

Q2 2018 Earnings Call

Company Participants

- Felipe Negrao, Chief Financial and Investors Relations Officer
- Flavio Dias Fonseca da Silva, Chief Executive Officer
- Paulo Adriano Romulo Naliato, Chief Operating Officer

Other Participants

- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Joseph Giordano, Analyst
- Maria Paula, Analyst
- Richard Cathcart, Analyst
- Robert Ford, Analyst
- Thiago Macruz, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by. Ladies and gentlemen, please -- thank you, very much. Good afternoon, and thank you, for waiting. Welcome to Via Varejo's Conference Call to discuss the Results of the Second Quarter of 2018. This event is also being broadcast via webcast and it may be accessed at www.viavarejo.com.br/investorrelations, where you will find the respective presentation as well. The slide selection will be managed by you. A replay facility for this call will be available on the website.

We inform you that the company's press release about its result is also available on its Investor Relations website. This event is being recorded and all participants will be in listen-only mode during the company's presentation. After Via Varejo's remarks are completed, there will be a question-and-answer session when further instructions will be given. (Operator Instructions)

Before proceeding, we would like to clarify that forward-looking statements that might be made during this call in relation to Via Varejo's business outlook, operating and financial projections and targets are beliefs and assumptions of the company's management, as well as information currently available. Forward-looking statements are not guarantees of performance. They involve risks, 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 leads to results that differ materially from those expressed in such forward-looking statements.

Now, we would like to turn the floor over to Mr. Flavio Dias, CEO of the company.

Flavio Dias Fonseca da Silva {BIO 18281132 <GO>}

Good afternoon, everyone, and thank you for participating in this call. I'm with Paulo Naliato, our COO; Felipe Negrao, our CFO and Investor Relations Officer; and Izabel Branco, our Human Resources and Sustainability Officer.

In this quarter, we gave another significant step to transform the company with the implementation of our new store system called Via+ [ph]. Via+ is an important tool in the development of our seasonality, and this is a platform that consolidate and potentializes all the initiatives developed so far, such as our new compensation model, the site and marketplace catalogs offer, Via Unica, our single path and also the integration with our website and with (inaudible), which is already in soft launch since July the 20th. We are transforming our sales people into sales consultants further enriching the experience on the part of our consumers with an increase in participation together with a higher return for the company.

Another important step was carried out in the second quarter, the conclusion of the development and implementation of system integration between and among the companies. We have already started the depletion of inventories in the old system in a matter of weeks still within the third quarter, we will be operating the company based on one single system, which will allow us to have more efficiency, better control and above all much more favorable conditions for the strong advancement of multichannel operations. And the second important step of Via+ will be the possibility of having credit cards, credit operations with the online channel. Now, it's only available for the SKUs present in the brick-and-mortar stores and expecting to enter part of the population in the online market, Via+ and our website with the use of credit operations or the credit pay book and we intend to launch the pilot project by the end of this year.

And in this quarter, we also made steps toward the improvement of our level of services and the reduction of the delivery costs reaching 30% participation in online sales in the main categories and also adding 1,000 post offices or postal agencies for pick-up points. We reached 18 units of hub stores that deliver the last mile and that deliver a reduction of 80% in the time for delivery, on average, mostly due to the use of a cloud shopping platform for the delivery. Continuing with our service level theme, I would like to say that we continue to have a strong evolution shown by the higher level -- highest levels of NPLs that we have ever had in our e-commerce with an average of 72 points in this quarter vis-a-vis 58 in the last quarter, higher than the international benchmarks, and also because of the evident improvement in the three banners.

On the expansion of our operations, we opened 11 new stores in this quarter, 10 in the smart format and one kiosk. And besides, due to the performance of this Kiosk in April, we will accelerate the expansion of this model still within 2018. For our full-commerce

platform, we added to our logistic infrastructure, to our store the Retira Rapido or Click&Collect. And as I said before, now in July, we started the soft launch of our new app. It is lighter, it is faster and already with the Via Unica that will transform our whole communication with our customers.

Our new data strategy that is improved by means of Via Unica start to show positive indicator such as the results obtained with the use of the predictive model that suggests the product that have the highest probability of being purchased by each client, and we included products and prices inventory means of payment in the last five years, and we will implement this with over 120 points internally and externally.

And the next best offer will be embarked in the Via+ system. And recently, we concluded this logic of best offer for search engines, and we doubled the conversion rate for the clients that were impacted and this shows how powerful this tool will be. The expectation that we have is that this tool will reach half of the qualified base of over 60 million clients that we have over the second half of 2018.

I would like to mention that June was the first month in which we fully implemented the recommendations of the new mix that resulted from the analysis that we carried out with data scientists, over our historical base and this suggests the optimization allocation of phones combining channel, product category and geography, but we still need some fine-tuning, but we already know that it has a very good return on investment. And also the digital transformation of Via with the decision of unifying our commercial logistics and areas that now report directly to the COO of the company. Thus, the Executive Board is made up by me, as CEO; Paulo Naliato, as COO; Felipe Negrao, as CFO and IRO; and Izabel Branco, as Human Resources and Sustainability Officer. Besides the CDO position that we will be announcing very shortly, and we are sure that this new structure will bring about more agility for decision making and for all the teams making Via Varejo, a benchmark company in the omnichannel activities and with a very good client experience and being the ideal partner, both for sellers and for partners and I would like -- and suppliers.

And I would like to talk about our engagement survey with an evolution of 15 percentage points vis-a-vis the survey of 2017, we've reached 80% and the survey had the participation of about 40,000 people, almost 91% of our employee base, and it shows that more and more, we are an engaged team in order to continue in this journey of transformation.

Now, I would like to give the floor to Felipe Negrao to talk about the results of the quarter.

Felipe Negrao {BIO 19434019 <GO>}

Good afternoon, everybody. Thank you, for your presence. Let's start talking about our result of the second quarter of 2018 and the outlook for our business.

On slide number four, in the second quarter of 2018, we delivered growth in our consolidated net revenue of 5.1% reaching BRL6.7 billion. In brick-and-mortar stores, we

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had a growth of our net revenue of 6.5% and online, we delivered growth of 9.4% in our GMV -- invoiced GMV. In the second quarter of 2018, we had the 2.0 model and the new -- MOVVE 2.0 and the new compensation model. In the second half, we will conclude the Via+, our new sales system with CRM and the catalog of the online products. In the second quarter, we also saw a significant increase in traffic. This is very important for mobile because in the third quarter, the new app and the CRM will be fundamental tools in order to leverage our sales.

On slide number five, invoiced GMV of 3P growing 27.5%, evolution of the GMV 3.4%. The Click&Collect continues to show an important evolution reaching 30.7% of the online sales in the main categories. Click&Collect is very strategic for Via Varejo. Whilst it makes it possible for us to have a better client service with lower logistics cost and the possibility of up sell and cross sell, both our products and financial services as well very important for our profitability. As Flavio mentioned, we have 2000 collect point, pick-up point, 1,000 stores and 1,000 postal agencies.

On slide number six, the World Cup had an important impact on our product mix. Our products showed in the second quarter an increase, a very big increase in the participation of televisions, which have a substantially lower commercial margin, and as a result, gross margin dropped by 31.2% from 31.2% to 28.9%. We had efficiency gains with SG&A in many lines 26% going to 23.2% of our net revenue. Legal and provision for loan losses had an important impact and the better assignment of credit and better collection resulted into a very important reduction in general expenses and the project that we launched with our legal side started to bear fruit with civil and labor claims being reduced and closing of more of these claims as well, closing and settlement, and we still have many projects in order to increase this for the company without hindering our client service and without hindering the delivery of important projects for the future of the company. As a consequence of our effort, we had the sixth quarter of EBITDA margin vis-a-vis the previous one. Our EBIT -- adjusted EBITDA margin 5.1% going to 6.1%.

On slide number seven, the net financial result before the restatement was some 4 point -- 1.2% [ph] of the net sales. And we had an important evolution in our net income and the loss that was BRL85 million in the second quarter of '17 became a net income of BRL22 million in 2018, the highest ever net earnings since 2014 in this quarter.

On slide number eight, the company keeps a very good and sound financial position with net cash of BRL2 billion. We had a positive cash generation in the period. Although, we are operating strategically with higher inventories and with a high level of CapEx going from 32.8 [ph] in the second quarter of '17 to BRL157 million in the second quarter of '18.

Now, I would like to open for questions.

Questions And Answers

Operator

Bloomberg Transcript

Now, we would like to open for questions. Please ask all your questions at once.
(Operator Instructions) Mr. Thiago Macruz from Itau BBA would like to ask a question.

Q - Thiago Macruz {BIO 16404924 <GO>}

Good afternoon. My first question has to do with the income tax. We expected a worse situation vis-a-vis last year, but are you about these (inaudible) losses, did you already see any benefits being generated because of these credit. And regarding your loan losses, you talked about the year-on-year figure, Felipe. Are you going to maintain this -- at this level or is there anything in this quarter that could be seen as a one-off situation. These are my two questions.

A - Felipe Negrão {BIO 19434019 <GO>}

Good afternoon, Thiago. Your first question was about the point of sales. He is asking him to repeat the accumulated losses of the sale of operations. The translators are not hearing the question or the answer in fact. We had a better line operations than in the first quarter, and there was this mismatch from. We are working with some initiatives in order to help the operation as a whole.

Regarding the allowance for loan losses, there is nothing one-off in our allowance for loan losses.

What we are doing is the change in the credit policy that we had in the past and also in our collection activities. Our collection activities are much better now. And in online, we have a new credit policy, which is more strict and that should give us a better situation in terms of allowance for loan losses, and quarter-on-quarter, we have been improving this consistently. And so we can work with this improvement and this should improve from now on.

Q - Thiago Macruz {BIO 16404924 <GO>}

Thank you for the answers.

Operator

Mr. Richard Cathcart from Bradesco also has a question.

Q - Richard Cathcart {BIO 16457807 <GO>}

Good afternoon, everyone. I have a question about the app. Clearly, it's too early to talk about the soft launch of Casas Bahia, but I would like to know more about your expectations regarding the app launching in terms of sales in this quarter, this coming quarter. And are you also launching, Extra and Pontofrio app right after Casas Bahia or you going to wait a little bit.

And my second question, I would like to know about the competitive environment. In the first quarter, you said that it was a little bit harsh, especially because of the 1P. And I just

would like to understand your opinion about the second quarter and now turning into the second half of the year as well?

A - Flavio Dias Fonseca da Silva {BIO 18281132 <GO>}

Well, Richard, thank you very much for your question. About the app, we do have a great expectation. We are working on this project over this year, and we are sure that we have on the hands of our clients a product that is of a great quality. It's a lighter product that's faster and it has functions because this is a native app. It allows us to have a customized access. We can communicate to our clients and we can drive all that data intelligence that we have built with Via Unica. And we believe that in addition of being an important sales to a new sales channel. We believe it is going to play a new role. It's going to go beyond that. It will have a positive impact to the clients journey in the store, and will increase the conversion in the store.

The client that is using the APP will be able to have a better interact with the store environment, will have information about products, will have access by geo-localization to opportunities of sales based on that brick-and-mortar store. So this is going to be an important tool for us, so that we can integrate all that journey. We do not disclose how much we are expecting in terms of driving sales considering that, but we do have a great expectation. We will be investing a lot and launching campaign, so that we can increase the number of downloads, and obviously to provide incentives, so that those people that actually download the app will have reasons to keep the app installed.

In addition to investments in advertisement, we understand that we have a sales force extremely trying to be ambassadors of the sale of this app and the installation of this app for our store audience. We are working with incentives for that as well. So this is a 360-degree campaign. It will involve all the company, so that this app in fact, does have great importance to us starting now. We are just doing the fine tuning now. We're just working on the final details, but all works [ph] have been running very well, it's going fine. We understand that will be stronger in Casas Bahia now and after that obviously, we'll develop the other apps. But right now, we will be focusing on Casas Bahia knowing that a lot of what we have been doing for Casas Bahia, we will be able to take to the other banners, so we'll not be starting from scratch again. We will have some customizations to do. We are on track. But right now, in the beginning, we'll prioritize Casas Bahia at full speed.

About your second question, I think the competitive environment is still there. We did have two important events in this quarter, which were Mother's Day and the World Cup naturally, a few actions, where you see a lot of promotional activity. And obviously, it was not different, we did not have the -- the same special factors, the same special happening that we talked about in the first quarter, we cannot say that we did have those two issues that you mentioned. But yes, because of the seasonal events and also because of the high demand, we understand that this was a harsh and competitive environment. We were able to keep following our strategy to keep sustainable growth, but we understand that this is a scenario that is going to be constant from now on. We do not expect a significant change for this year.

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Q - Richard Cathcart {BIO 16457807 <GO>}

Great, Flavio. And if you allow me a quick follow-up with Felipe now. Can you give us a little bit more color about these 62 million in other expenses, exactly what is involved there, what is under that line for the quarter?

A - Felipe Negrao {BIO 19434019 <GO>}

Good afternoon. So what we have in this quarter is follow, a difference vis-a-vis last year, but we have the following some issuance here in the company, this is the first topic. We had some affiliations. The second important topic is that for some stores, we are not expecting a positive profitability. So we have restructuring costs involved and that will be forward, and so this is already provisioned to close those stores. We have already carried out a planning to close some of these stores that's why we have a provision. So these are my two main topics to explain that.

Q - Richard Cathcart {BIO 16457807 <GO>}

That's great. Thank you very much.

Operator

Mr. Robert Ford from Bank of America has a question.

Q - Robert Ford {BIO 1499021 <GO>}

Good afternoon, everyone and thank you very much for taking my questions. My first question is, if you can tell us a little bit about the electronic commerce 1P, it seems to be down. And I want to understand, how you think about having the better offer at 1P. And second now that you're going to Novo Mercado, how will you determine the representation of the Board of Directors, please?

A - Felipe Negrao {BIO 19434019 <GO>}

Hello, well, let me tell -- talk about the electronic commerce. As you mentioned, there is a lower growth in 1P that has an important relationship with the truckers' strike and also the environment of the World Cup in the second quarter. So we did have an increase in TV sales, but we saw lower appetite for phones. Therefore, this impacted our figures. The strike did have an important impact in the electronic commerce, although, that was mitigated by the Click&Collect. And our stress is to look for growth in our marketplace that is in line with Via Varejo's strategy of having a broad assortment to become a shopping destination and not only being strong in the core categories, which are traditionally in our banners.

Q - Robert Ford {BIO 1499021 <GO>}

So do you have a strategy of leaving some categories?

A - Felipe Negrao {BIO 19434019 <GO>}

Bloomberg Transcript

No, that does not represent that strategy. Actually, we say that we are more equipped to now as Flavio said, we now have tools such as app and media intelligence tools that allows us to accelerate our marketing in an efficient fashion and our strategy is to grow in 1P and 3P.

Q - Robert Ford {BIO 1499021 <GO>}

What about the representation?

A - Felipe Negrao {BIO 19434019 <GO>}

when we go to Novo Mercado that won't change. Now, we will need to have two Independent board members, we already have that Renato Carvalho and Alberto Guth as independent members, so nothing changes with the Novo Mercado.

Q - Robert Ford {BIO 1499021 <GO>}

Felipe, is that proportional that participation if you have a 9 Board members and if (inaudible) has 43% of shares? They will have four board members, are you going to change that number, the representative some point that's occurring?

A - Felipe Negrao {BIO 19434019 <GO>}

No, no, we are -- we're not changing anything in the board. It's going to be the same board.

Q - Robert Ford {BIO 1499021 <GO>}

What -- what about in the next vote. Would -- will you have proportional votes?

A - Felipe Negrao {BIO 19434019 <GO>}

Yes, it will be the same. Nothing will change.

Q - Robert Ford {BIO 1499021 <GO>}

Okay. Thank you.

Operator

Mr. Gustavo Oliveira from UBS also has a question.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Hello. Good afternoon, everyone. I have two questions. One, still about this innovation process that you are rolling out now and a lot of the things are just starting in June and up to the end of September. So my first question is very specific about Via+, are you already including there the software that you are going to change the software for the store front and at what stage of the process, are you at? And do you already have a way to measure an impact. I know you're just starting with the app, but some of these initiatives might improve the conversion and your flow and in your traffic. Do you already have a way to

measure that. I would like to know about some figures. And if you believe that you were going to have better sales than the first -- in the third quarter and then I will have a follow-up question.

A - Paulo Adriano Romulo Naliato {BIO 18379785 <GO>}

Gustavo, this is Paulo. Thank you very much for your question. About Via+, we are just concluding the roll out of this new platform in 100% of our stores now in July. This platform should provide us the productivity gain because it will simplify the purchasing journey of those clients. This is a simpler and faster process that usually allows us to have a productivity gain and also the availability of our team to serve our clients. And also it brings technology that will help us customize the service to our clients, optimize our clients' purchasing journey in the different channels and take that information and use it into the more business. And also, this is a tool that suggests to our team products for cross selling, up selling, added services and which also should increase our volume of sales. So we do have a gain of time, productivity and quality of sale. That technology is connected, as Flavio said, in the MVO -- in Via Unica and in the customization of offers to our clients.

So the window of products to our clients already is showing to our team with attributes of clients purchase intervention [ph]. And it will optimize all our model of incentive to the team, in order, to have the best choices for the clients with the best profitability. So it will simplify the process and will allow the sales person to work in a simpler way and they will also have the best recommendations. We have a great expectation of gains and optimization of the business in the brick-and-mortar store. And it will allow us to take advantage of the traffic in the brick-and-mortar stores to understand the shop cards [ph] that are abandoned in the brick-and-mortar stores and use that base of clients and something that we didn't use to have access to.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

So it will land now, right?

A - Paulo Adriano Romulo Naliato {BIO 18379785 <GO>}

Yes. Now, in July and this platform is a web platform. We are right now, already experimenting Via+ mobile, we have some stores, which are 13 stores using that mobile version. It will -- it's not totally concluded yet, but we hope to -- we expected to concluded in this third quarter, so that we've also have that solution in higher number of stores. And once again, simplifying the purchasing journey of our clients.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

After the pilot -- pilots, do you have an idea how to improve, how this is going to improve sales? Do you have a comparison here.

A - Paulo Adriano Romulo Naliato {BIO 18379785 <GO>}

I can't give you figures here, but it will reduce the field times, the time to finalize the purchasing process that final processes gradually simplified and also it's easy to have new

professionals, as we are engaging in the company. In the past, we needed 30 days for a person to learn how to operate in our platform and now we have seen new sales persons operating in our platform in the first day. So it's a much simpler platform, and we are measuring not only the time gains, but also efficiency gains in terms of products and services offers.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

And my second question is about working capital. You mentioned in the press release that you decided to increase your inventory level financed by vendors, as a way to protect against the facts that happened before the problem that we had at the end of May and June, or you are already anticipating stronger sales and that was affected by the truckers' strike. I just want to understand, what is the average purchasing there for you, because I don't know, how much of that inventory was at a prior price. So do you already have a greater inventory and you did not have the sale because of the truckers' strike or did you increase your inventory levels after that strike?

A - Felipe Negrão {BIO 19434019 <GO>}

Gustavo, this is Felipe. We have a higher inventory levels because of three main reasons. One of them is because of exactly what you said because of that effect, we already had an estimate of depreciation, so we wanted to maintain that high inventory levels for another quarter. We have long-term there in terms of inventories and we are considering here purchases that are before the depreciation. Second, it was the company's decision as well. We do have an expectation of lowering production of -- vendors lowering production. So the company has decided also to have that greater inventory. And third point, that is not on the hands of the company that sales were a little bit lower than what we expected that has affected inventory levels more than what we had expected internally.

So these are the three main topics here. And what's important, you already said in your question, the vendors finance our own inventory. We have a partnership with these vendors. We do have a good cash balance. So we do have that inventory with no cash impact. So we do have working capital that is positive, Gustavo. Yeah, go ahead, please.

A - Flavio Dias Fonseca da Silva {BIO 18281132 <GO>}

I was just going to add about Via+ and other detail that I think it's relevant. And in addition to the assortment of Via Varejo, we are also making available to the stores the marketplace and that will increase the possibility of doing businesses in the store, it creates a long tail view for our banners and we will also potentialize greater volume business and that's great also for our stores and the platform, yes.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you very much. And now, going back to Felipe's answer. With a higher inventory, do you already see a sales recovery now in July for this third quarter, or you have to discount a little bit more, I just want to understand the commercial dynamics here?

A - Flavio Dias Fonseca da Silva {BIO 18281132 <GO>}

Gustavo, this higher inventory allows us to be prepared for the third quarter and we're going to go into the next one very well. And in a moment, where the FX also pressures prices, we start going into the future in a very good position. As I mentioned before, because of the World Cup, we had lower phone sales. This is a product that sells a lot usually, it has high churn. But now, we are ready and we do not believe, we are going to have problems with FX and neither because of possible vendors' negotiations.

Operator

Mr. Guilherme Assis from Brasil Plural has a question.

Q - Guilherme Assis {BIO 16143141 <GO>}

Good afternoon, everyone. Thank you very much for answering my question. I want to talk about a topic that has been mentioned already, but it is regarding that inventory level, just picking up from where you left. Can we expect starting on the third quarter, a margin back to the levels that we had up to the third quarter of 30%.

A - Paulo Adriano Romulo Naliato {BIO 18379785 <GO>}

I think it's clear the impact of the mix of the World Cup and gross margin of the second quarter.

Q - Guilherme Assis {BIO 16143141 <GO>}

And now, just continuing Paulo's answer, with a well-positioned inventory for smartphones et cetera, can we see that margin recovering. And if that happens, are you able to maintain that operations driving that has neutralized lower gross margin, can we expect a better impact in the EBITDA margin. That -- that's my question.

And I also have a second one. I'd like to go back to one of your comments -- a comment from (inaudible) regarding stores closing. Can you tell us about how many stores you will be closing and when -- when do you expected to close them? Thank you very much.

A - Paulo Adriano Romulo Naliato {BIO 18379785 <GO>}

This is Paulo. I would like to answer the first part of your question regarding the margin, we do expect an improvement in our margins due to the change of mix that is to say, the higher participation of telephony in our sales for the first one, and this is an important factor.

And the second one is the fact that we have been working with the incentive model for our team and this should bring about an additional contribution for this period. We have been investing in technology to develop the team and to optimize our results and tap into all the new technologies that we are placing at their disposal.

And thirdly, because we continue to invest in technology and improvement in our pricing process, and we expect that this combination will bring about an improvement in our

margin for the third quarter as well.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you very much.

A - Felipe Negrão {BIO 19434019 <GO>}

This is Felipe. Regarding our leverage, we had important gains already in two areas that is (inaudible) in allowance for loan losses and on our legal part. and so the plans that we have for the second half as described, and our expectation is to have a positive result coming out of that and it depends on the sales in the third quarter. And another point is that we are attacking so to say other lines of efficiency without hindering our client services and without hindering projects that are important for the future of the company. So we are looking at many lines of our SG&A besides the allowance for loan losses and our legal activity. We are looking at others, and we are trying to capture some in the short run and some take a little bit more time. but we're working a lot on that.

Q - Guilherme Assis {BIO 16143141 <GO>}

Just to follow-up. In fact, there is no recurrent of problem in the allowance for loan losses. It was a very important improvement that comes from your efforts in terms of credit score activities and others, but when we look at the delinquency chart that you have, in the second quarter, we had a slight increase vis-a-vis last year the PL, and from '15 and we are -- you are reducing your forecasts. So do you think there is a risk of going back to the previous levels of provision if delinquency continues in the same trend or do you see that delinquencies already much lower?

A - Flavio Dias Fonseca da Silva {BIO 18281132 <GO>}

If you compare the NPL vis-a-vis what (Technical Difficulty) but it was not very big. And when we consider the new IFRS and we compare the provision of 2017 with 2018, there was a reduction, excessive reduction, this because in the new model. This is what we consider, not NPL, where the quality of credit that we have today is very much different from what we had in the past. So we had to improve our quality of credit, credit assignment activities and this is seen in the NPL and you end up having these gains more quickly.

As we have a more restrictive credit policy, and we reduced our approval rate, we expect this figure to remain at a better level. But this is an important point, as it took about 1.5 year in order to see the impact of the NPL. In terms of approval criteria, it was more stable over the year. The NPL was more stable over the year. And with this new criteria that we adopted, it starts to have a different timeline for the impact. And the main thing is the quality of our current [ph] credit assignment activity, but we also input the interest rate in our models, and we had lower funding in this model than the one that we have in the other model.

And the second point, that you mentioned, the closing of stores, we are -- well, I would like to say that we are making a big endeavor, we don't want to close stores. We want to open additional stores, and we are going to make our best endeavors in order to make

all stores profitable. So right now, I wouldn't like to talk about any figure regarding that, but it will not be a significant number of stores. It will be a low number of stores, but I would like to go into that right now.

Q - Guilherme Assis {BIO 16143141 <GO>}

Well, it helped a lot. Thank you very much.

Operator

Mr. Joseph Giordano from JP Morgan would like to ask a question.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good afternoon, everyone. Hello, Flavio, hello, Felipe, Luis everyone. I have a question to try to understand a topic I want to go back to the operating leverage. If we were to compare the quarters like-for-like considering e-commerce has not grown a lot, would it be reasonable to say that we would -- we will have an expansion of gross margin, I know that multichannel here was favorable for the company. This is my first question.

My second question, it has to do with financial expenses that and it have increased a little bit because of the monetary adjustment, but the drop in the financial expenses, especially regarding the discount of receivables, also dropped to less than what we expected. So on the side of receivables discounted, what was the volume discounted in this period, was it higher than last year? And if the cost of that discounted receivable has changed over the period because here this drop was not as significant as we thought because when you bring everything together, the income, also the payments, okay and interest.

A - Flavio Dias Fonseca da Silva {BIO 18281132 <GO>}

Hello, Giordano, let me address your second question and then, we will ask you to repeat your first -- first question. But when talking about your second question, when I talk about working capital and then we have the financial results before the restatements, we do have a reduction especially because of the interest rates. And also, you can calculate it, we cannot disclose the discounted volume. But you know that the discount rate is related to CDI, the average term of receivables hasn't changed much. So you can have a reverse math there.

Now, about your first question. Can you repeat it, please? We were not able to understand it.

Q - Joseph Giordano {BIO 17751061 <GO>}

If you would be removing the effect of the unfavorable effect in the period, we have a margin effect or would we have an increased margin. And when we look at the revenue breakdown, we would have a favorable mix here, which was the fact of brick-and-mortar store growing more than e-commerce. So I would like to understand if we can think that TV would allow us to have an expansion of gross margin or not?

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A - Flavio Dias Fonseca da Silva {BIO 18281132 <GO>}

Well, we have to do the math here to answer your question. We -- we can check that, and we should simulate it and will send you that information. We don't have the figure by heart.

Q - Joseph Giordano {BIO 17751061 <GO>}

The main indicators that I see regarding margin, services share, we do not have any significant changes that could actually impact that?

A - Flavio Dias Fonseca da Silva {BIO 18281132 <GO>}

No -- no significant changes, except for credit operations then as I said already in May, we have reduced the approval rates. So with that -- that we have a lower share, a lower stake then when compared to last year. So that does have a small impact in the gross margin, as well as lower share of the credit operations, but that is the only thing that would be impacting the margin. Anything other than that I would have to do the math.

Q - Joseph Giordano {BIO 17751061 <GO>}

Now, I would -- just would like to understand something else and thinking about the short term. So how is this hangover, that is to say after the World Cup, I would like to understand what is the behavior of sales now in July and more than that, what the company sees in terms of discounts that are more difficult to apply in the second half of the year?

A - Flavio Dias Fonseca da Silva {BIO 18281132 <GO>}

Well, we already see a normalized mix. In terms of consumption profile, we already are back to the pre-World Cup period. And we are optimistic about all these new technologies that we are rolling out and that should expedite marketing use, conversion in the stores and the website because of the app, because of Via+. So regardless that post-World Cup hangover, we are betting on the productivity gain that we're already tapping into because of all these investments.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you very much. Good afternoon.

Operator

Ms. Maria Paula from BBD [ph] Investments has a question.

Q - Maria Paula {BIO 19356895 <GO>}

Good afternoon. everyone. Thank you for answering my question. My question has to do with the last question, you answered. Can you give us more information on the monthly performance, if we can understand the effects of the strike, so in the first quarter, you had a double-digit growth, I want to know if April had the same trend, the beginning of May

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also? And then we have truckers' strike and what was like when consumers went back to shopping after the strike?

A - Flavio Dias Fonseca da Silva {BIO 18281132 <GO>}

Well, Maria Paula, we do not breakdown and disclose figures on a monthly basis. But about the strike, in addition to their impacts and itself of having less clients' in the stores, it was between May and June, but we don't have a significant change in the behavior in that period. Yes, at the end of the month -- one month and the beginning of another, we did have a reduction in consumption, then it was normalized. And then after that, we had World Cup effect with the profile of purchasing impacting the financial results. Thank you very much.

Operator

(Operator Instructions) We right now end the Q&A session. I would like to turn the floor back to the company for their final remarks.

A - Flavio Dias Fonseca da Silva {BIO 18281132 <GO>}

Well, everyone once again, I would like to thank you very much for being here with us, and also I thank my team that is here. Thank you all for the dedication and the competence that you have shown so far in delivering results, and also in the whole process of changing Via Varejo. It's very clear for all of us that we are just in the beginning and therefore, we have a long and challenging journey ahead, but we are already very encouraged by the steps we have taken.

It's very clear also that we have to be a lighter and more agile company, a more collaborative company as well and truly be centered in the client. And for that we have to go forward in our data strategy and the predominance of our decision process is determined by this data and whenever possible in an automated fashion. We are already seeing the difference it makes especially in marketing and logistics, and also in some parts of the operations. So we want to continue expediting our process in the omnichannel that certainly have a great impact into the customer experience with us to be an inclusion icon [ph] for part of a population by the concession granting, also scalable digital model, this another mission that really makes us so proud. And despite of the markets diversities and the huge challenges that we have ahead, I truly trust my team and we have seen by the engaging numbers that we have shared that they do believe as well, and they do have everything that it takes to make it happen. Once again, thank you very much for your attention, and have a nice afternoon.

Operator

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

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