

Q3 2018 Earnings Call

Company Participants

- JosÃ© Luis Gutierrez, Unknown
- JosÃ© Roberto Meister MÃ¼ssnich, CEO & Member of the Executive Officers Board
- NoÃ«l Prioux, Executive Director of Latin America (Brazil & Argentina)
- Paula MagalhÃ£es Cardoso Florez Chaves, Unknown
- SÃ©bastien Dorchon, Member of the Executive Officers Board
- Unidentified Speaker, Unknown

Other Participants

- Franco T Abelardo, Equity Analyst
- Gustavo Piras Oliveira, Executive Director, Head of LatAm Research. And Latin America Consumer Analyst
- Joseph Giordano, Senior LatAm Healthcare Analyst
- Richard M. Cathcart, LatAm Retailers Senior Analyst
- Robert Erick Ford Aguilar, MD in Equity Research
- Thiago Capucci Macruz, Research Analyst
- Tobias Stingelin, Director

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to Grupo Carrefour Brasil's Third Quarter and 9 Months of 2018 Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded and broadcast live on the Investor Relations website at www.grupocarrefourbrasil.com.br. The slide presentation is also available on this website. Slide selection will be controlled by you.

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 or statements because of macroeconomic conditions, market risks and other factors.

Today, with us, we have Mr. NoÃ«l Prioux, Chief Executive Officer; SÃ©bastien Dorchon, Chief Financial Officer; Roberto MÃ¼ssnich, Chief Executive Officer of AtacadÃ£o; JosÃ© Luis Gutierrez, CEO of Carrefour Retail; Paula Cardoso, CEO of Carrefour SoluÃ§Ãões Financeiras and Executive Director of Clients, Services and Digital Transformation; and Daniela Bretthauer, IR Officer.

It is now my pleasure to turn the call over to Mr. Noël Prioux to start the conference call. Mr. Prioux, go ahead, sir.

Noël Prioux

Good morning, everyone. And thank you for joining us on this call to present Grupo Carrefour Brasil's Third Quarter and nine months 2018 results. I will start with a brief overview of the key highlights of our performance and strategy. And then S bastien will detail our financial performance. And Roberto and Paula will present the key performance highlights of their respective businesses. After S bastien's concluding remarks, we will then open the floor to your questions.

Throughout this call, I will be referring to the presentation that you can download on our Investor Relations website.

So let us begin. On Slide 3, with the key headline numbers of both Third Quarter and the nine months of 2018. Q3 was another strong quarter for Grupo Carrefour Brasil. We posted accelerating growth with a very solid sales increase and sharply improved profitability. All of our businesses contributed to this robust performance, demonstrating the strength of our multiformat and multichannel model.

Our gross sales rose 8.1% to BRL 14 billion in the Third Quarter. Our adjusted EBITDA increased by more than 32% to BRL 991 million, with adjusted EBITDA margin up 7.8%, representing a gain of 144 basis points. Our adjusted net income group share was up by a very strong 67.6% to BRL 391 million equivalent to a 3.1% net margin. The nine months showed a similar trend as those of the quarter. Gross sales rose 6.6% to BRL 40.5 billion. Adjusted EBITDA increased by 15.5% to almost BRL 2.8 billion, while EBITDA margin of 7.5% grew by 60 basis points.

Adjusted net income group share rose 40% to BRL 1.1 billion, with net margin reaching 3%. Our balance sheet remained strong in this quarter, with our net debt, including discounted receivables, standing at BRL 2.3 billion at the end of September. This represents a leverage ratio of 0.59x adjusted EBITDA and generating 0.18x our equity.

So overall, Grupo Carrefour Brasil's growth is accelerating in a sustainable and healthy way. Since you know, good solid performance takes place within the framework of Carrefour Group's transformation plan, which was unveiled in January this year. We have been rolling out a number of actions over the past several quarters in line with the plan. The pillars of the plan include: deploying a simplified and open organization; pursuing productivity and competitiveness gains throughout our operations; accelerating our omnichannel strategy with strong advances in e-commerce in the sustained pace of expansion at Atacad o; and overall our food offer to support Carrefour's ambition of being the leader in the food transition for all.

On Slide 4, I would like to focus, in particular, on a recent initiative that Carrefour is rolling out throughout the world and that was launched in Brazil on October 1, the Act For Food campaign. This campaign built on a new positioning, everyone deserves the best, consists

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of a series of complete actions to provide consumers with better access to a healthy, high-quality diet at affordable prices. As shown on the slide, this program is built on 4 pillars: offering high quality, healthy and tasteful products; ensuring competitive prices to make this offering affordable; making products available through an omnichannel model, adding services to make our clients' lives easier; educating our clients regarding food transition challenges in order to win their trust. This program is being deployed with a strong advertising campaign and in-store actions in Carrefour Retail stores. And I will detail some of those on the following slide.

On Slide 5, you can see some examples of actions that are underway throughout the group to attain the goals of the food transition for all. We relaunched Sabor & Qualidade, one of our private-label brands, whose products comply with the most stringent social and environmental criteria. The brand currently includes 13 product categories, including fruit, meat, eggs, poultry, fish and shrimp, produced by several suppliers from all regions of Brazil and we will be adding new products in the next months. These products are now available in all Carrefour hypermarkets and already account for 6% of fresh product sales at the end of September compared with 4% in the year ago period. Our target is to reach 10% penetration by 2022.

We're also developing other lines of own brand or private label products, which today is set at about 2,000 SKUs, representing nearly 8% of food sales in September 2018, pushing us on track to achieve our target of reaching 15% by 2022. Our Viver private label brand now offers 100% healthy products. We are bringing in important lines of products to elaborate on Carrefour's expertise and quality.

Group Carrefour has also set a goal of EUR 5 billion in sales of organic products by 2022. And Carrefour Brasil is doing it right here as well. We have ruled out dedicated organic factions in a few hypermarkets and we plan to reach all our stores next year. We have seen a 75% increase in sales of organic products in stores where there are dedicated sections to organic products and we have about 1,500 SKUs of healthy products developed in partnership with suppliers.

I hope this has given you a taste of the diverse actions that Carrefour has launched in support of its food transition ambition.

Before I hand over the call to SÃ©bastien, who will make more detailed comments on our consolidated financial performance, I would like to quickly mention the acquisition of E-MÃ DIA announced on November 6.

On Slide 6, we look at an acquisition that we just announced, of E-MÃ DIA, a food-tech company focused on digital content. This transaction aims to integrate Cyber Cook content with our food e-commerce through which it would be possible to purchase products that are part of Cyber Cook recipes and also access the portal's recipes by purchasing food in our e-commerce, thus increasing traffic and improving customer experience. With this acquisition, Carrefour Brazil group reaffirms its commitment to its strategy of digital transformation and food transition in Brazil, offering healthy and high-quality food at

affordable prices, in line with the Carrefour Group's global ambition to become a world leader in food transition for all.

I now turn the floor over to our CFO, SÃ©bastien Durchon.

SÃ©bastien Durchon

Thank you, NoÃ©l. Good morning, everyone. Let us start on Slide eight with our consolidated sales, which were up 8.1% in Q3, in total, including petrol. On a like-for-like basis, sales were up 5.1% with expansion, notably the 14 new AtacadÃ£o stores that were opened since the start of the year contributing another 4% to sales increase. As a reminder, this quarter was marked by an unfavorable calendar impact of minus 1%. First, strong growth in the quarter results from a combination of several factors, including acceleration of like-for-like sales in all formats; strong expansion at AtacadÃ£o with 4 openings in the quarter; and rapid growth of e-commerce, which now accounts for 7% of Carrefour Retail's sales, including petrol, versus 3% one year ago. As you see on the slide, our sales were also supported by the end of food deflation that had prevailed since June 2017. Over the quarter, Food at Home inflation stood at 1.3%, which is still a low number. The October IPCA Food at Home, which was released just yesterday, supports our view that deflation is indeed over. The cumulative 12-month inflation, including October data point is now 3.3%. Over the first nine months, gross sales grew by 6.6% with like-for-like growth ex calendar of 3% and expansion contributing another 3.8%.

On Slide 9, we turn into our P&L, which shows our sharp improvement in profitability both in the quarter and in the nine months of 2018. Thanks to a solid operating performance and lower financial expenses. I want to emphasize here that in order to make performance comparable, we have adjusted the Q3 2017 gross profit and EBITDA downward. For six months of ICMS-ST type (spreads) booked in the Third Quarter '17 and related to the first half of last year. These credits related to a ruling by the Federal Supreme Court, STF, regarding presumed margin and were recognized for the first time in September 2017, retroactive to January 1. For Carrefour this adjustment resulted in a decrease of BRL 32 million in gross profit and EBITDA. For AtacadÃ£o, the reduction was BRL 75 million in both lines.

Net sales were up 8.1% in the quarter to BRL 12.7 billion, driven by higher sales in all our businesses. In Q3, our gross profit reached BRL 2.7 billion, up 12.9%. Our gross margin improved by 93 basis points to 21.8%, driven largely by AtacadÃ£o's better performance and also by Carrefour SoluÃ§Ãµes Financeiras, which both recorded strong growth in the quarter. All our businesses showed productivity gains over the quarter.

Overall, SG&A expenses accounted for 14.0% of our net sales, down 51 basis points versus last year, in spite of an accelerated pace of expansion. At Carrefour Retail, SG&A expenses were down 2.5% in reals or 100 basis points as a result of efficiency gain actions, coupled with a tight control of expenses as a consequence of the significant increase of our gross margin in the SG&A expense efficiency I've just mentioned. Adjusted consolidated EBITDA rose by a very solid 32.6% in Q3, adjusted EBITDA margin rose by a strong 144 basis points to 7.8%.

Our net financial results dropped by nearly 29% in the quarter as a result of lower interest rates and our lower debt level. First, net adjusted income group share was up by 67.6% to BRL 391 million with net margin gaining 109 basis points to reach 3.1%. Our performance over the nine months was equally strong with net sales up 6.3% to BRL 36.9 billion. Adjusted EBITDA was up 15.5% to BRL 2.8 billion, with margin increasing by 60 basis points and adjusted net income group share increasing by 40% to BRL 1.1 billion.

With this, we will now take a look at each of our business units and I will now hand over to Roberto to start with the excellent performance of Atacadão.

José Roberto Meister Müssnich

Thank you very much, Sébastien. Good morning, everyone. Welcome to our conference call.

Let us start on Slide 11. Atacadão posted another very strong and consistent quarter with sales accelerating to return to double-digit growth and margins improving. Gross sales in Q3 accelerated for the third consecutive quarter as you see on the chart on the left-hand side of the slide. They rose by more than 11% to almost BRL 9.5 billion significant increase over the 8.4% growth reported in the Second Quarter and the 5.7% rise in Q1. We benefited from the end of food deflation that Sébastien mentioned. But above all, we saw a continued increase in volumes, thanks to strong commercial partnership and a focus on B2B. The strength of Atacadão's commercial model became evident by the strong acceleration in like-for-like sales that you see on the graph in orange, which as you know, is Atacadão color. Like-for-like growth accelerated quarter-on-quarter from 0.5% in Q1 to 4.5% in Q2. And now 6.2% in Q3. We have returned to like-for-like levels of Q1 2017 and have now turned the deflation page, as we had expected. Expansion was also strong driver of sales, contributing 6% in the quarter. We opened 4 stores this quarter, including the successful conversion of One Carrefour Hypermarket, the Boa Viagem store in Recife as well as 2 wholesale operations. And we are on track and these conversions have been very successful. And we are on track to achieve our goal of 20 openings this year for the first time in the 56 years of Atacadão's history.

Gross profit in the quarter adjusted as explained by Sébastien rose by 15.8% to over BRL 1.3 billion and gross margin improved by 59 basis points to 15.5%. This increase of our gross margin comes from the strength of our commercial model, which enables us to maintain our scale and price competitiveness over the quarter. Atacadão's distribution costs at 8% of net sales were stable versus last year in spite of our strong expansion. In spite of our great and strong expansion, which clearly shows the efficiency gains made in our existing stores and the robustness of our model. Adjusted EBITDA rose by 21.2% in Q3, with margin improving 61 basis points to 7.5%. So the machine remains intact.

Let me now hand over to my friend, Guite.

José Luis Gutierrez

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Thank you, Roberto. Good morning, everyone. On Slide 12, you see the main performance indicators of Carrefour Retail, which showed a clear improvement in Q3 compared to previous quarters. Thanks to our continued commercial initiatives in various formats, cost reduction efforts, the development of our multichannel strategy.

Gross sales in Q3 amounted to BRL 4.5 billion, up 2.2% in total and up 3% on a like-for-like basis, representing the best like-for-like performance since Q1 2017. As shown on the chart on the left-hand side of the slide. The chart also clearly shows an acceleration quarter-on-quarter of like-for-like sales. This growth was driven by several factors: number one, an improvement in performance in our hypermarkets, notably the 23 that were recently applied our competitiveness plan reaching strong growth in volumes and recovery in the forecast investment, which validates our decision to adjust the value proposition; secondly, this like-for-like sales performance in convenience stores as a consequence of the plans implemented that positively impacted sales; thirdly, our very strong growth in e-commerce, as Paula will detail shortly.

Adjusted gross profit rose 2.3% in the quarter and gross margin gained 11 basis points to reach 24.9%, reversing the falling trend in previous quarters. This margin growth was driven by 2 factors: one, better margins in our traditional formats, especially hypermarkets; and 2, our e-commerce operations, along with greater contribution from our marketplace. As you see on the slide, we continued to make efficiency gains in the quarter. And booked distribution costs down by 2.5% to 20.5% of net sales from 21.5% one year ago, as a result of improved processes and productivity gains. These gains combined with better gross margin allowed us to grow adjusted EBITDA by 32.7% in the quarter to BRL 181 million with our margin gaining 105 basis points at 4.5%.

I will now hand over to Paula to comment on e-commerce multichannel strategy as well as the performance of Carrefour Soluções Financeiras.

Paula Magalhães Cardoso Florez Chaves {BIO 20368749 <GO>}

Thank you, Gutie. Good morning, everyone. I will start wearing my hat of e-commerce hat by commenting on Slide three on the performance of our e-commerce operations, which are the fastest-growing segment within Carrefour Retail. E-commerce sales now reached 7% of our retail sales, more than doubling from the third -- 3% in the same period last year. As shown on the slide, we continue to rapidly ramp up our omnichannel strategy. And Q3 was another period of strong growth, Carrefour's growth merchandise volume, GMV, grew by 106%, significantly outperforming the market, which grew by 8% in the period according to trade association E-BIT. Orders were up by 66% as we continue expanding the number of SKUs and the number of visits was up 61% reaching BRL 32 million in the quarter.

Our marketplace is also growing rapidly. It now comes on about 1,000 sellers versus 374 in Q2, with SKUs now reaching about 1 million. As a result, the marketplace now accounts for 16% of our GMV compared with 13.3% in Q2. Our omnichannel capabilities are expanding rapidly across the group and Slide 13 shows you a few examples. We have completed the rollout of click and collect in our hypermarkets. And its Net Promoter Score of about 70% (attached) to the consumer's experience offered by Carrefour. 1 in every 4

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customers who bought a smartphone online and 1 in every 10 buyers of consumer electronics choose to pay (sum up) in-stores. Omnichannel clearly leads to cross-selling opportunities. 1 in every 3 customers that choose to pick up the product in one of our stores ends up making an additional purchase. And many of these customers are new to Carrefour.

We are also advancing the rollout of Drives with an expected drives by year-end. And our customers -- and to repeat purchases by drive customers in food e-commerce is about 40%, which implies the customers are enjoying the drive alternative here, due to the Net Promoter Scores above 70%. 24% of our customers are already on omnichannel. And so we have to employ a unique strategy to serve them. Our solution is one Carrefour. As of this month chatbot and artificial intelligence have been deployed. In the social media, we have already been able to anticipate our resources down to an average of 4 hours. And in December, we will have only one dial-in number for customer service. The card is now available for Samsung Pay and Google Pay for Visa and MasterCard. In addition, the launch of our digital wallet pilot with NFC technology is scheduled for December. With regard to innovation in the Third Quarter, we made pilots with push notifications, in-app notifications within the stores and with LIA. A tool that allows to view online the price and availability of the product in store, which already generated 8,000 visits in September in just 3 stores.

The Meu Carrefour program has around 10 million registered customers. In the Third Quarter, we reached 68% of identified sales. Clients enrolled in Meu Carrefour program have 47% higher frequency and spent 73% more compared with identified customers.

Now I will comment on the performance of Carrefour financial solutions in the next slide, Slide 15. As shown on Slide 15, Carrefour Soluções Financeiras posted another strong performance in Q3 with growth in billings and impressive increase in adjusted EBITDA and a further improvement in the quality of our loan portfolio.

Total billings in Q3 reached more than BRL 6.4 billion, up by a very strong 30.5%. Over nine months, the growth is even stronger. The billings up 35.1% to over BRL 18 billion (purchase,) the Atacadão credit card already represents more than 23%. There are now 1.4 million Atacadão cardholders and we are happy to see that we have already reached breakeven on the Atacadão card ahead of schedule. The card is clearly a big success and already accounts for 10% of Atacadão sales.

Carrefour credit card billings were also up by a solid 9.5% to BRL 4.8 billion versus the same quarter last year. Our credit portfolio is 23% to about BRL 7 billion, the quality of our loan portfolio continued to improve with the balance of loans overdue more than 90 days representing 10.5% of the portfolio versus 11.1% year-on-year, while the balance of loans overdue more than 30 days fell by 60 basis points to 13.4%.

Adjusted EBITDA reached BRL 192 million in Q3, a rise of 81%, despite the drop in interest rates and despite the new regulations on credit cards implemented last year confirming that we have gradually offset the impact of the new regulations with increased credit activity and enhanced efficiency, despite investment in the Atacadão card rollout. Over the first nine months, adjusted EBITDA is up almost 60% and reached BRL 622 million.

This means that through September, we have already surpassed the EBITDA of the full 2017 of BRL 557 million, demonstrating high-capacity for profitable and sustainable growth.

Let me now hand the floor back to SÃ©bastien for his concluding remarks.

SÃ©bastien Durchon

Thank you, Paula. By way of concluding remarks, I would like to highlight the very solid trends that underpinned Group Carrefour Brasil's performance. And the sequential growth in sales and adjusted EBITDA that we have seen quarter-after-quarter since the start of the year. As you see on the left-hand part of the slide, our sales have grown every quarter and like-for-like growth is accelerating consistently from 0.5% in Q1 to 3.6% in Q2 to 5.1% in Q3. Similarly, as shown on the right-hand part of the slide, adjusted EBITDA has increased every quarter, with a sequential improvement in margins too. 7.8% in Q3 from 7.1% in the First Quarter of the year and 7.6% in the Second Quarter. This solid performance allows us to advance the payment as part of the 2018 dividends. As you see on Slide 18, we will be paying an amount of BRL 380 million in the form of interest on equity. Shares will trade ex IOE as of November 13. And payment date has been set at December 12.

This concludes our presentation. Thank you very much for your attention. And we are now available to take your questions.

Questions And Answers

Operator

(Operator Instructions) First question from Joseph Giordano with JPMorgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

My first question goes to Paula. In terms of digitization, projects are advancing way faster than anticipated and with less margin erosion. So I have two questions. First, regarding fulfillment of the marketplace, how can you ensure level of service? And is there any integration of the marketplace with the stores, particularly with click and collect because it seems to be very relevant, 1/3 of shoppers buy something else when they go collect their product. And my second question has to do with the e-wallet project. Do you have any idea of having cash back to try to foster the growth of this portfolio? And my third question goes to Gutie, in terms of retail expenses, it was a very positive highlight here. I want to understand if there is any more room to reduce this. And what about growth initiatives in terms of Carrefour market?

A - Paula Magalhães Cardoso Florez Chaves {BIO 20368749 <GO>}

This is Paula. Okay, to start, talking about marketplace. We don't do fulfillment. If you send it directly to clients what we do is, having strong control of having an NPS according to the service to understand if the client is in the top 10 or top 20 complaints. So we do quality

assessment. But fulfillment is then 100% by our sellers. Second, yes, it does help our profitability, as you said. Secondly, regarding payment, e-wallet, we are intensifying this program. In the beginning of 2018, the focus was on payment options. In December, we are going to have spontaneous payment with QR code, contactless, without a card, we accept payment with Google Pay, Samsung Pay. On the other hand the stores are already accepting 100% of the portfolio. So we don't see payment as an industry as a whole yet. We are focusing on payment options.

A - JosÃ© Luis Gutierrez

This is, Gutie. To answer your first question, we continue to assess new initiatives, both in our stores and in everything that is related to service contract, cleaning contracts, logistics, all of the services that we have. We are assessing the scope to add productivity. To date, we have opened 4 stores and we intend to open 6 more stores to total 10. And the performance is as expected in our business plan.

Operator

Next question from Mr. Thiago Macruz with ItaÃº.

Q - Thiago Capucci Macruz {BIO 16404924 <GO>}

My question goes to Roberto. We have seen in AtacadÃ£o's margin perhaps better numbers than we could expect at the beginning of the year. The PIS/Cofins tax credit have remained in your balance sheet. Do you think that this is sustainable? Should we expect the same level for 2019? That's my first question. A question to Gutie, food inflation in the Fourth Quarter will be stronger. So I want you to help me understand the impact of this in your business. Should we measure inflation as a driver to drive down expenses? Or could it drive gross margin as well? Will the market become more competitive, perhaps through the prices or perhaps not? These are my questions.

A - JosÃ© Roberto Meister MÃ¼ssnich

Indeed, what we saw was a significant margin improvement. But this is a very fine tuning vis-Ã-vis our everyday low price model, which we maintain and which we fiercely struggle to maintain in the market. Of course, our competition increases every day. We are managing to maintain this model and we want to deliver more and more. It is true that 0.85% in our margin, we have managed this day by day, assessing our competitiveness, we are negotiating strongly, working with volumes and scale, particularly focusing on small merchants in the markets, small B2B players. So the market has a slightly better mood and people are going to perhaps eat more out and perhaps the sales volumes have these, small merchants will be better. So yes. So we have tools to measure this. And it's possible to maintain this. Now if the market so requires, we are going to use this credit reserve to maintain our model. Gutie, over to you.

A - JosÃ© Luis Gutierrez

Obviously, inflation will drive the performance. And it has an effect on costs as we mentioned before, we have to continue to work to reduce the impact on our cost to maintain our level of profitability.

Q - Thiago Capucci Macruz {BIO 16404924 <GO>}

Is it reasonable to suppose that competition that you're facing in the market should adopt the strategy similar to yours? It is unlikely that this will be passed through, through prices. Do you consider this unlikely?

A - Jos@ Luis Gutierrez

In the days of Atacadão, I believe that we do have tools to use this. It is necessary. But what we see now is maintenance of our margins, maintenance of our model. S@bastien?

A - S@bastien Durchon

Regarding expenses. We had in our food sales, a deflation but inflation of costs, with the end of deflation and the level of inflation that we are witnessing in recent months, the scenario changes completely. Now, food inflation is at 3.6%. And expenses will go a little more than that. So we are not going to have the gap that we had in the second half of the last year and in the first half of this year. It's worth reminding that even in this inflation scenario, Gutie's team in retail managed to get a lot of efficiency gains. Even during deflation we were able to lower expenses and we are always assessing this constantly to gain more efficiency. There's no room for improvement in the future. We will continue to seek efficiency gains and to control our SG&A expenses.

Operator

Next question is from Mr. Richard Cathcart from Bradesco.

Q - Richard M. Cathcart {BIO 16457807 <GO>}

I have two questions to Roberto. First, about Atacadão card. Paula mentioned that you reached 10% of Atacadão sales. I'd like to understand more about sales. Are these customers buying more frequently? So I'd just like to have some color on that. My second question has to do with the hypermarket that you converted. Could you give me more color on the performance of the store post-conversion? And I think you are going to convert between 5 and 7 hypermarkets along the end of the year and next year. Is this guidance still valid, will it be more or less?

A - Jos@ Roberto Meister M@ssnich

Okay. Let me start from the last question first. Internally, we did assess potential transformations, potential conversions of hypermarket stores. And we are looking into this, most liked about this year, we did 1 conversion, which was the right thing to do. We were very focused on doing the right thing at the right time. In Recife, well, as I said, we have recently converted. We are one month after the conversion and revenue is growing almost 3x compared to the revenue of the hypermarket stores. So this was a very well done conversion. It is now state-of-the-art and that store has a brilliant future ahead of it. What was the other question, Richard? Oh, about Atacadão card, yes.

Q - Richard M. Cathcart {BIO 16457807 <GO>}

I'm sorry. Just to add, how many conversions are you planning for next year?

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A - Jos  Roberto Meister M ssnich

Well we are working on some possible conversions. We haven't got an accurate number yet. But most likely between 1 and 2 stores, for sure. We are working with a wider range of stores. But we are doing this slowly because we have time to do it, we want to do the right thing. As for credit card, you all know the story of Atacad o card, which was a story built with Carrefour bank and Atacad o. It was a customized solution for us. We were ready. We were expecting to be successful. But we didn't expect such a fast success. We are going to reach end of the year with a significant number. We have achieved breakeven at the bank, where we have seen that in some regions of the country, penetration can be higher than 10%, 11%. It can be 14%, 15% already in the Northeast, in an area more susceptible to credit and loan-related performance. So we are working with the bank and with regard to some offerings and to pick a time to adjust this relationship that we have with clients, with the CRM that was generated and the expectation is that this percentage will increase. These customers come to the store more often and with an average ticket, which is 15% to 17% higher in their purchases. So the result is exceptional. We expect for the future to improve it even further.

Q - Richard M. Cathcart {BIO 16457807 <GO>}

If I can ask a quick follow-up question to Paula, regarding the penetration of the marketplace in GMV, it was 16% in the quarter. Can you give us more color regarding this penetration, what it should be? What it can be in the next 3 to five years?

A - Paula Magalh es Cardoso Florez Chaves {BIO 20368749 <GO>}

We normally don't give a guidance. But again, this is an important profitability strategy. But not just profitability, what we see is that an infinite shelf is more and more important to generate traffic. We are using the marketplace to reinforce areas where the Carrefour brand is already very strong. Let me give you an example. Car tires, we more than doubled the sales of tires from January to date, because we understand that nonfood is going to add our profitability, the long tail via marketplace helps drive traffic so that we can become more well known. It supplements our marketing efforts, our positioning and our profitability. So I can tell you that our interest is to continue to grow this, because a large shelf, a long tail will bring us more and more traffic.

Operator

Our next question comes from Franco Abelardo with Morgan Stanley.

Q - Franco T Abelardo {BIO 17416219 <GO>}

I have two questions. The first, to start with acquisitions. You've had the acquisition of E-M  DIA and Cyber Cook and I would like to understand if there's any other acquisition in your radar in terms of online action, content generation, are you still prospecting new opportunities? And in parallel to that, you declared to distribute BRL 380 million worth of dividends. Have you defined the dividend payout policy? What is the payout that you expect for the closed result of the year? Can it be higher than the 25%? Can it be higher or will it remain at the level of 25%?

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A - Paula Magalhães Cardoso Florez Chaves {BIO 20368749 <GO>}

This is Paula. Regarding M&A in the online segment, well, of course, we look into opportunities, there are startups doing beautiful work. If a startup is out there that is 100% aligned with what we want, delivery of food and higher level of service of food delivery to our clients, the answer is why not. So we are open as long as there is a strong strategic alignment with Carrefour values. Regarding the second question, our dividend payout policy, we're paying 25% of our adjusted net income. This policy will not change, we are going to pay this year BRL 380 million and by year-end, we should assess our adjusted net income at the end of the year and we will pay up the complement amount in the beginning of next year.

Q - Franco T Abelardo {BIO 17416219 <GO>}

And a quick follow-up question, can you tell us how much you paid for E-MIDIA?

A - Paula Magalhães Cardoso Florez Chaves {BIO 20368749 <GO>}

Well we don't comment on those. This is what we wrote in our advisory to the market when we informed about this acquisition. This is part of the agreement with the seller. We have some numbers in the press. And I don't know what to tell you. I don't know where people got that number from. This is all I can tell you.

Operator

Next question from Mr. Gustavo Oliveira with UBS.

Q - Gustavo Piras Oliveira {BIO 15129435 <GO>}

I'd like to go back to Atacadão's gross margin. You talked about some drivers. Some fine-tuning, market assessment and a little bit of food service. I would like to better understand what you were thinking. Group food inflation help you improve your gross margin. And I want to understand the mix in recent years before growth of consumers going to Atacadão and generating even higher margins. Has the economy improved? Even with food service improving and bringing perhaps a lower margin for the business, I mean I don't know if this applies or not, if it doesn't, you could clarify, please? Do you think the trend of consumers buying a little less at Atacadão?

A - Unidentified Speaker

To answer your question regarding the margin more specifically, let me stress what we explained. We are always going to work with this being a topline business in sales. And we will always work with everyday low price, trying to offer the most competitive price in the market. This is our focus. When we have more end consumers coming into the stores. And this is a movement that we saw, mainly last year and this year, it doesn't really hurt our cost structure or our assortment offering structure. Now what we did do was improve a little, nothing too significant. We improved a little depth of offering for some products, which are end-user sensitive. But with a focus on small B2B in our value proposition, this just transforms some small B2B players. And through them to serve and client's focus is not the end consumers. If we focus on the end consumers, we don't serve the small B2Bs and vice versa. So this is what we did. We see a growth in number of operations. We saw

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an increase in average ticket. We didn't see any reduction or absence or reduction in the sales volumes. Again, the behavior is purchase of supplies, purchasing for the whole month. We see this behavior happening throughout Brazil and it continues. We always repeat this over and over. Once we human beings prove that something is good, unless something happens to disappoint people, we will continue doing it. So this is a trend that has come to stay. Nielsen, in their studies, show that this is a model to supply the end customers. We're prepared for that. Our services are being improved at our stores. We're experimenting with some new technologies to have a quicker cash-out alternative. We have parking lots that provide the necessary comfort for all types of consumers. So the model remains exactly the same. We don't think that it is going to be a significant return with improvement. I mean, of course, when we have more money in our pocket, we always tend to be a little more indulgent with consumers. And small buys and products that cost a little more, products that are little better. And obviously, we are quite smart regarding that as well. I don't know if I answered your question?

Q - Franco T Abelardo {BIO 17416219 <GO>}

Yes. You helped, yes. I would just like to stress 2 points. One is, do you see accelerated growth in food service? Because that's an item that suffered a lot in recent years. Is this bringing a negative or positive contribution to your gross margin? Second question, the effect of food inflation in the expansion of your gross margin?

A - SÃ©bastien Durchon

While the effect of food inflation is positive. It helps us generate a slightly higher revenue. We always have to work focused on the margin. So if I need to use the margins, we'll do it because we've been able to do some negotiations and we have to serve some opportunities that the model offers us. Regarding the food service overall, well, we didn't see any significant change, we haven't seen any significant change yet. Nielsen is not pointing to a recovery of eating out or eating out of home. This is a very slow recovery process. We haven't felt this positive effect yet. We hope we will soon. But scale is adjustable, it's almost like a communicating vessel. The more scale we have, the better we'll be able to improve our prices. This is the future of the model. If it doesn't work one way, it works another way. And we work always to maintain the level of our margins. An interesting point here in AtacadÃ£o is that, with this new target of 20 openings a year expansion will help us. If you look quarter-after-quarter, the expansion drove higher sales. It was 5% in the Second Quarter. It's now 6% in the Third Quarter. So it's an additional purchasing volume, additional sales that help a lot. Perfect, Sebastien. And I have to stress the quality of these new openings. We have opened stores in the Third Quarter, the 4 stores that we opened in the Third Quarter. And what we are reserving for the First Quarter, well these are excellent performing stores.

Operator

Next question from Mr. Robert Ford with Bank of America.

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

Paula, could you speak about the e-commerce model for food retail? Could you speak about the use of dark stores? Could you use Rappi?

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A - Paula Magalhães Cardoso Florez Chaves {BIO 20368749 <GO>}

Well we believe that the dark stores allows us to have a complete index of orders. We know exactly what we are selling and the client gets exactly what they ordered. And to have your whole inventories for Atacadão, you can do that. The point is that we can use the model better. We're moving towards a model of using the current assets to do side stores so that we can use the hypermarket and the assets that we already have to create a different inventory and then do delivery. And I think then (last line) is definitely the depreciation point that we are looking at with a lot of courage and for how to improve the service to our clients.

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

But if it's a side store, with greater partnerships with the delivery players, how can you accelerate the penetration of e-commerce?

A - Paula Magalhães Cardoso Florez Chaves {BIO 20368749 <GO>}

I mean, we have to use our current assets for picking. We need to have specialized picking. We have to guarantee delivery within 1 or maximum 2 hours to the client's home and we have to have a quick delivery system to reach out to these clients and this is our model. And of course, popular cities are the ones that will deserve more attention initially. I don't know if I answered your question, Bob?

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

Well yes. But I would like to know more about what you're thinking, who can accelerate a solution to take advantage of this market opportunity?

A - Paula Magalhães Cardoso Florez Chaves {BIO 20368749 <GO>}

Of course, you're right. There's no doubt that this was a blue ocean, grocers account for 0.4% of the market. The truth is that there are not a lot of winning models, we see China, Korea, some cities like London, where you have greater penetration. But Bob, we are strongly getting prepared for this. But I cannot really disclose 100% of our strategy at this point. But we are preparing ourselves and we are going to be leaders in food e-commerce in Brazil, for sure.

Operator

(Operator Instructions) Next question from Tobias with Citi.

Q - Tobias Stingelin {BIO 20764287 <GO>}

The hypermarkets go into a change in assortment and in the price mix. Apparently these hypermarkets did really well. Do you have any intention to expand this to more stores or you did it surgically, you did it well and now you're cruising and nothing else is going to change?

A - Unidentified Speaker

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Well we have -- in fact, we have 23 stores with a high competitiveness level. With a result that we have of increased volumes, with the recovery of the investments already made, we are assessing a second wave for 2019. We need to recover sales and recover the investments made.

Q - Tobias Stingelin {BIO 20764287 <GO>}

Perfect, I do understand. How long does it take to recover? You normally have to change the prices and then the volumes have to increase. How long does it take to increase six months, nine months, faster than what you expected?

A - Unidentified Speaker

With the experience that we have with the first wave, as of the six months, we started having significant growth and we start to recover part of the investment made through higher volumes sold, through other cost initiatives. And obviously with negotiations.

Q - Tobias Stingelin {BIO 20764287 <GO>}

Can you give us an idea of the number of stores that it could include in this second wave?

A - Unidentified Speaker

We are assessing particularly the most E-MÃ DIA stores. We need to assess the stores that face a lot of competition. This is what we are assessing right now. And here, the goal is clearly with all of the data that we have gathered with those 23 stores, we are analyzing specificity now, product by product. And we'll use all of this data to make much more practical move, how can it be something massive? If we have to bet on the products where we discovered a great need.

Operator

(Operator Instructions) This concludes today's question-and-answer session.

Carrefour Brasil conference call is closed for today. Thank you very much for your participation. Have a good day.

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