Q3 2015 Earnings Call

Company Participants

- Belmiro Gomes, Wholesale Business Officer, GPA and President, Assai
- Christophe Hidalgo, VP, Finance
- Daniela Sabbag, IR Officer
- Elisio Melo, Executive Officer, Pao de Acucar
- German Quiroga, CEO, Cnova
- Laurent Cadillat, Executive Officer, Extra
- Peter Estermann, CEO, Via Varejo
- Renato Giarola, Executive Officer, Proximity Stores
- Ronaldo Iabrudi, CEO
- Unidentified Speaker, Unknown

Other Participants

- Andrea Teixeira, Analyst
- Franco Abelardo, Analyst
- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Richard Cathcart, Analyst
- Thiago Macruz, Analyst
- Tobias Stingelin, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for waiting. Welcome to GPA conference call to discuss the results for the Third Quarter of 2015.

This event is also being broadcast via webcast, which can be accessed at www.gpair.com.br, with the respective presentation. The slide selection will be managed by you.

There will be a replay facility for this call on the website.

We inform you that the Company's press release is also available at its IR website.

This event is being recorded. And all participants will be in listen-only mode during the Company's presentation. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements that might be made during this conference call relative to the Company's business expectations or operating and financial projections and goals are based on the beliefs and assumptions of GPA management and on information currently available to the Company.

Forward-looking statements are not a guarantee of success and performance. They involve risks, uncertainties. And assumptions because they relate to future events and therefore depend on circumstances which 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 GPA and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I would like to turn the floor over to Ms. Daniela Sabbag, Investor Relations Director of the Company.

Daniela Sabbag {BIO 18861490 <GO>}

Good morning, everyone. Welcome to GPA's conference call. Here with us we have our CEO, Ronaldo Iabrudi; Christophe Hidalgo; and all of the business owners of the Company.

To begin, I will hand the floor to Ronaldo Iabrudi for his initial remarks.

Ronaldo Iabrudi {BIO 5151863 <GO>}

Thank you, Daniela. In the first place, I would like to thank everyone for their participation and engagement with us.

My initial remarks aim to underscore what we know, what we have seen in terms of the meaning of our Company, which is a multi-format company. And so, we have some exceptional results for some of the banners. We are going to see this in the individual presentations for other segments; for example, the food segment.

The food segment represents a positive resilience adequate to this market moment. For Cnova and Via Varejo, where we have household appliances, furniture, et cetera, we have not seen the same level of resilience that we can see in the food segment overall.

And in difficult moments like this and challenging macroeconomic environments, these differences will become a lot more dramatic and a lot more clear in the different business units. You have received the Company's releases. And you will see this in the presentations of each one of the business owners.

Before I turn the floor to each business owner, I would like to point out some initial things about our multi-format business. For example, in the food business, when we compare with ABRAS we see that there was a very positive performance. We had a differential of almost five percentage points in the last quarter of 2014; we were actually growing below the market. And in this quarter, we showed a positive growth of 0.7% [ph] in the food business. So this points to a trend. And this is what I mean by resilience in the food business.

In the case of Assai, Belmiro will give you more details. But when I talk about some exceptional results about our multi-format business, Assai is an example. We have comfortably posted a two-digit growth there with a good margin and a positive net income and with a significant growth even in a complicated moment in a challenging environment.

Another segment that we would consider with the expansion of the Minuto format is Pao de Acucar banner. For us, Pao de Acucar in the last 24 months has maintained its growth pace with an increase in market share, with profitability. And with an increase in the service level in a remarkable fashion. And this is something that we need to highlight.

And just like the Proximity format, like I mentioned, we have grown this Proximity format into several banners -- Minuto Pao and Extra Minimercado -- with special highlight going to Minuto Pao, showing that we got the right assortiveness [ph] in that banner and that we are making the right decisions.

Today, we already have 300 Proximity stores -- Minuto Pao and Minimercado -- and I will make a comment about this in the end. But this is a segment where we intend to continue to grow.

In Extra, the Extra banner, with the renovations, while we have completed the renovations scheduled for this year -- and we completed them in the month of October -- and they clearly show great acceptance by customers. And secondly, in the stores that were renovated -- and Laurent is going to speak about this -- we are not just talking about a physical renovation. We are talking about reviewing assortment, customer flows, customer traffic. And so on and so forth. I'll let Laurent [ph] give you details. But in addition as to good acceptance, customer traffic is increasing and there's more than two-digit -- there's a two-digit growth in the renovated stores.

Yesterday, you probably saw Via Varejo's presentation. This is a business that worries us a little more because this it was shown to be not very resilient. But I believe you all had an opportunity to see and hear that the company is working with a slightly lower margin. We are convinced that this is going to drive more sales and will lead to a more positive cash margin.

So there's a difficulty out there. But there is also a strategy that we adopted. And we will continue to make all of the adjustments that the company started in the beginning of the year.

And to end, at Cnova, the company is working with strong commercial dynamics, looking for a balance between sales and margin. For a while, we posted significant growth in sales. But we kind of impacted the margin a bit. And now, Quiroga is leading the process, aiming to maintain that balance.

Highlight going to GMV. That posted a significant growth even in an economic moment like this -- 18.1% -- which is important, as important as its cash generation that we had in the last 12 months.

I will come back later to speak about the outlook. But I would now like to turn the floor to each one of the business owners. And firstly, we'll hear Christophe. And you will give us the numbers. So Christophe, you have the floor.

Christophe Hidalgo {BIO 17982648 <GO>}

Thank you, Ronaldo. Good morning, everyone. I will begin today's presentation with the main highlights of the Company's consolidated data.

We are now on slide 2, please. I would like to highlight that for another quarter, the Company has shown the ability, the resistance. And resilience of the food segment as well as a solid financial capacity for the Group as a whole.

When we talk about sales, our net sales reached BRL16.1 billion in the quarter; highlight going to the food segment, which grew 7.3% in the quarter. And I would like to highlight that this growth outperformed the sector: ABRAS actually published a few days a 6.4% growth in the quarter.

About this growth, I would like to highlight two primary points. First, along the year we have been reducing our growth difference vis-a-vis the competition and vis-a-vis the ABRAS numbers, as we mentioned.

Secondly, I would like to mention that that recent trend points to a slight acceleration of our sales. And these sales will be additionally leveraged by the stores expected to open in the Fourth Quarter.

Talking about consolidated EBITDA, the margin was 5.7%. It was particularly impacted by a lower consumption, which resulted in a lower contribution by Via Varejo to the quarter's EBITDA. On the other hand, Multivarejo maintained a solid and stable EBITDA margin, of about 27% sic; see earnings release, "7%" [ph]. As Ronaldo mentioned previously, Assai posted once again a solid and improving profitability, growing more than 40%.

We continue with our steady pace of investments. Investments in the period totaled BRL510 million; BRL1.5 billion in the year, year to date. What really matters is that the amount invested has followed the criterion that we apply to CapEx. The focus has been on our organic expansion, opening stores that will bring us a higher return -- or expanding the higher-return format. We opened 23 new stores in the quarter.

Finally, it applies [ph] to mention that we maintain a strong financial discipline due to continuous working capital gains and an [ph] improvement in net financial result, which showed a 9% retraction compared to the prior year, when in the same period reference rates increased by almost 30%.

Please go to slide three now. On slide 3, we see the key figures for the Third Quarter 2015. And as we have done in prior quarters and to help you understand because of the consolidation of Cnova, we will also do a pro forma comment.

As we mentioned, given the low contribution of Via Varejo to the gross profit of the Company, gross margin varied. And also given the mix effect in Multivarejo and the promotional dynamics seen in this period at Multivarejo.

SG&A grew only 3.4%. And that's a very relevant highlight. This results from our discipline and the Company's efforts to control expenses. It is important to understand that this 3.4% increase in SG&A was possible. But possible despite the fact that we opened 210 new stores in the last two sic; see slide 2, "12" [ph] months.

Finally, when we talk about the EBITDA, I mentioned that we reached a 5.7% EBITDA margin in the Company's net income. The performance of the Company is mainly negatively impacted by the results of Via Varejo. Via Varejo was strongly impacted by a consumption slowdown.

And moving to slide 4, again, we're going through a very challenging environment, but [ph] the Company closes the quarter with an improved indebtedness level. And this is particularly stemming from a better efficiency in managing our working capital.

I would also like to highlight that we maintained a significant cash position of BRL5.4 billion in the end of the quarter and BRL1.2 billion in receivables not advanced at the end of Third Quarter. Explaining this in a different way, at the end of the quarter we have a solid cash reserve of BRL6.6. billion.

As for the gross debt, we continued to reduce our debt. We took advantage of this quarter to refinance part of our debt. We were able to lessen our debt maturity schedule by over 165 days, half a year. And it is important in these periods to have a long-term debt and to have cash.

The final consequence of this is the financial result, which accounted for 2.4% of the sales in the Third Quarter 2014 and was down to 2.1% of sales in the Third Quarter of 2015. Concentrating the reinforcement [ph] of our financial position and the solidity and financial health of the Company, rating agencies reaffirmed in the past weeks -- well, they reaffirmed the Company's ratings and also the outlook pegged [ph] to the ratings.

Moving to slide five and before I give the floor to each business CEO, I would like to mention the main highlights of our commercial performance in the quarter. Again, I would like to highlight that the food business showed a significant stability in terms of results. In this challenging macroeconomic environment, our margins remained stable compared to the First Quarter of 2015.

The main highlights are the renovation of the Extra stores. Again, they bring us a significant response by customers. There was an important improvement in customer traffic in the renovated Extra stores.

Another highlight goes to the Pao de Acucar banner and the Proximity formats, as well as Assai.

And our strategy allowed us this year that [ph] we continued to capitalize on market share. In other words, we gained more market share. And this is a continuous trend since the beginning of the year.

As for SG&A in the food business, I would like to highlight that the growth of Multivarejo SG&A was 7.1%, below inflation in the period and below the prior quarter which showed a 10% increase in SG&A. But we're now seeing the first effects of the measures of the actions taken to contain SG&A, to contain the inflation effect.

Finally, in addition to the excellent performance by Assai for another quarter -- and we'll get more detail on that -- I would like to highlight that for the first time ever cash generation of Assai in the last 12 months allows the business to finance its ambitious organic growth that will materialize this year and that will be coming in the future quarters. In other words, Assai can self-finance its growth, its organic growth.

I will now turn the floor to Elisio, who will give you more detail on the Pao de Acucar banner.

Elisio Melo

Good morning, everyone. The Pao de Acucar banner continues with a good pace of sales in this more challenging environment.

Net sales grew 7.7% in the Third Quarter, more than one percentage point than the first two quarters of 2015. In the first nine months of the year, we grew 7% over a strong comparison base, considering at the same period of 2014. These numbers enabled the banner to maintain the same profitability rate as last year.

Our market share, as mentioned by Christophe and according to Nielsen, has been growing continuously for over two years. Our loyalty program, Mais Program, was relaunched with great success and great acceptance by customers, mainly due to the opportunity to convert accumulated points into discounts directly at checkout and this is [ph] 100% of Pao de Acucar promotions go to Mais clients.

In addition to this new feature, we launched a new systemic platform, a new format communicating with our customers. And a new smartphone app both for Android and iOS.

This will enable customers to access their statement and immediately receive customized promotions based on what each customer likes to buy. It is no longer necessary to access the site or call to have contact with the program.

Another change made to the program and to reduce our biggest source of complaints from customers in the monitored channels related to redeeming points or checking their statements.

With this, in the quarter the last program [ph] shows a change from 63% to 65% in sales, proving that the changes were good.

We continue to look at the competitiveness of the banner in the premium segment. But we already felt a bigger exchange rate impact on some of our assortment which is imported. We began to review the assortment of the most important categories in terms of sales in this quarter, those accounting for 48% of sales of that banner.

Our commercial activations, such as the weekly top 10, continued to strongly drive sales, especially in the categories that affect [ph] Pao de Acucar's positioning. Pao de Acucar food delivery continues to post a double-digit growth, with an increase in both volume and number of new customers.

In the quarter, we opened four new stores: three in the countryside of Sao Paulo and one near the capital, in Aldeia da Serra. We completed the renovation of more than 40 stores year to date -- 80% of our installed park [ph] -- the highlight going to (inaudible) store. This store was retrofit for generation six [ph], with a change in layout; a new visual identity, both internally and externally; addition of new services such as the Nutella corner, Ilie Cafeteria, Cafe da Central [ph] kiosk, a bigger bakery with a French boulangerie, the expansion of the (inaudible). And others. This was converted in 2014, continues to post increasing sales compared to the Extra banner and higher profitability.

Just like with the attention to competitiveness, we remain focused on improving our services. We regularly monitor direct and public complaints coming from social networks. And we adapt the indicators to address these complaints. Despite the new stores, we have reduced complaints. In addition, we increased the number of secret shoppers to assess service quality.

To conclude, we continue to focus primarily on competitiveness. And on expenses over net sales, on raising our assortment in key categories -- all aiming to maintain both a high level of service and high profitability at the levels of 2014.

Thank you. And I'll turn the floor to Renato Giarola, from the Proximity format.

Renato Giarola

Hello. Good morning. Proximity continues to grow and gaining market with new stores and the same stores and, in total, a growth of 16% above the 48% [ph] of the First Quarter.

This quarter has generated a share of 0.2 total Brazil, an important growth also in Brazil.

We have six Pao de Acucar format and seven in Extra, totaling 101 sic; see slide 7, "301" [ph] stores. And with (inaudible) in the last six months.

We are improving the productivity of the stores and of the regions. And the new openings are occurring in new places with great potential for growth: in Villa Limpia and in Villa Magdalena, on the Royal Jagansao, in Bohema and districts [ph]. And with a store opened in Recife, in Boa Viagem. And in the city of Sao Jose dos Campos. And with different formats.

At the moment, the performance of the Company are giving us performance better than expected. Together with Unilever [ph], we have had a good performance with the A and B classes. And we have also opened the format of Minimercado, about 12 converted stores. And the sales have been much more efficient and better tickets, especially with the A/B public. We have improved our results in performance, particularly in the categories which are priority for the Proximity market: fruit, vegetables, cold meats. And frozen meats.

And we also have select [ph] stores with a growth of two digits. And also the Proximity stores (inaudible) now, with the Anaguaran [ph] highway, that are supplying 100% of the novel Pao de Acucar [ph].

We have corrected our stockouts and we have a very reasonable level now of stockouts.

And we are facing up well to the different movements of our market.

And now, I would like to ask Laurent to take the floor. He is responsible for the Extra banner.

Laurent Cadillat

Good morning. Even with the continuation of the challenging scenario of the Brazilian economy for Extra, the store modernization program has already shown considerable approval by our clients, with a clear improvement of satisfaction vis-a-vis the purchasing experience.

The results can already be shown by a growth of sales in these stores, which is above 10percentage points when compared to others.

In a recent survey promoted in these modernized stores, we have already identified to the large part of our clients were satisfied with the purchasing experience, particularly with the new layout, the visual communication, better service in the category of perishables, the special promotions. And the new concept of mobile and mattresses.

And besides that, we are up to almost 6 million clients registered in the Club Extra, the rewards program of the banner. If we compare this number with refers to December of 2014, we have shown an increase of 18%.

To reinforce the image of the brand and strengthen the store modernization program, we have also launched the new positioning, You Deserve an Extra. And the objective of this program is to underline all actions carried out to give the clients a better purchasing experience, like promotional strength, location convenience, assortment, service, product. And price communication.

The modernization program has already delivered 52 stores until September, of which 28 stores in the hypermarket format and 24 in the supermarket format. Besides that, there will be another six reopenings of stores in the last quarter.

The last months of the year are very important for the banner because they have focused on important dates like the Extra anniversary, which started this week; Black Friday; and of course, the end-of-the-year celebrations. We are quite sure that the actions which we have planned for the next months will reinforce this trend to recovering sales dynamics and client flow into the Extra stores, thus delivering in 2015 important results for the Group.

Thank you. Now, I'd like to ask Belmiro, for Assai.

Belmiro Gomes {BIO 18107864 <GO>}

Good morning. Well as has been said by those before me, we have had solid growth of 22.3% and same-store double-digit. And a progression of sales of 22.7%, important growth. In this period last year, we had grown 30% (inaudible).

This is in line with former quarters, accumulating in the first nine months of this year a growth of 25%. A very great -- a good performance. It was the best performance over three quarter of this year and a contribution of the larger, renewed [ph] stores. And it will be a very strong position.

In the Third Quarter, we have opening very good and the unit in Guilerma [ph] -- a very large store, very strong store, which has been very well accepted by the market -- and the reopening of the Campinas store, which has been totally rebuilt and refurbished to be in the new format.

In the food sector, or wholesale [ph], has been very resistant at this particular economic time. This has been a good moment. And we have seen clearly a greater surge of this kind of store. And the pricing seems to be adequate.

So we will maintain a growth which has been consistent over the last few years. Assai has been growing between 25% and 40% year over year. And we have had less activity, a little bit affected by the micro companies. And we have had some difficulty. But this drop of sales for this segment has been offset by an increase and also good purchases by the end consumer.

And also there has been improvement of the gross income because of a better store, better negotiation, proximity to the supplier. We have expanded our role as distributor and an improvement of logistics.

And so, with this in the Third Quarter we have improved 0.50percentage points vis-a-vis the former year. This (inaudible). And where we have had improvement or better expenses, even with a challenging expenses with the electricity, et cetera, we have reduced our expenses, allowing us to do this in a comparable period of the former year. It goes from 10.6% -- it's less than 10% [ph] now, which is what characterizes Assai of -- we have to keep expenses at a low level to continue to be competitive in terms of sales.

As has been said, we have worked hard also managing inventories and financing of the inventories of the suppliers, improving our working capital, improving sales and the margins of Assai, around an improvement of 44%. So that Assai has enough inventory to finance its organic expansion.

We also have had a highlight in net income, which has progressed 66% vis-a-vis last year.

We don't have the numbers, just for the Third Quarter. But we have also worked hard on building new stores. We have a calendar for great openings this last quarter. We have the expectation of opening seven to eight large Assai stores to keep this growth. In October, we opened three stores -- two in Sao Paulo, one in Rio -- with excellent acceptance. These three stores follow the new format: 18,000 square meters for sales.

So we have another four to five which will be still opened in this quarter. We have concentrated openings now at the strongest sales period, at the end of the year. And I think we will continue to expand activities in the wholesale. We will grow more than two percentage points. So we will have a good growth, favorable growth. So that we can dilute our expenses and where we have been more resistant.

Thank you very much. And I'd like to ask Peter, from Via Varejo, to take over.

Peter Estermann {BIO 15380447 <GO>}

Hello. Good morning.

Regarding Via Varejo, I would like to repeat and reiterate that we will continue with all measures of optimizing our costs which have already been started and will roll out in the company. And we will intensify commercial initiatives to recover sales. Our focus recovering sales will be absolute priority.

The results of the quarters reflect unfavorable consumption has already been mentioned, especially for durable goods.

Our sales in the Third Quarter compared to the second did not show any deterioration. And lately we have realized that there have been signs of recovery in the sales, which have been very encouraging. And this then is a reflection of the initiatives of competitiveness which we are implementing in the company.

As I have already mentioned, we will continue with our adequate pricing and expense control. And this is essential so we may continue with our operating competitiveness program which we are implementing in the company.

We will also focus on the improvement on operating efficiency. Here, I would like to give you some examples. We will be working as from this month on significantly reducing the stockouts in the stores. And we have already been working with these stockout rates which are not bad. But we are identifying opportunities to improve this because, quite certainly, this will improve the availability of products for our clients in our stores.

And a second point that we are working on is to make our assortment in the stores more adequate and possibly regionalize and improve the rate of concentration of sales in each store. And also considering a regional focus and with the objective of improve the efficiency rates.

As Christophe has already mentioned, we will maintain a strong capital structure in the Company. And this certainly is a very important competitive differential of Via Varejo, which will be essential to support the market share gains that we are seeking.

And to conclude, I would also like to remark on the improvements that we have integrating our brick and mortar stores with the Cnova. We have close to -- with [ph] Via Varejo, we have more than 500 stores in the Click and Collect model. This model with Cnova selling its inventory in the internet. And the client has the option of picking up these products in any one of the Via Varejo stores.

And also, we closed the quarter with our stores -- 1,600 sic; see slide 10, "1,016" [ph] -- with the marketplace model. And in this case, our ecommerce with Cnova selling the Via Varejo inventory on its site. And the client also has the option of picking up their products at our stores.

The next step will be to work hard so that we can improve the efficiency of both these models, both on sales through the Cnova website and also client service in our own stores, which certainly will bring excellent gains in sales.

Thank you.

German Quiroga {BIO 17954249 <GO>}

Thank you, Peter. This is Quiroga, from Cnova.

First, some numbers. Even in a very difficult environment, we have GMV has grown 17.6%; in Brazil, 18.1%. Net revenue has grown 9.1%; in Brazil, 9.2% sic; see earnings release, "9.8%" [ph]. Marketplace global, 22.7% of our sales; in Brazil, 12.8% of our sales. And gross margin of 12.5% in global figures; in Brazil, 11.6% [ph]. And these sales represent about BRL1.9 million sic; see earnings release, "billion" [ph] in terms of GMV and BRL1.5 billion in terms of net sales in this quarter.

The second point which is important is we continue to gain share, which is now at 20% [ph] share in terms of GMV. And that's 29 consecutive quarters where Cnova has gained share in e-commerce, showing that our pillars continue to be very strong.

And thirdly, we continue to generate cash. Our cash generation is positive in the last 12 months, about BRL100 million sic; see earnings release, "EUR100 million" [ph]. And also, our focus is this in terms of strategy.

Operating-wise in marketplace, we have doubled our share of marketplace. Sales commissions have increased 250% throughout this year. This quarter, we have added 400 store attendants. Today, we have about 1,000 as partners, three times what we had at the beginning of the year. These partners have added many products to our assortment. So we have a very significant growth here.

And in the Click and Collect, we have been able to have increase 650 pickup points in Rio and Sao Paulo. We had 100 at the beginning of the year. Together with Via Varejo, we have this model of stores of Via Varejo in the marketplace model. We have this ready availability. So people on the internet can order on Via Varejo, buy on the website. And pick up at the store.

We will close the year with a multi-banner, with more than 1,000 points and easy pick up at Via Varejo and Extra.

This shows then that we have good position. And this will show a much value over the years.

In Brazil, Cnova has shown with their results the efficiency of our business model. Our pillars are low CapEx, strong products, continuous improvement of effectiveness. So the company stands out in terms of costs, strategy. And market.

We will continue to seek better balance between market share and cash flow.

And finally, I would just like to say that the company will be working harder and harder to improve our market and to face our challenges from the market.

Unidentified Speaker

Now, we would like to open to Q&A. And we would kindly ask you to make all your questions at once and wait for the Company's answer.

Questions And Answers

Operator

(Operator Instructions) Guilherme Assis, Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

In fact, I have two questions. For the Multivarejo segment, we see from the (inaudible) details, et cetera, the company is no longer losing market share. But in the Multivarejo regarding the sales, sales are still down.

I know you have a plan to redo things and you have not said yet whether the reforms are working or not. But I'd like to know, not so much about the reforms. But regarding competitiveness. How do you evaluate the market?

We have seen some other players around who are growing more than you, in spite of our not having any detailed information and in a much difference among channels. I'd like to know what your particular strategy is? Are you maintaining your strategy of being a bit more aggressive and perhaps letting up a bit on gross margin to be able to leverage a little bit and gain on market share?

So what can we expect from here on? Since the food segment is less resilient than we expected, consumers are carrying out trade-down on products and in channels. So what is going to happen with your strategy?

And also, can we expect the maintenance of this gross margin that we have seen, about 28%, in Multivarejo in the next months and next year? Or, should we be expecting less?

And my second question has to do with the specific channel of the Proximity segment. What are your plans for the Minimercado Extra? My impression, looking at your results, is that you have converted some Pao de Acucar stores and you've taken your foot off the accelerator of the Minimercado.

So what's happening with this market? Are you reviewing things? Are you going to -- are you waiting about to see if there are any better opportunities for the Pao de Acucar rather than the Minimercado? Or, are there going to be any initiatives to improve the performance of the Minimercado Extra?

Those are my questions.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Guilherme, I will answer in a more encompassing way and not give you too many details of one or the other.

What we have seen is that the Multivarejo, if you take the last four quarters compared with ABRAS, we are growing positively, including in the last quarter of 2014 we had a difference down of 5.2percentage points. And so, reducing this. ABRAS is the market that we follow, because we have all the different formats followed up by ABRAS. And this quarter, we are presenting better results, by 0.7% when compared to ABRAS.

So I do not have the vision that you have that we are growing less. We have grown less in the past. But this quarter we are growing more than the market. And with some work carried out by each of the banners, especially Extra, we are confident that this growth will continue.

Regarding the Proximity, we have a strategy for growth. We have plans to continue growing. And we have this already written down. And we will attack this voraciously. So the return of the business plan will occur at a much greater speed than that predicted.

The business plan is already better than the -- the business plan in Minuto is better than the Mini. And when we implement it and follow it, it's much better. This is why the focus at this moment when you have scarce resources is to prioritize where there are opportunities, as the expansion of the Minuto.

(inaudible) regarding your first question.

Q - Guilherme Assis {BIO 16143141 <GO>}

Regarding the gross margin, what about your strategy? I understand that the market is difficult. We know that the consumer is sometimes changing channels, trading down products. Is this going to interfere with your strategy regarding price? Can this change the gross margin of the Multivarejo?

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Well regarding price, our policy is permanent. We will have greater -- as much competitiveness as possible. We understand that the moment is coming and we are trusting in this. There will be greater elasticity, which can mean we might even reduce our gross margin. But in benefit of having a greater cash margin at the end of the year. So we check this all the time.

When I talked about the Via Varejo and said that we were focused and concerned. But concerned in the sense that we are certain of what we are doing. It's to reduce the margin a little bit, have more sales, more cash margin. So this implies that a new adjustment of the size of the company. And we are also evaluating this obviously on a much smaller scale because the elasticity of food products is much greater.

The same work in the Multivarejo. And we will be following this. We have, as has been said, Black Friday coming up for the Multivarejo and the end of the year. And this is very special for us. We will be testing and understanding the business works and we will ensure a good cash margin.

We look a lot at the gross margin, costs, sales. But we always see the cash margin at the end as important, because the Company must have profitability.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you.

Operator

Richard Cathcart, HSBC.

Q - Richard Cathcart {BIO 16457807 <GO>}

I'd just like to know a little bit more about the gross margin of Multivarejo. A gain of 10 basis points in the quarter became a drop of 70 basis points in the Third Quarter. So I'd like to know what is happening, exactly. Are you investing a little more in prices? Are you getting losses [ph] from suppliers? Or, is there anything in the gross margin of last year that was not sustainable? This is my first question.

My second question is about the gross margin of Assai. I'd like to know, perhaps you would be better to invest in this increasing gross margin in prices to become even more competitive and perhaps drive more sales?

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Well in Multivarejo, you are right about the quarter. If you look in the first nine months of the year, you will see that there is practically no difference. So there's a certain seasonality involved.

But to try to answer your question, like I said, we are evaluating whether there is a greater elasticity. If we do have greater elasticity, this can lead us at Multivarejo to become even more competitive to ensure a higher cash margin. At the moment, we are assessing exactly this point.

As for Assai, Belmiro will answer your questions.

A - Belmiro Gomes {BIO 18107864 <GO>}

As for the gross margin of Assai, there are some components. One is the effect of the maturation of the installed park of stores. So some stores have recently been opened. And they contribute with a lower margin. In this quarter, we had just one opening. The openings will be a lot more concentrated in the Fourth Quarter. So we have lower impacts on the margin.

We maintain our level of competitiveness, which we believe is very strong. The Third Quarter was the best performance in this year for Assai.

Assai growth allows us to better negotiate with our suppliers. They have also seen an opportunity to sell more to Assai. And so, we try to derive a better gain. We believe that the margin level is stable and that this increase will not make Assai less competitive. On the contrary. In the food business and even in the wholesale segment, we have posted the best in growth percentage.

Q - Richard Cathcart {BIO 16457807 <GO>}

Thank you very much.

Operator

Thiago Macruz, Itau BBA.

Q - Thiago Macruz {BIO 16404924 <GO>}

My question has to do with the SG&A cutting program that you implemented in the food business since the beginning of the year. I'd like to understand how is the process unfolding? Do you think that you have been able to generate the gains you were expecting in the beginning? Or, is there more room for more cuts in the Fourth Quarter?

And if I can link this question to the line item of Other Operating Expenses, I'd like to know does it make sense to imagine an even lower level in the Fourth Quarter in this line item, even lower than the BRL81 million in the Third Quarter?

These are my questions.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

This is Ronaldo speaking. We started working in that process in the beginning of the year. We started strongly in Via Varejo and in Multivarejo. All of the business units are working in this direction. Even Assai made an effort, a specific effort, in the Assai business unit.

And this is the kind of work that we haven't reaped all the fruit yet. We maintain our goals for June, July, August. And we have some goals for October, too. So we are capturing these gains.

But there's an additional effort that we've started to make slightly after this general [ph] effort in the whole Company, which is an effort to promote a greater synergy between Via Varejo, Multivarejo. And Cnova. This will bring us an important gain, particularly in 2016. But part of these gains will be captured in 2015.

I believe there was one important point. Expenses came, just like the crisis, in an acute fashion. They came strong at the beginning of the year. And this is the kind of work that we do but that is gradual. And the results come gradually.

So to answer objectively your answer, we still have some fruit to reap as this work along the remaining of 2015. And there were significant part of the benefits of this work involving Via Varejo, Multivarejo. And Cnova. A good part of the gains that will be captured in 2016. And we are talking about a gain of more than BRL100 million. To be more precise, BRL140 million, which is what we expect to have as an annualized gain on this new movement in this new effort to have synergies and to optimize our processes, a process that the Company began in July and that we're implementing also in November, December of 2015 and will have effective gains in 2016.

Q - Thiago Macruz {BIO 16404924 <GO>}

Perfect.

Operator

Gustavo Oliveira, UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

I have a couple of questions. Here on the gross margin, as I remember [ph], in the past we talked about private label. And private label in the past did not contribute so much to the margin. The margin was slightly lower than the average margin of the Company. But private labels, from what I understand, gained a lot of market share for you. And with this kind of scale, do you see any gains in gross margin coming from private label?

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Before I answer Gustavo's question, I did not finish answering Thiago's question. Thiago asked if there were other expense lines that we are working on. And I think it is important for everyone to know -- and we communicated this -- but there is an important expense line, which is the renegotiation of store rentals. This is work that we did in Via Varejo. This is work that is being done in Multivarejo.

There is also an important work to optimize expenses or investments in marketing. There's also work which is underway and there are also some benefits to be derived in the Fourth Quarter. And there's an important work to close some stores. The benefits of this will be captured in the Fourth Quarter.

But let's not talk just about costs. We're also working on sales, particularly in Via Varejo. An initiative to convert Pontofrio to Casas Bahia's banner. Then, there's work to implement what we call the mobile store in store. And also what we call store in store for consumer electronics, for home appliances, mattresses. And so on and so forth.

So Thiago, I just wanted to finish answering your question.

And I'll now go back to Gustavo's question. Who is going to answer Gustavo's question about the gross margin, the effect on gross margin? It could be Laurent.

A - Laurent Cadillat

Talking about the private label and exclusive [ph] brands, in our portfolio we currently have private labels with a somewhat more premium positioning, with a profitability that doesn't really contribute as much as our mainstream brand. But more than ever, we continue to develop our own exclusive brands, our private label. So as to drive loyalty from customers and to give customers a more economical alternative.

Also, more and more we have pressure on the profitability of our private label. But we have a critical mass of our private label. They have an intermediary positioning and they continue to contribute to the top line [ph] sales of the Extra format, the Extra banner.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Laurent, actually my question is a little more simple than that. Let me rephrase it. As you gain scales in your private labels, do you think that the margin of private labels will be higher than the average gross margin of the company today? Or, because of this positioning, this will not happen?

A - Laurent Cadillat

Well we are sparing no effort to maintain the profitability of the private labels. We try to maintain the same level of profitability.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you. And I have another two quick questions. One for Belmiro -- actually, two for Belmiro.

Belmiro, firstly, regarding the stores, you said that you opened two stores that total 9,000 square meters. They are much bigger than the average Assai store. Is this a new trend?

And my second question, regarding the gross margin at Assia, what is the maturity margin that you work with at Assai?

And my final question has to do with the Proximity format. You were opening 100 stores and this is going to be reduced to 70 stores in 2015. And this reduction in the pace of new stores is happening why? Because you're converting perhaps some stores from a Minimercado Extra to Minuto Pao and perhaps this pace will be accelerated in 2016? Or, is there a different trend?

These are my three questions.

A - Belmiro Gomes {BIO 18107864 <GO>}

Yes. Indeed, it is a significant difference in the installed park of Assai that Assai was expanding in recent years. We adjusted the store format. Bigger stores will allow us to receive goods directly from suppliers at the store. This will cut a lot of the logistics expenses.

So the format that we are following, to give you an idea, we closed 2010 with 59 stores, BRL3 billion. This year, we should have 90 stores and more than BRL9 billion of revenue, of sales. So the sales of this installed park is totally different in terms of carton [ph] structure.

We opened three stores in October: two in Sao Paulo, one in Rio. On average, they have 18,000 square meters of selling area. So our selling area in the new format is double what we had until 2011. So now, the installment park of Assai has a different activity, a different assortment of products. And so on and so forth.

Now, obviously, since we grew practically 200% in the last three years, there is also a maturation impact. The growth profit today is affected by maturing stores, what we call LVs [ph]. The gross profit of LV will be [ph] superior than what was presented, about 1.2percentage points.

More than this, in the wholesale segment it's just a wish this can also relate [ph], according to the behavior of small; and medium-sized customers and the mix between consumer clients and a legal [ph] entities in different regions of Brazil that also show a variability. For example, in the food service, executive food service in Sao Paulo is very different than the executive food service in the northeast and the Midwest of Brazil, where people can still go home to have lunch.

So this is quite a complex thing.

But yes, the stores are getting bigger.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay. So let me just clarify, Belmiro. So you're still working with 6,000 square meters per store of selling area. You're not increasing the 6,000 square meters, are you?

A - Belmiro Gomes {BIO 18107864 <GO>}

In floor area, to give you an idea of the three stores opened, on average will have 13,000 square meters of built area, floor area: about 1,000 of a cold chamber. We also have the warehouse, the covered parking lot. So 6,000 would be just the selling area. On average, 2,800 square meters of selling area, built area about 7,000 square meters.

These stores in the new model are bigger in terms of floor area and selling area and also the height, almost 7.5 meters from floor to ceiling.

I'd like to invite you to visit one of the new stores.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you very much.

Operator

Andrea Teixeira, J.P. Morgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

In the First Quarter, you talked a lot about renegotiating rental. Would it make sense to wait for some more stores to close or perhaps accelerate this for 2016? Because I believe that for 2015 it's already too late. But perhaps you could accelerate this conclusion of Assai stores?

And as part of this question, what is the expectation of stores closure for 2016? Anything you could disclose to us, given the more challenging scenario for the Extra banner?

And also, I would like to understand about the expense for restructuring that you reported? Anything to do with RIFs [ph]? Or, would this be a non-recurring event? How much of indemnifications can we expect for the Fourth Quarter?

And finally -- I know there are too many questions -- but what would be a stable SG&A over revenue given everything that happened along the quarter? We still don't have the positive effect of this more streamlined structure.

A - Renato Giarola

This is Renato Giarola. I'm going to answer about the Proximity question asked by Gustavo, which we forgot to answer. Then, we will answer your questions.

Regarding the conversions that we're doing in Minimercado, began expanding way before Minuto Pao. Minuto Pao started in June of 2014; Minimercado went through a lot of transformations. It started in 2006. And we launched this brand in 2011.

So it spread. It spread to many clusters and different income brackets. We serve AA to D income brackets. But now, we have Minuto Pao. Minuto Pao is a format that can bring a higher potential of return in terms of cash.

So we are getting those stores that were serving AAA and B income brackets and we are turning them into Minuto Pao. And this has nothing to do with the Minimercado project. Minimercado remains a very strong banner. We had 13 stores. And seven were Minimercado in this quarter. So we continue to invest strongly in expanding Extra Minimercado for B and C income brackets, particularly in the C income bracket which is where we have a highest potential according to the Brazilian pyramid.

Now as for 2016, we continue with a strong focus on the Proximity format. But we haven't really come to numbers regarding the expansion of this format which I just explained.

Okay? Thank you.

Operator

(Operator Instructions)

A - Unidentified Speaker

I'd like to answer Andrea's question. Part of it was not answered.

You start asking about the renegotiation of rentals. We continue doing this. And obviously the decision of closing stores is not exclusively connected to rent. Rent is an important percentage of the cost of the store. But that's not all.

We do believe that we can have by the end of the year new -- more stores closed. We are talking about the Via Varejo, although we are experiencing a growth of revenue or a less loss of revenue -- let's put it that way -- than we had in the second and Third Quarters. But we think it's probable that more stores will be closed.

And conversions of Pontofrio to Casas Bahia, with analyzing cannibalization. We cannot, for instance, convert a Casas Bahia if there's another one right beside it. So (inaudible), for example, is something which we have to analyze carefully.

Renato has just said of conversions that he has had of Minuto which are in areas of Class A to Mini in Class A to Minuto. Last year, we converged several stores otherwise. So we must be careful if there are any Hyper stores which make sense to move to the outskirts because of client flow to be a store of Assai. It has to be analyzed advertively [ph].

And the other question, I think maybe Christophe will answer you about restructuring.

A - Christophe Hidalgo {BIO 17982648 <GO>}

Regarding restructuring expenses of the year to date and the date, the Group has reinvested BRL400 million non-recurring. I would like to remind you that we have about 15,000 people. We have closed stores and write-off of assets. And this takes into consideration the context which we have discussed. We also have the different programs.

But what will we expect for Fourth Quarter? Last year, 2014, we invested BRL550 million in non-recurrent expenses. And it is reasonable to expect this year this will be slightly below, 10% below. So about -- non-operating expenses in Q4 will appear according to the restructuring plans that we have ongoing.

What I can say, Andrea, is we have a consolidated -- the 22% is being affected, obviously, by a seasonality. When we see the annual vision or outlook, what will be the annual outlook? We will see a reduction of a worsening, a dilution, vis-a-vis the previous year, a significant dilution of that which we had the year to date.

I am not going to signal a level of the SG&A, because it is too early to do so.

Operator

Franco Abelardo, Morgan Stanley.

Q - Franco Abelardo {BIO 17416219 <GO>}

Going back a little bit to the gross margin of the Multivarejo issue, I would like to understand whether in the First Quarter there was a help of the gross margin regarding a better mix of Pao de Acucar and from Proximity? Is this mix going to be [ph] of the commercial centers? Was it greater than the 70 basis points that we saw in the results? This is my first question.

And the second -- also same subject, gross margin -- it was said that the objective is to have an increase of the cash margin. I'd like to know about this concept. Can we look at the gross income to see this cash margin concept? Or, is there another rebate of the SG&A that will help here?

Or, can we see the gross income in the Third Quarter? It dropped 0.5%. It was more or less stable. In the First Quarter, it was growing. There was a revenue of 3%. So I'd like to know if the objective is that this gross income or gross profit grows, even with a slightly lower gross income?

And the third question is a little bit more conceptual. I see that you compared the growth of your stores with ABRAS. But as far as I can understand -- and we talked to ABRAS -- this rate of sales of ABRAS number includes super; and hypermarkets and it doesn't include the cash and carry. I'd like to know whether this information of ABRAS is wrong? In fact, if this number of ABRAS includes also all formats, including Assai and cash and carry?

A - Unidentified Speaker

Franco, first of all, your question regarding Multivarejo. What happens from our point of view is that when you take the -- as Christophe has said, if you look at the year to date, if you take the year to date, it reflects things much better than quarter to quarter because your organizations [ph] with suppliers, which come into one quarter and not another. So it is much better and more precise to follow up what is happening on a year-to-date. This, for the Multivarejo.

Regarding the cash margin, what we see is very much in line with what you asked. We can have a lower margin if we have a greater sales volume, regardless [ph] of playing around with the SG&A. Obviously, we are working on that. But so that we don't have three variables, you can have a greater sales volume with a lower margin and more positive sales [ph].

What we are feeling in Via Varejo which -- and the team is testing this elasticity and is having a positive reaction. And it will help to bring together all the work that has been carried out.

What we commented about the Via Varejo is that we are also testing this model. In other words, we have made a greater sales volume and tried to be more competitive with a slightly lower margin. Then, I can have -- and we are working hard on this; this is the moment to measure this effort -- we can have a more positive cash margin and more positive net income. This is the focus in terms of cash margin.

Regarding ABRAS, what we understand that the competition does much the same as we do.

Q - Franco Abelardo {BIO 17416219 <GO>}

We talked to ABRAS and they said that the format of Assai and cash and carry, et cetera. I'd just like to know if things are comparable.

A - Unidentified Speaker

Yes. It is comparable.

Q - Franco Abelardo {BIO 17416219 <GO>}

Okay. Maybe I'll go back to ABRAS and talk to them.

But back to the cash margin, is there any objective in terms of growth of this cash margin? Because in the Third Quarter it dropped half a percentage point in [ph] this gross profit. In the Fourth Quarter, will we have a growth in this cash margin, especially on the gross profit, even if you can offset with greater volume?

A - Unidentified Speaker

Well it was precisely at this moment when we come back to the business plan for this process. In other words, how much should I have more in sales? How much additional cash will I generate? And how much do I have in SG&A which will help me to offset this?

I cannot give you your answer now. What I indicate is that we are visualizing this in Via Varejo and we will test it in the Multivarejo. But it's too early to be able to tell you how much it will be and what is the percentage. I cannot give you this answer as yet.

Q - Franco Abelardo {BIO 17416219 <GO>}

That's fine.

Operator

Irma Sgarz, Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

I have a question about the commercial centers and that you were focused a lot on the potential of these centers. And I'd like to talk about the mix and they generate a good revenue.

And my question is in the current environment and because of the reforms that you are carrying out in the Hypermercados, does this continue to remove some of the sales areas to open more space for these commercial centers in hypermarkets? And what about the contracts? Are they going to be reviewed. And the mix of these stores, since these smaller stores sometimes are not chain stores and there is a greater pressure on these stores owners, on these retailers? And sometimes there are empty spaces and a lot of change. So could you comment on your strategy, please?

A - Unidentified Speaker

Commercial centers continue. Today, we have 330,000 square meters of leaseable area of commercial centers -- this varies -- in the Group. This is important.

The great focus at this moment of the economy, at this moment when real estate is not the best option for investment, we are focusing on the efficiency of the commercial center. We are working on maintenance and default and the technical aspects, cleanliness, air conditioning, toilets. There is a very great focus on using these spaces economically to be more efficient, as we are doing also in other places.

But particularly the commercial centers, the focus is on thinking [ph] efficiency. And in parallel, where we had reformed the hypermarkets, we have also reformed these commercial centers. You cannot reform the hyper and not reform the commercial center.

So we have also been working together with doing this.

And your last question regarding the retailers, or store owners, we have worked hard to have store owners who have a large volume of stores, who are not very small retailers, who have -- but those who have franchises. And this gives us a greater stability in our relationship with these franchisees and the store owners.

The vacancy level is greater. But it's much less than that of shopping malls, since our value rent is well much below the value of the square meter in a shopping mall. So vacancy is something which we follow closely.

There was a time which things were difficult. But things are much better than it is in shopping malls.

Q - Irma Sgarz {BIO 15190838 <GO>}

One more question. And this question of removing some of the square meterage to reallocate this space to commercial centers. In the past, you mentioned an example for using this space to generate more traffic in the Extra. Maybe a gym? And is this being implemented still?

A - Unidentified Speaker

Well we did more last year. We're doing less this year, because we are only using those hypers that have been refurbished. And so, we have less square meters. But this continues to be part of the Company's strategy.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you.

Operator

Tobias Stingelin, Credit Suisse.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Christophe, in the beginning you talked about a slight sales improvement. I'd like to understand what this means in October. Perhaps you could elaborate?

And I have my second question to Quiroga. I would like to understand what is happening with ecommerce competition? At Via Varejo, what we have seen in a price war was somewhat passive given the competitive scenario. It was not matching internet prices. And from what we understood, this has changed. So there's an online and an offline competitor fighting now. So we would like to know what can we expect in terms of Cnova margin because of that?

And I would like to understand Click and Collect. How much is sold through Click and Collect? Because we have a feeling that it is more a marketing tool than something that is effectively growing and having value, at least for now, in the Company's business.

And my final question, I was a little bit in doubt in terms of the gross margin, because the gross margin since the Second Quarter of last year, the whole market is kind of lost in terms of reference. The margin increased a lot in sales, started to slow down in the second half of last year. In the first half of this year, we saw the reverse: margin normalizing and sales improving.

When we look at the end of the year, what we see is a high recovery base for the market. Everybody tends to think that the gross margin should fall because of that and the Company would have to offset that by reducing expenses even further. So how is this going to be?

A - German Quiroga {BIO 17954249 <GO>}

In terms of price competition, last year we had a number of very aggressive players in terms of pricing. Around 2015 for a number of reasons, mainly players slowed down their commercial aggressiveness. Currently, there are very few aggressive players out there.

So regardless of the assortment of products, we see less aggressiveness. And as for free freight, they're being a lot more surgical. And as for the number of installments for consumer credit, the number of installments is dropping gradually in all players.

So the whole market is becoming more rational. Very few players continue to be very aggressive.

At Cnova, we have the same policies that we have for the whole Group. We want to be very competitive in terms of pricing. But we have procurement scale as a Group. So that we can have a competitive pricing.

And as mentioned by Iabrudi in the beginning, we have a very big [ph] balance between sales and profitability. And so, along via [ph] the market deteriorated, the ecommerce market grew.

I'm going to start with last year. Last year, ecommerce market was growing 20%; we grew 40%, consolidated. In the first half of this year, the market grew 10%; we grew 20% -- in the Second Quarter. And in the Third Quarter, we had about 10% growth, GMV of around 20%; while the market data hasn't been disclosed by the main monitors of market growth. But it is estimated to be a minus 5% in ecommerce growth.

So last year in the first, second. And Third Quarter, we continued to gain market share but in a more rational fashion, because since we were born we had (inaudible) cash inflow. But we continued to grow this on our cash. So this year we are looking at our cash and with that growth will follow the market.

You asked about the margin. The market is becoming more and more well behaved, with very few aggressive players, less and less aggressive players. And we are monitoring the market to remain competitive.

As for Click and Collect, the focus was to open more pickup points. We had 100 last year. The results of the surveys were very good. And we accelerated and we opened more than 550 pickup points this year.

But more important data [ph], we have done these pickup points basically in Sao Paulo and Rio. More than 8% of our sales is Sao Paulo and Rio come from Click and Collect. So it does contribute and it is contributing more and more.

Now, we are going to invest heavily on Click and Collect. This is one of the company's [ph] differential. In France, 60% of deliveries in heavy and lightweight load is picked up on pickup points.

And this new model that we are developing with Via Varejo, we are also considering selling these stores' inventory. That can increase the efficacy of Click and Collect. To the client, they buy on the website and they pick it up at the store.

So we are quite satisfied with the results so far. And we are quite stimulated to continue to open new pickup points. We want to end the year with more than 1,000 pickup points.

And as for the future outlook and expectations, our vision is to continue to gain market share. Perhaps the market will go through a retraction. If we get the trend, the 2010-4 [ph], the Fourth Quarter remains open. We don't know what the results will be. But our vision is to continue to gain market share and to balance that with cash generation.

And I hope that I have addressed your main points.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Quiroga, I'm sorry to be candid: I did not understand your answer. Cnova reported in the margin fell almost 400 basis points and sales increased very, very little. The perception I get is that the outlook, the scenario, is worsening more and more. And with Via Varejo brick and mortar stores more aggressive, the scenario will be worse. In the Cnova conference call yesterday, they said that the scenario will remain positive. So I don't know how you can explain that.

A - German Quiroga {BIO 17954249 <GO>}

For the macroeconomic context and the Brazilian scenario, this does not just -- does not impact only Cnova. Everybody knows that the scenario is becoming more and more challenging. There's an expectation that it will go back to normal eventually. But in the short term, it will be a challenging scenario.

But I'm talking about a more rational market. In the past, last year we generated BRL250 million cash. And we grew 40%. This year, to maintain an eye on cash, we are being more conservative in our growth. So the margin is more squished.

Are we growing up [ph]? Yes. Why? Because of the macroeconomic scenario. But I'm talking about rationality. For example, we used to give free freight. It was a lot less surgical and sometimes even including heavy loads to other states. Now, we are offering free freight to Sao Paulo. And for the other states, we have to analyze on a case-by-case basis. It really depends on the margin.

And as for the number of installments, we cut down more than one installment in terms of the average number of installments for consumer credit, consumer loans.

And to talk about rational, to give you two examples: number of installments and free delivery.

And to talk about market aggressiveness, we have been maintaining our competitiveness vis-a-vis our competitors. But now we have one or two players competing with us. Most of the other players can no longer compete with our pricing. We have more squished margins, yes. But the margin (inaudible) -- this is variable, particularly when we see that we are growing and we are working towards growing marketplace in our model.

I haven't got the numbers for this quarter. But the number for this month is higher in all of the banners. And this collaborates to improve the margin in the mid to long term. At the moment, the margins are squished given the macroeconomic challenging scenario. But we have more rational players.

Q - Tobias Stingelin {BIO 18290133 <GO>}

It is a little bit clearer now. But as for Click and Collect, how much of this better move [ph] in terms of cash? Because the impression I get is, we'll spend. We'll expand. It's an important movement for the future. It's a global trend. But in currently [ph], do consumers want this? How much movement do we see through Click and Collect?

A - German Quiroga {BIO 17954249 <GO>}

To give you an order of magnitude, we don't communicate this number. But we spoke about this in previous calls after the conference [ph] and in terms of what we can disclose to the market.

If we consider Rio and Sao Paulo markets -- more than 50% of our sales -- 8% of our sales in these markets are collected with the Click and Collect model. We have more than 4% relevance in this basic math regarding our sales volume.

And I'd like to remind you, we are only in two states and the opening of stores happened along this year. So we were born last year. In the First Quarter, we opened 100 stores. And along the first three quarters, we just opened 550 stores. So we're just a baby. But we already account for 8% of the sales where we operate -- a gigantic growth.

And more than that, when we do start it, customers love it. We're generating new customer traffic, productive traffic, to the stores and customers are very satisfied. They see this model as very interesting for them. Clients think about the utility of the model. They receive the products faster. It is free. And also, the fact that they don't have to have anyone at home to receive the product. These are the three factors that really generate satisfaction for customers that are choosing in this model.

So it is not just our value proposition. This is a real result delivered. In less than a year, 8% of the sales in those two states come from Click and Collect. And I'd like to remind you, we don't have it in all of Rio and Sao Paulo. We have 500 stores opened this year and in just a few areas of these states.

Q - Tobias Stingelin {BIO 18290133 <GO>}

I want to ask a follow-up question, in terms of sales trend. Christophe mentioned a slight change. Could you say anything about the gross margin?

A - Christophe Hidalgo {BIO 17982648 <GO>}

This is Christophe speaking. Yes. Indeed, we observed since the end of the Third Quarter some banners outperforming the market. We believe that this positive differential will come even more strongly for banners that are underperforming the market. We observed that this negative gap is being closed.

So in other words, we observe a sequential improvement in the format. This kind of improvement is being driven -- and this is good news -- primarily by an increase in customer traffic.

And these are just the first fruit that we are collecting from the adjustments made to the commercial dynamics, adjustments made at Via Varejo and Multivarejo. And this is in keeping with the effects of the remodeling we talked about, internal remodeling of the stores. And all of that will account for this kind of phenomenon.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you.

Operator

This concludes today's Q&A session. I would like to turn the conference back to GPA for their final considerations and remarks.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Well then, in the first place, I would like to thank everyone. To end this conversation, I'd just like to clearly state that we have taken this complex moment that we are living in the Brazilian economy to accelerate some changes.

We are making the adjustments a lot faster than we would otherwise, adjustments made in the Company with processes, costs, closing of stores, or negotiations.

I have seen -- and Christophe even mentioned a number in terms of SG&A expense reductions that are growing less than inflation. But I have observed in all our business units that there is a positive trend. And we can capture the benefits of this work along the Fourth Quarter. I'm sure that in the Fourth Quarter we will be improving even more in that direction.

To speak a little about our internal vision in the Company, in terms of sales, in our point of view we see in those business units -- Assai, the Proximity format, Pao de Acucar -- we already see a recovery. It's a mild recovery. But it's perceivable. And where we have negative growth, we see that there is a less negative growth. And this again stems from something that we talked over and over again here.

It stems from an effort in terms of margin, an effort to improve competitiveness. And we are moving in that direction because we understand that this can bring a cash margin. We talked a lot during this conference call about the cash margin. And we believe that this can bring a positive cash margin, a better cash margin level, for the Company. And in terms of sales, the Company is very much focused so that this will happen.

A matter of point which I believe we have to keep you posted on is that along this quarter we held a number of meetings with the Exito Group team. We send our key team to

Colombia; we have the Exito Group team members coming to Brazil.

And we are progressing very positively to capture these synergies. And we should have results to disclose to you, results which are more linked to negotiations at a Latin American level by year-end. So this is a commitment that we are taking on, to keep you informed on the progress of this initiative.

One final point which I guess permeates the whole of this presentation. But which needs to be stressed, we are very focused. We continue to be very focused in caring for the Company's cash so that will increase our capacity to generate cash.

We are very much focused on working capital. Even in Via Varejo, with a sales reduction, we are implementing a project to reduce working capital and to reduce the SKUs.

And Christophe mentioned a BRL1.5 billion investment. But we are very much focused on investing in a more thorough fashion, in a more accurate fashion, sparing no effort to ensure that the expected results will actually materialize as expected or even before what we stated in the business plan.

And finally, I would like to state that even going through a crisis, which many consider a very acute crisis that will continue chronically in the coming years, still in the last 12 months we grew 210 stores. This comes to clearly show that we have confidence. It's hard to speak about confidence when we are working in a difficult and challenging macroeconomic scenario. But this comes to show the proof of ourselves we have and how much we trust the different business units in the action plans that they are developing and implementing.

And this confidence stems from what we plan and what happens. The moment you start seeing that the plan is materializing, that gives us some comfort. That helps us remain confident.

And at the end of the day, this trains [ph] us to have a much better prepared Company than what we were in the beginning of the crisis, because you have to be well positioned to enjoy an opportunity or to come out of this crisis with an even stronger Company. This is our feelings around this table, considering the management of the Company. And this is the feeling shared by the Board of Directors in terms of what the Company is doing in each one of our business fronts.

So in a very transparent way I want to say that we are confront [ph] with a challenging scenario. But we have confidence on the work that is being done.

So I would like to thank you all for participating. And I'd like to wish you all a great end of year. And we internally at GPA expect to have good results from the work that we are developing and good results in our personal lives.

Thank you very much. And I hope to see you next time.

Operator

Thank you. The conference call on GPA's results is closed. The Investor Relations team is available to answer any further questions you might have. Thank you, all for participating in this conference call. And have a good day.