

Q1 2021 Earnings Call

Company Participants

- Carlos Mario Giraldo Moreno, CEO
- Guillaume Gras, IRO
- Isabela Maria Cadenassi Bautista, IRO
- Jorge Faical, CFO

Other Participants

- Guilherme Assis, Analyst
- Joao Paulo Dias Andrade, Analyst
- Joseph Giordano, Analyst
- Robert Ford, Bank of America
- Unidentified Participant, Analyst

Presentation

Operator

(Through Translator) Good morning, and thank you for holding. Welcome to GPA Conference Call to present the Earnings Results for the 1st Quarter 2021.

This event is being broadcast simultaneously on the web through a web video conference and it can be accessed at www.gpari.com.br where the respective presentation is available. You can flip through the slides at your convenience. The replay of this event will be available soon after closing. We would like to inform you that the press release on the company's results is also available on the IR site. This event is being recorded and all participants are in listen-only mode during the company presentation.

After this presentation, we will go on to the question-and-answer session when further instructions will be given. Should any of you require assistance during the call, please press star zero to reach the operator. Before proceeding, we would like to clarify that forward-looking statements made during the conference call are based on the beliefs and assumptions of GPA's management, and they're based on the company assumptions, as well as on information currently available.

These forward-looking statements are not assurance of performance and assumptions since they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions, and other operating factors could affect the future results of GPA and lead to results that differ materially from those expressed in the forward-looking statements.

We will now give the floor to Ms. Isabela Cadenassi, IRO for the company.

Isabela Maria Cadenassi Bautista

(Through Translator) Hello. Good morning, everyone. Thank you for your participation in our conference call, 1st quarter 2021. The dynamics of our call will be presentation of Jorge Faical, the CFO of GPA and Varejo [ph] the CFO of GPA and then we'll have a Q&A session. In addition of our CEO and CFO, we have Carlos Mario Giraldo, CEO of Grupo Exito and with Silver Silverst [ph].

I'm going to give the floor to Guillaume Gras for the beginning of the presentation. Thank you, all very much and enjoy the conference.

Guillaume Gras

(Through Translator) Thank you, Isabela. Good morning, everyone. On behalf of GPA Brazil, Jorge and our entire team, I would like to thank everyone for participating in the GPA Group Results Call.

I will start our presentation by talking about our financial performance and then I will give the floor to Jorge, who will comment on operational highlights in the quarter, ESG, and the prospects for the year 2021.

On slide three, the results that the GPA group presented in the First Quarter reflect a profitable growth, even considering a very challenging scenario impacted by the following elements, the strong comparison-base of 2020, impacted by the storage movement before lockdown, the negative calendar effect due to the loss of one day in February, the tightening up of restrictive measures against COVID-19 in all the countries in which it operates with the closing of stores, reducing the opening hours of stores, and prohibition of sales of some categories considered nonessential.

In Brazil, we've also had the end of the emergency aid and the cancellation of Carnival. In this context, the revenue of the group of whole obtained R\$30.7 billion and grew 4.8% in the comparison for the First Quarter 2020. The major contributors for this growth were the online sales whose evolution was 138% at GPA Brazil and 145% at Grupo Exito was an increase in the penetration of total sales from 3.7% to 8.2%. The total online sales reached R\$945 million, almost R\$1 billion in this quarter and the group continues to be the leader in food e-commerce in South America.

Afterwards, on the side of physical stores, the second factor that contributed to our growth was the performance of the proximity formats and the super remodeled stores at GPA Brazil and of the innovative formats such as Exito Wow and Kaguya Fresh Market [ph], the market at Grupo Exito.

Despite the challenges related to the top line operational efficiency combined with intelligent management of expenses generated a significant increase in our profitability. Consolidated adjusted EBITDA increased 36% in the year-over-year to R\$935 million. And

lastly, the sharp reduction in restructuring costs in line with other expenses allowed us to significantly improve, our net income reaches R\$113 million against the loss of minus R\$246 million last year.

Now, let's analyze each one of our operations starting with GPA Brazil, slide five. In this complex environment of the pandemic that we are still living in Brazil with lockdowns around the country, restrictions of opening hours and store closures, the highlight were the growth in e-commerce sales and the solid performance of the proximity formats and mainstream supermarkets.

Total sales totaled R\$7.1 billion and recorded a drop of 2.8% and 2.1 points were resulting from the closing of stores in 2020, 0.8 points were related to the negative calendar effect. Same store sales excluding station drugstores and calendar effect showed a growth of 1.1%. And if we exclude the COVID impact, they recorded an increase of more than 5%.

If we consider the same store growth compared to the First Quarter of 2019 when there was no pandemic, the evolution was 7.6%. Our gross margin expanded 0.7% points in the quarter to 25.8% due to greater efficiency in the dynamics of commercial negotiations and reduction in logistic costs. In addition, we continue with our efforts to optimize and reduce expenses with improvement in operational productivity in stores and distribution centers in addition to optimization of expenses with marketing.

We recorded a reduction of 5.6% considering previous year and a dilution of 0.5% to 18.3% of net revenue. Considering this, we've had significant gain in our profitability, our adjusted EBITDA in the quarter grew 11% totaling R\$538 million, a margin of 8.2%, an expressive gain of 1% point in relation to the same period last year. This performance proved the correctness of our portfolio transformation strategy and the rapid evolution of our digital initiatives, combined with the strict control of costs and expenses, and our continuous search for operational efficiency.

Lastly, we have reduced our restructuring costs in other income and expenses line from minus R\$72 million [ph] to minus R\$44 million, which contributed to our achieving a net profit of R\$81 million against a loss of minus R\$99 million last year.

I will now move on to the results of Grupo Exito, page or slide six. Sales totaled R\$6.6 billion, an increase of 14.4%, that include an impact that is quite positive in Colombian peso. The total Exito sales fell by 2.6% year-over-year. Same store sales, ex-calendar fell from 2.7%, if we exclude the COVID impact, they increased by 4.5% if we consider and we compare to the First Quarter 2019 when the dynamic did not exist the evolution of 9% same store sale growth.

The gross profit of Grupo Exito totaled R\$1.5 billion, almost 24% growth in reals. The gross margin expanded significantly by 1.8% points mainly due to the positive impact of revenue from Viva Malls Real Estate division as a result of the delivery of two projects, Viva Envigado and Viva Tunja. And when we look at the margin of the retail operation, it has increased by 0.2% points.

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Just like GPA, the Grupo Exito also adjusted its expense structure and local currency expenses of Exito were reduced by 3.7%, a result of spending control initiative focused on increasing productivity and optimizing marketing expenses.

Driven by these initiatives, adjusted EBITDA totaled R\$484 million compared to R\$289 million in the First Quarter of 2020, a strong growth of 67% and a significant margin expansion of 2.5% points to 8.2%. Amongst the countries in which Exito operates, it is worth mentioning that Uruguay presented a solid double digit EBITDA margin as a result of efficiency in the operation. In Argentina, despite the weaker profitability, it was possible to keep the cash position stable.

Finally, as in Brazil, restructuring costs were reduced from R\$111 million to just R60 million which contributed to achieving a net profit of R\$110 million against the loss of R\$63 million last year.

The next page is slide seven, we have the consolidated results of GPA group. Growth sales totaled R\$13.7 billion, 52% from Brazil and 48% from the Exito group with a growth of 4.8% year-over-year. Consolidated adjusted EBITDA totaled R\$935 million with an expressive or significant growth of 36% with a margin increasing from 1.7% points to 7.5%, thus proving the operational efficiency and control of SG&A.

Other income and expenses decreased sharply from R\$214 million in the First Quarter of 2020 to R\$60 million in the First Quarter of 2021. And these reductions of operational costs and great improvement of EBITDA is reflected in the net income of controlling shareholders, we shared an improvement of almost R\$360 million moving from a loss of R\$246 million in the First Quarter last year to a profit of R\$113 million in the First Quarter of 2021.

To close on slide eight, you can see a summary of our indebtedness and consolidated cash position. The net debt, including the balance of unpaid received reached R\$4.7 billion in the GPA consolidated at the end of the quarter, a reduction of R\$6.1 billion of which R\$5.8 billion related to deconsolidation of the operations of the SIE [ph], the spinoff, and R\$250 million of operating generation from continuing operations.

Accordingly, the company continues to have a low level of leverage and we were able to reduce our net debt over adjusted EBITDA ratio in the past 12 months from 2.5 times in the First Quarter 2020 to 1.7 times in the First Quarter 2021.

We also ended the quarter with a solid cash position of almost R\$4 billion which guarantees us a comfortable position in terms of liquidity. With this, I end the financial part of the presentation and I give the floor to our CEO, Jorge Faical.

Jorge Faical {BIO 21768322 <GO>}

(Through Translator) Thank you very much, Guillaume. Good morning, everyone. I hope you can see me. It's really a great pleasure to be here and to share Q1 results.

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I'd like to start talking about GPA Brazil, page 10 and I'd like to also talk about our major growth platform, e-commerce. As for e-commerce, this year, we keep focusing on growth. Our GMV achieved R\$311 million in this First Quarter, approximately 1.3 billion over the last months.

So this is a very robust, strong growth month-after-month. And we are focused, very focused on omnichannel in which customer's expenses that use in this omnichannel that is by brick and mortar and digital channels that their ticket is more than three times above compared to those that by only in brick and mortar stores, and we see this growth month after growth and we see a 60% growth in the digital platform compared to last year.

And as for omnichannel, we see a 40% increase also for this First Quarter. So besides growing, we want continuous growth month-after-month, and we want to grow with profitability. Our profitability was already positive and increased 1.9 percentage points compared to the First Quarter of 2020, which means that we are highly motivated to keep on working on this path.

For this quarter, I'd like to highlight there's 137% growth on a very solid basis and compared to the same period in 2020. So we see that we keep a continuous and constant growth for GPA Brazil in this quarter.

Some highlights for this quarter, we changed our relationship and our partnerships, particularly regarding last milers in Brazil. We have our own last miler, James and its volume keeps increasing compared to previous quarters, and more specifically for this quarter, what we saw was a fourfold growth compared to same period last year.

In February, we started also selling by Rappi. In March, we started selling using Cornershop within our platform. Right now, we have 138 stores operating on Rappi and 310 operating on Cornershop. And now in May we will also start operations with i-Foods [ph].

This week, we already started our first activities with i-Foods [ph]. And also, we will also work with Mercado Libre and also for B2W. So we will sell on Americanas and also Super Mercado now in the Second Quarter. And that will allow us to decrease a small loss in market share. But this is a strategic decision and we are confident that we will be able to offset this small loss.

We are still leaders when it comes to food e-commerce. Our market share is approximately 70%. And we find actually loyalty programs very, very important. And what we see is that our customers are increasingly loyal to our ecosystem. So approximately 70% of our sales are identifiable.

And when one of our customer participates not only in e-commerce but also is a member of our loyalty programs, and they see that this counts in the premium, so our loyal customer, what we see is that they expended 10 times more than a regular customer. And that's why we find loyalty program very important and that's why we leverage them.

I'd like also to comment on our marketplace, so I'm on slide number 11 now. For this quarter, this was the First Quarter with full operation, we focused on maturing our processes. We don't want to grow in a disorganized fashion in marketplace.

We are really focusing on holding high quality operations and good quality service. We want to provide excellent services to our customers, and that's why right now we do have many tools with many partnerships with technology companies in order to provide this excellence in services. Our results for this First Quarter are highly satisfactory and what we see is that month-after-month, we see more than 100% growth and this is almost week-after-week, focusing on the eight major categories that you can see here.

So wine, craft beers, liquor, personal care, cleaning, baby care, pet care, and home care. These are the eight categories in which we focus and the ones we want to expand on. We have partnerships with large companies, companies that are very well organized to sell in the marketplace.

As you can see here, thebar.com, which is a Diageo Company, they are a very good partner that we have. As well as (inaudible) Heineken ground crew for selling wines, Cobaji [ph] for pet shop or pet care, and these are the partnerships that we have already established.

Now if we talk about brick and mortar stores, and it's important to underscore how important this is, the Pao de Acucar brand, so Pao de Acucar accounts for 30% of our total revenue and we are highly confident on this brand and on this constant and continuous growth of this brand, although we do see a change in the consumer profile, now going more into e-commerce.

But when we consider also migration of cities, of consumers actually moving to a different cities on the coast or in the inner part of the state, and we also see a decrease in the income of Brazilians, Pao de Acucar is a brand that focuses on quality, and we have here a broad variety of fresh products of grocery and perhaps this is the global benchmark when it comes to online participation.

So on Pao de Acucar, we had a peak reaching 15% or even 17% throughput in this First Quarter. And we also have stores that deliver at our consumers home and that also accounted for 30% of some stores revenue. And that's why we are keeping this plan, we want to roll out the successful implementations and we will roll out these new concepts for another 50 stores or more. So 50 new stores in the next three years, approximately we expect to open five new stores this year.

Our expansion plan is also based on real estate partnerships with many companies, we are examining many factors, but we do have an expansion factory for opening new stores and we are now starting to gain momentum. Slide number 30, here we are addressing proximity format and we are very proud of the success of this format, double digit growth for 11 consecutive quarters despite quite challenging times, especially if we consider that we do have, there's stores close to offices that were closed for some time.

But we are also ready to see an expedited growth for this format. So we expect to open another 100 stores or more in the next three years and approximately 20 in 2021, particularly using the Minuto Pao de Acucar format, which is a huge success. And we are also working in a very organized and profitable fashion in order to pursue this initiative.

I'd like to underscore our B2 billion model and which would (inaudible) growth compared to last year. And we are also working with Exito and they use the name Aliados in that country.

Now, page 14. Other formats that are also as important, so mainstream supermarkets. In this format, we have a deep proposition value of some other markets in that region. And for this quarter we ended the conversion. And we did that in three years. So we see the same store growth of 7.5%. Compre Bem, we have two digit growth and the very important synergy combining these two businesses in which Compre Bem is now exporting to Mercado Extra [ph], all of their successful implementations.

For example, the meat department or that butcher that you had in your neighborhood, the bakery, more stable prices. And that's why Compre Bem is so successful. On the other hand, Mercado also exports productivity practices, service practices and grocery practices to Compre Bem.

Our groceries at Mercado Extra present a high quality. And that's why we see synergy between these two formats. And we expect to talk about expansion in the near future.

Now, let's move to slide number 15, hypermarkets. We are expanding our new value proposition. Hypermarket was the chain that suffered the most this quarter. So last year, we saw a very strong expansion of hypermarkets in the second half of March of last year.

And this year, on the contrary, we had 32 stores that faced highly restrictive measures with stores that were partially closed during weekdays as well as reduced working hours. Not to mention some restrictions to sell, for example, home appliances.

Some of our stores cannot sell home appliances yet. And many stores cannot sell alcoholic beverages. And these were unseen conditions. But the company is working hard and we have a strategy for this format.

Once again this is a strategy based on price, food prices. If we consider the cash and carry segment in this country, we have this proposition of more inexpensive products. And that's extremely appealing to our customers.

So we have this Mais Barato, more cheaper and cheaper. And we want consumers to find the best prices. They can compare prices that were advertised by our competitors and especially to find the most inexpensive prices for home appliances and also at very low interest rates or no interest rate.

So Pao de Acucar provides variety, quality, and experience. We are aware that price perception in the minds of consumers does not change overnight, but we remain firm in this. You can see when we talk about perishable; you can see the differences in prices. And we will keep on working on this conversion of hypermarkets.

Now, a very brief transition to Colombia to Exito Group as a whole. Countries presented the different performances. In Colombia, we find a very healthy performance, good results, particularly real-estate segment, which is a core business in Colombia and I want to underscore that.

So it accounts for 6% of our revenue in Brazil, but in Colombia, that is even more important. In Argentina also, it's a small operation. We face many restrictions and not only because of the pandemic but also because of the macroeconomic conditions of that country.

So our cash was neutral. We did not use cash. So in Uruguay a country that was highly affected by the drop in tourism, in this summer, Uruguay welcomes many tourists in different parts of the country and that had a strong impact on our sales in Uruguay. But in spite of that EBITDA in Uruguay is -- Uruguay EBITDA, this is still a double digit above 10 points.

Now, let me focus on Colombia. And just as in Brazil, digital platform is one of the major platforms for Exito. Stores that faced very stringent restrictions considering the second wave just as in Brazil, and I'd say that in Colombia, the government implemented more severe restrictions.

And that's why the digital platform became more important. So in Brazil, digital accounted for 6% of the total business. In Colombia, that number was 13%. And that is really considered a global benchmark when we talk about food e-commerce.

Growth increased more than double, 118% growth considering different initiatives. As for non-food, we also had the participation -- important participation of home appliances. And as you can see, that also accounts for almost 14% of sales in Colombia, so a very important growth in the marketplace with more than 100,000 -- more than 1,000 vendors, rather. Very mature partnerships with Rappi in Colombia and that keeps on leveraging our sales potential in that country.

And now, let's move to slide number 18. Exito also implemented new models called the Exito WOW. And Exito WOW focuses on services. It's a more digital store. And this is a very innovative model, highly successful.

We already have 11 stores following this new model. They account for 23% of Exito sales and it's with a growth that is nine points above the average. And this format is working very, very well. Obviously it does not have impact on the total growth, so 2.3% if you consider same-store sales, but considering we had lockdown. Now, next slide.

Chart 19, talking about Carulla, our premium format of supermarkets and express stores. In the format, we had a relatively small growth. It suffered due to various lockdown impacts and calendar.

But it moves on the same trail of innovative format. Carulla's innovation is fresh market that reaches 32% in the sales. They grow seven point -- five points above average and we're going to build new -- open seven new stores in this format that strengthens [ph] fresh product experience variety, tasting in stores, consumption in stores, at this lockdown moment, this is not so possible for -- but for a near future it should go back to normality.

On slide 20, speaking of low cost format that grouping various low cost initiatives, Super Inter, low cost stepping back account for 14% of Colombia sales. Super Inter launches Vecino format that has a differentiated experience for customers that seek price with service, seven stores this year. Surti Mayorista, which is our wholesale chain in Colombia, has 34 stores, two more expected to be opened this year.

It's important to say that this is a format that has already profitability since last year and the end customers -- individuals account for almost 70% of the sales, similar situation that we see in the Brazilian cash and carry.

The Aliado Surtimax and Super Inter, which are the divisions of small stores and B2B, they launch online sales, also to help boost sales in this segment even with lower cost and stronger presence of other players in other regions of Colombia.

On slide 21, to close Colombia's part, other business is important. Real estate in Colombia once again I stress is number one in malls in Colombia, with over 758,000 square meters GLA. It comparatively has 32% -- one-third in other words of market share of real estate in Colombia that is part of our group.

Quite important contribution in this quarter, results of the First Quarter. And even with certain difficulties over this period, closing stores and restrictions, it maintained an occupancy rate of about 92%, which is an occupancy rate that is quite high for the standards when you compare to various shopping mall chains, other services that are still very important, that are evolving quickly in Colombia, Puntos [ph], Colombia.

So the loyalty currency, over 100 partnerships signed in that country. We already have an outreach of one-third of the population in Colombia that have access to this currency. Financial services and launches of the digital wallet last year, there are also highlights of the Exitó Group.

Moving to the final remarks of my presentation on slide 21, as we say in English, last but not least, ESG is a priority for GPA in all countries where we have operations. We have -- just a second, the GPA group has a commitment to be a mobilizing agent.

We say that it's not enough doing your part, but taking on the responsibility in the social, environmental and governance agenda, some major examples here that have marked

this quarter.

Our initiatives regarding fighting climate change in Brazil, we've had strong growth in the migrated stores to the energy free market that reach 75% of the energy consumption of GPA Brazil. And a strong inclination to reduce greenhouse gas, in fact, it's changing all the chain of refrigerating gases in the forthcoming years. In the past year, we've had 23% reduction in total solid waste regarding First Quarter 2020.

We also have adhered to sustainable livestock working group along with major partners of ours, JBS [ph] and (inaudible), obviously ensuring to our consumers and our society the purchase of beef in regions that are not illegally deforested.

Our social focus is also a cornerstone for the quarter in addition to the social initiatives internally. And we have increasingly more women and black people in leadership roles over -- we already have more than a third managerial positions.

And practically half of our employees declare themselves as black and mulattos. And we have an external social agenda that is very strong, especially at this time -- that is quite a sensitive time for the country, with direct donations and direct donations made by our customers.

In April, we have collected over 1,000 tons of food. This means dozens and dozens, trucks of food in almost 200 NGOs that we have supported to food in this sensitive time of hunger in the country. At Exito, we highlight recyclable waste and an award, Exito had the best performance food industry in Latin America. It's a global S&P award.

Last chart of my part, to number 24, so that we can move on to Q&A, we'd just like to reinstate our main messages. We continue with accelerated, escalating our digital platform, increasingly taking part in our business, organic expansion and the rollout and maturation of the new concepts and actually expanding Pao de Acucar and Minuto Pao de Acucar formats, so Mercad, Extra, Compre Bem, Pao de Acucar G7 and FreshMarket, Carulla, Colombia and Uruguay.

The repositioning of our hypermarket models with this territory of price and in Colombia with Exito WOW in the territory of experience of a much more pleasant store. And obviously on the financial part, we are increasingly more focused on continuous reduction of expenses and continuous reduction of our indebtedness level so that we can reduce our leverage level, enabling more sustainable and higher growth for GPA.

With this, I will close my part and now I'm going to open to Q&A. Thank you very much for your attention and time.

Questions And Answers

Operator

(Through Translator) Now, we're going to open up for the Q&A session. We kindly ask you to ask all your questions at once, waiting for the company's answers.

(Operator Instructions)

Our first question comes from Mr. Joseph Giordano from JPMorgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

(Through Translator) Hello. Good morning, everyone, Faical, Guillaume. Thank you for taking my question. I'd like to explore a little bit with you, growth. We see the company for some quarters actually consolidating not only on the Pao de Acucar, but also hypermarket.

I'd like to understand a bit what you see in terms of competition, especially in the hypermarket format that would explain this performance so below competitors, considering that the overlap of stores is quite big.

We're talking about quite similar marketplaces. The second point, so thinking about the Bem [ph] banner or branch, so people living the cities with the reopening in Sao Paolo that you see this coming back.

And the second point is within the digital strategy, how do you see your marginal share if the aggregating factor is sharing some or the aggregator is adding or sharing some data with you? And lastly, take a bit of what you see in terms of outlook for the forthcoming quarters both the basis to start becoming more difficult.

Okay the last 15 days of March were difficult. And I'd like to know how you see the prospects for the next quarters and the viewpoint of the company and strategy for the company in terms of growth for the future. Thank you.

A - Jorge Faical {BIO 21768322 <GO>}

(Through Translator) Thank you, Joseph, for the question. Pleasure to speak to you again. Well competition in this quarter has been a competition that suffered just like everyone suffered on some impacts, some restrictions, businesses compared to our competitors are different.

Different proportions, different sales mix that led each one to have slightly different impacts. Some growth that we were able to observe in the market are focused on online. They are focused on -- especially in the appliances -- electrical appliances online and focused on the events of the last milers.

What we managed to observe is that some of our competitors, direct competitors that over 70% of their growth came from those two assumptions. We made a decision for this direct competition with last milers. We made a decision at the end of Q4, changing our strategic planning, very much focused on collaboration and partnerships. The fact that we

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actually tried to seek -- we were a bit behind, let's say. And now, we're recovering and catching up.

And you're going to see in the near future a robust growth of our digital bases that we're going to fight for consumers that have started using those sales or actually purchase platforms and fighting against local, regional competitors.

And this is a mitigation measure. As you know, we are not yet focusing on the household appliances category for our online sales. We have lost a bit of market share in driving online on these household appliances.

It doesn't mean that we're not going to sell household appliances at some point. These are the factors that -- well, considering your first question, that are very much faced with direct competition. They're our main highlights.

Well our positioning, as I mentioned to you, price, territory and hypermarket is firm, is positioning which we are betting very much on this new positioning and we have absolute confidence that this price perception in the mind of consumers will change.

And that's what we see in our first stores in some cities where price perception has already changed, our market share gain in those cities in micro regions, specifically, has already been happening in food in another proportion.

Your question regarding Pao, Pao de Acucar has also lost because of last milers. It had an impact in the city migrations in the second wave in this quarter that was not expected. As I said, Pao de Acucar does not want to take up the price land or territory.

It wants to maintain the territory of authority in terms of assortment, quality of perishables, of its bakery, of its fruits, and legumes, and vegetables and that, we believe, no matter how much we go through one or two quarters with certain difficulties, Pao de Acucar is very strong with this -- its value proposal and its future expansion.

When you talk about share or market share, yes, we did have a loss in our market share in the First Quarter as you could observe. We have had within the food market; we had a loss of share when we see expanded retail, we have total resilience considering the moment the country is going through and broad retail and services when there is a drastic impact.

Food retail maintains quite sound growth rates, even losing some market share at this time due to all those environments that have been already explained, we are confident that our strategy is good and our recovery strategy for the future quarters, the outlook, Joseph.

For the short-term, Q2 should be maintained with certain levels of difficulties, but reminding that Q2 last year where food, retail was mostly benefited with the abrupt shutting down of restaurants, we should have Second Quarter a bit more difficult when

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compared to Second Quarter last year, but our rates are recovering week after week. April or May starts better than April. April was a difficult month, considering the peak of restrictions that was late March, early April.

April suffered from those impacts be it in Brazil and Colombia. And we're still very confident in the recovery situation for the country in the second semester for this year.

Q - Joseph Giordano {BIO 17751061 <GO>}

(Through Translator) Perfect. Thank you very much, Faical.

Operator

(Through Translator) Our next question comes from Mr. Guilherme Assis from Banco Safra.

Q - Guilherme Assis {BIO 16143141 <GO>}

(Through Translator) Hi. Good afternoon, everyone, Faical, Isa, Guillaume, and Mario. I'd like to delve into this question of the change of strategy at Extra. I understand that this is recent. You have some evidence in the stores that have been -- have had implementation stores -- Faical mentioned where -- that's where the price perception can be seen.

And there is a recovery. And I'd like to understand -- and I know the complicated time we have, in fact, both of the pandemic and categories, for example, appliances, electrical appliances, and there is something else that I'd like to know that I want to, sort of, understand that has an impact on the gross margin, positive results of the quarter that you managed to maintain profitability and gross margin and EBITDA margin in the various format and categories there.

I'd like to understand looking ahead as the rollout strategy happens for Extra is happening, should we expect some impact in the gross margin in the format that is relevant for the company is translating into an impact in the gross margin of GPA Brazil as whole. This is the question, okay?

And the second question that I have, I'd like to know if you can update on the demobilization of sales of assets speaking specifically whether you have an update of the north of [ph] Cnova abroad, gas stations and pharmacies in Brazil and also talking about potential sales of stake in Uruguay. Those are the questions I have.

A - Jorge Faical {BIO 21768322 <GO>}

(Through Translator) Thank you, Guilherme. It's a great pleasure to talk to you. Thank you for your questions. Gross margin in hypermarket, it's not been affected -- well, let me rephrase it. Hypermarket EBITDA is not being affected by its positioning.

We see a decreasing gross margin, one point approximately, but that's offset by decreasing expenses with the dilution of expenses using this format. As we mentioned, at the end of last year, and we are using the same strategy as I mentioned the evidence in

the cities in which we have this positioning for a longer period of time since the half of last year, we saw changes in volume, changes in consumer behavior and consumers understand what is our wholesale price.

The reduced price is a fact, and that we are really, really inexpensive in hype -- in Hipermercado right now, hypermarket. And we are very optimistic, but we are always very cautious.

We understand that Hipermercado will react based on this price perception, but the EBITDA does not have any impact. It's not a concern. As for selling assets, I'd like to turn it over to Guillaume.

A - Guillaume Gras

(Through Translator) Thank you. With regard to selling assets, right now there is nothing new that allows us to share or to disclose. As for Cnova, we are still examining that. We are studying how we can really get the best value for this asset. And we expect to perhaps to close this on the Second Quarter and then make an announcement afterwards.

I'd like also to say that GPA is involved in this analysis. We have three Board members that participate of [Cnova [ph] Board of Directors, Eleazar [ph]. And also Eleazar is an independent member. And that will also us to really obtain the best value possible for this asset.

So just a follow up about Cnova, if I am not mistaken there are some studies that are still being conducted, but I'm still not sure about what I read about the potential operation. So I don't understand, really, what's going to be done with regard to this subsidiary or if you are going to take offers on Cnova.

And based on what I understand from the commitment agreement, GPA will be first just how up to 90% of shares or up to 90% of the district [ph] considering if there is an offer for Cnova. But in the announcement it seems that it could also have discount but I don't know if GPA would still keep this preference on fee discount [ph]. I don't know.

Well once again that will depend on the scenario that will emerge and there are different possible scenarios. And we need obviously to understand the impact of each one. And we need to consider the different impacts and the different opportunities for monetization. But that will depend on the very clear outcome of these studies.

Q - Guilherme Assis {BIO 16143141 <GO>}

(Through Translator) Okay. Thank you, Guillaume, thank you very much, everyone.

Our next question comes from Elena Veladis [ph] from Itau [ph].

Q - Unidentified Participant

(Through Translator) Hello, everyone, thank you for taking my question. I'd like to talk about the digital ecosystems that you are developing. So can you please talk a little bit, can you share some color on what to expect for the next five years and also what about the impact over the years? You have been discussing the last milers strategy. What impacts of that have on your margins? Thank you.

A - Jorge Faical {BIO 21768322 <GO>}

(Through Translator) Thank you, Elena, for your questions. In five years we want to be one of the most relevant players in digital. This is our goal, but we know that for achieving that, we will have to focus on where we already stand out, food, so our platform focuses on major categories, as I mentioned, beverages, personal care, cleaning, pet care, and we are strengthening our platform.

And when I say platform I am talking about selling what we call 1P [ph] and I am also talking about 3P [ph], in which we will have the major country sellers selling on our platforms. And we will also be sellers of other platforms in the market. Just as I mentioned Mercado Libre [ph] or BTW [ph] or the last milers, these are very important platforms in the market. And we will really benefit from our major expertise, i.e., food distribution. And we will be the major sellers in these platforms, so we will strengthen our sites and we will also strengthen the sites of our partners.

So this border between competition and the collaboration will become a great area and that's how we are going to work. Obviously that involves e-commerce planning, as well as the loyalty we are strengthening as I mentioned. Our knowledge on data consumer, on consumer data rather we have now just launched in this quarter and we are still running the pilot of our fulfillment center, our distribution center of services to sellers, so all for digital. This is our goal for the next five years, to be one of the major players, but let's go step to step.

We need to build categories and add new categories considering what categories are more relevant to our consumers, not only in food and we don't see any negative impact on margins. On the contrary, we believe that these partnerships will provide us benefits in increasing our EBITDA and our margins.

We know, we are aware of competition, we know that comparators are also moving forward in this segment but we want to take agency in these transformations. I hope it's clear.

Q - Unidentified Participant

(Through Translator) Thank you. Thank you very much, very clear.

Operator

(Through Translator) Our next question comes from John Sardis [ph] from Citibank [ph].

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Q - Unidentified Participant

(Through Translator) Hello, everyone. Thank you for taking my question. My question is also a follow-up on digital. I'd like to ask if you could elaborate on profitability, also accelerated growth we see using this channel.

But can you talk a little bit about marketing and consumer's perception in trying to also accelerate the migration of those consumers that are still offline to online? And also, what's your take on the profitability of this channel considering also the use of these other platforms such as Mercado Libre?

A - Jorge Faical {BIO 21768322 <GO>}

(Through Translator) All right. So let me start off, came by [ph] the partnerships and the margins. Then I'll address marketing.

Partnerships, we have different types of partnerships. With Mercado Libre, for example, we send them our goods, GPA goods and we have them at Mercado Libre's distribution center, and they are responsible for logistics services, for taking those to consumers' homes.

Now with Super Mercado Now, Super Mercado Now, they work with inventory from our stores. It's a ship-from-store concept, so we talking about two different types of partnerships and they are based on different fees, different negotiation fees and different costs. Obviously whenever we disclose an agreement it's important to bear in mind that we have been working on that agreement for months in order to ensure the profitability of our business. We already mentioned that last year and I'd like just to reiterate that.

Our digital growth will not be disorganized and will not produce loss. We want a profitable digital growth, so even if we establish these partnerships it's important to bear in mind that these partners also provide us some benefits. So I can ensure you that the digital growth will not have negative impact on our margins and we are very proud of that, because we know that some of our competitors they announced digital growth but at a very low profit or negative profit, if for a cost of a customer acquisition.

Month after month we are also strengthening our digital marketing department, once again strengthening partnerships. I'd like to take this opportunity to thank two important partners, Google and Facebook, besides (inaudible) our publishing companies, or the companies we work with. So we provide a hyper-customization. We do have a great deal of information of our consumers and we can target our consumer.

We can even go to an individual IRS identification number and that is really a strategy guided by hyper-customization. And we are also improving and growing on following consumers wherever they are, also performance using Google Search, for example, or using a tool such as DK [ph] that allows us to identify where our app users are. So I do not want to go into the technicalities but we are certainly using the best technologies to strengthen our marketplace and our platform as a whole.

If you have any questions, a more specific question, we are available, John, so that we can provide more information if you need. Thank you. I hope my answer was clear, John.

Operator

(Through Translator) Our next question comes from Felipe [ph] from Goldman Sachs.

Q - Unidentified Participant

(Through Translator) Hello, everyone. Can you please add some color on inflation and your strategies to fight it?

A - Jorge Faical {BIO 21768322 <GO>}

(Through Translator) Felipe, thank you very much for your question. When we talk about inflation pressure and compared to last year what we see that is it's stable for many categories that we have.

For this First Quarter we did not see any relevant price decrease for consumers, for some categories, particularly those that are manufactured using raw materials that are imported we saw price increase and that's because of foreign exchange rates, but right now what we see that dollar is stable, so to speak, and companies are now adjusting to work at a 5.5 exchange rate. So for this First Quarter we did not see any decrease and we also have some new cost tables. And unfortunately we did have to pass that over to consumers.

Now for Q2 we expect to see a decrease in some products, particularly grocery. And for vegetables, for example, we saw a drop, but right now right now we cannot even say that that's the trend. So that may be related to seasonality, weather conditions and many other factors. And that's why we don't see decrease, price decrease nor inflation pressure. We find that what we expect very neutral environment when we think about major products that we sell, or resell. Thank you very much.

Operator

(Through Translator) Our next question comes from Mr. Robert Ford from Bank of America.

Q - Robert Ford {BIO 15127836 <GO>}

(Through Translator) Good morning, everyone, Thank you for taking my questions. All right, so, what about the Aliados Program [ph] in Brazil? What is the profile of this business and how do you expect it to evolve, please?

A - Jorge Faical {BIO 21768322 <GO>}

(Through Translator) Thank you, Robert, for the question. Well Aliados, well, three years ago we launched Aliados in Brazil. In 2016, '17 if I am mistaken, the first two years it was, they were experience period, maturing the business, especially in terms of logistics.

When we, in 2019, mid-2019 we managed to adjust the logistics chain with service rendering delivery in 24 hours to our customers that were B2B, the business started growing at very satisfactory rates. The growth in the past year was 40%. We are talking about significant numbers here.

I am not going to disclose the specific numbers and sales of this format, they are already non-marginal numbers, they are quite significant. We used the logistic chain that makes the same distribution of our proximity, our own proximity stores, we are using the same logistics to distribute to those small retailers.

This is still limited distributions in the area of greater San Paolo. We are now migrating to the inter-side of San Paolo in the segments. And also this year we are selling some perishable categories, fresh, refrigerated and non-refrigerated products. These are new chains, over 1,200 clients that we serve and we have a profitability of one digit, that is high. And we can through the use of our costs and our logistics, all right we managed to have positive profitability and that is quite satisfactory.

Aliados today contributes positively for EBITDA increase of GPA and Id say CAPEX is practically zero. It has no CAPEX. It does not involve CAPEX. Many times CAPEX is just negligible, with some kind of infrastructure, some minor things, but it's practically a business that is going to grow more in the next years and it will be an interesting contributor to our revenue in GPA.

Q - Robert Ford {BIO 15127836 <GO>}

(Through Translator) And where is this business being consolidated please?

A - Jorge Faical {BIO 21768322 <GO>}

(Through Translator) This business is being consolidated in the proximity business.

Q - Robert Ford {BIO 15127836 <GO>}

(Through Translator) Okay. Great, thank you very much.

A - Jorge Faical {BIO 21768322 <GO>}

(Through Translator) Thank you.

Operator

(Through Translator) Our next question will be in English from Mr. Andrew [ph] from Morgan Stanley and we are not going to translate it.

Q - Unidentified Participant

Hi, thanks very much for the question. My question is on e-commerce in Exito, specifically the Rappi partnership and Last Mile. I am wondering what you are seeing from consumer

behavior, if it's basket size, frequency when they use this service and how you think that could translate to your last mile use in Brazil? Thank you very much.

A - Jorge Faical {BIO 21768322 <GO>}

(Through Translator) Carlos, would you like to talk about Rappi?

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

(Through Translator) And for the future what we think is that we are going to launch and we already announced a service, of 10-minute delivery in the main part of Bogota, Mary Jane Calle [ph] and Barancilla [ph] and the most affluent places, working from our stores but also in our alliance with Rappi from dark stores that we are going to establish for that.

The consumer trend is to continue expanding this service and especially in these times of restrictions of opening up stores and social protests, the home delivery service in food has become absolutely key for our customers.

A - Jorge Faical {BIO 21768322 <GO>}

(Through Translator) And adding to Carlos Mario's answer, for Brazil we see on Brazil through these last milers and also on the other platforms, on Super Mercado Now or Mercado Libre, we see a change, a drastic change here of consumption platforms where online consumers can buy. We believe that the only retailer that will be able to keep the food platform is us.

We would have also Pao de Acucar.com, and last milers and other platforms. So we see a wave of large supermarkets aligning to those last milers in the country and last milers increasingly strengthening their technology, the usability of their apps for the benefit of the convenience of consumers.

So what we see in terms of behavior change and on the part of consumers it's something that we actually are going to beyond selling on our website, we are going to compete also on those other websites, so competition within those platforms happens through time-to-market, so the initiatives that Carlos was saying, the initiatives which we see with 10, 15 minute delivery in the country, ability of delivering fresh products, complete food basket, ability of having promotions and fair prices for this platform and not charge from the consumer the cost of convenience.

So we are very attentive to all those competitive attributes that we will face, the supermarket industry in Brazil will face this new global trend of competition through third party platforms and with specializing to be the main player in third party platforms, not only on our platforms.

Q - Unidentified Participant

Very helpful. Thanks very much.

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A - Jorge Faical {BIO 21768322 <GO>}

(Through Translator) Sorry, Carlos, would you like to add anything?

Operator

(Through Translator) Our next question comes from Mr. Joao Paulo Andrade from Bradesco BBI.

Q - Joao Paulo Dias Andrade {BIO 21923301 <GO>}

First of all good morning and congratulations on your results. I'd like to ask a question regarding quality of service of consumers on digital platforms? You've talked about your own platforms or the other partners compared to the market, so what, KPS, KPI and considering NPS, whether that is relevant, if you could comment on the initiatives you were envisaging [ph] for that. Thank you.

A - Jorge Faical {BIO 21768322 <GO>}

(Through Translator) Thank you for your question. Within our own platform SLA, and NPS of consumers were things that we are very much focused in the past month. We've reached levels of improvement of customer satisfaction that were significant to two, or actually three KPIs that we looked quite constantly every week, is what we call perfect order which is a KPI that we deliver to consumers, what's the percentage of delivery we have for consumers regarding what they have ordered.

The second KPI is delivery time, basically logistic terms as if we called on-time, in full, in full. So on-time is the time of delivery and in-full is the complete order. And the third one is NPS. And of the first two NPIs [ph] we have attained at this quarter levels above 95% of attaining of perfect order and delivery time.

We had, and this is in the past around 80, below 80 and we have evolved to above 95%. And in some city, towns we are over a 99%. In other words, close in perfection in some cities within our own platform.

On third party platforms we are still at levels that are not desirable, low levels, around 80%, 85% of satisfaction rates. NPS is not yet at the level we would like to have and we are totally aware of what needs to be done for us to seek this higher level especially in the inventory integration with those platforms, so this inventory integration that happening today every hour or every three hours. And we expect to have online integration of inventory and this greatly improves customers' satisfaction, and also the relationship that we have in the delivery.

Many times the dissatisfaction of customers is when the delivery is different from that, the picker actually getting or picking products and actually shipping to consumers, or delivery to consumers is actually a process that presents certain flaws, so customers' satisfaction is key for our growth in the digital world. I hope I have managed to give you some satisfactory examples to you, Richard [ph], for your question.

Q - Unidentified Participant

(Through Translator) Yes. Thank you.

Operator

(Through Translator) The Q and A session is ended. We would like to give the floor for the final remarks of the company.

A - Jorge Faical {BIO 21768322 <GO>}

(Through Translator) Thank you very much for the opportunity, for your time dedicated to us.

We would just like to reinstate that the First Quarter despite having had some sales hindered by non-expected results we were prepared for the First Quarter since last year with much more strength on the basis of our business on the defense of our cash at this time of volatility that the Brazilian, Colombian and Latin American economies going through as a whole we refer to you profitable growth, growth to our shareholders, profitable to our controlling stakeholders, and shareholders, our profitability levels have a reversion from negative to positive with various productivity efforts, costs and expenses that have made over the past three years and are now consolidating.

The consolidation of our initiatives, of our strategic planning, formatting new stores is also reflecting favorably to our business digital world as we talked a lot about it, it's a road with no return for GPA, for the group as a whole, it is a path with continuous and growing trajectory.

We always highlight that we are a Latin American company. We are not only a Brazilian company, we have the Exito Group that is worth R\$9 billion in the Colombian stock exchange and has a sound group with sound results, the cash reach continues cash generation for the group and this helps a lot for our company as a whole. We are very confident in our development as a company in the future, very confident.

And we'd like to thank for the partnerships, with strategic partners, our suppliers and especially my thanks to our internal team, all our associates of GPA for another success quarter in terms of results. Thank you, all very much, see you next time. Thank you.

Operator

(Through Translator) The GPA Earnings Conference Call is closed. The IR department of the Group is available to answer further questions and doubts. We thank you for your participation and wish you a very good day.

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