Q1 2016 Earnings Call

Company Participants

- Belmiro Gomes, CEO Assai
- Christophe Hidalgo, CFO
- Flavio Dias, CEO Cnova
- Isabela Cadenassi, IR Manager
- Luis Moreno, CEO Multivarejo
- Marcos Samaha, COO Multivarejo
- Peter Estermann, CEO Via Varejo
- Ronaldo Iabrudi, CEO
- Unidentified Speaker, Analyst

Other Participants

- Franco Aberlardo, Analyst
- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Joseph Giordano, Analyst
- Marcel Moraes, Analyst
- Paola Mello, Analyst
- Paulo Napson, Analyst
- Richard Cathcart, Analyst
- Robert Ford, Analyst
- Tobias Stingelin, Analyst

Presentation

Operator

Good morning. And thank you for waiting. Welcome to GPA's conference call to discuss the results of the First Quarter of 2016. This event is being broadcast simultaneously via webcast and this can be accessed at www.gpari.com.br where you will find the respective presentation as well. The slide selection will be managed by you. There will be a replay facility for this call on the website.

We would like to inform you that the press release about the company's result is also available at its website and the event is being recorded and all participants will be in listen-only mode during the company's presentation. After GPA's remarks, there will be a question-and-session when further instructions will be given. (Operator Instructions).

Before proceeding, let me mention 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 beliefs and assumptions of GPA's management and information currently available to the company.

Forward-looking statements are not guarantees of performance as they involve risks, uncertainties and assumptions because they relate to future events. And therefore, they depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other operating factors may also affect the future results of GPA and may also cause results to differ materially from those expressed in such forward-looking statement.

Now, we would like to turn the floor over to Ms. Isabela Cadenassi, Investor Relations Manager of the company.

Isabela Cadenassi {BIO 20532610 <GO>}

Good morning, everyone. And thank you for participating in our call about the results of the First Quarter of 2016. Ronaldo Iabrudi, our CEO, will make the opening remarks and Christophe Hidalgo, our CFO, will present the highlight of our results. And afterwards, we will have presentations of the CEO of each business, Luis Moreno, Multivarejo; Belmiro, Assai; Peter of Via Varejo; and Flavio Dias from Cnova.

Now, I would like to give the floor to Ronaldo for the opening remarks.

Ronaldo Iabrudi {BIO 5151863 <GO>}

Good morning, everyone. And thank you for participating in our call. Today we have the whole team of Multivarejo, Madai Lee [ph], Dulu Han, Marcos Samaha and Luis Moreno. We also have the Assai team -- Belmiro in fact is in Colombia. He went there to participate in the first cash-and-carry store inauguration of the Group in Colombia and he will be participating remotely. And we have the team of our two businesses teams, Peter and Flavio of our electronics and appliances and Flavio that joined us recently.

Before starting, I would like to thank Isabela for the opening remarks and Gabrielle. Both of them prepared the whole meeting and all the infrastructure so that we could be today because of the fact that Daniela very deservedly and with great joy to all of us is on maternity leave looking after her baby. So my special thanks to these two ladies.

Now, let's get into the gist of our meeting. In the First Quarter -- well, we see the First Quarter in a similar fashion as we saw over the year of 2015. You have been following our company and the indicators both of consumption and of confidence as well as unemployment, all these indicators lead us -- and we don't see this quite clearly because we will be showing growth with different speeds in each one of the banners. But we will show you what all of that means in terms of loss of purchasing power on the part of our consumers in general.

During these meetings with you -- and this one is the same as the other one -- I have been saying that the scenario requires us and the whole team, who is very conscious about that, this requires even more discipline, even more vigor in the implementation of our strategies, our concepts and also a close follow-up of each one of our businesses. And one positive point that I mentioned at the beginning was the fact that we have been achieving growth. And when we compare to the previous year, we have been achieving growth in practically all the businesses.

But more important than growth, we have been able to gain market share in practically all the banners of the Group, as you will have the opportunity to see during the presentation that each president of each business will be making.

The food segment; we have been saying this and reinforcing this in each one of the quarters, the food segment is more resilient and it has been increasing participation within the Group itself. And today the food group, we have 56% of our revenues for the whole group vis-a-vis a figure a few quarters back that was around 50% and we see a trend for the next few months of an even higher participation of the food segment in our revenues.

Just to say a few words about each one of our businesses. It's more a view of the strategy that we are implementing and afterwards each one will go into the specifics. Assai, for instance, is a model that -- I think nobody doubts that Assai has been delivering spectacular growth rates. I'm talking about over 36% growth in net sales and we are talking about two digits of growth same-store sales.

So this is a model that as we'll see over the year we continue to prioritize our investments there because it ends up being the one that requires the highest demand from the clients. And besides prioritizing investments, we will be announcing -- and Luis Moreno will be talking about this into details -- the conversion of two banners of Hyper to Assai.

We have already done this in the past, converting Extra to Pao in the past. And we are still doing the conversion of Minimercado to Minuto. We have already carried out conversions -- and Peter of Via Varejo -- of Pontofrio to Casas Bahia. So the company all the time is trying to analyze the clients' demands and making our businesses more profitable in the best manner possible.

So Assai, we will be getting into details. Then the other model that we have been prioritizing and with a very positive response is the Proximity model. We continue to grow, profitability is in line with what we saw in the last quarter. We continue growing sales at two digits and we are consistently analyzing such as what I said about Hyper and Assai. We are permanently analyzing the convenience of conversing Minimercado stores into Minuto Pao -- always seeking, first and foremost, delivering what the client wants. And everybody knows that Minuto has a better profitability and it responds more quickly than Proximity.

In the Pao banner -- and I'm always very happy to talk about that as well as Assai, we continue with our positioning strategy, premium positioning, very much focused on innovation and competitive advantages, very much focused on assortments and Elisio has been leading this banner in a very positive fashion.

And I have been repeating this for over 20 measurements for -- we have been delivering market share gains. And one fundamental point within this market is the fact that we ensure the level of profitability that we have in the Pao model and which gives us a lot of comfort to see that it is evolving in the direction that is Extra.

Everybody said that we had reinforcements in the Multivarejo team with the arrival of Marco and Luis Moreno and we trust the work that they are doing and we have been identifying that with all the work that is being done with the 1,2,3. And we started practically in March testing and during weekends what we called weekend without crisis. We saw for the full month of the 1,2,3 projects. We have an expectation of increase in volumes. And this is what we have been achieving and with the marketing that we have and we will see an increase in traffic and we will be able to recover our margins.

And at this first moment -- and it was according to our plan. We are not doing anything different from our plan. But we have been seeing a loss in our margin because of the competitiveness that we are imposing ourselves. And we see an improvement, a rebound for the next few quarters.

At Via Varejo, Peter yesterday made a presentation that I believe that some of you participated in this call. And what should be highlighted is the market share. Last year we had market share losses and we recovered that at the end of the year and the beginning of this year, the market shares that we had lost. And we are very -- investing very strongly in competitiveness.

Everybody knows the job that was done in 2015 in order to adapt the size of Via Varejo to the market and we are confident that we will have as of the next quarter -- mainly because the base for the year, the second and the Third Quarters of 2015 were negative. So this plays in our favor. So we will have a very positive outlook for 2016 in our opinion at Via Varejo.

At Cnova, Flavio came on board and for us three months in retail is already time enough for somebody who is senior in the company. And he has been working very hard on the operational side of the company, the co-ordination between and among each one of the areas and departments and the executive committees, working very hard to reduce stock-out and working very closely to Via Varejo to ensure logistic synergy.

We had a first wave of synergies, logistics synergies last year. We plan to have a second wave for 2016. And Peter together with Flavio are leading this in a very positive fashion, tapping into the synergies because everybody knows the logistics costs in the distribution business. It has a fundamental importance. And the e-commerce is even more important. And I'm very pleased to see the way Via Varejo and Cnova have been working fully aligned to tap into these synergies.

Another point that should be mentioned as I was talking about synergies is the fact that we are working on synergies between Multivarejo and Assai. We defined a program last year and headed by Luis Moreno and Belmiro. We are doing joint purchases of commodities, which will allow us to be more competitive in the two banners and also achieving profitability gains that will very important in our view, stemming from the synergies. Just to say a few words about each one of the businesses.

And concluding my remarks, I would like to mention that in a scenario like the one that we see today and what I will say I believe is what most of the companies have been doing in Brazil. But we especially are giving top priority to this, besides having our eyes turned to the operational side and profitability indicators and income statements, EBIT, EBITDA, et cetera, we are very much focused -- the company as a whole and the people around this table are focused on optimizing our working capital.

Everybody knows how important working capital is in Brazil especially with the cost of money that we have -- so with the better investments of our funds and all our investments and with a very systematic focus and tracking and establishing targets for the whole team to increase the level of client satisfaction.

So the message is the following, we are not only with our eyes turned to the operational or the income statements, we are very much focused on working capital, on investments and on client satisfaction.

We trust that from the viewpoint of perspectives, we will continue to invest very strongly in Assai. We are focused on investments in Proximity because Proximity is a demand from our clients. They have been asking for that and we see important returns coming from that. And also in Pao we have been working very strongly to meet our clients' needs.

And just to finalize, I would like to say that talking about optimism in Brazil is something a little bit complex. But we are confident because we know what we did in 2015 and we have plans and we track our plans in a very disciplined manner for 2016. And we trust that we may see a rebound because the company is very well prepared and we believe that we could be seeing a rebound in the second half of the year and then each one of our banners, each one of our businesses will be ready and prepared to benefit from the work that we did over 2015 and that we continue to do in 2016.

So I conclude my remarks saying that we are confident and we believe that we have a positive outlook ahead. And as Isabela said, Christophe will follow me following our standards and he will make a presentation of the main figures in our financials. Then we will give the microphone to each one of the business owners.

Thank you very much and I will be available at the end to answer questions that you might have. Thank you.

Christophe Hidalgo {BIO 17982648 <GO>}

Thank you, Ronaldo. Good morning, everyone. I will start the presentation by talking about the main performance -- financial performance highlight of the company.

So slide number 1, revenues in the First Quarter we have already communicated, BRL17.8 billion, BRL9.9 billion coming from food, which accelerated the growth in this quarter. All the food banners showed a positive trend in sales even after adjusting them for the Easter effect.

And for food, Assai is a highlight, a growth of 36.2%. And this places Assai at the level of sales participation in the food sector of 32%, which means that this is the banner with the highest representation in the food segment of the Pao Group.

Pao de Acucar and Proximity, Proximity already has over 300 stores, continued to gain market share during this period. On the Via Varejo side, as Peter mentioned yesterday, there is a recovery in the sales trend as a result of the commercial strategy, successful commercial strategy put in place in the last few periods.

EBITDA reached 2.7% of sales, BRL484 million, mainly impacted by the lower contribution from Via Varejo and from the impact of the difficulties faced by Cnova. In food, Assai improved its profitability with the EBITDA that reached 3.2% of sales. So Multivarejo delivers 4.6% EBITDA impacted in part by the Easter effect which dilutes margin and also by the progressive installation of the new commercial strategy in the Extra banner.

And the effect will be felt over 2016. Over the quarter, we maintained discipline in the optimization of our expenses, focused on modernization of our stores and maintaining a sound cash position at the same time.

Now, going to slide number 2, we see gross margin for the quarter was 21.8%. And there is a mix effect on this margin, as I said, with a lower contribution from Via Varejo and from Cnova and also the fact that the transition of our commercial strategy in the Extra banner. Luis Moreno will be talking about the Extra banner, getting into details about the strategy during his presentation about Multivarejo.

So the EBITDA for the First Quarter totaled BRL484 million, impacted by the same effects mentioned regarding the net income. The controlling shareholders net income adjusted by the restructuring effect, it was negative by BRL17 million.

And now I would like to mention a few highlights. The first is the growth of the net income of Assai, which exceeded a 100% -- the net income growth of Assai, the excellent performance in terms of contribution to profitability by the Pao banner and the fact that the mini banner has reached breakeven for the second period, confirming the good trend.

And lastly, I would like to highlight the positive evolution and the balance reached by Via Varejo in this quarter in spite of the adverse scenario in the non-food sector.

Now, going to slide number 3, we see the financial situation of the Group. We closed the period with a sound cash reserve of BRL4.5 billion, a marginal reduction in our gross debt by BRL62 million. We closed the period with a low level of leverage and this keeps the Group in a situation of good flexibility and resilience to the difficult scenario that especially the non-food sector is going through.

Financial result, 1.8% of sales, 12.6% lower than the evolution of the interest rate. It was 12.2% vis-a-vis the 15.8% and the growth in financial expenses was limited to 6.8%. That is to say a good performance if you compare the level of interest rates that is practiced by the market.

And the financial result was possible due to the adjustment of the policy regarding receivables discount that we carried out at Via Varejo, a decision that does not remove our flexibility and gives us -- and is possible because of the sound cash position, as we have already said.

Now, I would like to give the floor to Luis Moreno and he will be talking about the next slide about the performance of Multivarejo. Thank you for your attention.

Luis Moreno {BIO 21181673 <GO>}

Good morning, everyone. During the First Quarter Multivarejo generated an adjusted EBITDA of BRL308 million in a context that continues to be challenging and in which the consumers showed more sensitiveness to the alternatives that present a higher saving.

In the case of the Extra banner, we are reformulating the value proposal with a clear objective of offering and delivering the client a more impacting savings in their complete purchases additionally to the added values and also the shopping experience that the hypermarket format traditionally offers.

During the month of March, we tested a new commercial dynamics in our Extra banner stores. In April, we launched in hypermarkets and Extra supermarkets this new commercial dynamics that we call 1,2,3 steps of extra savings. And this new dynamics consist in offering the clients over 1,000 carefully selected items with progressive discounts of 20% for the first unit, 25% if the client buys two units and 33% in case the client purchases three units. The over 1,000 items are selected to meet all the needs of our clients in food, household items and personal care.

We consider that this new proposal meets in an encompassing manner the need for savings and complete purchases of our clients besides having a very easy to understand communication. And this is the new way of saving money at Extra.

Over the Second Quarter, the 1,2,3 steps of savings dynamic will be reinforced and supplemented by two additional commercial dynamics that will be supplementing our savings proposals for our clients. Ever since the 1st of May, the new dynamics is present in all supermarket and hypermarket, Extra banner stores in Brazil and the client reaction is being very positive.

The client chose the new system to maximize their savings in everything that they need until the next time they come to our stores. Clear communications and impacting signage at the point of sale contributes to the quick identification of the over 1,000 products that participate in the system. At every 15 days, the over 1,000 products are renewed, new brands start to participate, offering clients different brands every 15 days.

Besides offering very significant savings to our clients, this new dynamic generates other positive impact both for productivity of our stores as well as our logistics chain. And this contributes significantly so that this dynamic is considered already as a sustainable model and this new dynamic does not represent a significant increase in our promotional investment. In fact, it represents optimization of promotional investments that we have already made. But now offering savings in the complete purchase of our client.

In the medium run, this new dynamic also will allow optimizing our marketing investments as it simplifies the message by maintaining the same discount formula consistently and giving comfort to the client. The client will be sure that he will always find over a 1,000 products, meeting all the clients need regardless of the day that the client chooses to make the purchases.

And the first result from the new dynamic show an increase in volume and also the number of items in the clients' basket. For the next few months, we expect a progressive adoption of the new model so that we may see and capture internally all the positive effects of simplification and improvement of our productivity.

In the Extra banner, we continue our plan of modernization of stores and we inaugurated three hypermarkets. Additionally, we are evaluating some conversions format and this year we will be having two conversion slice [ph] of Hyper to Assai.

And in this context, our Pao de Acucar, Minuto and Minimercado Extra banners continue to deliver a positive performance with market share gain and maintaining profitability vis-a-vis the previous year, which confirms the strength of the value proposals of these banners. Pao de Acucar continues with its focus on increasing loyalty of our clients and satisfy them, improving operating elements that strengthen our profitability as well.

We are very happy because in April we opened the first Pao de Acucar store in the Bahia state. During the First Quarter, the Mais program reached 70% participation in our sales, which allows us to adapt even further our assortment and our customized service proposals to our clients profile for each one of the stores.

In relation to our Proximity banners, we see sustainable growth with market share gains and profitability gains as well because of scale and process improvements. During the last 12 months, we opened 60 Proximity stores. Our growth plan is focused on Minuto Pao de Acucar, which is the Proximity format that gives the best return on investments.

During the Second Quarter, we believe Pao de Acucar and the Proximity banners will continue with excellent performance both in sales and in profitability. And in Extra, we are confident that this new commercial dynamics including the new programs -- the two new programs that we are about to launch because they are the adequate responses to the current market context -- and we will progressively obtain an increase in volumes and traffic and client satisfaction.

So thank you very much. And now I give the floor to Belmiro from Assai.

Belmiro Gomes {BIO 18107864 <GO>}

Good morning, everyone -- that I'm in Colombia for the opening of our new first store here of Assai. And I hope you can listen me very well.

As for now then Christophe -- so Assai had in this First Quarter a very strong quarter with the performance of 36.7% in gross sales. This sales increase is thanks to the combination of -- we already opened stores -- combination at the end of last year, we had seven new stores opened in the last quarter of 2015.

And also we had a strong performance on same-store spaces with sales increase and also higher traffic with sales increase in the two digit area. Therefore, Assai has become the largest format in GPA Food, representing there 32%. Our growth rate was strong; it was over than double than the retail or wholesale factor and had an expansion of market share -- that is in all areas, in all regions in which Assai is present. That extra sales represented over BRL1 million in the First Quarter of 2016 compared to 2015. So we go from BRL2.4 billion to BRL3.4 billion in growth sales. Even with that sales increase, we did not have any dilution.

The same-stores basically had a number of stores that come within a maturation ramp. We had new seven stores coming in the last quarter, another one now in this First Quarter of the year and they are working of course with the LV [ph] a little bit lower. But we have had a quick maturation. These were in regions where Assai had a ready footprint and we had no impact in LV. It's following the First Quarter with the sales growth aligned again.

It's good to express the work that we have been doing holding back expenses. Our wholesale business demands a low cost as well as a low operating cost. Expenses in the period have dropped vis-a-vis last year from 90.85 to 99.7 [ph] -- that is total expenses lower than 10%, which is extremely relevant for us. And as a result of that, we had a strong growth in the EBITDA in the period, superior to our growth sales, although that EBITDA rate is 3.2%.

Since we don't have financial expenses, therefore we convert EBITDA and net income at a higher proportion than other operations. Therefore, our net income in the period was doubled. We have reached 103% of growth in net income in that period.

The market obviously with this growth has been favorable to our business model, the work that we have been doing and the proposal that we have in our stores. The economic scenario makes people look for this type of segment with the low price that we offer and that is also visible in all regions, in all social classes. They all have been looking for wholesale as their supply option.

And especially highlighting our new store models, the new stores opened after 2012, these stores have a new type or different type of environment. And also we changed. We have different assortments to meet the needs of our company needs as well as final consumers that look for products to supply themselves.

As Ronaldo has mentioned, we are strongly focused on the organic expansion of the business. We have a major opportunity right now and also we are focused on the improvement in our stores.

Just to give you an idea, 2016 plan aims to open 12 to 15 stores. We are capitalized and distributed in all regions in Brazil. We opened a first store in (inaudible) in this quarter and right now we have eight new stores under the new model being built. And these new -- these eight stores are distributed among seven states in Brazil, three new states. We are in the five regions of Brazil.

And just to give an idea, we add and that represents over 100,000 square meters of built area that will result in around 42,000 square meters of new sales areas for the next month. Therefore, we are going to expand in 11% our sales area up to the Third Quarter of this year.

Additionally, to the organic expansion, as it already has been said, we have a new project which is to convert stores that are at three kilometers from supermarkets to Assai. These stores are in regions where Assai had no footprint. We intended to have the footprint and the Group analyzed it and we understand that the market, the region has a better compliance to this Assai model. So we aim to deploy this plan and contributing even more to the Group.

And that's what I had to bring to you. Now, I'll turn the floor to Peter from Via Varejo. Thank you.

Peter Estermann {BIO 15380447 <GO>}

Good morning, everyone. Via Varejo ended the First Quarter with net sales of BRL4.7 billion, adjusted EBITDA of BRL198 million and EBITDA margin also adjusted of 4.2%. The main highlights for this quarter are based on three main pillars that have sustained our strategy for the quarter and they will keep on being our priority for the next period.

The first one is the continuity and the consolidation of our commercial strategy of competitiveness, preserving margin. Within this context, I would like to highlight a few topics. We will keep on focusing on sales, optimizing expenses and also we will continue capturing synergies among the companies from the Group -- among them synergies that Ronaldo has mentioned, the logistics synergy, negotiation of third-party contracts, higher integration of all our purchases and also back-office structures. We will still see positive impact of all those initiatives in the coming quarter.

A second topic I would like to highlight is the improvement in the service level to our clients. And as I said in the call yesterday, there's a very important aspect, which is the reduction of over 50% in the delivery time of merchandise to our clients. Today over 80% of our delivery in Brazil are already lower than six days and the deliveries in the large cities where we have a strong footprint is already lower than two days and a half.

Also, we have improved in over 30% the assembly time of furniture in our customers' homes and today that indicator is already at 2.7 days also for Brazil. Important to mention also here is that the precision of delivery and assembly to our clients is already over 99%, which means that we are meeting our delivery deadline as well as assembly deadline with a very high level.

We are sure that all those initiatives are contributing significantly to our competitiveness and also to the level of satisfaction of our clients, as well as to our sequential improvement in sales, as well as gains in market share. We continue showing a sound capital structure as well as financial protection in an uncertain environment, as Christophe has mentioned.

And finally, as Ronaldo said, we will keep on focusing on the operating efficiency improvement, on high productivity initiatives so that we can reinforce our competitive strategy and to maintain the sequential improvement in sales as well as market share gains. Thank you very much.

Flavio Dias {BIO 18281132 <GO>}

Good morning, everyone. This is Flavio Dias. I have been with the company for a little over two months. I took over Cnova's operation and now we are focused on accelerating the needed structural changes. And these changes already in the First Quarter showed first positive results. During that period of time, we more than doubled sales and the share of the marketplace, which have represented 15.6% of total vis-a-vis 7.1% in the first Q of 2015.

We also have significant progress in the generation of free traffic flow, especially coming from better practices of past year. We were able to increase the visits in our website in 15.7% and that is -- and the visits of mobile devices the increase was 22% and that increased up to 44% of our total traffic.

And we also had good operating advancements in the quarter. We increased productivity in logistics, basically reviewing processes and improving management and also improved all quality indicators as well as service indicators. Also very important, something that we have had a good progress was on reducing stock-out -- that showed at the end of March a reduction of 33% and with a strong trend of improvement, even pointing to an additional reduction of 50% -- that is already ongoing.

Our priorities for 2016 are that we are focusing on a sustainable growth, which will continue pointing to an optimization of marketing investments as well as expediting the best practices in SEO, which already is bringing good results. We will advance in the usability, focusing even more on the mobile area and in the apps as well. And also we are starting a strong process to restructure our category management, aiming a more balanced product mix.

In terms of operating excellence, important changes are ongoing and they will help us improve productivity and increase level of services to customers. We have done something very important, we turned our systems of ERP, WMS and also service. That change along with the continuous topics related to process and management will help us improve our logistics operation, reducing stock outs and again improving productivity in the DCs.

We also intend to continue expanding our click & collect process and increase significantly the acceleration of the synergy projects in logistics, as Ronaldo and Christophe have mentioned. The marketplace is still very strong, strategic base [ph] for us. We will keep on working to expand our partner bases. But with a special focus on quality of services provided to our services.

That's what I had to bring to you about Cnova.

Questions And Answers

Operator

Now, we open the floor for Q&A session. (Operator Instructions). Richard Cathcart, HSBC.

Q - Richard Cathcart {BIO 16457807 <GO>}

My question is about the gross margin of Multivarejo. The new promotional campaign from Extra started in March. So I am assuming that one month of this promotion should cost you 100 basis points of gross margins, which is a drop in Multivarejo yields close to date. So for the quarter, it should have a cost that is three times higher. And even with suppliers paying for two-thirds of it, that might have an impact of almost 100 basis points in the gross margin. My question is that if this is reasonable, this line of thought?

And my second question, I would like to know the level of same-store sales that is needed to offset an investment in the gross margin; that is what is the breakeven for that strategy in the gross profit?

A - Unidentified Speaker

I am sorry. But I will have to speak for it in Spanish. Well to start, the drop of the gross margin in the First Quarter is not totally related to the new commercial dynamics and we did not estimate that level of deterioration for the Second Quarter. We understand that this is a sustainable model and it's going to be sustained by triple formula; partnership with suppliers, also with operating savings that should offset that effect and also offset by the increase in volume.

Just to give you an example, already in April we were able to reduce to half the exchange of tax in the point of sale. Also, we had other effects in logistics that will provide significant benefits. While the increase in sales -- and initially what we are seeing is there's an increase in the basket volumes from our clients. So the clients understand the promotion and they see that they can save in the full basket. So therefore, they are able to purchase more.

So you know the differential of current prices between a hypermarket and the wholesale channel is of 12%, 15% and in those 1,000 products in the first unit, customers can have higher savings and they can cover all their needs, they can meet all their needs by this promotion.

So in summary, we do not believe that we are going to have worst margins. That is going to be offset by productivity, partnership with suppliers as well as with the increase in the sales volumes.

Q - Richard Cathcart {BIO 16457807 <GO>}

Thank you. And just a quick follow-up now. I would like to know if that the flow in the market is growing or is dropping in the First Quarter?

A - Unidentified Speaker

The impact that we see is in the volume of sales. But we do not see a substantial reduction in traffic of clients. But yes, we expect that the mouth-to-mouth of this new savings process will generate a favorable trend in the customers' traffic in the Second Quarter.

Q - Richard Cathcart {BIO 16457807 <GO>}

Thank you very much.

Operator

Robert Ford, Merrill Lynch.

Q - Robert Ford {BIO 1499021 <GO>}

Can you tell us a little bit more about this 1,2,3 program? How is that developing along with the suppliers please? And what is the reaction from the competition to this new promotion?

A - Unidentified Speaker

We are developing all needed partnerships so that this is a sustainable program. The mechanics is that there's only one brand in that approach for each one of the needs and that is going to have a significant impact and the increase of market share of our supplying partners. And we are also seeing a significant gain in market share for each one of the category. And we understand that this is going to be the fundamental basis for the sustainable model from now on.

Q - Robert Ford {BIO 1499021 <GO>}

What about the competition?

A - Unidentified Speaker

One of the things that we decided to do is to lead it with our own strategy and to not follow the competition. For instance, in the past we had what we called the guarantee of offer. At that time, we would sell at the checkout the product at the same price as the competition. So now we provide a more robust proposal of savings. And initially, we have not seen a direct reaction from our competitors to this new commercial dynamic.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you very much. Another question very briefly. Belmiro, I estimate that Assai is growing same-store sales in 20%. Why do you have that acceleration and how much of that is maturity or just a reaction from the market?

A - Belmiro Gomes {BIO 18107864 <GO>}

Thank you for your question. Yes. We have had a significant growth in same-store spaces. We do not disclose that figure separated. But this is very representative. The stores that are in maturation, especially the ones that were opened in 2013 and 2014, they also have a significant contribution, that 36%. From those 36%, we have around 16 of new stores. Then you should divide -- part of that is the 20. But they do have a part of the effect, which is a maturation.

But we do not breakdown those figures. We have had consistent gains in stores that were opened five years ago. The model has been attracting new clients. When we have that maturation in new stores, you will then get explained the 36% total we've had.

Q - Robert Ford {BIO 1499021 <GO>}

And Belmiro, why did we have that sales increase then?

A - Belmiro Gomes {BIO 18107864 <GO>}

The sales increase is because of higher maturation of the wholesale model in the country as a whole. We have new regions coming in. So there is a growing movement of clients to the wholesale segment. We are being able to tap into this.

And in the past, we did not have stores close to customers. So in some regions, population had not access to this model. So last year we went into Grande do Sul, (inaudible) and Bahia and in other areas where in 100 kilometers and 150 kilometers we did not have a wholesale model. Because of these new regions, we have been able to tap into new clients.

Sometimes we -- yes, we understand that the economic downturn and the look for low prices have helped. But those growth rates already were there in 2012, 2013 before the crisis. Our model has had a lot of application in these new regions and that is very clear in the seven new stores we opened last year.

Those performances were very quick, the acceptance is fast especially because we work with the store environment. We have air conditioning, the floor -- the level of automation different from what we had in the prior stores.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you very much and congratulations.

Operator

Joseph Giordano, JPMorgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

I would like to go back to Extra's promotions and I want to understand that effect, that of increase of items in consumers' baskets. Since you're mentioning that they are buying larger volumes, don't you think consumers are taking advantage of that opportunity to stock products; that is you would be anticipating a future sale and maybe even damaging consumer traffic in the following months?

And my second question is to understand the dynamics in the Pao banner. What do you think is the environment and the consumers' sensitiveness to price? Because we have seen some store conversions and even with a favorable effect from Easter, we see that growing below inflation.

A - Unidentified Speaker

Well the benefit that we provide clients for the additional purchases of units is only part of the promotion. So that is additional benefit. The significant one is that we have 1,000 articles and just one unit they have 20% discount -- that is a more aggressive price in the market.

The client is using in an intelligent manner and they can choose which category they are going to buy one, two or three products. We so far have not seen an important impact in terms of stocking of products; that is if they buy the number of units that they need, they will keep on doing regular purchases. But the great benefit of the higher increase in volumes of items per basket is not only an accumulative factor. But rather that they will buy all products that they need with a minimal of 20% discount.

Q - Joseph Giordano {BIO 17751061 <GO>}

And for the second question?

A - Unidentified Speaker

And good morning. Thank you for your question. About Pao, obviously we are always analyzing our competition and we had the opportunity in the First Quarter to reposition our competitiveness in the market we are at. Therefore, we do not have great variation in the product ranking we have. We are always analyzing the products sold and we have not seen any major changes in the behavior of those products.

Therefore, we were able to have growth in the First Quarter of this year and that was aligned to the First Quarter of last year. Therefore, we have been able to grow in fact a little bit lower than inflation. But rather it's still positive for the banner.

Q - Joseph Giordano {BIO 17751061 <GO>}

Yes, because the same-store sales net of (inaudible) was 3%. Should we expect something similar for Pao banner and other banners?

A - Unidentified Speaker

Well that is going to depend on how the economy behaves from now on. I believe that structurally what we have done in the First Quarter seems to pick up speed because the competitiveness profit in Pao since we are not strong in ads, we depend on the number of visits that customers do as I believe we might have a growth level that is similar or even a little bit better.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you.

Operator

Marcel Moraes, Deutsche Bank.

Q - Marcel Moraes {BIO 20057766 <GO>}

My first question is about SG&A, especially in Multivarejo. SG&A continues to go up a little bit. And if you can help me understand how much of that is related to expenses that are more impacted by inflation and how much of that could be related to promotional expenses because of all these changes we are talking about here of promotions -- if that is impacting really or not? Or if we could say that almost all the increase in SG&A as well as the percentage of the net income -- if that SG&A increase, then if that would come totally from a lower dilution? Thank you.

A - Luis Moreno {BIO 21181673 <GO>}

Well in part that comes from lower dilution and the most significant impact has to do with the increase of energy costs that in this First Quarter vis-a-vis the prior one was almost 40% increase in the energy cost.

And if we are optimizing all elements of productivity -- just to give you an information, in the beginning of January of this year the total of Multivarejo we had 75,000 employees and at the end of March we had 71,500. So here we have applied an important optimization in terms of headcount and you will see the results of that in the Second Quarter.

Q - Marcel Moraes {BIO 20057766 <GO>}

Perfect. That trend, Luis, can be seen along a few quarters, the expansion of the SG&A -- still thinking about Multivarejo. Do you think that now with a new promotional dynamics, do you expect to have extra sales? So do you think it will allow you to have a less pressured SG&A?

A - Luis Moreno {BIO 21181673 <GO>}

Yes. That's right, this should be one of the main leverages to optimize the percentage of SG&A over the revenue.

Q - Marcel Moraes {BIO 20057766 <GO>}

So a final question, going back to Cnova and -- or the promotional campaign, that new strategy of promotions. Do you believe that -- and I understand that the main trade off that you will have with the supplier is to provide them market share, more volume. But that will probably take you to suppliers. Do you see a drop in their sales in the store? Do you think that's not going to be well seen by consumers or it's going to be done little by little?

A - Unidentified Speaker

No. It's not in our plans to reduce the assortment available to the customers. The suppliers may create partnerships with us and also the brands will change every 15 days. Therefore, all suppliers will have the opportunity of having their products activated in the promotion. And them themselves want to develop that partnership with us. So that's not going to have any impact on the assortment and nothing to damage our customers.

Q - Marcel Moraes {BIO 20057766 <GO>}

Thank you. I would like to go back to the previous question about the impact of the discount in the promotion and what is the impact that this brings on your volumes. And as far as we understand. So far there is no relation with traffic. But in volume there is some reaction.

And are you saying that there -- the client is not really making an inventory? Of course you have to get this in traffic and in higher volume from the existing clients so that the volume may offset this price deflation for the SKUs that you're promoting.

So could you talk about this dynamics so that you may really deliver growth in nominal sales? Because I believe this is what you really need in order to get an expense dilution. And you said that you are focusing on that and on many initiatives in this direction in order to bring efficiency and productivity in SG&A.

But the inflationary pressures on the other hand will continue to exist. So you need to achieve that in order to dilute these expenses. So in my mind I think there's a mismatch there. So could you correct me if I'm wrong? From where do you expect the high sales increase in order to have the necessary impact on your expense dilution?

And the second question is that, you're talking about over a 1,000 SKUs. So I would like to know what is the weight of that on your sales? I have about 50%, 60% of sales in my mind. But it seems to me to be a little bit too much. So could you confirm this figure please, where the volume increase will come if not from inventory building?

A - Unidentified Speaker

For us this is fundamental, the volume, because you have the ticket increasing from our view point. Now any category that the clients find -- consistently in all the categories in the whole store the clients find the activation of these products with the same level of discount in such a way that it's very simple for the client to buy everything he needs.

And in the past the offers were more selective. So the client did the picking, that is to say choosing in different retailers and taking advantage of individual promotions. And now as you have a uniform level of discount in all categories, then in all the categories you have at least one product represented. So this is where the increase in the overall purchases will come, because you have savings end to end and then the client doesn't have to choose for certain categories in different retailers.

Regarding the participation in sales, we believe it will be progressive. And this is something that we wouldn't like to talk about because this is confidential and it has implications regarding reactions on the part of our competitors. But the participation is relevant in this mix and fundamentally in food.

Operator

Guilherme Assis, Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

Still going back to your promotions in Extra, I know that you do not disclose same-store per banner and only a breakdown of Extra, super Extra and hyper. But could we know about the same-store evolution for the Extra over the quarter, the response in March, whether this is what you used with your suppliers to negotiate their participation in the campaign?

And what about the maintenance of the March pace, was this better than the beginning of the year? And what about April, have you felt an improvement? And Luis said that there was an improvement, especially in volume. But could we have an idea of how this is impacting your same-store sales? I know you cannot disclose figures. But maybe you could give us the order of magnitude of this improvement?

And still talking about margin, somebody asked about the 100 bps of margin with the impact of Easter promotion. There were many impacts. And you said that you expect that from now on this impact will no longer be felt or will no longer be as strong. So in these 100 bps, how much was related to your promotions?

And also all the efforts made in March were paid [ph] as of April and then you started to negotiate with your vendors so that they could share this in exchange for market share?

A - Luis Moreno {BIO 21181673 <GO>}

First, in same-store sales, we do not publish specific results per banner and there is a favorable impact as of the implementation of this new dynamic in April. What I can share with you is that this dynamic was implemented in hyper and Extra and super Extra and we see a higher elasticity also in the super Extra format than in the hyper format.

And so this is not really a matter of inventory building. It has to do with meeting all the needs of your client when he goes there to make the purchases.

And regarding your question about margin, just to clarify, the 1,2,3 campaign started in the whole country in March and in April we have two pilots on weekends and these pilots were not totally synchronized with our vendors. We didn't really have stable partnerships yet. And part of the impact has to do with Easter and part of that with the pilots that we had in place in March that were not synchronized with our vendors, with our partners.

Q - Guilherme Assis {BIO 16143141 <GO>}

But just to understand, Luis, your strategy as of the rollout of the campaign in April is that the vendor should foot the bill for 100% of the discount or do you have a margin to negotiate with your vendors?

A - Luis Moreno {BIO 21181673 <GO>}

For the partnership with our partners or vendors is case by case. It's different in each category. There is no fixed rule and it depends on the market share position of each one of the vendors and their own growth strategy, in each one of the categories. And from our view point, we understand that it should be neutral; that is to say combining all the effect, the partnership, the optimization of costs and the volume driver.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. Thank you.

Operator

Gustavo Oliveira, UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Still talking about gross margin, the 100 bps drop due to all these effect does not seem to be that big. Do you believe that with the vendors footing the bill for part of the campaign, this should be less? And the elasticity effect that you mentioned, it could be even higher or the purchase in several different categories. So how are you analyzing all this data? If you keep -- this drop of a 100 bps is kept maybe your top-line effect could be more positive. So how are you dealing with the data and what kind of elasticity do you see?

A - Unidentified Speaker

Elasticity varies very much from category to category. We are analyzing each one of the categories and we see very different behaviors. One relevant point of this dynamic is that there is a mechanism of self-balancing the situation, our investment or our suppliers' investments. And the margin is related to the increase in volume.

And with our partners -- the type of partnership that we have has to do with the real sale of products and not with the purchase of the products itself. There is either a relationship between the margin and the increase in volume that could be more intense in both or less moderate in both.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

So after all the results, you believe that your margin will drop less than a 100 bps? This is the result that you need to achieve?

A - Unidentified Speaker

Our objective is to increase cash margin or make it -- or keep it equal.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

SG&A you said is the most significant impact, was in this quarter 40%. How much this represents as a percentage of your revenue? You had 290 bps of impact on your EBITDA and 100 bps came from gross margin and a 190 bps came from the other costs. How much of the 190 bps are related to the energy cost and do you believe energy cost will go up in the Second Quarter?

A - Unidentified Speaker

The cost increased by 40%. And I do not have the exact data. But between 30% and 40% of the impact is directly related to the cost of energy. And it has to do with the costs compared to the previous cost. In the First Quarter, 40%. And you have to compare with the Second Quarter because it is much less.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay, very clear. So these are my questions. Thank you.

Operator

Tobias Stingelin, Credit Suisse.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Going back to the 1,2,3 strategy, Luis, you have already implemented this before as far as I know. And after you implemented it, how long does it take for you to have a reading about the results?

And still talking about that you were the first mover, you implemented and of course your competitors will be observing you and your competitors will probably follow suit. So if you have this kind of scenario, what will be your competitive advantage if your competitors follow?

A - Luis Moreno {BIO 21181673 <GO>}

In all cases the first mover has a competitive advantage. This kind of promotion implies an investment in system and the investment in system we have already done that in other countries. And this is the system required to activate this kind of promotion. And effectively this dynamic was also tested in other countries of the Casino Group, especially Colombia, Argentina. And the maturation periods are different in each one of the cases.

We believe that maturation in Brazil will be more accelerated because of the current context that we have. The clients are more sensitive to prices. And also because of the migration that we see among the supermarket, hypermarket and wholesale models, maturation should be between the second and the Third Quarters in a progressive fashion.

Q - Tobias Stingelin {BIO 18290133 <GO>}

And in the markets where this strategy was implemented, what about the competition afterwards? Okay. So you implemented it to two, three quarters for you to feel the pulse and then the competition followed suit. And were you able to keep this basket because you said it has to do with the basket and not traffic. So could we take a proxy of what happened in other markets? It's an interesting strategy. But it's rather new. So I would like to better understand it.

A - Luis Moreno {BIO 21181673 <GO>}

In the case of other countries, there was no immediate reaction and there still isn't from competitors. As we said at the beginning, each retailer defines his own strategy and we didn't follow this type of strategy and we trust in the progressive maturing. We didn't see a reaction on the part of competitors in other countries where we have already implemented the strategy.

Q - Tobias Stingelin {BIO 18290133 <GO>}

But in any case what will optimize the context -- the very aggressive high/low context that is in Brazil?

A - Luis Moreno {BIO 21181673 <GO>}

It will continue to be a high/low and a more consistent one, a more predictable one and more easily operable. But always with a benefit of more intense savings and more complete savings for the clients.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you, Luis. You gave the example of about the personnel and you said that you have 75,000 people -- your headcount was 75,000 and now you have 61,000 in food. 14,000 in the last five months were --

A - Luis Moreno {BIO 21181673 <GO>}

At the end of January only in Multivarejo, not including Assai -- in Multivarejo, Extra, Pao de Acucar, Mini and Minuto we had at the end of January 75,000 headcount and at the end of March 71,500 with the optimization of 3,500 people.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay. And how does this relate to the level of service at the stores?

A - Luis Moreno {BIO 21181673 <GO>}

Fundamentally, most of these adjustments were made in the Extra banner. Pao de Acucar, we are preserving, because of the level of service we are preserving this winning formula. And in the Extra banner, we did these adjustments in processes that have no impact whatsoever on the client. And I mentioned that the number of changes of daily or weekly labels that we execute in the stores is less than half of what we did in the previous system and these are processes that do not have any impact on the client and, on the other hand, gives us internal efficiency.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Now, Belmiro -- I don't know whether Belmiro is still here with us. Belmiro, I remember that in the past you resisted converting hyper stores into Assai because the Assai model is different and there was a matter of store -- what about the Extra stores that will be converted? Are they very isolated cases or basically you have land and you're going to demolish the stores and you're going to build the new one because you still have a lot of extra infrastructure? So where are we going in this model?

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

This is Iabrudi. Well Belmiro is no longer with us. Maybe he's visiting stores in Colombia. I don't know. But anyway, I would say that this is not an isolated initiative such as we did with Super to Pao and Minimercado to Minuto, Pontofrio to Casas Bahia.

We have some metrics such as the store location and the purchasing power of the clients that come to the store, the type of client, the clients demands, requirements and of course the location, which is a fundamental factor. So we carried out an analysis of many different possibilities of hyper and we chose such as we did and we still do with others, we chose the two that according to the business plan are the ones that will deliver the highest volume or the best response in this conversion.

And we are doing a pilot in two states. And after the pilot, we are going to make a decision because we see that there are other possibilities for us to implement.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you, Ronaldo. One last question about e-commerce. The situation the way we see it, the Brazilian situation with a very low gross margin, still buying a lot of commodity products. The core business is still selling a lot of commodities although market place is going well. And we do not know exactly how well the company is positioned in terms of structure.

So how long will it take to have the turnaround of Cnova considering that there is an investigation going on and some accounting issues? So thank you.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

We are working regardless of the investigation. Of course the investigation takes time from our team and this could remove a little bit of the focus. But Flavio's role and Pedro Mauro's role and the whole teams role in Cnova is to focus on the operation so much so that we had a significant reduction in stock outs if you compare the beginning of the year to now.

These are important figures in the most important items, the main SKUs of the company. So in this moment that the company is living, we were able to implement a new system and with a changeover of the system last week. And you know what it means to have a new system in place in a company and in an e-commerce company. This is the blood and the life of the company. So the company is reacting in a very positive fashion.

And another job that we are doing with the participation of Flavio and everybody in Via Varejo is logistic synergy. Last year, we started with the DCs where we had Via Varejo products and also Cnova products and today we already have combined products. And there is a project that has already been designed and the implementation has already started in April and this new project is for logistic synergy between Via Varejo and Cnova.

So my expectation is that in the third and the Fourth Quarters we will be able to show an operational result and with a higher efficiency level with everything that is being done and implemented by Flavio with the full support of Via Varejo and Peter.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you, Ronaldo.

Operator

Franco Aberlardo, Morgan Stanley.

Q - Franco Aberlardo

I have two questions. How much of your CapEx for this year in nominal terms or as a percentage of the total should go to these conversions?

And looking at the conversion of Mini to Minuto, Pao de Acucar to Extra, Extra to Pao de Acucar and now the Extra pilots to Assai, from the view point of return on investment, don't you believe this is negative for the company because you will be investing more CapEx in already existing assets. So what is the guarantee that you have that the problem will be solved and that the problem is not related to the management, for instance, or the location and not the formats?

And now regarding the Proximity format, you mentioned that there were 60 new stores opened in the last 12 months. But the match was 31. So why do you have such a low level of assertiveness in this format? And you said that the format has already reached breakeven. So what is the potential of EBITDA margin that you believe will come from Proximity stores maybe looking at the more mature stores? Will it be higher or lower than the average of Multivarejo?

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Franco, I'm just going to make a remark, an initial remark and then Christophe and Moreno will add to what I say and will go into detail. Before we make a decision regarding converting any store whatsoever, we have a very thorough work done. We look at the rent amount, the level of service, the concept implemented, our competitors nearby, why the result from this store is lower than the others. And together with that, we look at what the client wants, what is the clients' level of income.

Because the conversions that we did in 2014, nine Super stores to Pao, it was not because there was a problem in the Super stores. Some stores had a very good profitability. It was because the income in the region went up and the client wanted to have a different assortment, a higher level of service.

So these conversions first they go through a more macro analysis and then we say, well, it would be good to have a conversion and then you get into a specific business plan for that specific store for the new model. Then we have a more financial evaluation that Christophe will be able to talk about and Luis in each one of their capacities.

A - Christophe Hidalgo {BIO 17982648 <GO>}

Good morning, Franco. About your first question, the conversion CapEx Assai and Extra, as we said before, we visualize the possibility to convert two stores this year, two hyper Extra -- and the CapEx of course is a lower CapEx than the one that we invested in order to open a new Assai, approximately 20% lower per square meter.

And the rational for these conversions of course considers location, considers the competitive surrounding and the evolution of the financial performance of the store. And in both cases in the two pilots, in the two first conversions, value creation is significant and comes basically from an expectation of a significant increase, almost doubling sales and of course with the impact on margin vis-a-vis the hypermarket performance.

Or in other words, the stores are selected based on a value creation concept. But also with the capacity to change a complicated situation in some stores. And the CapEx that will be invested for this purpose this year is not significant. It is less than 3% of the total CapEx of the company.

And we will reach our conclusions at the end of the year to see if we have the capacity of doing a higher rollout in these conversions. So with a return higher than the return that is given by hyper if we keep the store in the hyper situation proximity.

Expectation of openings, my colleague will talk about that. And I would like to remind you that we have two sub formats. So two banners in convenience, Mini and Minuto Pao; Minuto Pao operating with the EBITDA margin similar to Pao de Acucar and Mini, with the intention of operating around the average of the company, the Multivarejo company. And we have not reached this point yet because we still have some concerns regarding management among others in terms of shrinkage.

But if you want to talk about the -- well, talking about the pace of openings --

A - Luis Moreno {BIO 21181673 <GO>}

Thank you for the question, Franco. And as we said last year, we opened 73 stores. So we are prospecting this level between 50 and 100. And this is a format of 31 stores. This is a format that has a higher capacity between opening and closing. It was born in 2007 (inaudible) and we have been improving this model. Talking about Minimercado, Minuto, started two years ago and in this kind of format you have a higher flexibility between opening and closing stores.

Q - Franco Aberlardo

Yes. That's very clear. Now just tell us about the margin potential. What do you still need to meet that potential, it's just a matter of sale or you have any financial adjustments to be done in the operation of each one of the formats? Thank you.

A - Luis Moreno {BIO 21181673 <GO>}

Each format meets -- or serves a different profile of clients and within each format we have sales, margins, stock out. We have those higher impact indicators as well as processes that have been already implemented. And last year, in April, we have a DC with over 200,000 unit of picking [ph] and that has to work as an industry, everything has to be aligned. And these bases already are working for the last two years. And that's why Christophe mentioned the last quarter analysis for that -- we were able to meet that breakeven point.

Q - Franco Aberlardo

Thank you.

Operator

Paola Mello, Citi.

Q - Paola Mello {BIO 17712227 <GO>}

I want to go back to the promotional campaign at Extra. In your opinion now that the Brazilian families are with their purchasing power reduced and they have more debts, what is the risk of them focusing on the 20% discounted items? Even that they see that they can even get higher discounts if they purchase three units. But they might not have the cash to purchase it. So they would purchase just the 20%, just one item and then you would not have the expected volume growth to dilute expenses. In that type of scenario, would you have a B plan to go forward even with cutting in fixed costs? Thank you.

A - Unidentified Speaker

Well if the client because of the current context just focused on purchasing one unit, just as the same this would be already very beneficial to us. The idea is that if they don't have the ability of purchasing three products is that they would buy one product from all available categories.

And the main benefit from this triple formula is exactly that the customer may choose. They will decide in each one of the cases what is the best solution for their needs. That's what we have to face other types of dynamics where the retailer decides for the client. In our dynamics, the customer is going to decide what applies best for his or her situation and that is one of the main points of our dynamics.

And what is our B plan? In reality, this dynamics is only the first part of our promotion. We will be activating and launching other two commercial programs during the Second Quarter. And at the end of June, we'll have three commercial programs already activated. And this is just one of the three, the 1,2,3 savings. The other one has to do with fruits and vegetables and those will potentialize the purchasing from our clients. And also I can tell you about our third program, it will be active in the stores and that is going to be there by the end of June.

Q - Paola Mello {BIO 17712227 <GO>}

Thank you very much.

Operator

Paulo Napson, Hitone [ph].

Q - Paulo Napson

I have a quick one. I would like to know if you can give us more detail on the stock out level of Multivarejo, both Extra and Pao. You said that it has improved. But at which level is that, can you disclose this information? How much is it improving year-on-year? And in addition to that, what you were doing to address the problem specifically? Thank you.

A - Marcos Samaha {BIO 19808820 <GO>}

This is Marcos Samaha. Along the first month of the year we had a small increase in the stock out level which was related to the new price lists or the attempt to increase prices from the part of the vendors. And that has been solved and in April we see a significant improvement in all Multivarejo banners.

About figures, we are very happy to see that some of the analysts from companies have been tracking our stock out levels as well as the stock out levels of our main competitors. And they have done sampling here in stores in Sao Paolo and they have verified that our banners have a stock out level that is lower than the level of our competitors.

So considering their analysis, anything related to performance is not directly related to that idea that our banners have a higher level of stock out. Very much on the contrary, they have a lower level of stock out when compared to our competition. And as I said in April, the indicators show that we are having a significant improvement there.

Q - Paulo Napson

So yes, I understood. But I also would like to know if you can improve even more that level of stock out, what you are doing to improve it from now on? Because if you can improve significantly that level, you are able to grow -- or need a sales growth to help the company as a whole, right?

A - Unidentified Speaker

Yes. Although our stock out is not higher than the average of the market -- it is even lower. And also because of structural factors in Brazil related to the vendors' ability to deliver on time in full, which is our assessment measure. Everything that we request to vendors, there is a deficit -- and that is not only for GPA, for any retailers there is a deficit from vendors in delivering what we request.

And the control process and stock out reduction is a continuous process, it's permanent. And the implementation itself of the three commercial programs that Luis has mentioned is still a high/low. But this is a predictable planned high/low. This is a longer term high/low and it's not something that is going to be on sale today and tomorrow it's not on sale anymore. So removing that.

And stability of the high/low will have a better flexibility in the whole supply chain that also help us in our ability to work in the DC. Also, it helps our ability in transportation with trucks and reception at the store. Therefore, our stock out level will go down even more. We will have more stability, more predictability and the vendors will be able to supply us in what we have already planned considering these three commercial programs.

Q - Paulo Napson

That's perfect. Thank you very much.

Operator

The Q&A sessions has closed. Now, we will turn the floor to Mr. Ronaldo Iabrudi for his final remarks.

A - Ronaldo Iabrudi {BIO 5151863 <GO>}

Once again, I would like to thank you all for participating in this call. I would like to say that the dynamics of our meeting with the concentration of questions on Extra and in the new concept that we are now developing as well as on Cnova that is similar to our internal dynamics. Because other businesses, Proximity, Pao, Assai and malls, Via Varejo itself we understand that we have done the adjustments needed and that now we are harvesting the fruits of it.

And I understand that you were very interested and you tried to understand what's happening in Extra and Cnova -- and that is effectively where we are focusing and dedicating our energies. And we are confident that just as the same as it has happened in other businesses, the new team that we have now in the company, Luis Moreno, strategy of Marcos Samaha will be addressing that and we assure that your concerns -- and I am not going to say that already in the Second Quarter. But in the Third Quarter we will be able to show you a little bit less of concept, less of strategy, less of what we are doing and we will be able to show you more the results of all this work.

I believe we have a theme that is ready with a defined strategy for each one of these areas, as we have also for other areas. And we will be bringing these results to you.

So thank you all very much. I also would like to thank the team with us. And thank you that you have dedicated some of your time to understand what GPA has being doing at such a complex moment in time in order to have a better ability to grow and also to gain market share and profitability. Thank you very much and I will see you in a future opportunity.

Operator

The conference call for GPA result has ended. The IR department of the Group is available to address further questions. Thank you, all for your participation and have a nice day.