

## Q1 2019 Earnings Call

### Company Participants

- Carlos Mauad, Chief Executive Officer of Carrefour Soluções Financeiras
- Jose Roberto Meister Mussnich, Chief Executive Officer and Member of the Executive Officers Board
- Noel Frederic Georges Prioux, Chief Executive Officer
- Paula Magalhães Cardoso Florez Chaves, Executive Director of Clients, Services and Digital Transformation
- Sebastien Durchon, Member of the Executive Officers Board

### Other Participants

- Irma Sgarz, Analyst
- Joseph Giordano, Analyst
- Pedro Fagundes, Analyst
- Robert Ford, Analyst
- Thiago Macruz, Analyst
- Tobias Stingelin, Analyst

### Presentation

#### Operator

Ladies and gentlemen, welcome to Grupo Carrefour Brazil's First Quarter 2019 Conference Call. At this time all participants are in listen-only mode. Later, we will conduct a Q&A session when further instructions to participate will be provided. (Operator Instruction) As a reminder, this conference is being recorded and broadcast live on the Investor Relations website at [www.grupocarrefourbrasil.com.br](http://www.grupocarrefourbrasil.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 those 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. Mr. Prioux, you may proceed.

**Noel Frederic Georges Prioux** {BIO 15135754 <GO>}

FINAL

Good day, everyone, and thank you for joining us on this call to present Grupo Carrefour Brasil's first quarter 2019 results. I am joined on this call by Roberto Mussnich, CEO of Atacadao; Paula Cardoso, CEO of Carrefour eBusiness Brasil; Carlos Mauad, CEO of Banco Carrefour; and Sebastien Durchon, our Chief Financial Officer; as well as Daniela Bretthauer, our Head of Investor Relations.

I will start with a brief overview of the key takeaways of our performance. Sebastien will detail our financial performance, and Roberto, Paula, Carlos and myself will present the key performance highlights of our different business units. After my concluding remarks, we will then open the floor to your questions. Throughout this call, I will be referring to the presentation that you can download on our Investor Relations website.

On slide three, Q1 was another quarter of continuing momentum at Grupo Carrefour Brasil amount with a bit growth of sales and profitability. This performance confirms our leadership in the Brazilian food retail underscored by the award we received just this week from ABRAS for the third consecutive year, recognizing our position as the leader in Brazil food retail in 2018.

This quarter, we demonstrated once again the strength of our multi-format and multi-channel strategy in line with the creation of the ecosystem concept we presented during our Investor Day back in March. I'd like to mention some of the key deliveries of the first quarter. We continued the development of our omnichannel strategy with a focus on e-commerce. Our GMV grew 84% in the quarter, and our marketplace tripled its sales. Other advances made in our food e-commerce strategy that deserve to be highlighted are, 13 Drives already in operation with more units planned for 2019, the very promising start of our partnership with Rappi, with a presence in several cities. We continue to connect more customers to our ecosystem, and in the first quarter, we opened four new Atacadao stores out of the 20 that we plan to open this year.

Our website, Carrefour.com, rose to become the ninth biggest website in terms of most visited websites in Brazil at the end of February. And we see strong growth in your accounts at Banco Carrefour, with solid performance of both Carrefour and Atacadao cards. Concerning advances in our food transition strategy, we have rolled out healthy food aisles in half of our hypermarkets with a strong increase in the number of SKUs. The Carrefour private label accounted for 11.4% of Carrefour's food sales at the end of the quarter, and we target 20% penetration by 2022.

On slide four, we want to show you the increasing strength of our ecosystem as a multiplying effect from connections always with the client at the center. Let me highlight a few key numbers, 127 million visits in our e-commerce. We complete 520 million transactions per year, and we have 8 million cardholders. And all of this complements our ecosystem and makes us stronger. And the more we increase our value proposition, the more we increase our share of wallet with our customers.

On slide five, the multiplying effect is very powerful. As you can see on slide five, a customer who shops at two of our channels spends around 30% more, and the spending increases the more channels he or she uses. We have cultivated this with our omnichannel

initiatives, and currently, 32% of click-and-collect orders result in additional in-store purchases. This data about channels and purchasing habits are also changing how we use our resources. We are dedicating an increasing amount of our marketing budget to digital media. About 38% of our marketing investments this year are directed at digital campaigns with excellent return on investment.

On slide six, you see how our strategy has produced solid and sustainable growth. I will present here the key numbers of the quarter. My comments are based on numbers prior to the application of the IFRS 16 accounting standards. Sebastien will momentarily provide greater detail on this. In Q1, our gross sales rose nearly 10% to BRL14.2 billion. Our adjusted EBITDA increased by 17% to BRL983 million. Adjusted EBITDA margin rose to 7.6%, and adjusted net income group share was 29%, totaling BRL413 million, equivalent to a net margin of 3.2%. Our level of investment remains high, but this has not impacted our balance sheet which remains very solid, very strong. We ended the quarter with a low debt of BRL1.6 billion or BRL2.5 billion, including discounted receivables.

Let me now hand over to Sebastien for a closer look in our numbers and to give you more detail on the effects of IFRS 16.

### **Sebastien Durchon** {BIO 20242758 <GO>}

Thank you very much, Noel, and good day, everyone. On the graph on slide eight, you can see consistent growth in sales quarter-after-quarter with an acceleration in like-for-like sales each quarter. In the end of the first quarter '19, we added BRL1.2 billion in gross sales, which reached BRL14.2 billion, growing by 8.8% despite the unfavorable Easter calendar effect. Excluding petrol, sales grew even faster with an increase of 9.9% as you can see on the graph on the right-hand side of the slide. Like-for-like sales accelerated quarter-after-quarter and reached their highest growth in eight quarters with a 6.6% increase reflecting a strong performance by Atacadao and an acceleration in sales of Carrefour Retail primarily in hypermarkets and convenience stores.

At the same time, the contribution of expansion to total sales has grown each quarter and attained 4.7% in the first quarter of this year. Noel mentioned in his introduction that this quarter saw the application of a new accounting standard, IFRS 16, and I will show you its main impact on our performance. IFRS 16 replaced IAS 17 on January 1st, 2019, and introduces important changes in accounting model for leases. Under the new standard all lease expenses must be recognized in the balance sheet through an asset that represents the right to use the leased asset with the corresponding leasing liability at present value of future lease payments along the reasonably certain period of engagement. Grupo Carrefour Brasil adopted a simplified retrospective approach from January 2019 onwards, and thus, we will not restate the P&L of prior quarters of 2018.

Adjusted EBITDA was impacted by BRL60 million, BRL45 million at Carrefour Retail and BRL15 million at Atacadao. And net income group share saw an unfavorable impact of BRL7 million. In the balance sheet, we had a right of used asset of BRL887 million and an increase in rent payments of the same order. After applying IFRS 16, our net debt, including discounted receivables, stands at BRL2.5 billion, which is equivalent to 0.6 times

our last 12 months net debt over EBITDA ratio. If we include the rents, then we get the BRL3.4 million or 0.8 times our EBITDA.

On slide 10, we show you our adjusted EBITDA, which grew to BRL983 million pre-IFRS mainly driven by the good performance of Atacadao and Banco Carrefour. Adjusted EBITDA margin rose 50 basis points to 7.6% in the first quarter '19. Post-IFRS, adjusted EBITDA grew 23.8% in the quarter to BRL1.04 billion.

On slide 11, we turn to our P&L. This will be based on numbers pre-IFRS 16. Net sales were 8.6% higher in Q1 standing at BRL12.9 billion driven by good performance in all segments. Our gross profit rose -- 12.8% to BRL2.9 billion with gross margin improving by 83 basis points to 22.3%, reflecting the good performance of Atacadao and Banco Carrefour. We continued our cost reduction efforts across vendors principally at Carrefour Retail. Net of the Easter calendar effect, consolidated SG&A expenses stood at 14.3% of net sales, a reduction of 12 basis points versus last year, reflecting productivity gains, efficiency gains and tight control of expenses even with the faster pace of expansion.

Our adjusted EBITDA grew at a much higher pace than the growth of our sales. As a consequence of the significant decrease in gross margin, adjusted net income group share was up by 28.8% totaling BRL413 million in Q1 with a net margin of 3.2%.

With that, we will now look at our performance by business unit. So Roberto Mussnich will detail his business unit performance.

### **Jose Roberto Meister Mussnich** {BIO 18298845 <GO>}

Thank you very much, Sebastien, and good day. It's good to be here with always great news. For the first consecutive quarter, Atacadao recorded double-digit growth in its total sales proving its low-priced image, the strength of its commercial strategy and confirming the decision to significantly accelerate our expansion. Atacadao's gross sales grew 13.6% in the first quarter to BRL9.5 billion, even with the negative impact of the Easter calendar effect. Like-for-like, sales confirmed the previous quarter's strong trend, rising by 6.8% in Q1'19, close to the growth posted in the fourth quarter '18 but much higher than the year ago performance which was 0.5% in like-for-like. All categories grew, mainly commodities, due to better prices. The average ticket grew significantly in Q1.

The expansion contributed positively to our performance with a 7.4% evolution in the quarter, and this increase has been consistent in the quarterly comparison, as you can see the dark blue part of the chart. As we have already mentioned previously, our expansion strategy has been executed in a well-planned fashion with store openings well distributed throughout the year. And this will be maintained at the pace of last year. We opened four new stores in the first quarter following the goal of 20 openings in the year. These inaugurations were well balanced in different Brazilian regions because we're present in all states.

Gross profit in the quarter pre-IFRS 16 grew 23.4% to BRL1.4 billion increasing -- gross margin rose 126 basis points to 15.9%. Half of this growth is explained to the ICMS-ST tax

credits for the state other than Sao Paulo, with the other half coming from Atacadao's successful commercial strategy and obviously scale and productivity gains. Concerning efficiency, distribution costs pre-IFRS 16 were up 16.4% or 14.4% post-IFRS 16, reaching 8.7% or 8.6% post-IFRS 16 of net sales in Q1, mainly as a result of the sharp acceleration in expansion. Excluding expansion-related expenses, though, distribution costs post-IFRS 16 were up by only 1.8% to 7.4% of net sales in Q1, proving the strength in the maintenance of our model and the ability to maintain its profitability in a highly competitive market. The resiliency of this model is proven every quarter.

In the first quarter '19, adjusted EBITDA post-IFRS 16 was up 36% to BRL635 million, and adjusted EBITDA margin rose to 7.4% as a result of solid sales performance and gross margin expansion. Excluding IFRS 16, adjusted EBITDA was 32.7% higher at BRL620 million, with adjusted EBITDA margin of 7.2%, up 140 bps. The impact of IFRS 16 at Atacadao was limited to BRL15 million as Atacadao owns most of our stores, which is by the way a great competitive advantage that we have underscored every time.

I will hand the floor back to Noel who will speak about Carrefour Retail.

## **Noel Frederic Georges Prioux** {BIO 15135754 <GO>}

Thank you, Roberto. I will detail the performance of Carrefour Retail. Despite the negative Easter calendar effect of 3%, Carrefour Retail sales accelerated in the first quarter by 6.1%, the highest quarterly increase since the first quarter of 2017. This performance reflects successful commercial and food transition initiatives in hypermarkets, with improved like-for-like sales in proximity format and strong performance in e-commerce. The various actions taken in 2018 and beginning of 2019 regarding assortment and pricing policy, among other initiatives, are already generating results.

As shown on the bridge presented on the slide, Carrefour's EBITDA, excluding the Easter effect, was basically stable in the first quarter. At Carrefour, as Sebastien commented, the impact of IFRS 16 was BRL45 million as all express stores, most of the supermarkets and some of our Carrefour hypermarkets are rented. It is important to comment that sales at Carrefour are gaining strength, but we are also keeping an eye on costs. Post-IFRS 16, distribution costs decreased by 23 basis points to 19.8% of net sales, down 1.7%.

On slide 15, I will briefly comment on some progress in our food transition strategy. With regard to healthy food, we have made it available in about half of our hypermarkets, and by year-end, we will have a healthy food offer in all of our stores. The performance of this category in stores where it was already implemented was spectacular. The share of Carrefour's own brand's private label continues to evolve, and the target is to reach 20% by 2022. We also have a target to increase organic product sales by 85% in 2019. And finally, we will continue to grow our partnerships with local producers, local farmers to bring even fresher food to our consumers.

I will now hand over to Paula Cardoso, CEO of Carrefour eBusiness, who will comment on advances in our digital strategy.

## Paula Magalhaes Cardoso Florez Chaves {BIO 20368749 <GO>}

Thank you, Noel. Good day, everyone. We have an opportunity to grow our e-commerce in Brazil exponentially. Noel spoke of the importance of connections, and Sebastien of our financial strength. The Carrefour Group is ready today with its strong presence in Brazil, a recognized brand in food and nonfood retail and our own bank, which Mauad will comment on next. This is a great competitive differential. Carrefour eBusiness Brazil wants to accelerate and connect the physical world with the digital one, creating a unique proposal for our customers.

On slide 16, we show some of our results. Number one, content and services. Digital relevance and traffic continue to be the cornerstone of e-commerce. We went from 46th to 9th place in traffic in two years only, with 70% growth in traffic year-over-year on our website. The Carrefour brand in the first quarter saw an increase of 12% in Google search as well Atacadao increased 20%. We have already answered more than 78,000 calls of via our WhatsApp through our recently launched virtual assistant, Carina.

Two, online sales. Relevant traffic translates into sales. Our e-commerce GMV grew by 84%, significantly outperforming the market performance which grew around 13% according EBIT. The next slide shows more details. We want to further develop our last-mile competency that is an integral part of the client's journey. This is evidenced by the fact that express food delivery already accounts for 34% of our orders, and the recently launched cash & carry drive accounts for 6%. Nonfood cash & carry already accounts for 9% of e-commerce sales and 27% of products like mobile. For Carrefour, it is very clear that we will need a decent reliance to a logistics organization. We already have the hypermarkets, we already have the assets.

Three, payment methods. As a means to stimulate customer spending within our ecosystem, at the end of 2018, we announced the Usou, Zerou initiative, i.e., customers using the Carrefour card in any format don't pay fees. Consequently, the use of the Carrefour card increased by 15%, a historical record. The Carrefour card share increased to 26%. On the other hand, the possibility to use the Carrefour card at Atacadao increased 13.2 percentage points in off spending. Furthermore, as announced during the Investor Day, we also have various digital payment initiatives: NFC, QR Code, self checkout and the partnership like the one used in the (inaudible) site store.

Four, still on our client's journey. We want to understand them more and more. Our Mail Carrefour program keeps on growing and helping us tackle this challenge. The more we relate to customers, the more we can refine our knowledge about them. And that's very important. We saw 10% increase in the most loyal customers, which have a lifetime value 14 times higher than occasional customers. Our partnership with start-up props and promotions with increasingly more effective algorithms and personalized offerings helped us activate 4.5% customers with additional average ticket of 3.9.

On slide 17, we see our e-commerce highlights. Once again, e-commerce was the fastest-growing segment among Carrefour Retail formats, reinforcing our omnichannel ecosystem strategy. E-commerce sales accounted for 11% of our retail sales, almost double the same period of the previous year. Orders were up by 50%, and the number of

visits was up by almost 70%, reaching 40 million this quarter with a 15% higher average ticket. Our marketplace continues to grow rapidly. It now accounts on more than 2,000 sellers and has more than tripled the number of SKUs in the first quarter, now reaching nearly 2 million. As a result, the marketplace accounted for nearly 23% of our GMV in Q1 compared with only 10% in the same quarter last year.

And I would like to share with you that we were awarded the E-BIT award of a blue diamond award. This is the most important award in Brazilian e-commerce. It takes into account both technical criteria and popular voting. Thank you very much for your trust on our website. Please continue your purchases.

I now hand over to Carlos Mauad for a closer look at Banco Carrefour's performance.

## Carlos Mauad

Thank you, Paula. Hello, everyone. Banco Carrefour recorded once again solid growth in billings and its loan portfolio in Q1. Total Billings grew 23.4%, reaching BRL7.1 billion. Carrefour credit card billings grew 15.2% in the quarter, reaching BRL5.2 billion, thanks to the commercial dynamism of our hypermarkets and the positive impact of a decision taken at the end of last year by Banco Carrefour to exempt from the monthly fee all customers who purchase at Carrefour at least once a month.

Atacadao's credit card billings, still in a maturation phase, reached a BRL1.8 billion, an increase of 55.2% in Q1. Banco Carrefour's total loan portfolio grew 33.2% to BRL8.8 billion in Q1 with a total of 8.2 million cards issued. In Q1, we issued around 500,000 new cards, a new record in sales. And digital acquisition continues to gain share in double sales. The quality of our credit portfolio remains good even with a strong portfolio growth, particularly coming from Atacadao cards. On a comparable basis, the BACEN methodology, loans overdue more than 90 days totaled 9.5% of total portfolio, and loans overdue more than 30 days accounted for 13.1% of the portfolio. Both indicators remained stable year-over-year even with the deterioration of macroeconomic forecast for 2019. On a comparable basis, credit provision totaled BRL933 million, and the coverage index reached 11.7% of the total portfolio in Q1.

In Q1, adjusted EBITDA was BRL245 million, an increase of 12.1% over the previous year, despite the waiver of annuity revenue from the Usou, Zerou campaign. This initiative will bring results and sales of new cards, increased days of activated cards, an increased billings in the next two years, reinforcing the integration between businesses and strengthening the group's ecosystem. Atacadao card, which reached breakeven in the third quarter of 2018, a year ahead of plan, continues to grow strongly and has increased its penetration in Atacadao's total sales. It already represents around 12% of sales and consequently increased its contribution to EBITDA growth of the bank.

The bank continues to advance with speed and consistency in its digital transformation, delivering new solutions to our customers and improving operating and credit efficiency for the card business, is gaining more traction, momentum and flexibility.

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

## **Noel Frederic Georges Prioux** {BIO 15135754 <GO>}

Thank you. To conclude, we talked a lot about the multiplying effect of our quarterly performance, but we want to continue to grow. We want to continue to attract more customers and offer more services. We have to multiply these connections more and more to bring 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. Thank you.

## **Questions And Answers**

### **Operator**

Ladies and gentlemen we will now begin question-and-answer session. (Operator Instructions) First question from Mr. Thiago Macruz with Itau BBA. Mr. Macruz, go ahead.

### **Q - Thiago Macruz** {BIO 16404924 <GO>}

My first question has to do with Atacadao. Roberto, we saw a combination of same-store sales, which was a little weaker than in the competitors but with a strong margin in the quarter which was a positive surprise. Could you comment on the competitive landscape in the first quarter? Perhaps Atacadao could offer more aggressive pricing in order to grow more, and -- I think that this is my first question. My second question goes to Paula. Paula, we have seen much better KPIs in your operations, but very much focused on URL, and we haven't seen the same movement in your web. So I have two questions. Is it reasonable that the lifetime value is higher than the URL? And if so, what is your strategy for the after-gain momentum for you to have more recurring purchases? Thank you.

### **A - Noel Frederic Georges Prioux** {BIO 15135754 <GO>}

Good morning, Thiago. Thank you for the question. It's a pleasure to have you on this call. The first quarter had some different characteristics, but I believe that if you compare like-for-like of Atacadao with the like-for-like of some of the competitors, they are not comparable because we're living a different moment. And given the mix of stores and the result of our expansion strategy overall. The quarter was very good. We started January very well. We saw a slightly higher inflation. Some items that we sell accelerated their prices, IPCA-based. So that gives us an opportunity to work a little stronger regarding our inventory.

Now of course, when you look at the margin, everything has a consequence, negotiation, scale, sales mix, within our target, which is maintaining our business model with every day low price. And I would say that part of the margin that you see has a contribution of ICMS-ST and a contribution of 0.5 that comes from ICMS-ST in states other than Sao Paulo. So this is an extraordinary consequence, but I believe that we are on the right track.



And if we analyze area by area, store by store, we can see that it's all doing really well. Regarding (inaudible) we are going to talk about that in the next quarter. There are new good things coming up, but I prefer to save the good news for the next quarter so I can make you happier in the next quarter.

**A - Paula Magalhaes Cardoso Florez Chaves {BIO 20368749 <GO>}**

Well, Thiago. First thing, if we analyze the whole traffic, 75% comes via app -- via mobile, actually, and the rest is the web. Our strategy was to launch the web focused more primarily in food, 25% of everything of what we sell. And the app, more and more will become the hub to have a relationship with the clients. And this will grow a lot.

Undoubtedly, in terms of strategy for Carrefour, the center of relationship, the discounts and sales program will be web -- will be the app, the app.

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

Okay, thank you.

**Operator**

Next question from Joseph Giordano with JPMorgan.

**A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}**

Mr. Giordano good morning.

**Q - Joseph Giordano {BIO 17751061 <GO>}**

Thank you for taking the questions. I think that the first one goes to Roberto. I would like to understand what do you see in terms of food inflation trends, particularly for commodities and meat because, we can have rupture in the chain because of the China effect. And a question to Noel, looking at retail. I would like to understand the sales trend in Easter. Did they fall below the expectations? A competitor reported yesterday that the number was not what they expected. So I'd like to know how was Easter for you. And looking forward, how should we see margin trend for the company, particularly with the advent of marketplace with the tail effect, requiring more price investments to position hyper against cash and carry?

**A - Jose Roberto Meister Mussnich {BIO 18298845 <GO>}**

Thank you, Joseph, for your question. Indeed, your analysis was good. We saw slightly stronger IPCA trend in food inflation in Brazil. I particularly believe that this will stabilize. However, this year, as you mentioned yourself there are some external factors which are not under our control that are impacting not only expectations. We know that expectation generates a normal price increase, but with the China effect and with the swine fever, poultry fever, that can generate a higher price expectation. And the trend is that the industry will pass through this price increase even before. We normally do not pass through price increases. We negotiate with our business model every day, and we undoubtedly are the last one to increase prices and the first to lower prices when that is the case.

However, just as this translates into some threat in our business model, considering the model that we work with this is also a great opportunity. This brings us a good opportunity to pay attention to market expectations and to the way we work. When we have our private conversations, I normally stress that when we say that we at Atacadao have a 30-year experience, 30 years of the same experience, it's 30 years of different experiences. The market changes every day. And if we don't adapt our business every day, we'll be out of the game. Noel, over to you.

### **A - Noel Frederic Georges Prioux** {BIO 15135754 <GO>}

Regarding trends, I'm not going to speak so much about Easter because that's the second quarter, but we have good news. Easter was good. But we'll see the results of that in the second quarter. For the investments, we have invested a lot last year with the same margin level which is very important. Because investing in prices, not just lowering prices it is work on assortment, on our private label, on adding new categories so as to have a mix that will also help us to lower prices. We will continue doing that this year because in this business, we know the customers like low prices. They like promotions, and we need to be always very competitive. But there are interesting trends in retail.

Again, three more points quarter-on-quarter. And you will see you next quarter will be positive as well. So all of that makes us confident regarding our policy, our multi-format, multi-channel approach. And regarding our approach of more services, more clients, more results, we'll maintain our prices to attract more customers. We have a partnership with Rappi, and that is teaching us a lot regarding what we should sell neighborhood by neighborhood. This is what we call our ecosystem. It is a single ecosystem but which is multi-format. We will learn from different formats to see how we can make more connections and how we can learn more about our customers. Little by little, we become smarter, we become more intelligent.

### **Q - Joseph Giordano** {BIO 17751061 <GO>}

Perfect, thank you.

### **Operator**

Next question from Robert Ford of Bank of America. Mr. Ford go ahead.

### **Q - Robert Ford** {BIO 1499021 <GO>}

I'm Robert Ford from Merrill Lynch. Paula, given the increase in the marketplace, is it fair to say that the higher expenses are behind us or do you still need to invest a lot to increase scale?

### **A - Paula Magalhaes Cardoso Florez Chaves** {BIO 20368749 <GO>}

Hi, Bob. We need to invest and we'll invest whatever is necessary to grow e-commerce. I'd like to remind you that food has just started its gain beneath the gain scale. But undoubtedly, if we compare with a nonfood operation, it gains more scale and increases profitability and generates cash. So the trend will continue. We'll continue to invest to

grow the food e-commerce, whatever is necessary, so that we can become leaders in the sector in little time.

**Q - Robert Ford** {BIO 1499021 <GO>}

But what about Carrefour Retail, will the investments remain the same?

**A - Paula Magalhaes Cardoso Florez Chaves** {BIO 20368749 <GO>}

I'm sorry, but I couldn't understand your question?

**Q - Robert Ford** {BIO 1499021 <GO>}

My question is if the pressure will be the same in the Carrefour Retail, if it will remain the same or whether it will be reduced.

**A - Sebastien Durchon** {BIO 20242758 <GO>}

This is Sebastien speaking. Let me explain more details. E-commerce is part of the retail segment. In that segment, the gross margin, what is happening since the launch of e-commerce is a downward pressure on total margin. E-commerce operates with a lower margin. The trend that started last year, and you are correct, it has a lot to do with the development of marketplace, is that the gross margin of e-commerce increased a lot. So there is some pressure -- downward pressure. There is greater dilution of e-commerce. But this dilution is not totally offset or neutralized by the increase in the e-commerce margin. So yes, we're reaping the fruits of the marketplace launch. Marketplace today, as we mentioned, has reached the breakeven and is helping us gain scale in e-commerce as a whole.

**Q - Robert Ford** {BIO 1499021 <GO>}

Thank you Sebastien. Paula, you also mentioned the use of third parties for click-and-collect. How are you developing this network? How do you compare the third-party click-and-collect, and click-and-collect at your own stores?

**A - Paula Magalhaes Cardoso Florez Chaves** {BIO 20368749 <GO>}

We don't do the click-and-collect sellers yet, Bob. Not yet.

**Q - Robert Ford** {BIO 1499021 <GO>}

Okay, thank you.

**Operator**

(Operator Instructions) The next question from Pedro Fagundes, Bradesco BBI. Go ahead, sir.

**Q - Pedro Fagundes** {BIO 20029197 <GO>}

I have two questions. The first is a comment on the centralized logistics. What about the plan for five stores? Would you have a direct store more focused on food? Or are you thinking of doing a cross-docking for e-commerce overall? And on the same theme, this recent investment in Rappi, is it accelerating your plan regarding the ramp up of that initiative specifically? And I have a second quick question, just to confirm, this 1.9 million SKUs that you informed in the release, is it ex-food? These are my questions. Thank you.

**A - Jose Roberto Meister Mussnich** {BIO 18298845 <GO>}

There are three questions, okay. One, regarding the centralized logistics, we have five stores, which are direct stores. They are coupled with the supermarkets, the space of about 1,500 square meters. And from there we deliver. Our direct stores with the growth we had last year, which increased more than 5 times, it was at its limit. So the five stores will help us grow. We have the plan of having about 15 this year, and we have some already operational. This will give us the ability to grow with a much lower logistics cost. Rappi does accelerate and has helped accelerate. One of the picking firms will be at the side stores. We have -- we're working with them in 13 stores and growing very quickly. So Rappi has accelerated a lot of the food business. Going back to the side stores, the side store for now is going to be fully focused on food and not in nonfood. And regarding the 1.9 million SKUs, it does include food, but food account for very little. The primary part is nonfood.

**Q - Pedro Fagundes** {BIO 20029197 <GO>}

Excellent. Thank you, Paula.

**Operator**

Next question from Mr. Irma, Goldman Sachs.

**Q - Irma Sgarz** {BIO 15190838 <GO>}

I would like to ask two questions. One, regarding the project label strategy. Could you give us more color on the performance of your private label products? Which format is providing the best results? And to what extent this is impacting your conversations with your suppliers and the big Brazilian brands? Because I imagine that this might make your negotiations with the big suppliers a little more difficult. My second question has to do with the partnership with Rappi. Do you see a limit to penetration? Do you think that eventually -- because you're going to have to adapt supply to the stores to cope with the additional flow that comes through Rappi, if any? Thank you.

**A - Jose Roberto Meister Mussnich** {BIO 18298845 <GO>}

Regarding our private label. Indeed, our private label projects are growing. We've got two extra percentage points, and we'll continue to grow because new -- we're going to have new private label products. Last year was the beginning of the process, where supposedly we're going to have more products and in higher volumes. We have to have more products, but we need time to develop this. We're at a good level, and we've don't have problems with our suppliers. You have to know that Brazil is one of the countries with fewer SKUs. We're talking about 14,500 SKUs. In Europe, 25,000. In France, 35,000. So

expansion is important for all, and we need visibility of products. And we want to maintain this.

Every Brazilian product or private label product should have a good presentation, a good display so that customers can be able to choose. We want to increase the number of SKUs and not reduce the number of SKUs. So this is not going to be a problem for our Brazilian suppliers. And that's why we talk about new categories. We talk about more natural approaches or more natural products. So all of these are new SKUs. We're not going to reduce the number of SKUs. On the contrary, we will increase. We will complement the assortment and we will give an opportunity to all suppliers that want to join us on this new path, because they're going to have a huge potential -- growth potential. And some news, in the beginning of the week we saw large producers running after Carrefour food that are already offering spectacular products, natural, fresh products, organic products.

And a year ago, there were very few suppliers on board. But this has increased, and to us, this is very good for the future. Carrefour is a leader in food transition. It's great to see some mainstream suppliers accompanying Carrefour. This is excellent news for the future.

### **A - Paula Magalhaes Cardoso Florez Chaves {BIO 20368749 <GO>}**

Irma, this is Paula. The partnership with Rappi is doing really well. The penetration at some stores is really strong. But we don't see a limit to that. On the contrary, what we see is stores adapting to customer demand. We are learning a lot. We are changing the assortment. We are changing the display of products in the stores. We have just launched iced beverages. So the partnership with Rappi is helping us learn a lot. It's giving us the strength to adapt and agility, making some stores grow very quickly. So we do envision adaptation. And yes, we will adapt everything that we can so that we can serve better with more assortment, with more agility, given clients' demands.

### **Q - Irma Sgarz {BIO 15190838 <GO>}**

Thank you.

### **Operator**

Next question from Tobias Stingelin with Citibank.

### **Q - Tobias Stingelin {BIO 18290133 <GO>}**

My question has to do with the financial operation. That's a question to Mauad. There's been a deceleration since the fourth quarter. The first quarter, this was lower than expected, and there was the effect of the exemption of monthly fees to increase recurring shopping, which makes a lot of sense. How should we see the evolution? Will we continue to see more modest growth until year-end, and then it would normalize next year? How should we see these trends at the bank?

### **A - Carlos Mauad**

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Well, actually, yes, we do have a wave of revenue calculated at BRL35 million, BRL40 million. If we didn't have this initiative, of course, we wouldn't get this money flowing in because to make this investment, we try to rationalize other lines of expenses of the bank to generate a short-term balance. But this decision was made in the end of the fourth quarter '18, and this was a decision that was the right one. We ran a pilot project at some stores in Rio Grande do Norte states, and we followed 3 KPIs: sale of new accounts, activated accounts and billings. And all three pillars are reaping fruits above the business plan. That guided our decision. So yes, there is a displacement of revenue over time, but we're confident. Our forecast was that we would have 100% payoff of this initiative by the end of 2020.

And we should have this much earlier given the numbers that we are seeing in the first quarter '19. We had a record of sales of new cards. Activated accounts were never as good as. But we believe the Carrefour portfolio, which is more influenced by this decision, because the Usou, Zerou strategy has no amplitude at Atacadao. It's just a Carrefour card. And we grew -- we sold 36% more cards in this quarter compared to the same quarter of '18. Spending grew again in a very strong way with a lot of momentum. So we're good about this topic. And regarding the business plan, the payoff would be by year-end of 2020. But as time goes by, we will see the top line recovering and this effect being lower and lower as time goes by.

**Q - Tobias Stingelin** {BIO 18290133 <GO>}

Perfect, thank you.

**A - Sebastien Durchon** {BIO 20242758 <GO>}

This is Sebastien. Just to add, there is a point which is very important that we should underscore about this decision. Undoubtedly, this was the correct decision that is going to bring us results in the future. In the second quarter -- on the first quarter, actually, we had a growth of new accounts. Initially, we don't see the results of that. But the dynamic of the credit card is this. You have first to gain the customers, then they start using the card. The portfolio grows, and then they'll get a loan, and that will generate an effect for the bank.

So I just want to highlight that in recent weeks at the bank and what we call 'On Us', we have seen growth of sales from Carrefour and Atacadao. And we have seen strong growth for years. We haven't seen a double-digit growth in 'On Us' for Carrefour card. So to us, this was the right decision. It is giving the results -- expected results, seeing trends of increased sales. Actually, beyond what we expected. And this is the type of investments that we got right. So in a way, yes, it decreases the short-term result, but the return will be very strong over time. And to be -- if I may add, I would say that very few retail banks compared to ours have a balance sheet to make this pro-client decision for midterm growth.

We are the largest retail-based bank, and we are very profitable. If we don't do this in favor of the client -- you see the annuity is the main complaint that we get from customers. If we don't do this to favor our customers, no one will do it. It is our role to drive the market.

## Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you very much. Thank you for the explanations.

## Operator

(Operator Instructions)

## A - Noel Frederic Georges Prioux {BIO 15135754 <GO>}

Well, I would like to say that it's been a pleasure to have you onboard this call. This was a good quarter, and I hope to see you -- I hope you to join us in the second quarter '19 conference call. Thank you very much.

## Operator

Very well. This concludes today's question-and-answer session in the Carrefour Brasil conference call for today. Thank you very much for your participation, and have a good day.

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