Y 2021 Earnings Call

Company Participants

- Carlos Mario Giraldo, Chief Executive Officer, Grupo Exito
- Guillaume Gras, Chief Financial Officer
- Jorge Faical, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Analyst
- Danniela Eiger
- Eric Young
- Joao Pedro Soares
- Joseph Giordano
- Marcella Ricchia
- Robert Ford

Presentation

Operator

(Foreign Language) (Operator Instructions)

(Foreign Language)

Will be made available in the company's IR website, where the complete material of our earnings releases available. You may download the presentation in the chat icon.

During the company's presentation, all participants will have their microphones disabled. So now after, we will initiate our Q&A session. (Operator Instructions) Please note that the information in this presentation and forward-looking statements made during the video conference concerning the business outlook, prejections and operating and financial targets of GPA, our beliefs and assumptions of GPA's management and information currently available.

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With us today are GPA's, CEO, Jorge Faical, CFO and IR, Guillaume Gras and CEO of Grupo Exito, Carlos Mario Giraldo; and CFO, Ruy Souza.

Now I will give the floor to Guillaume Gras to initiate his presentation.

Guillaume Gras

Good morning, everyone and thank you for attending the GPA Group earnings results. And I am glad to present to you today the first result of what we call a new GPA, which has registered a positive growth in Brazil, while markets are taking a dive and presents solid profitability and a challenging environment.

I will start the presentation talking about our financial performance and the evolution of the hypermarket transaction. Subsequently, Jorge will talk about the operational highlights of the period, strategy and business prespective. Well, number one, on Slide 5. You can see the consolidated performance figures which take into account all the GPA Brazil operations, including hypermarket and drugstores and the results of Grupo Exito.

The consolidated sales totaled BRL14.9 billion in Q4 growing 6.7%, when compared to the last year and showing solid performance in a difficult macroeconomic context and despite the demobilization of hypermarkets in Brazil. Year-to-date consolidated sales reached BRL51.3 billion in line with 2020, even with the negative impact of the pandemic in the first half.

In this challenging environment, we maintained our control of SG&A improving our percentage of revenue by 0.5 bps and 30 bps in the year. Our consolidated EBITDA totaled BRL1.2 billion in Q4 and BRL3.8 billion in 2021 and was impacted by hypermarket activities in Brazil, which reinforces our assertive strategy of exiting this unprofitable format selling this asset at a good price in order to deleverage our group and reinvest in more profitable formats.

Well, finally GPA's net income totaled BRL805 million in 2021, including the income tax gain on investment subsidies retracting this IR gain the net profit amount is BRL300 million, which is still twofold last year's profit without tax credits.

On Slide 6, we can see that the company ended the year with a low leverage level of 0.3 times, net debt EBITDA, we ended the year with cash position of BRL8.3 billion, which is 5.6x are short term debt, which guarantees an excellent liquidity. This level of liquidity is a result of a strong operational cash generation of BRL1.8 billion, excluding the hypermarket and drugstore operations as shown on the slide with the debt evolution.

In the discontinued perimeter extra hyper stores and drugstores, there is a neutral variation with the use of funds, receive with the first installment of BRL1 billion to resize working capital to the new operation and to finance project costs. Now, finally, in the next three years, we will have cash of BRL4.2 billion regarding the transaction of the hypermarket.

On Slide 7. You may see the evolution of the hypermarket transactions announced in October '21 and announcement in which, we announced the end of the hypermarket format operation in Brazil with 70 commercial points to Assai and 33 stores to be converted to other formats and closing the rest of our assets. We set up a schedule for the demobilization of the stores that begin in October and stop the purchase of several non-essential and non-food categories and continued with reduction in stores size until their closure between December and January.

During this period, we continued committed to our customers, specially and the supply of essential products. In December 31 stores were closed and the remaining stores were closed in the first half of January 2022. In the same period, we started the conversion of 28 stores into Pao de Acucar or Mercado Extra. These stores will be opened during the first half of this year.

At the same time, we began the readjustment of the company to the size of the new GPA with the adaptation of our headquarter, IT structure and network logistics.

On Slide 8. We have our P&L and cash details of the transactions and it's expected impacts. In the fourth quarter's result, we had a net impact in other income and expenses of BRL400 million, where BRL1.2 billion in capital gain which represents approximately 23% of the total estimated capital gain of the transaction.

BRL0.8 billion in expenses corresponding to the dismissal of employees, cancellation of contracts, break out of inventory and other expenses regarding transactions. This net result before taxes of BRL400 million recorded -- represents between 15% to 18% of the transaction. With this, we cannot yet determine the exact final amount, but the company expects to recognize something close to BRL1.8 billion in the first quarter of 2022, already considering the operating losses expected for the transition period of the abandoned activities with the completion of the operation.

In terms of cash flow, the company had already received BRL1 billion in 2021, and will receive an additional BRL4.2 billion by 2024. From these funds, between BRL1.2 billion and BRL1.5 billion will be used for project costs, and taxes. BRL500 million will be set aside for minimum dividends generated by the net profit transaction and between BRL1.2 billion and BRL1.5 billion to accelerate expansion CapEx, renovations, and conversions of stores and the remaining balance of BRL1.7 billion to BRL2.3 billion will be used to deleverage the company.

Finally, after this operation that represents a gross sale volume of BRL11.7 billion in '21 in which approximately will be assigned to Assai and 20% to stores conversions. The size of the new GPA is becomes BRL20 billion against BRL27 billion before the operation and this is based on 2021.

Now on Slide 9. You can see the financial performance of new GPA, Brazil repositions as a premium, digital and proximity food retailer. This is including the 103 extra hypermarket stores and the 102 drugstores. It is important to emphasize that this result is a pro forma and already considers the approximate readjustment of the logistic network of our head work and other costs for the new area or parameter.

Thus, our new GPA presents a good recovery on Q4 with strong resistance from our premium e-commerce and proximity formats, which registered positive growth like-for-like with the self-service market while the self-service market was in decline. Tight control of expenses in an environment of accelerating inflation allowed us to improve our EBITDA, totaling 8.4% in the quarter and 8.8% in the year.

Now, moving to Slide 10. You can see the result of total GPA Brazil, which was impacted by the demobilization process of the hypermarkets with the reduction in stores size and the closure of 31 stores already in December. The EBITDA for the quarter totaled BRL393 million, down 3.6 points, everything concentrated on gross profit, which was impacted by the higher level of out-of-stock lower industry investment, giving the destocking process, the strong reduction in purchases, and the impact of the mix effect with the demobilization of hypermarkets stores.

Now, we go now to Slide 11 with the results of Grupo Exito, which once again will present strong sales growth, reaching BRL8.4 billion in the period with a growth of 17.8%, where 15.3% in the same store parameter. This growth was driven through a focus on innovation in Columbia, where innovative formats represented 33.3% of sales.

Now, strong omni-channel performance with sale penetration of 9.9% in 2021 and a GMV of BRL771 million and finally, higher contribution from complementary businesses benefited by the lifting of restrictions during the year in the countries of operation.

In addition to the rise in sales, our gross revenue improved 30 basis points over the quarter and 80 basis points over the year and our expenses grew low inflation across all the countries, where Grupo Exito operates that was because of the gain and efficiency of our stores operationally speaking.

As a result of those effects, the Exito Group performed greatly financially with an adjusted EBITDA in Q4 '21 at BRL802 million, up 18.1% versus Q4 '20 over the year, the adjusted EBITDA margin grew 0.5 percentage points versus 2020.

With that, I've finished my presentation, and I like to turn the floor over to Jorge.

Jorge Faical {BIO 21768322 <GO>}

Thank you, Guillaume, and good morning, everyone. I will quickly go over a few of our highlights. The highlights of our operations here in Brazil with Grupo Exito and also go over some of our future plans to give you an idea of where we are right now. It's important to talk to you about the new term that we're using Novo GPA, which is GPA without some of our old supermarkets. This is a term we will be using across the entire presentation.

The demobilization of extra hyper as Guillaume said, gives us a lot of confidence that we made the right decision at the right time and did it the right way. This was something we did in record time, we empty the store and or pretty much emptied the over 70 stores that we had within that transaction. And Guillaume has shown you some of the timelines for that project.

We expect to have all of those stores or as many as 28 stores converted and for extra market, which is a really grand strategy and very complex as well. This was an extremely intense project for our team's management. So I'd like to take the opportunity to thank our team because of what they did with this project. It really feels like flying a plane while building it.

We are now at the last stretch with the empty stores but really having some of the operations with Assai but this is essentially a page that we've turned with our operation and we now have the entire team focused on Novo GPA or new GPA.

With that, we redimensioned and streamlined the company significantly. This was a resizing that was proportionally larger than what we had with our revenue even thinking about current times, it was a way of protecting us in terms of expenses. And now it's time to look forward.

We will look at our profitable plans in our expansion plans. Just to give you some more details about our plan, we consider our expansion plans like a locomotive, it takes a while until it picks up speed. Expansions often rely on or depend on licenses, there are a number of regulatory aspects, but I'd like to tell you that this train, this locomotive has started to pick up steam.

Last year, we delivered 13 proximity stores. And especially with the Minuto Pao de Acucar in 2022, we expect to deliver around at least 50 additional stores. So 13 in 2021 plus all of these this year, we have a number of stores on our pipeline many of which are already in the last stretch headed for delivery. We also delivered a store within the state of Sao Paulo the city of the Mara[ph].

And right now, we have 14 Pao de Acucar projects already in protocol at the several levels of government with the city or in negotiations with the landlords. And we have another 14 conversions underway. So, over the course of this period, we are not giving the exact date with Pao de Acucar, but we expect to starting in second -- in the second half of the year to see some of these Pao de Acucar's stores come out within our expansion plan.

Bearing in mind that our expansion plan through 2024 includes at least 100 proximity stores and 100 stores in the Pao de Acucar format. It's good to remember that Pao de Acucar is also within -- it's also accounting for about 43% of our sales not considering Minuto Pao de Acucar. Pao de Acucar already accounts for 43% and we expected to account over 50% of our sales within the new GPA.

On the digital front, I have two charts here. I will go over very quickly. We are Very proud of the figures we've attained, we came to BRL107 billion in 2021. Bear in mind that in 2020, our base was already strong and we grew 53% over 2020. I'm really proud of that work, this is a transformation journey, and we know that in the Brazilian market the share of grocery in online sales is very low. So, I want to talk a little bit more about our partnerships and how we came to these figures the last year.

Let's finish this chart. I'd like to say that Novo GPA Brazil, as we said had growth by 2.3%, which is below inflation with a decrease in volume with an external macroeconomic environment, that's very challenging. And it shows that we are going through a rebound and seeing figures that are much better than we had in the third quarter of 2021, especially with Pao de Acucar, which has clearly gained a market share that's very representative.

Mercado Extra and Compre Bem in their markets of operation as consolidated with a double-digit growth in this fourth quarter of the year, so it really cemented itself in that period. So although, low because of the challenging environment, this is a growth rate that's higher than that of other retailers that have released the results recently.

And with Pao de Acucar, proximity, Minuto and Compre Bem the new GPA stands as a neighborhood grocery business. That provides services and is very strong in perishables and produce and has a good level of service and preserves the entire consumer journey. It's important to highlight that because neighborhood retailers or neighborhood retail stores are more stable in services and consequently and results as well.

Now, a little bit about digital. In 2019, we sold BRL360 million give or take. We had that really impressive tailwind coming to BRL17 million sales and now in 2021, we are already at BRL1.7 billion. That BRL1.7 billion represented about 8% of our overall sales and we reached an impressive milestone of about 1 million orders a month. And it's important to highlight that unlike other digital players in the Brazilian market, our order includes about 30 to 40 items per order. So if you multiply 10 million by 40 items, we're talking about over 400 million items that were shipped via our e-commerce.

So these are very impressive figures, but still very on a baby steps stage, so we have a lot to do. Our current running rate is at about BRL2 billion. So we're coming into 2022 still growing over 2021 and our strategy is to continue on that trend. Unlike the stability levels, we're seeing on the market or even some of our competitors seeing a decrease in their digital sales.

So moving forward, our ecosystem as we always say is increasingly more focused, especially on our strategies that we call 1P. Our 1P currently accounts for 70% of our online sales and it's important to highlight that when I'd say, 1P I mean, Bone jus Suga, James delivery and focalpoint.com[ph], which really has allowed us to navigate market trends and we want to take a leading role in a number of other trends.

One of those strands is the ultra-convenience which are deliveries completed and build before 30 minutes. We already have a few pilot products running with both James and Pao de Acucar. We are going into WhatsApp sales as well. We already have 11% of sales with Grupo Exito on that front and here in Brazil we're launching a WhatsApp plan that's structured with simplified navigation. Not necessarily with a human being behind the scenes, but this is something we'll be launching between third and fourth quarter.

WhatsApp is another frontier in digitalization and not all customers are skillful and building an app. So, WhatsApp will bring new digital customers to our stores. OMS for example, our order management system, is also playing a part in the dark stores we're launching. Those will be launched in three different areas Curitiba, Belo Horizonte and Salvador.

We also have a new initiative that unlocks the value in digital, which is what we call Hub stores. In that case, customers will place an order in the extra club and Pao de Acucar store will conclude that delivery that's our hubs project. So a number of initiatives always based on a flawless service level. We currently have over 90% of on-time fall within that alternative and we tend to exceed 95% soon.

Another one of our very successful initiative is with our partnerships. We already have six partners, already locked-in, and our mission is to become the number one seller of all our partners in food items. Our focus is to be wherever the customer is. So if a customer is seeking convenience with iFood, so we plan to be on iFood providing a very high level of service compared to our competitors all within the same app.

One of these initiatives we're talking about which is also an ultra-convenience plan and includes the ultra-fast less mild, but also other fronts. We're negotiating new contracts and we will be releasing them very soon within this new initiative. Our 3P marketplace has seen a shift in route is as opposed to working in a more generalist market we are planning to specialize in six different categories.

So just as other retailers in Brazil are specializing in a market segment, we plan to specialize in seven market segments, wine, artisanal, and special beers, distilled and other types of beverages. So this is the specialties we are planning to enter in. Just one example, to give you an idea, we want all manufacturers small as they may be, maybe even domestic beer manufacturers. We want them to have the opportunity to sell their product on our website and within the platforms we're working, that's one example of a complementary vertical within what we're talking about.

Within our system, I have to mention our loyalty programs. Our loyalty programs they ready account for 82% of our sales. This is a high -- this is very significant in our total revenue. We have an extremely good database of our consumer and we always use our database to monetize our business. One of the highlights of the last quarter was the Stix program. We initiated it together with our partner Raia Drogasi. And they started in the middle of last year and there was a redemption directly in the checkout, therefore the customer can receive BRL10, BRL50, BRL20 in the checkout and this provides discounts to the grocery shops.

This initiative was very successful. We and Stix during its first year of existence presented a break-even that we only expected. For the second year, we were able to achieve this. In the first year, it's a program that it has 10% of breakage for those that follow this market this is very important our philosophy is to have a Stix program that fosters retail. And not to make money, because the points expire and at the end of the month, we had over 1 million redemptions of premiums, awards or discounts. This is extremely significant in volume of reduction.

This is the biggest loyalty program in Brazil in redemption volume. Our redemptions have a lower value but this already provides momentum to this program. Now, the mission of Stix of 2022 is to increase the coalition ecosystem and not only work with GPA (inaudible) we want more partners. We want to broaden to other segments in the Brazilian retail and we want this to be a currency to be used all over Brazil. And this is one of the highlights of our quarters.

Next slide, please. Now the highlights from Brazil, we registered 2.3% of growth in same-store sales, this is a clear recovery of trends. Although, within our challenging scenario regarding well the exit from the hypermarket shows how assertive we were in our decisions. Our main drivers, especially in Pao de Acucar would be an improvement in our assortment, a plan of retrofits in 2021, we carried out 50 retrofits during the second semester of the last year.

In 2022, in addition to the conversion of 28 extra hyper store, we will retrofit all our Pao de Acucar. This is what we're going to do with the proceeds of our transaction. These are 130 stores refurbish using the G7 format. Now, our expansion plan, I already mentioned, these our 100 stores by the end of 2024 in all formats. And we always strengthened Minuto Pao de Acucar that is a winning format, profitable format and with great potential in Brazil. Now, this is for the scale-up of the format, not only in Sao Paulo, but also in other regions of the country.

Now going to Colombia's highlights. Grupo Exitos highlights. Number one, it is very important to talk about the significant recovery during the second semester of last year. Grupo Exito, the Colombian a company followed a different pace when you compare it to the Brazilian economy. Its economy grew more Grupo Exito SURF this wave. They didn't only gain together with all the Columbian market, but they gained in share, which is very important in the segment. This was of quarter with gains above inflation with an improvement of revenue profitability and this growth was leveraged by three main factors.

Number one was the growth through innovative formats leg Acucar, Carulla Fresh and we've mentioned this in a number of quarters. The second pillar of growth was that they strengthened their omni-channel. The growth in digital was highly -- was very significant and as a third point here the recovery of the real estate businesses inside Columbia and Columbia is the biggest operator of real estate of shopping malls in the country.

Exito also is growing significantly and gross revenue 2.1 times greater than last year and an increase of same-stores was 15.6%. Moreover, we are talking about 57 stores that were opened or retrofitted in Colombia or Uruguay. During the last quarter, we made an important agreement of five stores with the (inaudible) Cali region. The Cali is the third biggest city in Colombia. This is a region where Grupo Exito wasn't prominent. So, with five stores in the region in addition to Bogota made in the second biggest country, we are interests -- we have an interesting representation and this is a city that has around 2.5 million inhabitants.

This is our transaction that we would like to highlight to all of you during the last quarter, now when we see the digital side. Now here in sales share 9.9% almost 10% of sales reaching almost peaks of 12% of shares. Now the apps the Exito and Caddo apps reached more than 1.6 downloads and grew 22% when we compare it to 2020 driven by the partnerships with Tuya and Puntos Colombia and also encouraged by DiSanto appear similar to know DiSanto and Brazil, which had more than 2.6 million coupons redeemed.

The company digital registered, almost 8 million orders fulfilled together with Rappi. Now, this is 36% of share of the logistic platform by Grupo Exito and last year, they launched ultra convenience with turbo fresh, which is a delivering it in 10 minutes, which is highly accepted in Colombia. As we see in Sao Paulo, now the economic rebound of the country the levels of real estate occupancy strengthen the business of the group gains of market ship digital innovative formats and Exito continues being an excellent business because it generates cash, net profit and it will end in terms of debt it is very important for our group.

Now, this week, the shares of Exito during the earnings release result, where their shares were impacted. They grew significantly in the Columbian Exchange. And the market cap is around BRL8.2 billion. It is always interesting to mention this, because they are part of the company's assets, and it's always good update you regarding this facts to end my presentation. And to embark in our Q&A session. I would like to highlight our ESG.

Well, ESG and GPA is not something new. We for the past two decades have had a robust agenda as it should be with all Brazilian retailers that should mobilize add value chain to have a more sustainable and inclusive society. Here we have the main highlights of the fourth quarter here solidly we can show you figures and I want you to pay attention to these figures that are very important. One we're talking about our power consumption in Brazil is already 88% of our power is consumed through the free market which allows us to help climate change.

Now, the greenhouse gas effects drop 7%, this is very important as well. Now regarding diversion and inclusions 30% of our leadership positions are occupied by women we are very proud of these figures. And there are a number of development programs both in female leadership and also the development of black employees. I would like to thank the partnership with (Inaudible) University that has helped us a lot. During the last quarter, we had 131 graduations from our black population. Now regarding the social side. This was an important year, we ended 2021 with 5,000 tons of donated -- of donations of food.

This is around, if we would transform this in trailers this would be over 200 trailers full of food during the entire year. And this is in partnership with our customers. Our customers donate towards stores and our operational team, our logistic mobilizes themselves and they take this food to over 350 social institutions in Brazil. This is a significant figure and we're highlighting this today.

Exito, we had more than 20,000 tons of store back ways to recycle during 2021. Carulla Fresh all's will have a carbon-neutral still 21 stores where we certified in 2021 regarding diversity and inclusion the number of women and leadership position is close to the GPA like around 36% and Exito consistently works through their foundation, totaling around -- reaching more than 70,000 children benefited from the zero malnutrition program. We're very proud of this program, and I would like to congratulate Exito for their commitment. So, now, our final messages, and our key points here.

Now, we've turned the page of the hypermarkets in Brazil. It is important that we are totally focused on the foundation of retail neighborhood retail. A retail market that preserves the experience of the consumer even improving it. Here we have recovered the RX but we have there's a rebound of our expansion. We are strengthening the premium concept of this banner, this is a banner that strongly stands out as soon as Brazil pulls out of a more sensible or sensitivite economic downturn.

Now, here you can see our result in e-commerce, proximity stores or the stores are structure is simplified. We practically have a level of expenses which is adapted to the new GPA. This is a company that took a step backward to take two step forwards and Exito Group is a group that not only this year, but has always taught us a lot has provided us a lot of experience with a Latin American benchmarking of operation and example of retail practices. Not only for Latin America, but globally, together not only with their practices they have provided great results and excellent cash flow for the company.

Well, that's what I had from my part and I'll stay here for our Q&A session. Thank you.

Questions And Answers

Operator

(Question And Answer)

We will now start our question-and-answer session. (Operator Instructions). Let's hear our first question, it comes from Danniela Eiger, sell side analyst from XP. Danniela, we will open your microphone, please, you may proceed.

Q - Danniela Eiger {BIO 20250080 <GO>}

(Foreign language).

A - Jorge Faical {BIO 21768322 <GO>}

Thank you for your question Danniela. I will cover part of the answers and then I'll turn over to Guillaume who will talk about the sales. So the start of this year is still very volatile and warrants a lot of caution. We are still facing the effects of high inflation and also consumers' decreased income. So I would say that, this is a slightly unstable or unsteady start of the year for us. It's been improving in recent weeks, the start of January was a bit more challenging but things have been improving in recent weeks. But as I said, still a quite volatile scenario. This is a week that includes a Carnival Holiday, which will not involve parades or parties as usual, but it will be a holiday like we've had last year, so we expect good results for this period.

We will also have the Easter month, which is a very representative for our sales, but this is not a quarter where we're expecting significant recovery for the scenario in general. As I said before, we have already turned the page from an operational perspective with the extra group and we're really focused on curtailing our expenses, and paying close attention to the profitability challenge and control the profitability within our neighborhood retail as I mentioned, which includes Mercado Extra and Compre Bem. Extra has sort of fluctuated in its performance, because this is a store that services people with lower income it has a share of promotional sales that's higher and suffers from effects of the competition. There are areas where the competition is really strong in their promotional sales and others where the competition is following more of a profitability set, so its performance is quite erratic.

We have regions that are growing by two digits with Mercado Extra with huge sales from clients that came from the hypermarkets. There are areas where we did not have a hypermarket and those are struggling a bit more. Now Extra and Compre Bem are formats that are not very digitalized. And part of our strategy for Mercado Extra and Compre Bem is to make them distribution -- logistical distribution hubs. We had that in some of our stores and it's our main strategy right now to have the digital sale warehousing focused on these stores and to place them on a different level of digital participation compared to what they had last year. Could you talk about the profitability start of the question again, please.

A - Guillaume Gras

Of course. We expect our EBITDA in the continued pyramid to stay above 90%. We've already signaled in our release what do we see as a proforma result with an EBITDA of 8.1%. That's the early indication. And for 2022, it's important to highlight that we will be facing a transitional period in the first half of the year. We first need to finish readapting GPA in its logistical network and also IT structure. And we also have to conclude our program to convert 26 to 28 stores. So in 2022, we will be going through this transitional period in the first half, and starting in mid-year we expect to see our profitability levels to go back to normal, which would be about how it changed again. Okay. Thank you.

Operator

Our next question comes from Marcella Ricchia, sell side analyst from Credit Suisse. Marcella, we now open your microphone, so you can ask your question. Please you may proceed.

Q - Marcella Ricchia

Good morning Jorge and Guillaume. A few quick questions. The first one is about the pro forma results of GPA, Brazil. Could you could you explain to us what's behind the 60[ph] decrease in your gross margin that makes up for 20% of your EBITDA margin and what are the main initiatives in terms of more efficiency and spending curtailment. How will that affect your EBITDA margin? That's my first question. The second question is about same-store sales. Also considering GPA Brazil ex hypermarkets and drugstores, we saw a performance that was even better than the rest of the industry considering a weaker economic period. And I'd like to hear from you, what do you think that improved performance can be attributed to and what can we expect for the next few months? Thank you.

A - Guillaume Gras

Thank you, Marcela. Jorge if you could take the first part you could take that.

A - Jorge Faical {BIO 21768322 <GO>}

Well, the gross margin change that you saw within new GPA, which is 60 basis points is caused by two main effects. First of all, inflation, which was not 100% passed along to customers and the effect of emptying out hyperstores to adjust the level of inventories in the stores, we had to make that change and that affected our profitability and the other store. So, these are two points that we should recover over the course of the first half of the year.

A - Guillaume Gras

Perfect. Thank you. Marcella, from the performance standpoint, our performance has slightly improved. Of course, we are not satisfied yet with how much we're losing in terms of volume, but the improvement has to do with a few elements. There was no bulletproof or there was no silver bullet that improved everything but one thing was that with --, we recovered a lot of our assortment that had been reduced, so you're now once again finding a few items that we had removed from our shelves over the past few years. We also stabilized our logistical network a little bit better. Our disruptions were eliminated by about 30% with project --, this was because of a very technical program and a very technical work with our suppliers and also an increase in perishables.

Fruit ready meals, this was a category that increased a lot with us. Bakery, our Bakery is seen as one of the best bakeries or one of the best bakery lines in Brazil. And the fourth element has more to do with our digital operation. Our growth in digital is, obviously, we do not have a precise gauge of our online sales, our brick-and-mortar sales or we really delivered those products to customers. So the digital front is what helped us in that omni-channel strategy that we are adopting.

Q - Marcella Ricchia

That was perfect, Guillaume and Jorge. Thank you.

Operator

Our next question comes from Eric Young sell side analyst from Santander. Eric we will open your microphone, so you can ask your question now. Please you may proceed.

Q - Eric Young {BIO 19286991 <GO>}

Good morning guys. And thank you for taking your questions. We have two. First, I would like you to talk about your proximity format, this was an interesting highlighted over the course of Q3. So I'd like to hear from you what do you see as the main driver of those results, and what do you guys expect in terms of the competitive environment in this industry. We're seeing more networks, both local and international. So we wanted to hear what you expect on that front. And now with regard to Exito, with the Exito mall and Carulla Fresh market added a significant incremental sales rate. And also, I wanted to hear about the expansion format. What do you guys can tell us about these innovative models, can we expect them to be more open? And what would conversions look like if you could share something about the Exito group as well, that would be great.

A - Jorge Faical {BIO 21768322 <GO>}

Thank you, Eric. It's pleasure. With regard to proximity, we are now starting to scale our model. This is a model where our profit is near two digits in the EBITDA margin. This is a format that's performing a lot better with Minuto, with mini extra, Minuto Pao de Acucar has a value proposition that was a really good fit with the proposition for customers. This is when that's more focused on supplying and replenishing stocks then to a convenience store model. So, this is sort of the neighborhood grocery store as opposed to a convenience store that as those you see in gas station. So this is a value proposition that's aligned with good profitability.

And we found the balance from the real estate standpoint, from the logistical standpoint, because the logistics for these formats is very complicated and we have a very important brand we call that we rely on for growth on those lines. So these are our distinguishing factors when compared to the competition. Obviously, we are paying very close attention to what the competition is doing. We have great respect for all of those players, but granted the profitability with this format is not something that's simple to achieve. We're mostly looking at them, but also focused on our expansion looking at the main points that present a great possibility to grow in that front. Now with regard to Extra. I'll turn over to Carlos Mario, who will answer your question.

A - Carlos Mario Giraldo {BIO 1700566 <GO>}

First, based on innovation for the Exito hypermarket now represents nearly 30% of total sales and all stores with more than 24 months have grown 42% against 10% growth of the total brand. So really, it is having a great performance with an ROI of 31%. What we expect for while is to have a full potential of 40 full wide stores that is big hypermarkets, and 100 economic source that is a new model that we are piloting for a middle-class aspirational stores. That would be done, I would say in a period of five years. And for the moment this year we're going to do 15 of the full-size Exito stores including the 6 stores hypermarkets that we are receiving from --.

In -- now, the Fresh market represents 45% of the total brand in sales. It has an ROI of 10% and sales of those stores that have opened more than 24 months ago, have gone 30 % again 16% of the full growth of the brand. Our full potential for brand is around 80 stores that will also be done in 4, 5 years, of those we will be doing around 12 this year and between 10 and 12. And here we included those that we call full fresh that is big stores of more than 1,000, 1,200 meters, and at the other half of that -- fresh market would be midsized stores, but that really are drive and growth and are driving market share in Colombia.

Q - Eric Young {BIO 19286991 <GO>}

Thank you very much. Your answer was very clear.

Operator

Our next question from Joao Soares, he is an analyst from Citibank. We will enable your microphone so you can pose your question. You may go on.

Q - Joao Pedro Soares {BIO 20837239 <GO>}

Well, good morning, so how could you elaborate on the digital channel, which is extremely significant for you and your evolving a number partnerships dark stores when we see things in the mid run, how representative will the channel be now that you have the funds after selling your hypermarkets. I believe that you will accelerate your investment on this front. You will invest in CAC, how do you see the evolution of the channel and what about the profitability on this channel now that there are the higher number of clicks, could you elaborate on this.

A - Jorge Faical {BIO 21768322 <GO>}

Thank you for your question. Number one, this business represents around 10% of our 1 billion accounts for 9 point something currently. And many times I am asked, but how much does this account for in GPA. Well we still do not know exactly the future share nonetheless we know that in Brazil the sale represent 1.5% approximately give or take of our grocery in Brazil, in Brazil around 6.5% to 7% the U.S. has five times more share in grocery and digital than in the Brazilian market. There is no doubt that our share will be similar to that of the U.S. in four or five years for take. So this market will fourfold or fivefold. Well, it's not by chance. We have to the -- of course there are many investors that want part of this pie. But here we see a multiplication of last mile companies that want to embark and grocery.

A - Guillaume Gras

This is not easy to manage groceries, logistic. It's not easy to work with fresh products that have a short expiry dates. It's not easy to do the last mile logistic. You need an infrastructure of distribution centers that are close to the consumer. And three, picking is very important. To work with picking of a product for the consumer is not simple science. Now we are strongly investing in technology. We are strongly investing in management. So that we become, so we differentiate ourselves on this three front with beginning with technology where things are done in an agile way and the simple way, and in a productive way.

Point number 2, the location of our fixed assets, physical assets. I'm one step ahead of all of these companies that are growing in the country because we already have this. When I see the multiplication of dark stores in Brazil, we have our brick and mortar stores that are totally prepared to be distribution centers. And acquisition costs. Well, there is always --

there is a complex logic many times, the acquisition cost is taken by -- is assumed by GPA when we create partnership of these companies part of the cost goes to the last milers, not to us.

Many times, we share the acquisition cost, the cost of acquisition goes to the platform and to us, there is an entire dynamic for that. For the time being is providing us good profitability. Our profitability of is one digit, which is high in e-commerce, this is an incremental profit, this is why there's no reason not to scale. Our digital is scalability will go through all the points that I've mentioned in the past and we will rapidly scale. Of course within our authority boundaries that would be food, right?

Q - Joao Pedro Soares {BIO 20837239 <GO>}

So thank you. So just a quick follow-up on the question. As you recognize the multiplication of last mile platform and dark stores coming from abroad creating their operations in Brazil, aren't you bearing in mind some M&As to accelerate a number of capabilities.

A - Jorge Faical {BIO 21768322 <GO>}

Okay. We have James, right? And we purchased James and James is an important platform in our revenue. And James would be like in quotes a strategic reserve for us because the learning curve that we have in this segment in this market is applied to James and is also applied to our 1P platform. Now, what we're doing our end M&As, what we are doing, what we're creating our sound strategic partnerships with these last milers. It is more advantageous for these companies to use GPA as a retailer, as the service, instead of spending money and leasings with dark stores or have, for example, potatoes that spoiled in their inventory.

We have a partnership with home refill. They sell through their platform to the consumer, but GPA sells the product to home refill and also is in-charge of the logistic operation for home refill. This is an interesting example of our positioning as retailer as a service. So, we're following more or less the path of strategic partnerships instead of M&As.

Q - Joao Pedro Soares {BIO 20837239 <GO>}

Thank you, for your answer.

Operator

Our next question from Joseph Giordano from JPMorgan. Joseph we're going to enable your microphone so you can hold your questions. So you may go on Joseph.

Q - Joseph Giordano {BIO 17751061 <GO>}

So good morning Jorge, good morning Guillaume, Carlos Mario. Thank you for taking my questions. These are three blocks that I would like to explore together with you. Number one would be within the strategic alternatives of the group, we've seen a certain relevant movement from the purchaser in order to simplify the operations. So, I'm talking about crossed operations on one side we have a buyback announced by Exito but we have an

Exito and C9 that are under GPA. So what do you expect from here on now that the leverage that was a concern that the Brazilian holding had has been approached by the cash that you will receive from --.

Another question, would be, if it makes sense within the entire market context and all the changes, the receivable of --, I would like to know about the consolidation as well. You've talked about the competition and I would like to know if it would make sense to carry out an M&A to accelerate more. So I would like to know if an M&A would make sense so that your operation becomes a more national operation. I know that we have lots of stores, but this is mostly focused in Sao Paolo and going back to consolidators apps. I would like to understand that how you see the profitability of the business in the long run, because customers are migrating more to apps and platforms and they are no longer loyal to these banners. Although you -- we have companies that have good assortment. I believe that there could be a shrinkage of your margin. I would like to know how you see this.

A - Jorge Faical {BIO 21768322 <GO>}

Guillaume, would you like to answer and talk about the simplification side.

A - Guillaume Gras

I thank you for your question. Number one, it is important to answer in order here. Our first stage would be to end the hyper transaction and to exit this format that will deleverage the group and this prepares us for the upcoming steps. Therefore, we're focused on this currently, and we expect to end this movement at the end of Q1. After all of this now obviously, we today have nothing to share with you. We have no projects to announce, but as a matter of fact, the hyper stage is the first foundation to think about the future.

We want to sell our share in -- Nova and we are waiting for better market conditions to sell our share at a good price. Therefore, I do not have a timeline regarding these actions. But we continue with these intention to sell our share of store. Now, regarding Exito well, there is a possibility of future actions in our share, but nothing we can communicate or disclose anything right now regarding this point. Now, what about the anticipation of accounts receivable of our sale?

A - Jorge Faical {BIO 21768322 <GO>}

Thank you. Again, we have analyzed this possibility and I would like to remind you that in our financial results, we recognize interest rates in the installments that have been agreed upon with --. So, the impact of the financial here, we've already captured, the interest rates of this transaction. Joseph, I didn't understand your question regarding you posed a question regarding pounds expansion. You are properly capitalized and I would like to know if it would make sense to accelerate more and to bear in mind an M&A. This is a national operation, but strongly focused in Sao Paulo. We do not set aside M&As, but there is nothing on our horizon.

Currently, we are following the organic expansion path for this premium format that has to be located in premium neighborhoods with properties that are more expensive this is a slow pathway but is more solid from the financial point of view and the returns are more guarantees through organic growth. We are going to grow organically not only in the state of Sao Paulo. There are a number of projects outside of the state of Sao Paulo nonetheless as I said, our main expansion area would be to saturate the existing cities.

A - Unidentified Speaker

We are now in terms in talks with small networks with two three or four stores. We believe this type of M&A could be simpler and we could advance on that front but major regional networks are not on part of the conversation currently. Now with regard to profitability with e-commerce, that's interesting because unlike other business e-commerce is one part of the business where we will revise and review our plan maybe six years, every six years or even less. One year ago for example, essentially no one was working on the last mile within the country and now you have over 20 companies. What we do believe in is first of all, these are assumptions these are golden rules we adopt in our business, looking into the future.

Two of them are profitability with an e-commerce and a high level of service or a high-level service. These are our two golden rules how to have profitability when competition is increasing, which was your question. Well, we will play alongside these players. We will work through them as well or with them, which is plays into our partnership proposal vote. We know that many of these platforms have a sustainable plan because of their venture capital, but with a very challenging P&L. So they have to generate a large customer base with a very high COGS, but once these companies switch the key to positive P&L rates, then the industry will go will undergo a consolidation process. These companies are playing the month-by-month game, and currently we've been very successful in the game we're playing with them.

Operator

Our next question comes from -- sell side analyst with UBS. We will now activate your mic on so you can ask your question. Please, you may proceed.

Q - Analyst

Hi. Good morning, everyone and thank you for taking my question. Could you guys give us more details about the economics of the stores that were converted to the G7 model? How do you see store productivity sales by square meter and margins for these model compared to the margins for other models? And with regard to Exito, how can we think about their margin trend moving forward, perhaps thinking about the more accelerated growth for a low or narrow margin models?

A - Jorge Faical {BIO 21768322 <GO>}

Thank you for your questions. Once we convert our stores to G7, they see an increase by six to seven points over a comparable base. Speaking actually from a sales standpoint that reflects where that mirrors the sales by square meter, we use essentially the same base for the two. Now from a margin perspective, it has a higher share of perishables which is a category with margins that are above average. So their margins that are higher than what the same category had before, virtually one to two points higher in gross terms, but also brings an increase in expenses by about one to two points. So in percentage terms, it sort of stabilizes, but because it gains 6 to 7 points in sales that obviously gains 5 to 7 points in cash. So this is something that really stimulates us and really helps is to bring corporate of costs down and it has quite fast return on investment. I'll let Carlos to answer the rest.

A - Carlos Mario Giraldo {BIO 1700566 <GO>}

In margins in the company and that is the mix of first increasing low cost events, especially our cash and carry with lower margin, increasing last mile, which is improving a lot margin but has lower margin than the average, but on the other side, we have a very strong conversion plan in wow and fresh which have the best margin of the brands and also we have a positive contribution of our complementary businesses, which is in a very good trend of improvement. That is our Tuya financial business and our real estate business to only speak about two of the most important ones.

Q - Analyst

That was perfect guys. Thank you.

Operator

Our next question comes from Bob Ford, sell side analyst with Bank of America. Bob, we will activate your microphone. So please proceed.

Q - Robert Ford {BIO 15127836 <GO>}

Thank you. Good morning, and thank you for taking my question. Jorge, could you talk about the effects caused by the competition and also the level of elasticity that you're seeing in your construction work. And could you also talk about your figures with MercadoLibre and any of the benefits that translate to your operations outside that channel as well.

A - Jorge Faical {BIO 21768322 <GO>}

Thank you for your question. Bob, it's pleasure speaking with you. Well, we work with relatively more stable competition levels than the rest of the market both with Extra and Pao de Acucar. We are now seeing a stability in our promo share levels. That share is about 25% in each one of these businesses, which for the current time period is a significant and healthy rate for the Brazilian market. In the past, Pao de Acucar promo share levels of 15% to 20%. We're now working with about 25% And we work with a competitiveness level versus self service and regular prices at around 103% to 105%. But it's always interesting to have a broader view of our portfolio and thinking about our generosity towards customers, because Pao de Acucar has its 105% in competitiveness level. It's regular promotional sales but two our most loyal customers, we have what we call my discount, which adds an incremental discount.

So the more loyal the customer is, the higher the discounts they have. The more loyal they are, the more tickets they receive for example, and those tickets are reverted into discounts on purchases. So I'd say that this level of competitiveness at about 100% is more or serves more to customers who are only occasional buyers of product, the most loyal customers have a significant level of discounts, which also help them to continue to be loyal to our brand. Now about MercadoLibre, this is one partnership were very satisfied, very happy with, we are still working in a grocery environment with dry foods. We have about 1,000 to 2,000 SKUs with them and we are poised to start very soon movement to include our fresh products as well.

We have started to run a few pilots as well. And we've plan to start selling fresh food with them as well over the next few months. I can't tell you exactly when. But there's some interesting things about this. One is, about 80% of our sales with MercadoLibre, take place in areas outside of where we have our stores. One example is, the city of Belo Horizonte. We have a very interesting level of sales in Belo Horizonte where we have no Pao de Acucar stores. So, it's a learning curve and mutual learning in this case. But this is proving to be a very much of a win-win partnership.

Q - Robert Ford {BIO 15127836 <GO>}

That's very interesting. Thank you.

Operator

Our next question comes from Gustavo --, sell side analyst with Goldman Sachs. Gustavo, you may proceed.

Q - Analyst

Good morning guys. Thank you for taking my question. Just following up on a previous question. It was clear to me that this effect that is pressure your gross margin over the quarter was a one-off. But I'd like to understand how you see your bargaining power as compared to the competition moving forward. And how can we think about your gross margin prospects moving forward. And if you could also address you're working capital issue looking at this maybe lower scale and the near-term how could that affect your working capital, especially your accounts payable. Thank you.

A - Jorge Faical {BIO 21768322 <GO>}

That was a very interesting question, thank you. Well with regard to our bargaining power, we've talked about this a lot before announcing our transaction. Obviously, we are keeping a close eye on that. Things might change when compared to our prospects, but we're still $20 million company when it comes to sales. We are bigger than the retail side of our main competitor. We are much bigger than the number three in the Brazilian market. And incomparably bigger when we talk about regional competitors. So this is why one of the arguments we believe we will not lose bargaining power. We work with very high volumes in sales and across all categories, whether they're more commoditized product or a more structured, more of a modern trade category so to speak.

Another important factor is, as I showed you before, if you add Minuto, Pao de Acucar, the Pao de brand accounts for over 50% of our business today. And the Pao de brand is a huge trend setter in consumer goods, groceries in Brazil. It is sort of a flagship in branding for our customer or of our competitors and our customers. So we've helped launch a number of new brands in the market and we do not expect that to change. So our strength with the share of Pao de Acucar is going up, which may even increase our bargaining power with some suppliers in some categories. We're building a very close relationship and we have a very close partnership with many of our suppliers and this is something I'm very thankful for. I'm thankful for their partnership during this transition period, this one-off result that we had. Our partners really accepted our offers and we know we can build interesting business into the going into the future.

Now, about our working capital. We feel we're in a very comfortable position. and it's interesting to understand that although we have reduced the company from 29 billion to 20 billion in earnings at the end of 2021, we moved out of a few major categories that generated a very negative impact on working capital, especially electronics, our non-food categories, our fashion and textile category where we had 150 to 120 days to cover the stock. So although we've reduced about 30% in terms of revenue, our inventories are about 50% smaller than or 50% lower than what we have previously which allows a more comfortable working capital level of working capital not that comfortable, but certainly more comfortable than what we had before when negotiating with our suppliers. And if you have anything to add Guillaume.

A - Guillaume Gras

Of course. Well with regard to payment terms to our suppliers on the food side they remain the same. We've seen no deterioration in payment terms to suppliers. Now on the inventory level, we have started to readjust our inventory levels and the expected impact on our working capital in 2022 is about minus BRL500 million, because of the positive working capital we had thanks to our hypermarkets. And which we are now the concluding their demobilization. So, it will be about minus BRL500 million.

Q - Analyst

Thank you. That was very clear.

Operator

Our next question comes from -- Analyst with Bradesco BDI. We will activate your microphone so you can ask your question. Please, you may proceed.

Q - Analyst

Good morning, and thank you for taking my question. This is a very quick and simple question. When we think about the expansion outside of Sao Paulo, what are the main challenges regarding logistics and customer experience and even margins? Could you give us qualitative numbers or quantitative numbers? What is your expectation here?

A - Jorge Faical {BIO 21768322 <GO>}

Thank you for your question. Quantitatively, I'm not going to mention a lot, because there's a lot of the things in our pipeline. Our expansion outside of Sao Paolo in cities where we already have operations, this is our first strategy be saturations. Therefore we have interesting, operations in Brasilia. We also have good operations in Rio. We have operations in Recife, Fortaleza where we already have distribution centers and logistic network to increase the amount of cities opened in these cities in these regions. I would say that this is our main strategy now to open operation where we still do not have a logistic network, it's more complex and this would be a second stage actually and we will start thinking about this as of 2023. So basically this is I don't know if I miss part of your question if I did, please, I do apologize this. You're right.

Q - Analyst

It's excellent. Thank you.

Operator

The Q&A session has come to an end. Now. I would like to hand it over for the final remarks from our company.

A - Jorge Faical {BIO 21768322 <GO>}

Well once again, I would like to thank all of you for your attention. We have an hour of and a half of conversations. Our business as it is a Brazilian and Multinational business well, it is more complex, right? Therefore, I do thank you for your time and your attention. Brief comments. We are going through a low sales scenario despite a recovery or rebound we are reacting as a new GPA. The macroeconomic scenario presents more inflation, the inflation continues high, the income of our population is recovering at maybe steps we have presidential race ahead of us. This is a year full of volatility until we can interpret the electoral year. We will continue amongst oscillations.

There are also factors that hinder our debt, that would be high interest rates, silly interest rates are around 11%, 12%. Therefore, these are factors with the challenging environment in the short run. Now this is valid for GPA and for the market. This is not something that only affects us, this affects the entire market. Now internally, we are undergoing a transition and we intend to go through this transition the quickest possible. We had an excellent delivery from our teams when we closed the extras, but we still have 28 and 30 stores to be converted until the first half of the year. The transition, the read I mentioning of the company reducing our logistic network, represents challenges internally. Therefore we are going through a moment of external and internal challenges.

Now, in the mid-run, when we start thinking about the second semester we're transition is left behind, where we will have a more clear electoral situation and the recovery or rebound of the populations income, we are reassured with our business model and while we're building together with our partners and shareholders, this is a value proposition which is robust, focused on profitable business, focused on value to our consumers. And we're absolutely sure that as soon as the economy recovers, well GPA will launch in itself in the forefront together with all of our foundations we will be valued. Something that we consider fair.

I would like to thank everyone on the GPA team. I am grateful for all of your efforts, and there is still a lot to do from here on. Thank you very much.

Operator

Our video conference has come to an end. The IR department at your disposal to answer any questions you may have. Thank you very much to the attendees and have an excellent day.