

Q2 2020 Earnings Call

Company Participants

- Carlos Mauad, Chief Executive Officer
- Jose Roberto Meister Mussnich, Chief Executive Officer
- Luis Moreno, Chief Executive Officer
- Natalia Lacava, Head of Investor Relations
- Noel Prioux, Chief Executive Officer
- Sebastien Durchon, Member of the Executive Officers Board

Other Participants

- Gabriel Disselli
- Guilherme Assis
- Gustavo Oliveira
- Helena Villares
- Irma Sgarz
- Joseph Giordano
- Robert Ford Aguilar
- Tobias Stingelin

Presentation

Operator

Good day, ladies and gentlemen, and welcome to Grupo Carrefour Brasil's Second Quarter 2020 Earnings Conference Call. This conference is being recorded and broadcast live over the Internet and can be accessed at www.grupocarrefourbrasil.com.br where you can download the presentation. (Operator Instructions)

We will start with the questions asked over the phone, and then if there is time, we'll address the questions asked through the chat. If we run out of time, we will answer all pending questions later via email. Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments because of macroeconomic conditions, market risks and other factors.

It is now my pleasure to turn the conference over to Mr.Noel Prioux, Chief Executive Officer, to start the conference call. Please Mr.Prioux, you may proceed.

Noel Prioux

Hello, good morning, everyone and thank you for joining us on this call to present the Grupo Carrefour Brasil's second quarter 2020 results.

I'm joined on this call by Sebastien Durchon, our CFO, who will present in greater detail the highlights of the period and the CEOs of our business units who will be with us for the Q&A session, and Natalia Lacava, our Head of Investor Relations is also with us.

I am delighted to be able to report the results of a spectacular quarter and I can say, without a doubt, that the numbers of the second quarter are not a near consequence of the current situation we're experiencing right now. They are the fruits of work that started three years ago. COVID-19 only accelerated these transformations and the results that we delivered. The initiatives that we implemented in the first quarter to cope with the COVID-19 pandemic not only continued but were intensified, leading to strong engagement from our customers. In my 30 years of Carrefour's and having worked in many countries, I don't think that I have ever witnessed such impressive results and such above-market average growth in, practically, all of the segments with a high level of engagement.

On one hand, we have Atacadao growing strongly and delivering significant results even when faced with challenges. And in the absence of our Dia A, Atacadao Day, which says that we truly have the best model when facing a crisis, one that is able to accelerate growth in whatever market conditions. In Carrefour Retail, we accelerated three years in one single quarter. We grew twice as much as the market, reaching a record NPS and a 30% increase in share of wallet, and this is indeed spectacular. Our e-commerce is soaring. We already have an e-commerce with a GMV of almost BRL1 billion, up 40 percentage points above market growth and already achieving significant penetration.

It is interesting to note the high level of penetration of perishables and also high repeat purchase rates and the acquisition of new customers. Digitalization is really happening. And in my view, it has come to stay. We are already the seventh largest e-commerce in number of visits, a quantum we compared to when we started the operation. We already sold 40% of electronics and home appliances and almost 8% of food online. We can say that we are a true digital player. In Banco Carrefour. We already saw signs of a rebound in economic activity in June and we also believe that exposure to food retail brings a good safety margin to our results, minimizing credit challenges.

In addition, our bank has become a full-fledged bank in June, an important step for our long-term strategy. I believe that all that proves to what extent a connected omni-channel is able to create synergies and feedback our other business units, generating traffic and recurring purchases. This is exactly the concept of the ecosystem that we have been building over the past years and now you're seeing the results of that work. We raised the bar and we are winning in this new game. I would like to take this moment an opportunity to thank all of our employees who have been the main drivers responsible for delivering such good results. We have a very united team and synergy of people leads to synergies in business, too, and this is our main achievement.

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With that, I hand over to Sebastien Durchon, who will detail our numbers better.

Sebastien Durchon {BIO 20242758 <GO>}

Thank you, Noel, and a good morning to everyone. It is indeed very gratifying to be able to report such excellent results, which prove our ability to leverage the Carrefour Brasil ecosystem to drive sustainable growth. On Slide three, I will briefly comment on the main numbers that we reported yesterday.

Here, I want to highlight that our consolidated gross sales rose 15.4% to BRL17.6 billion in the quarter with an impressive like-for-like growth of 14.9% ex petrol. This growth is the combination of an 8.6% like-for-like growth of Atacadao, which once again attests to the strength of its model and of a 30.3% like-for-like growth of Retail, which proved to be the best one-stop-shop in the brick and mortar world, and the most complete e-commerce with fabulous increase of online sales of food, and a robust and consistent non-food growth. Our adjusted EBITDA exceeded BRL1.4 billion, a very significant 27.5% increase year-over-year with a 9% margin. Despite additional COVID costs.

And please to note that unlike other groups, COVID expenses are reported in our EBITDA, they were not reclassified. The strong EBITDA growth is a reflect of increased sales and dilution of fixed costs. What is interesting is that all of that was achieved without the need to take on additional debt. These gains were reflected directly on our adjusted net income of BRL713 million in the quarter, up a record of almost 79% [ph] year-over-year. In this quarter, our adjusted net income group share hit an impressive mark of 4.5% of net sales, up 1.6 percentage point over the same period of last year with a net debt of only BRL2.7 billion in the end of the second quarter. Our balance sheet remains solid even including the lease debt resulting from IFRS16 compliance. Our net debt over EBITDA ratio remains very low at 0.52 times, excluding discounted receivables and 0.92 times including these receivables.

On Slide four, I would like to focus a little on the highlight of Atacadao. As Noel mentioned, indeed, this new market environment proved once more that we have the best model in the Cash & Carry segment, able to resist all market conditions by combining price and attractiveness for both B2B and B2C. It is worth mentioning that sales remained strong in June and July on the back of an innovative initiative that we adopted to help merchants in this moment of economic reopening, which we call Merchant Week. I would like to point out that our competitors thought this initiative was so good that almost all of them copied it in July. With the gradual reopening of the economic activity in several cities, B2C remains strong and sustained high growth was seen in June and July.

With that, our gross sales were up 13.5% with 8.6% like-for-like, the best index since our IPO. This number was achieved even in the absence of Atacadao's traditional anniversary celebration, the famous Dia A expected to happen in April and which we had to cancel because of COVID-19 and potential crowds. As you know, Atacadao has a highly efficient model and all this growth was reflected directly on Atacadao's result. Operational improvements, in particular, reducing shrinkage, contributed to a gross margin increased by 0.5 percentage point to 15.7% and to a strong cost dilution, which, in this quarter,

represented only 7.6% of net sales, a 0.5 percentage point improvement. As a result, our adjusted EBITDA was up 28.3% with an EBITDA margin exceeding 8%.

On Slide five, we highlight our main achievements in Retail which remaining. The hypermarkets, a format in which we never stopped believing, have already been the big winners in this new context when people look for a one-stop-shop. We took advantage of this moment to accelerate some transformations that were already in our radar. We put into practice a more simplified and optimized promotional strategy, which consisted basically in reducing the number of promotional products, however with better and more long-lasting promotions.

This led to several gains. Firstly, it helps avoiding crowds at the stores. And secondly, we were able to maintain low prices for longer, creating better price perception, more engagement and more customers returning to shop some more. In addition, we were able to manage more efficiently the logistics in our distribution centers because there's more predictability and less volatility of sales as well as fewer price changes, which in turn leads to higher efficiency at the stores. Therefore, the results were significant with a like-for-like growth of 30.3% ex petrol. We improved twice as much as the market as shown on the graph on the right. This means our market share increased 2.4 percentage points in our share of wallet 30%, focusing on more loyal and profitable customers. We froze the crisis of some 200 private label products. So our private label posted significant progress, in particular, a 30% volume increase in fast moving consumer goods. Customers were clearly happy with NPS reaching a record mark.

On Slide six, we see the financial reflects of all of these initiatives on our results, in particular, on EBITDA. The biggest highlight on the slide is the exceptional contribution of retail and e-commerce in this quarter. Our gross margin expanded 122 basis points ex petrol and ex commercial centers, as we had an improvement in shrinkage and other important gains, for instance in logistics. As for our SG&A, the dilution of our fixed structure combined with reduced marketing expenses led to an improvement of 369 basis points. It is worth highlighting that, excluding the additional expenses with COVID-19, our SG&A would have dropped nominally at Carrefour, attesting to all the work that we have been doing to improve operating efficiency over the last few quarters. Adjusted EBITDA, which had already been growing in the past quarters, was up by a strong 78% with an 8.1% margin, excluding petrol and commercial centers or galleries, which activity is impacted by the current crisis, adjusted EBITDA would have increased even more significantly by 187.5% year-over-year with margin reaching 9.3%, a record improvement of 5.1 percentage points.

Moving to Slide seven, we will talk about e-commerce. The biggest message here is to show how much we have accelerated the digital transformation and how fast this channel grew, boomed in the past few months. It was like executing almost three years of a business plan in one single quarter. Our e-commerce -- our eBusiness grew 94% as a whole, reaching a GMV of almost BRL1 billion in one quarter with 40% of sales of electronics and home appliances and almost 8% of food sales already coming from the online channel in June. It is interesting to note that these are national averages and the group has a strong presence in several states. If you were to look at cities like Sao Paulo and Curitiba in food, the rates are running at impressive 14% and 19% penetration rates. It

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is not by chance that we are now ranked seventh in number of visits to our website and have grown 40 percentage points above the market in June according to E-bit. This strong digital presence, greater than other players that have been longer in this market, brings a number of benefits, first, to our e-commerce, but then [ph] to all our business units.

For us, the pandemic was a catalyst and a driver of all the initiatives launched and we are convinced that this quarter's spectacular development will continue. As time goes by, it becomes more and more clear to us that the customers will come from all channels. In the beginning [ph], non-food segment would bring customers to buy food online. Today, we start seeing also the opposite. And this is the beauty of the omni-channel model, i.e., when the formats feedback on one another and create more business for the group as a whole.

On Slide eight, we give you more on food GMV, which grew more than 370% in the quarter. It is interesting to note that 60% of purchases include perishable items and that repeat purchase rates have been increasing significantly, 12 percentage points among new customers and 11 percentage points for existing clients. In addition, 60% of online sales come from totally new customers and 70% of them are totally new to the -- to Carrefour, including to hypermarkets, which demonstrates that cannibalization is definitely not a problem. We continue to focus on quality of service. And in Q2 2020, we already have 97% of customers receiving their orders on time, which increased the channel's NPS. The side stores and last mile delivery partners have been essential for the record progress of this channel and we are quite comfortable that we can double sales with the current capacity of 12 side stores, ensuring an even greater leverage potential.

We will now turn to Banco Carrefour on Slide nine. Here, too, we are reaching a model which is more and more digital as shown by the very significant growth of our digital channels. Access increased by 27%. Sale of cards was up 85% in the month of June. And the number of agreements digitally signed soared, 273%. In June, our bank became a full-fledged bank and this is a very important step to enable our long-term strategy because it brings efficiency gains as we no longer need a third-party to issue payment slips or for bank settlement, for example. In addition, we can offer a great diversity or a greater diversity of products. The bank's quarter was impacted by the pandemic, which affected billings and results. But still, our on-us billings grew 8% in the quarter, attesting to the value of being a bank controlled by a food retailer, and therefore, a much more protected bank.

In June, we started to see signs of recovery and total monthly billings recorded a 12% growth. As can be expected, in Q2, we increased provisions with an impact on the bank's EBITDA, which ended the quarter at BRL184 million, still a very high level of result. We continued to help our clients and partners in this period of crisis, assisting them to publicize their business on a platform that counts on more than 450 registered partners and that has already impacted more than 200,000 Atacadao cardholders. I would like to stress that the bank will maintain all the investments we have planned before the crisis and we remain confident in our trajectory of growth and in the transformation of our bank into a profitable FinTech.

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Lastly, I would like to highlight the progress that we have made -- we are on Slide 10 now - progress that we have made on two fronts, which are extremely relevant for the group, people and sustainability. Over the past few years, we have invested greatly in transformational actions, not only for our business units but mainly in the way people act. Through our continued improvement center, we implemented agile models using squads and that led to many improvements on several fronts. Here, I would like to highlight the development of our new e-commerce platform in record time, six months, with a totally innovative architecture, which will bring efficiency and agility gains. Just to give you an idea, in the current platform, we would take two to three weeks to deploy improvements in our website features and functionalities. With the new platform, this takes days if not hours. What is most interesting is that we did this with 150 people, of which, more than 100 were developers most of the time working from home. Hiring also improved with the process -- with the current process being 100% handled digitally.

On the sustainable front, I would like to reinforce our commitment as a group and remind you that we recently published our report where we committed to zero deforestation, reduced CO2 emissions and reduced the use of plastics at the stores. Our goal is to have 100% of our packages made with sustainable materials by 2025. We also want to reduce food waste by 50%. And last but not least, we should never forget our social role. It was actually reinforced during COVID-19. However, it was always a priority for us through our partnerships with local producers and support to many social projects.

With that, let me hand over to Noel for his concluding remarks.

Noel Prioux

Thank you, Sebastien. As you could see, our ecosystem is accelerating greatly and promoting changes that will remain after the pandemic is behind us. We are already digital and growing not only online but also in our brick and mortar stores. In June, 39% of our sales of electronics and home appliances and 7.7% of food sales came from the online retail. We launched Atacadao Marketplace and Banco Carrefour saw an 85% increase in the acquisition of online cards. Like-for-like sales of electronics and home appliances at the stores was 79.5% and food 14%. These are a spectacular numbers. We accelerated our e-commerce three years in one single quarter. With the approval of the Makro deal, we will accelerate our expansion by one year and a half. Our omni-channel business model is more than proven. Our client is greatly engaged with our brand, which leads to increased share of wallet and higher NPS which are now at unprecedented levels. These are very, very important structural changes and they will bring not only benefits for the group's business, but will accelerate our ecosystem even further.

Thank you very much for your attention. And now we will begin the question-and-answer session when I will be joined by Sebastien, Roberto, Luis, Carlos and our whole team. Thank you very much.

Questions And Answers

Operator

(Question And Answer)

Thank you. We will now begin the question-and-answer session. (Operator Instructions)
Our first question is from Gustavo Oliveira with UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Hello. Good morning, everyone. Thank you for taking my questions. Congratulations on the results. My question has to do with the new promotional dynamics that you've implemented in the retail business. It seems to me that it is a model focused on everyday low price which is the model you have for cash and carry, which is not traditionally the commercial model of retail in Brazil. Do you think it is possible to keep this up, this new promotional dynamic, which reduces a lot of volatility in the supply chain and makes pricing more transparent to consumers. Do you think it is long-lasting? Or do you think it's more related to what's happening now with the pandemic? How do you see this? Because I believe that this brought along significant gains in terms of revenue and profits, right?

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Gustavo, thank you for the question. I will try to explain what Sebastien mentioned. We simplified our promotional model we didn't eliminate it. Before the pandemic, we had 36% of promotions. Now we have a promotional share increasing from 36% or decreasing from 36% to 26%. We still have 75% of promotional sales that we had previously, but we achieved at this level reducing the number of products on sale by around 60% so we have 60% fewer promotional products but we still have 75% of promotional sales.

So we maintained this result with fewer products but in a more stable fashion. And there was a reduction of 40% to 45% in price changes at the stores, because we decided a number of things that our promotions would last at least a week. So we eliminated those one day promotions that will happen on a Saturday or on a Wednesday. That would generate attractiveness to some customers but in a pandemic moment, it would totally go against the measures to prevent crowds. We also changed our way of communicating. We are communicating now through the digital channels. We are no longer having so many TV marketing, because those TV spots had to do with a short-term promotions.

And we reinvested in prices in different programs, one of them in our private label. We froze the prices of some 200 private label products. We have 30% increase in volume for groceries with our private label. We also invested in the category of commodities, as there are the products that all customers need. We also invested in fruits and vegetables. So we have lowered the prices by 10% for a period of a week. And we recently launched a new program called The Cheapest including 39 categories with more than 80% penetration in Brazilian households. So we'll always have a product with the cheapest price in the market.

So it's a simplification of the model. We still have a promotional component, but it is quite optimized and simplified leading to significant gains in terms of shrinkage. We improved the shrinkage by more than 90 bps. We improved our supply by more than 40 bps that

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generates improvement at the stores more than 25% productivity improvement. So all of that with a dilution of expenses of 400 bps and a margin gain of more than a 190 bps by improving shrinkage, improving our supply chain and not increasing prices. So we are very satisfied with this transformation model.

In addition, we are looking at clients in an individualized way through our loyalty program. We had a 30% share of wallet increase. And now our customers are by 30% more at Carrefour banner, but that happens in two different ways, our recurring customers increased their share of wallet by more than 40%; and we had some 10% of customers who were moved by promotions only. So in addition to the current pandemic context of when it was very appropriate to evolve this model that was already in our radar, we believe that there are many positive elements that we will maintain about these dynamics and that we will maintain after the pandemic is behind us.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you.

Operator

Our next question comes from Joseph Giordano with JPMorgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

Hello. Good morning, everyone. Congratulations on very strong numbers. I would like to go back to the ecosystem that you are creating. It seems to me it is an ecosystem that tends to be very potentialized by the bank. So I'd like to understand now as a full-fledged bank, how should we think the e-wallet in the strategy of the company in the mid-term? How should we think about the rollout of the e-wallet given that other competitors will also try to be more aggressive? And going back to the ecosystem, I would like to understand the Cornershop's role. What is your strategy with Atacadao in an operation powered and fulfilled by Carrefour?

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Carlos, over to you.

A - Carlos Mauad

Well, I will begin talking about the bank. We announced in this past quarter, the authorization granted by the Brazilian Central Bank for us to be a full-fledged bank. And what does that mean in practical terms in our ecosystem? First, we take an important step forward in our journey towards efficiency, particularly in the post-pandemic scenario, when we will need to have an operation even more efficient from all points of view. We'll start organizing our own billings and that will bring about additional savings. We will be issuing our own payment slips, we'll be doing banking settlement, all of that will generate efficiency in terms of reducing expenses in the next 12 months.

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So this will be a leverage for the bank ratio, about 5 million, 6 million, payment slips every month and this will be a tool for the whole ecosystem -- the supplement platform that we built. So e-commerce will be able to use the platform Atacadao, Carrefour as well. When the time is right, all of these services will be fully available to the ecosystem as a whole.

Additionally, we start integrations and testing of PIX. It is the payment of instantaneous payment promoted by the Brazilian Central Bank. And the fact that we are integrated with all settlement chambers of the Central Bank that allows us to have a head start in terms of the way in which we are going to use PIX as part of the ecosystem. I'm not just talking about the bank here, but how PIX is going to be accepted by Carrefour, Atacadao and how the bank will be an onboarding tool for our customers in this new dynamic that the Central Bank is promoting.

We'll be able to form commercial portfolios, so we'll be able to form an MVP for company loans and the entry door will be the long tail acquiring business, which is a business that we are already testing in some of our Atacadao stores and we'll be able to provide some services even for the e-wallet, part of the attrition will be eliminated. Our e-wallet is already in MVP. We should have about 5,000 accounts opened and both Atacadao and Carrefour will be able to use this, we'll be able to have product improvement, will be able to extend the addressable audience so that we can scale up this product in our store structure and as part of our digital channels.

So when Sebastien said that this is an important landmark for the bank, it is because it opens a number of agendas. We can have instantaneous payment, we open up an agenda of higher efficiency for the bank and the group, it opens up the possibility for us to offer other loan portfolios and to provide important services for the e-wallet itself so that we can expand our e-wallet faster.

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

And regarding Cornershop, thank you for the question. I won't speak only about the Cornershop because this is still at a testing stage in Sao Paulo just like with Rappi in B2C. We are planning to do a comp rollout so that we can understand customers well. And this has made me very hopeful and happy. Digital is a new path for Atacadao, it opens up the whole new spectacular frontier in relationship with our customers, not only in B2B but B2C as well. In B2B, we create a possible different path considering the capillarity of Atacadao.

We are practically present in 80% of Brazilian cities very soon 90%. We will be opening three new stores this year and for people to use all of the physical part, the brick and mortar piece of the puzzle that we have all over Brazil and will help the company and suppliers to improve distribution, so this is a new path step by step. We are growing with amazing opportunities to attracting new customers, new suppliers and new friends with this new system. With Cornershop, like I said, it's in Sao Paulo. We have the possibility to roll it out. We are very happy with the level of service and the kind of success that this partnership is bringing. Thank you. Next question. And we move to the next question operator, please.

Operator

Next question by Tobias Stingelin with Citibank.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Hello. Good morning, everyone. Congratulations on excellent results. Well, I have a couple of questions I would like to ask. You talked about provisions. Do you think the provisions are adequate for the operation? And the second question, I'd like to understand how do you imagine the sales curve to perform looking forward? There was a deceleration in the past quarter. It seems this deceleration continues a little. So what do you expect sales to be in the third and fourth quarter? And finally it seems to me that e-commerce will be accelerating even more. Do you think you will need to invest more to accelerate growth even further or not? Should we expect the growth to continue strong and then the margins will increase in the future? Thank you.

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Thank you, Tobias for the questions, level of provisions. When we talk about IFRS 9 consolidated results to provisions are always adequate, it's always about expectation of future losses and not about incurred losses, which is more linked to local levels, when we talk about the cost of additional credit that we had in the quarter. When we look at the second quarter, we probably see a lower credit expense but still higher than previous years because of the reopening of economic activity because credit is not just performance, it's also about volume.

So we try to make adjustments particularly in acquisition and also in the strategy to increase credit limit, so as to reduce the exposure of the bank and to bring the risk of the loan portfolio to the current moment we're experiencing. But we continue to accelerate so that by 2021 we'll play strongly in this game and so that the bank will continue to be representative in the credit cards market and follow the whole group in Brazil.

As we accelerate the reopening of the economy, billings, portfolios in the generation of assets, all of that will bring a consequent increase in our provisions. Just to give you an order of magnitude, the portfolio -- the loan portfolio that I am building that has nothing to do with the prices so it's very resilient. The provision is of around 9.1% for every BRL1,000 I sell, I have BRL91 in my provision. So there is a cost of credit particularly the resumption of the economy and because of that we should see higher volumes of provisions than in previous years. Thank you Tobias for the question. Sebastien?

A - Sebastien Durchon {BIO 20242758 <GO>}

Can I address a little bit of the second question regarding sales trends looking forward. I would just like to remind you that in the case of Carrefour. If we look at the last three quarters, we already saw double-digit growth, in the first quarter, we grew 9%; in the fourth quarter, almost 13%; and in the third quarter of 2019, a 9%, so we're already posting growth but we were following the market growth. What happened in this quarter is that we grew 30% and the market grew 15%. So we increased that growth gap vis-a-vis the market.

Now what can we expect looking forward? In July, we see more or less the same trend that we had in the second quarter. For now, we don't see a change in that level. Perhaps in the future, there might be other challenges but we are very confident that our sales performance will continue to be way above market performance.

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

From the Atacadao side, we maintain the sales space, the rest is a crystal ball. We don't know what's going to happen. We see a lot of unemployment, people don't have savings and of course our model has proven to be very resilient with an everyday low price model. Like I always tell you, in moments of crisis, we have a solution, you just have to come to Atacadao and buy.

A - Natalia Lacava {BIO 17175216 <GO>}

Thank you. I can't remember the third question, Noel, he wants to know about e-commerce. If you intend to invest more in e-commerce to accelerate it even further or whether we are just going to reap the fruits of what we have done so far without the need to invest more.

A - Noel Prioux

In our view, we have partners like Cornershop, Rappi and that we intend to accelerate because we believe it is a good business and will allow us to gain market share quickly. We also have our side stores. We opened 10 side stores in the end of 2019 and we have the capacity to grow more by 2021. So we see strong growth in non-food. The good news is that we already have profitability. So that allows us to grow without losing money. So we are already making money and we will maintain the pace. We won't be needing additional investments until 2021.

But, we have the new platform that will be rolled out perhaps in the end of the third quarter or beginning of the fourth quarter of this year and this has been included in the investments for this year. And this will bring advantages to us because with the new platform we'll have a lot more flexibility and this will help us to sell more. So these are all good news all around.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Perfect. Thank you.

Operator

Next question by Guilherme Assis with Safra Bank.

Q - Guilherme Assis {BIO 21406331 <GO>}

Hello. Good morning, everyone. Thank you for taking my questions. I would like you to elaborate on market share gains in a competitive environment. The kind of growth you had was truly impressive particularly in multi-retail in the retail segment. So I'd like to understand more. We can see that the strategy that you adopted was the right one. What

I would like to understand is, what do you have seen in terms of reaction of competitors? Have you identified any different moves by competitors in terms of your strategy to maintain prices, to freeze prices, to focus on longer promotions on more staple items? How is the competition reacting to that? And will this require any counter reaction from Carrefour to be able to maintain these market share gains? This is one question.

And I'll move to my second question straight away, it has to do with working capital. You invested more in working capital in the second quarter; I think it was a very typical quarter. You renegotiated with some suppliers and I think this does fit the context of Q2, but looking forward what should we expect? Do you think you'll be able to keep investing in working capital in the short-term? Or do you think you can reverse a little of this investment in working capital and reduce the cash cycle? And when should we expect that by year end? Or is this going to happen only next year? And does this depend on the macro environment related to the crisis? So how do you see working capital? These are my two questions.

A - Noel Prioux

Luis?

A - Luis Moreno {BIO 20821019 <GO>}

Thank you for the question. Regarding market share gains, indeed they were significant. We grew twice as much as the market. And for hypermarkets, we had a market share of 16.5% to 18.9% market share, 240 bps of market share gain in the hypermarket channel. This hypermarket gain has to do with customers choosing Carrefour to buy in the pandemic period and for a number of reasons, why did customers behave in that way? I would mention three reasons.

Number one, we anticipated all safety measures. That have to do with caring for customers and staff alike at our stores. And based on the information we had from Europe, we were the first to provide face masks to measure body temperature of our customers and staff. So, customers felt a lot safer at our stores. We also anticipated and changed our supply chain parameters. We anticipate which categories and products would boom in sales and we were able to adjust our supply chain parameters. That led to a very low stock out level at our stores compared with the rest of the market. And thirdly, we simplified the commercial and the promotional models.

So customers felt safer with our COVID-19 related protocols. They were able to buy everything that they needed, no stock out at the stores and they could buy everything that they needed at permanently low prices, not just promotional prices. So I believe that we delivered these three measures and a lot of that had to do with the right timing. In my view, the competition did not anticipate things as we did and they didn't have the right timing. They weren't fast enough to enjoy the pandemic opportunities.

Now what do competitors can do in the future, well, they each have their own strategy but we are very confident about the results of our strategy. And more than anything, we are satisfied with the recognition by customers regarding what we can deliver and offer. We

maintain our quality of service at the stores, the quality of our fresh produce and we changed the commercial model and we maintained the same quality of service.

A - Noel Prioux

And Luis, let me add something. Luis's work and his team were focused on selling more improving result but also an important front was to create the stage for the future. This is not just about a quarterly result. As part of this quarterly result, we have invested greatly for future growth and this is already happening. It will be interesting to see if anybody will be able to follow in Carrefour's footsteps, because there are two challenges what we already have and what we have already done to set the stage and the right conditions for the future quarters, it's all done and we have some other surprises in the pipeline as well.

Q - Guilherme Assis {BIO 21406331 <GO>}

Thank you. It's very clear.

A - Sebastien Durchon {BIO 20242758 <GO>}

But there was a second part to your question regarding working capital. Let me give you a very accurate answer. In the end of the second quarter, our working capital was negative in almost BRL1 billion, negative means that we had more financing to suppliers than inventory. If I compare the same point with last year and of the second quarter of 2019, we improved almost by BRL400 million. If we look at this in number of days things have improved over last year. Last year, we had five days of procurement and that number increased to seven, so we improved in terms of volume and in terms of number of days of procurement.

And as part of the working capital, we extended payment time to suppliers and this has to do with this quarter and with seasonality in a way. This year, we had the merchant week at Atacadao and we didn't have such a strong commercial activity last year. So in June -- in May, June, we had some procurement and we paid only in the following quarter and this is why the number of days and our accounts payable increased and now we have nine more days compared to last year. This does not have anything to do with the pandemic and another change in this quarter as part of our working capital has to do with accounts receivable.

Accounts receivable in number of days, the number of days increased from five days last year to nine days this year and this is our own decision about financing. It happens at Carrefour. At Carrefour, we have a lot of payments by customers paying with credit cards. We normally sell these receivables but in this quarter this was not necessary for -- the increases our own decision it is a merely financial decision. It has nothing to do with market conditions.

So in a nutshell, working capital improved and looking forward, we don't see a performance different from last year. We expect to have a very comparable situation with last year. In terms of competitive environment for Atacadao, the environment did not change at all. But competition is always fiercer and fiercer, but we have a very clear purpose and we have a very clear definition regarding culture being the business owner

and regarding our people. I can tell you that we have currently 57,000 heroes. They did their work in an amazing way because we are an essential service. The moment that they understood that and with a very strong culture my friend, you cannot lose. We can only lose if we mess it up which we won't do. Next question.

Operator

Next question by Gabriel Disselli with Santander.

Q - Gabriel Disselli {BIO 20262791 <GO>}

Hello, everyone. Congratulations on the results. I'd just like to have a better sense, because you had a great performance in non-food. Perhaps you could give us more color on this performance and explain what's happening now with the reopening of other stores, what has been the sales of non-food?

A - Luis Moreno {BIO 20821019 <GO>}

Like-for-like sales of non-food grew 54%. This happened in all categories but more significantly in electronics and home appliances. What we saw in July was not a different trend than what we saw in the last three months even with the reopening of streets shops and non-food, so we remain at the same level. Electronics and home appliances have been growing significantly above 70%, 80% in the last three months. But we saw sales increase in textiles, in general merchandise categories as well. So the trend remains strong at the same levels so far.

In the progression of non-food, it theoretically would be good in COVID context. We have to understand that COVID was a catalyst, but this is a trend. Carrefour is accelerating non-food a lot and now we are maintaining this kind of growth and again, of course, we cannot tell you everything. Because if we do, we would be providing solutions to our competitors but we changed greatly the concept of non-food in retail and this has brought us very strong growth and profitable growth.

And again, I'd like to congratulate Luis and the team because they did background of work. It's not just promotions, it's about building more and more the right assortment pricing, and marketing which is totally different and this acceleration is the result of that. With COVID or without COVID we'll be accelerating. I totally agree with Noel. Our growth level in non-food pre-COVID was already in a high double-digit close to 20%, so we increased from 20% to 54%. But we already had a very strong growth base and the like-for-like sales that we are reporting is a like-for-like sales compared to a very strong base.

Q - Gabriel Disselli {BIO 20262791 <GO>}

Thank you very much.

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Next question. Do we have a next question?

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Operator

Question by Robert Ford with Bank of America.

Q - Robert Ford Aguilar {BIO 1499021 <GO>}

Good morning. Congratulations on the results.

A - Luis Moreno {BIO 20821019 <GO>}

Unfortunately, the connection is breaking up. I am sorry. I cannot understand the question. Robert, can you speak a little louder. We were not able to understand the question.

Q - Robert Ford Aguilar {BIO 1499021 <GO>}

I would like -- you talked about a new platform.

A - Natalia Lacava {BIO 17175216 <GO>}

I apologize, but we could not understand. Noel, I think he wants to know whether the impressive growth we had in the quarter had to do with the stabilization of the platform that we spoke about or if this has not happened yet. I think this is what the question was.

A - Noel Prioux

Well, we have the old platform. We have not rolled out the new platform yet. The new platform will also bring impressive growth because today our current platform is not very flexible not too easy for customers, but still we grow a lot with the current platform. The new one will bring something even better. We consider that we will maintain growth. With COVID and the stores are all closed this helped us sell more online, but now with all of the stores and shops opened, we see that we are still posting strong growth in July. So I think that we have a lot of room in this market for food and for non-food. And I don't think that this is going to change a lot.

We believe the potential for Grupo Carrefour for the Carrefour Group is enormous. We already ranked seventh in number of visits to the website and that does not include traffic that we have with Rappi and Cornershop. If we included all that Carrefour would already be ranked fourth or fifth in two to three years and this is what is really relevant, when we are asked whether we are afraid of some players that are selling in the food segment, it's the contrary. Competitors have a problem because Carrefour is accelerating a lot. It used to be just on food, but now we're accelerating on non-food as well. And it's spectacular it's a whole new story and a very interesting one. We will lead this market with Carrefour on one hand, Atacadao on the other hand and in non-food and being profitable, which is really interesting.

A - Luis Moreno {BIO 20821019 <GO>}

And I would like to add to the explanation regarding growth drivers. Surely our e-commerce grew very quickly. We are getting close to a breakeven. We reported a like-for-like sales in brick and mortar retail plus e-commerce of 30.3% but the brick and mortar

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stores are also grew 27.5%. So e-commerce had 280 bps of growth to the growth that was already very strong 27.5% and the same goes for the EBITDA.

E-commerce is getting close to breakeven but still not contributing significantly to drive EBITDA. The EBITDA that we are reporting of brick and mortar stores plus e-commerce is 9.3%. If you look at the brick and mortar stores, the EBITDA level generated in the second quarter, an EBITDA of 10.8% close to 11% EBITDA of brick and mortar Carrefour stores. So the two ecosystems are working as one and it's all accelerating, physical stores, e-commerce and the combination of the two brands thus far.

A - Natalia Lacava {BIO 17175216 <GO>}

Next question.

Operator

Thank you. Our next question comes from Irma with Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you for taking my question. Most of my questions have been answered, I might have a couple more. One has to do with the capturing of new customers through e-commerce? And you have customers at the hypermarket increasing recurring repurchases and EPS. Any lessons learned from your European operations to drive our actions here, where you have many different formats, five, six different formats. But that does not necessarily translate into high tickets.

But when we have more mobility of people, other stores will recover some foot traffic. So how do you see your plans and strategies to maintain these clients in the second half of the year? And how can the prior knowledge from Europe help you with that when the economy reopens? My second question, is it fair to say that the fact that you didn't celebrate Atacadao's anniversary also had an impact in the gross margin in Q2 of Atacadao? Or do you think that Atacadao was not impacted by that? Thank you.

A - Noel Prioux

Luis?

A - Luis Moreno {BIO 20821019 <GO>}

Regarding the first question -- Irma, thank you. Noel mentioned that we have some surprises for the future. We are not going to elaborate on that, but we will on the release of the third quarter. But these initiatives have to do with how to keep these new customers in the Carrefour ecosystem, how to maintain new customers that we acquired at the bank, in e-commerce at Atacadao or in brick and mortar stores. So what we are developing are models to connect all of the parts of the ecosystem so that we can keep these customers with us. Roberto?

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

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Irma indeed Day A or Dia A, Atacadao Day does bring a plus but I would say that this does not make a difference. It did not make a difference in this quarter. The difference was that the pandemic got us with high quality inventory. So, we were expected to run the Atacadao anniversary day, but we were able to -- we had to cancel, but we were able to manage the inventory. We took advantage of that the market gave us to supply to our customers to serve their needs. But if you look in that a lot of that margin comes from efficiency improvements and reduced expenses not only for Atacadao but for Carrefour as well, so there was a movement of awareness.

Our management was very nimble to contain expenses thinking about the worst. Well, we had preparedness and we were very agile in responding to the crisis and this is what brought our margins to that level.

A - Sebastien Durchon {BIO 20242758 <GO>}

No, I don't need to add anything, you said it all Roberto.

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Okay. Thank you, next question.

Operator

Next question from Helena Villares with Itau BBA.

Q - Helena Villares {BIO 21333811 <GO>}

Hello. I have a very quick question. We have the hypermarket model. During the pandemic other hypermarkets are also gained a lot of momentum. We would like to understand what you're thinking regarding hypermarkets format? How much of the performance is coming from COVID-19 and social distancing? What are you thinking about future growth for hypermarkets?

A - Luis Moreno {BIO 20821019 <GO>}

Well firstly, it is important to understand that Carrefour hypermarkets have always played an important role in our ecosystem. There is a new client of Banco Carrefour we had as an entry door to the Carrefour hypermarket. So it's not just about the performance of the hypermarkets, it's about the connection with our ecosystem. I believe that a good part of the attributes that we delivered to customers in this period will remain. Customers do appreciate a purchasing environment which is orderly clean, safe with good assortment, good prices, good quality of service and good fresh produce. We're able to maintain all of these attributes which are generating a record NPS for us. It was quite high before COVID when we believe that with this format we continue to have a strong opportunity in Brazil.

In addition, we have the non-food categories which continue to leverage our growth very strongly. We also place our chips on our private label. So we have the right tools. We have enough leverage either in our private label food or non-food or in perishables or in quality of service. Our whole new digital service and our digitalization program. All of that lead us

to believe that we stand a very good chance of success in Brazil and we believe hypermarkets have a lot to deliver in the future. Thank you. Next question.

Operator

(Operator Instructions) I believe that there are no more questions.

There are some questions that were sent over the chat and I'll try to summarize them. There's an interesting question. You mentioned that some changes that we structured during the lockdown are permanent. What are the changes that have come to stay? And another question about the Atacadao marketplace initiative if you can elaborate.

A - Noel Prioux

Luis?

A - Luis Moreno {BIO 20821019 <GO>}

Okay, the questions that have come to stay basically those linked to the simplification of the business model, increasing efficiency, productivity and improving supply chain, all of the initiatives that we implemented to improve efficiency and also some initiatives to evolve towards digital marketing, not TV marketing or print tabloids, but rather digital marketing. We understand that that is a lot more efficient and assertive. That's another measure that we adopted and then we believe will continue. And the simplification model of our promotional campaign, we believe that it was well accepted and well embraced by our customers. So operational simplification, a simplified value proposition for customers and migration of marketing to digital marketing, these are three structural changes that will be part of our mode of operation in the future. Roberto?

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

In terms of the Atacadao marketplace, we always focus on offering our B2B clients the best price option in the market. There are opportunities in the market for Atacadao for our possible competitors. On the other hand in August, we will be launched, B2B www.atacado.com create a direct communication channel. And like I said, it's step by step, very slowly but firmly we are advancing. I would say this is almost like an elephant.. It takes some time to take a step. But when it does take a step forward, the elephant is very sure of what it's doing and this is the model we're adopting at Atacadao.

A - Noel Prioux

Thank you, Roberto. Thank you for this very important analogy.

A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Well, there are no more questions. So I would like to thank you for your attention. I would like to thank my whole team for such spectacular results in this quarter. I think that the third quarter is already pointing to a positive trend in terms of sales and I hope to see you again to celebrate excellent results also in the end of the third quarter when we will update you on Carrefour's situation. Thank you very much and I hope to see you soon.

Operator

Thank you all. This does conclude Carrefour Brasil's conference call for today. Thank you.

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