

Q3 2019 Earnings Call

Company Participants

- Belmiro Gomes, Wholesale Business Officer, Member of the Executive Board
- Christophe Jose Hidalgo, Chief Financial Officer, Director of Investor Relations, Member of the Executive Board
- Ronaldo Labrudi dos Santos Pereira, Vice Chairman of the Board
- Unidentified Speaker

Other Participants

- Analyst
- Chago Bertolucci
- Gabriella Catalano
- Joseph Giordano

Presentation

Operator

Good morning, thank you for waiting. Welcome to our GPA Conference Call to present the results of GPA for the Third Quarter 19. This conference is being simultaneously broadcast via webcast, which may be access by www.gpari.com.br with the respective presentation being there available. Slide selection will be managed by you.

There will be a replay right after the call is completed. We form that the press release about the company's IR result is also presented via our website. The event is being recorded. In all participants will be in a listen-only mode during the company's presentation. Right after it, after the remarks, we are going to Santa Wiki -- Q&A session where for this destructions will be given. Should you need any support during this call, (Operator Instructions). Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of JPA management and on information currently available to the company. They involve risks and uncertainties and assumptions because they relate to future events. And therefore, depend on circumstances that may or may not occur in the future. This is why 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 forward-looking statements. With that, I would like to turn the host over to you Isabella Cadena see IRL.

Unidentified Speaker

Good morning, everyone, welcome to our conference call of results for the third quarter. We have here with us. We're now the abrutti Cove VP of the board Peter Estermann, our CEO, Chris. Jose Hidalgo our CFO, Wedos Osai [ph] and the owners of extra to they represented by Rodrigo Michonne. Depandi Asuka Mohonk, Adela and proximity and drugstores Fred Garcia I'd like now to hand it over for initial concentrations by Peter.

Thank you, Isabella. Good morning, everyone. Thank you very much much for participating in our call. For the third quarter of 2019. I would like to start by highlighting settings this quarter we had a very significant progression of our business strategy, we've some key highlights that I'm going to make comments about. First of all the performance of SIE which has maintained consistent results for one more quarter with the sales performance that has also had a solid flow of clients and market share gains stores opening 2018, they have had very accelerated maturation as a consequence, we are highly confident in our strategy of expansion which is going to get by the end of the year with 20 more open stores in our portfolio. For Multivarejo, I would like to highlight the process of adjustments and review of our portfolio of stores. Starting from Po de Acar we reached 28 renovated unit in the last generation, Generation 7 with significant growth of same store a double-digit growth showing the excellence compliance with the model and very good reason very good receptivity of our clients. We have been progressing quite successfully in our schedule of renovations until the end of the year. The fourth quarter will be a very important period during which we are going to deliver 20 new stores that will be renovated amounting to 50 stores operating the new model. I would also like to highlight the results of source extra super converted into Mercado extra and Compre Bem with a very significant progression in sales we are doing fine, we have really speed up our conversions. We are going to open 18 more stores of Mercado Extra and 15 of compre bem in the fourth quarter and they are going to be very important to further speed up the sales that we are expecting to have during this period of retail. With this store of extra supermarket fully renovated, we are going to reach 70% of our portfolio within our model, Compre Bem and Mercado Extra. Let me also emphasize the performance of the business of proximity, every quarter it has been delivering more consistent results with a double-digit growth. Last year, for example, our growth has also had a double-digit growth, so it means it's growth overgrowth increasing volume, flow and market share gains. We have maintained a very consistent evolution of our initiatives of digital transformation food e-commerce, which is a leader in the market in the country has obtained a growth over 30% of sales with a very significant progression of the models of express deliveries, which is same day delivery. we already have 107 stores in this model and also click & collect which we had a very great progression we have 113 stores in our click and collect model and clients are receiving it quite well. In this quarter, we have also active 20 million loyal customers in our program Po de Acar Mais and Clube Extra amounting to 10 million active downloads of our loyalty apps. It favors direct communication with our clients our last mile delivery program or James delivery is progressing significantly with had a 10-fold increase number of orders for the past 10 months and we are also operating with 12 cities in Brazil aligned with our strategic plan. 50% of online orders in our stores, where James has been working.

And Cheftime which is our second startup incorporated this year in the company, we have expanded the portfolio of options offered in the stores with a very significant increase in number of meals served with some additional options of ready to eat in some stores in So Paulo and outside So Paulo. Let me remind you another important point of our strategy

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of exclusive Brands, we are further increasing penetration, very satisfactory, we've already reached 12.7% penetration in food categories at Multivarejo. And I think that private label together with the process of digital transformation will be strategic references in a very competitive differential and advantage for the company in upcoming years. So these are some of the highlights, that I would like to share with you. We have also been putting in place some other initiatives in terms of operational efficiency, for example. Improving productivity the activity service level and reduction of costs whose results are already being observed and are going to get more intensified in the short term. Thank you very much for your attention everyone. Now, let me hand it over to you Christophe. Who's going to go into the financial data? Thank you very much Peter.

Christophe Jose Hidalgo {BIO 17982648 <GO>}

Good morning everyone. Thank you very much for participating in our call. I'm going to start by presenting our key financial highlights of GPA in this quarter, we had good results which, has met our good expectations also for future periods to come. Starting on slide 4, I would like to highlight that we have had a very strong growth of gross sales of 9.5% despite the decrease of 240 bps of inflation of foods over the first half of 2019. The key highlight is a very significant performance of Assa, which grew 18.9% in the quarter. This is the result of the excellent quality of the expansion of stores and also attractiveness of the format, which is still increasing the flow of clients as a consequence we have had a significant growth above that of the market range. In terms of gross margin GPA food reached 21.3%, which is a level, which is the key consequence of greater representativeness of Assa, similarly to Multivarejo, it has presented a level of competitiveness very much aligned with what the market requires right now.

SG&A in the quarter has presented a dilution of 80bps. Thanks to the initiatives of control and reduction of expenses in Multivarejo and in Assa Slide 4, we can still see EBITDA adjusted for food GPA has presented the solid advance of 10% maintaining our level of margin of 7.4%. After considering IFRS 16, it results from a very consistent breakthrough in profitability of Assa and very significant evolution in the margin of Multivarejo compared to the second quarter of 19. Therefore, net profit fully consolidated of the controlling shareholders, reached BRL214 million (sic) BRL216 million with an expansion of 43%, reaching a net margin of 1.6%.

Now, let's go into Slide 5. And we can see here financial results of BRL147 million just going over 2.2% of sales to 1.1% this reduction is a result of the reduction in the interest rate and also a reduction of financial revenue in the quarter. This amounts to three key factors. First, the fact that we have higher cash available with the sales of Via Varejo amounting to BRL2.5 billion DRL of positive effect on cash. Secondly the positive effect of resources that have been raised for the tray the tender offer that we have launched a beginning of this year, which amounts to BRL8 billion and the third factor that explains the increase in financial revenue results from adjustments of money, especially the balance of ICMS and the exclusion from PIS and COFINS basis, it has been captured as it would be benefit in August or of the lawsuit that has been confirmed and is already ongoing at CBD. Now concerning indebtedness, we have maintained a level of leverage, which is very low 0.8 times of EBITDA with a net debt of BRL 2.5 billion without considering our leasing liabilities. We had a reduction of 28% compared to the previous period, we have closed the quarter with a cash position of BRL12.7 billion as a result of additional resources that

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are going to be directed to our tender offer and finally to closing this slide our CapEx in the quarter reached BRL723 million with a very significant growth of 48%. And it puts in a new perspective because it's part of our acceleration strategy and the transformation of our store portfolio. It's important to understand that by the end of the year investments will be stable considering seasoning what they had been in the previous year very close to BRL1.8 billion. Said in a different way, we are going to have a difference in our schedule, really because of the calendar year more than anything else. Now, let's go into slide 7, of Multivarejo, here I have some comments that I have already made in the previous slide and some points that are going to be complemented by the heads of each of the banners. In sales, let me emphasize the significant performance of the renovated stores of Po de Acar which grew more than two digits and also converted stores of Mercado extra and compre bem, which has grown much more than two digits. Not to mention the acceleration and continuous acceleration of the performance of proximity format EBITDA margin. I would like to highlight that it has maintain the continuity of our promotional investment, they are partially offset by the decrease in expenses aligned with the initiatives that we have already adopted but they haven't impacted the level of services provided to clients, we've reached a level much higher than the second quarter 19 19 or 7.6% EBITDA after IFRS or 5% before IFRS 16. This journey is highly promising specially for the periods that come afterwards. Let me now hand it over to Rodrigo Machado for the comments about extra. Thank you Rodrigo?

Unidentified Speaker

Thank you, Christophe. Good morning to everyone. It's a great honor to introduce the results of Extra Banner third quarter 2019. Generally, we register important advancements for our business super and hiper with evolution and conversion of Mercado Extra and Compre Bem strengthening the Non-food hypermarket and improvement in the digital front lines and new partnerships in the store in store. Starting from the format of supermarkets with the development and performance of the stores like Mercado Extra which amounted a growth of sales of the same stores of 7% in face of a strong base were 24. 9%. We closed the month of September with 82 stores which represent amount 60% of our average growth in sales volume and tickets and I also like to highlight the opening of 10 new stores in four different states in the Northeast, Pernambuco state, Cear, Paraiba, and Piau. Mercado Extra is still the main participation in the private label for GPA, that represents a leverage of loyalty and competition to our business another important information to highlight. Is that our Mercado Extra is stores they encompass 15 consecutive periods of gain in the market share according to Nielsen data impacted positively our results in the business units for extra and we are planning conversions that will continue for the fourth quarter with additional 18 units that we will be opening between October and December with a total of a 100 stores in the Mercado extra that will amount 70% of all the stores contributing to a positive growth in Multivarejo. At hiper we register a re growth in the performance of other category of non food with important and significant market share gain with a focused work in commercial activities that will reflect a better experience from the customer experience, we also expanded our portfolio, store in store in this third quarter with partnerships with swift ads and high heap and diesel and nine hypermarkets. In addition to profits in some specific areas the promotional calendar and commercial actions. They are very active throughout the some campaigns in the such as blue fried during the weekends and the Father's Day, Cyber Monday. Followed by the launching of the day of the single people in August and the

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promotion of 30 years of the brand Extra in September, we also had strengthened our strategy with the focus in the app Clube Extra, where all leaflets and promotions, they became digital's in addition to the offers broadcasted on TV with mild discount.

We also closed at some partnerships with the program maelstroms throughout prime pairs is past laser in subversion and play kids and we also focus in the digital leaflet impacting positive reduction of expenses is still during this third quarter we exceeded the importance of our brands 6.7 millions of downloads throughout our clube extra app. our sales were identified as part of our program of loyalty in a level of 6% against 2.3 in the first quarter, which had overcome 60% 60% of the total value improving our profit.

In digital, we strengthened our e-commerce operations and we are focusing the express and collect extra, we keep on focusing on the delivery of its strategic plan business unit extra, and we would like to conclude by thanking the whole Multivarejo team and extra and I thank you for your dedication partnership and we are all fully committed to continuous and evolution and speeding up to deliver good results for extra now I would like to give the floor to (inaudible).

Good morning to all of you and thank you so much for to participate in our call of results. Our third the semester shows an improvement in the banner Po de Acar in relation to the previous quarter and that has been pushed due to the strong performance of renovated stores that banner also showed some market share gains during the quarter supporting the excellence of compliance of our goals. We also have to highlight the strong recovery in terms of volumes that now has reached a level of one digit in the month of September, a total of 28 stores they are responsible for a price stronger growth amount to 12% this is a result which is strength and efficacy of this new model that will speed up our business in the next quarter's. These representativity is responsible for a total of 25%, We intend to keep on accelerating our fourth quarter with new units. For 2020, we confirm the expectation to renew about 20 new stores in addition to expand approximately 10 new shops. The project that's a length of the operational excellent project rollout may move has reached a 125 stores which represents 7% of our total plant. They represent a level of 10% higher productivity in relation to those stores that are have not yet implemented that model, the loyalty Po de Acar Mais program has amounted in the third quarter over 6.7 million clients, that represents an evolution of about 40% since the release of our app. We identify superior sales amounting 85% sales active size throughout the mail discount so they represented 25% of penetration in the banner tickets. The food e-commerce has reached an evolution of two digits as a consequence of a stronger promotional actions and the operational growth throughout express and expansion and continuous improvement of the level of services cheftime and gastronomic solutions has a very significant growth, which was based by the launching of the new line of products ready to it with throughout to 40 new resources and the innovation of new gastronomic kits that are developed a 150 is stores in between some Paulo Brazil and the states of Paran. We will have a new releases, new shops that we will open in the city of RioDe Janeiro and Fortaleza, a total of 35 new shops and to close the like to thank our team for all their commitment dedication we are working hard to keep this growth and to deliver consistent and sustainable results. Thank you so much to all of you and I would like to give the floor to Fred Garcia.

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Thank you. Allah and good morning. Now, I'd like to comment about the main issues that took it to that format of proximity during the third quarter for the fifth consecutive period we closed our third quarter with the growth of two digits where we reached 17.5% of growth with continuous gain of tickets and volume. We registered also consistent growth in the market share with 3.2. Points in the Mini and 2 points in the main and find seeing the minuto and face of the regression of the proximity markets and we also opened a new shopper for minuto Pao de Acucar, and we still have nine the new units under construction, which we hope it will open them during our for fourth quarter, mini Extra we keep that positive trend with a very strong sales growth based on two digits growth in relation to the past year our sales growth aligned to a consistent productivity improvement decrease in expenses had allowed us to reach a 200 bps of EBITDA in relation to 2018 exclusive brand of participation represents over 15% of all shop sales keeping that positive of patter mar of 20% of those past years. We will open new to new shops, which will consolidate the success of this new format. Minuto Pao de Acucar has a consistent sales growth in face of the previous year keeping that is strategy of differentiation of the format in synergy to commercial actions conducted by Po de Acar. We hope to open five new stores of the new cluster of minutes, which is named as office, implemented by at the headquarters of the company initial results allows us to implement a several cooperative actions. Such as, the shop that we will open at the Assa headquarter to support our collaborators. We opened Nova minuto in the city of santos at street Tolentino Filgueiras at Gonzaga's neighborhood with a sales performance of four folds of higher with a higher number of clients and tickets exceeding our expectation. Our nossa plataforma is specialized in beverage Po de Acar Adega showed and growth of approximately 30% of clients. The chemistry they reached two digits in accordance with the previous quarter and they keep growing in number of clients. We also registered a Sales growth, thanks to exclusive brands and new line of products in with diapers and perfumes and that represents a significant growth of drugs at our shops. Sales evolution is keeping a margin allowing an improvement of 6 bits of it to the versus 2018. They posters they still keep growing in relation to 25% of the third quarter the gas stations, we have some gas stations that are forecasted to open by the end of the year. In addition to that we had to just opened two new gas stations that were under renovation in the city of Joo Pessoa and another one that will be reopened in the next few weeks. And to close, I like to highlight the fast evolution of our model B2B of those aligned many markets that are being leveraged by 2 mini levers customers and expansion of new customer base.

We are expanding strongly towards that proximity business, we had to just open our second shop of Po de Acar Minuto in the neighborhood of Vila Mariana, and we will open few more concluding our set of new shops by the end of this year and I like to thank the whole team for your commitment as well as our partners from Multivarejo, and we are growing strongly towards consistency and solid results for proximity business. And now I'd like to give the floor to the next speaker.

Thank you. Before I go into numbers we don't have a Dennis our institutional now manager sales administrative financial manager supporting the team in this growth and expansion and all the challenges that we have internally and she's going to be replaced by Isabella.

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Well about the numbers of the third quarter as heard from Peter Estermann, we had a very good third quarter in terms of increase in sales BRL7 billion, and now going to 52% of the participation of sales of GPA or 18.9% increase compared to the first year, but it meant BRL1.2 billion of this BRL1.2 billion. EUR 1 billion comes from sales of new stores. The 19 new stores opened, that have been filled as Christophe had said of sales performance and especially of ramp up results of margin because of the mix and the location of the stores, which characterize one of the best performances in terms of volume of sales. The average sales per month of this new part is the best results that we had in the past five years since when Assa had been part of this expansion, so it shows a very assertive expansion the performance of stores, volume of sales, new clients and margin shows that we are on the right track and maintaining an excellent performance and acceptance of cash and carry forward in Brazil and also the model we have of Assa. The BRL 1 billion is translated into BRL 2 billion transaction per month added in the stores out of two, even not all sales of new stores are two new clients, of course. Approximately 10% of clients specially corporate they used two buy in some previous stores of Assa, we have a combination of a massive customers who are corporate and some who are individuals and the corporates are not limited to a primate area of a store which is expected whenever you have a new store part of the existing clients will go to this store because they are also looking for prices better prices. 10% of the new clients that we have today had already been buying in another stores, and it has impacted the other stores that already had a presence of Asss. It had an impact on our same store basis of 2 percentage points, especially because of of the mix and the corporate seek for best prices. Same store also had a satisfactory effect where we analyze a decrease in inflation rates, for wholesale we tend to see that better. We can understand the IPCA even in advance when prices are going up corporate try to buy larger volumes and likewise when they see a possibility of So the stability they tend to reduce the levels of inventory. As a consequence, there is an oscillation in participation between corporate and individual in stores. So combined to cannibalization that gets to a 3.2% of same store when we compare the historic mean of Assa is the same but when we have the internal inflation rate and the data, we still had 1% point in the same store share. The main highlight of the quarter is in margin we have been working very hard, especially in dealing with logistics and shortage of inventory we had optimized our initiatives we have very assertive marketing promotionally and institutionally in all the different classes groups of clients seen by Assa and bringing together all the efforts we had 0.8% margin increase over the same period last year. Despite the aggressive expansion in BRL1 billion increase in sales, we have had very significant increase in margin. As a result of this vast percentage we also have a direct role in correlation with the mix of the opening of the new stores. They were concentrated in regions where we already had a brand awareness a track record of prices so the level of aggressiveness whenever opening a new store is adjusted according to the presence of the banner and the competitiveness profile of the region. Expenses were under control, we have gained in the same store basis, but they have had a constant pressure for expansion we have a very aggressive calendar for opening new stores in the last quarter plus the distribution in different regions of the country and headcount and all the elements as you know, are done regionally. Assa is a complimentary distributor of the industry so we have to get adjusted to succeed in its characteristics and we are going to explain that later when we talk about expansion and Strong investments coordinated by our team of people management in capacity building so that we can maintain the same level of customer care it has impacted our expenses, even so considering the expansion the expenses have been very stable. As a consequence, our gains in gross margin were captured by EBITDA of the 3.6 pre IFRS and 7.10 post IFRS,

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very significant growth as Christophe pointed out 31.3% especially when we compared to the 18% of sales for a company that has been expanding continuously year-over-year. Card passa, which is an offer also for the financial market, which is also somewhat more limited for credit approval. Our card has been gaining more attention more than five percentage point in the sales in our sells and the main highlight is net profit because we have maintained financial expenses without the effect of our capital runs because of as it, we have EUR176 million to EUR233 million in the quarter, which is the final number where we consider the results of everything we have done. Now thinking about the fourth quarter, Assa has 14 new ongoing stores in 12 different states of Brazil, those 14 new stores, will mean 77,000 square meters of the more space for sales and 6,300 more direct and indirect job offers very significant investments more than 4,000 people working in civil construction of the brick-and-mortar stores, 11 of the stores will be this year and three stores will be opening the first months of 2020. We are going into new regions, in the fourth quarter we are going to open the first store in the state of Amap, capital city Macap. The banner is going into the state of Rondonia. Opening a so important value and also in Santarm, all the other units are distributed in other states. Mato Grosso do Sul, So Paulo Rio de Janeiro, Bahia, Pernambuco, Piau, Braslia. So it's a very distributed expansion our strategy is to keep on getting more space in new markets the example of Porto Velho and Macap. But Assa is also reinforcing its position in existing areas where the knowledge, policy and banner has received much attention. We are going to close the year. We have 153 open stores, and we want to close the year with 164 stores, reinforcing our guidance for the year. So we want to go over BRL30 billion in gross sales, 6.3% EBITDA with a massive EBITDA Of EUR1.73 billion. It has an influence because of the new openings, somewhat unpredicted yet, but it seems that we had an excellent - quarter and we have a very challenging fourth quarter, especially concentrated on this expansion so that -- in fourth quarter and next year.

Will keep on presenting this positive evolution in sales and in contributing to better results to GPA. I'd like to thank enormously our Assa team we have been expanding our team and they have been delivering excellent sales and performance and it's the result of the efforts of so many people this year. We are going to have 42,000 staff members as opposed to 6,000 in 2011. So, of course, it requires work on culture process and systems to maintain this rate of growth and the same level of results that we have presented.

We have been recognized in the market Estado Empresas Mais among the categories observed for the first time auto service or cash and carry and we have ranked first showing how important this format has been for consumers and also considering our social status in Brazil. In addition to that, we were also awarded as the company that presented consistent EBITDA. It's based on all these indicators and there were 1,500 companies as part of this analysis Empresas Mais.

Now, let me hand it back to Isabella. Good, so now we are ready for the Q&A session. Thank you very much.

Questions And Answers

Operator

(Question And Answer)

Thank you very much we are now going to open for the Q&A session. And I would like to ask you for all the question to be ask one after the other, and please wait for the answers after all the questions. (Operator Instructions) The first question comes from Joseph Giordano of Banker JP Morgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

Hi. Good morning everyone. Thank you very much for taking my question. My first question concerns. What you have been observing, in terms of inflation for foods, we've seen some changing the market. What have you been observed in terms of trends, and the second question to Bill Meuro.

Q - Analyst

And it concerns the market cannibalization, generating value in the not, but I would like to understand the component within two or three years. How do you expect to see that for Cash and Carry segment? Do you think we are coming close to the maximum density of the format? And maybe it would be time to adjust size of stores et cetera.

And a second question concerning Multivarejo. I would like to understand further how the omni-channel strategy, especially considering James jelivery, how it's going to contribute to improve your revenue next year, in addition to the changes you've been made? Thank you.

A - Belmiro Gomes {BIO 18107864 <GO>}

Now Joseph answering the first part of your question about food inflation. It really depends on the category mix of each format, especially when we talk about food wholesale and retail and Assa, we are going depending on the mix it will be between 3.5% and 4%. This is what we expect for the food inflation. Now the second question. About omni-channel, and what would be the impact of omni-channel on the growth of revenue for next year?

We are working on our strategic planning for 2020 and what I can anticipate is that the growth for omni channel initiatives, will impact the growth next year between 80 and 100 bps. Belmiro de Figueiredo Gomes This is the Belmiro speaking.

A - Unidentified Speaker

When we work on the projects of new units, we analyze the market and when we analyze the numbers, we are considering corporate and individuals who have profiles and needs which are completely different. The expansion in greater So Paulo, the stores that were planned when we consider the average ticket, if and when you just consider the effect of having a corporate client who is seeking for best for higher prices, even if you are one kilometer away, when you open another store, if the prices are more attractive corporate will go there.

And this is normal expected very movement, whenever we have a project within this same region, we first study and calculate that. So results are very positive. We also expect a period of accommodation of stores, which were in the same area of influence, after while they start regaining some of the customers and there are some stores in greater Sao Paulo, which are small they were built at an older time, and they cannot really provide, services to all customers.

That's why we need more stores, so I can assure you that our movement has been very positive, if it wouldn't be if you just analyze stores stand-alone, the stores that have this kind of effect is exactly where you can no longer provide services to clients.

For example, adding 2 million new clients in the customer bases within a 12-month period with 90 new stores. In cash and carry, there is a different level of penetration in different states in Brazil.

There are some states in which 80% of share in the market, and then of course, the format won't be able to extend further. But there are markets in Brazil, where we have very few options of cash and carry.

So we still expect for the next three years to grow aggressively than we are going to revisit our strategy. But one thing is expansion of the format, and the other thing are players in the format. For example, the unit we opened in, Contagem, which had 12 cash and carry it was a conversion of Extra Hiper. And it's one of our best stores in sales in the state of Minas Gerais

So we cannot simply analyze format independently, we have to consider competitiveness of each player in the format, and it really reassures us that we can keep on going even when we have cash and carry regionally and nationally.

Q - Analyst

Good. Thank you very much.

Operator

Next the question by Ruben Couto from Santander.

Q - Analyst

Hello everyone. This is Gabriel, actually. I have a few questions. The promotional strategy for your Multivarejo, it does not seem to show a very strong result in terms of revenue. How do you see that impact in terms of promotion? Was that more from a macro perspective or not? And how can that promotional strategy keep on going for the next quarter and for the coming year? Thank you.

A - Unidentified Speaker

Thank you Gabrielle. Thanks for your question. As you said really well, that if effect has taken place due to a higher competition into the macro scenario. And what we expect to have a deceleration from an offer perspective in the promo share outside those seasonal periods during the fourth quarter, which encompass Black Friday and those parties by the end of the year that they end up impacting the common share, but we hope that we will be able to add margin during the fourth quarter regardless of the season.

Q - Analyst

Thank you.

Operator

We have now Chago Bertolucci, representing Goldman Sachs.

Q - Chago Bertolucci

Good morning. We have actually two questions. One addressing Assa. In case the market to becomes higher competitive in relation to prices and promotions. Do are you willing to follow this greater fierce market to be more aggressive throughout additional investments or price increase even though, if that would mean to put aside some additional margin or would you say that, that wouldn't make any sense since this is a format which is mainly based on prices, and that made not to make any sense that to increase your level of to be aggressive in the market.

I also like to hear your opinion about, what is taking place with the renovated stores. I understanding that they are doing really well, and that you have in mind some additional stores to be renovated. But you keep talking about this new generations, new sort of stores. You had thrown several successful promotion attempt with a number of discounts with all those stamps that allowed additional flow to the shops.

But how about those that were not renovated, it seems that they are losing around the two digits in terms of sales. What's happening then is that happening due to a higher competition or due to a macroeconomic level what's going on with those shops that did not go to renovation?

A - Unidentified Speaker

Thank you name and for your questions, I'd like to start answering talking about Po de Acar's renovated stores. Let me emphasize that we are closing this year with approximately 50 new renovated stores, and we might have another 15 stores to be renovated during the first four months of the coming year.

With that, we will be concluding this first phase of stores conversion, which is aligned to a sales growth and an increase in our margins with stores that we hope to comfort during the first four months of the coming year, we will increase Po de Acar's revenue where our EBITDA participation will be closer to 60%, which is quite significant parallel to that, what we are already doing, and what we hope to speed up.

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Once the conversions are done, and parallel to that, we are increasing which is the rollout of the main initiatives, which were successful in throughout today's generation seven type of stores and which can be also applied in those remaining stores at to the micro regions where they are based.

The second phase of this new program is the rollout for the new stores, which were not encompassed in the generation 7 model as they are stores, which are based in some regions which are more or less comprised to that model.

We do not have any significant issue about those the stores, but those who are not part of the generation 7 model, we have to accelerate the rollout of those initiatives, initiatives that are well succeeded in the G7 model.

As to margin and competition. Of course, we keep following some of our competitors presence in some specific regions that is key, we have to be present and we have to follow some of these margins sure, but we try to reach a proper balance between competition and margin.

This is a hard work, especially considering this macroeconomic a scenario in level of consumption, which does not favor us so much, well, let's keep competing and let's -- look after the best balance in terms of margin.

Q - Analyst

Thank you. My question regarding margin competition was regarding as high, but I thank you for your answer.

A - Unidentified Speaker

Well, that's about the same strategy, but maybe we'll go into details about Assa's strategies. Well the wholesale format is a format that is directed for prices to improve our customers experience, and to be assertive and aggressive, as part of this business model, that we do not see any margin decreases trends, we might have that depending on the expansion mix of new places, new sites. When we estimate margin that allows a very shallow analysis, but the opening of a new stores or renovating old stores that may differ from site-to-site, but for the time being addressing the existing sites.

We are more concentrated in operational gains, and to put additional efforts towards our consumers and this is not an isolated measurement but we'll do our best to be very competitive and to deliver best results. This is part of our management to challenge.

This is part of any commercial company at the moment to the pressure that we have so far that has to do much more with suppliers as that channel has grown actively with more participation and this is a channel with a lower operational cost, and sometimes they see that consumer channel with the lower operational costs and they understand that they need more investments.

We have to be very cautious to avoid that the efficiency of the sector, will end up being absorbed as a margin to other channels. So we imagine a trend of stability to that margin.

Q - Analyst

Thank you. That's perfect. Thank you for your answer.

Operator

Next we have a Gabriella Catalano from UBS.

Q - Gabriella Catalano

Good morning. In fact, I have two questions to you. My first question is still along Assa's margin and EBITDA. We know that their ideas to expand a little bit more than what EBITDA margin is you had mentioned that there was an increase in the operational cost. Can we say that it has already reached it's peak or the inflection point?

Second question about digital approach in the retail market. Can that add any additional impact in the sales volume?

A - Unidentified Speaker

Thank you Gabriela. as I answered before both gross margin and EBITDA, we are talking about a company that is facing continuous expansion year-over-year 15% of the sales for new shops. So while we keep it or we maintain continuous expansion neither of them see that as an extension when we have a mature market we markets.

We have a higher EBITDA margin that goes from 0.4 to 0.5. So the expansion components by themselves, they lead to a dilution of our percentage as you do not open new units in your limit in terms of margins, sales or EBITDA.

So that will depends on the level of expansion. Our perspective takes a mature perspective, which is higher than the total margin which has been impacted by new unit, if we decided to speed up expansion or maybe new conversions for hypermarkets where you will speed up and, then you have a higher participation of new units that will automatically generate a dilution effect, which does not mean that a mature store(inaudible) stable stores will have a dilution.

So I'll push some part of that to dilution is due to initiatives and also due to that expansion mix, which was more favorable. But in the fourth quarter, we will have opening of new sites, which will require more investments in margin but our mature portfolio they follow significant gains in the fourth quarter but also benefited by a better expansion period of time.

When you mentioned the digital leaflet that had two positive effects observed in the Multivarejo. First, cost reduction, we had a significant and positive impact in our marketing expenses. Once we motivated digital flyers and also it has a very positive impact in our

margins and we are very confident that the pathway for digital flyers to follow is exactly that, and they will add the positive results as that allows a more direct and effective communication with our customer base.

Q - Gabriella Catalano

Thank you to both of you.

Operator

Our next question is from Tobey - from Citibank.

Q - Analyst

Good morning. Belmiro let me see if I got that's right. The whole impact of that cannibalization is of about 2% or points. Is that what took place during the third quarter?

A - Belmiro Gomes {BIO 18107864 <GO>}

Yes. During this third quarter due to the mix that was exactly the percentage, as the non the as several units. They were open to strength our presence in some markets. Such as the store at Aricanduva community which is next to our headquarter with some Assa stores next to it.

I'm taking this as an example, but we have some other in the North area zona Norte and Casa Verde, they were based at the primary zone with 6,000 square meters, we any he still they could not serve our customers as expected.

And now based on this new format part of our corporate clients that are after price or maybe those who are in the primary zone. They may migrate to other areas and this is not just a consequence of this quarter, but that has happened in different times of the year.

In this specific quarter that has 2% impact which does not mean that this will be replicated in the third quarter of the coming year, we have opening in the coming quarter with no Assa presence where you'll not offer an impact after you opening your own new stores.

Q - Analyst

Thank you for clarifying. I have some other questions to Christopher. How about the liabilities? How much Equity? How much have. What has happened in the FIC, F-I-C? I see I'm sorry if I did not see that information. His talk about shareholders equity. What was the impact over ICMS? can you precise it. So thank you for being us.

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

Well in terms of shareholders equity for GPA food not consolidated reflects the results. A part of the result compared to the previous year. We have doubled that going from BRL 20 million to BRL 38 million. It can be explained on the one side by the excellent performance that we have observed by the real growth of the performance of FIC.

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And the results of since 2008 in the third quarter BRL 20 million, 2018 I mean had been accepted by the first effects which really be reflected the bad debt provision differently. And it explains the significant variation, but what really has supporting us is the good performance throughout the third quarter and the 12 months.

The second point is the impact of ICMS on the financial revenue. It was almost multiplied by 5x going from BRL 50 million to BRL 240 million. As I've said the most significant of the effects resulting from raising funds BRL 8 billion. It has been in cash for a while. It has a very positive effect,

Compared to previous year, we sold Via Varejo for BRL2.5 billion or BRL 10.5 billion of additional cash and it means over BRL 50 million in terms of the profitability per month. So as you can see, most of that evolution impacts it, concerning in terms of indexation and update. I also significant somewhat below BRL 90 million net. Which amounts to the effects of sales and our lawsuits from August, which were finally confirmed.

This a confirmation of sentence also had an effect on operational activities and operating activities I mean, but there is a low provision of better quality credits. The only fact on the recurring financial demonstration is of about 35% or 30% of the total financial revenue. You said BRL 90 million real adjusted, and we shouldn't expect additional impact to just had one off adjustment, right?

Well, what we have to bear in mind is that in the mix we currently have, and no effect on the Latin American operations as the level of the financial results in the past was somewhat below 1% of sales, that in terms of consolidated data concerned or concerning Assa that does not need to have financial results, and Multivarejo that needs more financial performance.

So you are saying that you were excluding the impact of that? So you would think 1% of revenues or over the revenue approximately. Well the financial results. Regardless of the credit effect the financial result would be somewhat below 1% of sales, and I'm talking exclusively about Brazil. Our current operations in Brazil we cannot talk about the rest of the operations while.

Q - Analyst

Wonderful. Thank you very much.

Operator

(Operator Instructions) Our Q&A session is now finished. Let me now handed over for the common council -- for the closing considerations of the company. Thank you.

A - Unidentified Speaker

Well, thank you very much for your participation during this call. I would like to emphasize that, we are strongly really working towards delivering the planned results for the fourth quarter. As you all know, this is a period very important for retail operations. Would also

like to say that the company is prepared to meet the demands of consumers during Black Friday and also during the holiday season.

I'm also very confident towards a more positive perspective and the in the consumption last quarter, together with all the initiatives that we have carried out in the company. We are positive that we are going to get to the end of the year with the company fully prepared to start the first quarter of 2020.

Finally, let me update the process of acquiring xito. As we communicated two weeks ago, it is aligned with our schedule and you are all familiar with that. Once we finish our tender offer we are going to go into the integration process with xito. And we are also going to start this year with the procedures of migrating into Novo Mercado, where we are going to have the conversion of the preferred shares of CBD into common shares in a proportion of 1:1.

This is a process that is expected to be closed by the first 15 days of February 20. Let me really ask Ronaldo, whether he has any comments.

A - Ronaldo Labrudi dos Santos Pereira {BIO 20052606 <GO>}

I share with Peter, and the team here, and celebrate this very positive moment we have had in the company. I have already comment to some of you that this platform of operations for Latin America have been considered during a period with a different kind of scenario, but you see I we always project different scenarios, but we never thought that we would be working in Brazil where we had decrease in interest rate. we haven't predicted that and there is also the possibility of having it again this year. Maybe there's going to be one more reduction in 2020. So as a consequence this operation, which was already interesting with with our scenario from the beginning of the year has become even more attractive, considering our current situations.

Peter has also talked about integration and it's not an integration of a company as had been the case is with other companies in which there is a risk involved in the integration. For xito, we've been working together since 2015.

So we are highly confident of an easy integration. And you see Peter. I think it's worth mentioning is the conversions that are ongoing.

In terms of acquisition, we have a much better and more positive perspective and from Assa perspective, all the conversions, we also have very promising expectations for beginning of next year.

So I think this is something that deserves additional comments. While concerning ongoing conversions. We have progressed very significantly this year of the conversions of our stores and in our portfolio, especially Po de Acar and extra supermarket.

Conversions are going to be completed by the beginning of the first quarter of 2020. Just taking the company to a completely different level in the market. Expecting very

positive impact on the results of the first half 2020. The additional issue and I've already talked to some of you.

We still have to deal with the necessary adjustments, specially in the format of hypermarket. We have evolved significantly in our internal discussions, involving all the teams of the company, including Assa's team for the first half of next year. We are going to go towards renovating some of our old stores, adjusting the value proposition according to the regions where the stores are located and we are also discussing conversions of some stores from hypermarket to Assa. There is a change in the perspective of the market, especially in So Paulo. Some Assa stores.

With operations that cannot be expanded anymore, would have an additional possibility of having conversions of extra into Assa. We are working on planning all of that, but it really indicates something differently from what we used to have.

A potential of conversions, which is very sizable and this is going to change the value proposition of some of our hypermarkets stores, we have a very clear vision of the market we should have for hypermarket and this is going to have a very positive impact on the results of GPA food and Multivarejo. I'm really confident in this perspective.

And with that Ronaldo, we close our plan of transformation, renovation and conversion of stores in the first half next year. And then we'll be able to focus on the growth, that we still have to do in our format of premium stores Po de Acar and also the format of proximity stores. So in my opinion, we are going into a very positive cycle of activities.

Well, I thought this was a very important point to make and I think Belmiro has emphasized the sales of BRL30 million. In Considering what you've just said about speeding up our activities and also carrying on with conversions,

we are going to do things even faster expanding Assa. And based on what Laurent has said about Generation 7, Rodrigo talked about the conversions of Extra, and Fred talked about the Proximity market, I am sure we are going to provide a very specific profitability of Multivarejo format. So this is good news. Assa will go faster with conversions. We are going to speed up the development of models and markets that customers are asking for I've wanted to emphasize that because I think our company has got to a very mature moment in its history. And it's time now to enjoy all the excellent work that had been done in recent years.

And said that I would like to thank all of you for your work and dedication specially is the leadership of Peter, Christophe and Belmiro and the Multivarejo leaders in this wonderful transformation of Grupo Po de Acar. Thank you all very much.

A - Unidentified Speaker

Thank you Renaldo. Thank all of you for being with us and with that we close our conference call. Thank you.

Operator

Thank you very much. The conference calls is now It's now closed. The department of Investors Relations. Department of the group is available for any further questions. Thank you very much for your participation and have a nice day.

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