

Q2 2018 Earnings Call

Company Participants

- Alberto Calvo, Executive Director
- Belmiro de Figueiredo Gomes, Real Estate Business Director & Member of the Executive Board
- Christophe Jose Hidalgo, CFO, Corporate Services Officer & Member of the Executive Board
- Daniela Sabbag Papa, IR Officer & Member of the Executive Board
- Marcelo Bazzali, Head of BU Pa  o de A    car Brazil & Food E
- Peter Paul Louren  o Estermann, CEO & Member of the Executive Board
- Unidentified Speaker, Unknown

Other Participants

- Franco T Abelardo, Equity Analyst
- Guilherme Assis, Analyst
- Gustavo Piras Oliveira, Executive Director, Head of LatAm Research. And Latin America Consumer Analyst
- Joseph Giordano, Senior LatAm Healthcare Analyst
- Maria Paula Cantusio, Banco de Investimento S.A., Research Division
- Robert Erick Ford Aguilar, MD in Equity Research
- Thiago Capucci Macruz, Research Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning. And thank you for waiting. Welcome to today's conference call to present the results for the Second Quarter of 2018.

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 me. There will be a replay facility for this call on the website after the completion of this call. Be inform that the company's press release is also available in its IR website. This event is being recorded (Operator Instructions)

Before proceeding, let me mentioned that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996.

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Also, forward-looking statements are based on their 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'd like to turn the floor over to Ms. Daniela Sabbag, Investor Relations Director of the company.

Daniela Sabbag Papa

Good morning. Welcome to the teleconference for the Second Quarter. I will start by introducing the executives that are here with us today and who will take part in this conference: Peter Estermann, CEO of GPA; Christophe Hidalgo, CFO; and from Assa's side, Belmiro Gomes; and Jos  Marcello, CFO; and from Multivarejo, Alberto; and Marcelo from P o de A  car. And also, we have here with us Ronaldo labrudi representing the board of GPA.

I would like to pass the floor to Peter to get started with our teleconference.

Peter Paul Louren o Estermann {BIO 15380447 <GO>}

Good morning, everyone. Thank you for being here with us for this call for the Second Quarter of GPA. For this call, I'll get into detail of the Multivarejo operations, considering that for the first few months there is an important (parts) consistency and brings pace to the improvement of financial results of all the brands. I'll be brief so that Christophe can detail the good results to be published and also that every business unit owner can emphasize the main initiative that we carried out during the period.

First of all, I must say that our whole team is quite satisfied with the results that we will detail and that we are fully aware that the challenges are still present and that we have important deliveries for the Third Quarter and for the -- until the end of this year.

We have recorded on the Second Quarter a growth of 9.9% of gross margins for our Food business, with improvement in profitability and improvement in market share for all brands. It's important to emphasize that all these things were brought even through the deflation that's still persistent and with the effect that we have because of all the effects of the truck strike. Our multichannel, multiregion format together with the high engagement and commitment of the team allowed us to minimize the impacts of these 2 factors. And the way we see, that was a determining factor to reach good result as we are showing you for this quarter.

Multivarejo. We increased the sales with not much impact and damage to another commercial dynamics. And we're still focused on managing our cost, which has contributed to the positive results of this company.

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I should highlight our performance in some points. Let's start with the exceptional performance of Pão de Açúcar with an improvement of 7.9%, where we are back to growing in terms of volume. And we are still improving the flow of customers in all stores. That will be detailed later on. And for -- we also have an extreme satisfying improvement for the hypermarket growth sales increasing 4%. And for Extra Super, we have a performance of 1.9% improved compared to the previous quarter. And I should highlight that in this format the Supermarket Extra still has a trend of improvement one month after the other, with a positive improvement already seen in June. And that will also be detailed later on.

For our Proximity format, we also have a very positive recovery, closing the quarter with more than 3.5% increase and also an evolution of 13.1% compared to the First Quarter. For Assaí, we still have consistent growth with a significant market share increase and solid results. We reached a 72.8% in this quarter. And Belmiro will be able to explain that later on.

Before passing the floor to Christophe, who will get into the detail of the results, I should emphasize that all our strategic projects are being implemented in a very successful manner and diligently. And we are already reaping benefits from these initiatives that have already been implemented.

I should highlight as a first initiative the deflation of a part of our stores of the supermarket format were projects that we had announced at the end of the First Quarter of CompreBrem. And for this first wave, there will be 13 stores implemented, with all the refurbishing starting in August with forecast of ending by the end of the year.

And on the other front, the 4 stores for the Extra market that have been in operational for 6 weeks now, we already see a very encouraging result. And we will have another 6 stores that will start its operation in August to reach 10 stores that will be the pilot for the new format.

For Extra Hiper, we have a strong work to consolidate the value proposition of the format to the new commercial dynamic of a cost structure that can adhere to the format.

For Pão de Açúcar, the Premium Project started at our lab store at Real Parque in São Paulo, with very encouraging results as well. We (look forward) to the rollout for the 32 stores that are within this project by the end of First Quarter of next year. And all these initiatives will be rolled out for the other stores of Pão de Açúcar by the end of the First Quarter of 2019.

We have our strategic projects for own labels. And we're still (having) as well in sales participation and also with the portfolio in all our brands and formats. We understand the importance of exclusive branch to improve our competitiveness in all the formats. And for that reason, we are focusing strongly on the project.

And I should highlight that the performance of our e-commerce that has a growth of 2 digits with an improvement that is continuous. And we also see a great improvement

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when it comes to the visual transformation where we already have more than 15 million loyal customers, more than 5 million downloads of our app, My Discount. And the purchases go beyond 25% and in the Hypermarket over 50%.

For Via Varejo, you could see the results that Flávio gave you yesterday. We have a growth in both channels for the transformation projects in the digital that are well consolidated but it's just an omnichannel and the results that come beyond our expectations. And also for Via Varejo, I should not go without mentioning that the board of the organization has approved the start of migration to the new market of the 3, with the full share to be issued in the segments and the decision enforces -- reinforces the commitment of the top management to increase value, increase governance level in a significant manner, increasing transparency and mainly giving more transparency to the investors of the company.

I should pass the floor now to Christophe who will get into the details.

Christophe Jose Hidalgo {BIO 17982648 <GO>}

Thank you, Peter. Thank you, everyone. Thank you for taking part of our call of results. So the main results of GPA for the Second Quarter, GPA Food, we can see that we have BRL 12.8 billion. We have an increase of 10% or 5.1% from the same-store sales growth compared to this with a quarter that have a deflation. This performance was driven by the vigorous growth of Assaí with a strong basis of foundation with the previous year where Assaí had a growth of volume that was quite relevant. And also, there was an increased reversion of performance of Multivarejo, which is the strong recovery of sales that started in March. So it's been four months in sequence. So we see a trend of greater dynamism with more assertiveness that reflect in a positive way in the growth of the nonfood and also on perishables ones.

And also, still about (Multi), important to talk about the recovery of the flow of customers that we see in this quarter that makes us very excited to confirm a new trend of sales. I should also highlight the fact that we've already seen a slight inflation in July of around 2%. And this is a trend. And we see that this is aligned with our scenario until the end of the year.

For main nonrecurring impact of tax credits, first for Multivarejo, we had BRL 50 million in terms of the gain of sales of parts of the tax credits related to the exclusion of the (inaudible) VAT of fee -- income fees. And that second impacted Assaí. We have actually the possibility of having the restitution and the reverse of that, which came in 2017. And that came as a credit related to the decision from the supreme court. And the ones that are not recurrent contribute more and more. So to be able to have the right reading of the numbers here, all the numbers we'll see are the ones that exclude this tax credit nonrecurrent impact.

And on Slide 2, we can still see the sales margin, excluding tax credits, that reached (2.7%). That is because of the participation of sales of Assaí and the gross margin of Multivarejo also, excluding tax credits, kept stable. And we're talking about 28.1%. It's a

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level that is quite representative when we talk about the trends for this year. And that really shows the competitiveness when we operate in the market.

Well we can see SG&A had an important impact in terms of the rate of sales like Multivarejo, for instance. And also because of significant gains of efficiency at the store level. The adjusted EBITDA, excluding tax credits of GPA Food, reached BRL 679 million. That means it's a growth of 25.5%. And the margin EBITDA shows 70 bps. And it reached 5.8%. And the evolution of margin at AssaÃ quite an increase.

And here, we can see the other operating results. We can see here we have much of the results because -- of BRL 45 million because of Multivarejo and the balance of the other operations. The expenses had to do with the drop of property and equipment and also the stores to be converted in AssaÃ.

Still on Slide 2, the net income of the controlling shareholders of continuing operations was BRL 462 million, superior to 2.4x the net income of the previous quarter. Excluding tax credits, the same net income reached BRL 185 million, reverting the loss of the same period of the previous year. This result allows us to follow with paying the dividend that got back to this process this year.

Now going to Slide 3. We can see the financial results that had a reduction of (1.8%), which resulted in 1.3% of net sales. That means 50 bps of improvement compared to last year. This reduction is mainly due to the drop of the CDI rates that is -- went from 9% (sic) (10.9%) to 6.4% in the period. I should also highlight that the continuous improvement of the leverage of the company where we kept in the quarter the low level of 1 EBITDA compared to 1.16 for the same period of the previous year.

The net debt is BRL 2.7 billion. And we're talking about BRL 3.1 billion available. And I should highlight that the company has BRL 1.3 billion in preapproved company credit facilities that could be used at any point. And in terms of investment for the quarter, we have reached BRL 340 million. That means 50% more than the previous year and with a great extension of AssaÃ on one side and also with the transformation conducted in Multivarejo, specifically in PÃo de AÃÃcar.

I should now just briefly talk about our contingency before going down to the next slide. Following the trend over of last period, the quarter have a significant reduction of BRL 340 million in the total balance of contingency that are possible and probable. So we're talking about the favorable decisions concerning tax contingencies and fewer labor claims. We do not see at this point of the year any significant change in the short term of the contingency.

Before passing the floor to the Multivarejo team, I'd like to just quickly talk about the performance of Multi on Slide 4. We can see a very interesting dynamic result of the reversion of the trend of the four months. That really shows us and confirms to us a new level of increase. With SG&A, we can see that as a very positive factor. We do see 80 bps. And that means because of greater productivity and also due to the good sales

comeback as we can see with the impact of the stores that we closed down to be converted with AssaÃ.

With that, we reached in Multivarejo an EBITDA that is adjusted of 5.6%. And I should say that it was actually with -- excluding tax credits. So we're talking about an evolution of 90 bps compared to the previous year. And to close our comments that should highlight is that the quarter performance once again has reached our expectations. And that way, we are quite confident to deliver our guidance for 2018, a growth for same-store sales with AssaÃ and over food inflation for Multivarejo.

And for the EBITDA margin, we are keeping the expectation of having an increment for each business reaching 5.6%, 5.3% Multivarejo and 5.9% at AssaÃ.

We also have kept our guidance of financial results at the level that is close to 1% of the net revenue. I should complete now Slide 4. And I'll pass the floor to Alberto Calvo to talk about the performance of the Extra brand.

Alberto Calvo {BIO 19476736 <GO>}

Thank you, Christophe. Good morning, to everyone. It's with satisfaction that I present the results of Extra brand during the Second Quarter that show an important evolution and trend reversion in all formats. Extra Hiper registered growth of gross sales same-store of 4.1%. And Super -- Extra Super increased 1.9%. The results of this quarter going through from minus 3.2% during the First Quarter to minus 1.3% during the current (movement), an important recovery.

Now all of May and June are positive in sales, as Peter already mentioned. These results were sustained by the consistent performance of nonfood category that continue evolving at 2 digits for the strengthening of promotional and commercial strategies with Tuesday and Wednesday Extra with adjustment. During this quarter, we have a strong calendar of commercial activations continuing with horizontal sales.

And I focus on category focus and events. We also used the seasonality in order to grow more sales like Day of the Work, Labor Day, also Mother's Day, that registered a growth of over 30%. And the World Cup. This allowed us to equalize the negative impact of Easter. Now all of these actions together with the activations of categories like beauty, baby, household, electronics and automobile products gave us a quarter with a lower (promo share), around 1.1% vis-Ã-vis last year, which strengthened the effectivity in the communication together with our customers. I have to highlight though for Extra stores that show us 2-digit growth in sales, ticket and volume, we continue with the retrofit project. And in August, we will have 10 retrofit stores. Our expectation based on the first results is very positive.

In addition to this, we registered an evolution of the performance of our exclusive brand, improving our share in sales also (refurb) -- with the replenishing with QualitÃ brand. Especially for Extra, this exclusive brand project is of utmost important in order to bet on value of our brand.

To end, I would like to highlight the success of our promotional campaign You Gather, You Win. With this, we have more loyal customers. We have already delivered 183 million stamps. And 900,000 (matches) were redeemed since the beginning of this promotion. This performance made us extend this promotion that would extend it up until the middle of the month of August.

I would like to highlight that we are confident with all of our actions for the format of Extra. We have built a solid foundation that is able to support a delivery that is more consistent or the -- and here, we see the results in the month of July.

I would like to thank all the Extra team for their effort and dedication when it came to focus on our objectives for materializing them. And I would like to give the floor to Marcello Bazzali.

Marcelo Bazzali

Calvo. Good morning. Thank you. Thank you for everyone for participating in our earnings results. I would like to share with you Pão de Açúcar store's e-commerce results. And we have gained more market share, maintaining our profitability. And we had a growth of 2 digits in same-store sales, with a growth of volume and ticket. And our level has been 7.9% during this quarter. The continuous improvement strengthened all the strategic efforts that has been carried out, focusing on increasing our replenishment here.

Now the consistent performance of our brand as a result has given us significant increase of market share, 0.5% in Brazil registered since January 2013. And we will maintain our strategy on this format. We continue with our retrofit program. In May, we opened 6 new stores and 8 stores that are undergoing the retrofit that will be delivered during the next quarter.

I would like to say that these renovated stores maintained their sales in the same level or above other stores and aligned with expectations of the project.

In June of this year, within synergy project, we visited San Francisco and Los Angeles and Colombia, Argentina, Uruguay, over 27 players maintaining focus on evolving our projects. Some of the concepts will already be included in the upcoming renovation. In addition to this, we implemented the Premium Project mentioned by Peter. We are focused on 32 stores mapped by the social economic profile. And we will focus on initiatives to improve - initiative assortment and operational actions to improve the level of service to our customer.

Regarding our commercial strategy, we're still focused in increasing our assortment of wellness products that are geared toward health and launching products within Pão de Açúcar brand.

In the quarter, we launched over 280 items. And we want to launch 750 items until the end of the year. In June, we completed our action You Gather and You Redeem with pans. We delivered 800,000 pans in over 800 -- in 85 million stamps. And also, we continue

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our loyalty programs, as Peter already had mentioned, with Meu Desconto. We have 6% in sales here and also launching My Awards in March, with over 500,000 customers impacted. We would like to highlight that (85%) of our sales of our customers', (inaudible) especially, they are premium customers, which increases their share of wallet within these premium customers.

I do have to mention the performance of our food e-commerce, 2 digit accumulated growth driven by the renewal of the site (front and end) and also for the evolution of our application, or app, that more and more -- our customers are migrating more and more. And they're using it in their smartphone. Now we'd like to strengthen the Delivery Express. These are stores that deliver up to 120 products in 4 hours. We have 58 stores and 10 stores with this format. And we want to deliver in the 3 states where the brand is present.

August is our anniversary, 59th year. Tomorrow we will initiate our anniversary celebrations with actions, promotions for our customers. And we will also launch a new campaign, You Gather and You Redeem, with Jamie Oliver that will be based on sustainability, health and geared toward healthy eating. We invite you to go to our store.

To end, I would like to say that these results reflect the engagement of all the team of Pão de Açúcar, 7,000 people, in Multivarejo working in unison. We are focused on our strategic framework that was presented a year ago. And the work consistently has made the difference in our results. And this encourages to continue working for the next quarter.

Thank you very much to everyone. And as Freddie Garcia is traveling, I will speak on behalf of him when it comes to profitability. I would like to highlight that the business was very positive this quarter, 5.3% of growth, with an increase of 13percentage points of growth vis-à-vis the First Quarter. This strength is the alignment strategy that Fred Garcia had with each one of our businesses, both Pão de Açúcar and the other format.

(We know) to use the promotion for redeeming pans. They adapted the calendar of action within the Extra brand, also resuming the sales within their (inaudible). Now this also within the seasonality June festivities and World Cup, the growth that we had in sales and volume in both formats. Now in both business, we promoted an improvement process and optimization of expenses. And we gained 72 bps and extra 275 in Minuto Pão de Açúcar in this quarter vis-à-vis the past quarter, showing a consistency in our results, in addition to adjustments and assortments effort that were seasonal. And we reactivated our promotion.

Now gas station showed a positive growth compared to the past period. This is a result of the increase of flow of customer and volume even with the strike. And we minimized the effects because we maintained our prices. Because although there was a strike, we maintained the prices in the pump. Drugstores also have a better result compared to the past quarter. SG&A had an improvement of 284.

Now the business closed the quarter with positive trend. And we will maintain the strength in the upcoming period, consolidating the business unit results that are more and more consistent.

On behalf of Fred Garcia and his team, I would like to thank the engagement of Proximity. And I give the floor to Belmiro for the AssaÃ comments.

Belmiro de Figueiredo Gomes {BIO 18107864 <GO>}

Thank you. Good morning, to everyone. Thank you for Christophe and my other colleagues for their comments during the Second Quarter. We had an increase of sales of over BRL 1 million. So we had BRL 5.7 billion. It's 23% -- or 58% during the past two years. During the first semester of 2018, we had BRL 11.2 billion in results. The sales volume that is the -- we have a first semester that has been much better than 2015. The significant increase in sales is a result of new stores that AssaÃ has been doing in the past year.

We opened 20 stores in the last 12 months. And we're very assertive in the commercial operational activity so in the group of new stores and the group of stores that already existed. And we had a number of reactions during the June festivities, Mother's Day and also campaign carried out by suppliers. The effectivity was done through adjusting to assortment and pricing and also focus on local public in each region where we are present and trying to improve and give a better proposal. It could be individual or enterprises. This is a result of same-store sales and the -- it hasn't affected also -- damaged the result of same-store this quarter. AssaÃ had grown 14%. But the total is almost 20% in the past year and highlighting converted stores that are around 2.5x.

During this quarter, we had an unfortunate event that was the strike of the truck drivers. 50% of stores of AssaÃ are based in SÃo Paulo and some others that depend on distribution center. Before the strike, we were mobilizing because (inaudible) was mobilizing itself already. So we had 21 days of operation before the beginning of the strike. And this affected us at the end of May and the first week of June.

And this was to level the stock levels. With this performance, AssaÃ being 2percentage points of share. And there is increase in food share of GPA of 45%, almost increasing 5% within full GPA sector. The same effectivity that we had in our commercial policy that resulted in an increase on sales where we also started seeing gains of margin. We were able to reduce the negative impact on new stores, especially the units that had been converted and more than the organic stores. And during this quarter, the period of deflation, we have seen deflation in the food sector. The Second Quarter has been marked by deflation, with a discrete reversal during the last 2 weeks of June that we would like to highlight.

(Ladies and gentlemen, we please ask you to hold on for a minute.)

(technical difficulty)

(Mr. Belmiro, you may proceed.)

I am remotely connected. Unfortunately, I could not be together with people of GPA. I believe that inflation will set off a bit the effects. So because of our actions, we had an increase reaching 16.4%, 0.5% above last year. We would like to remind you that this is

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compared to the ICMS ST. So we know where the LT gain comes from. As I said, we have had an increase on margin on our new stores, especially the converted stores.

So the stores on the 17 did not have -- did not roll back. We had an increase on margin. Our operating team worked strongly. And we have had record results and mainly in the adjustment of our adjusted pricing policy, be it with individuals or with enterprise. So there had been an increase that was (zero point) (inaudible) in expenses. We have the effect of deflation. The expenses are not being collected by the same sales indicator. And it drops when we see the flow of customers. But the strong discipline allowed us to attain a way to have an expense of 10.4% of net sales and (9.56%) growth sales. This is a one digit different, although we have the same amount of store. And our team wants to give a better purchase experience to our customer. And we have carried out a number of operational actions in sales -- in service trying to decrease the checkout line for the public because we want to give them a better purchase (experience). And we're preparing ourselves to a second semester where we will open more stores. And we're already training our team, training cashier and also replenishing of stores.

AssaÃ, well this has increased the EBITDA margin at 6.1%, all the improvement of the (EL&P), while the 0.5% plus (ALP) goes to the EBITDA margin totaling BRL 321 million. And while this is the EBITDA of the last two years, its financial expenses, even with the drop of the (inaudible), AssaÃ is expanding since last year or this year that I will talk subsequently. The situation -- finance of our cash generation. Our financial results is more or less BRL 5 million and a reduction of 74% vis-Ã-vis last year. This is because we have a better calendar of new stores. We will have more cash and especially the discipline that we've had and in the (inaudible) and low concession.

And there's probably within our quarter we will highlight net earnings. Net profit were converted into 52% of the EBITDA. And it's BRL 178 million, a 25% difference that had already increased 151% compared to 2016. And we reached a milestone in terms of a quarter that does not report (that we're) at the end of the year.

With other initiatives, the -- should highlight the evolution of PassaÃ card. Although it's a project that hasn't been around that long, already has reached 335,000 clients. In our view, it's a result of a value proposition that is consistent, (inaudible) by individuals and also by enterprises. And AssaÃ already had other cards. But this milestone of 335,000 clients shows actually the approval of our customers.

Other innovations that we have had in our business is also in terms of the store. We have a test with an automatized POS. And there is a surge of the cash and carry to promote a better experience and a more pleasant one to our customers.

And since this is one of the main drivers of AssaÃ, AssaÃ will -- has opened 3 stores. We already have 2 that's quite important, also a unit that we have been after this part for four years of (inaudible) in the (west area) of SÃo Paulo. And also in the mall of (Mawaw), we just had 1 opening. In the second semester, we have a very aggressive plan in terms of expansion. We have 4 teams undergoing what we're talking about conversions. And all those are under construction. So we're going to have more than 70,000 square meters in

terms of sales floor for AssaÃ, allowing AssaÃ to keep having its growth cycle as we have seen in the last few years, thanks to the efforts of our team to keep high growth rates and keeping them up and increasing the results level.

In terms of the Third Quarter, we should have an impact in terms of the Second Quarter that comes from the truckers' strike that had an impact. But as I had mentioned, we had a very strong basis compared to last year. AssaÃ is ready for the challenges ahead, be it in terms of conversion, in terms of market and in terms of new regions to be expanding to and bringing in new customers and adding more sales. That's AssaÃ and Grupo PÃ£o de AÃ§Ã°car.

I should close by thanking our team for their effort, dedication and for really being able to keep up with the high growth rate, expressive growth in terms of number of stores. We have reached now 130 stores, 65 in SÃ£o Paulo, 65 outside SÃ£o Paulo and with the expansion plan of reaching 145 or 148 new units -- or stores with a new unit. Thank you very much.

Questions And Answers

Operator

(Operator Instructions) Our first question (inaudible) Guilherme Assis from Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

I wanted to explore a bit about the performance of the Multivarejo performance that I believe that was very strong. And in terms of the gross margin, we were able to see that you were able to keep the margin compared to the previous year. There is just a slight drop. So I'd like to understand if there's any impact (inaudible) in terms of keeping the gross margin. And I'd like to understand also because there was quite growth of the PÃ£o de AÃ§Ã°car brand that I'm sure has a higher gross margin and a less growth for Extra Super market that might have also a lower margin. Could you explain how the dynamic worked in terms of margin for PÃ£o de AÃ§Ã°car without the impact and also with the hypermarket in terms of having increased the promotional effort? That's one question. And the second question is related to that as well, which is if you could explain how after all the conversions of the hypermarkets, if the EBITDA margin of the hypermarket segment reached a significant growth and if you are investing the promotional efforts to reactivate through the channel. These are the 2 questions I have.

A - Unidentified Speaker

Thank you for the questions. Yes. There is a channel effect on the margin. And that is definitely clear. As you saw, as I was explaining, the performance was extraordinary for the quarter. So obviously, with a greater margin, it contributed to more. But that was not only the main point. The whole promotional dynamic, as we mentioned in the First Quarter, we still have the strategy of having a more horizontal promotion and to prioritize a mix of sales with better margin. These 2 factors contributed to the improvement of the margin in Multivarejo. And in terms of the Hiper, you are right, Hiper has improved the result. And it has been improving also helped by the conversion. But on the other hand, there is a

positive impact from a commercial dynamic that is more geared towards mix with better margins. So I believe with the 2 questions, we can say there's an impact of conversion and for Pão de Açúcar contributing in a positive way to the margins. But also the commercial dynamics has helped out in the results.

Q - Guilherme Assis {BIO 16143141 <GO>}

That is clear. And if I could follow up on a question here. You mentioned just very briefly that there has been some visibility there in terms of improvement of performance of the Extra market. I know that is their reasons. But could you share that with us the indicator that you believe is relevant and that can show an improvement over expectation? And what are the initiatives that led to that type of potential improvement?

A - Unidentified Speaker

Actually, as you know, there are 4 floors that are in the new format. They have been in operation for 6 weeks only. And as it was mentioned, we saw increase, double-digit increase, not only in terms of sales but in terms of volumes and, the most important, in terms of average ticket. And basically, the result is very much driven by the strategy of the new format, which is to prioritize that which is growing much more and all the services available in terms of bakery and butchers. So these are, I would say, the 2 main drivers. And also, in terms of promotional dynamics, as we mentioned, that is more directed to the replenishing of products. And since they are located in regions where there's a lot of competition with the regional markets, that's why we have said that we are quite excited in terms of the results we've got. But I think it's still too early. There will be 6 other stores. We will have 10. So that will be (inaudible). And by the end of the year, we will be able to have a better view of that. But the results are very encouraging.

Operator

The next question is from Thiago Macruz, Itaó BBA.

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

I have 2 questions. From Assaí side, we saw BRL 4 million from other cash-and-carry competitors. But it was a bit smaller in terms of some companies being able to improve their profitability. Some were able to just focus more on the numbers. So I'd like you to tell me if you've noticed that with Assaí if that's relevant or not in terms of also the structural assets that you said to justify the strong margin? And for Multivarejo, we talk about the new consumer. So I want to understand from a supplier standpoint, is there anything different? I mean, are they participating in an active way? And if that's the case, what has changed? Those are the 2 questions.

A - Unidentified Speaker

Belmiro, who should answer first? Go ahead.

Thiago, yes. We have a more intense context now with our suppliers. Ronaldo (inaudible) and myself with the commercial team, we have been talking to many suppliers in the last few days. And we are talking to these suppliers not only sharing with them our new

strategy, our new commercial dynamics. But we talked a bit about the work we could have conjointly. Just to give you an example of the conversations. There has been many initiatives that have already been implemented and, specifically, initiatives that were aligned with the World Cup. And for the World Cup, we had a strong activation, many athletes and with many with a very positive impact in the quarter's results. So that's the change. And it changed for the better.

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

Thiago (inaudible). During the truckers' strike there was a very tough moment. Nobody was expecting anything like that in Brazil. But during the period for our logistics -- during the period, it was naturally to protect inventory because we were uncertain of the replenishing of our inventory from the supplier standpoint and specifically for the direct delivery. That did hinder us. And we held a bit of our sales over the phone that are then -- so there was an impact in the margin. And it did hinder some of the quarter's results. And for those critical weeks, we were able to reduce the greater impact. And during the period, some of the perishable product change were -- the fact that it was hard to have (inaudible) delivered, poultry -- and there was an increase of price during the period or even the difficulty to have the manufacturers deliver the product. So it was quite -- we were quite excited to come out to tell you for everyone. And we are fully back to normal, which is the delivery. And we haven't seen anything from our standpoint and from the market standpoint any attempt to try to improve in terms of pricing or markup or anything like that. We did not see that. And the Brazilian market hasn't reacted that way. And I believe the point was to just supply the fastest we could the whole process.

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

Thank you, Peter. If I could just follow up on what you mentioned. If that is true, is it reasonable to say that the price and the margin of what we see -- if we see the margins per brand, we would see a positive trend as well? That's my last question.

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

Yes. I think you are right in your comment. Thank you, everyone.

Operator

The next question comes from Joseph Giordano, JPMorgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

If we think a bit about the improvement of productivity for the Pão de Açúcar brand, specifically to understand to what extent the retrofit of the stores have been able to really work on the productivity of their floor and also to understand what you have changed in terms of the services we see at the store level to improve that much the results since not all the actions have already had an impact.

A - Unidentified Speaker

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Thank you, Joseph, for the question. In terms of Pão de Açúcar, as I mentioned, the strategic plan when we talked about going back to Pão de Açúcar being more inclusive and not exclusive, the whole strategy and the whole promotional dynamics, all the actions in terms of discounts, the prizes and the campaign was pots and pans. Like we say -- it was able to increase the loyalty, as we say, share of wallet. And not only in terms of the promotions only but for the whole shopping list. In terms of productivity, they're being focused at the service level. If you think about all the seventh-generation, (as far as we call), is we're bringing coconut water, orange juice sales. And that increased profitability and brings a greater proposal for the customer. And also, we have implemented last year and we're reaping benefits in terms of the multitasking of the operators where we can have them at the cashier at peak moments. So we also have that now for perishables. So even though you can have the whole (matter), we know there are peak hours. And we need to be ready for that. So we shall not forget with our app we have, the cash -- cashier express. That it's something that has really helped (inaudible) 33,000 services. We have already the (inaudible) 70,000 take a look at the whole brick-and-mortar world with the smartphone and the visual transformation. That has allowed us to have a better, what we call, STF results in terms of better results to the employees. We check the average ticket. And that's an indicator that we have increased 2 digits compared to the previous year.

Q - Joseph Giordano {BIO 17751061 <GO>}

And a follow-up on that. In terms of (inaudible) brand, I want to understand what is the percentage of customers that activate their discount before the checkout or even before getting to the store? Just trying to understand the potential of that, please.

A - Unidentified Speaker

Yes. So we have mapped that fully. And that's why I mentioned that today at least 1 item was 40% of our sales. We have the customer activating My Discount and My Prizes, which started in March. We've had more than 500,000 redemptions. And we have also one that works specifically with us. And we have here what we call our shopping mission and the profile of loyalty. So that's why we say that the premium available customer has inclusive participation when it comes to their full shopping list. This customer usually has 14x their average ticket. So that means it's a very loyal customer that isn't -- wants to increase their active performance. It shows that the composition of the loyalty and the profile of purchase increases.

Q - Joseph Giordano {BIO 17751061 <GO>}

And for this activation, when we see the frequency of these customers at the store, how have they behaved in terms of how many times they visit the store? Could you share that with us, please?

A - Unidentified Speaker

On average, the loyal customer comes 2.5x to 4x more than the regular potential customer. So this is a profile of one that comes to our stores more often, increases average ticket and price for shopping list.

Operator

Our next question from Robert Ford, Bank of America Merrill Lynch.

Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}

I have 3 questions here. I believe that there has been inflation in food, it's higher cost or -- and do you transfer this cost to the consumers? There was a comment -- could you make a comment on this? And Peter, the improvement in market share is impressive. How sustainable do you believe that this is? And -- well, how do you see sales and market share in July? Peter, you mentioned the private label effort for all brands, prices. Private label wasn't successful for wholesaler. Why did you have a bad experience with private label? And why do you believe now it's a good time to assess private label for Assa?

A - Unidentified Speaker

Thank you very much for your 3 questions. I will just start talking about private labels. There was a very important change in the concept and the management of private label brands in Multivarejo. We are focused not only on products that are more competitive, that have a price advantages but also must show quality. The quality of these products have to be at least the same as that of the reference brand. So we are totally remodeling the way we work, how we hire suppliers, not with the view of all the transaction and negotiations. We're talking about long-term contracts. And there is also the engagement of the entire team of the company. Because we want these products not only to be present in our stores, we want them to be visible in stores and all the part of commercial activation. So we do understand that private labels are very important for all the brands of Multivarejo. And we have observed in the past three months a growth of 1percentage point in the average share of Multivarejo. This was different growth in different brands. So I believe that this would be our first point. Now your question regarding our outlook for the upcoming quarter.

We see a pace of sales and results outlook. The result outlook is within our plan. So we do not see any different trend than that, that was planned. So we have a very positive outlook. And your first question, Bob, I didn't understand it. If you could please pose it again.

Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}

It was about food inflation and if this was sustainable. So what is the transportation share in food inflation?

A - Unidentified Speaker

There is no doubt that transportation has a very important participation in food inflation. But currently, we are not able to have a complete view of this because all the tables are still being analyzed. Perhaps, the greatest impact on food inflation currently has been animal protein products that during the strike and the paralyzation of the truck drivers there was a breakage in the production chain. And you can see these from meat products. And also you have dairy products. So these are the main things that we can measure today.

Q - Robert Erick Ford Aguilar {BIO 1499021 <GO>}

And you believe that you can transfer these prices to the consumer?

A - Unidentified Speaker

Yes. Yes. There is wiggle space to transfer this to the customer. Now as inflation increase, we don't know how fast and what will be a transference capacity. But right now, this is feasible, okay?

Robert, regarding private label in wholesale, this is not a policy of wholesale by and large because we are the complementary sector of the industry. This is the brand that the sector use. And this is complementary distribution. Here in Brazil, you have a great amount of (MSEs). So it is common for the small trade men to go to these stores to supply themselves, especially our relationship in terms of private label is different than retail stores and especially when we talk about imported products. This could be -- we generally supply industries of small size, medium size that want to place their products in a number of establishments. I would like to show you the importance of our private label for Extra and show how our efforts, our driver -- strategic drivers for supermarkets with almost 5 points of gain in the sale of our exclusive brand in the supermarket and 1.5 in sales share in hypermarket. So this is one of the anchors and the levers that we have within our strategy.

Operator

Next question from Franco Abelardo, Morgan Stanley.

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

I have 3 questions. The first question is just a follow-up. You mentioned the increase of private label share. Could you give me visibility of how much the share represents today in the different brands? This question #1. Second question would be the migration of Via Varejo to Novo Mercado. What is the rationale? And what will be the sales process if it's related to this? And also regarding to why the conversion of preferential shares to common shares, 1 to 1. I would like to see why this discount from majority shares to common shares. And also, a slowdown of same-store sales AssaÃ. Although there was an acceleration in Multivarejo, was there something very specific from the Second Quarter? Or is this a trade-off, a trend or are customers that had migrated to wholesaler now they buy a bit more in the service retail sector? How do you see this? Is there something very specific? Or do you believe that this is a trend, something that will continue growing?

A - Unidentified Speaker

Thank you very much, Franco. And I will start answering the question about private labels. The share of private labels in the company is between 9% and 10%. This varies here. And the share is different in different brands. So we have -- as we focus on accelerating our shares in all the formats that as Calvo just mentioned, this is a very important lever, especially in order to grow hypermarket and supermarket. Our new stores of Mercado Extra, the share of the private label is highly significant. And this is according to our plan. Now also regarding the growth of Multivarejo, especially hypermarket and the brands of a

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hypermarket format vis-à-vis Assaí, I believe that it is too early to give you any type of comment regarding migration of 1 customer to another channel. Now currently, what we have realized is that our gain of share is more based on the direct competitors of the hypermarket or any movement regarding (inaudible) hypermarket. The question regarding the migration of Via Varejo, I believe that the answer is yes. Nevertheless, we decided to do this because this is part of the normal flow of businesses. We believe that the sales process is making progress. Nevertheless, we also believe that the company cannot just stabilize itself within the sales process. This is why we approved throughout this year this investment of almost BRL 600 million for Via Varejo. And we are carrying out this action. And as Peter clearly stated at the beginning of his presentation, this provides us greater governance. This also provides us more liquidity. We also add a number of investors that up until this moment it was very difficult for them to participate as investors of Via Varejo and also because the process one to one -- well, you know what, we analyzed this in depth and in detail the social bylaws of the company. And we compare it to the new regulation. Now changes that we'll have -- that we have to make are very few. So we believe that we should adapt this and we -- and the process is already underway. And we wanted to do it in a very friendly way for the market, okay? Now to do it one to one, well, obviously, for the controller, it's not very good. Now for the minority shareholders, it's exceptional. If we just -- we wanted to be friendly with the market. And you saw, due to the market reaction yesterday, this has been positively accepted. And we're highly satisfied in the way we conducted these actions and how we communicated this process. We very briefly expect to be able to summon a meeting of the board. We want to have a general meeting of shareholders. And in a short period of time, Via Varejo will be negotiated with their shares in the Novo Mercado.

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

If I could quickly follow up here. Are you going to do the same thing with Pão de Açúcar group? Will you migrate to Novo Mercado?

A - Unidentified Speaker

Well it's a completely different direction. And we are not -- this hasn't been considered for GPA.

I would like to comment on the growth of same store. We still haven't seen a change of behavior. Now when we see flow of customers is the same, both on same stores and in our total base, okay? What we had during the Second Quarter of last year, we had strong actions toward enterprises. And the purchase power is different from that of an individual. So we -- and we also had telesales. So we had 50%, 55%. And the average ticket, we have had no change in behavior during the Second Quarter because of inventory.

Operator

Our next question from Gustavo Oliveira, UBS.

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

This is just a follow-up about Assaí (inaudible). The call is a bit -- the quality of the call is not good. It's difficult to understand sometimes what you say. So what you said promotion

for enterprises weren't as in terms of last year. And this sort of compromised same-store sales. And now your calendar is a bit normalized. And you believe that same-store sales would increase a bit more because we will have a bit more inflation. And when it comes to accelerating same-store sales, will you use your gross margin? Because I believe -- I would like to understand this dynamic. I apologize for asking you to repeat. But it's difficult to understand because of the quality of the call.

A - Unidentified Speaker

Yes, I'm remotely -- yes, you -- as I said in my answer to Franco, you separate internally sales to enterprises and individuals. We have a telesales channel that carries out sales through telephone. First, we have a strong base. We wanted to accelerate the sales. And we wanted to mature some promotional dynamics that we have with our enterprise because we had 40% of increase in same-store sales. Now in our view, actually, we didn't think it would be proper during crisis and during the strike of the truck drivers because we had problems with our supply chain. And we had a drop in same stores. After the situation came back to normal during the Third Quarter, we will resume same-store results and especially gain of customer flow that is above 5% in stores. So we believe that the situation will normalize. Of course, the end consumer price is very important for the (inaudible) assortment location operation. This is very important when it comes to for individual to choose stores. Now of course, the enterprises they're not as loyal. This can bite a bit of our margin. We're going to try to find the best method in order to have the best margin for the company.

Operator

Our next question comes from Maria Paula, BB Investments.

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

I'd like to explore still a bit more about the sales evolution of Multivarejo, mainly during the truckers' strike. I believe that most likely because of lack of fuel it would be easier for the consumers to go closer to the stores near them. That's why maybe AssaÃ suffered a bit more. And Multivarejo ones -- were the ones that accelerated sales. So do you believe that to make sense? And are you able to have that episode as a stand-alone positive impact for Multivarejo, when you talked about the truckers' strike, the consumers running to the store to stock up. So they were reluctant to having a long strike? And I'd like you to tell me a bit about Compre Bem. You started converting stores of Extra Super. And I'd like to know if there's any potential number of stores that you are thinking of for the conversions and if you're considering opening new stores of that brand or perhaps even acquiring of local retailers that already have the know-how of the customers in their regions and even the ones that were part of the project Compre Bem later on you want to have a franchising of that brand and in terms of the strategy of Compre Bem brand comes as a reaction to local retailers. So I'd like to know how you've seen the competitiveness of the market as a whole.

A - Unidentified Speaker

Maria Paula, thank you for your questions. First, in terms of the Multivarejo impacted by the truckers' strike, it is very hard to have that as a stand-alone impact within the whole

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process. But we did calculate. And the impact on Multivarejo is most likely something that will reach 60 bps. So there is an impact. However, during the strike, one asset that became very clear is the fact that we have multiformats, multichannels, multiregions and that helped greatly the Multivarejo. And also due to the model of supply to the stores, that was quite significant. So as you well mentioned, during the strike and during the lack of fuel, people decided to go to the stores closer to their homes. So the format or the proximity, Minimercado Extra (inaudible), had a quite significant growth as well as our supermarket format, Pão de Açúcar and also Super Extra -- so -- and Multivarejo. The brands that suffered the most was the hypermarket that has the characteristic that is similar to that of the cash-and-carry because they have the source further out from people's homes. So what strengthened that for us and showed to us that -- to be a multibrand, multichannel, multiformat, organization showed to us to be very important. And also in terms of your second question about Compre Bem, as I mentioned in the beginning, there are 13 stores that are part of the project. It is a pilot project. At this point, it's important to highlight the fact that it's a pilot project. We have 186 stores in the Supermarket Extra format. And we are also testing the Extra market model. So it's still too early to talk about potential conversion because we will have to evaluate the pilots before we go into the details. But for the First Quarter of next year, we will be able to have consistent information to be able to make comment about the potential.

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

Peter, if you could just explain a bit about the competitiveness of the market in terms of where it's at because very recently we saw a big player being bought by an investment fund.

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

Well the market is competitive. I mean, there has been no change that is significant when it comes to competitiveness, when it comes to our food retail market. It's quite similar to the previous quarter. And what changes are the commercial dynamics and how each player takes part in the seasonal event.

Operator

The next question is in English from (Cedric) (inaudible), Raymond James.

Q - Unidentified Participant

This is (Cedric) (inaudible) from Raymond James. It actually relates to the price positioning of the cash-and-carry format and the hypermarket format. If you take (inaudible) trade in Brazil, it have 100 as an index average, what would be the index for cash-and-carry stores and for hypermarket in this market? And how would -- did you see this gap evolve over recent months? That's my first question. And the second question is on the rebound at hypermarket, especially in nonfood categories. Do you believe this was something temporary? Or do you believe it might be the beginning of a more favorable consumer period for the trade? Is it an inflection point in your opinion? Or should we be a little more cautious?

A - Unidentified Speaker

We would like to have the answer repeated in Portuguese. In relation to the price difference between hypermarket and cash-and-carry, currently in Brazil this difference is between 15% to 20%. And we do not expect to see change in this range for the next few years.

Operator

(Operator Instructions) This concludes today's Q&A session. I'd like to turn (inaudible) for - to the final remarks of company's management.

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

Once again, I'd like to thank everyone for their participation in our call. And we are quite (inaudible) the consistent progress we've had in all our businesses and with the work performed by our team. The Third Quarter started with results in line with our expectations. And we will carry on with the strategic plan of GPA for 2018. We are very confident to keep with the same result as we informed at the beginning of the year and as Christophe highlighted during his talk. So thank you, everyone. And we'll see you next time for our next call.

Operator

The teleconference or conference call on GPA's results is closed. The Investor Relations team is available to answer any other questions you may have. Thank you, all for participating in this call. And have a nice day.

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