Cnova N.V.

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PRESENTATION

Operator:

Greetings and welcome to the Cnova Second Quarter Fiscal Year 2015 Financial Result Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please push star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Christopher Welton, Investor Relations Officer for Cnova. Thank you, Mr. Welton; you may begin.

Christopher Welton:

Thank you, Operator, and good afternoon or good morning, depending on where you may be, and welcome to Cnova's Second Quarter 2015 Financial Results Conference Call. My name is Chris Welton, Cnova's IRO and I will be your host on today's call. Joining me are Emmanuel Grenier, our French-based Co-CEO; Vitor Faga, Group CFO; and Stephane Brunel, CFO at Cdiscount.

The presentation slides that go with this call can be viewed at and downloaded from our website. This call is also being audio webcast and a replay will be available on our website about an hour after the conclusion of the call.

What we thought we would do today is go through the slides and point out what we think is important to highlight. We will try and do this in a fairly quick manner so that we have plenty of time for the Q&A afterwards.

Now, Slide 2 contains our forward-looking disclaimer. I emphasize that this applies to the entire presentation and the related documentation, and therefore strongly encourage everyone to fully read the disclaimer now. Before I go over the presentation, Emmanuel will provide us with some general comments regarding the second quarter performance. Emmanuel?

Emmanuel Grenier:

Thank you, Chris, and good day everybody. So, how would we characterize the second quarter? We had steady commercial performance. GMV, net sales, and traffic all grew quite strongly. There are three main reasons for this. First, we are the price leader in the market. Our pricing is 5% to 10% below the competition. Today, we are the benchmark; when we change our prices the competition follows.

Second is our rapid marketplace development. We have added many references moving from 100,000 three years ago to 20 million today. So clients are able to find what they are looking for and this has a positive impact on our SEO which is making Google crawl more of Cnova's pages and more often.

Third, our mobile strategy has proved to be successful. We have been able to grow the share of our mobile traffic up to nearly 50% in France. All of this has translated into a solid second quarter performance compared to the first quarter. However, when we compare ourselves to where we were at this time last year, our results reflect, first, the more challenging environment we are facing—here I'm thinking primarily of Brazil—and second, cost base increase due to the growth and customer service investments that we have made at the beginning of the year.

In this environment we are adapting our costs and reinforcing innovation. Innovation is a key factor in maintaining and growing our market share in a challenging environment. An example of such innovation is our Click-&-Collect delivery service which is proving very popular with our customers, as it is both cost saving and quicker delivery.

Now, I will hand the call back over to Chris who will run over the slide presentation. Chris?

Christopher Welton:

Thank you, Emmanuel. Today's presentation is split into three segments. We'll first look at second quarter highlights then we'll spend some time going over the financials, and finally we'll take a look at where we are trying to go and how we think the year could end up for us.

On this slide, this is a summary of the key metrics we think are worth spending a little time on. We'll be commenting on each one in more detail in the following slides, but what are the key takeaways here? It's actually quite simple. First, we had very strong activity growth. GMV is up 26%, net sales is up 17.5%, both on a currency neutral basis. Second, our commercial indicators are excellent. I mean just look at our traffic. It's up 40%, 4-0 percent. Orders and items per customers grew at a healthy rates as well. Third, we had significant sequential improvement in our margins in France and Brazil. Gross margin up

56 basis points, EBITDA margin up almost a full percentage point, EBIT margin not far behind. This comes on the back of the growth investments we did last quarter for which we did not anticipate dilution until later this year. Fourth, the start-up operations in our new countries are performing as expected, adding to the top-line while requiring upfront margin investment. Let's look at these all in a little more detail.

So, what we see here is gross merchandise volume which essentially the value of all orders on our website that are approved and sent. We can see, as I've already mentioned, that it's increased by 26%. You can also see in the lower left-hand corner of the slide, this growth rate was essentially the same in both of our main markets, Brazil and France. Within that metric, the share of marketplace orders, that is orders going to vendors who are selling their products via our platforms, is closing in on 20% of our total GMV. That's up more than 800 basis points year-on-year and this is important because these types of orders are generally higher margin for us. You can see that our product selection has doubled and passed the 20 million mark at the end of the quarter. Our customers now have more choice then ever at what we believe are market-leading prices.

Now, let's look at traffic and customers. So as I already mentioned, our website traffic is up close 40% and of course Cnova is moving in line with the global trend toward more mobile traffic. We can see that more than one-third of our traffic is coming from mobile devices. We expect this to continue to grow over the coming quarters. Overall, we now have 15 million customers.

On the next slide, some more impressive growth numbers here, in line with our GMV growth; placed orders and items sold both grew in excess of 25%. More importantly, what we consider at Cnova as key commercial indicators continue to be well oriented: higher number of orders per customer year-on-year of plus 5.3%, as well as higher number of items per customer of plus 4.3%.

Maybe a word on customer loyalty. Here we show the evolution of that loyalty and the conclusion is very clear; more and more of our customers are satisfied with their online experience at Cnova and are coming back more and more often. Indeed, we see the percentage of our customers for a given month who turn out to be what we'll call here repeat purchasers, meaning they buy again in the following six months, continues to grow year-after-year. Not only that, the number of times they are coming back is growing as well.

So, let's take a closer look at the P&L now. Here we have a bit more detail on the variation of net sales. We can see that Cdiscount net sales in France grew quite well, while those in Brazil on a currency neutral basis increased more than 20%. International expansion boosted sales by another €9 million. I would remind you that this category did not exist a year ago, so we had a small contribution to the top line from these new start-up operations but the price of course is margin investment. We also get a pretty good idea of the headwind—the devaluation of the real versus the euro—is creating for us from a reporting standpoint.

Now, let's take a look at gross margin. On a sequential basis, our gross margin improved by more than one-half of one percentage point. The improvement occurred in both France and Brazil, mostly because of the increased marketplace positions in both countries. This good performance offset the impact of the margin investment that we just spoke about. Pricing was stable overall and we believe it is currently at the appropriate level given the commercial environment in which we find ourselves.

SG&A, this slide shows us the evolution of SG&A, and I think what is most interesting is to look at the step change in the amounts between 2014 and 2015. It is considerable, but for the right reasons. You remember that we caught some of you out last quarter with our op ex investments that we're required to do in order to be able to handle future growth, but also to introduce new delivery service enhancements to our customers. We also told you that we expected to see this to begin to dilute in the second half, but we actually saw this begin already in the second quarter even though our fulfillment costs increased. That increase was tied to marketplace growth—that's positive—product mix more oriented to higher margin-heavy items and that's positive; and customer delivery enhancement, that's obviously positive as well. We expect the SG&A margin to continue to decline in the second half.

Looking very quickly at net financial expense, it followed the same sequential downward trend as last year, although it is worth pointing out that it is at a reduced level primarily due to a stronger group cash position and proactive interest rate risk management in Brazil. You may remember that we had a one-off item last quarter that we had backed out here on Slide 13; if we were to carry that through on the next slide to adjusted EPS, that is backed it out last quarter; our adjusted EPs last quarter would have actually have been minus 0.07. My point being that on a recurring basis, second quarter 2015 adjusted EPS actually improved slightly by €0.01 on a sequential basis.

Turning to working capital and capex, we improved working cap by 11 working days compared to last year while capex, which is mostly IT-related, was up slightly as we invest more to improve search engine functionality and mobile apps primarily. We expect going forward that the cap ex level will go back down to a lower level.

Finally, just a word qualitatively on our international markets. We already saw the impact of these operations on our financials, but it is worth also pointing out that Colombia is progressing nicely on the Click-&-Collect front and growing its market share. Southeast Asia is ramping up quite nicely, as well. Remember we developed our strategic model to fit with the competitive advantages that being part of the Casino Group provides us: pricing synergies on one-hand and on the other hand in-place distribution networks.

So, I'm going to stop there and I'm going to hand the floor back to Emmanuel.

Emmanuel Grenier:

Thank you. So about outlook and strategy, this is unchanged from what we have already told you in the past. In a nutshell, develop marketplaces which will driver orders, sales and margin improvement, controlled costs, take advantage and expand Click-&-Collect delivery network, increase product selection, grow abroad at a controlled pace, and last but not least, never forget that cash is king.

So, Slide 19 to summarize, we had a good quarter in terms of operational and commercial metrics, high-growth in most of those categories. Margins in France and Brazil started to expand again after taking a first quarter hit due to the future growth investments that we made; start-up operations in new countries are contributing to the top line today, and that contribution will eventually positively impact margin. So for the rest of 2015, that is for the second half, the Group is targeting top line growth on a currency neutral basis to 17.5% plus or minus 1.5%.

That concludes our slide presentation. We are now ready to turn to the Q&A. Thank you very much.

Christopher Welton:

Operator, may we have the first question, please. Thank you.

Operator:

Thank you. Ladies and gentlemen, we will now be conducting a question-and-answer session. If you would like to ask a question, please push star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may push star, two if you would like to remove your question from the queue. For any participant using speaker equipment, it may be necessary to pick up your handset before pushing the star key. One moment while we poll for questions.

Our first question comes from the line of Paul Bieber with Bank of America. Please go ahead with your question.

Paul Bieber:

Good morning, this is Paul Bieber with Justin Post, as well. A couple of questions, first of all how should we think about the gross margin trajectory in the second half of the year? Then more broadly speaking, how should we think about the earnings power of the Company over the medium term and longer term, given that we're seeing a decline in year-over-year gross margins, higher fulfillment expenses, and increased investments in your geographies?

Stéphane Brunel:

So, when it comes—Stéphane Brunel—when it comes to outlook on the second half gross margin, what we can say is that with respect to gross margins for France/Brazil i.e. excluding new countries, the percentage of net sales we expect for the third quarter another sequential improvement in Q3 versus Q2 2015. We expect as well that Cnova should be around last year's Q3 gross margin level which was 13.7% in Q3 2014 for Cnova France and Brazil excluding new countries.

When it comes now to 4Q 2015, we expect here again a sequential improvement in the fourth quarter of 2015 versus the third quarter of 2015, and we expect for the fourth quarter of 2015 a year-on-year gross margin improvement versus the fourth quarter of 2014.

Christopher Welton:

Paul, could you repeat your second question, please?

Paul Bieber:

The second question was just over the medium term and the long term, how should we think about the earnings power of the Company given that we did see a decline in gross margins year-over-year this quarter and we're seeing higher fulfillment expenses, and also increased investments in your geographies?

Christopher Welton:

Okay. Thank you.

Stéphane Brunel:

Okay. So, obviously you know, our strategy remains to have increased level of gross margin over time as the marketplace develops quite well, and as for high growth, home furnishing categories which is a very attractive category continues to grow faster than our average for that mix. So our strategy is to get enhanced gross margin on the sequential basis based on these two very strong factors.

When it comes now to SG&A as a percentage of net sales, obviously you know that on one hand we had very strong growth in the marketplace which had some impact as you may know on our cost base as a percentage of net sales, especially for fulfillment costs. However and depending for the high growth home category—however, obviously, you know, our focus is to adapt on a permanent basis our cost base to the commercial environment and to keep and strengthen our low-cost base business model.

Paul Bieber:

One quick follow-up question: can you just comment on in the slide presentation you commented on promotional investments in Brazil. Can you provide some details on that?

Vitor Faga:

Yes, this is Vitor speaking. As all of you know, we are seeing a more challenging period in Brazilian macro economics. What we have been doing is keeping our strategy and keeping our price strategy which is very successful in the recent past. This strategy is be the market price leader, as we already commented here in this call. So in this sense, we believe that this is the right strategy to be followed especially because we have the key competitive advantages such as purchasing power, and cost structure to keep this strategy in a sustainable way. So we are keeping this market-leader price advantage and we are following this strategy to adjust ourselves and to adopt our policy to the new macroeconomic environment.

Paul Bieber:

Okay, thank you.

Operator:

Thank you. Our next question comes from the line of Ross Sandler with Deutsche Bank. Please go ahead with your question.

Ross Sandler:

Hey guys. So I guess my one question's pretty simple. You guys have always pointed us to contribution profit as a key barometer for tracking your business, so gross profit less marketing and how that's growing or how that is a percent of GMV, and that line had been up pretty much consistently every quarter until now. So can you just break out, maybe to make this a little bit more clear, what the contribution profit is growing in France and Brazil, and then how much marketing is going into the new country expansion in terms of euro dollars and what the gross profit for new countries versus the low double-digit gross profit for your core business is? Thank you.

Stéphane Brunel:

Okay. So, answering your question, first, if we look at marketing costs for France and Brazil, they are stable. On this second quarter of 2015 they represent 2.3% of net sales versus 2.2% of net sales last quarter. So we have stable marketing costs as a percentage of net sales for France and Brazil.

When it comes now to your question on the gross profit side of the question, as you know, in the second quarter as well as in the third quarter, we just meant that last year we cut prices in Brazil during the third quarter and ie. until the end of the third quarter we have a different comparison base because of price cuts happening in Brazil over the third quarter of 2014. Prices have been stable both in France and Brazil and therefore we anticipate, we expect a gross margin improvement in the fourth quarter of 2015 versus the fourth quarter of 2014. So we are confident we are able to grow gross margin while keeping marketing expenses stable as a percentage of net sales.

That's for France and Brazil. For the last part of the question regarding international countries, as you know, we consider new countries as a margin investment for future growth, and to be more precise, as a limited margin investment and controlled margin investments to future growth. For the time being, our operations there are developing just as planned.

Operator:

Thank you. Our next question comes from the line of Richard Cathcart with HSBC. Please go ahead with your question.

Richard Cathcart:

Good morning. So I just want to go back onto the gross margin because in the first quarter, kind of the year-on-year gross margin fell only slightly and then in the second quarter it's down 100 basis points. So I'm just trying to understand what's going on here. Are you doing more price investment in Brazil? Are you seeing a weaker year-on-year gross margin in France? Then the second question, I think Emmanuel said at the start that Cnova is acting as a price leader in the market, so when Cnova changes prices the market has to follow them down. I'm just wondering has the gap with competition widened in either France or Brazil, and if it hasn't widened what really is the rational of bringing pricing down if it doesn't widen the gap?

Stéphane Brunel:

Okay. I'll take the first part of your question and then I will let Emmanuel answer to the second part regarding pricing.

First, regarding gross margin, on the year-on-year basis we can say as mentioned in the slideshow first that French gross margin has improved versus the second quarter of 2014. They have improved significantly, although to be fair not exactly as much as 100 basis points mentioned for the first quarter. So we continue to see significant improvement in French gross margin year-over-year.

When it comes now to Brazil, which is the second aspect of your question, obviously here again we decided in the Q3 to cut prices to widen the price gap versus our competitors at that time. We felt and we believe this was the right decision, especially well-adapted to their commercial environment there. Prices have been stable since, however, by definition we have a mechanical impact, comparison impact but these new prices cuts versus second quarter of last year before the price cuts of the third quarter of 2014.

Emmanuel Grenier:

Concerning, Richard, your question about the pricing strategy, our pricing strategy is stable. We still have the gap of 5 to 10% with our competitors, all of our competitors in all the countries: France, Brazil, Colombia, Vietnam and Thailand. We have the leadership on pricing. When I was speaking about our price benchmark following, if you look at it Q by Q, not on general view but Q by Q, when we are moving, the competition is looking at us because we are the leader but the price gap is always the same. It means that they are never reaching us. And this is a key thing for us. But the price—as we have told in the last nine months, did not move, this price strategy is stable with this gap of 5 to 10% in all our geographies.

Richard Cathcart:

Okay. Thanks. If I can just have a couple of follow ups on the gross margin? So, you know, understood on the gross margin but can you just explain why the gross margin in France year-on-year was weaker in the second quarter than it was in the first quarter? And secondly, if the gross margin is down 100 basis points in the second quarter, how are you expecting to get to a stable gross margin year-on-year in the third quarter? Then finally for the fourth quarter, you're guiding to an increase in the gross margin year-on-year. I think previously you had guided to around 100 basis points. Are you sticking to that guidance or is there a change? Thanks.

Stéphane Brunel:

Okay. First, sorry; perhaps I haven't been clear enough. I haven't said the French gross margins in the second Q of 2015 was lower than French gross margin of the first Q of 2015. That's not the case.

Richard Cathcart:

Sorry, but the increase was lower in the second quarter than the first quarter?

Stéphane Brunel:

Yes. That's exactly the point. French gross margin in the second quarter of 2015 is higher than the French gross margin of the first quarter of 2015. The only thing that compared to the comparable quarter of 2014, the increase is still very significant, however not exactly as much as 100 basis points. So we still enjoy in France an improvement of gross margin year-over-year.

When it comes to the other part of the question regarding our objective for the fourth quarter of 2015, yes, this remains our target.

Richard Cathcart:

Okay.

Stéphane Brunel:

Did we answer your question?

Richard Cathcart:

Yes. Yes, it does. Actually also there was a question in there about the third quarter, just how you're going to get from minus 100 basis points year-on-year in the second quarter to stable in the third quarter. Can you just give us an idea of how things should transition from the second to the third quarter?

Stéphane Brunel:

So, when it comes to gross margin, we can say that we are right now in the second quarter for France and Brazil gross margin at 13.1, up 56 bps versus the first quarter of 2015. Last year, third quarter 2014 gross margin is 13.7% ie. 60 bps more than the level of margin, gross margin we achieved in the second quarter of 2015. So it just means implicitly that we have to grow at the same pace than between the first quarter to the second quarter; we have to grow at the same pace. That's what I'm telling you.

Richard Cathcart:

Okay. Thanks very much.

Operator:

Thank you. Our next question comes from the line of Stephen Ju with Credit Suisse. Please go ahead with your question.

Stephen Ju:

Okay. Thanks. So the marketplace's operations are live in Brazil and France. My recollection is that it's not yet live in your other international territories, so what do you think your rollout plan will be there? Additionally, are you contemplating any other new country launches in the next six months or so? Additionally, not to keep harping on about the pricing and gross margins but there has to be some sort of an ROI rational behind the price cuts you're taking, so is there anything you can point to in terms of the behavior of the new consumer that you're adding because they were attracted by the lower price? I mean do they stick around? Is their repurchasing rate higher than the average you're showing on Slide 8? Thanks.

Emmanuel Grenier:

Stephen, Emmanuel speaking. About the marketplace, so in France 28% share of GMV; in Brazil 9%. So between 19 and 20% with 20 million product offerings. We started the marketplace in Colombia and we started the marketplace in Thailand and Vietnam. In Colombia, we are close to 10% share of GMV in the marketplace. In Thailand, which we started after Colombia, we are between zero and 5%, and we are at the very beginning in Vietnam.

So, the plan is on track as in France and in Brazil. We are launching—we have launched the marketplace in all our geographies.

Vitor Faga:

Stephen, for the second part of your question about the rational of this price strategy. First of all, as we discussed, the market price leadership is in the core of our strategy since we have the competitive advantage to do that, and the movement that we do period over period are related to several sensitivities analysis that we run in both markets in order to equilibrate growth and margins. We strongly believe we have to keep growing in a healthy path and that's what determines basically this price strategy and the decisions that we have according to them.

Stephen Ju:

Thank you.

Operator:

Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question, please push star, one on your telephone keypad now. One more moment while we poll for questions.

Our next question comes from the line of Pratik Dharamshi with JPMorgan. Please go ahead with your question.

Pratik Dharamshi:

Hey. Hi everyone. One question of mine. You're expecting your G&A costs to come down sequentially. So first part of it, what is driving your SG&A costs down? Second, should we expect you to turn a bit positive at the end of the year?

Stéphane Brunel:

Thank you for your questions, your two questions. On the first part, yes, we confirm that we expect and target another sequential improvement in Q3 versus Q2, and of course in Q4 versus Q3. As we mentioned earlier, we are adapting our cost base to the environment and we pursue, continue and amplify our cost efficiency programs we have in place and they are based mainly around improvement of logistics productivity, both in France and Brazil, renegotiations of contracts, optimization of IT costs, moderation of personal costs ie G&A, and reduction in external service provider costs.

For Q4 of 2015, our target remains to be at about our last year's level. When it comes to the final part of your question regarding, you know, EBIT, we feel that it's a little bit early into the quarter to deliver a very precise number, however we have provided you with our targets and objectives, both on the gross margin level and the SG&A level.

Pratik Dharamshi:

Okay. Thank you.

Operator:

Thank you. Our next question comes from the line of Richard Cathcart with HSBC. Please go ahead with your follow up.

Richard Cathcart:

Hi guys. Just a couple of more follow ups. On the new countries, I think Emmanuel said in his comments it's contributing to top line and will eventually positively impact on margins. Can you just give us some guidance about when you are expecting new countries to positively impact on the margins? Then finally, just on the participation of mobile in the number of visitors and the number of sales, I mean obviously this has grown quite significantly but can you just give us a bit more color on these mobile customers? Is this more free traffic? Are you seeing a higher purchase rate? A higher conversion rate? Just a bit more color would be helpful. Thank you.

Emmanuel Grenier:

About international first, as we said this is start-up operations. For the beginning we are growing fast. We are investing in margin and we are rolling out the same business for them that we are in France and Brazil. So, as you see, in France and Brazil we will—EBIT will be positive but this is in the next years the priority so far is to develop and to take the leadership in these countries this is a key thing, and to develop the business there, were we are. And obviously we are very cost-controlled in these countries. We adapt to the country and our priorities are price leadership, cost control and even these countries we are low marketing compared to our competitors. This was the first question.

For the second question, mobile, yes, mobile is very dynamic, up to nearly 50% of the traffic in France, so it is success for that. Now if we look at traffic, this is mainly free traffic. You remember that in France marketing ratio is very low, under 1% for PC and mobile. This means that for mobile we have very few marketing investments and in spite of that we have very dynamic traffic, so this is mainly free traffic. Why? Two reasons for that are image and price leadership we have in France, Brazil and everywhere, and SEO I spoke about at the beginning of the call. Very dynamic SEO.

Now, about the customers, they are maybe the same customers that are on the PC, but you know, customers are multi-devices so very often they start to go to the mobile during the day and they finish at night at home and they pay their order. So, obviously the conversion rate of the mobile is lower than the one of the PC but this one is improving very fast.

Richard Cathcart:

Okay. Thank you.

Operator:

Thank you. Our next question comes from the line of Arnaud Joly with Société Générale. Please go ahead with your question.

Arnaud Joly:

Yes. Good afternoon everyone. I have two questions. The first one on Brazil. If there was an intensification of competition, what would be the priority for the second half? Would it be margin or top line? To be quite pragmatic, if B2W was more aggressive, would you be ready to follow? My second question on costs, I mean you have a low-cost business model so you declared, you know, the fields where you can save costs but as a whole which level of SG&A do you believe that you can cut? Thank you.

Emmanuel Grenier:

On your first question about pricing strategy, first I will repeat it because this is key. The pricing strategy is stable, this gap is always the same and has always been the same for more than one year now in France and nearly one year in Brazil, the 5 to 10% and the same in Colombia and the same in Thailand. This is a key thing.

Second point, we haven't seen any movement in the market which was enhancing the aggressiveness on pricing. We are and will remain the leader on pricing. Now in Brazil, specifically, we used the tactical tool of promotion, means that we didn't change our pricing strategy but we used the tactical tool of promotions when the environment was challenging. So we use it when it's needed, but we adapt. We don't use it all the time, it depends on the environment.

Arnaud Joly:

Emmanuel, just one follow up in Q2. Have you—did you increase your level of promotion in Q2 in Brazil?

Emmanuel Grenier:

Yes, because again as I said, the environment was challenging and when you look at our growth in Brazil, we are growing 18% in Q1 when the market was only 13%; we went up in 5. In Q2, we grew 20% when the market was a lot more challenging. So we took market share, we used the promotion as a tactical tool and that now is tactical adapted to the environment.

Stéphane Brunel:

On the second part of your question, Arnaud, regarding SG&A and our continuous cost efficiency focus, obviously, you know, the measures I've quoted and are already reflected and are means to achieve the target we have just discussed, ie sequential improvement in Q3 versus Q2, and Q4 SG&A for France and Brazil as a percentage of net sales about at last year's Q4 level.

Arnaud Joly:

Thank you.

Operator:

Thank you. Our next question comes from the line of Bernardo Cavalcanti with Goldman Sachs. Please go ahead with your question.

Bernardo Cavalcanti:

Hello. Thank you all for the opportunity. So my question is regarding the operation in Brazil. Your biggest competitor B2W recently acquired two key strategic companies that were focused on software development. Those are Sieve and e-Smart. I believe Cnova was a client of one or maybe the two companies, as well as was a client of the logistic company called Direct Express that was also acquired by your competitor B2W last year. So regarding these contracts to suppliers, what is the alternative? What is the strategy for Cnova going forward? Thank you.

Vitor Faga:

Thank you, Bernardo. We have very clear strategy and we are following that strategy. We are an asset-light company with low capex and we have very, very clear competitive advantages, and we base these competitive advantages in basically some elements that are very, very important. First of all, we use basically rented warehouse and third-party distribution logistic companies. Second, we have basically in the capex that I mentioned to you investments in IT in order to develop customer service and tools in order to improve our traffic and of course sales performance. At the end of the three elements, we are developing very, very fast the Click-&-Collect activity in Brazil as we have a very successful example of it in France. This is our strategy and this is what we believe is the most adequate strategy for several reasons. For return perspective reasons, for customer service and especially customer satisfaction, and also in order to generate traffic to our website which for sure ensures a combination between direct sales and GMV as we are seeing the performance of GMV. So this is the strategy that we believe and that we are following very closely.

Bernardo Cavalcanti:

Thank you. Good afternoon.

Operator:

Thank you. Ladies and gentlemen, there are no further questions at this time. I would like to turn the floor back over to Management for any further remarks.

Christopher Welton:

So thank you for all of those who participated in today's call. Just wanted to remind you we are the market price leader. We are developing our marketplace at a very fast pace. Our mobile strategy is extremely successful and we are adapting our cost base according to the environment in which we find ourselves; that's a key especially as a subject that were raised during the call, and of course what we never forget is that we need to continue to reinforce innovation.

So again, thank you for participating in the call. Just as a reminder, our next call will be in October. The sales release will go out in the middle of the month and the results release will go out toward the end of the month. Those dates will be released in due time. In the interim, we wish all of you to have a very nice summer. Of course if you have any calls, you can give me a call, Vitor a call; we'll be more than happy to answer additional questions. Thank you very much and have a nice day.

Operator:

Thank you, ladies and gentlemen. This does conclude our teleconference for today. You may now disconnect your lines at this time. Thank you for your participation and have a wonderful day.