Q2 2021 Earnings Call

Company Participants

- Carlos Mario Giraldo Moreno, Chief Executive Officer, Grupo Exito
- Guillaume Gras, Vice President of Finance
- Isabela Cadenassi, Investor Relations Officer
- Jorge Faical, Chief Executive Officer

Other Participants

- Andrew Ruben, Analyst
- Bob Ford, Analyst
- Danniela Eiger, Analyst
- Helena Villares, Analyst
- Irma Sgarz, Analyst
- Joao Andrade, Analyst
- Joao Soares, Analyst
- Joseph Giordano, Analyst

Presentation

Operator

Good morning, everyone, and thank you for waiting. Welcome to the GPA Earnings Conference where the Group's Results for the Second Quarter of 2021 will be presented. For those of you who need simultaneous interpretation, we have that available on a platform. All you have to do is click interpretation on the globe on the lower side of your screen and choose the language of your preference.

We have the English simultaneous translation that can be used by pressing the interpretation button represented by the globe icon on the bottom right corner of the screen and choose English option.

(Foreign Language)

For those listening to the conference in the original language, you can disable interpretation as well. The conference is being recorded and live streamed and will later be available at www.gpari.com.br along with the corresponding slide deck. This event is being recorded. And all participants will be in listen-only mode during the company's presentation. Following that, the floor will be open for questions. To ask a question, click the link, write your name. And once your name comes up on the screen, you should activate your microphone to ask your question. We ask that all questions are asked at once.

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I will now turn the floor over to Ms. Isabela Cadenassi, the company's Investor Relations Director.

Isabela Cadenassi {BIO 20532610 <GO>}

Hello. Good morning, everyone, and thank you for joining us in our earnings conference for Q2. In our call today, we will start with a presentation by Mr. Jorge Faical, CEO of GPA; and Guillaume Gras, our CEO [ph]. After which, we will have a Q&A session. Also with us are Carlos Giraldo, CEO of Group Exito and the CFO of Group Exito.

I will now turn the floor over to Guillaume Gras. Thank you, everyone, and have a great conference.

Guillaume Gras

Thank you, Isabela. Good morning, everyone. Thank you for joining us in Group GPA's earnings call. I'd like to start our presentation quickly going over our financial performance. After which, I'll turn the floor over to Jorge who will comment on the highlights of our operations during this period.

In slide four, you can see the main figures for GPA Brazil, which in this quarter accounted for 53% of the Group's earnings. As you all know, the second quarter of this year was once again defined by restrictions we were under to control the new wave of COVID-19. We had to deal with decrease that limited our operations in terms of opening times and forbade selling a few non-essential categories, such as alcoholic beverages and electronics. All of that is historically different from the scenario we had in Q2 2020 when a sharp stockpiling movement occurred and also with sales -- bars and restaurants shut down, which also benefited us.

In line with all of this, our results in this quarter were characterized by strong sales in e-commerce and momentum in the super and proximity formats as well as solid development in our profitability because of an efficient execution of our strategic planning. In terms of selling, our e-commerce increased 32% versus last year and 38% over the previous quarter, especially due to the evolution of our logistics and the growth of our partnerships with last milers. We also saw dynamic sales in the super and proximity formats, with 12 consecutive quarters of double-digit growth for proximity and continued maturity of the change in our store portfolio, which Jorge will speak in greater detail later on. Our gross margin stayed virtually steady both over the quarter and over the first half of the year as a direct result of the effective trade dynamics and optimized logistic costs.

On the spending side, we continued with strict controls also searching for continued effectiveness in our operations, particularly in the operational productivity of our stores and distribution centers as well as controlling our administrative expenses. The decline in total spending was of a two-digit figure both versus 2020 and versus 2019. As a result, we can see a sequential development of our EBITDA margin -- adjusted EBITDA margin since the second quarter of 2019, which came to 8.3% in Q2 2021 versus 6.6% in Q2 2019. In addition to that, we still have our other revenues and expenses under control, totaling BRL39 million spending over the quarter, which was mostly related to our restructuring projects and legal contingencies. Lastly, as a result of what I just said, we obtained a net -- a positive net profit of BRL13 million over the quarter and BRL94 million in the first quarter of 2021 versus losses in the same period of 2019.

Let me now talk about Grupo Exito's results on page five, which accounted for 47% of the Group sales. Sales amounted to BRL5.9 billion over the quarter. Just as in Brazil, the countries where the Exito Group operates also had their operations affected by restrictions to contain the COVID-19 pandemic. In addition to that, Colombia had in May an environment of demonstrations and strikes, which impacted not only store operations, but also our inventories. At constant currency, same-store sales had in the second quarter growth by 7.2% versus 2019 and 8.1% over the first half of the year.

I would like to point out the development in our omnichannel sales, which already account for over 12% of total sales in Colombia. Our innovative formats, such as Wow and FreshMarket, are still successful in their development. When we look at profitability, we could point out the resilience of retail and greater contributions from our supplementary businesses, particularly the financial company, Tuya, and our real estate businesses. Our gross margin is still solid in retail and our spending is still developing below inflation when we exclude government subsidies that the company received during the pandemic. As a result, we're reporting an adjusted EBITDA margin of 7.1% over the quarter with a BRL374 million EBITDA. This is a lower level than what we had in Q2 2020, but we see a development of over -- plus 14% over this amount when compared to Q2 2019. Lastly, the Exito Group has reported a positive net profit both over the quarter and in the six-month period, reverting the losses that were recorded last year. Compared to 2019, our net profit is now over BRL10 million versus BRL124 million in the quarter -- in the six-month period.

Now that we've looked at the highlights of both operations, let's move on to the next slide with the highlights of our consolidated results. Operational efficiency and controlled spending across our businesses, as I just mentioned, have contributed to maintaining our profitability at high levels and a positive net profit despite all the challenges we faced during this period.

Lastly on slide seven, I'd like to point out the low level of our leverage, which is at 1.7 times our EBITDA. We ended the period with a net cash of BRL4.9 billion or 1.9 times our short-term debt, which shows the robust liquidity level considering the future obligations of the company.

With that, I will finish the financial side of our presentation and turn the call over to Jorge.

Jorge Faical {BIO 21768322 <GO>}

Good morning, everyone. Once again, I'd like to thank you for joining us. We're very honored by having all of you. And thank you, Guillaume, for the first part of the presentation. So, I will now go a little bit more in details about the Brazilian operations of our Group. But before talking about the results and giving you further details, we would like to open our agenda talking about our ESG side, especially considering this which is such a complex time for much of the population. Our ESG agenda is growing and we have been acknowledged for that. But still, we know that we have a long way to go over the next few quarters. We will be reporting more and more news to you about our environment opportunities.

Now, I would like to start when looking at our chart with something that define our last six months, which was the social impact agenda. We engaged a number of donations with our customers, both our own donations and customer donations, using our own collaborators and we reached substantial figures. I will give you one, 250 million tons of food that were collected in our stores and collaborations with entities that also collaborated in that. Just to give you an idea of what that represents, we're talking about 120 or 130 trucks of products, which would line up in over 4 kilometers in a road.

We also have a climate change agenda, especially concerning having more -- having cleaner sources of energy in our portfolio. 83% of our energy also comes from clean sources and we are investing in a agenda of needing less damaging gases. We have a green store project that's already very accelerated. And also with regard to climate change, we understand that the country is going through its most serious drought, not only here in our region of Sao Paulo, but across the country. So, we also have an agenda to save water and energy also in terms of kilowatts.

Now, our commitment to ethics and transparency hasn't changed. Since 1999, we release our sustainability reports and we continue to adhere to the same commitment, which goes beyond our doors and our stores. It actually embraces our entire value chain. It goes from the production of our products, especially in some areas such as combating deforestation. For example, in areas where -- are not -- we have a commitment with our providers of protein, conservation of biodiversity in the country and work conditions in the supply chain from several categories that we don't support. We hate slave work, for example, we don't support that. We provide good working conditions for workers and suppliers. And, of course, within an in-house agenda, that's very important for diversity in our people.

We're very proud of some figures. We know we can do even more, but we have 38% of women in leadership positions and more than 50,000 employees are about half women, half percent -- 50% men. And of those 50% who are women, we have 37% in leadership positions. And also, we have a very high rate of people who are self-declared Black and we also work for equivalence in salary levels and work conditions. It's a very strong agenda.

And the next slide, number 10 -- or rather slide number nine, I show some highlights of our operations. First, the significant growth of E -- food e-commerce. It was a substantial growth and one -- this is one of our main strategic pillars. We have grown by 32% on top of a quarter last year that had been very strong. As you may recall, we had a boom of a widespread growth of electronics e-commerce, and these growth accounts for sales that are higher than the Q4 in 2020 when we have Black Friday and strong promotional activities. So, we continue with this path of growth, reaching a GMV of BRL428 million. And if you accrue those sales in the last 12 months, it accounts for 1 -- it reaches BRL1.4 billion. We said that BRL1 billion, but in 12 months, we reached BRL1.4 billion in a very short time period. These sales account for more than 8% of our total sales in the last 12 months.

The penetration has increased by significant rates as you can see on the lower right chart. Two years ago, e-commerce accounted for 1.7% of our operation and now it accounts for 8.2%, which is the highest share of e-commerce in food e-commerce of Brazil. Just for you to have an idea, our proprietary sites, paodeacucar.com and clubeextra.com, when compared to websites of other supermarket chains, we have a share of 76% in that market, so it's very significant, and that share even increased when compared to the previous quarter. This growth is being implemented with the strategies we have disclosed to you in several occasions, one of them being concentrating stronger on the last milers, when 1-hour deliveries, consumers are prioritizing quick deliveries. And the percentage of quick deliveries in our sales, it used to be 13% last year and now it's one-third of our sales. If you add same-day deliveries of 1-hour delivery times, that accounts for 75% of our deliveries. So, this is one of the factors that explains our growth.

The other factor is the on-time in-full delivery, so quality delivery is a very important point that accounts for service level above 95% and deliveries made by the distribution center are higher than 99%. That results in very satisfied customers and we have been elected by the third consecutive year by Datafolha, Pao de Acucar is the best supermarket in Brazil and Clube Extra with the higher NPS of its history. So, I am absolutely sure that we have -- one of the main reasons for this growth has been our decision in this last quarter to work with an open collaborative platform with partnerships from other companies. We have partnerships with iFood, Rappi, Cornershop.

In addition with our own company chains, we have now announced partnerships working with Mercado Livre, Now Supermarket from B2W and we're in negotiation with other retail chains, especially to reach locations in which we're not present. So, we work with partnerships strongly. And in this first quarter of operations, which is this one, we have reached partnerships with 500 stores and last milers. It was a surprise to everyone and it was the fastest operation to put these partners in operation and reach a significant growth in e-commerce. In the future of our e-commerce, we plan to grow in perishables to remove that preconceived idea that consumers may have that they cannot buy vegetables, fruit and frozen products, for example. And we're also planning to evolve in non-food categories for the second half of this year, so we are growing steadily fast in digital sales.

Next slide. Now, just to complement on the digital sales, which is very significant for us, we continued with the rapid growth in the first half of the year in marketplace. We're still in baby steps. And against the last quarter, we tripled the number of sellers and doubled the assortment of goods available in the platform. And we are closing partnerships with significant players within our ecosystem of Pao de Acucar and other brands that work as satellites in our food planet.

So, as you may see, we have closed deals with Emporio da Cerveja, a beer company; Nespresso and many other well known brands. In our platform, the loyalty program had a significant growth in terms of distribution of points in this quarter as well as a significant increase in the redemption of our six program. And our loyalty program is very strategic for our business because more than 70% of our sales are identified, and that is 90% in Pao de Acucar supermarkets. And customers that use our app on a daily basis, they spend 10 times more than regular customers that don't use the app. And we are increasing customization and listening to customers, so we can improve our digital programs.

Despite the advance of some other programs, loyalty programs in the market, according to our origins and building on something we created, our MAU, monthly active users, we now have more than twice the amount of our main competitor in the market. So, having information about consumers and all that data allows us to enter new frontiers in the business. In June, we launched a partnership with RelevanC, creating GPA ads, in which we are monetizing media ads in a very significant way with more than 1,700 options of segmentation for our audience to be able to sell advertising. It is a good bet on future monetization. We can provide you more details some other time if you want to learn about other innovation initiatives.

Going to the off-line slide, on the next one, let's talk about our main formats. First, hypermarkets. We continue to reposition prices in hypermarkets. We have 58 stores that have been fully repositioned with small remodeling works done. This project takes three to four months to mature in terms of consumers. Consumers take some time to understand that the hypermarket is less expensive than it used to be. And we make a lot of investment in terms of communication to -- for brand repositioning, price repositioning. And I would like to say that despite this challenging moment that the hyper has been through because hyper one -- is one of the segments that was mostly benefited from the beginning of pandemic last year. And in this quarter, it's been -- it's facing the highest challenges due to severe restrictions we had because of COVID.

But we are reaffirming our conviction in terms -- our -- the fact that we are very certain about this model that is price added to experience, and hypermarkets that are expensive today are dead. So, today, we are the cheapest hypermarket in Brazil. We have the lowest prices and we'll continue with this positioning because we strongly believe that this is a winning position. And Mercado Extra and Compre Bem are doing fine. They are growing despite this challenging period that all supermarkets are facing. They have proven to be a very successful value proposition, especially when they propose a buy-in -- buyer contact when you can buy perishables, bakery products of meat and many other items. That's doing fine and we are encouraged to continue with the synergy of both models to -- for further growth in the future.

Pao de Acucar was also a format that suffered a bit in this quarter, not so much from restrictions, but because of it's positioning. Well, the positioning of Pao de Acucar is highly focused on quality, fresh produce and quality of products, quality -- variety of products and quality of service. So, we bet on the pleasure of consumers to going in-person to buy the groceries. And, of course, in this period of drop in income and more people are unemployed and people are looking for lower category products, lower prices, so Pao de Acucar suffered a bit in this quarter. And -- but we are sure that this suffer is something specific temporary. Pao de Acucar is the jewel of the crown and it has increased its operations with improvement in operational excellence, which translates into a better store for consumers with more checkout points, less -- lower queues.

And we have rolled out the G7 concept for more stores in Q3, 25 more stores. This is a very successful concept in our experience lately and is the most omnichannel store that we have. It has 13% to 50% share and had penetration peaks of 20% in some promotional moments. For example, the anniversary promotion that starts today, we have wines with up to 72% discounts because it's 62% -- years -- 62 years of our existence, 62nd anniversary of Pao de Acucar. We are very proud of the work we have been doing lately and we have been growing for two-digits for three consecutive years.

As we said, we plan to grow Minuto Pao de Acucar very quickly. Of the 100 stores we reported we will be building in the next few years, at least 25 will be -- or at least 50 will be opened this year and about two or three of the ones I've commented will be built this year and the calendar moves on with the 150 stores of the Pao de Acucar brand, most of them in the proximity format, which is profitable and adds value, not only to the company, but for customers. And we're very excited. Also significant to our business, the Aliados or allies format, our B2B platform, which involves now already 400 partners and is growing quarter-after-quarter. So, these were the main highlights for Brazil.

Moving on to the Exito Group. Just as in Brazil, we would like to point out the main sustainability in ESG movements we've made over this quarter. So, we have four platforms. One of them makes us really proud, it is in Colombia, and it really stood out in terms of food or child feeding with nutrition and nutritional supplements. Just as in Brazil, we've had a strong commitment to reducing our gas -- greenhouse gas emissions. So, by 2023, Exito plans to reduce its emissions by 35%. And Exito's value is also extremely focused on dealing with local producers. 92% of the Group's produce are sourced locally and also their equipment is bought from local producers as a way to be responsible with the Colombian market. It is also the absolute leader in recycling plastic in that country. Over 20 million tons a year in the country, which is very important for Colombia. Now, because Exito also has a very strong real estate operation, it has been widely used to help the government as vaccination centers. We've had over 50,000 people vaccinated on locations that are managed by the Group.

Guillaume has given you a few details about our Colombian business, so I'd like to start by talking about our digital side. This was a very important part of our business in Colombia.

It's grown substantially, 24% in food, 18% in non-food, totaling 12.8% in it's share. Now, that share, 12.8%, is the highest in Latin America for food retailers. Once again, Exito is standing out as a benchmark in Latin America and our digital strategy is no different. So, a few highlights. A 29% share for Click & Collect, that's a very strong share. It's e-commerce has received up to 70 million visits, growing 6.5% over last year. And the last mile, where we have strong partnerships, especially with Rappi in Colombia and very substantive figures with over 9% growth in orders and about 4 million deliveries, which is a really impressive figure for a single quarter. So, this is a very important part of the Group's strategy.

We can move slides now. And it's part of the Group's strategy to invest in innovative formats, so we are remodeling our Exito stores, especially the hypermarkets or cash-and-carry stores, and also using Carulla to a strategy that's very important with Exito. It's a service model. It's what we call figital. And with that, we are increasingly surprising customers with this customer or this shopping experience, and this is about one-fourth of our stores now. We have a few planned now, and it will account for one-fourth of Exito's sales. Carulla is also advancing to a format that is very close to what we have here and it's originated in Uruguay, the Wow store. It has a lot of perishables, a lot of restaurant food, it's a very interesting format. And once we have room in our calendar, we will plan for visits to Colombia, so that you can see it first-hand. Now, this accounts already for one-third of this brand sales with many omnichannel initiatives. We have another seven stores that will be converted this year with the potential for another 19 stores in the future moving them to this new format at Carulla.

Now, one of the greatest highlights for this quarter were the low cost formats. These contributed substantially to the increase in Exito Group's sales. Now, a few things I'd like to point out. First of all, Super Inter has been going through a store remodeling project. We've had 14 stores remodeled into what we call the Vecino format, with sales outpacing the non-converted stores by 23 percentage points. Surtii, which has the cash-and-carry model inspired in Assai with smaller stores, so these were a total of 34 stores. We've planned for 36 until the end of the year, and they showed substantial figures with 24.1% growth over the previous quarter. So -- actually versus the previous year, regardless of the COVID pandemic. And what excites us is that this format allows for a lot of room in Colombia -- or sees a lot of room to grow in Colombia because this market is now rebounding at more substantial rates. So, Surtimayorista is expected to rebound along with it. Just to give you an idea, only one-third of these store sales are to businesses and most of them actually are to end consumers.

Another highlights are real estate operations, which is really relevant in the country. We still see a very high rate of occupation at about 92%. And this has been maintaining Inter because a lot of clearance sales were made last year. And this level of discount is no longer so necessary. So, real estate is contributing to our earnings in Latin America. I couldn't fail to mention Puntos Colombia with over 18 million clients, 5 million of which are what we call ABS data clients or customers. And these customers allow us to use their data pretty much freely to provide them with more benefits. And even though Guillaume talked about our financial results in the beginning, we consider Colombia's results very satisfactory, considering the scenario this country has lived. They faced much greater challenges than Brazil did because in addition to social restrictions, they also had to deal with a number of strikes and looting. And we are very proud of Exito's team because they were able to sustain their sales, not only their bottom line, but also their profitability with a lot of effort. So, I really have to commend Carlos for everything that he and his team did in the Colombian block, particularly.

So, now, moving on from the Brazil and Colombia block -- or actually before that, just to wrap up Colombia, two aspects of Colombia's and Brazil's businesses are important to point out. When Brazilian customers buy GPA stock with GPA, they're buying one of the most successful South American companies, which is Exito. We can never fail to mention that in our earnings release. Another aspect of digital, either in Colombia or Brazil, this is still a side of the business that's moving forward in baby steps. It's in it's initial stage. That is only to say that there's a huge opportunity for investment, considering how much digital is growing and how much it still has to grow, especially in the food industry. And now one thing about that -- and Brazil is that food sales account for only 1% of all grocery sales, considering that developed countries like the United States are estimated to have a share of 7% to 8%. So, food e-commerce are expected to grow by 7% or 8% in the next few years if they follow the same trend of developed countries. So, this will continue to be an important part of our strategy.

So, I will turn the floor back to Isabela for our question-and-answer session.

Isabela Cadenassi {BIO 20532610 <GO>}

(Foreign Language)

Thank you. Let's start with the Q&A session now.

Questions And Answers

Operator

(Foreign Language)

Thank you. We'll start the Q&A session now. I would like to remind you that to ask a question, you may click the Q&A icon at the lower part of your screen, write your name and the language in order to get into the queue. And to be announced, a request to activate your mic will pop up on your screen. Please activate your mic to make -- to ask the question. We kindly ask you to ask all the questions at once.

Let's go to the first question from Joseph Giordano from JPMorgan in Portuguese. We'll open your audio, so you can ask your question. Joseph, please go ahead.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good morning, everyone. Good morning, Faical, Guillaume, Carlos Moreno, for your question. I would like to explore with you the trends of growth. When we look here, maybe the best way would be to compare to 2019. I would like to understand these dynamics we've seen the last two years in trying to separate things and understand a bit better the dynamics that's behind the G7 stores. This is a very important point. The company is investing heavily in new initiatives, not necessarily conversion of G7, but in best practices overall. And I would like to understand how you see this development because when we look at same-store sales, it's not as good in terms of food and accumulated inflation. And for Extra, what are the initiatives today to boost sales? Maybe now with the reopening, hypermarkets may lose appeal a bit because the stores that had a bit of everything during the pandemic will not be so appealing. So, what do -- can we expect in terms of growth? And looking at Colombia, finally, I would like to understand from Carlos Mario how he has seen the development of the market. I understand that COVID restrictions were stricter there than in Brazil in the last few months, and now we have demonstrations. So, could you tell us how to envisage the development of sales in the second half of this year? Thank you.

A - Jorge Faical {BIO 21768322 <GO>}

Thank you for your question, Joseph. Very consistent for this moment we're going through, by the way. As I told you, both Pao de Acucar and hypermarket have suffered due to similar reasons in the second quarter and they are going through different moments in terms of outlook for the future. Pao de Acucar is not a price format that has price as its main quality, although we do find that Pao de Acucar is not that expensive when we look at competitive rates, but it has very sophisticated products, quality products. So, it has that premium look to it, premium feel. The main reason for the drop in sales of Pao de Acucar in this quarter was the evasion of consumers that are looking for cheaper products, more inexpensive places to shop, so there was a migration of consumers to other stores, supermarket stores and cash-and-carry, other cash-and-carry stores. So, it offset a bit of this loss with digital growth that was significant, but again, we do believe that this is something that worries us, of course, but it's temporary.

We -- I'm not going to discuss here macroeconomic scenarios in depth, but we see a gradual economic recovery for the -- in Brazil for the next quarters, not necessarily this next one, but the ones to come afterwards. And as the income level rises in the country and people get their jobs back, of course, Pao de Acucar will go back to its original growth. We had no loss of consumers, but consumers are buying less than they used to. The main grocery shopping is done in other places. So, this is not a scenario that I can say it's general, generalized, there are different behaviors according to the type of stores and region. The stores in which we apply G7 or it's main concepts continue to grow 5% to 6% -- 5 to 6 points above average. We will continue with this renewal and renovation when we believe that as of the third quarter, the curve of growth of Pao de Acucar will resume it's original growth. But we -- our growth project is still hot in terms of real estate projects. We're looking for new places, areas to grow. The growth of Pao de Acucar will start in the state of Sao Paulo towards the countryside because we believe so much in this format to sustain GPA in the future remains solid. And, of course, we are looking at the short-term issues, but we will continue with our strategy.

In hypermarkets, the situation has gone through several restrictions. It is as though we had an exceptional sales peak last year in electronics and other categories, and now we are having a valley that is also very large. So, that harmed the growth of hypermarkets in this quarter. The stores that have been repositioned, remodeled with the new price positioning, although have not recovered their sales in electronics that remain two-digits below when compared to last year, but the volume of growth in food sales are -- is resuming. And now in hypermarket, we have growth in hypermarkets, where, again, growing in our market shares. And those stores that were repositioned more than six months ago are having significant market share growth in those regions. This is what reinforces our idea that will elevate this hypermarket to a price perception store. Do we want to be a mix of retail and wholesale, as we call (Foreign Language) in Portuguese? No. The market is not seeing our strategy so well. We want a cheaper hypermarket. We want a hypermarket that meets the needs of our consumers in all categories, either fresh products, food or non-food products, so we provide a much more complete value proposition.

In summary, Joseph, I'm sorry for giving you a long answer, but in summary, Pao de Acucar, Extra digital, we have not changed at all our strategic plan. We are now working on a more tactical level, but our strategic plan remains unchanged.

Now, I'll hand the floor over to Carlos Mario.

A - Carlos Mario Giraldo Moreno {BIO 21611023 <GO>}

Thank you, Joseph, for your question. And so, what I would say is we are really positive for the second semester. We are seeing very strong reaction of the market in July of the consumer confidence, various reasons. The first one is we are not having now COVID restrictions, which we had in April, where we can -- many of our stores were closed. Today, they are all opened. And second, social process -- protest has diminished a lot. We had a call for a wide social protest at 20th of July, but there was not a wide support to it and authorities were well prepared. Second, we have soft basis in the third Q and the fourth Q as compared with the first half of this year. There is a market space because two important retailers, one in Cali, la quatorze, is going through a very difficult situation, economic situation. And the second discounter, Justo & Bueno, the same thing. So, it's a space that we're taking profit of. Our innovation formats, the Wow, the FreshMarket and the Vecino for Super Inter continue in a very good growth against the rest of the brands. And finally, what I would say in the market there is a tax reform proposal, which is not going to hit consumption because it does not touch the VAT tax and the income of individuals. So, it has been very well received.

July, we are, of course, ending July. But what I can see -- say about July is that it has been in sales the strongest sales month for the company in Colombia in the last 24 months. And I would add only to our complementary businesses, our real estate shopping malls are reopened with a very good occupation rate of 92%, given what we have gone through and also with an activity of our tenants. Textile business, that is apparel, is very strong today, especially in Mexico because Exito has a characteristic and it is that most of our production is done in Colombia. And given some devaluation, plus an additional tax to import, we have now a very important comparative position against our competitors. Our textile business is very important because it's the most profitable business of all the businesses in Exito.

Operator

The next question is from Joao Soares from Citibank in Portuguese. We'll open your mic, Joao, to -- so you can ask your questions. Please go ahead.

Q - Joao Soares {BIO 17386703 <GO>}

Hello. Good morning, everyone. Thank you for the call. I have two questions. First, Faical, I would like to please elaborate on the opening remark comments that you made talking about the perishables penetration in the online channel and how do you intend to match that to some partnerships you have? So, let's say, a partnership with Mercado Livre that does the delivery logistics, what actions do you plan to take to increase the penetration of perishables? Maybe having more people in store for picking to maintain quality control, so that you can ensure that the product arrives well at consumers' homes and consumers like that product that arrives at the stores. It would be interesting to understand how you will plan to increase the penetration. And also, I would like to ask about this agreement with Peninsula. What are the opportunities that can arise from the 60 properties in terms of remodeling, remodeling of stores? I would like to hear more about that opportunity. Thank you.

A - Jorge Faical {BIO 21768322 <GO>}

Thank you, John -- or Joao. Fresh, if food is the last frontier of e-commerce, fresh is the last frontier of -- in food because we consider ourselves to be the most experienced retailers in terms of fulfillment of vegetables, bakery and meat products. We are developing intense programs to go even further. If we have grown by 32%, I don't recall the exact number, but it's more than 32%. So, we are growing more than the average, some of -- given some of the initiatives already implemented. One of them, as you said, we increased the headcount in stores to have an adequate picking to get the best apple, the best lettuce or an egg to deliver to our consumers' homes, so that the product is acceptable. Also, today, the click and collect accounts for 40% of the total sales, approximately. And one of the lessons learned is that a good portion of consumers that buy with click and collect buy the cleaning products, rice, such dry goods. But when they get to the store to pick up the grocery, they make a point to pick their own fresh products. So, they -- the consumer likes to choose these products. With the click and collect and these initiatives, we could try to convert these customers into a full purchasers of all kinds of products. With our partnerships, all the modalities with the partnerships that have delivery in-store, we can do -- we do a good work in terms of fresh products. When we work with distribution centers, we face more difficulties because it's a perishable product. And the CD or distribution center has to travel long distances sometimes. Perishables is one of the channels that we are working harder on in the next quarter.

As for your question about Peninsula, we have closed or we ended an arbitration procedure in a very amicable manner. We ensured our rights to operate until 2035 in these stores. The fund provided a full release for GPA of the 60 stores that were under discussion in the arbitration, and that allows us to unlock a better value in these 60 stores. GPA could use those assets better, even better than it was using. For example, I can reduce the sales area in a hypermarket store, I can sub-lease part of it to an anchor store, increase sales galleries, I can create hubs to -- for e-commerce distribution in using these assets that are very well located and, of course, in agreement, have some sales or store conversions along with Peninsula. This agreement had no material change in the lease price and -- or rental price and it's good for both parties. We're very pleased with the closing and the end of this arbitration.

Q - Joao Soares {BIO 17386703 <GO>}

That was great, Faical. Thank you.

Operator

Our next question comes from Helena from Itau, and it will be asked in Portuguese. Helena, we are opening your mic, so that you can ask your question. Please, you may proceed.

Q - Helena Villares {BIO 21333811 <GO>}

Thank you for taking my question, guys. Actually, I have two things to say. First of all, we would like to understand how Pao de Acucar stores that are already operating in the model that you see as ideal are performing. We would like to understand their plans and how they're operating. We know that the base has made it very difficult, but we would like to understand what their market share looks like. And also we would like to understand about the -- this selling and G&A that were diluted, and I would like to understand your EBITDA. So, if you could give a little bit more color in terms of that. We understand that you have plans and projects to deliver that EBITDA levels, but we would like to know more about them.

A - Jorge Faical {BIO 21768322 <GO>}

Thank you for your question, Helena. Well, about Pao de Acucar it's very much what I told Joseph. These stores usually grow about 5% above average. But because of the baseline, even considering 2019 as the basis for comparison, we've had stores that grew over 30% more than in 2019. To give you an example, we have the store on Ricardo Jafet street. This was already the number one store in the country and it grew 3% more. Our store in Leblon, in Rio de Janeiro, our store in the city of Sao Caetano is growing 30%, 35%. Some of our stores are growing less. Some are growing 5%. Some of them which are near office spaces are also growing less. Some of them grow zero or less than that.

So, it's a result that's sort of all over the place. But when we look at our consumer base or our customer base in Pao de Acucar, when we look at these identifications, there's a very interesting trend. We are moving closer and closer to e-commerce. So, yes, there is some cannibalization between brick-and-mortar stores and e-commerce, but that's something we're not very concerned about because omnichannel customers are spending a lot more than they did when they only had a relationship with their brick-and-mortar stores. So, we encourage them to buy on both channels, both brick-and-mortar and online. And we believe that in the future, Pao de Acucar will begin to have better results. But the concepts we have been using to move Pao de Acucar forward are very logical, are very clear. There's no rocket science. So, when we converted the first few stores in our -- for example, our bakeries with rustic breads and a new rotisserie proposition, when we changed our produce stands putting them at the front of the stores, which really worked, was really successful with all of those colors right at the entrance and a more accessible meat stand so that customers can find any type of meat that they want, so these are concepts that work for any customer, including you and me. So, the stores that are rolling out this concept show a very clear chart. There's really a step up once we introduce those concepts. Unfortunately, because we are living a challenging macroeconomic scenario, these ideas that we are putting in practice right now, they are leading to a drop-off because shoppers are moving to increasingly more affordable and cheaper categories, but I'm sure that very soon this is something that will make everyone really happy.

Now, about your question that's more closely related to SG&A, I will turn the floor over to Guillaume to answer that.

A - Guillaume Gras

Well, the drop that you see in SG&A is due to some initiatives we've had in all our P&E lines. Starting with productivity, our store productivity has improved with our changes in staff. Also, our energy consumption, we have a number of fronts to reduce the company's energy consumption. And we are also renegotiating a few energy contracts in the market. We are also negotiating some management customers regarding meals and cleaning and recovering the carts, also maintenance and lastly operating costs. There was a particular effort in that sense with regard to our staff. In addition to that, there were a few aspects involving our stores last year, which also contributed to the decline in our expenses.

Q - Helena Villares {BIO 21333811 <GO>}

That was great and very clear, guys. Thank you.

Operator

Our next question comes from Danniela Eiger from XP, and it will be asked in Portuguese. We are opening your mic, so that you can ask your question, Danniela. Please, you may proceed.

Q - Danniela Eiger {BIO 20250080 <GO>}

Thank you for taking my question. Actually I have two. But First of all, Faical, you commented that the impact of Pao de Acucar will be temporary, and I would like to know what's the time horizon that you guys are working with during -- when you continue to be facing these challenges for your format. And I would like you to tell me a little bit more about how this third quarter performance is going and what your forecasts for this year are, how do you see this trend moving forward? And my second question is about your online operation. One of the things you said that helped you grow your GMV in sales were your partnerships with these last milers, whether it's (inaudible) or iFood or Americanas. And I'd like to understand, first of all, how representative they were and whether that was the main driver of this increase? And how growing the size of these players in this channel affects your margins? And if that could have any negative impact, considering that you probably have to pay them a commission? Thank you.

A - Jorge Faical {BIO 21768322 <GO>}

Thank you for your question, Danniela. Once again, I can't say precisely what the number is for Pao de Acucar because I don't want that to be a guidance, but we expect to see piecemeal recovery and not full recovery in Q3. And the months of August and September tend to be a little bit better than July, and Q4 tends to be a little bit better than Q3. This month of July, we had more people traveling than we had last July. So, there was more tourism, especially within the country. So, people are coming back from their vacation in late July and early August, so we expect to see a decline in sales in July and an increase in sales in August because of that movement. September is expected to be a little bit better, also considering last year's baseline, which was a decline for Pao de Acucar, but we expect to see piecemeal recovery. We're still a little bit more cautious about Q3 and Q4, especially in our prospects for next year. We expect next year to be a bit more intense for our industry, but in general -- or generally speaking, it's not full recovery, but rather slow recovery.

Now, with regard to our partnerships, with regard to our growth between Q1 and Q2, we saw about BRL120 million more. And these new partnerships accounted for about BRL90 million of these BRL120 million. So, they accounted for three-fourths of our increase. Our P1 is growing, just as these partnerships are. These partnerships have no impact on our sales. Our profitability is very, very similar to those of P1 because even though we pay a fee for these sales, we do not handle the logistics and many marketing costs also are not our responsibility. So, this fee actually reverts into a partnership where some of our costs are replaced for their costs -- or rather the other way around, they have to bear some of our costs. Bearing in mind that, and e-commerce, and this is something I always stress, you Danni probably know this, but our profitability is a high one-digit in e-commerce. So, growing our e-commerce means to add value to our sales and profitability levels, unlike many digital companies we see across the country.

Q - Danniela Eiger {BIO 20250080 <GO>}

Thank you. That was great.

Operator

Our next question comes from Bob Ford from Bank of America, and it will be asked in Portuguese. Bob, we're opening your mic, so that you can ask your question. Please, you may proceed.

Q - Bob Ford {BIO 1499021 <GO>}

Thank you. Good morning, everyone, and thank you for taking my question. Guys, could you talk a little bit more about your e-commerce with Mercado Livre and how many distribution centers do you plan to have highest inventories in? And how is that growing? Also, is this something that you plan to replicate in Colombia? Also, how is the (inaudible) going?

A - Jorge Faical {BIO 21768322 <GO>}

Thank you for your questions, Bob. Well, our partnership with MeLi is going really well. It's still at a stage, where sales are growing week-by-week. Last week, we had our sales peak with them. We are operating only one distribution center here in Sao Paulo, still working with a limited number of categories, with 1,200 SKUs, distilled beverages and what we call single items. Our purpose is to grow to other distribution centers with Mercado Livre, growing not only our distribution centers, but also assortment and categories. Our side has been -- it has been a successful partnership and we believe that it has been on their side as well, and we expect to grow with that. At this moment, we have no plan to replicate this model to Colombia.

Carlos, if you would like to add to that, please feel free to do so.

A - Carlos Mario Giraldo Moreno {BIO 21611023 <GO>}

Yeah. We do not exclude it in the future, but for the moment, we are very focused on the following projects. First, our alliance with Rappi. We got into an additional alliance for a service of 10 minutes to the households, which is the pioneering Colombia in that, where we are going to open many dark stores to be able to fulfill it. And additionally, in strengthening our marketplace in alliance with the CDiscount, which has a lot of know-how in this expertise.

A - Jorge Faical {BIO 21768322 <GO>}

Question about Cnova, if you could answer that, Guillaume.

A - Guillaume Gras

Thank you for the question. I'd like to remind you what we told you, what we reported in July, which was we expected to -- by the end of the year, susceptible to market conditions, we expected to have a primary offer of about EUR300 million. And that would be to advance Cnova's growth and CDiscount, also including a potential secondary offer, where GPA will have priority rights of 90% according to the agreements that we've signed. This is an ongoing project and will take place according to market conditions.

Q - Bob Ford {BIO 1499021 <GO>}

Thank you.

Operator

Our next question comes from Irma Sgarz from Goldman Sachs, and it will be asked in Portuguese. We are opening your mic Irma, so that you can ask your question. Please, you may proceed.

A - Jorge Faical {BIO 21768322 <GO>}

Irma, please, you can ask your question.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you. I would like to explore a bit the question about the result that is not shown directly in the net income of GPA Brazil or in Exito, it's the line in between the two segments that includes the results of James, Cnova, Stix. And so, I would like to understand maybe a breakdown between these segments. I believe there was a drop based on our calculations in the second quarter, but this drop has been lower in the second quarter than in the first quarter. So, you could break down a bit what are the most significant contributors to that result. And also what segment has contributed to that development in the second quarter? That's my first question.

A - Jorge Faical {BIO 21768322 <GO>}

Would you like to answer that, Guillaume?

A - Guillaume Gras

Good morning, Helena -- I'm sorry. Good morning, Irma. The four business that you mentioned, we have Cnova that has a slightly positive contribution. Now, this data is public. Cnova published this data. And the more -- the areas that have a high deficit -- more deficit are Stix and James in these figures that have recent activities, we just launched them since last year, Stix last year and James two years ago. So, it's okay to have some losses in that -- those activities since there is a ramp up in profitability. Cheftime is close to breakeven, but also contributed to this loss, a bit.

A - Jorge Faical {BIO 21768322 <GO>}

The results of Stix and James, although not -- although negative, they're marginal. They're not significant. It's a bit -- slightly over BRL20 million in total of those activities.

Q - Irma Sgarz {BIO 15190838 <GO>}

And to understand a bit more about your strategy from now on, the idea is -- I understand that you have partnerships with other last milers. So, in the -- what's the role that James will have in the future? I know that the loss is little, but strategically maybe we don't understand what role it will play in the future. I don't know how willing you are to invest in customer acquisition using James or if it has more of a function to fulfill the demands that are coming because of the visibility it gets in the store. In addition to that, I don't know if you are necessarily going after customer acquisition since this is a very competitive market.

A - Guillaume Gras

Irma, we made a strategic decision to be more open and collaborative with new partnerships in December and January this year. That does not mean that James has become less important. There are a significant number of sales in James, in last milers. We learned a lot in this segment and we gain experience in terms of fulfillment. We maintain James. We maintained the sales of James as it used to be before. There was no decline in that. The high growth we had in last milers sales in this quarter is a consequence of consumers that were in those platforms, iFood, Cornershop and -- that they were buying from other supermarkets and other competitors as well as customers that joined the platform. James continues in our business portfolio and there's a strategic change because as we -- and the exclusiveness, James can be a partner with other suppliers and other retail stores and including our competitors. So, it's a highly qualified company with very competent staff and a high level of operation and customer satisfaction. So, James continues to be a company that we value highly in company despite opening partnerships with other last milers.

Q - Irma Sgarz {BIO 15190838 <GO>}

Okay, perfect. Thank you. And this last question, these new partnerships that you mentioned that you started in the last two quarters, how much has been the integration of your inventory? Is it almost real-time with some of them or is it still a challenge?

A - Jorge Faical {BIO 21768322 <GO>}

We have an integration that's still not real-time, it's almost real-time. There are some that are updated every 4 hours, other updated in every hour. It also depends on the technology level that we have and they have for the full integration, especially when it's shipment from store using in-store inventory. So, it's a very interesting question you have asked because the technological integration had made -- has made all the difference and enabled us to put more than 500 stores in operation in a quarter. So, we are advancing together, we're also helping those companies to strengthen their technological background and we're also learning from them a lot. For example, as the promotional engine, today, we cannot yet have a buy two take three, but we'll plan to launch promotional sales with further price integration and inventory integration to benefit consumers, but we are -- integration is growing rapidly.

Q - Irma Sgarz {BIO 15190838 <GO>}

Okay, thank you.

Operator

Next question comes from Andrew Ruben from Morgan Stanley. We'll open your mic, Andrew, so you can ask your question. Please go ahead, Andrew.

Q - Andrew Ruben {BIO 18834624 <GO>}

Great, thank you for the question. I'm curious a bit about Exito low cost banners. Do you see a place for a similar hard or soft discount operations in Brazil? Or if not, any learnings from the low cost that you can apply to other GPA Brazil formats? Thank you.

A - Jorge Faical {BIO 21768322 <GO>}

Excellent question, Andrew. Thank you for your question. This is something we have been reflecting a lot on. Brazil has a competitive environment that is very different from the Colombian competitive environment, where the low cost and hard discounters, traditional European low cost like Lidl & Aldi model work and have been working very well in the Colombian market, not for all of them, of course, but some. It's also working for Exito. In Brazil, the hard discounting in small store services have not proven successful so far. There is no major player in Brazil that had a successful initiative in that format, but low cost in Brazil for large services such as cash-and-carry has been very successful. Cash-and-carry already accounts for one-third of the food market and self-service market in Brazil. It has a one-third share in that market.

So, we did the opposite. We're trying to export to Colombia the cash-and-carry model with the learnings from Assai. As Surtimayorista, also that has been very successful in

Colombia in the low cost segments competition. In Brazil, we have a company being in Mercado Extra formats. They are not high discount. They are soft discount. And this soft discount format is working much better than hard discounts in Brazil. However, we continue to pay close attention to those new possibilities of business that may come into place with the change in the macroeconomic scenario in Brazil.

I don't know if Carlos would like to add to that?

A - Carlos Mario Giraldo Moreno {BIO 21611023 <GO>}

I think it's perfect what you have said. I would only add that what we have been sharing in some models, for example, Aliados, which had an origin in Colombia and today is being replicated in Brazil in a very successful way.

Q - Andrew Ruben {BIO 18834624 <GO>}

That's great color. Thank you.

Operator

The next question comes from Joao Andrade from Bradesco in Portuguese. We will open your audio, so you can ask your question, Joao Paulo. Please go ahead.

Q - Joao Andrade {BIO 21923301 <GO>}

Can you hear me? Okay.

A - Jorge Faical {BIO 21768322 <GO>}

Yes.

Q - Joao Andrade {BIO 21923301 <GO>}

Good morning. Thank you for the question. As for e-commerce, you, Faical, mentioned a very interesting opportunity in terms of penetration, thinking about nine months in market growth. And you mentioned faster deliveries, increased penetration FLV or fresh products in marketplace. What are the highest growth? We're not looking for a silver bullet, but if you could comment on when you're focusing more in terms of growth. And the second question, thinking about leverage, we made calculations. If we compare the performance to Assai with stability, that's stable, slightly growing. I would like to check whether that makes sense. And when do you -- what do you envisage for leverage towards the future?

A - Jorge Faical {BIO 21768322 <GO>}

Joao, thank you for your question. We see several pillars of growth for e-commerce. As you said, there's no silver bullet, but there is some of activities. Perishables is one of them, increasing partnerships is another front. We are far from reaching the maturity level in those partnerships. We have only been through the first quarter with this partnership and -- as we call marketplace out. In marketplace in, we're also in the initial steps. We've been working in that for eight months now. Marketplace is something that's bringing a lot of learning to us, how to deal with sellers, things that other competitors are ahead of us, but we're learning, we're fast learners and we are evolving fast as well.

We're also being encouraged to sell new categories. There are two brands that are widely recognized in the food market, Pao de Acucar and Extra, but these brands can start to sell in other market segments that we can now identify the new categories to bet on, non-food segment that has a high frequency of visits to the website. The website will be one of the next territories to explore. Until the end of the year, we will have major initiatives to explore, new categories that we don't sell today. Added to that, there is a full network effect in the ecosystem platform and we consider that is within our plan that is built for the next five years that I presented in the road show in the beginning of this year.

A - Guillaume Gras

With regard to our debt, in this first half of the year, we have a net debt of BRL4.5 billion or about 1.7 times our EBITDA. And comparing that to one year earlier, excluding the Assai effect, we have a net debt that's slightly larger, BRL500 million, which is because of a very seasonal effect. Last year, we had a substantial COVID impact on sales, which led to suppliers being paid in Q3, something we did not have this year. So, we have this cash deterioration that's very much because of the season and we expect to recover from. Now, excluding that, we have our cash generation, which we expect it to be increasing over the next few quarters, first of all, because of the sales growth that we're seeing, as Joao mentioned, the piecemeal recovery of our business. And what we plan to is to continue deleveraging the company, first, because of the cash generation from the operation and also because of the proceeds that we expect to come from the potential second side of our participation in Cnova or the sale of some of our assets.

Q - Joao Andrade {BIO 21923301 <GO>}

That was perfect. Thank you.

Operator

Well, with that, we are now concluding our Q&A session. Thank you for joining us. And I will turn the floor to Faical for his final remarks.

A - Jorge Faical {BIO 21768322 <GO>}

Well, once again, I'd like to thank all of you for joining us in our Q2 earnings call. This was a quarter that was defined by a lot of work adapting to the new realities of changing consumer habits, a consumer that is less wealthy, a consumer that's looking for new solutions and which is also looking for adaptations in their own life. We believe that our results were able to maintain what we had promised in our last few calls. They were consistent in terms of profitability. This was not a typical quarter and it took a lot of effort to maintain these results. We had several results regarding our top line and also our sales, but even still we were able to go from a net profit last half of the year from BRL100 million to BRL94 million over these last few months. So, in the past six months, we grew about 12 times what we grew last year. Obviously, there are some issues in the comparison between these two periods that have to be taken into account, and not only the second quarter in particular.

I must thank the entire GPA team, not only our stores team, which has gone over and above to have a less -- or an operation with less resources, but also our leadership team at GPA. We are about to have two years working in an integrated, mature and engaged way with a very experienced team of people that will ensure this business continues moving forward to the future. So, I'd like to thank our entire team. We have all of them here listening to our earnings release and we expect -- all of us expect to have a better country moving forward. So, thank you, everyone.

Operator

The earnings conference for GPA's second quarter results is now concluded. The team of leaders is available to answer any remaining questions. Thank you for everyone who joined us, and have a great day.