

Y 2019 Earnings Call

Company Participants

- Orivaldo Padilha, Vice President of Finance and Investor Relations Officer
- Roberto Fulcherberguer, Chief Executive Officer

Other Participants

- Felipe Mendonca, Analyst
- Gustavo Oliveira, Analyst
- Joseph Giordano, Analyst
- Pedro Fagundes, Analyst
- Robert Ford, Analyst
- Thiago Bortoluci, Analyst
- Tobias Stingelin, Analyst
- Unidentified Participant
- Victor Saragiotto, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen and thank you for waiting. Welcome to Via Varejo Conference Call to discuss the results for the Fourth Quarter of 2019. This call is being broadcast via Internet at our website www.viavarejo.com.br/ir where you find the company's presentation. The slide selection will be managed by you. The replay will be available after the call is finished. The company's press release is also available at its IR website. (Operator Instructions)

Before proceeding, we should mention that forward-looking statements made during this conference call regarding business perspectives of Via Varejo as well as projections operating and financial goals are based on the beliefs and assumptions of the company's management as well as on information currently available. Following statements are not guarantee of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Via Varejo and cause results to differ materially from those expressed in such forward-looking statements.

Now we have with us Mr. Roberto Fulcherberguer, CEO of the company and Mr. Orivaldo Padilha, CFO and IR officer.

Now I would like to turn the floor to Mr. Roberto Fulcherberguer.

Roberto Fulcherberguer {BIO 17276995 <GO>}

Good afternoon, everyone. I would like to thank you for being interested in our conference call and I hope everyone is taking care of yourself and of your family in this moment we are going through. We are going through a very difficult moment, a period of time differently from all adversities we have ever think, and this team at Via Varejo have a lot of baggage, lot of experience and we have faced many crisis, but this is a different one. It's not an industry crisis, it's not from the TB from the plague and actually it's not even the Brazilian crisis, it's a world crisis. I just would like to say that I want to quote something that -- this is not I said, but quote now. Those that will come out better of this crisis not necessarily will be the most intelligent ones or the ones that have the best cash position, but rather the ones that have the greatest ability to adapt to the moment and to prepare to a restart. I know that the secret right now will be the ability to adapt in the seniority of the team that is ahead of the decision and the decision-making capacity.

I will give you a brief presentation about our company. I think this is valid because we have been hearing a lot of things about the company in the past two weeks. So we have taken this company by the end of June of 2019. When we took over we had over 40,000 consumers, trying to get your money back because of deliveries that has not been delivered for many months, many

(Technical Difficulty) past year's Black Friday.

Our stores, were horrible, in a horrible state of conservation. Our team here -- at here didn't believe that much that it would be different now, and that would be for real this time. In 2019, the market make sure that we are going to go down during the Black Friday but we will not be able to deliver the products we sold on Black Friday and that we would take too long in our journey to increase our share in the digital sales. And on top of it all, we were also a victim of fraud allegation which demanded a lot of energy from this management in order to cater to all the governance, agencies and growth that were created in the company so that we could move forward with the investigation.

So 2019 had a lot of the diversities and many challenges and I'm here to tell you that this is behind, this is past. But this last six months of 2019 what we have done all the time, was to adapt ourselves to the need that each moment demanded but we never lost sight where we wanted to be, and that's where we are now and despite of everything that is happening today, I cannot not celebrate what have been done in the last six months and we have done all that creating all the adversities I mentioned and many others that we ended up facing along the way.

Imagine what this team will be able to do and is already doing now that we can focus 100% of our energy in the business in our present and in our future. And adaptation ability is swift decision making encouraged to face the challenges, to make the short-term deliveries but always aiming the future. And I can assure you that here at Via Varejo, we have that in abundance. And the results we are going to bring to you today is proof of

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that. Having all that in mind, I should mention some things of our current moment. A lot has been said about this company in the past few weeks, and I have some things to say and some facts to mention. Our reality with our partners did not start yesterday. Some banks worked with this company for decades, and they do know the company and they trust on what is being done in this company. At this moment, in fact, we are actually being able to see who are our strategic and long-term partners and which are the main ones. The main banks have called us and they told us what is coming ahead is not going to be easy. But we are here, we'll be together and count on us.

Our credit lines have been maintained. Our credit operations that provide service to society and that makes it easier for the underprivileged to have more access that's still operating and we have taken several additives here. For instance, we decided to postpone the installments for April so that consumers would have an extra amount of money in this moment, and the three banks that work with us in our credit operations are already contacting us and we are talking in order to make all adjustments to adjust our receivables flow to the flow of transfer that we'll have to send them. So we do not have a problem here.

We also have financing lines that the company has used for a long period of time to extend the terms from the industry to the bank. We were talking about that. We were not using those lines anymore because we changed the company's trajectory. This company is again generating cash, so we wouldn't need to use those credit lines anymore. But now we are back into use them -- using them because it makes sense and the lines were there available for us. In addition to that, we are also working with the banks all -- on all the postponements of that type of flow that makes sense.

We have a sound cash position. We have an excellent and let me repeat that, we have an excellent inventory position. We have a healthy inventory level. In the fourth quarter, we ended the process of clearing our inventories. And the best news of all is that our inventory is at \$380 cost. So we have a great inventory, and we are still receiving merchandise that really makes sense to us. We are also maintaining active contact with all the industry partners. And remember what I told you in our first meeting here. One of our first additives was to reestablish our strategic relationship with the industry. This is a long-term relationship and with interest and mutual benefit, this relationship is more than established and it is extremely strong. Yes, we are going through a very difficult moment but I am sure that we'll come out of this moment much stronger and much more digital than when we came into this moment today, thinking about the health of our employees, our back office has over 95% of people working in home office. The other day, someone said (inaudible) from XP said that this company was much more productive having everyone at home and that's true for us as well. We are much more functional and even more objective than what we used to be. And I can tell you that when everything goes back to normal, our operating way is not going to be the same. We are already designing a new way of operating based on this moment.

Our sales team from the stores, they are all at home because 100% of our stores are closed. That would be, well, the team could be at home and not thinking about sales because you cannot sell anything when the stores are closed. But that's not how we think here at Via Varejo. Our ability to adapt allowed us to develop in 1 week a solution so that

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our salesperson could sell without leaving their homes. We started the test with 80 sales reps. By yesterday, we had over 1,000 sales reps in all the regions and we are already, we already have this tool ready to go, so that in the next coming days, over 20,000 employees and salesperson will be able to sell from their homes and this is possible because our CRM is very functional. It uses all our base with over 80 million customers, and it triggers that to our sales person offers, with possible needs adjusted to each one of our customers. Our sales reps start WhatsApp conversation and when the sales are concluded that the sales reps using our system then they send a link to our customer. The customer will click on this link that will take this customer to our home page. By the end, the conclusion stage of that sale, they only have to add the payment and the credit card information. So we have sales reps that are happy because they're still making their commission. The customer is happy because they were able to buy from a sales rep that they know for years and not leaving their homes and we have our logistics fully prepared for delivery. Our logistics is operational and is stronger than ever. Another initiative that we learn from adversity is that we have two sites for customer service and one of them have been closed last week. Even knowing that customer service site should not be closed, we ended up having to close that. It has been reopened. But when we had the problem, we also foresaw the solution. We adapted our system for those that understand the most about customer service to cater to customers. These are our 1,050 managers that are at home. They are prepared and ready to cater to consumers in all demands of post sales that they might have.

So we already have prepared our emergency plan for customer service and that is being done for those that better understand about customers who are our store managers and these are just some of the initiatives and many others will come and I have no question about it. About our CapEx, of course, it's frozen right now. But there is something in this company that has not come to a halt. Our IT team that has over 1,200 professionals, they are working in their home spots and they are focusing in expediting our transformation initiatives. We have not removed \$0.01 from our IT investment. I know, I took a little bit longer in these opening words but I thought it was important to say, to tell you about what we are about what we have so that you better understand. And another comment before I turn the floor to Padilha, well, anybody who really have a problem or are we going to adjust ourselves and come out of this moment much better than what when we came in?

For me, the answer is simple, and you will be able to see the response in the operating results that Padilha is going to talk about right now. So I'll turn the floor to Padilha. Thank you.

Orivaldo Padilha {BIO 21118157 <GO>}

Good afternoon, everyone. Once again, thank you very much for participating and for being interested in our earnings results for the fourth quarter. Starting by the investigation slide, I think all of you know that the company has received a fraud allegation which was then sent by the Board of Directors. A special Investigation Committee was formed and this committee hired lawyers and specialized companies and that would take care of this type of subject. And as Roberto said, that it has taken a lot of the time of this management. And also, there was a high cost to it and we'll talk more about this shortly. We have been able to maintain the market up-to-date in all the different stages of this investigation. And in fact, this week since yesterday, actually, the report was submitted to

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the Board of Directors, and then we considered the subject solved. And all the impact of these allegations and all the context is already posted in this end of year and this quarter. So among all the impacts, in addition to fraud, we also adjusted in the results, BRL1.4 billion. So this is a very complex and technical subject. The company recommends that you read carefully the material fact that was published where you will find all the information the company can disclose at this moment.

So after the first topic, let's start on the results of the fourth quarter. This next slide, we have the fourth quarter of 2019, the operating aspects. We have removed all the effects of adjustments in the fourth quarter that we consider to be nonoperating or nonrecurring. And here, then we have just an operational assessment. Well, having said that, these are our highlights. The main relevant highlight is the reversal when we compare to the fourth quarter of the prior year. We have a reversal of loss of BRL282 million to net operating income of BRL78 million. Gross margin of 30.2% was -- went up of 3.7 EPS when compared to 4Q '18 and that amounted to BRL2.3 billion. Adjusted EBITDA margin of 8% in the fourth quarter almost 2 times more than fourth quarter of 2018. And then we ended this quarter with cash, including unsold credit card receivables in the amount of BRL4.4 billion. So these are the initial highlights -- financial highlights.

On the next page, we have operating highlights. All of you know that we had the largest Black Friday in Brazil selling in 24 hours 1.1 billion and all of that has been delivered in 7 days, 48% of what we sold on that they were online sales. In the quarter and in December, we had our direct online or 1P having a very robust growth, 68% in December, 29% in the fourth quarter and remember, all improvements the platform with all with all the improvements that we have made, that has worked for 32 days in the quarter. That's why, we are highlighting the fact of 1P in December of 68% growth vis-a-vis 2018. 3P as well, 69% growth vis-a-vis December '18, 58% in the quarter. Two other important data that are very interesting, exponential growth of active users in our app of 1.4 million in June to 5.3 million in December of '19.

This was the most downloaded app on Black Friday, both for Casas Bahia as well as Pontofrio.

On the next page then, we start talking about the results themselves. Here, we have the accounting results to -- we're comparing the accounting results to IFRS 16. This was a year where the company had a lot of transformation. It's very difficult to look at it as a whole because there was a difficult performance in the first quarter and then all the impact of the results accounting and all the adjustments made on the fourth quarter. So the accounting resulted sales of BRL31.2 billion in 2019, BRL122 million better than 2018. Our gross profit up 28.6%, SG&A 25.3%, adjusted EBITDA 4.2% and a loss of BRL1.4 billion. And remember here, we have all the effects of the adjustments that we already mentioned.

On the next page, we go back to fourth quarter once again. And here, we reconcile that we leave the accounting result and we do the nonrecurring adjustment and reaching what we believe to be the operating result. So here are the adjustments. It's very summarized and we had a total contingency and write-off of the digital deposits. As you can see here, credit loss of PIS and COFINS is BRL19 million, investigation expenses BRL13 million, Cnova

provision BRL16 million, impairment of PP&E BRL76 million and the total impact of the EBITDA is BRL1.3 billion.

That way, on the next page, we start on the operating results and perfectly can compare the operating results of the two quarters, '18 and '19. Okay, in terms of operating results for 4Q '19, the company had BRL9.3 billion of gross sales, an improvement of BRL635 million, a growth of 7%, gross profit of 30.2%, an improvement of 3.7 bps, reaching BRL2.292 billion, an improvement of BRL303 million. SG&A of the company and despite a higher revenue of BRL665 million, there was a reduction to 22.7%, a drop of 0.4%, an BRL89 million loss. Adjusted EBITDA, very robust, 8%, BRL605 million, an improvement of BRL289 million, 91% better vis-a-vis the same quarter of the prior year, 3.8 percentage points of improvement. And in the last line, the net revenue, BRL8 million, 1% of margin, BRL360 million improvement.

On the next page, we are going to break down the gross revenue. So we're already talking about total GMV, both years, under the same concept. So we were at BRL8.728 billion to BRL9.363 billion, up 7%. In brick-and-mortar stores, we have gone from BRL7.043 billion to BRL7.091 billion, 1% growth. And remember that once again, we had the largest Black Friday in Brazil, 48% of the online sales, 52% of the off-line sales. GMV, 1P plus 3P of BRL1.684 billion to BRL2.272 billion, an increase of 35%, highlighting that in the quarter and also December, which had a growth of 68% vis-a-vis December of '18. Next page, we have breakdown for our GMV. We have net GMV of BRL1,684 million in '18 going to BRL2,272 million in 4Q '19, up 35%. GMV 1P reached BRL1,724 million, up 29%. And also, we have 78% growth in December. In 3P, it grows 58% in the quarter. Remember that throughout the whole year, 3P had strong numbers and in the quarter, it reached 58%. And also highlight to December, it reached 69% growth.

Next slide. We'll talk about gross profit, SG&A, adjusted EBITDA. Gross profit, as I mentioned, we had BRL2.292 billion, 30.2%. The highlight here that shows that really this was a gross margin very important, that in this quarter, we concluded the process that we had started in the third quarter of clearing and adjusting our inventory levels. We had final sale of 400 million products that had a slow turnover, obviously, with a margin that was almost 0. If we have a normal margin in these products, we would have reached in the quarter to a margin of 31.2%.

In the next chart also, we go back to expand the next chart (inaudible) The revenue part of our expenses is variable and in debt to sales. And even then, we were able to reduce 0.5% with a nominal reduction. Therefore, EBITDA of BRL605 million, 8% EBITDA margin that is very robust. Obviously, considering a more relevant quarter in terms of sales with a significant increase of 3.8 percentage point.

Next page. Next page, just highlighting what we said before, a positive result in EBIT, BRL546 million better in EBIT vis-a-vis the previous year, moving from a negative into a positive one at BRL130 million. And lastly, we have net income of BRL78 million under SC [ph] operating concept with a total reversal compared to what we posted in the same quarter of last year.

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Now, the next slide, debt. Making sure that there was a drop of BRL1 billion in our cash position compared to Q4 2018 but still very robust of BRL4.3 billion. I'll explain on the next slide the reason why we had a reduction. Debt from BRL924 million to BRL2.155 billion and our net cash, BR 4.4 billion to BRL2.2 billion, a reduction of BRL2.2 billion in our net cash position. The explanation is on the next slide.

There was nothing more important except for that the company burned cash in the first three quarters and starting to generate cash in Q4 and then the net cash positioning. Third quarter and '19, an improvement of BRL1.5 billion vis-a-vis the same period of the previous year, a reduction of BRL2.2 billion, mainly explained by a reduction of payment terms involving suppliers via bank. In reality, we'll have this strategy like Roberto explained well and all cash generation was used to pay additional lines via bank, suppliers via bank. These lines were not reduced. They'll keep on being available and can be accessed by the company.

On the next slide, our inventory position. A priority in this management ever since we arrived. So a lot of care with the cash position, inventory position, high quality inventory, no low turnover items and SKUs with a huge potential for sale. So in the second quarter of 2019, we had nearly BRL5 billion in the second -- third quarter, a reduction of approximately BRL500 million, and now we are flat, in a position of 77 days at BRL4.5 billion. Now when compared to the fourth quarter of 2018 also the reduction of 5 points and stable at 77 days. So basically, these are the points that are the highlights -- the financial highlights.

I turn the floor back to Roberto.

Roberto Fulcherberguer {BIO 17276995 <GO>}

So just coming back and to explain our cycle, starting from number 1, we had a strong recovery and renovation in our brick-and-mortar experience. We provide a lot of stability in our online platform. We greatly improved our conversion rate. We improved the flow and about 5% growth in our GMV. What about marketing? Like Padilha said before, we posted a growth of 175% in the app hits in December. 27% sales already happened on app. More than 7 million active users now in January. So this is the latest information in January. February is growing right now, and it was the most downloaded app on Black Friday. And our social media engagement is very intense.

What about payment book? Like we said before, we started increasing the share of credit and payment book, increasing 1.6 in our share. It keeps on being our goal. In the commercial and product area, we had a big rise in our margin even though we had to sell a significant part of our inventory, which was not adequate to our assortment, increasing 3.7 points in gross margin and increase by 8% our furniture sales. What about delivery terms, deadlines? We keep on improving our performance in delivery. We already have 24 hours with 28% of deliveries and 48 hours with 47%. And we're already pretty close to do another leap in these indicators.

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We doubled the volume shipped by our mini-hubs, which makes all the difference to last mile. And synergies go through this period that we are right now, we expect to double the number of mini-hubs. We are ready to do that. Our plan, our expansion plan is between 70 to 90 stores. Actually, it is frozen right now, naturally, but we already have the points of sale and maybe even better points, better locations for the future. As for people, we radically changed the attractive axis of the company. So we have the cool [ph] project projecting (inaudible) is a win back. New talents were willing to come to our transformation project. And the coolest thing about it is that many people said, well, (inaudible) may be a barrier. We know now that we know how to work with home office. So that was the last wall that has to fall. So now, we have extremely significant talent attraction and at the core is our customer. This is the reason why we're here. That's why we're doing everything we're doing and we want to delight our customers every day to make sure they stick to us throughout our cycle and throughout their lives. On the next slide, let me tell you more about the exponential growth in our apps. So if you think about June '19 to January '20, we grew more than 400% in number of MAUs. And at the bottom of the chart, you can see the monthly active user in January, 7 we went to a 100 million. And in sales, the share in Q4 '19 was 17%. And now in February this year, is already, 27% of our GMV.

And please note that we have deliveries expected for near future, maybe midyear. Like I said, in Via Varejo Day, we're going to have new apps and unique usability, and I have no doubt that it's only going to strengthen our improvement.

(inaudible) growth in Q4, we have 175%. And in February, we exceeded 300% growth. So I have no doubt that we are on the right track, and we have a lot of room for improvement. There is a lot about to come. But I say again, no investment stopped in IT. The whole team is involved, home offices are connected, work is going on.

We are all strongly engaged to benefit from this moment in which we can all focus more strongly. So we can expedite our transformation process.

On the next slide, about the evolution of the platform and digitalization. Like I said before we already have more than 1,200 employees in our technology in Brazil. We also have our lab with the Airfox team based in the US. So it's a big attraction hub to us, both in terms of new technologies and also new start-up companies that can drive well [ph] our system and also teams to run our business. So this is going fine, very well, and we're already reaping the fruits of these connections.

What about online? Like I said, new apps up to June, focusing on usability and speed. And off-line, brick-and-mortar stores or physical stores are going more and more digital. The Via minus or Via plus by mid-year or July, we expect to start doing a marketplace by all our sellers on the store. So it makes a huge difference. We have more than 20,000 sellers boosting our marketplace and also new mobiles, Kia versus, it's going to be in our sellers' hands, and it's going to bring significant improvement because it will add a lot of functionality and much difference from what we see in the market today. So when you experience the use of Wi-Fi in the store, help us understand who our customer is, who is going to the store? And we can follow the customer from the moment you walk through the door, and we can already activate the seller who usually see this customer, and then

the seller will have the sales history of the customer, the customers needs based on our CRM.

So that's a connection, the brick-and-mortar seller contacting the customer by the name and being supported by technology. So the seller can go to the store door and say, Hello, Mr. Smith, what about the TV that I sold you six months ago, maybe it's about time we buy a new fridge. So intelligence in the hands of our sellers and also the marketplace. We have significant improvement on the way in order to make our sellers' life easier when they interact with our business.

On the next slide, we have data culture and intelligence applied to business. We have other fronts that are already doing well. Pricing is one of them. We have new update processes and also new business rules with much more variables. At variations, when it comes to the limit of SKU by region. In logistics, we also have demand forecast, so we can also work on inventory advance to all our stores, over 1,071 stores, a lot of intelligence involved.

In freight, we'll have new business rules for cost and delivery times. So we still have a lot of novelty coming in. And in payment book, we are getting ourselves ready. The IT team is leading the credit area. The payment books already working on new payment book engines to our business. We clearly have a lot of opportunity, a lot of headway here, and it's going to be a point of uniqueness, even greater now at Via Varejo. And in marketing, we have a full revision of the contract rule involving attraction, activation, loyalty and the customer recurrence. We are very much engaged in following our customers' journey.

On the next page, banQi. The rollout in Brazil was already started. Today, 511 stores and obviously, it is on hold now. And then once we start again, we can have the rollout 100% Casas Bahia. So what about use, we already have Android and iOS version available, integration with the Casas Bahia apps, and we have a lot of news coming in. The Airfox team in Boston is very active in the lab, show that they will promptly bring a package of improvement and use in our super app, which will be banQi.

So now I would like to give you the chance to ask us questions, so we can answer them.

Thank you very much for now.

Questions And Answers

Operator

We now open the floor for questions and answers (Operator Instructions). The first question is from Robert Ford, Bank of America. Robert please go on.

Q - Robert Ford {BIO 1499021 <GO>}

Good afternoon, everyone and congratulations on innovation. I understand that you have adjusted a little bit on the extended warranty. But what is going to be like the service

revenue in the long-term piece? And also, can you tell us what you're doing to mitigate the pending issue of the credit operations when this quarantine is over? Thank you.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Hello, Robert, thank you very much for your question. No, we have not reduced anything. The selling of extended warranty, we are very active. This is an important revenue for us, and we are still working on those sales and driving those sales as they are very active. If I well understood -- well, I understand -- I think I did not understand your second question. I'm sorry.

Q - Robert Ford {BIO 1499021 <GO>}

What are you doing to mitigate the problem of -- when the quarantine is over?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Okay. We do not have a major concern. Of course, that we are concerned, but we have one of the lowest delinquency rates in the market. Our consumers are loyal to us and they have a long-term relationship to us. First installment of April that we postponed for the last installment of that customer so that this customer does not need to go back to the store and they have to pay two installments at once because probably customers will not be prepared for that. So for now, that's what we have done. We understand and trying to understand how this quarantine will go and how long, we'll have the stores closed. And we'll be analyzing our actions depending on the needs from now on

Q - Robert Ford {BIO 1499021 <GO>}

Thank you.

Operator

Our next question is from Tobias Stingelin from Citibank. Mr Tobias the floor is yours.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Good morning. Thank you very much for this opportunity. I would like to know about this investigation last year. At that time, you were talking about a credit of BRL600 million. These were tax credits that you thought that might be able to recover in a slight short term, if this would be a counterpart to the provision. So how is the credit -- the tax credit? This is my first question.

And my second question, I would like to know, Roberto, one -- your first initiatives was to renovate the stores. And we see the clear results, especially, in the online. But It's difficult to see that on the stores the sales in the fourth quarter. Of course, it's difficult to say now because the stores are closed. But can you tell us how the store sales were up to -- January, February and mid-March so that we can have an idea of the performance of the brick-and-mortar stores before anything -- everything that was happening?

And finally, another question. You talked about what you're doing about your cash and maybe Padilha, could tell us a little bit more about how you're working with supplier, your cash position by the end of the year? Might be a little bit different, especially considering your suppliers. So if you can tell us a little bit more about that. And I would appreciate and sorry for so many questions and congratulations on your results.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Tobias, thank you very much for your three questions. I will answer two of them. The tax credits that we mentioned and the material fact that we disclosed in December are still available. There are legal issues involved so that we can post those credits to our books. But this is right that we have, but that's going to depend on this legal condition. It's a little bit over BRL600 million. So it's still there, yes. In the short-term and legal conditions, maybe a few quarters. So it might happen in this quarter because one of them will depend on the final ruling. Well, right now, our judiciary is also closed, right? And the other one also depends on some legal issues or some legal conditions so that it would become active in the company, and we posted a credit in our cash. So this could happen in the next quarters.

A - Orivaldo Padilha {BIO 21118157 <GO>}

So now the cash question. I know this is something that the market also questions and we have posted some information last week to all our investors so that we could already address possible questions that you could have at that time about our cash position. So obviously, since this Coronavirus crisis started in the beginning of the year, the company is taking several protection measures in terms of results and cash. The first one, as Roberto said, it was not accepting dollar-denominated increase. So all our inventory is at the dollar at the prior rate. We did not buy dollar-denominated currency. All our orders are placed in Brazil in real. So we do not have any exposure or anything that is related to FX variation. Also, we worked a lot in this past week to ensure full availability of our inventory levels as well as providing a lot of quality.

So related to that moment, the focus is to maintain the supply and inventory levels and the negotiated commercial conditions, our cash position. And it's obvious that I think that we needed to have a deeper knowledge about the market and how Via Varejo operates. Via Varejo has a complexity because with our balance sheet, we also have several financial operations, and sometimes it's difficult to evaluate the balance sheet in a dynamic fashion, what is really happening. So in fact, we have, for instance, in CDC and we received from customers and we transferred to the bank. So this is a process where we receive and transfer to the bank and that is a natural flow of payment. And the prior question, how the delinquency is of the stores that are closed 95% of our direct consumer credit happens in the store. So in April, we already anticipated ourselves and have authorized our customers to postpone those installments to the end of the payment. But of course, this transfer will not be happening in the bank -- to the bank.

This flow will be interrupted and accelerated or accelerated and interrupted as customers go back to paying the payment book in the stores. Also, 5% of our customers pay in the bank or on the Internet. And so this number could -- should go up to 10%. And we are also making several system adjustments and also via banking so that our customer can do the

electronic payment. So it's starting on May, therefore, we are going to skip April's installment. But then in May, our customer will also be able to make payments in the payment book via -- in some electronic product via electronically. So about direct consumer credit, it's a significant amount and a lot of the analysts just see the liabilities but in our access also first and I receive from customers, and I transfer to the three major banks that help us there.

Now also we have payment accounts to suppliers. I have two major accounts. You can see that in our quarterly return, I have, what I call, tier supplier, direct supplier, and that's where I get 60, 90, 120 days to pay and also payment postponement via banks of the suppliers or via banks from Via Varejo. So the limit -- this limit with the banks is a rotating limit. It's never due. It is maintained. And so I pay receive by payer, receive when I ask other payments to suppliers in a regular turnover and we don't have a problem of maintaining that whole amount.

Because on the asset, I have 5.1 billion in inventory in our current position, 4.5 billion in another position we have in December and that at a retail price, and that's important for analysts to know. Our inventory is in the book at no tax cost or the cost free of tax. So when I turn that into sales, I added 30% of gross margin and 10% of taxes. That turns into receivables, BRL5 billion of inventory turns into a receivable or cash or sales of BRL8 billion. So I have the sum of the payables to suppliers and payables to banks, which is lower than the inventory converted to sale price. Of course, that when the whole country came to a halt, this show also stops.

So depending on how long this crisis lasts, that's going to be the period of time in which the process will not be working, will be stopped as well. So the cash position is just as robust as it was on December 31. We do not have any problems. We have not interrupted anything so far. All of our accounts are being paid to this date and there is nothing that has been done by the company so far because we are waiting for this crisis to go over as soon as possible.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Yes. Just a follow-up, this transfer from the three banks. You said that if installment is going to go to the end of the payment book. Have you negotiated that with the banks as well?

A - Orivaldo Padilha {BIO 21118157 <GO>}

Yes and the banks have agreed with it. We are just working on transition technical detail, transmission of information because all this flow is controlled customer by customer, installment by installment. So it's fully-matched flow. And when I said that the banks called and said that we are with you and count on us, this is not just something that they said. It will happen, and it's happening.

The great interaction is happening. I say it again, this is not a problem in the industry. This is not a problem of Via Varejo. This is a problem that the market has. The market has come to an halt. Now about your second question, the sales performance in brick-and-

mortar stores. Unfortunately, all of that happened because we were gaining traction in the brick-and-mortar first. And our figures for the first quarter -- the figures were nice for brick-and-mortar stores. But unfortunately, we have been impacted by the stores closing.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Perfect. Thank you. Okay. So is this in line to what you imagined in the beginning of the year?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

It was above what we have thought.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay thank you.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Thank you once again. Thank for your question, Tobias.

Operator

Our next question is from Andrew Ruben from Morgan Stanley (Operator Instructions)

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Good afternoon. Thank you for your question. There is an interpreter who's going to translate it back to you in English. Online was positively affected. Online sales are growing and our main goal was to maintain our logistics, which is very strong and we wanted to be active right now. We're doing everything in our power. So it can be possible, also health wise, and we are being successful. So yes, online is becoming more relevant, more significant right now, and also being catered by our logistics area.

Operator

The next question is from Mr. Joseph Giordano from JP Morgan. Please go ahead sir.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good afternoon, everyone. Thank you for taking my question. When you think about the change in the commercial strategy and the inventory, gross margin, considering the third quarter and the fourth quarter, I'd like to better understand from you how high could this margin be additionally owing to the activity to clean up the low-quality inventory? So should we consider a stronger operation? And my second question has to do about the base former -- former base of customers.

I would like to understand if these are new customers? Because when we look at the industry, particularly traditionally online -- traditional and online behaviors, this is slightly different. So I'd like to understand supplying online. How many items can you measure

that are on the list? And also to understand if it is 1 PD or noncore? And how could this all contribute to sellers right now in this more challenging moment? And lastly, if we consider this sensitive point in the market with retail closing the doors, could you help us quantify the operating cost at the base of the company? Can you help us understand how you've been negotiating the lease and rent because one of the major partners of the company holds a significant share of it. Thank you.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Joseph, thank you for your questions. So answering one by one. When it comes to the quality of the inventory. So we already started the first quarter with a healthy condition, and Padilha showed you a calculation in the presentation showing that a inventory by the end of the year, net of the impact of the health measures, the gross margin would be around 1.2. As for the future, we are within the previous guidance. I cannot give you accurate numbers right now about how greater the margin can be. But I can tell you that we are very confident that we have the right inventory in-house, and that we are becoming more and more operational.

And if we can have more IT implemented, maybe we can have even more opportunities, but it's hard to say anything right now. As for the customer base, if we have new customers or not, I think we have both. We have 85 million customers in our base that have already walked through our stores. So that's the bulk of the population. So there's a lot about customer recovery as well. If we consider all our problems from the past, we lost some customers, and now we're strongly recovering our base. We can clearly see customers that are coming back. And we also have a lot of new customers in our base. So we have a little bit of everything taking place right now. There is a mix. As for categories, the answer is yes.

We are improving. However, there is still a lot of room for improvement. We already had a lot of improvement in assortment and now we are fine-tuning this improvement. We still have a couple of things to add. But there is no doubt that the long tail, the huge thing will be marketplace. From the moment, we can deploy the improvements that are necessary to our sellers.

So our relationship with sellers today is more challenging. Our platform is old. So there is a lot of improvement to come in the following months. So I believe this is going to help us a lot in the long tail, and we manage to activate even more sales based on the assumption that 100% of our sales force in brick-and-mortars will soon sell marketplace long tail. And I can anticipate something. It will be really hard at this company to measure what is GMV and what is sales. There is this discussion is brick-and-mortar sale GMV or not.

We are trying to have a limit experience, at the limit. In the threshold, things will be a little bit confusing. There'll be a huge benefit of the company considering this combination between online and brick and mortars. As for rents, obviously, now that the stores are closed, it's true that we have to do something about the value paid for the rents. Many shopping malls already given signs of what the directions will be and we also will be proactive in our decision-making process.

And just one comment about the shelves [ph] our shareholders' stores. Everything we do for all rents, they are not owned by the client family, tend to be the same as we have with the client family. So to be honest with you, I hope this family will be keeping the eyes open and also very much engaged in these turbulent times because closed stores don't bring any benefit to our revenues.

Q - Joseph Giordano {BIO 17751061 <GO>}

Okay. So can you help us quantify the fixed cost of the company so we can better understand the impact. Thank you.

A - Orivaldo Padilha {BIO 21118157 <GO>}

Padilha speaking. About 35% of our cash expenses are fixed expenses. All the rest are directly related to the sales volume. And just to support the data, a big share of it or a significant part of it is personnel. Firstly, we are keeping an eye on our social role of not to bring more damage to the country additionally to what we already have. So we're very much concerned with our employees, so they can keep up and the government already issued an order and expected to have another provisional measure soon.

So maybe there will be incentives to lower the cost, while these operations are closed, incentives both in terms of taxes related to the payroll and also maybe incentives with the payroll per se, but we don't have an answer right now. We already have an action plan. But we are just awaiting for the new provisional measure that is expected to come up soon.

Q - Joseph Giordano {BIO 17751061 <GO>}

Perfect thank you very much Roberto and Padilha.

Operator

Question from Daniella [ph] Daniella please.

Q - Unidentified Participant

Good afternoon, everyone. Thank you very much for taking my question. I saw that comment from Roberto in the beginning about the ability to recover operations once everything goes back to normal. Can you tell us a little bit how was this store closing process and how this recovery will be? How fast you'll be able to reopen the stores? And another question and that's for Padilha. I have a hard time reconciliating the nonrecurring adjustments on Page 7, to the total and now also to the income statement. And I don't know if Gabriel can call me later on to talk about that. Or if you can comment on it? Some things are in the income statement, some things are in the balance sheet, I'm a little bit confused.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Thank you for your question. We had a process to close the stores. On Saturday, we have 65% of the stores that have been closed because that was how it was determined. And by 11 and then we decided -- at 11 a.m., we decided to close all the stores because there

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was no enough spirit to keep them open, and decided then in two hours we were able to close all the stores. In three or four hours, our marketing team created a video so that on Saturday night, we could disclose that and also with the decision of postponing the installment for April -- April's installment being postponed.

Also, we were able to remove the most dangerous inventory from those stores. We removed the high-added value items. And we picked them up from most of the stores considering we have empty streets and there is a risk of people breaking into the stores. And so we have done that already. But now the recovery, as soon as the recovery decision is made, we are able to recover operations on the same day. So our logistics cargo is ready to go back to replenishing the stores in the next minute of this recovery decision is made, and the team is fully prepared and they are selling at home.

We are actually working. We're active -- we're selling at home, so that the engines are still warm. And so we go back as soon as this is defined -- as this recovery is defined. And also we have our inventory levels fully prepared to go back to working in an accelerated pace. So about your second question, I think they will call you after this. Is that right? And they can give you the details?

Yes, for you Danielle and for the other ones that would like to understand that. As I said, there is a technical, legal, accounting process there, and there are too many details, and Gabriel and also our finance team can help you to go over further details. And I would like to take this opportunity to say that this day 0 that we have taken over here this company, we are fully transparent, and we talk to all analysts and investors that call us.

So I would like to ask you, if you have any questions, questions about our figures, please call us. We are here to provide you the best understanding possible about our business. Everything that is possible to be said, we will be telling you so that the report has the best quality possible, and that information really face the company's reality.

Q - Unidentified Participant

Okay thank you very much.

Operator

Next question from Gustavo Oliveira from UBS. Mr Gustavo?

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good afternoon, everyone and thank you. Everything is very clear. But I would like to understand about your strategy right now, and the strategy that we were choosing to reduce payment terms for suppliers. And in the beginning of the conference call, you also said that you're talking to a lot of people, people who are helping. You talked about the bank and the operations for the payment book and I would like to understand how -- what is the conversation like with your suppliers? I know that you're not buying now, the stores are closed. Do you have the right level of inventory? But you will have to talk to the suppliers when the stores are reopened and how is that going?

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A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Hello Gustavo, and thank you for your question. And questions actually, the first one. We are not reducing payment terms with suppliers. We were doing the following. The initial postponement that we had with the bank, and this was an operation that the company was doing recurrently in the past, considering that the company is already back to generating cash. We were in a very calculated fashion, little by little reducing that needs and using the company's cash to support that, not needing to extend that with the banks because that would generate an additional cost. So what we have done right now as a protective measure is that we reestablished the use of these credit lines with the banks. Now about suppliers and manufacturers, we did not cancel our replenishment. Our commitment with the suppliers from March have been maintained and we are starting to talk about what's going to come after March.

So we're still in the beginning of the conversations with all of the manufacturers. First, we are trying to understand and I think the market is giving us signs in terms of timing and we need a few extra days to understand how far this lockdown will be happening so that we can have a more structured conversation, and that's going to happen starting next week.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

About the provisional measure coming from the federal administration, and with being more clear in the labor side of it, when do you expect to have that definition coming from the government? And what are the main things that you would expect to have?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Well, actually, we are -- we understand that at any moment that this should be published. We understand that the government -- the federal administration is worried about this, and they are worried about people. Now about what we expect is that we will need help right now. We need help to -- in order to avoid any risk regarding people's employment.

So I think a lot has been done. There is postponement of some taxes. The payroll taxes have been postponed. So I think other things will come out. I don't know what. And as soon as things come out, and if you want to know, you can call us and we can tell you how we are going to proceed based on the provisional measures that was published and what is the path that we're taking.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you very much

Operator

Our next question is from Thiago Bortoluci of Goldman Sachs. Please go ahead, sir.

Q - Thiago Bortoluci {BIO 17950069 <GO>}

Hello everyone. Good afternoon, thank you for taking my questions. I have three questions and some follow-up questions. First, Roberto's comment. In the future, you see

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a mixture, an overlap between brick-and-mortar sales and GMV. So if we think about the negative aspects in Q4, do you see any unification of the channels or not yet? Second question about Padilha's comment. You mentioned the breakdown between fixed and variable SG&A. We want to understand also for the core more specifically to the cost of production? And the third question, we know things can change anytime. But Bartira was a strong focus when you took over the operation. So if you think about COVID, what are the options and the strategy for this new category?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Can you just repeat the third question? We couldn't get it well.

Q - Thiago Bortoluci {BIO 17950069 <GO>}

The third question is about Bartira. We know things are very fluid and it also depends on what will happen in the next couple of days. But you are focusing a lot on furniture. It was one of the strategic pillars of the company. So considering that production stock and stores are closed, what you see for this category?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Let me start by answering the last question. The good surprise is that part of the increase of 8% that we had in furniture sales came from the online operations. So we are very successful selling online too. As for the furniture uptake, well, it depends more on brick-and-mortars. So it will depend on when we go back to our brick-and-mortars operations.

We have some speed-up processes. Some processes were already swift. And the plant, the manufacturing facility belongs to us, so we can make any immediate decision to make things happen again. As for the mix or cannibalization of customers, like I said, we have 85 million customers in our base. With 85 million, it is impossible to prevent them from -- changing from brick-and-mortars to online and the other way around.

Fortunately, we see both ways, online customers who are migrating into brick-and-mortars and brick-and-mortars migrating into online. And like I also said a while ago, we have a lot of inflow of new customers in our online base. So a lot of the app downloads are related to new customers. So I don't believe there is a concern about cannibalization. We're already increasing same-store sales in Q1. Unfortunately, we weren't impacted right now. But when it comes to brick-and-mortars performance, actually, we took the company over in June. And like I said in previous calls, we have so many customers, 1,500 stores and employees, a physical structure that we have to manage. So it takes long. But in the first quarter, well, we said Q4, it was doing well. And in the first quarter, we were above the number that we expected to achieve. So it is positive. Answering your question about SG&A. Thiago, I'm sorry, I didn't understand your question about the breakdown on SG&A.

Q - Thiago Bortoluci {BIO 17950069 <GO>}

Padilha, I think you mentioned the breakdown of G&A and with COVID as well.

A - Orivaldo Padilha {BIO 21118157 <GO>}

Ask Gabriel to answer the question. I don't have all the data with me, okay.

Operator

Our next question is from Pedro Fagundes at XP Investments. Please go ahead sir.

Q - Pedro Fagundes {BIO 20029197 <GO>}

Good afternoon, Roberto and Padilha. Thank you for taking my question. I have two questions only. The first question is the following. I'd like to better understand from you a more recent evolution of progress of the commercial strategy and competition in the online channel. What do you see right now? That all retailers are fully focusing on this channel.

Do you see any radical change? I know this channel already has a more aggressive commercial strategy. But I'd like to understand the recent trend? And my second question is just about the guidance. Do you foresee any change in the guidance? These are my questions. Thank you.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Good afternoon, Pedro. Thank you for taking -- for your questions. As for the newest evolution, when it comes to commercial, online and margin, we don't see any big difference. Nothing worth commenting. Things are doing well. As for the guidance, we have no condition whatsoever to think about it. We have no idea how things will evolve or unfold. First, we have to understand how long this is going to take. And once everything is resumed, maybe we can gauge again and assess the real impacts on our guidance, and also how we can set it up again, if necessary.

Q - Pedro Fagundes {BIO 20029197 <GO>}

Great thank you. Just one last question. As for store renovation this year, do you maintain the previous outlook when it comes to the number of renovations?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Like I said, everything is on hold right now. Firstly, we have to understand up to when the circumstance will go. One thing if it takes only 15 or 20 days totally different is if it takes 3 months. So as we speak, it's too early to say anything. What is happening right now is that things are on hold. The only thing that we didn't stop doing when it comes to investments is investing in our IT force.

Q - Pedro Fagundes {BIO 20029197 <GO>}

Great thank you.

Operator

Next question is from Felipe Mendonca from Banco Pactual. Please Mr. Felipe.

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Q - Felipe Mendonca {BIO 21888835 <GO>}

Good afternoon, everyone. Thank you very much for the opportunity of asking question. Just a follow-up. You said that the sales team is focused in selling from their homes. I would like to know if you have a metric, how much they are being able to capital in terms of the online when compared to brick-and-mortar stores? Just to have an idea. Thank you.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

We do not have any metrics. But we can tell you that this is a promising line, and we will have 100% of our sales reps in that mode of sale in the next 24 hours. 100% of our sales force should be up and running and prepared for that. The cash was very promising. That's what I can tell you right now.

Q - Felipe Mendonca {BIO 21888835 <GO>}

Perfect, thank you very much.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Thank you for your question.

Operator

Next question comes from Victor Saragiotto from Credit Suisse. Please, the floor is yours, sir.

Q - Victor Saragiotto {BIO 19504427 <GO>}

Good afternoon and I have a quick question. There was an announcement through the market a few months ago, and now it has been confirmed about the accounting frauds. We would like to know how much of that was a fraud? How much of that was an error? And also, we would like to know if the company will seek for any type of repair for that?

A - Orivaldo Padilha {BIO 21118157 <GO>}

Good afternoon. As I said in the beginning, the explanation is published in the material facts. If you need help understanding it, please let me know or you can also talk to Gabriel. We do not know yet how the future will be and what will be the next step of this process. We do not -- we have a final evaluation from our legal advisers.

Q - Victor Saragiotto {BIO 19504427 <GO>}

Thank you, Padilha very much.

Operator

Next question -- our next question is from Paula (inaudible). Please go ahead.

Q - Unidentified Participant

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Thank you for taking my question. I would like to know if you could further explain the inventory levels, now that brick-and-mortar stores are expected to be closed for a couple of months, do you think you can work on the inventories? And Secondly, do you think in the short-term, you need a capital increase? And if so, what are the reasons that might lead to this capital increase or cash cost?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Thank you for your question, Paula. When it comes to the inventories, it is not possible to say anything yet. We don't envisage a scenario for months. But if it happens, please remember we don't have perishables and we don't have collections in our inventory unlike other retailers with significant stock -- inventory levels. But the maximum that might happen is to be longer to sell if we stick only to online. So that's the only risk to our inventory. With regards to follow on?The company doesn't see any window nor possibility for it right now, and considering all the protection measures that I mentioned before. So we are confident that we'll be overcoming this moment with the current cash position at the company right now.

Q - Unidentified Participant

Perfect thank you.

Operator

This concludes the Q&A session. I would like to give the floor back to the company's management for the final remarks.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Thank you all for the interest in our company, also for your questions. I would like to stress what I said in the beginning, these are not the common times. The obvious is not obvious at this moment, but we have a team that is fully prepared to face and to deal with everything that is not obvious, which is what we have already done in the few months. We are ahead of the company. I also would like to thank the members of the Board of Directors, who have supported us fully so that we can maintain our agility and the flow to the operations as the moment requires. Thank you all very much. I hope you all stay healthy and take care. Thank you very much.

Operator

This conference call for the results of Via Varejo's has ended. The IR department is available to address any further questions you might have. Thank you very much for your participation, and have a nice day.

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