

Q1 2020 Earnings Call

Company Participants

- Ana Carolina Bastos, Investor Relations Manager
- Belmiro de Figueiredo Gomes, President, Assai
- Christophe Jose Hidalgo, Chief Financial Officer, Corporate Services Officer
- Jorge Faical, President, Multivarejo
- Peter Paul Lorenzo Estermann, Chief Executive Officer

Other Participants

- Analyst
- Guilherme Assis
- Gustavo Piras Oliveira
- Helena Villares
- Irma Sgarz
- Joseph Giordano
- Richard Dolhun
- Victor Saragiotto

Presentation

Operator

(Call Starts Abruptly) This event is being recorded, and all participants will be listening to the teleconference. We're going to start the Q&A session afterwards, when more instructions will be provided. (Operator Instructions)

Before we move on, we would like to clarify that eventual remarks made during this conference, regarding the business perspectives of GPA projections and operational and financial goals are based on beliefs and premises of the company as well as currently available information. Future considerations are not any guarantee of performance. They involve risks and uncertainties, because they related to future events and therefore depend on circumstances that may or not occur. 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 future looking statements.

Now, I would like to turn over to Mrs.Ana Carolina Bastos, Investor Investors Relations Manager of the company.

Ana Carolina Bastos {BIO 20622236 <GO>}

Good morning, everyone. You're all welcome to our first quarter teleconference. I would like to thank you all for your participation, and I hope you're doing well. As you probably know, Isabela Cadenassi is on a maternity leave, she has been so since last year, and therefore she's not opening this call as she did in the past.

Today, we have Ronaldo labrudi, who's connected by phone, President of our Board, our CEO, CFO, and Jorge Faical, Head of Multivarejo.

I would now like to start for initial consideration. Pete, please start.

Peter Paul Lorenzo Estermann {BIO 15380447 <GO>}

Can you hear me well? Good morning, everyone. I would like to thank you for participating in our results conference for the first quarter of 2020. I hope that you're doing well. I want to keep you safe. I will start with some highlights.

On the first quarter, we had important operational advances, all of our business fronts based on strategic decisions and the initiatives that we have conducted over the past. So even with this new challenging scenario, we have recorded an exceptional growth. We had a growth of 56.5%, including the operations in Brazil, Colombia, Uruguay and Argentina.

In Brazil, this advance was in the order of 15% it was triggered by the excellent results with Assai, which had an increase of 23.8% with BRL1.6 billion added when compared to last year. Also there was a strong re-growth of Multivarejo with an important evolution of 6.1%. Positive results were observed in all formats. This performance allowed us to resume our leadership in Brazil in the first quarter of this year. This is the first year we will consolidate Grupo Exito's in GPA, which represents 24% of our sales. A strong performance was observed, reaching BRL5.7 billion in gross revenue with very strong growth of 12.4%.

I would like to highlight the success of the expansion and the strong performance of the 40 new stores opened in the last years by Assai. These stores represent 25% of the overall growth. And today, even with a strong impact that we have suffered during our quarantine period, I'd like to highlight that the Assai team has quickly adjusted focusing on meeting the needs of physical persons and also to create a new opportunities in this new scenario for legal entities. So we have pursued business alternatives that could collaborate with the sustainability of this format. Belmiro will provide more details after me.

In Multivarejo, they will talk in details later on, we have resumed our growth. The results have been positive throughout all business fronts. This is the result of the maturation of the portfolio and of the business dynamics conducted in this quarter.

I would also like to highlight the resumption of growth of hypermarkets, which have a proposal value that is very compliant right now. There has been a quick maturation of Pao

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de Acucar stores, an excellent performance in the stores that were converted from the Extra Market, in addition to the proximities in eight consecutive semesters, we have had continuous marketing gains.

Our digital ecosystem, which is leveraged by our apps, by e-commerce, delivery and food track, they have had a very differentiated performance. And this is basically based on our operational ability it is supported by technological infrastructure, and operational processes that are highly effective. This strengthens even further our leading position in the sector. In this quarter, e-commerce had a growth based on amounts that were already high. So we have achieved 7% in Pao de Acucar, then 6% of participation in Multivarejo as a whole. James has had a high level of services. It grew amazingly for example 4% in Multivarejo and James Delivery already represents a high amount of our e-commerce.

I would also like to highlight that Cheftime has strengthened its position with an increase of 90% in the number of regions both in the physical stores and online stores. This significant advance reinforces our leading position in the segment of online sales. And it represents in our opinion, an important competitive advantage in this moment of social distancing, when we observe an important change of behavior in our consumers. This trend will probably be maintained after the lockdown period.

And to close, I should mention the exceptional work done by the whole team throughout the pandemic, both in the stores and in the support areas of the business, so that we can keep our operations to running with safety to all of us -- to all of our clients and employees. We have implemented many decisions and initiatives in this last quarters -- in the last 60 days to guarantee the least impact possible to our consumers with good quality.

I would also like to comment on the Solidarity Campaign we are conducting. It is led by the GPA Institute. It involves all of our businesses and also our client mobilization. We have reached over 500 tons of food collected. This has benefit thousands of families throughout Brazil. I would also like to say that we will move on with these initiatives to expand the solidarity network, thus reinforcing our commitment to be a transforming agent in our society.

I wrap up by thanking our team for the excellent results achieved in this first half of the year and also because of the dedication of the whole team, especially in the last couple of months. Challenges are huge, I would say that they are daily, we have daily challenges. And once again, we have been able to demonstrate our strength supported by our multi-format multi-channel strategy based on different regions. Once again, I thank you all.

And I now hand over to Christophe.

Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thank you very much, Peter. Good morning, everyone. I thank you for participating in this call with the results for the first quarter of 2020. It was marked by huge challenges for the

company and also by GPA achievements. So, I will start my presentation with the main highlights of our consolidated results.

So, now moving on to Slide 11, we can see the consolidated results. And I would like to highlight the stronger growth of our growth revenues of over 56.5% in the first quarter, including the incorporation of the Grupo Exito and a growth of 15% taken into account to the results of Exito in the first quarter. For comparison, you can see here with 2020 and 2019. This growth was leveraged by the excellent performance of Assai, which was significantly higher than the market with a 23.8% in overall sales. We therefore confirm the success of the expansion and the strengthening of the format. Multivarejo also had a stronger growth of 6.6% even with January with ended up being a more difficult month than expected. All of the formats and banners demonstrated a positive performance and a strong resumption of growth. And then for Exito, we had an important growth of 14.5% in pro forma.

I would like to highlight the innovating formats of Exito in Colombia. The gross margin of the consolidated GPA reached 21.10% in the first quarter and this indicates the excellent performance in Brazil and the first consolidation of Exito. I would like to highlight the accelerated maturation of Assai stores, as well as a very successful business management in Multivarejo in the first quarter of 2020. Multivarejo has demonstrated a healthy year margin profile when we compare that to the last quarter of the previous year demonstrating a very positive recovery.

Expenses, selling and general administrative areas, once again, present a significant decrease of 40 bps in the first quarter, where the expenses were controlled throughout the group. The adjusted EBITDA and consolidated EBITDA had an increase of 38% with a margin of 6 -- this is a consistent result and marks a significant advancement in our size profitability and the result in Multivarejo when compared to the fourth quarter of the previous year. Therefore, we closed the first quarter with adjusted net profit of BRL65 million.

For the more operational comments, before we talk about the financial results and debt, I now turn over to Belmiro, who will talk about Assai's results. Belmiro, I turn over to you.

Operator

Thank you very much. Good morning, everyone. As highlighted by the previous presentations, you can see that in the first quarter Assai maintains an extremely positive performance. It has been growing at high levels year-over-year. And then in 2020, we are growing again. We're growing more than 20%, reaching almost 24% with BRL1.6 billion added. This results to the performance of the stores, which are open, but it also has to do with the expansion performed in the past years.

In 2019, we had record opening of 22 new units. They contributed a lot in terms of sales and also in terms of results as we were able to see. This enabled the banner to have a mark-to-market share. It is the highest gain in market share and even our stores, they contributed a lot. They suffered a little bit about the impact from the number of stores

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opened in the last years. We had four stores opened in the past 24 months. So initially, we have an impact, especially, in this public, but they also recover and gain performance very quickly. And so, even the stores within the COVID period would be at a level of 5.2%. But with the supply in the last days and I will talk about the performance in March and April, which ended up closing with this amount of 7.1%.

And then in the first quarter, we have an impact of 15 days in terms of sales, backed the first actions with the preparation for a sanitary crisis in the pandemics. And in the case of Assai, we started on January 30 with a stock of basic products and cleaning and hygiene, which could be affected and also the PPEs and emergency plans and processes that we had been observing, especially in China and Italy and in January, decisions were made for a possible preparation, which enabled a better structuring and preparation for sales in this first quarter.

Especially in the second quarter that is coming ahead of us now this move that we observe allowed Assai to have expressive gains of 0.3%, although it has 22 new units and it had 13 stores opened in the last quarter of '19, this means there is a large number of stores and this creates a certain dilution. And of course, the supply during this period has remained stable with a gain in the same-store sale base, but a greater dilution because of the 22 new units. Now we have some gains in our commercial policy, a new relationship with suppliers. We're being very careful with stock count with logistics and store supply.

And all of this has enabled us to increase our LP greater than we saw in the same-store sales and absorb the fact that we had 22 new units as part of our results. Now expenses for the first quarter could have had a greater impact, because we have a greater number of new units, but we were able to have operational gains and some of the stores were in the captive market of energy for the free contracting market and through a very constant discipline of expenses discipline in results, a follow-up and especially the maturation of the new units that had been opened. They came in with a new sales volume and a growth rate that was above what had been forecast, of course, contributing positively to sales to gross margin, and to expenses as the sales volume generated dilution and did not have a high impact on expenses. Therefore, we captured gains and expenses. We -- despite the 22 new units, we had a significant value of 0.5, which is important for a company that is growing approximately 24%; there is a growth in EBITDA and all the results of Assai.

Well, we need to speak about the first quarter. We divide it between what happened before the first fortnight of March and then the second fortnight of March. This of course posed an enormous challenge for all the businesses and I would like to thank the help of our team during the first quarter, where we had the consolidation of new stores and significant planning and this allowed us to be elected for the first time, the best wholesale company in the country. And we maintained our operational standards, our service to clients, allowing us to achieve 2.5 additional new clients during this quarter compared to the last quarter 2019.

I would now like to speak about the impact of COVID, the pandemic within the Assai business and of course on all of the other businesses. In the last week of March, we have already spoken about this. We had very strong movement in the -- it was not different in

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the regions of Brazil. This first was observed in the large capitals of Brazil and then went to the other units. It was seven days as if it were December 23rd.

We worked with a great deal of force to be able to service our customers properly with the different impact in different regions and with different targets, of course. Assai works with transformers, users, and consumers; and what we observed during the first quarter, we have resellers that already had a drop in volume and a drop in revenues, a very quick drop in the transforming audience that were -- had to close down their operations, users, schools, nurseries with a negative impact and a very strong movement in the purchasers of the end consumer. That of course apply themselves during the second fortnight of March and are continuing to carry out these purchases.

Now, the difference between the first quarter to the second quarter, we carried out more than 270 activities divided in three large pillars, a very strong pillar, regarding the 4,000 and some employees that we had, they had to fulfill demand. We gave them support, communication during the period; also a great deal of care for the mothers that had their children in the school, another pillar, which is operations, sanitary care for our workers as well as customers, and the third pillar that refers to corporate social responsibility. If you're interested in this, you can visit our site and see a summary of most of these activities carried out based on these three pillars.

And as Peter mentioned, we are now speaking somewhat about the second quarter. The first quarter was very positive, but the second quarter will have a very different scenario from what we had forecast. We carried out several partnerships with the state government for the sale of merchandise. Assai distributed more than 200,000 baskets for children and families. We made readjustments and the new positioning in our telesales channel to be able to work with the reselling audience initially. Post pandemic, customers began to buy in stores near to their house with a significant increase.

We also worked very strongly with this group. We allow them to buy two times without interest rates, especially in the Northeast, enabling all these to operate and -- most of the stores that are operating are doing it well and we are one of the great sellers of packaging for the quarter. We sold 2 billion boxes and we began to operate with these packaging with more than 20% of discount to maintain loyalty, to maintain them loyal to Assai, and of course working with security and stringency when it comes to healthcare.

What have we observed during this period? That we have consumers that are supplying themselves. We have a growth in flow and an increase in the average ticket. The number of items that are being purchased has increased significantly above the flow that we had recorded. Now if we look at the scenario, the behaviors are different. There are regions where we operate, where some of the stores have been closed although they are operating in all of the regions of Brazil and the impact is different in different regions of the country.

Besides looking at the price, customers are also focusing on their own safety, on the operation from the viewpoint of sanitation and the location. And in Assai, we see that the stores are closer to the downtown areas of the city, and that is why we set ourselves

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aside and we should continue to be able to set ourselves aside because of this reason. We have 17 new works that are under way in the second quarter. We inaugurated the first unit for the inauguration of Assai in the State of Maranhao. It is operating in 22 states besides the Federal District. This is a very resilient and low cost structure and we have a good mix of price of merchandise and purchasing experience.

Regarding of the crisis, the operational expense levels tends to be quite low. And what we observed in April and May is a considerable increase of consumers that are supplying themselves through this format, and this, of course, enables us to be positive although the scenario is quite unpredictable, but we should maintain rates of growth of 20% even in the second quarter, based on what we see up to present and this is what refers to Assai in terms of Compre Bem. We have 28 units, 15 opened in the last quarter of 2019. Now, in this first quarter, these stores, once again, have presented a very strong evolution with a growth rate better than the last quarter 2019, especially for the stores that are in the hinterland and where the purchases are done, very similarly to Assai.

Thank you very much. And I would now like to give the floor for the presentation on Multivarejo.

Jorge Faical {BIO 21768322 <GO>}

Good morning to all of you. And thank you, Belmiro. Congratulations for your first quarter. That was very positive.

At Multivarejo, it is a pleasure to also speak about our results for the first quarter. We saw a positive performance, a growth of 6.5% in same stores. We -- well, this growth represents more than BRL400 million of additional sales during the quarter and it was a growth in all of the Multivarejo formats.

Now, this growth is mainly due to the initiatives that we have put in place, including some of the decisions we made last year. The maturity of the stores that we renovated, Pao de Acucar according to the G7 model or the changes that we made to Extra Supermarkets, it is also thanks to our commercial activations with very precise promotions that adhere to each of the formats. And of course, during the last two weeks of March, they also contributed.

January tended to be a somewhat more difficult month. We had a lag of a somewhat negative performance for the fourth quarter '19. In carnival, the growth was a two-digit growth; it was a greatest growth during the quarter even before COVID-19. Therefore, the growth line for Multivarejo this quarter is a growing curve months after months. And as part of each of the formats, Pao de Acucar ended the year with 46 stores renovated especially for the older generation. These stores represent a 14% growth in sales for the quarter and we have an additional 20 stores with the potential to be renovated in the coming months. The Extra Market also grew by two-digit, 11% during the quarter, also with positive results.

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I would like to mention a significant growth that we had in the proximity businesses with a growth of 22.5%, now this specific format, thanks to Minuto Pao de Acucar, has been growing for eight consecutive quarters by two digits, gaining market share for over two years in this proximity format. We're quite satisfied with this project that is very good for future growth. And as Peter and Christophe mentioned, we have reverted a negative trend in food as well as in non-foods. This is a value proposition that now adheres more to the present day needs of the consumer. And it is important to mention that this is one of the new trends we see in the Brazilian consumer, a reduction in the number of visits to stores and an expressive increase in the numbers of the ticket.

Consumers are buying much more at that place, where they decide to carry out their purchases. And we have a complete assortment of food and non-food, perishables, home appliances, textiles and the opening of the store galleries, all of these have gone back to operate. In the past, they were one-stop shops. Now hypermarkets have surf the wave of last two weeks of COVID. They're also increasing and enhancing their promotional activities, guaranteeing that this format will revert its profitability and the loyalty program of Clube Extra represents more than 65% of this Extra format, which is very satisfactory.

We have deep knowledge of the consumer, and are able to work with customized and ever more assertive promotions this without speaking of our exclusive brands that are a significant lever, not only for Extra, but also for Multivarejo. We would like to mention that we maintain our expansion plan, the use of our portfolio, conversion of stores to Assai. We have three stores that are being converted at present, another three stores that have been identified and four that are undergoing analysis to maintain our commitment to convert approximately 10 stores in the coming months.

The last 50 stores of supermarkets will be converted to markets still within this year. And the conversion plan of the last Pao de Acucar, there is 10 or 15 that will be converted to the G7 format besides the proximity and Minuto markets, which means that our plan will be maintained and we'll concentrate in the second semester.

When we speak about private labels, it's necessary to explain the following. We ended last year with 12.7% of share in private labels. In this quarter, we reached 14% share. And one of the future trends if there is a reduction of sales of the population is a trade-down of brands and private labels will enable us to have resilience and to propose to the consumer a cost benefit products that will be much better than other brands in the market.

Our gross margin had a reversion vis-a-vis the fourth quarter '19 of 1.1%. It is a reflection of the various commercial initiatives and operational efficiency during this quarter. And I would like to underscore some of these initiatives. First of all, the deep analysis to review our assortment, where we saw a mix with some categories that is above average customized processors. This participates ever more in our business, a review of our stock out levels also based on store supply. We have decreased the stock out in stores with processes and tools and an ever better supply process. We also had a strong reduction of the SG&A that we had during this quarter, once again, very concentrated in marketing, maintenance and the IT part. All of these therefore are cost reductions, expense

reductions, administrative structures that do not compromise the level of service to our customers.

Now to end, I will talk now about the system and I would like to highlight some aspects that have to do with what Peter has said. Our e-commerce is also part of this new normal that we foresee for the future. We had an 82% growth in the first quarter. In other words, it was almost twice as much of what we sold in the first quarter of 2019. It has progressed in April and May at a much higher rate. And in some moments in time we grew three times more. In some weeks, we had a four-fold increase. And we are preparing ourselves to improve or increase our capacity.

And it's important to highlight that in over 900 points of sale, it's very important to note our ability to operate in the last mile, which is the highest imperative for e-commerce activities in this sector and even though different competitors have advanced. We are well prepared. We have 900 sales points to run this last mile. Also, we have segment, which is different from single item in e-commerce. So, each request includes 40 to 45 items with a basket of BRL300 and BRL400.

So, when we think of dry products, cooled products, refrigerated products such as fruits and vegetables. This is an area where we have gained experience and are growing significantly in a sustainable manner in our e-commerce sector. James has added significantly in the last quarter. It grew significantly in the same quarter last year, it was just beginning its operation, but the results have been more and more expressive. We concluded the previous sector and we are now present in 25 cities. We are operating in over 200 cities. We have doubled from one period to the other. James has more than BRL2.5 million in values.

And the differentiating competitiveness is this integration with Varejo. So, we have online stocks. We have an integration of all of the promotions that are done for Multivarejo. This is also done for James. And James now, in addition to Raia, launched James Prime, which is working really well. This model will enable us to have a higher number of requests per client. And therefore, James is our own initiative, focusing on the level of service provided to consumers with better levels all the time.

Our Cheftime was mentioned by Peter. For our Cheftime, I'd like to highlight that we are opening four dark kitchens with Pao de Acucar stores. And for the first time ever, we have Pao de Acucar adding forces to Cheftime into James. So, we have a triangle of partnership, so that we can enter this dark kitchen market, which is the first direct competition area with the restaurants.

Our loyalty program, as I mentioned before, have a very strong share in our business. We have over 12.4 million with the continuous growth. If you'd like to check it out at the end of this week, we have a new experience for the user using our Pao de Acucar app. And it's interesting for you to see how it looks right now. Stix is to be launched in the second half of the year. It's important to mention that this quarter, we had a carry approval and we also implemented an association with (inaudible) Brazil.

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And to wrap up, I'd like to reinforce Peter's message. All of our initiatives in our stores in terms of hygiene and safety is a priority. Security for our employees is very important, and in special, the safety of our clients. Very strict measures were taken to provide the best level of service. And in different regions, our procedures have become a market standard, which are being copied by other stores. I'm very happy with the conduction of our work in the first quarter. I would like to thank Multivarejo's team and the stores. Even though there is a risk of contamination, they are essential to the market and provide responsible services to our consumer.

Store safety is another choice attribute, where we decide or where our consumers decide where they are going to go shopping. So, we are not weak. We have been very strict with our employees with the use of alcohol gel, the use of masks, and all of the other procedures. And we know that looking forward, we have a solid position. Our digital ecosystem is very powerful. We have very successful format and they are very well prepared for a new post-COVID wave. We have strengthened our brands as well. We want to be at consumer hearts as one of their preferred choices when they have to choose where to go shopping. We are going to remain responsible. This has to do with sustainability of sales and also with profitability. This is Multivarejo.

I thank you all for your attention, and I now hand over to Christophe.

Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thank you, Faical. We are now going to move on to Slide 14, where we have some highlights for Grupo Exito results. It was first incorporated in the first quarter, I'd like to remind you. We can see a growth of 14.5% in our gross revenue, totaling BRL5.7 billion. So this is very important in all formats and all operations. More specifically, in Colombia, the quarter was very strong with very good business campaigns. Among others, we have Exito's anniversary campaign. Innovating formats were also important highlight. Also we have the touristic season in Uruguay. In the first quarter, it was very strong. Also the operations in Argentina had a solid growth above inflation, even in face of all of the country's challenges in the past years.

The net profit for Exito totaled BRL1.2 billion, with a 6.5% -- 26.5% growth actually. We can see that there is a reclassification in the expenses and costs. I would like to highlight though that the margins are stable and they guarantee an adequate competitors level for the different operations. The impact of the lower contribution of complementary businesses, including banking activities in special had a different dynamics because of the effect of the coronavirus. But in the first quarter, the effects are very marginal. With that, the adjusted EBITDA for Exito presented a margin of 5.7%. This margin is aligned with our expectations for the quarter.

We're now going to move on to Slide 15 with our financial result of BRL426 million in the quarter, in other words, 2.5% of sales. And that already includes the effect of IFRS 16. And when we analyze the financial results and exclude interest rates and the effect of these things, we have a total of BRL214 million. And that was impacted for the healthier cash and marketable securities profitability. We also had an increase of our gross debt because of the purchase of the Grupo Exito. We also had a decrease of the selling rate, which was

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very positive for GPA. I'd like to remind you that for every 100 bps of decrease in the rate, there will be a favorable impact greater than BRL7 million when we think of the whole year.

Now in the next slide, we can see that the consolidated GPA for the quarter has BRL130 million results. And when we think of other expenses and causes and elements that are usually recurring, we can see an adjusted net profit of BRL65 million. The higher depreciation you can see in this chart when we compare it to the first quarter of 2019 corresponds especially to the incorporation of the Grupo Exito. Of course, there was an impact with the first norm.

And then finally, to conclude the analysis of our results, we move on to Slide 17, where we can see the level of debt of the company, which is considered to be adequate and is totally aligned to our expectations. It is aligned to our business plans. The adjusted debt totaled BRL10.8 billion in the consolidated GPA. This represents 2.5 EBITDA when it's adjusted. I'd like to remind you that the first quarter has a higher impact due to seasonability, in other words, the effects of seasonability will benefit us later on.

We also closed the quarter with BRL6.1 billion of cash in this complicated period of the year, and we also can see the receivables. I would like to highlight that we further reinforced our cash by means of a new credit line. It was higher in the end of April, is not captured here, but it's an important element, BRL500 million due in two years. This puts us at another quite a level of liquidity. It will enable us to pay our future expenses and puts us at a comfortable position even in this challenging scenario. Another important aspect is the redistribution of dividends in the order of BRL1.2 billion. This will result in a decrease of the leveraging of the operations in Brazil, and will be seen in the second quarter.

Finally, I'd like to remind you that we have an expectation of deleveraging in the future quarters. First of all with the generation of operating cash flow from Grupo Exito and also because of the opportunities -- monetization opportunities, which are being developed and will total approximately BRL3.3 billion.

With this, I conclude my presentation and I turn over, so that we can start our Q&A session and I thank you for your attention.

Questions And Answers

Operator

(Question And Answer)

We'll now open our Q&A session. (Operator Instructions) Our first question comes from Guilherme Assis, Banco Safra. Mr.Guilherme, please proceed.

The next question is from Santander.

Q - Analyst

Good morning, everyone. Could you give us as a better idea of the BRL263 million in terms of expenses -- for about BRL200 million with the expenses and integration. Can you tell us how much you spent with the COVID? And also how much you spent with the remodeling, just for us to have a better idea. And also what you expect for the future quarters. Thank you very much.

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

Thank you very much for your question. In fact, the level of other expenses and revenue has been high in this quarter and it's important to clarify this. We have four major pause for these expenses of 2.64 in the consolidated view. Approximately 40% results from the restructuring of the portfolio.

From all of the work that is being done in Assai, also with the remodeling of the G7 model. It represents a little bit more than BRL100 million of this total. I'd like to highlight that these are future expenses. These are projective expenses of future results, since we know that both the conversion for G7 and Assai, the conversion projections that produce more value.

Most of the portfolio restructuring expenses are non-cash expenses and we also have a little bit less than 30% with the latest expenses for the incorporation of Exito. This represents approximately BRL70 million, a little (Technical Difficulty) and I would like to repeat that the -- this will not repeat in the future.

We have a more marginal effect of approximately BRL30 million of provisions due to tax contingencies. And this will have an impact in some cases, but does not trigger any alerts to the contingencies that are under control. And therefore, the balance of all of this represents a little bit less than BRL40 million in the consolidated area.

This represents the specific costs that was identified by the COVID situation. And I would like to call your attention to extraordinary expenses. Call attention to the fact that a good part of these expenses that are associated to COVID are expenses that were included in the beginning of the crisis. Some of them will not be repeated at the same levels of the total operational expenses, the COVID (Technical Difficulty) a large part or 70% of these expenses are a single event.

They will not be repeated and so it's difficult to give you an idea for the rest of the year, but we have a clear perspective that taking to account the assets we have available for monetization, we should be able to offset this impact that was observed in the first quarter and maintain what was identified in the beginning of the year as a healthy level of other expenses and in the order of BRL300 million for the overview for the whole year.

Q - Analyst

That was very clear. Thank you very much.

Operator

The next question comes from Joe, J.P. Morgan Bank.

Q - Joseph Giordano {BIO 15875778 <GO>}

Good morning, everyone. I thank you very much for asking these questions. I think that we have a question to Faical. It's important to explain -- explore Multivarejo. Now, it was a negative surprise we see in sequential evolution. But when we look at the margin reported in the first quarter considered to the historical operations, it is 200 basis points below.

I would like to understand from you, if we can expect a return of this margin going forward. And perhaps understand the trajectory up to which point would this margin become more normal.

And for Faical's operation, I would like to gain an understanding of the evolution of number of stores with a negative EBITDA. I imagine that COVID changed the scenario somewhat, but of course this is a temporary thing and not something structural.

A question for Belmiro. How does your profitability dynamic change when we compare individual persons and legal entities in this context of change in the purchasing behavior? Thank you.

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

Good morning, and thank you for the questions. When it comes to the margins, well, we have been speaking about this in our speeches, the evolution is very gradual. We perceive that even within the quarter, we have a gradual enhancement -- improvement of our margin because of the aspects that I mentioned, a greater precision in promotions, especially in hypermarkets.

And as part of the quarter as well, what we see is a growing share of the more profitable formats in our portfolio. Assai, for example -- is a very good example and Pao de Acucar behaving very soundly when it comes to COVID. GPA has participated ever more in our mix, in our portfolio. Now these are logistic processes to review the assortments and the promotions. We're reviewing the categories as a whole.

We have a very strong operation, devoted to the frontlines, ensuring that our gross margins will have a recovery vis-a-vis the fourth quarter '19. We see a ramp up in this evolution of margin for the coming quarters. But, once again, everything will be very gradual. Your other question refers to the negative EBITDA of the stores, is that it? Yes. The evolution of stores with a negative EBITDA in this first quarter.

Well, going to speak to you about the change in the margins and the consumers' habits. Now, we work with two prices, with 4 percentage points or 5 percentage points in the margin. One is public. The other one is not. Now the makeup of our margin has the following. As we lost the part of the transformers, we have gained with resellers. And there is an increase with that share of consumers of course. And the price margins, of course, have an impact because they refer to units. And in some cases, depending on the

amount they can buy based on the wholesale price. And this is how we have come to that price and shares at present.

And what we could have is a slight distortion. It's what we see was a stop, especially in the period immediately after COVID and people were waiting to see which would be the market behavior. And among the consumers, we had a positive effect in terms of margins, also positive for same-store sales. The stores that opened last year have had good margins. Now what we see going forward is an impact that will depend a great deal on the sales.

And there has been an impact on margins. And the goal during the second quarter is to go beyond a margin of 20%. Thanks to our very assertive activities that have contributed a great deal. Of course, in new stores, we are sort of scaling down the promotions. Most of these stores are at their limit of restrictions. And of course, there is an operational impact. But we opened a store in Bahia recently and some of the capitals in Porto Velho. And we're going to check the margin of our older stores during this period. And we see that the newer stores are maintaining this difference in terms of price.

I hope that at least from the viewpoint of Assai, I have responded to your question.

Q - Joseph Giordano {BIO 15875778 <GO>}

Yes, you have. Thank you.

A - Jorge Faical {BIO 21768322 <GO>}

This is Faical once again. I do apologize my line dropped for a few minutes. These stores with a negative EBITDA, Joseph, referring to your question, we continued to use that portfolio during the conversion toward Assai. And we have approximately 10 stores that will either be closed or sold. Now these are the figures that we have based on the figures of the last call. Now this process is ongoing and moving forward, and we are optimizing our portfolio. So, it will be more profitable. Thank you.

Operator

Our next question comes from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good morning, and thank you for taking my question. I have two questions. First about Assai. If you could speak about the competitive environment vis-a-vis regional networks for Assai and supermarkets as a whole? And my second question is how we should begin to think about profitability for the e-commerce channel? Obviously, we observe a greater volume or greater number of orders. If this will speed up your profitability curve or will this be offset initially by an increase in your operational costs? Thank you.

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

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Belmiro, I will respond for Assai. Now, we have had an increase because of COVID. But of course, we have to wait for the figures to be able to assess this period of crisis and to see which are the actions that will be more assertive. But in the case of Multivarejo and Assai, e-commerce has been very important. Now in operational terms, the decisions that we took of anticipating what we had already done, all of this was done in the first quarter. And there was an expressive growth.

Now, when we speak about regional supermarkets, we're looking upon this with quite a bit of caution of course, and with a bit of leveraging perhaps. We could reduce the level of aggressiveness and what we're going to attempt to do at present is gain share. Now the share of April is higher than the share of the first quarter. And we think this trend will go on obviously within certain limits.

A - Jorge Faical {BIO 21768322 <GO>}

Irma, good morning. To complement the response given by Belmiro about Extra Supermarkets. Our price policy was maintained at the same level differently from other markets. We continued on with our promotions, offering our consumers whatever we could, respecting the purchasing power that they had. We reduced the price of some of our brand, especially private label to maintain these brands attractive. And this strategy paid off was very positive in April. We have had a good month, not anticipating the results. We had a very good Easter season. It was satisfactory.

And the last week of Mother's Day was also positive. Despite the market indices that we saw that were negative, we had a good Mother's Day season that was positive. In the Nielsen reports, Multivarejo gained market share in March as well as in April, which means that our curve is growing in our operation. Thanks to all of these strategic and operational initiatives.

When it comes to e-commerce, your second question. Well, first of all, it's always important to divide e-commerce in two parts. The first shipment from store. Now this last mile of the stores has incremental profitability for us. We went from 130 stores -- excuse me, 120 stores before COVID-19, we now have 260 stores working with e-commerce. We hired additional labor to do this. And it has rising profitability for that operation. When it comes to distribution centers, which is our second modality, we were increasing the number of orders per month to make these operations ever more profitable.

They had already reached a breakeven point in profitability in the fourth quarter. And during this first quarter, we see that this operation is frankly profitable. And going forward, this will be -- growing will be exponential. Now referring to e-commerce, last year, it represented 1.5% of Multivarejo sales and now represents 3.5%. And our e-commerce is only for food. I don't know if this responds to your question, Irma?

Q - Irma Sgarz {BIO 15190838 <GO>}

Yes. Perfect, thank you very much.

Operator

Our next question comes from Helena Villares from Itau Bank.

Q - Helena Villares {BIO 21333811 <GO>}

Good morning. To take advantage of Irma's question, we would like to gain a better understanding of the e-commerce. You have given us several KPIs, but first of all, we would like to understand the restrictions that you had because of COVID. With that strong acceleration of demand, did you have to change your strategy regarding this channel? And we would also like to understand the type of customer that you're attracting. Is it a new type of customer that you have attracted? And which is the consumers' behavior? Finally, we have a doubt regarding the pricing strategy that you're using in e-commerce? Thank you.

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

Good morning, Helena, and thank you for the questions. I'm going to try to be very brief, because the answer could be quite lengthy. First of all, we divide e-commerce, we only have food e-commerce, we don't work with a non-food part and we still don't have a marketplace. We are creating our marketplace platform that will be launched in the third quarter of this year. We are negotiating with large sellers and shop owners in the market to have a very positive go live for the platform. Now COVID, of course, challenged us in terms of operation. Our expansion plans for the food e-commerce was for 2021. We have anticipated everything for the year 2020, and we still have not reached the roof, the limit of our operation for operations in each new store that we inaugurated. We see that we have several orders which were at top capacity.

We have now idleness in any of the stores that we have opened for this and we deployed a great deal of efforts for integration of James and with another modality. We have a distribution center, we have mac day, we have same day in our store operations and mac hour in the James operation. So everything has been put together very well. It's a hybrid map that contemplates all of these new strategies. Now e-commerce is going to reach a completely new level. We will have a completely different volume of sales. I don't think we will go back to the previous levels.

I think nothing will go back. We are acquiring approximately 50% of the sales through new e-commerce customers that had never carried out an e-commerce sale, especially for those that are 60 or plus years. And we have a strategy that has been prioritized for this age bracket. We're selling a great deal to that bracket, especially at Pao de Acucar. And our focus at present is to have ever better service levels based on the work of our teams and seeking what we are calling the perfect order and an on-time delivery without any delays. We have strongly ramped up our sales. And in parallel to this, we're refining our service levels to have the best service levels in the market when it comes to online food.

Now, when it comes to pricing. The pricing is the same as in the stores. And we speak about our omnichannel consumers that buy from the site, they not only buy from the site, they also go to stores and look at the price on the shelves in the store and this applies to chains as well. So this omnichannel behavior and multichannel behavior are very important. Apps have become very important. They represent 50% to 60% of our online food sales.

So we're improving our platforms to allow consumers to better use our apps. And I think will never go back to what we had before. I hope this has responded to your question.

Q - Helena Villares {BIO 21333811 <GO>}

Yes. Thank you very much.

Operator

Our next question comes from Gustavo Oliveira from UBS.

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

Good morning to all of you. I have some questions, if you wish. The first is this new system. We have to reduce traffic, has had an impact on e-commerce somehow. I have three questions, please bear with me. We don't have the full P&L that gets down to bottom line, but there was a conversion of EBITDA and net profit, I think it was 50% or more. If you could explain to us, which has been the evolution in the first quarter, your expectation for the year, this conversion of EBITDA for profit at the company?

My second question refers to price and the issue of competitiveness. Now competitors are protecting their cash generation. This helped your margin in the first quarter. But which will be the evolution? Are we going to get to a point where we will have more deterioration in our economy, consumers will be weakened? Is that a good time to increase your competitiveness? Some of these competitors have a different strategy. We know that we have wholesales and now we have e-commerce sales. I would like to better understand what your strategy is going to be? And also, I would like you to update the way that you have found to meet small suppliers. I don't remember whether this is done through Assai or whether it is done through Multivarejo and how this is being done? Thank you very much.

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

I will answer, and then you can talk about Aliado and others. Is that okay?

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

Okay. Great.

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

So Aliado is with Multivarejo because the distribution logistics is better prepared to supply because we have the group's market. Apparently, we have the trucks which are delivering for essential services. And we can see that at least in this first week, no specific impact was observed because of this rotation car system determined in the city of Sao Paulo. So there was no negative impact in sales volume. And if there is something, the clients who cannot come one day, they will come when they can. And this is what was observed in the first few days.

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When I talked about competition, we have a concern with cash, and in the case of Assai, of course we have a positive scenario and the mean time for purchase is of about six to seven days. And therefore, the more the operation grows, the more cash is generated. It is totally self-sustainable. It is so for the investments we've made. And I commented that the regional companies that have been expanding above the cash generation with the leverage of banking activities will suffer the impact later on. And of course, there is a limit of purchases and activities for us to maintain this growing curve. There is a positive scenario in terms of the number of stores to be opened and also in these activities that are being developed.

2020 has two constructions, some were inaugurated and we will see a very strong opening calendar, actually very strong one for this year with new capital. We have a very well-projected scheme for the stores, including conversion of Extra and therefore the expectation for these is higher than the usual ones for the banner and invoicing has been higher. The Assai stores have contributed significantly in the past few years, Assai's operations did not have any major variation. The financial indicators for conversion add to that. Okay, but if we isolate them, the conversion rate is higher than 50%. And therefore, our expectation is that it's difficult to determine what the scenario will look like for all of Brazil, but we are living through a pandemic and from the first day of the situation, we had to go through different situations. Our team never really needed to demonstrate that we had an autonomy because we already worked in a decentralized manner.

Our unit managers proved to be very effective. Every week, we have good results. I'd like to thank the team for their efforts and for the numbers that we can see now in the second quarter. Of course, the worst is not behind us. But in terms of the number of people we have in the stores with cleaning and disinfection done daily, mapping those who are at risk, adjust the movement of products because that totally changes and so I think that this was done very quickly. As I mentioned before, we were preparing ourselves in February and this will be maintained in the second quarters and perhaps the strategies will become more visible. I thank you for your question.

A - Jorge Faical {BIO 21768322 <GO>}

Gustavo, in response to your question about the car system. First of all, we have our own freight to provide essential products. The cars were included in the beginning of this situation, then we have another modality, which is a partnership for delivery. Often times, we have private cars delivering. We also have James. We have the delivery motorcycles and therefore we have not suffered the impact of the car system implemented in the city.

Now, we have the 22% of growth that we mentioned and that was included because the supply model for those small local market is the same as for the bigger ones. It's doing well. We actually had to change the distribution centers. We have a larger distribution center now, so that we can meet the expectations we have for sales to these small grocery stores. And we had 3- or 4-digit growth for the past quarter, but interesting levels have been reached for Multivarejo with a very balanced basket between dry products, drinks, perishables and so we've had increasing sales and this is something that we should better analyze for the future.

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

I'd like to ask a question. In the payment modalities, I observed that you no longer accept the tickets, and that will help with the profitability of the company, I'd like to understand what the dynamics is? Whether there is any specific reason, fraud or anything like that? And if that helps or not with the profitability of e-commerce?

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

There is a technical issue involved in it. In addition to having a much higher fee, they have difficulty with their call center. We're trying to solve this problem. We started accepting the tickets in the stores. They are accepted in all of our physical stores but not in e-commerce, not yet. We are ready to accept (inaudible) tickets that's in our site but the tickets are not accepted.

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

Okay. Thank you very much.

Operator

Our next question is from Victor Saragiotto, Credit Suisse.

Q - Victor Saragiotto {BIO 19504427 <GO>}

Good morning, everyone. I hope you're all doing well. I have some questions. I missed the beginning of the call and so if the questions have already been answered, you don't have to answer them anymore. One is an eventual effect, rebound effect we were discussing in the end of March. So I'd like to know if you can see any rebound effect in this first week of May and how you're dealing with the controller, because France is ahead of us regarding pandemic. And so I'd like to know how the sales are evolving with the benchmarking and Casino?

The other one is promotional events, at least here, in our -- and we created a little bit more expectations and I'd like to know if you at Multivarejo could help us better quantify the impact and how relevant they may be or not, that would be great?

And another aspect has to do with Exito. We know that there are different effects that have to do with the pandemic. But I'd like to hear from you about the performance of Exito in future quarters.

And a final question to Peter, if you allow me. We are focusing a lot on the developments of the coronavirus, but could you discuss a little bit what structural changes are perceived for the future. You have a proposal for a non-stop-shop? E-commerce becoming more relevant. So I would like Peter to comment a little bit about what he sees for the middle and long -- mid and long term. Thank you very much.

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

I will start with my part, which is faster. Our long-term strategy does not have any significant changes. In fact, we have important adjustments because of the current situation. We are focusing a lot on the Pao de Acucar format because we have a significant opportunity for growth in Brazil.

The model is consolidated. It demonstrates very good acceptance by consumers. Minuto Pao de Acucar has had an exceptional performance, increasing significantly with opportunities to grow in Sao Paulo and other regions of Brazil using our teams in the hypermarket stores and we are running our pilot testing right now.

E-commerce strategy, as mentioned before leads to changes. As a function of the test we carried out during the COVID crisis, demonstrating an ability to react and also our capacity to produce. This was all excellent. We have excellent technology available. The technology really helped us speed up our reaction under this situation and also the capacity of the team.

We also have delivery in James which was integrated to our operations. We have the apps. E-commerce is perhaps our largest short-term opportunity to anticipate our long-term strategy. For hypermarket, as mentioned before, this strategy was already being used and was accelerated now with our own brands. So, we have had a strong impact in Hipermercado and Extra. The response has been very strong. That strengthens our strategy. This strategy has been used in the past few years actually and the portfolio conversion remains essential. Portfolio conversion requires some adjustment for it to take place in the second half of the year, and the second period of the pandemic. We have had some delays, but things are moving really well.

We already have three ongoing stores with advanced projects. Our strategy is doing well. Some things will be accelerated with e-commerce and our own brand. And the activities are not really suffering any impact. The truth is that as we implement these strategies, our expectations of positive impact is significant. Assai had -- has 17 stores anticipated for this year and they are already being implemented. We will be able to demonstrate this year that the strategies we had in the past were positive and will be accelerated even further now.

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

Victor, regarding the purchase cycles, I will start speaking, and then you can complement. In the first weeks of March, we went through a large supply cycle. And then after that, and even now, we have replacement cycles that are working fine. We didn't have any rebound effect that would lead to any negative impact. Also, as I mentioned before, we had the Easter and Mother's days. These are early effects. And now after Mother's Day, our levels remain high. Of course, we are paying close attention to lockdown activities and restrictions. Some cities have had some instability in the behavior of consumers. In Porto Velho for example, consumers resumed the behaviors they had in the first week of March. But it has already been stabilized. So important to mention though that we do have a decrease in tickets, but the average level is much higher than the usual. So, we have less travels but with full cards and a full basket.

Regarding the margin, I had answered it before in the beginning of the Q&A session. I answered to Joseph. We can transcribe it to you later on.

Q - Victor Saragiotto {BIO 19504427 <GO>}

Perfect. Thank you.

A - Jorge Faical {BIO 21768322 <GO>}

This is Faical. I'd like to complement. Of course, depending on the different regions of the country, there are differences in the cycle. The most important thing is that this lockdown period ends up to increasing eating habits, which tend to increase. Of course, we do have some changes depending on the region. But it's clear to the market and to consumers that there will be no shortage of supply, which was observed in other countries, but this is not seen in Brazil in the short and mid-term. And this makes us a little bit more comfortable and for our clients when we see the monthly cycles of supply and the oscillations we've had in this period. The effect is zero with a consumption reality because people are more stable, they no longer go out to restaurants.

And so, that has an impact, which was already observed not only in Brazil, but in other countries. Just to complement regarding Exito and perhaps Christophe will make more comments, but I'd like to highlight that Exito's strategy is very similar to our own strategy here at GPA Brazil. The formats, the portfolio conversion dynamics and the premium format, online acceleration, it's all very similar to the dynamics we have observed here. We can see a positive effect in Colombia and Uruguay. Argentina is a little bit different, but you know that Argentina has a minor participation in our business. In Uruguay and Colombia, things are doing really well and they are aligned to what is happening here in Brazil.

Exito has an important focus. For adjustment, all of us have to do this in retail. We have to adjust our costs to reality. In Colombia, in Exito, in areas other than food, have had positive results in the recent past. And that helps us with our results. We also have some other categories, which will have a negative impact. The dynamic in Exito is likely to be positive. In terms of mid- and long-term strategy, the results are very good. Portfolio conversions, both for the premium segment and the segments that compete with hard discounts is also doing really well. We're growing with a positive profitability. And therefore, our expectations regarding the performance of Exito for the rest of the year is very positive.

I don't know whether Christophe would like to complement with anything.

Q - Victor Saragiotto {BIO 19504427 <GO>}

That's very good. Thank you very much.

Operator

Our next question comes from Andrew Ruben from Morgan Stanley.

Q - Analyst

Good morning. This is Fernando. Thank you for taking my question. I have two questions. The first refers to Multivarejo. There was a 6% drop in SG&A. Could you explain to us what happened? What you did to have that good result? Another question refers to the non-food segment. Could you share with us what it is that you were doing during the first quarter, the onset of COVID and presently? Thank you.

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

Good morning, Andrew. Now, when it comes to SG&A, we adopted several measures that we have adopted since the fourth quarter '19, with a reduction of administrative costs very generally, especially at the corporation because we have significant costs there and some significant maintenance costs which also works in a more vertical fashion. And in the marketing segment, as I said, we reduced the promotions. They are now more precise and our gross margin has also benefited the SG&A.

So what we have is a better clue in marketing at present. We did not invest in any major initiatives in our store operations because we then run the risk of changing the service offer to customers. So, very generally, this refers to SG&A. In the non-food segment, we have growth in sales in the fourth quarter '19. We referred to this in the call. We faced some problems in the last quarter of 2019. And now in January, we had a resumption, we had limited growth in the non-food segment. Well, at the end of the year, you have the large promotions of course. And in the non-food segment, we saw more satisfactory figures at least in February that was the best month of the year. In April, we continue to have an acceleration. And the weeks after Mothers' Day, we had the best week of the year in the non-food segment compared with our figures for 2019.

In the non-food segment, we're speeding up and it has a competitive edge compared to the food segment. It has very basic products and a good assortment. Our negotiations are carried out with all the sectors. And of course, we're still being very cautious because of the return of the lockdown, the return of the specialized retail markets that could have an impact. So we're making very safe moves that could guarantee our performance.

As I said before, that one-stop shop behavior has become important in the market and we hope that this will continue until the end of the year even after we are released from quarantine in the larger cities.

Q - Analyst

Thank you. Thank you very much.

Operator

Our next question is from Guilherme Assis from Safra Bank.

Q - Guilherme Assis {BIO 21406331 <GO>}

Good afternoon, and thank you for taking my question again. I do apologize. I had a problem the first time. Can you hear me?

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

Yes. Yes, we do.

Q - Guilherme Assis {BIO 21406331 <GO>}

You've already had a very broad discussion of results. But I would like to touch upon a point that was not explored and that refers to leveraging when we look at the payment of dividends for Exito. And Christophe, I would like to know if there is a specific timing? You mentioned it would be done during the second quarter. When can we expect that pay-out? And what will happen with your leveraging and which will be the leveraging level of the company in this context, considering the pay-out of dividends by Exito?

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

Christophe? Sorry, it seems his line is down. I will give you the answer, Guilherme. We made a decision at the Exito Board of having special dividends and these dividends were paid out. They're already in the GPA account. We worked with hedging during the month of April. And once again, this amount is already part of our cash.

Now what does this mean, that we have no problem of liquidity for this year? We have an initial payment that will be done at the beginning of 2021. So if we consider all of the investments that have been foreseen and the business plan of the company, we have no problem whatsoever with liquidity.

Q - Guilherme Assis {BIO 21406331 <GO>}

Yes, that's very clear. And if you allow me a follow-up question. Regarding the level of leveraging, I would like to know if the company has some guidance or a leveraging level that the company would deem to be ideal so that we can also begin measuring the dividend flow that will come going forward. I understand that the company was leverage for the acquisition of Exito. There was the payout of dividends, which was of aid. But going forward, I understand that the leveraging situation or the flow of payments will be very comfortable. But what will be the impact on the dividend policy that we can expect in the future? We have no forecast of altering the policy we have had so far. At the last assembly, we approved the continuity of payment of dividends of the year 2019. I believe this pay-out will be in the month of June and there will be no change in our dividend policy.

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

Christophe seems to be back.

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

Yes, my line had fallen. Now, what I said to Guilherme refers to the pay-out of the dividends from Exito. I believe these dividends are in the company cash, that we have no problem with liquidity. We have a payment that will be made in January of 2021, which is

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not a reason of concern and there is no forecast to change the dividend policy of the company, which means that we're operating at present with a leverage level of 2.5 net debt/EBITDA and although this leverage level is the highest in the history of GPA, it's very adequate, especially in this scenario where we have very low interest rates.

Now, cash generation that we see going forward as well as what we're doing to monetize our assets will tend to imply that we will work at a leverage level that allows us to be comfortable at present. Now, I cannot give you guidance of how much of the EBITDA will be part of this leverage, but the trend is for a drop. We're operating at a very adequate level because of the interest rate panorama and we're quite calm in terms of liquidity.

I think Ronaldo has already answered in terms of the dividend, it's 25% of our profit and there is no forecast to change this. Simply, one additional point, Guilherme, mentioned by Christophe in a previous answer. When we carried out the acquisition of Exito, the best scenario in our business plan was a SELIC at 6.35% and we're now working with a SELIC, as everybody knows that is much lower.

And of course, this has a very positive impact in the company's financial cost without having to resort to our cash. Another important point that we remarked on is the sale of our non-core assets. There is no definite deadline to do this, but it gives us greater tranquility to go back to a leverage level that, for us, would be deemed ideal.

Operator

Our next question in English comes from Richard Dolhun, Westwood.

Q - Richard Dolhun {BIO 16133267 <GO>}

Good afternoon. And thank you for taking my question. And I have just one. I think this was addressed partially earlier, but I would like to address it one more time please. It has to do with the gross profit margin at Multivarejo. I see that it did expand a hundred-and-some-basis points quarter-over-quarter, but I think that would be expected considering the same-store sales growth turning very positive this quarter at 6.6% versus fourth quarter last year, it was negative almost 1%. But yet, year-over-year, it contracted 350 basis points in spite of strong same-store sales growth this first quarter of 6.6%. I am a little bit -- I need to understand what drove that contraction? Was it shrinkage? Was it deciding to write off inventory at this opportune time? Or was it something else? So was it not -- was it giving larger discounts at a time when people are facing extraordinary pressures due to CV-19? Or can you help me understand this better please? Thank you.

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

I will answer in Portuguese, if that's acceptable.

Good morning, and thank you very much for your question. The margin of Multivarejo, as I mentioned in the first question, has been increasing during the quarter. We had a very challenging month of January with extremely fierce competition in the non-phone segment, especially in this first period with the great sales that are carried out in Brazil

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with the beginning of the year and with other categories because of seasonality in January. We have been improving our margin at Multivarejo now with a silver bullet of course, but using a series of components, logistics processes that improve our stock balance, favoring the shrinkage, other processes to reduce assortment and assortment that was a problem in our stores. We're reducing the assortment, leading to a growth of margin through a mix.

I also spoke about our more assertive promotions from our TV campaigns. We have withdrawn those items that impacted our margin. And we're working with more precise, more geared promotions, so that we can improve our margin. There isn't a specific point that I could mention here. A reduction in prices, regular prices, or promotional prices. I mean each of these components has contributed towards our margin improvement in Multivarejo. Now, this margin improvement took place gradually throughout the quarter. And we do hope to have a better gross margin in the coming quarters, once again, gradually. I hope this has responded to your question.

Q - Richard Dolhun {BIO 16133267 <GO>}

Thank you very much.

Operator

The question-and-answer session ends here. We would like to return the floor for the company's closing remarks.

A - Ana Carolina Bastos {BIO 20622236 <GO>}

I think that Peter's line is off. Therefore, I will take the floor and make the closing remarks. I would like to thank all of you for your participation. Especially, Belmiro, Christophe and Faical, especially for the excellent work that they have carried out. I have followed up on this day after day, we speak every day and the entire GPA team is doing its utmost during this extremely turbulent period that we're undergoing.

Simultaneously, I believe that this period has benefited. And as Peter said in his opening address, it has accelerated our GPA strategy, pointing to the great resiliency of Assai, showing the capacity that we have to speed up e-commerce and the ability to resume our work and how assertive our purchase of Exito was.

Despite having business in the electronics and textile area, predominantly it is the food business. We're extremely satisfied with the results of the team's work and very positive with what we observed for the month of April and what is happening in the month of May, and with the trends that we are following up on. We believe that this trend of having a higher consumption and choosing the GPA banners is not something temporary.

Eventually, of course, we will have a significant habit change and Faical made a comment as well as Belmiro, we strongly and clearly believe that because of the care that we have had with our team, with our products, and our customers from the viewpoint of hygiene, safety and service that all of this will make a difference. I would like to congratulate the

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team at the operations for the work and thank all of you for your participation. Have a good day. And we hope that is pandemic will end as quickly as possible. Thank you very much.

The results conference call of GPA ends here. The IR department is at your disposal to respond to any additional doubts or questions. Have a good afternoon.

FINAL

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