

Q1 2016 Earnings Call

Company Participants

- Felipe Negrao, Financial Services Executive Officer and Chief Financial Officer
- Marcelo Rizzi de Oliveira, Investor Relations and Strategic Planning Officer
- Peter Estermann, Chief Executive Officer

Other Participants

- Alan Cardoso, Analyst
- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Joseph Giordano, Analyst
- Luiz Cesta, Analyst
- Richard M. Cathcart, Analyst
- Robert Ford, Analyst
- Tobias Stingelin, Analyst

Presentation

Operator

Good morning, ladies and gentlemen and thank you for waiting. Welcome to Via Varejo's conference call to discuss the results of the First Quarter of 2016. This event is being broadcast by webcast and it can be accessed at www.viavarejo.com.br/ir, where you will find the respective presentation as well. The slide selection will be managed by you. There will be a replay facility for this call on the website after it closes. We would like to inform you that the press release about the company's results is also available at the IR website.

This event is being recorded and all participants are in listen-only mode during the company's presentation. Afterwards, there will be a question-and-answer session, when further instructions for you to participate will be given. (Operator Instructions)

Before proceeding, we would like to mention that forward-looking statements that might be made during the call related to the business perspective of the Via Varejo projections and operating financial targets, our beliefs and assumptions are the management's looking in as well as information is currently available. Forward-looking statements are not guarantees of performance, they involve risks and uncertainties and assumptions as they refer to future events and, therefore, they depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future performance of Via Varejo and may lead to results that differ materially from these expressed forward-looking statements.

Now, we would like to give the floor over to Mr. Marcelo Rizzi de Oliveira, Investor Relations Officer of the company.

Marcelo Rizzi de Oliveira {BIO 21142716 <GO>}

Welcome, everyone to the Via Varejo earnings conference call about the first quarter of 2016. We have Peter Estermann here, CEO of the company; Felipe Negrao, CFO. And we would like to start with the short presentation about the results and that will be made by Peter and Felipe, and soon afterwards, we will have a question-and-answer session.

Peter you have the floor.

Peter Estermann {BIO 15380447 <GO>}

Good morning, everyone. Welcome to our earnings conference call for the first quarter of 2016. I would like to highlight that this quarter was a quarter of consolidation of our commercial strategies. And the initiatives regarding productivity gains and the improvement in the level of services delivered to our clients. The electro-electronic and furniture market continues in a difficult situation. Nevertheless, Via Varejo continues to recover sales and we are delivering a return, which is higher than the previous quarters, as we said before and maintaining consistency in our strategies.

Our focus for this period continues to be based on four pillars. The first one is to continue in our stand of the more competitive which helps us to improve the level of sales vis-a-vis the previous quarter's and obtaining important market share gains. The second one is reducing expenses and further diluting our SG&A without considering there the effect of the end of the relief under payment roll.

The third one is improvement in efficiency and processes and productivity in the whole supply chain, delivering significant reductions in the level of stock out delivery, time to market and assembly terms as well. And the fourth is the continuation, in terms of capital synergies with the Group, both in logistics and in back office. Another important point is our cash position, which differentiates us in the sector and allows us to go through this difficult market period with a high degree of protection. We are sound in terms of -- to our suppliers, to our creditors. And our focus for 2016 is maintaining our sound capital structure.

Now, I would like to give the floor to Felipe Negrao, who will get into more details about our results.

Felipe Negrao {BIO 19434019 <GO>}

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Good morning, everyone. So let's start with slide 3, where we see our sales and expansion of our sales in the first quarter of 2016. The market is still very similar to the end of 2015. We are improving our operating indicators with a higher conversion of our clients, the higher assertiveness in media and regional promotions. The first quarter of 2016 had an evolution in sales. So we are improving since the third quarter of 2015 and if we consider January and February -- February and March, it was much better than the quarter we closed some stores to tap into the productivity of our overall stores and product was recovered in the nearby stores. And we monitor the profitability of each one of the stores individually.

And on slide number 4, the gross margin is in line with the fourth quarter of 2015. We continue with the same commercial strategy. We are more aggressive in our competitiveness and with the higher penetration of our services.

I would like to remind you that we had an increase in taxes on of 1.5 percentage points of our gross revenues, with [ph] impact on our gross profit. With the reduction in SG&A, if we consider the impact of the tax relief, you can see 60 million in spite of the inflation in the period. With all that, we obtained an adjusted EBITDA of 4% in our brick and mortar stores in this quarter.

On slide number 5, we have the same receivables discount practice that we had in place in 2015. And given the cash generation, the last 12 months, we were able to further reduce the discount on our receivables in the first quarter to maximize the financial results in the year in a comparable basis. We did not show the portfolio we increased 500 million in our net cash in this period

Slide number 6. Delinquency continues under pressure, because of the economic scenario with a higher unemployment and higher inflation. Nevertheless, the efficiency improvements that we had in the last few months (Technical Difficulty) efficiency improvements, we were able to get the same level as 2015 with the best credit assignment and higher efficiency and collection processes.

On slide number 7. As a consequence of all that, we've got an adjusted net income of 29 million. Without the impact of the worsening of equity income, it would have been 65 million.

Now, I would like to give the floor to Peter, our CEO, for the closing remarks.

Peter Estermann {BIO 15380447 <GO>}

Before opening for questions, I would like to reiterate a few points with you. We continue to (Technical Difficulty) with total focus on sales and also on a level of competitiveness, also maintaining our profitability. We continue with all the initiatives regarding expense reduction, internally, efficiency improvements and we have a very major focus on the sale of services and financial products. And also we continue with all the synergy initiatives in the group as a whole.

And the other front, as we said in my opening remarks, and that is very important mainly considering the scenario that we are living, you start to focus on operating efficiency. Besides improving our operating efficiency, with important agreement and our cost reduction, we have focused on the improvement of the service level delivery to our clients and we significantly reduced stock-out in our stores. This is visible and very clear.

The supply of the stores in the availability of products, we reduced the delivery term for merchandise and we reduced also our assembly terms and the accuracy both in the scheduling of deliveries and also regarding the assembly of furniture and we continue with the project to improve store profitability of fundamental focus on sales conversion and sales per square meter. So, the company continues to be focused on strategies of doing the basic things very well done and the results that we have been achieving so far are very motivating.

Now, we would like to open for questions.

Questions And Answers

Operator

Now, the floor is open for questions. So, could you please ask all your questions at one same time. (Operator Instructions) Mr. Tobias Stingelin from Credit Suisse would like to ask a question.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you, Peter and everyone. I would like to know your reading, a more detailed reading about the market. We saw your performance, we saw the performance of your competitor last week that dropped less sales and they were able to increase margins although you are more competitive price wise. So I would like to understand what is going on? Is there such a big difference -- a regional difference or something like that? That could explain this big difference in the market performance although you are gaining market share. This is the first question.

And the second one is, what happened to sales the trend that you've mentioned in February and March, does it continue in April, May, because the comparison basis (inaudible). So do you think it's feasible to get an increase in sales in the second half -- in the second quarter?

A - Felipe Negrao {BIO 19434019 <GO>}

Tobias, thank you for the question. Regarding the market, we have already said that January 2015 is a very high comparison base for Via Varejo, because January 2015 was -- it's not the best -- certainly one of the best months of sales. So the comparison basis was very strong in January 2015.

And it was basically January that had a significant impact on the sales that we were able to see in February and March as we said before. So the significant improvement over

January, but still dropping vis-a-vis last year, of course, you have the market situation, everybody knows that -- that market for electro and electronic products as well as furniture is difficult, but our drop was much smaller, getting close to zero already.

So we have a positive expectation regarding sales and another important information is that we are delivering very significant gains in market share. And in a consistent fashion, every month, so these indicators are very important as far as we are concerned, and once again, they are evidenced that our commercial strategy is adequate.

Now, regarding your question. Looking ahead, what I can tell you is that we will be maintaining our commercial strategy. We will continue to be competitive. And we have very good evidence that we will continue to gain share. And all this, preserving our margins. So to be as we are very confident regarding our strategy. And we understand that we are on the right track.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you. But let me ask another question. There was a change in the tax burden and taxes went up for smartphones and tables. Did you try to transfer part of this increase of the tax burden? And in these categories based on what you saw in the market, did you gain market share in these categories? Or would they be in the market more competitive prices than yours? In which categories are you gaining market share?

And we also heard that there is a shortage of products in the market that multi-nationals are very concerned and you should have merchandised that nobody has. So you are like the Safe Harbor, so I would like to know where you have gained? Where you have lost? And if the supply thing will become a better competitive advantage of yours?

A - Felipe Negrão {BIO 19434019 <GO>}

Tobias, once again, thank you very much for the questions. First regarding the tax burden, we continue with the same practice that we have regarding collecting the taxes after this decision of this law. Of course, there was an impact on sales, there was an impact in terms of cost increase. But especially in some categories such as the one that you mentioned, we continue to be competitive.

We have a very strong relationship with our suppliers and also because of our cash position, this also favors a scenario, where maybe if we see a reduction in the availability of products in the market, then this would play in our favor.

One of the categories that is very much impacted by the -- in tax increase is the one where Via Varejo has been delivering very sound growth and important market share gains. So we have been seeing this since the last quarter of last year and important gain in the participation of telephone category in Via Varejo.

And week after week, we see two aspects: First, we are competitive; and second, we have the depth of inventory that is quite interesting; and the third point is, a category that -- due to the fact that we have the product in the store, the client goes to the store and

to go there and picks up the project. So although there was an impact in terms of the end of their tax relief, we continue with very well adjusted inventories and a very good availability of inventories in the stores vis-a-vis our competitors.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you very much. And a last follow-up. Do you believe that everything is okay now. And we could maybe give a step back and be less aggressive in prices or will you continue to be the way you are now regarding prices?

A - Felipe Negrao {BIO 19434019 <GO>}

Tobias, we evaluate this aspect of competitiveness and the level of market share gains and profitability every single week and we fine tune the level of aggressiveness that we offer the market based on our analysis of the situation. So we do this on a weekly basis and we track every single day practically. So we fine tune gradually as needed. The strategy as we fill the close of the market, yes, we do have an important focus to continue to gain share. However, we have to protect our profitability.

Q - Alan Cardoso {BIO 15933677 <GO>}

Thank you very much.

Operator

Our next question is from Mr. Robert Ford from Bank of America.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you very much. Good morning. Peter, can you tell us a little bit about the competitive environment. It looks like we have gone through an important stages on the inventory and you have important change and you're closing stores?

A - Peter Estermann {BIO 15380447 <GO>}

Robert, let me see if I understood your question. You are asking about our strategy of stores closure in this competitive environment.

Q - Robert Ford {BIO 1499021 <GO>}

No. It is -- in the competitive environment and also in the other environment in the market, we are seeing that some of your competitors are finally closing stores as well?

A - Felipe Negrao {BIO 19434019 <GO>}

Okay. Thank you, Robert. As we have mentioned, the market is still difficult. We do have a competitive environment. And we keep on focusing on all initiatives to reduce costs and to improve competitiveness, as well as operating efficiency. What we have seen as I have mentioned is that within the scenario, Via Varejo is gaining consistently market share.

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For us, that is a sign, that is very significant in terms of expressing our strategy. Secondly, yes, you are right. All of you have seen a news in the market about some stores are being closed from our competitors. What I can say is that Via Varejo is paying close attention to those movements of the competition closing stores and we have a specific actions to capture part or the full revenue of those stores closed in the regions where that has happened. And they have seen as well a significant share gain in those regions.

So we are paying close attention to those stores being closed by our competitors and we understand Via Varejo is well positioned to capture significant part of that. And Peter?

A - Peter Estermann {BIO 15380447 <GO>}

We expect that this cycle of stores closure will accelerate or we have gone -- we have seen the most of its consolidation. Well, about closing stores, I have been saying and repeating myself, we are monitoring continuously our stores performance. This is something that we have been doing in a very precise manner and we'll keep on doing this. You have seen that we closed 36 stores in the first quarter.

On the other hand, we are able to recover the performance of another similar portion and in terms of performance improvements on stores, those were stores that were underperforming. So we do have a team that is strongly working on that and we'll keep on monitoring and working in the same fashion.

And as I have said, if we realize that, performance is not improving and there is a possibility to migrate revenue to a close store that has a capacity of taking in or absorbing that revenue and we have tried all possibilities in terms of improvements in the results of that store we closed.

But once again, we do not have any strategy that has been defined to close the stores. It happens as a consequence of a monitoring -- continuous monitoring work of the performance, as you have seen in the first quarter.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you very much, Peter.

Operator

Our next question is from Mr. Joseph Giordano from J.P. Morgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good morning everyone and thank you for the opportunity. I would like to understand how is your strategy of the multi-channels in the company? You have a material fact, when you talked about a potential transaction with Cnova, and I want to understand what do you foresee? If you can provide us some update in this negotiation process, that would be very nice? Thank you.

A - Felipe Negrao {BIO 19434019 <GO>}

Okay, Joseph. Thank you for your question. We are working since last year and the deployment of this multi-channel process as we have already mentioned here, we have two important notes in terms of multi-channels in which we have worked last year. The first one is Cnova, the market place, selling inventory of Via Varejo and the other one, (Technical Difficulty) that we call pick up at the store, which is the store selling, the inventory of Cnova. All the operating processes and systems today are fully adapted to that practice. We have a structured both in Via Varejo as well as in Cnova, a specific area that will focus specifically in 2016 in the sales improvement in those notes.

And that has happened and is happening in according to our projections and expectations.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you.

Operator

Our next question is from Ms. Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

I have two questions. The first, I would like to understand what you think about the gross margin. Obviously, there are several items that impacted it. In this first quarter also impacted, your impact as well as in the payroll exemption, and also, in the Tax Relief Law, the penetration of services has increased.

And at the same time you are investing in companies. So if we analyze the full year 2016 vis-a-vis 2015, the moment that we have seen in the first quarter, obviously at the end of the year, we will have more adjusted base, but we should have for the next quarters, the dynamics that we have seen in this first quarter.

And my second question is still about the performance of sales. In the first quarter, we have seen some players in the market saying that they fall at a certain moment. We have hit bottom and I understand that there is dynamics of market share gain also the comparison margin, but really, if we analyze the consumer behavior, what do you believe has happened, the consumers are coming back or do you think the margin could get worst? What do you feel about that the temperature of the consumers?

A - Felipe Negrao {BIO 19434019 <GO>}

Irma, thank you for your two questions. About the behavior of the consumers, the market is still a difficult one and there is a trend of more purchases of lower average tickets. And obviously we have to adjust our commercial strategy to those trends. And also, we have seen that Via Varejo that has a capacity of bringing in customers to its stores. So in terms of customer traffic in the stores, this is lower than last year, but we still have important opportunities to improve our conversion rate in the stores.

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And our understanding is that when we are competitive and if we have a wide supply basket and promotion basket, we have a replenishment on the stores, we have a special products in those stores, we have a special and inventory and a well-trained sales force. All of that associated two important gains in terms of productivity and efficiency in all our logistic network.

We understand that we do have a competitive advantage that is important vis-a-vis our competition. I just would like to give you an example. We have been working since the second half of last year and the improvement of productivity and efficiency in our full supply chain and I would like to provide you the few data and we avoid given our information while things are still being consolidated.

But now, we can already talked about it, because the processes are well matured. Today, 80% of our deliveries in Brazil are lower than 60 days -- six days, I'm sorry. And what is important is that we have reduced the delivery time in over 50%, that is an initiative. That has a high impact for customers and it is also a competitive indicator, a very important one.

Another important piece of information here is that in the large centers and major capitals that time-to-market that I said, that we have 80% of sales under six days, but we have done -- being done within two to five days. And the same efficiency, we have seen in our assembly time for furniture, now our average for assembly is -- of 2.7 days.

And there is another important factor, which is over 99% of our scheduling is for delivery and assembly happen within the agreed time with the customer. That is a significant differential.

And all of that, we have done with no cost increase of our logistics structures. So we are able to offset that with other cost reductions and that has an important impact of -- in the perception of our service level. So the company has been working in several fronts and several of those fronts are converting into significant results and we will be able to see along the next quarters this turning into a consolidation of an important market share gain.

About the gross margin, I think this is -- thanks to three topics, first, competitiveness, as we've mentioned, services and taxes. About competitiveness, we don't have any changes in terms of the strategy. Again, that's something that we discussed on a weekly basis to check how the market is behaving. And so with that's -- how we work in the commercial area.

In terms of services, there was an increase, as I've said, we've dedicated ourselves last year, training our sales force, renegotiating contracts, we have new contract from Zurich, we're still capturing some of the gains of last year. We have a lower margin from last year and we are able to have that progress.

And in terms of tax, the payroll, as I mentioned, the payroll exemption, there is an impact in the gross profit, which was positive 0.7 percentage points and the SG&A -- that

expense went to SG&A and also impacted there, an 1.2 percentage points. And the EBITDA, we had a reduction of a half percentage point, because of the payroll exemption.

And the Tax Relief Law, (inaudible) we won that Tax Relief Law, and then we started paying PIS and (inaudible) in the products and that impacts in 25% of my sales base and we have a tax bracket of 9.5%. So there is an impact in the gross profit.

Operator

Our next question comes from Mr. Gustavo Oliveira from UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good morning, everyone. I have a few questions. First is about the stores being closed you said in the fourth quarter that you are analyzing, the possibility of closing 50 stores in strategic review. You have closed 36 stores in that quarter. So what is this process like from now on? You have only this 50 stores, those 14 stores that you have not closed, they really don't need to be closed. The process is still an ongoing one, but you are focusing more on Ponto Frio. I would like to understand the dynamics. What is the difference between Ponto Frio and Casas Bahia?

And if you need to convert or you intent to convert some of the stores in Ponto Frio and Casas Bahia. Just so that we can have any type of estimate in terms of stores for this year? That's the first question.

A - Peter Estermann {BIO 15380447 <GO>}

Thank you for your question, Gustavo. This is Peter. Now, going back to what I already said, yes you are right. Our work in the last quarter of last year, yes, we were following up 50 stores, we closed 36, that means that we are able to recover the performance of 14 stores.

Therefore, they obviously are still being monitored.

But, they are no longer under the radar of those stores that are at a risk to be closed. You know that the stores performance is a dynamic process, it changes on a monthly basis and even because of distinct reasons, that's why I said that we have a team that there is close monitoring of the process. And I could tell you that we do not have any forecasted to close a significant volume of stores in the next month.

But I should say that if we need to close more stores because a performance will deserve. But we have no plans right now to close the stores. We always have in our pipeline. The stores that we understand that need a close follow-up that need to improve their performance.

About stores conversion from Ponto Frio to Casas Bahia, I also have mentioned the main conversions have been done. You remember that last year, we converted 86 stores from

Ponto Frio to Casas Bahia.

The volume of sales that we understand that it had a potential for improvement by the means of this conversion has been concluded. I also told you that some one-off conversion could happen and it could really. But we do not have any significant movement to convert Ponto Frio to Casas Bahia anymore.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you. My second question is about the gross margin also. You mentioned that you do not expect major changes in the competitiveness, but your inventory level in the quarter closed at a higher level. Do you believe that level of 30% of gross margin is sustainable from now on? Because, your sales have not recovered, it improved, it is less negative trend, but you don't have a positive level yet.

So I want to understand, if you still need to increase the competitiveness level, and if that has an impact in the gross margin in the second, third quarters from now on?

A - Peter Estermann {BIO 15380447 <GO>}

Thank you, Gustavo. This is Peter. And I have two topics to mention. Our inventory level today is a well-balanced one to considering our commercial strategy as well as market share gain strategy. And also I should say, considering the market and products available in the market, so today, we have a strong belief that this level of inventory is enough, so that we are able to keep on with our strategy of competitiveness and market share gain. So we are aligned to the reality that we want to have in terms of market share from now on.

In terms of margin impact as I said, we have several initiatives internal ones to adjust the structure to have cost reductions to improve efficiency, productivity gains, so that we can keep on delivering our margins within those levels.

So we are confident that we are in the right path.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay. It is very clear. My last question now, going back to the possible restructuring of Cnova, that you've mentioned. And what you said about the multi-channel strategy, we're seeing a weak sales at Cnova, because all the problems that they have with the structure, inventory and logistics. When they get it right, when they get organized, their sales should recover very fast.

How are you working on that -- the recovery of Cnova sales, how could that impact on Via Varejo sales? And you also mentioned that the systems are already working in an integrated fashion. But how are you encouraging sales in a way that you do not lose sales for Cnova. Maybe it's something more strategically, you do not need to go into details, I just want to understand what is your mindset in terms of the recovery of Cnova? When that happens actually?

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A - Felipe Negrao {BIO 19434019 <GO>}

Gustavo, I also have two important things to mention. First that we continue doing this work, as this work also has started last year. We have an important advancements in the synergy and logistics in the group as a whole. And here, Cnova, it has an important role to play in the process.

And the expectation in terms of synergies is to have gains in the case of Via Varejo Cnova, these will be important gains for both companies, both in terms of cost reduction as well as delivery time as well as assembly time. So I believe that, for the future, everything is going well and we are capturing gains for both companies.

Considering what we have already planned in the beginning of last year in the second wave that started in the last quarter of last year. In terms of commercial strategy, we also have been working since last quarter to have a commercial strategy that is more aligned for both channels.

And results have been extremely positive for both companies. About the sales drop in Cnova, they have already mentioned that in their earnings conference call, so, I only have to mention the performance about Via Varejo.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you very much.

Operator

(Operator Instructions) Mr. Alan Cardoso from Itau.

Q - Alan Cardoso {BIO 15933677 <GO>}

Good morning, everyone. The first question is a following. When we look at the IBGE data, since December last year. There was an acceleration level of prices of the sector, probably because of the impact of the removal of the tax relief for the sector. Do you feel higher pressure from suppliers to increase prices and how are you dealing with that? So this is my first question.

A - Peter Estermann {BIO 15380447 <GO>}

Thank you, Alan. This is Peter. Negotiation with suppliers is an ongoing practice, mainly when you have these oscillations [ph] in the exchange rate and in a situation like the one we are living in this specific case of Via Varejo, we have a very close relationship with our suppliers.

And the negotiations that we have with them always aim at a win-win situation being achieved. So the answer is yes. Certainly, suppliers are having impact on their cost, considering the variations in the exchange rate and the increase in the inflation rate. But I can tell you that we are being able to negotiate adequately with our suppliers and this has not been a stumbling block on our competitiveness strategy.

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Q - Alan Cardoso {BIO 15933677 <GO>}

The second question, what about the commercial stand from the competitors view price - view point? Many companies are seeing that due to competition, small, medium-sized companies, we are very aggressive mainly in apparel, but if we talk about appliances and the electronics, do you see the same situation or are they practicing the same level of aggressiveness?

A - Felipe Negrao {BIO 19434019 <GO>}

Alan, we believe that it is a little bit more moderate now. The commercial intensity so to see in the last quarter was more aggressive than what we see in the first quarter of this year.

Q - Alan Cardoso {BIO 15933677 <GO>}

One last question. You said the delinquency was flat vis-a-vis the fourth quarter of '15, what are the initiatives that you are putting in place in order to keep delinquency under control? And of course, the economy continues to deteriorate, but do you believe for 2016, it will be similar to 2015 for the whole year? So how do you see this indicator in the company?

A - Peter Estermann {BIO 15380447 <GO>}

I would like to ask Felipe to get into details with you. But just as a general information in the second half of last year, the company invested very strongly in processes and systems to achieve a better control over delinquency and to be more assertive in the tax approval process. As you said to yourself, delinquency of this quarter was very similar to delinquency in the first quarter of last year and it has been behaving, a little bit better than what we expected at the end of last year.

We believe that this delinquency better than expected is related to the investments that we made and the development of our people mainly regarding credit analysis and collection. But I would like to give the floor to Felipe, and he will go into more details with you.

A - Felipe Negrao {BIO 19434019 <GO>}

We are very much pleased on what Peter has just told you, last year we concluded that the cycle platform for credit. So it was a major investment that we made last year, regarding our credit operations, and we also hired Mackenzie at the end of the year to get into details about our credit strategy to be adopted and also for collection and also for this year.

So if we look at credit assignments, our approval rate dropped vis-a-vis last year, but we are approving more good client and less bad client. With this platform, we can separate very well one from the other. So this is a major advantage that we have regarding credit assignment.

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And that comes from this platform, but also the major investment that we made in training our team, so that they could make a very thorough credit analysis, and in collection at the end of last year, we made a divestment. We sold our call center to Dentro [ph]. And last year there was a major investment by a Dentro be in collection, et cetera.

We close very much hand in hand with them. And also regarding collection strategies, so they have strategy of working with each one of the collection firms. And although the year was very difficult and also this year, it's been very difficult, the market is worse. And I think it will continue to be bad over the year.

We do not believe delinquency will change a lot or improve. But with all the initiatives that we put in place, we believe that we are much better than our competitors. And also regarding what we expected in terms of about it, we are better than the expectations that we had for ourselves.

Q - Alan Cardoso {BIO 15933677 <GO>}

Thank you very much, Peter and Felipe for your answers.

Operator

Richard Cath from HSBC.

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

Good morning. The first question has to do with the same-store sales in the first quarter. I would like to know, if over the quarter, if you were more aggressive regarding promotions in one of the months in the quarter, was the improvement because of some basic issues or you are more competitive. And SG&A was stable and then it dropped, if we do not consider the end of the tax relief.

Do you have any additional initiatives for the next few quarters to further reduce your SG&A?

A - Peter Estermann {BIO 15380447 <GO>}

Richard, thank you for the question. This is Peter. About the improvement in sales in the first quarter, first, February and March, I think you remember that the first quarter of last year was a quarter in which we had strong sales and the significant drop in sales happened after April and May. So the comparison base, January to January was very strong and the comparison base for February and March was strong, but not as strong as January that was announced every [ph] month.

And the different performance that we see in February and March is very big. That is to say -- they were much better than January. So I would say that February and March performance is not only related to the comparison base, it is related to the commercial strategy that we adopted.

And the reduction in the level of stock-out and the better supply in our stores and difference between the products available in stores and (inaudible) because we have a higher amount of products in the sales of modality than we had last year, which has been bringing some competitive advantages for Via Varejo.

Regarding SG&A, yes, we do have additional initiatives that are already underway. We have a culture and discipline of strong cost control and we continue with these initiatives and yes, we do expect to see additional impact in cost -- on cost reduction for the next few quarters.

Operator

Our next question comes from Guilherme Assis from Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you for the question. Good morning. I would like to talk about your sales mix and understand the mix dynamics and comparison base. But given your strategy of focusing on smartphones and furniture, could you talk about the performance of these two segments? And what about the result obtained in your stores and also the core news that you have and the assortments of products in your stand-alone stores?

And we look at the IBGE statistics furniture is in a better situation, so I would like to is your performance in this kind of project is in line with the market? And if this is the case, if we could expect the margin gain coming from this sector? Because you continue to be aggressive in your commercial strategy. This is one question. And could you talk about after the first quarter, that is to say Mother's Day et cetera. We saw some news saying that Mother's Day sales were weak overall. So could you mention the situation regarding Mother's Day sales for you?

A - Peter Estermann {BIO 15380447 <GO>}

Okay, Guilherme. This is Peter. About your first question, we have been working more and more with a commercial strategy, which is more regional, so to say, both in terms of offerings and communication strategy and commercial strategy. So it's more on a regional basis now, and because of that, we can give a better focus to our sales mix per region, per store. Besides, we also have specific targets for each one of the stores regarding our sales mix.

So the behavior of sales per region and also for micro region, very often is different, we, today, already have information available that help us to have a more focused strategy. And this has been bringing important results. So we have been improving the participation of telephones over total sales in all regions. And we continue with an important focus on the furniture category, which is our second best category as far as sales are concerned.

And I repeat, we are also working with a more adequate regional stand for furniture as well. So we are evolving vis-a-vis what we had before, and we are being able to have a better sales mix, not only to gain market share, but also to achieve a better margin gain.

Q - Guilherme Assis {BIO 16143141 <GO>}

During the call, you mentioned that the categories that included the tax relief, smartphones and telephones, in general, I think -- I thought the number was higher than the one you've mentioned.

A - Peter Estermann {BIO 15380447 <GO>}

We have different participation regarding different regions are in different regions. The 25% participation or maybe to a little bit higher than that. I'm talking about Brazil overall and in some regions, the level of participation is much higher than that. In terms of telephones, and IT products as well 25% is what is impacted by the Tax Relief Law.

The second question about Mother's Day. Yes, you are correct. The market is saying that this was a very weak Mother's Day and it was. And for Via Varejo, we had a very good supply in our stores and we prepared ourselves to have a more difficult Mother's Day and we chose some categories that we thought would have better sales for Mother's Day and there I'm talking about some categories of lower average ticket for instance portable appliances.

And we had a major participation and even higher than the previous periods in terms of portable appliances and also we had very good sales in telephones, especially, because, the sizes are being competitive. We've had a very good inventory right at the stores and with a big variety of projects as well. So much better than our competitors.

Mother's Day was a difficult one. It was not easy. So it's very competitive with lower (Technical Difficulty) fewer clients inside the store, traffic of clients inside the stores, but higher than we expected.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. Very good. Thank you.

Operator

Mr. Luiz Cesta from Votorantim Brokerage House.

Q - Luiz Cesta {BIO 15223262 <GO>}

Good morning. Thank you for the question. I would like to go back to the Tax Relief Law. Especially in this quarter in this beginning of the year, based on the figures that you've informed, if it were not for the Tax Relief Law, your gross margin would be flat year-on-year. And we also read in the press about the possibility of annulment of the law that did away with the Tax Relief Law and are being also tried some endeavors for their members in this regard.

So, do you believe there is a legal possibility of discussing this end of the Tax Relief? Are you doing something about that? I would like to know your position regarding that because it's very relevant regarding your gross margin?

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A - Peter Estermann {BIO 15380447 <GO>}

We thank you very much for the question. This is Peter. Yes, this is a very important discussion and with the impact on our margin and you're asking whether we're doing something in this regard, I can say, yes. We believed this is a very important front for us considering the impact that this has on our margin.

Q - Luiz Cesta {BIO 15223262 <GO>}

Do you have in terms of gain probability of success and to legal discussion, we have information on that. How our attorneys analyzing that type of possibility? Is that possible or is there a remote chance of it happening?

A - Peter Estermann {BIO 15380447 <GO>}

Luiz, we understand that it is too early to have any type of position about this matter. As soon as we have any idea we'll let you know.

Q - Luiz Cesta {BIO 15223262 <GO>}

Thank you very much then.

Operator

We now end our Q&A session. I would like to turn the floor to the company for their final remarks.

A - Peter Estermann {BIO 15380447 <GO>}

I would like to thank you all for being with us and have a good afternoon.

Operator

Thank you. The earnings conference call for Via Varejo has ended. The IR department is available to address any other questions that you might have. Thank you very much for your participation and have a nice day.

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