Q4 2011 Earnings Call

Company Participants

- Abilio dos Santos Diniz, Chairman
- Corporate Participant
- Hugo Antônio Jordão Bethlem, Vice Chief Executive Officer of Corporate Relations
- Orivaldo Padilha, Financial and Investor Relations Vice Executive President Director
- Raphael Oscar Klein, Chief Executive Officer
- Roberto Fulcherberguer, Commercial Vice Executive President Director
- Vitor Fagá de Almeida, Investor Relations Officer

Other Participants

- Analyst
- Andrea Teixeira
- Daniela Bretthauer
- Gustavo Oliveira
- Lucas Suemitsu

Presentation

Operator

Good morning, and thank you for waiting. Welcome to Grupo Pão de Açúcar's Conference Call to discuss the Fourth Quarter and Full Year of 2011 Results.

That today's -- are being broadcasted via website, simultaneously, and it can be accessed at www.grupopaodeacucar.com.br/ri/ and www.globex.com.br/ri where you can find the presentation, the slide selection will be managed by you. There will be a replay facility for this call on the website. We inform that the company's press releases are also available at the IR website. This event is being recorded and all participants will be in listen-only mode during the company's presentation.

After the speakers remarks and completed, there will be a question-and-answer session when further instructions will be given. [Operator Instructions].

Before proceeding, let me mentioned that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the believes and assumptions of GPA management and an information currently available to the company. They involve risks, uncertainties and assumptions, because they relates to Q2 events. And therefore these depends on circumstances that may or may not occur during the future. In fact we should understand that general economic conditions, industry conditions and other operating factors may also effect the future results of GPA and they cause results to differ materially from those expressed in such forward-looking statement.

Now I would like to turn the floor to Mr. Hugo Bethlem, Executive Vice President of the company.

Hugo Antônio Jordão Bethlem {BIO 5673258 <GO>}

Good morning everybody. Welcome to the fourth quarter of 2011 and full year 2011 earnings conference call.

I would like to ask you all for your understanding. Please understand the purpose of this call which will be the results. Any guidance for 2012 will be given only during the GPA play as it will occur in late March and the date to be confirmed and I would like to invite you all to participate and get --.

Today with us, we have Abilio Diniz, Chairman of the Board; Enéas Pestana, CEO of Grupo Pão de Açúcar; Raphael Klein, CEO of --; the new name of Globex; -- CEO of Globex Westcon; -- CEO for Business and Specialized Businesses besides Vitor Almeida, Investor Relations and the -- CFO -- together with the other Vice President and the Executives. And they will all be able to help during the Q&A session.

Now I would like to give the floor to Abilio Diniz.

Abilio dos Santos Diniz {BIO 1781457 <GO>}

Good morning, everybody. The results of 2011 can be considered as very good and due to the year that we have major difficulties around the world, especially abroad. And in spite of all the difficulties, that we were able to grow about 3% to this year. So in spite of all these difficulties in which major competitors lost sales and they had a low profitability. We will able to grow in same store sales as we grew also inaugurating new stores and organically as well. And we had a year that we can consider as very good.

The outlook for 2012 is as following. I think the outlook is even better than 2011. And I believe in the growth of the country, I believe that also will be growing something like 4% and in the economic model that the government is following. We had priority given to the social area, and this administration has the intention of putting an amend to poverty in Brazil, so that all the social crisis may migrate upwards gradually, but this model makes the country grow based on our domestic consumption without forgetting the need to look to the rest of the world in order to balance our current account with the other countries and looking at exports as well, but based on a growth and income distribution and improvement in income, improvement for the whole Brazilian population and therefore increase in domestic consumption. Of course this model is favorable to us, we are distributors.

We need very full flavor, we need income, we need credit for our client. So, I think we are going to have all that. We forecast a very good year as in my opinion it will be an even better scenario because the overall economic scenario is better than the previous year and in our company we wish to be this year even better than we were at last year and certainly the next year, we will be better than this year.

So following this route, I think that we can forecast a very good year with satisfactory results and that may add value to the company and value to all our shareholders. This moment, I would like to thank very much our team and the leadership of Enéas, Gustavo and all the Vice Presidents that are in this room with us. They are doing an outstanding job and excellent job focusing on the company, focusing on our bottom-line which is what we need. Thank you very much.

And now we will go ahead if you have any questions, I will be here during the Q&A. Thank you, Abi.

Questions And Answers

A - Corporate Participant

[Technical Difficulty]

Very appropriately about those who are here with us our segmentals and I will be focusing more on a mark review, more into -- and more focus on Grupo Pão de Açúcar. I would like to highlight a few points that I believe in your considerations and your analysis they could be important for Globex. I think that 2011 was a landmark, a year that started with many outstanding blocks. But we had the capacity to overcome all of them. During this year, we think we've done our people very much and we were able to work very much in the consolidation of our management model which is very well event.

Abi just said, we became the largest distribution group in the whole country and we had to adapt in terms of our management model in order to be able to tackle all that and manage all the businesses and all the formats and all the regions and we have been delivering all that during this year we further reinforce this and we also reinforced our values and our culture, you all are very familiar with that as I understand. And we are very serious about our values in the Group, determination, discipline and emotional balance. These are very important values. This is not something just to be on paper, to live on paper, we have to live this in our lives, in daily routine everyday.

Our assumptions continue to be the same, agility, empowerment with responsibility, with accountability, focus on results and returns to our shareholders. I think this has been further strengthened in the Group and we really live all these values.

In this year of 2011, there was a huge cultural movement here focusing on -- we are able to gain that on 170,000 people, the biggest employer in the whole country and due to this -- and the important fact is give to our people and this Group is responsible for, the Group that we launched a movement, we wanted to be happy here.

And this movement tries to create the right conditions for people to be able to do their work with happiness, with joy and with optimism creating -- circle in their professional and their private lives.

And they see that we didn't care for our people, that we cared for our clients, that we do what we have to do with full dedication. And with that the client is even more satisfied, the client comes back. And we thereby create this purchase circle.

We have been working on that in a serious manner, in a responsible manner creating sustainable solutions in order to reach this aim. We made great strides in this direction, we have a very skilled team, a team that learns on an ongoing basis, a management model that we consider, the technical aspects but also the connection among the fundamentals of the companies that we own.

We have a management model that is fully aligned with our organization with very clear responsibilities, all of them defined and consistent and aligned with this model and with this structure. And where we define targets and indicators in a crystal clear manner and these targets and indicators are fully aligned and are based on -- are the basis for the variable competition for the executives and our system of the accountability to also fully aligned with the targets that we have indicated.

So all this connections make up a cause a robust management model and which is necessary to manage this huge company. Huge from the viewpoint of geographical footprint as well as the fact that we are multi-business and multi-format company.

And I think we should also highlight that we have been making important investments in IT. We have our executive officer for IT and he has been doing a spectacular job in logistics as well. Major investments being made in order to guarantee a supply platform that may be efficient and effective, that can really do its because this is the core of retail and capital structure that is sound with low indebtedness and that liquidity is very major importance.

So we have this fixed synergy and we do our job in a very serious and responsible fashion in a very competent manner by -- our capital structure.

Our capital structure also guarantees, a long debt with a long profile with a consistent reduction in our funding cost -- is the Head of this area and he was able to close our income statement before the deadline. So, I would like to pay tribute to the people in our financial department.

And they are the ones who do the consolidations and this is what allows us to be here holding this conference call. In terms of our global strategy, based on what -- said we have a bullish outlook.

We trust that the future will be very good, this year will be very good and I have extreme confidence not only in our company but in the country and in the team that we have here on this table that we will be able to continue to tap into the good performance of our country and transform them into good results to our company or strategy, strong we have organic expansion based on the fact that we are a multi-format and multi-business company, the synergy that we have among our businesses this is what we have.

So our strategic plan is very -- it has been discussed in depth, we have our -- we have our plan, we have our strategy and all our actions in the short run and also for the whole of 2012 come from a long-term strategic plan that is very well structured.

I should also mention some highlights which were the restructuring Assai conducted by the Government is very competent fashion, it was necessary and I think we can tell you now that we have a cash-and-carry business which is Assai ready to fight and ready to fight for the leadership in this segment in Brazil.

The conversion of stores for excess super market -- which was a short run job and we were able to do over 220 conversions and today we already see a two-digit growth in this area. So the decision was right and it was right because it was done in a very careful manner doing all the math and with a very consistent execution.

The review of the Extra Fácil model, the proximity store that now is called Mini Mercado Extra already has two-digit growth. And it was also an in-depth review and part of the demand on the part of our consumers our clients for more perishable, for more services because of that we did this review.

And this shows how consistent this with the requirement experienced by our clients for more convenience and this was brought about because of the need of more of proximity and the company as always is paying keen attention to all that and we are very agile when we see that we have to undertake a change and we also pay keen attention above all to the demand on the part of the consumer our clients.

The restructuring of Globex will be explained in a few minutes, the main -- which was a very successful one. And we were able to capture synergies as we estimated and you can see this in our figures. And it is conducted by Rafael and his team with a lot of dedication and a lot of efforts.

So what I can tell you is that, we have a very dedicated team that loves the company and that works with focus and under -- previous guidance and my guidance which is keep focus on our business. We have major challenges ahead of us, we have to learn every single day in order to be able to grow a gradually stronger and stronger Group, prepared to face all the challenges that are there in the future. Once again thank you very much for participating in our call. And now I would like to give the floor to Hugo.

A - Hugo Antônio Jordão Bethlem {BIO 5673258 <GO>}

Thank you very much for your words. And now I would like to Vitor Fagá, IR Officer of Grupo Pão de Açúcar and he will be analyzing the figure for GPA Alimentar.

A - Vitor Fagá de Almeida {BIO 16103413 <GO>}

In the next four slides, I would like to talk about the results of Q4 and the year of 2011. I would like to start with slide number five, with the operating performance of three different format or banners that really make the difference and that have been giving it's positive contribution to the results of today, Extra Supermarkets is the first one. Extra Supermarket was recently created and most of the stores come from the conversion of corporate incentive stores.

And these conversions were made in order to increase the offering of perishables and reform of the stores at the offer of perishables according to the new needs expense by our consumers which are the focus of this brand.

The adjustments made in the market and -- in which and as refer to very briefly, have the intention of improving the assortment of products and services offered to the two target audiences of this brand and the conversions that is underway, which is the conversion of the Extra Fácil to Extra Mini Mercado model -- will be moved that we did in Extra Supermercado in order to increase the offer of perishables and -- assortments that rather to the new demand and desires on the part of our consumers. And these three formats give us significant contribution to our sales performance.

I'm now going to slide number six. We can see that in Q4, we had an evolution in same-store sales of GPA Food of 8.7% which is an acceleration vis-à-vis the previous quarter. And because of that we were able to reach 28.4 billion revenues which means about 10% increase year-on-year, and more than that same-store sales in the period reached 2% increase higher than inflation.

But now looking at the competitive environment, we have performance for the 14th consecutive quarter, a performance higher than the second player in the markets. If we consider that categories that are performing both non-food 3.6% in the period, also because of an innovation by Grupo Pão de Açúcar, a pioneer initiatives to implement in Brazil a promotion that we call Black Friday. And of course all of you are familiar with the Black Friday promotion in the U.S. market. And this year we were the pioneers and we implemented this in our brick-and-mortar stores.

All these initiatives reflected into an increase in our net earnings also, as you can see the impact of the conversion and the adjustments that I referred to. And in the last quarter, it was higher than 26%. For the whole year, it was very close to this level, 25.9, which also means a major growth quarter-over-quarter. And I would like to stress that this growth happens with a higher participation of the Assaí format which structure the -- lower gross margins. So, you can see that this result is considered by us as very satisfactory.

If we consider the EBITDA line, it is important to stress that the increase in growth income has to do with a control of our expenses, and we were able to have a relative reduction in expenses in the last quarter, 17.1 as a percentage of sales, vis-à-vis 17.8 in the same period last year. So this control -- very active control of our expenses associated with the increase in growth income led to a record EBITDA in the quarter, 9% EBITDA margin was delivered which undoubtedly is the result that must be celebrated.

For the full year, 7.6% EBITDA, which is a 0.4 percentage point increased year-on-year. And once again it is important to mention that even with a higher participation of the Assaí model of the cash and carry model that structured has a lower EBITDA.

Now, I would like to give the floor to Raphael Klein, who will be talking about the results of Viavarejo, the former Globex Company.

A - Raphael Oscar Klein {BIO 17276978 <GO>}

Good morning everyone and thank you for participating in the Viavarejo call. It is a great pleasure for me to be here today.

In the year of -- the year was a year of restructuring but with a lot of celebration, the year of 2010-'11 -- 2011, it was a year of restructuring but with a lot of celebration. We started a very tough year, needed to integrate those companies always giving priority. The lowest possible impact to our clients and this has always been a guideline of our Board of Directors in order to guarantee sustainable growth both of Ponto Frio and Casas Bahia and minimizing impact to our clients. And this brought about an 11% real growth, we had a slight deflation in our sector and besides all the restructuring and all the integration that Enéas has already referred to, we were able to get an aggressive expansion, 20 Casa Bahia and six Ponto Frio and already with a new concept, a concept which we trust will be very successful and we have a roll-out project for this concept of stores and also fashioning out the Casas Bahia model and this will begin over this year.

We have greater challenges for 2012, big construction of a company with a strong and unique team. The management of the company continues to focus on sustainable long-term results and we have the target to expand for 2012 in addition of 60 stores which means more than one new store per week. And we also some opportunities to tap into new synergies in our results and some of them depend on ourselves and some of them still depend on the current distribution to be made. We are working with Kaji. They have been flexible of meeting our expectations and we are working with Kaji in order to be able to capture as many synergies as we can for 2012.

The most important thing is to realize the dream of our client versus the challenge that we have now in order to talk about the figures. I would like to give the floor to our friend Kiro from Pontocom.

A - Corporate Participant

Good morning. Good morning everyone. And just focusing on the remaining highlights of Nova Pontacom over 2011. Great profitability and the acknowledgement of several market segment.

-- this year we had an increase in our consolidated sales and the guidance for the market. 41% -- year-on-year. And the market estimate shows growth in our segment between 18% and 71% depending on the source. In order to do that, we have our conversion, we changed our mix with seven other categories in 2011. But certain margins in our point of sale closing with 24 categories by year end. We had several improvements in CRM interface control platforms, processes have ended by leading to a growth 41% year-on-year.

The second highlight is profitability. We closed 2011 with 27 million as net income, logistics for instance and we also had an increase in our net margin of one percentage point. So this is the guidance for the market.

As to reputation we increased our time to market we had a series of evolution on our logistic platform to customers and that was acknowledged by our customers in terms of return to our website increased conversions as mentioned before and also according to some marketing securities. For instance we had a site, a website that is used by customers so they can -- they complain and we have rated as the first company in terms of response time and quality of the answers and we are also rated in the Diamond of category by e-Bit, an agency that checks performance of the players in our segment.

Lastly we were also awarded very interesting award, when it comes to social aspects, we're trying to use this channel so that we can use our e-commerce platform and we have very good results in our company and lastly, I would just like to say that the combination of this three highlights and factors altogether growth, profitability and reputation are providing more value to our Group simultaneously, highlighting our trust in the team, our team work and also our direction. So I would like to thank the whole team for all the efforts over the years, for partnership with Grupo Pão de Açúcar and -- that has helped us to come to our results.

Thank you. Next Orivaldo Padilha, IR Officer CFO of the retail line to analyze the figures.

A - Orivaldo Padilha {BIO 21118157 <GO>}

Good morning everyone, once again thank you for the opportunity. I will be making comments on the consolidated result for -- that includes Nova Pontocom results.

Highlights for gross sales over the quarter reached 7.1 billion, growth of 23.8% vis-à-vis the fourth quarter. Then over the year totaling 24.2 million in total sales. In terms of growth in the fourth quarter 840 same-store sales highlighting the operation of e-commerce growing 40.4% which is approximately double of the growth over the period for the market.

For the year as mentioned before as, ever since the beginning of our period we began to pinpoint deflation particularly in electronics categories. And that changes our performance indicators for same-store sales. For bricks-and-mortar stores, which had a nominal growth same-store sales of 7%, considering deflation and inflation rates, the growth, the actual growth was 11% from e-commerce, Nova Pontocom, 25.10 on the nominal basis and 32.30 in actual terms. Therefore the company from 10.10 nominal closes the year with 14.80 on a actual basis.

Another highlight is the growth in these stores, in our consolidated margin, early in the year 26.19, closing the year in the fourth quarter with 30.20. And consolidated basis 28.8.

Significant growth to our business as you can see.

On the next slide, another highlight is the EBITDA margin of 7.2% in the fourth quarter reaching R$446 million, for the year close to 1.93 billion, 520 and another highlight on this slide is that we were close to the cap of the guidance which was between 4 and -- 5.4, 5.5 reaching 520 and it comes from the increase, capture of synergies coming from the integration process of the company throughout 2011.

Another focus of the company on the next slide. Financial expense, they remain a priority to us, we were below the guidance between 4.5, 3.5 closing at 330 with a slight variation downwards in the fourth quarter and that comes from all the operational effort, priorities on turnover cause an improving our billing system, closing some operations that were non-interest bearing and increasing interest bearing installment plans.

Not to mention all the profits to improve funding costs and including all the efforts very well integrated with Grupo Pão de Açúcar.

On the next slide, that's one of our guidelines, we want to be driven by EBITDA results considering the receivables discount costs. We showed the result of the acquisition in the last quarter, we had already mentioned that before, and now we show the evolution chart.

-- the results. Net of receivables costs in the first quarter of 2011 was close to zero, and then grew to 0.60, 1.30 in the second and third quarter, closing the year at a level of 3.60. So all this process comes from priorities on this operation, the integration and all the changes made to the company. We never lead second place or income second place and priorities to achieve our goals.

On the last slide, we have our net income. The growth on a quarterly basis or adjusted net income over the year, we had 153 million expenses with the integration process, out of which 43 million are not cash, they are assets breaking off 119 of cash reimbursement.

And if we adjust P&L of the year, an integration cost will come to 215 million and the net income with the margin of 1% to 70, under the same concept in the fourth quarter.

[Technical Difficulty]

consolidated net debt growth as mentioned before continues to be very well under control, net debt to EBITDA ratio is close to 1.2 fold. Therefore we are improving our trend in the fourth quarter. As mentioned before by Enéas, and within our values of humility, determination and perseverance, discipline and emotional balance.

[Technical Difficulty]

growth brought us to a new levels in which we added in square, leaders of selling area something equivalent to more than 350 soccer fields in over the same period, considering all the hindrances domestically and abroad.

[Technical Difficulty]

...some players have changed position and taken leadership for eight quarters out of the 16 were altogether keep on playing in the future. I'd like to thank you all and invite you for the Q&A session on the company's earnings in 2011.

Operator

Thank you. Now we open the floor to the Q&A session. We kindly ask you to ask all the questions at once reading the company's results. [Operator Instructions]. Our first question comes from Mr. Lucas from BTG Pactual. You may ask your question, sir.

Q - Lucas Suemitsu

Good morning, everyone.

I would like to talk about retail EBITDA margin. It was very strong this quarter and I'd like to better understand the potential considering gain in our particularly related to gross margin. I'd like to understand what's the percentage of total synergies of SG&A that you believe that was achieved in the fourth quarter. Thank you.

A - Corporate Participant

Thank you for your question. I'll give the floor to Lukas.

What is your last question? Will you want to know how much of the expense is SG&A right? How much was captured in the synergy and there can't be a recurring guidance. So the first half on the gross margin will be answered by Roberto Fulcherberguer, Vice President of Operations in the commercial area of --.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Good morning Lucas. Thank you for the question. In terms of gross margins you have in fact again a strong growth over 2011. In our D&A we have a constant search for constant search for margin improvement on a sale basis that's part of our working. When it comes to the continuity of these revolution I can tell you that our current level is very aggressive. But we can preventive to keep on constantly seeking improvement in our business be in terms of pricing or any occasional negotiation. So we do understand that we are on the right track and we also seeing constant growth in the business.

Now I'd like the call give the floor to Padiha, so he can answer the second part of your question

A - Orivaldo Padilha {BIO 21118157 <GO>}

Thank you for your question, Lucas. In terms of expenses over the fourth quarter, the main accounts that contributed to improve our expenses in addition to gross margin was a whole integration process under the same system platform for logistics. We also had IT gain and particularly in the fourth quarter we also had positive impact. Thanks to the seasonal effect of the fourth quarter we had higher sales compared to the average of this three other quarters that's what you can see in the full quarter. We've not given synergy -- synergy amounts. I think we can expect to provide more details on the whole integration and synergy process during the Investors Day.

No amounts are being disclosed so far. Can we assume that the amount captured so far is very little compared to the whole amount.

A - Raphael Oscar Klein {BIO 17276978 <GO>}

Now Lucas this is Raphael. We believe in the bulk of the synergy has already been captured. So what we really remain for 2012 is this adjustment however there are capital gains that can still be further improved considering -- so we could have captured synergies but because of -- the capital things will remain for 2012 just to remind you we had some flexibility of - the agreements and that really helps us over the year. If you ask us to what extent we have synergy for 2012 we believe in the bulk of the synergy has already been captured. So what are really remained for 2012, in this adjustment however, there are capital claims that can still be further improved considering CA, KP, CADI. So we could have captured synergies that because of CADI, the capital claims will remain for 2012. Just to remind you we had some flexibility of -- the agreement and that really helped us over the year. If you ask us to what extent we had synergy for 2012, well the bulk already happened in 2011.

Just to highlight, this is global. When it comes to new synergies or current synergies, all you have to is to check digit kind of over the quarter and annualize figures for the results. There is a lot of consistency. Thank you.

Next question. Daniela Bretthauer from Raymond James. You may ask your question.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Good morning everyone. Before I ask my question, let me just make a comment. The analysts, while they always ask a lot of information that can be very, very annoying to the company. But I'd like to give you some compliments, because the fourth quarter release on both sides provided us with a lot of details and lot of explanation on non-recurrent items and growth of the lines. So I would like to begin by complementing you, but what I would really like to know is income statement of Nova Pontocom. But I believe that you will be disclosing that in the future. Now let me ask you my question.

First question to --.You've mentioned that Nova Pontocom 27 million that was the result in 2011. And I would like to know if that was -- or did you have any tax credit or anything that will add to this figure 27. So my question is could you comment and tell us what the EBITDA margin was in order to provide these results, because we already know the segments. It was in the --.

A - Corporate Participant

Daniela, thank you for your question. Let me try to address your topics. First results, okay you're right. In fact when it comes to tax opportunities that we could have over the year it was related to that quarter. So there are no tax figures that improved results. So several analyst ask this question. They want to know about income, profit et cetera. But we go through this theme that is very unique and why our results were so consistent. So we did have good results, good profitability and strong growth last year. We are not disclosing some indexes for this company. We are celebrating because we are improving our margin. Our margin has been on an continuous improvement process and this has also been held by synergies with the group. We still have a synergies to be tapped into in this future margin wise, but our margins are gross margin -- gross margin over 25%, just to give you some --. Another thing is that we've improved several categories. We started three years ago with -- in four categories. And today we already have 24 categories. We added further categories of high margins just last year, books, and furniture and we are beginning to work with Casas Bahia and we're willing to work with furniture are masters of this category in Brazil so they are plenty of opportunities in new categories improving margins, strong synergies, but great achievement.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay. Now I have two additional questions and I am focusing on the issue, because -- performance was just outstanding. And not so many questions to ask as I see it, so we have some issues. R$153 million in the integration between PontoFrio and Casas Bahia. I would like to know if there will be further experiences and what is the order of magnitude for 2012 on the priority and what do you expect to use as CapEx to open these additional 60 stores.

A - Orivaldo Padilha {BIO 21118157 <GO>}

Daniela, thank you, this is Padilha speaking. We decided to provide details on expenses in the release of 153 million and 119 were dispersers. We haven't focus our integration expense like the migration process, simplifying our operation. We need to find the back office, IT, and logistic consolidations. We've changed the whole process in 2011 and in 2012 we believe there will be low expenses. Obviously, there is -- but nothing compared to what we had in 2011. So, I am not going to give you any figures, but there will be a significant reduction as to cost and expansion, I'll give the floor to Jorge, the Vice President of the company to make his comments. Thank you.

A - Corporate Participant

Hello. This is -. In terms of the investment guidance, well, everything will be disclosing in GPA days, but I tell you right now is that we have a forecast of -- 70 stores this year. In addition, there will be something in terms of renovations and store conversions as -- said before, as for the new - model. So, dream GPA days will be providing the food of investment and guidance.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Last question if you allow me to do that - what about the geographic footprint of these stores, will they be more focused on existing markets? Of the new stores opened in 2011, I believe half of them were in -- or the Northeast. So, can you give us some flavor when it comes to the geographic footprint of the new stores?

A - Corporate Participant

Daniel, our store opening half this year was focused in the Southeast and Midwest and the other half in the Northeast. But we also be introducing our investment plan and expansion plan during GPA day.

Just bear with us. Thank you, I excite to live up with this curiosity.

Operator

Next question Gustavo Oliveira from UBS. You may ask your questions.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good afternoon, everyone. I have three questions. The first question has to do with depreciation for GPA Food. There was a significant increase over the quarter, I'd like to knew if that's a new level of depreciation or if there was any non-recurring effect?

Second question it has to do with the food sector productivity index there is a chart in the release at a very end showing gross sales by square meter and clearly we can see that -- sales improved almost 15% per year maybe the effect of conversions that are very positive. However. when it comes to -- productivity was virtually stable. And in -- there was a slight drop. If possible, I would like you to comment on what is driving productivity or why is it due stable and not increasing if we consider high inflation rates, particularly for --?

And the third question on more global question maybe more talkative to the -- issue. Did you believe that the financial expense as a percentage of revenue could go down, compared to the current level?

A - Corporate Participant

Good morning. This is --. Thank your for your questions. Answering your first question. Actually, we had an increase in deprecation. As a result, our intangibles that were recognized, related to this association of business with current buyers, in the last quarter this was stronger because the review of the business was made 12 months in the last quarter and fully acknowledge in the last quarter 130 million and I think we should have this for three additional year, but that's an annual figure, not something considered on half year basis or quarterly basis.

So considering the amortization of these intangibles, I don't think we have to go deeper during this call, but please feel free to contact us later on. Thank you.

We start with the --. The huge gain this year is actually in -- and we improved these stores to better meet our customers need and we don't see the same in supermarket. In supermarkets, we have maintained productivity and indicators. That's not a draw-off, but -

- and supermarkets they are clear performance, quite the opposite. Its just the market help share gains particularly we are the main competitors. Obviously in this sector competitiveness is stronger. We still have the challenge to go deeper into our performance and improve our performance particularly for non-food at the super market level and that's where we find great opportunities to make a difference and a higher impact to meet our customers needs.

In addition, I also think we are very well structured in these stores, and perhaps our model today is even more compact for this kind of stores. And that allows us in the future to have improved performance in the index that you mentioned sales by square meter. This is although just to add to the comment if you still is not the best and highlighting what we mentioned before about hypermarkets. This is for total stores. We have -- we opened more than five hypermarkets last year in the last Q in the maturity grosses.

As for Assai mall specifically, the new model that were opening in significantly greater than the average of our current Assai and it's still in the maturity process. So when we check same-store sales resulted very different but very positive.

This is Antonio. I am going to answer your third question about financial expenses in Viavarejo. Of course it continues to be one of our top priorities. And in general terms, we have been able to roll out and extend the cost of our debt and this is being done together with the GPA staff. And this gives a major contribution and this gives a major contribution to the drop in interest expenses, financial expenses -- everything points to a drop from the two digits down and this should bring about a major benefit to us and we continue to reduce our non-interest -- installments and increase in our interest -- installment sales. And the market should bring opportunities to 2012 and if we put together the three -- it seems to me that it is either a maintenance or a downward trend for this cost for 2012. But it depends on all these factors occurring at the same time.

Q - Analyst

Could you adopt a more aggressive commercial policy to increase your market share and may be sacrifice here little bit on the financial side of bit on the financial side of it but gaining market share, could you do something like that?

A - Corporate Participant

I am going to talk about the financial view point okay, whenever we work, whenever we interfere with our commercial policy the financial area works correctly with commercial area so that we may not have any negative impact for declines and these are the competitions -- will be talking out with. The financial department had to do with the pricing of the product to a certain extent, but we do not find any reasons whatsoever so far to waive or to sacrifice our profitability in order to gain market share. We have been gaining market share -- profitability.

Q - Analyst

Thank you.

A - Corporate Participant

Thank you.

Q - Andrea Teixeira {BIO 1941397 <GO>}

This is Andrea Teixeira from JP Morgan. Good afternoon everyone and thank you very much for the call and thanks for the way of detailed explanation I have three questions. Your company -- do you see an accelerations of sales in the first quarter because of minimal wage and tax incentives tax in the white line but do you expect these incentives to be renewed next month? And do you see a slowdown in white line sales or may be the increase in credit may be by the end of the year? You had a reduction may be in Viavarejo because of acceptance of the first credit line I would like to know if you have resumes the same proportion of credit guarantee that you had before. And is there any risk of having pressure because there is a minimum wage so there is collective bargaining and maybe you could update us how would that impact your results, CPTs results. And I would like to have your guidance. I think you said that you will only give guidance in your Investor's Day. But in the last call you said that it will 6% to 7% for food. So could you give us an idea, at-least for food, for CapEx.

A - Corporate Participant

This is --. I will start by answering the tax part of your question, the IPI, regarding the beginning of the year first. As w have already issued, the beginning of our year is aligned with our objectives. We are reasonably satisfied with January. Regarding the IPI tax whether it will be renewed or not of course this is a decision that depends exclusively on the Government and we expect it to be renewed. However, this is not under our control. You want to know whether there is an increase in demand for the white line? Yes. The reduction on the IPI has brought about an increase in demand however, things are rather balanced. The white line versus consumption of other categories and I would like to give the floor to Orivaldo Padilha now. He is going to talk about credit and -- issues. The demand for credit is unstable. The three instrument for financing that we have had at --, which are the -- card and the -- card and the CTCI have been kept stable with no limitations, major limitations whatsoever. And the variation is due to seasonality during the last half of the year. There was a growth and it is proportional to sales and this is by seasonal. So we don't have any problem in this area at all.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Are you more aggressive, because I remember that you were more competitive than the competition even when you charged interest. Now it seems to me that you are keeping the same commercial policy, your credit policy for new credits, of course for new credits. But you have been maintaining this policy.

A - Corporate Participant

The intend to be more rather because of the drop in interest rates. This is -- again. This is part of the pricing management and we have the same level of competitiveness that we had over the year, so we see no major variation in pricing management. Some retailers need more sales, but we have been dealing with this in a very natural manner, that is to say this is not affecting our profitability and overall pricing.

Q - Andrea Teixeira {BIO 1941397 <GO>}

In your first answer you said that your not giving any guidance mainly for the IR people for -- and retail, non-food growth for this year. Are you giving any guidance yet?

A - Hugo Antônio Jordão Bethlem {BIO 5673258 <GO>}

Andrea good morning. This is Hugo. Thank you very much for questions. As we said right at the beginning of this call we will give guidance during the GPA day, which will be held in March for all the areas.

During the last Board meeting that we had with FIC, our partnership with -- Bank, we had no slowdown in credit operations at FIC and neither did we see any increases delinquencies. We saw rather a drop in delinquency and we are going back to levels similar to 2010, which is a very positive trend for us to continue to improve credit. But as we have already talked during the call, and but I would like to reinforce the Group's position regarding the credit renting policy is balanced, balance between interest bearing and non-interest bearing, installment sales and talking about payroll expenses. What we see is the minimal way to bringing about a positive impact on consumption something like R$65 billion and R$80 billion coming on board in the Brazilian economy with these resources and regarding pressures on our expenses, it's important to say that for three years already, our salary increases are real around 100% every year and you do not see any -- on our expenses. Thanks to the hard work that all our businesses are doing in the sense of increasing productivity and this will continue to be strengthened during 2012.

And lastly about the CapEx guidance. Also during the GPA day, we will be giving guidance, but as announced before, this is a year that we are resuming growth and this is what -- said during his opening remarks and we intend to keep growth over 7% in terms of square meters in the food area.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you very much and thank you for the explanation. And that we'll be looking forward to GPA day.

Operator

Mr. --.

Q - Analyst

Good afternoon. I know you are not going to give us any guidance today. But I would like to understand the following, the margins achieved by the -- in 2011 was because of the high-end that you mentioned in terms of the range and it was rather different from what we thought it would be at the beginning when you had the first investor day to talk about Globex. The gross margin went up quite a lot and operating expenses not necessarily dropped as much as we expected. The result is good, it doesn't change things very much. But conceptually speaking, has this changed should we forget about the possibility of a slash and your expenses or could that still happened as a consequence of the synergies that you are going to talk about and after the projects approval? Thank you very much.

A - Corporate Participant

We did the Investor Days of Globex in October 2010 and we didn't give any guidance for our expenses. We gave a guidance for our gross margin for EBITDA and for financial expenses. These were the guidances given and they were all exceeded and now I give the floor to Raphael.

A - Raphael Oscar Klein {BIO 17276978 <GO>}

Thank you for the questions. I am going to answer in part and then I will give the microphone to Jorge Herzog. It's about the expenses, the financial has two different business model. Okay, we have -- with FIC in a partnership with FIC. Where some expenses and revenues go there and then with because of by year, we have credit model let's just say, both the revenues and the expenses pay under because of this value. We have these two different models. When we talk about expenses we are working, we are in a process for restructuring and was said that happened over 2011, but we must understand that - is made up of two different business models. So, Jorge will be answering your question to be business result.

A - Corporate Participant

Just for -- Raphael said. First of all, the comparison basis that we had for Globex was an part of the operation, which is where the different from causes by you, so you have to take into account that we didn't have this credit of model and the furniture model and this is where different between the two formats. During 2011, we had a major integration process and the integration process was based on our trying to top into synergies and that were implemented over the whole year of 2011.

As part of the synergies, we still capture in 2012 as well as new synergies that might emerge and that will give us a possibility to advance in some aspect that we are not doing it because, we depend on the - decision in this respect. So, we have been having an improvement in our expenses. We still see opportunities yet. However, they were not being of the same magnitude as we had in 2011. However they will still happen over 2012. And of course in GPA Day we will be giving you guidance and talking about our expectations. Thank you very much. And I would like to take the opportunity to talk about some other things. In the past it was said that the consumer finance company of -- could look for a partner and then that you were going to have a committee formed in order to discuss that. I would like to know how things stand? Do you intend to operate the business as it is now? How should we see this as part of the Casas Bahiabusiness. We know that this is rather relevant first and I would like to understand the terms interest barrier installment and non-interest barrier installment sales.

This is -- again. In order to talk about the credit model of Casas Bahia, our Board created a specific committee to debate this. And we wanted the company to reach a altitude and we are not right now working with the possibility of sale in installments at Casas Bahia, because we think this is start of model of Casas Bahia. This is a model but is already very well established with 57 years of history and we believe it is important to start considering this as part of our business model for this specific format and now I would like to give the floor to -- about the financial results, basically what happened in the year when we talk about the reduction of non-interest bearing, non-interest bearing went from 57 to 47% on average the average term of the non-interest bearing besides dropping by the 10% to it's point and participation it went from 10 times to eight installments from ten installments to eight installments on average now. On the other hand the interest bearing sales went up from 25 to 35% share of our sales and on the other hand we see a share of sales like with instruments like Casas Bahia around 30% directly from credit and 59% is on credit card and the -- or the credit. Around 15%. We have these three instruments for financing, and the cards the PontoFrio and Casas Bahia. We have over 6 million cards in total. Almost 4 million active cards and 10 billion credit already approved for this volume of cards.

I don't know whether we have answered your -- yes

Q - Analyst

I don't get all the figures or the numbers. But I will ask you later. But just a follow up question. As the customer finance company is Casas Bahia, is it already operating at the efficiency level that you expect or maybe with a benchmarking with other operations. Don't you think there would be opportunity to further increase this productivity and help G&A in general?

A - Raphael Oscar Klein {BIO 17276978 <GO>}

This is Raphael, are you talking about the CDCI the model as a whole?

Q - Analyst

Well the model as a whole as far as I understand. The method now is following. Well in the past we only talked about -- businesses credit business is core and we are going to take it ahead. So, I would like to know whether this became a priority in this course and whether you have already reached the efficiency level or if you have a higher target? Are you going to raise the bar?

A - Corporate Participant

The CDCI has always been a major focus of the company of course the company adapts to the market need. Some years ago, the Casas Bahia format didn't even accept credit cards. And Casas Bahia, Ponto Frio and Viavarejo as a whole is adapting to the new realities of the markets. In the past, you have the booklets of the installment booklet and card -- but this is a focus that we have on our credit granting operation from quite some time and even when we talked about whether we should remain with this credit operation or not, we were already operating at full steam in this modality.

Okay. So, thank you very much. So, I believe you have already reached the level of efficiency.

Next question Hakel Rodriguez from Goldman Sachs.

Q - Analyst

Good afternoon. I would like to have more details about the shutdown of the Ponto Frio stores. I understand they were store that were not performing according to your expectations but maybe you could give us a profile of the stores, were they low-income stores, were they street stores, is this part of the repositioning of the brand and what we expect from now on, are you going to further close other stores or that's it?

A - Hugo Antônio Jordão Bethlem {BIO 5673258 <GO>}

This is Hugo. Thank you for the question. Infact the shutting down of stores is not linked to the format, it is linked to the profitability of the stores, stores with very low performance with high costs. So it was totally separate from our target, so we did a salvage plan for these stores. And we tried to improve the performance of these stores but many of them were not -- didn't have a good location of even the Street was not active, but Street for product kind of store so we shut them down. There was a very low impact on our sales with the significant impact, a positive impact on our profitability because they were really draining our results. And regarding additional store shutdown, we have to evaluate all the stores on a regular basis but on a radar screen we don't have anything estimated in this regard. Thank you.

The Grupo Pão de Açúcar earnings conference call is closed and the Investor Relations department will be available to you to answer any further questions that you might have. We thank you very much for your participation and wish you all very good afternoon.