

Q3 2019 Earnings Call

Company Participants

- Orivaldo Padilha, Vice President of Finance and Investor Relations Officer
- Roberto Fulcherberguer, Chief Executive Officer

Other Participants

- Emerson Vieira, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Olivia Petronilho, Analyst
- Pedro Fernandes, Analyst
- Rob Ford, Analyst
- Ruben Couto, Analyst
- Tobias Stingelin, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for waiting. Welcome to Via Varejo's conference call to discuss the results for the third quarter of 2019. This event is being broadcast via webcast and you can access it at www.viavarejo.com.br/ir where you will find the respective presentation. The slide selection will be controlled by you. There will be a replay for this call on the website.

The press release with the Company's result is also available at its IR website. This event is being recorded and all participants will be in listen-only mode during the Company's presentation. After Via Varejo's remarks are completed, there will be a question-and-answer session and further instructions will be given.

(Operator Instructions)

Before proceeding, we would like to say that forward-looking statements made during this conference call are based on beliefs and assumptions of Via Varejo's management and on information currently available to the Company. Forward-looking statements are not guarantee of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions

and other operating factors could also affect the future results of Via Varejo and cause results to differ materially from those expressed in such forward-looking statements.

With us today, we have Mr. Roberto Fulcherberguer, CEO; and Mr. Orivaldo Padilha, CFO and IRO. So now, I would like to turn the floor to Mr. Fulcherberguer.

Roberto Fulcherberguer {BIO 17276995 <GO>}

Good afternoon, everyone. I would like to thank you very much for participating in our conference call about the results. This is our second call we have in here for the past four months and a few days, and then if I were to translate what I'm feeling considering everything that I have seen in these past few months and the future of Via Varejo, I would say that I am very excited. I am excited, all of us are, about what we are seeing here.

We see a company that has way too many challenges and hard challenges ahead of us, but as all good retailers, we see that the assets that we have for the future are much greater than the challenges that we will face, and these assets in less than four months after we arrived, they are already changing Via Varejo's path.

We intend to show you, today, the transformation process that this Company is already undergoing. In not much time, we have been able to do a lot. And also taking this opportunity, also important, as we said in our material fact, we are in an internal process of investigation. We put together an Investigation Committee months ago and in a transparent fashion and in line to the best governance practice, we will let the market know about the results of this process and so far we have not found any wrongdoing. Transparency is a value of this management and will be at the core of all our initiatives.

Now, I will turn the floor to Padilha. He will talk about the figures in this quarter and then he will turn the back floor to me, and I will tell you a little bit more about what we are doing and what we'll be doing.

Orivaldo Padilha {BIO 21118157 <GO>}

Okay. Good afternoon, everyone. Thank you very much for being with us for this third quarter conference call. I will turn to Page 2, where we have our main highlights in the quarter. And remember, this was the first quarter under the new management. A lot of us started during the quarter, not so -- many of us are not in here throughout the whole quarter and this was an intense process and we here had our action plan for our initial diagnosis, so our gross revenue has reached BRL6.6 billion, 8.7% down vis-a-vis 3Q '18.

A special highlight here to 1P. We were 32.9% lower than the prior year. We'll be talking about this deceleration, which was on purpose. We also maintained a strong growth in 3P in the marketplace, almost 80% growth.

Gross profit also, we'll go into the details here, but we believe that we have been able to increase the margin of the Company and find that balance in the beginning. Here, and on the last highlight on the page is a robust cash position of BRL2.8 billion.

So on the next page, number 3. In the first block, we have our gross sales with a drop of BRL631 million vis-a-vis the first quarter -- or the third quarter of '18 because of two main aspects here. The reduction in the sales volumes of our 1P once again, which was on purpose and also because we had to eliminate BRL500 million of inventory in this quarter, which have been sold at cost price and that have an impact of BRL300 million less in total sales.

Total gross sales stores maintained the same level and the online had a drop of almost BRL580 million of BRL1.713 billion in 2018, 24%, I'm sorry, we have lost the sound. I'm sorry we cannot hear anything at this moment.

(Technical Difficulty) which clearly show here what is the levels of the third quarter of 2018. Last year, we still had the fiscal or the tax benefit that no longer we have this year. It's called lei do bem, the law of good, that would improve the impact of the gross margin in 2.6%. And also last year, we were working with an inventory level that was BRL1 billion higher than the level that we are working in this quarter.

The Company and because of that increase in purchasing last year had BRL1.7 billion in gross revenue -- additional gross revenue. If we were to adjust the same basis of this year, so that we could compare that to the third quarter of '19, the best comparison would be a level of 25.9% in 2018 against 30.7% in 2019, a significant improvement in the gross margin of the Company.

We also have to explain that in this quarter of 2019, we had that fire sale [ph] of BRL500 million in our inventory, if we were -- had not done at the real level of margin in this quarter would have been 33.7% and not 30.7%. So I would say that we are at a cruise speed the recurring level of gross margin in the Company is between 31% and 32% -- 33%.

Now about expenses. The Company was stable vis-a-vis the same period of last year and we have here to consider the loss and sales, basically explaining the growth of expenses percentage wise. The EBITDA 6.6% last year, 4.3%, this year, BRL421 million last year, BRL242 million this year. If we analyze the same effect explained in the gross margin and the gross profit, we can see that last year the right margins that can -- should be compared to the margin of this quarter would have been 2.30% and not 6.6%, and not considering the inventory sale, the margin have been 5.40%, showing therefore the potential to generate not only gross profit as gross margin and EBITDA, but also the potential that Via Varejo has of increasing the Company's profitability.

In the next page, number 6, we have our debt and net cash. In this quarter, we worked to strengthen our reinforced cash position. In the company we have been well succeeded. Here we have ended with a robust position with BRL2.8 billion in cash, and also we had an opportunity in the quarter to accelerate our monetization plan for tax credits.

In the next chart, net debt, basically, we had here 80 [ph] transfer or placement of debt with suppliers, and then we switched that to bank debt and that's why we had BRL440

million to BRL2.1 billion. Net cash has been already explained, when I explained gross cash, but also a robust position there. We have more cash than bank debt in the quarter.

On the next page, we have a relevant highlight. We have taken over the Company with very high inventory levels, over BRL5 billion, almost 60% of those with low turnover. This was an important effort of the commercial area of the Company, the operating area as well. We have been well succeeded here. We have reduced in BRL1 billion the inventory levels of the Company, if we compare that to the quarter -- the same quarter last year, that is the equivalent of 20 days in inventories.

About the beginning of the quarter, we have reduced around BRL500 million, that's very relevant because -- and it has not only an impact in terms of cash, but also it allows us to have inventories with highest turnovers therefore with better margins.

In the next page, summary of the main highlights of the quarter. So we have concluded the integration process of Cnova. The tax integration and the system integration, which allows us to have inventory and operations integrations, especially with Internet sales and click and collect and collecting the stores, also substantial reduction of BRL1 billion in inventories marketplace growth of 79%, gross profit that was significant. The EBITDA normalized growing 5 points and the strengthening of our cash position.

And Roberto now is going to continue the presentation.

Roberto Fulcherberguer {BIO 17276995 <GO>}

I will tell you a little bit of what we have done in the past three months. So here we now have a team that is totally new. We had the reinforcement of our cash, we are rebalancing our inventory, we now have been able to see a better market share, we already have a digital turnaround and of course it's in already advanced step and a stronger management operations in our stores.

On Slide number 10, we have run a quick diagnosis and also quick action plan and immediately used part of the turnaround of this Company. We do not have a lot of time to perform a huge diagnosis and an action plan, but we have been very assertive in what we have done. Just as fast as we started the turnaround, we went back to doing retailing and I will explain in the presentation what in my point of view is to going back to doing retailing.

On Slide number 11, we have recovered the operating capacity of our brick and mortar stores. We have empowered the sales reps. So that they could serve consumers with ability and power to close deals. We have operated and we have all worked on the stores layout, so that we could be more promotional and with also -- with a winning atmosphere at the stores, over 600 stores did have air conditioning problems, 80% of the 600 stores already have the problem addressed, the other 20%, we believe that in the next 40 days that type of problem will be fully addressed. So by the end of the year 100% of the stores will be with air conditioning.

We have exchanged over 7,000 computers in the stores that were old 10 years of use and that has improved the stability of the system and also improvement of the reaction time. These machines -- these old machines were impacting their reaction time and also the efficiency of our sales reps. Also, we have chosen 200 main stores so that we could revitalize them. These are the stores that were in the worst conditions and also that have a greater selling potential.

On the next page, we had an example of what it means to do this type of revitalization and what kind of stores we had, we have changed store fronts. So our stores were not really present for our consumers.

On page 13, we have another example of how this store was in the past. This store that you see here is not much different from the reality of many of other stores. We have worked on the store front. This is not a major investment. We also worked on the store lighting. We added the banners. We also had to work on some ceilings and in some of the stores, we had to work on the floors. We have switched over to 20,000 shares. Our consumers and our teams did not have chairs to sit down and hold a good negotiation.

On Slide 14, we have a before and after. We have also reviewed 100% of the IT and back-office infrastructure of all the stores. To the left, we see a rack, where we have all of the collections of the store network through our own cloud. We had a lot of instability. You cannot see in the picture. But there is also a fan to cool off this rack. This is not a random sector. This was also the reality of most of our stores. To the right, we see the after. So we have a new energy grid in the rack with the equivalent of the store and the stores already refrigerated to support overheating.

This allows us to have huge stability. Most of the instability that we had in the brick and mortar stores, that was last some systemic issue and more of brick and mortar of physical issue.

Now on slide 15, in terms of logistics, we have changed the way we supply the stores and the way we deliver products to consumers. We would have one truck out to deliver to customers and another one to replenish the store. This was unproductive. The truck would not be at its full capacity one at last. So we brought together these two activities in a single truck.

Therefore, we are able to supply the store not once anymore, but rather five times a week. Therefore, we have a relevant gain in terms of inventory level because I do not need to have an extra inventory in the store. I can run the inventory on a daily basis. Our stock out rate since we were at 9% and now we are at 3.9%. So, we have removed BRL500 million in inventory and we have strongly reduced the level of the stock out.

We're not happy. We have some homework to do. The fact that we're supplying five times per week also brings a lot of benefits, increasing the click and collect. And on this next slide, we have some numbers about at Slide 16.

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Click and collect, when we closed the third quarter, it was 27.2% but if we focus on September only, it is 32.3% and when you focus on October and November, the number is growing very significantly. Efficiency of click and collect brings us gains in negotiation with a significant impact on our hits on the website, conversion increase, online and also a significant decrease in our delivery costs. It's important to mention our click and collect is present in 100% of our stores. Today, all our stores have the capacity to provide click and collect to our consumers.

On Slide 17, a couple of words on deliveries. Here you can see something very significant. Some of our competitors already find improved speed a couple of years now and celebrate about 40% of deliveries within 48 hours and us in three months went from 26% to 47% within 48 hours, so 100% of everything we sell in the Company, 47% of 100% is delivered within 48 hours, and not only that we also increased within 24-hour from 7% to 28%.

Here you can see a huge potential. Significant improvement to take place in the coming months and we're going to have even better conditions. And the main benefit is that everything happened without increasing logistics cost. All we did was to optimize our logistics structure with a lot of gains of efficiency by bringing even a slight reduction, but the best is yet to come.

On Slide 18, we already implemented in the DC (inaudible) WMS Manhattan. One of the top WMS in the world when it comes to DC management. We already trying in parallel with huge gain of efficiency and productivity. Right now, we're not going to rollout for all DCs owing to the Christmas season and Black Friday, but by 2020 all our 14 DCs will have WMS up and running and we have a lot of gains to grab from this strategy.

On Slide 19 a couple of words on our digital evolution. Doing retail is also making tough decisions. We have to make a very tough decision in 1P. But we were convinced that losing sales at that time would be the best that could happen to the Company, thinking in the long run and also thinking about our relationships and respect with our consumers. After the integration of Cnova on July 1, we experienced new programs related to the integration with serious implications on deliveries on the level of efficiency when it comes to consumer services. So we made the decision to decrease the sales in 1P. We're going to show a month-on-month reduction in the coming slides.

On Slide 20, in the meantime, our IT team worked very strongly overnight and they implemented over 100 improvement packages, reducing by 31% the loading time and reducing 37% our heavy pages online, with improvement of 14% in our conversion rate. We are extremely confident and fully convinced that we are definitely ready to support Black Friday.

We're going to see 1P sales in the next slides and we explain why we are so confident. On slide 21, by channel, our apps keeps on evolving. In October, 14% of penetration in app sales and we are deeply encouraging. The number of installation increased by 56%, October vis-a-vis September. The number of retention of active user is growing by 25%.

So it's not only installation that is growing, active users are also growing. We still have a lot of things to do in the app, lots of room for improvement.

On Slide 22, we show 1P growth. We already been through the valley that was in August. It was the worst time ever for 1P and in the mid of September, we were already having great time of our IP growth. I'm very confident about our online strategy, so we started our sales from minus 51% to minus 7%. Unfortunately, I cannot anticipate the numbers for October and November, but I can say that in October, we had very good growth and in November we expect to see outstanding growth online.

We (inaudible) to say that our commercial team online was being set up. Today we are with a full set of online team, both in terms of performance, commercial activities and we are fully ready to post strong growth in 1P and 3P alike.

What about 3P on Slide 23? We didn't have the same challenges that we faced with 1P. Considering that sales are outside the Company, they happened here, but the whole logistics happens outside the Company. So we spread out with those 3P, and in 3P within the improvement packages, we also improved 3P. We also implemented a new CRM. Today, we can have 100% of tickets and we couldn't see and visualize the delivery tracking vis-a-vis consumers in 3P from the moment the customers ask questions.

We had a question mark in our mind, we couldn't give any answer, but today we can do it. Another improvement, a reduction of 80%, the loading time from sellers posting and we want to be very strong at 3P and we are working very hard in this direction.

Now on Slide 24, we show GMV -- consolidated GMV. Posting growth of 8%, pretty much supported by 3P. And in October and November, 3P also keeps growing very fast. I'm extremely confident that we will deliver an extremely good Black Friday. Our current platform after the improvement packages was set and make it as comfortable that we can scale up sales in this platform, so now we have plenty of conditions as of Black Friday and 2020 to scale up our online business very strongly, and in parallel, we are going to develop what will turn out to be our new online front line.

So (inaudible) strength in brick and mortars and also a strength in logistics, we are dominating the sector. And on Page 25 now, let us talk about Black Friday. Like I said before, we are very confident that we're going to have a great Black Friday in 1P, 3P and brick and mortar store. Our Black Friday campaign is a breakthrough. We'll be very innovative, unprecedentedly, it will be completely new. I cannot share detail because I know our competition is listening to us. We cannot anticipate anything, but we already designed for instance because of (inaudible) with a song, which is already being sung by our consumers, as they get into our stores and we are going to take this Black Friday to ourselves.

Speaking of communications, on Slide 26, here we have another picture of our support pillar of our Company. Despite everything that happened in recent years, everything that is happening vis-a-vis consumer relations for the 14th time, we are top of mind in furniture and home appliance stores. We still have a strong bond with our consumers and we're

very present in their mind. So we have a revolution in our communication in order to further enhance our footprint.

On Page 27, this is the change in communication with a strong reflex and impact online. We already are the most associated brand in Google in telephony, furniture and home appliances. This gain of image happened both online and offline.

On Slide 28, we renewed soccer for 2020. Soccer is a property of all Brazilians. So we have all audiences, different social brackets, and in our interest to launch the software in our platform. Global TV news station did some significant changes in the soccer package, allowing us to be extremely innovative in the way how we'll be communicating about soccer both on and off. We're going to have a big mix of channels when it comes to soccer.

On Slide 29 when we began our project, soap opera, this is also a property of ours, no retailer in our segment can get into this property. We already started to do the 160 [ph] degrees strong when consumers during these actions. I don't know if you all watched soap opera, but let me explain to you a little bit, you have Maria Rafart [ph] one of the members. So during the plot, this character was thinking about buying a fridge and then some time in the soap opera, she thinks about a real store, one of our stores begins to interact with our team and as magic, she gets into our stage in a non-disruptive manner, and it begins to interact with Fabiano, our poster boy and she does the payment book and as she walks out of the store, our break is over, she gets into the soap opera again and in the soap opera she mentioned the friends about the sale she has just performed.

So we have all Internet searches both of our brands and also our partners and from the moment it happened we had a lot of success and hits with our songs on the web, social media was very important, and now we have the numbers of growth that happened behind these actions. 900%, 77%, 799% and 2,500% of growth week on week.

On Slide 30, about our data intelligence, more than 60 million registered customers, which is another gain of this Company and we began to use and we design several relationship strategies with these customers. And we can already measure the lifetime value of each one of the 60 million customers in our base. So, plenty of opportunities.

On the next slide, Slide 31. This is a snapshot of this kickoff of use. Our e-mail marketing actions already show opening 16% higher compared to the past, plus 7% orders and plus 12% conversion rates, just a small example of whatever is yet to come behind this optimization. We already started exclusive offers of products and price to our consumer base -- based on our knowledge of them. And over the coming weeks, we will begin to offer product price and different interest rates for each one of our consumers.

About digital optimization, like I said, we'll keep on improving on a monthly basis. In terms our website hits, September vis-a-vis June, 26%, October vis-a-vis July, 30% growth. So this is happening with significant gains in ROI. And also a significant drop in our cost of goods sold. So we are on the right track. We have far more efficient, bringing more consumers home.

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Bloomberg Transcript

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On Slide 33, I'll be talking about another strength of the Company. It's about the commercial evolution with the industry. That's the strength. It's our code, be it owing to our current volume or our current capacity to have strong transparent relations with the industry. So we already recover that. We were very agile with big suppliers, which hold 80% of our revenue. We had meetings in Brazil and abroad. We already had several long-term negotiation, which will guarantee our strong supply for year-end and for 2020. And also support our margin gains.

On Slide 34, let me talk about another strength, which is the credit operation. We've already started a pilot study in CDCI online and digital signature in some brick and mortar stores. We will continue this pilot study and we will feel confident enough for the rollout and that's a window of opportunities. So we can start seeing the credit operation online as well. That's very disruptive, by the way.

And we found a way and we already deployed in our service system, when sellers cater to consumers needs. An alternative so sellers don't have to say no. They don't deny credit to consumers, but rather they tell in what circumstances, the customer would be approved. So we have a lot of intelligence behind our machine learning and when we have the individual tax payer number, we have the credit history with us, and in the market and we can also let him know how credit would be approved in the future. They be with a smaller payment, a smaller time, but we try not to say no to our consumers. But rather create options for him to take credit with us. We are strong in credit operations and we are already increasing our penetration and credit operations.

On Slide 35. banQi, it is ongoing in extra 70 stores. Our intention is to have the rollout for 100% of our stores. Our expectation is to do that until December. We stop right now, owing to the Black Friday event, but we have very good prospects for the rollout this year.

On Slide 36, let me talk about another very important asset that we have, which is our people. (Inaudible) which is our service excellence program. It is already under form. 300 people right on the field working and training a whole sales force throughout the country in order to provide excellence in service. This program provides training for excellence and also is ready to recover good salespeople who are not performing so well.

We also have another program coming back home. The idea is to pursue great salespeople over Via Varejo because they didn't agree with our model and now working with the competition. So we open up campaign, so that these great salespeople and managers come back home. And we are very successful. We already have a significant number of people who are leading the competition, trusting our project, understanding, we turn the game in brick and mortars and they're coming back home.

On Slide 37, that's an image of a meeting that we held in (inaudible) we gathered 3,500 employees face-to-face. So this is our whole team from (inaudible) team. And in addition, a 100% of other employees of the Company were also there to this online training.

We also had a strong participation online. The whole team got a very clear message directly from us and to all levels of the Company. We made it crystal clear, where we are,

what we found, what we are doing right now and where we are heading to. Today 100% of people who work for the Company know precisely where we want to be and not only that, we are having all these people engaged with a sense of ownership.

Each one is the owner of the process of the area of the Company and it takes an attitude of ownership. I have no doubt that we managed to have a lot of engagement in this meeting. In addition, during the last 60 days, Abel who is our CEO, traveled countrywide, personally talking to 100% of our store managers, a 100% of the store leadership also making it clear, the message of where we are and where we are heading to, and also the sense of urgency and ownership that we all want everybody to have.

Also in this event, we launched the #VaiVia. This is our transformation plan. And I am on Page 38. We have a consulting service helping this. We also have over 2,000 initiatives ongoing right now. We are validating this initiative so that at the end of the year, we can roll those initiatives out and put them into action, defining what is the capture value and the curve of benefits that we will have in the Company.

Now telling you a little bit more. For the future of this business, we are all here very excited about the future. We have excellent assets in-house and very -- in a very short period of time, we have been able to carry out an important transformation and the whole team is engaged. I'm sure that we will turn this game very quickly in the online area. We have already started, I would say. And we show that and we'll be able to show that now on this Black Friday.

Well, so now, I would like to open the floor for Q&A session and I will come back with my final remarks at the end.

Questions And Answers

Operator

So, we'll now open the Q&A session. We would like you to ask all your questions at once and wait for the answer from the Company. (Operator Instructions) Thiago Macruz from Itau has a question.

Q - Emerson Vieira {BIO 20347724 <GO>}

Good afternoon. This is actually Emerson, and I have two questions. First, you mentioned that you had 11 stores in the quarter. So do you feel confident to keep on this expansion plan for stores. Do you feel safe to open stores as you have opened 11, while at the same time you are already with initiatives in your existing base. And my second question. Yes, I understand that you want to drive sales and we have seen a robust growth and the credit operations. So I would like to understand how do you intend to increase integration and to add more services with banking. Can you give us more update on that? Thank you.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

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Thank you, Emerson for your question. About expansion, we are comfortable with our expansion plan for next year. I think we have a map with relevant potential areas to go into. And more than that, there are areas to be occupied, not only in terms of brick and mortar stores but also regarding new stores functionalities, which now for us, logistics. So more than ever the store is not only a store and that is a major competitive advantage that we have because we have larger stores and literally we have mini hubs. And over 1,000 mini hubs, all over Brazil. Therefore we see the possibility of having a better occupation in Brazil, both in terms of stores and because of sales as well as stores in terms of mini hubs of deliveries.

About banking, yes we have an opportunity there to do something different, but we would not like to say anything right now. We will be very much prepared in December to talk about the banQi's strategy.

Q - Emerson Vieira {BIO 20347724 <GO>}

Thank you very much.

Operator

Tobias Stingelin from Citibank has a question.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Good afternoon, Roberto, and congratulations on what you have been able to do in such a short period of time. We see things are going in the right direction, but really you need to -- sales to pick back up, right, and the e-commerce, it's clear, especially what you have been in 1P over the third quarter. And now, I think in the fourth quarter we started seeing more positive results. But thinking about brick and mortar stores and despite of all adjustments you have made, sales were low considering that we are very aggressive. So to have a fire sale -- part of sales have been benefited by an aggressive strategy there and the inventory that you had to sell. So I would like to understand that also in brick and mortar operations for the fourth quarter and the next year considering marketing investments, now you have a balanced inventory level, I would like to understand sales now and what it can be done in the short term?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Hello, Tobias. Thank you for your questions. Actually, in this quarter, I think there -- it was even a miracle to have this performance because the stores had a lot of problems, instability for sales in the system because of everything that I have shown. So as everything started recovering, we also improved, and we have over 1,000 stores, 20,000 people to bring back on track, and so we have to lift up everyone's morale because that was not the case before. So I would tell you that we are on the right track. We are moving forward. Every week, we are recovering. And so we expect it to going back to selling more, also in the brick and mortar retail. So, yeah, so we do expect to grow in brick and mortar stores as well.

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Obviously, in the online, we will have an exponential growth, but in the brick and mortar, we will have a more controlled growth. The inventory now is at the level that you wanted. You've made all the adjustments needed and marketing is already coordinated through your inventory levels. So, everything should be working now in the fourth quarter -- working hand-in-hand in the areas, well, and the inventory, we still have some cleaning to do, that will be happening now on the Black Friday.

But I can tell you that I am much better provisioned in my inventory levels. But we still have a few problems to address and the marketing, we are already accelerating our efforts. There are way too many innovations out for marketing. So yes, it will make all the sense of growing back to grow, because everything is running well and the inventory will be well oxygenated in the short term.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay. Now on the online, you had a sequential growth and it makes sense. About Black Friday, Black Friday last year, that's when problems really arise. So if we compare the sale for Black Friday last year, you will be able to understand it. So does that make sense to things like that.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Hi, Tobias. Yes, it does not make sense. What happened was that in the last few years Black Friday a lot was sold. Sales were good. The problem was that we were not able to operationalize the sales made. So we were not able to deliver, we lost orders. It was a kiosk. So we did have good number of sales, the prices were unbalanced because they dropped all the prices randomly.

Q - Tobias Stingelin {BIO 18290133 <GO>}

So what we can expect for this year's Black Friday?

A - Orivaldo Padilha {BIO 21118157 <GO>}

Yes. We want to grow with a better margin balance because we have a well-designed commercial strategy and I will give you a guidance here. Our logistics team when (inaudible) they will jump up their seats, but actually we are committed to doing 100% of our Black Friday deliveries in one week.

So the average of retail is to turn that regular from 20 to 30 days for Via Varejo, we are able to work on it and months and last year's Black Friday. And we do have our internal commitment to turn that regular and we are so confident about the level of service that we already have today that we believe we know that in one week, we will be able to address all Black Friday deliveries and most of that will happen in the first 48 to 72 hours.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay. My last question. You already talked about the top of mind a strong brand. But are you measuring NPS. How is the consumer perception right now? You have shown the

pictures on the stores. Are you being able to track that how the perception of the brand is evolving?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Yes, Tobias, we are measuring that every week and we are having relevant gains. The consumers have seen the change. For us, that's very clear. Consumers have seen that there was a huge change and I would say that we are in a great path to recover our image.

Q - Tobias Stingelin {BIO 18290133 <GO>}

About those consumers that didn't think so?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

So we know that we have lost some of our clients, but considering the level of engagement that we see now, we believe that's going to be recovered. Also we have seen improvement in official forums that measure complaints from consumers such as (inaudible) so consumers are seeing that the online service marketing stores serving.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay. That's fine. Congratulations again. Thank you.

Operator

Irma Sgarz from Goldman Sachs has a question.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good afternoon. I have many questions. But I would like by the way thank you for all the detail that you gave us. So I'll ask two questions. The improvement that you mentioned about logistics for 48 hours -- within 48 hours. What is the percentage of delivery? I would like to know what effectively changed in logistics. Was it just to fix the system or transfer information control, any effective operational change and what about the future? If you think about marketplace, which obviously is growing a lot and becoming more and more relevant, how do you envisage the balance between 1P and 3P, and do you believe that you will have to increase the range of services for 3P or for 3P sellers or maybe that's not a focus in the first moment? Thank you.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Irma, thank you for your question. Good afternoon. So first on our logistics. There are some attractions here. Firstly, we're using the best of our assets. We are working, we started to work in three shifts in DC. So 24x7 in ACs. In addition like I said, we also mix delivery to consumer with store supply at the end of the day, we have maximum efficiency of the trucks and the frequency is much greater without increasing the cost. So I guess these are the main points that we changed in logistics. In addition, the systems

enhancements, which also happened and also our mode of operation in the warehouses. We had dramatic changes.

Answering to your second question, as for marketplace, 3P and 1P, we are not going to restrict the growth of 3P. We want and will be very strong in 1P and we see 3P in a -- as a strategy, so to speak. So we're going to broaden the range of the mix with categories that are related to our business that are additional to our business to complement our business so we can beat the competition. And we are on this track right now, and in the mid-run considering the logistics power that the Company already has, it's not something that we have to start from scratch, it already exists. So I believe that we won't have to wait long. So we can deliver unique service to our sellers and therefore bring unique service to our consumers when it comes to delivery. Maybe in a short timeframe perhaps we can work full time to our sellers in many SKUs and categories.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you. Just to confirm, what about the flagship in e-commerce to you? Is it extra website or may be Casas Bahia's website?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

The three of them are doing great. They are all recovering. The three of them are recovering, but if I were to choose one Casas Bahia. It is standing out more strongly, but we also have a strategy for the three of them.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you.

Operator

Petronilho from JP Morgan has a question.

Q - Olivia Petronilho {BIO 19090195 <GO>}

Good afternoon. Thank you for taking my question. I have actually two questions. The first one, it's clear that you're making a lot of changes to the store. But what else do you still have to do? If you think about the current platform, what you still need in terms of investment in time? I know it's hard to measure, but how can we -- what do you still need in order to have the model as you want up and running.

The second question about investment and changes strategy. What about marketing for the future? The level of the third quarter, what should we expect to see in Q4, what do you intend to have in 2020 and down the road, what are the changes in the market strategy considering the new commercial positioning? Thank you.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

In terms of the infrastructure online, it goes as follows. The first good news is that, we were not convinced on day one, but now we are convinced. We are fully convinced that

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the current platform with another adjustment package that is already in progress after a seasonal period after Black Friday, everything will be deployed. So we have no doubt about the potential of multi-channel that this platform will give us. So we're not considering to have investments, just improvements to the current platform.

As for investments, here the new platform or the new huge improvements to the platform, I have to speak, we are working on this planning. We cannot give you much color right now, how much this will take up investments. We are just beginning to work on a budget, our milestones for 2020. So maybe in Via Varejo Day in December, maybe we can give you a preview, but maybe on December 17, but we'll be ready to talk about that.

Thirdly, in the beginning of next year, with regards to marketing, I don't know if I got your question well. You wanted to know about the progress and the evolution in marketing, right? How should we consider marketing expenses, they are very new strategies, right? For (inaudible) in the Company, where I believe it entails additional costs, our marketing investment, where we are not growing (inaudible) a lot of growth in terms of investment as what we will do is to give more efficiency to what we already do.

So we have been spending quite a lot of money in some methods of online methods taken up a lot of cash and it was not so assertive. So we dramatically changed it. Now we are renegotiating with all our suppliers, we had a great package now with global TV station. So we still have a lot of things to do in our customer base with CRM. And this radically minimizes the cost and investments in marketing. So being very straightforward, I don't expect to see significant increases in our marketing effect.

Q - Olivia Petronilho {BIO 19090195 <GO>}

Great, thank you.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Thank you.

Operator

Pedro Fernandes from XP Investments also has a question.

Q - Pedro Fernandes {BIO 20662961 <GO>}

Good afternoon, everyone and thank you. I would like to follow up on a comment regarding the stores revitalization. You said that you have already mapped 200 store fronts, so that you could work on them on the next few months, maybe not this year, but do you have an estimate that you could share with us about the level of investments for this renovation on how complex are them and if you have a potential impact estimate in productivity that you might have into after those renovations?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

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Hello, thank you for your questions. About the 200 stores that we mentioned, it's already been done. They are ready. We concluded the renovation process. They are already operating and operating well. For the next year and right now and we are also considering the budget for the next year, we are analyzing what type of renovations we will need to do in our total stores, and we will have that information further ahead. Unfortunately, we do not have that yet, but I can tell you that to work on these 200 stores that we have worked on, the investments were low. Obviously, in some of the stores, we will have to invest a little more, but we believe that in most of the stores, we'll be able to have a low level of investments. We already have a plan today, but we are still monetizing the plan and checking how much is going to cause, but actually the plan is ready and we just have to monetize it perfectly.

Q - Pedro Fernandes {BIO 20662961 <GO>}

I understood. And the 200 stores that you have already worked on. I know it's not much time, but did you measure impact in terms of store productivity?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Yes, we have measured that. These stores are operating for short period of time, but we did see relevant gains and two digits gains in the stores that we have renovated.

Q - Pedro Fernandes {BIO 20662961 <GO>}

Perfect. Thank you very much.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Thank you.

Operator

Rob Ford from Bank of America has a question.

Q - Rob Ford {BIO 1499021 <GO>}

Good afternoon, and congratulations on your call. Well, can you tell us the nature and the - the nature of the accounting allegations that you have received? And also about Black Friday, how do you feel about the competitiveness of regarding assortments and price in general?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Hello, Bob. This is Roberto. I will talk about competitiveness, first. Thank you for your questions. Obviously, Black Friday -- the Black Friday is challenging for everyone in retail. The price seasonality is strong. But we are prepared for this Black Friday. We have negotiated and we feel confident. We know that we will go to the Black Friday selling a lot with no major problems. 90% of our inventory for Black Friday is already in-house and it's already in the distribution process. So being very straightforward, yes, it's going to be competitive as it always is, we are very well prepared in terms of competitiveness.

There is a drop of margin for this period of time, but we are not counting on a significant drop of margin for this period, because we are -- we have prepared ourselves very well. So now I'll turn the floor to Padilha.

A - Orivaldo Padilha {BIO 21118157 <GO>}

Bob, thank you for your question. About the material fact, everything that was found is there, that's what we said. The investigation has not found anything real -- anything material vis-a-vis the allegations. This is work that is ongoing. So as soon as we have anything new, we'll come back and communicate to the market. But so far, really that's what's on the material fact that what we have. It is nothing.

Q - Rob Ford {BIO 1499021 <GO>}

And Padilha, would that be an indemnification if that were to be related to the prior controller?

A - Orivaldo Padilha {BIO 21118157 <GO>}

Well, as I mentioned and as we have published in the material fact, this was an allegation that has not been proven so far, up to this first stage conclusion. We will have a second stage -- a second phase of this investigation, this is ongoing, but we are not considering any type of indemnification so far. And because also the investigation has not found anything wrong so far.

Q - Rob Ford {BIO 1499021 <GO>}

Thank you very much.

Operator

Gustavo Oliveira with UBS has a question.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you for taking my question. My first question is about the sale -- a big sale. What about same-store sales from brick and mortars this quarter? Is it inventory sales? It was not so clear to me. Could you give us more color, please?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Roberto, speaking. The BRL500 million basically sold at cost, so it's cost of goods sold. I cannot tell you the market share if I didn't have BRL500 million problem, I will have as a solution and maybe I could have sold BRL1 billion. So I cannot do the math. So ratio for approximately BRL500 million of inventory between BRL901 million [ph] sale.

Undoubtedly, our sales if we didn't have BRL500 million problem -- that BRL500 million solutions, undoubtedly, we would have sold much more.

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Q - Gustavo Oliveira {BIO 15129435 <GO>}

That's clear. Second question. Despite of that, you said the margin would be much higher, but in stock with the sale of 1P, I imagine that the margin was slightly lower as well. So maybe it is helped with the margin that you mentioned -- a normal margin of 20% to 30% and you also said that the margin in Black Friday may not be affected by the negotiation with suppliers. So what I want to understand in this strong come back in 1P sales in addition to Black Friday, what about the impact on margin -- the gross margin on the operation at large? The margin is much lower and competition pressure is much higher, correct me if I'm wrong.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Gustavo, considering 1P is already significant and it will become increasingly more significant to our business. We cannot count with this option of 1P margin being significantly lower than 3P margin. Our expectation is to wrap up 1P maintaining levels close to our store, our brick and mortar store margin. What I can tell you not just to be on assumptions. In October and November, we already post growth in 1P. Sorry, I cannot give you any figures right now, but we are also having core margins. That's all I can say.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Got it. Now would this come back of 1P, are there any categories that are more competitive vis-a-vis the whole competition, I would like to understand how you pursue the 1P sales everybody is speeding up, so I would like to understand how you expect to have this comeback? Did consumers have a pent-up demand? What about digital marketing? So how are you working on this come back?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Well, we don't have the different categories. We are targeting everything that is already our strength and there is no doubt that we are acting very strongly long tail with SKUs that are not part of our daily routine, but they will be at 1P for instant tires, diapers other SKUs. So we are ready just about to strengthen this long tail. We're going to be very strong in the core of our business. No doubt about it. It's our obligation, our duty and we also want to be very strong in long tail, which has a direct impact.

Answering your first question about profitability. So things are more balanced as we have a stronger long tail. We know it's possible as we already started. We're not just about to start. We already started. We are far more active in long tail. The new team that took over in the commercial area, it's very much focused online intelligence, commercial operation, several online segment. So the team is fully focused on making things happen in all categories.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Just one last question if possible. I guess in the last conference call you talked a lot about negotiation with suppliers and long-term contracts maybe one year putting towards possibly in the industry. So what about the progress of these negotiations. (Inaudible) one year or for the moment you're only focusing on Q4, and you still have a lot of gains to be captured over time?

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A - Orivaldo Padilha {BIO 21118157 <GO>}

Gustavo, great point. Like I said this is our core business. We were extremely welcomed by the industry. Owing to the strategic vision, the long-term view that we are giving to this business. We also have credibility with the industry. We are confident in the sense that we are waking up from long-term strategies and we will deliver so like I'd say that our negotiations are ongoing. We've been very successful. We already closed many long-term deals. Some of them are still being negotiated, but no concerns. Like I said in the beginning, both in Brazil and abroad, we had fast trip to Korea, the strength in our relations with two partners and we also had meetings in Brazil with several different manufacturers, so everything is running very smoothly. Thank you.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you.

Operator

(Inaudible) has a question.

Q - Unidentified Participant

Hello, good afternoon. Thank you for taking my question. I would like to have more color about what we could expect to see in terms of improving the cash cycle of the Company and more detail on what you envisage for Q4 vis-a-vis the same topic. Maybe relief in inventory downsizing.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Carlos, Roberto speaking. Thank you for the question. We can see a trend of improvement in our cash position. Like I said, we still have a little bit low turnover inventory to eliminate in Q4. We will work on this and we will not go back to our operations of the inventory levels when we took the company over. It makes no sense to us. It just grain our agility, it is not healthy for the Company to run with the same inventory level when we took over the Company. I guess we already reduced around 20 days. We can even reduce further, but now we're getting to this scrutinizing phase and it's more gradual now. We expect to have this improvement over different quarters, consecutive improvements of the inventory rates, but in a more gradual manner. Thank you.

Operator

Ruben Couto from Santander also has a question.

Q - Ruben Couto {BIO 20636571 <GO>}

Good afternoon, everyone. Two quick questions. In this process to review all the stores, did you also check the portfolio of categories? In the last call you talked a lot about furniture for instance. So do you have any changes in the strategy to change or to adjust to the categories mix of the Company and is still on this topic. And I thought your comments on the last call regarding the relevance that the strength that you believe that

the payment book has in the Company that level 11% in sales that we have now, that's what we will have, or should we expect that now in the fourth quarter this will pick up and maybe go back to the levels to the 16% that you already had in the past. Can you talk more about that, please?

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Hello, Ruben. And thank you for your questions. Yes, we already re-analyzed all the categories for brick and mortar stores. We will keep on strengthening our furniture line because that line got weaker over the years. And we already have everything and have to grow. We are already increasing our furniture sales, and I would say that furniture will bring the payment book with it. And for us this is a fantastic credit operations, because you can have very low interest rates there.

So I believe two things will happen hand in hand. Strong growth in our payment book in the fourth quarter. I don't know, we have Black Friday now and there are a lot of opportunities, we have a lot of credit cards there. We have a lot of online purchases, cash purchases. So I think consumers get ready and save money to purchase in this period of time, but our strategy is to increase our credit operations. But I cannot tell you at which levels, we will be. We will try to go to the highest level possible, of course.

And as I said, we have a lot of intelligence invested in our credit operations, and so as we work on our CRM, I think we will be able to provide credit operations and credit by individual tax number. The customer will have a pre-approved credit depending on the consumer even, they will have a more aggressive interest rates. So there are several opportunities to grow in our credit operations.

Q - Ruben Couto {BIO 20636571 <GO>}

Can you tell us what is the share today for furniture? Can you give us that breakdown within your total revenue?

A - Orivaldo Padilha {BIO 21118157 <GO>}

Yes. Let me find that information. It's around 15%, 16%. It has increased 1.5 point in the brick and mortar stores and close to 10% in the online.

Q - Ruben Couto {BIO 20636571 <GO>}

Okay. That's very clear. Thank you all.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Thank you.

Operator

(Operator Instructions) We'll now end our Q&A session. I would like to turn the floor back to the Company's management for their final remarks.

A - Roberto Fulcherberguer {BIO 17276995 <GO>}

Well, I would like to thank you all for participating in this call. We are very happy about the volume of questions we had. This shows how interested you are in the Company. And as I said, I don't want to repeat myself. We are extremely confident about the turnover in this Company. We'll be placing this Company back to a special position from which you should had never left both in the online and the brick and mortar stores.

And I will end the call the way we end all the meetings we hold here. Let's go out and retail. So as a good retailers do help us and like Friday purchase on our website, also on our stores, you're all invited to our Investor Day on December 17 when we will be providing more details, also you have more details on our website and we would love to see you all there in person. Thank you very much.

Operator

The conference call for the results of Via Varejo has ended. The IR department is available to address any further questions you might have. Thank you very much for your participation and have a nice afternoon.

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