Cnova N.V.

First Quarter Fiscal Year 2015 Financial Results Conference Call

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CORPORATE PARTICIPANTS

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Edward Hill-Wood, *Morgan Stanley*

Justin Post, *Bank of America Merrill Lynch*

Richard Cathcart, *HSBC*

Arnaud Joly, *Societe Generale*

Ross Sandler, *Deutsche Bank*

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PRESENTATION

Operator:

Greetings and welcome to the Cnova First 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. Stephane Brunel, Deputy Group CFO. Thank you, Br. Brunel, you may begin.

Stephane Brunel:

Thank you and welcome to Cnova's First Quarter 2015 Earnings Conference Call. On the call today are Cnova's Co-Chief Executive Officer, Emmanuel Grenier; Group Chief Financial Officer, Vitor Faga; and myself, Stephane Brunel, Deputy Group Chief financial Officer and Cdiscount's Chief Financial Officer.

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 we begin, we would like to remind everyone that prepared remarks 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.

With that, I would like now to turn the call over to Emmanuel Grenier, Co-CEO of Cnova. Emmanuel, you may begin.

Emmanuel Grenier:

Hello everyone. I'm very pleased to be here today with the Team to present Cnova's first quarter results.

During the first quarter, we have pursued a strong growth strategy and invested to fuel our future growth. Stephane Brunel, our Deputy CFO, will give our prepared remarks, after which I will comment on our outlook for the remainder of the year.

Stephane Brunel:

Thank you, Emmanuel. Let's start with a summary of Cnova's key financial highlights. Cnova achieved strong top-line results in the first quarter of 2015. During the quarter, GMV grew 28.2%, to €1.2 billion, representing ongoing momentum compared to 2014 GMV growth of 26.6%. Net sales grew 17.8%, to €915 million.

We were able to increase gross margin excluding new countries by 18-basis points, with a significant increase in gross margin at Cdiscount. In this first quarter, we made the strategic decision to increase investments in logistics and IT, to support the Company's future growth, which has an impact on our operating expenses.

These investments will strengthen Cnova's IT and logistic capabilities, in order to allow for faster deliveries and product availability, provide customers with more convenient delivery options with the accelerated roll out of our click-and-collect network, and rapidly develop our specialty sites, and expand out footprint into new countries. We are confident in our customer strategy and believe these initiatives will drive further market share gains, while allowing us to achieve higher levels of efficiency across our business.

Additionally, during the quarter, we were able to effectively manage and lower our net financial expense. As a result, Cnova reported an adjusted net loss of $0.06 per share in the first quarter of 2015 compared to a net loss of $0.04 per share in the first quarter of 2014. Over the last 12 months, Cnova has generated solid free cash flow of €28 million versus negative €47 million in first Q '14, representing an improvement of €92 million on the constant currency basis, and placing us in a sound financial position, with €71 million in net cash at the end of the first quarter.

Now, I would like to walk you through Cnova's key sales drivers. Cnova reported strong growth in both net sales, with an increase of 17.8%, and GMV, with an increase of 28.2% during the quarter. This is driven by net sales growth of 16.4% at Cdiscount and 18.3% in local currency at Cnova Brazil.

During the first quarter, Cdiscount and Cnova Brazil both accelerated growth in marketplace with a GMV increase of 28.5% at Cdiscount, while Cnova Brazil achieved GMV growth of 27.9%. The strength of our GMV can be seen in the continued growth of our active customers.

In the first quarter, active customers reached 14.8 million compared to 11.6 million in the same period last year. The successful launches of Brazilian marketplaces casasbahia.com.br, pontofrio.com, and cdiscount.com.br generate help to fuel the growth of our marketplaces.

Total marketplace GMV increased by 132% year-over-year and marketplace penetration grew to 15.4% from 8.5% in the first quarter of 2014. In just one quarter, Cnova raised its marketplace sellers by 23.6%, to 8,650 more than double the number of sellers Cnova had last year, and our total product offerings across all Cnova sites reached 16 million, an increase of 88% year-over-year.

Cnova's success in attracting marketplace sellers is driven by the Company's high traffic, with 436 million customer visits in the first quarter alone, flexible customer financing options, and fulfillment and delivery capabilities through its Click-and-Connect network.

The Company's strong top-line dynamics are sustained by improving quality of main commercial indicators. In the first quarter, the number of orders per unique customer increased by 11.9% at Cdiscount, and 5.4% at Cnova Brazil, and collectively the average items per unique customer increased by 4.2%. We think these indicators are key. Cnova's pricing strategy and the expansion of its product offering, combined with the speed and convenience of our delivery options, have increased the purchases we can see among customers, while also driving higher units for its customers.

The first quarter or so marked progress in our mobile initiatives. Cnova's traffic from mobile devices represented 45% of the traffic in France and 25% in Brazil compared to 31% and 15%, respectively, in the same period last year. In that respect, we have recently implemented additional functionability to both our customer and marketplace seller's mobile experience, including responsive design software, which optimizes the display of content on mobile devices.

We believe our investments in mobile are driving increments of sales and will allow us to continue to capitalize of the rapid growth of m-commerce.

Now, I would like to comment on Cnova's gross margin. Consolidated gross margin in the first quarter improved by 18-basis points, year-over-year, excluding new countries, driven by contributions from marketplaces and stable pricing in France since the end of the first quarter of 2014, and in Brazil since the end of the third quarter of 2014. At Cdiscount during the first quarter, the growth of marketplace combined with our stable pricing, allowed us to drive significant gross margin expansion.

Price leadership is on the core of our customer strategy. At the beginning of 2014, we decided to implement price cuts in order to widen the price gap relative to our competitors, across the majority of all our core products. In France, this strategy was fully implemented at the end of the first quarter of 2014; while in Brazil price adjustments were not fully rolled out until the end of the third quarter of 2104.

The timing of the roll out in Brazil contributed to the change in the gross margin in the first quarter of 2015. To be clear, in Brazil, no incremental price investments were made during the first quarter. Since the roll out of the new pricing strategy in 2014, both Cdiscount and Cnova Brazil have been able to maintain a clear price gap in the market. This drives our confidence that we'll be able to maintain stable pricing, going-forward. We're also well on track to deliver additional purchasing synergies driven by further integration of our Cdiscount and Cnova Brazil's operations. We expect to realize these benefits in the second half of 2015.

Looking ahead, we anticipate the gradual improvement of gross margin through the end of the year, as Cdiscount's French gross margin remains strong and Brazilian price comparison ease through the end of the third quarter.

Moving on, I would like to provide additional details on our key investments, particularly as they relate to strengthening our logistics and price future. In the first quarter, Cnova grew storage capacity by 35% in France, through the opening of our warehouse in the Paris area, and the expansion of our Lyon distribution center. These actions will enable express pick-up and expand delivery in Paris and Lyon for heavy products, as well as support for expanded product assortment. By year-end, Cdiscount will add an additional warehouse in Paris and we expect total capacity in France to increase by 53% or 121,000 square meters compared to the end of 2014.

In Brazil, during the first quarter, Cnova Brazil centralized shipments of light products from two distribution centers into a single Via Varejo warehouse in Jundiai, which added an additional 38,000 square meters of storage capacity. By year-end, Cnova will open three new distribution centers in the Midwest, Southern and Northeast regions increasing storage capacity by 23% compared to the end of 2014. These investments will increase product availability and reduce delivery times by three days. This will not only benefit our customers, but will drive incremental lower transportation costs.

Moving on to our Click-and-Collect network. Our Click-and-Collect program offers our customers greater convenience for faster, convenient, and free-of-charge delivery options. This program leverages our parents' global store network, providing our customers the ability to receive their orders quickly, at a nearby pick-up point at not fee, including the orders of large items.

In the first quarter, orders delivered through Click-and-Collect represented close to 70% of our net sales in France, reflecting the success of this offer. During the quarter, we continued to accelerate the roll out of the network. In France, we expanded to 19,100 pick-up points versus 17,300 at the end of the first quarter 2014. Within this network, we added 34% more pick-up points for large items, to a total of 593 compared to the same period last year, and over the next several quarters we'll continue to increase the number of delivery points for large items.

We have also expanded the Click-and-Collect network in Brazil, where we have doubled the amount of pick-up points to 210, including for immediate availability compared to the end of the fourth quarter 2014. Immediate availability which allows customers to pick-up their products as soon as their order is placed is currently being tested in select Casa Bahia and Ponto Frio stores. Expansion of Click-and-Collect will not only provide further convenience to our customers, but also allow us to realize additional cost savings on delivery.

Additional investments have also been made in IT in both France and Brazil. During the first quarter in France, Cdiscount implemented a new warehouse management system called Manhattan, enabling same-day delivery to customers. A new customer's search engine, Solr, improving customer navigation tools and new software, which automatically optimizes the display of online content to any mobile device using the responsive design, and then the option for sellers to use one single registration for multiple marketplace sites.

In Brazil, we have also accelerated new system conversions including the transition to new Infor ERP system, a warehouse management and customer service system, as well as the launch of a new recommendation tool. Collectively, these IT and logistics investments further enhance our customer's shopping experience, enabling higher product availability, reduced delivery times, and improved customer service.

Let's turn to Slide 10 now. In the first quarter, total operating expenses as a percentage of net sales, excluding new countries increased by 175-basis points, to 15.1% versus the same period last year. It's worth highlighting that given the increase in marketplace penetration over the last several quarters, GMV is and will continue to grow faster than net sales, therefore, it's important to also consider operating expenses as a percentage of GMV, excluding new countries which increased by 14-basis points to 11% in the first quarter.

While Cnova's strong GMV growth during the quarter drive higher valuable fulfillment and SG&A costs, such as credit card and customer service fees, the majority of the increase in operating expenses reflects the accelerated investments to support our future growth, and enhance our customer experience. The Company's initiatives to strengthen logistics, IT, and infrastructure grew 95-basis points in higher fulfillment expense, and 53-basis points in higher technology and content expense, as a percentage of net sales.

Cnova's marketing expenses remain flat, as a percentage of net sales, as selective investments and customer acquisition in Brazil were offset by a decline in marketing costs at Cdiscount. Lastly, Cnova's general, administrative costs increased by 30-basis points, driven by holding costs, including costs associated with the creation of Cnova as an independent and public Company, as well as costs related to the expansion of our international operations.

As increased efficiencies from these strategic investments take place, we expect SG&A as a percentage of net sales, compared to the same period last year, to improve in the second half of 2015, with a moderate reduction in the fourth quarter.

Now, let's turn to another element of our growth strategy, which is our fast growing development in new countries. During the first quarter, we launched operations in Panama, bringing our global footprint to a total of 11 countries, increasing our addressable market to 550 million people. This was followed by the launch in Burkina Faso, in Africa earlier this month. We see tremendous long-term opportunities to grow scale as e-commerce mobile adoption rates rapidly increase and GDP growth in these markets is in the mid- to high-single digits.

We have grown our international footprint with minimum capital expenditures. This is based on the number of sustainable factors, including leveraging the physical infrastructure and purchasing power of our brand and strong local partners such as Bolloré in Africa.

Many of our early launches in 2014 are reaching important milestones. For example, Columbia's mobile penetration reached 32% of GMV, while Click-and-Collect accounted for 46% of sales in the first quarter. The same is true for South East Asia, where we are enjoying excellent growth and seeing meaningful progress. In Thailand, we have developed 463 pick-up points through our Big C retail network, allowing us to expand same-day delivery to 15% of orders in the first quarter.

We are also pleased by the ongoing development of our operations in Africa. In the Ivory Coast, we achieved 37% growth in sales in the first quarter versus the first quarter of 2014, benefitting from our expanded delivery area. We'll continue to build on our success in these markets and we plan to expand our international footprint with launches in an additional eight new countries by year-end. These will be partly driven by the expansion of our delivery areas in new countries from existing sites in Europe and Africa.

We would like to provide further detail regarding the improvement we experienced in net financial expense, which declined 64%, to €5.4 million in the first quarter compared to €15 million in the same period last year. Excluding the impact of non-recurring accrued interest related to tax credits of €7.1 million, net financial expense declined 17%, to €12.5 million. This was the result of a stronger balance sheet with an improvement of €206 million in Cnova's net cash position over the last 12-months, and the reduction in the average number of installments offered to customers financing their purchases in Brazil, from 9.2 average installment in the first quarter of 2014, to 7.7 average installments in the first quarter of 2015.

In summary, Cnova's adjusted EPS reflects the impact of the accelerated investments we have just outlined. Cnova reported an adjusted net loss of €25.1 million, or $0.06 per share in the first quarter of 2015 compared to an adjusted net loss of €18.3 million, or $0.04 per share in the first quarter of 2014.

Turning to our free cash flow. As previously discussed, Cnova's financial position remains strong, with the first quarter net cash of €71 million and an increase of €206 million year-over-year. Cnova's last 12-months free cash flow of €28 million increased by 75 million compared to one year ago, and on a constant currency basis, actually increased by 92 million, benefitting from structurally negative working capital.

In fact, working capital improved by 17-days, the number of days of sales while we maintained low cap ex levels. Cnova's cap ex in the first quarter of 2015, was €22 million, representing 2.4% of net sales.

Now, I would like to turn the call over to Emmanuel Grenier, to conclude with the Company's outlook and guidance.

Emmanuel Grenier:

Looking ahead, Cnova will continue to focus on delivering strong top-line growth while gradually improving profitability in France and Brazil. To this end, we will continue the fast development of our marketplaces, leveraging Cnova's traffic and direct sales. We'll continue to leverage our low-cost business model to maintain our attractive price positioning. We will reinforce Cnova's competitive advantages, including the Click-and-Collect network and strong e-commerce position.

We will continue to broaden product assortment, particularly in the higher margin home products category. We will accelerate the development of specialty sites with four new sites to be launched in the second quarter. We will expand the international footprint, in eight new countries by year-end 2015 and we'll continue to generate strong free cash flow through effective working capital management.

Turning to the last slide, we will provide guidance for net sales. Over the next three quarters of 2015, we will expect Cnova net sales to increase by 19% compared to the same period of 2014, plus or minus 100-basis points on a constant currency basis. Based on the improving quality of Cnova's main business drivers, and strategic investments, our guidance reflects our confidence in our business model.

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

Operator:

Thank you. 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 now. 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, while we poll for questions.

Our first question comes from the line of Edward Hill-Wood with Morgan Stanley. Please go ahead with your question.

Edward Hill-Wood:

Yes, good afternoon. I've got a couple of questions, please. Firstly, on the revenue guidance, 19% over the next three quarters. Could you just clarify if you expect a sequential improvement through the second half of the year, i.e. the second half to grow faster than the first period? My question really is trying to ascertain whether or not—in your guidance implies the second quarter would be running at a lower growth rate than the overall guidance.

Secondly, on the SG&A investment, could you just explain why this investment and the scale of it wasn't flagged out a little bit earlier? Maybe, on the last call? It seems that, the scale of this investment is a little bit surprising, given that even though it was mentioned, it wasn't—it has come relatively quickly and I was just wondering if you could give us an idea of when you started to make investments? Maybe, whether or not this could have been flagged a little bit earlier?

Finally, just on gross margins, are you surprised that gross margins haven't improved a little bit quicker in France and Brazil, given the improvement or the increase in marketplace revenue mix? Could you just see if there's any offsetting factors of that? Thank you.

Emmanuel Grenier:

Okay, thank you. Emmanuel Grenier speaking. I will take the first one and Stephane will take the two other ones Edward. About the guidance, you have seen that on the Q1, we have delivered 17.8% growth and for the next three quarters we expect 19%, so an acceleration between Q1 and the next three quarters because we are very confident in the business model we are developing. You know this business model we have leadership in price in all countries and in meaningful gap with all the competitors and a lot of the new things coming during the year with improved customer experience on the sites, already you can see that already on the sites. And the development of the logistics and of Click-and-Collect to deliver faster all the customers. So, 19% for the next three quarters, but we don't disclose the information for quarter-by-quarter. We're confident with this guidance for the next three quarters and just can tell you that April is at the same pace of March, so far.

Stephane Brunel:

How are you doing? Stephane Brunel. Coming back to your two questions. The first one regarding SG&A investments, I think that, you know, we can say that we have disclosed all these plans in the 20-F, as well as in the F-1. For instance, possibly with regards to logistics, if you go to the relevant sections, you will see details. The point is just that on the back of improving quality of key commercial indicators, we decided it was the right time to accelerate the ramp up of our logistics infrastructure and we decided to accelerate. That was the case both in Jundiai with 62,000 square meter new warehouse shared with Via Varejo, as well as in St. Mard which is a 48,000 square meter new warehouse.

Obviously, the utilization rate of both of these warehouses were partial in the first, in the first quarter roughly 30% in Jundiai, for instance, and around 35% for St. Mard. So, the decision has an impact on our costs. We feel that, you know, as we explained in the press release the markets and customers expect from us to increase—to improve for instance, delivery time. So, we get prepared for same-day delivery in Paris and Lyon for heavy products and we reduced delivery times in Brazil by 3-days.

Last question on gross margin in France? We don't disclose gross margin figures for key countries, as you know. But as you asked specifically, French gross margin in Q1 of '15 has increased by more than 100-basis points compared to the first quarter of 2014. So, first Q reserves show and prove the significant margin improvement in France, while the price comparison, you know, is easier as we know—our price cuts and that last year, at the end of first Q '14.

Edward Hill-Wood:

So, thank you very much for that. That's very helpful. Maybe I could just follow-up on that last point. So, just to be clear, since the price you—you passed the anniversary of the end of the price cuts in France, you say a 100-basis point improvement in gross margin. You're expecting Brazil to lap the similar time period in the third quarter. Without giving specific guidance, would you anticipate the impact of that anniversary being similar in scale in Brazil as it has been in France, in the second half of the year?

Emmanuel Grenier:

For the next nine months, we believe France's gross margin will continue to remain strong and Cnova Brazil's margin will improve as price comparison eases. Globally, we expect Cnova's gross margin to increase by around 100-basis points excluding new countries, in the fourth quarter of 2015 compared to the fourth quarter of 2014.

Edward Hill-Wood:

Okay, that's very helpful. Thank you very much.

Operator:

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

Justin Post:

First, a couple of housekeeping. What was the constant currency revenue growth in the first quarter? I guess, what drove the financial expense down and did that impact sales at all? Thanks.

Emmanuel Grenier:

So, for constant currency growth in the first quarter for Brazil was plus 18.3% in net sales.

Justin Post:

Yes. I was asking for the whole Company? Is it—pretty similar to what you reported then, is that right?

Emmanuel Grenier:

The foreign exchange impact is relatively limited in the first quarter.

Justin Post:

Got it, okay, and then the financial expense?

Vitor Faga:

The financial expense—it's Vitor speaking. The financial expenses are reduced to 17.1% excluding the one-time effect that's been already described. It is a consequence of basically two things, one; the fact that we have a strong balance sheet compared with first quarter of this year, with the same period of the previous year. The net cash position of the Company is €200 million higher or better, and the second is the fact is—this fact that we have been to reduce the average number of installments in Cnova Brazil from 9.2 on average, in the first quarter of '14, to 7.7 number of installments in the first quarter of '15. So, the combination of these two elements that led us to reduce the net financial expenses of the Company, excluding the positive nonrecurring events.

Justin Post:

Got it, and then, on the new countries in addition to France and Brazil, how impactful will they be to your growth rate in the second half of the year? Are they going to be that meaningful on the revenue side?

Emmanuel Grenier:

Emmanuel speaking. We are happy with the development of new countries, everywhere we are aligned to the budget, especially in South East Asia with Vietnam and Thailand, where we are above our budget and the two countries are very, very, very dynamic. But, you know, it's not meaningful so far because we started one-year ago. So, even if it's going fast, it doesn't weigh a lot in the growth of the company. So, is it clear?

Justin Post:

Got it. Yes, that's clear, and then the last one. You know, you mentioned the fulfillment deleverage and the tech deleverage. Could you just tell us—I think you mentioned it on the prepared remarks, but what's going to turn that from kind of delivering to starting to see leverage on those lines?

Stephane Brunel:

You know on the fulfillment, you know, perhaps back to your—the previous question, obviously right now the utilization rate of the new warehouses, both in Brazil and France were around in the first quarter, around 30% to 35%, and based on those projections from net sales and net sales growth, the Company grew. We expect the utilization rates of these warehouses to improve a lot in the coming quarters.

Justin Post:

Got it.

Stephane Brunel:

So fulfillment cost as a percentage of net sales, we expect them to reduce.

Justin Post:

Great, thank you.

Operator:

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

Richard Cathcart:

Hi, all, good morning. So, can I just go back to the gross margin? So you mentioned in France, that the gross margin was up more than a 100-basis points year-on-year in the first quarter. Could you just—I presume that means the gross margin in Brazil was probably down around a 100-basis points. Can you just confirm that?

Secondly, you also said that there's no incremental price investment going into Brazil. But, given that the gross margin's falling, can you just explain exactly what that means? Then finally, on the gross margin in

France, can you just kind of give us a better idea of what is driving that up a 100-basis points? Is it the product mix? Is it more marketplace? That's it for now, thanks.

Stephane Brunel:

Perhaps I take the first two questions and I let Emmanuel answer the third one. With respect to your first question, yes, we said that although we don't disclose gross margin by countries, we said that French gross margin improved by more than 100-basis points in the first quarter of 2015 compared to first quarter of 2014. The reason around the decrease of gross margin in Brazil is clear, is that as you know, last year we cut prices in both countries in order to widen the price gap with our key competitors, and the roll out of this pricing strategy, that in Brazil, at the end of the third quarter of 2014. So, of course, you have price compression in the first Q of '15 compared to first Q of '14, which is a little bit more difficult, but as these timing effects of the price cuts in Brazil of last year ease, through the end of the third quarter, we'll expect Brazilian margins to be on an easier comp.

So, the decline in Brazil, to be very clear, in first Q '15 compared to first Q '14 has nothing to do with additional price investments. No incremental price investments were made since the end of the third quarter of 2014. Just to a comparison basis with last year.

Emmanuel Grenier

Emmanuel speaking. About your last question about the improvement of the gross margin in France. This is due to the growth in the marketplace. The marketplace was very dynamic and as you know, we have now more than 14 million product offerings and more than 8,000 vendors on our marketplaces. The marketplace in France grew fast and it had an impact on the gross margin.

But, just to give you another view of the KPI, the commercial indicators of the Company. Just remember that the growth was 17.8 and the GMV was 28.2 for whole Cnova. So, we believe we are gaining market share, and thanks to our customers the number of orders per customer is growing fast: 11.9% in France and 5% in Brazil. It's all very dynamic (inaudible). So, high growth, growth is improving and gross margin's improving, especially in France, with the reason for Brazil that Stephane explained.

So, we are confident on sales and we are confident on the growth of the marketplace in those countries.

Richard Cathcart:

Okay, thanks, and then maybe just another follow-up. Vitor, I think that you said that the average number of installments in Brazil fell from 9.2 to 7.7. Is this a function of the market or is this a function of Cnova's policy? Do you think maybe this is kind of giving you slightly lower growth than say, the market leader perhaps?

Vitor Faga:

It's difficult to have a very precise answer on this question, but it's a combination of both. It's not possible to reduce the number of installments if the market is not moving the same direction. So, it's a combination of both, but for sure the market is moving as well in the same direction.

Richard Cathcart:

Then just the very final question, you mentioned that the new distribution network in Brazil should reduce your delivery times by three-days. Can you just tell us what the average delivery time should be once that reduction is in-place and whether you'll be capable of offering premium delivery services such as next day delivery?

Emmanuel Grenier:

Could you repeat the question, please?

Richard Cathcart:

Yes. Just in Brazil, you mentioned a new DC network should allow you to reduce the number of delivery days by three. So, kind of get to consumer's houses much more quickly. When that's in-place, what do you think the average delivery time will be? How many days?

Emmanuel Grenier:

So, it will take place during the month coming. So, everything will be implemented in the months coming. Now, you know that our delivery time in Sao Paulo and Rio are on the next day more or less because they are in a short distance to the customer. Now, if you look at all of Brazil, you can reach seven, eight, or nine days of delivery time. So, if you reduce by three days, out of seven or eight days, which is a lot to reduce, you reduce your delivering terms of 30% to 40%. This is due to the fact that we can leverage GPA and Via Varejo DCs. This is not open to everybody. We opened three DC's with Via Varejo and GPA. So, these are low cost because we are sharing these DCs.

Richard Cathcart:

Okay, thanks very much.

Operator:

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

Arnaud Joly:

Yes, good afternoon everyone. This Arnaud Joly from Soc Gen. I've been disconnected, so sorry if you have already answered this question. I would like to better understand your guidance and when I compare the guidance you've just provided, you know, compared to what was delivered in Q1 (inaudible).

Emmanuel Grenier:

Arnaud, we're sorry, but I think that we have problems with the lines and we couldn't hear you. Could you repeat the question?

Arnaud Joly:

Yes. I said, can you (inaudible).

Emmanuel Grenier:

(Inaudible).

Arnaud Joly:

I'm sorry, I will—I will send you an e-mail, it will be easier.

Emmanuel Grenier:

It's okay, now it's okay. Now it's okay.

Arnaud Joly:

It's okay?

Emmanuel Grenier:

Yes.

Arnaud Joly:

Yes, I just wanted to better understand you guidance, you know, the 19% compared to what was delivered in Q1. So, my question was do you consider that you reached a low point in Q1 in Brazil, and generally speaking, are you (inaudible) in this country in the coming quarters?

Emmanuel Grenier:

I'm not sure I understood everything, I took everything, but I have the beginning of the question and we can go on by e-mail after the call. In fact, under this 19% we expect to grow fast in Brazil and in France and look at Brazil, in Q1 we delivered 18.3% of growth, but remember last year in Q1 it was (inaudible). So, in two years we grew by more than 75% and so we think that we expect to be dynamic in Brazil and we were dynamic in France, in this Q1, as well. We expect to be dynamic in France as well. So we'll be dynamic in both countries. Because of the business model.

Arnaud Joly:

But (inaudible).

Emmanuel Grenier:

Yes?

Arnaud Joly:

Was Q1 the low point in your view in Brazil?

Emmanuel Grenier:

I didn't hear. I didn't hear, sorry.

Arnaud Joly:

Sorry. I will send you an e-mail, it will be easier.

Emmanuel Grenier:

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:

Okay. Thanks guys. Just had a follow-up on the gross margin question. So, if you look at the percent of GMV coming from marketplace, I think it was like 9% a year ago, now it's about 16% for the overall Company, most of that being in France. Just wanted to circle back a little bit more on what's going on within the one PE gross margin? Do you feel, I know that you're lapping periods where you've done price cuts years ago, even throughout last year, but is it mix that's driving down the gross profit margin within product categories? Just a little bit of clarity would help there, given that the overall gross profit to GMV was down like 80-basis points while marketplace was ramping.

Then, I guess the second question is on GAAP operating profit margin was around negative 5%. I know there's one-time costs and then the country—the new country expansion going on, but if you look at just the GAAP operating profit margin, where do you expect that to be for full-year '15 and full-year '16, or just directionally, you know where can that margin go over time? Thanks.

Stephane Brunel:

Okay, so back to your first question regarding, you know, gross margin as a whole, and perhaps to start with the France. As you know in France, if we follow your purpose and market share has increased by 10 points from 14.8% in first quarter to 24.7% in the first quarter. So, that's the marketplace share as a total of GMV, i.e. around plus 10 points and of course, this is a key driver of the—above 100-basis points margin improvement in France. This is obviously the key driver.

When it comes to, you know, overall gross margin for the whole of the Company, as we explained in Brazil we implemented price cuts last year and at the end of the third quarter of 2014, and therefore, will have, you know, the price compression will ease through the end of the first quarter this year.

With respect to product mix, specifically, there is absolutely no negative product mix on, on the contrary. In the first quarter the higher margin home furnishing products experienced stronger growth. In France, for instance, it grew by above 20%, whether in furniture or do-it-yourself and in Brazil, it grew above 30% in the first quarter. So, we don't feel that there is a negative mix at all on the contrary.

Does this answer your question on margin?

Ross Sandler:

Yes. I guess I was confused because I thought the—you renegotiated a lot of the supplier deals in Brazil in October of 2013. So, I thought we would have lapped a lot of that already, but I guess we're lapping it at the end of this quarter, is that clear?

Vitor Faga:

Vitor. Just to clarify this point, we started the negotiations in October '13, but this is a process that takes several months to be totally, to be totally in-place. I mean, we started to negotiate that and it was gradually over several, several months.

Emmanuel Grenier:

Okay, next.

Operator:

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

Fabienne Caron:

Hi, good afternoon everyone. I've got three questions. The first one, could you help us with how much losses should we expect for the full-year for the new countries? If you could give us a range at the EBIIT level, it would be very useful because it's very difficult to forecast. The second question would be as your fee in percentage changed year-on-year in France, in Brazil already seen 11 to 12%, you used to talk in the past? The third question is what makes you very confident that your price position is final in France and Brazil and do you may not need to invest more, should the market get more competitive?

Stephane Brunel:

Okay. Thank you Fabienne, I think your first questions on the license for international countries. I think that it is important to emphasize that for us, these new regions represent an investment, as we believe they will contribute to growth strategy. Of course, you know, we think that as soon as the businesses in these countries will aggressively mature, we need less investment in them, and would gradually see improvement in their level of losses.

Second part of the question, which is regarding perhaps the expansion into new countries. As we said earlier, we'll, you know, expand into new countries, but partly through extension of delivery area from existing sites. Therefore, with first limited capital expenditures and secondly, limited level of operating expenses.

Emmanuel Grenier:

Emmanuel speaking. About the fees I think that, if I well understood it, was the fees of the marketplace, yes?

Fabienne Caron:

Yes, exactly.

Emmanuel Grenier:

Okay, great. So, the fees of the take-rate on the marketplace in France and Brazil did not move and there is no move in the market at all.

Fabienne Caron:

Okay.

Emmanuel Grenier:

So, there is no risk on that and now everything's doing okay. Now, the last question on the price positioning. We are, you know, we create this meaningful gap in France in Q1 last year. We finished to roll out—we had the roll out the new pricing strategy in Brazil at the end of Q3. So, we have in both countries, all the countries even international countries, the meaningful GAAP is the competition, and this is a clear gap. So far, we have not seen any sign of a potential enhanced price agressiveness on the market. We are not seeing anything. So, the …

Fabienne Caron:

Okay. Can you (inaudible)? Can you help us what is your meaningful gap in terms of prices? What is the gap where you feel really confident?

Emmanuel Grenier:

Now, as we already said during the IPO, and it started in France because France was mature and this time in terms of pricing. We were speaking about gap between 5% to 10% compared to the other competitors.

Fabienne Caron:

Okay, thanks a lot.

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.

Emmanuel Grenier:

Yes. So, thank you very much for the second quarter for Cnova, (inaudible). In summary, we are confident to grow the top-line at a fast pace, as you have seen, and we are confident we'll grow the gross margin in the coming months. Thank you very much to be here.

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.