Cnova N.V.

Fourth Quarter and Fiscal Year 2014 Financial Results Conference Call

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PRESENTATION

Operator:

Greetings and welcome to the Cnova Fourth Quarter and Fiscal Year 2014 Financial Results 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, David Mossé. Thank you, Mr. Mossé, you may begin.

David I. Mossé, *General Counsel*

Thank you Operator, and welcome to Cnova's Fourth Quarter and Fiscal Year 2014 Earnings Conference Call. On the call today are Cnova's Co-Chief Executive Officers Emmanuel Grenier and Germán Quiroga; and Chief Financial Officer, Vitor Fagá.

The earnings press release and earnings presentation slides are available on the Investor Relations portion of the Company's website at www.cnova.com. This call is being webcast, and a replay will also be available on The Investor Relations section of Cnova's website.

Before I begin, we would like to remind everyone that prepared remarks and the presentation contain forward-looking statements, and Management may make additional forward-looking statements in response to your questions. Such statements involve a number of known and unknown risks and uncertainties, many of which are outside the Company's control that could cause its future results, performance or achievements to differ significantly from the results, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause or contribute to such differences include risks detailed in the Company's public filings with the Securities and Exchange Commission and the AFM and those mentioned in the earnings release. Except as required by law, the Company undertakes no obligation to update any forward-looking or other statements herein, whether as a result of new information, future events or otherwise.

Also in the Company's earnings release and in today's prepared remarks and presentation, the Company will reference certain non-GAAP financial measures, which we believe will provide useful information for investors. A reconciliation of those measures to GAAP is included in the earnings release issued on January 28th, 2015 and in today's presentation.

With that, I would now like to turn the call over to Emmanuel Grenier, Co-Chief Executive Officer of Cnova.

Emmanuel Grenier, *Co-Chief Executive Officer*

Thank you.

Hello everyone and thank you for joining us on Cnova's first earnings call as a public company. We are very pleased to discuss our financial and operating results for our fourth quarter and full year 2014, as well as our key objectives going forward.

So, we have expanded geographically, we have grown our GMV, and we have improved our overall profitability and cash position, and this is just the beginning.

The growth in Cnova's GMV has been significant over the past several quarters and the fourth quarter was no exception.

Total GMV in the fourth quarter grew by 28.6% year over year to € 1.47 billion, and full year 2014 GMV grew 26.6% to 4.52 billion, compared to 2013.

Our GMV growth in both segments was driven by strong increases in our direct sales and the rapid expansion of our marketplace businesses.

So, net sales hence grew 19.7% to € 1.10 billion in the fourth quarter, and 19.8% to € 3.47 billion in the full year 2014, outpacing the growth in e-commerce across our largest market, driving additional share gains in both our Cdiscount and Cnova Brazil segments.

Our top-line performance continued to strengthen, thanks to our price leadership, our broad product offering and our unmatched payment and delivery options. These delivery options include our vast network of in-store pick up location.

The expansion of our marketplace business significantly expands our product offering, providing us the opportunity to meet even more of our customers' purchasing needs at the most competitive prices. In fact, the number of product offering available on Cnova sites at the end of 2014 were 13.8 million, compared to the 6.2 million product offering available at the end of 2013. Growth of our marketplace will allow us to drive additional leverage of our fixed costs and higher levels of profitability. This growth will be further aided by launches of two new marketplaces in Brazil, Pontofrio and Casasbahia, this month, which leverage our existing and very successful direct sales sites.

One of the key drivers of our GMV strength is the continued growth in our active customers. For the full year 2014, our total active customers reached 13.6 million compared to 11 million in 2013, representing 23.1 growth year over year. With the rapid development of our marketplaces, we expect these trends to continue.

I would also like to highlight that our orders placed grew 34.3% in 2014 to 31.7 million, while items sold increased by 37.3% for the same period. We are pleased to see that customers are placing more repeat orders, with more items per order than ever before.

2014 was also marked by the important progress we've made in mobile commerce. Traffic from mobile users and purchases by customers using mobile devices has increased significantly, and we expect this trend to continue. For the fourth quarter, at Cdiscount, mobile users accounted for 21.6% of placed order value, versus 14% in the prior year. In Brazil, mobile users accounted for 10.5% of placed order value in the fourth quarter, compared to 4.4% for the same period in 2013. Our investments over the last several years in strengthening our mobile platform are driving incremental top line growth and position us well to capitalize on the expansion of m-commerce for years to come.

Throughout 2014, we continued to extend our geographical reach, with further expansion in Africa and Central America. This brings our global footprint, as of today, to a total of 11 countries and increases our total addressable market to 550 million people, all with e-commerce penetration significantly below that of the US.

Now, let's turn to our profitability. Adjusted operating income grew by 34.5% year over year to € 35.3 million in the fourth quarter of 2014. For the full year 2014, adjusted operating income grew 58.1% year over year to € 37.2 million. This excludes operating income or loss related to our launches in new countries since 2014. We believe this is a better measure of profitability in our core business, given that these new markets are very early in their development cycle.

So, this led to strong cash generation of € 203 million in 2014, and to a net cash position of € 534 million or € 1.21 per share at the end of 2014.

Now, I would like to take a few moments to discuss Cdiscount.

We are very pleased with our performance in both the fourth quarter and full year of 2014. In the fourth quarter, Cdiscount GMV increased 26.1% to € 790.5 million and net sales grew 15.5% to € 535.2 million. For the full year, Cdiscount GMV increased 21.6% to € 2.31 billion and net sales grew 13% to € 1.61 billion. This outpaced an e-commerce market in France which grew by 11%. Our outperformance was driven by a combination of higher volume in our direct sales, significant growth in our marketplace and successful launches of new specialty websites.

In particular, during the fourth quarter and for the full year, GMV growth was driven by our core merchandise categories, including cell phones, home appliances, as well as higher margin categories such as home furnishings.

Specifically, we were pleased by the ongoing development of our marketplace business. In the fourth quarter, marketplace share was 21.5% of Cdiscount GMV compared to 13.2% for the same period last year. We now have nearly 7,000 sellers, including 230 which subscribed to our fulfillment services.

In 2014, we continued to strengthen our value proposition to the customer, first, by continuing our price leadership to leverage our strong purchasing power, second by growing of our Click-and-Collect network and expanding our consumer payment options, and third accelerating Cdiscount à volonté, our loyalty program.

In fact, our Click-and-Collect, or pick up points, accounting for over 60% of our net sales in 2014, and 65% in Q4. As a reminder, our Click-and-Collect network includes 17,000 pick-up points throughout France including the largest network of pick up points for large items with 580 points. This allows customers to have a Click-and-Collect location in very close proximity to their home or workplace.

Additionally, as part of our growth strategy, we have expanded into new, higher margin, product categories with the recent launch of two new specialty websites, in addition to the existing Monshowroom.com and le Comptoir Santé. So, we opened Moncornerbrico.com, an online seller of home improvement products for the DIY consumer, and Moncornerbaby.com, an online seller of infant care products and toys. We plan on launching five additional specialty websites in 2015. These sites allow us to diversify our product offering to higher growth, premium categories, while reaching new customers.

Combined, our ability to leverage these competitive strengths enabled us to continue to gain share and to reinforce our position as the e-commerce leader in France.

Let me now discuss the progress we've made in entering new markets during this quarter. We have further expanded our global footprint with the launch of Cdiscount sites in Senegal in September 2014, Cameroon in December 2014, and in Panama this month, bringing the total number of countries we operate in to 11, across four continents, with a population of almost 300 million people, which is greater than that of France and Brazil combined.

It is important to note that these businesses represent the further expansion of our proven business model. By leveraging the existing infrastructure of our parent or through relationships with local partners, such as Bolloré in Africa, we can enter these markets with low risk and minimal capital expenditure, and apply our competitive strengths to grow scale quickly.

As an example, in early 2014, we successfully launched operations in high-growth eCommerce markets such as Thailand, Vietnam and Columbia, and we are very encouraged by the early progress. We capitalized on the existing infrastructure in these countries as we share logistics, purchasing and IT platform.

Now, I would like to turn the call over to Germán Quiroga, who will discuss Cnova Brazil. Thank you.

Germán Quiroga, *Co-Chief Executive Officer*

Thank you Emmanuel, and thank you all for joining Cnova's earnings call.

I'm very pleased to share with you the performance of Cnova Brazil for 4Q and full year of 2014.

Similar to previous quarters, Cnova Brazil GMV continued to show robust growth in the fourth quarter. On a constant currency basis, Brazil GMV increased 36.6% in the fourth quarter of 2014, compared to the same period of last year, and net sales grew by 28.6%. In Europe, GMV growth represented 31.7% and net sales rose 24.1% for the fourth quarter of 2014.

For the full year 2014, GMV grew 44% and net sales 37% compared to 2013. In Europe, GMV growth represented 32.3% and net sales rose 26.4% compared to 2013.

Our growth outpaced the market and e-commerce as a percentage of total retail sales remain underpenetrated at only 3.1%, less than half of the e-commerce penetration in the US and less than China as well.

We have continued to gain market share, by leveraging our competitive advantages, including price leadership, a broad product offering and unmatched delivery and payment options. Over the past five years, Cnova Brazil has become a key player in the Brazilian e-commerce, gaining more market share than any other player. These competitive strengths are built on the strong brand awareness of Casas Bahia, Extra and Pontofrio. They each have a differentiated positioning in the market, allowing us to reach a diverse customer base.

Direct sales across all sites accelerated during the fourth quarter, particularly at Extra.com, which benefited from a strong holiday shopping season, especially on Black Friday. Our marketplace business grew significantly during the quarter and we expect continued momentum to be driven by our launch of Pontofrio.com and Casasbahia.com marketplace earlier this month.

Our marketplace represented 12.4 of Extra.com GMV in the fourth quarter compared to only 3.8 for the same period last year. Since the launch of the Extra.com marketplace in 2012, we have been able to secure large branded sellers quickly, thus enhancing our marketplace traffic and scale. We believe our two new marketplaces will help to drive strong gains in GMV going forward and be one of the key drivers of our future profitability.

Another strong lever is mobile sales. They continued to grow significantly, accounting for 10.5% of placed order value in the fourth quarter, compared to only 4.4% in the same period in 2013.

Additionally during the quarter, we extended our price leadership in the market with the launch of Cdiscount.com in Brazil in October of 2014. Cdiscount is positioned as the outlet of the Brazilian internet and we are ready to accelerate this business.

As part of our ongoing strategic investments in Brazil, we now have 100 stores in the GPA network operating Click and Collect stations, and there is still a lot of room for development, considering the 2,000 stores operated by GPA and Via Varejo across the whole country. We believe this will allow us to further build on our competitive position in the market.

We also expanded our loyalty program, driving higher repurchase rates during the year.

Two thousand fourteen was also marked by the launch of our Cosmo and Super Nova businesses and by an impressive growth in our wholesale and e-hub operations.

Overall, I'm very excited by the many growth opportunities we have in Cnova Brazil.

Now, I would like to turn the call over to Vitor to discuss our financial results in more detail.

Vitor Fagá, *Group Chief Financial Officer and Investor Relations*

Thank you Quiroga. Hello everyone. This is Vitor Fagá. Now we will walk you on the key income statement lines.

So, on Slide number 6, we have GMV Evolution and Marketplace, and as we can see GMV's performing strongly in Cnova, driven by direct sales and marketplace evolution. In the fourth quarter of 2014, we have been able to grow GMV on a 28.6% base, 26.1% in Cdiscount and 31.7% in Cnova Brazil. Also, during the year, we have accumulated 27—almost 27% growth in the total GMV for the Company. So, this reflects the very strong performance also in the evolution of the marketplace in our business.

In France, the marketplace represents at the end of the year 21.5% comparing to 13.2 in the same quarter of 2013. In Brazil, it represented in the last quarter 12.4% comparing to 3.8% in the fourth quarter of 2013. So, as you can see, it's a very strong evolution of around 800 bps in both countries in one year time. This reflects the successful efforts to develop this marketplace business in both regions as a consequence of our competitive advantages and also as a consequence of the focus that the Company has been doing in this—to develop this business segment. It's also important to emphasize that the number of sellers more than doubled in one year time achieving more than 7,000 sellers, and also we have been able to achieve more than 14 million products offerings in this—at the end of 2014.

In Slide number 7, Mobile Share and Active Customer, it's important to see how mobile has been continuously gaining relevance in all markets, but especially in the developed markets. This is related to the fact that smartphones and tablets penetration are increasing very fast in these regions. So, Cnova, as you can see here, is positioned to capture its strengths and of course to convert this strength in sales through this very specific channel. As you can see here, in Cdiscount we have been able to increase the mobile share of GMV from 14% in the 4Q 2013 to 21.6% in the last Q of 2014. Also in Cnova Brazil, from 4.4% in the last quarter of '13 to 10.5% in the fourth quarter of '14. As a consequence of many actions that we have been taking in order to generate and attract customers, we have been able also to achieve a 23% growth in the active customers' figures as a very, very important figure to drive our results.

So, as you can see in Slide number 8, our net sales has been driven by direct sales in the marketplace as well. We have been able to increase almost 20% the net sales of the Company in the last quarter of '14 comparing to the same period of 2013. It's a 15.5% increase in Cdiscount and is a 24.1% increase in Cnova Brazil. Also, this is in—the figure in euro terms. Considering the real devaluation this period and measuring it in a constant currency basis, Cnova Brazil has been able to grow at 28.6% growth rate in the fourth quarter of last year.

It's important also to highlight the main categories that has been contributed to the direct sales growth. In Cdiscount it's important to emphasize one, the home appliances and also the home furnishing categories, two important categories that have been pushing the sales. Also in Cnova Brazil, we have been seeing a strong growth in the consumer electronic categories, especially smartphones and tablets. As a consequence of that, we have also been able to grow in 2014 19.8% in the accumulated basis.

So, moving to Slide 9, we can see gross profit and Adjusted EBITDA. These figures exclude the impact of the launching of the activities in new countries in 2014 since these activities are in an early stage of development and we believe it's a better measure of our core business.

So, we can see here the gross profit growing 20% in the fourth quarter of 2014 comparing to the same period of last year, and achieving 15.5% as a percentage of net sales. Also, it's important to share with you the gross profit exclude any marketing expenses. It has been increasing as a percentage of net sales from 13.1% in the last quarter of 2013 to 13.4% in the last quarter of 2014.

When you look for the Adjusted EBIT, we see this—a positive trend as well as a consequence of the evolution of the gross profit, but also the fact that we have been able to dilute and optimize operating expenses. We have been able to achieve 12.3% operating expenses in the last quarter of 2014 as a percentage of net sales. We have been able to increase Adjusted EBITDA around 28% in the comparison of the last quarter of '14 through the last quarter of 2013. So, it's an increase in the EBITDA margin or the EBITDA as a percentage of net sales from 3.8% to 4.1% in this period.

So, moving to Slide number 10, we can see the operating profit, and thanks to the evolution of the gross profit, dilution of expenses as well, we can see here 34% increase in the operating profit, which represents 3.2% of the sales comparing to 2.9% of net sales in the fourth quarter of 2013. In a yearly basis comparison, we have a 58% increase in the operating profit. We bring here to share with you as well a metric that considers the operating profit net of factoring cost. As many of you that follow the Company knows, we have specifically in Brazil a big percentage of sales done in instalments and we factor the receivables that you would generate from these sales. So, considering the operating profit, net of factoring these receivables, we have been able to increase the operating profit 39% in a quarterly-based comparison. As a percentage of net sales, it has achieved 1.5%, an increase of 20 bps comparing to the same period of the previous year.

So, moving to Slide 11, we can see here the adjusted net profit, and before that we will comment also the evolution of net financial expense. As we can see here, the net financial expenses have been growing 8.4% in the fourth quarter of 2014. It represents an increase in the total amount while is a reduction as a percentage of net sales from 1.9 in 4Q 2013 to 1.7% in 4Q 2014. The Company has been able to partially offset the negative impact in the financial expenses of the increasing (inaudible) rate in Brazil by reducing the average number of payments in around 13%, especially in the payments done in instalments. So, as a consequence of the evolution of the operating profit and the optimization of the financial expenses, our net profit—our adjusted net profit has increased 32% in this period, achieving 1.3% of net sales in the fourth quarter of 2014.

So, on Slide 12, we can see that Cnova continues to grow and generate cash. Cnova has been able to generate more than € 200 million in 2014. So, this reflects an important strength of its business model that combines cash generation from the operating activities with optimized cap ex level resulting in a strong cash flow generation. So at the end of 2014 we had a net cash of € 534 million which represent a net cash position equivalent to € 1.21 per share.

So now, turning to the last slide, we'd like to share with you the guidance of the Company for the first quarter of 2015.

So, we expect Cnova's net sales in the first quarter of 2015 to increase 17%, plus or minus 200 basis points comparing to the first quarter of 2014.

Now, I will return the call to Quiroga who will provide some comments about 2015 priorities.

Germán Quiroga, *Co-Chief Executive Officer*

Thank you, Vitor. As you can see, Cnova has built a strong foundation for profitable growth.

Looking ahead, we will continue to leverage our key competitive advantages in our core markets to drive additional market share gains, while strategically expanding into new high-growth markets and business segments. This will drive our growth and our profitability in the medium to long-term.

Additionally, we will continue the fast development of our marketplace in France and Brazil. This is the most relevant path to increase our profitability in the short term.

We are reinforcing our structural competitive advantages, such as Cnova's Click and Collect network, which is an important barrier to entry. We also continue to invest in, and leverage our strong position in mobile e-commerce.

Lastly, we will continue to offer our customers the most competitive pricing in their markets, thanks to our purchasing power and low cost positioning. All together, we believe this strategy will sustain our fast growth and increase our profitability resulting in strong cash generation.

With that, I would like to turn the call back to the Operator, so we can open the call for questions.

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 keys. One moment please while we poll for questions.

Our first question comes from the line of Edouard Aubin with Morgan Stanley. Please go ahead with your question.

Edouard Aubin, *Morgan Stanley*

... and cash flow. In terms of sales, you're guiding for 17% increase in the first quarter, which I guess is a bit of a slowdown versus the fourth quarter and is below the full year consensus expectation. Is it just a function of you cycling a very strong quarter in Brazil? If so, should we expect an acceleration of your sales, of your top line towards the remainder of the year, because to get to consensus expectations I guess it would imply a 25% increase over the remaining nine months? Also on cash flow, I guess your cash generation was a positive surprise in the quarter. Why did the number of days of trade payables increase by that magnitude? If you could elaborate on that? What should we expect? Should we expect that level to be sustainable in fiscal '15?

Vitor Fagá, *Group Chief Financial Officer and Investor Relations*

Okay. Thank you, Edouard, for the questions. So, first of all, regarding the guidance, we have seen as many of you as well a more challenging macroeconomic condition, especially in Brazil in both certain key indicators of the macroeconomic environment. Especially regarding to consumer confidence, we have been a weaker indicator and this was the main reason why we assume this guidance and we gave this guidance to the market.

So, we are—with the current environment totally aligned and totally—totally aligned with these projections and we expect to increase as we mentioned.

Edouard Aubin, *Morgan Stanley*

Okay.

Vitor Fagá, *Group Chief Financial Officer and Investor Relations*

But, it's important to emphasize that this is aligned with our strategy of growing faster than the market, and we expect to keep this over the following quarters.

Regarding the second question, yes, we have a very strong cash flow generation during the year as you mentioned. It is basically a composition of operating positive cash flow. There is a very strong impact coming from the working capital as you mentioned, and we should—this is a consequence of a better management and a better management of the working capital, but also the fact that we have been able to leverage during the last year, especially implement some competitive advantages related to purchasing power and relationship with our suppliers. So, this is a very important driver for this working capital. We should look quarter-over-quarter of course have effect of this—a positive effect of this metric. But of course, we should remember that this business is very seasonal. We shouldn't expect similar figures in terms of—nominal figures, of course. I mean, every quarter has a specific seasonality but we expect to have improvements in this line as well.

Edouard Aubin, *Morgan Stanley*

Sorry, Vito, just to clarify on the sales figures on the sale guidance just to make sure I understood. You said that your guidance for the first quarter was conservative because of a difficult macro in Brazil, but just to be clear, is the 17% in line with the initial budget you might have had three months ago or is it slightly lower?

Vitor Fagá, *Group Chief Financial Officer and Investor Relations*

We have been—the macroeconomic conditions have been changing over the periods and we have been adjusting our expectations according to that, Edouard.

Edouard Aubin, *Morgan Stanley*

Okay. Thank you.

Operator:

Thank you. Our next question comes from the line of Jaime Vazquez with JP Morgan. Please go ahead with your question.

Jaime Vazquez, *JP Morgan*

Hi all. Just a couple of follow-ups on Edouard's question. I mean, you know, since when has the environment become weaker, because in Q4 you delivered growth very much in line with your budget, both in terms of GMV and net sales. Are you talking about a deterioration of conditions in the last two weeks or—because we didn't see that deterioration in your numbers in Q4? So, if you can be a bit more specific on what you have seen in January to make you, you know, be so much more prudent versus your initial budget? Secondly on the net cash of 534, just to get a sense for the seasonality effect of Christmas, can you tell us what that net cash is as of today for, you know, roughly, just to understand the seasonality effect? Thirdly, in the context of the weaker macroeconomic conditions, should we also change the assumptions for the gross margin? Because you want to grow faster than the market, will you have to invest more in price to compensate for the shortfall in top line? Should we change that assumption as well as the top line? Thank you.

Vitor Fagá, *Group Chief Financial Officer and Investor Relations*

Okay. Thank you Jaime. So, regarding the macroeconomic conditions, we have seen these indicators moving gradually over the last quarter and in this quarter, okay. Compare this to the fourth quarter of 2014, it's always more difficult since the quarter is very seasonal, you know, for this business especially in the market that we operate there's a very strong seasonality. So, this kind of comparison it's difficult in terms of—even if you take in terms of the evolution quarter-over-quarter, but we are seeing these macroeconomic conditions and some of the indicators, especially consumer confidence indicator as I mentioned, weaker and weaker over the last months. Okay? So, this is the first thing.

Regarding to the cash generation, yes, there is also seasonality to cash generation. It's—I cannot provide specific figures about our current cash but we're going to see at the end of the first quarter or any first quarter, any second quarter or any third quarter, a different figure in terms of cash, exactly because of the seasonality. I mean, we have a very strong sales in the last quarter in the industry and of course it leads to other possibilities to enhance it, but at the end of the day, I mean, we are always comparing the same periods and we have the cash generation in 12 months time as you know. Okay.

Also going to the third question about margin, it's important—at this stage we are giving to you a reference and a guidance regarding sales. This is a most important metric that we believe should be seen at this stage and that's the comments we can have for the moment. Quiroga, we'll make a complement on the question as well.

Germán Quiroga, *Co-Chief Executive Officer*

Okay, Vito, thank you. Thank you Jaime for the question. I agree of the position of Vito, we—despite the market more difficult from some months ago, but we have very good opportunity. Even in this moment, if you see the last year we have no—good year in Brazil and we have a very good results. We have opportunity in this moment of difficulty in Brazil to amplify our model—to use our model of price discount to increase volume. Okay. Vito said we need to compare this first quarter of 2014 to '15—with 2014 first quarter. If you compare, we have a good opportunity to grow but this guidance we provide to the market is our best view at the moment in terms of sales and we have opportunity to – with our model of price discount in my view we have opportunity in Brazil even in the moment. Okay?

Jaime Vazquez, *JP Morgan*

Yes. Another question is that the marketplace penetration in both countries only went up by about one point quarter-on-quarter, so versus September, and you need a faster rate, you know, like three times faster to get to your targets for the end of 2016. Is Q4 a quarter where for seasonality reasons, you know, the marketplace penetration doesn't go up as much as in other quarters or should we expect an acceleration in that? I mean, year-on-year increasing the penetration is very impressive but not so much the quarter-on-quarter. So if you comment on that that would be great. Thank you.

Emmanuel Grenier, *Co-Chief Executive Officer*

I will answer. Emmanuel speaking. In fact, we are confident and we are on track with the objectives we gave because in this quarter we had an acceleration at the end of the quarter during Christmas. We can see in the figures for the quarter we had an acceleration and that this acceleration is confirmed at the beginning of this year. So, we are confident with that.

Jaime Vazquez, *JP Morgan*

Okay, thank you.

Operator:

Thank you. Our next question comes from the line of Justin Post with Merrill Lynch. Please go ahead with your question.

Justin Post, *Merrill Lynch*

Yes, can you talk about gross margins in the quarter? I know you had a big marketplace lift. Why would were they so much flat year-over-year, and what your gross margin outlook is for next year? Thank you.

Vitor Fagá, *Group Chief Financial Officer and Investor Relations*

Okay, thank you for the question. We have a pretty stable gross margin quarter-over-quarter as you mentioned. But, in this sense, it's important to emphasize two things. First of all, we have in the fourth quarter a change in the trend of gross margin over the year. We have been experiencing the first nine months of the year a reduction in the gross margin compared to the same period of last year as a consequence of the implementation of a pricing strategy, a strong enhancement of our pricing strategy that lead to us to compete and to offer to our customers a very, very interesting value proposition in terms of price. So, it's a change in the trends. This is the first of all.

The second one, we used to follow this indicator internally and we manage the Company as well as gross margin excluding marketing expenses or post-marketing expenses. Why? Because it is seasonal margins and the seasonal marketing expenses in this sector are very related. That is a very clear signal from that and when we define overall the price strategy we consider them both indicators. If you see that and that's why we highlighted that in the presentation and also in our release, we can see an increase in the gross margin in a comparison—in a quarterly comparison. Okay. So, this is basically the view that we have in the fourth quarter, but I will let—and this also is linked to our strategy. I mean keep growing, gain market share but also enhancing and looking for high profitability.

Justin Post, *Merrill Lynch*

In your first quarter outlook, can you help us understand the exchange rate assumptions you have for the Brazil translation into the euro? Also, you know, will increase in marketplace or third party affect your sales growth at all in Q1 relative to Q4?

Vitor Fagá, *Group Chief Financial Officer and Investor Relations*

Okay. For the guidance it's—thank you for the question. It's important to highlight that. What is implicit in exchange rates is the current market projection for the Brazilian real to euro exchange rate, okay. This is the current market projection for the first Q of 2015, and it's slightly appreciation of the Brazilian real over the euro comparing to the same period of last year. Okay?

Emmanuel Grenier, *Co-Chief Executive Officer*

Justin, could you repeat your second question just to be sure that we answered a good question?

Justin Post, *Merrill Lynch*

Sure. You have a growing third party business so that in theory could affect your revenue growth rate. So, I'm just wondering if you have any kind of added inflection in third party business in your first quarter model. Or, is the percentage of third party about the same as Q4? How are you looking at that?

Emmanuel Grenier, *Co-Chief Executive Officer*

No, the—okay, thank you, it's clear. No, the third party business will go on increasing because this is our objective and this is the trend, it has been the trend for the last—in the last three years and it is not affecting the direct sales. Look, in France or in Brazil, we have nearly doubled the share of marketplace in the business, and at the same time in both countries we have gained market share. So, in 2015 it should be the same. So we are optimistic on the growth of the marketplace and we're optimistic on the growth of the direct sales.

Justin Post, *Merrill Lynch*

Thank you.

Germán Quiroga, *Co-Chief Executive Officer*

Also remember—sorry, Justin. Also remember we have a good opportunity to increase our share—our marketplace in our sales because we launched Pontofrio and Casasbahia and we have a very good results in the first days of this model in two brands. Okay? This year we have other opportunities of new players and we're very confident with this growth. Okay? Thank you.

Operator:

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

Stephen Ju, *Credit Suisse*

Hey, thank you for the question—thank you for taking the question. So Emmanuel and Germán, I'm just wondering if you can talk about the marketplace's commission rates for France and Brazil based on the reported disclosure? I'm not sure if I can figure out what the revenue contribution from the marketplace's businesses are and where the take rates are trending. Additionally, are you sensing any pressure on these rates from any of your regional competitors? Thank you.

Emmanuel Grenier, *Co-Chief Executive Officer*

No, the take rates are still the same. We didn't change the take rates. In France around 11% and there is no pressure on these take rates. Nor from Amazon nor from the other competitors, which is a key thing, so things didn't change and this is a good thing.

Germán Quiroga, *Co-Chief Executive Officer*

The same in Brazil.

Stephen Ju, *Credit Suisse*

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, *Deutsche Bank*

Thanks guys and congrats on being a public company and getting the first quarter out. I guess back to the 17% guidance for revenue in 1Q, can you just give us the breakdown of the expectation for growth between Brazil and France? Then Vito, I think you said that growth will start to accelerate beyond the first quarter. So, I guess given your comments on the macro, what do you see driving that re-acceleration? Then the second question is on the gross margin or the flow-through of profit for GMV. So, given that marketplace GMV continues to ramp up pretty significantly year-on-year in terms of penetration and that gross profit is basically flat year-on-year, can you talk about, is that from the aggressive pricing strategy or can you just give us a little bit more color on the GMV flow-through to gross profit? Thanks.

Vitor Fagá, *Group Chief Financial Officer and Investor Relations*

Okay, Ross, so regarding to the first question, we are not providing at this moment, I mean, the break down between two regions. We believe that with this guidance, we can have a view on where we are moving in the first Q, okay. Just to make very clear, we are not expecting—I'm not telling you that in the second or third quarter we are going to have an acceleration or a deceleration. At this stage we are just talking about the first quarter, okay. We can talk—we are not able to at this point talk about any evolution during the year, okay?

Emmanuel Grenier, *Co-Chief Executive Officer*

Okay, and about the second question, just to answer, the first thing is that there is a change of trend in the gross profit margin. It means that it was decreasing and it’s now stabilized and this is a good thing, and even increasing if you look at gross profit margin after our marketing expenses. This is the first thing. We are very confident—we're confident of the future to have gradually gross profit margin increasing because of the marketplace—the growth of the marketplace and because of the mix and because of one thing as well which are the improvement of our purchasing conditions because we are already negotiating on the worldwide level between France and Brazil which is very—a new thing this year with all the suppliers. So far, we negotiated offline, online in each country. We are going on with that, but we added new negotiations, worldwide negotiations online/online, France and Brazil. We didn't change our pricing strategy. We are the leader, we are the price leader, we will be the price leader, but we are satisfied now with the current pricing gap we have established relative to our competitor. So, you'll see this gap is stable and we don't need to invest more in pricing.

Ross Sandler, *Deutsche Bank*

Okay. Thank you guys.

Operator:

Thank you. Our next question comes from the line of Fabienne Caron with Kepler. Please go ahead with your question.

Fabienne Caron, *Kepler*

Hi everyone. I've got two question. To come back, Emmanuel, on the gross margin, I agree that there was a change in trend but if we look year-on-year and we put in parallel the increasing gross margins with the weight of the marketplace, still I think, I would personally have expected your gross margin to increase more, all the more that you said you negotiated now at the group level. So, why is your gross margin not increasing more than 16 basis points? Is it because you are more aggressive on your own platform? The second question would be still on the 17% for EBIT. Given the strong move of the real so far, is it fair to say that you're going for 12% at constant exchange rate? Have you changed because you've changed your view on Brazil and you're very cautious? Have you changed your view on France as well or is your budget on France still as before? Thank you.

Emmanuel Grenier, *Co-Chief Executive Officer*

Okay, for the first question, two things. We started now to negotiate at worldwide level online Brazil for France but we didn't do it last quarter.

Fabienne Caron, *Kepler*

Okay.

Emmanuel Grenier, *Co-Chief Executive Officer*

Because the negotiations are taking place now in the beginning of this year. So, this is not included in the gross profit margin of the Q4. The second thing is that we didn't increase our GAAP and we didn't increase on prices and we didn't need—we did not increase our GAAP as is the competition in Q4, Brazil and France. But the GAAP remain the same. The only thing is Q4 is always a very special period with Christmas. With very big impact of toys and video games, with low margins, the growth of these categories was very high in France and in Brazil. That has some impact on the gross margin, but there is no change on the pricing strategy.

Fabienne Caron, *Kepler*

Yes. Okay, thank you.

Vitor Fagá, *Group Chief Financial Officer and Investor Relations*

Fabienne, on the guidance question, as I mentioned before we are at this stage giving to you this 17% as a consolidated. We are not giving any additional detail on by country today, okay. As—you're right, I mean, regarding addition to exchange rate compared to the fourth quarter of the previous year, of 2014, but we are considering that guidance the current exchange rate forecast. Okay?

Fabienne Caron, *Kepler*

Okay, but assuming it's 12% at constant rate is a fair assumption, is it, given the 10% move in the real and it's half of your sales?

Vitor Fagá, *Group Chief Financial Officer and Investor Relations*

(Inaudible), could you comment on your number? I mean—but we can talk later about this.

Fabienne Caron, *Kepler*

Okay, but you don't want to share with us because the 17% how would this be at constant rate?

Vitor Fagá, *Group Chief Financial Officer and Investor Relations*

Look, the 17%, consider the current projection of the currency, okay, we cannot give more detail at this stage.

Fabienne Caron, *Kepler*

Okay, thank you.

Vitor Fagá, *Group Chief Financial Officer and Investor Relations*

Okay, thank you.

Operator:

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

Emmanuel Grenier, *Co-Chief Executive Officer*

Okay. Thank you for joining the call. It was a pleasure. It was the first call for Cnova for the first quarter—fourth quarter result but the first result as well. So, next time in three months time on the next call. Thank you very much.

Germán Quiroga, *Co-Chief Executive Officer*

Thank you guys.

Operator:

Thank you. Ladies and gentlemen, this now concludes today's teleconference. You may now disconnect your lines at this time. Thank you for your participation and have a wonderful day.