Company Name: Dia
Company Ticker: DIA SM
Date: 2012-10-29
Event Description: Q3 2012 Earnings Call

Market Cap: 3,183.37
Current PX: 4.686
YTD Change($): +1.191
YTD Change(%): +34.077

Bloomberg Estimates - EPS
Current Quarter: 0.099
Current Year: 0.254
Bloomberg Estimates - Sales
Current Quarter: 2660.500
Current Year: 10266.889

Q3 2012 Earnings Call

Company Participants

- David Peña Delgado
- Ricardo Curràs de Don Pablos
- Amando Sánchez Falcón

Other Participants

- Edouard Aubin
- Filipe Rosa
- James Anstead
- Andrew Gwynn

MANAGEMENT DISCUSSION SECTION

David Peña Delgado

Hello. Good afternoon. This is David Peña, Head of Investor Relations of DIA. As always, I want to thank all participants joining us in this quarter results conference call and webcast presentation. The call will be hosted by Ricardo Currás and Amando Sánchez. They will explain the results and outlook in our percentage that will last around 20 minutes. Afterwards, we will open the Q&A session. We have scheduled around 30 minutes for questions made by telephone and another 10 minutes for questions on the Web.

Ricardo, please, you have the floor.

Ricardo Curràs de Don Pablos

Thank you, David. Good afternoon. Let me welcome you to this conference call and webcast following the release of DIA third quarter 2012 results.

DIA posted between July and September another strong quarter in terms of sales and profit growth, maintaining the positive trends in the first half of the year, despite the highly negative calendar effect versus first half 2012. Excluding the currency effect, the growth rate of gross sales under banner of 7% in the quarter was clearly above the range of 4% to 6% targeted for 2012. Sales momentum was still well above the markets in Iberia, Brazil, Argentina and China.

In Iberia, our continuous efforts to improve the proposition to our customers and our leading price position have yielded results again. Like-for-like performance maintained the previous quarter trend in Spain, while in Portugal improved compared to the second quarter of the year. However, this scenario continues to be very challenging with unemployment in Spain having surpassed 25%. We see our customers having increased difficulties to get to the end of the month, and we are doing our best efforts to help them meeting their everyday needs with the best prices of the market. Sales in emerging markets exceeded again our expectations and continue being the growth engine of the company. Sales in local currency in Brazil, plus 24%; in Argentina, plus 39%; continue to grow well ahead of the markets with a very strong like-for-like. Today sales in emerging markets represent more than 30% of total group sales.

Finally, I would like to highlight a sustained operating profit growth achieved again this quarter. In last month, we have reinforced our main competitive advantages and today even more confident than ever of our ability to deliver growth in the future. We believe that proximity, franchise, exposure to emerging markets and our success in driving same-store sales growth are some of our more relevant competitive advantages against [audio gap] (03:07 – 03:08)

Proximity formats represent today almost 82% of our store network. Being closer to our customers is a clear advantage everywhere. In this sense, the Schlecker acquisition announced some weeks ago will provide us a big step-up in terms of proximity network intensification and, thanks to the specialized assortment in home and personal care, a new commercial proposition for the consumers.

Franchising a superior model in proximity's retail is moving forward every single quarter. In the last 12 months, the double number of store franchising increased by 511, allowing us to present a better shopping experience to our customers and to extend our reach. As you know, it is one of the areas we'll cover in more detail on Wednesday at our Investors Day.

In terms of geographic exposure, we continue to make the most of our opportunities with the right combination of fast growth coming from markets like Brazil and the strength of our operations in Spain and Portugal where we continue to gain market share and profitability. We will have the opportunity to cover this in much more details and visit some of our proximity stores next Wednesday.

Before handing the call over to Amando who will cover the financials in more detail, let me just summarize some figures that explain our performance during the quarter. We have achieved gross sales under banner of €2,984 million, an increase of 7% at constant currency over the same period of 2011. The adjusted EBIT, which obtained almost €85 million, showed a double-digit growth of 13.2%. Our adjusted EBITDA margin grew by 18 basis points to 6%. Finally, the underlying net profit in the quarter grew by 30.7% to more than €0.17.

Amando, please.

Amando Sánchez Falcón

Thank you, Ricardo. Our operating performance in the quarter has been once again very strong. Gross sales under banner reached €2.98 billion, up 6.4% over the same period of 2011. This growth rate was negatively affected by a calendar effect which was higher than the one of Q2 2012. Gross profit margin in the quarter rose slightly by 2 basis points, helped by a reduction of logistic cost and the shrinkages, while the increased mix of franchise played in the opposite direction.

Operating expenditures in the quarter grew by 3.8%, well below the growth rate achieved in the top line. The continuous progress of franchise, which is already above 41% of the total net worth together with many individual cost reductions and efficiency projects, are behind this excellent performance. As a result, adjusted EBITDA was €155.1 million, up 8.1% versus the same period of 2011 with a margin improvement of 18 basis points. Finally, adjusted EBIT stood at €84.9 million, a 13.2% increase versus 2011 and an improvement of 24 basis points on the margin.

Moving to slide number 9, as in previous quarters, we can see a fast drop of nonrecurring items. The Ed-to-DIA transformation process in France was completed during the summer, while the transformation to new models in the rest of the countries is coming to an end in 2012. Financial expenses fell mostly due to the positive €9 million accounted from the equity swap, over 2%, of the company shares. This impact, as we have done before, has been excluded in the calculation of the underlying net profit. Income tax rate, in line with our expectations, continues to fall and represents now 37.8% of earnings before taxes.

Finally, underlying net profit for the quarter was €50.2 million, a growth of almost 31% over the same quarter of 2011. For the first three quarters of the year, adjusted EBIT grows by almost 18% to €207 million, while underlying net profit is up almost 28% to achieve €115 million.

We will now take a look at the sales performance by geographic segment in the slide number 10. Again, and as Ricardo explained before, emerging market continued to be the main driver of sales growth for the year. With an increase of more than €157 million and a contribution 5.6 percentage point, followed by Iberia responsible for 2.34 percentage point of growth. France subtracted 1.5 percentage of growth, the total top line increase. The American segment by Brazil and Argentina as we kind of explained before has surpassed for the first time the 30% contribution to the total company sales.

In the slide number 11, we can see how the good momentum in same-store sales was, again, sustained in the quarter with a 2.9% like-for-like at the company level. The opportunities to expand our store network are bringing 4 full percentage points of growth while currency translation had a negative effect of 0.5%, which is attributable mainly to the Brazilian real depreciation. As we mentioned before, the like-for-like figure should be read considering a negative calendar effect in the quarter, which is touch higher than the one already shown in Q2.

In order to have a more meaningful figure, we can look at the year-to-date numbers that show a more balanced picture of 3.4% growth in like-for-like while expansion added another 3.5 percentage points of growth. This represents indeed very good news. We are able to grow not only by expanding our store base in putting more capital to work, but also by driving up sales in our existing network.

Going into the detail of each segment on slide number 11, Iberia posted another good set of sales with a like-for-like growth of 1.1% and an expansion effect of 3.5% to a total figure of gross sales under banner of €1,491 million. Excluding the calendar effect, the like-for-like performance was very much in line with previous quarters.

Looking at the year-to-date figures, we see again a more balanced contribution to growth from like for likes versus new space growth. In Spain, as Ricardo had explained before, our customers are facing increasing challenges to meet their monthly budget with unemployment having surpassed 25% for the first time in history and higher VAT rates in place since September 1. In Portugal, the situation is not much better.

DIA is doing its best to provide our customer with the best prices of the market as well as an assortment that meets better its everyday's or everyday's needs. We continue to see an increase in the average ticket and an increase of traffic at our store as a consequence both of new customers selecting DIA as the preferred option and an increase in the pricing – purchasing frequency of our existing customers. In the quarter, we increased by 41 our store count in the Iberian Peninsula, a total of 93 since the beginning of the year. Next Wednesday, you will have an opportunity to see in person the quality of our store base.

Looking at our emerging segment in slide number 13, emerging markets remain; definitely remained growth engine for the company with gross sales under banner achieving €901.5 million, an increase of 23.1% in local currency over the same period of 2011. Like-for-like is the main driver of growth in the segment with 14.2 percentage points, while expansion at another 8.9 percentage points. Currency had again a negative impact in the quarter with a minus 2 percentage point contribution, which is significantly or mainly attributable to the decline of the value of the Brazilian reais versus the euro.

Brazil and Argentina, our largest market in the segment, with almost 79% of total sales have maintained the very positive trend showed in previous quarter. In Turkey, the competitive dynamic have continued to deteriorate and we have recalled the first negative sales figure in many quarters. However, we have remained focused and committed in improving our position so we can maximize our chances to succeed in the country in the future. In China, the sales trend confirms the good recovery shown in the second quarter with a 13% progress led by an excellent performance of our store in Shanghai.

Looking in more detail, slide number 14, the growth in sales is sustained our emerging but especially as we said in Brazil and Argentina. For the nine months, first nine months of the year, our sales growth in Brazil achieved 21.2% versus the first nine months of 2011. We continue to attract a significant number of new customer to our stores but we also benefit from gaining a higher share of wallet from our existing customer base. This allows us to grow well ahead of the market with like-for-likes for the year in the double-digit territory.

Moving to slide number 15, sales evolution in France were in line with the first half of the year whereas when sales on comparable surface were down 6%, but in that case held by a positive calendar effect. If we exclude this calendar effect, the trend in Q3 2012 is slightly positive although, by any means, satisfactory.

Despite this negative sales trend, the success in the cost-control initiative had allowed us to improve our margins by almost 90 basis points, leading to a growth of adjusted EBITDA of 13.1% to €23.5 million. The remodeling process in France was finished during the summer and should help us to improve our position in the French market going forward, as well as in test for the new attraction store model, version 2 of the Maxi concept, which will be implemented starting in November.

On slide number 16, we can see how every segment contributed to adjusted EBITDA growth in the quarter. Adjusted EBITDA figure grew by 8.1% to €155 million, while margin improved by 18 basis points. Once again, the French operation has succeeded in improving its margins on a negative top line growth.

Moving to slide number 17, as we did in previous quarters, we present the growth in the adjusted EBITDA for the emerging market segment excluding the effects of our Turkish operation. For the first nine months of the year, adjusted EBITDA increased by 37.6% in Brazil, Argentina and China, while our adjusted EBITDA margin improved by 24 basis points.

This is remarkable taking into account the great expansion effort we're doing in these countries especially in Brazil where our new Rio Grande do Sul Distribution Center is having a negative effect on these numbers. I would like to recall that the fact that we opened a new region always means a negative effect on profit for the first three years of operation in average. In any case, we remain committed to expand our business on the country, opening new regions as this means new opportunities of sustainable profit growth for the future.

On slide 18, we can see our trade working capital had improved by €72 million in the quarter versus the same – at the same date of 2011 based on our continued success in the stock reduction and the management of payables.

Finally, on slide number 19, looking at our balance sheet, as of September 30, net debt was €681 million, down €64 million versus the same date of last year. This amount of net debt implies our reduction in our net debt to EBITDA ratio from 1.4 to 1.1. This net debt figure should be viewed in the light of the following items: the €24 million investment in the repurchase of 1% treasury stock on – during the first months of the year; a €17 million reclassification from operating to financial leases of two warehouses in France that was accounted for in the second quarter of the year and included as additional CapEx; and around €30 million of taxes paid in Spain, which are attributable to the two following facts, one, the settlement of certain claims that were fully provisioned, and the measures implemented by the Spanish government in 2012 to advance cash tax payments in the country. None of these two facts have had an effect on the tax expense line.

Let me now hand the call back to Ricardo for some final remarks.

Ricardo Curràs de Don Pablos

Thank you, Amando.

In summary, Q3 2012 has been another excellent quarter for DIA. We maintained our sales growth, and we have improved results again despite the negative calendar effect. Brazil and Argentina continued to be the main growth engines of the company. Our commitment to dynamic growth in emerging countries is increasingly clear.

I also want to highlight the increase in profits, that shift in France in the quarter in spite of the weak sales, as well as the great performance of Iberia in an extremely complicated context.

We will now be glad to answer any question you may have. Thank you.

Q&A

Operator

Good afternoon, ladies and gentlemen, the Q&A session will start now. [Operator Instructions] Thank you. The first question comes from Edouard Aubin from Morgan Stanley. Please go ahead with your question.

<Q - Edouard Aubin>: Good morning, Ricardo and Amando. Actually, I have two questions. The first one is on the VAT hike in Spain. Could you elaborate on the impact of the VAT increase on your fourth quarter results? And also, is competitors have now fully passed on this increase?

And my second question relates to the Schlecker transaction. When do you expect the transaction to be finalized? And Ricardo, if you could come back on the rationale for the transaction also in terms of the banner you intend to use going forward regarding the stores and if you could compare part of the store network to some DIA fresh formats and so on and so forth. So, if you could elaborate on these points, that would be great.

<A - Ricardo Curràs de Don Pablos>: Thank you for the questions, Edouard. I will start with the answer of the first question, the VAT impact in Spain. Well, first, let me just give you some figures. The impact for us in terms of increase of – what it meant in terms of increase was 1.5%, 1.6%, okay. So, it depends on the different retailers on the categories they are selling. But in our case, it was something between 1.5% and 1.6%.

What we have seen in September is, first, that we have been able to improve our price index in a month which is good news. We have also seen that our market share in the last weeks September, August has also increased compared to what we were having in the last – in the previous weeks, which means that probably this price index improvement has given us some good news in terms of market share.

And it is true that we had very good sales at the end of August because some of our customers advanced some of their purchases, which provokes first days of September a weaker trade but it was immediately normalized and, from my point of view, will have some impact because, of course, as you see the customers, the consumers have less money in their pockets but it seems that the impact will be very controlled, not very important for the time being.

I will leave the second question to Amando.

<A - Amando Sánchez Falcón>: Thank you, Edouard. Good afternoon. Thank you for your question. Regarding the time expected for the approval and the completion of the transaction, we indicated April 1 as the target. Obviously, we are doing our best, and both parties are doing its best to complete and have an authorization from competition authorities and the remaining tasks to be completed before closing. Before that, we will provide you with further details if we are in the position to give you a better estimate later in the year. But definitely, we expect that to happen no later than April 1, and I think we are in good shape to meet, and we are – have already made some progress in that process.

Regarding the rationale, and I would let Ricardo add something, but let me just repeat what we have explained as the main rationale behind this transaction, is that we believe that it makes a lot of sense to add a new specialized channel, proximity channel in house and personal care in the Iberian market. Of course, this is also a great opportunity from a financial standpoint. And we believe this would be a transaction that would have significant value to DIA.

And we have, on top of the existing numbers and existing network, the opportunity to grow the business and to grow it to the other half of the Iberian Peninsula. We have the opportunity to increase the categories – certain categories in DIA which are probably underpenetrated today. And we have opportunities to make logistics and commercial synergies in the future.

Regarding – and again, I would also ask Ricardo to comment on that, but regarding the banner, we think definitely we should take into account that the Schlecker banner is well-valued in the existing territories. It's been present for almost 30 years. In Cataluña, it's a very strong brand. And it is not a priority or nothing we can advance today. Obviously we believe, and we are looking forward to improve things within DIA. But our focus should be initially to integrate rapidly the operation and extract the synergies on them further down the road the side – on the marketing side of the business. And in general, the idea is to maintain Schlecker or whatever the banner is in the future as a specialized channel and not to use massively the existing network to develop other DIA firms.

<A - Ricardo Curràs de Don Pablos>: Just two small things, first, of course, we will give you much more information next Wednesday because it will be one of the topics on the meeting. I think the explanation given by Amando has been very complete but let me tell you just two more things. One, we have already started this diversification into new proximity for much complementary proximity from us with the DIA Fresh, which is one of the formats we started to test some months ago. And this is a second diversification in terms of formats in proximity.

And apart from all the elements that Amando has provided, let me give you one, which is very, very interesting, which is we will be the loyalty program of DIA will be of a great use in this new strategy because we will have a complementary format that has lower rotation or lower frequency of customers. And we will have big opportunities to improve our sales in this format by giving the opportunity to DIA customers to go and test and buy and – the new commercial offer that we'll find in Schlecker. New question, please?

Operator

The next question comes from Filipe Rosa from Espírito Santo Investment Bank. Please go ahead with your question.

<Q - Filipe Rosa>: Hi. Good afternoon, everyone. Two questions, if I may. The first one on France, you are doing a fantastic work on the cost side but sales continue to be weak. Could you update us on what are the next steps on the ongoing evaluation that you are making of your operation in France, when could you expect a more final decision on whether to continue investing in France or are trying to search for an alternative?

And my second question regards to Turkey. It's been a year now that the market has been tough. You already stopped opening new stores, could you also update us what are your short-term plans for the Turkish market? Thank you very much.

<A - Ricardo Curràs de Don Pablos>: Yes, for the questions, I will answer both. Let's start with France. In France, we have completed our transformation plan into the DIA banner, already completed in August, almost completed. We have an excellent work done in costs and you see that our profitability is going at a good rhythm, and clearly, we have, from that point of view, done a very good job

Third thing which is important is this profitability driven by a reduction of cost, and also very important franchising which is gaining share in our operations in France. But it is true that the market is – remains tough. There is a lot of price competition, increased price competition in last months. And even if we have had a slight improvement in sales, it is not enough.

And that's why I told you last time that we were preparing a big shift, and has been well-prepared for the last four, five months in order to pass from the first generation of Maxi to the second generation of Maxi. Amando has just said that in the presentation that we will open our new test or our first test in November. And of course, we will provide you many more details in – on Wednesday.

Speaking about Turkey, Turkey is getting tougher. We are saying this from quarter to quarter from the last three to four quarters. We have taken some tough and decisive decisions which are stopping our expansion growth we have because it was the only way to control our P&L. We have also closed some bad stores. And it is true that the market in Turkey is getting tougher because price competition continues with this – with the same virulence that we have seen in the last months and because, and that it's very important, there are some peers that are opening stores very, very fast in the market in spite of these bad results in terms of profitability.

So, the market is getting somehow irrational and, of course, we will take or will – we are thinking on that and we will take the right decisions. But once again, let me postpone any further answer to next Wednesday.

<Q - Filipe Rosa>: Thank you very much.

<A - Ricardo Curràs de Don Pablos>: Next questions, please?

Operator

The next question comes from [ph] Frederic Ricart (32:21) from Raymond James. Please go ahead with your questions.

<Q>: Yes. Good afternoon. [ph] Frederic Ricart (32:26) from Raymond James. I have two questions, one on Spain and one on France if I may. On Spain, regarding the VAT increase, could you tell us – you quantified the impact on your source. Did you pass on 100% of this increase? And did competitors pass on the VAT increase? How did it worked out in September? That's the first question.

And the second question is on the new attraction concept. You said we would have more details on Wednesday, but could you maybe help us just understand what are the key changes or what would change most in the new stores, if you can say anything today? Thank you.

<A - Amando Sánchez Falcón>: Yes. Good afternoon, [ph] Frederic. (33:18) Thank you for your questions. Regarding the VAT in Spain, I think what Ricardo explained in a previous question was rather that we saw certain impact in August in – a positive impact in August sales at the end of August because of anticipated purchases, then a certain slowdown at the beginning of September as a consequence of those anticipations – anticipated purchases, if you wish.

The other figure that we can provide is that there is 155 basis points, that's the approximate figure of impact in the increase of VAT when you apply the three different VAT rates and three different increases that have been applied in that VAT rate. So, that is the precise figure in terms of the impact in the VAT rate increase. However, we have not anticipated what could be the impact. For this quarter, what we can say is that the impact has been negligible because, obviously, we are talking about only September and not a full translation of that increase in the rate.

<Q>: Sure. If I may...

<A - Ricardo Curràs de Don Pablos>: The trends...

<Q>: Sorry.

<A - Ricardo Curràs de Don Pablos>: ...in the Maxi 2 model, let me just make you wait for a little bit more. We will give you, as I told you before, much more details on Wednesday. But just some aspects, the Maxi 2 model is the type of store you will visit in Spain where you come because we have already launched this model last year. And we have rolled it out through the year with very good results. But we have added also some new things to the French Maxi 2 model, which will probably make it even more attractive for our customers. But please lend me some hours in order to explain it in more detail on Wednesday. Thank you.

Next question, please?

Operator

The next question comes from James Anstead from Barclays. Please go ahead with your question.

<Q - James Anstead>: Yes. Good afternoon. Two questions for me, if that's okay. Firstly, I think you have a store mean target for this year of between 425 and 475 new stores? And after nine months, you're only about a third of the way through. I guess a big part of that is accounted for by stopping opening stores in Turkey, but is that the only reason or have you slowed down elsewhere also?

And secondly on the tax rate, you mentioned that the tax rate is starting to normalize, but I think I have in my notes that originally you thought about a tax rate approaching 30% for 2013. Is that still a essential number to assume or is it going to take longer to get that sort of level?

<A - Amando Sánchez Falcón>: Good afternoon, James. Thank you for your question. This is Amando. Regarding the store count, I think we have provided certain numbers during the call. And you're completely right, much of the slower rate of expansion in the store number is fully attributable to Turkey. I think expansion in terms of new store openings is going well everywhere else. And definitely, the question, it has been our decision as explained in previous calls to slow down the expansion in Turkey. So, for the rest of the market, we are still in line to meeting our targets. And again, we will provide a bit more color and details on this on Wednesday.

Regarding the tax rate, the 30% midterm tax rate is still something that can be achieved. What we have been guiding this year more is towards lower 30s rather than the 40s at the beginning of the year and for last year. And that will be a function of how the net operating losses of countries that are now experiencing those net operating losses as France, Turkey and China evolve over the next few quarters. So, everything normalized, yes. In the mid-term, you could expect to have a low 30s tax rate. And how fast we get there is going to be a function of the individual contribution of each of those countries that are today posting net operating losses.

<Q - James Anstead>: Okay. Thank you very much.

<A - Amando Sánchez Falcón>: Next question, please?

Operator

The next question comes from Andrew Gwynn from Exane. Please go ahead with your question.

<Q - Andrew Gwynn>: Two questions. One is France. Obviously, we've had a very good performance in terms of earnings there but also sales per week. Do you think that's the right strategy if there are more to give back to consumer to improve sales momentum? The second, in fact, again on France, could you just give a little more detail as to how the franchisees' sales are developing in the market? Is there a marked difference in their performance when the stores are transferred to them?

<A - Ricardo Curràs de Don Pablos>: I will answer both questions. Thank you for the questions. First of all, DIA strategy. You know that we are very consistent, general with our strategy, and what we said in France was we wanted to, first of all, remodel all our stores to the new model. Second, also to improve our price positioning, taking into account the improvements we could have in the negotiation with suppliers, and that's what we did.

And now we have been preparing an overhaul, a change, a big change on our commercial proposition with this Maxi 2 model because I personally think that when you just take isolated decisions of continuing a price war or continuing investing in prices without any other steps in the – any other decisions in the commercial offering, the assortment, the communication, it is never well perceived or enough well perceived by customers, and you never obtain back the investment you are doing. So, we prefer to do it as a new model, and I think you will see that this will be the – will be done with this Maxi 2 format.

Of course, there are other possibilities. We see that other people peers are doing different things. Probably this is affecting much more to their profitability. I don't know. But from our understanding, from our point of view, it is better to put in place all and new commercial proposition, not only increasing prices but with revised assortments, with new categories, with new communication, with better promotional campaigns, et cetera, et cetera.

Speaking about franchises, we have been increasing the share of our franchise business in France. Good news is that, in general, the like-for-like with our franchisees is better than that we are obtaining in the integrated stores. Total growth in France of franchise has been year-to-date until – year-to-date, 24.5%, so well above that obtained in total sales. And as I told you before, like-for-like is negative but much less negative than in our integrated stores.

So, we are able to – we have been able to obtain better sales performance with our franchises, convincing more franchisees. And that has allowed also to have a better profitability with them, with the same type of uplift in terms of profitability when we are transforming from a [indiscernible] (43:10) store to a Carrefour store that have – we have seen in the last quarters.

<Q - Andrew Gwynn>: I mean, so you have...

<A - Ricardo Curràs de Don Pablos>: Those were the increase.

<Q - Andrew Gwynn>: Just a follow-up, so you're happy but are the franchisees happy with the performance? I mean they're still seeing declining like-for-likes, profits, I don't know what they're doing for them. But if you could just comment on how the franchisees are feeling?

<A - Ricardo Curràs de Don Pablos>: As I told you, negative like-for-like in franchisees is not very high. It's small. And second – which means that there are a lot of franchisees that are positive like-for-likes, but we are following very, very in detail what is happening with every and each franchisee. And we are trying to help them to have a good profitability. This is something that we manage very, very consciously. We know that the franchisee has not a possibility to be – even to be open if it is – if he or she is not gaining money. And what I can tell you is that we have a lot of – most of our franchisees in France are earning good money. And there's no special difference between France and other countries in that sense.

Even more, we are making an inquiry to our franchisees in all countries. And in general, what we see is that the answers that are given by our franchisees in France are very, very close to the answers that they are giving in other countries. But I have to tell you is, of course, we need to reinforce attention to the franchisees that have difficulties in like-for-like. But we are doing it, and I think we are managing the situation quite well.

<Q - Andrew Gwynn>: Okay. Very clear. Thank you.

Operator

The last question comes from Gabriel [indiscernible] (45:17) from Credit Suisse. Please go ahead with your question.

<Q>: Yes. Hi. It's [indiscernible] (45:21) Gabriel from Credit Suisse. Two questions, if I may, the first one just on Spain and back to Schlecker question. The VAT increase in September did you increase the price according to the VAT increase on that and what did your competitors did in September?

And the second question is about Spain, you had three years – three consecutive years of significant improvement of your EBIT margin and we saw broadly 200 bps improvement in the last three years, so what do you expect going further with your Spanish margin? Do you see go up billion, the margin? Do you expect the margin to go further up? Do you expect any improvement to come?

<A - Ricardo Curràs de Don Pablos>: Thank you, [indiscernible] (46:02) for your questions. I will try to explain it. First of all, what has happened in September, we have improved our price index because we didn't increase 100% of our prices or 100% of VIT – VAT effect, but it was absolutely bland. It was part of our plan absolutely budgeted. So, we did what we intended to do. If I have to be even more specific, we were even able to pass a little bit more than we thought we were – be able to pass in terms of price increase to the market. But still in this – with this behavior, we were able to improve our price index which clearly means that other retailers have to increase prices more or before that we did. It is normal because, as you know, the Spanish situation is quite tough. The many retailers that are suffering and that means that probably they have their pockets empty and they needed to increase prices more taking into account that for us, the impact on the VAT was, as I said before, around 1.5 points in case of other retailers have been more than two points, which means a big impact on P&L.

Second, margins increased in Spain. You're right. We have been increasing our margins in the last years. And it has been done not because of, as I explained many times, not because we have decreased our price competitiveness. As we can show with many, many different numbers, it has been exactly the opposite.

We are more competitive now than we were two years ago. We have a better price image that we had two years ago. And that comes from the fact that we have done a very good movement in terms of mix; mix of franchise, mix of proximity against attraction, mix of rural stores against more suburban places. And that has helped us to increase our margins while, at the same, having more competitive pricing.

Again, this is the past, but what will happen in the future, of course, we will give you further details on Wednesday, but let me just say one thing. What we are trying to do for the future is to increase our EBITDA and our EBIT. Not much because our margins move up Spain but because we will grow faster. And that's what we have – we intend to do for the next years. Thank you very much. Next question, please.

Operator

There are no more questions.

<A - David Peña Delgado>: Well, we'll move now to the Q&A session. We have a question from Gilles Sitbon from Sycomore Asset Management. The question is, what's the number of treasury stock we have at this point in time?

<A - Amando Sánchez Falcón>: Thank you, David. Thank you, Gilles, for your question. We have now 20.3 million shares of treasury stock. That is equal to 3% of the shares acquired at €3.1 per share on average.

<A - David Peña Delgado>: We have another question from [indiscernible] (50:26) Are you finding any difficulty to have new franchisees to our network?

<A - Ricardo Curràs de Don Pablos>: Thank you for the question. No. As you have probably seen, the trend we have in our franchising process is a very, very strong trend. We have added 511 stores in the last year. And we are, quarter after quarter, maintaining this trend. And what is even more important, finding new opportunities for franchise as we will show you on Wednesday. It is happening everywhere. In most of our countries, we are increasing our base of franchises. Even in the countries in which we have difficulties, we are doing better with – and we are adding more franchisees to the network, which means – which is I think very, very clear. There's, first of all, part – important part of our strategy; but second, it means that we are a good specialist in franchise. And we are a very good specialist in franchise in our countries.

<A - David Peña Delgado>: Iñigo [ph] Vega (51:50) from Cheuvreux is asking about EBITDA. EBITDA adjusted margin improved by 20 bps in Q3 versus 59 bps in Q2, 64 bps in Q1. Can you give us the reasons of this performance?

<A - Amando Sánchez Falcón>: Thank you, David. Thank you, Iñigo, for your question. Definitely, and as Ricardo explained before on Iberian margins, these are driven by many reasons, of course, the very good performance of the like-for-likes and the increasing sales in the year. We have also a significant number of cost-cutting programs. And we continue to be the low-cost operator of the market while improving our price against our competition. There is one effect that is no longer present in the third quarter of the year, which is a complete comparability of our figures prior and after the spin-off.

So, now we are fully comparing with a cost base which is completely 100% comparable and sustainable for the future, and that is in part behind a lower growth in or a lower expansion in margins, but what is remarkable is our ability to continue to do so. And as Ricardo explained and based on the – our ability to continue growing the business and reducing cost, we think we are able to position to maintain a positive trend in margins going forward.

<A - David Peña Delgado>: Last question from the Web today comes from Jesús Domínguez from Banesto Bolsa. Could you give us an update about the like-for-like evolution in October?

<A - Ricardo Curràs de Don Pablos>: Thank you for the question. Yes, of course. October will be surely a better month than September. Apart from a certain positive kind of effect, it is due to the fact that we are having a better like-for-like in Spain. And we are seeing more or less same trends in the other countries.

David Peña Delgado

For the meantime, we have concluded the Internet session. I give back the floor to Mr. Curràs for the final comments.

Ricardo Curràs de Don Pablos

Thank you. Thank you, David. We are looking forward to welcome you on a late – next Wednesday for our first Investor Day after the listing. We have prepared a great agenda for the day, I think. We have been listed for more than a year, and we have been listening to our analysts, to you and investors who have covered ranges in topics, growth and proximity, franchise, efficiency, private labels, loyalty, like for likes but I also like to highlight the importance of store visits. We have named them stores teaching sessions. They have been prepared with great care by our teams, and I believe they will be a unique opportunity to display some of our advantages on the ground.

And finally, thank you very much again for your participation and you will allow me, for the last time, remember you once again that with DIA, quality and price have never been so close. Thank you.