Q2 2016 Earnings Call

Company Participants

- Alexandre Goncalves, Investors Relations Officer
- Felipe Negrao, Financial Services Executive Officer and Chief Financial Officer
- Peter Estermann, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Andrea Teixeira, Analyst
- Franco Abelardo, Analyst
- Guilherme Assis
- Gustavo Oliveira, Analyst
- Irma Sgarz
- Maria Paula Cantusio
- Robert Ford, Analyst
- Tobias Stingelin
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Via Varejo Conference Call to discuss the Results for the Second Quarter of 2016. This event is also being broadcast via webcast, which can be accessed at www.viavarejo.com.br/ir, with the respective presentation. Slide selection will be managed by you. There will be a replay facility for this call on the website.

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

Before proceeding, we would like to inform that forward-looking statements which might be made during this conference call relative to Via Varejo's business prospects, operating, financial goals and projections are based on the beliefs and assumptions of Via Varejo management and on information currently available for the company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they relate to future events, and therefore depend on circumstances, which may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the results of Via Varejo and could cause results to differ materially from those expressed in such forward-looking statements.

Now I would like to turn the floor over to Mr. Alexandre Goncalves, Investor Relations Officer of the company. Mr. Goncalves, please go ahead.

Alexandre Goncalves {BIO 19858024 <GO>}

Good morning, everyone and welcome to the Via Varejo Conference Call referring to the second quarter '16. We have Peter Estermann, our CEO; Felipe Negrao our CFO and Executive Officer of Financial Services. Our call will last approximately one hour. It will begin with a brief explanation of the company's results for the quarter and then we will move to the Q&A session. I'll now turn the floor to Peter Estermann.

Peter Estermann {BIO 15380447 <GO>}

Good morning, everyone. Welcome to our conference call to discuss the results for the second quarter of 2016. After four consecutive quarters, we now can show improvements in our sales volume on a same-store basis. In this quarter, we had positive growth, even in a very challenging market for our industry. Our sales growth is based on a strategy of competitiveness that we implemented in the company as of the fourth quarter of last year.

We dramatically reduced our level of stockout in our stores, which increased the availability of products available to our customers. In addition, we were able to improve our sales conversion rate in our stores, and we continued to work hard to improve this KPI even further.

The results of our strategy has been structural -- consistent structural gains of market share, which led to a 2.6% increase in same-store sales growth even in a very challenging macro scenario. And this leads us to think that we will continue with this strategy.

More recently, we have seen some improvement in the indicators of consumer trust, confidence and more instability in unemployment indicators. We still cannot see a consistent improvement in the traffic of customers in our stores. However, our trend to recover sales continues. We maintained total focus in implementing our strategy as mentioned before. We are adopting a more approach, which led to consistent sales increase and market share gains in practically all regions and categories of our business.

We continue with a big challenge ahead to adjust the company's cost structure. We've done a lot, but there is still a lot of room for improvement. We improved a lot and continue to improve all of our supply chain, so as to offer the best level of service to our customers.

In the last call, I mentioned the performance of our indicators in terms of delivery deadlines and time to assemble our furniture at our customers. While these indicators continue to improve even further, we continue to capture synergies among the companies of the Group, and areas of the company and this is extremely important for us to continue to reduce costs and expenses.

Our cash position is more robust, and this cash position sets us apart in our industry and allows us to weather the storm in a more protective way. We are committed to maintaining a solid capital structure.

I will turn now the floor to Felipe Negrao, our CFO who is going to talk about the results of the company.

Felipe Negrao {BIO 19434019 <GO>}

Good morning, everyone. Thank you for joining us. Let us begin discussing the results and business prospects of the company.

Let us start with slide three please. In this quarter, we completed two projects, which was very important for the company. Store-in-store and Banner Conversions. 360 stores were completed in Store-in-store, 206 finished in 2016. Store-in-store stores represented a same-store sales of 6.5%, sales growth above the average of Via Varejo, which was 4.1%. As for Banner Conversions, we converted 82 stores in 2016. Converted stores showed a same-store sales growth of 15.3% with a higher profitability, given a higher participation of services and payment books.

On slide four, as you can see on the left, after five consecutive quarters with a negative same-store sales, we inverted the trend and grew 2.6% in the quarter; a satisfactory number considering that the market is contracting. We gained market share because of our competitiveness strategy, availability and assortment of products, and because of the strategic projects mentioned store-in-store mobile and banner conversions. We closed the second quarter with 975 stores; we opened two stores in the second quarter, closed five stores and had seven banner conversions.

Please go to slide five. We gained 5 percentage points in our gross margin compared with the same period of 2015 achieving 38.3%. There was a positive impact due to a mix of financial services and tax relief on payroll and tax credits. SG&A grew 2.6% compared to the same period of 2015, the main impact derived from the end of tax relief on payroll and labor agreement accounted for 2.5% out of the 2.6% increase in SG&A expenses. As a result of the points previously mentioned, adjusted EBITDA for brick and mortar stores was 8.5%, a 3 percentage point increase compared to the second quarter of 2015.

Please go to slide six. There was a 431 reduction in cash and cash equivalents compared to the second quarter of '15, however, our gross debt shrunk by BRL763 million. Consequently, net cash adjusted by credit card receivables unfactored showed an increase of 332 million compared to the same period of 2015. We continued with a solid capital structure and a solid net cash position.

The net financial results of the company showed in the first half of 2016, was 3.3% of net revenue, an increase of 0.5 percentage point compared to the same period of 2015. This is the result of a higher SELIC rate in the period compared to the same period of 2015 and a higher volume of credit card receivables unfactored given a higher share of credit card sales in the total sales of the company.

Please go to slide seven. 180 days past due [ph] payments showed a reduction of 10.4% compared to the same period of 2015 achieving 12.9% of the receivables portfolio despite market conditions. This reduction stems from investments made in the end of last year in tools, people and processes to improve our credit loan granting processes, and so as to be more effective in collection. We had a reduction. We had a higher credit approval tools for lower risk clients, and also had a client segmentation by risk.

On slide eight, we see adjusted net income for brick and mortar stores. We had a loss of 7 million in the second quarter of 2015, it was 36 million for the second quarter of this year.

We would now like to begin the Q&A session.

Questions And Answers

Operator

We are now opening the floor for questions. (Operator Instructions) Our first question comes from Mr. Robert Ford, Merrill Lynch.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you very much. Good morning, everyone. We have 2.4 billion in tax credits, could you speak a little about your perspective to monetize the credits that you have? Thank you.

A - Alexandre Goncalves {BIO 19858024 <GO>}

This is Alexandre speaking. How are you doing?

Q - Robert Ford {BIO 1499021 <GO>}

I'm okay, thank you.

A - Alexandre Goncalves {BIO 19858024 <GO>}

Well, Bob, the tax credits that we accounted for in this quarter refers to Pis and Cofins where the company is the payor. So our expectation is that we will be able to monetize this tax credit for the company in the next nine months tops, so there is no possibility that we will not monetize this.

Q - Robert Ford {BIO 1499021 <GO>}

What about the tax effect of 2.4 billion, and what is your expectation regarding the monetization of these credits?

A - Alexandre Goncalves {BIO 19858024 <GO>}

Well, we have a project underway to make the monetization feasible, but we have an increase in the tax rate of these taxes, which was quite significant in this first half of the year. But we are putting a lot of effort in this project and we have this increase in the tax rate that had an effect, but when we compare with March of 2016, we can see an improvement in the monetization of these tax credits. So as a result of these plans that we implemented around 2015 and in the first half of 2016, and we can see more effects more towards the end of the year and in 2017. So the company is working on that, on those tax credits, so that we can bring those amount to the company's cash.

Q - Robert Ford {BIO 1499021 <GO>}

What about a slightly higher financial cost? Could you speak about the non-interest installments for you and for the competition?

A - Felipe Negrao {BIO 19434019 <GO>}

This is Felipe, could you repeat the question?

Q - Robert Ford {BIO 1499021 <GO>}

I'm talking about the cost -- the financial cost, which was higher than expected? Could you speak about the level of promotions in non-interest bearing installments for your company and for the competition?

A - Felipe Negrao {BIO 19434019 <GO>}

Well, there was a slight increase in payment terms, and in the terms of receivables and credit card payments. We increased the non-interest bearing trends, and the main impact was on co-branded cards for SELIC and Bradesco [ph] so there are 14 non-interest bearing installments, and probably even more than that.

On the other hand, we had receivables for these cards, we have a credit, those that we get from the companies by the sale of these credit cards. So we get some income by selling these products.

The financial cost increase, so like I said, because the SELIC interest rates increased in the period, and also because the higher volume of unfactored credit cards that had a higher share in the company's total sales.

Operator

Our next question comes from Mr. Tobias Stingelin with Credit Suisse.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Good morning. I have one question. The recurring credit with the change of fees, the fees would be around 71 million for this quarter, so this change that you implemented had an impact of 71 million. And looking forward, since we are adopting a new methodology including the tax, theoretically your gross margin would increase consistently because of this change. So I would like to understand if that's a fair statement?

And last year's numbers aren't comparable, because in the second year of -- in the second quarter of last year, you didn't adopt this methodology, so I just want to understand the performance year-on-year. If you have used the same methodology for accounting for (inaudible) would you have the same impact? So that's my first question.

And my second question is, you continue to be penalized by the end of Lei do Bem tax incentive that has an impact on your gross margin, and not everyone in the market is following this policy. So I want to know, to what extent are you losing competitiveness because of that? And what you think you can do to reverse the situation, are you going to go to court? I just want to understand if there is an upside stream here because I think that you are in a worse position than some of your competitors. Thank you.

A - Peter Estermann {BIO 15380447 <GO>}

This is Peter speaking. Good morning. As for -- I'm going to begin by your second question. Well, Via Varejo has not been granted an injunction that will allow it to use taxes referring to Lei do Bem tax incentive or tax relief law. So we -- our cash was impacted, as well as our results by this increase in the tax burden. Now this impact, Tobias, of the tax relief law amounts to approximately 240 basis point of the EBITDA for the first half of the year, okay.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you. But when we think about the other end, if you get the injunction, have you filed -- an injunction, have you filed a plea at the court because I imagine that a consumer -- you're selling at the same price to consumers because you're absorbing all of the loss or you have to sell at a higher price and the consumers can find the same product at a lower price elsewhere.

A - Peter Estermann {BIO 15380447 <GO>}

Okay. This is Peter again, Tobias. Regarding competitiveness level, we have been quite competitive, and you know the impact is basically on technology products and we have been quite competitive in technology and IT products. And obviously, in this case we do absorb the cost. So at the consumer end, the impacts of tax burden on the final price is of around 9 percentage points, but this is an additional effort that we are having to make to absorb this cost in our structure, but we have been quite successful in the technology in IT categories, both in sales and market share gains, and these categories too bring us a very good margin.

Q - Tobias Stingelin {BIO 18290133 <GO>}

But are you asking for an injunction -- you're being able to be competitive with an impact on margin, because if you have those benefit, you would be 240 [ph] basis points better.

A - Peter Estermann {BIO 15380447 <GO>}

Yes, we have filed an injunction and this injunction should be analyzed in the coming weeks or months. Our expectation is that we will have a decision in the month of August.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay. Thank you very much.

A - Peter Estermann {BIO 15380447 <GO>}

As for your first question, Tobias, 38.3%, if we have that in the same margin of 2015, then we would have deduct 6.5 percentage points because of the tax credits that we got. I would have to deduct a 1.2 percentage points because of the tax relief on payroll and we will have to include the tax relief law 2.4 percentage points on EBITDA, but it is 1.7 percentage points on gross margin, and that would give us 32.3% of margin compared with 32.5% of last year.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Could you repeat the numbers please?

A - Felipe Negrao {BIO 19434019 <GO>}

38.3%, minus a 6.5 of tax credit, minus 1.2 percentage of tax relief on payroll, plus 1.7 because of the Lei do Bem or the tax relief law as Peter mentioned that would give us a total of 32.3%. 1.7 is the impact on the margin, and when I said that it would be around 2.4 percentage points that would be the effect on EBITDA, 2.4% effect on EBITDA,1.7% on the margin.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you for the explanation. Okay. But the tax relief on payroll, that's a given [ph]. If I can adjust for the numbers, I have an idea of the effort that we have to make to try to protect the company's profitability. But assuming that the tax relief will not disappear, and also the tax relief law, we don't know what's going to happen next. What I do know however is that you've changed your policy to provide for Pis and Cofins. So this change in Pis and Cofins, I'm assuming that it will be recurring and that will be in your favor looking forward. But this number is not comparable with last year because it didn't have the same methodology.

We can talk about that after the call, but I just want to know, if you have used the same policy to provide for Pis and Cofins. I would like to know, what your margin would have been in the second quarter of last year because your margin would have been higher too? But I compared the same quarter with last year.

A - Felipe Negrao {BIO 19434019 <GO>}

I cannot really tell you if this 1.7% applied to this quarter would apply to the same quarter of last year. We can do that calculation after the call. Thank you very much.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Again. Thank you very much.

A - Felipe Negrao {BIO 19434019 <GO>}

Thank you, Tobias.

Operator

Our next question is from Gustavo Oliveira, UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good morning, everyone. I have a couple of questions with regards to operating efficiency. You mentioned in one of the slides that you are increasing and searching for more efficiency, but this is slightly above expectations in terms of expenses on the operational side. I would like to better understand the main initiatives that you are embarking on over the year. And also the kind of base, the cost base you expect to see in the second half of the year.

Along the same lines, how are you working right now with Cnova in order to integrate operations faster as soon as the transaction is approved? Do you have any plans, anything that is already taking place? And once the transaction is concluded all you do is to turn the key. In other words, what about the timing of the integration because Cnova's results remain very poor and getting worse?

A - Peter Estermann {BIO 15380447 <GO>}

Gustavo, Peter speaking. Thank you very much for your question. First of all, coming back to operating efficiency, we have a very robust project, a very important project, which is to improve our store operation model. This project was in the early phase and we worked for about two months in a pilot phase in order to learn more and test all the drivers for improvements that we pin-pointed before.

The outcome was quite positive and now we are in the rollout phase of the project, and our strategy is that by year-end, we'll be covering all our stores. We haven't talked about effective results brought by the project yet, particularly in terms of the positive impact on cost reduction and improved selling performance and this is because we are still in the early phase, and we will be better prepared to address this topic in the next quarter once we have a more significant volume of stores.

What I have to say right now about the project though is that, this is quite a promising project. Preliminary results at the stores, where we are running right now are very positive and we are fully convinced that the new store operating model at Via Varejo will raise us to a very good level starting next year. So I hope I have answered your first question.

The second question about Cnova, as you all know, independent committees at the company are all working right now with financial and legal advisors and they've been analyzing business and also talking about the terms of the transaction, and we expect all the works to be concluded within the next weeks. Our expectation is that as soon as the work is completed, we will be ready to work on the right combination of both companies' business. Naturally, we already have some actions and a preliminary analysis performed, particularly in synergies that we worked in the past, synergies that we started last year, mainly back-office synergies.

As we know, we created in GPA Group, a shared service center last year, by the way we had it prior to that, but last year, we did a lot of progress in this model of a shared service center. And some activities on the Group, including Cnova had not been updated in the distribution center yet or shared service center. And this will be accelerated in the future, and I think we are ready for implementation as soon as we complete the combination of both companies' business.

There is another project, which is also in progress. And we also started last year and accelerated this year, it is logistics synergy between companies. This project is doing fine. It is within the physical and financial expectations, and we expect to have logistics operations for Via Varejo and Cnova completed by the next quarter with a very positive impact, particularly in the level of service provided to our customers owing to the synergy. Like I said in the previous call, Via Varejo has systems, processes and an infrastructure that already allow us to provide good level of service in terms of product delivery, assembly, delivery times, we standout from our competitors in this regard. And the combination of both companies will bring a lot of benefit.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you.

Operator

The next question is from Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good afternoon or good morning actually. I would like to have a follow-up question about selling expenses or SG&A. You stated in the release that the 250 basis points were due to the end of the tax benefit and also the collective bargaining agreement of the payroll. Could you break down, how many -- how much came from each one of these factors?

The second question is about inventory levels. By the end of the last quarter -- well, this is above last quarter and above expectations. So is this just a timing issue when the goods arrive or maybe related to the new DC that you are to open this month or is it something that is remaining inventory or something related to proximity models?

And the third brief question, could you clarify please the average term of the credit portfolio and co-branded operation? I know you mentioned briefly about the conditions that you offer right now. But I'd like to better understand the average portfolio term and the duration of the portfolio. Thank you.

A - Unidentified Speaker

Irma, thank you for your questions. I will answer your question about inventory. Actually, our inventory is slightly higher. Part of this higher inventory level has to do with our commercial strategy, which we adopted in the first quarter. Our vision at the time for the second quarter focused very heavily on the sale of goods, particularly IT items with a very strong focus on mobile telephony. So we had additional procurement for these categories and the outcome was pretty good and we stick to the strategy, so part of this inventory is related to our commercial strategy, and will be back to normal in the near future.

The second part, as you mentioned quite well, we had some opportunity purchases over recent months, over the past month. And once again, the market has been changing, and new opportunities always come around and the exercise [ph] will have a privileged cash balance, we benefit from such opportunities, and eventually it does help us to leverage our sales. Our inventory level is slightly higher and -- but, there is a trend to go back to normal, and we should start getting ready for very strong seasonal events like Black Friday, the Holiday season. So we are already working on the whole sales planning for those dates, and actually, we're already assessing our inventory levels, so we can be very well prepared.

We are giving total priority to a reduction in our stockout and product availability to customers at the stores, particularly in Click & Collect. It makes a lot of difference, so we can improve our sales conversion rate. So once again, our inventory strategy does support our commercial strategy in order to boost sales and improve market share, and we are paying keen attention to the current inventory levels. Thank you.

A - Felipe Negrao {BIO 19434019 <GO>}

Irma, Felipe speaking. In terms of SG&A, the 2.5 percentage points you mentioned, 1.7 comes from INSS [ph] and 0.8 comes from the collective bargaining agreement.

As to cards and the average term, the average term for the conventional or the banner or brand card, we are speaking on an average term of eight months, that's the average we have. And for co-branded, when we speak of co-branded card, we are speaking of 12 months, so another four months for co-branded cards. So there is additional costs out of the four months -- additional four months in expenses, but MDR [ph] is much lower for co-branded. It's important to mention that for MDR and also the revenues stemming from these cards and that's for the fiscal [ph] both from a card, revenue and the equity method, and FIC, which gets into the equity income and we have some gains in the revenues in addition to bring in more sales.

So we are more competitive when we have additional four months. So if you think about the financial costs for these four months, and all the other gains, the gain becomes quite positive to us.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you. Just a follow up question about the opportunity purchase and the inventory. Was is it still in the IT and electronics segments or does it also apply to white line items?

A - Peter Estermann {BIO 15380447 <GO>}

Irma, it happened in both categories, in the IT category and also some opportunities for white line, but mainly focused on IT items.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you.

Operator

The question is from (inaudible) from Itau BBA.

Q - Unidentified Participant

Good morning, folks. Just following up the question about SG&A and mentioning other operating expenses. We still see a relevant amount related to the recovery at the company in this first, about 60 million of 40. So, should I expect to see this expenses and recovery to continue over 2016? And if the answer is yes, how much should we expect as an impact?

The second question is more related to the service [ph] scenario, the competitive scenario advantages. What about July? What do you expect to see for the rest of the quarter? And what about the online channel, and what about the impact on your perception?

We have been following up some e-commerce players, and there is a very challenging scenario for e-commerce. So what's your view on this and the impact on your sales performance? Thank you.

A - Peter Estermann {BIO 15380447 <GO>}

Hoban [ph] thank you for your question. I'll be answering part of the question about the sales scenario for July. We keep on having the same trend that we saw in the recent past, and this goes both to our sales volume and also to our market share gain. Our sales strategy therefore continues to be sound and very consistent. What I can tell you right now about all the several channels is that we've been gaining market share in the total market.

In other words, Via Varejo has been managing to gain share in both segments. Moving now to the first part of the question, non-recurring, and what should we expect going forward, we can see a new dimension to this [ph] and also restructuring in after sales. But once again, I think it's very important to keep that in mind, but we keep on searching for efficiency as well. So we expect to see a reduction in provision for bad debts and also reduction in collection, improving synergies, improving more efficiency at the stores. But it's important to mention that we also generated cash, net cash generation BRL332 million from next year to the current year.

Q - Unidentified Participant

But do you have an amount that we might expect for the second quarter of 2016 for instance?

A - Peter Estermann {BIO 15380447 <GO>}

We're still working on it.

Q - Unidentified Participant

Okay. Thank you.

Operator

Our next question is from Mr. Franco Abelardo with Morgan Stanley.

Q - Franco Abelardo {BIO 17416219 <GO>}

Good morning, everyone. I just want to try to understand tax credit a little bit better. It is clear that the impact is 6.5 percentage points on the margin that would amount to about BRL80 million, but when we look at the explanatory note on tax credits to talk about an impact of 353 million. So I would like to understand to what this 353 million would be for the half-year or did you also have a positive impact on the first quarter or am I getting something wrong? I just want to understand the amount of the tax credits. Thank you.

A - Unidentified Speaker

Good morning, Franco. The 6.5% of that 353 million, that's the impact of Pis and Cofins. The 6.5% refers to exceptional costs of our business, for example. If we get a final favorable decision with the tax relief law, we might have in the future the recognition of tax credits referring to that decision.

Q - Franco Abelardo {BIO 17416219 <GO>}

So 6.5 would be the 353 million extraordinary, the rest would be normal to your operation?

A - Peter Estermann {BIO 15380447 <GO>}

You are correct, yes.

Q - Franco Abelardo {BIO 17416219 <GO>}

Okay. It's clear now. Another question regarding the strategy of discounts of credit card receivables. There are almost BRL900 million in credit cards, was that -- was there an increase in cost when you decided to discount loans? What would be the minimum cash that you expect to be working with in the coming quarters? I'm just trying to understand better your strategies for unfactored or discounted credit card receivables.

A - Peter Estermann {BIO 15380447 <GO>}

Well, this is a very dynamic strategy, it really depends on how much we need to pre-pay our suppliers and so on and so forth, but today, our strategy for this quarter was to pre-pay less given our solid cash position and also because of the increased SELIC interest rates compared to last year, so we decided to pre-pay less. And I would like to remind you that credit cards bring a lot of liquidity to the business, and the bank carries the risk.

Q - Franco Abelardo {BIO 17416219 <GO>}

But was there an increase in the cost of credit card discount or was it just a SELIC interest rate increase?

A - Peter Estermann {BIO 15380447 <GO>}

No increase in spread, it was just the SELIC interest rate increasing.

Q - Franco Abelardo {BIO 17416219 <GO>}

Okay, thank you.

Operator

Our next question comes from Mr. Guilherme Assis with Brazil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

Hello, good morning everyone. Thank you for taking my question. I would like to know more about the financial revenue and services revenue. And also with regards to the campaign that you ran, like to know how that campaign began?

And your services revenue grew 12% in the half year, while the goods [ph] revenue grew 9%, is it because of these campaigns that you ran or did you change anything in terms of what you're charging from a customer -- from consumers? Is there anything influencing this, and that's my first question.

My second question is, with all of the recurring and non-recurring effects, it seems that the recurring gross margin close to 32% and with your SG&A in the period, it seems that you have a margin for the retail operation, which is quite low close to 2%. So I'd like to know what's going to change looking forward?

I think you talked about improving the efficiency of the source and cutting down cost, but I just wanted to know if there might be an impact on your commercial strategy looking forward to try to push this gross margin of the business up overall? These are my two questions. Thank you.

A - Peter Estermann {BIO 15380447 <GO>}

Okay. So let's talk about financial services. That's where we had pretty significant growth. There is a recurring growth from the credit cards revenue, we had an increment with Bradesco. Now we have a higher penetration of the Bradesco and co-branded cards in the companies, so we end up making more money with that, but also in the stores. If I look at all of these services that we're offering to our consumers, now I think that there are two points here. We are expanding the assortment of products that we have, we're offering a better assortment of products to our customers. We want these customers to be better and better, and also improving the quality of sellers. We are investing in training our sales people in our sales model to trying to have a higher sales conversion rate through services and that impacts our margin positively.

As for your second question, let me see if I remember, it was related to the costs and margin. Okay, we will continue to pursue a cost reduction, I think that this is important. We'll try to be more cost efficient in the company, more expense efficient in the company, and from now on, we'll try to improve our gross margin, but we always want to maintain our market share growing trend, this is important to us.

And in this period the market remains very challenging. I know that the profitability is lower, but again we're generating cash -- we generated 332 million worth of cash in the period, and to us this is quite significant in a challenging outlook, and this very different and we preserved this strategy.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. I have a follow-up question. Perhaps you could elaborate more on the market share, margin and cash generation, because what I expected and this surprised me in terms of the revenue, it seems that the commercial strategy is bearing fruit. But I was expecting a positive operating leverage, and after several quarters with a weaker top line growth, you presented a higher growth and you had market share gains, but this operational leverage didn't come. So what can we expect looking forward? Do you think that this can happen in the third quarter? Do you think that it depends on initiatives that it will take some time to mature? How should we look at this?

A - Peter Estermann {BIO 15380447 <GO>}

This is Peter. I think that there are both things here. In the first place, we have a number of initiatives that do have a somewhat longer maturation time and we will end up seeing the effects of these initiatives in the last quarter end, beginning of next year. But these are effects, which we believe will be significant and we believe it will push our margin. And there are also more tactical actions that we have to work with day-after-day.

I think what really matters is that we can observe that we are getting in line [ph] in terms of competitiveness strategy to bring more revenue and gain more market share. So our challenge that is like at the moment is to try to balance revenue and margin. I think that we're mature right now. We have developed a number of tools internal to the company to deal with price elasticity and we have some important actions taking place at the stores level.

We talked about the new operational model that also entails very strong actions that will help us not only to push the revenue, but also to improve the margin level. So we are confident that we will be achieving -- will be seeing a better balance between revenues and margin. But I would to highlight that we will not change our competitiveness strategy and our focus on gaining market share. We have to be able to do both things and it is in this direction that we are working.

Q - Guilherme Assis {BIO 16143141 <GO>}

And one final follow-up question, which I think is related to this. Regarding your base stores -- store base, you closed four stores in the quarter and you converted a lot of stores, Ponto Frio and Casas Bahia. The strategy in pursuit of efficiency includes closing more stores and converting more stores, should we expect any significant movement in terms of store closure and conversions or do you think that the strategy has been fully implemented or that you have achieved an optimal level that will give you a comfort?

A - Peter Estermann {BIO 15380447 <GO>}

Guilherme, there are two very separate things here, first regarding Ponto Frio to Casas Bahia banner conversion, we are convinced that the important number of conversions have been fully implemented with very positive results. Banner conversions was a correct strategy bringing us very positive results. And I mentioned in previous conference calls that we should not expect any significant movement in terms of banner conversion, except for one conversion here and there that might be possible, but it's not part of our strategy to continue to convert banners from Ponto Frio to Casas Bahia. Our portfolio of Ponto Frio stores today is quite healthy and it has been contributing positively to our growth, that is the first point.

The second point has to do with closing stores, and I think I have said it before in previous conference calls that we do not have a plan to close stores, we have a plan to improve the efficiency of the stores and we continued doing that. We have a team of people who are specialized in that area to improve efficiency and to recover stores that are underperforming.

But this is an ongoing work. We've done this in some stores, other stores coming to the pipeline, but we've had very positive results in this initiative. And if you ask me today, if we expect to close a significant number of stores in such a period of time, we don't have because the strategy that we have is to recover stores, and improve their efficiency is a winning strategy. On the other hand, as I mentioned before, the stores the we are sure cannot be recovered in a period of time that we believe is acceptable, all those have been closed, and that's why you see some stores being closed here and there.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. It's clear. Thank you very much.

Operator

Our next question is from Maria Paula from BB Investments.

Q - Maria Paula Cantusio {BIO 18652439 <GO>}

Good morning, everyone. Thank you for taking my question. I have one question, you had a provision for investment losses of 326 [ph] million this quarter, whereas in the material information that you reported you mentioned a 126 million to be accrued in 2015. So, what is the difference between these amounts? Is this a conservative approach, or do you expect to see further losses coming from Cnova? Thank you.

A - Alexandre Goncalves {BIO 19858024 <GO>}

Maria Paula, hello, Alexandre. The provision balance is related to investments, negative investment, that's a provision and the amount that you saw in the material information is the impact of results, these are different things, they don't match. So investment losses, the 220 that you saw in -- or 225 million that you saw in the balance sheet.

Q - Maria Paula Cantusio {BIO 18652439 <GO>}

It's clear. Thank you.

Operator

Next question, Robert Ford from Merrill Lynch.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you. Peter, just another question if I may. The result of Cnova Brazil has been disappointing to some extent. What is your vision for e-commerce in terms of product, channel, margin, cost structure, profitability, e-commerce and Via Varejo. So what is -- or may be different in e-commerce in Brazil?

A - Peter Estermann {BIO 15380447 <GO>}

Bob, thank you for your question. Regarding the combination of business, between Via Varejo and Cnova, like I said before, independent committees and advisors are working on it and as soon as I have a completion and conclusion of the works, you managed to give you more detail about us. However, it's important to say, Bob that Via Varejo's management is very confident about this transaction. If you think about a long-term view, it makes all the sense in the world. In reality, we stand out and our position sets us apart in the market, particularly once both business are combined.

We believe nobody else has the same mix of stores or logistics, infrastructure and the same commercial power that we can see in these two companies together, in terms of providing a multi-channel experience to our customers or at least at the same level. So, on a longer-term, we believe it makes a lot of sense. And we also consider strategies to combine these business, and at the end of the game, we can be stronger once businesses are combined.

In the short-term, we firmly believe and by the way, here we can see a lot of visibility and later on, we can talk more about it once we have the conclusion. And referring to the synergy of these companies, we have very big potential synergies, not only in terms of cost, but particularly in terms of improvement of service to our customers. So the company's management is very confident about the unification of business and we have a good outcome, not only short-term, but also long-term in terms of results. We know we have an early phase, we have to roll-up our sleeves, it will be tough, but we remain very confident.

Operator

The next question is from Joseph Giordano from JP Morgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Andrea Teixeira, speaking from JPMorgan. Thank you for taking my question. I would like to go back to the operational aspects. We've talked already about the tax effects, but I have one question about the top line, what about consumers now? Is July better compared to June or do you only consider an increase in non-interest bearing payment sales?

And the second question, what about the reduction of SG&A selling expenses consolidation? I know it also has to do with store closure, but after the collective bargaining agreements, could you tell us how much of this has already been absorbed and what about the future? How should we consider the company's overhead on a comparable manner? Thank you.

A - Peter Estermann {BIO 15380447 <GO>}

Andrea, thank you for your question. Peter speaking. First point, your question about July vis-a-vis previous months or recent months, July, for all of us in the industry, it is more favorable compared to the previous year. So that's an important thing to say. But regardless of this more favorable base what we've seen is a very adequate sales volume for this seasonality that we have right now. And we've been managing to satisfactorily deliver our goals. I would say that July is doing fine, both volume and margin wise. Our expectation is that we will continue with the same pace.

Q - Andrea Teixeira {BIO 1941397 <GO>}

If I may, just to recall, what about the bridge considering last year? I know you cannot say anything about this year, but what about last year, what about the monthly performance, could you give us an idea? What about the progress?

A - Peter Estermann {BIO 15380447 <GO>}

July, Andrea was one of the weakest month last year. This was a month that was heavily hit by the crisis and this applies to the whole industry. You may recall that last year, we had some months with over 25% drop vis-a-vis 2014, so July was a very tough month. That's what I said, the comparable base is more favorable. So I'm just confirming that actually July had a drop of 25% vis-a-vis the same period of 2014. 2014, in 2014 you had the World Cup effect, right, over 2013 -- I'm sorry, 2014 you had a World Cup effect and 2015 was lightly poor, so we still had a very strong decrease at that time. But now coming back, naturally, we had this increase, consumers are still very sensitive to credit and they don't have income enough to buy again.

Q - Andrea Teixeira {BIO 1941397 <GO>}

And this improvement, does it come from mobile phones or flat screen?

A - Peter Estermann {BIO 15380447 <GO>}

That's an important question. At Via Varejo, we can see growth in both categories you mentioned, both mobile phones and flat screens. In the recent period, the sales volume has proved to be very satisfactory with market share gains considering seasonality and also considering the current market. On absolute terms, I wouldn't say these are encouraging figures, but at least they meet our expectations.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Perfect. What about SG&A or expenses? Could you help us put together all the moving items, so we have an outlook of future quarters?

A - Peter Estermann {BIO 15380447 <GO>}

What I have to say is that SG&A remains a tough challenge. If we consider all the impacts, the company brutally -- was brutally engaged last quarter to try to adjust the cost structure. We had several negative impacts, which are outside our control. But as constantly say in our conference calls, cost management and the ability to implement by our team to adjust the company's cost structure is something very strong. So we have several initiatives in progress, and Andrea, our expectation is to shorten the gap.

I would just like to underscore again something that Felipe mentioned before, once again, one thing does not justify another. We have to continue to focus on cost to shorten and lower expenses, but please bear in mind that we generated 332 million cash this quarter. And I would even say that from the moment, we managed to add more revenue and sales to the company, we also further dilute our fixed costs.

At the end of the day, there is no limit as far as cost reduction is concerned, we always have an opportunity to lower cost, but we have to be careful in order to maintain a minimal structure at the company. And then we have a very strong focus on trying to bring more revenues with margin in order to have the company ready for next steps. We believe that sometime in the future, the company will also be in our favor.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay. So I just wanted to understand, basically you reached the optimal level and then the margin improvement would be more related to an operational leverage, because you already had a strong leverage, and now you have been focusing on the revenues to improve the margins.

A - Felipe Negrao {BIO 19434019 <GO>}

Absolutely, Andrea, precisely. So like I said before, we'll keep on focusing on searching for new opportunities and drivers to lower cost, but actually we need to perform more sales to further dilute the company's fixed cost and improve the bottom line, so we have total focus on this.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Very useful. Thank you very much. Thank you, Felipe.

Operator

We are now closing the Q&A session. I would like to turn the conference back to the company management for their final remarks.

A - Alexandre Goncalves {BIO 19858024 <GO>}

Well, to end, I would like to highlight the hard work that our team has been having, we are very disciplined in implementing our strategy. And I would like to reinforce that we remain very confident and we are more and more prepared to just speed ahead at the moment that the market rallies. We will continue to be even more focused on adjusting the cost structure of the company and on achieving a better balance between revenues and margin. I guess that this will be our major focus for the coming quarter. Thank you very much to all and good work everybody.

Operator

Thank you. This conference call on Via Varejo results is closed. The investor relations team is available to answer any other questions you might have. Thank you all for participating in this call. And have a nice day.