

Q1 2018 Earnings Call

Company Participants

- Alberto Calvo, Unknown
- Belmiro de Figueiredo Gomes, Cash & Carry Officer and Member of the Executive Board
- Christophe Jose Hidalgo, CFO, Corporate Services Officer and Member of the Executive Board
- Daniela Sabbag Papa, IR Officer and Member of the Executive Board
- Frederic Garcia, Unknown
- Marcelo Bazzali, Unknown
- Peter Paul Lourenço Estermann, CEO & Member of the Executive Board
- Ronaldo Iabrudi dos Santos Pereira, Unknown
- Unidentified Speaker, Unknown

Other Participants

- Franco T Abelardo, Equity Analyst
- Guilherme Assis, Analyst
- Gustavo Piras Oliveira, Executive Director, Head of LatAm Research. And Latin America Consumer Analyst
- Irma Sgarz, Equity Analyst
- Joseph Giordano, Senior LatAm Healthcare Analyst
- Maria Paula Cantusio, Banco de Investimento S.A., Research Division
- Richard M. Cathcart, LatAm Retailers Senior Analyst
- Thiago Capucci Macruz, Research Analyst
- Tobias Stingelin, Director

Presentation

Operator

Good morning. And thank you for waiting. Welcome to the GPA conference call to discuss the company's results for the First Quarter of 2018.

This event is being simultaneously broadcasted through the Internet via webcast at www.gpari.com.br where you will find the presentation.

The slide selection will be controlled by all participants. The replay of this event will be available soon after its closure. The company's results press release is also available on the Investor Relations website.

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This event is being recorded. (Operator Instructions) Before proceeding, we would like to clarify that forward-looking statements made during this conference call regarding GPA's business prospects, projections and operational and financial goals are based on the beliefs and assumptions of the company's management as well as information currently available.

Future considerations are not a guarantee of performance. They involve risks, uncertainties and assumptions as 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 may affect the future performance of GPA and may lead to results that differ materially from those expressed in such forward-looking statements.

Now we would like to hand it over to Mrs. Daniela Sabbag, the company's Investor Relations Officer.

Daniela Sabbag Papa

Good morning, to everyone. Thank you for coming to the conference call of the First Quarter of 2018. We have the main officers of GP (sic) (GPA) : Ronaldo labrudi, Christophe Hidalgo, Peter Estermann, Belmiro Gomes and JosÃ© Marcelo from AssaÃ. In addition to the business owners of Multivarejo, Alberto Calvo, Marcelo Bazzali and Frederic Garcia.

As we always do, we will start out with a brief presentation from Ronaldo and then the presentation from our executives.

Ronaldo labrudi dos Santos Pereira {BIO 5151863 <GO>}

Thank you, Daniela. Good morning, to everyone. I would like to thank all of you for your participation in this conference call from our group.

I would like to begin our call with a brief introductory message so that each business owner has the opportunity to embark in details regarding their daily operation. Today, I would like to strengthen 3 points that are worthwhile mentioning before I hand it over to Peter and team.

The first point would be Multivarejo. I believe that we are witnessing -- you don't see it on a monthly basis. But obviously, we follow week by week, month by month and we are observing the results from Multivarejo that clearly shows us and as you know, Peter arrived at the end of February. And after the month of January and February with negative results, we had an exceptional recovery conducted by the Multivarejo team and Peter that allow us to present the results that we are presenting today. And I believe that this trend is very similar to what we saw in March. So this is very positive news.

Now AssaÃ once again presents excellent results. They're consistent with increase of profitability despite the deflation both at work in the retail market have never seen deflation for such a long period of time and so acute. We have exceptional results. But in

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Multivarejo, yesterday, Peter, together with Flávio, had the opportunity, communicate the results. And we continue with consistent revenue. We are increasing our profits. Therefore, the 3 company businesses, I believe, that are presenting very positive results.

Now I would like to mention something that has already been stated. And I know that all of you know is that Peter, Peter, today formally assumed the presidency of GPA. Nevertheless, since the end of February, he has been directly working with the Multivarejo team and this shows the reversal of -- and this downward trend and this is something that you will see from each one of the business unit owners. So Peter, I would now like to hand it over to you before I give the floor to the team. And please talk so that you can make your initial comments.

Peter Paul Lourenço Estermann {BIO 15380447 <GO>}

Thank you very much, Ronaldo, for your words. Good morning, to everyone. First off, we'll outline in detail the financial results. And as Ronaldo just mentioned, the business unit owners will show the highlights of each one of these business units. Belmiro will talk about Assaí. Alberto Calvo will talk about Extra. Bazzali will talk about Pão de Açúcar. And Frederic Garcia will talk about the specialized format.

But first and foremost, I would just like to give you a general overview of the main point and the highlight of the results of this quarter. Now the first point here that I would like to highlight is that all the adjustments and all changes together with the Multivarejo team carried out and the commercial dynamic, the alignment of all the teams resulted in a very positive impact and they very quickly responded. They outperformed our expectations. By and large, the month of March, we target -- we reached all the performance indicators especially in sales and volume. The results have been very positive too. There was down -- we reverted -- there was a reversal of a downward trend. And what is important is now we have mapped our opportunities and they are being addressed right now so that we are able to maintain these positive dynamics.

The pilot project for Extra Super stores that will be implemented throughout the Third Quarter of this year is already in the final structuring stage. We're absolutely convinced that we will -- there will be a change when we reposition this business. And now the -- our changes in specialized formats -- and now we have one Executive Director responsible for this, Frederic Garcia. And we had Mini Extra, Minuto Pão drugstores. And this is enabling us to have more focus, more agility. And we have seen an improvement in performance not only during the month of March but during April as well.

Assaí, also as Ronaldo already mentioned, is following its trajectory of exceptional growth with robust sales. And the team is focused in delivering the expansion plan that we planned for this year. I would like to thank you all again, give the floor to Christophe to show you in detail our financial highlights.

Christophe Jose Hidalgo {BIO 17982648 <GO>}

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Thank you very much, Peter. Good morning to everyone. And thank you very much for participating in our earnings results call. I'm going to start with Slide 2, the slide where we shared our P& -- I'm not going to stop on sales because they were announced at the beginning of April. I would like to remind you that during the First Quarter, the gross sales was BRL 12.3 million. This is a growth of 7.6% and 2.8% when we observe same stores. And this good performance was driven by AssaÃ that delivered strong growth of 25%, almost 10% in same-store sales. This is a result of the continued expansion in volume that grew 12% in this period as well as the client flow that continues increasing in a sustainable way at 8%.

So this way, AssaÃ is gaining more market share and this growth and gain of market share are followed and we will see with the increase of profits. So I believe this is a very profitable growth.

Now when we see Multivarejo, same-store sales are still affected by food deflation by the reduction of the sales area because we closed some stores to convert them to AssaÃ. It is worthwhile to -- or we had a negative impact of the fire in our DC last year. We believe that the impact is 300 bps of growth. Excluding this, the growth of Multivarejo would have been approximately 1% during this period.

Now after -- as Ronaldo mentioned and Peter mentioned, after the end of a difficult quarter in Multivarejo, we would like to highlight the recovery of sales in March. This is because of the adjustments of commercial policy and the normalization of the DC operation. Now this trend that is an ever growing trend during April makes the CEO confident regarding the recovery of sales of our growth.

Before I show you the results, I would like to mention that the company adopted on January 1 our accounting norm that reclassified some bonuses to suppliers that expensed it for cost of sales. In a nutshell, this elevates the margin level and at the same proportion we -- clearly, it is neutral in our EBITDA. With this increase of EBITDA -- this is a normative adjustment. It's not going to impact our commercial policy and our conduct. It's totally independent from any commercial approach.

After clarifying this point, we have a gross margin of 22.5%. This is because of the expansion of margin up from 3.9percentage points to 15.4percentage points and this is also because of the stability of the margin of multi that reached 28.2%.

Now our SG&A had an increase of 1.9% as a percentage of sales from 7.5%. This is a dilution of 0.9% and this dilution that responds to the 2 main factors. The first would be there would be a greater sales share in AssaÃ. I believe this affects the SG&A and the second effect that comes from Multivarejo, a dilution of 30 bps. That is SG&A expenses at Multivarejo and also the multitasking efforts carried out in the different business units.

The adjusted EBITDA that is the behavior of this margin and the SG&A totaled BRL 591 million, growing 17.4%. Now the margin was 5.2%, 40 bps above the previous year and due to 2 factors: The evolution of the gross margin of AssaÃ and the second point would be the dilution of the SG&A at Multivarejo.

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Just to clarify one point here. This level of EBITDA, 5.2%, already takes into account the reimbursement of the impact of the fire in the DC in Osasco. It also has insurance money there. So there is positive contribution from EBITDA, about 10 bps.

As to other OpEx, last year, we had the positive impact of the sale of DC. This quarter, they amounted to BRL 43 million. Half of it has to do with the provisioning of contingency expenses related to taxes in the previous period, BRL 20 million, therefore. And the other half has to do with structuring expenses, among other things, closing down stores to be converted.

The net profit margin in continuing operations amounted to BRL 153 million, 48% above year-on-year. The net margin reaches BRL 150 million. This BRL 150 million is for dividend distribution. Just yesterday, the board approved BRL 75 million worth of dividends to be paid out throughout Second Quarter based on interest on our own capital. We have a very solid cash position. And with the positive outlook, GPA is back to paying out dividends on a quarterly basis.

Moving on to Slide three now, financial performance. Financial results were down almost (20%), 1.2% of net sales, which means 50 basis points of improvement. That means BRL 50 million in nominal numbers, additional resources that will be paid out.

I would also like to point out that the company's improving its leverage ratio. We had a small level, 1.3x EBITDA, compared to 1.5x in previous year. Net debt amount to BRL 3.1 billion, BRL 2.3 billion in available resources not including BRL 1.1 billion of preapproved confirmed credit facilities.

In terms of investments, the quarter amounts to BRL 330 million, up 23% compared to the same period last year aligned with the strong growth of AssaÃ and all the renovations taking place at PÃo de AÃÃcar.

I'll turn it over to the BU units. But before, let me show you on Slide 4, the multi retail performance. Gross sales impacted by deflation or closing down stores for conversion, the DC, it has been normalized. And we had strong recovery in March. We have been improving SG&A by 30 bps given the productivity of each store. So EBITDA margin is down 5.5%. So that is satisfactory and is aligned with our annual outlook. I'll turn it over to Alberto now. He will be talking about the performance of Extra.

Alberto Calvo {BIO 19476736 <GO>}

Good morning, everyone. I'm very pleased to be taking part of this call. I'm now going to share the results of Extra.

Despite strong deflation and a fluid sector, I can say that our results are very positive. We have reverted a negative downside trend in January and February given an assertive work in our commercial policy. It started in March. So we have reviewed our assortment focusing on perishables.

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We have now focused on promotions. We have very well-conducted promotions. That was Consumers' Day. Including food, we have expanded our promotion, the red alert promotions, among others. And Extra Hiper market. We have expanded our sales 1.9% focusing, as I said, in expanding our assortment of product.

March showed a 6.9% same-store volume growth. Super is a format that can yield better opportunities today so that we can turn things around in this business. We are now taking several actions on a short-term basis. We have alternatives to activate that model, creating a product lift and coming up with the operation models.

We have just started a pilot product to renovate 20 stores just like Peter said. This model is more closely related to the profile of our customers, focusing on the regional market. And I'll be explaining that project to you shortly.

We are conducting this project, bringing in the experience of AssaÃ and Super Extra (sic) (Extra Super) teams. I am confident that Extra will perform better. We are very optimistic about March results and we expect this positive outlook. The entire Extra team is fully committed to providing consistent results focused on meeting our customers' goals. Thank you very much. I'll give the floor now to Marcelo Bazzali to talk about PÃfo de AÃ§Ãcar.

Marcelo Bazzali

Thank you, Calvo. Good morning. Thank you for inviting me for this meeting and talk about PÃfo de AÃ§Ãcar results in this First Quarter.

We have maintained our market share and we have boosted our profitability. We had 11% gross sales same-store despite the impact that Christophe mentioned in our DC and the adaptation.

So we have an accrued results of improved sales in same stores and also aligned again with the strategy presented back in April 2017. We are at full force renovating our stores, the generation 7 concept. We are now moving onto the second wave with 7 stores. We are reopening these stores late May, early June. The stores that were renovated last year have now shown good results, yielding better sales results. And of course, we now can trust this new format because it yields more sales in perishables especially.

Back in March, we have started our quality program, 80% of our sales from PÃfo de AÃ§Ãcar customers. In early March, we have introduced or reintroduced the Meus PrÃmios, more rewards. And consumers will be rewarded according to their spending profile. We now have 7% of this new program, 30%, 37% of every ticket of this brand.

We have yet a new campaign of collectionable items. The (Night) last year was an outstanding success and now we have pots and pans. Results are above our expectations. We have been expanding the share of wallet of our customers.

I would like to say that we have signed a new partnership with ItaÃº Unibanco, the first retail to accept Apple Pay. So our innovation pillar is strong.

And finally, I would like to share something that was very important. PÃ£o de AÃ§Ãºcar was chosen as one of the top 20 most valuable brands published by (inaudible) and WPP, the first food retail company to be in that list.

Over 14,000 responded to that survey. So that acknowledgment is a reflection of the performance of all our employees and we are strongly committed to overcoming our challenges throughout the year. Thank you. I'll turn it over to Frederic Garcia.

Frederic Garcia {BIO 1525714 <GO>}

Thank you, Bazzali. Good morning, everyone. I would like to thank you for talking about -- for having me to talk about Proximity business, gas stations and drugstores. They have gone back to the growing trend back in March with promotions both for Minuto PÃ£o de AÃ§Ãºcar, now aligned with the PÃ£o de AÃ§Ãºcar initiatives also for Mini Extra. In both businesses, we are now improving the process using 150 bps for Mini Extra and 240 for Minuto, 240 bps year-on-year.

One of the categories that received our focus was fruits, legumes or vegetables. It's the key category to generate cash flow to make customers loyal and to capitalize on that competitive edge in Multivarejo. We had 2-digit growth both in volume, sales and ticket. So consumers clearly indicate that they've accepted this new format. We have changed our pricing policy. We have included top-priced products. They were present in Hiper and Super Extra brands. And we believe they can improve the price perception in the Minimercado.

For gas stations, we have growth that was very important too, indicating that the outlook is positive. We have improved our infrastructure. We have strengthened our 70 units. And it has to do with the new image and concept for the entire group.

At drugstores, the results are -- were positive, both sales and volume as a consequence of the new commercial dynamics aligned with Extra and Super Extra stores. We are very positive with these quarter results. The initiatives I have listed ensure that we're going to keep on this positive trend in the future so that we can even be more consistent with our delivery.

Thank you. I'll turn it over to Belmiro now. He'll be talking about AssaÃ

Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Good morning, to everyone. Thank you for participating. For now, you'll see that Christophe mentioned, AssaÃ closed a strong quarter with an increase of 25% vis-Ã-vis last year. This is an increase of BRL 1 billion in the First Quarter vis-Ã-vis the last year, helping us to grow and also GPA. This growth is a result of 2 positive efforts same store with an increase of 10% or 5% when we see Extra stores converted to AssaÃ. And with an

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expansion of strong contribution, the stores opened in 2017 contributed with 15% of this growth of 25%. The expansion of 2017 was (atypical) in that -- where there was from the -- there were 16 conversions of Hiper different from 2017. And from this year's expansion, these are stores as there was a trade area. They have sales, customer flow and maturing very different than that of organic stores.

As we have mentioned, the great challenge of the First Quarter was deflation that was 4 points negative. Our internal mix, the mix of AssaÃ has company line online. So this represented great challenge which highlights the efforts of our team to be able to positively grow in same stores with the deflation scenario and this was driven by, what, by the increase of volume of 8% and a positive customer wealth of 12% when we see converted in organic stores.

Highlights were commercial dynamics with price policies of inventory and product mix (areas served) for our consumers and also the small retailers, small trade centers that have gone to AssaÃ to supply themselves and, in some cases, once or twice a week. Now these commercial dynamics in addition to providing the most volume and sales flow resulted in a significant increase of at least 0.9. And from 14 it went to 15.9.

Within this context, we have a new tax reality regarding the ICMS ST but the new stores was what drove the difference that has this great advantage regarding our growth income. Expenses are very challenging and we are correcting it through a deflation of (3%, 4%) but we have -- in expenses, we have had a positive inflation. And in order to deal with this increase of flow allowed us to maintain our expenses stable compared to last year from 10% to 10.6%.

I would like to -- there was -- we had a reduction in damaged products. The team worked here. So we wouldn't have such a great impact. Now with this we added, that can capture all the improvements of the growth process from 0.10. The EBITDA reflects a strong evolution of 4.8%, increasing 50% vis-Ã -vis the First Quarter last year. This shows that our model is assertive not only of same stores but also this whole ensemble.

Now the financial expenses have been driven by the drop of the interest rate and dropped 41% vis-Ã -vis last year, now with 0.20, a rate that is relatively good for a company that has strongly expanded. Right now we have new construction work, 9 retrofits. And this was financed via cash.

And it's important to reduce our financial expenses and net profit increased -- it goes from BRL 76 million to BRL 71 million, from 1.9 to 2.3. And we can transform in the First Quarter, 43% of this EBITDA and net profit.

Now the great highlights of the quarter, project of AssaÃ, this is a new project. We ended the rollout at the end of March. During the First Quarter, we have all our stores open. Although this is a project that has -- we have a base of 200,000 cards. So with the continuous movement in March and April, that is the greatest banner in terms of sales of cards. So AssaÃ has excellent market share, growing 3.8, great share, an increase of share within the universe as GPA, as EBITDA grows from 38.5% to 45% this year.

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I would like to thank all our team, the new people that have been hired for the 29 stores. This operation has been expanded and we have expanded 28% in the past five years. That has been sustainable in terms of cash. And also, our people, practices-- commercial practices. And not only old stores, new stores should be attractive to our customers that provide us better results.

Now in terms of expectations, I would like to highlight that we are concerned with deflation that is continued. Even in the month of March, we have a deflation in food basically in all categories. We expect that this deflation will stop in effect during the second semester not because of the increase of prices but just because of the basic effect of the last year.

So when we see the market, we do not see an increase of prices. What we see is a continuity of price. But I believe, in terms of percentages, this will have an effect during the second semester. The AssaÃ team is focused on expense control, commercial practices, inventory management. And we are adapting our internal organization to support this rate of growth.

We expect to maintain our pace of growth. And at the end of the First Quarter, we had 9 construction work. We have 2 works that has been retrofit work. When we had a strong new opening calendar in 2017, we will see the opening of these new stores at the end of the first semester. But most of that won't be open during the second semester. Now everybody is making an effort to retrofit some Extra Super stores. Everybody is contributing and I believe that this will bring us a new proposal modeling and proposal. With this, I end the presentation to AssaÃ and I hand it over back to Christophe.

Christophe Jose Hidalgo {BIO 17982648 <GO>}

Belmiro, thank you very much. Now we can proceed with the Q&A session, okay? But I would like to say that the performance of the Third Quarter makes -- gives us trust in our guidance for 2018 to reach our sales growth of same store above inflation or any level of inflation and in Multivarejo to grow aligned with inflation.

Now regarding operational profitability, we expect the EBITDA margin and we confirm it with a scenario of the first semester at Multivarejo 5.5; 5.6 assumed in AssaÃ despite the trend also from our net debt and also from the (volatility) curve. Our financial result is around 1% of net revenue and I would like to strengthen as well permanent contribution of our projects and the synergy that had been conducted very successfully. So I believe now Daniela, we can proceed with our Q&A session.

Questions And Answers

A - Daniela Sabbag Papa

(Operator Instructions) Our first question from Thiago Macruz, ItaÃ BBA.

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

My question goes to Belmiro. Did you see the mix between individuals and corporation? I don't know individual had a lesser share. And do you believe that this is a trend? What about -- what can you say about mix profitability? What do you see about that? What about suppliers in the past year? Suppliers are working with wholesalers, wholesalers and retailers. Do you believe now that the economy is going to grow and this has changed and they're going to favor key accounts? Or do you believe that this is something that will not happen in the future?

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

Thank you, Thiago, for your 2 questions. In terms of mix, because of the change of the market behavior and store structure, we have had more individual -- well, it depends on where you are in Brazil. Individuals represent 70%, 80% of transaction and 55% of sales. And we also have a differentiated margin. Now the converted stores of Extra that were in regions that we have a greater share of individual but our focus has also been on corporation or on businesses. So it is visible in our expansion plan when we open our stores in distant areas. And we have a store in Manaus. And then we have another one in the north. This is for -- this is to cater to corporations. Other suppliers, there was a change in the profile of the corporation. And they see the wholesale market a place to buy it and sell because this way they don't have to have any inventory and they have a strong working capital. So this is what drove suppliers. What we have assessed before crisis and postcrisis, or during crisis. The customers that were attracted by crisis, 98% said that they were buying from us. Those that pulled out of the crisis because they recovered their income (90 and 8.9) continue in this sector because there's that 15% difference between the operation retail and the wholesale operation. For operators, this has been also a good opportunity for an outflow of products, this difference of price, something that attracted the consumer weren't the prices practiced by the (foreign language) -- the operational curve, this has allowed the low cost to customer and the customers that goes to the wholesale or has been filled here for our business. And we believe that there has been a change of behavior of our wholesalers and suppliers.

Operator

Our next question from Joseph Giordano JP Morgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

My question is a bit broader, pretty much about Multivarejo and wholesale retail. I would like to understand through the deflation that you see in the sell-in, in your purchase, we can see inflation helping your ticket. Can we imagine a scenario of negative food inflation expanding itself throughout the next semester? Mainly, when we talk about meat and especially because of exports. And with the deflation, I would like to understand how you see promotions of the industry. You have various different promotions where you're at. But how do you see your competition? Are they being -- is the competition being price aggressive?

A - Ronaldo labrudi dos Santos Pereira {BIO 5151863 <GO>}

Giordano, regarding the inflation behavior, number one, the challenge that Christophe outlined, we're maintaining the guidance that we communicated at the end of last year.

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What does this mean? It means to us that our challenge increases because we had the flat deflation forecast during the First Quarter and it was greater than we expected. And we also expected that during the Second Quarter it would be lower. And what we see is that it's still strong. However, if you look at the season and the crop season in Rio Grande do Sul, Paraná, Santa Catarina, they are at delayed cycle. Crop season is down 5%. Of course, we had a bumper crop last year. But in the Brazilian Midwest, production will be similar to the bumper crop we had last year. We haven't had final results from Southeast and Northeast of the country. We believe prices will pick up as of Q3. So at the end of Q2, we have somewhat of a deflation still high in April. And prices will pick up, I mean food prices as of Q3. It can take place gradually but it can also be faster which would benefit us. However, we are maintaining our guidance and we're working internally both at AssaÃ and Multi retail to mitigate this higher deflation.

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

This is Peter. Let me address your second question. Promotions are more horizontal especially the things we have been doing. That would encompass the entire category. They're stronger than the vertical promotions in which you concentrate on those products that generate flow. This type of promotion helps us in providing a more complete package for our consumers. We believe that the market remains competitive. We haven't seen major changes in this recent period. Thank you. Thank you very much.

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

This is Belmiro. Let me just comment on what Ronaldo said. Deflation has been concentrated on commodities. What we actually have seen is that almost every category, cleaning products, hygiene products, they're also suffering from deflation. Our currency is value and imported products on top of a slowed-down economy. Soap for example. You purchase the soap today for the same price you paid last year. Categories with inflation and deflation have always been coming. What's new now is that on top of that bumper crop, the other categories have also had deflation. That's why we had a 4% deflation. So we expect some recovery but we have seen that happen in other categories too. So this is with comparable periods. We're talking about food a lot but it's not food. It's not rice beans, oil and meat. This is also valid for other categories as well.

Q - Joseph Giordano {BIO 17751061 <GO>}

Let me just follow up on the other nonfood categories. Are you considering promotions? Because there are other some channels, retail because sales are slowing down and these categories are considering doing anything?

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

This is what has been happening. We're having more promotions, especially in AssaÃ, because our market share is smaller. For corporations, prices are going down so they have maintained very stable inventories. Small stores would benefit from smaller prices to purchase more. But today they know. Well prices aren't going up. If there's a promotion this week, there'll be another one next week. So there is some sort of retraction of this small and midsized companies. For wholesale promotions haven't yielded volume gains.

Consumers, on the other hand, they are basically the same. For AssaÃ, the mix is the same. Prices going down have not brought bigger sales or more volume.

A - Marcelo Bazzali

This is Bazzali from PÃ£o de AÃ§Ã°car. In our case. So perfumes apply, what Belmiro said applies too. We have been activating more. It was there in our stores. We have 80% of our customers in our loyalty program and we detected that opportunity especially through Meus PrÃªmios program to implement promotions for each individual. We have managed to get more market share in these 2 categories.

A - Alberto Calvo {BIO 19476736 <GO>}

This is Alberto Calvo from Extra. Let me comment on what Belmiro, Bazzali said. Home products, textiles and the white line, we have increased our sales monthly, not only from domestic products but also from imports. We have managed to boost sales in all 3 categories.

Operator

Next question from Franco Abelardo from Morgan Stanley.

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

My question is about gross margins of AssaÃ. I would like to better understand the impact of our trade policy, the mix of individuals and corporations and, more specifically, about the tax change, the sales tax. How much have they contributed to improving your margins? And down the road, will you have this tax benefit helping out in the gross margin of AssaÃ? Or are you going to reinvest this gain toward spread? This is my question.

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

Thank you. The makeup of the margin has a very strong component. There is the sales tax impact. I haven't broken that down. However, we have fewer breaks. And the #1 driving force is the product mix. This is what we have been doing 15%, 20% of Q1 sales come from stores that were open the year before. In new stores, you have a higher investment. In 2017, we have a very unusual group of stores, unlike we have the Q1 of all the other years. Stores that already had Extra, we were not as aggressive like when you open a new store in Teresina, the first brand store, the first time (we are in a state), of course, you invest more margin. There's another thing. Most of our conversions took place in SÃ£o Paulo. AssaÃ is already present in SÃ£o Paulo. It has a strong market share in the greater SÃ£o Paulo area. So our margin levels are very similar to those we have in SÃ£o Paulo already. Out of the contribution of that Q1 comes from the difference of store mix. '17, the profile of this '17 new, it's very different from what we had 2016, '15, '14, '13. And the mix for 2018 will reflect on Q1 of 2019. Is that clear?

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

If I may, I'd like to ask a second question. My question is about omnichannel and e-commerce. Could you give us an outlook of the penetration of e-commerce for both Extra

and Pão de Açúcar? And along the same lines, how do you book Extra.com sales? I believe that food items come from multi retail. Is there anything else that is not food related? And I'm considering about the store itself. How do you book sales from Extra.com those that are pickups?

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

This is Peter. Let me talk about Extra.com and nonfood items. Every sale that is food is in the retail already. Nonfood items are booked in the retail channel. There's no interference whatsoever in Extra. As to e-commerce, I'd like to turn over to Bazzali.

A - Marcelo Bazzali

Franco, everything that is e-commerce in food is within Pão de Açúcar BU. paodeacucar.com, Extra.com is about 3% of our sales and there are several fronts. This is what we call our delivery express, 120 items delivered up to 4 hours at 47 stores. So we're expanding that to 70. We have the Click & Collect in 32 stores. A customer can order, they pay and pick it up. So there are several fronts underway. Everything is connected. This is one of the strategic bumps for what we call omnichannel. Every promotion is integrated. The manager is the director and the manager interacting with the entire BU. The customer interacts with the Pão de Açúcar brand, either traditional supermarket, e-commerce and Minuto that Fred described, we're all very much aligned.

A - Unidentified Speaker

Franco, I would like to make a comment about margin, not for Assaí specifically but also for multi retail because it's a BU benefiting from this new tax legislation. Let me call your attention to one topic. Margin is made up. And it's based on several items that depend on the impact of deflation and the ramp-up of new stores, converted stores. So there are several contributing factors. So typical to connect the margin evolution with one of these variables. Margin, again, is made up based on the competitiveness of the market and that's the trigger of the margin definition. What's important today for both Multi retail and Assaí, despite benefiting from all of these factors, we are now operating at a margin level that makes us very competitive. We are recovering our market share. It's important to have a very global margin approach not trying to pinpoint one thing because that's not how it works. Thank you, Franco.

Operator

Next question from Mr. Richard from Bradesco.

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

Two questions. Number one, regarding Multivarejo. You mentioned the new commercial dynamics that you implemented in March. I would just like to know if you could elaborate on what didn't work in the beginning of the year and why did you change your commercial dynamic. And second question I just want to tag on the answer that you gave to Franco about Assaí. You talked about you don't need so much promotional investment in Assaí. I would like to know if this expansion of the margin is temporary so when you have

more openings that are not conversions, if we have this commercial investment, we'll have to increase when you open new stores.

A - Unidentified Speaker

I would just make an introduction and I will give the floor to Calvo. I prefer not to analyze what was working or not. And I want to see the future and I want to consider the new moment that we are undergoing right now. Yes. There has been an important change. Calvo will give you details about this and what is important is that these changes are working out and we have a positive perspective for our future.

A - Alberto Calvo {BIO 19476736 <GO>}

I will talk about the main changes the commercial dynamic, is how assertive we've been in all our actions through the database of our customers, the reinforcement of digital communications. And we're strengthening everything regarding Extra banner assortments and seasonality, festivals. And we are -- I would like to strengthen our action with perishables and this is through accurate selection of products also with the right assortment, having a greater variety of assortment and not verticalizing promotion. And I believe that in March we are already observing the results of these actions.

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

Richard, this is Belmiro. Obviously, we have been influenced by the expansion and the intensity of the expansion. We wanted to increase the size of AssaÃ. You can see through its figures. And depending on the market, we have level of investment. In margin, we already increased our margins because of the mature stores that we already have. And we're always at the margin of new stores that have the adequate commercial policy. What do we expect in 2018? We have (inaudible) an expensive plan. But it's concentrated in 11 states. These are new states that we have already have presence here. And I believe that the investment won't be as high. Probably, in 2019, we will invest in new states that will depend in more investments as we try also to diminish. Because of the size of AssaÃ, the expansion, although it has a negative impact, it doesn't harm us that much. Now regarding what Christophe said, it's complicated to us and it's a tax credit because this is something that came to market and probably all the companies competitiveness reflects on this. Now when we see what happens, we can see that the sales play that within deflationary scenarios, it's important to maintain a level of competitiveness. Last year, was an atypical year. We had a great margin evolution. And perhaps during the First Quarter of next year, we will have the same level because we will be assertive in our expansion during that period.

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

Could you follow up on the Multivarejo question? This recovery of growth, was there an increase? Did you need more promotional investments? Did you need a greater gross margin to generate the action, this growth action?

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

As we mentioned beforehand. And as Calvo strengthened, you should be more assertive in the products that you're going to sell. And you should also have offers in all categories.

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And here, you can balance your margins. The end result is that we were able to grow significantly without dropping our margins.

Operator

Our next question from Gustavo Oliveira, UBS.

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

This is a question for Multivarejo. You had the problem with the fire of the DC and this affected sales. I know that you were reimbursed by the insurance company. I don't know if it's the sales. You didn't have BRL 200 million in sales. Do you believe you would have had a greater margin expansion if it wouldn't be for the fire? Does the reimbursement offset this? I have the impression that with the margin expansion in hypermarkets could have been even better and you could have improved your guidance here. This is the first question.

A - Unidentified Speaker

Thank you for your question. The EBITDA that we delivered during the First Quarter considers the effects of the reimbursement of the contribution margin. In other words, in the EBITDA, we consider the contribution margin. It's not the commercial margin but it's the contribution margin that the insurance company paid. So in sales, it is not considered. And I believe this drives upwards the EBITDA margin of Multivarejo and it drives approximately 10 bps. What you have to think is about nominal value of the EBITDA because it doesn't offer -- this distortion captures the contribution margin we would have obtained if we wouldn't have had this fire, yet there is slight distortion around 10 bps in the EBITDA margin. And nominally, this is what we focus on.

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

Second question, I am still insisting on the growth margin of AssaÃ. This is a simple question. As far as I'm concerned, if you lower the prices, you believe that there will be no great need because you already have promotions. What would you focus on to improve your same-store sales? Not that it's bad. It's much better than the competition. What would you have to focus on to improve your same-store sales in the next year? In the upcoming years, I don't know if it would be to change assortment, to better focus on the experience of the end consumer. I just would like to know what you're thinking about and what will be your main actions to maintain strong same-store sales in AssaÃ.

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

Thank you, Gustavo. Unfortunately same-store sales is based on base. AssaÃ for five years has been growing in same-store sales. And this is not because we do the same thing. Every year, we deploy new policies. It's not only about product mix but also relationship activities with the corporations that you can see when you discuss a deflation, the volume that was 2.7%. For this we have to innovate. Innovation has been a strong characteristic of AssaÃ. Now sometimes it's complicated. I can't give you all this information because this is part of our strategy but we have some ongoing projects so that AssaÃ can continue growing even with our same-store sales. And we've had a real

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growth, about 35%. And this is strong. To continue this, we have brought in and changed our service channel and some products regarding the relationship with our customers so that all corporations can buy more products from us. And for individuals, we want to have more individuals and we want them to be loyal to us. And your question, I cannot give you our strategy because it's extremely relevant. I just can't disclose this information. So yes, we have grown same-store sales. This is part of our practice. That's the way that we interact with our customers so that we present growth in same stores. Now regarding price, as I said, that there is no need of investment. The Brazilian market also lays a loss. This is the reality that we analyzed during the First Quarter. According to changes in behavior of the market, we will maintain our share and we want to increase our share. So I believe this can change the commercial dynamic and this was the reality of the First Quarter. Probably will be the reality of the Second Quarter. We can have an ever-growing result.

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

When you work with your guidance, Belmiro, for this year, okay, during First Quarter, you had a growth margin plus some stable OpEx. Is this what you have for the entire year or not? Do you believe that maybe you will adjust it, you can invest more here? So I would like to understand what you were thinking about when you elaborated your guidance?

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

Now the guidance has a major impact because during the First Quarter, we only opened 1 store. During the second semester, the impact of new stores, they represent high operational cost, especially AssaÃ. That depends on what (the center is probably) receiving merchandise and we have operational expenses and it can generate an impact from the results. This is why we analyze things point by point. When we see expansion and the expansion curve from the -- based on same-store sales. When we see expenses, well, expenses, we don't discuss business is made of low cost. So if there is a separation, we will analyze procedures and processes to optimize an order made (for this) so that the expenses are in effect. This is something that we're focused on because this guarantees our level of competitiveness to operate with our gross margin. The expectation is performance throughout the year aligned with the First Quarter. But obviously, we have changed as a market competitiveness, maybe something that will make us be more aggressive or the reaction of a new store, although this is a process that exists and we've seen in the past year as we opened a new store in new states. We have to face different levels of competitiveness. We opened new stores. But every week, we see the strategy and this can vary the margin of the OpEx. I believe that the expenses are very relevant because we strictly control our wealth. But I can't give you this information accurately.

Operator

Your question is now from Guilherme Assis from Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

My question is about the gross margin in Multivarejo. I think Peter has made it very clear about the type of promotion in order to leverage Extra operations, more specifically. And your focus is on more horizontal promotions, which will negatively impact margin. I'd like to

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better understand how have you conducted negotiations with suppliers to conduct yet more promotions. And to look more commercially aggressive not impacting negatively the margin, have you changed the tone with your suppliers? Have they been receptive in this environment of food deflation? And looking forward, can we expect this as an additional driver? Because the channel is responding properly, isn't it? That's one question. Let me ask you a second one. I know it's a sensitive issue. Could you update us on the sales process? And of course, I don't -- I'm not looking for dates or anything else. Is the process going on? What's its status? Do you consider selling it to stock exchange as an option? What would make you make that decision?

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

I'm going to address the most sensitive question first. The process is still active, as I have stated before. Number two, we're not going to resort to follow-on or anything of that sort. We're still focusing on selling the company and the process is ongoing. As to the first question, as to suppliers, the agenda has been positive. Looking on, the outlook is positive based on these two months' results. The suppliers are on board. It's a positive business agenda, in other words. When we talk about more horizontal promotions, we always resort to products that has some sort of recomposition. Suppliers are always supporting us so that we can grow as expected. I know it's sensitive.

Q - Guilherme Assis {BIO 16143141 <GO>}

Why aren't you considering a follow-on? Is it because the process is going on? Or is it because you don't think it's a good alternative?

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

The process is active and it's ongoing.

Operator

Our next question from Irma Sachs (sic) (Irma Sgarz) -- from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

I would like to learn more about the new format for the Extra Super format. You were talking about conducting it with the Assaí and Extra Super teams. It would be somewhat between wholesale and discount retail.

A - Unidentified Speaker

Thank you. Your comments are correct. As I've said during my introduction, we're still finalizing this project. It's to be implemented in Q3 and we'll be providing more details as soon as we have a more detailed planning time line.

Q - Irma Sgarz {BIO 15190838 <GO>}

Let me ask you another question please. Benefits of the labor reform, have you ever detected anything? Is there any time frame to have that helping the expense line of the

company?

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

Irma, Christophe. So labor reform has started to yield positive results in 2 areas, in areas that we can measure. Number one, the flexibility provided by this reform, we've seen favorable impacts in retail, Multi retail; and secondly, volumes of new labor lawsuits. It's a 35% to 40% drop in the number of labor lawsuits. There will be some impact in the next P&L reports.

Operator

Our next question from Maria Paula Cantusio.

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

I actually have 2. Let me go back to sales performance. You've included the calendar effect that has the same-store sales for the entire quarter. Can you break down the Easter effect, especially in March, in which you sold more within the stores? Are there some nonfood items sales related to the World Cup? And my second question is about a drop in SG&A, 7.3% for the quarter, which is expressive. What has it got to do with shutting down stores last year and this year? Is this the new benchmark for the SG&A for Multivarejo? Or is there room for even further reductions?

A - Unidentified Speaker

Maria Paula, thank you for your questions. Sales performances, as we described in the sales release, of course, benefited from the Easter effect, 2.7% for the quarter. In the last month, back in March, the favorable impact was about 8%, which means the x calendar performance for March has been about a little less than 3%, the like-for-like excluding the Easter effect. We can't say for April but we believe it's a continuous trend for April. As to the behavior of SG&A in Multi retail, we have captured that dilution of 30 bps given several initiatives especially related to a better productivity for all brands. We are at the 23% level impacted. But I believe that 23% is representative of a trend. We may resort to closing down other stores. It's a permanent process actually. Thus, we have stores in the ICU. So to speak. Either we recover them or we shut them down. That's part of the cycle, the last cycle of stores. You open new stores, you close some down because that depends on the market. So this is all market. We're not foreseeing a large number of shutdowns.

Nonfood items related to the World Cup follow the same trend of recent months. The World Cup decorations are effective. The first product activation starts this weekend. TV sets are connected to the loyalty programs and the nice promotions. We are now connecting promotions to make good use of that loyalty program. We are now starting a promotion with a 4K TV sets in our loyalty programs just this weekend.

Operator

Next question is from Tobias Stingelin from Cr dit Suisse.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Peter, things have improved as of March. What's going on in April? Are there any trends? I know you're in a monthly struggle. What's your take on the outlook?

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

Thank you, Tobias. We have a very similar trend in April to that we had in March. In May, you know we have Mother's Day, which is very good for Multivarejo especially for nonfood items. And the World Cup, we can't actually measure what its impact will be. Our policies, our activation, our communication, everything is prepared for these months -- for the coming months. And we believe that we will maintain the same positive trend of March.

Operator

This concludes Q&A session. I would like to turn over the conference back to the company management for their final remarks.

A - Ronaldo Iabrudi dos Santos Pereira {BIO 5151863 <GO>}

Thank you. I'd like to conclude by pointing out, once again. And give you a summary of businesses as of Casino joining us, joining the group. It happened during the biggest economic downturn we've had in our country. And I have stressed this at every call. I'm taking that liberty to make that summary.

We have been very disciplined in our financial management activities. We have focused on picking and choosing very diligently our investment. We have managed our store portfolio very carefully. And one of the highlights of this period, I daresay. And I'm sure that Peter will continue on the same trend. And that has to do with the governance standard we have been focusing on. These are the 4 pillars across the board. And very briefly, let me describe every business.

In our nonfood business, we have made good use of that window of opportunity of the Via Varejo IPO. Right after that, as I said, we've had a terrible economic crisis. The electronics business fell very sharply but Peter managed to turn things around, making very difficult decisions. But they turned out to be very effective. Our Nova business today has today bigger market value than it once had at the IPO. For the food business, this is our primary focus. We have made decisions, looking back now, decisions that were appropriate, very important. And we have invested in whole retail. We expected Assa to grow. And it did. Between 2014 and 2017, we expected a threefold growth. We have opened new stores. We have invested in Assa very heavily. And that strategy paid out. When I joined the company, Assa accounted for less than 16% in the food business and it will surpass 45%. It's an almost threefold increase within our food business. For multi-retailer, Multivarejo, especially at times like these, we took a more of a defensive stance for some brands.

For Hiper and Super format, we worked very hard. We have resorted to the basics. I like what we did at Pão de Açúcar. We invested where it was possible to maintain the company's profitability and we created the Minuto banner, the Minuto brand. And we are

almost getting where we expect to get. In a nutshell, these were very correct decisions when I talk about the food industry. So we're back to being the #1 food retailer in the country. GPA had that position. We lost that position. And this strategy now has put us back in that #1 position for this quarter.

Belmiro and his team and Peter, Peter's work, now in Multivarejo, we have data from March and April already. And I am confident that this leadership position will be kept and we are going to open up the gap even further. But there's something very important about retail in Brazil. And I'm referring to credit availability and financial services. After Casino joined forces, we made a decision with Itau. And I can tell you as (Fitch) is supporting our retail business, be it for cash-and-carry or in the premium brands of both Hiper and Super format this has helped us tremendously. And we're very pleased with the results from this decision that was made about 1.5 years ago.

I would like to thank our board members, especially Monsieur Naouri, he's been a true partner. They have supported and they have approved the succession at GPA. We know how tough successions are. And I'm convinced that this succession process will maintain the strategy we have implemented to provide the company with even more value and its shareholders as well.

I'm very pleased, Peter, after 20 years working together, I witnessed you taking over GPA and I'll be there supporting you at every step of the way. The same thing with Belmiro, Christophe, Flávio and the heads of every BU, the (RI) team, the support team so that we keep on working together.

And finally, I'd like to tell investors that everything we've done. And I had the chance to speak to several of you personally, over the phone, at a roundtable. We did what we did in a very planned and detailed fashion with the understanding, with having the entire board on board. So once again, I'd like to convey the message with confidence. GPA is on the right path and we'll see good results and we'll see even more positive results in the quarters to come. Over to you Peter.

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

Thank you very much, Ronaldo, for your words, for your support; to the board members, for also the trust deposited on me and also for the support during the transition process. And I feel very reassured to continue with the effort of the entire team.

I'm taking over this mission with a commitment of delivering better results together with the team to be an example in the execution of the strategy at the -- demanded by this moment and to come to an end considering the results that we yield during the past months with the opportunities that have been mapped and with the support that we will continue counting on with from Ronaldo because as of now, he will be part of our board, 2, three days a week. And in my view and the view of my entire team, this will be of utmost importance, to be able to focus on delivering consistent results in the upcoming periods. Thank you very much.

Operator

The earnings results GPA conference call has come to an end. The IR department is at your disposal to answer further questions. We thank all of you for your participation and have a very good day.

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