

Q2 2019 Earnings Call

Company Participants

- Belmiro de Figueiredo Gomes, Real Estate Business Director & Member of the Executive Board
- Christophe JosÃ© Hidalgo, CFO, Corporate Services Officer & Member of the Executive Board
- Daniela Sabbag Papa, IR Officer & Member of the Executive Board
- Frederic Garcia, Executive Officer of Proximity
- Laurent Maurice Cadillat, Head of PÃ£o de AÃ§Ã©car
- Peter Paul LourenÃ§o Estermann, CEO & Member of the Executive Board
- Unidentified Speaker, Unknown

Other Participants

- Irma Sgarz, Equity Analyst
- Joseph Giordano, Senior LatAm Healthcare Analyst
- Luiz Felipe Poli Guanais, Research Analyst
- Richard M. Cathcart, LatAm Retailers Senior Analyst
- Ruben Couto, Research Analyst

Presentation

Operator

Good morning. Thanks for standing by. Welcome to the conference of GPA to present the results for the Second Quarter 2019. This event is also being broadcasted via webcast, which can be accessed at www.gpari.com.br with the respective presentation. The slide selection will be managed by you. There will be a replay facility for this call on the website. We inform you that the company's press release is also available at the IR website.

This event is being recorded. (Operator Instructions) After the GPA's remarks are completed, there will be a question-and-answer session. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements that may be made during this conference call are under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of GPA management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating

factors could also affect the future results of GPA and could cause results to differ materially from those expressed in such forward-looking statements.

Now I would like to turn the floor over to Ms. Daniela Sabbag, Investor Relations Director of the company.

Daniela Sabbag Papa

Good morning. Welcome to the conference call of the Second Quarter 2019. Here with us are Ronaldo labrudi, Co-Chairman of the Board; Peter Estermann, CEO of GPA; and Mr. Hidalgo, CFO; and the owners of AssaÃ, Mr. Gomes; Extra, represented by Mr. Machado; PÃ£o de AÃ§Ã°car, (Ms. Alujan); and Proximity, Freddie Garcia.

I'll turn the call over to Peter to start the conference call.

Peter Paul LourenÃ§o Estermann {BIO 15380447 <GO>}

Thank you, Dani. Good morning, everyone. I would like to thank you for attending this conference call to discuss the results of the Second Quarter 2019. I would like to start making some comments on the first half of the year, which was slightly below our expectations, basically driven by downturn in the consumption environment. The Second Quarter was more affected by this scenario. But I would like to highlight that we have already started the second half of the year more confident with the aspects related to micro economy (sic) (macro economy). So the pension reform is underway. The basis of the tax reform are being discussed. And new resources have been injected to the economy. And we understand that all those aspects are going to influence positively our environment of business.

In this quarter, we reached an increase of 11.3% in our gross revenue. And we maintained our upward trend of the past periods. I would like to draw your attention to AssaÃ which continues its sustainable growth path at a very accelerated pace. This is a result of the assertiveness of the organic expansion plan and a lot of assertiveness in the opening of new stores and also our commercial policy, which is being adopted. Our mixed retail approach presented in a significant positive result and positive evolution in margin. And this is highly important, with a gain in market share. Belmiro will provide more details about it along the presentation.

In the Multivarejo, we had a positive result in the Food segment with a growth of 2.5% of our gross revenues of same stores. And we reverted negative result of the same period of last year even with the impact of -- with a more restrictive consumption environment. And also, we'd like to remind you the effects of the World Cup and strikers -- the truck strikers.

We continue with an accelerated growth in the conversion of our stores and Extra supermarket, the Compre Bem banner and Mercado Extra banner. We have already reached the number of 56 stores, which have been converted and reaching double-digit sales and also an increase in the number of clients in addition to significant growth in

market share. And the plan -- the initial plan that we communicated with the stores converted will be exceeded. And our expectation is that we'll have only 30 units to be converted in the first half of next year.

And in relation Pão de Açúcar, we have already 26 stores which have already been renovated, G6 and G7, accounting for 25% of the sales of the banner with positive results. On this front of conversion, we also expect to exceed the initial plan of 20 units, which are already in the process of conversion.

The private label strengthening plan is a very important strategy for GPA to have loyal clients and gain margins and also to be more competitive, especially in the formats of Mercado Extra and Hipermercado and Proximity. We maintain the plan of reaching 20% of share penetration of private labels up to 2020. And if we maintain the pace that we have today, which has been maintained since last year, we expect to anticipate this goal. And today, we have already reached the 20.1 share. And some formats have participation of our share, which is much more significant.

As for digital transformation, which is another strategic pillar of the company, we have already reached 20 million of loyal clients, with the representativeness of 85% in sales in Pão de Açúcar and more than 60% in Extra. We have more than 9 million downloads in our Meu Desconto app. And we have already -- we posted an increase of nearly 60% in relation to the same period of last year.

We keep on accelerating the Click & Collect, which is -- and also our modality of entregas, Express. And we maintain our initial plan to reach 120 stores using the both models, both Pão de Açúcar and Extra. It's a very important strategy to accelerate our online sales.

In our James Delivery operation, we are very happy with the performance of James. It's beyond our expectations. And its growth rate is still very accelerated. To put it in perspective, it's nearly 5x the number of orders -- nearly 5x higher than what we had in the same quarter of last year. And this accounts for 64% of the total line of orders in the stores we are using James. The operation have already reached some stores. So 20 stores altogether. And the expansion is estimated to reach 25 new cities until next year.

This has been a positive surprise and really helpful for our strategy -- in our omnichannel strategy, specifically Cheftime, for which we established a partnership. Recently, it has gone over BRL 1 million in sales with more than 41,000 kits sold, which represents a fortyfold increase when compared to what we had before the partnership. We are still leaders in food e-commerce with a very fast sales growth. This quarter, we grew by 37%.

These are some of the highlights that I wanted to share with you today. We will keep working internally, focusing on our operational efficiency initiatives, cost reduction, productivity increase.

You're going to listen to Christophe's presentation. For example, he is going to show our performance in terms of costs for the quarter. And now, I'd like to acknowledge the entire team of Multivarejo for their focus, for their hard work, for this specific market that is now

facing the slowdown. And with all these initiatives, we are seeing more and more positive outlook when the economic situation improves in Brazil.

Our work plan is starting to show good results, which makes us very confident about the improvement that we are expecting and already seeing in the start of the second half of the year. And the outlook for the future is very positive, as I said.

Now with us completing the sale process for Via Varejo, we will be integrally focused on our food business. And I will work very close to our teams, supporting all our executions to make our initiatives more and more assertive over time.

Thank you very much. And now I'd like to pass the microphone to Christophe for his comments about financial results.

Christophe JosÃ© Hidalgo {BIO 17982648 <GO>}

Thank you, Peter. Good morning, everyone. Thank you for participating in this conference call.

I'd like to start at Slide #4, which addresses the main financial highlights of our Food business already aligned with the IFRS 16 for this quarter. Sales -- gross sales reached BRL 14.2 billion in the Second Quarter with an expressive growth of 11.3%, very in line with the pace of growth that we showed in previous quarters. This performance was possible even with the strong comparison days that we had with the World Cup and the truck drivers' strike that we had last year and also the adjustments in our commercial policy that were started in the end of the First Quarter 2018.

Same-store sales for Food grew by 4.1%. This performance was influenced by a very challenging consumption environment and also the decreasing trend that we saw in the Second Quarter for foods inflation.

The greatest highlight is still the notable growth that we had in AssaÃ, 24.4%, which is significantly above the average of the market, which, once again, shows that our business model has improved efficiency when compared to the reality of the market and our competition.

Still on Slide 4. The gross margin for Food GPA reached 21.6%, mainly due to the greater participation of AssaÃ in our sales. The behavior of the gross margin for Multivarejo reflected a greater intensity of our promotions, in addition to some one-off effects in the quarter due to the Easter holiday, the truck drivers' strike, the smaller mix for PÃ£o de AÃ§Ã-car, some sales. And I'd like to highlight that these margins for the quarter, they are reflecting the level of competitiveness that we deem appropriate for the current context of consumption in the country.

The SG&A still has some relevant dilution and in this quarter reached a reduction of about 70 basis points, which was favored by the initiatives to control and reduce expenses,

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without this affecting the level of services that we provide to our customers.

The adjusted EBITDA for Food has reached BRL 888 million, a 0.9% growth, with a margin of 6.8%. And this margin is reflecting mostly the consistency of Assa's results and greater investments in competitiveness by Multivarejo.

The consolidated net income for controlling shareholders reached BRL 490 million with a net margin of 3.7%.

I'd like to stress that this quarter's performance is reflecting some relevant one-off effects. But the consistency of the company's strategy and the initiatives that we implemented in the end of the Second Quarter can already be seen in the form of a greater trend. And the expectations for the third and the Fourth Quarters this year are very positive.

Now Slide #5. The financial result was BRL 280 million for Quarter Two or 2.1% of the sales. So 30 basis points better than last year. This reduction can be explained mainly by the maintenance of the same debt cost, or the debt cost being kept at the same level. And a greater participation of Assa, which has a positive effect on the working capital of the company.

Another important point to highlight is the continuous improvement of the company's leverage. For more than 1 quarter, we have kept a low level of leverage, 0.47x the EBITDA, which is considerably lower than the 0.90 that we had in Quarter Two 2018. The adjusted net debt is a total of BRL 1.3 billion, a reduction of nearly 46% compared to last year. And this can be explained by the completion of the sale of our stake in Via Varejo, which meant additional resources in the order of BRL 2.3 billion. Also, the company still counts on BRL 1.8 billion of pre-approved credit lines.

Still on Slide #5. We see that the investments performed in the quarter amounted to a total of BRL 510 million, a significant increase of 54.8%. And this was due to a greater distribution of new stores we inaugurated over the course of the different quarters of the year. So it's much more related with the calendar than a genuine increase.

Now Slide #6 for Multivarejo. These are the main performance points for Multi before the business heads can give you more details about the operations. As we have highlighted in this presentation, the sales in the quarter are reflecting the current consumption environment. But a positive highlight should be given to the acceleration of the sales for Foods. The sales grew by 2.5% with relevant market share gains. Food sales are keeping at a very relevant growth level, which is shown in the trends for the quarter. And the Non-food category had a negative impact, especially because of the base effects. Last year, in quarter 2, the growth for Non-food was nearly 21%.

Before I turn to BU Extra, despite the challenges that we are facing in the last quarter, I must stress that we still have a positive outlook in terms of expected improvements for the third and Fourth Quarters, especially relative to the economy of the country, which should get stronger and more dynamic.

The company will keep working to optimize its investments, improving its competitiveness, rationalizing expenses and also keeping -- the company will still work hard internally to ensure adherence to our portfolio in the markets that we operate in. That is why we still keep the same expectations in terms of improved profitability for Multivarejo this year.

Now, Rodrigo?

Unidentified Speaker

Thank you, Christophe. Good morning, everyone. Today, I am speaking on behalf of Marcelo Bazzali who is on vacation.

I will start by giving you an overview of the brand performance. And we saw some important advances in the last quarter. In quarter 2, we saw growth in the gross same-store sales of about 5.6% and 0% for Hiper. And we continue to see significant market share gains for both. The work was focused mainly on the purchase experience of our customers and commercial assertiveness.

We are also promoting new partnerships. And we still see good profitability of our in-store leased areas with a growth of 30% when compared to Quarter Two 2018.

Another highlight is the performance of Mercado Extra, which still has a very positive dynamic with growth -- expressive growth in tickets, volume and market share. And there was also improved profitability. Mercado Extra already represents more than 50% of the growth of the Super format, even if it represents only 25% of the total stores. By June, we had 43 active stores in Mercado Extra with double-digit growth. We are now converting another 49 stores between July and September, amounting to a total of 92 stores, which will represent more than 50% of the total stores. Also, the model will now reach 4 states in the Northeast, a region which is very representative for the business line of the company. Mercado Extra is the format with the greatest share in our private label volume and an important leverage in terms of bringing loyal customers and improving competitiveness of our business.

Despite this slowdown in consumption, Extra Hiper had a good evolution in terms of market share with highlights to the Food category, which showed strong acceleration when compared to 2018. The Northeast has an expressive participation in this growth. We are also improving our product sorting and activating our promotional calendar. However, there was a strong impact of the comparison base from the previous year, mainly due to the World Cup because we grew at 20% during the World Cup. But we already see a positive trend in categories such as home appliances, audio, smartphones and games.

In quarter 2, we had a consistent growth of the Clube Extra app, which has more than 6 million downloads now. Also, we are attentive to changes in consumer behavior. And we took important steps towards digital transformation and improvement of the purchase experience to bring more loyal customers. We have expanded our promotional strategy to a new channel. And now we're better using our app and using digital sales ads, which

brought cost reduction and a more assertive and customized sales strategy focused on brand customers.

We have also expanded the offer of services in our app with our partnership with GetNinjas. And we have intensified the aggressiveness of our promotions promoting the Pink Friday day, right after the weekend of Mother's Day.

In e-commerce, we have expanded to another 13 stores in São Paulo, the capital city, the inner cities of the states, the seaside cities, Rio de Janeiro, Belo Horizonte and Tocantins, with a total of 18 operations in a ship-from-store format where customers receive their goods on the same day in up to 4 hours. A great part of our operations also count on the (retrieve at store) service, our store pickup service, which is free of cost and much more convenient to customers. In addition to that, we have other omnichannel concepts in the region of Itaã and in Santos with e-commerce and James delivery.

For the second half of the year, we are going to double the number of Mercado Extra stores with a positive contribution to the sales of Multivarejo. And in Hiper, the comparison base, more difficult, was left behind. And the expectation is to accelerate the Non-food now.

I am thanking the Multivarejo and Extra team for their dedication and partnership, reiterating the commitment with continued, evolving and accelerating good results.

I turn the call to Laurent.

Laurent Maurice Cadillat

Good morning, everyone. And thank you very much for attending our call of results.

In Pão de Açúcar banner for the second half, it was impacted especially by the strong comparison base due to the World Cup and the effect of the truck drivers that favored the format last year. Even so, the banner was maintained stable in terms of market share year-to-date. It's important to stress that along the quarter, the banner presented some improvements in the volume trend due to the commercial activations implemented to mitigate the effects of the strong comparison base, in addition to the launches of products and innovations that are recurring in the Pão de Açúcar.

In addition, the renovated stores amounted to a growth of a medium digit, 9 bp (sic) (90 bps), higher than nonrenovated stores. This make us very confident in this winning model of the new generation of stores that we are going to continue accelerating in the months to come. This store cluster continues with the relevant representativeness in the banner, reaching about 25% of the sales and more than 1/3 of the result. The renovation plan will be intensified in the next months. And we expect to renovate about 20 stores up to the end of the year.

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We continue with the rollout of the (Meu V) project. It's an operational model that aims to get improvements in operation, sales and excellence in the stores and reaching 75 stores up to the end of June, which will be 40% of the total stores. The banner maintains its plan of including all Pão de Açúcar stores in the project up to September.

Now about our loyalty program of Pão de Açúcar Mais, we amounted to 6.5 million clients in our base. It's a growth of more than 35% since the app was launched two years ago with a high level of sales identified, higher than the 85%, the total sales of the banner.

The Food e-commerce, another pillar of growth for us, presented a 2-digit evolution as a result of the commercial activations, in addition to the Express operation maturation, shipping from store, Click & Collect that we continue expanding.

At the end of June, the Express delivery reached 76 stores in 12 states. And we continue the expansion project for 2019. The expansion of James Delivery operations has been performing satisfactorily with a strong evolution of the numbers every week. The service has already reached 4 cities: Curitiba, São Paulo, Santos and Fortaleza.

Cheftime continues growing significantly, expanding the offer of kits to the 123 stores in São Paulo and Paraná. And open e-commerce -- the e-commerce is open to the entire state of São Paulo.

To wrap up, I'd like to remind you that in August, we are going to celebrate 60 years of Pão de Açúcar. And to celebrate it, we are going to have a calendar with lots of promotions, in addition to the launch of the new campaign of collectibles with WMS with the differentiated exclusive product. I would also like to draw your attention to the performance that we reposted in the Second Quarter, which was specific. And we have seen a more positive perspective for the Third Quarter with the resumption of the growth of the dynamics of the banner, reinforced by the actions of the anniversary and the performance of the renovated stores.

I would like to thank you all. And I turn the call over to Fred Garcia.

Frederic Garcia {BIO 1525714 <GO>}

Good morning, everyone. I would like to share with you all the highlights of the Proximity businesses and Minimercado. And we continue growing strongly in Proximity with 13.1% in sales in the Second Quarter and consistent gains in market share. While the Proximity was down 1% in the quarter, we maintained the performance of 2 digits in terms of growth. In relation to Mini Extra, we continue the strategy of loyalty for the bakery and our private labels.

Another relevant point was the work focused on the sustainability of our activities with excellent results in the category of (liquid). Especially, the group of initiatives consolidates our image. And we are very proud to have been chosen by the Paulistanos to be the best in mini-markets in a research that was conducted by Datafolha in relation profitability, optimization of expenses and assortments and also all the activities to optimize costs,

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especially logistics costs. They all allowed for a consistent growth in relation to the same period of 2018.

And Minuto Pão de Açúcar presented a strong growth in the same-store in the last quarter with sales evolution and higher number of clients. And this allowed us to continue evolving both in sales and the number of clients. We launched the Minuto Office (sic) (Minute Office) cluster with the scan-and-go technologies, self-checkout and implementation of product assortments ready to be eaten, developed together with Cheftime, ready-to-eat or ready-to-go, eat-in-stores with the total acceptance of our collaborators. And this model allows us to plan new stores in the business centers, corporate headquarters and places where there is a higher customer traffic.

We increased the wine courses in addition to reinforcing the dynamics between online platform and physical stores. All those actions allowed us to grow by 60% in sales in comparison to the First Quarter 2019, with the sales of 0.5 billion of bottles. The success of this platform contributes to reinforce even more the image of Pão de Açúcar that was elected the best place to buy wine in a research that -- a survey that was carried out in June by Datafolha.

As for the drugstores, we continue growing in our commercial relationships and with improvements in the -- in our level of service. We also renovated the 8 sites that were implemented together with Extra stores. We reviewed the assortment of the perfumes and derma-cosmetics and created other commercial dynamics. All those initiatives allowed us to grow our sales in the Second Quarter, maintaining the commercial margin of the business.

In relation to our gas station, we continue performing excellently, maintaining the growth and the volume with an increased growth in the number of customers. And we have another inauguration, which is going to happen in the end of the year. And major reforms in (inaudible) that we'll open in the Third Quarter of this year.

In addition to that, we are consolidating Aliado Mercado (sic) (Aliado Minimercado) format based on 2 formats of sales: one via salespeople with the different channels; and another one with the site which was launched in May. In 2 models, we captured the orders and we delivered to clients from 48 to 72 hours. For the second half of the year, we are going to focus on this strategy which has already been implemented. To continue growing clients and sales, we are going to launch a training -- internal training focused on the improvement in servicing the client and -- in Minuto and the drugstores in order to have an ever-closer relationship between our clients and our employees.

As I said, we are going to expand our Proximity store's model with at least 15 new units in 2019.

To conclude, I would like to thank my colleagues, my team and all the Executive Board of Multivarejo who have provided support to implement all those initiatives and the high level of commitment with the strategy of the company.

Thank you very much. And I turn the call over to Belmiro.

Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Thank you, Fred. Good morning, everyone.

Second quarter, as you said, the numbers speak to themselves. It was a quarter which was extremely positive. And we have this trend of growth close to 25% of the gross sales in relation to the previous one, reaching 7 (sic) (BRL 7.1 billion). And AssaÃ now represents nearly 50% of Food GPA and follows its expansion path. And the water that was added was 1.4 billion divided by a strong performance of was 8.1% in same-store. And this performance, even with the inflation, comes with the increase of about 3% and it has an impact of 2percentage points. Considering that the opening of the stores -- the 18 stores that were opened in the last 12 months, out of those only 3 were in new areas, new regions. So there is a natural expectation of -- in terms of impact. And the impact would be about 2percentage points in our same-store results. So with this, we have the same-store results in a very -- very positive. And the 18 stores that were opened the last 12 months contributed with 16% of sales. And this volume allowed us to increase, growing market share in a very positive manner, 2percentage points increase in the share or growth of 7% -- nearly 8% in the retailer market.

And when we look at this number translating into clients, would be 2.1 million clients or households or corporate clients that are using our services. And we have made adjustments to the assortment. And some actions were made by the operational market team and that we're directed to our target public: corporates or individuals and final consumers. And the investments that we have made in qualifying people, training people so that we can continue evolving, opening new stores and with good performance, not only from the viewpoint of finance but also in terms of quality of the network. And this all - all those efforts have allowed us to keep this good performance.

The gross profit has increased by 0.2%, 16.7%, when we exclude the effects of last year. And we consider this to be a record. And historically, the strategy that has been used for the Second Quarter to increase this growth -- growth increase was the maintenance of prices, volumes, quantity of products. So that in April and May, we could have a linear increase along those three months for the quarter. And the final consumer and also the companies, they do not have cash to anticipate their purchases. Of course, all this maintenance is seen on a daily basis and a weekly basis. And so our margin was much more assertive and we had no impact in terms of rupture.

And we understand that small businesses have faced difficulties in accessing credit and also having working capital. And we understand that all those clients have left the maintenance to be only when the corporations really need. And considering the gross profit, we have this rigorous discipline in expenses and we also have adopted important conversion and marketing actions focused on pricing, adjustments of assortment. And we reduced the number of ruptures at stores.

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And the expenses were stable in relation to the previous year. The numbers have been stable. And we have to also consider the cost of electric energy. That increased. And some regions have been using the red flag with higher prices. So we had to absorb this volume without sacrificing the store operations. And this came from some processes and some supply changes, reductions in stock-outs which allowed us to maintain our expenses stable, even with all the new stores, not just opened in the last year but in the past three years. We opened so many stores in the last four years which still represent nearly 50% of the sales volume. And these stores are still maturing. The stability of the expenses allowed us to capture in our EBITDA margin this entire increase. So the EBITDA in this quarter, considering the effects from last year, it goes from 6.1% to 6.3% and nearly 7% after the IFRS 16 considering that we have a lot of leased stores. So it reached 6.9%, which allows us to confirm and reinforce the guidance for 2019, which was an increase of 0.3% -- or 6.3% in our EBITDA margin.

Net profit -- or also the business model of AssaÃ and the format in which it operates does not depend on credit for sales. So the financial expenses are low. Our expansion in our CapEx volume has been self-financed. So the net profit reached 3.20% in the quarter.

Also in our numbers, you saw the historical evolution of Assai in the past six years. The company has increased fourfold the sales volume from 18.5% of share in the market, because the market is also growing at 10% per year. But it went from 18.5% to 29%. So this was a rapid expansion. It is the wholesale store that is growing the most in the past years in Brazil. And this sales growth is also accompanied by an EBITDA CAGR of 33.2% (sic) (36.6%) and a net profit of 40%.

Also, the number of employees went from 15,000 to 40,000 employees. So we're also contributing to employment in Brazil. And also all the investments that were made by the group are contributing to the economy, particularly the civil construction market. And this is very positive for the country.

I'd like to thank and acknowledge our team and everybody that has worked hard for the results that we're seeing. This is the work of many -- in many different areas that together have been able to bring this positive outlook for GPA.

In terms of expansion, we opened 3 stores this last quarter in Palmas. And so now AssaÃ is present in 18 states, plus the federal district. So we're now present in the state of Tocantins. We also opened a store in (inaudible). And we also opened a store in Serra Talhada. And we also opened a store in Aricanduva, a store inside the Aricanduva shopping mall complex, which is close to our administrative headquarters where we have all the administrative offices of AssaÃ. This unit brings a lot of improvement. And we're also testing the self-service format because regardless of the purchasing power of the customers, it is the largest shopping mall in Latin America. Nearly 4.5 million to 5 million people go to this shopping mall every month. Our store in this mall had a fantastic performance even if it is in the eastern part of the city of SÃo Paulo, where we already have a lot of stores, a lot of grocery stores and we have 4 AssaÃ stores nearby. But we had a spectacular performance, more than 180,000 transactions in the first month. In the first month, we saw about 340 people in the store.

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In regards to the expansion, we reinforce that we will open 20 more stores in 2019. Tomorrow, we'll be inaugurating the (inaudible) unit. Right now, we have 16 stores being built in different states in Brazil. The Third Quarter, we'll concentrate most of the inauguration. So we understand that the second half of the year is the most favorable time to open new stores because of the end of the year holidays and the 13th salary that we have here in Brazil. This all helps in our maturation brand. And also, it has a lower weight in the results of the fiscal year.

AssaÃ has been following the strategy of consolidating as much as possible the marketplace where it operates. But we still have a lot of market to explore inside Brazil. We still have many states to open stores. With Tocantins, now we are present at 19 states. But we still have more where we want to be present in the coming years, very representative states such as Rio Grande do Sul, Santa Catarina, states such as Minas Gerais, where we only have 2 stores. So right now we have more than 70 projects aiming at maintaining the level of expansion and the same level of productiveness and return on the investments, as we have seen in the past years.

The return on investments, we also included this information in our results statement. Even if we have more than 25% of our -- when we look at our mature stores, of course, the number is much larger than that. And we will be able to keep the same levels of performance.

Also, I'd like to speak a little bit about the Compre Bem banner. We should be entering a second wave of expansion with 50 new stores. We have seen very good performance, above expected. The average sales growth is about 50%. And nearly 30% or 35% come from an increase in flow. So the pilot projects that we had in the first part of our project, the 3 new units, allowed us to gain more knowledge on how to operate on the Super model with reduced costs. And now we'll start the second wave of expansion both for conversions and also organic expansion.

In the state of SÃo Paulo, the banner is focusing on cities with 40,000 to 70,000 people. We have more than 80 cities in SÃo Paulo where we don't have presence currently. So this allows for a good expansion volume plan for the future.

I'd like to acknowledge the AssaÃ and Compre Bem teams. Thank you very much for your hard work. And now I think we can start the question-and-answer session. Thank you very much.

Questions And Answers

Operator

(Operator Instructions) The first question is from Joseph Giordano, JPMorgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

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The first question is for Belmiro. I see you have a strong performance with AssaÃ and all the expansion. So I want to see what you see in terms of competition. Is there any need to, for example, reduce prices to keep this good level of performance in terms of sales?

And when you look at the expansion plans, what type of competition are we facing for the points of sale? Is the competition increasing? Or can we still find good locations, good sites that are not in the radar of our competition?

And also for PÃo de AÃÃcar, what do you see in terms of growth trends for July? I see that we had a time mismatch with the promotions and this will be seen in the Third Quarter. So what are you expecting for the second half of the year?

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

Joseph, thank you very much for your question. In respect to the expansion, as I said, we still have a lot of markets, a lot of cities where 300,000, 400,000, 500,000 people where we don't have any presence. So this has been our strategy. We want to have a mix of stores in regions with a faster maturation. But sometimes, the approval of the land sometimes takes 2 or three years with a few rare exceptions. For example, we have projects for Curitiba or larger cities that have been going on for four years, waiting for approvals and permits and licenses. This is always a great difficulty. Right now we have 78 projects ongoing.

And about the competition, either regional or national competitors, we will be able to keep the average performance that we have been seeing in the past 3, 4, five years of expansion. Of course, there will be a difference in performance comparing smaller cities or inner cities when compared to large cities, capitals. The real estate market, we have accelerated the purchase of points of sales. We know that there is a recession in the real estate market. So this allowed us to accelerate our expansion more assertively with new stores because we didn't want to run the risk of having greater prices in the real estate market. That's why we made the decisions fast enough. Of course, for some cities, we're looking more carefully if it's worth entering that specific market, looking at the competition, because we don't want to place stores in cities that will not give us a good enough of a performance in terms of margins or the speed of growth of the store. So when we make decisions about the expansion project, we always consider all of these criteria. And that is the difficulty between the time when we identify a potential point of sale. As I said, in the second or third phase of the project, we looked at more than 400 possible sites. So this is a limitation. But we're very confident that the 2019 expansion, 2020, 2021, 2022 expansions will be very positive.

The competitive environment is always a concern in the self-service format. Of course, we have different players and all of them have their distinguishing characteristics because it is a difficult market, as we have seen. We have seen for example, a slowdown in credit concession, a lot of difficulties in terms of working capital, especially for micro and small companies that are trying to lower their stocks. They are looking for more aggressive prices. So of course, we're paying attention to all this. Also, the country's economy because we have this resumption in credit. And this is very important for micro and small companies in Brazil. And of course, it brings some challenges in terms of competitiveness.

But we also have other leverages like we saw in Quarter Two that still allow us to increase our margins in such a scenario.

I hope I have answered your question. Thank you.

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

Joseph, about Pão de Açúcar, we do indeed see a resumption in growth which was very significant in July, very positive outlook. Our expectations for the second half of the year is that this trend will be maintained. Some of the points that Laurent raised, now in August we'll have Pão de Açúcar's anniversary, which is a very important seasonal event that we have every year. And we are very well prepared to make the most of our anniversary this year. We also have the new stamps campaign which will certainly be very positive. It's a very innovative marketing effort. And we will be launching the new campaign in the coming days. Another very positive trend is the strengthening of the FLV and perishables categories with a lot of innovations that have been bringing positive results. And also, many of the initiatives that we have tested in our school stores are now being rolled out to other stores with a very positive impact. And last. But not least, like Laurent already said, 20 more stores of Generation 7 are operating now. And they will bring positive impacts for the second half of the year. So we're very optimistic with the resumption that we are expecting for the Pão de Açúcar in the second half of the year.

Operator

Next question comes from Luiz Felipe from BTG Pactual.

Q - Luiz Felipe Poli Guanais {BIO 19933939 <GO>}

I have 2 questions. The first, in the line of Multivarejo, how can we possibly think about those initiatives, your comments now on the release and also on this call, offsetting a lower growth of Food in the Second Quarter for the market dynamics? In other words, can we think about the guidance of Multivarejo expansion for the full year?

Another question is in relation to e-commerce. Can you provide more details about the consumer profile in the James Delivery? How is this consumer differentiated in terms of average ticket and purchase behavior?

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

Thank you, Luiz. Our expectation for the Second Quarter in terms of margin gain is a major challenge for us. But we have initiatives which are very well structured with a focus on the execution in Multivarejo. Our team is senior, experienced and dedicated to work on the recovery of margins for the second half of the year.

For 4 weeks in a row, we have improved our margins as a result of those initiatives. I'd like to highlight some of them. First is the increase of communication and activation of offers using apps. And the return has been very significant, especially because all those offers are verticalized on the app and they meet the needs of our loyal customers and they

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limited the volume sales with restricted margins. It's an initiative that has started 4 weeks ago. And we learned a lot with those actions. And we are very happy with the results in terms of margin impact that we have been obtaining.

And another initiative is better planning our suppliers and also reducing significantly any rupture. And we have been able to direct the sales with the categories with higher profitability. As I mentioned before, FLV and perishables have very significant margins, positive margins. And by using the program that we have been implementing in the company for the improvement of the quality level and also to offer better FLV, perishable projects, these -- all those initiatives have contributed to our margin, especially in Pão de Açúcar.

Another important initiative is related to pricing. We have been working in a very dedicated -- and with more smart data so that we can have regionalized pricing. And we have been able to observe that significant gains have been obtained in different categories when we consider different formats and different regions.

And answering your question now, we continue -- very optimistic in terms of margin recovery for the second half of the year. And the initiatives have shown very positive results, encouraging results. But it's important to understand that the challenge is major. But everything is under control and we are betting on the initiatives that we are now implementing.

Q - Luiz Felipe Poli Guanais {BIO 19933939 <GO>}

Excellent, Peter. And can I ask -- can I have a follow-up on the question on James Delivery? Could you provide more information about the profile of the consumer?

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

James' consumer is a consumer who basically places an order for delivery -- express delivery. So James delivers the product within 1 hour. So the profile is different from the average profile of our Pão de Açúcar and Extra banners. So it's an additional sale. It's a sale that would bring new clients to our base.

In terms of average ticket, we understand that the average ticket is higher than we expected in our business plan. Still, we have opportunities that have been identified and the possibilities are out there, which are very interesting, to increase this average ticket. It's important to observe that the average ticket in different regions would vary a lot. So we are very happy with the performance of James. And we also understand that James brings new clients to our base.

Operator

Next question comes from Ruben Couto from Santander.

Q - Ruben Couto {BIO 20636571 <GO>}

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I would like to -- Via Varejo and the Non-food strategy, focusing on the strategy of hypermarkets, how are you working? What are your expectations for the future? Can we think about a new space considering a lower purchasing power? And when you combine with Via Varejo, is there any expectations of change in the gross margin for Non-food because they are separated now? I would like to understand what we can expect after Via Varejo.

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

Thank you, Ruben, for the question. We do not see any significant changes in terms of impact on gross margin. You know that for the industry, it's interesting to have clients such as those of Extra and other market players. It's to not to have a concentration is a strategy that we apply. The volume of purchase is much lower than Via Varejo. But relationship has been very close to that performed by the industry and I don't see any negative impact in terms of the gross margin and sales volume. The profile of clients that go to Extra have different profile of those that purchase at Via Varejo. So we do not expect sales to be reduced or gross margin to be reduced either. So we expect to be growing in this category with Extra.

Q - Ruben Couto {BIO 20636571 <GO>}

It's clear. Can I ask another question related to Pão de Açúcar banner? You say that out of the 20 stores that will be renovated until the end of the year, could you remind us of how many stores will be renovated in G6 and G7? And can we accelerate the speed of renovation? Do you think there will be an inclusion of CapEx so that this number can be higher?

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

No. There's no CapEx bottleneck for we have prioritized investments when we made adjustments to the portfolio of our stores. And in fact, I wouldn't even call it a bottleneck. But our capacity of execution stands at a very high level. And there's not much room for us to be more aggressive in terms of expansion volume.

Another point is that when we made comments about the preparation of stores for the generation of -- G7, we are likely to have 50 stores with the capacity to expand because of the location and the number of clients for G7. So we are likely to complete those conversions in the First Quarter of next year. And from then on, we are likely to expand the model to other regions where we see a significant growth potential.

Operator

Next question comes from Richard Cathcart, Bradesco Bank.

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

I would like to ask about gross margin in Multivarejo. In the release, I read that there was a 70 bps in competitiveness. I saw that in the press release. I would like to understand if this was something very specific for some base effect. Or should we expect this in the third and Fourth Quarters as well?

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

Okay. Richard, as I said, yes, there are some specific effects for the Second Quarter. The Second Quarter was a very competitive quarter. As I have already mentioned, the resumption that happened in the month of July is very positive. And we believe in the plan of margin recovery that we are implementing. So the expectation that margins will improve for the Third Quarter in relation to the Second Quarter is very strong.

But as I also mentioned, we have a big challenge ahead of us. So those points have been raised. And we are confident that we are going to continue implementing those initiatives in a very assertive manner as we have done in the past few weeks.

Operator

Next question is Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

I would like to go back to the point that we have already discussed for the margin recovery for the second half of the year. But I would like to understand the guidance that you presented for Assa is also being reiterated to Multivarejo, not in terms of margin but also for sales.

And the second question, could you talk about the Clube Extra brand? I understand that we should have a new agreement with Vila Varejo considering that the sites have divided operation. And what is the strategy you see to be applied in terms of Clube Extra site?

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

Okay. Irma, answering first the guidance issue. As Belmiro has already discussed before, Assa guidance is in line with what we had planned. And in Multivarejo, we have an additional challenge. So because we haven't revised the guidance is because we understand that we have internal initiatives that will lead us to fulfill all those targets. So all the guidance have been maintained. But we are aware that we have a big challenge in Multivarejo.

In relation to the sales of electronics at Extra, we have an agreement with Vila Varejo. And at this time around, it's not a priority on our agenda. And obviously, we are going to address this topic in the future.

Operator

The Q&A session is over. We would like to turn the call over to the company for its final remarks.

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

Thank you for attending this call. We are very optimistic for the second half of 2019, especially because we expect to have a positive resumption in the macroeconomic

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environment. I would like to thank for the dedication of our team. And I would like to draw your attention to the fact that we ended the survey of organizational climate. And the results were sensational. 90% of the team answered the survey. And you are well aware of the number of employees we have at the company. And what is important is that the level of commitment increased by 7% in relation to the previous survey. And the satisfaction level ended at 73%. I believe this is very relevant considering that all the challenges that we have ahead of us will only be able to be delivered if we have a motivated and committed team. So this survey made us very happy. And I would like to thank the GPA team for the commitment that they have. And I believe that we are going to be very successful in delivering the results that we promised to you. Thank you.

Operator

The conference call of GPA is over. The Investor Relations department is at your service to answer any questions you might have. We would like to thank you for your participation and have a good day.

(Statements in English on this transcript were spoken by an interpreter present on the live call.)

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