

Q3 2019 Earnings Call

Company Participants

- Carlos Mauad, Chief Executive Officer
- Jose Roberto Meister Mussnich, Chief Executive Officer
- Luis Moreno, Chief Executive Officer
- Noel Prioux, Chief Executive Officer
- Paula Cardoso, Chief Executive Officer
- Sebastian Durchon, Chief Financial Officer
- Sebastien Durchon, Member of the Executive Officers Board
- Unidentified Speaker

Other Participants

- Analyst
- Gustavo Piras Oliveira
- Irma Sgarz
- Richard M. Cathcart

Presentation

Operator

Good day, ladies and gentlemen. Welcome to Grupo Carrefour CRFB for Brazil's Third Quarter and Nine Months of 2019 Conference Call. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session, when further instructions to participate will be provided. (Operator Instructions). As a reminder, this conference call is being recorded and broadcast live on the Investor Relations website at www.grupocarrefourbrasil.wins.com.br. A slide presentation is also available on this website. Slide selection will be controlled by you.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments because of macroeconomic conditions, market risks and other factors.

It is now my pleasure to turn the call over to Mr.Noel Prioux, Chief Executive Officer, to start the conference call. Please, Mr.Prioux, you may proceed.

Noel Prioux

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Good morning, and thank you for joining us on this call to present Grupo Carrefour Brasil's third quarter and nine month 2019 results. I am joined on this call by Roberto Mussnich, CEO of Atacadao; Luis Moreno, who recently joined us, Carrefour Retail. And I am pleased to welcome Paula Cardoso, CEO of Carrefour Business Brazil; Carlos Mauad, CEO of Bunco Carrefour and Sebastian Durchon, our Chief Financial Officer. Nathalie [ph], our new Head of Investor Relations, whom I'm also pleased to welcome to Carrefour Brasil who is also with us.

I will start with a brief overview of the key highlights of our performance in the period. Sebastien will detail our financial performance and Roberto Louise, Paula, Carlos, will present the key performance highlights of our different businesses. After my concluding remarks, we will open the floor to your questions. The presentation that we will be referring to during this call is available for download on our Investor Relations website. Grupo Carrefour Brazil's third quarter performance provides a new demonstration of the strength of our omni-channel ecosystem. Even while operating in a challenging consumption environment Grupo Carrefour Brazil posted strong growth in sales and solid profitability in both the third quarter and in the nine months. Thanks to consistent execution of our strategy. Retail posted its best a quarterly sales growth in five years. Atacadao continued its expansion. Bunco Carrefour recorded record billings and our e-commerce continues to advance.

I'd like to mention some of the key sales of the nine months, as we continued the development of our omni-channel strategy. With a focus on connecting the physical world and the digital world. Offering a seamless customer experience in store and online, and offering a growing range of services. The strength of our ecosystem, strengthened the brick-and-mortar stores and we continued our expansion in the third quarter, we opened three new Atacadao, bringing the number of openings this year to 15 in line with our target to open 20 this year. And we continue to develop proximity with the opening of two new Express stores bringing our convenience network to 123 stores at the end of September.

We also took a decisive step in our -- recently by signing a partnership with Super Nosso group in Minas, Gerais, under which they will take over the operation of our 17 supermarkets in the region of Belo Horizonte. Seeking to redynamize their performance based on their broad knowledge of the local market and consumers. In line with our omni-channel strategy, we have rolled out click-and-collect to 106 stores for our non-food offer. And have rolled it out to five stores for our food offer in the past quarter. Drive is now available for online food order pick up in 28 stores of which 11 were open in Q3.

Our marketplace continues its rapid ramp up and we ended the quarter with nearly 3,200 sellers and over 3 million SKUs in our platform at end of September. We introduced Carina our artificial intelligence enabled virtual after sales assistant. Creating one single customer service from 14 different channels previously. Our ecosystem concept goes hand-in-hand with new partnerships to speak digital transformation and to enhance our service offering and we continued to make progress in the first nine months of 2019. The Rappi last mile delivery service is now available in 126 stores, in 26 cities. And it has contributed to a growth of more than fivefold on our food GMV, compared with the third quarter of last year. We're also testing an autonomous store in Sao Paulo with Zaitt and working with

props to improve our use of data, as we continue to seek to bring innovation to our customers.

Just yesterday, we announced a new partnership with Hirota to offer their ready to eat meals in our stores. Starting with three stores, in three different formats in Sao Paulo.

This quarter was also marked by the announcement that we have acquired a 49% stake in Ewally, a fintech specialized in digital financial services. In a nutshell, Ewally is an e-wallet focused on the inclusion of what we call un-banked population of 45 million people, representing around BRL800 billion in transactions. Providing services such as paying bills, money transfers and others through a mobile app. This acquisition is another step in developing our financial services as part of our ecosystem and creating touch points with clients. In Q3, we saw a record growth in billings at Bunco Carrefour, up 30.6% compared with the same quarter last year.

Finally, as you know the Carrefour group has set itself the global ambition of being the leader in food transition for all. Bringing healthy food to consumers at affordable prices, and we continue to make progress towards that goal. Healthy food aisles are now rolled out in 74 hypermarkets, and the target is to complete the rolled out in all hypermarkets by year-end. We now have about 3,000 healthy and organic food SKUs. Net sales of organic product were [ph] in Q3 versus the same quarter last year, while product labels sale rose 30% in the same period. The share of Carrefour product labels in our food offer now represents 13% of total food sales and we target 20% penetration by 2022. So as you can see our omni-channel consistent continues to grow and to positively contribute to our numbers. As Sebastian will now tell you.

Sebastian Durchon

Thank you Noel, and good morning to everyone. On Slide 5, you'll see how this strategy translates into our numbers. I will present here the key numbers of the quarters and the nine months period. My comments are on numbers prior to IFRS 16 adoption for the sake of comparability.

Let's start with our Q3 performance. Our gross sales rose 8.4% to BRL15.1 billion, ex petrol, it reached 8.9%, adjusted EBITDA grew by 7.2% to BRL1.1 billion, with a margin of 7.7% stable year-on-year. Adjusted net income, group share increased by 14.7% to BRL448billion equivalent to a 3.3% margin. If we look at a nine month performance growth is even more strong -- even stronger. Gross sales were up 10% to BRL44.6 billion adjusted EBITDA was up 11.9% to BRL 3.1 billion with a margin up 14 basis points to 7.6%. Adjusted net income group share at BRL 1.3 billion was up 13.9% with a 13.2% margin.

Our balance sheet continues strong even with high level of investments. With net debt of BRL2. 2 billon at end September representing 0.5 times net debt over EBITDA ratio

This is a very strong performance that underscores the momentum of the Carrefour Brazil ecosystem. Before taking a closer look at our financials, I would like to focus on Slide 6 please. On the backdrop of this performance, as we continued to operate in a challenging

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consumption and macroeconomic environment. As you know, the Brazilian economy has underperformed expectations, even if we have seen some advances recently. Unemployment while starting to drop a remains persistently high at 11, as shown on the graph on the slide and household income is increasing below inflation which impacts purchasing power, notably among the lower income households.

At the same time we have operated in a somewhat volatile inflation environment with food inflation rising in Q1, as shown on the first graph of the slide and then gradually easing beginning in Q2. The IPCA food at home inflation index was at 4.3% in Q3 versus 7% in Q2, suggesting a more moderate inflation for the rest of the year. This combination has impacted retail sales as you see on the chart on the right hand side of the slide sector volumes are down 2.1%, and units are down by 4.5%, and frequency of visits and volume per visit are also down. It is important to have this in mind, as you measure our performance in the period.

Let's start with our sales performance on Slide 7, on the graphs on Slide 7, you can see consistent year-on-year growth in sales both in Q3, and year-to-date. Our total gross sales were up 8.9% in Q3, ex petrol. The graph on that left shows the we have added BRL1.1 billion in gross sales in Q3, '19 versus the same quarter last year, resulting from Atacadao strong expansion and solid growth in retail. Similarly, in the nine months period our gross sales reached BRL44.6 billion the growth of 10% or BRL4 billion year-on-year.

On the right hand side of the slide, we look at the breakdown of sales. You see that quarter-after-quarter the pace of expansion remains steady with the Q3 contribution of 5%, largely thanks to Atacadao's sustained pace of store openings. Total growth in the period was 8.9% with Carrefour Retail, posting its best like-for-like quarterly growth in five years. And reaching a total growth of 8.9% while the Atacadao posted total growth of 9%.

Despite a challenging environment this performance reflects the success of our decisions in the past years to reposition our hypermarkets expand the cash-and-carry model invest in e-commerce omni-channel initiatives and new financial services, which demonstrates the power of our ecosystem to generate additional revenue. Let's now turn to look at our simplified page. So our net sales posted strong growth up by 8.1% in Q3, and 9.8% in the nine months driven by solid growth at both Carrefour Retail and Atacadao. Gross profit was up in double-digits, both in Q3 in the nine months, reflecting better margins at Carrefour Retail and Banco Carrefour in Q3.

Gross margin was up by 44 basis points in Q3, and 39 basis points in the nine months strongly driven by Carrefour Retail. SG&A expenses were up in Q3 reflecting Atacadao expansion.

However, as a percentage of sales, expenses were well-controlled reflecting our continued financial discipline. EBITDA was up 7.2% to BRL1,062,0,000 accumulating a nine-month growth of 11.9% with stable margin at 7.7% or adjusted net income group share was up a strong 14.7% in Q3 and 13.9% in the nine months, which reflects investments that we're making to sustain our operations growth.

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Let's now move by business unit and for that I will now hand over to Roberto to comment on Atacadao.

Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Thank you, Sebastian, and good morning to all. Atacadao recorded 9% growth in its total sales in Q3. Demonstrating the strength of its brand and demonstrating its positioning as well as our decision to significantly accelerate our expansion with 15 new stores, since the start of with three new openings happening in the third quarter and three in the month of October. Atacadao gross sales grew by a strong 12.3% in the first nine months of the year. As you can see on the chart, expansion contributed 6.9% to our total sales growth versus 6% in Q3 of last year, showing greater efficiency in expansion, while like-for-like sales were up 1.8%.

This like-for-like growth reflects the challenging environment in which we operated. Notably, a slowdown in food inflation, that was particularly strong in commodities. It is also important to bear in mind that we benefited in Q3 of last year. Those boost in July, 2018 linked to the aftermath of the May truckers strike excluding this July effect, like-for-like growth was 2.7%. In Q3, our gross margin stood at 15.1% reflecting a tough comparable base, as I have explained. A market contraction overall and continuous attention to market competitiveness with a strategic decision to maintain our price leadership. Over the nine-month period, gross margin rose by 18 basis points to 15.4%. The adjusted EBITDA trends are similar to those that are described for gross margin nine month EBITDA increase 11.8% to over BRL1.9 billion with margin stable at 7. In Q3 EBITDA margin was 6.7% as a result of the three reasons I mentioned.

On Slide 11, we take a more detailed look at our expansion strategy. As you know. With 12 openings in the first nine months of which 3 in Q3 plus another 3 openings in October. We have opened 15 stores year-to-date. We're trying to meet our target of 20 new stores again this year, as you know Atacadao is one of the retailer's with a truly nationwide presence in Brazil. And our openings this year were well distributed in nine different states. Also, we recently opened our first store in Curitiba capital city of the Southern state of Parana, with a new architectural model that we call swallow shaped. Reflecting the strategy we described at the Investor Day back in March, we have adapted our stores sizes.

With that, let me hand over to Luis Moreno, our new Carrefour Retail, CEO, who replaced to Gutie. As a side note this is another Spaniard.

Luis Moreno {BIO 20821019 <GO>}

Thank you, Roberto, and good morning to all. And allow me to say, before I begin, how happy I am to join Carrefour Brazil and to be able to contribute to further developing its retail activities in Brazil.

On slide 12, you see the main performance indicators for Carrefour Retail. Quite simply the strategy we have been executing over the past couple of months is clearly producing

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solid results. Carrefour Retail turned in best like-for-like a quarterly sales performance in five years with growth of 8.8% in Q3 accelerating over 8% in Q2 and 6.1% in Q1. Like-for-like sales were up 7.2% in brick-and-mortar stores, excluding e-commerce.

Growth sales ex petrol in Q3, were up by 8.9%. This strong sales growth validates the strategic decisions we have taken over the past year and sales growth drivers included strong non-food sales, ongoing food transition initiatives such as the sale of organic and private label products. Growth in our repositioned hypermarkets and convenience stores. Omni-channel initiatives, such as click-and-collect and drive, and the development of our non-food and food e-commerce, which is boosted by our partnership with Rappi. This has allowed us to post a 4.3% increase in tickets in our stores. And market share gains in all categories. Notably, a 250 basis point gain in hypermarkets in Q3. So the biggest market share gain since the start of the historic announced Nielson.

Gross profit rose in Q3 double-digits to 10.2% and was also up by a strong 6.3% in the first nine months. Gross margin was also higher up by a strong 84 basis points to 25.7% in Q3 and 36 basis points in the nine-month period. This improvement reflects better margins Carrefour as a result of commercial initiatives and operational improvements as well as logistics efficiency. It also reflects better gross margin in our e-commerce and the results of scale and the greater weight of our marketplace in total e-commerce sales. In the first nine months, gross margin grew both at Carrefour Retail stores and in e-commerce. In Q3 adjusted EBITDA pre-IFRS 16 was up 7.6% to BRL199 million, even as we invested to develop our omni-channel initiatives.

In the nine months, adjusted EBITDA was up 0.9%. And beyond financial aggregates, let me mention one customer satisfaction number that we are particularly pleased with our store NPS reached 44 the best performance of the last three years. Let me now hand over to Paula to present our e-commerce sales.

Paula Cardoso

Thank you, Luis. Good morning everyone. Please go to slide 13. Well, let's talk about e-business whose main objective is to accelerate the connection between the touch points of our strong ecosystem, valuing our assets through our omni proposition, which is to delight our customers keeping in mind that we are a late mover in e-commerce. We have been able to advance very-very fast. So let's begin from the start. Our ability to generate traffic audience and relevance. In September Carrefour was the most Googled brand in the country in the food segment accounting for over 25% of searches of according to Google. And with traffic growth of 70% over the previous year.

The audience on our app is no different 56% year-on-year growth in downloads. The award for the most beloved retail brand according to consummate the conference the sustainability of this process. As a result, we have increased our online sales and conversions. I will talk separately about food and non-food operations, as they are in very different maturation stages. So let's start with the non-food operation. Our non-food e-commerce and marketplace operation already represents 26% of Carrefour non-food sales. We have tripled the number of SKUs in the last 12-months, to over 3 million SKUs and over 3,000 sellers in our marketplace. Our marketplace already represents 23% of

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our e-commerce with growth of 106% contributing significantly to our competitiveness and profitability. All of this led our non-food revenues to grow 57% in nine months.

The food e-commerce platform our small big trade up, which has grown by a Chinese light weight of 142% in nine months. He's already starting to make an important contribution to the group's strategy and growth and to store traffic stimulation. As announced, we have opened seven site stores in our hypermarkets through October. It is reactive logistics model, that allows us a high level of service for our customers, 98% in the complete order index, with a 23% reduction in the cost of delivery and a very high repurchase rate. A great achievement for a start up. We currently have operations in So Paulo, Brazil, Belo Horizonte in Curitiba, and we continue our strategy of being leaders and food e-commerce. Rappi continues as a significant partnership already operating in more than 27 cities and helping us in this acceleration. All of our e-commerce operations bring Carrefour more than 45% in new customers, with our total e-commerce growth reaching 60%.

Moving now to omni-channel propositions on the next Slide, please. Non-food click-and-collect is now available inside and outside our stores with over 200 distribution points and representing 10% of non-food e-commerce sales. There are already 26 food click-and-collect or drive, and despite being a new model of food purchase, they already represent 8.5% of eligible food e-commerce sales. Ex-Rappi this year, we also expanded the click and collect store inventory, buy on the website get the store inventory. But the firm of all these initiatives by September, they already accounted for more than BRL 190 million in sales a growth of 1,112% not to mention that around 25% of digital customers, who pick up their product at the store make additional purchases. It is the client redefining omni-channel proposition.

So, let's talk about the prior data. Increasingly, we are moving towards personalized offers based on knowledge and insights of our customers. Currently 89% of our campaigns are already customized. And this is only possible through marketing automation and the use of artificial intelligence, which take into account the customers consumption journey the best purchasing timing and products that perfectly match our customers profile. Highly engaged new Carrefour customers increased their average spend by up to 50% and their lifetime value is 14.5 times higher than that of an occasional customer, 81% own a Carrefour card, and 81% frequently buy private label and 49% are omni-channel.

We also created our engagement index, that can measure customer compliance across the entire ecosystem, shopping in different store and online have usage in Carrefour card usage. These are examples of some of the indicators we track, we know that the higher the level of customer engagement in our ecosystem, the more they spend at Carrefour. Since the launch of Carrefour e-business solutions, we have said that startups would be a way to accelerate our skills and time to market. Cyber Cook is a great example. We have more than 1 million registered users. The big news this quarter was the buy Cyber Cook button that creates a solution to simplify and shorten the steps of the consumer journey. Technology is proprietary and developed by Cyber Cook using machine learning, this is one of the first steps in making acts for food, tangible and leading food transition for Brazilians. To close on our partnerships with startups, Ewally, our digital wallet will be the cornerstone for positioning our app, our app as the main relationship vehicle. Today, we

have achieved 154% growth in sales with the app demonstrating our strategic focus on solutions that make life easier for customers. The program has gained relevance and our Carina should reach 2 million interactions by year-end. (Technical Difficulty) 60% of conversations are searches for a store offers and the vast majority of searches are organic AI, no media stimulus. Looking ahead the purchase of Ewally our digital wallet will be important to create our new super app in our entire ecosystem that should benefit from the entry of a large unbanked mass that can access to all our programs and loyal customer benefits. We don't want to be just one more app, we want to be a relevant app the journey and life of our customers.

Let me now turn over to Carlos Mauad to talk about Bunco Carrefour.

Carlos Mauad

Thank you, Paula. Good morning everyone. Bunco Carrefour posted another quarter of very strong growth. Total billings in Q3 rose 30.6% to BRL8.4 billion driven by growth in the Atacadao card, whose billings rose by a very strong 57% and now accounts for 28% of total billings, while the Carrefour card also grew by a record 22.5% to BRL5.9 billion, even though it is a much more mature operation.

Those investments we have made in our operations, especially and our products channels in teams and the success of our commercial initiatives notably the position of new clients in the store and digital channels, these initiatives increase store sales and strengthen our connection with the group's ecosystem. The loan portfolio grew to 39% totaling BRL10.2 billion in the period with strong credit quality on a comparable basis under the Central Bank methodology, credit provision totaled BRL1 billion with a coverage ratio of 11.5%. This performance is a result of our well defined strategy with emphasis on growth disciplined risk and cost management and the consolidation of a culture of innovation and simplicity. Adjusted EBITDA also grew strongly reaching BRL268 million in Q3, an increase of almost 40%, in relation to the same period of the previous year. Over nine months adjusted EBITDA was up 23% to BRL765 million.

On the next Slide, I would like to share with you some examples of how we are turning our technology investments into better customer experience and greater convenience. The company's transformation process is nearing completion and we're beginning it's of new works dynamics. As shown by the speed at which we can deliver a new solutions to our ecosystem. We are moving ahead in digital payments with payments via QR code and NFC to our app and payment via Google Pay and Samsung Pay. Carrefour cardholders can authorize their purchases contact less using their smart phones and smart watches at Carrefour stores and several other merchants applications and e-commerce sites. We rebuilt the entire digital acquisition strategy with a fourfold increase in the number of cards sold through the channel. The new digital relationship experience uses progressive web applications or PWA. The technology that delivers uniformity across digital channels, performance for our customers and cost efficiency in their development. We also implemented the Atacadao cards discount program by differentiating the product, from the value proposition perspective.

In addition, we are developing a digital account, that will offer a variety of services such as payroll transfers, bill payment, mobile recharge, and access to credit bringing convenience and a better store experience to our customers. The position of 49% stake in Ewally is part of this strategy. This deal further strengthens our ecosystem transformation.

Let me now hand back to Noel for his closing remarks.

Noel Prioux

Thank you Carlos. To conclude, I think you saw through today's presentation that the Carrefour Brazil ecosystem is at work and advancing a growth even in the challenging consumption environment is the consequence of a well thought out and well executed strategy. And demonstrates the power of our ecosystem. It's all about connecting our clients, our stores and our services through multiple touch points. So as to increase share of wallet and generate more sales. The result of all that is that we multiplied touch points with clients through our website, our partnership with Rappi, click-and-collect, drive and physical stores.

And we continue to offer more services be they financial services, express delivery, new partnerships, such as digital payments and enriched healthy food organic products or private label at affordable prices. All these are elements of the interconnected ecosystem that we are building to drive even more sales and more profitability.

With that I conclude today's presentation. Thank you very much for your attention, and we can now move to the question-and-answer session.

(Question And Answer)

Operator

Very well, ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) We are collecting the questions. First question is by Olivia with JPMorgan. Olivia, go ahead.

Analyst

Good morning. I have two questions actually. And both have to do with margin of Atacadao and Retail, starting with Atacadao, Roberto commented on a heavier competitive environment and your strategy is always to have the lowest price. When you think about the gross margin, both EBITDA margin. Could we think about a margin, which in the mid to long-term would go back to that historical level, perhaps 14.6% or do you believe that with the current scale that margin could be higher than it was in the past?

And when we look at retail, the combination of a more promotional strategy in the hypermarket. On the other hand e-commerce is growing strongly. With a marketplace penetration, which is also increasing. So we're trying to have more visibility in terms of

what you expect in terms of evolution of EBITDA margin for retail. And in terms of e-commerce, when would we get to the breakeven?

Unidentified Speaker

Good morning, Olivia. Thank you for your question. To answer your question about Atacadao. Of course, we always a top line business. So we manage the best results in terms of margin and sales. Now since the market is living being, and it changes practically every day, in our value proposition of being the number one, everyday low price retailer, in this way we want to execute on that purpose and serve customers. This good balance between margin and sales is something that we handle every single day, we track that every single day. Of course in the past we had some opportunities to improve our margin. If we see new we'll definitely pursue them. What I mentioned is that the market in this quarter was a little more depressive. And we needed to have a little more stimuli to drive sales and this happened. And the fact is we will always work in the very best way to balance all of the points. Luis?

Luis Moreno {BIO 20821019 <GO>}

Regarding EBITDA, retail EBITDA in Q3 we were able to stabilize the retail EBITDA with still with strong investments in our omni-channel development. Our projection is to start at a reasonable stable level of EBITDA, but driving growth.

Analyst

Could you give us visibility, in terms of e-commerce because we have a lot of investments in food, commerce, but it is a marketplace that is also helping you, right?

Sebastien Durchon {BIO 20242758 <GO>}

Good morning, Olivia. This is Sebastien just to add to what Luis has just said, e-commerce was launched three years ago. And we always said, that we would need a couple of years to breakeven but you have to understand that to us. This is a fundamental we talk so much about the ecosystem. E-commerce has brought several benefits to the ecosystem. As Carrefour -- Banco Carrefour, for example, we have now BRL2 billion of sales, it's a lot in three years. We have an additional revenue for the bank. That helps the bank sell more cards and the same goes for brick-and-mortar stores. For non-food e-commerce, which is focused on electronics and home appliances, we grew 60%, 70% the sales volume in this category. So, obviously now we have much more competitive prices. We can invest and we start seeing a virtuous cycle in the ecosystem. We have lower prices, but that we can invest, we have a like-for-like at the stores, which is double-digit. We have e-commerce growing strongly and everything tends to continue faster. So we shouldn't focus only strictly on e-commerce, you have to understand the benefits and the impact our physical stores and the whole ecosystem, all-digital initiatives at the end of the day impact our physical stores and the whole ecosystem. Next question from Richard.

Richard M. Cathcart {BIO 16457807 <GO>}

Good morning, everyone. I'd like to ask Paula a question on e-commerce on Slide 13, you mentioned NPS, with different fulfillment solutions and I think that carrefour.com NPS was 52, which is slightly lower I think than what you would have liked. I just want to understand, why is it that the NPS is below Click-and-Collect, and what you need to do to try to improve this NPS?

My second question goes to Roberto as a follow-up question to Olivia's question. These investments that you made in the third quarter to try to drive more purchases and traffic, a was this Atacadao being the first mover in the market. Did you decide to do this? Or were you reacting to some competitors that were perhaps being more aggressive? Thank you.

Paula Cardoso

Hi, Richard. To answer your question. NPS has been consistently improving. And NPS of 52% is bad. What we have -- we have done, we have mastered the three main impacts, impacting the quality of our service and we work on those very strongly. Now of course logistics of delivery is always an issue in Brazil, and we have to stabilize it. This is our focus of work. Our delivery time in the last four months lowered from 2.5 to 1.2 days. So we are strongly working on quality and the new value propositions are very innovative and they delight the customer, the experience is truly good, it's good to make a purchase drive with your car less than two minutes, the purchases are in the boot of your car. This is a differential that we have and customers just love the service. So we are not comparing the website with drive. They're comparing the website with the website, in terms of navigation capabilities. And let me talk about .com, we're talking about home deliveries. So these things are not too easily comparable but what we see is a collective trend of our NPS on all fronts.

Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Richard. Hi. Thank you for your question. Firstly, I think that we have to understand, again the market is a living thing and being a living thing, we have to act on the market according to what's happening and our expectations. So I wouldn't say that we were reacting to the competition. But yes, we were reacting to demand. When you see a slightly more compressed demand, we consistently respond to that. To achieve our targets, fortunately elasticity of the demand since we have merchants as our target, well, the response is very fast.

Richard M. Cathcart {BIO 16457807 <GO>}

I heard your comments about 1.8% like-for-like sales. We have to look at the base, the like-for-like base of 1.8% billion, considering Q3 of '18 was 6.2%. So we did have a different environment?

Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

In the third quarter, and we reacted to that. But this is a constant practice in our business, this reflects our health. Our business is solid. A response to the market, at the very

moment that the market requires a responsibly very agile in determining that. Now of course, we respect our competitors, we track the competitors, we look at them, but I'm sorry with ours is keep it up.

Richard M. Cathcart {BIO 16457807 <GO>}

All right. Thank you, Roberto and Paula.

Operator

Next question from Gustavo Oliveira with UBS. Mr.Olivera, go ahead.

Gustavo Piras Oliveira {BIO 15129435 <GO>}

Good morning. My question has also to do with NPS. I thought it was interesting that you made this disclosure. Thank you, Paula. What draws my attention, in addition to Richard's comment is Rappi on Page 13, you say it's one of the lowest investments you have. And it was one of the highest growth. And when you look on Page 14, you mentioned that the food e-commerce is the number is ex-Rappi. So I would like to understand, do you think that, if you grow more, I don't know if Rappi's percentage is the highest in your food base. If the NPS is low and perhaps it is stimulated by monetary stimuli, which is be a risk to your business? So the difference, how you can improve the NPS or we're going to participate with monetary incentives to keep this growing strongly. This would be my first question. And then I would like to have a follow-up question to Atacadao.

Paula Cardoso

Hello, Gustavo. Thank you for the question. Actually, the question allows me to speak about our operational model for the sixth store, Rappi started growing very quickly with store pickup. And we were store picking, it is not included in the 91% number because that's only Carrefour, so it's growing very quickly. Store picking brings rapid delivery, but inefficiency in terms of complete services. So now, we have in a way a complete index that is very high over 90%, when we go to our site store and we operate with 98% and this is one of the highest point in terms of perceived quality for food e-commerce. So it happens. Rappi, since we started to now and now Rappi is operating with our operation. So NPS increased 12 points in two months because the orders are now a lot more complete than before, so our focus needs to improve. Just to give when we ask the customers, if they would buy again through Rappi, 94% of customers. Buy again, even with that NPS because convenience is there. So yes, we're adapting the service. Yes, the site stores are good, but in terms of the complete order index, this is the biggest offender for the store takings.

Gustavo Piras Oliveira {BIO 15129435 <GO>}

It's very clear. Thank you. My second question is a follow-up on the Atacadao, Roberto, you spoke a lot about the high elasticity of your business sellers. When you make investments more technical investments in pricing of your operation. How do you perceive elasticity of your consumers?

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Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Well, thank you for the question Gustavo. We always maintain an everyday low price model for our customers, considering the purchase of supplies particularly. What we have done is follow more closely the effects of the market. What the market requires in terms of products, product assortment to the end consumer, we believe that by focusing on B2B, we also reach out to end customers and their trends because merchants overall kind of anticipate the move of end customers. So we take this very seriously.

And we always want to have the price to be copied and not copy someone else's prices. We want to transfer the efficiency of our economic model to a pricing benefit that will be rewarding for our end customers. We have kept that. And we have seen an increase in the number of operations across all stores in Brazil in terms of lower tickets. Well, it still is a substantial improvement, which means we've been assertive in forming our sales prices. I hope I have answered your question.

Gustavo Piras Oliveira {BIO 15129435 <GO>}

Thank you.

Unidentified Speaker

Very well.

Operator

Next question from Irma, Goldman Sachs. Irma, go ahead.

Irma Sgarz {BIO 15190838 <GO>}

Good morning. Thank you for answering my questions. Coming back to e-commerce. Thinking about the margin that the operation is delivering right now and the investments that you still need to do and considering growth. And the bigger weight that the operation has in multi retail. How do you recommend that we think about margins in 2020? Do you think the improvements in costsolutions will compensate for the natural pressures that will come from these investments? Or should we think about the top-line growth instead of margins. And I think that you mentioned, that you think that the margin will remain steady, stable. I just want to understand how you think about the e-commerce factor. And I would like to hear more because you commented on Atacadao expansion plan?

Unidentified Speaker

In this new format of the store in Curitiba, the swallow shaped model, could you give us more color on that and what you're doing? Is this a pilot store, will you scale this model up in the future? Will this -- for the new stores that you will open in 2020? Well, regarding the e-commerce margin. What we can see -- and that's why I separated the two operations, food and nonfood, because they are at different maturation stages. The margin of nonfood e-com growth year-over-year, when we compare last year with this year, the

growth we get into a very big scale, and obviously, joint negotiations between the physical and digital world the strong and this is being enjoyed by our operation. So in non-food e-commerce with a growth of marketplace and with the scale growth that we're getting, the margins improved. Now, food e-commerce is still a small scale operation, it will require investment. But we can operate with a price margin very similar to that of the hypermarket, where we are growing and we will continue to invest to grow. So top-line should be the focus here.

Jose Roberto Meister Mussnich {BIO 18298845 <GO>}

Good morning, Irma. Talking about the expansion plan, Atacadao is following us. It's on track of 20 stores for this year. For next year, we also plan for another 20 store openings. We have 11 stores being built all over Brazil. When we speak about resizing the stores it's because we always seek to add efficiency and efficiencies to attain a good balance between square meters of the selling floor, the cost to build, the selling area, and the total cost of the operation, including headcount payment of property tax et cetera. So we're making this move of trying to streamline this, not in detriment of the model in our offerings to customers trying to increase the efficiency of our CapEx because this is a high CapEx to build 20 stores over a 12-month period. When I mentioned the swallow shaped architectural model, well it puts the whole operation of the stores, on one single box and this architectural model have a picture in the release. It gives us the impression that the store is fluctuating the Curitiba. It really looks beautiful, because it's up on a hill and it's very visible and the project is really differentiated, but it's just that. It's all about beauty, it's part of the beauty of our business.

Irma Sgarz {BIO 15190838 <GO>}

Okay. Thank you. So for the rest of the stores. All the rest will remain constant, store size and CapEx per store?

Unidentified Speaker

Well, you thought that we made a move to reduce our selling area. It's not a significant reduction, but it is a reduction carried out to improve efficiency. Of course, if there are opportunities to improve efficiency, we will do that. We want to spend less and so more. This is a question that I go to bed every night thinking about and I wake up every morning knowing what to do.

Irma Sgarz {BIO 15190838 <GO>}

Thank you.

Unidentified Speaker

Now we have a question via the webcast. So I'm going to read the question. The question is a question from Paul with Goldman Sachs Assets.

Atacadao's like-for-like starts having momentum again, and is this because of price investments?

Thank you, Paul for joining us today. Atacadao like-for-like sales, of course, are linked to sales themselves. Price investments depend on the market. Need be we will do it but just don't forget that all price investments before the investments are made, there's negotiation with our suppliers. So we'll make this kind of investment, if we'll get the margin that we expect in our business. Just to look back for the last 10 or 12 years of Atacadao development, this has been a constant. We have discussed some approach linked to our model and how we run the business. We will invest in price once we negotiate with our suppliers to maintain the model's efficiency to deliver the expected good results.

Next question by Pedro from XP Investimentos.

Analyst

Good morning, everyone. Thank you for allowing my question. I have actually two questions. First to Melwatt. I would like to understand better, how much of the 39% year-over-year growth is related to the bank's digital strategy? And your strategy, what would be the best way to stimulate in your digital wallet, now with the integration with Ewally?

And my second question, I want to understand the evolution of your management alignment. In the last 12 months, the company has changed a lot. Today would be helpful for us to understand in terms of business management and compensation. What are the main KPIs that you are looking? Is in NPS? Is it customer base growth? Was there any change in the most important metrics for your company? Thank you.

Unidentified Speaker

Well, thank you for the question Pedro. Allow me to start from the start. Of course, this robust growth of the bank is very much related to the new sales dynamics of our cards in the stores we've implemented over this year. We acquired new customers for the stores and this has been very important.

And it is part of the investment that we made in zero the decision that we made not to charge annual fees for current users. So we started with the revenue generation more slowly because we waived part of this revenue linked to -- all fees for current usage, but now we are capturing part of the benefits of the investments made, and this growth as a reflex of that.

Another front is card sales on digital channels. This has been gaining more and more momentum. It is even more representative than our outbound sales, second only to the stores obviously, because the stores are our main channel. But we can even approach people who are not in the Atacadao and Carrefour distribution network that require credit, they want credit and they can access our portal to acquire our card, just as a traditional card. Of course, they are part of our main credit proposition and of our

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ecosystem, but it is a client asking for a loan and it is our opinion that we should provide differentiated loans.

Regarding Ewally, your question is very irrelevant. The main problems associated to our digital wallet, e-wallet is that everyone thinks about the technology platform and no one thinks about the cash in applications, which is the biggest challenge in this business. So we have some important fronts regarding cash in. First, we are going to offer access to our discount program for Atacadao and Carrefour through our portfolio. Customers that we cannot approve a branded card, if the customer wants to have access to our discount program, with the e-wallet, the customer will be able to do it. There is a theme linked to convenience, particularly for Atacadao. And there's a lot of money there. Customers who don't want to have any cash, so we believe that cards could be more convenient to these customers and there's a theme linked to credit.

There's a portion of customers for whom I cannot approve our branded card, who is a credit facility almost like a digital credit loan, I would have 100% embedded operation in the app, I can offer this so that the customer can use the credit facility in the Atacadao and Carrefour brands. But of course, this is an inversion of the process. First, I promote check out and then I promote checking just like, we have a credit card at first, the customers spends and then they pay so we should gain some points in terms of with this product specifically for the Carrefour and Atacadao store parameter.

And your last question -- to your last question, in terms of our structure at the manager level, talent wise. The ones that are distributed into the squads. We work with a dynamic of KPIs, NOPRs, totally different than what we use for our officers, including myself. These are more lengthy changes to take place. So these groups, the squads and the centers of excellence that we have, they have KPIs that include more qualitative themes, and themes that address more directly consumer needs. As well as themes that are oftentimes linked to two or three spins. So the new business dynamic that are imposed to the bank is also reflected in their compensation and in the way, in which we recognize people. For the officers of the company and myself, we continue with the more traditional dynamics of scorecard, difference that we have the audio gap is linked to that.

And to address the second part of your question regarding KPIs and speaking a little bit about the group and this movement of digital transformation, our bank is at a very advanced stage. So as KPIs, we would have the same KPIs, sales, operating results, free cash flow, but this is something that we discuss practically every day here at the top management level and these are cross-cutting KPIs. You can see in the release and in the presentation, we brought several KPIs that we use in-house. The capturing of new customers is an absolutely key indicator Paula talked about that in e-commerce, we have 47% of new customers, so new customers, of course, helps drive sales. So we can sell more, it is a customer that does not buy from the competition. Rappi brings 40% new customers, so these are new KPIs that we are disseminating across the company. So there's this one capturing new customers. There's also NPS and that's why we've less about this in the release and in today's presentation. So have NPS for all businesses. We track that behind our numbers, we have analytics to understand the points for improvement. So in addition to financial, the classical financial KPIs, that we had and that we continue to track we added, little by little some target oriented indicators.

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Analyst

Excellent. Thank you very much.

Operator

We have another question coming from the webcast by Caroli Maxon from BNP Paribas.

Analyst

What is the expected inflation for the fourth quarter?

Unidentified Speaker

Well, we have a difficult to predict scenario. We are considering very weak inflation for the food business, there is a trend more towards the end of the year for perishables for -- and poultry with our exports to China but other than that our expectation is that we are not going to have a higher inflation, we expect low inflation, and towards the end of the year.

Operator

Very well. This concludes today's question-and-answer session. So I would like to turn the floor back to Mr.Noel Prioux for his final remarks.

Noel Prioux

Well, if there are no more questions, I will end today's call. I hope it gave you greater insight into how Grupo Carrefour Brasil omni-channel ecosystem strategy is bearing fruit to ensure continued, sustainable and profitable growth ahead. Thank you very much for your attention. And have a great day. See you soon.

Operator

This concludes the Carrefour Brasil's conference call for today. Thank you very much for your participation. And have an excellent day.

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