Y 2019 Earnings Call

Company Participants

- Eugenio De Zagottis, Investor Relations and Corporate Planning, Vice President
- Marcilio Pousada, President and Chief Executive Officer
- Unidentified Speaker

Other Participants

- Irma Sgarz, Analyst
- Joseph Giordano, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to RD People, Health and Well-being conference call to discuss it's 4Q19 Results. The audio for this conference is being broadcast simultaneously through the Internet in the website www.rd.com.br/ir. In that address, you can also find a slide show presentation available for download. We inform that all participants will be enabled only to listen in the conference during the company's presentation. After the company's remarks are completed, there will be a Q&A period. At that time for instructions will be given (Operator Instructions).

Before proceeding, let me mention that forward-looking statements are being made under Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of RD 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 are related to future events, and therefore depend on the 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 end results of RD and could cause results to differ materially from those expressed in such forward-looking statements.

Today with us are Mr. Marcilio Pousada, CEO; Mr. Eugenio De Zagottis, Investor Relations and Corporate Planning, Vice President; and Gabriel Rosenberg, IR and Corporate Planning Director

Now let's turn the conference over to Mr. Marcilio Pousada. Sir, you may begin with your conference.

Marcilio Pousada {BIO 16117399 <GO>}

Okay, thank you very much. Good morning everyone. Welcome to the fourth quarter 2019 earning presentation. As always, I'll highlight some points before the Q&A and Eugenio highlighting point for financials [ph] right now. Eugenio please.

Unidentified Speaker

Hello everybody, thank you all for attending our 2019 conference call, I would like to start by saying that for us, 2019 was a great year as we posted a very solid sales recovery with comps ahead of inflation, accelerating through the year. We also delivered our expansion guidance, we acquired Onofre. And then I think we had several milestones achieved in our digital transformation plan, that we will be talking more about during the presentation.

Before talking about the highlights. I would like just to clarify that all the numbers we are discussing here, they are based on the - IAS 17 which is our previous accounting standard and not based on IFRS. We believe that this accounting standard is the one the best reflects the economics of the business. This is the numbers we look internally within the company. And these are -- and these are the numbers, upon which we base all decisions we take. So this is the best way in our view for us to discuss the business. If someone wants any details of both IFRS, we have the full reconciliation in our financial statements.

So I'll start by saying that we ended the year with 2,073 drug stores, all across Brazil. We delivered our full guidance of 1,240 organic openings. On top of that we brought 42 Onofre stores and we closed 34 stores in the year.

We had also great market share gains, 1.3 percentage point on a national basis, with 2.4 percentage point gain in the state of Sao Paulo, our main market. Our revenues reached BRL18.4 billion, 18.5% growth in the year with 5.2% mature-store sales growth for the year and 7.3% for the quarter, which means 300 bps ahead of inflation in the 4Q19.

Our gross margin totaled 28.2%, a 40 bps margin pressure, because the price investments taken. Our EBITDA totaled BRL1.344 billion, an increase of 12.4% in the year, corresponding to a margin of 7.3%. Our net income totaled BRL587 million, 3.2% net margin, an increase of 7% over the Brazil. And finally, we had a positive free cash flow generation of BRL1.5 million in the year, and a total cash consumption after paying interest on capital, financial expenses and others of BRL188 million.

On Page Four, it features you should take a longer-term perspective, to look at our growth. So if you consider the period between the merger, which happened 2011 and 2019, our store base increased by 2.7 times. Our revenues, they increased by 3.8 times. And now we're EBITDA in the same period increased by 4.6 times. I think, the margin gains, EBITDA growth that we have is the main evidence to the quality of the expansion, the company that we have today, it's -- just was two-thirds built since the merger. So the main evidence of the quality of the stores and the returns we have achieved are the fact that we have been able to grow nationally, with the same returns we have always enjoyed in our core market of Sao Paulo, exactly the margin increase, the EBITDA growth, we have had through that expansion.

And this year alone. It's important to mention that, we added BRL2.9 billion in revenues. This is a very significant scale gain both absolute and relative in a single year, which basically means the revenue of the fourth largest player in Brazil, which we had been in a single year.

On Page Five, we had in the fourth quarter, 79 openings, Totally 214 the year, the guidance that we have established and we closed one store in the quarter. If you look today at our store portfolio, 34.7% of our stores are still growing maturation, which means that they haven't reached the sales or profitability protection.

And we also reiterate the guidance of 240 new stores for this year. On page 6, I'd like to show here the national platform that we have viewed, through the years. We have to-date in 23 Brazilian states. Last year, we entered the state of Amazonas, where again the very end of the year, where we have three stores. Probably with the exception of Amazonas, that we just ended it's fair to assume that we have our brands already established in 22 states across Brazil. We invest with the same return expectation all across these 22 states. We have mature-store revenues or projected mature-store revenues in the markets in which the stores have been three years yet of BRL800,000 or more in every single market in which we compete.

So we are the only company that can truly grow on a national basis, the same returns with the same profitability. In our view, I mean the market today is a very crowded market. I don't believe that any company today will be able to promise significant expansion outside of their native markets. This is also true for us. The problem is that our native market is Brazil, given the fact that the brand is registered.

So while we have a truly national platform, where to base our future growth, most of the players only can -- can only grow profitably in their native regions and then they suffer when we go beyond it. I like also to highlight that in the bottom of the page, we opened in Sao Paulo, last year, only 76 stores. This means 32% of our expansion happened in Sao Paulo. The other 70% happened in other states. This is another evidence of the robustness of these national expansion platform.

Another interesting number to note and, but as a coincidence is the same number. We had 76 stores, which were popular stores build through the year. We already have more than 400 popular stores all over Brazil. So this is an evidence that, as our expansion has diversified in terms of regional profile, and in terms of income profile, the returns have been the same. The company has been able to adapt it expansion as the market has evolved.

Finally, we gained significant market share last year. So we reached 13.7% of national market share. We will -- a significant increase in Sao Paulo, where we reached 26.3%, so more than 200 bps of increase. We gained share in every market and also like to mention that, we already have close to 9% of share in the Northeast and 3.6% of share in the North where we have just started.

On Page 7, we see that the gap between RD and our main competitors, who are members of Abrafarma have significantly increased through last year. So, while we posted in the year 18% revenue growth, the other large chains together, they grew only 8%. So it's a 10 percentage point growth gap over the average of the other chains. If you look on the fourth quarter alone, we did 20.5% revenue growth versus 9.2% of the other chains. But for me, the main message here is in the bottom chart, we were coming from a huge peak of store addition for the whole market in '17, and also in 2019.

In last year, we saw a major correction of the strength. This is something we already expected to happen because we -- in our view that this huge expansion cycle was not sustainable. The quality of the stores were not there, a lot of companies opening stores outside of the major markets where no one knows their brand, just like this was an easy thing to do. So obviously as we entered 2019, with a lot of players struggling, we saw a huge cleanup taking place. So several players in the market they stopped growing or reduce significantly new openings and they accelerated a lot the net closures.

So we expected this to happen, but obviously the magnitude of the clean-up was bigger than we anticipate. So, when we look over last year, we added 248 stores including 42 Onofre acquired stores. So this means 206 organic net store addition, versus only 106 next door additions for the every other player of Abrafarma. So we opened almost more than twice the sum of what -- the sum of the other players opened through the year.

Just as we had a peak in 2017 and 2018, we have to know that what we saw in '19 was a valley. Obviously, we expect for 2020 a bigger activity than this, but we expect still sustainable growth, still moderate growth. So I think the outlook for the year is very good.

On Page 8, we have here the revenue growth. So we posted consolidated revenues of BRL18.4 billion. This is an 18.5% growth in the year. We ended the fourth quarter with more than BRL5 billion in revenues, so annualized we are already more than BRL20 billion. This was 20.4% revenue growth. So our retail operations grew 18.2% in the year and 20.6% in the quarter. 4Bio grew 24.6% in the year, which is a good number. But only 16% in the quarter. We already seeing 4Bio in the beginning of the year accelerating growth.

So obviously given the high comp base 4Bio has, we don't expect anymore, 40% growth like we saw in the past, but something between 20% and 25%, I think is doable, and 4Bio -- is we you expect that to grow ahead of the rest of (inaudible).

Finally, when we break out growth by category, overall, I think it's very consistent growth across OTC and generic have seen the main growth. So generics, we grew 19.9% in the year, 24.5% in the quarter. This is a direct result from the price investments pursued last year. So initially we saw big volume increases with the average prices, when they will make double digit, then through '19 as we started looking at the similar comp base in terms of prices. The volume growth translated in revenue growth and now we see generics is the fastest category. And we do expect generic to keep all growing the mix, which is a good thing.

OTC was another brilliant category for us growing 20. -- and 21.9% in the year 26% in the quarter. There are several factors here, one is, we are starting to see switches from branded OTC. We have also a very strong flu season. We have see more innovation in recent years, we continue to see with more product launches. So OTC has been a thriving category for us. I think branded was also very consistent, 17.2% growth in the year, 19.3% in the quarter and HPC I think was the lowest performing category. Over the year, it was 16.5% in the fourth quarter, it was 17%. What happened in quarter is that, we had a weak seasonal sales, especially like Sunscreen skincare and other stuff. There are very, very much driven by weather.

So, the weather, especially in the end of the year didn't help us that much so I think the favorable weather translated in lower sales than otherwise expected, but we are still talking 17% in the quarter overall.

Page Nine, here we discuss our comps. So we see that same-store sales growth, amounted to 9.2% for the year, 11.3% in the quarter. But the main figure here is mature-store sales growth, 5.2% in the year, which means 90 bps ahead of inflation and 7.3% in quarter which means 300 bps higher inflation. This also means that we are entering 2020 with amazing momentum. Obviously, we'll start seeing progressively tougher comp bases as the year unfolds. And obviously, this figure is poised to go down, but we still expect for the whole year, for every quarter to have mature stores ahead of inflation. This is a result of the more competitive price point we have today as well as of the digital investments we have made.

Marcelo will talk about digital later, but even though digital is only 2.3% of total sales, the revenue growth produced by digital helped mature store comps increase by 0.6. So, it's already a meaningful impact in terms of comp improvement even though the absolute figure is still not high.

On Page 10, we had a gross margin decline of 40 bps for the year and of 60 bps for the quarter. As you know, we had very significant price investments last year, but we also had a lot of trade allowances gain, because we increased our inventories. So these gains last year they masked the pressure that we saw. So this year as we normalize our volume purchases, these margin pressure appear. The investment on itself didn't happen this year.

We believe now that we have 28% should be a sustainable margin going forward. Obviously, we are always looking at the market. If we have to invest on prices, we will invest on prices for that long-term value creation comes way ahead of any quarter or any annual targets, we may have.

We believe that value creation will be higher with lower prices, will be just prices. Having said that, we don't see need right now and we don't expect that to happen in the short-time. Finally, we had the pressure of 1.5 days cash cycle, basically driven by the fact that we opened two new DCs increasing our largest DC by year end. So we had a lot of inventory redundancy in the end of the year. This should be normalized in the coming quarters.

Page 11, so when we talk about expenses, the great news was in sales expenses, we saw annual dilution of 30 bps, a quarterly dilutions of 50 bps. This was basically driven by operating leverage. I'm not going into details line-by-line here. But when we see comps ahead of inflation, we also see expense dilution, yes, (inaudible) to increase but we saw a pressure in G&A of 40 bps. It's important to mention that this whole pressure was due to one-off effects, even though they haven't been adjusted from our figures.

We have a 30 bps pressure from labor contingencies. We were seeing higher claims in more recent lawsuits. So we decided to adjust the full provision including previous months and previous quarters for the recent trend. So this is a 30 bps pressure, that we don't expect to repeat again.

And finally, because our numbers were ahead of budget, we have a pressure of 10 bps, because of higher provisioning of variable compensation, which we believe is great news. But the structural level of G&A right now, I would say is around 2.4 [ph]. This is already a higher number than we saw before, because of the digital investments we're doing in the company.

We already have seven agile teams. We are bringing our infrastructure for the cloud, which means also more OpEx. So when we look forward to 2020 figures, I think, it will be a race between sales expense dilution, based on operating leverage and G&A increase based on these investments. In the end, we still expect margin gains for 2020. We believe the dilution will be higher than the G&A pressure, but there will be a G&A pressure. This is a choice and you have to move the long term investments in digital infrastructure.

On Page 12, so when we put all together, we had an EBITDA growth of 12.6%. We reached an EBITDA of 350 [ph] in the quarter of BRL1.343 [ph] million in the year, with a margin pressure of 40 bps for the year.

Page 13, here we have the non-recurring revenues and expenses. I'll start with one-offs. So we had at Onofre BRL250 million of nonrecurring gains, it's base off BRL350 million of what we call negative goodwill, because we got for very cheap, a company with high -- with a higher book value then obviously what we paid, so this generates -- this is a non-cash gain, but is taxable gain over several years.

Finally, when we look at (inaudible), we had around BRL50 million in non-recurring expenses, so around BRL17 million of asset write-offs. This is related to store closures, we always have some level of store closures. We had restructuring expenses of BRL16 million. This is related to changes in restructure pursued [ph]. This is also related to the fact that our executives used to have a car as well as part of their compensation package. We are eliminating that. So we had a one mandatory allowance to offset that.

We had also BRL15 million of consulting expenses. This is related to the launching of the digital, so very important, we may have consulting in the future, but I don't think at this level. Also the relocation of the Rio distribution center generated BRL13 million in write-offs and other expenses. And we also have BRL13 million in non-recurring gains, mostly due to tax recoveries related to other further years.

On Page 14, our net income totaled BRL587 million for the year and BRL169 million for the quarter, which amounts to 3.4%.

On Page 15, we have our cash generation. I think the great news of the year is that even though we invested BRL650 million in operations, including the opening of two DCs, one of which is our largest and most automated and therefore, most expensive DC, and also relocation, which means that new DC being built in Rio. So with three DCs being absorbed in the year actually part of the largest was half last year, half this year, but even with this logistic investment, we had BRL56 million in CapEx, which was more than fully absorbed by our cash from operations. So free cash flow was a positive BRL1.5 million in the year and total cash flow after interest on equity payments, financial expenses and et cetera, was BRL189 million in the year.

See on Page 16, we talk about the total value added of the company. So for first time, we bring this information. So the total value addition that the company had was BRL5.6 billion, up 22% from last year. And then here on the right, we saw that how is value was distributed across society. So we paid BRL2.2 million in taxes at the municipal state and federal levels. So 39% of the whole value created went back to the Brazilian State.

We also had BRL1.8 billion generated for employees. 33% of the total, 0.8% in third-party payment services provider and et cetera, and finally BRL0.8 million in value created for shareholders.

Finally, in Page 17, our share price nearly doubled in the year, 97.5% versus 31.9% of the IBOVESPA. We posted an average trading volume north of BRL100 million through the year. And if you consider the fact that the average annual returns generated since the Drogasil IPO, was 29% per year and 26.5%, since the Raia IPO. So these were my prepared remarks. Marcilio will summarize I think the main achievements on the year and what we expect for next year, strategic priorities and finally we will be brought back to answer your questions. Thank you very much.

Marcilio Pousada {BIO 16117399 <GO>}

Thank you Eugenio. Let's go to Page 18 please. Talk about a little bit about 2019. When we talk about price it's not just the reduced price, we did a very good investment in the end of 2018 in (inaudible) all our system in price and more data is right now is merging more and we are using intelligence to do the pricing.

This helped us a lot, so you are saying this year review, even in average (inaudible) and customer last year. We start this year with 30 million active customary closing 36 active customers. All this actually matters to grow a board inflation help us to have more customers in the stores, in the business house.

We opened 240 stores. This of course is the main driver here, we have the same season in the same process store. We still had a (inaudible) process to find locations to build it, the stores to train people to transfer the people, who do the advertising for the stores and pricing and promoting actions stores.

This is a main process to capture new customers for us. We also built two distribution centers, in Fortaleza and Guarulhos, and they are located in Northeast, We did all these things together to (inaudible) and we're very proud of all these numbers.

And we did also lot of Onofres there are our first acquisition in our life. We integrate all the 42 stores in more our portfolio, but what's important this year we retained as -- we hired 100 new employees for us. We learn with these employees, how to mix in the future for our company, we learned how to (inaudible). This is amazing how you can do this very quickly and is amazing also what we see this guidance working in our company, right now.

To go to the next page, you highlight some points in our digital transformation at the company. The sales in digital is growing a lot today's 2.3% of total sales is digital. Much better than this. We had a 5.6% of the customer, in this are sales made for the customers use and digital to make accessible. It is a managed buy with the digital or buy the stores, but they use digital to make unit distribution.

These customers spending more than 40% go to digital. It's better more loyal customer and the digital business is higher in Drogasil brand is growing more than 60% month-by-month.

The best thinking in all these digital transformation as we hear in the company, we have remained outweighing some exits in Brazil that we deliver goods in one to support our [ph]. We have 131 stores that you're working as distribution center to deliver goods for the customers and 65% of the growth total sales in the digital orders is started by stores. We did the -- we saw in China in 2018 and we believe it to use the -- our store base to deliver the goods for the customers is the best part for integrate both business of physical and digital and the customers (inaudible). Okay.

The function for the store is to bring new customers. If we look for digital, the main test for the digital is to improve the relationship with the customers. Let's go to the another page, Page 20 and talk about the challengings through 2020. We assume open 240 stores as again we know opening store is the best way to achieve the new customers. We had book of our stores 424 stores. The store (inaudible) to bring in new customers, new portfolio of customers and we opened 76 only 2019. To increase the customer acquisition, we have (inaudible)market universe and use our RD brands.

We started towards to (inaudible) team in 2019. The main task for this team is building customer loyalty engagements. This guys working in mobile technology and knowledge he is experiencing, looking for the enjoyable experience for customers and try to eliminate all the pain points is the customer in your channels. Okay.

We know digital can help us to improve the larger, the customer together logistics. They brought the new launch which GPA this year. Okay. We know we can drive the revenue through stores better bigger than inflation will help us to leverage to increase the EBITDA margin in this year. But if you need to use this money to invest more digital to invest more in people you do that this year.

We know, our view is a long-term view and you know how important to view the well modern, technology, modern digital way to make relationship with the customers.

In this year also, we will start a very modern agenda and we'll talk about the sustainability and you have a three main focus leveraging. How we can work with the health on not only about our employees, but in the customers? How this company can work, how to understand how are impacting the environment and how we can change the economy internal that people that work with us, and we work with your portfolio. Actually this Raia chain is very, very modern and we are prepared to do this for the next few years to try to pay need to keep the customer to -- affect the business strongly for the future also.

Now we are ready for the Q&A, Eugenio and myself. Thank you very much.

Questions And Answers

Operator

(Operator Instructions) Our first question is from Joseph Giordano from JPMorgan. Joseph, you may proceed.

Q - Joseph Giordano {BIO 17751061 <GO>}

Hi guys, good afternoon everyone, thanks for taking my question. So my question is more like on the digital front. So you mentioned about 5.6% of the clients are already engaging with the company on a digital way and the pocket share gains here have been materially high particularly from a frequency and ticket standpoint. So looking at this client base that significantly grew over the past year, how should we see this evolution so basically, I'm trying to understand, like if you guys work with our target of active clients, and then a target of digital clients, try to gauge what would be the potential impact from those initiatives in the short term.

And as Eugenio mention at the beginning of his speech concerning the expansion plan that's been harder and harder, to add new stores, but still like you see plenty of room to grow. How are you seeing like, venture opportunities like Onofre into new regions, particularly the less competitive ones, because I understand that there are some good assets and good competitors around there.

And lastly, on the labor lawsuits side, how should we see this evolving over time, and if like you expect anything arising in the near future from the integration of Onofre. Thank you.

A - Marcilio Pousada {BIO 16117399 <GO>}

Okay, Joseph. Thank you for the questions. I mean, digital I think is a very strategic project for us, so more important than what percentage of digital transaction will present, it's what percent the digitalized customers represent. And what we are seeing is that, the main benefit from a digitalized customer is not only on the digital transaction itself, but it's the lifetime. It's an increasing lifetime value across all channels.

So we are gaining more purchasing in the stores, then we're gaining through the digital transaction itself. So this is very important. This is a number, that we certainly expect to increase in the future. We are not committing to any targets. We don't have the history of this number. This is a member, we just started tracking. Maybe in the future, if we have more a better understanding a better grasp of what the number means we can start have you more explicit target. But right now, obviously, we expect the digital part of -- the percentage of digital customers to increase. What we are capturing here are customers, who either brought through click and collect or a pure e-commerce transaction with home delivery.

We are not even counting inside this number a customer who bought in store with additional coupon or who used digital in any other way within the store. We're just counting here for the time being, the click and collect and e-commerce, it's possible that even the definition changes. If we can understand, what are the things that customers does in-store in addition to those two, but it's great to see that the customers who adopt digital they increase the spending in 40% and this is a result both of frequency increases and average ticket increases. For me the best way to think about this, I mean all of us those in the future, we want digitalized customers to account for 10, 20, 30, 40, even more percent of our revenues.

I think, this is the future. We have nowadays 1.2 million downloaded apps, but this was growing by 300,000 per month in the end of the year as we started in the end of the year. An easy exercise, it's not a guidance, it's just an exercise is to see that, if the revenues from digital customers would be 20% of our total and if spend increase will be 20%, this means another 4% of revenue increase and a huge operating leverage and value creation for the company.

I don't know what the digital contribution will be, I don't know what digital -- incremental spending from digital will be. This is the way to think about the business. So we expect to see just us growing ahead of inflation this year, next year, the year after that. And more and more in the future. So this is something very important and very strategic. One year is not a long period, but if we see where we are today, we are already a completely different company than we were last year. And I think the huge goal for the year is really increasing downloads, increasing app usage, because with the app comes a higher capacity to engage with the customer comes a better experience and comes better spending better loyalty.

So this is the first question. In terms of expansion, I mean we keep doing 240 stores a year. I think, obviously when we look at the e-market -- the e-market is already very well occupied by us. One number that we mentioned, I mean in the earnings material is that we have already 88% of A customers within 1.5 kilometer ranges. So obviously, we can still do some more A plus stores but if our expansion were only A plus stores. This would mean, we'll be very close to the end. So the company has adopted way before this year.

So we started diversifying geographies and we started opening way more popular stores, and way more hybrid stores. So if you look today, upper class stores is a small proportion of what we do. Upper class stores in Sao Paulo, it's an even tinier proportion of everything.

Onofre was a successful M&A opportunity. Obviously, we have the financial means for M&A. We have the capacity to integrate fast and create value. But in the end, doing M&A, it's a matter of opportunity. It's a matter of having the right asset, at the right time, at the right price and a doable antitrust transaction, and things like that. So if an opportunity arises, obviously we're open for that, but this is not something we can guide.

And finally, I think labor contingencies, in our view the current provisioning is enough to absorb the claims, we have. Obviously, there is in our -- when you think about 2.4% as the current G&A level, there is already a somewhat higher labor expenses built on into that, but we don't expect any more surprises here.

Q - Joseph Giordano {BIO 17751061 <GO>}

If I may make additional question here, 200 digital front and on the new loyalty program that you guys are creating with CBD [ph], so you can share, like what are the next steps here. And if you are like already having the interest of incremental partners aside from CBD and Itau. Thank you.

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

So, as you know, we closed the transaction of the GPA this week. So Six [ph] is now a company in which we are partners. So I think that the main priority now is getting ready to launch, launch that will happen some -- at some point in the second semester, probably around September, but still depending on how fast we both maybe slightly before or maybe slightly after, but certainly in the second semester of this year.

We are launching the whole IT capability both inside (inaudible) and for Hydro as well as GPA to get ready to do it. In our case, I mean we have a huge focus on taking a larger heavy and a larger role in terms of helping our customers take care of their health. So we will revamp our loyalty program to focus more on healthcare, on (inaudible) treatment, on healthy habits and so on. So we can do a lot of gamification [ph] by having a currency like Six. And so I think Six is a very strategic projects for us.

Obviously we are -- I think we have a very initial set of partners in (inaudible), Raia Drogasil and (inaudible) We have the largest drug retailer in Brazil, the largest food retailer in Brazil and probably the largest bank, probably the three companies with the largest tradition in terms of loyalty, CRM and et cetera. And yes, we are open to have more partners. We cannot talk about conversations, I mean the day we have more another partners, another strategic partners, obviously, everybody will know. But I think if we are successful, the trend is to have more partners, but we don't depend on having more partners to be successful. This is something very important.

Q - Joseph Giordano {BIO 17751061 <GO>}

Perfect. Thank you very much.

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

Thank you.

Operator

Our next question is from Irma Sgarz from Goldman Sachs. You may proceed.

Q - Irma Sgarz {BIO 15190838 <GO>}

Yes, hi, thanks for the opportunity and a lot of my questions have already been answered. But just one final question on the CapEx side, could you just sort of lay out how you're thinking about CapEx for this year and maybe even sort of the medium-term plan, given the growth expansions at the expansion plan that you still have?

And taking into account that there is obviously the lower income format within the expansion plan that is gaining more traction and also taking into account anything additional that you might need to do on logistics or IT? Thank you.

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

Hi, Irma. Thanks for the question. I think the best reference that I can provide will be a similar CapEx this year. So, obviously the store rollout is the same. You could think about inflation, but then we are gaining efficiency in terms of our engineering. So our expectation is lower CapEx per store. But you could have said that I don't know if it's ahead of inflation, below of inflation, but maybe a similar spending on a per store basis, probably similar also store renovations.

I think the main difference is that obviously, we will spend way lower on logistics. We had three DCs last year, one of which is our largest and most automated and most expensive one. Obviously, only 50% of the spending happened last year. We had already started in 2018. And this year, we will very likely have only one DC, which should have -- which should be (inaudible). But if it was more DC it's a business as usual kind of thing.

Having said that, we are accelerating a lot of investments in digital, part is OpEx, part is CapEx. So I think maybe what we save on logistics, versus last year, we may spend in digital. But having said that, it's not that we have absolute visibility on how much we will spend in digitial. We have like a blueprint set out, but then, as we move through the year, we can have a better understanding.

So, a similar number would be the best guidance I could provide. Not that, that's reliable, that's reference.

Q - Irma Sgarz {BIO 15190838 <GO>}

Yes, thank you.

Operator

(Operator Instructions) It appears to be no further questions. Now I'll turn the conference back to the company for their final remarks.

A - Marcilio Pousada {BIO 16117399 <GO>}

Well, thank you all for attending our conference call. I just would like to summarize some of the points we discussed through last hour. So first, I mean, our understanding that 2019 was a great year for the company. We had a very strong comp recovery. We are posting mature store growth ahead of inflation, accelerating through the year and are likely to start 2020 and with great sales momentum.

We had also a very consistent expansion, 240 stores same expected economics of 20% internal rate of return on a real basis and net of cannibalization, despite huge diversification in geographic and income profile, we only opened 76 stores in the state of Sao Paulo, that's 32% of the plan, and when we look at a national level, at least at the numbers the same, but it does and it's the same stores, we had 76 popular stores added this year alone.

We now have more than 400 popular stores and we starting for advancing the super popular format, which is a step down, but it's important to mention that the success of these popular initiative has to do with the whole journey, we had with the super popular and new pharmacies. There were lot of learnings from pharma. In terms of mix, in terms of operations of the store that we brought into these popular sport format that allowed us to flourish.

And now we want also to flourish with the super popular format. And we have a number of stores we were not maniac yet, but as part of the base which 140 (inaudible)

Finally, we also acquired Onofre was a great transaction for us. We integrated the stores in one month, we integrated e-commerce in four months, already in the initial month of integration this what the stores were at breakeven. When we look at store EBITDA in December, it's higher than the consolidated EBITDA for RD it includes G&A, obviously, the consolidated EBITDA for RD includes generic in the case of an office in the stores, but the addition of Onofre on top of the base has been in December start becoming accretive in terms of margins.

This was also a year of good profitability. It's -- obviously we have some gross margin pressure. But we have a great absolute growth. So in the end, we generated a nice EBITDA increase in terms of absolute terms, we generated operating leverage to help us take care of the gross margin pressure. So I think it was a successful year margin wise.

And finally, I think this was a year that we had very significant advancements in terms of digital. Obviously, it's just the 4th year of a long journey ahead, but it's a year that counts, a year in which we had a lot of successes here. We significantly increased the capillarity of our the delivery services. So, and we keep adding more and more stores to do ship from store to have 4 hour deliveries. We want to have it all across the network. We are also advancing with one hour delivery.

This is a factor in which people don't expect to buy online and receive in one day or two-days, this is a sector people expect to receive in one hour, two hours. And we are fastly adapting to that. I think, we are seeing a lot of app improvement through the agile teams. I think, this is the 2020 will be a critical year in terms of adoption of our app.

So we have a running rate of 300,000 downloads a month, we have sustained this. We have to drive usage, we use promotions to do that, we want to allow the customer to see that (inaudible) ease of digital both in-store and outside of the store, we went to provide absolutely met digital in terms of convenience, in terms of helping consumers save and especially helping taking care of consumers health, improving their health promotion prevention and a lot of things we can achieve and the organization is also changing to corporate [ph].

So, we are revamping our structure. We have seven up in running. We are going to 20, -- we finally have a data lake on the cloud. We bring systems to the cloud, we change our culture to become much more fluid, much less erratical and I think this is a year, and that won't be forgotten.

Finally when we think about what we want to do in 2020, I think one of the main issues is really building as a company, an obsession for understanding should behavior and driving customer acquisition, customer activation frequency increased, spend increase, monetization. Every retailer is very proficient at explaining revenue growth in terms of store addition in terms of comp increase, in terms of category breakdown where we want to be. We went should be able to explain growth and hopefully good growth based on behavioral change. We grew this much because, we had an acquisition of these many questioners. We have an average increase expanding of this much that, the segments that did better were this, this and this, these deals in the segment that didn't do well was that and that.

This is where we want to go as a company. So we see store addition, as a way to acquire customers and increase share of wallet of our reducing. So, the whole way we think and we act more and more -- if around the cash and if we do that. If we are successful. I'm absolutely sure, we will drive long-term and sustainable comp growth ahead of inflation.

The name of the game for us is not gross margin increases, the name of the game for us is real comp increase is driven by customer acquisition and customer activation, and this will drive EBITDA growth, digital drive operating leverage that this will likely offset investments that will be required. And this will create value for the company.

So, before closing, I'd like, just to make an announcement Gabriel Rosenberg, our Investment Relations Director. He's taking a sabbatical year. So he will be with us until March. We will have a new person already hired coming, after he leaves. Gabriel still be connected with the company in his sabbatical. So I'd like to thank you a lot for all this time with us, in Investor Relations for his contribution and we should good luck in his sabbatical. Thank you very much.

Operator

Thank you everyone for participating. You may disconnect your phone right now.