Q3 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
- Marcelo Bazzali, Unknown
- Ronaldo Iabrudi dos Santos Pereira, CEO and Director

Other Participants

- Franco T Abelardo, Equity Analyst
- Guilherme Assis, Analyst
- Gustavo Piras Oliveira, Executive Director, Head of LatAm Research. And Latin America Consumer Analyst
- Irma Sgarz, Equity Analyst
- Marcel Moraes, Senior Analyst of the Brazilian Retail and Household Personal Care sectors
- Maria Paula Cantusio, Banco de Investimento S.A., Research Division
- Richard M. Cathcart, LatAm Retailers Senior Analyst
- Thiago Capucci Macruz, Research Analyst

Presentation

Operator

Good morning. And thank you for waiting. Welcome to the GPA conference call to discuss the company's earnings results for the Third Quarter of 2017. This event is being simultaneously broadcasted to the Internet via webcast and can be accessed at www.gpari.com.br, where you will find the presentation.

The selection of the slides will be controlled by our participants. The replay of this event will be available soon after its closure. We inform you that the company's results press release 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 the conference call regarding GPA's business prospects, projections and operational and financial goals are based on beliefs and assumptions of the company's management as well as information currently available.

Future considerations are not a guarantee of performance. They involve risks, uncertainties and assumptions as they relate to future events. Therefore, they depend on circumstances that may or may not occur. Investors should understand that general economic 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 hand it over to Mrs. Daniela Papa, the company's IR officer.

Daniela Sabbag Papa {BIO 22210225 <GO>}

Good morning, to everyone. Welcome to our conference call. We are going to start with Ronaldo Labrudi's statements. Subsequently we will have Christophe presenting the results, he is our CFO; and then Luis Moreno's comments, the COO of (inaudible). And Belmiro Gomez, the IR officer.

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

Good morning, Dani. Good morning to everyone.

For being interested in participating in our third conference call regarding the Third Quarter of this year, I am going to be very brief in my presentation. Because I would like to give more time so that our officers can detail each one of their initiatives throughout the quarter or show you what has been done throughout the year, the flow of the work.

Now from a macroeconomic point of view, I have mentioned this for some time already. And what I'm going to say is not different from what we have observed.

Despite a drop in our interest rate, we have observed also a slight rebound and for those that are following the market, there is a rebound in employment. The drop of interest rates have resulted in a better purchase power. And we have seen according to research an increase in terms of trust by in large from the population.

Nevertheless, as we have mentioned beforehand constantly, we still are not seeing these changes, these positive changes reflected on our cash flow or in our stores. But within the macro scenario, what we have observed and what we have followed very closely is an important deflation.

Especially, when it comes to prove that in the short-term, it has an impact. Although in the long term, we believe that this is positive, nevertheless, in the short-term this reflects on the company's businesses. Although we have a scenario that in my view hasn't changed much since the last time that we spoke, I would say that is a scenario that presents a positive situation. But still, we cannot identify this scenario affecting our business directly.

Now nevertheless, you will see according to Belmiro, Christophe and Moreno's presentation that we have carried out very important actions so you know both of the financial indicators point of view. And we are following the trends that we promised in the beginning of the year. So when we see the operating and the financial side of the business, as I've said, I'm not going to deep dive into the scenario but I would like to mention 3 points that clearly simplify. The entire effort that the team in this table is carrying out: Number one, would be AssaÃ. I have insisted in each one of the opportunities that is given to me when I meet you in the spectacular result that we have been able to reap together with AssaÃ. Belmiro is also going to give you the detail but throughout the quarter, I believe, we had store conversions and new stores and throughout the year, until the moment, I believe, we have had 17 -- in the past 12 months, we've had 17 new stores, which adds BRL 1 billion to our quarters results.

So we are also undergoing throughout October and November an even more important moment in FIE because we will be able to talk in details about this during the Fourth Quarter. But we will open new stores, we will have new store conversions. And this will also drive us to where the positive trend of AssaÃ. So what I mean is that we feel very reassured that we believe that we will continue following this pathway.

Our second point that I would like to highlight is the evolution of Multivarejo. Bearing in mind, all of our concepts and all the initiatives that have been developed, I believe that we have been over 10, 11 quarters gaining more market share. A point that we highlighted at the beginning of the year was that we had carried out a diagnosis for (fum flag). And we would read the results during the second semester of the present year, 2017. And I'm highly satisfied to say that because for this, for us, it is very important to talk about our diagnosis. And you will see according to Moreno's presentation that precisely, what we predicted in our diagnosis and we are another lead -- the fum flag is presenting results according to our predictions during the First Quarter.

And during the First Quarter, we mentioned this diagnosis and this result. Now, the highlight that I would like to make, I've spoken a bit about AssaÃ, I've spoken a little bit about Multivarejo. But I would like to highlight our transversal action that we're carrying out that I would believe this is a continuity of the digital transformation program of the company. This is a program that everybody is aware of, that we named (inaudible) Corporal Mine Discount. It is based on an experience, a 20-year experience with a loyalty program that is a program where I believe perhaps we are the only company that has a behavior and then accurate information regarding the purchase behavior of our customers.

Throughout our journey in the company of digital transformation, we are at this stage, we have new stages that will be communicated and throughout the year of 2017, we will talk about this development, this digital transformation and we will also see it throughout the year of 2018. I am highlighting this point, because I believe this is a great competitive differential that we have in the PÃ£o de AÃ§Ãºcar group.

And finally. And this is something that I must stress. Yesterday, we communicated the result of Via Varejo. We communicated exceptional results that reflect exactly what we have been saying for some time, that is the online integration and off-line integration, that is the integration of all the company's logistics, all the integration of the marketing area. And this is being reflected in our results. And we will have the opportunity to present this to you. We're highly satisfied with the results of Via Varejo as well. But obviously, does not change our position. That is our position to continue focusing on food.

We continue with our strategic view and obviously, we are balancing and seeing what is the best timing so that we do not leave cash on the table. So Via Varejo, we are satisfied with the results but we continue focused on food.

Now finally, I would like to strengthen that the team together, that is here together with me, the team of Belmiro, of Moreno, of Christophe, all the team is focused -- is 100% focused and dedicated to deliver results.

Our focus is the company's operation, understanding the customer, our processes. And what I can reassure you of is that this team continues and will continue focused to deploy the plan and to be able to deliver the results that we have within our plan.

It is with great joy that I opened this conference call and now I would like to give the floor to Christophe so he can show us the financial indicators that I presented and I believe they are positively evolving.

Christophe, you have the floor.

Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thank you very much, Ronaldo. Good morning, to everyone. I am going to start with the financial performance regarding Slide one and 2 of our presentation the quarter.

We present and we have a positive evolution both from the sales level. And profitability levels in AssaÃ and in Multivarejo. Very briefly, when we go to sales that have already been announced, GPA food grow 8.1%. I would like to talk about AssaÃ stores with expressive growth, a total 25%, a level that is being sustained since the beginning of the year.

This strong performance of AssaÃ is the consequence of the assertive expansion of the past years. And excellent results that we achieved in store conversion.

AssaÃ at the end of the quarter represented 43% of our sales in food. Now Multivarejo presented a negative performance of 2%. And the mainly reflects on the closing of 15 hypermarkets that were in the process of conversion of AssaÃ and also the closing of other units that you can see in our store portfolio.

Now the growth of Multivarejo same-store was positive, marked by the better performance of (inaudible) flag and the performance of Extra, especially driven by nonfood.

In other words, the nonfood categories. Our market share gains are still being sustainable reality since the beginning of the year, both for AssaÃ and Multivarejo. The continuity of this trend shows that the initiatives we've adopted have led to consistent results.

That's for the results of Multivarejo, we had a quarter that was marked by the recomposition of profitability with a good growth margin performance, which was stable compared to the previous year. And this has reinforced that our competitiveness is on a level which in our opinion is both sustainable and adequate.

Terms of SG&A. The rigor of this control is a priority leading to a significant decrease of 4.3%, or 50 EPS in terms of sales percentage. And in Multivarejo, the adjusted EBITDA of the other operating expenses was 5.5% in margin and 50 EPS as compared to the previous year. In this quarter, we've accounted BRL 130 million of other operating expenses, which correspond or account for 1/3 of it. And the decision that we made of starting a fiscal forgiveness program that has cost about 1/3 of this, BRL 130 million. The second 1/3 is about the stores that were part of the revision of our portfolio. So we closed 46 units in the Third Quarter. And this write-off, as we mentioned, does not refer to conversion of stores into AssaÃ because with these write-offs were performed in the previous quarter.

Now the Third Quarter of these BRL 130 million are about deep mobilization expenses of those stores that we shipped out. In particular, dismissal of employees or severance costs. And also these agreements among other things. As we mentioned other expenses, I'd also like to stress with the Hager evolutions of contingencies, again, in the Third Quarter, we reduced the total of contingencies in this reduction was BRL 200 million. It should be BRL 350 million without the effect of inflation adjustment. And this reduction is related especially to the tax contingency reduction.

Now AssaÃ results. The gross margin has improved 50 bps in the quarter because of greater share of individual consumers and also a more mature store park. Expenses are well controlled in the quarter. Although stores -- we had store extension and conversion, the EBITDA grew 36% with a EBITDA margin of 40 bps. And the deflation was very strong. But it does not compromise our EBITDA margin goal for 20 -- for the period.

And now for the income, net income. So the total was BRL 32 million and the margin was 0.3%. As a result, this has reverted our loss of the previous year. So it normalized really as our net income adjusted for operation, operating expenses are profit tripled over BRL 35 million. So now it's over BRL 100 million. A little over BRL 100 million. As Ronaldo mentioned, I'd also like to stress that Via Varejo had an excellent performance in the quarter with solid profitable growth, approximately 20% reaching a net margin of 1.5% in the quarter, which we're very happy about.

I'd also like to stress projects for the Latin American perimeter. There's a synergy project we have run together with the Ã‰xito group. And this continued -- has led to major results. And we have already exceeded our target of $50 billion a year for (the town) growth.

Our expectations are positive from now on. Now on Slides 3 and 4. We can see that the total performance of the food segment. So it was relatively balanced and good. The sales are the best real growth in the last 12 months. I'd also highlight a stable gross profit at 22%, although FIA had greater share. And also 100 EPS, this was a result, a significant reduction in Multivarejo. And also with good control and also the effect of the AssaÃ mix.

Our EBITDA margin that was delivered in food was 5.2%, or 40 EPS better than the previous year.

Finally, on Slide 5, we can see our net debt performance, which had a reduction that was higher than BRL 500 million as compared to last year. So we're now at a leverage level of 1 EBITDA against 1.3x in the same period in the previous year. The company had a solid cash position and we have over BRL 2.1 billion available in addition to a group mine of BRL 1.1 billion that can be mobilized at any point. We should also stress that the 2 agencies, Saunders and Fitch, reaffirmed our ratings for the Third Quarter.

We've also improved our financial results, which have improved 35%, reaching 1.4% of our sales. And this is in line with our deleverage, which is ongoing. And also significant reduction of our ceiling since the beginning of the year. So this is the end of our financial comments.

I will now give the floor to Luis who'll explain our Multivarejo performance in further detail.

Luis Moreno {BIO 16351507 <GO>}

Thank you, Christophe. Good morning, everyone. In the Third Quarter, Multivarejo added adjusted EBITDA of BRL 345 million that corresponds to 5.5% of our sales. And this is an improvement of 50 bps against the Third Quarter of '16 and an improvement of 60 bps against the Second Quarter '17 ex credit of terms of tax.

Now the commercial margin, 26.7% on a stable level as compared to the Third Quarter '16. As for the Second Quarter, the lowest level was a result of the deflation of prices in food categories. And also a greater share of the nonfood categories in our sales mix, especially the electronic appliances. As for expenses, we had a significant reduction of minus 4.4% in nominal values as compared to the previous year with a dilution of 50 bps of our SG&A as a percentage of our sales and also a reduction compared to the Second Quarter '17.

This sequential improvement is based on a reduction of our power consumption through the rollout of our energy efficiency solution of green, yellow, which led to savings of 10% of our power consumption and also added 174 additional stores, which invent 80% of our stores park.

By the end of the year, we intend to reach 88% of our store park with this solution of energy efficiency. We have also optimized our staff, our headcount, with greater productivity in our store and warehouse operations.

In this quarter, the reduction of headcount amounted to 3,000 -- 60,000 year-to-date. So this EBITDA margin improvement of 50 bps as compared to the Third Quarter last year is a result of a dilution of expense of 50 bps and also maintaining our gross margin level.

As for sales in the same store, the growth was 0.6%. Although that was the impact of deflation of food prices. Minus 1.6 in the quarter and then the deflation in the food and households was even greater at minus 4.5%.

As for total sales, we progressed 2.6% because of the impact of our store conversion program, Extra Hiper to AssaÃ. As compared to the same quarter last year, we had less 16 Hiper markets and this led to an impact of 310 bps in our total growth.

The result of the quarter is even better, if we take into account that there was a force, a strong deflation in the food sector and also the adjustment of constant salaries of 6% and also stores were shut down, especially these 15 Hiper markets that were converted. But I'd also like to share that Nielsen disclosed our market share, August market share recently. And again we reached gains in our market share in the concept of same stores. I would also highlight we have gains through all the quarters in 2017 and then, in year-to-date, our gain, total gain is 50 bps.

We will now move on to discuss our transformation initiatives. Major highlight in this quarter is the consolidation of (inaudible) app, by discount, which is the first phase of our digital transformation. The (inaudible) program has personalized offers, 100% personalized with an app. And this a 100% free solution is directed to our clients, our customers who are part of our loyalty programs, (inaudible) include Extra. This was launched on June 29 and were now working for four months. And our customers adopted this relevantly and we have over 3 million downloads. Over 26% of PÃ£o de AÃ§Ã°car customers use this app recurrently, repeatedly. And they include this, added this to their purchases in Extra. This represents about 20% of our total customers. In order to benefit from (inaudible) discount, over 1.1 million new customers have registered in our loyalty programs. And this represented increase of almost 9% of our client base. So we have already exceeded 30 million customers on our loyal customer base, which is the largest retail customer base of (loyal bots) in Latin America. And we have also reached level of satisfaction that was significant, even with a significant reduction of our headcount and this was a result of deleverage our (poly bay lift) program. And also our salary incentive program for store employees, based on improved productivity.

In addition, the engagement survey of our employees, the participation of 96% of our employees and this ad resulted work even better than the previous measure with a growth of 10percentage points in PÃ£o de AÃ§Ã°car. The performance was significant in this quarter with good, average ticket and a volume that was significant based on the following factors: first, our customers adopted the (inaudible) app rather rapidly; and then, the reinforcement of the (Ivan) products of PÃ£o de AÃ§Ã°car with a focus on price and quality. Then the launch of (inaudible) core promotion. So loyal customers can now get collectible knives and then better service in the sell space on (holidays).

In this quarter, we initiated program of refurbishment of stores of PÃ£o de AÃ§Ãºcar to have 50 refurbishments this year, out of which 11 are full refurbishments and 39 are light. In the full retrofit, we will present a new lay of concept strengthening more the perishable good categories, the differentiating categories of PÃ£o de AÃ§Ãºcar. In AssaÃ, we continue presenting the same-store sales performance and we have a consistent growth in nonfood. In the food area, we would like to highlight that we activate regionalized promotion focused on the needs of each region. Regarding our proximity format, we continue expanding Minuto PÃ£o de AÃ§Ãºcar, opening 3 new stores this quarter. Our mainly market, Extra continues with the simplification of our model that has resulted in an improvement of 200 bps and BMA. As a conclusion, although a drop in inflation that affected the pace of nominal sales and high-cost inflation, we were better to have a better EBITDA result through the control of expenses.

This Third Quarter also showed the consolidation of the first stop of our transformation -- digital transformation strategy through (inaudible) applications that were strongly accepted by our customers and we had a significant and sustainable result of our PÃ£o de AÃ§Ãºcar flag. We believe that renewal flag will consolidate this trend.

Thank you very much. Now I would like to give the floor to Belmiro from FIE.

Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Thank you very much, Luis. Now the Third Quarter, as for now, though Equistar said it was a very strong quarter of increase of 25% of sales. We've had an increase of BRL 1 billion in sales vis-Ã -vis the past year as we have been able to see by the group and by the market, working in a scenario, deflation, the effects of the deflation during the Third Quarter had their impacts stronger during the Third Quarter i.e, operated with the deflation of 4%, 5%, aligned with the IPC when we compare this percentage with the past year that was 15%, 16%. We have a delta of 20% of front variation between one year and the other. Same-store was positive. This is a result of an effort to minimize the effects of the drop in prices. With this, we had a growth in customer flow, especially on product volume. This real sale growth, I mean, in volume is more than twice as much as we attained during the same period last year. Although, we had an inflation delta. Now the sales growth is also a result of the contribution of same stores and there was 5.2% or 7.7% in net sales, when we see the store condition. 5.2% growth sales, this is the loyalty that's having the effect of this conversion and this shows us, according to the inflation difference, we had a growth in volume above 2 digits during the Third Quarter. There's a strong contribution from our expansion profits, AssaÃ opened 11 organic stores in 2016 and 2 converted stores last year. And we've had 17 new stores in the past 12 months. The assertiveness of these stores allowed us to bring the 20% of growth within this quarter. This is BRL 1 million in sales, BRL 900 million in sales were due to (inaudible). This allowed us to increase our space to gain more market share. So we had a growth of around 3.3x compared to last year. Our wholesale market is growing strongly. But AssaÃ has been the wholesale supermarket with greater index of growth.

And last year, we went to new stores, new cities, new state. This is our policy to adjust ourselves to new cities according to the assortment of the stage to see the needs of our legal entity customers and the strong effort that we've made with local suppliers.

Now this comes together with the progression of 0.5%, 50 bps and the increase of the (inaudible) result of the improvement of the margin of same stores because part of the deflation was focused on promotion and commercial actions, not impacted so strongly by the drop of (inaudible). The contribution of expansion is imported in same store that mainly is in regarding the level of margin that is above what we had in the past years. The mix of the margin and the new stores, it has been meant -- not as strong as last year. But it shows the increase that we had vis-Ã -vis last year, we have a net expansion growth of 30% year-on-year.

There are stores that are mature, there are stores that will be open and there are stores that are under the process of maturing. We had operating actions, especially in inventory shrinkage. And we -- and we'll also have actions dear to our customers focused on some categories not so impacted by (inaudible) but they allowed us to grow in this area.

Now expenses in deflation, we have expenses driven by different indicated that the ones that lead you to sales. Our sales is geared toward food. But other expenses, like lease, power, hectiles, they have another base. Although, this is a scenario of increase -- a volume increase of customer flow, the expense was totally aligned. We had our expense index aligned what we have during the Third Quarter is preoperational expenses, better, stronger, we want to improve this in the Fourth Quarter.

In September, it had already impacted the Third Quarter. We had 1,100 hectiles to give us support for the new stores in the Fourth Quarter. And with this, we have our expense of 10.20 over net sale. Over gross sales, it is 9.4. So -- and this is lower than 1 digit. This is something that we've seen during the Third Quarter, the EBITDA reflects the improvement of LB. And this goes from 4.2 to 4.8.

And a very important highlight for financial expenses during the Third Quarter was 0.1, very close to 0 drops to from BRL 25 million last year to BRL 5 million this year. Although this is a period of strong investment in CapEx and store conversion new stores, it obviously, due to the variation of the interest rates and because of the strong optimization of working capital inventory levels. And this way, we have not had a financial cost. It's practically close to 0. It practically did not withdraw anything from the EBITDA. And now, we have net income greater from BRL 213 million. We have a strong variation. So this is something that has 90% of the line, based on food product to operate with these rate of deflation. The result of the Third Quarter was highly satisfactory.

When we see the Fourth Quarter, our perception is that we -- the deflation will persist, it will continue during the month of October. It has continued the same line of September. So we have a number of markets in -- that have slowed down. We have commodities that are driving or are maintaining prices at lower levels than last year.

Now volume. Volume. Our perspective for the Fourth Quarter that we will continue the same indexes of the second and Third Quarter. I would like to talk about the AssaÃ- project. This is a project and we have a model of our own card -- it would be our own card. And it has a value proposal that is differentiated, it started to be deploy this year. We entered the Third Quarter with 28 stores and we will have 80 more stores implemented until the end of next year. I believe, compliance has been above expectation and we will give you more details at the end of the year. And we will have more open stores. And we will be able to give you more information regarding this project. But the initial figures, the initial figures of the pilot stores have -- make us feel highly satisfied.

And we're very reassured regarding the Fourth Quarter. And the Fourth Quarter, we have the anniversary campaign, this is a very strong campaign done in partnership with suppliers, generally we have strong impacts, over 30% of compliance last year. The preliminary figures of the year show us that we will repeat the same result last year showing us assertiveness that customer continues loyal. One would see the Fourth Quarter new stores as where we concentrate most of the new stores. In October, we have opened 3 stores. (Paulina, Selma sales.) And yesterday, of course, the arches totaling 118 units. And we have a strong challenge for the upcoming weeks, where we will have 6 new stores that will be opened in 6 different states, in Brazil, we will open in (inaudible) the first unit of (inaudible). In Overlandia, this means we will be present in 17 Brazilian states, (inaudible), Salvador, Bahia, this is (inaudible) in ParanÃ¡, (inaudible) Rio de Janeiro, Paulina, SÃ£o Paolo, (inaudible), that is the first unit of AssaÃ in the state of PiauÃ.

And with this new unit, we will reach 18 states and as we've said in other calls, this is part of our expansion project, not only in existing cities. But we want to increase our presence in the country. And this will grow more and more. New stores in new cities, new state, placing a (inaudible) all of Brazil. And the efforts for this, in addition to the 6 stores, we have 3 new stores that will be reopened between November, December and we have 5 construction sites that will be opened in 2018. And we have a highly aggressive expansion plan that is highly assertive. And this has strongly contributed with giving employment. We have opened 7,000 new vacancies without -- these are direct vacancies without considering indirect vacancies. So currently, we have 4,000 vacancies.

And I believe that we will continue with this pace throughout the Fourth Quarter. Now I will give the floor back to Daniela.

Daniela Sabbag Papa {BIO 22210225 <GO>}

Could we now initiate the Q&A session?

Questions And Answers

Operator

(Operator Instructions) Our first question from Guilherme Assis, Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

I would like to talk about 2 points. One would be, I would like to understand the impact of tax changes in the gross margin during the Third Quarter. During the past quarter, it was clear that there was an impact of 80 bps regarding the tax distribution of our taxes. What I would like to understand is, this is a non-recurring impact of -- so I would like to understand. And I would like to know what will the impact be during this quarter for (inaudible) for AssaÃ. And SPL and also PIS, it's a different type of taxes. The second book question would be the store retrofit program of PÃ£o de AÃ§Ã°car. You mentioned here that you're talking about 11 full retrofits and 3 lights and I would like to understand what is a difference between a full and a light retrofit? And I would like to understand why not doing everything full instead of the 39 lights? Perhaps have a more updated format and they don't need much investment. Or is because you will have a different concept to when you compare them to the 11 full retrofit stores?

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

So I will answer your first question and Luis will answer the second. Yes. The new tax rate work, the pace at these taxes have a very positive effect in Multivarejo and AssaÃ. This is approximately 15 bps that are favorable in AssaÃ. And less than 13 bps and also, if I go to 25 bps in Multivarejo. I have to be prudent in considering the positive effect, because these positive effects impact the whole market. As a result, part of those effects are transferred to prices. And in other words, it's impossible to consider these 15 and 25 bps on top of our history. And also I'd like to clarify here, as in this quarter 3, we don't have non-recurring effects brought by the new attacks framework. Just those effects I've already expressed of about 15 bps and 25 bps in Multivarejo. Christophe, maybe you could expand on the -- we're talking about (SG, SGMS). Now, there's also the impact of (STF) on fiscal things, taxes.

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

When we compare -- I think we've talked over each other, I'm talking of the cumulative effect of both the 15 and the 25 bps. They include both SD and also PIS-Cofins' taxes.

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

Okay good. Fair enough. And these effects are comparable to last year without this impact and this has recurring. Well the new ones, the new tax framework, these effects are now recurrent. In quarter 3, or slightly before it. But basically, in quarter 3.

A - Luis Moreno {BIO 16351507 <GO>}

As for the renovation of PÃ£o de AÃ§Ã°car, there are 2 criteria, the so-called full renovation app of course greater investment about BRL 3 million in CapEx per store. Then, the renovation, of course, is much more encompassing. We have substantial change in the store layout. As for the so called light renovation projects, the CapEx is much lower. And these stores were more outdated. So this just a general improvement of the visual image and also visual communication of the stores. So this year, it's 11 full and 39 light. And this, of course, have to wait till the return on investment of each of these stores. The full renovation project was disrupted for customers, of course, because this includes a total change of layout of stores. It has the source. And they've not been closed for these renovations to be performed. So they keep working. And we have also complementary services like food e-commerce. So customers are having the separating impact of these full renovation that have access to our e-commerce for free, between or while they're being renovated.

A - Marcelo Bazzali

This is Bazzali. In these 11 full renovations, we will be working with a concept available as I mentioned, in our trip to Chicago about this. We have 9 operators, or 9 players. And also, players from Uruguay, it make synergy projects for the entire LatAm as Christophe mentioned. So part of these 11 stores, will have a modern and updated concept.

Operator

The next question is from Thiago Macruz, ItaÃº BBA.

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

I have 2 questions. First to Ronaldo, you mentioned in your presentation that your strategy is still focuses on food. But what is the plan for Via real Varejo? Is it fair to say you are still seeking alternative for reinvesting. This was my first question. The second now is more subjective. And this may be to Luis Moreno. It is hard for us to understand where we can reach with the Multivarejo margin. Today, you have better Extra stores because you've converted the worst to the AssaÃ format. In addition, this share of PÃ£o de AÃ§Ãºcar, the supermarket, it is more relevant in the margin of 5.5% in EBITDA, adjusted EBITDA is there. So what can you -- how can you help us, give us some input to predict what's going to happen the next few years that's a reasonable prediction?

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

We're really happy with the results of Via the Varejo. In fact, this week we held a meeting with the Board of Directors and we approved an investment plan both for brick-and-mortar stores, especially in the Northeast of Brazil. And also in the interior of the state of SÃ£o Paulo. With a very strong program, on digital transformation, not only integrating the 2 systems of the company. But also with a platform that's really adequate for the marketplace. And also, implementing out multichannel strategy with much greater integration in structure. So customers have online follow-up. Their phase -- I mean, the status of their order. In other words, we're doing, making strides in the Via Varejo according to a logic that in our opinion, adds further value to the company. And right now, this team is working on this, on the strategic planning of '18 to '20, or 2018 to 2020. Our focus is still on the food segment. And we see -- have a great outlook of growth in the PÃ£o de AÃ§Ãºcar banner, also great growth for AssaÃ is expected. We have 2 businesses generating return on investment that is highly significant. So the decision made by the board of selling Via Varejo and on focusing on the food segment is still on. And we're still working to improve the company's results. This, of course, generates values to both shareholders and for us, as we sell it. So it's still improving. But we're not in a hurry, because the micro environment, the company's internal environment, everything we've been doing is really favorable to us. Now the macro environment for Via Varejo is also extremely favorable. We have seen also a holding of purchase of electronic appliances. And this is something we've been resuming throughout 2017. And we believe that this will be even better in 2018. This is our position, we haven't changed, we're still working towards improving the company's results. The entire team has been focusing on this. Luis will also answer your other question about the evolution of Multivarejo's profitability.

A - Luis Moreno {BIO 16351507 <GO>}

In terms of Multivarejo's profitability evolution, well, the sales mix is crucial. It all is 7 formats. Everyone knows that PÃ£o de AÃ§Ã°car is our most profitable banner and that our investments efforts in terms of renumeration and expansion is of course focusing on PÃ£o de AÃ§Ã°car. In this quarter, we open a new store in Sorocaba. And on November 14th, we open our second store in Salvador, Bahia. In addition to the 50 renovations we've mentioned, the additional number of renovation projects for the First Quarter of next year. So we're expecting progressive renovation of the result of a different sales mix between our banner. And again, with April, because on our most profitable banner. As for the extra profitability level, this will depend on the market, general market conditions. And what we've been trying to do is to keep our competitiveness level and also, our market share gain level. And also strike a balance between the profitability level of the banner.

Operator

The next question is from Irma Sgarz, Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

I have a question about 2 points. First, the M&A has been a potential opportunity in the past. How about now? What are your views? I think you said you're very optimistic about the growth opportunities for both AssaÃ and PÃ£o de AÃ§Ã°car. But then, maybe you could speed up growth with potential acquisitions? That is my first question. Is that a possibility? Number two, the drugstore concept, can you also comment on this? I know this is part of Extra's strategy. But maybe you could explain a little more, expand on the idea of these conversions in this quarter. Can you expand on this?

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

Well we have very different things. And they are not so easy to understand. If a crisis, such as this after three years, it will be expected that the value of assets would significantly reduce but then people on the other side, those who are selling, still believe that the business had the same value as it had before the crisis. So we have an M&A department and we follow up the opportunities, business opportunities. But currently, we are convinced that what can generate the most return, the most profit in terms of affinities, we know it is to invest organically. This is what we've been doing at AssaÃ, PÃ£o de AÃ§Ã°car. And also, as I said in Via Varejo with our growth plan for next year. So in business transformation also in new stores that are opening. In other words, we have nothing on the radar in terms of M&A. We have of course, this very important growth plan and we typically approved in December by the Board and that will be communicated then. So this with regards to mergers and acquisitions. And Luis will discuss the point about drugstores.

A - Luis Moreno {BIO 16351507 <GO>}

As for drugstores, this relationship with the AssaÃ conversions but rather with a portfolio revision. We review all our stores. So when drugstores have a good profitability level, we still operate in AssaÃ and then they're closed, they'll be closed based on a store-by-store strategy and also considering the profitability of our portfolio.

Operator

The next question is from Marcel Moraes, Deutsche Bank.

Q - Marcel Moraes {BIO 20057766 <GO>}

I'd like to focus my question on SG&A, especially Multivarejo. There's being continuous gain or a reduction in SG&A as a percentage of income. So can you give us some idea of the benefits with your personnel and how are savings -- have they been absorbed in 2017 yet? Or is there anything left for 2018 which was a result of these headcount and energy savings initiatives?

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

As I said during my introduction, the improvement of expenses is regarding 2 factors. One is power efficiency. We continue with the real out for the -- to diminish this in the company of productivity of our employment, this productivity is leveraged by 2 initiatives: 1, connected to (full balance sheet). And a significant part of our employees is that now our multitasked, more -- many of them are trained to deal with the cash register, although it's not their main function. Now 65,000 employees in our stores have a productivity plan on a semestrial basis. And part of their salary is connected to their productivity. And we continue implementing new processes. And also new technological tunes so that we can simplify and we can improve the store processes and also, we intensely are working on our supply chain, simplifying also our supply chain, for example, increasing significantly the amount of cross jobs that operate within our distribution centers. So there is a dedicated department to the continuous improvement on the processes. And as I said, this is a continuous improvement process improvement. And there is room for improvement still.

Q - Marcel Moraes {BIO 20057766 <GO>}

Okay, I understood.

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

When you see the years 2017-2018, I believe that we are observing a production of 60, 70, 80 points in the GSEMA (sic) (GSMA) with a percentage of our income. This year, you have this mad venture now, when you see the year 2018, thinking that we will normalize the price of food. And we will recover in volume. And because of the restructuring of PÃ£o de AÃ§Ã°car, the recovery of the economic situation that you believe that the GSMA, it's delusion and Multivarejo will be greater than what we have seen in 2017. In the beginning, we calculate a progressive improvement. But possibly, not the same level we've seen this year. This will depend on the inflation level, via the sales, via expenses, we believe that expense inflation, particularly of labor, will be lower next year. The collective bargaining that was agreed with the labor unions, our levels below 2%. So I believe that this gives us certain space to continue improving our SG&A next year.

Operator

Next question, Richard Cathcart, Bradesco.

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

I would like to ask a question regarding my discount. And I would like to know the reaction of the suppliers, because you say you have 1.1 million consumer that are part of your loyalty program. This is clearly positive for the suppliers and on the other side, 20% of transactions that are being -- my discount. My discount has 20% of transaction. I would like to know if this is enough for your supplier, or if they would like to achieve a greater volume in transactions. And the second question, to Ronaldo. The asset equivalence is BRL 30 million. So I would like to know, regarding the performance of the Cdiscount. And if volume -- this invest from this -- this invest from this asset, is it closer or further from reality?

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

Richard, now regarding my discount, October days, we have a participation of 60 suppliers. The 60 suppliers represent more than 75% of our sales volume. And we also would like to include within the platforms small suppliers that in certain locations, they do not have developed marketing departments, or dedicated marketing developments. This is a continuous training process for our suppliers to be trained in this new job that may offer many additional opportunity, not only a prediction that to be able to measure the results. And the amount of customers that we have attained with the BRL 3 million loans and a high percentage of customers using systematically the publication is also surprised, the supplier that had an expectation of pace of growth of it's too much lower than what we saw. So some of these suppliers are strengthening their marketing departments to be able to leverage this tool at its maximum potential.

This week, we also held a board meeting of the Cdiscount. We participated together with crystals and (liavata), the 3 members of GPA that represent the GPA in the Cdiscount. Now the result of the metric is very positive. We have 2 distribution centers, that will be reopened in Paris and 1 in LÃ©on where we will able to deliver the same day that I believe it is a market trend in France. Nevertheless, the results within this quarter was (by far,) there was a positive growth. Everything was positive, from the operating point of view. But I believe that we had a negative result and as you said, this reflected on the results of the GPA. So regarding the deinvestment, we have a commitment and we requested to Casino that in 2019 -- at the end of 2019 actually, we would work together with the group in order to see different alternatives of the investments. So this is the timeline that we have. This is the process as every internet business, we know that it is very important to have the growth variable. It is very important to invest in logistic and delivery. And the view that we had after this meeting was that the company is following the right direction, although we had certain losses during the quarter. And Christophe would like to say something, because he was with us at this meeting.

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

I think, you said everything, Ronaldo. I would just add that yes, we are -- they are operating above the expectations. Of course, the contribution is still negative. But it -- well, everything was within expectations, the business plan of Cdiscount, forecasts, discounts, something of this nature. I believe here we have a visibility of liquidity in the midterm. And I believe that this is improving and this is something that I would add.

Operator

The next question from Gustavo Piras Oliveira, UBS.

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

I've a question to Belmiro. Belmiro, you mentioned that you had expenses. Operating expenses, you've hired 2,100 stores and this has impacted your margin in 80 bps. Ability SG&A was 10% and it could have been lower. Now, when we see next year, expecting an improvement of the inflation cycle, could we imagine that there is a possibility to have a gain of 80 bps of EBITDA margin in AssaÃ? Or is it too early to talk about this?

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

I believe that there was a misunderstanding. There is an expense of 10% of (bps) when we see the math. Of expensive overgrowth there will be 9.4. It's because the internal metrics are on growth sales. So I would like to have a difference here but it's not possible. As a matter of fact, there was an impact during the Third Quarter, mentioned because of expansion, the number of headcounts, free operational stores operation. But the impact was 0.25%. Now of course, AssaÃ next year will continue with an expansion program, next year, we will open major units in different regions. And these new units, they have different behaviors, depending on the sales mix and they can cause oscillation in growth, income and expenses. Of course, we want to lower expenses. We want to lower expenses, increase sales but this doesn't happen necessarily.

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

Last question here would be for Luis Moreno. If you could give us an update on regarding what is happening with the Hiper market, Hipermercados, you spoke a lot about PÃ£o de AÃ§Ã°car. But you didn't talk a lot about Hipermercados. How do you see the economy affecting the results of Hipermercado and the other initiatives that you have deployed?

A - Luis Moreno {BIO 16351507 <GO>}

Regarding Hipermercado Extra, Hiper market Extra, for the time being, it is the format represents graded sales and same-store sales. But they are leveraged by a very strong leverage of everything regarding, that is known food, that has the sustainable performance that is consistent since the Third Quarter of the past year. So now regarding food, we are also activating many regional actions with the participation of our commercial teams in the regions now. Now in Rio de Janeiro, we have a strong action called (Cosa NiÃ±a). And we believe that these regional actions with regional relevance have a very strong impact on our sales. And we will continue towards this direction of the other side, the program that we have already programs 1, 2, 3, (inaudible), continue offering the performance that is expected in my discount. Although, the adoption by PÃ£o de AÃ§Ã°car customers was more accelerated, we are also satisfied of the adoption of this tool by non Extra customers. We will leverage these tools. And you will see the example during the Black Friday of November, where we will do something different with this tool. By and large, we're highly satisfied. So in addition to this in nonfood, we continue with the projects that are oracle, store same-store where we are bringing to our stores partnered with highly recognized brands. Like our mocha stores. We have a partnership with Aetna;

everything regarding electro-domestics and furniture and is very successful. This is a partnership that we have extended to PÃ£o de AÃ§Ãºcar and is very successful. Therefore, there are a number of initiatives that are taking place, be it in food, be it in the regional side, be it in the consolidation of the programs that we have launched and giving continuity to the innovation in nonfood and everything leveraged by the new digital tool.

Operator

The next question, Maria Paula Cantusio, Banco di Investimento.

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

In fact, I have 2. You were -- how many -- about the increase in sales volumes of PÃ£o de AÃ§Ãºcar. And also, new profitability categories in high profitability categories in AssaÃ. Do you see -- how about the movement of down trading? Does this happen in your different banners? Then cash flow. So we have consolidated cash flow. And we had a strong negative impact in your accounts receivable and inventory. But with providers, of course, improved. So what is the greatest impact? Is it really from Via Varejo? Can you isolate GPA food performance in working capital? So what were the 3 accounts like during the quarter and in the year-to-date?

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

As for the down trade movement, in our view, it hasn't -- it is not complete yet. Growth, as Belmiro said, in the wholesale sector, it's still rather significant with a focus on AssaÃ. But PÃ£o de AÃ§Ãºcar, the relationship we have with our customers is such that we can offset this type of movement. In fact, I forgot to mention that in PÃ£o de AÃ§Ãºcar, we already exceeded 80% of our sales with loyal customers. As a result, we have a level of relationship that decreases the impact of a movement that's still there in market in general, this downgrade movement or trend. And adding to what Luis said, the downgrade movement is there. The downgrading of brands is rather stable, although prices have dropped significantly. But customers are not aware or they don't perceive this, that there was such a strong drop in the food segment. Last year, there was also an inflationary peak that there was much higher than the average in the last few years so that now, making the most of this price drop, some products decreased almost 50%. For instance, milk, from BRL 3.21, now BRL 1.80 a liter. So people are also buying mixes of other categories. In fact, when we throw some light into the issue of deflation, it takes place in the food sector. But also the real is valued. Washing powder, for example, is cheaper than last year and the raw materials inputs or the companies that have their sales in dollars, their prices haven't evolved. And consumers increase their real purchase volume. But not enough to compensate for their general loss.

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

About your question on cash flow, the cash flow on the release is a little complicated, complex to read. It captures IFRS by applications. But the way you should read it is in practice is a little difficult. Let me try to explain the behavior of each indicator of our cash flow, especially working capital. There's been improvement in the operating cash flow, in other words, the inventory levels in the full perimeter of approximately two days. So we finished the quarter with 50 days of stock growth, inventory rotation. And although there were business in improvement, there is also the weight of the new stores opened by AssaÃ. So they get 5% of the inventory. But they don't operate fully. In any way, it changes from 52 to 50 days. As for payment to suppliers, again, the effect of mixes. So there was better terms. So now 54, the operating cycle has improved in six days. So this is nothing unexpected. It is not unexpected. And when we consider accounts receivable, this is related to our discount in receivables. So at the end of the quarter, of quarter 3, we didn't discount BRL 1.1 billion in the food sector in receivables, as compared to the previous year. We've closed 600 for discount. And this has a visual impact of BRL 500 million. But no impact on our financial solidity. It was not a good idea to further discount receivables at the end of the quarter, because we didn't need to for our cash flow. It should be for in mind that our deleverage perspectives are still valid. And they will be in line with what we have been delivering at the end of every quarter since the beginning of the year.

Operator

The next question, Franco Abelardo, Morgan Stanley.

Q - Franco T Abelardo {BIO 17416219 <GO>}

The first question is about the other operating expenses. Can you give us an idea how much you have in this quarter in Quarter Four for 2018. And of course, thank you for opening the lines for the Third Quarter. I'd like to understand if you have further expenses, like labor expenses when you close the stores and also, the assets? That's my first question. The second question is about your expansion plan for 2018. Has there been any change? Are you still focusing on the conversions of hybrid to AssaÃ -- the Hiper to AssaÃ or are you planning to open PÃ£o de AÃ§Ã°car stores? So do you have an idea of your expansion plan for 2018? And also investment, the expected CapEx level? And my third question, what is the current share of e-commerce in Multivarejo? Can you give us a number overall or per banner. And also the expectations in e-commerce for the short and medium term for 2018, what do you expect from this channel? Can there be more investment from this channel?

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

I am Christophe. And I'm going to answer your first question about expenses without discussing the composition of what we discussed. In quarter 3, we have 2/3 focused on the revision or adaptation of our portfolio of stores. So without resuming this, I'd also like to remind you that two years ago, we had a profound change in our structure or certification of our consumers. So in this context, we had to restructure. And this was radical. And this process has materialized through conversion and also closing or shutdowns last year. We had a significant number of stores that were shut down. So this movement is crucial. But it costs money. There is no other way of doing this. We should also bear in mind that most of this money -- the assets, they are in cash. Now the second point that should be taken into account is that, when we talk about conversion, all the other costs are included in the visibility of the operations. And this gives us return rates that are higher than 30%, considering of course the write-offs. Having said that, if we are to follow and restructure the company, there is maybe a new wave of conversions for next year, for the beginning of next year. So we will shut down stores that cannot operate in good conditions in their respective markets. So this will have to be anticipated in the other expenses. For this reason, we're expecting a level on the region of BRL 70 million of nonoperating expenses -- full operating expenses in Q4. So we expect to finish the year with BRL 450 million in operating expenses -- nonoperating expenses, which are significantly lower than the previous year, minus $100 million, which was the year where -- in which GPA has its greatest portfolio revision. I now turn it over to Luis.

A - Luis Moreno {BIO 16351507 <GO>}

E-commerce. Well as for e-commerce, we haven't published the specific days. What I can share with you, though, is that this is still favorable growth in that the PÃ£o de AÃ§Ãºcar banner share is 3x higher than Extra. We have both banners in our food e-commerce. And we have 3 models or service levels. First, we have delivery within 1 hour, then delivery within 4 hours. And delivery on the next day. The first 2 are in stores inside stores, dedicated to this service. We will have 50 stores at the end of this year that are enabled for this service. Now next day delivery, we have a warehouse that is dedicated to this activity. And this warehouse can manage orders of over 120 products, products that cannot be delivered in the 1 or 4 hour orders. Our average ticket include -- e-commerce is 6x higher than the average of our brick-and-mortar stores. For next year, we're planning to keep increasing the number of stores enabled for express services. And the target is 70 stores enabled for this type of service. Okay. As for the 2018 CapEx. Currently, we're discussing it. On our GPA day, at the beginning of December. So we'll make this more visible later on.

Operator

This concludes our Q&A session. I would like now to turn the back to the company manager -- management.

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

Thank you. Thank you, again. Thank you, everyone for participating, especially for your questions. I'd like to close by saying that we are moderately happy with the progress that we made in this quarter. And we're very happy as well, because this was what we expected, what we planned. And what we communicated to you. Dani made a comment about our 2018 plan and we're currently discussing it with every business unit and also the Board of Directors. We will hold a meeting on November 10. And another one for the end, for the 24th and we're expecting to have our CapEx approved. And also our strategy together with our CapEx approved in December. So we don't -- we're not expecting to do anything very different in 2018, different from 2017. We're adding all the initiatives that were developed. But each business unit throughout 2017. So our strategy and our budget for 2018 is expected to be in line where what we've been doing. In other words, it will continue and improve on what's being done in 2017. As for quarter 4, which in the retail sector is a crucial quarter. As we mentioned, in fact, in this meeting of ours, we're still expecting deflation to take place in this quarter. And we're also expecting to see a new normalcy. So to speak, in the beginning of 2018. So this quarter, Quarter Four will depend on initiatives of this team that is here with me. So I would like to finish this by thanking them for their great work. Thank you. Have a great day.

Operator

This earnings call is closed. The investors relations department of GPA is at your disposal for further questions. Thank you very much for participating. Have a great day.