

Q4 2017 Earnings Call

Company Participants

- José Luis Gutierrez, Chief Executive Officer
- José Roberto Meister Müssnich, Chief Executive Officer
- Noël Frédéric Georges Prioux, Chief Executive Officer & Director
- Paula Cardoso, Chief Executive Officer
- Sébastien Durchon, Chief Financial Officer

Other Participants

- Andrew Gwynn, Analyst
- Gustavo Piras Oliveira, Analyst
- Irma Sgarz, Analyst
- Joseph Giordano, Analyst
- Thiago Macruz, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, welcome to Grupo Carrefour Brasil's Fourth Quarter and Full-Year of 2017 Conference Call. At this time, all participants are in listen-only mode. And later, we will conduct a question-and-answer session and instructions for you to participate will be given at that time. As a reminder, this conference is being recorded and broadcast live on the Investor Relations website at, www.grupocarrefourbrasil.com.br.

A slide presentation is also available and the slide will be managed by you. The replay of this call will be available until November 15 by phone 5511-3127-4999, access code 40760197. Before proceeding, let me mention that forward-looking statements that might be made 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 statements due to macroeconomic conditions, market risks and other factors as well.

Today with us, we have Mr. Noël Prioux, Chief Executive Officer; Sébastien Durchon, Chief Financial Officer; Roberto Müssnich, Chief Executive Officer of Atacadão; José Luis Gutierrez, CEO of Carrefour Retail; Paula Cardoso, CEO of Carrefour Soluções Financeiras, and Daniela Bretthauer, Investor Relations Officer.

First the executives will comment on the fourth quarter and full year of 2017 results. Afterwards, they will be available for the question-and-answer session. It is now my pleasure to turn the call over to Mr. Noël Prioux to start the conference call. Mr. Prioux, you may proceed.

Noël Frédéric Georges Prioux

Good morning, everyone, and thank you for joining us on this call to present Carrefour Brasil fourth quarter and full year of 2017 results. I'm here with Sébastien Durchon, our CFO and with the head of our business units, Roberto Müssnich, CEO of Atacadão; José Luis Gutierrez, CEO of Carrefour Retail; and Paula Cardoso, CEO of Carrefour Soluções Financeiras. We will present the main numbers and the key highlights of our 2017 and Q4 performance.

However, before that, I would like to make some brief introductory remarks about the past year and I will also return at the end of the presentation to conclude with an overview of our key priorities for 2018.

Slide number 3, last year was an important year for Grupo Carrefour Brazil, which became a listed company with the successful completion of its IPO last July and we started our life as a publicly traded company on a strong note, turning in a very sound performance and underscoring the strength of our multi-format, our omni-channel model, which we further strengthened in the past year.

As you know, we are the leading food retailer in Brazil, and we rank number one both in cash-and-carry and hypermarkets present in all of 26 states of Brazil, and also the Federal District through our 634 stores in various different formats in order to meet the needs of Brazilian consumers.

This past year, sales consolidated position with a dynamic expansion, we opened 68 new stores, with 11 new Atacadão stores, one wholesale distribution center, 49 new Express convenience stores, and the launch of the first market - supermarket, a more compact format than our other supermarkets.

We continue opening store throughout Brazil focusing on high-return formats because customers look for proximity and convenience when it comes to shopping and we see great value in having a physical network. In addition to make advances in our multi-format model, we also became increasing the omni-channel, completing our online offer with food operations and development of our marketplace as well. Online sales are growing fast and they already represent 5% of our total sales in the Retail segment last year.

Our online sales were given further support with the launch of our CRM program and the app, which offers customers promotions and recommendations as well. Since its launch, more than 800,000 people have already downloaded the app and our business also became increasingly unified with the successful rollout by Carrefour Soluções Financeiras of the Atacadão credit card, which already counts one million card holders. All those translated into a solid financial performance in the full year.

As you will see on the next slide, slide number 4, last year we operated in a very challenging environment marked by extraordinary food deflation and we also faced a tough comparable basis. Despite of that, we posted solid sales and also net profit growth.

We will start by talking about our gross sales, which rose by 7.2% to BRL 52.4 billion in total and BRL 49.7 billion, excluding petrol and all this driven largely by expansion, but sales were also up on a like-for-like basis by 3%.

We also posted strong profit growth, adjusted EBITDA reached BRL 3.5 billion, representing a margin of 7.4% and net income, group share, was up by 36.2% in the year going to BRL 1.6 billion, or 3.3% of net margin.

Net of our non-recurring items in particular, non-recurring tax gains, our net income was still up by a strong 14.4% to BRL 1.4 billion, the highest ever profit ever recorded by Grupo Carrefour Brazil. This performance was all the more notable, given the backdrop I mentioned, marked by food deflation that impacted our revenues and also by the new regulations on credit cards and also a drop in interest rate that caused a temporary impact on the profitability of our financial service activities.

Despite all that, both Carrefour Retail (00:08:57) and Atacadão posted like-for-like sales growth in the year, demonstrating their underlying resilience and at the same time, Carrefour Soluções Financeiras increasing efficiency has gradually helped erase the effect of the new regulations.

And finally, but not less important, we have deleveraged our balance sheet. Thanks to the proceeds of the IPO and continued generating solid free cash flow of BRL 1.1 billion in the full year. Grupo Carrefour Brazil thus has a solid platform for future growth and I will return to that in my conclusion.

Now I would like to hand the microphone over to Sébastien for a detailed look at our financial highlights of the fourth quarter and the full year of 2017.

Sébastien Durchon

Thank you very much, Noël, and good morning. I would like to begin with slide 6 with our sales performance. Our gross sales in the Q4 were up by 5.3%, reaching BRL 13.6 billion. Growth area (00:10:15) was driven by expansion, which contributed 4.4% growth notably at Atacadão, but also the ramp-up of e-commerce, which grew double-digit in the fourth quarter. The quarter also included the launch of its food e-commerce in São Paulo, and the sales were also up by 1.4% on a like-for-like basis, ex-petrol and ex-calendar. Even with a deflation of food, the like-for-like growth in Q4 represents a sequential improvement over Q3, when sales were up by 1.1%, signaling a gradual favorable evolution in sales trends. Non-food continued to post double-digit growth in Q4, as did e-commerce. Please note, that the quarter saw a negative calendar impact of 0.5%.

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For the full year, sales were up 7.2% to BRL 49.7 billion, also driven by strong expansion. The sales growth in Q4 and the full year is particularly strong performance, given the context in which we are operating, marked by particularly strong food deflation over the whole year. And if you look at the chart on the right-hand side of the slide, you will see that food prices according to the IPCA from IBGE entered the negative territory towards the end of H1 and remained there throughout the second half with food at home prices down 5.1% in Q4 2017, compared to an increase of 11.9% in Q4 2016. Nevertheless, it is important to note that the monthly food inflation turned positive in December for the first time since April at 0.4% and was also positive in January 2018 at plus 1.1%.

On slide 7, you could look our simplified P&L statement for Q4, which once again shows a strong underlying performance, even stripping out the addition of recurring (00:12:30) result coming from tax gains.

Let me mention that we did not record any non-recurring tax effect in Q4. Net sales, including petrol, were up by 4.5% to BRL 13 billion, representing almost BRL 560 million of additional sales, even amid the deflationary context that I mentioned. Gross profit was up by 4.7% and our gross margin remained stable at 21.8%. The 97 basis points increase in Atacadão's gross margin offset the margin drop of 134 basis points in Carrefour Retail mostly relating to sales mix effect.

Adjusted EBITDA BRL 1.1 billion was up by 2.8%. Adjusted EBITDA margin was very resilient at 8.6% in Q4 2017 vis-à-vis 8.7% in the year ago period. The limited 14 bps drop is largely due to a combination of lower sales growth resulting from the sharp food deflation and higher SG&A expenses reflecting cost inflation and the effect of expansion as well.

Growth in SG&A expenses slowed in Q4 already as a consequence of the cost efficiency measures underway. Financial expenses improved significantly and were down 75% year on year. This reflects sharply lower debt levels post the IPO, as we will see later and thus, the lower cost of debt. Net income, group share, was up 11.1% in Q4, to BRL 596 million, representing a profit margin gain of 28 basis points. This reflects the lower financial expenses I mentioned earlier, but also a sound operating performance.

On slide 8, we turn to our simplified P&L for the full year. We added BRL 2.8 billion in net sales despite the context of sharply lower inflation and our net sales rose by 6.3% to BRL 47.8 billion, consolidating our position as Brazil's biggest food retailer.

Gross profit was up 8% and gross margins rose 34 basis points to 21.5%, driven by Atacadão's gross margin expansion. Adjusted EBITDA rose by 4.7% and adjusted EBITDA margin was resilient at 7.4%, down by 11 bps, including CSF, which was impacted by the change in regulation on credit cards. Adjusted EBITDA for Atacadão and Carrefour Retail combined rose 11.1% and adjusted EBITDA margin improved by 30 bps to 6.4%.

Financial expenses improved as a result of lower debt levels and lower interest rates and were down almost 16% in the full year. Net income in the full year, which grew by a strong 36.2% to BRL 1.6 billion and this amount includes the non-recurring ICMS-ST tax credits booked under operating revenues and expenses. And excluding all the other operating

revenues and expenses, net income in 2017 was still up by 12.4%, amounted to BRL 1.4 billion, which represents the highest ever profit recorded by Grupo Carrefour Brasil. This performance led our board of directors to propose to pay interest on equity of BRL 317 million or BRL 0.16 (00:16:50) per share corresponding to a payout ratio of 25% on adjusted net income.

After this quick overview of our key consolidated financial highlights, let me now hand over to Roberto Müssnich to run you through Atacadão's performance.

José Roberto Meister Müssnich

Thank you, Sébastien. Good morning, everyone, and good afternoon. Let's go to slide number 9, where we see that Atacadão posted consistent performance on the fourth quarter. Gross (00:17:19) sales up, despite the strong deflation of food and of commodities as well, with double-digit growth in profits on the back of a challenging comparable base.

Gross sales rose by 7% and reached BRL 9.3 billion in Q4. This growth was partially driven by expansion as Atacadão opened 11 new stores, and one wholesale operation, of which three openings (00:17:51) in Q4, but we also grew on a like-for-like basis by 2.2%, which is a very sound performance considering the deflationary impact of minus 5.1% as we have already mentioned. And this impact was particularly strong for Atacadão, given the share of commodities in our sales mix, which suffered, especially due to high deflation in this period.

Gross profit was up by 14.1%, and gross margin was up by 97 percentage point to 15.3%. These figures were boosted by ICMS-ST and PIS/Cofins tax credits that are recurring for 80 basis points. As mentioned earlier by Sébastien, but even if we exclude these effects, our underlying gross margin was up by 17 basis points to 14.6% in Q4, reflecting an improved efficiency in our operations and notably lower shrinkage, even with a significant increase of both volumes sold and the number of in-store operations.

Concerning our profitability levels, adjusted EBITDA rose by 19.5% to BRL 621 million. Gross (00:19:26) margin up 71 basis points to 7.3%. Our full year performance in 2017 was equally sound with gross sales going up by 8% to a little over BRL 34 billion, representing about two-thirds of Grupo Carrefour Brasil's total sales. Sales rose 3.6% on a like-for-like basis, resulting in a real (00:19:56) growth up almost 5 percentage points above inflation. Our gross profit rose 16.3% and the margin was up by 110 basis points, amounting to 15%, while adjusted EBITDA increased by 22.9%, with the margin reaching 6.9%.

We are pleased with our performance in a challenging environment and as Noël said during his introduction, we are prepared for accelerated expansion in 2018 and to benefit from the rollout of the Atacadão credit card in the past year, as was said before, which already has 1 million card holders and we are happy with that.

And I hand the floor over to José Luis Gutierrez to discuss Carrefour Retail.

José Luis Gutierrez

Thank you, Roberto. On slide 10, you have the overview of Carrefour Retail performance, which was solid in terms of sales in a challenging deflationary environment, while profitability faced some short-term impacts that are partially made to (00:21:10) investment for future growth.

Gross sales, excluding petrol, improved 1.8% to slightly above BRL 5 billion in Q4 and for the year 5.6%, going to BRL 15.5 billion. With this amount, as you can see in light blue in the graph on the upper left-hand side of the slide, we saw an increasing share of sales coming from e-commerce and convenience stores, which represented 6% of sales in Q4, three times more than the year earlier period.

On a like-for-like basis, sales were broadly stable in Q4, but minus 0.1%, reflecting the impact of food deflation, but up 1.8% in the full year. In the full year, gross profit grew 2.8%, with the margin nearly stable at 25.8%. In Q4, gross profit was down 4.9%, with the margin at 25.9%, down by 144 basis points. And this is mainly due to the growth of e-commerce and also to stronger sales of consumer electronics, which carry lower margin than food. And this impact is particularly strong in Q4, because of Black Friday, which was very strong in non-food this year. If you exclude this mix effect and also the tax impact that skewed the comparable base, our margin drop would be limited to 20 bps.

Adjusted EBITDA in the full year was down 8.7%, so the (00:22:53) EBITDA margin decreased by 75 basis points to 5.6%. And in Q4, adjusted EBITDA was down by 19.6% with adjusted EBITDA margin at 7.7%. Profitability was temporarily impacted by a combination of lower sales growth due to deflation and (00:23:17) expansion with the opening of 22 Express stores, our new market store in São Paulo and the launch of our food e-commerce. This led to growth in SG&A expenses. But I am pleased to say that their growth slowed in Q4 to 3.3% vis-à-vis 6.8% for the full year, thanks to the additional cost efficiency measures that we implemented in Q3. If you exclude the expansion cost, SG&A was flat in Q4. And despite the impact on profitability that I just mentioned, the underlying strength of our format was demonstrated by the fact that over the year, we gained a 150 basis points market share in hypermarkets and almost a 100 basis points in convenience.

In 2018, we will continue deploying Express convenience stores and we will also continue to expand our loyalty program, which, today after only four months of launch, already has more than 5 million registered customers.

Now I would like to give the floor to Paula, who will talk about the performance of Carrefour Soluções Financeiras.

Paula Cardoso

Hello. Thank you, Gucci (00:24:37). Good morning, good afternoon, everybody and as you can see on slide 11, the fourth quarter of the year 2017 saw strong activity and growth for Carrefour Soluções Financeiras as we continue to grow our operation and benefit from

the first positive impact of the growth of the Atacadão credit cards, it was completed in October in all 146 stores, but also (00:25:04) the more mature portfolio of the Carrefour cards. Our total billings rose by 30.3% to BRL 6 billion in Q4 and as you can see on the chart on the upper left-hand side of the slide, as I just mentioned, this result from the growth in billings both from the Carrefour credit card, which were up by nearly 10% in the quarter and almost BRL 1 billion billings from the Atacadão credit card, which is a very promising beginning.

Our total number of cardholders has increased by nearly 19% to 7 million clients. In the full year, total billings were up by 21.7% to BRL 19.6 billion and we are already one of the three biggest issuers of Mastercard cards in Latin America. Our credit portfolio increased 15.8% to BRL 6.3 billion in 2017. As you can see on the chart, our credit performance continues to improve. Loans overdue more than 90 days have fallen to 9.8% of our portfolio, a very sharp improvement over the 13.5% in Q4 one year ago and a solid sequential improvement over the 11.1% that we saw in the previous quarter. The over 30, and this will also improve (00:26:30) very significantly. The level of provisions also recorded a nominal drop of 8.4% from BRL 867 million to BRL 794 million, confirming the improvement of our indicators.

Now talking about the financial results. Adjusted EBIT stood at BRL 168 million in Q4, representing growth of 4.4% on a year-on-year basis, including the investments in the Atacadão credit card, the impact of the new regulation on credit cards and also the drop in interest rates in the quarter. If you exclude that investment, adjusted EBIT would have recorded a 10% increase over the same quarter last year. So as we said in the previous quarters, the growth in new revenues, combined with strong cost efficiency, we are gradually mitigating the impact on the basis (00:27:26) of the new regulation of credit cards and should see growing (00:27:30) positive impact this year with this full rollout of the Atacadão credit cards.

Now I would like to give the floor back to Sébastien.

Sébastien Durchon

Thank you, Paula. Before Noël concludes, I would like to comment briefly on our strengthened balance sheet post IPO, a transaction which allowed us to significantly deleverage the company and thus increase our financial flexibility.

Slide number 12. As we said before the IPO proceeds and our idea is to (00:28:02) to pay down most of our debt and notably, our intercompany loans with Carrefour Group and Grupo Carrefour Brazil now has only local debt. In Q4, we continued to refinance our debt and in October 2017, we completed an issue of promissory notes to deliver at a much lower cost than the previous issues. (00:28:26)

As you can see on the chart, our gross debt decreased to BRL 4.3 billion in 2017 from BRL 5.7 billion one year before. This number includes bank debt that figures in our balance sheet and discounted receivables to give you a full and transparent picture of indebtedness.

Our gross debt to EBITDA ratio now stands at about 1.2 times vis-à-vis 1.1 times at the beginning of the year. And we ended this year with net cash of BRL 800 million, reversing an earlier situation of net debt of BRL 2.1 billion at the end of 2016. Total net financial results in Q4 was a negative BRL 65 million, down 75.5% compared with Q4 2016. In the full year, net financial results was a negative BRL 660 million, 15.5% lower as a result of the lower debt and lower interest rate. Grupo Carrefour Brasil has a very sound financial structure to fuel future expansion.

Now I would like to hand over to Noël for his concluding remarks.

Noël Frédéric Georges Prioux

Thank you, Sébastien. I would like to conclude with slide number 14, presenting our priority for 2018. As demonstrated throughout this presentation, we have built a robust platform for future growth with highest ever net profits, strong cash generation and a very sound balance sheet.

As you know, the CEO of Carrefour Group, Alexandre Bompard, announced on January 23rd the Carrefour 2022 plan, a comprehensive transformation plan, whose ambition is to become the world leader in the food transition for all through several actions, which include investing in growth formats, accelerating the omni-channel transformation and achieving productivity and competitiveness gains.

As the group's second biggest market, Brasil's actions will be a strong contributor to the execution and success of this plan. First of all, we will not only continue, but accelerate our well-balanced multi-format expansion with CapEx of BRL 1.8 billion. We intend to speed up the pace of Atacadão store opening, bringing it to 20 per year from an average of 12 previously. And this should result in a significant increase in sales area in Cash & Carry. Carrefour Retail will also continue expansion notably in convenience. Company digital (00:31:41) in line with the group's priorities, we intend to continue growing and have recently appointed Paula Cardoso in addition to her functions at CFS as the Director of Clients, Services and Digital Transformation.

E-commerce accounted for about 5% of sales in Q4, and 3.5% in the full year 2017 and we have strengthened our offers with the launch of the first phase of food e-commerce and with the growth of our marketplace, which continues to add new vendors and we expect further ramp-up this year.

After successfully testing Click & Collect during Black Friday, we intend to roll it out to our hypermarkets and supermarkets, starting in the first half. As you know, we also launched in Q4 a new CRM program and an app called Meu Carrefour and this has helped us significantly grow our base of identified customers, which stands at 5.5 million clients currently. Carrefour is increasingly a data-centric company gathering relevant data to strengthen our customer loyalty. And thirdly, we tend to further leverage Carrefour Soluções Financeiras' continued digitization process. We've already have more than 1.5 million downloads of our app and 60% of invoicing is done digitally. The bank's expertise

in CRM and data will also continue to support our retail operations and the development of the group's CRM initiatives in Brazil. (00:33:58)

We aim to achieve growth breakeven in the Atacadão credit card by the end of the year, where we're ahead of schedule. Now the first priority, in line with those defined by the group, our first priority is to enhance our productivity and efficiency in all our businesses, maintaining our strict discipline and looking for further cost optimization initiatives.

And finally, we intend to continue generating strong free cash flow and we'll continue to focus investments on projects that yield high returns. So overall, Grupo Carrefour Brasil's fundamentals are very solid and we are well positioned to accelerate our growth momentum and strengthen our leadership in Brazilian food market as the economy gradually improves.

Thank you very much for your attention. Now I look forward to seeing you in our Investor Day on March 12th. And now, we will be happy to answer your questions. Thank you very much.

Q&A

Operator

Now we will have our Q&A session.

Our first question came from Thiago Macruz from Itaú. Mr. Macruz, you may proceed.

Q - Thiago Macruz {BIO 16404924 <GO>}

Good morning, Müssnich, I would like to know the following. This year, you had an expansion of operating margin because of the tax items that you described. What should we suppose? Should we suppose that Atacadão will keep it's the margin on the (00:35:59) 7% EBITDA margin that you closed the year with or should we imagine that part of this benefit should appear over the year - or disappear over the year due to the nature of the businesses? This is my first question. And also, Müssnich, a second question.

I believe that the deflationary scenario might have brought difficulties to some smaller competitors that are not doing (00:36:28) so well in the last few years. So, could you give us an update is there any change in the competitive environment?

A - Operator

Okay. Two questions to Müssnich.

A - José Roberto Meister Müssnich

Thank you, Thiago. It's a pleasure to talk to you and I see that you work, I would take (00:36:43) wholesale when you're asking wholesale questions, but this year, we benefited from these tax credits that you mentioned, the disadvantage (00:36:53) 0.80

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percentage points over our margin. But in spite of that, we were able to do 0.20 percentage points improving our margin. Thanks to some actions taken and also some negotiations with our people mainly regarding volume of sales. So, we improved and we also improved our operating efficiency, mainly what it (00:37:25) has to do with cost controls regarding losses in the stores and some very specific work being done all over Brazil (00:37:33) in some stores. That due to consumer behavior or some other factor, they have this kind of problem and we were able to improve this performance. Now regarding the continuation of this level of margin, we will fight to keep the operating efficiency of this model. And as we have been doing in the last 50 years of (00:37:57) Atacadão, but the market changes and there are some external variables that are totally outside our control. If necessary, yes, we will go deeper to set (00:38:11) the future of our business. So this is the top priority in the model of business that we have, and we have a total focus on our top line, that is to say, to fulfill our purpose, which is distribution and get to our customers with a fair price.

Regarding deflation, your other question, last year was bad in terms of deflation. On one hand, bad for the business, but good for customers, because they have more money to spend in Atacadão. So this is good, it's not our concern at the short run. But this year, what we see is stability. And in the first three months of the year, there is a little bit less deflation, but it is still present, mainly in relation to commodities that still have some impact regarding good harvest and carryovers of inventories. And we see that, however, what we expect is to have a healthy inflation "on food", not corrosive as it was in 2017. Have I answered your questions?

Q - Thiago Macruz {BIO 16404924 <GO>}

Yes. But, may I ask another question? During this period at the beginning of the year, do you think there was a deterioration in the competitive environment, but maybe after the fourth quarter, because the moment (00:39:48) was a little bit more complicated? And this is my last question.

A - Operator

Well, it's a pleasure always. No, I have not seen anything in this regard. The market has been recovering from the demand crisis, which is different from the competitive environment. I believe that the industry itself, now it started to recover from the decreases that happened last year. But in terms of the competitive environment, no, I do not see this kind of change or degradation of the environment as you said. No, I don't see that.

Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good afternoon or good morning. I would like to ask about supermarkets. (00:40:47) You did the IPO last year, you talked about the plans to develop some categories with a bigger focus on maybe non-food and I would like to have your update on that, and how do you (00:41:04) how do see this from now on?

A - Operator

Good afternoon. Yes, we continue to have this focus on non-food. And as you said,

this is very strong in the Brazilian market and we intend to further improve non-food as a differentiated element in our commercial proposal. So we already developed something or launched something in 2017, developed on this category, consumer electronics services (00:42:00) and you can see the performance from 2017 to 2018. And we have other initiatives in the pipeline to further develop this dynamic.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you.

Operator

Gustavo Oliveira, UBS.

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

Good morning, everyone. Thank you for the question. I would like to get back to Atacadão, about the need for investments, inflow (00:42:36) continues to be higher and I would like to know, this quarter, it was about 7%, but there was a slight downward trend if you consider quarter-on-quarter results. So what do you still (00:42:54) have to identify, do you believe you will have to further invest in that in order to build those (00:43:02)? I believe that this would be implemented as of January or February, if I'm not mistaken. Maybe it's my wrong interpretation on my side that if you really need to make additional investments, do you have this opportunity in operating cost in order to keep your margins?

A - Operator

Gustavo, thank you for your question. So the market operates in such a fashion that sometimes, we can change the market and look for opportunities and for the opportunity to adapt and keep our business running such as it should be running. And when you see, you're in the middle, between the industry and the customers, be then suppliers or end customers. What we have to do is, do our homework, which is being profitable at a low cost in order to release (00:44:02) this to our customers in general. But of course, if we have the necessary weapons to carry this out, okay, if we have to use this kind of ammunition, we will use it. Nevertheless, we will always work protecting our wellbeing and the health of our business.

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

Do you have any specific metrics of what this means (00:44:34) for reinvestment like (00:44:37) like-for-like sales or something like that?

A - Operator

No, we do not have like metrics. In fact, this has to do with looking at the market and seeing how it works and as it changes every day, we have to be very smart.

Marcelo Pinheiro (00:45:02) from Deutsche Bank.

Good morning, everyone. During the presentation, you talked about some initiatives to reduce expenses. However, could you give us some additional color about what you have already been able to achieve in the two divisions regarding expense reduction, qualitatively, if you can?

Marcelo (00:45:45) the first point, we had already been working on expenses for a long time at Atacadão. One of the successes of Atacadão was the fact that we were able to keep it at a very low level and very efficient that this has never changed over the year. In retail, we have the situation of deflation that we mentioned in 2017 and in the second quarter, we already took additional measures in order to further control our cost in the stores, for instance and we cut some expenses, but of course, we will only see the result of all these initiatives the fourth quarter of this year. You talked about expenses and very rightly, so expenses has grown (00:46:48) 6.6%, that is to say half of the growth of the full year, but if you remove from this figure the expenses related to expansion and in fact, the expenses in retail is very low.

I know that the focus on wholesale is growth (00:47:14), but you have any initiative that might protect your margin from a drop in your profitability or maybe you cannot transfer to prices. (00:47:28)

Well, in 10 years, you will see our answer. Thank you very much.

Mr. Joseph Giordano, JPMorgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good morning, everyone, I have two questions. The first one has to do with the beginning of the year. How do you see growth in revenues and your expectations for the next few months. And the second question has to do with the format. How do you see the performance of the Express format and the return of the (00:48:15) supermarket? Do you have any expansion intentions in order for us to include in our model?

A - Operator

The beginning of the year, what we have been seeing in the last couple of months, as I said during the presentation, in fact, inflation becoming positive in December, close this level of deflation, that from April to December, it was positive in December, 0.4% in December and it increased in January, monthly inflation in January comparing December 2017 and January 2018 was 1.1%. So a very different picture from the one that we have been seeing last year. And looking ahead, at the end of December 2018, we believe that there will be around 4%, we are working with this estimate and at the end - in the last quarter of the year, in spite of the monthly inflation, let's say, it is positively, it will continue going from 5% negative in the fourth quarter of last year, going up over the first quarter

and it will continue, but it will still be negative and we believe it will be positive by the end of the second quarter. Proximity is the important as we said and we see an improvement in results, so (00:50:26) in like-for-like and we are working to further improve our profitability and achieving this level of improvement.

Our next question comes from Mr. Andrew Gwynn of Exane. Mr. Andrew, you may proceed.

Q - Andrew Gwynn {BIO 15089439 <GO>}

Hi, there. I have three questions if I can. So the first one is on financial expenses. We've obviously seen a significant reduction in Q4, I'm thinking about 2018, would Q4 be a very good proxy? so simply this four times the charges in Q4. (00:51:19) On the credit cards customer side, you've seen some improvements, I think, in the level of provision, but coming at your (00:51:28) point where almost the quality of the customer is almost too good, you're not getting enough goodwill paying interest charges? And then, the final one, which is a cheeky one, (00:51:43) there's but obviously a press article out this morning talking about potential combination with Pão de Açúcar (00:51:49), so I'm just wondering, you had anything to point on that? (00:51:52) Thank you.

A - Operator

About the financial result, you are correct. Financial expenses dropped quite extensively in the fourth quarter and you see the financial results of the group and interest expenses over our debt went down quite extensively in the fourth quarter of the year. You can see this drop in the second component. We have this in retail and looking at the fourth quarter of this year, we have more cash at the end of the year. So expenses that you see in the result of the fourth quarter are likely slower than the annual (00:52:56) average and totally proportional vis-à-vis time, as you can see in the fourth quarter of the year. About provisions, the provision is always a consequence, so provisions are improving vis-à-vis the portfolio, this is because the credit indicators are improving and if you look at our material (00:53:38) and our balance sheet and over 30, over 90 items, you can see that they improved significantly already going back to the pre-crisis levels. So, in fact, there is an improvement in the portfolio and these are all the actions that we took during the crisis and because of all that, we were able to achieve a good performance and we are opening credit again a little bit more, so the quality of our credit portfolio is very good and it will continue to be so in 2018. About the last question between Pão de Açúcar (00:54:26) and Carrefour, we read newspapers such as you do and we do not comment on this kind of thing.

As there are no more questions, we would like to give the floor back to Mr. Noël Prioux for his closing remarks.

A - Noël Frédéric Georges Prioux

Thank you very much for your presence in this call. And we hope to see you all on March 12, when we will talk about the future of Carrefour Brasil. Thank you very much, everybody. And see you next time.

Operator

Grupo Carrefour Brasil is closed. We thank you for your participation and wish you all a very good day.

FINAL

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