Conference Call Transcript
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Moderator

Good Morning, everyone, and thank you for waiting. Welcome to the earnings call for the fourth quarter in 2021 for Assaí Atacadista. If you need simultaneous translation, we have this available in Portuguese or English. We would like to let you know that this earnings call is being recorded and it will be provided on the company IR website: ri.assai.com.br, where it's already available and you can also find the earnings release. The presentation will be available on the link that will be provide on the chat. During the company's presentation all of the participants will have their mics turned off and after will start the Q&A session.

If you would like to submit a question, please select the Q&A icon at the bottom part of your screen and select your name, company, and language. As you are announced, a request to turn on your mic will appear on the screen. Then you must turn on your mic to submit any questions. We would like to let you know that information in this presentation and future statements during the call about the business perspectives, forecasts, and operational financial targets at Assaí are beliefs and assumptions from the company's management as well as information that's currently available.

Future considerations are not a guarantee for performance. They involve risks, uncertainties, and assumptions because they refer to future events and thus, a rely on circumstances that may or not occur. Investors must understand demand that general economic conditions and other operational factors could affect the future performance at Assaí and lead to results that differ materially from those expressed in such future statements. Now, I'll pass on the word to Gabrielle Helú the R.I. director at Assaí, Please, Gabrielle.

Gabrielle Helú

Well, good morning, everyone. I want to thank you for your participation once again in the earnings call regarding the results of the fourth quarter of 2021. I want to present the representative this year Belmiro Gomes, our CEO. Dani Sabbag, our CFO and our VP's Wlamir dos Anjos for commercial on logistics and Anderson Castilho from operations. Before we begin presentation, I pass on the word to Belmiro for his initial comments.

Belmiro Gomes

Thank you, Gabi. Good morning, everyone. Thank you so much for your participation during our earnings call. We hope that the information presented here in this conference can be really useful for investors and analysts and those listening to us. If you can share the presentation on screen, any other points or can we go straight in?

Gabrielle Helú

No, we're good to go. Thank you, Belmiro.

Belmiro Gomes

So, the fourth quarter of 2021 and ending of 2021…In the fourth quarter of 2021, Assaí beat the sales record with many different advances and achievements.

2021 was a year with many atypical situations and impacts from the pandemic, especially considering the comparison basis of the previous year. 2020, the first year of the pandemic, started very strong in March and then throughout 2020, and some investments made by the government, such as the emergency aid, and changes in consumer habits as well as some increases in some categories, especially with domestic cleaning, were reverted into the year of 2021, especially in the fourth quarter.

When we bounce out the two years and period in the pandemic, we have very strong growth. Assaí grows 50% in two years, a very significant growth and there's inflation way with an increase in food items but it's a very relevant growth. In the fourth quarter we were able to reach R$ 12.6 billion in revenues, while gross revenue went over R$ 46 billion in the year.

And even with a very bold plan for store openings. Altogether, we launched 28 stores in 2021 and when you add these up to the 19 stores that we had in 2020, we were able to launch 47 stores in the pandemic period, expanding the power of the brand and our presence in different municipalities and also adding on almost R$ 16 billion in sales during this 2 years period.

Within the two years we had, in our view, a very precise strategy for to preserve margins. Even with this amount of store openings and even with the base not reflecting this entirely with some of the differences in the behavior base, our margins ended up reaching very good stability within the fourth quarter and especially regarding the year 2020, with an advance of 0.4 p.p.

The adjusted EBITDA reached R$ 3.3 billion reais. And it's important to highlight that this is the EBITDA post IFRS, so even when we look at the pre IFRS, the EBITDA generation is close to R$ 3 billion reais. And a cash generation of about R$ 2.9 billion.

So, we're going to highlight, throughout the presentation, the company's capacity considering the business model, with strong cash generation, since Assaí has a really big challenge. One of the biggest projects ever delivered throughout this journey of growth, which is the conversion of the hypermarket stores that we acquired from Extra, transforming them into the Assaí brand.

So, we closed the cash generation balance and then Dani will get into more details about this. But when it comes to cash generation, the year was also very positive with growth in the net income as well, which reached R$ 527 million, an increase of 76% over the last year.

So, part of this, as we highlighted within the release, is the recognition of tax credits throughout the year. We were able to register and record some tax credits, reaching R$ 1.6 billion reais in the year, but excluding this part from fiscal credits and tax credits, we still have net income about R$ 1.2 billion.

But it is important to note that, even with this recognition of tax credit, the company has monetized taxes. When you look at the financial statements, when you look at the balance of recoverable taxes, the variation that we have from 2020 to 2021 refers much more to the inventory accounts, due to the increase in inventory because the company grew, than to eventual monetization problems, whether direct or indirect.

Mainly I would like to highlight how much we were able to monetize in the ICMS account. In other words, the tax credits that were recognized make this net income true, because it was both contributory from the point of view of results, but also contributory from the point of view of cash.

Within the fourth quarter, there was the recognition of credit referring to tax subsidies. Tax subsidies are the special regimes, benefits, tax treatments that the company maintains in several states of the Federation, whether in the distribution center or store operations, as of Complementary Law 160, of 2017 and recently, last year, with the judgment that it had, in CARF, was the basis for the recognition of these credits, the company made this recognition in the fourth quarter.

The amount that was recognized refers partly to the year 2021 and partly to previous years. There will still be a portion of the same amount, although it is difficult to say, because it depends on the products that were sold, on the categories in relation to the sale of what we had. The 2021 installment is expected in terms of the sale, keeping, obviously, any small variations in the State's sales share, change in the product mix, shares and should have the amount in the same magnitude for the year 2022.

If you want to advance on to the next page, please. So, the expansion was historical. We had 28 new units for conversion and three were from hypermarkets and one shopping mall that was converted into an Assaí store. But especially we were able to reach the record of organic expansion. So, I want to thank the Assaí team, and all of the departments involved in this effort for the expansion of each of the stores coming into this period where you're starting with the project prospecting new opportunities.

So, we have 24 organic stores which represent about 1 million half a million square meters and about almost 70 kilometers of exhibition areas and 30 kilometers if we were to add on all the carts together, so this was really an important achievement for the Assaí team.

Due to the pandemic, there is also a lot of impact on the expansion related to the costs of products and inputs for construction materials, but especially in the construction sites during the execution periods where we're able to still have throughout 2021 many different protocols that were followed through and in positions of from the different government agencies that really made the schedule for the construction to be a little more longer than what we expected.

So, there was a concentration of store launches in the fourth quarter. 21 stores launched in the fourth quarter and 14 stores in the last 30 days. But we were able to fulfill the guidance that we had presented to the market, and we had the possibility even to have 30 new units, but we decided to postpone due for this year, which are two units, one already inaugurated in Porto Velho and the other going to be launched this week.

So, within our expansion plan, I'll give you some more information at the end of the presentation, but this demonstrates that is capacity to really have an amount of launches. Some reinforcements within the project area and within our teams involved, whether it's the internal teams or third parties, so we're going to have a lot of learning processes with this amount of store openings. And it's going to be really important right now in this period for the store conversions that Extra stores.

Than you can move on, Gabi. And now as we talk about the 28 units, maybe this number may not capture the achievements entirely, but when we look at the capillary of the stores spread around different cities and units of the federation and including stores in the northern region, we had stores in Acre, Manaus, we had stores in Belem, we had stores in different states of Brazil. Some of these stores also are in new cities and other than new regions where Assaí is operating.

This opening at the end of the year, in this concentration, had some impacts, a little within our "same stores" base, because you end up having a little cannibalization, mainly in the B2B public, the consumer, not so much, since there is always a care with the internal cannibalization that we ourselves provoked, but it was executed, and it was delivered. As a result, Assaí breaks a record for building cash & carry stores in a single year in Brazil.

Now, moving on to the next one, we're going to look at the… A bit of the net revenue and some comments that would be interesting to work on. We still see movement, especially in the fourth quarter that followed this movement that we had already signaled, which is really the trade down trend made by the population. And so, of course, the increase in prices and food inflation and this weighs on the income of the Brazilian family and fuel. And this is really pressure to consumers. So, there are some characteristics that were observed that doesn't seem to be a trend for 2022.

The fourth quarter, in our view, does not indicate a trend for 2022. The fourth quarter has the base effect of the fourth quarter of 2020, which there was an expectation at the end of 2020, which could have a strong Christmas, a strong New Year, and there was in 2020 yet. You had the aid, there was a stronger supply, both on the part of families and also on the part of corporate clients, a fact that was not repeated in 2021.

So, when you add up the trade down effect that we've seen in different categories of products, we can see that the population has really adjusted consumption considering the price of these products in the market which have seen have been seen in different categories and even packages that are maybe smaller.

And in the fourth quarter we already have a perception where consumers don't have the need to perform so many like monthly shopping, their bigger shopping to supply their homes and also the small businesses in the fourth quarter were really, really not trusting that there would be strong purchases and Christmas and New Year's and with their own suppliers in the beginning of 2021. So, a lot of people were impacted also because of lower purchase power, cash flow difficulties.

So, it was a period where we said, well, why don't you invest more in the margins considering that the market was not really flexible. So, playing a bigger amount of items and offers because small businesses would say, look, I have to be careful and set up an inventory and product prices would go up so much and even if there's a special sale, they still went up a lot more so we saw that small businesses and consumers really decided to be more careful with how much they'd stock up.

And we had some products that had an increase in sales, like more detergent, more cleaning supplies, bleach, clothes, so than other personal hygiene items. Had a very big difference compared to 2019 and other historical periods.

The shift in behavior was noticed than and now in the end of 2021, we really noticed that a more gel alcohol bleach and other products then when you add them all up together, it really makes the same stores sales have this kind of combination, resulting in -3.1% and 15.7% when you add up both years, but there's not a drop in volumes or flow.

We have an important trade down effect with some categories like beef for example, that has an increase in prices, and it really made consumers forced their families to substitute items. But even in this period, as they did advance, there was a share gain and the sales per square meter, which are very important indicators, go up in this period to 4.500 reais per square meter. And it's a very good performance indicator for our store base, including the stores that are open and the new units that were just opened as well. You can move on.

Well margins as I already mentioned, I don't want to be very repetitive, but the margins here, we're extremely stable. So, the margin stability here, you can see there are many contributing factors. Some are negative as well. And expansions always involve some kind of margin investment to open up new units. There's a lot of gains as well that the commercial teams have achieved through some special campaigns along with suppliers and some optimization and costs as well. Within our logistical network and also searching for more efficiency in the inventory, which was also an important contribution factor.

So, even when we opened 28 new stores, we see that the gross margins are really stable compared to the last two years, especially when we compared to 2019. There was a capacity to really go through the two pandemic years maintaining our margins at a very stable level. So, we believe that, now, in the store conversion period with the Extra stores, will be able to have stability in margins.

Maybe we'll have more dilution with the amount of stores open, but we believe that we're able to protect margins and even when we had to adapt to certain pandemic instability periods where really able to keep the strong stability, which is a characteristic gives us a competitive level as well, we're also very important.

Our business was a low-price business and so price really is important to keep competitive advantages. The indicator per square meter is the best because it shows how the operation is still very precise and it continues to deliver its value proposition to businesses, trends, transformational industries, and resellers as well.

We can move on now. Adjusted EBITDA captures a series of operating gains. There was a very strong increase in EBITDA in the last three years, and the same goes for the gross margin. In the end, in addition to discipline with expenses, some movements were made to adjust expenses, which we can then highlight a little more later on, to maintain stability, given that it is a low-cost business and low expenses are part of our model. business.

With that, all the initiatives carried out on the expense basis, discipline in the breaking part, discipline also when spending, hiring, travel and a series of other mechanisms, allowed us to preserve not only the gross margin, but also the percentage of net margin within the year.

Of course, in the fourth quarter well we see that there is a return of margins going back to the levels of 2019. But in our view, as a company that grew over 50% in the last few years and went through the pandemic period, facing an inflation period with the opening of 47 stores, the stability in the percentage really indicates strong adherence to the business model and management in the team as well to be able to continue helping Assaí expand and especially achieve the objectives we have up ahead.

There is obviously an important chapter within our process since the acquisition of Extra gives the company a higher leverage. I'll give the floor to Dani. Daniela Sabbag, our financial director, so that she can highlight, in the funding that were made, the impacts of this cost of capital on the company's business.

Thank you very much. And Dani, the floor yours.

Daniela Sabbag

Well, thank you, Belmiro. Good morning, everyone. I will go through the debt situation now. As we mentioned, the company was able to perform during 2021 and refinancing of those older debentures that we had issued in 2018. So, its refinancing work added up to almost R$ 6 billion. And we were able to reduce the cost of our debt, which was CDI+2,38% to CDI+1,48%.

And additionally, we were also able to extend the term of this debt which was less than two years, 1.9 actually. We were able to extend it to over four years.

So, it's very important to emphasize that, at the end of 2021, we started what we had signaled to you: to strengthen the company's cash, given the payment schedule of the transaction involving the Extra Hipermercado stores.

We carried out two other funding operations, which were settled at the beginning of 2022, which do not have an effect on the 2021 result, but which we highlight here on the slide, totaling R$ 2.75 billion. On this slide, I also want to highlight two very important points that Belmiro has already discussed with you. Our business model has allowed us to record strong cash generation, and this year the cash generation was almost R$3 billion, which represents an increase of R$1 billion in relation to the previous year. This is a very important highlight. We also had a high level of investment this year, compared to last year. We invested R$ 2.9 billion, which we bring in the break-down between the payment for Extra stores made in December and the investment, which is basically in new stores. We had infrastructure reforms, but mainly the company's organic growth.

So, with this, we end the year with a net debt of R$ 5.3 billion. And this leads to an increase compared to last year of R$ 1 billion. But if we consider these high-level investments, which were very important to accelerate our expansion, we had 28 stores in 2021 versus 19 in the previous year, so added the purchase of the commercial points, we have a net debt at the end of the year that increases only by 0.1x, reaching 1.9x EBITDA. So, these are some of the main highlights for this slide and now I want to pass it on to Gabi so we can get into the financial results, please?

When we look at the financial result, we always see this break between the interest on the lease liability and what comes from the cost of our net debt. Lease liabilities amounted to R$ 204 million in the quarter. It is equivalent to 1.8% of our net revenue and the increase is obviously explained by the increase in the CDI in the period, which quadrupled from 0.47% to 1.85% in the fourth quarter.

The impact of the cost of this debt is R $71 million, basically in the quarter. During the year, all the debt refinancing that I mentioned earlier, with payments and prepayments of debentures, was also very important to reduce the cost of this debt and offset part of this entire economic context of rising interest rates.

As a result, we were able to reduce the spread by about 1 p.p., as I mentioned on the previous slide, and the result for the year of R$ 730 million, which is very similar to a percentage of sales, very much in line with 2020, was also a result that was quite in line with what the market expected.

We had a consensus of around R$ 770 million and ended up with R$ 730 million. I think this is a result that is very much in line with market expectations and for the next slide, Gabi, I can already comment, as Belmiro already said and highlighted at the beginning of the presentation, the high levels and the expressive growth registered, with an important margin gain. Just to review the quarter, 76%, we gained 1.8 p.p., almost 2.0 points of margin in the quarter. And in the year, we reached this historic profit mark of R$ 1.6 billion, a margin of 3.8%, also an increase of 1 p.p. year over year.

And here, a highlight, is that we recorded credits during the year. And the subsidy credit for the investment of R$ 241 million in the quarter. It is important to say that this credit is composed of recurring and extemporaneous amounts. And even if we exclude this extemporaneous portion, not only from subsidy credits, but from ICMS credits, we have a growth in the year of 23% in profit. So, I think this is an important highlight.

And in the quarter, there is also growth. This result, in short, I think it only confirms and confirms the efficiency of the company's operational and financial management, the resilience of our business model and the results that have been very consistent, both in favorable and challenging scenarios, such as the current one. Now, if I'm not mistaken, I will give the floor to Belmiro, who will come back with some additional ESG comments.

Belmiro Gomes

Thank you, Dani. Well, when it comes to ESG, I think Assaí, as you all know, were reference in the market. So even before this topic gained more important within some of the discussions and society overall, Assaí has been strongly working. And each of the segments in areas with the advances in climate change and measures to combat climate change, with waste management that the company has throughout 2021, we had a strong reduction also in our carbon emissions.

Now over 90% of the energy in the company comes from renewable sources. We have most of our stores connected into the free market for energy and this avoids the need, to turn on generators of energy in stores are just a backup for the drop in energy supply. But most of them of the stores also have solar panels and this is a topic we've been trying to improve with more and more with the use of CO_2 to in some units as part of the refrigeration tools as well.

Apart from that, on the subject of personnel, today, Assaí has almost half of the 45% of our leadership formed by blacks and browns, 65% of our workforce. We know that we always have to move forward on this topic, but it is an ongoing work, which has shown positive results year after year.

Today we have more than 26% of our leadership team female, an increase of 3 percentage points. And a topic that we have been working on, over the last decade, is very strong, which is the issue of PCDs. The PCD is always difficult to comply with the legal quota. The market is around 5%, Assaí currently has 5.4%. Last year, with all the movement and opening of new stores, more than 11 thousand jobs were created.

And it's really important to consider also all of the indirect jobs for civil construction where we estimate about 6 to 7 thousand people that worked building equipment and also helping to build some of the new Assaí units.

In addition to a series of initiatives for society, food donation, we have an Assaí gym, in addition to an internal training university, which promotes training courses for our employees and helps us to form new leaders necessary in this transition process, being a very strong work with the small, with the small entrepreneur.

This program still has an expansion capacity, but last year 9,000 certificates were issued. And we are now finishing the creation of the new social arm, resulting even from the split with GPA. We had instituted the GPA, which ended up being an umbrella for the operations of GPA and for Assaí.

Now we are going to rely on Instituto Assaí, also in line with the company's purpose, to expand the actions we carry out even further.

I would like to go to some of the digital initiatives. We had already announced the partnership with Cornershop. Cornershop, today, we already have 17 states, there are more than 100 stores. It is a project even though it is very recent, it started in September. Until December, it has a very strong sequential increase. The consumer looking to buy, the customer looking to buy from Assaí on a digital platform, finds the way through Cornershop and, now this month, we closed a partnership, which in our view is extremely important, which is a partnership with Rappi , this project, it should soon be present in more than 20 cities, almost 50 stores will be added, allowing, in addition to fast delivery, the customer to have the possibility to make the purchase through digital means, also the scheduled delivery.

So, there is a gigantic front to be presented. Now, in the coming months, we should present a new app with a series of features, advancing a lot in the digital front, especially within the junction of the physical world with the digital world, which the market has called figital, where you complement, be it the store with the digital world or complement the digital world with the physical store.

But there is still an important avenue of growth for Assaí to explore in this regard. Looking ahead a bit if you can, Gabi, the expansion part.

In terms of expansion for 2022, the company's objective will be to open 50 new stores through the conversions that we have announced. A very important update about the Extra Hiper project: We expect that by this first quarter now, we can say with great conviction, we will have more than 40 Extra stores in progress. GPA was extremely skillful in demobilizing the Hypermarket stores. Among those desired, they have already demobilized all stores. There is a procedure in the demobilization, which is the removal of some equipment, some adjustments and obtaining the licenses to start works.

Today, we already have practically all the licenses for these 40 stores, which are complete renovation works. So, we estimate that, between July and August, we will start an important cycle of reopening the converted units from Extra Hiper. And going back to highlighting the main drivers of the project, we have seen a series of changes. The pandemic has also brought changes in society. Part of these digital initiatives and even some issues, even, for example, new services, the Extra stores will provide, since they have the size to do so.

So, we also have seen not only in Brazil, but in other countries that consumers are searching for opportunities to buy close to them. This is not only with Assaí, but the overall market had really considered that sometimes within some regions, especially in the big metropolitan regions in Brazil or big cities due to the values of the real estate situation, sometimes you don’t have a cash and carry store or a wholesaler next to your home or store.

So, you still have shopping done in retail, which do not migrate to the category model just because it's too far. The stores are very distant, so sometimes you have supplies that are done by a distribution wholesaler because there's only a part store available. So, we have 16 different capital cities, and 63 stores are in a Brazilian capital city or in a metropolitan region, and other cities, for example, such as Campinas, Sorocaba, São José dos Campos, which are not capital cities but their cities which have bigger sizes than most of the big capitals in Brazil.

So just recently we had a pilot project that we're going to show you up ahead in the store at Barra da Tijuca. That comes from a region with level A public. And it was our store with the biggest amount of revenue sort generated among all of the opening in 2021.

So, that is, you have a search for the sector. Obviously, there are adjustments that will be made for these units, as we have already done in other units that are close to high-income populations. These are stores that we have expectations, as we have seen in the other stores that we converted from Extra in this period, which on average have multiplied their sales by three times, and even with the inflationary issue, even with the reduction, even with the trade down, the result is still 3x higher. So, we maintain all the objectives and guidance that we highlighted for the Extra project. When we look at the number of stores converted up to 2020, they maintain this +3x in revenue and an average EBITDA margin of over 150 bps.

And where does this margin come from? First, that the product assortment mix is different. The mix of customers who shop at this store is different. It's not that you operate more expensive in these units, but you sell a product with greater added value. So, with that, you add value, add value to the average ticket and have a greater share of consumers than other units of the company.

So, in our view, these stores are going to be extremely important to contribute to our results and all the different factors we've highlighted in the beginning of the project.

Additionally, we would like to reinforce now we already launched our first organic store in 2022, in Porto Velho. This year we're going to have ten organic stores. We may add a few more, but we had highlighted those 18. We reduced the amount of organic stores a bit to be able to preserve our cash to guarantee the investments necessary for the store conversions from the Extra stores. Moving on…

So, we keep our forecasts and we'll come back to reinforce the forecast of reaching R$ 100 billion in revenues in 2024 and have over 300 stores operating, considering the incorporation of these stores that are coming, that used to be from the Extra brand and from the organic expansion Assaí has up ahead as well.

I think that's what we had to present today. And now I would like to pass on the word once again to the team supporting us, so that we can open up for Q&A. Thank you.

Moderator

Now I'll begin the Q&A session. I want to remind you that if you have a question, you may select the Q&A icon at the bottom of your screen. Then you can write your name, company, and language to enter the Q.

As you announce, the request to open up, your mic will appear on the screen and then you must open up your mic to submit your questions. We'll move on to your first question from Felipe Cassimiro, because he's a sales head analyst from HSBC. Please, Felipe, you may proceed.

Felipe Casemiro

Hi. Good morning, Belmiro. Good morning, everyone. Thank you for taking my answer. Since I'm the first guy, here I am and have a follow up on what you just mentioned. The fourth quarter is not what we should expect for 2022. So, when it comes to sales, what have you seen now in the first quarter and when it comes to sales trends?

Are you already seeing positive numbers, or have they suffered too much in the fourth quarter? And then two others follow up questions from digital. I understand that some of the initiatives are very recent. So, could you maybe give us an idea of how significant this represented in sales in the fourth quarter? And give us some color on what we could consider from digital contribution in 2022.

And the last part is really understanding a bit of the gross margin trend. I wanted to understand which are the main impacts of this gross margin. In our opinion, it seems to be very strong. So, is there anything regarding services supporting the margins? If you can maybe just talk about the services as well in the store and the gross margins as these impacts as well. Thanks.

Belmiro Gomes

Thank you, Felipe. Moving on to your questions here. What we could expect when it comes to sales in the fourth quarter, as I mentioned, also has an effect that for us in the overall market of the effect of 2020 also in the fourth quarter. So, you have the closing of the fourth quarter with all the cycle the first pandemic.

Thank you, Felipe. Going to your questions, what could we expect in terms of sales. In the fourth quarter, as I said, there is also perhaps the effect, I think for us and for the general market, also from the fourth quarter of 2020. That is, it closes in the fourth quarter the entire cycle of the first year of a pandemic. So, that is, 2022 is already starting to take the base of 2021, which did not have that impetus to supply.

So naturally, it would already cause, even if sequentially, from the fourth to the first quarter, the numbers are more positive. And in the fourth quarter, at the end of 2021, there was an issue that was greater caution in terms of stock building on the part of the corporate and even consumers.

We have seen more positive numbers. Obviously, it's still premature, but at least half of the first quarter has passed, obviously, we have a limit to what we can talk about. There are still factors ahead to see how it behaves, since this year there will be no Carnival. In the first quarter there is also the shift from Easter, which last year fell in the first quarter to the second quarter, but even for base effect issues, part of what we had in January, which has already passed, which is the month with the highest income commitment with IPVA, IPTU, a better trend is expected. That's what we've seen, we shouldn't have same stores in the negative. So that's what we should expect, what we've seen, it's what we should work on going forward.

In terms of digital, it is still too early to give a percentage of sales. In terms of percentage of sales, I think it's still irrelevant. Growth is strong, but the project is still very recent. I would like to wait a little longer to be able to disclose information about this digital initiative, both in relation to the partnership with Cornershop and Rappi or even other new things that will be announced until now at the end of the first semester.

And part of them, I think they have the part you talk about. No, I'm not selling to that customer. So, I'm going to add a new client. So, it would be a greater participation, but there is a part of the digital that will even complement some of the policies that we already have.

We must wait a while. The launch will take place within this first semester. So, we should be a little more mature to give a little more detail at the end of the second quarter. In terms of gross margin, the fourth quarter gross margin, as I told you, had a lot of investment data. When you look at the whole and say “well, how is the same-store scenario still positive, wouldn't it be worth it, many times, to have made the investment to translate into sales?”. It's not something we've seen and apparently the market hasn't seen it either. The portion that could add the greatest volume of sales is the one that was very skeptical and with little capital, which in this case, unfortunately, are the merchants. You have a lot of service sector companies that went bankrupt during the pandemic period. Unfortunately, you are still very cautious, given that there has been a rise in prices.

You have soybean oil that has skyrocketed in the last two years. The meat that this one is more visible, but also in several other categories. So, we didn't notice an elastic demand for the client. You said “well, if I reduce the price by 5%, 10% of the price wouldn't make much difference in volume”. So, I think that, not only Assaí, but the entire market noticed. And there was a need to correct the base that came from 2020.

2020 was a year that had a lot of disruption within the consumption movement. This was reflected throughout the growth, also, in 2021. So, in our view, we were competitive as we needed to be at the measured level, at the fair level and we were still able to preserve the margin. I hope I answered your question, Felipe.

Felipe Casemiro

Yes, very clear. Thank you very much, Belmiro.

Moderator

Our next question comes from Danniela Eiger, the sales side analyst from XP. Daniela please, you may proceed. Danniela, can you hear us? Hi, can you hear us?

Danniela Eiger

Yes. All right. Sorry, I had some problems here. Thank you for taking my question. And congratulations on that quarter. It was very challenging for the overall sector. And I think an initial question would be follow up here with Casemiro’s question. Basically, when it comes to the beginning of the year, I wanted to have a little more information of some of the drivers.

First, how has the behavior of the B2B segment been throughout the quarter? How have you seen this or have you seen any kind of reaction where Omicron has maybe lightened up a bit? And have you seen any relevant impact on the moment when the Brazilian income support was paid throughout January? And how have you noticed that maybe an impact in the absence of Carnival would be reflected in the quarter?

So, I think it would be interesting to have a little more information from the qualitative perspective and then my second one is about the performance of the conversions and the 23 stores that we brought in 2020. I wanted to understand how the profile of these stores can be compared to the 71 you're going to be converting during this year and the next.

And if you consider this is a good reference or if you can maybe have more room for a potential result, that could be above this because their stores where they profile it's more intended to some higher income categories. So, I wanted to understand just a bit how we can compare this. So, I think these are the two-point thanks.

Belmiro Gomes

Thanks, Dani. And moving on here on a reverse order here on the questions.

The 23 stores, in fact, are not from last year. Last year, there were 24 organic and 4 conversions. The 23 stores the balance of stores that Assaí has already converted over the years and then over several years of Extra stores, which also gives us a basis for viewing performance over a longer period.

In our view, these stores are, in part, a reference, but they also have some stores that were converted in the past years, which were not so well-located Extra stores. In our view, the harvest that now comes from stores is better, given their locations, because, obviously, Extra, at the time, held the points of greater profitability, of greater return that it had, of greater performance in terms of sales.

And so, it could be that there's kind of a bigger capture for the 150 bps in aggregate. Stores operate with more than this. But we're trying to be conservative here because you also have many other factors. So, you if you were to take a look today, what would be the basis for these and the comparables, it's higher than that, but we prefer to flag and be a little more conservative and put the 150 bps.

About sales in the beginning of the year. Yes, the omicron. For better or worse, prices are unfortunately keeping up. Food inflation is still not quite equal to the general IPCA, but there is still a caution on the part of this public, B2B, in making more supplies, in making a recovery or making investments. We believe that now, insofar as the onomicron or the issue of the pandemic as a whole, which is showing signs of cooling off, and we already see some countries treating the pandemic as endemic, that there is still a very large portion of the population that is very cautious, so our expectation is that there should be a better movement going forward.

And even though it hasn't yet happened in this magnitude, the base for the year 2021 also generates a bad base. So, it makes the number automatically 2022 turns out to be better and positive numbers. Partly for this effect, and part simply for the effect of bases. There is still an expectation of improvement, as we see signs that the pandemic is losing some of its strength but is still early. A new variant may come, some other scenario, but it is not what we believe in the future.

The aid has increased, yes, but he is very discreet. I think it was proportional to the value of the injection that we also saw in relation to the first injection of money that the government made. And the carnival? You're right, there were expectations that we in the sector as a whole could take the health measures and authorities that are fighting the pandemic issue. Obviously, they have to judge this, but there was an expectation that in 2022 we could have carnival and obviously a movement of sale, consumption of drinks, of a series of other products that are linked to this, but that did not come. And you're absolutely right, it didn't last year either. Hope I answered, Dani.

Danniela Eiger

So anyways, yes, you did answer. Thank you very much, Belmiro.

Moderator

Our next question comes from João Soares, he is a sell side analyst from Citibank João, please, you may proceed.

João Soares

Good morning, everyone. Well, Belmiro I… when you look at the guidance for 2024 there seems to be a gap that's quite significant in the gross revenue that you need to close. And there's a lot of organic stores that you'd have to open to reach this guidance.

So, my question is what the market is like at the moment and how did you look at the different markets. We've seen some comments also on an excessive offer in some smaller regions and municipalities in the outskirts. So, I wanted to know how these opportunities are doing and where you see space for expanding your network of stores to be able to close this gap.

Belmiro Gomes

João, thank you for the question, in fact, to close the gap, you also have to annualize the stores that were opened in the past. Imagine the 28 new stores that were opened. The previous year, 21 were in the fourth quarter. So, it is necessary to annualize that base first and then obviously there will still be a gap. Add Extra stores. The values that we are giving are nominal values, so there is also an inflation to be placed and for the organic ones, this year we signaled 10, but we have today, to give you an idea, around 40 prospected stores at an advanced level.

And we just hold on to some projects in order to preserve investments and concentrate them with Extra and also the capacity for the execution. So, you're right, there's an excessive offer in some smaller cities where it's easier to set up a store or the real estate costs are cheaper.

And one of the motivators for the Extra project was actually to access these levels. And this also makes us being a little more selective with the organic expansion to avoid placing stores in regions where you already have excessive offer. Or maybe the city doesn't have the capacity when it comes to the population level of consumption to support this.

But you still have many medium-sized cities, cities of 400, 500 thousand inhabitants, when you look within the national territory, there are states, still, where Assaí is not present, in Espírito Santo, for example. There are some other states that allow us to look at organic expansion, at the projects we have today and reaffirm the number, João.

João Soares

Thank you, Belmiro, very much. And just a quick follow up here about… there's a comment on the release about the concept store you opened up in Barra.

You said that this would be a reference for some other stores you're going to be converting also for the Extra stores you're converting. So, could you maybe give us some numbers or at least an idea on an initial idea about the CAPEX for this concept of store? Maybe it's a little different than the average CAPEX we expect for the conversion. And maybe if there's any things related to productivity, that would be interesting.

Belmiro Gomes

We'll now pass the word on to Anderson, our VP for Operations to talk about the level of services and more details on the concept when it comes to CAPEX and it's not that much of a range because the biggest store conversion cost is in the construction work with the walls, flooring, air con, water reservoirs and equipment. Those are the ones that most impact the costs are more in these aspects.

Anderson Castilho

Okay, Belmiro. Thank you very much. Well, this is Anderson here. And when we look at the Barra store, the investments are not very different actually, considering that in some of the store models, we already had some intense work with the butchery service, which is really being positive. We're continuing this year with the renovations and the new stores.

And next year, in Extra stores, we also work with the Emporium with sliced cold cuts in services, especially for the sliced item. And there's small investments, but it adds on to the customer as well, and it brings a very positive flow. So, we had we also brought in some services when it comes to like roast chicken and maybe more refined categories and beverages, we're able to develop something that's not very different than what we work with a cash and carry format, but it adds a little more value besides the category.

So, there's a… We mapped out many different stores and we saw the opportunity to add other services and other opportunities. And also, when you look at the mix products, the categories that we can work with, whether it's a customer A or B with a mix, just a little more robust considering that we're also looking at stores that are a little greater.

So, we're going to have stores that we have until they're up to 10,000 square meters, which is higher than what we have in our day-to-day activities. So, it's a positive incremental it's a new project still, but we're having results that are very, very interesting. And when we look at the butchery, it's still something that within us they have very positive growing impact.

So, we continue with the stores this year to have a strong store renovation project and including everything but the stores from the Extra, considering their size, allow us to bring something different to customers, which is being very positive and really well accepted. So, I believe that with all of the necessary caution in our business, we need to have low prices and low costs that are part of our DNA. And we have been able to add services and products. I think that's pretty much it. But we're trying to bring something new for each unit.

Moderator

So, our next question comes from Filipe Rached. He's a sales side analyst from Goldman Sachs. We'll open up your audio.

Filipe Rached

Well, good morning Belmiro, Dani, Gabi, and Anderson. Thank you for answering my question here. You have two questions, actually. The first one is about the B2B mix and B2C mix. And how have you been looking at this compared to the history pre-pandemic? Do you see a bigger traffic of individuals in store and second, it's about the last mile or partnerships? What type of customer do you think you're bringing in with this kind of partnership?

And what are the economics like and what are the main lessons learned from the operation so far? Could you give us some details on this? That would be great. Thank you very much.

Belmiro Gomes

Thank you, Felipe. Well, when it comes to the customer flow, what we've observed so far is that the trend we've seen in 2020 with greater participation from the end customer continues. As I said before, one of the drivers for the execution of the Extra project and even in the organic expansion, of looking for more central points is that you have a barrier, often the barrier of location.

In our view, this increase should still remain, especially because a large part today, for legal entities, is already a large buyer of the channel. Often, those who are not buyers of the channel are because they are in regions that are still very distant and maybe that the wholesale distribution can do it, or even in some regions here that it measures the distance from the store too, even within the central area of Brazil. There are in large, densely populated cities, where you have logistical difficulties and high logistical costs, because the city is very busy or, on the other hand, you have very distant squares, where you also have logistical costs.

In our view, this increase should still remain, especially because a large part today, the B2B customers, is already a large buyer of the channel. Often, those who are not buyers of the channel are because they are in regions that are still very distant and maybe that the wholesale distribution can do it, or even in some regions here that he measures the distance from the store too, even within the central area of Brazil. There are in large, densely populated cities, where you have logistical difficulties and high logistical costs, because the city is very busy or, on the other hand, you have very distant cities, where you also have logistical costs.

So, in our view, we have noticed this, that maintenance of greater participation has remained the same. Regarding learning, we already had great expertise with the digital issue. Because within GPA, why didn't Assaí have any offers? At Extra it already had, and then, as a group, it made no sense to have, in our view, for example, the offer of Pão de Açúcar as Extra from another such as Assaí

Even because on the website, in fact, the service is very similar, different from the physical store. As long as there was a split with the group, we are simply now putting that option for the customer as well. There are some learnings, yes, from our operational point of view, but part of the knowledge already existed as a group. There is still some progress to be made, as I said, I still wait until the end of the first semester to give more details about what we have in terms of the digital package as a whole and to go over some things that still lie ahead.

Filipe Rached

Well, great. Thank you, Belmiro.

Moderator

Our next question comes from Marcella. She's a sell side analyst at Credit Suisse. Marcella, please? Open up your microphone now. Please, Marcella, you may proceed.

Marcella Recchia

Hi, Belmiro. Hi, Dani. Hi, Gabi. Well, about some of the questions, the first one is how are you looking at some of the trade down and traffic trends in different regions in the country? And the second question is, considering this context with more fragility and income how have you seen the behavior of the gross margin over the year? Is there really space to continue to protect margins year over year? Thank you.

Belmiro Gomes

Well, let me pass on the word to let me our VP Wlamir, our commercial VP and logistics VP. Maybe he can answer this a little better. He's a specialist in margins. Thank you, Wlamir.

Wlamir dos Anjos

Well, good morning, everyone. Thank you for the question, Marcella. Now, a bit about the trade down, an evolution of the different categories actually considering what happened in 2021.

Strategically, we had already worked on this movement in each of the regions in a unique manner. And we currently work with 11 regional offices around Brazil with this concern from the regionalization and really offering the right product to each store and market. So, we shouldn't have that many modifications in my opinion. And of course, we still may have a trade down but not stopping consumption, but maybe buying brands with lower value. But I think it's not going to change too much. What could happen, however, with the reopening of the economy and recovery overall, but to be gaining a little more strength, we have some of the schools that are recovering their activities now and so we could have a shift in the way or significance of the category by type of customer.

But as Belmiro mentioned, consumer participation remains, and we don't see too many changes. But what will change this prerogative with this network of stores that Extra, especially the inclusion of new categories as Anderson mentioned, we have the possibility of having new services in all new categories that we could explore. So, it's going to be a mix that we're going to be adjusting with the Assaí commercial areas, it always works looking at what we can do in each store and in each region.

So now about the margins, we… The first issue that we always need to consider is the competitive advantage and how we can balance this out so that we can deliver value with a value proposition that's positive for customers, not only with prices, but also with service levels. And this leads to a lot of pressure. So, we really believe that this is going to be a year where we have some pressure in the margins in the overall scenario.

But with industry and suppliers, we can really work on balancing this out. So, I think the speed and agility that we can adjust in the assortment and in the commercial policies and even the partnerships and dynamics we have with our suppliers, we've been able to. If you were to look at this in the last years, our margins and so regardless of the scenario with the inflation or trade down, we can still balance is don't have the necessary expertise and support from our suppliers.

Marcella Recchia

Okay. Thank you very much. Super clear, though, but just a quick follow up if possible. When you talk about competitiveness, we've heard from some players that the commercial scenarios may be a little bit more intense with some players even performing some TV commercials, which is not very common in the segment. Could you maybe talk about how you felt this issue, the competitive advantage, considering the macro context that we believe is a little more difficult?

Wlamir dos Anjos

Well, Marcella, a competition actually always existed. Now it's a little more intense, maybe just considering the context overall, but in the same way as we also will adjust. So, we have markets also that are we're just as aggressive as our competitors with some communication strategies. So, we have a marketing plan that's really well structured, reaching even the store level to be able to adjust communication and disclosures and margins in that specific store.

So, there's also the aspects of how we communicate, which vehicles we're going to intensify in certain markets where we don't use television or others that may have television, radio, for example. So, we also use these different tools to be just as competitive and balance out the margins and expenses in each store and marketing investments as well to be able to guarantee this competitive advantage.

So, if this allows us to have more of a national perspective, which would be very different with the purchase power with the economy in the regions that are very different parts of the continent, and we've been able to go through this. So certainly, the sector overall is even considering the fact that you have more consumers and also being closer to the consumer.

You changed a bit of the dynamic in the communication, but we are within the scenario. We've been able to really have a good value proposition on keeping up with our competitiveness, so I think this is the main point. We also adjust to the market and the overall situation. The market really moves us.

Marcella Recchia

Okay, perfect. Thank you so much, guys.

Moderator

Our next question comes from Ruben Couto the sell side analyst from Santander. Ruben, you may proceed.

Ruben Couto

Well, we have two follow ups. first on the point about those sales trends, now the beginning of the year. And we consider that there probably be a positive thing for sales in the first months. But I believe that there was maybe an interview from you, Belmiro, talking about a level about 5% in the first months.

Does it make sense? Those numbers, makes sense? I wanted to confirm this. And then going back to the topic of the concept store, I know that we still… it's still maybe a little early for this, but the sales pace we've seen so far, is it really in line with that level of contribution, about 1,5% on average, higher than what you expect for Extra store conversions? And would it make sense to consider that we're heading in this direction? Thank you very much.

Belmiro Gomes

Thank you, Ruben. Well, about the levels of performance in the store, they're really within what we expected for this project. The 150 bps obviously see a maturity curve so that you can reach this level, although that is you also have the acceleration of these stores Extra. Each one will also have a level of a curve level comparing depending on the region and participation.

But it's within the project. Maybe they call it a concept store because there's some elements of the visual communication that we're not sure could be scaled up to all of the stores, that some of the services that we have been testing actually here some are already used in other stores with higher income profiles. So, it's like if you have a single store, that's going to be the basis for these stores as well.

So, there are things where we already have a very strong learning curve. There are others that have been placed, as Anderson said, that may be included within what we believe to be relevant for the Extra store profile, since it is close to the high-income profile. The issue you mentioned, the month of stores, in fact, what I mentioned yesterday, was that it was positive at a level very close to what we have seen in the market, but not to mention the percentage totally of 5%.

However, the customer has seen, yes, a positive percentage yet. Obviously, as we are at 50% of the game, we are still practically entering the second half of the quarter, we have a caution to be able to speak. Because, as I said, there's the Easter shift. As much as this is portrayed in the calendar effect, there is still a month of March to go, but the number is there.

Ruben Couto

Okay. Thank you very much.

Moderator

Our next question comes from Bob Ford. He's the Sell Side analyst at Bank of America. Bob, please, you may proceed.

Bob Ford

Well. Thank you for that question. As the generalization how have you thought of the controls of expenses and sustainability and profitability operationally? Please.

Belmiro Gomes

Expenses. We have some different initiatives and Anderson have been helping with some of these initiatives.

Anderson Castilho

Thank you for the question, Bob. We are a low-cost business, and I think that's already part of our discipline. And so, we're very careful considering that, as was already mentioned, our main motivator is having low prices. And so, this is some ongoing efforts, part of the team, part of the business and the management team is really focused on this.

And so, we've been working strongly with this position on the end of the year. Of course, we as we mentioned, we had a brand trade down, but in the stores, we still have a very strong movement in this direction. So, we can't let our service level drop, but we also have to consider expenses always. So, we started the year also with many different movements in our operation, and we reinforced this process with a capacity to adjust this. I always say that expenses are just like our nails.

You have to cut them at all times. And you have a team that's really focused on this and caring for this. And so, we work on this directly so we don't lose discipline and we can really continue to have low-cost operation and prices that are more aggressive in order to be able to compete with the overall market.

So, I believe that this is process that's always on our radar. When we look at this in the end of the year, it's really in line with what we've seen during the year. Of course, you have an impact of what we imagined. So maybe a little higher and considering that we're prepared also for an end of the year that was stronger.

We had this movement with small businesses and the trade down of brands and more concerned as well. But we continue to follow the same level of discipline and looking at different areas, and different points where we can optimize our operation. Of course, without even with the services being included, I think this actually brings positive results in the operation.

So, this is something we're frequently concerned with in all of our sales teams and our store teams. This includes like extra hours a day-to-day operation, security. So, we're very careful with all of our expenses. But of course, we don't want this to in any way impact our quality.

So, when we look at cash, generally speaking, we understand that our operation is very productive, and it really makes a difference in the day-to-day of our customers. So, we don't want to lose quality in their replacement and always being very careful with the expenses as part of the company's DNA.

Bob Ford

And what are you thinking about the operational leverage at an incremental level from Extra stores?

Anderson Castilho

Sorry?

Bob Ford

Well, how have you thought of your operational leverage at an incremental perspective, from the Extra units?

Anderson Castilho

Well, we believe that we've been working on this initiative, actually, as Belmiro mentioned, and we actually started this work with the Barra da Tijuca team, incrementing different services. Some of them we already have an operation, which is the butchery, for example. I think this has a low impact on expenses when considering what we can add within this operation, and especially from the public, so we can bring in greater added value we can bring in different services. And I think that with our discipline in other lines, we can offset or administrate the operation.

I think there's an important mix and category that adds more sales without adding on expenses. And the new services also need a little more results in our operation, which is also very positive. I'm not concerned about this, and I think this is a differential we're going to be able to add in the cash market and this is what we consider when we see the batteries model. We started a project in the end of the year. This year we ended over 70 stores and this did not impact operation and the rest would just become an add on.

Bob Ford

Well, we were talking about the operational leverage to add 71 stores in the current base?

Belmiro Gomes

Well, I think we see that this is impacting all of the areas in the company. So now we have part of our team that's leading this with us and the store leaders. We also have a community also with our corporate university training, our teams. It's not an easy challenge to incorporate 70 stores, but of course the lessons learned with the opening of almost 50 new stores in the last 2 years and with the organic expansion we just opened, don't open more because of CAPEX licenses and projects.

So, we do have a lot more confidence. Now, of course we were able to when we started thinking about this transaction to open up the Extra stores and we had some positive signs. We started some initiatives to reinforce the areas and teams to guarantee that we would be able to really add more stores into our network without leading to major impact in our overall process and our model as well, how we have a level of investment that are really high.

So, you can see that these direct gains are going to be related to processes that are very adjusted within the company. And so, for example, the hub… so, in the store floor where we see expired products or products that are going to be switched, this has been helping us a lot with the expansion that we've been working on in the past year.

So, Assaí went from 14 units in Brazil a decade ago to 213 stores now, and this leads to the necessary confidence that we need to be able to incorporate Extra stores and overcome the difficulties from an operational perspective so we can reach the levels of performance that they already operate with today. I hope that clarifies your question, Bob.

Bob Ford

Thank you very much Belmiro and Anderson, thank you.

Moderator

Our next question comes from Joseph Giordano, the sell side analyst from JP Morgan. Joseph Giordano seems to not be present anymore. So we're going to move on to our next question, which is from Jander Silveira, the buy side analyst from Truxt. Please, Jander. We're going to read his question; he may have some problem with his microphone. So, he would like to know if we were able to help understand or measure the impact of the cannibalization that the big amount of new stores has caused in the same store sales. Maybe compare the performance of the group of same stores with the others?

Belmiro Gomes

I was also reading the question a little bit before then I tried to answer this in the chat, but yes, you have a big number of stores and there's an impact as expected and is part of an organic expansion.

If you look at the last opening that we had in Porto Velho, we had our own unit there and now we're moving to the second… Well. You still have the small businesses that maybe have a bigger distance with an impact with the sales.

In December, we estimated that the same store sales were impacting the quarter as a whole as three percentage points, which follows the curve and then you capture more consumers then or maybe the stores that suffer with some cannibalization.

From an operational perspective, they're probably going to be at a limit. They're about R$ 5.800 reais per square meter. So, this is part of the expansion project, and you really have this cannibalization effect. And in this quarter, there should be an impact of about 1.1 p.p. to 1.5 p.p.t. Yes. So, this is another and also in the fourth quarter of last year as well.

Moderator

And the next question: Would you imagine that as it would increase the network of stores in Rio de Janeiro, or if yes, how many stores partially?

Belmiro Gomes

Yes, within the Extra project, to give you an idea, I don't think the question came or will come, but we should finalize the final list of stores now in March. We still have eight stores that are in the final phase with the owners. And yet, if you don't enter an agreement the owner, it may be that these stores don't seem to have managed to converge. So, there are stores in Rio de Janeiro and there are a significant number of Extra stores in Rio de Janeiro that are going to come.

And there are also organic stores. There is a project that is currently running in Rio de Janeiro. So yes, new stores, Moisés will come to Rio de Janeiro.

Moderator

Alright. Thank you, Belmiro. Our next question on digital. Could you maybe talk about how much your typical customers already use from digital or what are the milestones expected for the app when you launch them? Do you expect such an amount of users monthly? What's the guidance for the development of the app and a confirmation about the guidance, are the R$ 100 billion in revenue for 2024 guided effectively recognized in 2024 or is 100 billion of annualized revenue expected?

Belmiro Gomes

Well, with the entrance of the stores we are expecting the R$ 100 billion in the total of 2024. So, we have a project with the corporation where we can complete this with all of the store conversions, so the target is for the total revenue in 2024.

The cost of development of the app, we can't disclose this yet. It's still under development but it's not relevant considering the size of the investments of the company and the percentage of participation and why it comes in now with more focused on digital is that we adapted to the presence of customers that are around our stores, and there's some pressure that would come in from a pickup from store and another opportunity for purchases in digital just because they're entering regions with a better target audience, which is a case of these stores coming through actual, which would end up making us require some kind of movement direction. So not necessarily do the demands we have currently from the customers in a certain region would correspond to the demands that we have in stores that are located in regions with higher income populations. So, this is very perceivable today. Believe it or not, you have some research done with customers and digitalization and see e-commerce appears sometimes as a 12th topic.

So sometimes customers want to know if they have a huge queue in the store, if the products are going to search, have it's available and you may be able to offer an alternative brand to them. Like if you buy a certain product, would you be able to have another product the same quality? So, you have different demand depending on the regions you're operating in.

So, if there are regions with high demands and just very low demand for digital services and all of them have a common interest in understanding the price of product that they're secured, the store and other aspects. So, we think we'll be able to answer these issues with the new app and also delivering some of the necessary services to that Target audience around that store.

Moderator

All right. Thank you, Belmiro. The next question comes from Gustavo. He is an individual investor, and his question is: In theory, administrative costs reached 9.5% of the net revenue in the fourth quarter of 2021. So, would this be a new level of share on the expenses upon net revenue for 2022?

Belmiro Gomes

Well, this percentage actually would be the fixed and administrative and operational expenses. So, the fourth quarter is not a basis for the next year, but it's the basis for the fourth quarter because then you have a bigger effect of the 13th salary. You have higher sales volume and have an important dilution. So, it's what we should expect are some levels of expenses that we've had in the year of 2021 as a basis for 2022 and the levels of expenses for the fourth quarter 2021 for, as a basis as well for the 4Q22.

Moderator

Thank you. Our next question is from Victor Augusto. He is also an individual investor as well. And his question is the following: About the distribution of customized products like flour or cassava flour, gluten free or lactose free products and other items that are trendy or specific for region to region.

Belmiro Gomes

The question's not very clear.

Gabrielle Helú

I think it's the differentiation of the store assortment, right?

Belmiro Gomes

And if you've been including this line of products and all of the units, and then obviously we have stores in regions that are very, very different all-around Brazil with a mix needs, it's very different to give an idea. We have units where you have like, for example, a store in Sao Paulo and store Minas have over a thousand kids that are different from store to store.

And so, depending on the region, you have stores in the north and northeast. You have some items that are not even really well known, just as we have products there that are completely unknown up here in the southeast. So, this issue to customize the assignment, to make it regionalized is something that we've already highlighted that our commercial teams work on strongly to guarantee that we can services customers according to each region.

Moderator

So, the next question is from Tiago Nobre. He's asking you about IT security.

Belmiro Gomes

And we've seen, of course, technology just expensive there, just like nails. You have to cut them all the time. So, you're always investing to cut on expenses. And I.T. involves constant investments, especially when it comes to scalability. Because the company leads from the amount of stores that they had before. So, when you look at the database, we have over 100 million invested.

And of course, you don't sometimes have e-commerce and you have a level of security is greater. But when you talk about segregation of database, cloud based, deployments, and other protocols that are being employed in flight, we had strong investments on Assaí, because this topic gained a lot of relevance. We saw there is a lot of difficulties that companies went through with data robbing and sequestration.

And so, this led us to say, look, I can't do in perfect. I have no chances of someone attacking you because most of these attacks are even coming in from inside. There's some communication from employees and that lead to risks. But this year we're going to perform another process. We have three suppliers that are reference when it comes to cybersecurity, and they're helping us in the system as well.

Moderator

Thank you very much, Belmiro, for that answer. Our session for Q&A is complete, is finished. Now we're going to pass on the word to Belmiro for his final remarks later. Belmiro, please.

Belmiro Gomes

Well, thank you very much. And thank you, everyone, for asking. And as final remarks, I want to thank all of the team for everything is being done in this very challenging scenario we've had with the pandemic.

A lot of people had to work with home office conditions and the amount of store openings also affected the geographic footprint of Brazil, which made a lot of people have to travel for quite a while. So, I want to thank all of our teams for their dedication in different areas. You're really the ones responsible for these results. We also had strong support, support from the construction partners and other suppliers.

So, there's a real group of factors not only in the company, but also suppliers and providers that help us so that we could really deliver the numbers in 2021. And we can see that from our perspective. It really is a very positive result. I'll tell you the best phase this year we have an important challenging project with changes in positioning in the food market as well.

But we believe at this moment that acquisition of the Extra stores is one of the most important movements in the overall food market in Brazil in the last years. And this will also allow us to have our shareholders and investors in the company and employees really follow a very positive, virtuous cycle, taking advantage of this moment that maybe be a little more challenging when it comes to the overall economy.

But the company always grew through difficult moments in a low-cost model that has really benefited in these periods where you have a search for lower prices. And this gives us the necessary flexibility to provide confidence to customers so that we can search for these challenges and really being convinced about the important steps will take ahead to make the Assaí brand more well-known and have an important share in different social levels. And looking at this within the target that we've set for 2024 when it comes to revenue and results. Thank you very much, everyone.

Moderator

Our earnings call for the fourth quarter of 2021 of Assaí is officially ended. The I.R. Department is available as well to answer any other questions that you may have. Thank you very much to all participants and have a great day.