Q4 2011 Earnings Call

Company Participants

- Claudio Roberto Ely, CEO
- Eugenio de Zagottis, IR, VP Corporate Planning
- Leonardo Correa, IR

Other Participants

- Guilherme Assis, Analyst
- Iago Whately, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to RaiaDrogasil's conference call to discuss its results for the Fourth Quarter of 2011. The audio for this conference is being broadcast simultaneously through the internet at the website www.raiadrogasil.com.br. At that address you can also find the slide show presentation available for download.

We would like to inform that all participants will only be able to listen to the conference during the Company's presentation. After the Company's remarks are over there will be a Q&A session. At that time further instructions will be given. (Operator Instructions.)

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of RaiaDrogasil management and on information currently available to the Company. Forward-looking statements are not guarantees 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 in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of RaiaDrogasil and could cause results to differ materially from those expressed in such forward-looking statements.

Today, with us are Mr. Claudio Roberto Ely, CEO; Mr. Eugenio de Zagottis, Investor Relations and Corporate Planning Vice President; and Mr. Leonardo Correa, Investor Relations Officer.

Now, I'll turn the conference over to Mr. Claudio Roberto Ely. Sir, you may begin your conference.

Claudio Roberto Ely {BIO 15364128 <GO>}

Good morning, for the Americans and good afternoon for the Europeans. Welcome to the conference call of RaiaDrogasil relative for results of the Fourth Quarter and the year of 2011. Now -- 2012. Now, Mr. -- Eugenio will run the presentation. Thank you very much.

Eugenio de Zagottis {BIO 7193695 <GO>}

Thanks, Claudio. Hello, everyone. I would like to thank everyone for attending our conference call.

This is a very exciting event for us because this is our first conference call as a combined company. We are taking this opportunity also to make public our new corporate entity, which was used through the whole documents of these earnings materials. And this is mainly -- we are making this public not only to investors, but even to our internal public today. So today our -- it's the day where our employees for the first time are getting to know the new corporate logo and the new corporate entity of the new company. We are also airing our new website with integrated information for investor relations.

We are very excited about the 2011 numbers that we are reporting. Last year we turned into the undisputed industry leader, both in revenues and in store count, according to Abrafarma. We ended the year with 776 stores in operation. We opened through the year 99 new stores. This was in line with the guidance of 100 new stores that we had provided for the year. And we undertook 11 store closures. Of these, 7 were pursued in the Fourth Quarter of the year and happened in Brasilia and we'll give more details about these closures.

We ended the year with BRL4.7 billion in revenues. This represented almost 20% of revenue growth. And most important than that, it was powered by very solid same-store sales growth and mature store sales growth.

Our EBITDA reached BRL271.5 million in the year and EBITDA margin of 5.7%. And the adjusted net income that we are reporting totaled BRL151.4 million, 3.2% of net margins.

On page four, I believe that the two -- the two brands that we have, which are among the top brands in all Brazilian retail, are really being able to lead the consolidation of the drugstore industry in Brazil. We are sustaining the solid growth base that both brands have displayed for more than a decade, and 2011 wasn't different in that regard. It was another year of strong growth and of progressing towards our goals of consolidation and leadership of this market.

On page five, before progressing, I would like to give some details about how this reporting was done in terms of criteria. The first important thing is that we are showing combined reporting, co-report -- we're combining our results. This is not like consolidation, because we only consolidated the months of November and December since the deal closed in November. So what we're doing here is showing our combined results, which is the arithmetic sum of the higher numbers plus the Drogasil numbers without the equity effects among them. So this is a way that we can show the combined operation. And this is really the baseline that we will compare our numbers going forward.

The creation of RaiaDrogasil has also resulted in the specific one-time events that were adjusted in our reporting and we are providing full details here of what was done.

The first adjustment was amortization of the purchase price allocation, also known as PPA. IFRS mandates that the traceable parts of the goodwill be allocated to their respective asset lines. So as part of that allocation, we had BRL8.7 million in inventory gross ups that were incorporated to our inventories. This was due according to Deloitte and Touche, which made the legal opinion that based our accounting here, it was due to the remuneration due to the purchased company, in the case Raia, for having acquired the goods. So it's part of the net realizable value of those goods.

So we book BRL8.7 million of additional inventories. And because inventories rotates relatively quick, already BRL7.1 million was amortized in 2011. And this amortization -- and this happened straight on our cost of goods sold.

The second adjustment was alignment of accounting practices. As any two companies in the world, there were specific practices that Raia and Drogasil pursued in a different way. As we started integrating the companies, one of the first steps we took was doing a detailed assessment of every accounting practice of each of the companies in order for us to be able to choose how we would take the Company forward in terms of accounting practices. And on that regard, we always have a conservative stance in terms of how we approach our accounting. So we have BRL15.5 million of one-time adjustments. They are deducted from our gross margins in our financial reporting, but which are -- as I mentioned previously, which are being adjusted here to keep comparability.

BRL11 million relates to changes in criteria and estimates for the allocation of trade revenues. These are revenues that have been already contracted from our suppliers, so they are either in our accounts receivable or they have already turned into cash so they are really solid and existing trade allowances. However, because they were generated at the time of buying, we were incorporating them straight to our P&L. And here we decided to flow them through our inventory. So we have a one-time effect of BRL11 million, which is actually a product not of one year, but of several years of doing that practice, which is not a wrong practice. It was one of the possible ways of doing that.

The second adjustment was BRL4.6 million related to changes in estimation criteria for inventories. And here we have several additional subtractions in terms of the criteria that are adopted for positioning inventory shrinkage at our stores, or how we treat inventory of (soli sense), returns of damaged inventories for supply. So each of these accounting events had a different treatment and the net effect of that was a one-time reduction of BRL4.6 million in our gross margins.

The third type of transaction adjustments was the cost there for pursuing the transaction. Even though we haven't already shown the synergies, the expenses of the transaction are already here and they totaled BRL35 million in 2011. The bulk of these, the lion's share was investment banking fees, not surprisingly; BRL19 million. We also had BRL6.7 million in consulting fees, McKinsey, Hay, and Thymus Branding. We had -- we spent BRL4.5 million in retiring stock options, but they had been already granted by Raia and this was done before the transaction closed. And there are other related expenses.

So all in all, our EBITDA was adjusted by BRL58 million and our net profits were adjusted by BRL46 million for the sake of comparability.

Well turning now to the -- to our businesses and to our markets in the next page. I guess it's page 6.

The Brazilian pharmaceutical market last year, according to IMS, grew 19%. This is a very robust growth and it was powered by generics, which grew in the year something like 40%. I mean, I believe that there is some type of distortion generated here in the total market growth from the fact that IMS treats revenue -- we doubt as the maximal factory prices, not considering the discounts that exist in the value chain. For branded pharmaceuticals that doesn't make much of a difference but, for generics, those discounts are very high.

So the fact that generics is growing so much, in our opinion, has artificially boosted the pharmaceutical market growth. We don't have adjusted figures, but I believe still we would be in mid-double digits, even as regarding that type of effect. It's very import to note that over the last 10 or 12 years every single year this market has grown double digits, which shows that this is a very offensive market and this is a very -- with very consistent market growth driven by demographics and macroeconomic drivers.

On page seven we have here the ranking of the sector according to Abrafarma and RaiaDrogasil, already in our first year consolidated its absolute leadership in the Brazilian drugstore market. It's important to highlight that this is a pro forma ranking of 2011. So every transaction that took place in 2011 is contemplated here. So it assumes as if all those businesses were already combined at the beginning of 2011, and that even applies to transactions that happened in the beginning of 2012, as in the case of the Big Ben and the Sant'anna acquisitions. So this is really the outlook of the sector right now based on 2011 numbers. So we're very happy about that number.

As I mentioned, I mean, we had last year significant M&A movements in the sector. On page eight we can see the combined effect of all those M&As in terms of total sector consolidation. We can see that the top 5 chains, that in 2004 had 15.8% of market share in the market. They increased last year to 29.2%. And each other segment of the market has lost share last year, either because of organic loss, as in the case of Independents, who slipped to -- from 48.3% of the market to 47.9% of the market, or as in the case of smaller chains that were acquired and that migrated to the top five brackets. It's also important to point here that supermarkets, despite that no M&As happened among them, I mean, they lost market share from the previous years in a significant way.

On page nine I'll talk about our store development program. Last year we opened 99 stores. This was in line with the gross opening guidance of 100 new stores. And we also closed 11 stores. These closures were concentrated in the Fourth Quarter of the year when we closed 7 stores in Brasilia, in the Federal District of Brazil.

It's important to mention that our stores in Brasilia, they were acquired in two ways. I mean, the first part was the purchase of Vison by Drogasil and, in 2010, Drogasil bought an additional group of 23 stores that were sold by Santa Marta.

Whenever you buy a package of stores there are always stores who are not within our standards of operation. It's not immediately obvious because the stores had been very lousily operated before that point but, after operating them for one year, it's very easy to pick up the survivors from the ones that don't make economic sense to exist. So we closed the stores that either had negative profitability or the stores that have a small profitability, but with high potential of transfer to a surviving store. So as a result, we have now an operation in the Federal District of Brazil, especially in Brasilia, with much higher productivity than before. And that's an operation that we're very happy about. It's growing in a very significant way.

One-third of our current stores are still undergoing maturity. So it's very important to understand that -- I mean, we have a contracted -- almost contracted revenue and margin expansion simply from the fact that these stores in due time, they will become mature and they will bear higher revenues and profitability.

Talking now about 2012, we already have more than 65 contracts signed so half of the year's plan is already at hand. We have several more stores under negotiation, in different stages of negotiation, but we are late in terms of store openings. We are opening 10 stores in the First Quarter. So we are following the same type of path of the previous years. Last year, for example, we only opened 8 stores in the First Quarter. So we will be accelerating store openings from the Second Quarter and they'll happen in a stronger way in the second half of the year. And we are here reaffirming the guidance of 130 new stores. We believe that guidance is a very safe guidance and so we are taking the opportunity to reaffirm it.

On page 10 we highlight that we are now operating in 9 states and we are entering 3 additional ones -- Mato Grosso, Mato Grosso do Sul and Bahia, which will increase our presence to 84% of the Brazilian pharmaceutical market.

I would like also to highlight that we have more than 500 stores in the state of Sao Paulo. And I think this is a very strong point of RaiaDrogasil. Sao Paulo is an amazing operation that we have and Sao Paulo is the state that had -- with highest growth in Brazil. On percentage terms, Sao Paulo grew slightly below other states, like in the Northeast for example. But the fact that Sao Paulo alone represents one-third of the Brazilian pharmaceutical market means that nowhere in the country we have a bigger market addition happen each year than in Sao Paulo. And market addition is what allow us to grow existing stores and this is what allow us to open new stores.

In terms of market share, our national share increased 0.3percentage points and reached 9% in December. We experienced growth in most of the states in which we compete. We highlight the fact that in Sao Paulo we increased our market share by nearly 1percentage point. It came from 19.4% all the way to 20.3%. This is a remarkable growth for a mature market.

In Distrito Federal we increase 0.4percentage points to 16%. In Espirito Santo, the stores that Drogasil purchased from (inaudible) and opened more recently, they have translated into a 1.4percentage point gain, increasing our share in this state to 9%. In Parana our very successful expansion into the cancer side increased our share by 1.5percentage points to nearly 7%. And even in Rio de Janeiro our -- the performance of our existing stores allowed us to increase market share by 0.5percentage points.

The only states in which we lost market share in the year were Goias and Minas Gerais, where we didn't have many store openings happening.

On page 11 I would like to discuss our comps. We came from a total revenue growth of 16.8% in 2010 and this growth accelerated to 19.7% for the total year of 2011. Our growth, we were able to ramp up growth through the year. So at the Fourth Quarter of 2010 we were growing by 15%; by the First Quarter of last year, 17.4%; and we ended the year at 20.4% in the last quarter.

When you look here on the right at mature stores, that growth was even more impressive because we started from very soft numbers of 2.8% in the Fourth Quarter of 2010 and 3.8% in the First Quarter of 2011 and ended up reaching 8.1% of mature store growth in the Fourth Quarter, even above inflation. And of course then, as a result, same-store sales also increased to 7.2% in the First Quarter, all the way to almost 13% in the last quarter there. So we are very happy about the growth we were able to produce as the year elapsed, and specifically in the Fourth Quarter. And we're also very happy to see that we are sustaining and even slightly increasing our growth into the First Quarter of this year.

On page 12 we depict this growth by brand. Here on the right, when you look at mature stores we see that Raia maintained very strong growth through most of the year. Raia ramped up from only 1.6% in the Fourth Quarter of 2010 to 6.7% in the First Quarter of 2011, and then it sustained three quarters of very strong mature store sales growth.

Drogasil, on the other hand, started the year in a softer way with 1.7% from mature stores. And remarkably accelerated through the year so that, by the end of the year in the Fourth Quarter Drogasil's numbers were not very far from Raia's numbers. So Raia grew 9.2% versus 7.1% of Drogasil for the mature stores. Of course, that when we compare same-store sales and total sales growth, the gap is larger for the fact that Raia has more stores undergoing maturation and this momentum provides for a larger gap when compared to the gap existing for mature stores. We are very happy where we are in the Fourth Quarter. We are very happy with what we have seen in the beginning of this year and both brands are performing in a very solid way.

On page 13 I would like to share how our sales mix evolved through the year. Our total business, as I mentioned, increased by the 19.7% in the whole year and generics was by far the fastest growing category, with 35.5% of growth in the Fourth Quarter of the previous year and 31.1% overall growth in the year. This was powered by a very strong wave of new generic launches that started in the end of 2010 and intensified through last year. So generics, which accounted in the Fourth Quarter of 2010 -- accounted for 9.6% of total revenues, it increased its share in the mix to 10.8%. And this has a very powerful effect on our gross margin as well. So this is a number we are very happy about.

The biggest challenge in the year in terms of mix was with OTC. Because ANVISA mandated us to remove OTC from the counter and to put that behind our pharmacy counters, just as we do with prescription products, OTC only grew 14.4% in the year. And in terms of sales mix, it slipped in a significant way from 15.3% in 2010 to 14.6% in 2011. By the end of the year OTC was -- although this is an unfavorable quarter in terms of seasonality, OTC accounted for less than 14% of all total revenues.

However, it's important to know that we have certainly mitigated this -- the impact of this OTC revenue loss and we are very happy about how the model is looking like now, because bringing OTC behind the counter allowed us to give more shelf space for hygiene and personal care. And ultimately this is the transformation of (contango) for us in terms of the relationship of the consumer with the store and with the brand.

So we suffered in OTC, we compensated in hygiene and personal care, which overall had a very good year. We increased it from 28.8% to 29.4% for total sales mix, even though in the Fourth Quarter we experienced weak seasonal sales and this kept our HPC participation in the sales mid (cost).

What happened here is that we observed in the Fourth Quarter of the year mild temperatures in the Southeast of Brazil that are below what we usually register in Brazil summer. The summer really started to happen this year for us in the First Quarter of the year and this had an important effect for seasonal products like sunscreen, body lotions and things like that.

And also, specifically in the month of December, the calendar wasn't favorable for us because both holidays, the Christmas and New Year, were -- took place on weekends. And generally every year when holidays happen in the middle of the week, a lot of people travel and they spend a lot in anticipation of these travels. Generally, the two largest selling days in the year are the day before Carnival and 26th of December where people are preparing to get out of the city. This year the calendar didn't help so our season sales were sort of harmed.

On page 14, talking about gross margins, the gross margin was really one of the highlights for the -- we increased overall gross margins from 24.5% to 25.6%. And in the Fourth Quarter gross margins reached 26.2%, which we deem as a very solid level for our gross margins.

The main drivers here were generics, the increased generics penetration; better purchase in terms -- and more trade allowances from our suppliers; and specifically in the case of Raia, the major change we pursued in our purchasing model. As you may remember, before Raia's IPO, Raia realized a lot of supply financing. One of the (user proceeds) that we had envisioned for (that close) is actually to invest working capital and as a result increase gross margins, and this was done in a very literal way. We invested working capital, we increased our cash cycle from 25 to 40 days. But as a result, gross margins increased remarkably for the year.

This was a year of a lot of pressures to our selling expenses, which overall increased 0.8percentage points over 2010 and, looking at the Fourth Quarter, 0.5percentage points. The big drivers were the acceleration of our store openings in the second half of the year and the headcount increase pursued at Droga Raia in the Third Quarter of 2011 at our stores. This was a deliberate decision to increase the number of people in our stores to improve our services and to improve customer service, to improve loyalty and to drive revenue growth. So this takes a while to play itself out, but we are in a very good path in terms of revenues.

And I believe this headcount increase at Raia has an instrumental effect on that. Just like our increasing ventures in improved service levels and accelerated the revenues, we believe we'll see the same effect. And we are seeing the same effect because of the headcount increases at those stores, although they pressure our expenses in the short term. We also had the opening of our new distribution center that provided some additional expense pressure. And inflationary pressures, especially in wages and in rentals.

On page 16, general and administrative expenses were also subject to expense pressure. They increased in the year 0.3percentage points over the previous year. Again, I mean, inflationary pressures like wage increases were -- had a pivotal role in this increase, but here we also have a specific fact; that is the fact that we upgraded our human resources structure to support the new store openings. And specifically, this major headcount increase driven by Raia in the Third Quarter of the year, it required a massive recruitment, massive training, and this was another pressure factor that we faced in the year.

All in all, when we look at our adjusted EBITDA, our gross margin increase more than offset our expense pressures and allowed us to expand our margins 0.1% for the whole year, but 0.9% at the Fourth Quarter, in which we reached an EBITDA, a combined EBITDA level of 5.9%, which we think it's really good.

Here it's important to highlight the effect of -- that growth has on our margins in the short term. If we excluded from our EBITDA the negative contribution margin of all the stores we opened in 2011, and even the stores that we spent in 2011, in pre-operational expenses to open in 2012. So all these pressures that we faced in 2011 due to the store opening program, if they were excluded from our EBITDA we would have an EBITDA margin for the whole year of 6% instead of 5.7%. And for the Fourth Quarter we would have ended at 6.3%. So it's quite a material impact and this is the reason we display this number.

It's important also to mention that this is not the maturation potential. This is only the short-term impact of the new stores. We estimate that if we stopped growing today and allowed the time for all the stores to mature, the current stores that are already paid for, invested for and already operating, they would have an EBITDA margin increase by something like 1%. So this is a revenue and profitability growth that is already contracted and is already embedded here in our operations.

The way EBITDA was constructed, we had BRL158 million in EBITDA at Drogasil and BRL114 million of EBITDA at Droga Raia. So that added up to BRL271.5 million (in the year).

Comparing this year's net income with last year's, it's not a very fair comparison because this year we had financial income while, last year, before Raia's IPO, we had financial expenses. Depreciation -- the depreciation was almost consistent with last year's, only 0.1percentage points of additional pressure, but it's a dramatically different picture when we transform the financial expenses into financial income. So as a result, our net income for the year adjusted increase of 3.2% and, for the Fourth Quarter, to 3.4%.

On page 19 we experienced in the year a cash -- a total cash consumption of BRL226 million. The main drivers of that were, first, our CapEx for opening new stores and for maintaining operations, BRL151 million. But this year we also invested working capital in the amount of BRL280 million. And the bulk of that was spent in the adoption of the new purchasing model by Droga Raia which was, as I mentioned, instrumental in significantly expanding our gross margins. Our results from operations totaled BRL205 million, already considering the one-time expenses of BRL46 million.

To conclude, on page 20. Considering our share price of BRL16.85 on March 23, we have tripled the share price since Drogasil's IPO. So all investors that joined us in the IPO of Drogasil in 2007, they have enjoyed an average annual return of 29.1% during this period. And we remain very positive in terms of what we still can accomplish as the synergies (multiple speakers).

I would like to have my closing remarks and then we can open for questions. Here, a couple -- summing up of all we have discussed, I mean, we have -- we are reaffirming the guidance of 130 stores for the year. We are very confident about that. We know it's an absolute challenge to integrate two large companies in the right way like we are doing and opening 130 stores. But fortunately, we have the structure that it requires to be accomplished and we will do it.

Another important thing I would like to mention is that the state of Sao Paulo introduced a recent legislation that will allow us to be the advance tax collectors for our own stores. As you may remember, before tax substitution was introduced we used to pay taxes only after products were sold at the stores. With the advent of tax substitution, what happened is that the merchandise we buy already comes taxed from the supplier. So our working capital embeds taxes on it. And as we become our own tax collector, that doesn't affect our stores, but all the inventories we carry at our distribution centers in Sao Paulo, they will be tax free because the taxes will be collected as they ship to the stores.

Additionally to that, we have now the framework required to turn something like BRL100 million in taxes to be collected from the Sao Paulo government into cash over the next two years. All we know, we believe something like BRL120 million to BRL130 million of tied working capital will turn into cash this year and in the next year. So this is a very important event for us.

Talking about the integration of Raia and Drogasil, we are advancing very well through the process. Already we have a unified senior management and a unified middle management of the Company, so all offices have been defined. Wherever there two people to occupy one chair we made the decisions, decisions were implemented, so we have a single common line to run the whole organization. And this is a very important step towards full integration.

Our purchasing department has also been integrated, of course, but we still have two different systems and they will be integrated through this year and the first half of next year. However, we already have a single purchasing -- a single person doing the purchase for both Raia and Drogasil for each product line.

We're already through negotiations with our suppliers that are allowing us to expand our gross margins through the year so we are being able -- by getting the best of Raia and Drogasil's terms, or by getting additional terms on the table, we are getting -- we will be able to expand our gross margins through the year. So this is happening very well.

Nothing will change in the First Quarter of the year because this is when the negotiations are done. We'll be rotating our inventories that were purchased under older conditions in the First Quarter and part of the Second Quarter. Then, in the second semester, this is where we expect these synergies to really kick in and to have a different contribution margin from the one we have now.

As I mentioned, we are also making public our new corporate entity, both for the market and internally to our employees.

It's also important to mention that we are opening this year two new distribution centers. One in Rio de Janeiro is already in the process of being opened. It's already purchasing, but still not shipping. It will start shipping in the following weeks. And we'll open another distribution center and it will operate in the countryside of Sao Paulo due to -- to support our strong development into the state of Sao Paulo where we have, as I mentioned, more than 500 stores in operation and we still see room for growing operations.

As I mentioned, we are seeing a robust level of comps in the beginning of 2012. This is very positive. And the government recently announced the price increases -- the reference price increases that will be applied on April 1st of this year. The announced price increases in average will produce an effect of 2.8%. This is below what we expected and it's certainly below inflation.

We believe this could have an impact in the Second Quarter. This could provide for lower inflationary gains in the Second Quarter. But for the year and for the long term, we don't see any impact because the whole market is under expense pressures and we believe the whole market will pass these inflations to the consumers in the way of discount reductions. So we don't foresee any long-term consequences for the fact that we have a lower price increase than what we otherwise hoped for.

It's also important to mention that we are lucky to have a system in which the whole market increase prices at once and we can have inflationary gain on our inventories. Because for every other retail segment, whenever supply increase the costs and pass them to retailers, the retailers keep waiting one for the other to do increases and, again, they at least meet existing inventories. Here, we have this one-time gain on our inventories that is an important contribution to our results.

This is what we've prepared for you and we'll now open it for your questions.

Questions And Answers

Operator

(Operator Instructions.) The first question comes from Guilherme Assis of Raymond James.

Q - Guilherme Assis {BIO 16143141 <GO>}

Hi. Good afternoon, everyone. I have one question. My question is regarding the closing of the stores. I understand that during the first Q you had something strategic to close down some stores in the Midwest of Brazil in District Federal. I'd like to know if the Company has any updates on the footprint in Sao Paulo, if they have mapped any potential overlap that they could actually close down some stores in order to increase their productivity in Sao Paulo. I'd like to -- some update on that. Thank you.

A - Eugenio de Zagottis {BIO 7193695 <GO>}

Guilherme, thanks for the question. Yes. We have already mapped other stores for closure. These are not stores that have a negative contribution margin. These are positive stores, but are stores which we think in a chain as big as ours can be redundant in the sense that if you close the store and we migrate, say, 30%, 40% or 50% of the revenues to the surviving store, while slashing our full cost base, we can increase the combined profitability. Of course, each store requires a different level of revenue transfer to break even and, from that point onwards, we start making money. So we have already defined the closure of something like 10 additional stores what should be pursued in the next quarter. So this is an important stat.

We have -- so this -- these are the safest store closures. And depending on the results of what we achieve in terms of revenue transfer and productivity enhancements, we may or not progress with other store closures. So we are doing the safest ones we can and we will learn with that. It's not obvious how revenue trends operate among different brands, so this is something we have to be cautious about. And depending on what we see, it will take us at least a quarter to -- after doing, it will take us at least a quarter to have a sound evaluation. We may or not progress further with other store closures.

We are also -- we have also defined a couple of stores to change brand -- to be rebranded. So we have mapped cities where one brand is stronger than the other, and so we have stores that are complementary to the stronger brand. And in this situation we will switch brands for a couple stores and see what happens. So also here we have chosen the safest brand changes. And I think this is an important experimentation to do.

For me, it's unclear how long it will take to happen because the procedures to close a store are much easier than the procedures to change the brand given that we still have two different companies operating. So there is some bureaucracy associated with that. I don't know how fast this will be possible. But certainly through this year we'll be able to experiment with brand changes at selected stores.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. That's excellent. Thank you.

A - Eugenio de Zagottis {BIO 7193695 <GO>}

Thank you, Guilherme.

Operator

(Operator Instructions.) Our next question comes from Iago Whately of Fator.

Q - Iago Whately {BIO 16356183 <GO>}

Hi. Good morning, everyone. I have two questions, the first on labor and how the Company has managed to compete for labor with other industries since we're experiencing a very low unemployment rate in Brazil. And to what extent do you expect it to restrict growth opportunities or to put margins under pressure in 2012?

And the second question is on the integration process. If you could talk a little bit on how you have managed to deal with the cultural aspects of the integration, such as vanities, equalization of wages and so on and so forth. Thank you.

A - Leonardo Correa {BIO 16441222 <GO>}

Iago, thanks for the question. It's very important to highlight that we don't -- the only skilled labor that we employ is pharmacists. And for pharmacists we are the employer of choice in our sector. So there may be a shortage of pharmacists in Brazil for the time being. And I say for the time being because there are so many pharmacy colleges that in a couple of years we'll have a flood of pharmacists coming to the market.

But except for pharmacists, which is skilled labor, for all the rest of the people we employ in our stores we hire people at the base of the career program without any previous professional experience. We give preference to young guys who have just ended school and who have no money to go -- to attend college. So we hire these people. We train them in classroom. We train them on the job. Then, they grow through our career program. After a while, after the second specific step in the career, they are entitled to have some type of college tuition. So this is how we do with labor. And because we hire inexperienced people, we don't have a shortage of people to hire and we don't have a pressure here.

Where we have a pressure is labor -- it is wage renegotiation that happens each year. Like any other company in Brazil we have union negotiations happening each July in the case of Sao Paulo. Then we have -- we have had real increases year after year that we balance with productivity gains and that we balance with the -- specifically with the one-time gain we achieve in the Second Quarter when reference prices go up.

Having said that, it's important to mention that, in a hot economy like this, for each person that we hire we have to interview X percent more to get them. So yes, people have more options. If -- let's say traditionally we will interview five for each spot, we'd probably have to interview, I don't know, seven for each spot. And also, we have higher turnover in a situation like this, which means more hiring and training work to do, but no direct impact on the entry salary, per se.

In terms of the integration and the cultural aspects, I'll pass to Claudio and he'll make his comments.

A - Claudio Roberto Ely {BIO 15364128 <GO>}

Yes. I am confident, and more than this I am excited with the results that you reached in this period. I have one fact with Mr. (inaudible), who are the leaders, the (inaudible) both companies, we don't have vanity in the games. This is very important. And when permitted, our mathematics as a Company where two plus two means four to five, not four. And we spread out at all levels of the Company. And we are proud of the both companies, but we are more excited with the new company. And be sure that you do all efforts to reach the best results of our new company. And I am sure that in the short period we'll reach a lot of level of synergy and levels of integration.

A - Eugenio de Zagottis {BIO 7193695 <GO>}

Iago, if -- also, a lot of the investors ask me how many people have left for each side. We don't keep score of --.

A - Claudio Roberto Ely {BIO 15364128 <GO>}

No.

A - Eugenio de Zagottis {BIO 7193695 <GO>}

-- who leaves this side or that side for the simple reason that we're building a third company. It's a third company, it's a third culture, it's a third process, it's a third accounting system and people are very happy and excited of being part of what we are doing here. I think we are making history in our sector and our people are aware and proud of all that.

A - Claudio Roberto Ely {BIO 15364128 <GO>}

And every day you are working not to reach your number, but to reach in a correct way for the Company. And I'm sure that in the end of the process we're each having impressive numbers because we are doing the correct way.

Q - Iago Whately {BIO 16356183 <GO>}

Thank you very much for the answers.

A - Eugenio de Zagottis {BIO 7193695 <GO>}

Thank you.

Operator

There appear to be no further questions and I'll turn the conference back to the Company for their final remarks.

A - Leonardo Correa {BIO 16441222 <GO>}

Well I'd like to thank you all for attending our first conference call as a merged company. We -- as I mentioned, I think we are making a lot of advancements. We are very proud of what we are achieving. And most important, I would like to thank for the support we have received, not only now at RaiaDrogasil, but even when Drogasil started this journey as a relevant public company in 2007, went higher, the IPO in 2010. So the trust that we have had on investors has been very important for us. And our main challenge is honor the trust and give the returns that we all expect. Thank you very much.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.