Cnova N.V.

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C O R P O R A T E   P A R T I C I P A N T S

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C O N F E R E N C E   C A L L   P A R T I C I P A N T S

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Paul Bieber, *Bank of America Merrill Lynch*

Arnaud Joly, *Société Générale*

Richard Cathcart, *HSBC*

Fabienne Caron, *Kepler*

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P R E S E N T A T I O N

Operator:

Greetings and welcome to the Cnova Third Quarter Fiscal Year 2015 Financial Earnings Conference Call. At this time all participants are in a listen-only mode. A 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.

I'd now like to turn the conference over to your host, Mr. Christopher Welton. Thank you, you may begin.

Christopher Welton:

Thank you. Good day to all and welcome to Cnova's Third 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 today are Emmanuel Grenier, our French-based Co-CEO; Vitor Fagá, Group CFO; and Stéphane 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.

The agenda for today's call is to go through the slides highlighting key points and to open up the call to a Q&A session.

Slide two contains our forward-looking disclaimer. I emphasize that this applies to the entire presentation and the related documentation and strongly recommend everyone to fully read the disclaimer now.

So before we go over the slides, our French CEO, Emmanuel Grenier, would like to provide you with some opening remarks. Emmanuel?

Emmanuel Grenier:

Thank you Chris and good day to everybody. Before we go over third quarter results and answer your questions, I thought it would be useful to take a step back and talk about what we are doing beyond managing the day-to-day business. There are two things I would like to point out. One, further improve customer service via better delivery. Our customer-related program Cdiscount à volonté in France, is driving a strong increase in volume of small items. Furthermore, Cdiscount launched its new same-day delivery option for over 4,500 large items and to our knowledge we are the only ones offering this in the market. At Cnova Brazil, we are well ahead of our plan to roll-out 1,000 Click-&-Collect points by the end of the year. At the end of September, we were already at 1,200+. Two, roll-out of fulfillment services to a large item Marketplace vendors. I remind you that 65% of our direct sales customers are choosing Click-&-Collect so we are making this available to our vendors. Three, build on our tech expertise, particularly in the area of SEO, and this is helping to push our traffic number. In addition, we have continued to upgrade the algorithms behind our in-house search engine and this is favorably impacting our conversion rates. Finally, we are also taking initiatives in the face of the challenging Brazilian macro conditions, specifically there is an action plan to improve the balance between top line growth and margin expansion as well as to reduce our cost structure.

So with that, I turn the floor back to Chris who will take you through the quarter's results.

Christopher Welton:

Thank you Emmanuel. As usual we have separated our presentation into three parts. The first part looks at some of the highlights from the quarter, and then we'll go into a bit more detail on the financials, and finally, after going over some housekeeping matters, Emmanuel will give you an update on what is going on in France and in Brazil.

So, on the highlight slide we have put down five items for the third quarter that we would like to emphasize. The first is GMV, or the value of orders placed on our website, which hit €1.1 billion. That's an increase of more than 17% on a constant currency basis. That's +16% in France and +18% in Brazil. We'll look at this in a little bit more detail later on. More encouraging is the growth of the marketplace portion of GMV, which I'll remind you is a key part of our strategy to increase the Group's gross margin. Marketplace now represents close to 23% of our GMV, up 10 points year-on-year, and we are more than halfway to our goal of reaching the 40% level.

Turning to net sales, this totaled €781 million representing a good growth of 9% on a constant currency basis. Growth was lower than the first half of this year primarily for two reasons. First, in France, we are trading top line growth for margin improvement. As you can see, this paid off quite nicely with an increase in the gross margin of more than 185 basis points. In Brazil, the economy is difficult, and consumer demand is at or near historic lows. So the price environment was and remains pretty tough. We were able to mitigate that to a certain extent in the third quarter but the tradeoff was a pretty strong margin squeeze of more than 350 basis points.

And to address the last point on the slide, let's go to the bottom of the next slide which lays out the trailing 12 month free cash flow performance. What we can see here is that our working capital management allowed us to absorb the decline in the results and a moderate increase in our cap ex.

So on this next slide we have a pretty good graphic illustration of the evolution of GMV at Cnova. We can see that on an absolute value basis the increase is more or less the same in France and Brazil. On top of that, our nascent international activities made a small contribution. What really stands out here though is the FX impact coming out of Brazil. We also have some encouraging trends in terms of marketplace sellers, which doubled year-on-year, and this bodes well for our margin mix. And finally, the number of product offerings available through our sites has gone from 11 to 26 million in just one year.

So, marketplace. At Cnova we spend quite a lot of time and effort on expanding our marketplace offering for a very simple reason, it is one of the pillars of our margin expansion strategy. So the increase of the number of sellers, product offerings as well as the share of total GMV are very encouraging. Why? Because approximately 12 to 13% of the value of our marketplace GMV goes to our top line, and then about two thirds of that flows straight to the operating EBIT line. So the bigger percentage of marketplace GMV the bigger impact on our margin expansion.

On the next slide: It’s obviously important to keep increasing the traffic that we are driving to our websites as well as growing our customer base. So we continue to improve our search engine optimization of our pages. We continue to improve and expand our platform to increase mobile content, and our customer loyalty programs, Cdiscount à volonté in France and ClubExtra and Multiplus in Brazil continue to attack more and more customers quarter after quarter.

In terms of placed orders and items sold, the trend is very similar. What's interesting to note is that here we are also making progress in our efforts to expand gross margin. The product catalog is evolving toward higher margin categories specifically home furnishing and household appliances.

So now we move on to take a closer look at the third quarter financials beginning at the top of the P&L with net sales. Three take-aways here. One, top line growth in France moderated compared to the first half of the year as preference was clear given to expanding gross margin as we will see on the next slide. Two, Brazil’s top line grew close to 10% on a constant currency basis, a pretty decent performance given the pricing environment in which we found ourselves. Three, the high margin marketplace commission contribution, though still relatively small, doubled and provides more potential upside as we move down the road.

Now looking at gross margin, here we kind of have another version of Charles Dickens' Tale of Two Cities, except we're not talking about Paris and London but France and Brazil, so the Tale of Two Countries, if you will. In France, clear and simple, gross margin up 186 basis points. In Brazil, also clear and simple; macro squeeze 352 basis points. The point being of course that once the macro in Brazil turns around we think we have a decent shot at improving the gross margin at the Group level.

Now looking at SG&A very quickly. The rate of increase continued to slow down, as planned, thanks to our cost savings efforts and a better performance in fulfillment. Looking slightly ahead, we have opened three new DCs, two in Brazil and one in France, and this will impact the fourth quarter.

On financial expenses, we were able to keep these stable due to reduced number of consumer credit installments, which was a key element to offset the increase in the Selic rate during the quarter.

Now turning to free cash flow, going back to what we said earlier, we provide a bit more color here on this composition. You can see that over the last 12 months working cap management completely offset the increase in IT cap ex and the net loss.

So, before I turn the floor over to Emmanuel, just some housekeeping issues to go over. First, we have closed the website in Ecuador and Panama because the activity was not ramping as well as we would have liked, so now we can devote our full attention in South America to Brazil and Colombia. Second, we sold Mon Show Room to Monoprix as we did not find the synergies we were hoping for with the rest of Cdiscount. Finally, we merged our baby products specialty site with our kids site, and the garden site with the home deco site in order to improve the overall offering on a more cost efficient basis.

Now, Emmanuel will gave an update on operational initiatives as well as our year-end focus.

Emmanuel Grenier:

Thank you Chris. So, at Cdiscount we are moving forward on a variety of fronts; three of which I would like to outline in a bit more detail. First, if the golden rule in real estate is location, location, location, the golden rule at Cnova is marketplace, marketplace, marketplace. We are at 30% of GMV in France, opening up to foreign vendors as you can see with our JD.com announcement and we are ramping-up on new value added services such as marketplace fulfillment. Second, being the price leader in the market is only one part of the equation. Quality customer service is another and we are offering a greater variety of delivery options which are finding favor with our customers. They want their purchases right away and we are making that happen. Finally, we are constantly working to maintain our technological edges that allow Cnova to improve the customer experience on our sites in a manner that allows them to save time and money.

Now turning to Brazil. The macro environment is not keeping us from looking ahead and planning for the future. So just as in France, the focus is the same; marketplace development, Cnova Brazil started two years later than Cdiscount but its share of GMV is growing rapidly, and high quality customer service via quicker delivery option. Of course as you have all understood, times are tough in Brazil, so we have to adapt. We are planning on placing more emphasis on margins and expanding our product catalog. Overall, we are adapting our cost structure to become even more competitive: we are cutting fulfillment costs and adjusting down our fixed cost.

Third, to conclude, Cnova has a number of unique competitive advantages that we want to maintain and enhance. First, we want to build on our leadership positions in a heavy products, they are higher margin categories and we believe we have the logistics infrastructure to deliver these to our clients faster and cheaper than our competitors. Second, when life hands you lemons, you make lemonade. So this is clearly what we are trying to do in Brazil. Yes, the market is not well-oriented for the time being but we're convinced that it will turn around at some point. So we are preparing to capitalize on this turnaround by adjusting our cost base and making investment in marketplace and mobile. We believe that at the end of the current down cycle we will be in a stronger position. And third, we are expanding the marketplace at home and abroad.

Now, as far as the rest of 2015 is concerned, more of the same; grow the margin in France, re-size the cost base in Brazil, and finally and perhaps most importantly never lose sight of the fact that cash is king.

So that concludes our slide presentation. We are now ready to turn to the Q&A. Operator, may we have the first question please?

Operator:

At this time we will be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. One moment please while we poll for questions.

Our first question comes from the line of Ross Sandler from Deutsche Bank. Please proceed with your question.

Ross Sandler:

Hey guys. Congrats on the turning the gross margin up in France. That looks pretty solid and even more so as a percent of GMV. So I guess the question is, is the growth rates that you're seeing in France, you know, do you think you can maintain the kind of 15% to 20% GMV growth in lieu of the less aggressive price reductions in France, and the fact that you're seeing this gross margin improvement can you grow kind of 15% to 20% and also see margin go up as it is right now? That would be question number one. Then question number two is, on the JD agreement, how's that going to work? It sounds like Chinese products into France and Brazil is the idea. Could you just talk a little bit about the economics and what you expect to get out of that agreement in 2016? Thank you.

Emmanuel Grenier:

Thank you, Ross, it's Emmanuel speaking. Yes, we believe that we can grow double-digit in France on the GMV. Just remember one thing about France, environment is soft but if you look at the last market share we took market share in heavy product in the last month with notable gains in heavy products and we had a double-digit growth in home furnishing. Overall our market share is stable in soft environment and because in high tech products we decided to better balance margin and growth but remember that on heavy products we are taking market share.

On JD, we are very happy with the agreement, you know. The objective is—the target is to start before the end of the year. JD will be a marketplace vendor, obviously a very important one, and we already know that we have good offers on our French site. We start first with France, and it will be in the French marketplace and it will allow us to increase the number of offers we have on the French marketplace and we have the best offers because JD is a major player in China.

Ross Sandler:

Great. If I can ask one more just on Brazil. I know you guys aren't providing explicit guidance given the environment, but what does the current quarter look like in terms of GMV growth compared to what you just saw in the September quarter? Given the environment, is there an opportunity to potentially go back to some of your suppliers and potentially negotiate for better terms given that you're a big player in that market and the macro's gotten this much more challenging of late? That's it for me, thanks.

Stéphane Brunel:

Okay, regarding breakdown it's a little bit early to say in this quarter. Everybody knows it's tough and a lot will depend on Black Friday and Christmas. If they are good, net sales growth could be closer to Q3. If not—it will be bellow Q3. In fact in Brazil in the current environment we are prepared to favor the gross margin at the expense of top line growth. Does this answer your question?

Operator:

Okay. Our next question comes from the line of Paul Bieber from Bank of America Merrill Lynch. Please proceed with your question.

Paul Bieber:

Good morning. Thanks for taking my question, and also congratulations on the improving gross margins in France. I was hoping that you could provide some color on the pricing strategy in Brazil given the environment and whether the pricing strategy is causing any strain with your retail partner companies in Brazil? Then the second question is, generally are the marketplace commissions stable in France and Brazil?

Vitor Fagá:

Okay. It's Vitor. Regarding to the pricing strategy in Brazil, we are very comfortable with the price strategy that we have been practicing. More than that, regarding to the relationship with the parent companies, there is an operational agreement that are governing the terms and the conditions of the relationship, in fact not only in the commercial area but as well as in logistics and in other fields, and it's creating a win-win situation not only related with this but also with the whole multichannel strategy. So this is where we are with them and we believe that this is absolutely a win-win situation for all companies and are absolutely okay. You have a second question, sorry, Paul, with regard to?

Paul Bieber:

The second question was, are the marketplace commissions stable in France and Brazil?

Emmanuel Grenier:

Yes. So our marketplace conditions changes in France. We have increased our marketplace commissions in September to increase our commissions and the markets did not move and so we have more commissions and we didn't have impact on our sales on the marketplace. In Brazil, we didn't change our commission rate but the commission rate under the effects of the mix went up in Brazil.

Paul Bieber:

Okay, thank you.

Operator:

Our next question comes from the line of Arnaud Joly from Société Générale. Please proceed with your question.

Arnaud Joly:

Yes, good afternoon everyone. I have three questions. The first one on Brazil, can you give us some flavor on the—I mean on the competitive environment itself, I mean which players are more aggressive? Is it of course B2W, (inaudible) change if you can elaborate a bit on this? The second question regarding France, in Q3 you were less aggressive on promotions. So will you continue and have you noticed any, you know, impact on your customers' loyalty because it's clearly a kind of, you know, change of strategy compared to what you implemented over the last few years, so just to see if there's any impact on your call business? The last question on France again, you have a positive EBITDA €1 million in Q3. I calculate that the core business remained loss making with an operating loss of around €20 million. The question is quite simple. When do you plan to reach the breakeven, I mean on a 12-months basis?

Stéphane Brunel:

Okay. So I can take your questions. The first one regarding Brazil, we don't comment specifically on competitors as you know; however we acknowledge as all of you know that the competitive environment in Brazil is difficult. Secondly on France, I wouldn't express that exactly as the way you have done, Arnaud. Yes, we have exactly as we told you been slightly less aggressive on promotions especially in the high tech business; however as Emmanuel just said we are still growing double-digit net sales growth in our key categories and we are happy with that.

With respect to your third question regarding positive EBIT in France, yes the French EBIT is progressing both in Q3 as well as year-to-date end of September. However with respect to your question on absolute value terms we shouldn't forget that our business is seasonal and that Q4 has a much higher level of sales than Q3 and hence is by nature a more profitable quarter.

Arnaud Joly:

Or maybe just another way to ask the last question because clearly when you look at the profitability in France it is mainly driven by the marketplace. So are you making some progress regarding the profitability of the core business itself?

Emmanuel Grenier:

You know, first thing, Arnaud, we never split core business and the marketplace because as we already explained this is a virtuous cycle between the core business and the marketplace. There is no marketplace without core business because that would mean no traffic on the marketplace, first thing. The second one is that we are improving our core business by pushing hard on home furnishing. You know and remember that the two pillars for margin expansion were the marketplace and home furnishing.

Arnaud Joly:

Thank you very much.

Operator:

Our next question comes from the line of Richard Cathcart from HSBC. Please proceed with your question.

Richard Cathcart:

Hi everyone. Good afternoon. Can you just go into the gross margin decline of 350 basis points in Brazil a little more? Presumably it was higher once you strip out the benefit of the gains on the marketplace. Given that your largest competitor was growing at a roughly similar rate to you in the same quarter and they're guiding for a broadly stable gross margin in the third quarter it seems that there is a very kind of specific and large impact on Cnova. That's the first question. Then the second question just on France where the marketplace is already at 30% of GMV that's getting towards the target of 40% that you set out during the IPO, yet there's only very minimal profit in France at the moment. So can you just kind of talk us through how we actually get towards the high single-digit profit margin that you set out or pointed towards during the IPO? Thanks.

Stéphane Brunel:

First regarding gross margin and the decline in Brazil, here again we don't specifically comment on our competitor B2W nor other competitors. It's true if we look at the history a little bit about gross margin in France we have seen improvement in the gross margin in each of the first three quarters of the year, and in Brazil absolutely the gross margin has been deteriorating year-on-year and yes we expect this trend to continue in Q4. However, in the current environment we are prepared to favor the gross margin at the expense of top line growth. I will let Vitor perhaps complement on that and we'll pass to Emmanuel for the French marketplace and targets.

Vitor Fagá:

Yes, it's important that in this sense, Richard, in this more challenging macroeconomic environment we take actions to adapt our business to this new reality, and that's what we have been doing. Emmanuel mentioned too in the presentation several initiatives that I would like to highlight again. So in terms of achieving promotional policies and achieving a better growth in margin balance, in terms of enhancing client services, in terms of optimizing the logistic operation not only managing inventory but also increasing productivity and also changing distribution centers and optimizing distribution centers that work as well as implementing cost savings and efficiency plans in the operation. So, it's important that we are moving and we are doing actions to face and to prepare this Company for this more challenging macroeconomic environment in Brazil. So Emmanuel can go through the mix.

Emmanuel Grenier:

And about France, three things to answer to your question, Richard. The first thing is that we have to move the marketplace from 30% to 40% as we said. The second one is that we are pushing home furnishing and the home furnishing is the category which is growing most in France. The third thing is that we are better balanced now between margin and growth on consumer electronics.

Richard Cathcart:

Okay, thanks very much.

Operator:

Our next question comes from the line of Fabienne Caron from Kepler. Please proceed with your question.

Fabienne Caron:

Yes, good afternoon. Three questions from my side. The first one would be on promotion in France and Brazil. Can you quantify your promotion and percentage of sales for these two countries Q3 versus Q2? Second point would be on factoring cost in Brazil. Could you quantify the factoring cost you had in Q3? Finally, given the fact that you do a kind of balance in France between sales and gross margin, is it fair to assume that net sales will be as well only growing single-digit in Q4, please?

Stéphane Brunel:

Okay, so I'll take the last part of your question, Fabienne, and then I will hand it over to Vitor. Regarding sales and gross margin balance in France, first thing on the net sales growth front—in France we currently expect a similar trend in Q4 as in Q3. With respect to Q4 gross margin in France as we have said we have seen improvement in the gross margin in each of the first three quarters of the year and yes we expect this to be the case in Q4 as well.

Fabienne Caron:

Okay.

Vitor Fagá:

So regarding to the factoring cost, Fabienne, what we have is a pretty stable factoring cost related to the Brazilian interest rate, the CDI. We have discounted receivables at a rate around 108% of the Brazil interest rates. Of course the Brazilian interest rates has been growing in the last year as you know and of course we are taking initiatives in order to compensate this growth. One of the initiatives is reduce the average number of installments for the installment sales and we have been able to achieve, in this quarter, 7.2 average number of installments instead of 7.8 average in the third quarter of last year. So this is one clear example in which we have a clear view, yes a clear view in keeping and enhancing our competitive advantages and we believe that this is one of them. I mean we can provide—we can support our sales by providing this to our customers with a competitive advantage and with a better position than several players in the market. So, this is one of the elements that confirms this.

Fabienne Caron:

Okay. Regarding the rate of promotion and percentage of sales Q3 versus Q2 in France and Brazil?

Stéphane Brunel:

Fabienne, it's not something that we comment on.

Fabienne Caron:

Okay.

Stéphane Brunel:

The only thing is that from a general perspective what we can say that the pricing environment and the promotional environment in Brazil is relatively tough right now and as you say—I mean as you know very well that but don't comment precisely on it.

Fabienne Caron:

Okay, thank you.

Operator:

Our next question comes from the line of Stephen Ju from Credit Suisse. Please proceed with your question.

Chris:

Hi guys. This is Chris on for Stephen. Two questions on Brazil and then a quick question, follow-up on the balance sheet. Was there anything in regard to the gross margin in Brazil that was mix-driven in your first party sales that may have led to some of the year-over-year compression that we saw? Then from a purely consumer demand standpoint in Brazil, are you guys seeing signs of intensifying headwinds or stabilization? Then on the balance sheet, days inventory are up year-over-year and they continue to be. Should we assume that the trends that you've shown this year are going to be the new normal or are there plans to reverse? Then finally, with regard to your goodwill balance down sequentially, about 100 million, should we assume that this is due to the sale of MonShowRoom?

Vitor Fagá:

Okay. So I will take the second and third question. So regarding to the working capital, yes we have an increase in inventories, a broader inventory this quarter compared to the previous one, but the most important thing is we have been able to improve our working capital equation in around five days. We have also an increase—sorry, an improvement in especially trade payables. The inventory are due to the strategies, our commercial strategy as well as the existence of this new distribution center that also have some impact on that, but basically on our commercial strategy for the sales that we have in the last quarter that are, of course as you know, bigger. So this is one point.

Regarding to goodwill, we have basically an impact in the goodwill of the translation of the Brazilian goodwill - the Brazilian denominated in Reals goodwill - to Euros. So the majority of the goodwill are denominated in Reals and we have a decrease on the goodwill and thr most relevant part of the decrease in the goodwill belongs to that effect.

Stéphane Brunel:

You asked the question of MonShowRoom. It's fair to say it's true to say that, you know, around €21 million to €22 million goodwill was related to MonShowRoom, and therefore, you know, disappear with the MonShowRoom transaction.

Chris:

Okay. Then back to Brazil on the mix-driven first party sales, did that have any impact on your gross margin compression?

Christopher Welton:

Stephen, I'm sorry, we're not entirely sure we understand the question. Maybe you could just rephrase it?

Chris:

Okay. So was there a shift in any—leaving out the marketplace's business on the gross margin in Brazil, was there a shift in terms of the higher margin first party sales through you guys that led to the compression?

Stéphane Brunel:

No, there isn't anything major or significant here in to be underlined.

Chris:

Okay. Thanks.

Operator:

Our next question comes from the line of Giovanna Olivera from Credit Suisse. Please proceed with your question.

Tobias:

Hey, thanks. Just a follow up to one question from my colleague. This is Tobias in fact speaking. As far as we know the parent company sales in Brazil have been very weak, so they have been declining like 20, 25% same store sales and they have not been engaged in any type of a more aggressive pricing strategy as of today but as of a couple of weeks ago, but our recent conversations with the Company suggested that even Via Varejo, the parent company, would be much more aggressive on the e-commerce—on the brick-and-mortar space and matching prices in regards to e-commerce. How do you see the further deterioration in the competitive environment, and in this case even coming from the parent company? Thank you.

Vitor Fagá:

Tobias, we see our competition much more in the e-commerce field. We are facing and we are dealing with competition much more in the e-commerce field, that's the way that we follow and that's the way that we see the current situation in Brazil. So we are preparing ourselves to serve the client to enhance the competitive advantages that we already have and to increase through the multichannel strategy the value proposition for the clients, but basically following and facing the online competition. The offline environment is of course subject to their own customers, to the customers that are really on this channel and we don't face, I mean we don't face it very strongly in the recent past and is of course difficult too to predict the near future on that.

Tobias:

Thanks Vitor. Just as a follow up, are you not surprised that let's say you gave up almost 400 basis points in margins and the sales at least are pretty modest? So it basically suggests that the elasticity has been very low and you even guided to say you're not providing any guidance for the fourth quarter but you're basically saying that the margins will remain under pressure. Is there anything else that you can comment on that because really the kind of—the decline in the margin versus the volume at least is kind of very surprising, right? Thank you.

Stéphane Brunel:

Yes, I think that, you know, as you all know consumer demand currently in Brazil especially, for non-goods, is close to all-time low and so, you know, it's true that in this specific environment we're seeing that we want to better balance or better protect margins against the sales growth since there is as you notice little demand appetite for products. What we think however is that in Brazil we are fully convinced that we'll get out of the current environment much stronger when the market rebounds. For in the near future I think that you are right, we think that the current macro is tough and we needed to protect margin against growth.

Tobias:

Thank you so much. Thank you both of you.

Operator:

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

Pratik Dharamshi:

Hey. A couple of questions from my end; one specific to France. So why did your sales growth slow down to mid single-digit in France from almost 14% in second quarter in spite your comps getting easier? So was it just because of you doing lower promotions or any other specific reason?

Emmanuel Grenier:

There are two points to your questions. The first one is that as we've said we are better balancing promotions and we have a better balance between growth and margin in high tech products but do not forget that our market share has been stable compared to last year and we have a very strong market share and the market share in heavy product has increased.

Pratik Dharamshi:

So you mean to say market overall in France has slowed down. Is it a fair assumption?

Emmanuel Grenier:

Everybody knows the market is tough in France and the experts are forecasting a consumer acceleration but we don't see this consumer acceleration. When we say that we are one digit and we are still maintaining our market share with growth in market share in some categories, it means that the environment is soft.

Pratik Dharamshi:

Okay. Any comments on the potential merger between Darty and Fnac? Will it intensify price competition in France? What are your...

Emmanuel Grenier:

We don't have comment on that. Because it's not immediate so we cannot comment on something which is not made.

Pratik Dharamshi:

Okay, and the last one from my end, you said you're focusing on margins to head of sales in France. Should we expect similar strategy in Brazil as well? You will give away a bit of sales for your gross margins or will it be more price investments we will see again in Brazil for the fourth quarter as well?

Stéphane Brunel:

Yes, regarding, you know, perhaps just to summarize or to say in other terms regarding growth margin, yes, you're right, in France we have seen improvement in the growth margin in each of the first three quarters and we expect this to be the case in Q4 as well. Regarding Brazil, we have seen the growth margin which has been deteriorating year-on-year so far and we expect this trend to continue in Q4. In the current environment we are prepared to favor the growth margin in Brazil at the expense of top line growth. Looking forward the fundamentals of our business model remain unchanged, and we expect to increase margin at the Group level as we've proved in France.

Pratik Dharamshi:

Okay, thank you.

Operator:

Our next question comes from the line of Bernardo Cavalcanti from Goldman Sachs. Please proceed with your question.

Bernardo Cavalcanti:

Hello. Thank you for taking my question. So I've got two questions. The first, when would you expect according to your strategy and also your budget to start generating positive consolidated EBIT and also positive bottom line? So what's the horizon we're talking about? The second question is, if you could give some more color on a presumable discussion that is happening between a major shareholder of Via Varejo and you according to the operational agreement regarding the commercial strategy that means the price of products that are sold both on the online and the offline channel? Thank you.

Stéphane Brunel:

Okay. So answering your questions. First, starting with the second one. You have seen that Via Varejo has stated publically that the agreement is being respected and we confirm. First, regarding your question on specific guidance and the outlook in terms of profitability, you know, I would prefer to stick with what we have said in terms of our outlook for what margin both in France and Brazil. Regarding SG&A what we can say is that if we look at the history of SG&A evolution throughout the year in Q1 we have seen the increase in op ex due to the investments we have done to enhance client service. In Q2 and in Q3 we have successfully diluted the impact of this increase and we expect this trend to continue about the medium term, however just please keep in mind that in Q4 we'll have the impact of the opening of two new DCs in September in Brazil and one in France in the Paris area in October. So basically our strategy remains unchanged: grow the top line, grow the growth margin and continue to have a strong focus on costs.

Bernardo Cavalcanti:

Okay, thank you.

Operator:

Our next question comes from the line of Richard Evans from King Street. Please proceed with your question.

Richard Evans:

Hi. You've been very successful in generating cash out of working capital over the last 12 months, so I'm just wondering if you could give any thoughts on how we should think about that going forward as the business continues to grow?

Vitor Fagá:

Okay. Yes, we have been able to generate free cash flow in the last 12 months, as you can see. This is basically due to one of our key strategic pillars, which is being an asset-light company with let's say adequate level of cap ex but also with positive working capital equation, and that's what we have been doing. We have been not only with this positive working capital equation but also being able to improve it quarter over quarter. What we can expect for that is that, the Company is focused on cash generation and of course even in more challenging economic conditions such as that we are experiencing in Brazil right now, we are even more focused on preserving cash in that situation. So, considering that you can see that we are focused on delivering free cash flow generation, and you should have of course take into account, especially due to this macroeconomic challenging condition in Brazil it can impact it but the Company is definitely focused on delivering free cash flow generation.

Richard Evans:

Okay. But I was just more meaning specifically on working capital. Should we expect in the future there to be further cash generation from working capital or is working capital pretty much optimized now and, you know, and the cash generation from that source will be relatively small going forward?

Vitor Fagá:

Yes. The working capital optimization varies quarter by quarter because we have several elements in the operation itself. We have new distribution centers but we see continuous opportunity to improve working capital. We already have a positive equation, this is important, and we see opportunities to improve, but it should of course vary quarter by quarter because of seasonality and things such as that.

Richard Evans:

Fine. Is it possible that the last 12 months to split the financing charge between financing charge to each of your capital structure of having, you know, debt and some cash on your balance sheet and financing expenses in relation to the discounting of invoices in Brazil?

Vitor Fagá:

Yes, the vast majority of the financial expenses are related to discount of receivables in Brazil. We have a substantial part of the sales that we do in Brazil are the installments and we discount the vast majority of this receivable, so the vast majority of the financial expenses are related to that.

Richard Evans:

Given that's the cost of doing business in Brazil, would it not be fairer to deduct that from free cash flow when you're discussing free cash flow? Because it's not a financing charge, it's a cost of doing business, so rather than €23 million of free cash flow generated you probably actually burn cash when you take off the invoice discounting.

Christopher Welton:

It's a fair comment. We present our free cash flow as the majority of our peers do.

Richard Evans:

But the majority of your peers who don't operate in Brazil don't have this big invoice discounting charge running through.

Christopher Welton:

Thank you for your question.

Operator:

As it appears there's no further questions at this time. Would you like to make any closing remarks?

Christopher Welton:

So again, thank you very much for listening in. We appreciate your attention. The IR Team is at your disposal after the call, and later on if you have further questions please don't hesitate. Thank you very much and have a good rest of the day.

Operator:

This concludes today's teleconference. Thank you for your participation. You may disconnect your lines at this time.