

Q1 2020 Earnings Call

Company Participants

- Carlos Mauad, Chief Executive Officer of Carrefour Soluções Financeiras
- Jose Roberto Meister Mussnich, Chief Executive Officer
- Luis Moreno, Chief Executive Officer, Carrefour Retail Brazil
- Marco Aparecido de Oliveira, Chief Financial Officer
- Natalia Lacava, Head of Investor Relations, Grupo Carrefour Brasil
- Noel Frederic Georges Prioux, Chief Executive Officer, Grupo Carrefour Brasil
- Sebastien Durchon, Deputy Chief Financial Officer, Grupo Carrefour Brasil

Presentation

Natalia Lacava {BIO 17175216 <GO>}

Good morning, ladies and gentlemen. Welcome to our Video Conference of Grupo Carrefour Brasil to discuss the results for the First Quarter of 2020. Thank you all for being here with us. I think this period of quarantine has been a challenge and we decided to choose this format to be closer to you. I will give you some instructions for this new format, so that we can have a good conference call. You may ask questions via chat, and we ask you to send the question to the person that you would like to answer and identify yourselves, so that we will know your name and the company within you work. Some messages, this call is being recorded and broadcast live via Internet and you can access it at www.grupocarrefourbrasil.com.br, where you will also find company's presentation.

Before proceeding, we have a disclaimer and all forward-looking statements made during this conference call about business perspectives, projections, operating and financial goals are based on the beliefs and assumptions of the management about the future of the company. Such forward-looking statements depend on market conditions, the general economic conditions, the industry and other markets. Therefore, they are subject to change.

Well, so, now once again, I thank you very much for being here. And I'm also available to answer your questions that you might have after this video conference and now, I turn the floor to our CEO, Mr. Noel Prioux, to start the conference. Thank you once again and Noel, the floor is yours.

Noel Frederic Georges Prioux {BIO 15135754 <GO>}

Thank you very much, Natalia. So let's start on Slide number 2. Good morning, everyone. Thank you very much for joining us on this call to present Grupo Carrefour Brasil's first quarter 2020 results. I am joined on this call by Mr. Sebastian Durchon, our CFO, who will

present in greater details the highlights of the period and also he will be available in the Q&A session. And with us we also have Natalia, our Head of IR.

So, this first quarter was very particular and atypical with the outbreak of the COVID 19 pandemic. Grupo Carrefour Brasil's very strong performance in the midst of an unprecedented disruption and trading condition attests both to the fantastic strength of our omnichannel multi-format model and to the extraordinary dedication and commitment of our 80,000 employees from stores to distribution centers and online operations. As the pandemic spread, Carrefour Brasil's teams and the entire ecosystem mobilized and adapted at a record speed, to ensure the health and safety of employees and consumers to protect purchasing power and keep operations running smoothly in face of a sudden surge in demand. I would like to thank them and also tell them that I am very, very proud of their work, which creates a lost connection with our customers.

As soon as the pandemic reached Brazil, our crisis committee was able to capitalize on the experience of Carrefour teams in other countries, that had already been affected by the virus and put in place industry leading measures. We focused on four key priorities. The first one was to focus on employee and customer safety. I'm sorry, that's fine. Slide number 2. So this is a long introduction, but it is worthwhile. Yes, we do have four priorities. The first one was to focus on employee and customer safety. We did this by implementing a comprehensive set of measures that we shared with the rest of the industry. To protect our front-line employees, we have installed plexiglass panels at cash registers to minimize human contact. We distributed face masks and gloves and ensured a steady supply of hand sanitizer gel and equipped the stores with thermometers to take the temperature of both customers and employees. And in our stores, Carrefour Group is enforcing strict sanitizing protocols for all equipment, implementing signs to maintain social distancing between customers, has made gloves and hand sanitizer gel available at the entrance of stores and has extended the number of preferential checkout counters for senior citizens as well as, is providing information to customers in the stores and social networks.

Our second priority was to ensure food availability for Brazilian consumers. Carrefour teams were mobilized in an exceptional manner to ensure the continuity of food distribution in a complex and unexpected context. We quickly implemented several actions to keep the supply chain running as smoothly as possible, with detailed plans to secure supply in the stores and warehouses, including specific measures for the most sensitive and priority products, working with suppliers to increase direct flows, rush analyzing supplier ranges and closely monitoring shortage risks. We also recruited 5,000 employees to strengthen the store and logistics teams.

Our third priority is protecting the purchasing power of our customers and among other measures, we froze the price of 200 products of our private label for at least two months. Our commercial teams also mobilized immediately to avoid or contain price increases and initiated systematic negotiations with suppliers, pushing them to maintain prices or when absolutely necessary, to keep price adjustments as limited as possible. The fourth priority was to implement solidarity actions to help vulnerable people.

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We cannot remain insensitive to what we read and see about people that don't have a job or going hungry. Carrefour is donating BRL15 million in the staple food and its distribution has already started in the states of São Paulo, Rio de Janeiro and Pernambuco with the support of NGOs. We launched the project Máscaras solidárias, a project that supports low-income women by buying productive homemade textile masks, and we are also involving our customers in our charitable initiatives. With the Compra solidária campaign, customers can also help at the checkout counter or on a dedicated website with contributions that are matched by Carrefour and the value is converted to food stamps for vulnerable families and people.

What is happening today is a real life stress test, but Carrefour Brasil has shown the extraordinary resilience and strength of its model through all of its formats and channels. By putting all its energies into fulfilling its strategic role of providing access to food during lockdown measures, protecting also the purchasing power of Brazilians and at the same time, showing solidarity at a very difficult moment, the Group has even further deepened its close connection with its stakeholders.

And this very particular context, customers acknowledged our many initiatives to ensure safe shopping, as clearly showed by the acceleration in sales, by the increase of our net promoter score and by a survey, by Croma Consultancy [ph] showing that Carrefour was the only food retailer among the 10 top of mind brands for Brazilians, amid the COVID 19 pandemic. Well, we understand then that we are on the right track and that represents that recognition of the extraordinary mobilization of our teams. I would like to thank all our customers for the confidence and the trust they have placed on us.

So now, I turn the floor to Sebastien who will go into the details of our Q1 numbers, which, as you will clearly see, reflect what I just have said. And later, I will be back with my final remarks.

And I turn the floor now to you, Sebastian.

Sebastien Durchon {BIO 20242758 <GO>}

Thank you, Noel. And good morning, everyone. Let's turn to Slide number 4 now, and here we can see that Grupo Carrefour Brasil continue to post profitable growth, while operating in an unprecedented environment, just like Noel has just described. Let's just start with our sales, which reached 12.2%, reaching BRL15.9 billion in the quarter, like-for-like growth of 7.6% excluding petrol. We already had a strong growth pre-crisis, it accelerated in the first two weeks of March, as consumers stockpiled food ahead of lockdown measures in certain cities and states. In the last two weeks of March, like-for-like sales growth was 20.9%. We saw growth across all formats and channels with a strong acceleration on e-commerce as I will show you shortly, and growth in food was particularly strong.

Our adjusted EBITDA reached BRL1.1 billion, an increase of almost 7% vis-a-vis the same period of last year. That reflects not only the growth I mentioned early, but also the efficiency gains, specifically in the retail division. Our SG&A expenses as a percentage of

sales improved by 0.3% as a percentage of sales as our strong top line performance allowed us to offset higher operating costs related to COVID-19. EBITDA margin was a sound 7.7% up, and despite of a more volatile consumer environment, with an increase in risk provisions at Banco Carrefour.

So now let's start our business performance for the different business units on Slide 5. Atacadao posted the very strong performance in the quarter, with double-digit growth in sales and a robust growth in gross profit and adjusted EBITDA, reflecting its excellent position in the current environment and the efficiency of its model. Total sales reached 13.6%, reaching BRL10.8 billion despite the tough comparison base because we are coming from a growth of 13.6% in the first quarter of last year, the trend was already strong prior to the onset of COVID-19 and it accelerated in the second half of March with growth of 18.6% in the period. And there is a typical scenario, we saw less traffic, followed by a higher average ticket. Atacadao's growth was well balanced in the quarter, the like-for-like was 7% and the expansion represented 6%. Four new stores have been opened in this quarter and added to the 20 openings that we had last year. Now, we total at the end of the quarter, a 190 stores in the total network. Gross profit was up 9.5%, gross margin 15.4%, 0.5% or 0.5 percentage point in the annual comparison, because of a comparison base that was very challenging, but it is stable when we compare that to the prior quarter.

SG&A expenses as a percentage of net sales were down 0.3 bps and despite of the 20 new stores opened in the last year. Adjusted EBITDA has increased 9.3%, with a margin of 7.1% and this is a very robust performance with a combination of sound sales and cost efficiency, which have allowed it to largely offset higher operating costs related to COVID-19. The Atacadao's nationwide footprint and the large range of basic products combined to its ability, not only to reach B2B, but also end-consumers positions it very well in the current scenario, despite of the steep reduction of businesses coming from restaurants and bars. Looking ahead, we believe Atacadao is in the ideal position to cope with a potentially tougher economic context, as proven in the past. The acquisition of 30 stores from Makro Atacadista, all of them in premium locations will further boost our growth and extend our reach to thousands of new customers. The transaction, as you already know, is currently under antitrust review and we expect it should be concluded by the second half of this year.

Now on Slide 6, we have the performance for Carrefour Retail, which posted a very strong performance. Total sales reached 9.3%, reaching BRL5 billion, like-for-like sales rose 8.9% and up to 9.1% if we include the marketplace. So just like Atacadao, Carrefour Retail also experienced a sharp increase in average ticket and a reduction of the number of tickets, reflecting stockpiling of food and more concentrated shopping by -- towards the end of March. In this quarter, food growth surpassed the non-food, an increase of 11.2% in total food sales, including online and that was the highest quarterly increase in the last five years, supported by the surge in demand in the second part of March, which saw a like-for-like growth of 26.3% and this was also supported by our strategic decision to contain price increases and freeze prices of 200 private label products. We should also highlight the stronger growth of the non-food category in -- a like-for-like of 5.4%, and despite of a comparison base that is very high.

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Our multi-format recorded like-for-like growth of 8.5%, with volumes up by 5.6% and average ticket increasing 8.5%, more than offsetting the reduction in traffic in late March as consumers reduced their visits to the supermarket in face of this product [ph] of the pandemic. We continued gaining market share in the quarter in the hypermarkets and in multi-format retails, supported by our excellent execution, gross profit has increased 7.8% and gross margin was at 23%, down 0 percentage points in the annual comparison, reflecting a lower contribution from petrol and shopping galleries, because we have postponed a rent collection from March to May to help shopkeepers through these difficult times.

SG&A as a percentage of sales have -- had an improvement of 0.3 percentage points, going down to 19.4%. The productivity gains more than offset the additional expenses that we had to face the COVID expansion. Adjusted EBITDA was up 4.9% and adjusted EBITDA margin was resilient in 4.6% when compared to 4.8% one year ago. I would like to highlight here the remarkable performance of our multi-format, the EBITDA had already grown 17% in the fourth quarter of last year and in the first quarter of 2020, the growth has accelerated once again and reached 24%. This excellent performance proves the assertiveness of the strategy implemented two years ago.

Our Carrefour Retail division has also benefited by e-commerce growth, which we will now discuss on Slide number 7. In an inserted scenario and in a scenario also marked by the isolation measures, e-commerce is emerging as the channel of choice for many consumers and this is driving impressive growth in our e-commerce business, especially in food. The total GMV growth was largely driven by strong food e-commerce sales which saw sales increase three times. The number of orders in our food business grew significantly, reaching a record rate of 4,269 orders in a single day, which compares to an average of 1,674 orders in the first 14 days of March. We are also starting seeing recurring visitors, which helps us reduce customer acquisition costs as well as leverage our results. In the current environment, we saw a shift in e-commerce for delivery channels. Home delivery represented 85%, way up of the 61% that we had in the 4Q '19 and the highest level also since we launched our food e-commerce. We saw an increase in the penetration rate of last mile delivery to 47% in March, vis-a-vis 42% in 4Q '19 and our side stores, which penetration reached 36% in March, vis-a-vis 25% at the end of last year.

Our investments over the last 12 months, and now, we already have 12 side stores, those have allowed us to cope with the increased demand while maintaining a high level of service. Total food GMV grew 235%, including the last mile delivery. Non-food sales continued to grow, up 5.7% and online accounted for 23% of total non-food retail sales. The marketplace accounted for around 23% of the total GMV more than ever. The combination of our omni-channel initiatives such as e-commerce, last mile delivery and other digital initiatives were key in supporting our performance in the current environment.

We will now turn to Banco Carrefour in Slide number 8. In the first quarter, the total billing of Banco Carrefour increased 26.4%, reaching BRL9 billion. Carrefour credit card billing was up 17.5% to BRL6.1 billion and Atacadao billings reached BRL2.7 billion, up 52.4% in this first quarter. With 2.1 million credit cards, the Atacadao cards penetration rate which was already increased, now reached 13.7% at the end of the quarter. The credit portfolio was up by a strong 34.4%, totaling BRL11.9 billion, continuing its sound performance. The

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COVID-19 pandemic and its expected economic consequences resulted in an early decision to contain credit expansion as from mid-March, those protecting the high quality of our portfolio. We have already seen the deceleration of billing growth in the last two weeks of March and that is, thanks to our more conservative approach on credit to prevent customers to becoming excessively indebted and to limit our exposure to a higher default rate. Early on in order to anticipate any potential problems, we have reviewed what we call our OKR's objectives and key results, redirecting clients to our digital channels to replacing store context, stepping up financial education and also reducing rates to help our customers now in this difficult moment.

On comparison basis, loans overdue by more than 90 days, have reached 10.6% of the digital portfolio in the first quarter, a little bit over of the 9.5% of the prior year, while loans overdue for more than 30 days stood at 13.9% and higher than the 13.1% that we had in the first Q '19, also on a comparable basis the credit risk provision totaled BRL1.25 billion and (inaudible) criteria, 34% higher than the first quarter of 2019. The coverage ratio of loans overdue by more than 90 days represents a 116%. We maintain our conservative approach on credit, while maintaining an adequate and cautious provision strategy in a highly volatile environment.

Net operating revenue increased to 26.8%, to BRL252 million and adjusted EBITDA increased to 2.9% and despite of the increase of BRL133 million and the risk charges, this reflects a strong billings combined to an efficiency ratio of 33.8% in the first quarter of '19, offsetting higher risk charges in face of expected delinquency ratios due to COVID-19. Our sound financial ratio and the fact that clients primarily use their credit card to buy food, give us a much more defensive profile, placing us in a good position to continue implementing our long-term strategy for Banco Carrefour, supporting future growth.

On Slide 9, we conclude the financial section with information on our balance sheet. And despite of the increase of IFRS 16, our net debt to EBITDA ratio is at low levels, 0.88 times excluding discounted receivables and 1.4 times, if we include them. Our balance sheet and the financial structure of Grupo Carrefour Brasil is very sound and aiming to improve our liquidity in such an uncertain environment. We have initiated a no credit line in an amount of BRL1.5 billion at a very competitive cost of around CDI plus 155%. I also would like to remind you that Grupo Carrefour Brasil loans are not subject to financial covenant clauses and also Standard & Poor's and after the beginning of this crisis in April, Standard & Poor's reiterated our credit rating as AAA; both for Atacadao and Banco Carrefour. There is very robust balance sheet and specifically, our strong cash position, are -- no question, are key assets for the next months.

So now I turn the floor back to Noel for his final remarks.

Noel Frederic Georges Prioux {BIO 15135754 <GO>}

Thank you very much, Sebastien. We are now on Slide number 12, and as you can see and despite of the very challenging scenario, we did have a very strong performance in the first quarter and we do believe that our performance testifies to the various moves we have made in the past few years, to build a strong Carrefour Brasil ecosystem that multiplies touch points with customers.

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We also believe that this ecosystem will serve us well in the coming months, as it is aligned to consumer concerns. We continue to grow Atacadao with -- expanding with four more openings in this first quarter and we also opened one market store. We believe that both cash and carry and convenience are in turn with two current needs, the value for money as purchasing power is pressuring and pressured also by the economic downturn and proximity due to restrictions to health concerns. We continue to develop our omnichannel approach, also with expanded online and offer, and additional services with 54 drives and 110 click and collect points now operating. Our 235% growth in food GMV attests to the existing demand for online food and we are accelerating our ambition to be the number one online food retailer in Brazil.

Well, since in Brazil, we have to stay at home, so now there has been a strong demand for quality products and we continue to roll-out our healthy food offer and develop our private label products. We now have 99 healthy food areas in our hypermarkets and around 3,000 organic food SKUs. Our private label already has more than 2,500 SKUs, representing 13.3% of net food sales in the first quarter.

All of that offer a combination of quality and excellent value for money. And to further support the consumers, we have frozen prices on those -- on 200 of those products. We continue to offer financial services, which are growing strong and at the same time, we are exercising greater caution in the current environment to avoid that consumers fall into in indebtedness trap. And also our stronger balance sheet and financial structure give us the means to continue growing, while being very attentive to costs. In the current environment, we are focused on carrying out our essential mission as we maintain significant expansion plans and further digital investments.

We are also waiting the green light from Brazil's antitrust authority for the acquisition of 30 Makro stores. Carrefour Brasil omnichannel ecosystem that we have been developing for the past two years, places us in a good position to address the challenging times ahead, and also, continue ensuring that Brazilian consumers have access to quality food, at accessible prices. Carrefour is fully mobilized to meet the needs of Brazilian consumers and to protect their purchasing power in such a volatile scenario. Thank you very much for your attention.

Now we can turn to our Q&A session. And we will have with us, Sebastien, Roberto Mussnich, Luis Moreno, Carlos Mauad, Marco and Stefan [ph]. So we shall start.

Questions And Answers

A - Natalia Lacava {BIO 17175216 <GO>}

Thank you, Noel. So let's start with our questions. The first question that we have received comes from Gabriel from Santander Bank. He would like to have more details in the difference of margin for consumers of individuals and companies, if that can explain the margin pressure. He has another question if we can go into more details about the competitive scenario of cash and carry and what is the level of price investments for Atacadao for the rest of the year. Roberto, Can you help us there?

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

Hello. Yes, good morning, everyone. It's a pleasure to be here and it's nice that you can see me, but I cannot see you, but that's okay. Gabriel, thank you very much for your question. The margin difference between individuals and companies depends on the mix. Since we have individual since the second half of March because of the pandemic, they ended up purchasing more stockpiling. They were buying almost as companies buy. So it depends on the mix. We have a broad mix, 10,000 items and depending on the mix, it's considered one or another, but in the companies, they do supply their businesses.

We also talked about sales hangover. We are in May, if we would have -- had to have a hangover, it should happened before, it did not happen. This is still a good scenario. We still have a company that has a competitive advantage, that is extremely strong, especially in the economic downturns and crisis, I usually say that and we have a solution, which is a kind of one size fits all, was a price solution everyday low price and then we have other issues that we might have to address in the other questions.

I'm sorry Natalia, he also talked about sales drop. And I think we have another question, that will allow me to explain that better. Right? There is another question that we will address that.

A - Natalia Lacava {BIO 17175216 <GO>}

Second question is from Alberto, Infinity [ph] and he wants to know if we already thought about selling the bank or having a JV, therefore focusing on the core retail and reducing the risk of business, Mauad, can you help us there?

A - Carlos Mauad

Yeah, I can help you, but then I would like Sebastien to add to it because he is the CFO. We never talked about this. The bank is a huge cash call and a main asset for Grupo Carrefour Brasil and it has a competitive advantage vis-a-vis the competitors and this is a driver for its business; both Carrefour and Atacadao, but in anyway, considering I am responsible for the bank, my opinion might be compromised of course. So I would like to turn the floor to Sebastian, so that he can add to it.

A - Sebastien Durchon {BIO 20242758 <GO>}

Yes, for sure. Yes. But I would, just to stress what you just said, for us, the bank is a key asset in the group. We do not see that bank as something separate, has many interactions between the bank and Carrefour and between the bank and cash and carry and Carrefour Retail. So we do need the bank to drive the business and the other way around is also true. That's why last year, for instance, we launched several initiatives in Carrefour. So we had an initiative, in the bank, that we're also reflecting retail, so and the other way around. Every time that we are in the stores and in a trend of a very strong nonfood trend, that helps the bank because we know that when they got the card, the customer thinks about the food and also the nonfood and in the installment payments that they can get on the card.

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So we do not see the bank as something out of the Group, the bank is part of the Group, it's within our ecosystem is very important and I would like to say also that we now have for over 10 years of very successful partnership with Itau, and in terms of business risk that you mentioned, we don't see it as a risk. We have all the expertise in the bank to deal with the complexity of this business and if we look back in the prior economic downturns 2014, '16, you can look the behavior of our bank. The results were down very little. So we perfectly know how to manage this business in a crisis environment, that's why Mauad with his team have taken several decisions right in the beginning of March to control the increase of delinquency, and all of that allows us to be very comfortable here.

A - Natalia Lacava {BIO 17175216 <GO>}

Now, okay. Moving on, we have a question from Guilherme Assis, Safra Bank. He is asking Roberto. Do you expect to see a hangover in Atacadao, with a drop in sales of the transformers or converters?

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

I already addressed it, if we were to have a hangover, we would have seen it in March and it did not happen in March, April or May.

A - Natalia Lacava {BIO 17175216 <GO>}

Okay. Mr. Tobias from Citibank. I would like to know the sales trends in April for two segments, Atacadao, specifically, I would like to know how the food service customers are? Also wholesale and individuals and what you expect for the end of the year?

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

We do not provide guidance, but in anyways, since we have Thiago Macruz' question and also has to do with this, I, we've already answered. And in the beginning, when we have restaurants closing and professional converter also closing, that represents an impact of 25% of our customers, our business customers. This was fully offset by individuals making these huge purchases, stockpiling goods, in our stores. So we did have a significant increase of our average ticket, in these purchases. So this was fully offset, the inventory adjustments were also made an amazingly as it may seen, this transformer -- not the restaurants, because restaurants are adjusting now to take away. Brazilians are entrepreneurs. So now they are trying to take a share of the market of -- in those domestic producers. The people that make cakes and make sandwiches and so on. So now restaurants are filling in for them.

So now we also have customers and clients, the moms-and-pop shops and they have increased significantly the demand, because they have the neighbors and the neighborhood and the neighbors going more to these small stores. So, one thing is offsetting the other. The quarter, the first quarter was very good. What we see ahead is a very good scenario as well and in addition to that, we see it -- that considering we have an exceptional model that maintains the balance between low cost and low price, everyday low price. We are understanding that and we are getting more customers. So we are a solution for the pandemics problem, not a medical solution, of course, but a solution to improve the quality of life for these people.

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A - Natalia Lacava {BIO 17175216 <GO>}

Thank you very much. Still Tobias is asking Sebastien, what is bank doing to mitigate delinquency?

A - Carlos Mauad

May I answer, Sebastien? I will answer this question, because this is a more operating issue and I have more details. Thinking about the credit cycle, as a whole, the acquisition, portfolio management and collection of nonperforming loans, right after Carnival, we have seen the movement of the financial institutions of the Group in Europe and right there, and that we already had a design plan and what would be the stress scenarios that the pandemic would bring to Brazil. So, right in the first week of the quarantine here in Sao Paulo, which was the third week of March, we were -- had already implemented restrictions into our acquisition strategy, that is, we decreased a credit assignment both for Atacadao and Carrefour, so that we could contain high risk customers.

We have revisited all those strategies to increase credit card limits in the beginning, we even suspended, but now we are back to giving them again for customers that were more resilient. And as far as collection is concerned, which is the main operating structure that has been impacted by the whole process, we did have a number of initiatives. We added new products and we redesigned offers, rates, terms in the way of refinancing the balance of our in debt [ph] that customers so that they could recover from this crisis. We cut rates up to 80%, we implemented an extra cycle that is, we will charge that customer just 60 days from now instead of charging them 30 days from now. We also have several digital channel initiatives to collect lower tickets.

So, we gained more traction on the way how we charge the consumers and how we collect them. Our collection operation is preventive or outsourced, that has been fully taken to home office, so that we would not have any problems in the operations of this process of collection.

We have made the roll-out to 100% of the base, sending the bill to -- via WhatsApp. So even on cities where we have full lock down, we are able to deliver the bill, so consumers can make the payment. And in addition to having made a series of cuts on our products related to increase of balance, so personal credit, withdraws, cash withdrawals, all of that may increase the balance of the credit cards. We have suspended all of that. And once again, now we are giving it back to the more resilient customers, we have been by two terms already, two billing cycles. And so some of the actions are already coming back because our major concern in addition to credit is also the demand crisis that we probably will face in the area of consumer financing. So these are some of the initiatives that we have taken to contain credit and control that issue.

A - Natalia Lacava {BIO 17175216 <GO>}

Thank you. So now let's move forward. Our next question is from Thiago Sagave [ph] from Sagave [ph] Consultants. And he wants to know why do you have an increase of 50% in net expenses and how is going to be the expansion plan, if you are going to have any deceleration on those? May be Sebastien and Roberto can help us there. Thank you.

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A - Sebastien Durchon {BIO 20242758 <GO>}

About the financial results, we have three main problems, three issues here in the first quarter of 2020 and each one of them represented BRL20 million. The first one is the new rule, it's going to be a little bit technical, I'm sorry about that. This is the new IFRS 16 norm, you know, that since the beginning of last year, we have to capitalize as that, our future leases. So we and all the market are now implementing this new rule in January 1, 2019. And we had a reflection of this new that we had interest in the first quarter of last year, in December of last year, December of 2019. And according to the IFRS 16, there was an interpretation of this norm, and the impact was an extension of this capitalization term for the debt. So our IFRS debt basically doubled by the end of last year. This is another consequence that in the first quarter of this year, we have IFRS 16 higher, and we have higher interests in the application in the use of this norm. So this has no direct impact in the cash. These are calculated debt and interests, but that represents BRL20 million.

The second reason has to do with a large provision that we have posted last year in May. After a decision of the Supreme Court, we had a billionaire provision regarding staple food litigation. This is very old, that it started in the early '90s and every month we have this provision. And we have to complement this provision with monetary adjustment and also interests, and that represents BRL20 million, a little bit less, BRL16 million.

And the third thing, there's is a one-off reason, in this quarter, this is not going to happen again, is that at the end of last year, we had a debt in -- a service debt, service providing debt in euros and with the huge variation of the exchange rate, we got a loss of BRL19 million in the first quarter of the year. So in summary, we have one-off -- a one-off situation, and two other impacts that are calculated impacts.

A - Natalia Lacava {BIO 17175216 <GO>}

Can we talk about the expansion, the second part of the question, please?

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

Perfect. Yes. So far, our plans are the same. We have the pipeline of 20 stores and we do expect that the antitrust agency analyzes the effect of our acquisition of Makro 30 stores and that we can do that as soon as the authorization is out. Of course, we discuss that every day, we want to maintain a healthy cash flow and we are working on the financial condition of our operations, but yes, the plans are there, they are the same.

A - Natalia Lacava {BIO 17175216 <GO>}

Thank you, Roberto. We have a question from Cedric from MainFirst. He wants to know if you can explain the impact of COVID-19, the costs. And if you can also understand the staging of operating costs, Sebastian, can you help me with that?

A - Sebastien Durchon {BIO 20242758 <GO>}

The additional costs have everything to do with the measures, the sanitizing measures we have taken in the stores. We purchased masks, hand sanitizer, we also added the plexiglass in front of the cashier points. All of that has a cost and this cost tends to drop

over time, because when we always started, this was bought, this was purchased in a stressed moment and the prices in the beginning were not the best possible. We understand that. And at the time, it was not a matter of cost, it was a matter of safety of employees and customers.

So this cost, will be there and while we have the sanitary crisis scenario, and we will maintain our sanitary measures in the stores, but it tends to be absorbed and more than offset by the growth that we have in sales. The additional sales that we have seen in March and the trends that we have seen in the past two weeks, all of that will absorb the additional costs. So we are not concerned about this additional costs right now.

A - Natalia Lacava {BIO 17175216 <GO>}

Roberto, let's move forward to Macruz that you already started, he wants to know if the customers from Atacadao have a reduced demand because of the lock down scenario. What is the scenario for the second quarter? Do you think individuals will keep on offsetting the loss with business purchases? A more competitive environment will bring us a more aggressive price scenario?

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

Well, part of that I have already answered, but that's okay, but I do not believe in a drop in sales. I don't believe in that, for Atacadao, and the beauty of the business is that we are bringing in new people that are still discovering cash and carry. Atacadao itself is a solution for supplying and about a more competitive environment, Thiago, yes, we already have that but we have that for five years. When Carrefour acquired Atacadao in 2007 and also we had our IPO, we started talking about the beauty of the business. And we ended up having many competitors after us. So in a way, we did develop this market. So we have to improve and adapt ourselves to that.

I think I have seen other questions, Irma, Natalia, I will get ahead here about price investment. Well being at Atacadao, a top line business, we live in three -- we have three pillars: the negotiation pillar, negotiation with suppliers, where we can include here distribution and also to have a good and efficient service with our suppliers; we have our internal costs and the efficiency of distribution costs for Atacadao, which is what we fight everyday to be everyday low price and we discuss costs every day in the most simple decisions; and third, the sale price development, which is supported by what, the market supports and the market supports the price that everyone is offering and Atacadao moves the market, it's not moved by it. We make the price because of the size that we have and by the model and then the simplicity of our model. So we -- in a way, we are limited to that market condition and we always have a dogma here. We are the first ones to drop and the last ones to raise prices. That's why Atacadao is what it is in the last 58 years and we are going to maintain that alive.

So today, if the price search by all consumers is a key factor, they will find that alternative in Atacadao. Are we going to invest in price? That's not price investment. That's what we do, we are doing what we have been doing for the last 20 years. We are not dropping margin, we are developing the model efficiency and we are delivering absolute values that are much higher.

A - Natalia Lacava {BIO 17175216 <GO>}

Okay. Now, moving on to Miguel from Contis Group [ph]. He would like to know why the suppliers' account was down in the first quarter and it was down a lot.

A - Sebastien Durchon {BIO 20242758 <GO>}

Okay. The suppliers that in reals, it was more or less stable with an amount of BRL7 billion. If we look at that in the number of days, it was down six or seven days and there are two reasons here. First, this year, we did not have the day eight in Atacadao, which usually happens in April. But with this purchase they, at the end of March, we have an increase and suppliers that -- no, or debt with suppliers. And the second reason has to do with retail in the -- and last year, we changed a lot in electro electronics and nonfood but specifically electro electronics. And we started selling more and buy much more by the end of the first quarter. So by the end of the first quarter, then we would have a higher debt with suppliers in retail for electro electronics. These are the two main reasons. It's a seasonality thing, but we have not changed anything in terms of payment terms.

A - Natalia Lacava {BIO 17175216 <GO>}

Next question from Joseph from JP Morgan. How is the demand from B2B of small shoppers in Atacadao? The demand from B2C is offsetting that, Roberto, I think you have already addressed that. But if you want to add?

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

I would like to have a different understanding. That's why I would like to ask Marco to address it. Marco, what would you say? Let's say, let's see if you are going to say the same thing I said.

A - Marco Aparecido de Oliveira {BIO 20241330 <GO>}

Good morning, everyone. Thank you very much for the question. Actually I would add the following. This slight increase of end consumers that we have, this is positive because the end consumer is leaving us a little bit more margin because they are paying by the unit price, this slight increase is not providing any problems to the operation. And the operation is adjusted, it has been adjusted a few years ago, to have a little bit of more of those end consumers from 50% to 60% of our sales to end consumers. And I also would add to that. Okay, we are losing the restaurants and the bars. But on the other hand, our business, especially our wholesale operation is very strong with the mom and pop stores. Those small grocery stores with two or three checkouts, they're very important for us. For these mom and pop stores, we are increasing sales because when end consumers look for the local, small retail, these small local retailers are our customers. So a good offset of that is coming from this segment.

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

Thank you, Marco. Yes, we are saying the same thing. Right?

A - Natalia Lacava {BIO 17175216 <GO>}

Marco, so Joe has another question. He is talking about the expansion plan for the company in 2020 in this pandemic scenarios. So please can you add to your answer?

A - Marco Aparecido de Oliveira {BIO 20241330 <GO>}

Well, we maintain our expansion on track. We have opened four stores. We have 12 other stores being constructed right now, it's true that in some cities, the local administration does not allow construction works to happen because of the virus, but we are working on it. We have all the planning and also for 2021, we have a project for 20 stores, we are still working on the approvals, on the licenses, on looking for land and so, expansion is still there. A lot of (inaudible) administrations are working in home office as well, but things are still happening. Right now, I can tell you that expansion had no changes and also during the pandemics, and in the second half of March, we opened two stores; Cambe and Aracatuba and it was very good. Of course, we did not have a lot of publicity or a main event, commercial event because we could not have a lot of people in there. We just opened the stores.

But during the pandemics, then we opened two stores and the expansion is on track.

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

Just adding to Marco's comments, we opened those stores, two days ahead of what we had planned to avoid agglomeration and to respect our consumers and to protect our employees. So it was a soft launching very clear for that type of a growth.

A - Natalia Lacava {BIO 17175216 <GO>}

Luis, I would like to ask your help right now. This is still a question coming from Joseph from JP Morgan. He wants to know -- let me find the question, just a second please. Carrefour as a seller in some marketplace platforms, how do you conciliate? How do you work with this, Carrefour as a seller? And how to expand Carrefour Brasil? And second question, can we think in the mid term in marketplaces with food categories especially perishables?

A - Luis Moreno {BIO 20821019 <GO>}

Noel, you want to answer?

A - Noel Frederic Georges Prioux {BIO 15135754 <GO>}

Yes, if you want it. Well, the first thing is to have a capacity to produce to, to cater to clients. With this strong growth of over 200%, we have to adjust and we had -- and we did adjust. So now we will have a growth in our stores, we have the side stores, but in the future, the food marketplace will come up as well and we will have to change the platform in July or August, do we have a more robust technology and we will cease all opportunities to, also bring in products that we might not sell today and we want to say and adjust -- to sell and adjust ourselves and we have to be very agile in the future. Today, we have a very strong growth, we are doing well. Our NPS for e-commerce is one of the highest in the world and that's very good. It shows that we have a good service. But we have to adjust ourselves, so that we have growth and profitability. That's what we want.

And in the future, really we want to have a profitable business for Carrefour. In food, of course, non-food, we need a little bit more time, but we see an acceleration. And I think we can work for everyone. Of course the small ones can use Carrefour. Let's see how it works in the future. We already have growth. Everything is possible, I would say.

A - Natalia Lacava {BIO 17175216 <GO>}

Thank you, Noel. Next question from Andrew, Morgan Stanley. Sales have been very strong at Atacadao, but in terms of margin and price actions, can you detail these measures, also product mix, customers trends in the competitive environment, that is impacting the gross margin?

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

Andrew, thank you very much for your question. I think I have already addressed it in part, we are going to work with the suppliers with our cost and the sale price to make sure that we have that as an internal model. Now looking at the competitiveness trends ahead, this year, we see a scenario that is very atypical, not only on the size of the demand, but also on the supply and production. In Brazil, we did have very good crops, a rice crop, especially in the South that has delivered, not as a good quality as last year's, but it did deliver 4% more in the crop of soybean oil, just as the same, the crops for March and April was delayed, but we see a more competitive market for producer in the FX for exports.

So there is a trend to have higher prices for these products in the market. Yes. This trend is there, but we need to negotiate that, we need to have a stock of this product -- these products to avoid a price increase, but what we see is a balanced supply, an attempt of price rate rising, when we are not accepting that, the industry is trying to raise prices and we are not accepting that, we were able to negotiate that very well, so that we do not have this impact right now in this sad moment of the pandemic, we can now take this opportunity to increase prices. You have seen Luis and Carrefour's initiatives and freezing prices of 200 private label products. So we do have a trend, yes not of losing supply, but because of exchange rate and everything that is connected to dollar. So we see that, the offer is still good and we still have a very strong negotiation to maintain the competitiveness of the market.

A - Natalia Lacava {BIO 17175216 <GO>}

Next question is from Fabio, a shareholder. He wants to know if you can already indicate a main market gain in market in post-pandemics. If you have a market gain vision in the food and non-food market, I think that involves all the area. So if you want to start by Atacadao, and then we turn to retail and then we end with e-commerce.

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

So maybe Noel can talk about everything, but yes, we are gaining market share, not only in cash and carry, but in retail in general. We are consolidating our leadership position in the market and that's very good and the trend that we see not only in this first quarter, is that in April and May to continue growing. So we continue to have the needed competitiveness to increase our market share.

Luis? Luis, you need to turn on your mic.

A - Luis Moreno {BIO 20821019 <GO>}

Yes, we have official data with the retail, but -- Carrefour Retail gain of market share, considering, we have 25 bps and in the hypermarket channel, 50 bps that corresponds to the first quarter and that is the more recent information that we have. In April of this year, this is already higher. That's the information that we have right now. And for the e-business, we don't have that. We consider that food is growing a lot and that we have marked a gain. We have capacity of production in the period that is very important. But of course, we cannot anticipate future because we believe we are going to have a strong growth, nonfood also the first quarter was good and we also have the marketplace with many stores that are closed. So we have industrial and suppliers that are using our marketplace to sell. So we do have good results coming out of both of them, but we do not have the results of the others. So some of them we've postponed that communication. in a month or two. And that will then depend on the communication of these players.

A - Natalia Lacava {BIO 17175216 <GO>}

Thank you Noel. The next question from Luiz from BTG Pactual. Can you comment about the unit economics of the online channel during this period? And what is the consumption pattern and the frequency ticket?

A - Noel Frederic Georges Prioux {BIO 15135754 <GO>}

It's just as the same, we have the same trend, but we have a more important order, we have a basket and a consumer using the e-business, this is very interesting. It was interesting for us as well because we had forecasted a strong expansion and we already had capacity with the new website, that we finalized last year. We have capacity but you use the capacity of production and you quickly reach profitability because of course there is a positive impact. And that allows customers to choose the way they want to buy, but then also this gets much faster to people.

A - Natalia Lacava {BIO 17175216 <GO>}

Next question from Carole. Can you share some insights on Atacadao's negotiations? Sales growth is normalized vis-a-vis March or do you have an exceptional high end demand? She's asking Sebastien to address that.

A - Sebastien Durchon {BIO 20242758 <GO>}

Well, I will address the question here, for Carole. Once again, the Brazilian crisis and in many other places, it started with the peak in sales, and what we have seen later on is a trend, a strong sales trend for a very simple reason. Before those isolation measures, all of us used to have lunch in a restaurant, or go out for dinner, children would eat at school and everything is closed now. So consumers, they have to eat at home and for their meals, they have to go to the stores and buy food. So right now, we have a larger flow right now in this isolation moment and we have a larger flow in brick and mortar stores. We are seeing that both in Atacadao as well as in Carrefour, this is a higher sales trend.

A - Natalia Lacava {BIO 17175216 <GO>}

A question from Richard from Bradesco, about bank provisions. The increase of the provision should develop over the next quarters. So, is it going to be similar to the provisions increase of the first quarter of BRL211 billion [ph] or is it going to be higher?

A - Carlos Mauad

Very well. Two important things here. First, the increase in provisions is not only related to delinquency, it's also related to the size of the business, that is the credit portfolios increase and the provisions associated to credit assignment, also growth. So I honestly expect that for next months, we have provisions growing, but because of the size of the portfolio, not because of credit performance.

The figures that we bring to you is based on the methodology of IFRS 9, which is related to macroeconomic variables. So it anticipates a lot of the movements that we see on the perspectives of the economic activity, unemployment, income being compromised. And so as we have a clearer understanding of how this scenario in Brazil is going to be by the end of 2020, we might make additional provisions or provisioning releases as well.

So we still have many moving parts to be analyzed, a lot of things to happen because of the crisis, either the worsening or you know having looser isolation measures and they are going to dictate the pace for the past months and despite of that volatility, what we want is that the provisions related to our portfolio move forward, because this means that the bank is growing.

A - Natalia Lacava {BIO 17175216 <GO>}

Thank you very much. So we are getting close to the end of our call. So I'll get Bob's questions now. There are a few. And I'll ask them all at once. Can you talk a little bit about the electronic platform for the full retail in terms of the stability and your plans for the future? And he also asked -- no, I think that's basically it, oh, and about the debts, I'm sorry. What about non-performing loans and charges -- and uncollected debts and your ability to mitigate pressures? How are you going to work with that?

A - Noel Frederic Georges Prioux {BIO 15135754 <GO>}

Let me talk about the platform. We are working on top of the current platform for a while now, so that we can have a possible growth and really we did not have many problems. So, we did consider that we would have to change the platform and we made that decision a few months ago only. So now everything is going to work on time starting in July and August and we need to have more options and more agility in the platform. The current platform allows us to grow, but does not allow us to have as much agility? So we have to make a few decisions and I believe that this is also going to allow us to accelerate more in the second half of the year now.

Now, Sebastien, do you have the second question?

A - Sebastien Durchon {BIO 20242758 <GO>}

Yes, I think it was more about the bank. Can you repeat the second part of the question Natalia please?

A - Carlos Mauad

Yes, I have that here, the last part of the question. Well, so moving on, in a stressed scenario and in even a stressed, more stressed scenario for this crisis, we have a whole list of plans already designed to improve collection actions and also we have the strategies to contain our credit portfolio. We are very fine about everything that has been implemented in the past few weeks since this crisis increased in here in Brazil, when we see credit indicators with some stability arriving instead of continue worsening, as we have seen in the last two weeks of March.

So we do believe in our operating perspective and in our credit quality of our portfolio. But in any way, we are prepared in all the different fronts and also in terms of liquidity for a more serious crisis.

A - Natalia Lacava {BIO 17175216 <GO>}

Thank you, Mauad and before we end, I have two questions, that they really want you to answer. One is from Banco Safra for Noel, how is the performance for the express stores for the second half of the year? They are more exposed to lower traffic in lock down areas because of home office and everything. And the other question is, how the mix is evolving starting in March? And how do you consider it in nonfood added value areas?

A - Noel Frederic Georges Prioux {BIO 15135754 <GO>}

Luiz, would you like to address that? The express stores because you are the expert on it.

A - Luis Moreno {BIO 20821019 <GO>}

Yes, our mix of express stores or convenience stores, we have two of them. We have the ones that we all consider to be commercial, ones that are in areas of high traffic, in streets of high traffics and buildings -- office buildings, for instance, in Faria Lima and Paulista Avenues and we have the ones that we call residential express stores and the smaller neighborhoods or in neighborhoods. And eight of these stores are in commercial avenues and only 45 are in the neighborhoods. So with the lock down, the commercial stores that up to now were the stores with better performance and they were growing before COVID, more than 25%. These were the stores that had the greater impact. And so since our convenience or express mix is two-thirds of commercial stores and one-third of neighborhood stores, these two-thirds has really been impacted so far. And before these were the stores with a better performance.

And the second part of the question Natalia? I would like to address the promotional model aside of it. In a way we anticipated what was going to happen with COVID, because we already knew what happened in Europe, and especially in Italy, France and in Spain. So when we did have the impact of COVID in Brazil, which was on Friday, March, the 13th, we then made several decisions. The first one had to do with the protection of our employees and we anticipated the purchasing of 3 million masks. We were the first retailers to provide masks to our employees. But our second action was to protect

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customers and to protect customers, we decided not to communicate massive promotions for instance, we no longer had promotional ads on TV and we did not print any flyers. This happened two months ago. So for two months, we did not do any kind of promotions. So now you're only having digital channel promotions and all of them with a week-long, full week-long, we wanted to avoid the agglomeration of customers in any specific day of the week, because this goes against the prevention measures that we also wanted to provide to our customers.

That change that we implemented also was followed by a decision to freeze some prices. Over 200 private label products had the prices freezed and also to bring down prices in commodities categories. So what we wanted is that customers could make the full purchase, the customers changed their behavior totally, now the priority is not only to look for promotions, the customers now rather buy in a safe place where they know that the protection measures are followed, and second, they rather concentrate the purchase in a single place. So Carrefour really became a preferred place within this context of pending [ph], and what we see are the average ticket of 40%, 45% higher, although the purchasing frequency is 15%, 20% lower, but basically now our customers have grown in sales significantly, first because of safety, second because customers find everything in the same place.

A lot of the customers gave us positive feedback in terms of product availability. So we are having great product availability and this best one is happening now. And third, because of customers who have seen good price in all the categories, the essential categories. So this is a very good experiment of a commercial model that is different, that really delights the customer and also we are able to decrease the level of promo share, but we have good prices, and this is what customers are looking for.

A - Natalia Lacava {BIO 17175216 <GO>}

Thank you very much Luis. We have many questions and I will be available to answer all of them, but we are running out of time, I would like to turn the floor back to Noel for his final remarks. Once again, thank you very much and I hope this has been a nice format to all of you and I am available to address all your other questions that we could not answer right now.

A - Noel Frederic Georges Prioux {BIO 15135754 <GO>}

Thank you very much. I think those results presentation has brought to you a good level, results in this global environment today. We don't have anything extra to say, but we do ensure that we have a good sales level and we might have that by the end of this half year. We do trust in the future in this hypermarket model, that's very resilient to the adequation [ph] of the food and non-food, is a plus that not all companies have and that's important to say in Atacadao, we do have the best prices in Brazil. That's also a great competitive advantage for the future.

In addition to that, we have the bank that helps everyone to do their job and that allows us to have an ecosystem that really runs very well. We will see in July the results of the second quarter and I do hope that by then, we will no longer have the isolation and that we have good news for you in the future as well.

Bloomberg Transcript

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

Good morning, and I'll see you soon. Thank you very much and I'll see you soon.

A - Natalia Lacava {BIO 17175216 <GO>}

Bye everyone, thank you very much.

A - Marco Aparecido de Oliveira {BIO 20241330 <GO>}

Bye-bye. Thank you.

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