

Q3 2018 Earnings Call

Company Participants

- Alberto Calvo, Executive Director
- Belmiro de Figueiredo Gomes, Real Estate Business Director & Member of the Executive Board
- Christophe Jose Hidalgo, CFO, Corporate Services Officer & Member of the Executive Board
- Daniela Sabbag Papa, IR Officer & Member of the Executive Board
- Frederic Garcia, Unknown
- Marcelo Bazzali, Head of BU Pa  o de A    car Brazil & Food E
- Peter Paul Louren  o Estermann, CEO & Member of the Executive Board
- Unidentified Speaker, Unknown

Other Participants

- Fabio Monteiro, Analyst
- Franco T Abelardo, Equity Analyst
- Gustavo Piras Oliveira, Executive Director, Head of LatAm Research. And Latin America Consumer Analyst
- Joseph Giordano, Senior LatAm Healthcare Analyst
- Maria Paula Cantusio, Banco de Investimento S.A., Research Division
- Richard M. Cathcart, LatAm Retailers Senior Analyst
- Robert Erick Ford Aguilar, MD in Equity Research
- Ruben Couto, Research Analyst
- Thiago Capucci Macruz, Research Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning. Good morning, ladies and gentlemen. Thank you for waiting. Welcome to the GPA conference call to present the results of the Third Quarter 2018. This event is also being broadcasted via webcast, which can be accessed at gpari.com.br. And the slide presentation is available there. The slide selection will be managed by you. Therefore, there will be a replay for this call.

We inform that the company press release is also available at its Investor Relations website. This event is being recorded. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act.

Forward-looking statements are based on the beliefs and assumptions of GPA management and information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of GPA and could cause results to differ materially from those expressed in such forwarding (sic) (forward-looking) statements.

Now I would like to turn the floor over to Ms. Daniela Sabbag, Investor Relations Director of the company.

Daniela Sabbag Papa

Good morning, to all of you. Good morning, to -- and welcome to our Third Quarter conference. Today, we have Peter Estermann, CEO of GPA; Belmiro Gomes, CEO of Assaí; Alberto Calvo from Extra; Marcelo Bazzali, of Pão de Açúcar; and Frederico Garcia, who deals with the drugstores. And we also have Ronaldo Labrudi, Co-Vice Chairman of our Counsel. Now I pass the floor to Christophe Hidalgo, CFO of the company -- no, to Peter.

Peter Paul Lourenço Estermann {BIO 15380447 <GO>}

Good morning, to all of you. Thank you for participating in the conference results of the Third Quarter of GPA. I will start this call with a brief introductory message so that each owner -- business owner can talk in more details of the highlights that led to the good results. I am very satisfied with the work that we have been carrying out.

Our multiportfolio -- multichannel and multiregion portfolio has given us freedom to leverage on the right moment, contributing positively for the sustainability of the company development.

We are going through a unique moment at this group because we believe that we reached a good balance in the composition of our businesses.

We maintained rentability and share of our Pão de Açúcar format, Assaí has had good development. There has been a very positive result with the supermarket, a strong acceleration of sales and profitability of our format, including here Proximity. And the positive performance in terms of growth and improvement of our e-commerce section.

GPA Food registered a strong growth of gross margin of 12.5%. This result shows the potential of multiretail and Assaí. The business owners will explain these initiatives in

detail. We had considerable growth in market share in all of the brands and a strong growth trends of our net profit, higher 3x than the profit of last -- of the third trimester 2017.

On the multiretail, I would like to say that we are accelerating growth. And this confirms that our commercial strategy is great. Regarding the management of our store portfolio, you know that our conversion plan and revitalization plan of the Extra supermarket, Compre Bem and Hiper Mercado Extra, is continuing. And we are collecting good results. We inaugurated the first Compre Bem store in Taubaté. And this is a total -- is one of a total of 13 stores that we want to inaugurate this year. Until the end of this year, the other 12 stores of Compre Bem will be opened. We already have 10 stores of Extra in operation. And to the end of year, we will have 23 stores. With this 33 stores of Extra supermarket will have been converted to the new formats.

The performance that we have observed in this new format signaled the possibility of conversion acceleration and revitalization acceleration in 2019.

If these performance trends are confirmed, we will have a positive impact in 2019 because of this work. Belmiro will now go into details on Assaí. I would only like to tell you that we are very satisfied with the strong sales performance, the enrichment and the expansion of this format. And this has been observed in the new stores and in the hypermarket conversion. Thank you. Congratulations, Belmiro. And congratulations, Assaí. I would also like to highlight 2 important factors this semester. We promoted the repositioning of our own brand and launched high-value products and -- as competitive sizes. And we closed new partnership with exclusive suppliers. We are now growing the penetration of our own brand in the retail industry. The second point is our digital transformation journey, which continues to contribute to our growth and loyalty share of clients.

To impose a faster growth rate in our digital market, we created the directory of digital transformation, which is led by Antonio Salvador. This semester, we are celebrating 70 years of GPA with a high campaign of commercial activation on all banners. And we also have the diversity week with a strong agenda to strengthen and spread our directive on this front.

I would like to close saying that yesterday you had -- we had the call of Via Varejo, which was led by Flavio from Via Varejo. The results were under our expectations. But I would like to highlight that all digital transformation initiatives have shown results in this last semester. And company management has a detailed execution plan. And the entire team is focused on taking Via Varejo to a different level of performance. We're working closely with Via Varejo. And we believe that better results will be delivered. I thank you for your attention. And I pass the floor to Christophe, who will talk about the financial results.

Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thank you. So that this company on -- as of the 19, because we have many holidays in this month. And as of November 26. So this migration process of Via Varejo Para Novo

Mercado, which is the exchange in the Brazil, is going to be concluded depending on this specific program so that we can be then traded in the Novo Mercado. This is a very relevant piece of information that was very important to inform you. Thank you.

Okay. Good morning, everyone. I'm going to talk about the most important financial point that has been a part of my numbers too, talking about the sales on the Third Quarter. So I said there was growth 12.8% in the quarter. It was 9.9% in the previous quarter. So this means exceeding up greatly as a consequence of very expressive growth in all kinds of business, mostly in AssaÃ.

The gross margin of GPA Food reflects the consequences of the involvement of (sales), which was above 22%. This is quite representative of the current trend that was for this year. And we plan a competitive level that is quite assertive in every point.

Talking about gross margin per business. In the less stable behavior, talking about AssaÃ, there was a growth of 80 bps according to the evolutions that we recorded in previous quarters.

For more than 1 quarter, SG&A had an important dilution of 8 bp, which was due to discipline and expenses control as well as the very dynamic sales both in AssaÃ and Multi. EBITDA adjusted for GPA Food presented a very consistent evolution of 22.3%. And this represented solidity and the balance of our business portfolio.

The EBITDA margin went up 50 bps. And this means 5.7% of our sales. So there was a margin expansion in all types of business. In relation to other operating expenses, they went down 50% in the quarter, most of this amount represents expenses related to the closing and changing some of our stores. In Slide 2, you can see also the net profit of the controlling shares grow 5x more, reaching a net margin of 1.8% of our sales.

This represents about BRL 119 million in this semester. For more than one period, we are going to continue to pay dividend quarterly.

Now talking about Slide #3. We can see that financial results had faced a reduction of 12.3% and represented 1.1% of our sales. So that is an improvement by 30 bps compared to last year.

This puts us in line with the behavior of CDI that went from 9.2% to 6.4% in the same period. The leverage of the company is quite healthy. We kept in this quarter a very low level of leverage, 1.15x EBITDA. And this is the same as 1.3x the same period in the previous year.

The net debt is quite healthy. We -- our debt level is 3.3 (devols), this is nominal debt, with available resources of BRL 2.6 billion. And regarding to disposition, we have BRL 1.8 billion of credit line, which has been already preapproved. And we can use them at any point in time.

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Now let's go to Slide #4. And I'm going to convey to you the most important points of the multiretail sales. As we said, there was an increase in sales (exceed). This trend is repeated in the last seven months. And this allows us to say that we have a different level of growth of our average number. The SG&A has a very well-controlled behavior for 12 years in a row. And this shows a very important growth below inflation level. This is what expect for 2018. So the adjusted EBITDA margin peak of Multi reaches 5.7% and 20 bps for the previous year. Before concluding what I have to say, I would like to say that the Third Quarter performance was within our level of expectation. And this give us the possibility to reaffirm our guidance of 2018, mainly talking about EBITDA margin growing from 50 bps, this means a very significant evolution. And 30 bps in the multiretail and EBITDA of 5.9% in AssaÃ. I conclude my presentation of this results. And now I give the floor to Alberto Calvo for his comments on the performance of the Extra banner.

Alberto Calvo {BIO 19476736 <GO>}

Good morning, to all of you. It is with satisfaction that I present the result of the banner Extra for the third semester, which consolidates in another semester of growth in all forms of the Extra banner. The gross sales curve was very positive for Hiper and Super. Hiper registered an income evolution of 1.4 to 7.4 in the third trimester. The supermarket went from a negative performance of 1.3 to a growth of 3.3 in this trimester -- quarter.

I would like to highlight 4 main points: market share, category needs, improvement of assortment of our own brand and loyalty.

The market share gains in the sales channel was very high in foods and no-food segment. We maintained the focus on our commercial strategy, which is more horizontal. And in promoting seasonal event as we did at the end of the World Cup with the Blue Friday on Parents' Day -- on Father's Day. And the 7-year anniversary of GPA, which was combined with anticipated celebration of Extra anniversary. All of these actions were well accepted by consumers. And they resulted in a good return for the business. This agenda led to results that were sustained by the consistent balance of our category mix.

We continue to register a 2-digit evolution in the nonfood sector and a spectacular growth in the perishable food section in sales in this quarter, together with grocery, complementary, cleaning products, which also registered positive growth. We continue with the reinforcement of assortment growth with our communication with clients. We now invest in communication through specialized festivals. Everything is launched digitally and under cooperation with our supplier. And furthermore, we also promoted the launch of our summer collection in our textile branch.

We registered an improvement in both formats in Super and Extra, with a higher leverage of the Extra market. The participation of our exclusive brands is strategic for this business and has a high impact on the Extra banner. And it is also important for our competitiveness in the markets in which we are inserted.

We close this semester with 10 stores of Super Extra being revitalized. And we already have 2-digit growth in sales, ticket and volume. We follow with the revitalization plan of

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additional 13 units, as Peter mentioned before.

These units will be open on the Fourth Quarter. We continue with the efficacy gain with the polyvalency and logistics cost. And we close with high success the loyalty campaign, Juntou, Ganhou, with more than 2 million knives distributed to clients. We started the Fourth Quarter with a promotional campaign that is very successful and clients have accepted as well.

I would like to close thanking especially the Extra team for its dedication in carrying out our aim as well as the support of my peers and the support of the commercial logistics, human resources, digital and finance team. And I'll now pass the floor to Marcelo Bazzali.

Marcelo Bazzali

Peter has said in the beginning at the opening with the strategy of multichannel and multiretail, Pão de Açúcar continues to gain market share both in the comp at same store and in total stores being able to keep the level of income.

I'd like to emphasize the most important point that we have in the period. We want to continue with our changing plans of our stores. We launched 3 new stores in the beginning of May and 7 other stores. All of them, they have good growth according to expected with sales, ticket and customers.

And the new service both loyal services and customer experience has been praised in our surveys. Till the end of this year, the objective is to inaugurate more stores. At the end of the year, we expect to have 15 stores. So the total 20 (hours) in our portfolios. The store groups present positive results according to our strategic plan. We also follow the Premium Project stores that have involved in 32 different stores. We started a pilot program in 4 stores with a plan that has been established in Via Varejo with positive results. Results are quite stimulating so far in all the key KPIs that has been analyzed. This helps us to keep our schedule. And this scheduling is then to be followed till the end of planning. The pillar of digital transformation continues to be a priority for this banner. We go on working different tranche. Our loyalty program with My Discount have a very consistent participation of 7% of sales. And approximately 40% of all tickets are used in purchases with My Discount. We have already 2.5 million in net download with very significant participation. And our program being (to My) that reached 85% of our identified sales. Apple Pay is already something part of Pão de Açúcar represents 1% of our transaction. Reminding you that we are the only supermarket network that uses this type of technology.

E-commerce (alimentar) has a very solid growth of 2 digits. This is fostered by the renovation of our site and relaunching of the app in addition to operating improvement according to the Extra model. This is progressing according to expectations. We reached our goal of 70 stores by the end of the year according to our schedule. Click & Collect is also progressing with a very important growth in our store. We opened the Fourth Quarter with great level of motivation. So we have this campaign, Juntou & Trocou, it's a collection of dishes by (foreign language) Fontignac (Place) and have been very well accepted by

our customers. I cannot conclude without saying that I'd like to thank all the work carried out by the Pão de Açúcar's team, multiretail. And we do believe in our plan, in our strategic plan, which is consistent and has been implemented since last year. We are quite motivated and concentrated on deliveries until the end of the year. Now I'll give the floor to Mr. Fred Garcia.

Frederic Garcia {BIO 1525714 <GO>}

Thank you, Bazzali. Good morning, to all. I would like to share with you the highlights of our Proximity business and drugstore.

I would like to reinforce the consistency of sales recovery, volumes and clients, 6% in the semester in the 2 Proximity banners, which demonstrates that the strategy implemented in the second semester was assertive and well accepted by our client. Regarding the mini Extra, I would like to highlight the main points of this semester, clusterization folders and operational efficacy. We also focused on the strengthening of exclusive brands in the stores. Simplified clusterization allows us to focus on the neighborhood clients. We also work on weekly leaflets. And we also added the seasonal campaign and the promotional campaign of loyalty campaigns of Extra. We introduced entry brands and products that allow us to be more competitive in lower-class neighborhoods. And we also reinforced our exclusive brands that are growing 2 digits in each format.

This is the strategic pillar of the group. And it is a fundamental strategy for the loyalty and differentiation of Extra. In this same line, we kept our word of exhibit and revision of store assortment and the development of our bakery, which allows us to offer an excellent product with a good cost-benefit relation. With this, we can compete with the neighborhood bakery. All of this allowed us to grow. When compared to the last semester, we had market share gain and consistent improvement in the profitability of the business.

In the Minuto Pão de Açúcar, the approximation initiated in the second semester -- in the Second Quarter, the positioning of exclusive brand and the reinforcement on the bakery allowed us to progress to 2-digit sales and reinforce the client (force). I must say that the drugstores are important. We revitalized the main 14 units in São Paulo, Rio and the northeast. And this should result in good effect in November and the coming months.

Then I finalize with our gas station that are growing also by 2 digits, all of these have been refurbished. We are investing in technology to improve our technology and a new visual identity to improve our competitiveness and expose our advantages, which are price and competitiveness.

We now see a very good perspective for growth and development of these businesses in the future. I would like to close thanking the Proximity team, the focus and dedication of each of you allowed us to reach this excellent performance.

I would also like to thank my colleagues from Multivarejo and my colleagues from the commercial, digital and finance areas for their support and the implementation of the

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strategies.

We are now committed to a good results and continue working -- continue with the hard work for the last semester. And now I pass to Belmiro for the AssaÃ results.

Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Thank you, Fred. Good morning, everyone. As we said in the material that has been emphasized by Peter, in fact, that we had an exceptional Third Quarter with total growth by 25%. So AssaÃ reached 48% of share in the food business with the increase in sales of BRL 1.3 billion compared to last year. The same-store growth by 7.4%, that happened this Second Quarter. And also extension and opening the store in 2017 and those stores opening in 2018, they are presenting a great results, with the ramp-up of sales reaching much higher than what we expected for AssaÃ.

Most of this mainly those who were a change from (Hiper) state to the -- low sales which - this has the highest level of share in the group.

So the focus of 2018, we started this in Curitiba, (Neuvalei), (Compasin) and the 1 store, Ayrton Senna in Rio de Janeiro. I'd like to highlight this project because AssaÃ is keeping its expansion to new states, new regions. So we have given priority. In this aspect, we are certain (as) of our expansion much more than among other stores. It's important how did the stores contribute to the result of the company. Curitiba was the first store, at the capital of the state of Parana. It took more than five years for this project to be approved. (Heuverji) also is very important for our consolidation (in that). In Compasin, which is the first store in the large region of Belo Horizonte and in Rio de Janeiro, this store is totally different called Ayrton Senna, who has the first photovoltaic plant in Rio de Janeiro. The improved of our margin is something to be stressed in the First Quarter. There was a very great assertiveness of our commercial policy, mainly the expansion of our anniversary campaign of the AssaÃ store. It takes place in October. So it was anticipated for September. So it's going to take place September and October. In the past, it used to be implemented in September, October -- in October, November. So with this change, we got better return in terms of customer loyalty, identification, gain of volume and support of the suppliers. So this helped us to present in this semester a great volume gain and a better customer flow. This helped us to improve this LP in reaching 5.9%. In the Third Quarter, AssaÃ has implemented modifications in its marketing strategy and also in market positioning. We bought the rights for the Brazilian Championship, we call the big championship, soccer championship BrasileirÃo AssaÃ, which is very important (event). And we intend to reach new states and new regions. It's also important to say about expenses, even with new stores opening and the number of stores that they're being built currently so -- through discipline, rigidity and work of our good team and being constantly concentrating on expenses, our expenses is (7.2). This is better than last year. And we gained 1.1% compared last year. With expense reduction, we have an increase in the business of more than 50%, reaching 5.7% compared to 4.9% last year. Financial expenses shows a slight variation, mostly due to exchange figures. More than BRL 900 million was -- were invested in new stores. Currently, we have 11 new civil works going on in Caieiras, Fortaleza, CamaÃari, inner lands of Bahia, Arapiraca. There is another store being built in Rio de Janeiro and 4 other units being built in SÃo Paulo. All this investment

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has been supported by our own cash generation. So this was -- so there was no consequences. So -- and this goes into the net profit, which is about 3 percentage points higher, which is quite important in terms of retail. So this result allow us to keep this impulse for the last two years. For the Fourth Quarter, we are concluding -- opening new stores Compre Bem AssaÃ. We intend to open 11 stores in the Fourth Quarter and Peter said 12 stores of Compre Bem. The first one was opened in TaubatÃ©. Initial figures are quite exciting. So there's many innovation. There are many changes in the positioning of the store. And so this opens us new ways. I'd like to thank the whole team, both AssaÃ- and Compre Bem, for the wonderful results achieved in the Third Quarter. So we expect next year we are going to continue to grow, keeping all these good figures and contribute to the best volume of sales of GPA.

Questions And Answers

Operator

(Operator Instructions)

Our first question comes from Franco Abelardo, Morgan Stanley.

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

I have 2 questions. One of them is related to the market share gain in the multiretail segment. You mentioned that there were gains in all the banners. But when we look at AssaÃ and PÃ£o de AÃ§Ã©car, we have 1.5% growth in the last quarter. And this is lower than EBITDA. I would like to understand what was the market growth in this last quarter in this segment of store when compared to other experiences that you had? And from whom are you gaining the market share? That is the first question. And the second question is regarding the EBITDA margin of multiretail. In the first nine months, you already reached 5.6%, which is the top of the expectation this year. Wouldn't it be sensible to revise the guidance once the sales should develop during this last quarter? Or do you believe that you will reinvest this margin in prices in the last quarter and this is why you're not revising the guidance upward?

A - Marcelo Bazzali

Well thank you, Franco, for your question. Well regarding our market share, we -- Nielsen assesses our market share. And as a matter of fact, we gained an important share in all our banners. And it is difficult to point out whom we are getting the market share. We do not have this information. But we understand that we have been able to capture good market share in all formats. And therefore, we're taking market share of all our main competitors in the regions that we are present. The important message of the share is that as of April we have been gaining share strongly and competitively in all formats and banners. And this reinforces our commercial strategy, the strategy that we have adopted recently. And we believe that we will continue with this market share growth and this strategy. Regarding the guidelines. You'd have to keep in mind that in this last semester we are under very seasonal effects. We have the Black Friday and Christmas. Usually, this is a very competitive environment. And as you mentioned, we have to be very well prepared for the quarter because 1/3 of the EBITDA of that -- of a year is concentrated in

the last quarter. So our company is prepared to participate in the seasonal event, very strongly motivated. And we are prepared for a more competitive market in this quarter.

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

Just a follow-up for the first question. Regarding the Nielsen data and they say that the supermarket and hypermarket data -- market is growing lower than your results, do you expect this market growth to accelerate in the coming quarters?

A - Marcelo Bazzali

Once again, the first part that you mentioned, yes, we are growing more than the market share. This is why we also gained market share. Regarding future provision, we do not expect large changes in the market in the coming months. We believe that we will continue. We expect to continue to be in a market similar to the one we had until now.

Operator

Next question, Ruben Couto, Santander.

Q - Ruben Couto {BIO 20636571 <GO>}

Well 2 questions. One, I'd like to listen about the (risings) of AssaÃ. Even with this huge number of sales, even so the growth margin to extend every quarter, I think it's very difficult. When do you expect this margin to be stabilized? Or maybe when you think about to have a reinvestment in price? Just an idea because if the AssaÃ market would be matured, what would be the level in terms of gross margins? And also, I'd like to listen and see your opinion about the PÃ£o de AÃ§Ã°car banner and what we saw -- what is the result of the pillars due to reforms, the remodeling? And in the Fourth Quarter, what do you expect you're going to see? Do you expect exceeding up or...

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thank you for your question. Gross margin, as I said, we are having in the year 2018 it's a consequence of expansion. It was really done on (vader) of (Hyper) market. So we had a conversion. And until the replacement of the store, they had more involvement of consumers. We have to remind you there are 2 prices of our products. So in fact, in the financial results, we see a margin of this 2 different trials of customers. But the amount presented of 2 points up and above of the consumer margin and legal people is 2 points down. So since we see, we consider the gross margin. And there is no consequences of seizing the expansion that was done in an organic way. So it reached a level that was incredibly good. And the consequences to expect for a slight turn that due to inflation problem and with also levels of inventory that helps the gross margin. And also, there is the problem of taxation where we have fiscal season of taxes. And this is a very -- it's very -- the end was very positive. So all changes are totally organic changes. We have to invest more in our image. That's why you have to -- the guidance of AssaÃ in compared to the Third Quarter. So this guidance is going to be slightly up. But we're not going to go much beyond that. So this segment where we are located also is changing throughout the years. It required larger participation, close to the final consumer. And so we sell more to them than to legal institution. So if all stores would be mature, we would reach 0.330,

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(0.50) above to date. But this is going to depend on market variations. So we have continued to expand. So I don't think we are going to be able to establish this consequence within a certain period of time. But it's going to be 16%, 16.5%. This is the feeling. So the proposal of this business is to offer low prices. (inaudible) (figures). In terms of Pão de Açúcar, we already said the results of the Third Quarter. In the Fourth Quarter, we expect to have an even better performance. We hope that we are going to reach the peak of our campaign, our campaign that's going to be launched November, December, January. And we are -- remember, that last year in September, October, this was the peak of our past campaigns -- past year campaigns. And we do have a very detailed plan, a strong plan involving Pão de Açúcar in Black Friday and Christmas. Our expectation is to have an even better performance in the Fourth Quarter.

A - Unidentified Speaker

Talking about the impact of the Third Quarter, in the past, we launched the plan in April. So we achieved good consistency in the second semester. Third quarter was 350 bps. This affected the baseline. And this also remodeled stores that presented an impact of 100 to 120 bps. So these 12 stores that have been remodeled and were relaunched, these are more than 7 stores. So just saying what he said, we believe that in the Fourth Quarter we still have even better growth.

Q - Ruben Couto {BIO 20636571 <GO>}

Just out of curiosity, Belmiro, when we look at the first stores that have been remodeled, in time this is going to be adjusted? Or legal institutions are going -- or is going to be individuals and legal entities? How is going to be the division?

A - Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

I don't think it's due to the profile of the store but the change that we implemented here in São Paulo. These are the regions where we're having had already Assaí stores. The physical structure of these chain stores, they are not adapted for legal entities. So of course, we counted the participation of the consumers. This is going to increase. The split between legal entities and individuals, there is a loss in Brazil. In São Paulo, we have a large participation of legal entities because no one eats at home usually. When you go to Feira de Santana, Bahia, most people even working they go back and have lunch at home. So number of meals change. So this percentage is more or less half and half overall in Brazil. But depending on the specific Brazilian regions due to logistics might vary about 20percentage points.

Operator

The next question comes from Thiago Macruz from Itaó BBA.

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

I have a question regarding the food industry. Could you provide us an idea of the inflation rate in the different banners in the last quarter? And what is your expectation for inflation in the Fourth Quarter? We did not see a impact regarding the work contingencies that

happened in 2018. Could this be a driver for profitability expansion in 2019? And if this is true, could you provide more information on this?

A - Peter Paul Lourenço Estermann {BIO 15380447 <GO>}

Regarding -- this is Peter. Regarding your first question, we believe that inflation will be around 3% or close to 3% in the multiretail and Assa stores. Regarding the work contingencies, I will pass the floor to Christophe.

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thank you, Thiago, for the question. Regarding work contingencies, what we observe as of the start of the year is that we had fruits drop in the number of processes -- work process that will reach 30% in multiretail and Assa. The work process is stable. The labor process is stable but is in line with -- the labor (too) is in line with the growth of the company. This -- the impact -- this impact will be shown in a few months. We expect that we will buy the fruits in the next month and that we will be able to calibrate this to 2019 up to a 20% dip in oversale. So we believe that we will have a significant impact nominally.

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

And Christophe, another question, regarding what you've said here. I did not understand the 3%. Is this 3% the inflation that you perceive? And it should be in the Third Quarter and it should be kept in the Fourth Quarter? Or is this different?

A - Christophe Jose Hidalgo {BIO 17982648 <GO>}

We on our side expect an acceleration of inflation on the second -- into the Fourth Quarter. Thiago, 3% of inflation that I mentioned is in the Third Quarter. We will have an acceleration but not significant acceleration in the Fourth Quarter. This should be approximately 3.5% to 4% in the Fourth Quarter.

Operator

The next question is from Joseph Giordano from JPMorgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

Actually, these are 2 questions. I would like to understand this environment where the consumer feels less pressured than last year. Do you see some trade-up movement -- are there some products where you really see this trade-up movement? And in the -- your own brands, I noticed that you are investing in publicity of Qualit in close channels. So what is your quality -- your product quality perception? And how does this affect your positioning? And last, my question is also associated with the competitive environment. I understand it is a healthy environment. But I would like to understand more about the regional breakdown?

A - Unidentified Speaker

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Thank you very much for your question. Well regarding the trade-up from the consumer perception, we does not observe any trade-up movements from consumers. We believe - we understand that consumers are still very cautious. This movement has not been observed. And therefore, there has been no impact of trade-up in multiretail or AssaÃ. Regarding our own brand, your question is very pertinent. You know that our strategic plan for our own brands is essential for the results of multiretail. And quality is the most important pillar in our own brand. We work with 3 essential pillars. First is that product that is launched should be equivalent in quality to the reference brand in the market. This product should be 30% lower in price than the reference brand. And the activation levels in the store should change the platform. We already relaunched QualitÃ. You're right. We did this last month. And our expectation is very positive. We launched a number of new products in different categories. And they have been very well accepted. And this has been essential for our results, especially in the Extra market where the own brands have a larger penetration.

Regarding Extra, the strategy of own brands is one of the most important pillars that we are developing. We already have growth in market share of the own brand. And this is very high when compared to last year. And as Peter mentioned, the revitalization of the supermarket with the name Extra was already born with this strong leverage on own brand. And we have a market share of 5 points -- potential points higher than the other supermarkets.

Belmiro, regarding your question, regarding regional competition. Competition is strong from north to south. It is very strong in all regions of Brazil. What we observe is that the states that were most affected by the crisis as Rio de Janeiro, Bahia and the Northwest were the states where the consumers -- where consumption went down and competitiveness increased in these areas. But we cannot say that it is extremely high in terms of competition. I agree with Belmiro. We observe that competitiveness varies from region to region. Our strategy for each region and for each format is adjusted for this level of competitiveness. And I agree with what Belmiro said. And I reinforce that the state of Rio de Janeiro is extremely difficult in terms of competition, especially when we consider that the consumer is much more cautious in Rio de Janeiro, which means that they really hunt for offers.

Operator

Our next question comes from Rich Cathcart, Bradesco.

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

I'd like to ask about the converted (largest) to the Extra supermarket. In the release, it was clear that they are delivering double digits according to the volume. I'd like to understand the level of stability of these stores and how is this compared to the rest of other stores over PÃfo de AÃ\$Ãcar? Second part of my question is about the stores that are not being converted, most of them. And I would like to understand if you have any specific reason, any specific strategy or initiatives that being implemented that causes this improvement in Extra Super?

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A - Unidentified Speaker

Richard, thank you for your question. As to the Extra Supermarket, it's been said that it's double digit in sales, volumes and tickets. And it's very significant. Significant I might say that the -- above 20% both in volume tickets and sales, which is really important. And in terms of margin, these stores they have been reopened recently. So you have a difficult (type) of a margin. And with the 4 first stores that have been opened some time ago, we still have obtained a better margin than the margin we have in other supermarkets. So it's a very positive trend. But I'd just like to say this is the first week of operations, as Belmiro said. But the results are quite significant.

The other stores in supermarket business where we presented a 3.3% growth it was a very important growth. And we had a negative performance in the past. I'm going to highlight 2 or 3 basic initiatives that we implemented. We activated the sale of our own brands in these stores. We worked with FLV in all these stores in the supermarket. And we've concentrated also in pricing, (diversification) in a different way according to micro regions. So these 3 points were quite important. But I might just -- that was the fourth is going to make -- well, basically, in terms of the most important leverages and guidelines for our markets and also the increase of most of the market sales, Peter has properly answered the question. I just reemphasize being the Extra market has already starting with a new cost structure with a reduction of supply that optimize the operating profits of the store and also increase in value in the life line. So -- and also, he talked about the revitalization of the stores and markets. Supermarkets happens the same. Together with hypermarkets, we are doing the same work trying to optimize the operations. That's why we have a series of strengthening points that help us to -- each store and improve competitiveness in the market.

Operator

Next question is from Fabio Monteiro, BTG Pactual.

Q - Fabio Monteiro {BIO 3711690 <GO>}

I would like to explore further the structure of the super middle-class format and also the neighborhood stores. I would like to understand your aim in terms of price positioning and which competitors are you going to face in these segments. In the case of fruits super, we have Compre Bem and Mercado Extra. Compre Bem is in a pilot phase. You already talked about the conversion and about the growth that is very strong. But I believe that there is a certain repressed productivity and new opportunities for you to work these middle-class supermarkets, as we call them. And I would like to understand your strategy? Where do you want -- what is your aim in applying this format? Half of the superstores could be converted to Compre Bem, for example. So I would like to understand more the structure, the price positioning. Is there any repressed productivity? So could we have a 50% or 100% improvement in productivity in the coming years? And your margin levels? Your main competitors? Your long-term strategies? And the same also applies to the neighborhood stores. So the same question for the neighborhood stores.

A - Unidentified Speaker

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Thank you very much for your question. The structural aspects that you mentioned on we have 187 supermarket stores. And as a matter of fact, to date we do not envision the number of stores that we will migrate to each format, to Mercado or Compre Bem. But our initial study suggests that we could split this 50-50 to each between these supermarkets. But we are now waiting for the results of the stores that we are converting and revitalizing to have a better understanding regarding the geolocation of those stores and the competitiveness of those stores, which format will be -- have best results in that neighborhood according to the social classes. So we are working with a possibility of sharing 50% of the stores between the 2 brands. And our competitors are the regional supermarkets. Most of our stores are inserted in micro region where the regional markets are present. And their presence is strong. And the new format of Compre Bem and Mercado Extra. But mainly Compre Bem, is adherent to that -- to the strategy of the regional supermarkets. And our strategy is to gain competitiveness. As Belmiro pointed out, there are 2 important fronts. One is increase in productivity and efficacy. We want to reduce the SKOs -- to 7 SKUs in these stores -- from 11 to 7. And we also are focusing on the different sectors. This is extremely important in these formats. SKU bakery and the meat sectors are very important. So the new format is specifically competing with the regionals. But the timing on the location, we have other things that we need to take into consideration.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Peter, you commented on the logistical side that the operations of Pão de Açúcar and the changes have shown positive results. And on the logistical part, it's difficult for us to understand what's going on. But in this super segment, which is more middle class in this neighborhood class -- neighborhood market, there is a logistical challenge. You have to send more thing to -- more supplies to the stores. I would like you to comment on this logistical side of business, to mention more details on logistics.

A - Unidentified Speaker

Well 2 important things that we must highlight. When we talk about it for Compre Bem, the supply strategy is different between these 2 new formats. Mercado Extra uses the logistical chain of multiretail. So most products come from the distribution centers of the retailers to the store. And in Compre Bem, we have a significant participation, 50% of deliveries are in stores. And this is -- has as important impact on CapEx. We receive products directly from the supplier. These are different strategies that we have to learn from. We have to identify the improvement potentials in each of these strategies. You know that we have distribution centers in São Paulo. We have a city with 36,000 square meters. And this is only -- this is for e-commerce and Proximity stores. And here, we have important opportunities to reduce the logistical costs for the Proximity markets. The logistical costs for Proximity market is very important for the total cost of logistics. We have actions that involve productivity, efficacy, change in the supply model, changes in the delivery model. These are changes that already improved the logistical cost, which, as you mentioned, is essential for the Proximity market. Fred, do you have anything to mention?

A - Frederic Garcia {BIO 1525714 <GO>}

No. That's exactly what I wanted to say. Logistics is the challenge in the Proximity market. The work -- the continuous work between supply frequency, the right dosage of supply

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frequency and the delivery times of the stores. And this is due to the difficulties of delivery in urban areas. This dosaging between all these elements are -- is a challenge that we have in the Proximity stores. We are working hard to reduce this logistical cost. But we are privileged because we have a dedicated supply center. And we have a team that is dedicated to this challenge.

Operator

Next question is from Maria Paula Cantusio from BB Investments.

Q - Maria Paula Cantusio {BIO 18652439 <GO>}

I'd like to go back to talk about Pão de Açúcar. It was quite clear that you're growing above market level and as (well) that you have an impact in addition to reform the promotion that we did or maybe shorter promotion? If you have followed the service level inside the stores in your program and how is the competition behavior in the premium segment? Also, I would like to know if you could update us on the sales of the operations Via Varejo?

A - Unidentified Speaker

Maria Paula, thank you for your questions. You mentioned precisely the points that we have already stressed here. The impact was due to the opening of more stores, new stores. And this is also due to the effect of our promotion. Last year, we -- this happened in the Third Quarter, the Juntou & Trocou, the point that helped to affect the results of Pão de Açúcar. As we already said, in the Fourth Quarter we are going to recover this growth. And service level at Pão de Açúcar has improved. We are currently watching the level of the traction of our customers. We had surveys. It seems that our customer satisfaction has improved. And we measure no effort because we work ourselves to be not only sufficient number but well trained, quite at ease with the idea that service level and training of our staff in stores is improving continuously. Just to restate as Peter has said, internally what we have the index of customer satisfactions. We (scored) about 100 customers per store. And now in the banner, we have the hidden customer. A in this last three months, we had focus groups with our customers, always trying to detect the service level in perishables, FLV, quality bakery, also services and quality, cold cuts and all the perishables. So in terms of service levels, training, continuously investing in our team and the great concern in terms of achieving good service level.

Now going back, Maria Paula, to your last question, I think, from Via Varejo about the sale of Via Varejo. As we said, the sales process is still going on. We are concentrating -- strongly concentrated in selling the (contraversive) strategic investments. We understand that after this period is gone, after the election period. And as soon as we can understand better what are the following ways the country is supposed to have, then we can have a better position.

Operator

Next question, (Jillene) from Citibank.

Q - Unidentified Participant

It's one question. Talking about online food business, are you making any digital investment in double (digits)? But are you changing anything you are feeling that the consumer is more interested in online sales? Are you improving this level of interest on the part of a customer?

A - Unidentified Speaker

Thank you for your question. Yes. We have improved in a significant way the service level. And deadlines have been reduced. And it is really important, specifically because, as Bazzali has said, we now have a Delivery Express, which is sitting inside the store and delivery to the customer living in close to the store. So this reduced in a great way the delivery -- it reduced delivery time. Our perfect order has been improved in a very important way. And in doing so, the sales share of online has improved. I believe that with mini hub project -- we still have a pilot project. But we intend to implement it fully next year. And this is going to be a huge number of stores participating in this delivery system. So when online business grows, delivery becomes very important. And also, our Express sale is a positive margin sale. This is very important because in the e-commerce and as well as the Proximity stores, the logistic cost is really important. We are fully concentrated on logistic cost not only for neighborhood stores, the Proximity stores or -- and e-commerce.

Operator

Our next question is from Gustavo Oliveira, UBS.

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

I would like to understand, Peter, when you're talking about regional markets, are Compre Bem and Extra pilot projects? Or do you already have a definition where you're going with these 2 formats? You already mentioned that you might split them 50-50. We always have the impression that Compre Bem has grown much faster than Extra. So is there any intent of moving from Mercado Extra? There was certain confusion in the Extra brand. And I would like to know is do you really believe in the Mercado Extra? And do you believe in Compre Bem? Or would you be able -- would you be willing to kill 1 brand to invest everything in the other brands?

A - Peter Paul Lourenço Estermann {BIO 15380447 <GO>}

Well Gustavo, 2 things. Well we have no interest in sort of killing Extra brand. The Extra brand is strong. Yes. But it was in the -- highest in the EBIT. But Compre Bem is a disruptive format. It is extremely disruptive. It has different concepts than the concepts we use in Extra Supermercado. And it is strongly inserted in the regional supermarket competition. Compre Bem, we launched only 1 store of Compre Bem. But we have been working with this store concept. We have been discussing this model, understanding this model, serving the market as a whole. We have focused on good market practice of regional supermarket. We have -- we are convinced that Compre Bem has started better than expected. And we believe it will continue this way. We will have certainly small adjustments in the model as we launch new stores. But we are sure that this will work out.

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Mercado Extra, as you know, has a large CapEx difference. Compre Bem, we are working to reduce CapEx in Compre Bem. And we already have the clues to do so. But this is a segment that will have BRL 4 million, BRL 5 million, BRL 6 million CapEx investments in Mercado Extra. We're talking about a million investment in CapEx -- so BRL 1 million or less. So we believe that there is room for Mercado Extra. Mercado Extra is a revitalization of the supermarket concept.

When we look at the competitive positioning of the store with a lower CapEx, intervention is lower and, therefore, the revitalization speed is strong. And Compre Bem has very accelerated rhythm. The opening time for a store is very short, considering the intervention that we carry out. But it is a little bit longer than in Mercado Extra. So we believe in both formats. What we have to define in the future is how to administer the speed of change through revitalization and reforms and the adjustments that we need to carry out in each format.

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

Last question for Belmiro. I'm not sure -- I did not really understand. You mentioned that you will be opening 11 stores this quarter -- the next quarter and that there might be a pressure on your operational margin in the Fourth Quarter. Is this correct? What is your margin development for the -- the EBITDA margin development for the Fourth Quarter?

A - Unidentified Speaker

Yes. We have 11 AssaÃ and 12 Compre Bem that should be open in the next quarter. And you already learned about the differences. In the response that I made in Compre Bem when compared to Extra, in Compre Bem, we have higher CapEx. In the case of AssaÃ, we have openings. There is always a pressure on the EBITDA margin when we open stores because these stores are in new regions. The brand is not known in that region. For example, in Castanhal, the format of AssaÃ is not known. So this put EBITDA under pressure. But this has been contemplated when we made the guidance, the market guidance. The investment that is carried out in these brands will not affect the year results and the expectations that we have for the margin in the last quarter. Of course, there is an impact 7% or 8% in store growth. But we do not believe that there will be impact because of this.

Operator

Next question from Robert Ford, Bank of America.

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

Peter, what is the sale percentage of electronic products and (post at) partners? It seems that you intend to make a transition for hub platform. So how -- what should we think about this transition?

A - Peter Paul LourenÃso Estermann {BIO 15380447 <GO>}

Okay, Robert. We announced (what) share in GPA. And it's a small share. This sale is done in the hypermarket. And our connection with the suppliers today is certainly implemented

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through Via Varejo. Now I'd like to know food (stuff) and percentage of the hub. In Via Varejo, we have thought about -- we have reflected on Via Varejo. So in terms of Mini hub, I already said that in -- according to our opinion, we have 13 stores of the hypermarket with a storage area which is similar to the storage area of similar site of stores, 1,500 to 2,000 square meters. These are the stores that we intend to use to have direct delivery from supplies to supply not only that store but all the stores that belong to the micro region around the mini hub. Not supplying products to the store but making Internet deliveries. The most important point in the -- of the aspect of mini hub, we are testing only 1 store with this mini hub system. So we have to understand how this store is going to participate, how it's going to contribute not only to reduce logistic costs but also to improve service level. But if this model works, this is going to open to more markets of Proximity in São Paulo. And this market is very important to think about logistics. If mini hub works well, we have (deeper) markets that are located all over Brazil. So then, using this model, we are going to unlock this Proximity markets. And we are going to implement them in places outside São Paulo. The expectation is quite high, quite positive. But I want to make it clear that this is a pilot project. And if it works, we are going to roll it out next year. It's not easy to implement a rollout for 30 stores. I'm going to inform you at every quarter how this project is going on.

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

And what about e-commerce in the case of Assaí? Do you have any news in this regard?

A - Peter Paul Lourenço Estermann {BIO 15380447 <GO>}

Well Robert, yes, we looked closely to this. And there are some initiatives to make the customer more connected, even this campaign of the anniversary of (Pão de Açúcar), we are already this campaign. And there is a participation or a shared of (inaudible) with presenting involvement of customers. We sell (profits). We have a low added value. And we included this factor just to reduce logistics course of door-to-door delivery. So up to now, we do not see anything that makes sense from the economic point of view adding more value to the customers from what we expect. We are paying attention to what's being done not only in Brazil but other countries too. And if we see if there is any solution, any opportunity for us to innovate, of course, we are going to think about maintaining because the logistics of the Extra market.

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

We are talking about macro food service. Macro food services for you is not something feasible?

A - Peter Paul Lourenço Estermann {BIO 15380447 <GO>}

No. Right now, we are not considering. It's not feasible. On the -- the positioning of the system income because the logistic costs are really high. When you analyze, for instance, (Kilomede) you have BRL 5 or BRL 6. And freight is paid per weight. So if you have a low added-value product, not only in Brazil, all over the world, there is no good solution that makes sense so that you can sell it at lower to the extent level that we have when it's sold in stores.

Operator

The question-and-answer session is now closed. We would like to pass the floor for the final consideration of the company -- for the final remarks.

A - Unidentified Speaker

Well before closing, I would like to thank all our team members for their dedication because this has been key to the delivery of the results that we just presented. And I would like to point out that the performance that we just presented leaves us more confident and prepared to deliver the results at the end of the year. As you know, this is a seasonal quarter. This is a quarter full of seasonal events in Brazil; 1/3 of the EBITDA is concentrated in this quarter. So we are focused. We are motivated to deliver good Fourth Quarter results. Thank you very much to all of you.

Operator

This conference call of GPA results is closed. The Investor Relations team is available to answer any other questions you may have. Thank you, all for participating in this call. And have a nice day.

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