

Q3 2020 Earnings Call

Company Participants

- Belmiro Gomes, Chief Executive Officer
- Christophe Hidalgo, Chief Financial and Investor Relations Officer
- Isabela Cadenassi, Investor Relations Officer
- Peter Estermann, Chief Executive Officer
- Ronaldo Iabrudi, Co-Vice Chairman
- Unidentified Speaker

Other Participants

- Analyst
- Daniela, Analyst
- Guilherme Assis, Analyst
- Irma Sgarz, Analyst
- Olivia, Analyst
- Tobias Stingelin, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for holding. Welcome to the GPA Conference Call to present the results for the third quarter 2020. This event is being broadcast via webcast and can be accessed at www.GPARI.com.br, where you will also find the respective presentation. You can flip through the slides at your own convenience. There will be a replay facility for this call on the website. We inform you that the company's release is also available at the IR website. This event is being recorded and all participants will be in listen-only mode during the company's presentation. And during the company's remarks there will be a question-and-answer session at which time further instructions will be given. (Operator Instructions)

Before proceeding, we would like to mention that forward-looking statements being made during this conference call are based on the beliefs and assumptions of GPA management and on information currently available to the company. They involve risks, uncertainties and assumptions as they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of GPA and lead to results that differ materially from those expressed in such forward-looking statements.

We would now like to turn the floor over to Ms Isabela Cadenassi, Investor Relations Officer for the company.

Isabela Cadenassi {BIO 20532610 <GO>}

Hey, good afternoon to all of you and welcome to our results conference call for the third quarter '20. We have with us today Ronaldo labrudi dos, Vice Chairman; Peter Estermann, Chief Executive Officer; Christophe Hidalgo, the CFO; Belmiro Gomes, CEO of Assai; and Jorge Faical, CEO of Multivarejo. We're briefly going to present the results for the quarter and then open for questions and answers. Have a good call. And I give the floor to Ronaldo.

Ronaldo labrudi {BIO 5151863 <GO>}

Thank you. And thank you to all of the participants and our special thanks to our team who has prepared this work. I would like to quickly remark on the spin-off that we discussed last time that we were together. In the last few months during the quarter, we have had a very strong evolution in terms of the separation of the two companies. Now this is a project that has fundamental importance for us and the entire team is very enthusiastic. We are enthusiastic because we understand that this will represent a significant change, not only in Multivarejo, but also in Assai, so the evolution is very positive.

We are adapting the in-house and governance processes so that Assai can become a company listed in Brazil and in the United States according to the schedule that we have forecast for the beginning of 2021. And we're heading in that direction with all of the documentation. We had mentioned that there is no complexity, but there is a huge work load that needs to be done and the evolution continues on. I would also like to underscore and we have remarked upon this before that all of the shareholders of the GPA will receive the same treatment without distinction. They will all have the same seat and right to capital as they have at present when we finally materialize the spin-off. Another important point is presently we're making all of the necessary operational adjustments for the spin-off per se in-house, externally, along with the regulating agencies. That is to say that we're making sure that Assai and Multivarejo can have an ever greater focus on their own business. And so, that they can seek out the best initiatives to increase their performance and generate value.

Since the last time that we announced the spin-off, I had the concern of explaining the strides that we had made in detail and there have been significant strides. And well this was one of our significant concerns. And it confirms all of the expectations that we had. Of course, we had carried out a survey among the banks and -- all of this is completed among what had been forecast. We are well advanced in this process. And we're very close to being able to formalize what has been accretive upon Christophe at the end of the presentation, we'll have time, of course, to speak about this and will -- after the presentation of the quarter, I would like to congratulate the teams. In our vision, the results have been extremely positive. But Christophe will be able to give you more color on all of the fronts that we are approaching. And we will end up having two separate companies. And we will begin working very strongly to generate value for all of our shareholders. This was an update that I wanted to share with you. And of course, all of the

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shareholders were with us today, at GPA, will also be with us in our Assai and will receive the same treatment. I deemed it important to update you on this before giving the floor to Peter. Peter, you have the floor.

Peter Estermann {BIO 15380447 <GO>}

Thank you very much, Ronaldo. Good afternoon to all of you. And thank you for participating in our results call for the third quarter 2020. During this period, we have presented results that in our opinion are quite robust. We have an operational improvement, not only in Brazil, but also in our international operation with significant progress and all of the businesses for the Group and in all of our brands or banners. I will be very brief today because Faical -- I will be giving the floor to Faical and Belmiro to speak about financial results. But Faical, especially, will go into the details of Assai and the sequential evolution that we observe in Multivarejo and we'll go into more details regarding our digital system, which has also undergone sound development. Belmiro will speak about the highlights and the exceptional performance of Assai in one more quarter. And I do believe that we will be able to go into all of the necessary details to give you a clear understanding of the performance of GPA during the quarter.

I would now like to give the floor to Christophe to speak about the financial performance of the GPA during this quarter.

Christophe Hidalgo {BIO 17982648 <GO>}

Thank you. Peter, thank you Ronaldo. Good afternoon to all of you and thank you for participating in our results call. I'm going to speak about the main financial highlights, the consolidated results of GPA. On Slide number 4 we observe the consolidated results with an expressive increase in total gross sales 61%, 21% in the pro-forma vision totaling for the quarter, 23.5%. Now this growth is the result of our sales evolutions and all of the Group's operation.

In Brazil, we observe a movement of 20%, thanks to the historic growth of Assai that was remarked upon and also a significant growth in Multivarejo. These are brick and mortar stores that have had a speedy evolution, despite the fact that they have a very robust pace. International stores grew 23.7% in the pro-forma vision and 2.3 and the same store vision. With a very positive performance in the innovative formats and sales carried out through the omnichannel strategy, the consolidated gross margin had an expansion of 0.4% and stands at 21.7% for the quarter, impacted positively by the consolidation of Exito WOW in Brazil. The margin remained stable and in Multivarejo brick and mortar in line with the last quarter.

We remind you that for Multivarejo, we have had sequential improvement of gross margin. And all of our operations have this margin that represents a level of competitiveness that is aligned with the market demands, highlight are the expenses with SG&A that remain stable in the consolidated vision. In the Brazil vision, we see a strong dilution of expenditures and Assai and others. And we will go back to more details on this Adjusted EBITDA for consolidated GPA reached BRL1.7 billion with a margin of 7.8%, due to the significant evolution in Brazil and the contribution of the Exito Group.

With this I would like to give the floor to Belmiro, who will speak about the results of Assai. And subsequently we will give the floor to Faical, who will speak about Multivarejo.

Belmiro Gomes {BIO 18107864 <GO>}

Thank you, Christophe. Good afternoon to all of you. I truly do not want to be repetitive. But we did have very high growth 33.4% for Assai. Now this growth as well as in other quarters is being leveraged. Now, Assai has been highly assertive. It went from BRL3 billion of revenue to BRL39 billion for this year through organic growth. And we have had very strong operations. We have expanded to other states. This quarter we inaugurated seven new stores. And in Jundiai, Sao Paulo, Rio de Janeiro and other states. And the inauguration of five organic stores. One in Roraima, Ceara, (Inaudible) Sao Paulo. And the second unit in Sao Luis de Maranhao. And the first unit was inaugurated in the first quarter of this year. And during the fourth quarter, we will be inaugurating more units in Maranhao. So we maintain this strategy to continue our capillarity with better levels of distribution on the national territory.

I will talk about store model we have expertise to operate. We operate stores of between 1,000 square meters and 8,000 square meters. It could be conversion or organic. We have had an assertive model and weekend work in regions with different characteristics. Here we have regions with a big population or a small population and we've been very assertive. And during this quarter, we have had the highest volume of sales that would be BRL4,500 for square meters and during the third quarter will be BRL4,600. This is one of the best values in sales per square meter. But as we operate with different models in addition to be assertive, we are convinced that the future expansion will continue with the same rate of performance that we've seen in the year based same store base.

I will talk about the effect of the pandemic and how this impacted our figures. We have also had a high performance with 18%. Now we have 80% of growth in the same-store base during the four -- during the four classification. Now we will talk about the pandemic and we will talk about the behavior of customers and inflation. July and August when the effect of the pandemic wasn't uniform in different regions of Brazil, throughout the evolutions of the quarter, we had the lowest impact of the pandemic. The restrictions were lightened, now we have had a gradual come back of customers. July had greater amount of people per square meters, but although we are controlling people per square meter, and there is a limit of how many people can go into the store. But I believe that even with this, we had high sales per square meter. Because we see that our operations that are a little bit more ideal, and this is because we follow different models.

Now, as the restrictions are lifting, we are going back to normal in terms of behavior of customers. We see that the cash and carry channel is very strong. And during this quarter there was a historic participation of 40% -- the customer -- the emergency stipend brought more customers to our stores and the consumers that -- what, they would -- they would buy a little-by-little. They would buy one big purchase. And with this, there would be savings. Now our model is more receptive for this customer, because in the past, they couldn't do the monthly groceries. So we believe that the emergency fee has been helping us. And now the customers are able to save. So we work with different prices, we work with retail and wholesale prices. Generally, it's three units, four units per products.

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And so the consumer can buy a product at a wholesale price, which is cheaper than a retail supermarket, something very relevant of Assai, because this has affected schools, churches, and these areas are still impacted. But we believe that this public will come back to us. But we believe that they will come back during 2021. And we start receiving. We believe that we will have lower options and people will start coming little by little.

And I believe that this will be the turbinate for our scenario. We also -- we had an inflation in some product categories. This inflation -- we don't see it in all the categories, but we -- there is different inflation rates between one product to the other, and especially the commodities and basic. Food had a strong peak throughout this quarter. And obviously -- these are the areas that grew, especially in basic food where there was an increase when we compare it to the past period. So perhaps, they are not highly representative in terms of volume.

In our view, we have a very -- here we have a high level of return of new stores, that's above 25%. This is above normality. With this -- even with new stores in new States being competitive in Maranhao, in Roraima, that is the first operation that we have in this State. So RPLD is stable. Here, this is one of the great highlights this year of Assai and also commercial actions that we have carried out. And we are also through negotiations. We have been able to maintain stores fully assorted and everything available for our customers.

As Christophe highlighted, there was an increase of sales. We opened new stores, we're preparing the opening of new stores now during the fourth quarter. And we have also hired people. We are bringing people of support, but we believe that the expenses had a significant drop in the third quarter from 9.7% to 8.9%, thanks to the effort of the team to maintain the level of service, even though we are going through a pandemic. And once again, I would like to thank and value the team, the team that is in the front lines, our checkout operators, or checkout assistants. And here we have a 60 million operation, 33 million people that go through our operations. Therefore, I would like to thank everyone that has helped us through this pandemic and how they have helped us in this company and the service has been a differential.

The result of the movement and expenses, the -- here we see the EBITDA, it was captured a 100%. The CRS goes to 7% to 7.8%. This is a level of EBITDA compared to the fourth quarter of last year, we rounded up. It is the highest percentage of EBITDA in Assai, which is a quarter that is not a fourth quarter with the greatest EBITDA in results. This, here, we have the normal EBITDA. Our leasing expenses are low, and Assai also maintained its historic operation. And here we had low depreciation. And the EBITDA is converted in final net income. We are advancing our projects -- but here, there are some procedures. We're working with compliance, with tax, but these are the main points that we are approaching in this process that will be ready. In terms of works here we have -- we are going to open new stores in the fourth quarter. Our construction works -- also the retrofit project also suffered during this pandemic. So we believe that we will open most of the new stores until November. But I believe a few will be in December -- of the 12 stores that are undergoing of refurbishment, three will be transferred for 2021. Our team is focused on working. And we want to have record openings of Assai stores. And we

want to be present into different states in Brazil. And we want to expand our footprint throughout the country.

Assai was recognized as the third most valuable brand in Brazil as also as the best wholesaler in Brazil, and also the fourth company that was mostly admired by its employees. So we are growing the amount of employees that we have. And we believe that we're in the right pathway and we are through this. We're able to create more value to our shareholder and we are fulfilling our role as distributors. I would like to also recognize the effort made by our team that has given us the stability. And thanks to them for able to present the results that Assai has been presented. Thank you very much.

Peter Estermann {BIO 15380447 <GO>}

Thank you very much, Belmiro. Good afternoon to everybody. First and foremost, congratulate Assai for the results. Belmiro on his teams, you had a fantastic result during the third quarter. Now I would like to start saying keying the Multivarejo team. During the third quarter -- this is a quarter where we have been -- we have had to adapt to the COVID scenario, the change of our consumer. This is a quarter with lots of risks. So here, I would like to thank the entire Multivarejo team for the effort and for the results that they delivered. The result of this quarter was a good result in sales, 10.4 of same-stores. In fuel -- food and non-food -- food and non-food grew from 11% more or less. We would like to remind everybody that our business has -- is predominantly for food, 80% of our share. So 79% is stores, 21% non-food, in this quarter.

And this shows that our business has been very resilient and very sound, not only now, but also going forward. Our EBITDA grew 9% this quarter from BRL500 million to BRL546 million. And this was the third consecutive quarter of improvement in Multivarejo. And as I mentioned to several of you, in the former quarters, Multivarejo would have sequential and gradual improvement. We had an improvement of 50 bp points in EBITDA since 2019. And it is important to highlight that drop in SG&A of 60 basis points, especially in the company, the corporation, and a very strong focus on productivity and distribution centers. A significant drop in expenditures allowing us sound growth in the future.

Now in the hypermarket, we had a quarter where we had a EBITDA greater than 7% in that format, which is an important landmark to show the soundness of this format in this new normalcy and especially in the non-food category. And even after the stores opened up in July and without a high concentration of customers as we used to have in 2019, the hypermarkets at present are reviewing their value proposition. We are broadening this proposal and our focus now is having greater competitiveness in the market, better prices and strengthening all of our fronts has a significant competitive edge in this format. And simplifying perhaps the variety of products that are part of our assortment. All of this is underway and without a doubt, we will be speaking about this in greater detail.

In the extra supermarkets, we had an excellent quarter. 17% growth in all the stores, and this is the third year of conversion of super to hypermarket. And even the stores, the first conversion continue to grow. They're becoming consolidated among neighborhood customers and we have a very positive outlook for them and they have a positive

profitability. The EBITDA is higher than the profitability of Multivarejo and we have the extra supermarket that will conclude the last 46 stores of this conversion.

And Pao de Acucar, we had a quarter somewhat more impacted in terms of sales, a growth of 3.6% for the following reasons. The main reason perhaps was the migration of consumers from urban centers to their secondary homes on the coast or in the hinterlands of the capitals. We perceived this in all of the large capitals, especially large urban centers where most of our stores are. The stores on the coast of Sao Paulo and the Northern Coast have a 3-digit growth, and constant growth, showing that consumers migrated from one home to the other. And we also had an impact on Cafe shops and Rotisserie. Now, the outlook for Pao de Acucar is good for the future for very obvious reasons. The declaration of green zone by the governments will enable us to open our snack places and Cafe shops, foodservice, and will enable us to recover business. At the beginning of 2021, we believe that consumers will come back, especially when the classes come back. We're thinking for the fourth quarter of repositioning Pao de Acucar in some capital -- capitals where there is more competitiveness for an example. And we're going to work stronger on promotions in that region. And at the end of this year, we expect to have domestic local tourism without significant international traveling. And this should enable us to strengthen our stores on the coasts and will enable us to extend our e-commerce reach.

To speak about the Minuto format and Mini Extra, this is the ninth quarter of a double-digit growth. We're extremely proud of this growth of above 30%. It points to the maturity of this business. During this quarter, the recovery of these stores -- stores that are close to the subway or close to bus-stops or passage areas, also reflects a more positive reversion. And we have our B2B format, which is also one of the proximity formats with enhancements.

Now to speak about our digital arm. As Christophe mentioned, we have a history of tradition of having more than 70% of food share in the market. We're extremely proud of this figure. We're growing more than our competitors 240% growth of food sales and a growth between the second quarter and the third quarter. And it's important to mention this, because in the second quarter, we were comparing ourselves with the peak of sales and we were able to have a growth over this base. And in the e-commerce we don't market home appliances, which this year had a great thrust in the Brazilian market as a whole. For this quarter, we're extremely proud, we have a growth of 240%. Our share in food in Multivarejo is 10% and in Pao de Acucar for the quarter the growth is up, excuse me, the share is 12% with moments with peaks that go beyond 15%, reaching 17% share in some weeks of the quarter. Now, the share for the quarter is 12%.

Now this can be seen through two important factors. First of all, the customer that already used e-commerce in the first quarters of this year and last year ends up buying more, buying perishables or lettuce, vegetables which is consumption that requires experience. And we have the continuous entry of new customers. So these are significant figures of new customers enabling our e-commerce to grow at significant rate.

James as part of this figure had a growth of 577% vis-a-vis last year. And we have had this peak with James. At present, we have 347 stores using James. And the journey of the

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consumer for food e-commerce is with the GPA. Our e-commerce therefore is projecting a figure for the end of the year of above BRL1 billion. This is a landmark for our company. And if we reach BRL1 billion, we're referring to an amount that is three-fold that of last year and still part of the ecosystem. I would like to remind you that in these quarters, we launched a coalition of the Brazilian retail market sticks. This was launched -- for you to recognize this in our apps of Pao de Acucar, Clube Extra and we have an app for sticks itself. And we have a partnership with Raia Drogasil as well as with Itau Bank. Thanks to this very successful launch, we're extremely satisfied with the initial figures of this program. And in the apps of Drogasil and Itau, you can also find sticks. Our apps had a growth of 30% in number of downloads compared to last year. We have 14.5 million active consumers who have these downloads active in their smartphones. And this had a growing pace month after month.

In two days, on November 1st, exactly on November 1st, we are going to launch our marketplace platform. We are going to be speaking extensively about this. It took us more than one year to build this new platform. We have already signed more than a dozen contracts with leaders in the Brazilian retail market, especially in terms of vertical categories. Baby Care for example, automotive products, furniture, kitchen utensils, bed, bath and more and this of course will complement our proposal for food. So marketplace will become a very strong center of gravity. And we are going to invite you for a presentation of our marketplace. And how this will be impacting GPA going forward.

I would like to conclude with a special thanks to our team, especially for the team at the stores and the distribution centers. Once again a very busy year. Several changes in strategies and our thanks to our suppliers who have offered us support in these new construction. This is a year for total change, a year where we're focusing on the basics with a great deal of focus and we're creating some foundations for our future. Our focus on food at GPA will enable us to have greater resiliency in the year 2021. And we also have a short-term focus, which is to end the year with very good results in Multivarejo.

Thank you for your attention. I would now like to give the floor back to Christoph.

Christophe Hidalgo {BIO 17982648 <GO>}

Thank you. And thank you Belmiro as well. We're going to Slide Number 9, I think, where we will speak about the results of our international operations with a growth of 2.3%. And the level of growth takes place in a scenario of heavy restrictions in Colombia, where there was a restriction in the store hours and with a curfew in some of the main cities during most of the quarter. Despite all of this we continue to observe significant growth in these innovative formats, our FreshMarket and a very good strategy for multi-channel strategy in all countries. And everybody adapted rapidly to the pandemic scenario. And the sales carried out through the omnichannel represents 3.8% of all sales in Colombia. We also had the gradual recovery of the non-food segment that was heavily impacted by the restrictions and now shows a better trend. Gross margin of Exito reached BRL1.3 million, 5% above the previous quarter. When gross margin was -- is 24.6% at a healthy level despite the pressure of the pandemic. Another point that explains the margin evolution, when compared with the pro-forma of last year was the reduction of royalties in the two-year financial operations. This had a negative impact of a 100 bps. And the retail

market operations continue to improve contributing to positive effects in the margin of 30 basis points.

The EBITDA totaled BRL436 million with a margin expansion of 30 bps totaling 88.2 during the quarter. This evolution was because of the operating improvement in the retail and its greatest profit in (inaudible), because there is no royalty distributor. It also has -- it has organized an action to reduce costs and also they accounted with lower effect of the - with a lower provision than what we imagined.

On Slide number 3, going to the consolidated indicate - 10, he apologized, here we see the result of the consolidated financial result that is 2.3% of the net revenue. This is the same level of the second quarter of 2020. The increase in terms of percentage of the revenue when compared to the third quarter of the past year was because of a greater financial revenues that we had last year and the sale of Via Varejo and to be the entry of resources to buy the Exito Group and a number of revenues of monetary update.

Now, when we go to the net -- to the next slide, the net income controlling shareholders 2.5 times higher than the previous year, reaching BRL386 million with the net margin was 1.8% in sale, 0.7 percentage points above the last year, reflecting the significant and consistent importance of the improvements in Brazil and the consolidation of the international operations.

On Slide 12, we see the leverage scenario of the company, which is adequate and totally aligned with our expectations. The adjusted net debt by the balance of accounts receivable, non-anticipated was BRL9.6 billion in the consolidated vision, which is 9.1 times the adjusted EBITDA, a level slightly lower than what we saw during the second quarter. The ratio was 2.2 times the EBITDA. We at the end of the quarter, we have a cash position of BRL7.3 billion, which corresponds to 125% of the short-term debt. And this demonstrates a good net receivables. Now, Ronaldo talked about the (Technical Difficulty). The spin-off that is being considered in Assai -- about the spin-off project, but I only wanted to strengthen the status and the next steps.

In summary, in the next slide, the advance here of our spin-off, here we have a number of stages that are being concluded like the adoption of the new social status of Assai, all the committee, policies, we also carried out the first filing in the CVM to -- requesting Assai to be filed as a public company. We're also summoning a meeting of debentures in the next steps. And as next steps and our spin-off is according to our expectations, we have the preparation of the spin-off protocols and we want to submit it to be approved by our shareholders in a meeting in the upcoming weeks. We also have the SEC documentation protocol. Everything is underway and we are preparing a separation contract and we are reorganizing the corporate structure of the segregated company. As I highlight, we are confident that we will fulfill the schedule and we will fulfill the timeline that we communicated in the past quarter.

So, these are the consolidated elements of (inaudible). I have also shown you information about our spin-off. And now we can proceed with our Q&A session.

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Well briefly I will -- Compre Bem is a regional supermarket entering the third quarter has a historic performance -- rate of 35% in same stores. Although when compared to the last year's results, we had new customers. So we believe we have had a strong rate of growth, especially in the interior of Sao Paulo and especially in cities that don't have capacity from a cash and carry. So they are able to work as a cash and carry. I believe we've had a successful business model. When we see our sales volumes, the 15 new units that were opened last year, gained 18% of more customers during this quarter. And we believe that we have a competitive model in the regional market, especially when we think about the interior of Sao Paulo. And we believe we have a strong role in reposition purchase of our customers. So thank you very much for the exceptional results that were delivered by this brand.

Isabela Cadenassi {BIO 20532610 <GO>}

Thank you, Belmiro. Now we will go to our Q&A session.

Questions And Answers

Operator

So now we will initiate our Q&A session. (Operator Instructions) Our first question from Ms. Daniela from XP Investments.

Q - Daniela {BIO 16954124 <GO>}

Good afternoon and thank you for taking my question, in reality. I have three questions. The first one, I don't know, if you will answer it in this call, but perhaps when you launch the marketplace. But I would like to better understand how your relationship will be with extra.com.br, i.e., with Via Varejo. How do you believe that there could be some type of relationship? How could you associate your stuff to this brand, and the performance NPS and vice versa? Therefore, to better understand what this relationship would be like? And my second question would be regarding the performance of Pao de Acucar brand, you said that this is due to --- do you know because there is a strong movement toward the interior and towards the beach. Do you see a reflection of this improvement? Have you seen this improvement in October? And the last one, regarding the profitability you have positive results, you have been able to maintain sound margins in all of your divisions. So I would like to understand how you see these results from here on?

A - Unidentified Speaker

Daniela, thank you very much for the question. Regarding the marketplace, we will provide you more details as soon as we present the new platform. This is very technological, we want to provide you the entire context, we don't want the conversation to be only focused on this theme. So, we will give you more details in the future. The fact is that, the launching of our marketplace is a new source of income, which is very important for our business.

This is important for us, we want to place our company in another level, in a level of competition with the strength of the extra brands and Pao de Acucar brands that have

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one of the best products in the retail market. And we have no question with the strength of the brand. And with the focus on food that are constantly bought by our customers, we will be able to make fast steps when we compete with platforms of marketplace in Brazil. Now regarding Pao yes, we see a certain return. It's very slow actually. And this is very gradual, lower than what we expected. But in reality, we had to do things the other way around, we had to do something at the end like being one of our Pao de Acucar (inaudible) that is in the coast, we had an e-commerce that service people that were up to 3 kilometers, we had to broaden this radio to 15 kilometers in order to be able to service this population that is not in their first house, this is their second house.

We believe that, when kids go back to school, this public, this niche of Pao de Acucar will come back rapidly or faster. I don't know if I answered your question?

Q - Daniela {BIO 16954124 <GO>}

Could I follow-up how do you see this new movement, there is a greater trend of working -- people working in home office in these areas where you have smaller population, is this going to change, for example, your expansion plans, and what do you see in terms of profit for you?

A - Unidentified Speaker

Well, it is very difficult to forecast exactly what is going to happen regarding home office. Well home office is something that will continue. Our customers that work remotely, well, they have to be service, you know, by us. So it is too early to say that there will be any type of impact, I really don't believe that this will be -- that this will impact our expansion strategy. Now, our expansion strategy in brick and mortar store doesn't only consider the area -- the primary zone. They also consider a new store as a hub, as a mini distribution sector in order to deal with the -- of a mini commerce of a macro region, not only mini region. So, our expansion plan also sees this reality. Now regarding -- so your question about profitability, could you pose the question again?

Q - Daniela {BIO 16954124 <GO>}

No, because something that is very important in the result is the level of profit in all your divisions, which is very sound. I would like to know how you see this profit from here on. Will you maintain this level? Is there something that would, I don't know, make it drop?

A - Unidentified Speaker

Well, we consider this a structural improvement, not a timely improvement and a non-recurrent activity. Since the beginning of the year, we have been reinforcing the basics of the business and working with the consumer, with supply, with assortment and pricing policies in each of our banners and in each of our regions. And we are also reinforcing productivity levels in each of our stores as a project with technology and supporting working hours and the right amount of employees per store, with the workforce management and we're working with productivity and distribution centers as well as I mentioned, this is a year of complete change, but we can also say this is a year when we went back to basics, putting our business into a standard with recurring results.

Q - Daniela {BIO 16954124 <GO>}

Thank you.

A - Unidentified Speaker

Thank you very much.

Operator

Our next question comes from Guilherme Assis from Safra Bank. You may proceed, sir.

Q - Guilherme Assis {BIO 16143141 <GO>}

Good afternoon and thank you for taking my question. I have two questions in truth. We have heard a great deal about inflation in food items. And from your view point, I would like to understand how this has been addressed internally. I understand that up to a certain point, the inflation in food prices will help, it will help you increase your revenues and maintain your volumes and will dilute the costs with the operational deleveraging, now -- which has been the Company's strategy to deal with the suppliers and with the pricing dynamics, the price of promotions. We have observed considerable increases in very basic products such as rice and many more, which is your outlook and which is your strategy going forward, considering that we all expect that there will be a higher inflation on food in the coming months. This is one question.

My second question we have heard a great deal about the industry and not necessarily in the food segment, but in the non-food segment, we have heard about the scarcity of products in the industry. How are you dealing with that, which has been your negotiation with vendors and if you're preparing for Black Friday in the non-food area for e-commerce as well as in your brick and mortar stores where you have a greater mix of non-food products. And if it constitutes a problem to negotiate with vendors to have appropriate inventory levels for this fourth quarter and if this is also happening in the food segment. So I would like to hear your comments, if there is any pressure, any scarcity or the outlook for scarcity in the food segment as well. These are my 2 questions.

A - Belmiro Gomes {BIO 18107864 <GO>}

Guilherme this is Belmiro, to speak a bit about inflation. As I mentioned, this is a timely thing, it doesn't uniformly affect all category of product. It also depends on the dollar exchange rates and imports where there has been a strong inflation. And obviously all of this generates discomfort among our vendors when we have high -- increases in price, they are not able to transfer this price very quickly and so we're left with that very ungrateful task of being the messengers of this price increase.

In our case, there has not been any scarcity of product. What we do have is an increase in our trade negotiations to see if that category will have an improvement or not. Now the trend for higher prices will increase because of what is happening in agriculture and elsewhere. And in the agricultural commodities, as soon as the price goes up, this price is transferred. As soon as we are able to harvest sales and there is a great deal of uncertainty regarding the upcoming year and the level of prices that we will be practicing.

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And of course, now we have to do is service our customer and maintain the prices if we can, if we can't maintain the prices, we will have to change brands. But we will have to have products on our shelves.

And in terms of non-food and industry imports, there has been a strong impact, especially lack of steel for example. In some states, the steel chain has been affected, the carton and glass chains have also been affected. And some of these people that were recycling have received the emergency aid and have stopped working, which is completely different from the commodities business in terms of durable goods like carton and steel and other products. These are durable goods, the production can be increased very quickly and what will happen is, they will have a surplus of inventory, the coming year.

Now this could of course cause delays, but this is a market concern, of course, the ability to go back to selling all of these products. But this year, I think we're working shielded with strategies. And I think what we have at Multivarejo will be perfectly adequate to supply the market. I don't think that we will have a significant scarcity of merchandise, at least not at this precise moment.

A - Unidentified Speaker

Good afternoon. And in terms of food items, Belmiro spoke about the inflation and Multivarejo. As a company, we have a behavior that is very respectful towards the consumer. We don't transfer this pricing increase immediately to the consumer. We do this with weighted inventories and weighted prices, which of course will have an impact on our margin, especially when we're dealing with basic products. What we try to do is balance out our promotional mix, our promotional share. With the increase of rice, we stop showing rice on television to be able to work with our profitability levels.

But this is a scenario that is still uncertain in the future, depending on the chain. If it is a chain that is pegged to the dollar and depends on exports, we don't expect the prices to drop. Now if it's a price increase referring to the domestic market to harvest, we think there will be a retraction in price, according to the product or merchandise.

Now when it comes to the supply of raw material, in food, the problem is steel. All of the products that use cans, but it's not come to a level of concern for the market. At least, this is our opinion perhaps one or another supplier is facing difficulties, but it doesn't create the risk of under-supply in the country. In non-food especially and electric products, electronics, the vendors have prepare themselves for the future. What is difficult is to ascertain the future demand with the Corona voucher, with the aid from the government, this sector is doing extremely well, has surprised everybody. But the future is still uncertain. We will have the Black Friday, we will be holding it with the inventories that we have at hand. And always attempting to find in negotiation, something that will enable us to become a priority, when you speak about industry inventories.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you, if you allow me a follow-up question for you on for Belmiro as well, regarding sales. Taking advantage of the comments that you made that sales continue at a very high

point because of the Corona voucher, I believe that today, we saw that the Supermarket Association has mentioned, there is a more a steeper drop in demand, in the retail market, I believe, have you observed this? Already this month or in the last week? What is it that you have observed? Has there been a retraction in demand after this third quarter?

A - Unidentified Speaker

Okay, Belmiro, you can take the floor.

A - Belmiro Gomes {BIO 18107864 <GO>}

Well, first of all, this was not observed at least not at Assai up to the present moment. Now this from the cash and carry channel and Atacadão, and of course, this also depends on the public that does the shopping, they seem to be coming back. We don't know if they're the end consumers, of course, and while perhaps it doesn't hold true for all formats and for all categories, even commodities. Well, there are people who have bought much more rice and other products, but when you have the announcement of a price increase -- and toilet paper, for example, during the pandemic where people were buying ridiculous amounts, what happened was that we had a lack of inventory.

Now, if oil and rice is going up, people continue to buy oil and rice, it's part of what we require in terms of accommodation and accommodation into the new situation and obviously there is always a concern on the part of the consumer when it comes to prices - and all of this creates a market distortion when you have an inflationary movement, everything becomes more expensive for the end consumer and you have to be very connected to prices and, of course, consumers are going to begin being more cautious, especially when it comes to the basic food basket, but up to present, we haven't observed any change in behavior.

Q - Analyst

Thank you.

A - Belmiro Gomes {BIO 18107864 <GO>}

(inaudible) Multivarejo, the only thing that we have observed is a slight trend towards trade down. The consumer looking for more popular brands or own brands. And there is somewhat more avid in terms of buying promotions, which means that sales are being more concentrated in those weeks that are very close to the payment of their salary. And there is a small reflux of this, but we have been able to go around it and we have maintained our levels at higher levels than the past, the recent past at least.

Q - Analyst

Thank you. That's very clear. Thank you, Belmiro. Thank you for answering my questions.

Operator

Our next question from Ms. Olivia from JP Morgan.

Q - Olivia {BIO 6298591 <GO>}

Good afternoon and thank you for taking my question. My first question would be the habits of the consumer. I would like to know if you see a downgrade amongst brands. Belmiro commented on an increase of individuals in Assai. Is this structural in the long term? My second question is, if we could review the story of hypermarket Extra, last year, you commented that you would close -- you would have conversions if you maintain the plans that we can still -- we can work with the guidance of extra stores that will remain in the base. What about your divestment plans? You did something regarding real estate. So I would like to know what we can expect in the future in terms of real estate sales or the sale of operating assets.

A - Peter Estermann {BIO 15380447 <GO>}

Regarding the trade down, your first question, right. As I said, there is a trend of more popular brands. But this is for the mainstream brands. It depends on the category of products, some leading brands that are strong in the country continue being very resilient. Now there is a movement of down trade. This is in brand's mix and channels. I used this word in the beginning of explanation. I said adaptation, because we have to adapt our stores, our value proposition to the consumer of this location. Here I mentioned, Pao de Acucar, that is a region that has to fight against regional players. So we cannot have the same proposition value that's the Pao de Acucar downtown. This is an adapted value proposition, more promotional and more mainstream products, of course, with our wavering service that we offer and the premium products that we offer. We do believe that we have -- we believe that this behavior will be observed during at least at the beginning of next year. Belmiro, would you like to strengthen something about the trade-down.

A - Belmiro Gomes {BIO 18107864 <GO>}

Now this is something that is expected. There is a movement -- there is a trade-down among brands. But this has been -- this is in the categories of products that suffered more inflation and, of course, it is more -- it is expected to see a consumer changing oil, when oil brand of our own brand of rice, that is cheaper. So we offer an array of products with different prices. And then the customer can choose according to their pocket. Olivia, in the case of the hypermarkets, we made progress. Recently we opened two new stores. There is one new store that will be opened in the upcoming months. We continue dialoging although we are separate companies. Well, we continue working in order to optimize our portfolio. We will have a lower number of conversions, lower than what was announced in the beginning of the year. We said around 30 hypermarkets. We believe that we will have less than that in the upcoming months. But I would not like to give you a new guidance, regarding this point. Now the hypermarket from the year up-to-date had a considerable EBITDA source. It was about 7%. The hypermarket is responsible for a great part of our recovery from one year to the other. Therefore what is important is the revitalization of the value proposition and to make this format, even more profitable than what it is today.

Now, the sale of assets, Christophe, I believe that you would be the best person to talk about this.

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A - Christophe Hidalgo {BIO 17982648 <GO>}

Thank you for the question Olivia. Regarding the sale of assets, two things here. At the short-term from two months to six months onward, we are working with sales. We want to have here -- we are seeing a real estate assets with a potential. This means that we are negotiating. Nothing has been done. The potential slightly above BRL0.5 billion in terms of monetization. Simultaneously, we have an asset portfolio that is very significant. I am thinking about international subsidiaries of Exito. I'm also thinking we already mentioned in a number of opportunities, now in addition to many reserves of real estate assets that we held in Colombia. Regarding the second block that is short -- that is not short-term, I would like to remind you. But we would like India asset monetization would be the maturity of the assets when we believe that its valuation has reached the point of maturity. And I would like to reinforce that this exercise of monetization that we have been conducting response the need of circulating the assets that already captured their valuation, but by no means the monetization exercise is related to pressure over cash flow over the debt, our financial situation is sound. And therefore we can monetize what we believe is lease is strategic, but our good conditions, we are not going -- this is an organized plan that will be distributed in the upcoming years.

Q - Olivia {BIO 6298591 <GO>}

Thank you very much.

Operator

Our next question is from Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good afternoon. And thank you for taking my question. I have two questions that are brief. One would be -- could you tell us where you have the fulfillment mix on online food e-commerce or through the DC and other delivery formats? And how will this evolve in the short in the midterm? And my second question would be expenses, BRL35 million, that are non-recurrent. Could you elaborate on this? Could you tell us how you see the synergies with Exito?

A - Peter Estermann {BIO 15380447 <GO>}

Thank you, Irma, for your question. No mix fulfillment. Today approximately 85% is done through our own platforms within our sites, and rest is done through James approximately. Currently, in our total sales, in the year, we have approximately 60% within the Pao de Acucar brand -- and 65% in Pao de Acucar brand and 30% of clubextra.com. Our volumtry or volume, almost 60% of our volume comes from the 300 stores from shipment from store, and 30%, 35% through distribution center -- distribution, an area that grew a lot during this quarter was click and pick-up. Click and pick, this is a very profitable operation because you don't have the transportation cost. And so this is the shipment from store. But this represents 10% of the total. The detail in this quarter that we did not include in our release, our level of service reach, 98% of service level to our consumer. Our best historic levels since the beginning of the company is e-commerce

operation and we are evaluating not only being the biggest, but we want to be the biggest in the food e-commerce segment, in Brazil. Thank you very much.

I was going to give the floor to you Christoph by the way. So regarding our expenses or other expenses, especially, in the international side, BRL35 million covers the restructuring expensive from (inaudible) by Colombia and Argentina. And this is connected to the portfolio restructuring. We are migrating from Carulla -- from Carulla FreshMarket -- of these BRL35 million, most part is for this. I would like to highlight that we have no expenses and this is valid for Brazil expenses that are associated to COVID.

Operator

Our next question from (inaudible) from Itau.

Q - Unidentified Participant

Thank you for taking my question. Our question to Belmiro, if you could elaborate on Assai formats. We have discussed as we will have more individuals going to Assai, if it would make sense to have services within their stores.

A - Belmiro Gomes {BIO 18107864 <GO>}

Yeah. Thank you very much, (inaudible). This is Belmiro. Yes, the focus of wholesale -- so this could increase the cost that would change the proposal. This doesn't mean that this is a reality for all the regions of Brazil depending on where you are, depending on the region where you live in the interior where you don't have a lot of offering. Well, this is something that we can evaluate in the future, but the great urban centers. It really doesn't make sense to put a bakery inside the store, because we sell these products to the Baker. And we also sell products that can be resold. So this is really not interesting. So of course, the markets change. But we don't see this in the short-term or in the mid term. Thank you very much.

Operator

Our next question comes from Tobias from Citibank.

Q - Tobias Stingelin {BIO 20764287 <GO>}

Hey, good afternoon to all of you. Perhaps you could help me here how are you putting together your budget for 2021, you have economic variables, you have vouchers, a comparison base that is very high and the home office should persist. So how are you going to project your sales in 2021? I have two more questions if you could speak about your multi-competitiveness strategy. You said that you were going deeper into it, if you could speak about this? And the last question, when are we are going to know about the debt allocation at Assai or GPA? Will this be only during the filing? Thank you.

A - Peter Estermann {BIO 15380447 <GO>}

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Let's speak about competitiveness in the first place, Tobias. Good afternoon and thank you for your question. Now competitiveness, we have been adapting each of our banners in each of the regions. When it comes to competitiveness each is at a different level. Since last year, we have different technological tools to do this, a retailer with 40,000 bps, we tried to adapt them to 800 different local stores. And this is nodal task. We have been doing this especially, successfully. The Extra market closely adheres to the value proposition of each of its locations. And this can be seen in the success of this format for Pao de Acucar. We did have some revisions during the year. And we had to make adaptations before COVID. We had an idea of its competitiveness after COVID. We're on a completely different person that had been foreseen in hypermarkets, and with the grocery part and industrialized products. We have significantly reduced our regular prices and decreased our share. And necessarily everyday low price, we continue with strong promotions on TV through leaflets, but we have a greater coherency in terms of the growth to reprice it so that we can be closer to the consumers. This is long and very consistent work that needs to be done. And at a more appropriate moment, I can give you perhaps greater details in terms of this.

Q - Tobias Stingelin {BIO 20764287 <GO>}

Thank you. Now how far longer you in this process?

A - Peter Estermann {BIO 15380447 <GO>}

40% to 50% in the Extra market, 80% to 90% in the hypermarkets. We're still below, I think 80%. So we have set aside a group of stores from the hypermarkets, approximately 20 stores where we have applied this new competitiveness concept. And they -- the stores have surprised us without any cash burn, without reducing our margins. And we're going to make strides in 2021 with this project. This is one of our main activities for that year.

Q - Tobias Stingelin {BIO 20764287 <GO>}

Thank you.

A - Peter Estermann {BIO 15380447 <GO>}

Now, when it comes to the budget, in fact, we're still in the planning stage, Tobias. And we're not going to disclose this very much. What I can advance is that this is an exercise that is completely out of standard, out of the normal. We have done this more in depth. The food and non-food segments for 2021 should have different behaviors. This year, in economy, we have observed a very strong dispersion, specialized retail, specialized services suffering, other areas gaining in terms of volume like electronic products and home appliances. So we're in the middle of our budgeting. We haven't concluded this. And it would be too early to share any numbers with you.

Operator

Thank you. The question and answer session ends here. We would now like to return the floor to the company for the closing remarks.

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A - Christophe Hidalgo {BIO 17982648 <GO>}

Thank you very much once again for your interest in our call and for your participation. We would like to highlight that we're already in the fourth quarter. And as you know, this is the most important moment for the retail market. Because of the intense activity, the company is very well prepared. Our team is highly focused on the work and on delivering good results for this quarter. And we hope to maintain this evolution in our business and a delivery of very consistent results for the fourth quarter.

Special thanks to our team once again for their efforts, the Assai team as well as the Multivarejo team. The delivery of results has been very consistent as mentioned previously. And the importance of the sequential improvements, which truly believe in this and we have a great deal of confidence in the fourth quarter. Once again, I would like to thank all of you and have a good afternoon.

One more thing, Peter, I began to answer. And I had a problem, I wasn't able to answer. But I don't want to leave the person without a response to complement the question -- the budget that we call B1-B2 landing. We're going to work with the budget differently from what we normally do. Until November, December, we should have a good vision of the first quarter 2021. And at the end of March, we are going to carry out a review and then again in July, which means that gradually we're going to create this budget. Now the investment budget, in our view, doesn't require many changes and we can make adjustments through time. Referring to your last question, the allocation of the debt, if it will be done only during filing, we're working in house and with the banks. And we have moved ahead significantly in-house when it comes to having a view of the business plan of Multivarejo and Assai. We already have a proposal for the separation of assets and debts. That is well aligned internally. And we believe that we will be prepared to communicate this to the banks, not only in terms of the allocation of assets and debts and our work plan going forward. All of this, until the end of the year, until mid-December, we will be ready to present to the market, which is our vision. And along with the banks, Assai team under the leadership of Belmiro, and the Multivarejo Group led by Faical, will communicate decision. What I would like to advance to eliminate all doubts is that this will not impact our ability to grow or to invest neither for Multivarejo, neither for Assai and brick-and-mortar stores or through the e-commerce. We're being very careful, so that everything continues on as always. Thank you very much. And our apologies, Tobias, for not fully answering your question. Once again, if you require further information we're at your entire disposal. Thank you. Thank you, Ronaldo. Thank you all. Thank you very much.

Operator

The results conference call for GPA ends here. The IR team is at your entire disposal to respond to the rest of your doubts or questions. We would like to thank all of you for your participation. Have a good day.

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