

Q2 2018 Earnings Call

Company Participants

- Jose Luis Gutierrez, CEO of Carrefour Retail
- Noel Prioux, Chief Executive Officer
- Paula Cardoso, CEO of Carrefour Solucoes Financeiras
- Roberto Mussnich, Director, President of Atacadao
- Unidentified Speaker

Other Participants

- Franco Abelardo, Analyst
- Gustavo Oliveira, Analyst
- Joseph Giordano, Analyst
- Richard Cathcart, Analyst
- Robert Ford, Analyst
- Unidentified Participant

Presentation

Operator

Good morning ladies and gentlemen. Welcome to Grupo Carrefour Brasil's Second Quarter and First Half of 2018 Conference Call. At this time, all participants are in a listen-only mode, and later we will conduct a question and answer session when further instructions for you to participate will be given. (Operator Instructions) As a reminder, this conference is being recorded and broadcast live on the investor Relations website at www.grupocarrefourbrasil.com.br, where you will find the slide presentation as well. The slide selection will be managed by you.

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

Today with us, we have Mr. Noel Prioux, Chief Executive Officer; Sebastien Durchon, CFO; Roberto Mussnich, CEO of Atacadao; Jose Luis Gutierrez, CEO of Carrefour Retail; Paula Cardoso, CEO of Carrefour Solucoes Financeiras and Executive Director of Clients, Services and Digital Transformation; and Daniela Bretthauer, Investor Relations Officer. First, Mr. Noel Prioux and Sebastien Durchon will comment on 2018 second quarter and first half results. Afterwards, management will be available for a question-and-answer session.

It is now my pleasure to turn the call over to Mr. Noel Prioux to start the conference call. Mr. Prioux, you have the floor.

Noel Prioux

Good morning, everyone. Thank you for being with us during this call to present the second quarter and first half of 2018 Results of Grupo Carrefour Brasil. I will start with an overview of the main highlights of our performance and strategy and afterwards Sebastien will talk about our financials. And then Roberto, Gutie and Paula will present the key performance highlights of their respective businesses. I will then conclude with our priorities for 2018 and then we will be opening for questions.

So let's begin on slide number three with the key headline numbers of both Q2 and the first half of the year. Q2 was another strong quarter, in which we maintained our leadership in the Brazilian market with continued sales growth as well as very solid growth in profitability despite persistent food deflation and an unfavorable Easter calendar effect. Growth was driven notably by Atacadao and Carrefour Solucoes Financeiras.

Our gross sales rose by 5.5%, reaching BRL13.5 billion in Q2. Adjusted EBITDA increased by nearly 13% to BRL934 million with adjusted EBITDA margin of 7.6%. And net income, Group share was up almost 40% to BRL389 million, equivalent to a 3.2% net margin. H1 showed similar trends as those of the quarter. Our gross sales rose almost 6% to BRL26.6 billion. Our adjusted EBITDA increased by nearly 15%, going to BRL1.7 billion, with EBITDA margin of 7.4%. And net income, Group share rose by 52%, reaching BRL669 million, while the net margin reached 2.8%. We also strengthened our balance sheet, with our net debt standing at almost BRL1.8 billion at the end of the half year. All these indicators showed the strength of our multiformat, multichannel model. And as you know, the solid performance takes place with the framework of Carrefour Group transformation plan, which was unveiled in January this year.

On slide four, you can see that Grupo Carrefour Brasil has wasted no time in implementing actions on all four of the plan's pillars. The first pillar is to deploy a simplified and open organization. We are creating an organization that brings together client services and digital transformation, and this is fostering a spirit of innovation throughout the Group. We are also opening up to partnerships as illustrated by our recent announcement of an alliance with the Gastronomotiva NGO to develop zero-waste recipes and partnerships with suppliers to develop our private label brand.

Our second pillar is achieving productivity and competitiveness gains, and our Q2 numbers reflect excellent progress as well. Overall distribution cost in Q2 stood at 14.2% of net sales against 14.4% in the previous year. And this defines an acceleration of expansion and an unfavorable calendar impact on sales. Carrefour Retail distribution costs were down by almost 2% in the period as a result of efficiency gains, including a reduction in hypermarket headcount. We are also implementing steps to improve productivity, such as faster payment at the cash register as you will be seeing shortly.

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Our third pillar is creating an omnichannel universe of reference, and here too there are a lot of highlight. We continue to rapidly expand Atacadao, with six more openings in Q2, bringing the total openings in the first half alone to 10. This is almost the same number as the openings for the whole of last year. We are also developing the new compact supermarket format market, which we will continue to roll-out throughout the year, and our goal to reach at least 10 stores could be exceeded.

In digital, our e-commerce activities are growing rapidly, significantly outpacing industry growth, and our GMV more than doubled in the quarter, and our marketplace now accounts already 13% of GMV. We are also working on greater integration between the online and physical worlds, with the roll-out of click-and-collect in 13 Hypermarkets and a pilot test of the drive concept at our Marginal Pinheiros Hypermarket in Sao Paulo to be expanded to more locations in the second half of the year, and we are leveraging data to better target our customers. We have, in a few months, reached almost 7 million registered clients for our new Carrefour CRM program, and there have been over 1.3 million downloads of our Meu Carrefour app after just a few months after its launch.

And finally, but not less important, our fourth pillar, is to overhaul the offer to promote food quality. The highlight here is the launch of our private label, Sabor & Qualidade, which I will be talking about in detail on the next slide.

On slide number five, as you know, Carrefour Group has started its ambition of being the leader of the food transition for all, bringing healthy, quality food to consumers at affordable prices. And on the slide, you can see several initiatives that we have taken in Brazil to advance this goal.

In the second quarter, we launched our own brand, Sabor & Qualidade, with products that comply with the most stringent social and environment criteria. The brand currently includes 13 product categories, including fruit, meat, eggs, poultry, fish and shrimp produced by several suppliers from all five regions of Brazil, and we will continue to add new products in the next few months. Carrefour aims for the new product line to account for 10% of sales of fresh produce by 2022 as part of our efforts to develop the share of locally sourced products. Carrefour Group has also set a goal of EUR5 billion in sales of organic products by 2022, and Carrefour Brasil is playing its part here too. The Pinheiros Hypermarkets has a section dedicated to healthy and organic products, and we now plan to have organic sections in all of our Sao Paulo stores by year-end and in the rest of our stores in the next few months.

On slide six, you see some further actions concerning productivity and competitiveness. For example, we have introduced a high-speed automatic checkout system at Atacadao, and now we have self-checkouts installed in half of our 76 gas stations as well as the Jardim Pamplona flagship hypermarket. We also have new initiatives, important initiatives at CSF, with online embossing for Atacadao and Carrefour Cards as well as new applications for Atacadao card via [ph].

And now, I would like to hand over to Sebastien, who will be talking about the consolidated financial performance.

Unidentified Participant

Thank you, Noel. Good morning, everyone. Let's start on slide eight with our consolidated sales. Our total sales went up by 5.5% in the second quarter, and like-for-like basis 3.4% increase excluding petrol, and 3.6% including petrol. With expansion, notably the 10 new Atacadao stores that were opened this half contributing another 3.9% for the total growth. This quarter was marked by a strongly unfavorable calendar impact of minus 1.9%, as Easter took place in March, whereas last year it was in April and was therefore included in the figures of Q2 '17.

As you can see on the inflation chart, this quarter also saw continued food deflation, although it is vis-a-vis Q1 standing at minus 2.8% in Q2, vis-a-vis 4% -- minus 4% in Q1. The easing was amplified by the truckers' strike in May, that resulted in June in the largest monthly increase in food-at-home inflation since 2000. Over the first half as a whole, gross sales including petrol grew by 5.8%, with like-for-like growth ex-calendar and ex-petrol of 1.9%, and expansion contributing another 3.7%.

Of particular note is the fast growth of e-commerce. Online sales accounted for 6.8% of sales ex-petrol in the first half, vis-a-vis 3.3% at the first half of '17, and in the second quarter, they represented 7.4% of sales.

On slide nine, we turn to our simplified P&L, which shows a sharp improvement in profitability in the quarter and in the half year thanks to a solid operating performance and lower financial expenses. I wish to emphasize here that our operating results came entirely 100% from our operations. We did not have here any relevant reversal or provisions nor a sale of future tax assets or any other relevant nonrecurring impact. Net sales were up by 5.3% in the quarter to BRL12.3 billion, driven by Atacadao, which was up 8.3% in the quarter, and represents more than two-thirds of our total sales.

Our gross profit reached BRL2.7 billion, with the gross margin, 0.29% -- percentage point to 21.7%, driven largely by Atacadao's better performance and also Carrefour Solucoes Financeiras sales which both recorded strong growth in gross profit respectively, 13.4% and 46.4%. As we have already pointed out, all our businesses showed productivity gains over the quarter. Overall, SG&A accounted for 14.2% of our net sales, 20 bps down vis-a-vis last year in spite of the unfavorable calendar impact and of the accelerated pace of expansion. At Carrefour Retail, SG&A were even down 1.8% in reais as a result of the reduction of our headcount as well as productivity actions, together with a tight control of expenses as a consequence of the significant increase of our gross margin and the SG&A efficiency that I have just mentioned. Adjusted consolidated EBITDA rose by an even 12.9%, and Q2 adjusted EBITDA margin consolidated, 51 basis points to 7.6%. Our financial expenses dropped 74.5% due to the reduction of net debt with the IPO occurred last year, together with the improved interest rate environment.

With that, the net income, Group share was up by almost 40% to BRL389 million. The second quarter showed an even stronger performance with the net sales up 5.4%, gross profit rising by 7.4% going to BRL5.2 billion. Adjusted EBITDA rising 14.5%, with margins going up by 59 bps and net income Group share increasing by 50 -- by over 50%, going to BRL669 million.

Now we are going to get into details of each business unit. I would like to give the floor to Roberto, who will talk about the excellent performance of Atacadao.

Roberto Mussnich

Thank you, Sebastien. Good morning, everyone, my friends. And I would like to talk about our Atacadao. We saw another strong and consistent quarter, as you can see on slide number 11, with sales accelerating and margins improving. Gross sales in Q2 were up by 8.4%, growing to a little over BRL9 million. A sharp increase over the -- 0.5% increase in like-for-like sales, and compared to 0.5% increase of like-for-like in the first quarter. In the half year, we had an increase of BRL1.2 billion in revenues year-on-year. And the acceleration of sales despite the deflationary environment that Sebastien described was due to our unique model, with absolute leadership in prices in all segment and overall throughout efficiency.

And I usually make jokes internally saying that, when we go to the several different regions of Brazil, we become like earthworms, that is to say, we belong to the Earth, creating a strong relationship with the local industry and with the expectations and needs of our customers, whether they are individuals or companies. Our volumes have been significantly increasing as we -- as well as our market share. The number of customers over the last two year stepped up over 20% in total and plus 6% in like-for-like. We did not see any meaningful impact on sales on the truckers' strike, thanks to the unique commercial and supply model and the quality of the inventory that we maintained in all regions.

Gross profit in the quarter rose by 13.4% in the quarter, growing to BRL1.2 billion, and gross margin improved by 70 basis points, growing to 15.4%. And this increase of our gross margin also comes from the strength of our commercial model, which enabled us to maintain our price competitiveness over the quarter, while sales were accelerating.

Distribution cost, 8.2% of net sales and were broadly stable versus last year in spite of our accelerated expansion, which clearly shows the efficiency gains made in our existing stores. Such efficiency derived from the ongoing efforts of our operational teams, not only to maintain the aspect that are inherent to the store environment and general satisfaction, but also to keep loss indices low.

Adjusted EBITDA rose by almost 20% in the second quarter, with margin improving 70 basis points going to 7.2%. I would like to mention as a positive highlight, our Atacadao card, which was so much expected for a large -- less than a year ago, with nearly 1.2 million cards already, which reflects very clearly the brand's strength and how close we are to our customers, whether they are individuals or companies.

Expansion, we posted the strongest ever first half of the year, with 10 new stores, six of them in the second quarter. Thus moving forward with our expansion strategy and our target of opening 20 stores this year. And the next 10 stores are already being built, including this morning, we are opening the 11th of this year, including one conversion of Carrefour Hypermarket in the Northeast. Let me detail the opening in several different

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regions in the first half. Three stores in Sao Paulo state, two in Rio de Janeiro, two in the Northeast, two in the Midwest and one in the South. In the first half, we have already added 60,000 square meters of sales area. And at the year-end, we should reach approximately 120,000 square meters of sales areas, new sales areas. We will build in the year a total of 302,000 square meters in all operations. And with this expansion, we are generating more than 5,000 new jobs throughout our Brazilian regions.

Our performance in the first half was equally strong, with gross sales up by 7.1%, of which 2.6% like-for-like to BRL17.4 billion. Gross profit was up by 12.4%, with gross margin improving by 63 basis points, and adjusted EBITDA rising 18%, with a margin of 6.7%.

Thank you very much. I would like to thank all the members of the Atacadao family, and we owe them this great performance, and thank you so much for each one of you. Now I would like to hand over to Jose Luis Gutierrez.

Jose Luis Gutierrez {BIO 17717557 <GO>}

Thank you, Roberto. Good morning, everyone. On slide 12 you can see the main performance indicators of Carrefour Retail, whose sales and profitability remain stable sequentially despite various unfavorable factors in Q2. Gross sales in Q2 reached BRL4.5 billion, up by 2.1% on a like-for-like basis including petrol. This represents an improvement in the like-for-like performance when compared to Q1 when we reported 0.1%. Total sales were broadly stable year-on-year despite the ongoing deflation and Easter calendar effect, which was a negative 3 percentage points at Carrefour. We estimate the strike impact at 1.7% for Carrefour Retail, of which, half comes from lost petrol sales and the other half from performance of nonfood sales at our stores and also from a reduction in e-commerce. Also, if we include the impact from the strike, we would have posted a like-for-like basis of -- on a like-for-like basis, 3.8%. On H1, sales performance was up 3.4% with a little over BRL9 billion, of which 1.2% like-for-like. Hypermarkets and convenience stores gained 90 bps and 60 bps of market share, respectively, year-to-date until May according to Nielsen data.

In the second month [ph], gross margin was 24.2%, stable vis-a-vis the first one, but year-on-year, it was down due to several factors, notably, a very challenging comparable basis, as gross margin in Q2 2017 and was 100 basis points above the 2017 full average. Full year effect, the mix effect was greater share of e-commerce in our sales due to its strong growth, increased participation of consumer electronics levered by the World Cup, and lastly, the truckers' strike impact.

Since the middle of last year, we have taken a number of efficiency measures, including headcount optimization in stores and process improvement, allowing us to bring SG&A expenses down by 1.8% in Q2 vis-a-vis Q1. As a percentage of net sales, distribution cost stand at 20.4% in Q2, compared to 20.7% last year, and excluding Easter sales from Q2 last year, distribution cost would be 21.4%. On a comparable basis, our distribution cost decreased by a significant 100 bps.

EBITDA margin was 3.9% in Q2 and 4.1% in the first half. Adjusted EBITDA decreased from 259 million in the second quarter last year to 161 million in the second half of 2018. Half of this drop comes from the Easter calendar effect and from the impact of the strike. The rest of the change reflects the impact of continued deflation as well as price investments made in 23 of our hypermarket in the state of São Paulo as part of a comprehensive plan to adjust the value proposition to our customers, aiming at recovering volumes. We will continue our cost control and productivity efforts in the second half of the year in order to be able to benefit from any pickup in the macro outlook, in particular, food deflation. In addition, we implemented several commercial initiatives to improve even more our sales performance.

Now I hand over to Paula to talk about e-commerce, multichannel strategy as well as the performance of Carrefour Soluções Financeiras.

Paula Cardoso

Thank you, Gutie. Good morning, everyone. As you know, I'm the head of two businesses now, the CSF bank and e-commerce, and I am in charge as well of managing digital transformations and IT of the Group in Brazil.

Now I would like to start by talking about e-commerce. Afterwards, I will talk about the initiatives of digital transformation and the performance of the bank. So let's start with e-commerce; e-commerce continues to be the fastest-growing segment within the Carrefour Retail, and slide 13 shows a few key numbers how we continue to rapidly ramp up. GMV was up 123% in the quarter, which is nearly six times more than the average market growth of 21% as measured by EBIT. Orders doubled again, rising by 103% as we continue expanding the number of SKUs, and the number of visits was up by 70%, with our conversion rate up 10 bps. Average tickets rose by 5.1%, and the number of SKUs now stands at 380,000 vis-a-vis 208,000 with the previous quarter.

In e-commerce -- through e-commerce, we increased the number of SKUs by 34% vis-a-vis the first quarter, resulting in a 27% increase in average ticket and repeat purchases up over 45% in Q2. We also continue to develop our marketplace, which now counts 374 sellers in Q2 vis-a-vis 134 at the end of Q1, and while market-based penetration now stands at 13% of sales compared to 11% at the end of Q1. In search for improving profitability, as told [ph] the share of e-commerce as the percentage of retail sales expanded more than doubled, reaching 6.8% of sales at the end of H1 vis-a-vis 3.3% at the same time last year. And in Q2, the percentage even increased to 7.4% of sales.

Let me now talk about the several multichannel initiatives that we have carried out in -- and also in digital transition. The expansion of omnichannel is rapidly expanding, and I would like to give you a few figures, compared [ph] to what Noel has already said. 20% of our mobile phone sold in São Paulo are delivered at our 13 stores of the click-and-collect. The cross-sale from clients that opt to pick up products at the store exceeds 30%, and more than 20% of these customers are new to Carrefour. Also repeat purchase from drive customers in e-commerce food is about 40%, which implies the customers are enjoying the drive alternative.

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We also recently implemented a data and analytics department. We hired an experienced market professional to lead this area as well as our CRM program, Meu Carrefour, and consolidating data on all customer-related information, market research, store potential for further expansions and artificial intelligence initiatives, all this supported by a new IT structure in place to ramp up all the Group's digital transformation initiatives.

I would like to talk about our One Carrefour Vision, which is aligned with the Group. We have created a department that manages all initiatives from the client's viewpoint. We already have, first, a brand for all our formats and cards; second, a website for food and nonfood; third, a single log-in to the site ATP or apps and Meu Carrefour CRM program and a loyalty program for all formats in the Bank, and we will have a single after sales service -- post sales services, one contact number, and we will converge to one single app.

We have just signed a partnership with one of the most advanced digital companies to implement this project. Client experience thus will be one Carrefour, and this is true omnichannel, and reinforces a difference that only Carrefour has in the Brazilian market. We already offer free Wi-Fi in our hypermarkets and beacons in 260 points of sale in partnership with Google. And by the way, as you have probably heard, the Grupo Carrefour in France announced a strategic partnership with Google and Brazil is part of that already, and they will help us in many initiatives in innovation and data.

And finally, we have at least three startups working on proof of concept with our back-office teams in taxes and pricing, and they should translate into additional efficiency gains.

And now, I would talk about the performance of Carrefour Solucoes Financeiras, slide 15. As shown on slide 15, Carrefour Solucoes Financeiras posted another strong performance in the second quarter with growth in billings, a strong increase in adjusted EBITDA and further improvement in the quality of our credit portfolio. Total billings in Q2 reached more than BRL6 billion, up by very strong 34.9%. Of these totals, the Atacadao credit card already represent 22% compared to 20% in Q1 2018. The number of Atacadao cards grew by 15% in the quarter, with the penetration of the Atacadao card reaching roughly 10% on average at the Atacadao stores at the end of the quarter.

It is worth mentioning that we generated 750 new jobs at Banco CSF due to Atacadao in the last 12 months. Billings of the Carrefour card, a more mature operation also grew by 7.7% in the quarter. Our credit portfolio rose 28.6% growing to BRL7 billion according to previous methodology under IFRS, and the quality of our loan portfolio continues to improve with the balance of loans overdue more than 90 days representing 9.8% of the portfolio vis-a-vis 12.1% in the same period last year, an improvement of 230 basis points, while the balance of loans overdue more than 30 days falling by 220 basis points growing to 13.5%, the best historical performance in the last five periods.

As we said in the previous quarter, there is a new accounting rule, IFRS 9/CPC 48, in place since January 2018. According to this new norm, the trends are similar, but the figures differ a little as you can see on the bar chart on the right-hand side of the slide. The credit portfolio rose 19% to over BRL7 billion. Loans overdue by more than 20 -- 90 days

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dropped by 4.1 percentage points, and over 30 days past due were also down by 3.7 percentage points. As you can see, whatever the norm, the quality of our loan portfolio continues to improve. Adjusted EBITDA reached BRL211 million in Q2, nearly doubling sequentially, in spite of the drop in interest rates and the new rules for credit cards implemented last year and the investments made. This very solid growth confirms what we said last year that we would gradually offset the impact of new regulations by increased credit activity, enhanced efficiency. Looking forward, we continue to expect the Atacadao credit card to breakeven before the end of this year.

Now I would like to hand the floor over to Noel for his concluding remarks.

Noel Prioux

Thank you very much, Paula, Sebastien, Roberto and Gutie. It has been a busy first half, and we will maintain a dynamic pace in the second half. I would like to conclude on slide 16 by reaffirming the priorities for 2018. First, we will continue to roll-out our omnichannel strategy. We have launched a pilot test of our drive pick-up concept in Sao Paulo, and we plan to extend that to selected other stores in Sao Paulo still this year. We have deployed click-and-collect in 13 hypermarkets to date, and we will roll it out to all our hypermarkets by year-end. We will keep growing our e-commerce activities, in particular, our marketplace, with a target of reaching 500 sellers by year-end, a fourfold growth over the year, and we also anticipate multiplying the number of SKUs by three over the year. And we will continue to roll out our Meu Carrefour CRM program, with the aim of reaching 9 million registered clients by the end of 2018.

Second, we will keep the accelerated pace of expansion, we confirm the CapEx target of BRL1.8 billion this year, and we plan to open 20 Atacadao stores and to expand square meters of the proximity formats and choosing case-by-case, whether Express or market.

And thirdly, we will leverage our financial services in all formats. We will continue to ramp up the Atacadao card with the aim of reaching around 2 million cardholders by year-end, and we will also achieve breakeven before the end of the year. And we will be testing the pilot of the digital means of payment until the end of the year.

And finally, we will continue to differentiate our offer through food quality, notably, by revitalizing our own brand and developing our offer of local and organic product with a focus on healthy food. So after a strong first half, we will continue implementing our growth project this year within the framework of the Group's transformation plan.

I would like to thank my team for the good results delivered in this quarter. Thank you so much for your attention. And now we will be happy to take your questions.

Questions And Answers

Operator

Ladies and gentlemen, we will start the Q&A session. (Operator Instructions) First question from Richard Cathcart from Bradesco. You may proceed.

Q - Richard Cathcart {BIO 16457807 <GO>}

Good morning, everyone. I have two questions. The first one is to Roberto and Paula. Could you talk about the Atacadao card? Because I understand that it is being used in the retail stores, that is to say, in the Group and marketing stores. I would like to know whether the ticket is higher, whether the frequency is higher, whether you're able to -- possibly there's two other clients as well, those who cannot pay with the credit card? And Gutie, about the investment that you mentioned in hypermarket, could you give us some more color about this investment? Do you believe that it is going to be more or some of the stores are candidates for conversion?

A - Roberto Mussnich

Good morning, Richard. This is Roberto. Thank you for the question. The Atacadao card is being very well received in the stores. And as you know -- I believe that you know that 1.5 years ago, we didn't have any credit cards at the stores, and what we see the growing penetration already reaching between 10% and 11% in some of the regions, mainly the Northeast, with even higher indices because of consumer habits overall. We also saw that the small merchants as individuals, they also used their cards because of working capital need for their businesses, although this is a way that we cannot really identify, we cannot pinpoint that, and we see an average ticket up to 15% higher. So there is an advantage there, which is being offered by the card, and this is too new. We cannot say anything more concrete than that, but we have the best expectations regarding in-store operations and talking with our people. It is very interesting to see how consumers, in general -- or clients, in general, they accept the model very well.

Gutie?

A - Jose Luis Gutierrez {BIO 17717557 <GO>}

Good morning. At the end of last year, we launched in the hypermarkets by means of our commercial platform for food, giving more important to private label products and a better communication at the point-of-sales. Besides, we made an adjustment in our pricing system in order to improve our positioning in more competitive areas and the result of the tests were a strong increase in volume, and this led us to roll-out this initiative at the end of the quarter. This initiative will be funded basically by the growth in volume as well as special programs with our suppliers and the cost reduction that we will have, and beside, we have other initiative regarding improvements in margins of nonfood as well to offset the investment need.

Q - Richard Cathcart {BIO 16457807 <GO>}

Thank you very much.

Operator

Julia Faga [ph] from Itau.

Q - Unidentified Participant

Good morning, everyone. We were very well impressed with the results of Atacadao, and we would like to understand two things. First, regarding revenue, you talked about share gains, and I would like to know if this is sustainable, whether you could gain additional share in the future? And what you will be doing in order to reach that? And about the margins that were very positive as well, do you believe that they could grow back because of the strike? And you mentioned the taxes that could be probably transferred to the prices?

A - Unidentified Speaker

Julia. Thank you very much. This was a good quarter. We had very good conditions to get closer to the industry overall. Good market conditions in order to execute our commercial model. And the increase in margin was very much because of the efficiency of our negotiations and also the efficiency of commercial in general. The strike, when we said that it didn't have a very good -- a very big negative impact, I would say that we were able to handle the strike vis-a-vis our inventories. Each store, you know that regionally we have inventories and what happened was not a price increase, that we didn't transfer this to prices. We knew how to play with our client in terms of being flexible in order to cater to everyone.

And what we did was the following; we didn't use all these elasticity, so to say, to a few, but we gave many the opportunity to supply their inventories. And of course, we had some more difficulties during the strike, because of produce and fresh produce. And this didn't happen in the regions where we are present, because the suppliers are next door almost to the stores. So we didn't feel this impact even in fresh products, such as fruit and vegetables, and we were able serve the weight [ph] and maintain our commercial model.

Regarding the use of credit, Sebastien has already talked about that. Yes, there is 0.8% of use of credit in this margin. And of course, when we look ahead, we will always do better and better. Our model is extremely resilient, and we have already shown during our Investor Day and our road show, we have already shown the consistency of our model. It is a fair model, it is straightforward, and it will continue to perform as we have always performed, of course, stepping into the opportunities of the market moments that exist.

So I hope I have answered your question.

Q - Unidentified Participant

So do you believe that we could expect 0.8% being maintained?

A - Unidentified Speaker

Yes. 0.8, yes. For this year we understand that this could be maintained, but afterwards it will be depending on the efficiency of the model and the market itself, of course.

Q - Unidentified Participant

Thank you very much.

Operator

Franco Abelardo from Morgan Stanley.

Q - Franco Abelardo {BIO 17416219 <GO>}

Good morning, everyone, and congratulations for the results. I would like to ask a question about Atacadao, and the strategy during the strike was clear. But if we look at the second half, I know that you had a big increase in the second quarter. But in the second half, I believe that the scenario could be even more positive because of deflation of food and that base will not be as challenging as it was before for Atacadao. So what do you expect in terms of growth of like-for-like at the end of the year? Do you expect to accelerate this growth, maybe a higher contribution from stores that are reaching maturity by the end of the year or becoming more mature as the year goes on? And do you believe this could impact the pricing strategy as well?

Along the same lines of the previous question, do you intend to invest more in pricing in order to accelerate this growth? So these are my two questions to Atacadao.

A - Unidentified Speaker

Thank you very much for your questions. And in fact, we are a topline model. We have no investment in pricing, we already do the everyday low price as a consequence of our strategy. What we see for the second half, we see a continuation of this growth and you must not forget that we have in like-for-like the expansion of last year, 11 stores, so you have to take this into account. These are 11 good stores. And of course, our expansion will have an impact on total sales, but we have some opportunities to maintain the like-for-like pace.

And inflation, we were coming from a very deflationary environment and there is IPCA, the deflation of the IPCA that you see and that Sebastien showed very well. Internally it does not follow the same pace. It could even be stronger, and in fact, it was stronger in this period. And we expect with this balance and today -- we see already in July, it's stronger inflation, a small one, but already a little bit of inflation. And in terms of revenues, in terms of like-for-like sales this helps us, and this gives us an additional drive. And we continue to grow, we continue to invest and we go straight ahead with the same model and very consistently so.

Q - Franco Abelardo {BIO 17416219 <GO>}

Thank you very much. I would like to ask a question about e-commerce to Paula. Paula, what is the mix that you have between food and nonfood? In the nonfood, what is the focus of your marketplace strategy? Do you intend to supplement the categories that are sold directly or not? Or do you intend to bring onboard sellers that sell consumer electronics and other categories that could compete more head on with the e-commerce sales?

A - Paula Cardoso

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Well, we cannot talk about share yet, because we started this operation this year. It is really a startup, food, that is growing very strongly but with a lower ticket. And nonfood already has 12 months of operations, so it's much more mature. So it's very difficult to compare. It's very difficult to compare food and nonfood in this case. And when we go to the marketplace, you see that Carrefour has -- it's very clear their provisioning or our provisioning, we intend to reinforce these areas or arenas. In automotives, for instance, we have grown quite a lot there. And we use the sellers to supplement our assortment with a longer tail, but reinforcing what Carrefour already has as a brand strength, but of course, we do have long tail sellers as well.

Q - Franco Abelardo {BIO 17416219 <GO>}

Thank you.

Operator

Robert Ford, Bank of America.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you. Thank you for my question. Gutie, could you talk about the pilot that you have in Pinheiros? What is the impact in the frequency of purchases and cross shopping and for organics? Do you see similar opportunities for the whole category?

A - Jose Luis Gutierrez {BIO 17717557 <GO>}

Bert [ph], it is one of the stores and where we are doing this pilot, and we have already 10 years operation there. And we are reinforcing the strategy of the Group in nonfood as well, developing other categories in food like organic and healthy food. And for the time being, the results are good and we already have three additional stores in Sao Paulo by the end of the year in this category at that Group. We developed and rolled out to all the other stores in the Group.

Q - Robert Ford {BIO 1499021 <GO>}

And what about the total sales, Gutie?

A - Jose Luis Gutierrez {BIO 17717557 <GO>}

Organic products, only organic products, because the category is much wider, because we have the nongluten, lactose-free, gluten-free, but organic products, which have the entry. This is an additional sale to the firm that we didn't have before and with a good result for perishable products.

Q - Robert Ford {BIO 1499021 <GO>}

And what about the interest in forecast for retail as a whole?

A - Jose Luis Gutierrez {BIO 17717557 <GO>}

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We understand that the whole Carrefour strategy in nonfood has to be used in all the formats, of course, and with different assortments, of course, but in the model that we have this supplies to the whole chain.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you.

Operator

Next question, Joseph Giordano from JP Morgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good morning, everyone. I have two questions. The first one is to Paula, and has to do with omnichannel and the retail and expansion. Do you have a role model for your operation? That is to say abroad, in China or in the United States, that you think could be used as a role model and adapted and brought to Brazil? And secondly, the multichannel strategy, how does it match the expansion plans in proximity supermarkets, Carrefour Express and market in click-and-collect? Thank you.

A - Paula Cardoso

Yes. We do benchmark, and we believe that the operation of Carrefour in France brings us a lot of teachings, mainly in drive and this is a very mature market for this operation. We have been learning quite a lot from them, so this is -- where we have a benchmark. And what was the second question, could you repeat it?

Q - Joseph Giordano {BIO 17751061 <GO>}

Omnichannel and expansion of retail?

A - Paula Cardoso

Well, our focus this year will be on hypermarkets, but of course, when Noel talked about our distribution strength, he talked about all the format. And there is a very big potential for us to go to supermarkets as well, but this year our focus will be hypermarket in terms of click-and-collect in Brazil and food and drive in São Paulo.

Q - Joseph Giordano {BIO 17751061 <GO>}

And the e-wallet, Cardoso, that you mentioned in the last Investor Day, what about the pace of integration of the Carrefour card with the app? And do you see some relevant adoptions already?

A - Paula Cardoso

We have not launched this yet. By the end of the year, we will be using the -- what was launched in France as white label and we use as Carrefour Day here in Brazil. And we've started in August the pilot for payment means in gas stations in the app. So in the second

quarter, and then we start piloting it, and stores and Express are paying by the app. We will have the proof of concept, the first one now in August in gas stations as well.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you.

Operator

Gustavo Oliveira from UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

A follow-up. Good morning. A follow-up about pricing, investments in Carrefour were the usual, Carrefour Retail, I would like to know if you're going to make the same investments besides the stores that you mentioned? And in the question that was asked before, the 23 stores where you had already launched the program, are they or some of them candidates to conversion? Thank you.

A - Unidentified Speaker

Well, they are -- already have a very competitive situation, and maybe there could be some change, but there is no plan for that, and the 23 that we have, none is a candidate for conversion.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you.

Operator

(Operator Instructions) Richard Cathcart from Bradesco.

Q - Richard Cathcart {BIO 16457807 <GO>}

Thank you for the follow-up. I would like to ask an additional question. About the question that Gustavo has just asked and that I have asked before. So I understand you're planning to have a roll-out of these initiatives of competitiveness to all the hypermarkets. And Gutie, before, I understood that you said that this investment will be funded by the greater volumes and your negotiations with your suppliers, et cetera. So do you mean that we should not expect any relevant pressures on the gross margin for the second half of this year and next year too?

A - Jose Luis Gutierrez {BIO 17717557 <GO>}

Yes. Yes, you are correct. It is important to understand that in this project, while, this is one element of the project, and there is much more work in terms of assortment, et cetera, in this source of reformulation of the commercial product. And the very important point here is that the investment has made up a start, and then we recover this due to the increase in volume, and in these stores, we can already see a relevant recovery of volumes. So the

impact decreases and decreases over time gradually, so it becomes positive. And what we have in the result of the second quarter, the retail is the biggest impact. And after that, it is not going to increase, and it's going to decrease over the year.

Q - Richard Cathcart {BIO 16457807 <GO>}

Thank you very much.

Operator

The question-and-answer session is closed. And we would like to give the microphone back to Mr. Noel Prioux for the closing remarks. So Mr. Prioux, you have the floor.

A - Noel Prioux

Thank you all very much. It was a pleasure to have the chance to answer your questions. This half year was good, and we expect to keep this pace in the second half as well. So I wish you all a very good day and hope to see you soon. Thank you very much.

Operator

Grupo Carrefour's conference call has closed. We thank you very much for your participation and wish you a very good day. Thank you.

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