

## Q3 2020 Earnings Call

### Company Participants

- Carlos Mauad, Chief Executive Officer, Banco Carrefour
- Jose Roberto Meister Mussnich, Chief Executive Officer, Atacadao
- Luis Moreno, Chief Executive Officer, Carrefour Retail, Carrefour Retail
- Noel Prioux, Chief Executive Officer
- Sebastien Durchon, Chief Financial and Investor Relations Officer

### Other Participants

- Analyst
- Andrew Ruben, Analyst
- Daniela Bretthauer, Analyst
- Guilherme Assis, Analyst
- Irma Sgarz, Analyst
- Joao Andrade, Analyst
- Joseph Giordano, Analyst
- Robert Ford, Analyst
- Ruben Couto, Analyst
- Tobias Stingelin, Analyst

### Presentation

#### Operator

Good day, ladies and gentlemen, welcome to Grupo Carrefour Brasil's Third Quarter 2020 Earnings Conference Call. This video conference is being recorded and broadcast live on the Investor Relations website at [www.grupocarrefourbrasil.com.br](http://www.grupocarrefourbrasil.com.br). A slide presentation is also available on this website (technical difficulty) Now we are back to the growth at braids [ph] of defo and delinquency that are very low, which will ensure a very positive contribution for our next earnings. To summarize, everything that we shared gradually to all of you in recent years is now truly being deployed and implemented and I firmly believe that a truly integrated ecosystem will bring a better value proposition to customers ensuring future growth. Thank you for joining us today. And now, I give the floor to Sebastien, who is going to give you more detail on the figures.

#### Sebastien Durchon {BIO 20242758 <GO>}

Thank you, Noel. Good day, ladies and gentlemen. It's great to be with you today to present another quarter of excellent results in our ecosystem. On Slide 3, I will briefly comment on the main figures that you received yesterday. Firstly, let me highlight to the

FINAL

gross sales which reached BRL19.3 billion in the quarter increasing more than BRL4 billion compared to the same quarter of last year, excluding petrol, gross sales increased by 30% with an amazing growth of 26% in like-for-like. We haven't seen such high growth for a while and it stems from a historical like-for-like of 25.8% with Atacadao driven by the successful agility of the commercial policies since June and also with the reopening of bars, restaurants, and the continuously strong flow of C2C customers. Added to that we also had a continuously strong phase in retail which posted like-for-like growth of 26.6% on top of an already strong comparison base of 8.8% in the third quarter of 2019. This growth trend both in Carrefour and in Atacadao continued in October with rate above-food inflation confirming that our multi-format and multi-channel model is in a very positive virtuous cycle. The significant sales volume combined with efficient cost control generated a strong dilution of fixed costs, and our adjusted EBITDA grew by 51% in Atacadao and 62% in Carrefour.

On a consolidated basis, adjusted EBITDA exceeded BRL1.3 billion growing by 18.6% year-over-year, generating a margin of 7.7%. In addition to the very strong growth of Atacadao and Carrefour as I mentioned before, were also impacted by an outstanding provision in the bank and I'll comment on that over the next slides. Our adjusted net income was BRL757 million this quarter an impressive leap of 73.1% year-over-year.

This quarter, our adjusted net income accounted for 4.3% of our net sales growing 1.2 percentage points year-over-year. The last point that I want to highlight is our capital structure, which remains very healthy and brings us a lot of leeway into the future. We are working very hard to improve our capital structure, which is based on using our strong cash generation of the last two quarters to lower the use of receivable discounts to fund the operation. We also decreased the financial interest and improved our financial efficiency.

In addition to making a funding reserve totally slightly more than BRL1 billion for the future. As a result, our net debt by the end of the third quarter was BRL4.4 billion and our balance sheet remains healthy. Even including the debt with rents, which stems from the effects of IFRS 16, the net debt over EBITDA ratio remains at low levels at 0.82 times excluding discounted receivables and one-time including the same receivables. On Slide 4, I would like to talk about Atacadao's highlights. As Noel mentioned this quarter, our cash and carry unit proved to be the most efficient food retailer in the country, and probably one of the most efficient in the world. Gross sales increased by 31.3% generating amazing like-for-like growth of 25.8%, the greatest growth in the recent history of Atacadao. Like I said before that's a reflex of our great commercial agility and unique efficiency of our model allowing us to adapt to any context. Since June, the commercial dynamic is very good. We're opening bars and restaurants, which increased sales for B2B customers and maintaining B2C customer flow. As a result, of this mix with higher share of B2B, we see the gross margin gradually slowing down and maintaining virtually flat year-over-year at 15.1%. The significant volume growth diluted fixed costs and this quarter accounted for only 7.1% of net sales, improving 1.2 percentage points and one of the lowest distribution costs in Brazil. The relentless search to improve our operating efficiency allowed us to have an EBITDA of BRL984 million in the quarter an amazing increase of 51.4% year-over-year. A margin of 8%, one percentage point above the same period of the previous year.

FINAL

Here in Atacadao, we also need to talk about digital services, which were launched in mid-March and are gaining momentum fast. Marketplace already account with over 300 sellers and our partnership with last mile delivery services is already present in 23 stores in 11 different states and that's only the beginning of this successful story.

It's important to say, we are building a tailor-made e-commerce for Atacadao, which is positive and profitable since day one and delivering and overcoming our expectations. On Slide 5, we highlight our main achievements in retail, which has been reaping the fruit of the virtuous cycle provided by its finally executed omnichannel strategy and the gradual change in the business model.

This quarter, we increased again twice the market and our like for like ex-petrol and including e-commerce reached 26.6% on top of a newly double digit comparison base. Growth was strong both in the Food segment with 15.4% like-for-like growth way above food inflation and also in non-food reaching 43.6%. This becomes even more relevant if we think that nearly all retailers were open. They are open now in the third quarter. We are gaining market share, particularly in the hypermarket model with gains of 1.9 percentage points according to Nielsen. Also increasing our share in the consumer basket. The number of SKUs in the hypermarket basket increased by 14%, 25% in supermarket and up to 33% in Express. And a share of wallet in September of significant increase of 32%. With that we are also supporting our customers to safe and have a better healthier diet. Private label products posted total volume growth of 22% and this is even more relevant if we focus only on large consumer products, which achieved 35% of volume growth in the quarter. Penetration of private label products in retail sales was nearly 14.7% in the third quarter, the highest ever and approaching us to our goal o 20% penetration by 2022.

Lastly, we see our non-food business continuing to post strong growth for the second year in a row, growing 37% in multi format in the third quarter compared to the same period of the previous year. Here we have to highlight home appliances and consumer electronics, which increased volume, 47.6% and textiles and Bazaar growing over 30% each. And crowning this new virtuous cycle, we launched our new loyalty program together with the new app and I'll be talking more about it on Slide 6.

Approximately 2 years ago, we started a gradual but deep transformation in our retail customer centric always trying to deliver the best solutions to them, simplifying our operation, improving our efficiency and investing massively in innovation. Now as a segue to the new promotional dynamic, which started in Q2 in our retail stores. In November, we launched our new loyalty program and the new app My Carrefour, which brings even more to our Carrefour Brasil acquisition with more than 20 million users registered in the former program, we are connecting single side all Carrefour format online and offline. The new functionality My Rewards is the major highlight. Our reward program truly wants to bring benefits and savings to our customers and also ensure consistent growth in our share of wallet and therefore our sales. That goals to accumulate virtual coins are fixed and based on the customer purchase history and the limit of budget encouraging them to keep on buying. Discounts are customized and we use data and artificial intelligence to suggest products like private label with a 100% discount providing customers a first contact with our products. Awards can be exchanged by rebates or vouchers in our stores, in our partner stores like Boticario, Outback, Chilli Beans and others. Another feature is

FINAL

Cybercook connectivity. Whenever the customer searches for an ingredient, the application will automatically connect with the recipe platform and the customer will be able to access suggestions for quick and easy dishes and tips on reusing food. By year--end, we'll integrate the app with Scan & Go enabling clients to pay their account using the app and Banco Carrefour app enabling customer access to features that are already used in the bank's existing app. The technology of our app is a 100% proprietary and built to be easily integrated with other partners and retailers, always keeping an eye on the future of our business, this is another key step connecting even further our ecosystem and provide solutions and bringing savings to make it easier for our customers.

Moving now to Slide 7, we will be addressing e-commerce with continued high growth trajectory. For the second quarter in a row, we maintain the level of approximately 900 million GMV, a record level and even higher than Black Friday last year. For the last 12 months, our e-commerce posted a total GMV of BRL3.2 billion, sales equivalent to slightly more than 20 hypermarkets, not bad for an operation that only started 4 years ago.

Our growth of 86% year-over-year was driven by significant 202% [ph] of food and continuous growth shown by nonfood, which increased nearly 70% including the reopening of brick and mortar stores in other retailers. Our level of service was a differential this quarter with nearly a 100% of orders delivered on time. Important to say that our business model was designed to be profitable to the company.

The acceleration of e-commerce brings us closer to the breakeven point to the segment at large. Once again, our website ranked 7 in E-bit visit score, which is an evidence of a strong footprint of Carrefour in the digital world and showing a change in consumer habits of Brazilians despite easing of some restriction measures in order to provide better experience to our customers. Like Noel said, in October, we launched a new platform with agile methodology based in a new architecture concept, which is more friendly now. On Slide 8, as a result of several initiatives that we implemented in retail and considering the current moment, we maintain the trend of gains in gross margin and EBITDA on an annual basis. Our expense ratio had a significant reduction of 200 bps greatly contributed to a leap of 62% in adjusted EBITDA.

Gas stations and galleries already beginning to show a positive performance vis-a-vis the second quarter, but still at lower levels year-over-year, which is not a surprise. Considering the current context, important to say that the recovery in the future in both activities will support our future growth.

Now on Slide 9, let us talk about Banco Carrefour. We confirm in Q3 the trend to recover - recovery trend found in June reaching a significant sales growth of 16% and good performance of onus and offers [ph] portfolios and proving the resilience and execution of the bank for a new growth cycle considering that Western Criterion [ph] will turn out to be the fifth largest bank in the country in portfolio balance granted by credit cards.

Our bank also continues the strong digitization started two years ago an average of 66% of use of online channels by active users in September. In addition, 32% of new acquisitions happen via digital channels.

FINAL

On Q3 however, we still see the effects of a more conservative approach in the beginning of COVID-19 crisis and client's tendency to finance their portfolios went down having an impact in the short term on our revenues. Along the same lines also an impact of the additional liquidity program and emergency aid launched by the government, which accelerated amortization.

The quality of our portfolio was greatly improved in Q3 over 90, went down 1.3 percentage points vis-a-vis Q2 and over 90 went down 3.2 percentage points respectively coming back to 11.8% and 13.8%. A level comparable to the first quarter -- the end of the first quarter of this year, considering the current scenario and being conservative. We prefer to use this third quarter to make adjustments in provisioning IFRS 9 particularly vis-a-vis over 365 day receivables. The risk burden increased 47.6% reaching BRL372 million including exceptional provision of BRL180 million. Consequently our provisions totaled by the end of the quarter nearly BRL3.8 billion and slightly more than 30% of the total IFRS, SG&A cost closed the quarter nearly flat confirming the hard work performed in recent months to digitizing our business and become even more efficient. Adjusted EBITDA was nearly zero this quarter including the exceptional provision of BRL180 million that I mentioned. On a consolidated accumulated basis, adjusted EBITDA total BRL432 million. This performance is very resilient in a year with the COVID crisis. We close the third quarter very optimistic in our bank.

Strong digital initiatives, several new business reaching the launching phase, clear signs of rebound in sales, a pre-adjusted provisioning model and a -- an optimized cost structure. Our bank has everything to get started now in a new growth cycle. Finally on Slide 10, I would like to highlight what we've been doing in two fronts that are extremely relevant to the group. People and sustainability. We were one of the few retailers to keep all initiatives made since March to ensure a healthy and safe environment to our clients and employees. And although the contagion [ph] rate of COVID-19 has improved in Brazil, we are the first retailer in Brazil to receive international My Care label. As far as sustainability. We had a significant reduction of 17% in carbon emission in the first half of 2020.

In October, we gave another step with a partnership with Green Farm CO2 Free in order to neutralize a 100% of new CO2 emissions. We also strengthen our global commitment with zero deforestation and you already have 80% of our beef and meat volume monitor, it's expected to reach 100% by year-end. We're also strengthening governance including contracts with the provision on zero deforestation and expanding this policy.

In addition, we also closed partnerships with NGOs like WWF and NWF to enhance the monitoring of direct and indirect suppliers. With that, I give the floor back to Noel for the final remarks.

## Noel Prioux

Thank you, Sebastien. So this concludes our presentation and the take home message to you is that we implemented structural initiatives in our ecosystem and they are clearly contributing to very consistent results. We are confident that even though we benefited from unprecedented conditions, we came out of this crisis much better and stronger and we made achievements that will stick to us. We managed to expand, to go digital with our

customers and increase our private label share and begin a cultural transformation which involves IT, people but mostly with a consumer-centric approach.

And also in a fast streamline decision-making processes and this was all possible without losing track of sustainability, which is embedded in the values of the group and as a result, we have more NPS, more growth, more clients with power to access our ecosystem and lastly more share of wallet.

Thank you very much for your attention, and now, we can start the Q&A session.

And I'll be joined by Sebastien, Roberto, Marco Oliveira, Luis Moreno and Carlos Mauad.

## Questions And Answers

### Operator

Ladies and gentlemen, we start now the Q&A session. (Operator Instructions) The first question is from Daniela Eagr [ph] XP Investments. Daniela, over to you.

### Q - Analyst

Good morning, everyone. Thank you for taking my question and congratulations on the results. I have a couple of questions. The first question is about the sales performance. Truly it was very strong both in retail, and also wholesale. What's on your mind for the future in terms of evolution of sales over this quarter. We already have nearly half of the quarter past. So what about 2021 more specifically with Atacadao? How do we envisage the base for 2021? Is it strong? Should I expect to see a drop owing to the emergency aid. I know it's hard for you to estimate the real impact.

But I believe it existed and also because there were more people eating at home and therefore driving supermarket sales in general. So what's on your mind now, when it comes to sales evolution going forward? As for e-commerce, I would like to understand, you say that the result would be positive, the operation would be profitable already considering the contribution it has to the financial area. But if we exclude this contribution, when do you expect it to reach the breakeven point. Thank you very much.

### A - Sebastien Durchon {BIO 20242758 <GO>}

Roberto maybe you can answer the first part of the question.

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

Good morning -- good morning, everyone. Thank you for your question. It's true, we don't have an outlook yet. We cannot give any guidance. We don't know exactly what will happen in the future. What we really saw was an extremely well prepared business model like we always say to tackle any kind of crisis with good leaders also we are prepared to act regardless of the circumstance and respond to the market.

What we witness today is a segue to this model. The purpose is very clear. It's a model focused on price and also to supply top quality food for fair price. And we don't believe that a decrease in this emergency aid by the government might effect or impair our sales. Naturally, this is very welcome. It does help us but it's also clear that despite the reduction there was not a drop in growth and our stores and the business as a whole remains healthy and growing very strongly.

Maybe at unprecedented rates. So it has to do with the discovery of the model in Atacadao particularly vis-a-vis end consumers and also traditional clients and merchants. I don't know if I answered your question about Atacadao.

### **Q - Analyst**

Crystal clear.

### **A - Noel Prioux**

Just adding to Roberto's answer, I think what we can say right now is that to date October, early November. We don't see a change in the sales trend. We continue to have a similar trend as we had in Q3 both in Carrefour and also in Atacadao.

### **Q - Analyst**

Excellent clear.

### **A - Noel Prioux**

As for e-commerce, overall speaking, so [ph] I think it's clear that we are profitable and in the bank, we are very close to the breakeven point and it's interesting because we want to accelerate, we change the platform, these involves additional costs. But if we put it all together next year, we can have positive impacts. So it was a hard job to find a sustainable model, a growth model and also profitable. So that was our philosophy, which allowed us to accelerate today. It was important to switch platforms. And now that we have this new platforms with some adjustments we'll accelerate even more. And this is also good news for the future.

### **Q - Analyst**

It's clear, thank you very much. Congratulations.

### **Operator**

The next question is from Ruben Couto with Santander. Please go ahead.

### **Q - Ruben Couto {BIO 20636571 <GO>}**

Good morning, everyone. I would learn -- like to learn more about Banco Carrefour. I understand that with this increment of provision this quarter. It's similar to the level of the first quarter of this year, but still below and behind the second quarter of last year. So I'd like to understand if we expect to see more provisioning of the same level in coming

quarters or expected improvement in this delinquency trend. And therefore, it wouldn't be necessary to increase provision as it happened this quarter, just trying to understand it was one off or if that's a move of higher increase of provisioning in the coming quarters. Thank you.

**A - Sebastien Durchon** {BIO 20242758 <GO>}

Thank you for the question. Thank you. This effect that we see in Q3 is a one off effect related to LGD which has a higher share in over 360 day loan. So as of now, we expect to see a drop in credit or loan cost in the P&L of the bank. That's a trend in terms of this cut off provisioning that we've been working over 2020. So now we hit rock bottom and we start to create efficiency considering the cost of credit.

**Q - Ruben Couto** {BIO 20636571 <GO>}

Great, it's clear. Thank you.

**A - Sebastien Durchon** {BIO 20242758 <GO>}

Thank you.

**Operator**

The next question is from Joseph Giordano with JPMorgan.

**Q - Joseph Giordano** {BIO 17751061 <GO>}

Hello, good morning, everyone. Thank you for taking my question. My first question is addressed to Luis. I would like to know more about digital actions in retail in Grupo Carrefour? How are you moving ahead in terms of loyalty in Grupo Carrefour? And what about checkout identification, special promotions and how does it communicate with the bank? And my second question is to Mussnich. Performance was really strong in Atacadao. I'd like to better understand to what extent this is may be the result of an expansion in your delivery system. We can see you offering more delivery services in other markets, so does it contribute to your growth and to have more customer loyal to you. Can you identify, for example, individual tax payer number through this new channel? Thank you.

**A - Sebastien Durchon** {BIO 20242758 <GO>}

Thank you for your question. Luis?

**A - Luis Moreno** {BIO 20821019 <GO>}

Thank you for your question. Joseph. First, our focus -- fundamental focus is to increase share of wallet. We already had an increase that is very significant of share of wallet in Q2 and now again in Q3. Like I said 32% increase in share of wallet and how do we measure this increase. This is based on our customers that are identified. Today more than 70% of our sales come from identify customers. And like Sebastien said, we have more than 20 million customers registered. Our purpose is that our customer manages to have savings by buying everything at Carrefour and when we speak of Carrefour, we refer to the whole



FINAL

ecosystem. So now with the new app, the new Reward program. At the end of the day, we can encourage customers to focus -- all their customers be it [ph] in our different format of brick and mortar stores or online stores or our gas stations, our drug stores and also a factor of acceleration of goals when they pay using the Carrefour card. So this connection that we start having now is a new possibility for customers to have savings in their total expenses by concentrating in the Carrefour ecosystem, it's very relevant and we believe, it's going to accelerate even more the significant share of wallet gains we had in the last 6 months.

For instance in Banco Carrefour, we know how much of customer expenses with cards are within Carrefour stores and how many expenses happen outside Carrefour and also the categories in Carrefour and outside Carrefour. And now we can also communicate individually with our customers and clients to encourage all these expenses within our Carrefour ecosystem.

So that's the general purpose. We also work on data a lot like Noel said. Now we are launching some personalized samples of our private label products and this happens via information, data and we estimate which customers would be prone to be converted for new product categories via private label products, so they have a product for free, to test, try the product and maybe then repeat the purchase and we immediately measure the repeat purchase index with this kind of sampling.

So this is only the beginning. We have a lot of other actions for the future, but that's already a big step to connect the whole ecosystem and generate value in every point of content -- contact in this ecosystem. Thank you.

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

Thank you, Joseph. Roberto speaking now. Thank you for the question, Joseph. If I understood you correctly, I'll break my question into 2 parts. First, you have to consider all the wholesale or merchant sale in Atacadao and this wholesale sale which happens through distribution and our capillarity in 100% of Brazilian states more than 1700 sellers on the streets today and we have a relationship with them and we also have their feedback, constant feedback of their needs. Agility in communication, a short path in communication and agile models allow us to adapt this supply to try to serve better and better these merchants who are our focus and our target.

With regards to your question about the digital method that we work with, the answer is yes. Yes. We identify customers and we can act particularly via the bank and via the Atacadao card, we can also interact with them. Please note that in the digital path of delivery today with our current platforms. It is not mature yet. On the chart that Sebastien shared, we had 23 stores in the third quarter. Now, we already have 49 stores and we have a very strong rollout. Although sales are a 100% incremental and last month we cater to more than 40,000 customers, which is an outstanding beginning.

And now an exponential progress. Now with regards to total billing, the digital channel is still small. There is a lot of room for growth and the potential is huge. And the way how we deploy this, Sebastien talked about it with results from day one, the first order, the first

delivery, this is extremely positive to us. It's a good measure and we didn't think about the future, we thought about the present at first, there is a market in the present and we are creating the future. The present we ensure the future and the present time shows that this is an excellent business. We are working on it step by step very smoothly with the people we have, with a simple mindset without diversifying too much because if you diversify too much, you can lose your focus. But sticking to our focus and our purpose. The future is promising and good but growth comes exponentially via digital channel. I hope, I answered your question, Joseph.

**Q - Joseph Giordano** {BIO 17751061 <GO>}

Perfect, thank you Roberto and Luis.

## Operator

Our next question is from Daniela Bretthauer, Eleven Financial, Daniela. Please go ahead.

**Q - Daniela Bretthauer** {BIO 13380169 <GO>}

Good morning, everyone, congratulations on the earnings. I would like to ask Mauad about the bank. This strength in -- or stronger provision that's something we see in trends in several banks. It has to do with higher cash payment. We saw that with Itau and also other banks.

So I'd like to know if it was also a factor to you. You mentioned in the earnings release, the drop in interest revenues, I want to know if this consumer behavior in other words, decided to pay more and did you have a difference in the financing term, and what about the future? How should we consider the trend of the bank for the future? It's clear based on your previous answer about the additional provision. But what about consumer behavior in terms of instalments, payments, increasing the number of payments, so that's my first question about the bank, and then I have a follow-up question about the bank.

**A - Carlos Mauad**

Thank you for your question, Danny. It goes as follows. Today, you're absolutely right. With this incremental liquidity in the market that was given by the emergency aid in the Brazilian economy, the trend to go for financing in credit card portfolios went down. So payments naturally increased since the beginning of the crisis and to the closing of the third quarter. So what was happening already. In credit cards, you depend on the number of the balance to bring protection to future financing, we had already seen recovery in revenue lines, top line also a recovery in credit, hedge or protection. So the swap-in in the accrue portfolios, we already see signs of recovery, naturally in billing, which is the first sign showing that this trend will gain more momentum.

So when it comes to trends, Danny, we are comfortable with this return and the portfolio is a good evidence of that. So, all indicators related to revenue like billing, trend to provisioning, accrued portfolio, credit provision all these indicators are showing us that early second quarter, we'll hit rock bottom when it comes to revenues too. So I feel very

comfortable now to share a very positive outlook for Q4 of 2021 when it comes to -- coming back to the top line of the bank.

**Q - Daniela Bretthauer** {BIO 13380169 <GO>}

Thank you. It's crystal clear now. Now I'd like to know more about other digital initiatives the bank has to foster the ecosystem. Could you tell us more about digital portfolio, what about payments? Everybody now with its own Super App cash back policy, could you tell us more about these initiatives?

**A - Noel Prioux**

With regards to the digital wallet, over 2019, we build a digital acquisition structure, which has proved to be very strong already accounts for one-third of total acquisition of the bank's customer in the closing of Q3. And digital channels related to customer service, so everything related to service, cross-selling, the sale of products to our installed customer base, everything is very solid within our digital channel strategy.

With regards to initiatives related to the Super App, there is a significant roadmap to be run in terms of embedding the bank system within this sub-business that is just about to happen between this week and next week and that for clients who have or hold the card, so they can have access to their information via Super App and we are also building another option of redemption of the virtual clients or the rewards as cash back in the digital wallet, so we already have MVP and we also expect to roll out our digital wallet solution with a revolving line to be use on us.

In other words, only in our area this year for a 100% of our physical structure for Carrefour and Atacadao is a means to increase approval rates in our flow of customers in our major formats, hypermarket and Atacado and also accelerate consumption in our merchant structure via a specific credit line to margins, so these are the main digital initiatives connected to the bank and accelerating retail in Atacado.

**Q - Daniela Bretthauer** {BIO 13380169 <GO>}

Thank you. And if I may, a last question. And this is for Roberto about Atacado. It has to do with competitiveness, in reality gross margin was nearly flat in the third quarter. So how do you see this competitive atmosphere, which has had Grupo Mateo [ph] listing in the Northeast, so do you see any difference in the competitive scenario Roberto by region?

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

Daniella. Thank you for the question, the answer is no. Competitiveness is increasing and you know it, everybody can see that cash and carry is common everywhere. The value proposition is different from our competitors and the evidence is a good understanding by customers in general. They notice the difference of our model. What is unique in terms of current competitiveness today is that we have to get better and better. I can see that we are managing to do that. A lot of motivation. We're also very humble to understand that we have to be adapting day by day. We have to adjust to the market and that's an additional challenge, no doubt about it. And we did it all based on good leaders. We have a very good structure all over the country, not by region. There is no specific region that

change dramatically the competitive scenario, so this is part of life not only this year, so that's a means to be continuously improving.

**Q - Daniela Bretthauer** {BIO 13380169 <GO>}

Your cost structure with 8% [ph] of net sales actually is a competitive edge. You have your own real estate and all the qualities Atacadao had. Thank you very much for taking my question.

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

Thank you. Thank you for noticing and appreciating our efforts.

**Operator**

Our next question is from Robert Ford with Bank of America, Robert. Please go ahead.

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

Good morning, everyone, congratulations on the results. Roberto, how could we consider the reduction for Atacadao that's for corporate tax payers numbers or should you also include individual tax payer number. Now, you closed some Carrefour Express stores. What are your thoughts about convenience and Express during the pandemic, and also in the long run.

**A - Noel Prioux**

I'll answer first, Noel. Robert, thank you very much. When it comes to digital and Atacadao, we are doing or we are following our process design. In other words, we understand this channel is a sales and communication channel that's an additional channel to our customers. Providing better access. All our channel on the website is B2B. We don't have digital initiatives on our website or our marketplace for B2C. So we are working on B2C platforms Rappi, Cornershop, iFood to be oriented to B2C and we have this partnership that we close and also design and customize partnerships with all these folks in order to meet their needs, so they can also deliver good results. In B2C I repeat, last month we had 40,000 new customers, which is small in terms of numbers, but it's very significant if we consider the short timeframe it happen. So that's a very encouraging process for B2C.

And the way we do it like I said in the beginning, this is not via investment. This is only the direct result to our Atacadao. So we expect to see good growth rates in both channels. Luis?

**A - Luis Moreno** {BIO 20821019 <GO>}

Thank you for the question. You want to know about Express stores, convenience stores. It's important to say, and also we have the office flow and also homes. Two-thirds of our Express stores are in shopping malls and also in office and residential areas. So we have in terms home office (technical difficulty) closer (technical difficulty) selected locations and within the standards of location or a small percentage of air regardless of the COVID pandemic. So we are working on new models, our proximity stores and also including a

store known as (technical difficulty) known as proximity stores. And we are working on new models, our proximity stores and also the autonomous store.

**A - Sebastien Durchon** {BIO 20242758 <GO>}

Do you have sound problems? Are we back? Natalia. Luis, we had a connection problem. Would you mind repeating or starting again, please.

**A - Luis Moreno** {BIO 20821019 <GO>}

I don't know what was the last part of the answer. We're also testing another type of model and we're going to test autonomous inside buildings and residential areas and the first one will open by year-end.

**Operator**

Our next question is from Irma Sgarz with Goldman Sachs.

**Q - Irma Sgarz** {BIO 15190838 <GO>}

Good morning. Thank you for the opportunity you to ask my question. Quality is not exactly good about the connection. So I'll ask my questions. I hope you can hear me well. Could you tell us more about what you're doing with the use of IT inside the stores? Sebastien, well they said in the beginning of the call. That you focus a lot in innovation for the last 2 years to serve your customers in the pandemic, I believe you even accelerated some initiatives to be deployed and provide more services or efficiency or more awareness in terms of running the stores. So I'd like to hear from you about whatever was already deployed, and what's yet to come. When it comes to the use of IT in the store's operations or brick and mortar's operations. And the second question is an update about the macro integration. Thank you

**A - Sebastien Durchon** {BIO 20242758 <GO>}

Luis, would you like to begin addressing IT and then we can share more data and e-commerce?

**A - Luis Moreno** {BIO 20821019 <GO>}

Some applications of IT in the store have to do with algorithms for instance resupply. We're still fine tuning everything related to SKU flow. And this is working fine. However, I don't think we can tell much difference what is IT within or outside of the store. A lot of the IT we offer to our customers for instance in the Super App is a hybrid. It happens inside and outside the store. These are functionalities that can be used by customer and they support in brick and mortar stores, but also providing access outside the store.

In the app, we're also going to include the feature of Scan & Go. This feature will be available by year-end. We have a pilot phase in some proximity stores and customers can scan their purchases and leave the store without going through the check out. The same feature will also be used in the first pilot store.

So these are the highlights. But I believe it has more to do with the use of data, personalization and also how we interact with customers, with more individualized proposals that really make a difference in our share of wallet. Thank you.

#### **A - Sebastien Durchon** {BIO 20242758 <GO>}

Thank you, Irma. Roberto two minutes. We also dramatically changed the organization. We cannot address IT and innovation without changing people's mindsets and profiles. We dramatically changed our IT architecture to be more agile. We started that two years ago when the bank started to work on agility and squads. So we are also making use of this model. It's not only IT, but it's a cultural aspect that we change fast to adapt and provide faster solutions than before.

And that's very interesting today, but also for the future and this is why we also integrated the app. We had decided for instance to outsource it but not now, it's in-house because it allow us to respond to demands within minutes and this is so interesting and like Luis said the use of data. When you have a brutal change in customer behavior, it is so important to make good use of data in order to check the real impact of the change in the commercial model.

It is important to constantly be validating all these differences and that's a decision we need to check the kind of impact on what kind of customer, what kind of city or store or category. So it was impossible two years ago. But now, we have an organization, which allows us to have a global view of the customer and this is so important and we are investing more and more to have more information and make use of information above everything else.

#### **Q - Irma Sgarz** {BIO 15190838 <GO>}

That's cool, interesting. Thank you

#### **A - Sebastien Durchon** {BIO 20242758 <GO>}

Roberto.

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

Irma. Good afternoon, good morning. As for macro, macro is doing fine after 15 days of CADE's approval period, we started rolling up our sleeves. Naturally, COVID does impair a little administrative matters pertaining licenses and permits for instance. But we are at a good pace, we already have 10 stores under construction, we are just waiting for construction to come to an end to over the stores and we consider to open 20 stores this year, we are pursuing these 20 stores go and as for 30 in macro by the first half of next year, they will all be up and running at full speed.

But 10 are already in progress and we expect to start working on the remaining 20 until the end of the year, these are more related to administrative things about permits and licenses, but we are doing it fast.

**Q - Irma Sgarz** {BIO 15190838 <GO>}

Perfect. Good luck.

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

Thank you.

**Operator**

Our next question is from Tobias Stingelin with Citibank. You may proceed, Tobias.

**Q - Tobias Stingelin** {BIO 18290133 <GO>}

Good morning, everyone, congratulations on the results. This question was asked at the beginning, but not necessarily the same way. I know the outlook is very uncertain for next year, a number of variables and you're doing fine, but if we think about high level, year 2021. How do you envisage it? How do you think or consider building a budget, taking all these changes into account you have a lot of strings. Maybe some behavior changes will also happen. You're adapting well. So, how do you envisage year 2021? Thank you.

**A - Noel Prioux**

I believe we can be reasonably bullish about next year. The economy is showing signs of recovery. We are working on actions that will bring an even stronger impact next year. Like I said, we are building the future savings. We also help consumption, and when we talk about emergency aid and care a lot was not for consumption, but also for savings. And then we had this breakdown about food and non-food and drugs. And we also try to accelerate because we'll be integrating macro and naturally next year will be a year of acceleration. So we are reasonably bullish. We don't know what will happen. But, I'll say, we have nine months of visibility and it all depends on circumstances. But if there are no significant changes we can grow quarter-over-quarter.

So our vision is positive for the future. The answer is yes.

**Q - Tobias Stingelin** {BIO 18290133 <GO>}

Thank you. Another question. This time to Mussnich. When it comes to the mix between B2C and B2B in Atacadao clients. What is the progress year-over-year? This year? Last year? About a comparison now about this evolution.

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

Thiago there is not a big difference, vis-a-vis last year. Behavior was slightly stronger at the end, with fewer visits owing to the pandemic. However greatly increasing the average ticket. Demands in general or products remain the same. Some regions have a slightly stronger trade down switching some brands for just as good, but not so prestigious brand, for instance, not the top brand, but that's a natural trend. And the search for staple products, when your pocket is affected people go back to simple things. They prefer or to

cook at home rather than buying processed foods, but nothing so significant in terms of year-over-year. That's not such a different base.

**Q - Tobias Stingelin** {BIO 18290133 <GO>}

Thank you. Can I just ask a quick question, what about performance in different regions, is it homogeneous when it comes to sales growth?

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

Some regions and states are much stronger owing to the maturity of the model. If you consider Atacadao for instance, in 2007, when it was acquired by Carrefour were present in the South, Midwest and Southeast and then we went very strongly in North, Northeast in 100% of the country.

Some states in Brazil are still growing more. So that's normal. I don't believe it will be so different. They are all extremely positive but even more mature states, there is the beauty of the model to be discovered and once people find it out and if you are happy when they look at what they are buying -- buying more for less at the checkout, they come back and become happier.

I know it sounds redundant, right, but it all bias down to loyalty. We don't want to -- well we want to have regular customers not only customers and all we have our regular customers.

**Q - Tobias Stingelin** {BIO 18290133 <GO>}

Thank you.

**Operator**

Our next question is from Guilherme Assis with Safrá. Please go ahead Guilherme.

**Q - Guilherme Assis** {BIO 16143141 <GO>}

Hello, good morning, everyone. Thank you for taking my question. Actually I have two questions to ask. I didn't listen very well because I had a problem in my connection and the quality was not so good. I'm sorry, if I'm repeating a previous question, but what about Atacadao's marketplace?

I would like to understand more about the sellers that you're bringing to your base. What is the profile and the kind of SKU that you're bringing, and what is the strategy? In terms of bringing marketplace to Atacadao's business. Could you tell us more about it? And also about the rollout of the strategy, when do you expect to be up and running with this platform? I know this is live. But I would like to understand more about the rollout, these are my questions.

And the second question, I'm sorry, should I ask the second question now or later?



**A - Sebastien Durchon** {BIO 20242758 <GO>}

It's up to you.

**Q - Guilherme Assis** {BIO 16143141 <GO>}

Okay. So let me ask the second question as well. I believe one of the great readings about your earnings, is that your sales performance is really strong. And it brings an operating leverage both to Atacadao, and also to retail. In Atacadao more specifically, I would like to be provocative. I know it sounds very clear and obvious including your statement in the call about this low cost business model. But my question is the following. Do you believe you could invest in some sort of service in Atacadao, an additional service in the store in addition to e-commerce and all the initiatives, you mentioned?

Maybe a change in the level of service inside the store benefiting from this big operations lever to set the model, even more apart. And if you believe this is possible what kind of service do you believe would make more sense to include inside Atacadao stores to attract more customers, and make them more loyal?

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

Thank you for the questions. Let me begin to talk about the last two. So the first question is about the logics behind marketplace at Atacadao, and our integration with (inaudible) [0:01:37.8] which is a platform that runs our marketplace, and also our (inaudible). It's plain and simple. From the very beginning all we wanted was to provide customer the best solution.

We are aware of our efficiency. But we're also aware that B2B partners, are partners that serve B2B, also have opportunities that we may not have. So the idea was always to give the best cost solution to our customers. If you get into a (inaudible) now you see our marketplace partners are wholesalers, in general, and overall speaking they bring in more marketplace partners, but anyway they are wholesalers also providing solutions to the same customers we have. And at the end of the day this has to do with an effort to be more efficient and effective in our supply.

Secondly about services that something I learned in my career for many years now which is keeping your focus. I believe a clear focus on Atacadao is what brought it to us today and it's a success factor we have. Clearly, every service we can add and which doesn't have an impact on cost and add some benefit to the model. Okay. We'll go for it. That's what we've always done and we always like it.

However resisting to temptations of having a clientele and please -- just to please the customers sometimes go against the business model. So we have to keep focus and deliver well our work proposition, so that's the first and clear goal and the understanding of this work proposition is related to our customer and frequent customers.

Overall speaking, they know we couldn't deliver a specific service without adding cost. At the end of the day, we always study, we ponder but we resist to big temptations.

FINAL

Bloomberg Transcript

**Q - Guilherme Assis** {BIO 16143141 <GO>}

Roberto, it's very clear. Thank you for your answers.

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

Thank you.

**Operator**

The next question is from Joao Andrade with Bradesco BBl. Please go ahead, Joao.

**Q - Joao Andrade** {BIO 21923301 <GO>}

Good morning, everyone. Once again, congratulations on the very strong result. Just one follow-up on the same topic. I'll be quick. That's about e-commerce in Atacadao, could you give us more color about how the operation works? I understand the customer -- target customers B2B do sell one P [ph] and also marketplace, a policy of collection. So could you give us an overview and more color would be nice. Thank you.

**A - Sebastien Durchon** {BIO 20242758 <GO>}

So let's break it down. First let's talk about B2B, there is a minimum order in order to have a distribution rationale and we make use of the whole network, we are doing a rollout on top of the 30 Atacadoians [ph] we have throughout the country, every state has a wholesale operation and that's the wholesale that delivers B2B customers.

We also have the same offer of wholesale products and that's for www.atacadob2b platform. So have an average 3,700 SKUs. Particularly to our merchant customers and by region in wholesale. As for the platforms we're running B2C, the offered portfolio has to do with the stores after up to 10,000 SKUs provided by the store and the store provides them via our (inaudible) not iFood, because iFood is only with wholesalers.

So these different work platforms and unique work offers. So they don't compete with one another. And we also mindful of the store level. The store operation, the delivery operation, including our partners cannot impair our both customers which are merchants and consumers who are there at the store to supply their needs.

**Q - Joao Andrade** {BIO 21923301 <GO>}

It's clear. Thank you. Thank you. Roberto.

**A - Noel Prioux**

We have to say that our organization has been here for years in wholesale. We have (inaudible) [0:01:10.4] So a full organization for many years now. Having a platform dedicated to B2B is much easier for Atacadao. We already have the whole structure in place. Roberto gave us this information in the sense that it's great to add more features with being Atacadao, with that, and then the customer can use the platform to order

more. It's a different lifestyle and it's good. It will also allow to accelerate digital actions without additional costs.

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

Perfect, Noel. Thank you for reminding us. Actually what we see today is this capillarity in wholesale basically meeting the needs of 5,000 cities in Brazil. And soon, we'll get to 5,700 cities and it includes a different access channel to the same network. So that's what Noel puts so well. This is not additional cost but additional sale to additional customers. Long arm, small head will reach the edge and now the guy can have access to our platform via a physical structure that started in 1962, and now makes use of a differentiated access channel. That's how we see it and that's how we work. Thank you for this comment, Noel. It's true.

### **A - Sebastien Durchon** {BIO 20242758 <GO>}

Yeah truly we are unique in this aspect. This has to be understood.

### **Operator**

Our next question. It's, well it's in English from Andrew Ruben with Morgan Stanley. Andrew, go ahead.

### **Q - Andrew Ruben** {BIO 18834624 <GO>}

Question please. What's your ability to pass through higher prices both in Atacadao and the retail formats? And how are you seeing consumers react? Thank you.

### **A - Noel Prioux**

Luis?

### **A - Luis Moreno** {BIO 20821019 <GO>}

Right now, we don't need to transfer higher prices. We're doing the opposite. We are lowering price. We had nearly 30 bps gain in the commercial margin mostly with efficiency, all we need to shrinkage. But just as we had this gain in margin, we also had an optimization of our promotional activities allowing to reinvest in permanent prices over Q3 we gain nearly 300 bps in competitiveness our permanent prices.

So, our purpose is to deliver savings in the full purchase with an increase in share of wallet, and we don't need right now to pass through a higher price, quite the opposite. We are also trying to decrease food inflation that is happening at the stores, and we are not passing through at the same rate this price increase. We are financing our pricing via our operating efficiency, and we believe it's we are on the right track and we will continue in the same direction.

In Atacadao our solution to all problems lies on sale, and it's a top line business. So we don't work by increasing margins, but rather by selling more. And for that we need to have everyday low price, which is our model. We are, this Brazilian model, which provides

price and offer solutions to a 100% of our market. So it's not a matter of increasing margin, but maintaining and preserving our results in the margins that we like to work with, so we can sell more to be more profitable. That's our business.

## Operator

Our next question is from -- is via webcast, Miguel Ospina with Compass. He wanted to know, should the bank have positive results again in Q4 2020 going forward?

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

Thank you for your question. Definitely, the third quarter is an outlier to the bank. In Q4, the bank is expected to go back to a positive approach. Like I said before, billing is fine, the base of active customers, the whole acquisition strategy is very strong, it will help us to move away faster from the crisis compared to our main competitors.

The digital channel strategy is very consolidated and we are recovering also credits and revenue. So I'm very confident that Carrefour is going to have a fast recovery of results. Thank you very much.

## Operator

The next question is also via webcast, Miguel Ospina, Compass. He has a second question. Could you give us more color if Q4 2020 is still going to post good sales momentum.

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

Thank you for the question. I think Sebastien already gave us some signs and in October and 10 days in November, we can see a very similar trend compared to what happened in the third quarter. There is a slight drop in emergency aid. But for the moment, our level and our selling level is above Q3 and that's the total trend.

## Operator

This concludes the question-and (technical difficulty) I just like to talk about this trend for retail and also cash and carry, we have a good trend, which is very similar to the third quarter. This concludes the Q&A session. I would like to give the floor back to Mr. Prioux for the final remarks.

### A - Noel Prioux

First of all, I would like to thank you all for joining us today. It's a pleasure to make comments on a quarter that was really good and strong. We are confident about the future. And like we said, I think we can be bullish not only about the last quarter, but also about next year. A lot of news and positive information allowing us to see a positive future. See you soon. Thank you very much.

## A - Sebastien Durchon {BIO 20242758 <GO>}

Thank you.

### Operator

This concludes Grupo Carrefour's video conference call. Thank you very much. Have a good day. You may disconnect now.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*

FINAL

Bloomberg Transcript