

Q1 2017 Earnings Call

Company Participants

- Felipe Negrao, Financial Services Executive Officer and Chief Financial Officer
- Peter Estermann, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Guilherme Assis, Analyst
- Joao Mamede, Analyst
- Maria Paula Cantusio, Analyst
- Olivia Petronilho, Analyst
- Roberto Browne, Analyst
- Ruben Couto, Analyst
- Tobias Stingelin, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Via Varejo Conference Call to discuss the results for the First Quarter of 2017. This event is being broadcast simultaneously on the Internet via webcast and it may be accessed at www.viavarejo.com.br/investorrelations and by the Engage-X platform, where you will find the respective presentation. The slide selection will be managed by you.

There will be a replay facility for this call on the website. We would like to inform you that the company's press release is also available at its Investor Relations website. This event is being recorded and all participants will be in listen-only mode during the company's presentation. Afterwards, we will have a question and answer session, when further instructions will be given. (Operator Instructions)

Before proceeding, we would like to clarify that forward-looking statements that might be made during this call relating to the business perspectives of the Via Varejo projections and targets, both financial and operational are [ph] beliefs and assumptions of the company's management as well as information currently available to the company.

Forward-looking statements are not guarantees of performance, they involve risks, uncertainties and assumptions as they refer to future events. And therefore, they depend on circumstances that might or not occur.

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Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future performance of Via Varejo and lead to results that differ materially from those expressed in such forward-looking statements.

Now, we would like to turn the floor over to Mr. Peter Estermann, CEO of the company.

Peter Estermann {BIO 15380447 <GO>}

Good morning, everyone. Thank you again for participating in our call for the results of the first quarter of 2017. And I would like to highlight here the presence of some of our executive officers that will be with us, (inaudible) in charge of businesses, physical stores or brick and mortar, responsible for infrastructure and logistics of the company: and Felipe Negrao, who will later be presenting the company's results to you. Flavio Dias, our Online Business Unit Officer and he's out right now. He's representing us at the International Congress of eCommerce in China.

First, before we get into the results of our conference call today, I would like to highlight five points that we believe are extremely important and fundamental for the new movement [ph] of Via Varejo. The first one is the fact that, with the processes and the projects of integration of our online and offline businesses. This is already in a very advanced stage and we are already generating results that are higher than the one that we projected at the beginning.

And this allows us to intensify when to bring forward the new strategies of digital transformation for the company. And what does that mean? In a practical fashion, we are accelerating the expansion and the consolidation of our Click&Collect by means of the (inaudible) quick pick up at the stores and this modality of client service already represents for the company. Over 30% of the sales of the eligible products and in some categories of high impact on our bottom line, they already represent 55%.

In the last few months, Click&Collect in the company grew more than 60%. And just to give an idea of what this means, currently, we are already delivering over four orders per minute of purchases made on our website and on our brick and mortar stores. And this is extremely consistent and even more than the number of orders that are picked up at the stores. We have already evolved the quality of the services in this modality, measured by the NPS, which had a very important advancement as well.

So we are very pleased with the evolution of Click&Collect and we continue to be focused, so that we may improve the level of service more and more with this additional advantage that we offer to our clients and also placing a wider range of products to be offered in the store pick up. We are advancing also in our marketplace strategy. Just to remind you, marketplace today has already over 4,000 sellers qualified at over 2 million SKUs available to be sold through our website. And right now, we are very much focused on the qualification of our sellers in order to improve our service level to our clients that we are aligning these sellers to our management model.

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And also the strategy of having the best service level to our clients. We have a very consistent plan, a very clear strategy about the path that we will be following in our marketplace strategy in the company. And I can tell you that marketplace has been delivering an extremely significant growth in the last few months, especially after we changed our strategy or revisited our strategy for this channel.

And we have been achieving growth rates that are much higher than the ones that we expected and we will continue to see this in the next few months. However, I would like to mention that this growth has to be hand-in-hand with the improvement in service level. We are not going to wave the improvement in our service level. So these two things have to happen hand-in-hand, simultaneously.

And the second point that I would like to highlight is the fact that our furniture business unit that was recently created, starts to deliver very promising results, both in terms of sales growth and results, even in a segment that has been facing some challenges, very important challenges in the last couple of years and the work that we have been doing in this first stage has to do with improving the shopping experience of the client at our store. So we are working very intensively in the development of the skills of our people, store people and our sales force.

And we work also on the layout of the stores and also in terms of the products, the way they are shown and we are revisiting this also and one fundamental point that we did in a very organized and planned way is the launch of new products and these new products are being offered to our customers in what we call (inaudible) so our big sales and we were doing this in a recurring fashion over the years. And the result of these initiatives that I mentioned that are still beginning, but they do have a very clear strategic planning and we will be giving you more and more details in the next few quarters, because as I said before, we are very much focused on the improvement of that in our stores, but this already shows very promising results in the last couple of months.

I can see that the furniture market continues to drop by two-digits, the upper two-digits in fact and in March and April, we already see a very consistent curve in terms of bouncing back to higher sales of furniture in our company. You know that Via Varejo is the major seller of furniture in the market and this is a very important category for us, mainly because of the impact that it has on our gross margin.

And we will continue to implement this strategy and these improvements in the second quarter and in the second quarter, we will already be showing to you some news, something that we are working on in this area.

A third point that I would like to highlight, it's about the MOVVE. It is already implemented in 100% of our brick and mortar stores and this starts to show very promising results already especially during this first stage. In terms of improving the dispersion of the performance of our sales force, you know that we have over 18,000 people in this area, in Via Varejo and an improvement in the performance of our sales force is fundamental.

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And from January to March, we see an improvement of over 30% in the performance of our whole sales force and this is based on our practices on this model. And also a very important change in terms of the incentives that we started to implement since July last year.

We have been improving this on a monthly basis for our workforce and also for our people in the fleet, leaders and it has a very major importance mainly in the profitability of the store and in the NPS that measures the satisfaction of our customers. And I have something that I would like to mention and that is also important, still talking about the brick and mortar stores.

In January, we created a unit, a premium store unit at the store, at the company. It is a pilot however, it's a very rugged pilot. We placed 36 stores on this pilot and that we are evaluating for this first stage as being differentiated stores for the company and in this group of stores, we have 29 Ponto Frio and seven Casas Bahia. And we did some initial work for the stores and we trained our people in a very different fashion for our sales force in order to be able to operate in this kind of store -- in this profile of store, and we also changed the flexibility for the sales force to negotiate.

And the outcome or the fact that in these first three months, the growth of the company as a whole and you will be seeing this in our results, it was close to 8.5% for the brick and mortar stores and of the 36 stores in this pilot, we had a growth close to 10%. And in March and in April, when we had already implemented most of these initiatives for this pilot, this group of stores in March, we were close to 30% and in April it has been growing along the same lines.

So we have found a very interesting path to manage the stores that fit into this profile and what really encourages us is the fact that we have more stores in our portfolio that can be added to this group, sort of these [ph] stores that we call premium stores. And the impact on our bottom line is very significant and we are very much motivated by the results that we have been achieving from this initiative.

Now still talking about the aspect that we believe are the most relevant for the first quarter, I would like to mention -- I would like to mention, the progress achieved and also the consolidation of all gains that we have achieved tapping into all the synergies that we committed ourselves at the beginning of the year to do. I think, you remember that we had 245 million to capture in recurring synergies and 325 million in inventory synergies and this was already delivered at the end of last year, but the information that is really important here is that the capture of synergy of the 245 million recurrent is happening in a very consistent fashion, month-by-month and we are already capturing over 50% of the synergies, 90% of the synergies that we expected and we have already identified other opportunities.

And we are right now starting [ph] concrete actions so that we may further capture these additional opportunities and we can already see the results during this quarter with the positive results being identified, not only in terms of cost reduction, but also in the improvement of service level that we are delivering.

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Another important factor is the improvement that we have been achieving in terms of the penetration of financial services and the performance of our means of payment. We have a major impact on the bottom line of the company due to our sale of financial services, we added [ph] all the services that we offer to our clients. We're already a benchmark there and with the improvement in the macroeconomic scenario, that will come sooner or later, we will be having significant improvement, significant opportunities to further improve this and also by launching new products and new services that will further drive the sales of financial services by the company.

And lastly, with the unification of our businesses, online and brick and mortar, we are now having the right conditions to think even more about the journey that we are building in order to be able to transform the company's culture, which is a more to -- more digital culture.

I would like to mention three points that changed significantly already and that continue to change significantly, the way we make decisions at the company. The first one is the fact that we have just implemented a new tool to evaluate results per category, per segment and also per group of products that have a relevant impact on the company's result. We have already started to use this tool and at the end of March and in April, we have already put this tool in the core of our strategic decisions, especially the decisions that we make regarding our commercial strategy for each one of the channels.

And we are getting to the P&L of each category of each channel and the P&L of each product of higher impact on the company and this has been helping us to make decisions that are much more focused on the bottom line of our results. And we already see this in April. And the second point is that we started to work and to think in a different way about our clients in the multi-channel journey. We made a partnership Sephora in the first stage and the focus is to transform this client experience in (Technical Difficulty) and more streamlined journey and maximizing the use of all information that we have from clients already in the unified platform of the two businesses.

We have over 60 million clients in our file -- in our platform in this new company. And by means of the combination of our results, we will be able to offer our clients a differentiated shopping experience and more than that, we will be able to improve our sales conversion rate with profitability. This is a project that has already started.

This is a project for the medium and the long run and we will start seeing the outcome of this initiative during the second half of the year and we will be talking more, in more detail about that later on. And another news is that by means of a partnership with IBM, we will be able to evolve even more our multi-channel strategy by means of using artificial intelligence, offering new services to our clients by means of the cognitive computing platform of IBM.

And I will give you more details in the next few months about this because it's a very strategic product. It is really disruptive in the market and right now, we do not want to disclose more information about it.

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Lastly, before giving the floor to Felipe, I would like to add that we are very bullish about the results that we have been achieving and that we will be presenting to you referring to the first quarter. The results obtained show that we are on the right track and also, show that the speed of implementation and once again, the capacity of the Via Varejo team to execute to deliver are placing us very quickly in a differentiated position in our sector. I believe that we need to show and we're starting to show in a more consistent fashion, the positive results that we have been achieving from all channels.

And more than that, we already see in the company, inside the company that it is possible to have a profitable online and that ultimately can work in an integrated fashion driving both the brick and mortar stores and the online stores. I can guarantee to you that the teams are working in the same physical environment, physical space and are working hand-in-hand.

All our decisions regarding our offers, our prices, our decisions having to do category management, all of them are made jointly and by means of these joint decisions, and also the use of the whole infrastructure that we have in Via Varejo and that when we decided to unify the two channels, we talked about it.

It is possible to bring very positive results from the strategy and we are very bullish about it and of course, we have a lot to do in the future, but we also have many opportunities in the future that we have already identified. And we will start to deliver much better results than the ones that we will be showing to you regarding the first quarter. And this depends a lot on our capacity to execute and it is a differentiated one.

And now I would like to give the floor to Felipe.

Felipe Negrao {BIO 19434019 <GO>}

Good morning. Thank you for your presence and we will start to talk about the results and the business perspectives. On slide number five, you can see the highlights, which are the consolidated figures and the turnaround of the online. Our net income increased by 334 million on a year-on-year basis, driven basically by a 431 increase in basis points and our gross margin with a consolidated adjusted EBITA margin of 5.5%.

It's important to highlight that we estimated this for the whole year of 2017. But in the first quarter, we are already delivering marginally positive results and we reinforce our positive cash position, BRL8.9 billion and in our online BRL2.9 billion and growth in GMV online business growing by 8.6% compared to 2.1% negative in the first quarter of 2016. We are growing more than the market in GMV, 2% growth, marketplace growing over 30% with an important improvement in the quality of services delivered to our clients. We are pioneers with the marketplace in Brazil. Click&Collect is already available at all our stores. And in the main capital, it's already possible to pick up the product on the next day. Click&Collect already represents 55% of our sales on the website in relevant categories.

On slide number six, you can see that this quarter, both online and brick and mortar delivered an important increase in growth, although we chose to have a higher margin

and still with a challenging market. Our stores are 975 stores. Management keeps the focus on corrective measures, which are necessary in stores where profitability is not satisfactory.

On slide number seven, our gross margin grew by 430 bps, off these, 260 come from a better commercial strategy, multi-channel strategy and it is important to say that Via Varejo has been a multichannel company only in the last five months, and although we already delivered a positive EBITDA on the online, there are still many opportunities to be tapped into.

Our SG&A, the same level of the first quarter of 2016, showing the consistent focus and the strength of the management in terms of obtaining productivity gains in all the lines of SG&A. Consolidated EBITDA was 329 million, 5.5% of net revenue and this important improvement considers the growth in sales and also the challenging market, still.

On slide number eight, the cash adjusted by non-discounted receivables grew up by 118 (sic 618) million on a year-on-year basis. Although cash burn in 2016 in -- the BRL583 million loan, that's Cnova, we keep our sound financial position coming from a high cash generation and excellent management of working capital. The strategy of the company is to have an online business that grows with a positive contribution to our bottom line and to our cash generation.

On slide number nine, net financial results from our operations in the quarter improved by 18 basis points, representing 2% of net revenue. In the perspective of reduction of CDI should bring about important gains to the company as we discount our receivables of credit cards and the payment book. We see an evolution of 334 million in the result of the company vis-a-vis the first quarter of 2016, with a positive of 97 -- net income of 97 in net income.

Now we would like to open for questions.

Questions And Answers

Operator

Thank you. And now we would like to open for questions from the audience. (Operator Instructions) Mrs. Irma Sgarz, Goldman Sachs would like to ask a question.

Q - Roberto Browne {BIO 16864913 <GO>}

Good morning, this is Roberto actually. My question is about commercial strategy. I would like to understand, how you are working on products price and the stores when you compare the online, and how you're balancing that growth strategy phase (inaudible) the gross margin and the sales expenses, basically that's it. Thank you.

A - Unidentified Speaker

Thank you for your question. About commercial strategy, we have already mentioned in the prior call that we are rolling out a pricing tool in the company that too have been piloted in the first quarter. We can already price per micro region and per stores clusters and the pilot already worked successfully in the first quarter.

And also analyzing in unified fashion, all our cash management for both channels. So you probably have seen that the price levels have changed. The online market has had an improvement in terms of price levels. And that decreases that, gap that we had initially between those two channels. I think that we still have room to grow and to develop there in the Brazilian market. But I believe that our commercial strategy jointly working has allowed us to decrease the gap in terms of prices for these two channels. Therefore this is a positive contribution for our online results.

In terms of growth, we have mentioned that our focus in the online channel is to grow more than the market. But this growth necessarily has to be hand-with-hand with our profitability improvement. And as we mentioned also, we have seen that profitability improvement is significant in our online channel. And we are already working with an EBITDA breakeven. As we have talked before, when we had the unification of both channels and what is most important is that we see that there are many opportunities to further improve the way we work jointly, analyze in both channels together.

We are now working focused on the categories, management per channel and we have identified a few opportunities there, which will start rolling out in this first period of the year.

I would say that today, we have a much clearer vision of commercial strategy per channel, per category. The results are extremely positive, the team is fully integrated and we will continue working on the online channel along with profitability.

Q - Roberto Browne {BIO 16864913 <GO>}

Thank you. Can you comment on your mindset about marketing and sales investments? If that improvement in growth and in the gross margin is possible, because you're investing more?

A - Unidentified Speaker

Well, actually when we talk about investments and marketing, we have changed in the company, all our marketing strategy, what we have been doing is that, now, we are using our funds for marketing and a directed question. So we came from a mass marketing strategy to a focused marketing strategy. I have no doubt that part of our performance improvement, yes, is related to this new marketing strategy. But we have a lot of improvement there in our marketing strategy to be done. And this is also related to the partnership that I mentioned that we are doing with Sephora. And we will be able to use in a smarter manner our CRM, which is extremely significant. Over 60 million customers we have in our data bank and we will be able to work in a more directed fashion with our marketing.

So that change in the marketing strategy has impacted the results positively, but we have just taken the first step. There is a lot to be done there.

Q - Roberto Browne {BIO 16864913 <GO>}

Thank you very much for your answers.

Operator

Ms. Olivia Petronilho from JPMorgan would like to ask a question.

Q - Olivia Petronilho {BIO 19090195 <GO>}

Good morning. Thank you for having me. I have two questions. First, about margin. I would like to understand how sustainable you believe gross margin is from now on considering that we might have a shift in channels, probably lower penetration on the offline and higher penetration of the online.

Now, we have seen some breakdowns in this quarter, but considering those better results, can we start thinking that you will open more stores from now on? And if it does, if that is the case, what is your CapEx for that?

A - Unidentified Speaker

Thank you Olivia for your question. I will address your second question about our stores footprint. We opened only two stores in this year, than this last quarter. And I could tell you that we are not considering an aggressive approach in terms of stores opening.

We have reviewed deeply our footprint and we will communicate that soon to all of you. And a project that is mature in the company, but we don't want to talk about it yet. And then this project, we are going to test different stores models, with a very interesting potential. So once again, as we usually do, these are projects that will run in a pilot format, firstly.

But if our disruptive stores when compared to our current models, regardless that we are analyzing opportunities to grow within the same standard of stores footprint that we have today in strategic places, but not in numbers that are similar to what we have had in the past. These will be one-off decisions on areas that are very well positioned some -- pretty [ph] some regions that we consider to be important opportunities and that we have no footprint yet.

Good morning, Olivia. About margin sustainability, if we analyze 2017 as a whole, yes we do believe that this is a sustainable margin. Obviously, we do have seasonality in different quarters, but for the year, yes, we believe this is possible in the long-term. Analyzing 2014 with a macroeconomic scenario that was much better and we had the better margins than what we had today. So we do believe, it can be improved. So from then, up to today, there was a gain in the gross margin in services and payment book, logistics that had a positive contribution to the gross margin.

So if we are able to keep these service levels in these levels and the gross margin and in - the margin of services and other areas, we will be able to bring up the overall margin.

Now, another comment. It was not part of the synergy plan, but yes, we were able to optimize expenses with marketing this year. And we are having much more return and we are spending much less. This is a positive result and we are doing more and having better results spending less. Now another comment in terms of margin sustainability.

And this is very important to highlight that, with the need of that macroeconomic scenario that we are facing and then we have been facing for the last few years, we had to focus on improving efficiency and productivity in the company in all the areas. And we consider that today, we have efficiency and productivity levels that are much better than 2014 and with the return of the market that is up a little bit more positive. And if that happens, we understand that the company is in a much better condition than it was in 2014 to deliver better margins.

Q - Olivia Petronilho {BIO 19090195 <GO>}

Perfect, thank you very much.

Operator

Mr. Tobias Stingelin from Credit Suisse would like to ask a question.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Hello, Peter. Good morning. I'm sorry, I missed the beginning of the call and I would like to understand how you have been doing in January, February, March, March double digits? How do you foresee or what do you expect now for April, you had some impact in March. So what kind of reading can you do in terms of traffic flow trend, consumers paying debt? I would like to have an idea of what could be behind all that. You seem to be much more optimistic, and you do have a lot of initiatives to improve operations as well.

A - Unidentified Speaker

Tobias, thank you very much for your question. March, as we have mentioned in the release, it was a very positive month in all aspects. We understand that FGTS, for sure, it has a positive impact on sales. This, with the release of the FGTS funds, people that who had access to those funds, changed their mood and of course, they are encouraged to consume.

So yes, FGTS did have an impact, but we cannot measure how big that impact was. And March, there was an additional factor. We prepared ourselves very well for the Consumers' Week. This is an event that was already strong in our online channel and now with the unified company, we were able to go to the market strongly in brick and mortar stores and also in the online channel. The results were positive. So there was a good reaction to our commercial strategy for this period and March was a month that was extremely positive.

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When we compare it also to other months of March, where we had a totally different macroeconomic scenario. The second part of your question is, how we see April. April is specifically of this year is a different month. We are learning how to work in a month with so many holidays and that does impact our sales significantly.

So we did have several holidays as you know. They did have significant impact on our sales, but even then Tobias, we have been having positive growth in both channels. When we compare that to April of last year, even in this different macroeconomic scenario and with a scenario of the holidays, so I believe that we do have a right commercial strategy, both channels are working together. And therefore, we are able to deliver special results and we will have a positive month of April.

Our expectation for April is good even if we don't have a clear perception of that improvement in the macroeconomic scenario. What we've seen now is that very specific things happening as we had when the FGTS and active accounts funds were released.

Well, Felipe -- so what we see here is a good result from our payments book portfolio. We are now having very good result. And during August period, we have always suffered during the recovery period.

We were always behind budget in the recovery process, and we see that March had an improvement in 10% of the recovery, and that is maintaining for April. So that could be some relation. We have several initiatives we are working with McKinsey to develop better techniques for collection and also yes, we might have an impact from the FGTS accounts as well.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay, thank you.

Operator

Mr. Guilherme Assis from Brasil Plural. Would like to ask a question.

Q - Guilherme Assis {BIO 16143141 <GO>}

Good morning, everyone. Thank you for answering my question. Actually, I would like to comment on something that you said in the beginning of the presentation about synergies and integration. And about the working capital and then you did have the synergy of 345 million and that you had captured 90% and you're identifying more synergies there. Can't you quantify, what we can expect where these additional synergies come from?

Do you think you can double the synergies that you had initially or not or extra 20%, 30%? And when do you believe that you are going to be able to tap into these additional synergies?

And my second question is about your marketplace space. You mentioned that you have over 4,000 sellers and a number of SKUs in the marketplace. But you've also said that you were working on in order to keep the quality of the services that you deliver with your brands on your site -- website. So have you already started doing that selection and that analysis, are you limiting SKUs or how do you see your marketplace growth? What can you expect there? And these are my two questions. Thank you.

A - Peter Estermann {BIO 15380447 <GO>}

Guilherme, let me address your second question first. About our marketplace strategy, and I have two things to say here. First, we have taken a first step, an important movement to work on that base and to select the base, I would say that those that are in our base today, these are sellers that are aligned towards quality strategy and service level to customers and also they have products and they have goods that are additional to our portfolio.

So we are focusing on sellers that are complementary, they had extra products, so that is quickly available to our customers and also that have the same quality strategy that we do. So the first step has been taken. But on the other hand, this work of improving our sellers base has to become routine in the company. We believe as Felipe has said that marketplace will grow and it is growing significantly, and I am sure that our -- we will have positive growth because of that strategy.

About synergies, I would love to have them doubled, but unfortunately right now, we don't see an initiative that would double it. But we do see new initiatives, as I said, we are restructuring action plans to improve and to be able to quickly tap into the synergies and in the second quarter or whenever we are publishing and disclosing the results of the second quarter will have news about it, about the synergies, but they are synergies. Synergies, development in logistics, additional aspects, so we have an important project going forward there and we'll talk more about that in the future in another moment.

We do have additional synergies in the multi-channel that will bring important results. Then we have not quantified at the time and we have some synergies that are important in terms of financial services that also will be discussed in the future. But unfortunately, we cannot double that, but we can expect important improvements in the future.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you very much. It is clear. Now about the marketplace. So you have, you expect the growth in the GMV, but so that I understand, can we expect some reduction in the base of sellers or not? We haven't seen a reduction there, so yes, I know you're going through a selection process, but it's not as large or you still have more to do. What do you believe is happening, actually?

A - Peter Estermann {BIO 15380447 <GO>}

Well, there was a selection and I would say it was larger than what we will have, when we establish a routine for that. It was broader, it was larger, but we are not removing only

sellers from our base, we are bringing sellers in as well. So we believe that our sellers base will increase and will increase with quality and also with additional products.

And that's what we know, that's going to happen, we are very happy about that, about the growth of the marketplace. We have been able to bringing good sellers that do drive significantly our GMV and we believe we will have some improvements that are important for our platform. And that work is starting now. So we'll be able to talk more about that shortly. As you know, we -- as we deliver, we then mention what we are doing.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. Thank you, Peter.

Operator

Mr. Ruben Couto from Itau BBA would like to ask a question.

Q - Ruben Couto {BIO 19172367 <GO>}

Good morning, everyone. Going back to GMV growth, you mentioned a GMV growth of around 9%, but the invoice dropped down to 2. Can you explain that difference? You have purchases that don't carry out up to the end and -- but that's a relevant difference. So I would like to better understand why we have that gap.

A - Unidentified Speaker

Good morning, Ruben. Let me explain the difference of the GMV here. It had this increase, so that is the order. So this is a figure that we compare to the EBITDA. So if -- in order to compare, if we are growing or not in the market, we use that figure that we understand to be the correct one that, which is the base of the EBIT. The invoice is the figure that was -- invoice of course. And at the moment, the growth is the invoice. If you -- all orders are concluded, but to compare to EBIT, we have to compare the 8.5 [ph].

Q - Ruben Couto {BIO 19172367 <GO>}

Okay. So in terms of projection for the next quarter, I have to consider the 2%, not 8%. Is that it?

A - Unidentified Speaker

The 8%? Okay, so the flow is, I place the order at a certain moment. I do have a backlog here of the whole quarter, but at a certain moment that will turn into invoice. So as a trend of the future, when the company is growing in the market and we are positioning ourselves, the correct, you see 8.6. I would not be using the same comparison if I were using 2.5. Okay?

Q - Ruben Couto {BIO 19172367 <GO>}

Okay, thank you.

Operator

Mr. Joao Mamede from Santander would like to ask a question.

Q - Joao Mamede {BIO 15265292 <GO>}

Good afternoon. Almost all my questions were addressed, but I still have one about marketplace. Today everyone talks about marketplace and companies to find a profitable solution in order to operate online with the marketplace. But my concern is how much of that is impacting your profitability and whether to increasing marketing to compete for sales and I would like to understand what is your mindset on that, is this much more profitable?

I understand, but how do you see that migration of several competitors, still the marketplace you could say that you have 60% of penetration in the marketplace in the long-term. Couldn't that provides pressure on your profitability? And in the target for the mid and long run, how much of your GMV is 50 over 60, is there in the marketplace? These are my questions. Thank you.

A - Peter Estermann {BIO 15380447 <GO>}

Okay, thank you for your question. Starting by the end, we don't have a target here in terms of marketplace here, but we do have to work continuously on our strategy and the strategy that we want to use for this channel. And let me explain, I believe we have a huge opportunity in this channel because we understand that in our point of view, we are very strong in a few categories and we are competitive in an important segment of this industry. These products will be on the focus of the company, will continue focus on them, on these SKUs so that they will be sold on our online and also in our brick and mortar stores. And we are going to strengthen the multi-channel strategy and also, we will look for marketplace growth with products that can complement our strategy.

I believe that each competitor has it's on strategy. But what we see today is that considering the soundness that we have in white line and technology, the fact that our competitors have different strategies really help us.

So we are fine with our strategy. We will keep on looking for different assortments for our marketplace platform and we'll keep on focusing in competitiveness and quality of services, because these are core for the company today.

Q - Joao Mamede {BIO 15265292 <GO>}

Thank you very much, Peter.

Operator

Maria Paula Cantusio from Banco do Brasil would like to ask a question.

Q - Maria Paula Cantusio {BIO 18652439 <GO>}

FINAL

Good morning and thank you for accepting my question, which are in fact three questions. The first one, could you talk about the improvements in terms of sellers and vis-a-vis working capital because you mentioned that the negotiation that was carried out in the last quarter will be extended up to this quarter. So how could we think along these lines for the next quarter?

The second question has to do with the company's capital structure. You have recently reduced your debt by a lot. And the effective cash, although you still have quite a lot of non-discounted credit card receivables. So what is your idea about indebtedness from now on? Are you working with some targets regarding net debt over EBITDA and there was a drop of over 50% in revenues from freight vis-a-vis the other quarter. So maybe you could go -- give us some color about that. Thank you.

A - Felipe Negro {BIO 19434019 <GO>}

Hello, this is Felipe speaking, good morning. Last year, in the second quarter, we negotiated with our suppliers with our sellers longer-terms and we maintained the same average term for them, and this was extended to the first quarter and we intend to maintain this. We do not foresee any changes in this regard, in the short run.

Now regarding the capital structure, this is a very important point for Via Varejo because the company is the only one of the big players that has positive cash. And it's very important to have this financial soundness during the crisis and the cash reduction that you mentioned.

If we compare to the same quarter last year, you will see that discounted all the receivables, we would already see a positive evolution around BRL118 million. So the net cash if you take this minus debt, there was some slight improvement, but here it was much higher. And you have to consider that last year, we had to pay this loan to Cnova of around BRL600 million. And also last year we had a cash consumption by Cnova.

So when you compare quarter-on-quarter, you have this result. So you have to improve a lot from now on. So we have not left the prices behind yet. We do not estimate any changes in our capital structure however.

Q - Maria Paula Cantusio {BIO 18652439 <GO>}

What about the drop in your revenues coming from freight?

A - Unidentified Speaker

Could I get [ph] back to you later?

Q - Maria Paula Cantusio {BIO 18652439 <GO>}

Okay, thank you.

Operator

(Operator Instructions) The Q&A session is closed. We would like to give the floor back to the company for their closing remarks.

A - Unidentified Speaker

Just to finalize, I would like to say that we have full awareness of the challenges that we have ahead of us to continue in this journey of unifying our online and brick and mortar stores. But even more important that being aware of that, is the fact that we have concrete plans and that the challenges in the short and the medium run are being considered. And we are ready to carry out the digital transformation of the company. And as we deliver consistent results, we also have bigger opportunities to think about our long-term strategy. So we know exactly the steps necessary and the ones that we have already taken in the first quarter; technology innovation mandatory and we will continue to be focused in order to deliver to our clients a differentiated shopping experience. I'm very bullish as well as our whole team with the delivery that we have been having so far and with the consistency and the sustainability of the fundamental project that we have been implementing in the company. Thank you very much.

Operator

Via Varejo's conference call is closed. And the Investor Relations department will be available to you to answer any questions that you might have. Thank you very much for participating and have a good day.

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