Q1 2019 Earnings Call

Company Participants

- Belmiro de Figueiredo Gomes, Real Estate Business Director & Member of the Executive Board
- Christophe Jose Hidalgo, CFO, Corporate Services Officer & Member of the Executive Board
- Daniela Sabbag Papa, IR Officer & Member of the Executive Board
- Frederic Garcia, Executive Officer of Proximity
- Laurent Maurice Cadillat, Head of PÃ£o de AÃ§Ã°car
- Marcelo Bazzali, Head of BU PaÃ£o de AÃ§Ã°car Brazil & Food E
- Peter Paul LourenÃ§o Estermann, CEO & Member of the Executive Board
- Ronaldo Iabrudi dos Santos Pereira, Co Vice
- Unidentified Speaker, Unknown

Other Participants

- Gustavo Piras Oliveira, Head of LatAm Research & Latin America Consumer Analyst
- Irma Sgarz, Equity Analyst
- Joseph Giordano, Senior LatAm Healthcare Analyst
- Luiz Felipe Poli Guanais, Research Analyst
- Robert Erick Ford Aguilar, MD in Equity Research
- Ruben Couto, Research Analyst
- Thiago Capucci Macruz, Research Analyst
- Tobias Stingelin, Director
- Victor Saragiotto, Research Analyst

Presentation

Operator

Good morning. Thank you for waiting. Welcome to GPA conference call to present the results for the First Quarter of 2019.

This event is also being broadcast via webcast. And it can be accessed at www.gpari.com.br, where you can find the presentation. A slide selection will be managed by you. There will be a replay that will be available 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. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements that are going to be made based on beliefs and assumptions of GPA management, they are only assumptions of our management. Future considerations are not a guarantee of future events because they depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of 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 Papa

Good morning. Welcome. We have Vice Chairman, Ronaldo Iabrudi with us; our CEO, Peter Estermann; CFO, Christophe Hidalgo; AssaÃ's CEO, Belmiro Gomes; and other executives from Multivarejo, Mr. Marcelo Bazzali, Laurent Cadillat and Frederic Garcia.

I will hand the floor over to Christophe -- actually, Peter is going to start.

Peter Paul LourenÃ§o Estermann {BIO 15380447 <GO>}

Thank you. Good morning, everyone. Welcome to our call for this First Quarter of 2019. We'll talk about the main topics in terms of implementing our strategies and our results.

I will hand the floor over to Christophe, who will give you more details on our financial statements. Each business unit Director will also give you more information on our operational results, which is what we have been doing in all our conference calls.

I would like to highlight the consistent events that we've been seeing in all parts of our Food business. We saw a 12.4% growth in our gross revenue. That is a result of our multichannel, multi-format and multi-region strategies. We saw great evolution in this First Quarter in terms of our market share evolution across all our business. This is a very positive result mainly, considering the macroeconomic scenario and the unfavorable calendar that we saw this quarter.

AssaÃ showed outstanding results and a consistent sales evolution. That is a consequence of our new stores, which show a positive trend of our stores and reinforces our commercial strategy and our management strategy for this format. Our gross profit for AssaÃ grew 44.6% and margin grew by 2.5% this quarter, which shows that we're on the right track in terms of managing our wholetailer industry.

For Multivarejo, we see a consistent trend in sales growth. In PÃ£o de AÃ§Ã°car, growth in stores reached 4.8%, despite the Easter's unfavorable calendar, because as you know, it was taken to the Second Quarter of this year. The Proximity stores for Multivarejo, since last year, show an increasing trend in terms of sales and in terms of volume of tickets. And Fred is going to give you more details on that later.

I also want to highlight our store for (retailer) adjustment strategy. We are working on converting stores for Mercado Extra, Compre Bem and also the Generation 7 stores for PÃ£o de AÃ§Ãºcar, considering the results that are way above our expectations. But we'll give you further details later, too.

Our strategy for our brand also shows positive evolution according to plan. We've reached 12% of market share for our exclusive brands in Multivarejo formats. And we're keeping up with our goals so as to increase this market share above 20% in 2021. Some of these formats have market share that is above this figure already.

We've seen great advances in terms of our digital transformation strategy. Our team has been working consistently in that sense. Digital transformation for us at GPA is based on 3 main pillars: the first one is improving and simplifying our customer's journey; the second one is trying to create new revenue and; third, assessing how physical it is to implement those initiatives.

Let me give you one example. Let me tell you what's new in the company. We've just started testing the Scan & Go type of payment, where customers can use our app to pay for products. In Minuto PÃ£o de AÃ§Ãºcar's headquarters, we are already implementing this technology. We have the Pre-Scanning base, where customers can pre-scan their products and fast-track their checkouts. And we also have the Self Check-out that has already been rolled out in some Compre Bem stores and in the PÃ£o de AÃ§Ãºcar headquarters store.

I also want to highlight that in terms of digital transformation, our initiatives have been quite successful and that has to do with James, who has just arrived in SÃ£o Paulo. Our initial planning to implement James in the city of SÃ£o Paulo is part of our planning strategy. And as we do that, we want to expand James to other states of Brazil in the Second Quarter. We've been having great results from these initiatives as James arrived in SÃ£o Paulo.

E-commerce also showed strong growth. We improved our customer service. And we managed to deliver products in shorter periods of time. More than 18 million customers are part of our loyalty program already. And Mr. Bazzali and Laurent will give you more details on that. We bridged roughly 9 million downloads. That is a strong growth for our apps.

These are the main highlights. And I just want to point out that in the First Quarter, our performance was quite positive. We managed to deliver consistent results.

To conclude, I just want to say that our operations team is present here. And they can give you further information, as I already mentioned. I also want to say that we have no additional information other than our official release that was published this morning that you may be well aware of. Therefore, I would like to kindly ask you all to focus on the operational results and please make sure to talk to our operational team.

Having said that, let me hand the floor over to Christophe, who will give you more details on our financial statements.

Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thank you, Peter. Good morning, everyone. Before talking about the financial statements for Food products, I just want to tell you that for the very first time in this quarter, the company, aligned with the regulations in Brazil, adopted IFRS 16, which has to do with all the company's liabilities. The impacts of the IFRS 16 are positive. But I have to say that these are noncash impacts. They're only accountable.

Before deep diving about the impacts of the implementation of the IFRS 16, let me talk about the results not considering the IFRS. So we can compare the results. I also want to talk about the impacts of comparing this implementation. We'll talk about the pre; and post-results before and after IFRS 16.

First and foremost, this is the highlight, a strong sales growth. It was 12.4%, leveraged by AssaÃ's performance. It continues to grow as compared to previous quarters. Multivarejo also showed consistency in terms of keeping up with the sales levels in the same store, which is around one mid-digit. That is how we could grow strongly above inflation rates and above industry average on the interest rate. That shows that our stores are fully adapted to customers' needs.

We see that gross margin, on Slide 4, reached 21.9%. Just want to highlight that that is due to a greater representation of AssaÃ and net margins are stable and reflect competitiveness, which is appropriate and truly assertive.

In terms of expenses with admin and with sales, in Multivarejo, we continue to show growth below inflation rates because of our control in terms of expenditures. As to AssaÃ, we see a significant dilution of expenses, which contributes to a dilution of 16 bps for GPA. Our GPA Food products' adjusted EBITDA shows a solid growth of 15.2%. That is due to a strong performance of AssaÃ and consistent results for Multivarejo and margin we reached was 5.4%, 20 bps as compared to last year.

In terms of net profit for controlling shareholders on continuing operations, that is our Food segment profit totaled BRL 216 million, which is 41.7% growth, reaching (liquid) of net margin of 1.7% of sales, an improvement of 40 bps. Consolidated net profit for controlling shareholders reached BRL 152 million and that shows the better performance of AssaÃ, multi-malls and Cdiscount.

Moving on to Slide #5. Here, we see a comparison of the effects of the IFRS 16 rollout. These are noncash effects. We see a marginal EBITDA that goes from 5.4% to 7.2%. That is a 180 bps increase. Since we're not looking at expenditures with rentals, which are being substituted by financial amortization expenses, that is all it -- for all the lease context.

In terms of financial results, we go from 1.1% to 2.3% sales, as I've already mentioned. Net profit has a marginal impact of 20 bps, which is a negative impact. However, net margin after implementation was just 1.2%. That is 50 additional bps as compared to the previous quarter.

Moving on to Slide #6. As I mentioned, we see an improvement of 10 bps as compared to last year, meaning that IFRS doesn't have that much of an impact because of a less cost of our debt and participation of consumables, because of a lower level of our CDI and a greater participation of AssaÃ in our business. AssaÃ runs our business without any working capital, which is different from Multivarejo.

In terms of debt, we keep on having a low leverage level. And that is 1.1x our EBITDA, which accounts for a net debt of BRL 3.5 billion by the end of the quarter. We finished the First Quarter with a cash flow of BRL 2.9 billion and also BRL 1.8 billion in preapproved credit lines.

Our CapEx this quarter reached BRL 460 million. That is a 40% growth as compared to last year. That shows the acceleration of our organic growth. Particularly for AssaÃ, we opened one store this quarter. But we already have 10 stores under construction, aside from PÃ£o de AÃ§Ãºcar and Extra Super renovation, through Mercado Extra or Compre Bem.

Moving on to Slide #7, Multivarejo. I will just highlight some topics. In terms of sales performance, we keep on having an average growth of a mid-digit for the past 12 months. That is for the past 4 quarters, sales have been growing stable, 1% above industry and 2% above inflation rates. For Multivarejo, the flow of customers grew more than what we saw in the previous quarters.

In terms of brands, we see the acceleration of PÃ£o and the strong growth of Proximity stores. Another highlight is the strong e-commerce sales growth and as Peter mentioned, that also impact exclusive brands. EBITDA was steady, 5.5% of the IFRS 16 sales despite the Easter calendar.

Before handing the floor over to Marcelo Bazzali, I just want to say that we're very pleased with the results this quarter. We've seen great operational results. And if you need more details, please ask us your questions. It shows our strong adoption of our portfolio to the market where we operate.

Marcelo, the floor is yours.

Marcelo Bazzali

Thank you, Christophe. Good morning, everyone. I'm pleased to show Extra's results in the First Quarter 2019. We've had consistent growth in all 3 formats. In the First Quarter, gross sales same store is 2.7%. And for Super, 7%, important gains in market share driven by our commercial activation plan and repositioning the supermarket model, our focusing on improving our customer experience and speeding up the business profitability.

On top of that, we have been having efficiency gains processes. We are making spaces in the hypermarket more profitable, providing greater assortment, great synergy, generating additional flow. The profitability of leases grow 0.6% when compared to Q1 2018.

I'd like to highlight the performance sales of Extra Super. Same-store sales is 7% greater in the First Quarter. We are revamping the stores to Extra Super market that has had 30% growth when compared to the previous period. Ticket volume and EBIT are growing. Only 16% of our part, these converted stores, account for 46% of the format growth, 3.2percentage points.

Moving on with the project expansion, a foreseen conversion of another 20 stores by July 13 next week. Extra Hiper has been positive dynamics, growing its market share 0.5percentage points in that format. Perishables have evolved consistently in 2 previous quarters, such as the butchers, the bakers, FLV and desserts, categories that can generate flow. We have been improving assortments and promoting our season counter.

Nonfood items have a positive trend with 2-digit growth, household appliances, audio, cellphones and games. As Peter said, exclusive brands are an important part of our -- in our 3 formats. For Extra, for example, we have some subcategories above 25% stake.

In Q1, we've had consistent growth in the Clube Extra app, more than 5.3 million downloads. We have relaunched food e-commerce. It's now called clubeextra.com, in total alignment with the loyalty program. Identified sales has reached 57%. In digital transformation, we now have e-commerce. And that's within the loyalty Clube Extra, both website and the app. In the First Quarter, we've had 2 high -- 2-digit growth, not including Easter.

We have 6 e-commerce stores ship from sport -- ship from store. And we have another 29 on the way. And to speed omni-channels even more, we have included James Delivery in 4 stores, just like Peter briefly mentioned. These latest additions have turned Hiper (into) the first multichannel store, to optimize the time our customers spend, James Delivery, (inaudible) and (pogifass).

Earlier this year, Extra has been awarded by the state of SÃ£o Paulo's leading newspaper as the most admired brand in supermarket. We've always have -- we've been awarded the excellence modern consumer prize. I would like to thank the entire Multivarejo team and the bandeira Extra team. I'm very pleased to be part of that format as of January. And once again, I pledge my allegiance to the commitments of the company, to deliver results for all 3 formats.

I'll turn over to Laurent now.

Laurent Maurice Cadillat

Thank you, Marcello. Good morning. Thank you for attending our call.

Our first results' sales growth, emphasizing our leadership position. We have 4.6% improvement in same-store concept, 2.2% above Q4 of last year. We've had important improvements in terms of customer flow earlier this year as a result of commercial activations, promotions and the relaunch of the promotional campaign of collectible items back in March.

The performance have been driven by the renovation plan, 20 Generation 7 stores and 6 Generation 6 stores that have increased sales above 6percentage points, when compared to non-renovated stores. This cluster shows a 24% stake in total sales and over 1/3 in total results. We're going to renovate 10 G7 stores in 2019. We have started projects in 2 units. And we are expected to reopen these stores in Q3 of this year.

We have concluded the First Quarter of 2 stores' Test and Learn, in which we have developed commercial concepts and purchase experience. They can be replicated in the short term in other stores. We have introduced new concepts, new products. We've tested some Foodtechs, offering solutions and services to our customers, the dry aged, Pre-Scanning of purchases and Self Check-out among other initiatives.

We have also implemented an important plan to provide better quality assortment offers in the FLV stores. We keep on rolling out the (M Move) project, a model that will improve operations and striving for excellence. We have already implement in 15 stores. And we're going to conclude all stores by the Third Quarter of this year.

As to the loyalty program on de AÃ§Ã°car Mais, in the quarter, we had 6.3 million in our customer database, over 30% increase since the launch of that app. In Q1 2019, we have maintained an 85% level of all these brands, identified brands.

In Q1, e-commerce -- Food e-commerce have had or has had solid 2-digit growth because of strong commercial activation, operations and a progressive rollout of our picking app. We've had Express in 73 stores in 12 states. We have started our expansion project for 2019.

As to multichannels, we've included James operations in the quarter, as Peter has said. We have increased the number of orders every week. And Cheftime has had consistent growth by offering gastronomic kits for 123 stores in SÃ£o Paulo, e-commerce open for the entire state of SÃ£o Paulo.

In conclusion, I would like to state the commitment of PÃ£o de AÃ§Ã°car to bring to customers the best product assortment with the best store purchase experience or e-commerce. We've had 2 awards, the most loved brand in SÃ£o Paulo by Veja magazine and the best delivery service by the Folha de SÃ£o Paulo newspapers. We're very proud to have received these awards. And we're going to keep on working to bring more commercial content and a better value proposition to meet the needs of our customers.

I turn over to Fred Garcia now. Thank you.

Frederic Garcia {BIO 1525714 <GO>}

Thank you, Laurent. Good morning, everyone. I would like to show you the highlights of Proximity gas stations and drugstores. Our sales have improved 20% in growth, volumes are growing 21% and customers 6% in the quarter, which show the strategy implemented as of Q2 last year.

As to Mini Extra, we've -- are transforming the process. We are optimizing costs, expenses, adjusting prices and assortment. We've had 24% same-store growth. We've consolidated strategy in FLV, bakers and penetration of exclusive brands, having more synergy with the Extra brand.

We've had expressive market share gains, 0.7 in the quarter, with the neighborhood market, where Proximity that retracted 1% in the period. And we have consistent improvement of the business profitability, 370 bps, when compared to 2018. These factors indicate that we have room to improve the brand even further.

I would like to say that for the second year in a row, Mini Extra was the best (recall) in the Folha de SÃ£o Paulo newspaper. In the Minuto PÃ£o de AÃ§Ã°car, which had 14% same-store growth in the last quarter, we've started bringing together the promotions, a more assertive positioning of exclusive brands and we have evolved in terms of sales and also number of customers.

We've started entrega or Express, a new platform specialized -- Pao de Acucar Adega, specialized in beverages for our deliveries in SÃ£o Paulo. And we also offer a gastronomic experience. One course is on wine harmonization and other beverages in our physical store. The adegaponte.com, our sales are growing. Online sales total accounts for 10% of the wine category in Multivarejo. We have been doubling online sales every year.

And still talking about multichannels, we're implementing Carry & Go systems in the headquarters of the company, as Peter said. We developed that in 30 days. And it's about 6% of total sale store, speeding up the sales process, providing more comfort to customers and improving productivity. We're considering rolling that out to other PÃ£o de AÃ§Ã°car Minuto stores. That's the format that will be the driving force to implement new innovations.

The drugstores, we've had better commercial relations with distributors and labs. And we have been working to provide better service and delivery to our customers. Sales growth, better assortment, better prices and reducing disruptions are priorities for 2019.

Gas stations, we have 2-digit sales growth, volumes and customers as well, an expressive growth in customers, as I said. We've started the Belas Artes gas stations on top of 2 other gas stations that will be started this month, aligned to our expansion plan of new gas stations we had announced before.

For this year, we're going to consolidate the strategies envisioned last year for both Mini Extra and Minuto PÃ£o de AÃ§Ã°car, having better profitability and capturing every cost-reduction opportunity, especially in logistics. As we said, we are again expanding on our Proximity model stores. There will be 20 new stores this year. We're making the lives of our customers easier.

Thank you for the opportunity to talk about the business unit, about Proximity stores. I would like to thank my colleagues and the entire Executive Board of Multivarejo for the support and implementation of these initiatives that reinforce our multichannel strategy. And we are highly committed to the company's strategy.

I turn over now to Belmiro.

Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Thank you, (Serge). Good morning. AssaÃ had yet a strong quarter, 6.9 -- almost BRL 7 billion in the First Quarter. For seven years in a row, we had above 20% growth, 25.6%, BRL 1.4 billion in more sales when compared to Q1 2018. This is a result of excellent performance for the same-store sales.

We had 10.7% growth in sales supported by greater inflation rates in food items, about 6% but the rest of it is really true performance gains based on the existing number of stores. 25.6% in two years, the total would be 62% or 108% in three years, almost tripling. And from 10.7% for stores, it's based on last year's numbers, that was a strong one. 12.9% grow, 24% and 37% in a 3-year period.

This has shown that AssaÃ is a perfect model for corporations or small business owners and end users, that we have been adapting to meet the needs of those customers, giving a better purchase experience. In the First Quarter, AssaÃ was awarded by Folha de SÃ£o Paulo newspaper for the fourth year in a row as the best wholesaler in SÃ£o Paulo.

And we have been expanding our customer base. BRL 1.4 billion is a result of conquering one customer after another, 2.8 million new customers. First quarter numbers indicate that for the year, we're going to be including more customers. On same stores, about 3 million new customers will be added to our customer base, despite the strong sales growth both from expansion.

But the gross profit has been stable, a minor drop of 0.1% when compared to last year because we had a large concentration of -- open 10 new and large unit stores and that actually diluted our P&L. But we have reverted that as a result of commercial initiatives.

We worked with our suppliers. The industry helped us in replenishing our stock. And we've had logistic gains. Our DC in Cajamar was starting its activities. Now it's in full capacity. We had a reduction of disruptions. And we've had a very strong rate, 24% growth when compared to last year's. The highlight of the first Q was expenses reduction.

And we had a strong heatwave that impacted energy rates AssaÃ has managed to reduce from 0.4%. Before the impact of IFRS 16, the impact is about 0.7% because it affects fixed leases. So we have more efficiency using labor. This is the result of HR providing better support from the industry. We had better sales -- or representatives over the weekend because we have changed the flow of customers a little bit.

And AssaÃ has been investing, not only in expansion because that's more visible. But we're also investing our old stores. And we have been improving the equipment, especially to store fridges that are more economical. So we have -- providing good purchase experience and reducing expenses. We have been investing in training programs and giving them that ownership feel. People are more engaged and we're promoting low-cost mentality.

We have increased EBITDA rates from last year's. So the expenses improvement was captured in EBITDA. It's from 4.8% to 5.2% before IFRS 16. As mentioned, our financial expenses were at 0.2. As Christophe mentioned, we have positive work capital. We are controlling stock levels. Despite the amount of stores under construction, we haven't seen impacts on our cash flow and we kept up with our ability to grow, expand and keep up with our expansion.

I'll highlight our net profit in the period, which was BRL 158 million, great evolution moving from BRL 2.3 million to BRL 2.6 million net profit. Despite the fact that we're going to new cities, new states, that we're adding new customers to our base, we've been growing consistently in terms of sales growth, our gross profit, which is aligned to our net profit as well.

What are the prospectives for 2019 in terms of expansion? Last year, we opened 10 stores in the months of December and November and in this First Quarter, we opened the (cesar's red though) unit, which used to be an Extra market and was converted into an AssaÃ market.

We also opened 4 new units, one in the Aricanduva shopping mall. This is going to be a different store of AssaÃ, more than 8,000 square meters of point-of-sale, checkouts and parking lots in the Aricanduva Mall, which is the largest one in Latin America. We also want to open a store in the State of Pernambuco, the first store in the city of Palmas in Tocantins and one in the State of Bahia.

We have 12 ongoing stores, which are under construction: 2 in the State of PiauÃ; 2 in the State of Bahia; one in the State of Rio de Janeiro -- actually, 2: one in Campos dos Goytacazes; another in Nova IguaÃ§u, which will count on the distribution center; 3 stores in SÃ£o Paulo, one in AmapÃ¡, one in ParÃ¡, one in -- AmapÃ¡; and 3 new stores that are going to be opened in the Fourth Quarter this year, which is aligned with our guidance in terms of number of stores opened and our sales guidelines, which were published earlier this year.

In the First Quarter, we haven't had strong results in terms of our economics. And our trend should change in the third and Fourth Quarter as compared to previous year. But as far as you can see, we have seen great figures in the First Quarter and we're going to keep on growing AssaÃ, increase sales, go into new cities, according to our new models, which will contribute to our increase of market share and results for GPA.

That was it for AssaÃ. We're now going to open for a Q&A session.

Questions And Answers

Operator

(Operator Instructions) Our first question is from Joseph Giordano from JP Morgan Bank.

Q - Joseph Giordano {BIO 17751061 <GO>}

My first question has to do with Belmiro's comments in terms of inflation rates for food items. I'd like to understand how big that risk is in terms of inflation rates for the second half of this year because all the inflation pressure for the meat industry, since we've seen the swine flu that impacts production of proteins in China.

That takes me to the second question in this context. Do you see any risks for trade-down? Because when it comes to Multivarejo, our gross margin is quite interesting. Was that because of our mix of products? Was it because of seasonal impact?

And finally, I'd like to understand your synergy strategy with Ã‰xito because last year, we saw a great strategy for the textile industry. Do you have any synergies in that sense for this year? Has that helped in terms of leveraging our strategy for this year?

A - Unidentified Speaker

Hello, Joseph -- well, in terms of inflation rates, the greatest impact when we look at the whole industry -- of course, the meat industry has an impact to us. But first, the main impact came from commodities and FLVs because of rain.

For the first -- or for the third end quarter this year, since in the First Quarter last year, we saw the inflation rates as we look at our current prices in different categories, we should see a decrease.

In terms of food inflation rates, which not necessarily has to do with general inflation rates and suffers impact from our mix of products, we believe that in the second and Third Quarter, we should see, yes, inflation rates present. By then, this will be reduced, because as we look at prices for the Fourth Quarter last year, we do not see an increase in inflation rates, not at least now.

As to meat, yes, we see an increase. But we don't believe it will increase inflation rates for the other products. We expect impacts coming from the meat industry to be offset by the commodity prices, namely rice, soybeans and flour. That's what we saw last year. Milk is also important to take into consideration. But we do not see a risk for the other food items.

In terms of trade-up, what consumers had to do in terms of changing brands, well, that has already been done. So if crisis doesn't get worse, we should not see any change. In terms of prices and packages, we should see a great level of stability. And we don't see a change in terms of purchase habits. I'll hand over to Peter to talk about Multivarejo.

A - Peter Paul LourenÃ§o Estermann {BIO 15380447 <GO>}

Thank you, Joseph. Thank you for your question. Trade-down risk for Multivarejo, well, we don't actually see any risk as of now. As far as we understand, our sales strategy, our competitiveness level and the different mix of categories allow us to say that we should keep up with the results that we saw last quarter. So no, we should see no risk for Multivarejo in that sense.

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

In terms of our synergy strategy with Ã‰xito brand, we are now reaping the fruits of the strategy that was implemented more than two years ago and that should be worth $140 million a year. I know, Joseph, you asked about the textile industry. And as you know, we can't disclose numbers on each of these items.

Now what I can tell you is that textile industry is showing a great purchase behavior, which has been leveraged mainly by the work that we did in the past months to increase synergy. Many of these impacts are recurrent ones. But it's very hard to give you a number for this year. However, we are going to see positive results, which are going to be very similar to last year's results.

Q - Joseph Giordano {BIO 17751061 <GO>}

Christophe, as to our own brands for food items and imports, how has that helped us increase our penetration in this category in the industry?

A - Peter Paul LourenÃ§o Estermann {BIO 15380447 <GO>}

Well as to our own brands, what I can tell you is that the most significant volumes, they are not related to imported brands as we develop new SKUs for our own brands. In Brazil, as I said, the market share of our own brands has significantly increased. We've reached 12% already. And you can be sure that our own brands have a positive contribution to Multivarejo's margins and that is especially true for some formats, where we already have a good market share.

We understand that these brand strategies allow us to increase customer loyalty. We want to offer attractive products at low price and high quality. But also with better margins than the ones we've seen in other reference brands.

A - Marcelo Bazzali

This is Bazzali. In the textile industry, for feminine -- for female fashion items, we have a great participation with expressive results.

Operator

Next question, Thiago Macruz from ItaÃº Bank.

Q - Thiago Capucci Macruz {BIO 16404924 <GO>}

The question goes to Christophe. In terms of ICMS taxes, what are the advantages for us in terms of cash flow, not only in terms of our income statement? We see that states are now being ready to make that process run smoother. How do you go about that? What are your comments in that sense?

Belmiro, I have a question to you, too. In terms of our gross margin for the First Quarter, can we say that as we compare our year-over-year results, do you think results in the second half of this year will increase because we saw the impact of new stores that were opened in December?

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thiago, ICMS ST tax, which is the sales that is part of our outlook, which adds up to BRL 2.3 billion. Out of this BRL 2.3 billion, more than 50% or roughly 50% will be there in the next three years. The others will be there for the next 6 or seven years. Our strategies in terms of monetization, we'll have many, particularly in terms of logistics.

We're also looking at the opportunities of (TAT for nature). So we can fast-track monetizations. We are already carrying out some discussions with our providers, because that is also up to each and every state. So yes, we are in contact with the revenue services of each and every state of Brazil. So that we can move forward in terms of legislative issues. So we can better manage these assets.

And I have to tell you this is not the most efficient asset that is in our balance sheet but we are keeping a close eye on it. And this BRL 2.3 billion show us great monetization opportunities and we want to maximize these opportunities. So yes, we want to move faster but we can't be exposed to such a high risk.

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Thiago, as to gross margins, well, when we assess this figure, we're looking at new stores and old ones as all together. And as we open new stores, while gross margin is quite different in the initial months, according to where we open these new stores up.

So if we already -- if we are already present in certain cities, then we can have more aggressive investments than if we go into new states. When we look at figures from the First Quarter, our gross margin for new stores events as compared to previous quarter. When we look at the total (profit) stores, then of course, as we opened up 10 new stores under the new AssaÃ model, well, that had an impact, of course, in the First Quarter.

So we do expect an improvement for the Second Quarter for same stores. But we also want to open more stores in the Second Quarter as compared to last year. Remember last year, we had a truck drivers' strike that had a great impact on our sales and that has had an impact on our gross margin. However, figures we've seen so far allow us to have positive estimates that should be even better than the results we saw in the first year, this year.

Operator

Next question, Ruben Couto from Santander Bank.

Q - Ruben Couto {BIO 20636571 <GO>}

Food item e-commerce products for PÃ£o de AÃ§Ãºcar brand contributes to roughly more than 4% of our sales and James Delivery will play an important role in that sense. Can you tell us about dilution in terms of margins for the PÃ£o de AÃ§Ãºcar brand?

In terms of financial statements, I expected to see a reduction of our results because of the IFRS, because of lower cash flow, because of this element. Can we optimize these resources, because that is kind of difficult to see when I look at the consolidated figures in Via Varejo?

A - Peter Paul LourenÃ§o Estermann {BIO 15380447 <GO>}

Ruben, let me talk about our growth in e-commerce for the PÃ£o de AÃ§Ãºcar brand. You have to keep in mind that the major growth we've seen for food items' e-commerce is due to our Delivery Express platform. That is what we call ship-from-store activities. They can buy products online and we can just deliver to their homes.

This is a very profitable activity. So growth we see in Delivery Express contributes to margins that are way better than our next-day delivery, which comes from the DCs. So these accelerated results give us more positive results, that is because our focus here is growing the Express activities.

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

Your expectation in terms of financial results, well, I have to think of our debt. And our net debt is controlled. It is lower than the previous year. We decreased the debt, which was 1.2x our EBITDA. But our nominal debt is above BRL 500 million, despite the 2 TRSs, which brought us BRL 400 million in revenue.

So we're using the BRL 900 million of variation to strengthen AssaÃ's stocks. AssaÃ is growing and that's why we want to increase stocks. Once again, this is not due to the quarterly results. But we also want to strengthen stocks for Multivarejo.

For Multivarejo, it started growing again in the last quarter last year and its sales growth -- well, for the sales to grow, we had to increase stocks. So if we look at the 12 past months, to keep on with an organic strong growth of AssaÃ, we needed roughly BRL 1 million, that is a higher CapEx as compared to the previous year, which was BRL 100 million, which may explain our debt variation.

However, as a consequence of that, we haven't seen a reduction of our financial statements. We've seen stability, rather. But again, our guidance for pre-IFRS and post will show different levels. And again, we have guidance for financial results, which is roughly 1% of sales for the whole year 2019.

Q - Ruben Couto {BIO 20636571 <GO>}

That makes sense, Christophe. That was a clear answer, Peter.

Operator

Gustavo Oliveira has the next question, from UBS.

Q - Gustavo Piras Oliveira {BIO 15129435 <GO>}

The question is to Belmiro or maybe Christophe. What's the impact of the truck drivers' strike? What was the impact in sales? And what about margins? About the investments in AssaÃ inventory, when you look at the business plan for 2019/2020, is AssaÃ making investments using its own resources? Or is it using cash from other resources? Because part of those investments were made through the resources using from TRS in retail or Via Varejo of TRS?

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

Gustavo, the TRS resources were not used to increase the inventory levels. I was actually summarizing the variation of the nominal debt. It's a little over BRL 500 million and that is the result of greater inventory levels from operations or inflation in about BRL 1 billion. And you add BRL 100 million from more CapEx volumes in the First Quarter. And from that, you had to deduct the resources from 2 TRS, about BRL 400 million. I was just explaining the main elements of that variation. It does not mean I'm transferring resources from one business unit to another. And I may point out that in the case of AssaÃ, there's no such need. AssaÃ is "self-financed" with that CapEx level has been the same for over 4, five years. There's no transfer of funds from one BU to the next.

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

As to the truck drivers' strike, it happened last year and there was a lot of uncertainty about product replenishment, whether suppliers could deliver. We held most of our telesales or online sales because those impacts went to Q2 and a little bit of Q3. We reduced the sales volumes. Historically, we had better margins because the results in Q2 were very strong. But there wasn't some impact this year. Of course, we'll have a better performance in sales. But not in margin, necessarily, because of the mix. But we have variations when you sell to corporations, when you are not certain about replenishment. But you had to make sure that the country was not affected the same. SÃ£o Paulo was easier to go back to business as usual. But states, such as ParÃ¡, Amazonas in northern and northeastern Brazil, they suffered more. Now everything going according to plan, these effects should be corrected this year.

Q - Gustavo Piras Oliveira {BIO 15129435 <GO>}

Belmiro, I have a final question, if I may. Let me follow up on investment on James Delivery. Peter, you talked about Delivery Express a way profitable than DC delivery. But Delivery Express is something that you have for PÃ£o de AÃ§Ã°car only. I think the previous question was about the impact that James Delivery may have in your profitability as -- across the board. And what's your take on the investment you're making on James? The acquisition cost is much smaller because you already have your customer base. But what's your take on the future of this business in a 2-year time frame?

A - Peter Paul LourenÃ§o Estermann {BIO 15380447 <GO>}

James is starting its activities in our Multivarejo. So the impact is small. We're not going to announce the amount of investments in James Delivery in the next months. But the cost to acquire new customers is about 1/10 when we compare to our competitors. So our strategy to have James is very positive because delivery or fast deliveries are important to our customers. We have deliveries from our DC, larger purchases delivered on the following day. And we have express delivery. So it's separate from James at this point in time. You pick at the store and we deliver and then James, running in parallel for the time being, James may be consolidated within this same-day delivery is structured or the same-hour delivery, even. We're pleased with the results we've had so far. Daily orders are growing and costs are within our business plan.

Operator

Robert Ford from Bank of America asks the next question.

Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}

Could you talk about your take on business perspective for GPA, our long-term perspective? How can you better channel your cash flow to generate that? And Christophe, could you repeat the yearly number of synergy, $140 million? It seems too much when you talk about synergies. Can you provide further detail on where that synergy comes from? How would you break that down between GPA and other brands?

A - Peter Paul LourenÃ§o Estermann {BIO 15380447 <GO>}

Bob, this is Peter. Let me address the first question. Our strategy for GPA in long; and mid-term has been the same, as we stated before. The #1 priority is to keep strong growth from AssaÃ, between 15 and 20 new stores per year for the following years. We haven't changed that strategy in any way, even when we consider the good results we've had. And we also see some expansion opportunities of AssaÃ in regions that we have detected, based on the operational results of new stores. The second very important point is to adjust our store portfolio and we are converting Extra into Compre Bem stores. We had 186 supermarket stores or Extra supermarket stores. And by mid-2020, we'll have most of them converted already, because results we've had so far in conversions are very positive. Then PÃ£o de AÃ§Ã°car, we have two main focuses. Number one, we'll keep on converting stores into Generation 7 stores. We have 50 stores that could be converted and by mid-first semester 2020, we'll be completing those conversions, 50 stores out of 186, considering their geography and the audiences and the results we've had with G7 stores, just like Laurent said. Further down the road, there's some growth opportunities for PÃ£o de AÃ§Ã°car, too. And we could invest even more, expanding, opening new stores away from southeastern Brazil. Proximity, results have been outstanding, as you've seen. We found the right path. We have been very consistent. 130,000 square meters DC in SÃ£o Paulo, we can expand in that sense. And we may even expand away from SÃ£o Paulo. And the private label strategy that can help us provide more competitive edge. So the strategy remains the same. We're very confident that we'll be able to execute on this strategy in the near future.

Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}

That was very clear, Peter. And what about the $140 million synergy?

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

Bob, yes, I said $140 million. That is for the entire Latin American perimeter. I'm not going to break that down by synergy source. What I can tell you is that most of the synergy comes from sales, mostly in textile, fresh market. And we also generate a lot of synergy in all Latin American units in our loyalty programs, not only -- including efficiency gains overall, SG&A. That's not the most important factor, of course. But it does contribute across the bar. You cannot measure that very clearly and good practices scattered around the group. Just like Peter talked about James, this is all integrated in our business plan, just like we've stated in our guidances. As to the other point you made, how to use cash flow to generate even more value. Of course, this is something we have been doing for a long time. The company generates cash flow that is usually allocated to generating added value and our CapEx directed to high-yielding activities. AssaÃ and PÃ£o de AÃ§Ã°car, they give return on invested capital above 20%. This is a strategy we have implemented recently and this is the priority for our cash flow. We have been controlling working capital, yes, this is something we have been doing for some years. But there is no such thing as a disruption or a major change in trends or tendencies to use our cash flows. We believe that we have been maximizing the return that cash flow can provide to us.

Operator

Tobias Stingelin from Citibank asks the following question.

Q - Tobias Stingelin {BIO 20764287 <GO>}

Peter, what's your take on sales during Easter? You talked about some models, the conversions accounting for 50% in sales growth. Could you talk about Compre Bem a little bit more? And finally, the question to Ronaldo, what is this Cnova situation? What's going on? You decided not to make that option? But are the results -- or are the impacts negative in the results? What can we expect for them?

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

This is Belmiro, Tobias. Easter sales was not as strong as in previous years, especially in terms of chocolates, homemade or even candies, chocolate candies instead of Easter eggs. But Easter eggs, 140 grams was BRL 20 and a candy box, BRL 6. So consumers migrated to candies rather than buying Easter eggs. We had about 40%, 50% growth in Compre Bem. The Compre Bem model has been very successful and we are now adjusting the number of those stores, 13 stores, we're adjusting policies and practices and we're adjusting -- we're converting new units to the Compre Bem brand.

Q - Tobias Stingelin {BIO 20764287 <GO>}

But do you believe that you have finalized that fine-tuning of the model in terms of CapEx and everything else?

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Yes. We still have to make minor adjustments. It's a very new model, something we started out back in November or December. So we made several adjustments in Q1, product model, replenishment model, the number of headcount. These are in-house. So to speak. But to customers, the model has been consolidated. We've seen ticket prices or the average ticket growing and especially in sales volumes. We have a separate BU, some channels to talk to suppliers, optimizing conversion costs. And we are very confident in ramping up the project the way it was envisioned.

A - Ronaldo Iabrudi dos Santos Pereira {BIO 5151863 <GO>}

Tobias, as to Cnova, I think you are familiar with that. In detail, 3 board members are part of Cnova: Christophe, Eleazar and myself. Results have been very positive, 2-digit growth. This is a company that two years ago reached its breakeven point and last year was profitable. And the commitment we have with the controller, we have a letter written out and we stated that in late 2018, given market conditions, we could resort to an IPO because we're not interested in having a stake in Cnova. That does not make sense to us. So this is a possibility that will be dependent upon the European macroeconomics, especially the French economy and depending on the company's results. What I can tell you is that results have been positive and the controller or the -- and we'll keep on assessing the situation.

Q - Tobias Stingelin {BIO 20764287 <GO>}

Just a follow-up question. There was another option of not going for an IPO but bringing different investors. I think the folks from Casino mentioned that maybe buy your stakes. That's what I heard from the folks from Casino. Is that true? Is that a real possibility? Are you considering that other than going for an IPO? In terms of sales trends, how is that going about for Multivarejo?

A - Ronaldo Iabrudi dos Santos Pereira {BIO 5151863 <GO>}

You are correct. Our goal is to focus our investments, as mentioned by Peter, according to the strategy that was previously set. We can go for a re-IPO. We can think of a different strategy. I mean, there are several different alternatives. And controllers are following up on that, alongside with us. So we can see what the best alternative is but it all depends on the market as well.

A - Peter Paul LourenÃ§o Estermann {BIO 15380447 <GO>}

Tobias, still talking about Easter, since it was now this year in the Second Quarter of this year, we saw good growth in terms of seasonal products. This year was better than last year's Easter. When we look at the market as a whole, the big picture is that yes, we'll be working hard. We need to have an assertive commercial sales strategy and we want to keep on growing just like we've done so far. And of course, we expect our macroeconomics to improve. I don't see any significant change for the Second Quarter. As mentioned by Christophe, we are confident. And we trust the guidance that was sent to you earlier this year.

Operator

Next question, Victor Saragiotto from CrÃ©dit Suisse Bank.

Q - Victor Saragiotto {BIO 19504427 <GO>}

In terms of reorganization, the question has to do with Via Varejo. Has anything changed? Do you plan on making any investments up until the end of this year?

A - Peter Paul LourenÃ§o Estermann {BIO 15380447 <GO>}

Well as to Via Varejo, nothing changes. We're going to keep with the same strategy as we have last year. It is to sell Via Varejo to a strategic investor by the end of this year. So nothing changes.

Operator

Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

I have two questions. In terms of shipping from store, do you know whether customers who will buy online or service through the ship-from-store service, do you know if these customers are new customers or if they used to go to our brick-and-mortar stores and are now buying online? Second question, do you think the express delivery can be done through stores themselves? Or do they have to use James Delivery because James Delivery is also offered by stores, right? Are we going to get to a tipping point, where one can impact the other and reduce -- or make customers experience a negative one in stores?

A - Peter Paul LourenÃ§o Estermann {BIO 15380447 <GO>}

Most customers who buy using our Delivery Express services are new customers. Of course, some of them are not. But most are and we do follow up on that. However, we don't disclose this type of information. On your second note, Delivery Express and store picking with James. While both services have a limitation to them, of course, we do have some international benchmarks that show us that when that figure goes above 15%, one may see some impact in the physical stores. But we still have room to go.

Operator

Luiz Felipe Guanais from BTG Pactual.

Q - Luiz Felipe Poli Guanais {BIO 19933939 <GO>}

I have two questions. The first one goes to Peter. Peter, could you tell us what the James customers look like in terms of their average ticket and in terms of purchases? And the second question goes to Belmiro. Can you talk about average ticket for cards in AssaÃ- and how that has helped us increase sales?

A - Peter Paul LourenÃ§o Estermann {BIO 15380447 <GO>}

Luiz Felipe, as to James Delivery customers, as I mentioned, we still have a very small customer base. But what I can tell you is that they are looking for comfort. Since we can deliver products in different ways to our customers, we do have the next-day delivery, the same-day delivery using our express services and the last-minute delivery service, what we can see is that we have different customers who buy at different times. However, our customer base is still not big enough so we can see what the James Delivery customers profiles are. What we can tell you is that they buy and their focus is on comfort.

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Well in terms of cards, we issued more than 100,000 cards, reaching -- totaling 720,000 cards for AssaÃ. Our average ticket goes above the AssaÃ average ticket, that is 42% higher. The idea of AssaÃ is to provide customers with the wholesale presence, regardless of how much they buy. So we've seen great acceptance of our credit cards. We've issued roughly 40,000 cards a month. Some customers have some financial restrictions. So the penetration rates for mature stores is around 7%. We've been making some investments on our value propositions alongside with ItaÃº Bank. But numbers show that customers value this value proposition and this new brand relationship we are building. We see that there is recurrent -- customers buy or look for this card more the time. So yes, we see a very positive result coming from this project. This year, we should go above 1 million cards issued. What they are looking for is longer payment term, especially for appliances and with the AssaÃ card, customers can buy for an even cheaper price.

Operator

This concludes today's Q&A session. I would like to turn the conference back to the company management for the final remarks.

A - Peter Paul LourenÃ§o Estermann {BIO 15380447 <GO>}

I want to personally thank each and everyone who took part in this conference call. We're very pleased with the results that we have just disclosed. I want to thank GPA's team. Thank you for your commitment. Thank you for your hard work in terms of delivering our strategies. I also want to tell you that we are confident that our economy should improve. We want to reinstate that we at GPA are ready for this new economical moment.

Operator

GPA's results conference call is now closed. The Investor Relations team is available to answer any other questions you may have. Thank you, all for participating in this call. And have a nice day.