Cnova N.V.

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CORPORATE PARTICIPANTS

Christopher Welton, *Investor Relations Officer*

Emmanuel Grenier, *Chief Executive Officer*

Vitor Fagá, *Group Chief Financial Officer*

Stéphane Brunel, *Deputy Group Chief Financial Officer and Chief Financial Officer for Cdiscount*

CONFERENCE CALL PARTICIPANTS

Arnaud Joly, *Société Générale*

Edward Hill-Wood, *Morgan Stanley*

Ross Sandler, *Deutsche Bank*

Irma Sgarz, *Goldman Sachs*

Fabienne Caron, *Kepler*

Pratik Dharamshi, *JPMorgan*

Stephen Ju, *Credit Suisse*

Franco Abelardo, *Morgan Stanley*

PRESENTATION

Operator:

Greetings and welcome to Cnova Fourth Quarter Fiscal Year 2015 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, Christopher Welton, Head of Investor Relations at Cnova. Thank you, you may begin.

Christopher Welton:

Thank you, Operator, and good day to everybody. Welcome to Cnova's fourth quarter and full year 2015 financial results conference call. You heard my name, I'm Chris Welton, Cnova IRO, and I will be your host on today's call. Joining me on the call today are Emmanuel Grenier, our CEO; Vitor Fagá, our Group CFO; and we also have Stéphane Brunel, who's our 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 from now.

The agenda for today's call is to go through the slides, highlighting key points, and then we'll open it up to the Q&A.

If you could go to the next slide, this contains our forward-looking disclaimer. I emphasize that this applies to the entire presentation and the related documentation, and I strongly encourage everyone to fully read the disclaimer now.

Here, we have an additional disclaimer, as you no doubt saw on earlier today we issued a press release. There was an update on the ongoing internal investigation in Brazil that we announced in December, we gave you an update in January; we're giving you a new update today. Several developments have come out; I'd like to highlight two things, if I may. First, the internal review is now in its third month, it's progressing well. It has allowed us to quickly identify and report the financial impact. Second, that financial impact is currently being booked in the fourth quarter of 2015. That amount will ultimately be spread across 2013, '14, and '15. So, for the time being, our 2014 20-F can no longer be relied upon for investment decisions.

Now, before we go over the slides, Emmanuel would like to provide you with some opening remarks. Emmanuel?

Emmanuel Grenier:

Yes, thank you Chris, and good day to everybody. Before we go over fourth quarter results and answer your questions, I wanted to address three subjects up front. First, Cdiscount is doing very well indeed, and we expect to get even better because, most importantly, we are gaining market share, we grabbed 1.3 points in Q4 so this is good for volume. Our home furnishing category continues to gain traction, this is good for margins, and above all, our Marketplace is growing quite well, this is also good for margins.

The second point I want to raise is we are putting the Brazil review behind us. We have identified the problems, we have identified and put in place the solutions, and have taken actions so this does not happen again. Finally, third point, Cnova Brazil is in reset mode, operational improvements are already beginning to come online. Other than bringing on new management to put in place best practices, we are concentrating on the fundamentals. Reduced out-of-stock SKUs and reduced delivery delays: here we have already made good progress. Better managed commercial activity: I have put in place a dedicated team that is managing all levers on a 24/7 basis: pricing, shipping, consumer credit. Increased flow of traffic to our sites, primarily through SEO; and finally, cut costs.

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

Christopher Welton:

Thank you Emmanuel. So, here you can see how we separated our presentation. We've got four sections. First, we'll take a look at the key indicators for the quarter, and then Vitor and I, will go over in more detail the financial performance of the Group. After that, Stéphane will go over where we stand on the internal review in Brazil, and finally, Emmanuel will give you an update on what is going on in France and Brazil.

So, here on this key indicators slide, we've highlighted what we wanted to point out that we thought was most important to point out upfront. So, GMV was €1.3 billion, the market share of GMV went from 13.5% to 24.3% in the space of one-year, total net sales were €900 million, with a gross margin of 11.3%. And finally, free cash flow of minus €70 million was essentially equal to our capex of €75 million, which means that our working capital management completely offset our total operating loss.

GMV growth breakdown. From an operational standpoint, it was up 4.9%. As Emmanuel said, Cdiscount GMV did very well. Fourth quarter GMV in France was up 14%, while in Brazil it was down 5%. We also, of course, beyond the operational metrics, had the impact from FX, and the one-off charge is coming from the Brazilian internal review.

If we now look at our Marketplace, our efforts continued to bear fruit, but we're not stopping there. At Cdiscount France, we are working on increasing the number of vendors and on offering fulfillment services. Cnova Brazil added more than 500 vendors in the fourth quarter and they're on a good rate this quarter, as well. If we now look very quickly at traffic, we can see it's up 16% year-on-year, and we have grown our active customer-base by more than 10% to nearly 15 million customers. Our customer loyalty programs are driving traffic and sales growth at the same time.

Now, if we go to the next slide, here we can see quite well that France is doing well, it's doing very well, and unfortunately, Brazil needs to improve, but Emmanuel's taking care of that. Placed orders were up 8% in France, while the number of items sold was up 15%, at Brazil these were down 2% and 18%, respectively.

Now, if we go onto the next set of slides, let's look at some key figures. This gives us a broad view on this slide of the P&L and the cash flow; let's look at each of these in detail as we go forward. So, on the next slide, Net Sales. From operations, they were almost unchanged during the quarter, so minus 2.8%. This combines a very good performance coming out of Cdiscount, which was more than—up more than 9% last quarter, and so far this quarter we're up more than 13%. So, things are going quite well in France. We also got good news from GFK showing that our market share in the fourth quarter grew by 130 basis points. Like-for-like sales in Brazil were down 14%, but perhaps the silver lining here is that there are a number of self-help initiatives that Emmanuel will talk about in a bit more detail later on.

If we now look quickly at the gross margin, on this slide, we can see that the operational gross margin that is excluding accounting adjustments was 11.3%. The operational gross margin at Cdiscount France was up 12.4%, was up to 12.4%. That's an improvement of 30 basis points year-on-year. The gross margin was positively impacted by the growing Marketplace activity, as well as a shift in products towards the higher margin Home Furnishing SKUs. In Brazil, the gross margin was 9.5%. The takeaway here is now that we have two potential upsides in Brazil; one is self-help in the near-term, and the other is an improved macro picture as some point.

If we look at SG&A as a percentage of sales, this came in at 15.5%. This included fulfillment costs at Cdiscount France, tied to the launch of same-day and next-day delivery services. While at Cnova Brazil, SG&A included marketing expenses to help offset the slowdown in consumer demand, and IT costs associated with ERP software development.

Now, looking at operating EBIT, for the quarter it was minus €98 million. This included one-off charges of minus €48 million, related to Brazil, mostly to Brazil, but there was also a change in our inventory valuation method. If you exclude these, operating EBIT at Cdiscount France was plus €7 million, it was minus €34 million at Cnova Brazil, and there was also included in the Group a €5 million provision for costs of conducting the internal review in Brazil.

Now, Vitor will take us through financial expense and cash flow.

Vitor Fagá:

Thank you, Chris. So, despite the higher interest rate in Brazil, our financial expenses were pretty stable. It's important to highlight that this includes costs associated with renegotiation of banking contracts in France, also the Real to Euro exchange rate impact, as well as payment terms optimization, and income from cash management.

Turning now to the full year free cash flow, the total operating loss was €157 million, more than offset by working capital management in the amount of €163 million. As a result, as Chris already mentioned, the free cash flow was minus €69 million, and is more or less equivalent to our capex of €75 million.

So, now I am going to turn the floor over to Stéphane who will take you through details of the internal review that is going on in Brazil.

Stéphane Brunel:

Thank you, Vitor. So, I am going to provide a bit more color on issues that we have been dealing with in Brazil, and I do apologize in advance, but I'm going to spend a little time on this, as it is a very important subject.

I would also like to point out that we issued a press release on this subject this morning, which provides quite a bit of information on the review. I would encourage all listeners to refer to that. So, last year our CFO at Cnova Brazil, who joined the Company in April 2015, had some suspicions regarding accounting entry requests coming from a DC. He started an internal inquiry and came to the conclusion that there could be problems with inventory management at the DCs and that misconduct might be involved. As a result, Cnova's Board decided to hire external consultants to look into this matter, and as of today, this is where we stand.

First, due to Cnova Brazil's customer service policy, replacement deliveries were often counted as a temporary second sales that were to be backed out once the product from the original delivery was returned. According to the internal review, many of these second sales were never reversed. This resulted in an overstatement of net sales.

Second, there was a complete inventory count at the end of 2015 and the first week of 2016. The results of that showed two things. First, there was no material anomaly with respect to more than 90% of total inventory. For the remainder, however, there were differences in the returned goods inventory between the actual value and what was listed in the Company's books.

Third, during the review, it appears that former Cnova Brazil employees intentionally made incorrect bookkeeping entries that led to inaccurate accounting reports. This had two consequences; first, certain accounts in the books, mostly related to accounts payable, were understated. Second, incorrect accounting reports were used to prepare prior period related financial statements, and even though the amount of these misstatements may not seem very significant, the fact that they were done on purpose will require financial restatement.

So, as Chris said at the beginning, we have estimated the total loss, and put that in the fourth quarter 2015 unaudited accounts for now. That amount will be split out among 2013, 2014, and 2015 when we file our 2015 Annual Report.

Now, I will turn over the call to Emmanuel who will finish the presentation, and then we will take your questions.

Emmanuel Grenier:

Thank you, Stéphane. So, why an action plan in Brazil? Just look at the operational performance in the fourth quarter. This is clearly not satisfactory, and since I took up my role as Group CEO, I have spent time in Brazil and now have a very good understanding of the challenges that we face. I know what we need to do to put Cnova Brazil back on track. We need to do four things.

One, improve delivery time. Our customers don't care how low our prices are if they have to wait too long to get what they ordered. As a result, we already have eliminated delivery delays. Two, our customers cannot buy what we don't have. Cnova Brazil's out-of-stock SKUs were way beyond the industry norm.

Here we clearly have some low-hanging fruit in terms of improving commercial performance; out-of-stock situation is already improving. Three, we have to act fast. We now have a dedicated team that is following and moving sales and margin every hour, 24/7. And four, SEO, SEO, SEO; we're going to increase the flow of free traffic to our Cnova Brazil websites by transferring Cdiscount SEO excellence.

So, at Cdiscount, we are concentrating on four things. First, CDAV; remember these four letters C-D-A-V. This is our customer loyalty program, Cdiscount à volonté and it's driving strong sales and traffic growth. Second, build on our lead in Home Furnishings. This is good for our margins. Third, improve our mobile website and app experience using AB testing. And fourth, fast track roll out of Marketplace fulfillment services.

At Cnova Brazil, it is not much different than what I mentioned earlier, improving stock availability and customer delivery. We take the lead in commercial activity, cut costs especially at the DCs, and grow the Marketplace faster.

So, to conclude, three messages. First, Cdiscount is doing very well and it's getting even better. Second, we are putting the inventory and related issues in Brazil behind us. And third, Cnova Brazil is in operational reset mode and will get better.

Thank you. We are now ready to turn to the Q&A. Operator, may we have the first question, please.

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 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 key. One moment while we poll for questions.

Our first question comes from the line of Arnaud Joly from Société Générale. Please go ahead.

Arnaud Joly:

Yes, good afternoon Emmanuel and team. I have three questions. The first one regarding France and the improvement in gross margin, the 30 bps that you delivered in Q4. It reflects a slowdown, versus a trend we had in Q3, if I remember well it was closer to 190 bps. So, how do you explain this slowdown, and if you can give some flavor regarding the price investment you achieved in Q4 and the commission rates trends in Q4, as well versus previous quarters. The second question regarding Brazil, we know that the environment is tough, and probably tougher than over the last few quarters, but can you give us more flavor regarding what was wrong, in particular, potential company-specific issues, inefficient marketing policy, etc.? And last, the last question, have you noticed any change regarding the competitive environment, both in France and Brazil over the last few months? Thank you.

Stéphane Brunel:

Thank you, Arnaud. I will take the first question and Emmanuel will answer the other two. Yes, you're right. In Q4, improvement of gross margin of 30 bps is slightly lower than what we experienced before, but obviously, this was impacted by the terrorist attacks which happened mid-November in France, and obviously, had an impact. However, if we look on the full year basis, the gross margin improvement in France is up 112 bps, in line with what we told you about, our internal target to reach 2015 improvement of 100 bps. So, there is a little bit of seasonality and there were incidents in Q4. However, we believe that we delivered on something that we discussed. I may come back to that later, but regarding 2016, we're comfortable we'll increase gross margins, as well—sorry, Arnaud?

Arnaud Joly:

Yes, any pressure on the commission rates from the Marketplace?

Stéphane Brunel:

No, absolutely no pressure from commission rates in the Marketplace. On the contrary, one of our goals in 2016 is to continue to get more profit out of the Marketplace and out of our merchants.

Arnaud Joly:

And you mentioned the negative impact of terrorist attacks in France; does it mean that you were obliged to be more aggressive on prices to support sales?

Stéphane Brunel:

Not really on prices, but the market was slightly more promotional, you know, after the fact that France stopped, basically, for at least two weeks in November following the attacks. So, I think that there is nothing here to conclude. If we look on our, you know, December, January, and February trends, we're comfortable with the margins we have achieved. I think that it's just a matter of the month of November, and I repeat, if we look at things on the full year basis, which I think is more appropriate then the quarterly basis, still the improvement of gross margin in France is slightly above the 100 bps we discussed.

Emmanuel Grenier:

Arnaud, about your second question about what was wrong in Brazil. So, this is (inaudible) this is clear, in fact this is worse than poor, this a poor execution, very poor execution in a challenging market, and if we look at what was not okay, first, too many, too much out-of-stocks. This is a basic—operational basics of a company which is selling products. Second, logistic issues; we are delivering with delays to the customer, so customers were not happy. And third, the commercial activity was not properly organized, it was a mess. So, as I said the main priorities were to reduce, were to reduce out-of-stocks, to deliver on time, and to put in place this dedicated team to take the lead on sales and commercial activity.

About your third question on competition in Brazil and France. In Brazil, this is quite simple. This is challenging but the competition didn't change. We are facing now internal issues where we started to solve, but the market is the same as last year, as challenging. In France, this is a bit different. First, we have gained market share, 1.3 points in Q4, and the trend is the same; big sites are getting bigger, we are growing fast, and small sites are disappearing. There is one thing more, this is this merger between FNAC and Darty. These two sites are around €400 million on Internet, both of them.

Obviously, we can think that they will get bigger, so they will get stronger, but what we see as well is that there will be—they will spend a lot of energy merging, they will get heavier and less simple, so at the same time, while they will merge, we will accelerate on all key strategic points like CDAV, Home Furnishing and Marketplace.

Arnaud Joly:

Thank you very much.

Operator:

Thank you. Our next question comes from the line of Edward Hill-Wood from Morgan Stanley. Please go ahead.

Edward Hill-Wood:

Hi, good afternoon everyone. I have three questions as well please. Firstly, working capital, which was positive in terms of the swing in 2015. I was wondering if you could just sort of discuss the dynamics for 2016 and whether or not you still expect an inflow of working capital through the year's balance. Secondly, on the guidance, obviously, you've given some comments around France, but you didn't give any comments around Brazil, particularly. I was wondering whether or not you could just give a bit of color of sort of current run-rates in terms of whether or not the top line is still getting worse sort of at a similar rate, and whether or not some sort of timeline of targeting profitability in the future? And then thirdly, on the market share in France, you said that you'd gained some market share, or according to the GFK report. I was wondering if you could just tell me what category that was in, please? Thank you.

Vitor Fagá:

Thank you. This is Vitor. So, to answer your first question regarding to working capital. Yes, we expect to continue improving working capital in 2016. As you already discussed, I mean, the Company's focused and has built its business model on a positive working capital equation, and we are continuing to focus on the cash management and the working capital optimization in a sustainable way. Of course, this varies quarter-by-quarter depending on many, many factors, but we expect to keep improving, and to have a positive working capital in 2016.

Stéphane Brunel:

So, with respect to guidance, let's just try to be clear here. First Brazil. Basically in 2015, Brazil lost €65 million on EBIT, before the adjustments related to the internal review, so minus €65 million, and from an EBITDA perspective, minus €51 million. Our 2016 objective is that we believe we could reach an EBITDA close to zero, which basically means, an EBIT close to minus €15 million. We think that we have, as Emmanuel discussed, a lot of internal issues to sort out. Of course, we are depending on the overall market environment, but to be fair, there is so much to do internally that we're confident that we can improve and turnaround Brazil just by ourselves.

This is for Brazil; with respect to timeline of this improvement, which was part of your question. You know, obviously, Emmanuel took the position at the end of January. You know, it won't be overnight, so current trending is more or less in line with what we experienced in Q4, and probably the first significant results you will see, will happen in the course of Q2 or the first ones will happen in the course of Q2, probably towards the end of Q2. That's for Brazil.

Then you mentioned guidance on France; France, we wrote in our press release that we target a continued improvement in French EBIT. I'm sure you have noticed that Cdiscount site in France is positive in EBIT for the first time, plus €1 million, taking into account the recently opened French specialty side, total France is minus €3 million, but the core site already has been positive. For next year, basically, we target to improve gross margin within a range of 60 to 110 bps, remembering that we have done 110 this year, therefore improving our EBIT line.

Finally, your point with around free cash flow, on our definition of free cash flow we posted minus €69 million this year, and we believe we have to be positive in 2016.

Emmanuel Grenier:

About your third question about market share, there are three categories. The first one is consumer electronics. It means TV, Smartphone, and audio products. The second one is IT products, laptop, tablets, and the third one is home appliances, small and big ones; and the big ones we gained more than three points market share.

Edward Hill-Wood:

Great. Thank you very much.

Operator:

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

Ross Sandler:

Okay, great. Just one follow-up on the France gross margin improvement. So, I think you said in the release that home and garden is now 44% of first party sales, so is the increase in gross margin in 2015 related to the mix-shift from consumer electronics to home and garden, or is it more the mix-shift to Marketplace? Can you just give us a little bit of color on which is the bigger of the two drivers, and then where do you see that gross margin going in 2016 for France?

Then some helpful color on the Brazil negative €15 EBIT, so is that forecast predicated on a stable macro with the current environment that you're seeing, plus the cleanup of the internal issues? Or, is that just cleaning up the internal issues and then resuming a healthier growth rate in Brazil? Just any color there would be helpful. The second part on Brazil is, are the issues more around internal operational or are they—is some of the availability issues related to some of the supplier agreements that you have as a global company? Thank you.

Stéphane Brunel:

Okay, thank you Ross for your questions. So first, regarding levers of improvement for our French gross margin, I mean, to be clear, the main driver in 2015 was Marketplace growth. That's the main driver of the 112 bps gross margin improvement for the full year, and obviously, the continued change in improvement in the category's mix is helping, but as a secondary driver for improvement in French gross margin. For 2016, I mean, we believe that we can achieve another year of improvement of French gross margin and to look at it on a yearly basis, it can change from quarter-to-quarter, but on a yearly 2016 basis, we believe that we can improve French gross margin between plus 60 bps to plus 110 bps. Here again, with the Marketplace as a strong driver as well as the continued change of the mix as a secondary one.

With respect to Brazil, you know, we think that the key—I mean, our target or internal target to cut losses to this kind of idea of being EBITDA zero, which means basically EBIT around minus 15, which is just a number to share, is basically down on the assumption of a stable macro, with the assumption that—or the belief or the judgment that we have a strong progress to be made here. You are referring to out-of-order stuff and the level of out-of-order stuff? It has to be clear, it has nothing to do with the problems or issues with suppliers, just a problem of supply chain, so just an internal problem, and Emmanuel has changed the whole supply chain, that's already done.

Ross Sandler:

Great, thank you.

Operator:

Thank you. Our next question comes from the line of Irma Sgarz from Goldman Sachs. Please go ahead.

Irma Sgarz:

Yes. Hi, good afternoon. Thanks for taking my questions. A couple of questions regarding firstly, the Marketplace penetration in France has been down actually quarter-over-quarter. Is there a specific reason for that? I mean, is that a seasonality issue or is there specific any specific other driver that you want to mention in regards to that? Then regarding the supplier days in your balance sheet overall, I'm trying to understand like to what extent this was a—there's been obviously an increase, slight increase year-over-year, you almost have four months of supplier days now. Is this something that you're basically negotiating with suppliers, and to what extent is that driven by Brazil? Can you maybe talk a little bit about those trends for the different regions, and to what extent is this part of your commercial negotiation and something that you believe can be part of your commercial strategy going forward? Then I have one other follow-up question.

Emmanuel Grenier:

Thank you. I will take the first question about Marketplace between Q4 and Q3. This is just a seasonality effect because the categories, which are pushing fast in Q4, are low Marketplace categories. So, if we look at Q1 now, the trend is very good in the Marketplace. We are—the market share is good, we are recruiting new sellers, we are increasing the number of offers, and the full segment is growing fast, as well.

Irma Sgarz:

Okay.

Vitor Fagá:

Regarding to the supplier base Irma, it's important to highlight two things. First of all, the fourth quarter and the year end, is as you know, impacted by seasonality in the industry and it has an important increase over the end of the year. It happens almost all the years we can see in the historical figures of the retail and eCommerce companies. So, there is a seasonality effect behind the suppliers and this is an important element.

Second, as we mentioned before, we are continuously improving the working capital of the Company through actions in different lines, and this includes also negotiation with suppliers and it happens in all of the regions, but especially in Brazil and in France. So, we are continuously doing that in a sustainable way and we are going to expect to keep doing that also in 2016.

Irma Sgarz:

Is there any offset that comes with that in the gross margin because I imagine that if you're asking your suppliers for longer periods, especially in the current environment and it's certainly something that we've seenat Via Varejo, that longer supplier periods are part of the commercial negotiations so I imagine. Can you separate how much that impacted your gross margin?

Vitor Fagá:

It depends supplier by supplier and not necessary has an impact in gross margin. It depends supplier by supplier and it's based on the categories that you are buying, it depends on several other factors than the pure gross margin.

Irma Sgarz:

Okay, perfect, and then just one final follow-up question. On some of the reasons that you mentioned earlier, that drove the sharp drop-off in sales in the fourth quarter in Brazil, specifically. From what I understand there was some commercial mistakes, but also obviously, to really kind of drive that sharp a slowdown in sales (inaudible) a major impact from the stock-out that you were talking to and logistics issues. Now, in terms of when we're talking specifically about logistic issues, can you just detail that a little bit more, were there delays, were there problems in the system to some extent that had you basically—maybe have lack of control over delivery periods, or even merchandise that was potentially lost on the way, or had to be reshipped potentially? I'm asking you specifically because I'm trying to get an understanding of whether you have to provision, going-forward for potentially any legal expenses for those. Certainly one of your competitors has been going through this type of operational problems in the past, and what we've subsequently seen is that that came at a price of legal expenses related to such operational problems.

Emmanuel Grenier:

Thank you for the question and the question is very precise. It was not an IT issue, we didn't lose merchandize on the way. It was just that after Black Friday, which is an already tough day for sales, and a big day for service, you need to be organized because Christmas is coming very soon, you need to be organized to ship everything. So, it was a lack of organization in the DC, to be able to ship everything, toward the end we had delays in deliveries to the customer. Christmas came; the delays were not eliminated so we had delays during Christmas. Now, the situation is normal, but it took two/three weeks in January to stabilize the situation.

Irma Sgarz:

That's helpful. Thanks for the color, and have you already provisioned for the potential legal implications that could be had from customers filing in the small claims court in Brazil, for the delays that this has caused to them, and the damages of the delay? Because I imagine that the sales went through, they were expecting the merchandise to arrive, probably for Christmas, and then there was delays. Typically we see such delays being associated then with subsequent costs from settling those claims from the customers.

Vitor Fagá:

Yes, you are perfectly right. As you have seen unfortunately, you know, our G&A expenses went up in Q4 and part of that is based on, is caused by higher litigations cost and provisions, which represent a little bit more than 100 bps increase as a percentage of total Company net sales between Q4 '15 and Q4 '15, and to be fair, this will be some remaining costs in the first quarter of 2016 because of that.

Irma Sgarz:

That's helpful, thank you very much.

Operator:

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

Fabienne Caron:

Yes, good afternoon. I've got three questions, two on numbers, and one on Brazil. First one on numbers, can you give us the factoring cost and the number of installments you had for Q4 and the full year? Second question for your target of €50 million loss that was in 2016, can you tell us which exchange rate you took? Finally on Brazil, you said you need to improve the delivery time and you improved the stock-outs. Can you give some numbers regarding how bad your delivery times were and where do you want to be and how long it will take and same for the stock-outs please?

Vitor Fagá:

Okay, Fabienne. First of all, we continue in the 4Q the improvement in the number of installments of Cnova Brazil, improvement that leads to us to achieve 7.1 months as an average installment, okay.

Fabienne Caron:

For Q4 or full year?

Vitor Fagá:

For the Q4. For the full year, we are slightly above this figure, but we moved from a level of above eight in the previous year, to slightly above seven in 2015, okay. In terms of factoring costs, we have a similar level comparing in terms of percentage of net sales, it's important that when you convert it to Euros, due to the FX change in this period, of course it affects, but in terms of percentage of net sales, we have a very similar—a very similar, pretty similar figure in terms of cost of discounting receivables.

Fabienne Caron:

Okay, but can you give us the Euro numbers, please?

Vitor Fagá:

Yes, we have around €16 million in factoring costs in the fourth quarter of '15.

Fabienne Caron:

Okay, thank you.

Stéphane Brunel:

Fabienne, regarding our internal target or internal objective, regarding 2016 EBIT in Brazil, obviously I repeat that's our internal target so we'll obviously share on that on the course of the next weeks and quarters. However, to be precise, we don't make any assumption regarding FX, so we are just basically, basing that on the stable FX versus where we are.

Fabienne Caron:

Did you take the average of last year?

Stéphane Brunel:

No, we took basically, the current FX of the last couple of days and weeks so not the average.

Fabienne Caron:

Okay, thank you.

Emmanuel Grenier:

About delivery time, we were late three to four days during this period and now we are good, we are at six days, which is the average which is the level of the market, everybody's delivering according to six days to the customer. So we have—that is behind us now. We have two priorities now in the logistics. The first one is to increase the productivity in the DCs. This is one of the main action of the cost cutting plan, and the second one is to reduce the delivery time. How? First, for small products by pushing our super express delivery in Sao Paulo and Rio de Janeiro, this is a same-day delivery. And, for big products, to develop our logistics to open regional DCs with Via Varejo to reduce the delivery time to the customer.

Fabienne Caron:

Okay, and regarding the stock-outs, is there a way you can quantify your stock-outs for us and tell us where you want to be?

Emmanuel Grenier:

We were at 30% out-of-stocks on the assortments and the target is 10%. We are not yet at 10%, but the target is 10%, just for you to note, in France we are below 5%.

Fabienne Caron:

How do you think—how long will it take for you to get to 10%, you believe?

Emmanuel Grenier:

We need some time to do that, it will be difficult to tell; it was very quick from 30% to 20%, I would say some weeks, but I cannot be more precise than that.

Fabienne Caron:

But, it will be during the first half of this year?

Emmanuel Grenier:

Yes.

Fabienne Caron:

Okay, thanks a lot.

Operator:

Thank you. Our next question comes from the line of Pratik Dharmshi from JPMorgan. Please go ahead.

Pratik Dharmshi:

Hi, a couple of questions from my end. One was on market share; you mentioned you have gained around 130 basis point of market share in France. Can you give a number for Brazil, as well? Second question was on incremental step-up in investment, which you mentioned in your presentation, that you are stepping up investments into express delivery and strengthening your loyalty program, as well as click and collect points etc. So, should we expect pressure on your profitability similar to what we saw last year? To do step-up in investments for fulfillment and logistics? Third, would be on gross margin development in Brazil. Do you see more price investments this year, as well, or you are comfortable with the pricing position in Brazil? Thank you.

Stéphane Brunel :

So, thank you for your three questions. So, to be precise on France, the 100 bps improvement is from, so the real (inaudible) GFK, which is only on electronics, electronic products. In Brazil, what we believe that in the course of Q4, if we look at EBIT report and preliminary EBIT numbers, obviously we have lost market shares in Q4. This is not, obviously, this is due to our internal problems. We have proved in Brazil our ability to gain market shares.

Second question, I have the impression that your question is about SG&A in France. Basically, in 2015 SG&A in France grew by 54 bps. In 2016, we target to have much, much lower increase in SG&A as a percentage of net sales than that. I mean, probably would be around 20 to 30 bps with an even better performance in first Q because you remember first Q last year, in terms of SG&A in France, was impacted by fulfillment cost initiatives.

Third question about gross margin in Brazil, so as you have heard, we believe we can improve our EBIT margin substantially this year, and this will rely mainly on gross margin. To be in a nutshell, you know, last year promotions were used to offset our internal deficiencies, which we believe won't be the case anymore.

Pratik Dharmshi:

Okay, thank you.

Christopher Welton:

Operator, do we have any other callers, please?

Operator:

My apologies, my line was on mute. Yes, our next question comes from the line of Stephen Ju from Credit Suisse. Please go ahead.

Stephen Ju:

Okay, thanks. So Emmanuel, you mentioned as part of the Brazil action plan, I think on Page 21 of the deck, wish to rank better on SEO, as well as better monetizing the pay traffic so, which I guess presume means—which I presume means increase your conversion rate, but on the first item though, what needs to be done from a site layout data or a product perspective to improve on SEO? Where are you ranking now organically on the search results versus some of your competitors? And also in France, I think you mentioned that you're expanding fulfillment services to your sellers; do you think this will require additional FC capacity for you, or do you have excess capacity right now that you can use more efficiently? Okay, thanks.

Emmanuel Grenier:

Thank you, Stephen. This is a very precise question. On the first point on SEO, so on traffic front, we have worked a lot in the last three years in France, about SEO and now SEO is representing more than 50% of our traffic, and we—according to search metrics, we are the best site in France in terms of SEO and we invested a lot in terms of teams and in terms of IT. So, this is very simple, as Brazil is only at 20%, instead of 50% of the traffic in France, we are going to replicate all the good receipts and all of what we have made in France in Brazil. This is very—there are two parts. The first one is about the text and the information you put on the product, so this is very easy, but there is second part about technical things to do on the IT side. So, I send guys from France to Brazil to help them to build that.

On the second question about fulfillment services, we are going fast on fulfillment services. We have a big plan this year and I can tell you that we have the square meters needed for that. Everything was planned at the end of last year, that's why we opened some new warehouses in the north of France. It was to deliver faster, but as well to be able to develop fulfillment services so everything is on track, and everything is ready for that.

Stephen Ju:

Thank you.

Operator:

Thank you. Our next question comes from the line of Franco Abelardo from Morgan Stanley. Please go ahead.

Franco Abelardo:

Hi, good afternoon. So, my question is related to the numbers that are constituting firm E-bit published today, where it forecasts 8% growth for eCommerce in Brazil in 2016, after growing 15% in 2015. So, can you please share your views about these numbers? Do you agree that eCommerce market in Brazil should decelerate even more this year, and related to that, on Cnova Brazil a little below this 15% in 2015? For this year, do you expect Cnova to grow more in line or maybe above the market in Brazil? Thanks.

Vitor Fagá:

I mean, when we look at the E-bit numbers for the Brazilian eCommerce market, I think that, you know, there are basically two half, meaning that looking at E-bitnumbers, eCommerce growth markets in Brazil has slowed down quarter-after-quarter. So, the 15% you quote is an average. Do remember that Q1 last year, Cnova Brazil posted net sales growth way above 20% and above 25%, and GMV growth around 30%. So, I think that basically we should more look at 2016 based on the more recent trends in Brazil.

Obviously, the market in Brazil has worsened, especially in the course of the second half, and we tend to think that for the time being, we see stable market conditions in Brazil. Here again, we believe that our improvement in Brazil will mainly be based on our own internal efforts to fix deficiencies, rather than counting on market global eCommerce market improvement in Brazil.

Franco Abelardo:

Okay, thanks.

Operator:

Thank you. Ladies and gentlemen, we have no further questions in queue at this time. I would like to turn the floor back over to Management for closing remarks.

Emmanuel Grenier:

So, Emmanuel speaking, thank you very much for being here today. Our three key messages to conclude this call, first one, Cdiscount is doing very well indeed, and we expect to get even better this year. Second, we are putting the Brazil review behind us, and third, Cnova Brazil is in reset mode as you understood. So, thank you very much for that. Thank you very much for listening and good day.

Operator:

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