And we have followed up. We haven't informed this in each one of our events. But we carry out physical monthly meetings with the team from Colombia, Uruguay and Argentina. And we hold meetings on a monthly basis. So this is we -- through video conference call where we follow-up over 17 projects. Now the main values of the $500 million (sic) ($50 million) are highly representative. And I believe that Luis Moreno mentioned that we call this loyalty. But this is -- to clarify, this is a proper use of CRM. And My Discount program is an initiative that was developed and that is being copied by other countries from Latin America. So therefore, I believe that here we have an important gain. I would like to remind you that in the year of 2016, it wasn't $50 million. The gain was $26 million is what we are continuing to -- what we did last year and implementing some projects of loyalty textile. Also we started with the pilot project last year. And we are expanding this program throughout this year. And I believe that we have very important gains here. We have partners. And since last year, we had 100 partners or allies. And we want to have 500 allies. We have rendered 136 and we want to have 500 allies or partners until the end of this year. Now we also -- we rearranged this work with partners that have the flag CompreBem and we are very happy with this project. Now we're also looking of best practices regarding ruptures. And this is something that I've seen very positively the team from Ã‰xito in Colombia was doing. And we're copying this in Brazil. So there are over 16 projects and they have also used the model of AssaÃ in Colombia. Therefore, with these continuous LATAM synergies that started in the middle of 2015, consolidated in 2016 and throughout 2017, we're giving continuity to this project. This is a gain of $160 million until 2020. And according to our current pace, I believe that we will achieve this gain in 2019. So I believe, in addition to a gain of $50 million, that has created a culture and great approach amongst the different operations from Latin America.

Q - JoÃ£o Mamede

Excellent Ronaldo, Christophe. Just one point for Belmiro. Belmrio, during his presentation, he talked about the gross margin and the drivers of margin expansion. Belmiro, could you elaborate about this because margins have been increasing quarter after quarter? I don't believe where we can get more margin. But I believe that the increase was big this quarter. I would like to better understand point by point, from the 4 or 5 points that you highlighted in your release, how much each one of these points represented in terms of margin expansion and what can we expect for the second semester along these lines.

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Thank you for your question. As a matter of fact, the margin during the Second Quarter had a strong evolution. And we have highlighted this in other presentation that the margin historically carries the openings of the past year. And this is very important regarding the terms of maturity this year and they are connected to our assertiveness in new stores opened last year. Therefore, we did have contributed sales and margin above expectation. So I could say that they no longer consumed, that would be 0.40 of margin. And we also have -- we also -- the tax framework related to the ICMS, there was an improvement that resulted in 0.30. In addition to this, we already had an expectation of inflation and there was inventory drop focused on the new mix of products and new product categories. And that totaled an improvement of margin of 1.8% in addition to the 0.8% regarding the new tax framework. Now perhaps this wasn't a typical quarter because now we have a scenario of deflation and a calendar of opening new stores. We're building 17 new stores. We intend to build 2 new additional units this year. This is -- there are states where -- there is a state where we're investing. Therefore, yes, we could -- I can -- perhaps we can expect something around 14.7%, 14.5%, up to 15%. But it's going to depend on how the results of these new stores will be. But I believe that the margin this Second Quarter has been good. You discount 0.8 and also the new tax framework and we would -- 0.40 wouldn't be the impact of the expansion. And the rest comes from improvement of commercial practices and other categories that is very complicated to break out. But I can also tell you that, yes, this is no secret. During the past two years, we have 2 million families that are migrating to -- from retail to wholesale segment. So when you see the average, the average margin of (LP), when we see direct growth income. Although in average, we have, I don't know, an average of 15%, the price to the trade is 12% and the price to the consumer is around 17.5%. Knowing you have a variation of a customer mix, it's also natural to have a change in margin. There is a very strong increase of inflow of consumers last year, was 2 digits. This year is 2 digits. Year after year, this has had repercussions during the first semester and even stronger during the second semester regarding the increase of margin.

Operator

The next question, Richard Cathcart, Bradesco.

Q - Richard M. Cathcart {BIO 16457807 <GO>}

I would like to ask you regarding the EBITDA margin of PÃ£o de AÃ§Ãºcar supermarket. I know that you don't disclose the margin. I would like to know if you could comment about the pendency, the (pet) trend. Is it stable,, growing, dropping? Because I believe that the first semester was a bit weak. And the second question that -- Belmiro, you spoke about the drop of inflation. And on Slide #3, you showed a deflation of 3.3% in food. I would like to know if inflation -- the internal inflation of AssaÃ, the increase of price in average year after year of AssaÃ was aligned with the 2.3% or was it different because of the different mix and because of this IBGE index.

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

Okay, Richard. This is -- regarding PÃ£o de AÃ§Ã°car margin, it continues 2-digit margin and at a level highly above last year's level.

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Thank you very much for your question. Now regarding the inflation, the internal inflation has been a (clock) of the IPCA. Therefore, when we see the inflation we have from the Second Quarter of last year to this quarter right now, 14.45 interest rate. Therefore, last year we had an average inflation of 4.35 during this period. Now it has become 0.10 negative. So (signalizing) a deflation, although trending toward zero for the second semester. What we have observed right now in food and we have seen in the prices of agricultural commodities is that we will still observe greater drop in the inflation, where we expect deflation in food around 2%, tops 2.5% during the Third Quarter. This will normalize because last year, prices went up during the Fourth Quarter. So during the Fourth Quarter, we will see a recovery. Of course, inflation doesn't have recovery. But we will have positive variation indexes.

Q - Richard M. Cathcart {BIO 16457807 <GO>}

If I could have a follow-up question about PÃ£o de AÃ§Ã°car. With same-store sales at a negative level in the first half. And for 2015 and 2016, we also had low same-store sales for PÃ£o de AÃ§Ã°car, how do you see growth happening for PÃ£o de AÃ§Ã°car?

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

Great question. I'll try to be brief. But in line with what you said, the first thing we tried to do early in the year was to draw a clear diagnostics of what happened in the previous years. We revisited all the surveys we conducted with consumers, satisfaction surveys. And we also reviewed the Nielsen analysis of the ranking and then we put together a plan, which started to put into place in March, April, which aim at strengthening what we understand to be PÃ£o de AÃ§Ã°car's best indicators. It is to reinforce the brand's value proposition. We work in 5 different fronts. Price margin, as it was mentioned by Luis and by Ronaldo. The focused discount is a very important tool because a great percentage of our purchases come from the loyal clients, the loyalty program clients. So we focus on those. We have also worked to downgrade some categories which are no longer being purchased. We also reviewed guidances, we reviewed our client base, we reviewed what we call the reference market in order to ensure the basic service. And it was also mentioned here that we worked on cash registers' waiting time, the drop in breakdowns, which is something we focus on strongly. We also worked to distinguish our products. We emphasized our strengths, our iconic products such as wine and cheeses. And from the structure standpoint, we revamped from 15 to 20 stores. So we identified good opportunities in those stores. We also went to Chicago last month. We had a meeting of LATAM and we visited new proposals of value. We saw new stores. And the new stores which are being revamped, we already incorporated some of those things we saw abroad. And lastly, we were focused on operating excellence. For example, we emphasized on perishable products, for example. So we have a well-thought-out plan in place, engaging all areas. And we are confident in the upcoming results. June, as a matter of fact, already shows good results in terms of average tickets -- ticket levels when you compare quarter-on-quarter. So we are very confident that this plan will work out both in the short run and in the mid run.

Operator

Next question comes from Thiago Macruz from ItaÃº.

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

I have a question about Extra hypermarket. If you could share with us the performance of the non-food items in the hypermarket in this quarter. Has it improved? And if so, what kind of impact we felt in profitability? And the second question for Christophe. Christophe, you have shared some guidances for the year. Could you perhaps help us think about the other expenses entry. I know you mentioned before that it should be under a more strict control going forward. But I would like to see some color on what you can expect from the remaining of the year? Can we expect a drop year-on-year? Could you help us out in this particular entry of the expenses, please?

A - Marcos Batista

Jack, this is Marco from Extra to answer your query on non-food and hypermarket segment. Since the end of last year, non-food items have been showing very positive performance in our growth -- sales growth. It not only added a good performance. But it has also helped in profitability across the company because it adds on margin and it also adds on the sales of services, on the sales of extended warranties, on the sales of the whole bundle that we offer our clients as they make the purchase of non-food products. So a series of services tag along to that purchase. So that's a purchase experience we have been offering, which has proven to be very successful. So the experienceÂ inside the store, not only for consumer electronics. But we're also talking about growth in the past month in the area of textiles, as it was mentioned by Ronaldo, our close work with Colombia in the textile area, which we started last year with 3 stores. We have already expanded somewhat. We are this year expecting to roll out another 40 stores. And you know that textile margins are above that are those of other categories. And also for the last few months, we have also seen growth in other non-food items, which also present higher margins when compared to other areas in the supermarket or the hypermarket. We have a model, a pilot, which was implemented in the (inaudible) store here in the city of SÃ£o Paulo, close to the airport. And this pilot model is now being replicated in other 40 stores in Brazil, higher-volume stores. And until October, we expect to have a full rollout and that has really boosted sales. And I'm sure it will help us out in the coming months. We are very optimistic about this model we're now being able to replicate.

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thiago, thank you for the question. This is Christophe. As for guidance for the other expenses entry, by definition that kind of guidance is difficult to share because we are talking about one-off expenses. What I can tell you is that within the approximately BRL 300 million which we accounted for in the first half, there was a decision to buy into the (release) program. And then it was clear in the release . But the remaining amount, approximately (BRL 120 million) in the first half, can be compared when we talk about last year compared to BRL 600 million. So we believe we are today in a position of deal with contingencies at a better level because we anticipated all the conversion effects. So now we think we are significantly below last year's level. Now that cannot be seen as a guidance. Of course, mitigating factors for other expenses could come from, for example, positive effects from one-off residuals. For example, if we sell an asset, we have an asset sale program in place, as you know. So that could be a one-off positive effect. Or we could have nonrecurring tax credits, as it was mentioned before. And that could happen in other periods going forward. We also have in our horizon, for the second half of the year, this multibillion discussion about including in the ICMS base the PIS-Cofins taxes. This is very technical and we have to wait and see what's going to happen. But the fact of the matter is that today we have no expectations of spending as much as we did last year. I'm talking about that BRL 600 million figure I just mentioned.

Operator

Next question, Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Two quick questions. The first one, current inflationary environment, where we see inflation dropping significantly. Doesn't it bring some kind of benefit to the gross margin, maybe? As we do not have to transfer that inflation to the end consumer, that could be a benefit. Am I right? And understanding that maybe in the past when we saw inflation dropping fast, I think we did see some benefit for the Multivarejo segment. And that could perhaps somehow also benefit AssaÃ and other types of sales as well. I'd like to confirm that impression. And to what extent do you think that has actually helped the company's numbers in the Second Quarter? And if you expect this to continue to support gross margin going forward? And the second question, I'd like to see an update about plans and proximity of stores. We've seen some closures in the beginning of the year in the First Quarter. But in terms of openings, we see small numbers for this year. So -- but the company does have plans to scale that more significantly. So I'm trying to understand what's in your mind about recovering a more aggressive pace of growth?

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thank you for your questions. As for the impact of inflation on gross margin, initially it was a favorable impact when we have high inflation because that devalues our inventory. But we do not see a very significant effect either way, positive or negative, as a significant sharp drop in inflation, of course, pressures results because certain expenses, for example, collective bargaining, that does not change at the same pace that inflation is dropping, as we know, because it's connected or linked to a longer period of assessment. So in principle, a sharp drop in inflation has no impact, directly speaking, positive, in margins or in the results. As for the proximity stores, we talked about it in our introduction.

A very strong bet we are making is on delivery and express for our PÃ£o de AÃ§Ãºcar store.

(technical difficulty)

model, the express model combined with physical stores. And also the Minuto stores, which potential could be accelerated. But in the short run, we do not expect to see that because we have alternative options that do the same thing.

Q - Irma Sgarz {BIO 15190838 <GO>}

Two follow-ups. I will rephrase my question about the gross margin, about inflation dropping sharply. My question has to do with gross margin. The price you are paying for products is dropping sharply and maybe in a first -- at first, this is not being passed on to consumers. Maybe in the short run, we could see some positive opportunity for the gross margin. From what I understood is you're saying that, that impact is not going to be seen. Am I correct in my understanding as I see it? Because perhaps, temporarily, that we see some improvement in gross margin coming from that sharp drop in inflation, especially that is where we do not have immediate effects, such as in the cash-and-carry segment. And also for proximity, the (inaudible) still has 200 stores. And I'd like to hear more about that specific format in Minimercado.

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

As for inflation, Irma, for us it, clearly, as Moreno says, clearly, does not have an impact on gross margin, quite the contrary. At first, we see a loss in sales, as Belmiro explained. And why is that so? Because last year dry beans went up. It's BRL 480 per bag, soy BRL 90. And this year, dry beans are at BRL 139, milk BRL 180, soy BRL 70. So for the same volume purchased, we have a lower revenue. So there is a loss in sales at first, that's the first reaction. What we do believe in is that whenever we have lower inflation, in the mid to the long run, it will benefit retail. Why? Because consumers will have a higher purchasing power and will buy more items. But there is no influence on the margin, as Moreno said, at first. But if we look at it from the mid to the long run, of course it is very positive to have lower inflation, both for food and consumer electronics. And Moreno will address that in terms of proximity of stores.

A - Luis Moreno {BIO 16351507 <GO>}

As for mini Extra, what we're doing is we're reviewing the operating model. We are conducting important changes as for the assortment of products. The idea is to have a much more assertive assortment of products. And the idea is to reduce the promotional level that we had before and to migrate to a more stable and efficient model. We are also reviewing the level of store service. We're reducing the unit peak in terms of logistics. We are consolidating night deliveries for stores to make a better use of the time of the trucks. And once this model is operational, we will be able to have a much more successful model and with the ability of being extended.

Operator

Next question, Gustavo Oliveira from UBS.

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

One quick question about margin and about your guidance as well. It was my impression that with the store conversion, Multivarejo could see a growth in margin. Is that what your guidance says? It wasn't clear, the question of margin and Multivarejo.

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

The conversion criteria for stores follow an initial criteria, which was profitability of the existing stores. We combined that criteria with the criteria of the upside criteria for sales coming from AssaÃ. So converted stores, if they are below the profitability level of Extra, are not necessarily the worst stores to be converted. Those -- the better stores are the ones which have a better potential of upside. And that will incur in a positive effect, even though they are below the average. So it's still considered to be a strong source of conversion.

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

So for the year, in your guidance, we should be working with a flat margin year-on-year for Multivarejo. Am I right in understanding that?

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

I'd like to reemphasize that. At first, we looked at conversion -- converting stores which had the lowest margins. But as we conducted a deeper analysis, which means to say we tried to identify stores which would bring higher returns to the group -- to give you a concrete example of what just happened on the 30th of the month. We opened the Carapicuiba store. We're talking about a store which had a good level of operation with a reasonable level of margin. But when you assess the return on investment, as you compare to AssaÃ, for the group it would be more interesting to make the conversion, as Belmiro mentioned. And as we are now seeing with the current results, results are even better than we had stated in our business plan. So I understand your question because at first, that's the rationale we worked on. But then we have evolved and now we're focusing on higher returns and not simply looking at stores which were not showing performances which were within the average of Multivarejo. So that's the best criteria. In other words, to focus on returns for the group across the board.

Operator

Next question, Guilherme Assis, Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

A question is to Luis Moreno. And I would like to have an update regarding Extra promotions. There is a great transformational movement of My Discount. But in Extra, I do understand that there is a fine tuning that is within the strategies that will be implemented -- that were implemented last year. And (FLGV) and (inaudible) and (CearÃ¡ Extra) as well. I would like to understand what should we expect from the fine tuning if the assessment from Luis specifically is that these promotions have already fulfilled their target and now they will be adjusted so that we can -- so you can have more loyal customers and more profits to your business. This is one question. The second question would be the renovation, the retrofit of PÃ£o de AÃ§Ãºcar. Could you talk about this new model of AnÃ¡lia Franco? I haven't had the opportunity to visit this market. And what is there so different from a traditional PÃ£o de AÃ§Ãºcar store that will be -- so what will happen after these stores that will undergo a retrofit? What's going to be the change?

A - Luis Moreno {BIO 16351507 <GO>}

Thank you for your question. I will start answering this question and I will give the floor to Marco Samaha. Now the (inaudible) promotional -- the promotions that were launched last year 1, 2, 3 (inaudible) (more cheaper were based). What did they want? They wanted to generate a routine within our customer and they fulfilled a very specific mission. The first mission would be to allow complete purchase of the customer. And 1, 2, 3 covered all the store categories, changing brands every 15 days. (inaudible) is a target. What they wanted to do is that the customer that was in the store could buy produce, vegetables and fruits. And they wouldn't have a priority day for this day. And Mais brought up in a situation of crisis was to allow the access to our customers, (inaudible) to second and third brands that was the first price of the market. These are stable proposals -- value proposals. Mais Barato is given a promotional proposal. It's a permanent price. And we understand that the 3 make sense regarding our target, that is we want a complete purchase routine from our customers. Now what we're going to do is we're going to integrate this promotion with this new digital tool. And we're going to migrate parts of this dynamic and there will be a more customized behavior. But I do believe that this makes sense for the mission that we established. And (inaudible) Marcos Samaha.

A - Marcos Samaha {BIO 6725915 <GO>}

What we are -- now, on June 15, Mais Barato (inaudible) celebrated their 1-year anniversary. (inaudible) 1, 2, 3 celebrated its first anniversary. And after 12 months of launching these programs, we have learned a lot. We know what worked and what didn't work so well. The 3 programs together have helped us to have a (profit) of market share gains for the hypermarket format since last year. And we believe that, yes, there are lessons learned that are allowing us to carry out the fine tuning that you mentioned. And we are broadening some categories of 1, 2, 3 so that Mais Barato is more robust. And to be very aggressive at the point of sales and the integration of the communication of (inaudible) with the other 2 programs, how we communicate within the store and how we communicate with our customers. These are some adjustments that we're carrying out so that the 3 programs together can bring new levels of growth to us during the upcoming months. You are right, the fine tuning is ongoing and it's a result of the learning curve that we're attaining because we have been over one year with these 3 programs.

Q - Guilherme Assis {BIO 16143141 <GO>}

If I could follow-up on your answer. I believe that this is clear. I believe that the fine tuning is clear. I would like to understand what is happening. Are you changing product category? Because I thought that you would change every 15 days 1,000 programs. And you had 1, 2, 3 steps. So you are changing the number of products that go on sale, the categories or not? What is happening? I would like to understand the integration with discounts. Or are you thinking more about integration with the evolution that you just mentioned?

A - Unidentified Speaker

Some categories like commodities, rice, bean, sugar, these are categories that as their margins are tighter, well, they didn't present the same level of discounts of other categories that you had greater margin. So they couldn't participate in this program. So what we did is we broadened the ranges of discount. We applied different adjustments so that other categories could be -- would be included in the program. So the program today is more flexible so that we have more categories participating. And then you will have 1, 2, 3 stores. And then you have other categories like the program cheaper Mais Barato that was present in the present pipeline. Now you have over 20 products on the shelf with a massive presence. And we are gaining volume with these products because we want the customers to buy more of these products (inaudible) being very aggressive. So the 3 programs are evolving and becoming sturdier. Why? Because we have learned a lot and we are taking aggressive steps and longer steps from here on.

You can talk to Danny, who can show you the store as we have done with other investors. In a nutshell, PÃ£o de AÃ§Ã°car in 2015, the flag in August is completing 58 years of existence. And throughout our 58 years, we've had 6 generations of stores. This is the sixth generation of stores. So we opened stores in 2015 and 2016. And we have made progress in the sixth generation focused on (headwinds, head go) experience so that the customer spends more time in the store service area, with the sushi area, tapioca area. And we would have perishable goods. We would have poultry, beef, bakery and finishing your purchase buying food and vegetable. Now PÃ£o de AÃ§Ã°car is the greatest organic seller in Brazil and we respect sustainability. We deal strongly with wellness, gluten-free, lactose-free products. And they're gaining more space in the store. There is a mix of the purchase experience. And the store has diagonal shelf with a central corridor that gives you good visibility to the entire store so that the customers can circulate easily throughout the store. And we have been increasing these categories. So synergies of special beer, cheese, wine, strengthening the purchase experience of the customer. And moreover, we're carrying out focus groups with customers, to identify, together with our customers if they understand that this is the best way to walk around the store. There are a number of stores of generation 2, 3, 4. Some will undergo a retrofit. And the visit abroad was exactly to understand this because we want to strengthen lighting, adequate equipment, the checkout lines, all the purchase experience for the customer as a whole. But I'm at your disposal, if you need more information.

Q - Guilherme Assis {BIO 16143141 <GO>}

Just one last question. This a question for Christophe. The PIS-Cofins decision, what about the monetization of these tax credits once this has been approved by the Federal Supreme Court?

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

This is the concept that we are implementing, store-in-store concept, here we (inaudible) and you bring an expert to the store. The results have been very positive. Until the end of the year, we will have 20 stores and we will grow the store-in-store concept. We are bringing -- there are players that will become partners to our brand, provided they bear in mind the same concerns that we have regarding the customers. Now regarding the decision by the Federal Supreme Court to exclude the ICMS from the PIS-Cofins calculation. I would like to clarify that we did not include this in the Second Quarter. So we still don't know what was the magnitude of what we're talking about. We verify a potential in BRL 1.52 billion in the food and BRL 800 million in non-food. Now an important point, just for you to have a visibility regarding the monetization deadline. I believe that the agreement will be published throughout the second semester. Now depending on the modalities, we will have a more assertive view of the deadline of monetization. What I can say, without going in depth, is that in a very optimistic scenario, we would be talking about 3, four years. In a more pessimistic scenario, we would be talking about 7, eight years probably.

Operator

Next question, Joseph Giordano, JPMorgan.

Q - Joseph Giordano {BIO 20154008 <GO>}

I'm going to focus on AssaÃ. I would like to better understand the increase in traffic in mature operations. While Belmiro said the increase of food has contributed to our margin, I would like to understand how the increase of (inaudible) is working in the mature store. And I would like to understand the mix, the sales mix profile because Hiper had a different location. So I would like to know what the consumer mix is like when you convert one store to another. And the second question that is for Luis Moreno. I would like to understand e-commerce and the express mode. This adds -- so you have Minuto stores. So I would like to know how you translate this from the profitability point of view and what CapEx is necessary to have a good operation.

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Belmiro speaking. As a matter of fact, the influx has increased. I will give you figures. But for two years has been above 2 digits. This is in mature stores. Now the original store that exist over five years, due to their physical structure, don't have capacity to absorb this influx. Now we have ramp. But there is very strong migration to adjust ourselves to this influx of customers. This year, 50% of stores have undergone -- obtained parking space, checkout lines because we want to accommodate this greater influx due to the pressure over parking lots. We broadened corridors. Some changes have been done within the assortments. So we have around 8,500, 9,000 SKUs to adjust ourselves to this new mix of customers that the wholesale market works with. And as I mentioned during my speech, we're launching our own card and the results have been very surprising. And I believe when the project is mature, I believe that the results will be better. And in converted stores, yes, we have observed that the influx has increased a bit more than in pure and simple wholesale store, as it is a known point these were stores that were in a place according to the profile. We didn't make this decision only because of profitability. There is a combination of factors and location is one of these most important factors. So when you see the stores, the number of total operations is 8% above a mirror store from the wholesale market. Now this also accelerates the opening of new stores different than in the last year because we had to leave, for example, SÃ£o Paulo and go to other cities where AssaÃ didn't exist. So this is because AssaÃ is very strong in SÃ£o Paulo. Atacado also is highly recognized in SÃ£o Paulo. So as a matter of fact, we have learned some lessons regarding influx and I believe that AssaÃ is 8% above a mirror store.

Now regarding the e-commerce, what I could say is that the CapEx is below BRL 100,000, an operation that has been evolving and the conversion. You know that we started our first flag in 1995. We have constant progression and our team has evolved in this sense. The site frontal, together with mobile, is very agile. And within stores we can deliver products in 4 hours, 80 products. We have been even delivering 120 items. So this is an operation that we strongly believe in. It has great synergy with the store. As Luis Moreno said, we will use the team (of the stores), that increases the productivity of sales. Now regarding the store team, they're properly working with e-commerce and store together. And according to the maturity of the store people, can work more on these facts. Now PÃ£o de AÃ§Ã°car has strong connection with the customers. If you access your tax number in AssaÃ, you will see who the manager of the store is, in order to -- so if you have a complaint, you already know who the person responsible for the store is. But we want to -- so if the customer has a problem. And we're calling this the perfect store, perfect purchase. We believe in this operation, physical, digital channel very important.

Q - Joseph Giordano {BIO 20154008 <GO>}

So just a quick follow-up on the e-commerce/food, what's the benefit of having express delivery from the store as compared to a shadow store model? What would be the for and against factors for those 2 models?

A - Unidentified Speaker

I didn't get the final part of your question, if you could rephrase it please. Okay, I got it. Right now, we have 2 different delivery models, one which is centralized. We have a dedicated distribution center, which is also the same center we use for (inaudible). And we also -- that's the next-day delivery. And that next-day delivery model, for that we serve over 120 items. And now we have combined with another service which is based on the store, the same-day delivery before 4 hours. The client logs on to our web page, the client will select the kind of service they want. And we have lower marginal costs for that because we have the ability to have better allocation of the item. So when we calculate different models, we arrived at the conclusion, which is a worldwide conclusion, which is something everybody is doing around the world, even the pioneers in this industry in England. And so all operations are evolving towards this hybrid model, where we have the physical store model for same-day delivery and the centralized distribution center for next-day delivery.

Operator

Next question from Marcel Moraes from Deutsche Bank.

Q - Marcel Moraes {BIO 20057766 <GO>}

I have a question about the breakdown for the gross margin. Belmiro has already explained what kind of contribution the several factors presented in the release have for the revenue. I'd like to know if we can see the same thing for Multivarejo, the same kind of breakdown. And another question for Belmiro, if you could give us more color on how many more stores that you believe are feasible in the long run.

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

As for the margin in retail, we have the same elements, the same improvement drivers we've worked on in the First Quarter, which is a drop in breakdowns, an increase in synergy. As I mentioned, the work with Columbia. And we continue to have more assertive promotions, campaigns and so on and so forth.

Q - Marcel Moraes {BIO 20057766 <GO>}

Could you perhaps give us a breakdown in terms of basis points for each one of those drivers which contributed to that increase of 60 basis points in the quarter?

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Well as for a drop in breakdown we are at the same level we were in the First Quarter, between 20 and 30 basis points. So I might say around half of that improvement is coming from the stores operating excellence. And the other half comes from promotions, campaigns and more assertiveness in proposing those campaigns.

Operator

Our next question from Tobias Stingelin from Credit Suisse.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Just a quick question. Did you try to understand what kind of impact the labor reform could have on the company's expenses. You might have more flexibility in hiring temps. Do you have any kind of indicator or any kind of number that could be positive for the business?

A - Unidentified Speaker

Tobias, we have no doubt that this has been a very positive measure for the country, especially positive for the retail industry. And even more for those who hire many people, who are big employers. Certain points -- first point to highlight is something we have already mentioned. We have mentioned it for some time here. We want to concentrate on that multi-skill program. As for the previous law, this was very difficult. It was very difficult to approve that without having labor issues going forward. Luis has mentioned that. We have a significant number of multiskilled people now working at the company. That means a lot of new opportunities. And we have identified others such as flexing time. Also as you know, in retail the turnover is high and the level of labor complaints is also very high, 3x as high as in the manufacturing industry. Now with the new rules coming in the wake of the reform, we expect to have a more fair analysis of labor claims, more balanced. And we'll probably have labor demands or labor issues which will be based on real concrete events and not on what we call a labor claim industry, as it became to be known in Brazil. In the long run, we expect that the cost that we have for personnel in the company, which is highly impacted across the company, Multivarejo, AssaÃ, Via Varejo, have a very important high cost coming from labor suits -- labor lawsuits. And we hope to see a significant drop on that front. Of course, unfortunately, we all will be able to see that in 1 or two years going forward. But still, overall, it's a good thing for the country. It's a good thing for all segments. It's specifically good for retail. I wouldn't be able to give you a number, a measurement of what it would mean in terms of impact. But in our next meeting, I could perhaps go a little bit in detail.

Q - Tobias Stingelin {BIO 18290133 <GO>}

And one quick question to Luis. You talked about same-store sales for nonfood in hypermarkets. How about for food, same-store sales for food items. The number is slightly positive. So I would say that the food items is still facing very difficult scenario. But how are we moving along for same-store sales for food items?

A - Luis Moreno {BIO 16351507 <GO>}

As it was mentioned before in previous answers, Tobias, we are now going -- we went through a very high inflation period last year. So it's difficult to make comparisons. So that deflation we see now is affecting several different categories. So numbers are somewhat distorted because of that (inaudible) we have. The food segment is now facing (inaudible) because of that. Okay. So that's a trend and you see it getting worse (whereas) for the second half, with the sharp drop in inflation. So for last year, there was a positive thing to have a slightly higher inflation. But as you see inflation drop, we will see that in the numbers as well, right? When you consider inflation for several important categories for us, our inflation peak for us was in June or July last year. So we're now going through the worst moment in terms of inflation.

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

I'd like to try to tackle Marcel's question about the amount or number of stores, Marcel. And the number of stores AssaÃ today were actually 3 times the format stores, which will range from 2,000 square meters to 9,000 square meters. When we look at that format and the number of cities in the country, of course, the number of stores we can estimate in the year. It has to do with the capital investment so on and so forth. But I'd say we have capacity to -- well, today, we have 110 stores. I'd say we have the ability to implement another 90 stores in the next 3 to four years. If we analyze the Brazilian economy, the number of states, the places where we are not yet present, where we have good potential, out of those 110 stores that we already have, 60 of those are located in the state of SÃ£o Paulo alone, mainly in the greater SÃ£o Paulo area. So we have lots of opportunity in the countryside of SÃ£o Paulo and the state of Minas Gerais. It's a huge market to be tapped. There are other segments to be explored as well. And we have been very successful in opening a new state or other states where competitors are already present. So 90 stores would be quite feasible in the next 3 to four years.

Operator

The Q&A session is now over. We'd like to give the floor back for the company's final remarks.

A - Ronaldo Iabrudi dos Santos Pereira {BIO 20052606 <GO>}

I'd like to once again thank you all for participating and asking questions and making comments. I'd like to also reinforce our priorities. We continue to focus on our main issues. And from the questions we can see that we continue to focus on the food segment. And within that segment, we're trying to reach better market share. We're working on different instruments to increase the loyalty level of our clients and to increase profitability. That somewhat summarizes what we saw in the presentation from our team today and from the questions you asked.

As I also mentioned, in the previous quarter, we talked about inflation, deflation. Today you have a decision coming from the (inaudible) the monetary committee from the government. But in short, the economic scenario remains complex, sensitive. And we do not have a clear view of what lies ahead. In any event, the plans that we have in place, as we move on and execute those plans with a sharp focus on the execution and with a sharp focus on the results that we already see from the past quarter, we remain confident that gradually -- and based on the results of implementing those plans, we remain confident and excited. I'm not saying extremely optimistic but confident and excited somewhat in the results that we may read going forward in the coming quarters. I'd like to once again thank our team, my colleagues who are present here, a group which is also actually responsible for those results, much more than any possible improvement in the macroeconomic scenario. These guys are responsible for this improvement. And our responsibility increases as we continue to deliver what we committed to present. And we hope to do the same next quarter. That's what we had for today. Have a nice day everyone. Thank you.

Operator

GPA's earnings call conference is now over. The RI department remains available for questions and comments you may have. I would like to thank you all for participating. Have a nice day.