Sonae 1Q20 results - conference call transcript

Moderator: João Dolores, Sonae SGPS, CFO

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Operator: Ladies and gentlemen, welcome to Sonae's first quarter 2020 results conference call. During the introduction hosted by Mr. João Dolores, Sonae's CFO, all participants will be on a listen-only mode. After the introduction there will be an opportunity to ask questions while pressing star one. And if any participant has difficulty in hearing the conference at any time, please press star zero. And I will hand the conference over to Mr. João Dolores. Please, go ahead, sir.

João Dolores: Thank you. Hi, everyone. Welcome, and thank you for joining our Q1 results conference call. I sincerely hope everyone is keeping safe and healthy at this stage. Together with me on the call today, I have Rui Almeida from Sonae MC; Paulo Simões from Worten; Miguel Moreira from Sonae Fashion; Luís Mota Duarte from Sonae Sierra; and Cristina Novais from Sonae Investment Management; as well as our Investor Relations team.

As you know, we are living under the impact of the COVID-19 pandemic and Sonae's Q1 results were already affected by this. In fact, Q1 was marked by 2 different moments: the start of the year, pretty much up to the beginning of March, with a very positive performance across all businesses; and then the emergence of COVID-19 that started impacting our portfolio in March. So I will start by giving you some insights regarding how we have been managing the situation, and then I will run through the group's main performance highlights before opening up the session for Q&A.

I would like to start by saying that priority number 1 for us has been the health and safety of our employees, partners and customers. We have really been relentless at all levels here, in the context in which we need to continue to provide the essential services to society. We have been monitoring the evolution of this situation very carefully since the start and have acted early on to develop a set of prevention and contingency plans which cover the entire organization and our value chains across all businesses.

In what concerns our people, we have implemented dozens of new health and safety measures in the frontline, from more frequent facilities cleaning to the use of personal protective equipment and also restricting the number of people per square meters. Our more than 6,000 head office employees began working from home with all the necessary conditions in terms of available tools and activities to maintain high levels of motivation and professional development. Naturally, we are not immune to this pandemic. And despite all the safety measures, some of our people have been hit by this virus. In these cases, we have ensured that they have the best possible care, and we do everything in our power to minimize the possibility of contagion. We have quickly put in place a daily monitoring process, which we will continue to follow, obviously, until we are free from this pandemic.

We have also done our best to maintain people's jobs and remuneration levels during this tough situation. Just as an example, in the case of food retail, we have awarded an extraordinary financial bonus to store and logistics employees at the recognition of their availability and efforts. I would also like to say that we have reinforced our commitment to society in this context. I'm proud to say that community support initiatives continue to multiply within the group. The value donated to society so far has already exceeded €1 M, from financial contributions to donations in kind, through many different actions to support local and central governments. And we can also add these initiatives, the full payment of salaries to our people in several businesses that have had their operations closed, the activation of alternative suppliers, especially small local producers and also the advanced payment program, which was created at Sonae MC to improve liquidity in these local producers. I would like to say that this commitment to society is a critical part of our mission, and we will continue to identify ways in which we can support our communities in the months to come.

Now let's have a look at our Q1 results, starting with **Sonae MC**. Sonae MC had a, I would say, really outstanding start to the year, both before and after the pandemic in Portugal. After a strong start to the year with the performance very much in line with 2019, the first half of March saw record levels of growth. And this was obviously impacted by the behaviour of consumers, which led to an unprecedented spike in sales, both in stores and online. Since mid-March, and given the declaration of the state of emergency in Portugal, the sales pattern in Continente stores returned to more normalized levels, but remained quite positive. Regarding non-food formats, Sonae MC was forced to temporarily shut down some formats, namely Arenal in Spain, and also Dr. Well's and Bagga. All in all, in Q1, Sonae MC's turnover amounted to €1.2 bn, 14% above last year with a like-for-like growth of 10.6%, and operating profitability was broadly stable with an 8.1% margin. This strong top line performance was offset by higher operating costs, a less favourable sales mix and also the closure of the non-food banners, which I mentioned before. In any case, the ability demonstrated by Sonae MC to react quickly to this changing context enabled a very strong operational performance in Q1 which has continued throughout April and May.

Now looking at **Worten**. Worten also had a solid like-for-like sales growth, around 6% year-on-year until the end of February. And in March, it had to rapidly adapt to the lockdown measures. In Portugal, all stores remained open, with the exception of Worten Mobile and also the iServices stores located in shopping centres. This was not the case in Spain, where all stores in Mainland Spain were closed despite still supporting the online operation. While in the Canary Islands, only 6 stores were closed, 2 of which were adapted to serve online orders. Overall, performance has been quite positive given the context. And this is particularly true in Portugal, where we have seen very resilient sales in stores and also a really outstanding growth in online sales. All in all, the business has continued to gain market share on the back of a very robust omnichannel offer, a quick reallocation of resources and also innovative operating models and channels. And I would add here that Worten has really had a very fast trial mentality here trying to adapt very quickly to the needs of the consumers. As a result, turnover in Q1 stood at €232 M, practically aligned with last year, while underlying EBITDA stood above last year, benefiting from the good performance up to the onset of the pandemic and also due to the closing of loss-making stores in Spain in the last few months. A last note, just to mention that Worten registered already in Q1 stock provisions in the amount of €20 M to anticipate future impact of this crisis. This represents a prudent view of the potential impacts of the situation on Worten's inventory. And we do not expect, at this stage, any further impact on stock valuations up to the end of the year.

Moving on to **Sonae Fashion**. Sonae Fashion was the most impacted business by the pandemic spread already in March. The first two months of the year were actually quite positive, both in terms of top line and also underlying EBITDA. But in March, the first two weeks were already worse than last year. And then all stores were first forced to close down temporarily to ensure social distancing. This shutdown led to a 49% drop in sales in March. The online channel delivered a solid performance, but obviously not enough to compensate the inactivity since mid-March in the stores. Turnover in Q1 stood at €78 M, 19% below last year. And underlying EBITDA reached €1 M, significantly below 2019 levels. Currently, several cash preservation initiatives are already being taken to mitigate the impacts from those restrictions in the overall activity. And similarly to Worten, around €25 M of stock provisions were already booked in Q1 as an anticipation of future potential losses. This, again, represents a prudent view and was mostly focused on the spring/summer collections in all banners. We are now in the process of reopening our stores since the beginning of this week, while continuing to accelerate online sales, and we expect to be able to maximize sales of these collections. The team was also able to adjust purchases for the coming collections so as to diminish the risks associated with excess inventory.

ISRG. In sports retail, I would say that the results in Q4, which is the quarter that consolidates in some Q1 accounts, were quite strong, still without any impacts on the pandemic. The business continued to post double-digit sales and EBITDA growth. And the contribution to Sonae's results amounted to €2.6 M in the quarter. And meanwhile, obviously, ISRG was also highly impacted by the confinement measures caused by COVID-19. All stores were forced to close in both Spain and Portugal. They are now also starting to reopen. So as in other banners which were forced to shut down their stores, ISRG's operational results will be heavily impacted during the months of April and May.

At **Sonae FS**, Financial Services. The start of the year was quite positive as well, with an accelerating performance, which was enough to compensate the negative impacts which we already felt in March from the pandemic. Turnover reached €9.4 M, 14% increase year-on-year and underlying EBITDA slightly improved to €2.1 M. Since the outbreak and the confinement measures, there was a significant reduction in private consumption which in essence, led to a deceleration in most business lines, particularly in personal loans and cash advances. The number of new Universo Cards issued also suffered a sharp decrease in the last weeks of the quarter due to the closure of some points of sales and also a decrease in traffic in others. In any case, the number of cards increased yet again to 877k by the end of Q1. Meanwhile, Universo has been focusing on the development and promotion of digital channels and solutions in order to mitigate the impact of the current crisis. Results so far have been, I would say, quite encouraging.

Moving on to **Sonae Sierra**. Q1 at Sierra was marked by the successful creation of Sierra Prime, as you know, a landmark transaction for both Sonae Sierra and for Sonae. This new JV, which we touched upon in our last call, as you know, is a partnership with blue-chip investors, such as APG, Allianz and Elo, which really demonstrates the quality and attractiveness of Sierra's portfolio of assets and also the company's track record in managing these assets since the company retains the management of all the assets in this portfolio. The total cash proceeds of this transaction further improve Sonae's high liquidity and balance sheet strength which is also an important element when looking at the next few months facing this crisis. Other than that, the portfolio showed a very strong performance during the first 2 months of the year. And then with the COVID-19 outbreak, there were strong restrictions imposed on retail activity, and our shopping centres were practically closed since mid-March. The main impact of the pandemic on Sonae Sierra will obviously only occur in the coming months. Right now, the company has been focusing its efforts on working closely with all its stakeholders during these times, these challenging times, namely tenants, co-investors and also financial institutions. The business and the team have been implementing several cash preservation measures and also preparing now for the reopening phase. As for results, direct results at Sierra in Q1 show, I would say, a direct reflection of the company's asset sales over the last 12 months, and the company's indirect results include the capital gain obtained in the Prime transaction and also €18 M provision for development projects as the current context increases uncertainty regarding the development pipeline. Regarding NAV, Sonae Sierra ended Q1 with just above €1 billion in total value, a 26% decrease year-on-year. And this was naturally mainly impacted by the sale of the Prime portfolio of the stake in the Prime portfolio and the dividend distribution which followed the transaction, but also by an adverse impact from FX differences, mainly the devaluation of the Brazilian real.

Regarding **NOS.** I mean, as you know, NOS has already published its results, and these results were also already impacted by the pandemic, both operationally and also due to a number of contingencies which were registered in Q1, mainly for bad debt. This obviously has a significant impact on the company's equity method contribution towards Sonae's results. In any case, NOS continues to play a critical role in the Portuguese society, and we are very confident in the company's ability to navigate this storm with a high degree of resilience and innovation. The business maintains a conservative leverage level and a strong liquidity position, which will be further reinforced with the sale of NOS Towering to Cellnex, which was already announced in Q2.

Finally, regarding **Sonae Investment Management**. The company hasn't felt yet any significant impact from this crisis in Q1 results. In terms of investment activity, we have put some properties on hold for a matter of prudence. The company made just some follow-on investments in portfolio companies and also entered in the share capital of a retail tech company, Sales Layer, which is a business specialized in product information management. Regarding operational performance, turnover stood at €26 M, down when compared to 2019. This is mainly driven by the decrease in the resale of technology by Bizdirect, which was not fully offset by the solid growth of cybersecurity services, which we expect to remain strong in the coming months given the current context. Underlying EBITDA was negative in €1.5 M, a slight improvement versus last year.

All in all, **Sonae's consolidated turnover** reached just over €1.5 bn, a 7% growth year-on-year, mainly influenced by the strong performance of Sonae MC. Underlying EBITDA at the group level increased 5% year-on-year to €100 M on a comparable basis, i.e., if we exclude the accounting impact of the deconsolidation of the two prime assets at Sonae Sierra. And this is despite the already negative impact of a lockdown at the end of March, particularly relevant, at Sonae Fashion. Net income, as you saw already, was driven to negative ground in the quarter. And this was mainly impacted by the recognition of the extraordinary contingencies I mentioned before at NOS, Sonae Sierra, Fashion and also Worten. Sonae's capital structure and liquidity improved once again, net debt at the end of Q1 reached €1.2 bn, down 27.5% year-on-year, and we were able to refinance almost €500 M of debt since the beginning of the year, maintaining a low-cost and a maturity profile around 4 years. In this context, we do not anticipate any additional financing needs in the short-term and we trust that we have the adequate liquidity levels, even under significantly more stressful scenarios, than most international institutions project at this moment. So that's it for me for the time being. Thank you for listening, and you can now please open the session to Q&A.

Operator: To ask a question please press star followed by 1 on your telephone keypad. To prepare to ask you question, please ensure your line is on muted. The first question today comes from João Pinto of JB Capital Markets. João, your line is now open.

João Pinto: Good morning everyone and thank you for taking my question. The first one on food retail. I imagine you gained market share during this pandemic period. Firstly, can you confirm this and tell us how much share you gained? And following on these topics, you presented strong sales numbers in the quarter and in April. Can you give us your view on what led you to perform so strongly? I believe exposure to larger stores helped, online also helped. If you could give us your view, would be great. My second question, also on food retail, margins were broadly flat in the first quarter. What can we expect for margins into the second quarter and the rest of the year? What's the amount of extra costs related to the COVID-19 that you forecast? My third question, on Fashion. In your Capital Markets Day, we understood you are in the middle of a turnaround. The COVID-19 has a significant impact in Spain. Have you changed any plans for less profitable brands? And finally, on ZOPT. Regarding the court decision to suspend half of the participation in NOS, when do you expect news from the quarter regarding the appeal presented by Sonaecom?

João Dolores: Okay. So I will start by taking the last question, the ZOPT question, and then I will hand it over to Rui and to Miguel to take the questions on Sonae MC and also Sonae Fashion. Look, regarding ZOPT, as you know, there was a court order seizing half of ZOPT shares in NOS. We have made public that we do not agree with this court order. And also, we have made public our opinion and reasoning behind this position. We also announced that we would be exploring all judicial means to overturn this seizure which, in our view, doesn't have any legal grounds and does not even achieve what the Angolan government is trying to achieve. And this is what we are doing. And so we have no further comments to make at this stage. We are currently exploring all the legal options that we have to overturn this decision. And whenever we have news on this topic, we will obviously announce them. So I will now hand it over to Rui for the Sonae MC questions.

Rui Almeida: Thank you, João, for your handover. And hi, João, and thank you for your questions. Regarding the first question, the question regarding the market share. We gained 40 basis points, meaning 0.4 percentage points in this first quarter. Regarding the questions related with how the market is evolving and how we performed this quarter. Well, first of all, market grew this quarter. And the food consumers were, this quarter, even considering the April month, consumers, as we saw in our stores start to prefer the one stop shopping purchases. We saw that they started to see that the less frequent customer trips, larger baskets. In fact, we saw that different inter week profile, they prefer to go shopping in different days during the week. They started to prefer work weeks days, as they were preferring in the past weekend days. Now they are preferring more the work week days comparing to the past. They are continuing to prefer even more today, the proximity stores. Proximity stores are growing. The proximity store that growing even the smaller stores are growing. They are growing market share. And today, we are totally focused, and this became part of our DNA. We are focused and we are committed on execution. And we are gaining in terms of safety because we are gaining, and we are devoted to supply chain and safety of our operation. And we gained of all the investment we did in the past due to that. That's why we performed. We gained in terms of what we did in the past, and we did well during the last month to do that. In terms of margins going forward, well, there are some investments and some costs that we need to support in the next months due to the situation. It's too early to give you a clue about that. But staff costs will increase. The stock bonuses will be higher, much higher than in the first quarter. Costs related to safety, cleaning, PPE expenses, even costs related to the warehouses, everything that we are supporting, even transportation, et cetera, it will be higher. Even discounts that we need to give to our tenants in our shopping galleries, we need to support. We will, for sure, that our EBITDA will need to support an impact due to the situation in the second quarter. But it will be a little bit too soon to give you a precise figure, what will be the total impact about that situation because those figures when we are negotiating with tenants. So we are negotiating with all the impacts of the COVID situation, too soon to give you a precise figure.

João Dolores: Look, I would just add to Rui's comments on the question on what drove our market share performance in the quarter. I think it's fair to say that all the investments that we have made in recent months in terms of bettering our value proposition are really paying off now. That was already the case in 2019. And during this crisis, we saw those investments really pay off in terms of our value proposition and how it's perceived by customers. And that is also the case, I believe you mentioned that, João as well, in terms of our online offering. I think our e-commerce presence and the fact that we were able to rapidly adapt and increase our capacity by more than 3 times very quickly to react to the situation was also something, which was extremely valued by our customers. Miguel, do you want to cover the Fashion question?

Miguel Moreira: Yes, of course. João, thank you for the question. And regarding our transformation plan, we are not changing our strategic guidelines for the moment and the key drivers of our transformation plan. That transformation is based on more digital operations, the more agile teams. And those changes are really necessary for transformations for Fashion but even to face the market that we have ahead. We have to evaluate the market and our competitors in the new normal. And then we will decide the kind of changes that we have to put in place to evolve the company. And I can assure you that we will be disciplined when looking to our portfolio, and we'll make the right adjustments and right decisions that we have to make. But it's too soon to make any changes to our plan.

João Dolores: If anything, this context makes us believe even more in the turnaround process, which we were pursuing and makes us want to accelerate the process.

Operator: The next question comes from José Rito of CaixaBank.

José Rito: Good afternoon. So I have 2 questions on Sonae MC. The first one related with online sales. So how much it is in terms of percentage of sales as of today? And how this compares by the year-end 2019? Because I would assume that, as João mentioned, that online sales has been evolving at a much faster rate than a consolidated level at Sonae MC. So I'll assume that this has been gaining weight. And related to this, if this could be a risk to margins going forward? If you can share how much is the economics of online business as of today, if this is already at breakeven at the EBITDA level that will be great. My second question is related with the promotion intensity in March and April. I saw some data from Nielsen that shows that at least in April, the promotion intensity has been cut. I'm not sure how do you think this could evolve going forward. And if you are seeing risks of a new way of promotion spike as we've seen in 2012? Because you have been outperforming the markets and some of your key competitors have had a much worse performance in Q1 and April. So my question is, if you assume that going forward, the promotional intensity could increase? Then I have a new question on Sierra. If you can share what level of rental discounts have been negotiated with tenants? If you can give some references? And if this could be repaid in the future or will be an effective loss for Sierra? And that's it.

João Dolores: Thank you, José. I will just make an introductory comment on online sales because before handing it over to Rui and then to Luís. And I think it's fair to say that's, obviously, globally, in general, in all our businesses, online sales have increased very significantly over the past few weeks. And I think it's also fair to say that our businesses have been able to react very quickly to this changing circumstance. And have been able to increase market share online as well. And this is across the board, it's food retail, electronics retail and also fashion retail. In total, in Q1, we increased our online sales by more than 50%, and the impact of the COVID-19 pandemic only kicked in, really, at the end of the quarter. And so we've been witnessing tremendous rates of increase of e-commerce sales in all our businesses. And again, our businesses seem to be top of mind of our consumers when it comes to e-commerce. And so the performance there has been quite outstanding. And I will now hand it over to Rui to answer your questions on Sonae MC and then to Luís to answer the Sierra question.

Rui Almeida: Yes. I don't know if you are totally clarified about… First of all, hi. I hope everything is okay with you, and thank you for your questions. I don't know if you are totally clarified with the questions related with online. I just had to agree with the answer which João gave to you. But just to clarify that I don't know, according to different sources, the online business in Portugal penetration accounts for less than 2% and although we have more than or roughly 70%, the market share of this penetration continues to be very small. And during this quarter, in fact, the online grew significantly in our portfolio. But the absolute figures that we reached are totally marginal for Sonae MC. So meaning that we are fighting to reach the breakeven in terms of EBITDA for this year or the year to come. Yes, and we feel that we could reach the breakeven this year. But the fact that we are growing so much this year, probably we will reach this year even faster than we were supposing. But the figures are not so expressive, as you could imagine. But in terms of the promotional intensity that you were asking, yes. In fact, due to the fact that the March and April demands were a little bit different from the previous months, consumers adjusted their shopping baskets, being less sensitive to an incremental expenditure in non-essential items and the promotions. And grocery retailers simplified their in-store processes and revised their promotional initiatives to deal with the search in demand and ensure product availability in stores. That's due to the fact that these months were a little bit atypical comparing to the previous months. What happened, and you probably have those figures at the levels of promotional intensity in those months, decreased a little bit comparing to previous months in other years. In fact, Nielsen provided us with these figures that, for instance, in March, the promotional intensity decreased by 7 percentage points. And in April decreased as well. But what we are seeing, for instance, in May, is that levels of promotional intensity are basically being the same comparing to May last year. So we are recovering levels of promotional intensity that we were having in the previous years. So we are back in to normal.

José Rito: What I was basically asking is, do you think that going forward, the competitive landscape could get worse, then better because of… well, what I mentioned in terms of …

Rui Almeida: I think it will be become pretty much the same.

José Rito: Okay. And just on online. So can we assume that online sales is around 2% of your Sonae MC sales?

Rui Almeida: No, I didn't say that.

José Rito: The market, you said the market.

Rui Almeida: I did say that according to different sources, that was less than 2%.

João Dolores: Luís, do you want to take the Sierra question?

Luís Mota Duarte: Sure. Good afternoon all. From a side Sierra point of view, we'll also take the opportunity to kind of remind everyone that from a Sonae Sierra portfolio point of view, we are, thanks to the work that has been done over the past few years, we now have a portfolio which is very much Prime shopping centre focused, Prime shopping centres, I mean shopping centres that are very dominant in the area with significant levels of footfall, et cetera, represent roughly 63% of our portfolio. If we add to that other centres, which are not prime, but still have more than EUR 10 million of footfall on an annual basis, we're talking about 73% of our portfolio being within that range. So it's a very high-quality portfolio from that point of view. It's a portfolio which is also focused mainly in Portugal, in Spain, in Romania and in Italy, which are all markets which structurally, which culturally, are prone and favourable to shopping centres. It's just worth having it as a reminder overall because we need to create a separation between the dynamics one sees in the northern part of Europe and in the U.S. and what we're seeing here in Europe. Having said that, obviously, the current COVID situation has a material impact on us. We are seeing that across all the different shopping centres, at some point in March, all of our shopping centres were effectively shut. I mean the shopping centres need to be open, but the stores inside were effectively shut, most of them. And the way we are approaching these discussions with the tenants is in the same way we approached them during the last financial crisis, through a long-term partnership approach where we see the relationships, we see the progression of profitability and everything else, we see that in the long term. So our approach throughout is to share, with the lack of a better word, to share the pain throughout the value chain. That's basically what we are proposing, and that's where we are assuming our role in that game. So what we have as a general rule applied to most of our portfolio, when I say most, you need to bear in mind that today, we have an average ownership of around 25% of the shopping centres. So we have multiple stakeholders. And when we are talking about material discounts, we also need to involve the banks who also, in certain occasions, need to give their approval. So it's a very different stakeholder base, as you can imagine, and we are managing tenants on one side and other stakeholders on the other side. As a general rule, what we have announced to our tenants is, following the logic I just mentioned, a 50% discount in the rents that are paid in the month of April, in May and in June. And for the 50% that are paid, for those that applies of to those three months, for the 50% that are paid, that will be paid only in monthly instalments over a 2-year period, starting from January next year. So in effect, the tenants will not have to pay in this year the rents for April and May. For the rent in June, meaning for the 50% that I mentioned, because the other 50% has been forgiven, in a sense, that is expected to be paid in June. But we are following the legislation very closely, we're working with government, with all the different associations closely to apply any updates to legislation to this proposal. So this might be different centre by centre, depending on the different stakeholders that are involved, but that's the general approach that we are applying. To your question whether this is an effective loss. The 50% discount we're applying, I certainly, and we certainly don't think it's an effective loss. We do hope that tenants recognize that we are making this significant, very commercial approach as very significant concession in the benefit of everyone in the long term. So I do not think it's a loss. I think we are investing in our tenants throughout this period.

José Rito: Okay. Understood. And could you share if you have already made some calculations that could be the impact from these in terms of the NAV for your shopping?

Luís Mota Duarte: It's very difficult to say, to be frank. The valuers with whom we are in constant dialogue are still scratching their heads in terms of the different impacts, because the impact on the valuations are threefold. They can be in the operational assumptions that the valuers will assume. And at this point in time, I would argue it's impossible to assess what those are. It's around cap rates going forward, and it's around eventually, discount rates. In terms of cap rates, what I do think will happen is that on secondary assets, I think it's very fair to assume that there will be yield expansion. On Prime assets, the argument is far less obvious. But I wouldn't be surprised if the valuers tried to push for that or argue for that. But I do think there are very strong arguments against it. But I think overall, one should assume that yields will expand in the near term.

José Rito: Ok, understood. Thank you.

Operator: Thank you, José. The next question comes from Tim Attenborough of Santander.

Tim Attenborough: Thank you for taking my questions. Most have actually already been asked. Just on that last thing, on the Sierra NAV decline. There've been no changes, I take it, due to change in rental things. So the NAV decline was entirely due to your Prime deal. Because I think you do all the valuations at the end of June. And I'm just trying to get a feel, will we see a material decline in the NAV? Or do you think the pain would be eased given your proposal? So any colour you could give me on that? And then for Rui, can you tell me what April's… I mean, it was a great like-for-like of 4.6%. How much was that due to prices? So what was the sort of volume price split? And a sort of more general thing, you talk about the new normal. Should I take a 4.5% like-for-like as the new normal for the second quarter and going forward? I mean, the other growth businesses will be reopening. And then the last one was on the provisions at Worten. You used the word prudent several times. And is this all a stock write-down? Is this all about Spain? And are you taking a pretty downbeat view of the stores reopening in Spain? I sort of get the feeling that you've been very conservative here and in particular, with your comment that you don't anticipate to take any further provisions. So do you suspect that you might have over provided there? I'll leave it there, thank you.

João Dolores: Thank you, Tim. So I will ask, in turn, Luís to answer the Sierra question then, Rui. And then finally, Paulo, to take the Worten question. Luís?

Luís Mota Duarte: Tim, the answer, unfortunately, to your question, is very difficult. And I cannot and I should not, and it would be imprudent for me to speculate. What I can tell you, though, is the reduction in NAV that we witnessed from December last year to March this year is mainly, as you say, the result of the sale and the consequent payment of dividends to our shareholders. It has also to do with the FX impact from our investment in Brazil. I mean, the Brazilian real depreciated significantly since December and has continued to depreciate. So we are seeing an impact of around €57 M from that. And it's also true with the provision on the developments, which João has mentioned, which is of around €18 M. So that's overall the reason why. Valuations have not been impacted. The valuations we're using are the valuations as of December. We did conduct valuations as of March, but the valuations were… we could see a slight increase in valuations from December to March, but the valuers have qualified them, which is normal under book rules with material valuation uncertainty. That's why we thought it would not be prudent to include the updated valuations in our accounts. Going forward, it's very difficult to forecast what it will be. But what I can expect as a yield expansion, Tim, I hope we can over the next few calls over the year, share more information as the situation stabilizes and things become clearer going forward and the impact is clearer. But right now, we're just expecting, I can tell that we're expecting yields to expand and assets to depreciate in the next coming months.

João Dolores: And Rui?

Rui Almeida: Hi, Tim, listening to your voice. I believe that everything is okay with you. Thank you for your questions.

Tim Attenborough: It is. Home schooling and homeworking is taking a lot of getting used to.

Rui Almeida: Hopefully. I think directly to your questions about the new normal. I don't know what is normal these days. It's very difficult to answer to your question. But again, in May and up to now, we continue to maintain the positive levels that we presented in April, which is very good. But again, going back to your question, which is very, very pertinent about the inflation. Yes, the National Institute of Statistics here in Portugal announced the inflation rate for Portugal, above 3.8% in April. We were a little bit below our internal figures for Portugal. Internal figures in April were a little bit below, but totally influenced by the fresh product in Portugal, these days in April, were a little bit influenced. They influenced our prices internally as well. Meat, fish and fruits and vegetables influenced the base of the prices in Portugal and our sales as well. But we saw already sort of a decrease in terms of prices going in May. We are seeing sort of a slowdown in terms of prices in May. Going forward, well, it's very difficult to say what will happen in the months to come. We are seeing already some stores reopening, as João said in the very beginning. Arenal in Spain is reopening our stores. Some new formats, some format that we are now having are reopening. And we are seeing very positive reaction from our customers. We are very confident about those formats and about the second quarter. But we need to understand that we can have, I don't know, second, on the pandemic, and we never know what will happen in this crisis in terms of income, in terms of disposal, income of the customers, we need to understand better what will happen. But for now, we are doing okay in our company.

João Dolores: Okay. Paulo, do you want to take the Worten?

Paulo Simões: Yes. Tim, thank you for the question. So in the beginning of the pandemic, Worten anticipated some purchases from Asia, given that the problem was mainly focused on that region. And we have a lot of sourcing coming from that region of the globe. And we're trying to prepare for some potential shortage in the supply side. And we ended with a crisis on the demand side, not really in Portugal. Portugal's performance has been good, but in Spain, where we were obliged to close the stores. So in addition to this dynamic, we are anticipating some economic downturn going forward. So this might impact our sales performance going forward, and that could lead to some stock devaluation higher than our usual provisioning model accounts for. But as you know, provisions are always an estimate, and we took a conservative view, taking into account all these effects. Hopefully, we are being too conservative. But at the moment, this is our best estimate of the potential full impact of the COVID-19 pandemic. So that's it.

Tim Attenborough: That is very clear, thank you.

Operator: The next question comes from Artur Amaro of CaixaBI.

Artur Amaro: Hi, good afternoon, thanks for taking my only question. It's related with the contingencies. So far, no one asked. The amount is quite significant and I understand it's a conservative stance, a prudent way to look at what can come next. I just have the idea that given the nature, the size of the business, the provision in Sierra looks small, looks short. Is this going to be non-recurrence? Or are you making the contingencies just in this quarter, like it happened in NOS for the full year? Or are you expecting to make additional contingency?

João Dolores: Thanks, Artur. Is your question related to Sierra specifically or overall?

Artur Amaro: Well, I just noticed the fact that the value on Sierra looks short between commas compared to the other business.

João Dolores: Luís, do you want to take that one?

Luís Mota Duarte: Not a problem. I mean it looks short, using your words, because we have very different business models. If you think about our balance sheet and our P&L, I mean, our P&L as of Q1 has rents up to March which have been received and which are reflected in the P&L. And its balance sheet has very few assets that could be impaired in the sense that I mean, the assets that are impairable as of the 31st of March are the ones that we considered and we looked at. On top of that, I suspect where your surprise would be, would be on the asset side, on the asset valuations. But that, I tried to answer before. We have only independent valuations on our balance sheet and those independent valuations will only come in June. But I think that they will only become much clearer towards the end of the year. So answering your question, in short, it's a very different business model with a different nature. But I don't think it's short. I mean, EUR 18 million is quite a lot for us.

Artur Amaro: Okay. So it should be understood as nonrecurring for the moment?

Luis Mota Duarte: I mean, the nature of it, definitely. The nature of it, definitely. But expect us or expect to see the impact on our NAV over the course of this year, given the dynamics of our business, where really impacts on rents were in April and May. And valuation impact will come closer towards the end of the year.

Operator: We currently have no further questions from the phone lines.

João Dolores: Okay. So if we have no further questions, I would like to thank everyone for attending our conference call. Thank you for your questions, and we will speak again in our Q2 results conference call in August, hopefully, under a more normalized scenario in which we can all resume our lives and as normally as we can. So talk to you soon. Bye-bye, and thank you.

End