

Grupo Éxito - 1Q23 Results Conference Call Transcription

María Fernanda Moreno: Good morning everyone, thanks for joining us today for Grupo Éxito's first quarter 2023 results. Please note that this conference is being recorded. At this time, all participants have been placed on mute to prevent any background noise and I am pleased to present our CEO, Mr Carlos Mario Giraldo and CFO, Mss Ivonne Windmueller,

Please move now to **slide #3** to see the agenda. We will cover Grupo Éxito's financial operating highlights performance by country, consolidated financial results for the fourth quarter and FY 2022 and for operations in Colombia, Uruguay and Argentina. The call will conclude with the Q&A session in which all participants can raise their hands or send the questions through the chat available at the bottom of the screen. In any case, please indicate your full name and company's name. Thank you for your attention. I will now turn the call over to Mr Carlos. Mario Giraldo.

Carlos Mario Giraldo: Thank you, Maria. I want to thank to all of you for being present for this quarter financial results. I am going to start by speaking about management recent changes that we informed to the market yesterday. Mr. Jacky Yanovich, President of Operating Retail will leave the Company after twenty-three years of a very good management in the Company. He made the decision to dedicate to personal projects and that will be effective until June 30, 2023.

Mr. Yanovich participated in major transformations and made an important contribution to the growth of the company and the development of innovation and omnichannel. He has always been characterized for being a man of integrity, close, always impeccable and admired by the different work teams and suppliers.

On behalf of the entire organization, I thank Jacky for all these years of work dedicated to enhancing the growth of the organization, as well as developing digital penetration and innovation strategies for Exito Wow and Carulla FreshMarket, and strengthening the company's culture, among many of his accomplishments. I wish him the best of success in his future endeavors. To him, his wife and children, our appreciation and gratitude forever.

His replacement is José Loaiza as of July 1, 2023. José Gabriel Loaiza Herrera, currently Vice President of Omnichannel and Innovation, will take over the Chief Operating Officer of Retail in Colombia. With nearly 17 years in the Company, José has stood out for his achievements in the different positions he has held, which give him a broad knowledge of the organization and both physical and virtual retail. José has been for seventeen years working in the company in different positions. He was IR of the company also commercial VP and the currently is VP of Omnichannel and innovation.

Jorge Jaller Jaramillo, who has been serving as Vice President Retail Éxito and Carulla, expands his scope to take care of the low-cost brands with a great potential of growth and penetration in the traditional market in Colombia. Jorge has been for 25 years in the company. He is 46 years old with the expertise in retail.

Finally, Sebastián Pérez, 34 years Old and eleven years in the company, will assume as vice president of Omnichannel and Innovation. Sebastian is a digital generation person who has

worked all the time in the digital and ecommerce, Market Place, home delivery, apps, leading this very important pillar of growth of Grupo Éxito.

All these changes show a solid collective management team and a very complete succession plan within the Organization.

Now, let me go to **slide #5** and give you an update on the Éxito DRs listing process.

Only to remember this is a capital reduction of GPA by the distribution of 86% of its Éxito shares to the GPA shareholders. One of the benefits is the potential increase in Éxito float to ~53% and shareholder base with additional ~50,000 current GPA shareholders and also the unlocking Éxito's potential value from increased liquidity and market visibility making Exito as one of the most liquid companies in the Colombia Stock Exchange. To give you an idea, today, the current market Cap of Exito is around \$5.5B while the market cap of GPA is \$3.6 B, so is evident that there is a potential of capturing hidden value for the organizations.

In terms of the timeline, the BDR filing approval from the Brazilian CVM was on April 4. There was another important step, the GPA's creditors approval, that happen on April 17. Finally, we are working on the ADR filing approval before de Securities exchange commission (SEC) and the transaction to be completed during the 2Q23.

After these processes, Exito will be listed in 3 stock exchanges, including the current listing in the Colombian Stock exchange.

Moving to **slide #7**, let's speak about our ESG. This is a consistent process to have a balanced growth, a sustainable growth. In the quarter, we must highlight that in our nutrition program through the Fundación Exito benefited twenty-seven thousand children. This is only for the three initial months of the year. We have recycled at the operation around five thousand tons of plastic and wooden material, ninety one percent of our fruits and vegetables are bought locally and 83% directly from the producers eliminating unnecessary intermediation and sharing in a better way the profitability of the business.

And our apparel business continues to have a very solid national sourcing with 93% of total sourcing done with ~300 small and medium sized companies plus the national brand suppliers. This gives not only a very important social benefit to around 9K people, but it gives an important economic sustainability to the business given the very strong national sourcing in moments of high import taxes and a volatile exchange rate.

Going to **slide #9**, I want to speak about the consolidated financial and operational highlights.

Our revenue was COP\$5.5 B Colombian pesos, growing by 18.6% and sales grew by a very strong 19.7%. The contribution to this result in the top line came from the three countries, which had important growth from the innovation process representing 43% of our sales, in Omnichannel strategies grew fifteen percent in the quarter.

EBITDA consolidated for Grupo Exito was COP\$387,000 growing by 9% with a margin of 7.1% and if we exclude from the basis the benefit of local taxes discountability eliminated in the tax reform

and if we exclude the non-recurrent real estate income, the comparable growth in EBITDA would be 21.5% with expansion of margin.

Net result was COP\$45 thousand million given specially three circumstances: higher interest rates in Colombia, higher TUYA financial business provisions, and a higher share of minority interest from shareholders or partners given the Uruguayan solid results.

If we go to **slide #11**, we can see the behavior of the top line during the quarter which is strong in all the country business units. Sales growing by 19.7% in the consolidated basis and if we look at the two years for the first quarter the growth would be a very important 45.9%.

Colombia Mix Approximately 70% of sales in this quarter growing by 9.4%. Important to consider that this growth is negatively affected by around 5 p.p. in the base line, even this year with not have a non- VAT Tax Day vs last year.

Same store sales grew by 6.1% impulse mainly by food sales that grew 14.4%.

Exito brand had a growth of 7.1% and same store sales 3.3%. Bear in mind that Exito sales had all the impact of the non-VAT tax in the base line given the important share of non-food products that the Éxito hypermarkets had.

Carulla grew by 19.2% and SSS 20.6%. Important to highlight the share of Omnichannel in Carulla, 22%, the highest in all the Group and I would say one of the highest in any food brands in all Latin America and even compared to the United States players, food in Carulla grew by 19.3%

The low-cost brand grew by 10.7%, SSS 6.3% and Surtimayorista had a growth of 15.8%.

If we continue in **slide number 11** and speaking about Uruguay, this country had a very strong quarter in all aspects, not only in sales but also in profitability. Its local sales in Uruguayan pesos grew by 13.5% which compare with inflation of 7.3% this is impulse mainly by a very strong tourism in the Eastern part of Uruguay, in the summer season, and by the investment that Uruguay is receiving from neighbor countries.

The Fresh Market innovation, which you must recall, started in Uruguay, now represents 60% of sales and the Fresh Markets stores grew by 19.6%, clearly adding dynamics to the sales growth of our brands in Uruguay.

In Argentina our operation Libertad sales grew by 129.5% in local currency which is very positive compared to a very high inflation of 107.5%, so it's around 22 points above inflation. SSS at 100% growth and the main contribution even though we had a very good performance of the hyper markets and the real estate business, but the main difference came from the introduction of the cash carry format in Argentina, Libertad opened in the last eighteen months around ten mini mayoristas, cash carry, and now represent, 13% of the total sales of the business unit.

In **slide #12**, we speak about Omnichannel performance. Omnichannel sales came to around COP\$450 thousand million, it is incredible that now we are arriving to sales in one quarter need to one hundred million dollars, depending on the exchange rate, but this shows the solid performance of this pillar of growth of the company.

Sales in Omnichannel grew by 13.9% that is ahead of the goals of Colombia, and this was imposed mainly by our main emphasis, which is food home delivery sales, that grew by 29% and consolidated its strong leadership in Colombia that measured by Nielsen is around a 52% share in food. The share of omnichannel sales within the total Colombian sales was 12.3% compared with 11.8% last year and we had a total of around 4.1 million home deliveries in the combined efforts of our ally Rappi and our own managed deliveries.

Food sales have a share of 10.8%, one of the highest in all America boosted of course by last mile deliveries.

Non-food omnichannel decreased by 3.1% specially by the base impact of the non-VAT day in comparable if we exclude this impact, non-food would have grown an around 26%.

It is important to highlight the increase in share of our marketplace, GMV is growing in the quarter by 28% and its share is 29% of total e-commerce non-food sales.

It is important to highlight the growth of Misurtii, our B2B app, which was launched around 18 months ago, now growing by 68% and delivery in around 25 thousand orders to specially the mom and pops.

Our Turbo Project an exclusive alliance between Rappi and Carulla that is ten minutes maximum home delivery is growing 175% and its consolidating by the great experience it gives to our customers.

Slide #13. we see how our innovative formats are going, they are key for profit and sales growth. As a whole they have a share of 41% of the total Exito sales in Colombia.

The Exito wow stores now represent 34% of the total Exito sales those stores with the maturity of more than twenty-four months grew by 27 points additional to the growth of the rest of the Exito brand with an ROI of 62%.

In the case of Carulla Fresh Market which represent now 61% of the total sales of Carulla in Colombia grew by 17% also on top of the rest of the Carulla brand stores and with an ROI of 19% while our Surtimayorista, cash carry, representing now 5.2% of the sales of the company and with expansion plans for this year of 25 stores has an ROI 24% which is amazingly positive for all discount, low cost, format as such.

Going to **slide #14** we speak about our asset and traffic monetization. I am going to refer to the financial business, Puntos Colombia and to our Real Estate business.

In the financial retail business Tuya which is a partnership 50/50 with Bancolombia, Tuya has very strong fundamentals, it has two million cards issued, after a selected reduction of cards, giving the need to take scoring decisions in a moment of high interest rates and high impact on consumers. We have a portfolio of loans of 4.1 billion, non-performing loans 30 days in a high single digit with an increase reflecting the situation in interest rates. Tuya has for the last 13 years been rated as triple AAA, a very solid state. The new business of Tuya that is doing and which is going in the right direction is banking as a service with other brands like Alkosto, an important

retailer in digital products, Claro the main telco in Colombia and Transmilenio Public Transportation System, in Bogotá.

Puntos Colombia, our loyalty coalition is every time stronger even though is a young business. Now it has with the customer base of Exito and Bancolombia 6.3 million frequent customers that issue and redeem points in a frequent way.

Now this represents those households that manage Puntos Colombia around 1 out of 3 households in Colombia. We have a hundred and sixty-eight allies' brands that is brands that use the ecosystem to be able to use our points for their own loyalty and for their own growth in sales. This allies brands grew by 29% showing the attractiveness of Puntos Colombia. And they now represent 32% of the redemption within the ecosystem, which is key to demonstrate how important and attractive Puntos Colombia is.

In the horizon of Puntos Colombia we are working in three initiatives: loyalty as a service in a digital platform for Small and Medium sized enterprises, Payment Systems and instruments, especially those who can use Puntos Colombia as a means of payment and media services given the strong representation of this customer base and the important information that is there content.

Slide #15, we are going to Real Estate, is a bright point in the quarter results as it has been in previous years. Now after pandemic with high occupation of 96.6% which is above the percentage before the pandemic. Very important growth in rentals and administrative recurrent fees of 22% in the Colombian results.

Viva malls remains with the hidden value, the valuation that has been given to the business by our partner represents around 1.4 x the book value of the business in the Exito books.

We are in the process now of construction of 20 thousand additional GLA meters, 17 thousand of them to be occupied by the second IKEA store in Colombia and the only one in Medellín Metropolitan area.

And now I give the word to **Ivonne Windmueller** to go through financials and then, I will come to some conclusions before the Q&A session.

Thank you, Carlos Mario. Good morning everyone, and thank you for joining us this morning. I am glad to be here with you today presenting the financial results of the company.

Let's continue to **slide # 16** to review the financial performance by country where we see a common solid top line growth and the effect of inflationary pressures in the costs and expenses that were partially mitigated thanks to the continuous action plan implementation.

In Colombia, as previously presented, Net revenues at COP\$3.8 billion with a 8.4% growth driven by the innovative formats' performance, the increase of the omnichannel penetration in 44bps, and the positive contribution of the Real Estate business. These despite the basis effect of non-recurrent income and non-VAT day.

Gross margin at 22.6% with a non-recurrent net effect of -44pb. The non-recurrent income positive effect in gross profit in 1Q22 was around COP\$43,000 million related to Real Este development fees and sale of property and for 1Q23 around COP\$29,000 million. In comparable bases, gross margin with positive evolution of +19pb.

SG&A grew 15% and reached a rate of 20% reflecting the inflationary pressures on fixed costs such as wages and utilities, but additionally with an effect of 50bps coming from higher operational tax, that after the tax reform passed on December 2022, went from being a 50% tax credit to fully deductible.

Colombian recurring EBITDA decreased 10.8% at COP\$233,510 million and 6.1% rate deteriorated in -132bps, a positive operational contribution driven by the commercial activity and Real Estate business, but offset by the inflationary pressures on costs and expenses and non-recurrent base effects. In comparable bases, when we isolate RE non-recurrent income and operational tax effect, recurring EBITDA grew 1.4% and -40pbs in rate.

Uruguay with a top line that grew 52.5% in Colombian Pesos and 13.5% in local currency, around 6pp above inflation, driven by the positive dynamics during the tourist season and fresh market performance.

Gross profit grew 56.5% and reached a rate of 35.5% improving 90pbs by the mix of sales and commercial and promotional performance. SG&A grew below revenues and almost stable in rate, thanks to cost control action plans that mitigated pressures on labor costs.

Recurring EBITDA at COP\$139,583, grew 62.5% and improved its rate 74pbs, reaching 11,9%.

And finally, Argentina continues the positive trend with net revenues growth of 129.5% in local currency, thanks to the outstanding performance of the C&C format Minimayorista leveraging the sales growth 23PP above local inflation, and the Real Estate business performance with strong occupancy levels.

Gross margin at 33.4% deteriorated in 48bps due to higher price investment to face inflationary scenario and increased participation of the C&C format. SG&A dilution of 89bps originated from solid sales performance and strict cost controls and efficiencies.

Recurring EBITDA grew 92.1% and reached \$14,192 million with a margin gain of 67bp.

Let's move forward to **slide #17** to review the Company's consolidated result.

To highlight the double-digit top line growth of 18.6%, boosted by sales in Uruguay and Argentina over inflation levels and Colombia performance despite non-VAT day in the basis. Positive contribution of the Real Estate and complementary businesses offset by non-recurrent income base effect.

Recurring EBITDA at COP\$387,285 million with a 9% growth reflecting the solid top line performance, gross profit improvements in Uruguay and cost action plans across the three operations partially mitigating inflationary pressures. On comparable bases, EBITDA grew a 21.5% and improved +13pb.

Net Group Share Result for the quarter was COP\$45,118 million, a decrease of 30.1% by effects that we will review on detail further ahead.

Let's move forward to **slide #18** to have a more detailed review of the recurrent EBITDA.

On the bridge on the bottom, EBITDA in Colombian perimeter, the retail and Real Estate operation had a positive contribution, nevertheless this performance was offset by:

- i) non-recurrent Real Estate income, COP\$42,500 million in 1Q22 and COP\$29,400 million in 1Q23 with an impact of 40bps.
- ii) COP\$18,000 million of higher operational tax impacting 52bps

Isolating these two base effects, on comparable basis, EBITDA in Colombia grew 1.4%.

In addition to the previous non-recurrent effects, EBITDA had also one-off effects such as the non-VAT day and Tuya Royalties.

In the consolidated view, we had positive contribution from all operations, to highlight the Uruguayan, but offset by the non-recurrent effects in Colombia mentioned before with 75bps of impact. On comparable basis consolidated EBITDA grew 21.5% and improved 13pb.

Going to **slide #19**, the group share net result showed positive contribution of operating performance coming both from the retail and real estate businesses, with lower income tax thanks to a higher nontaxable income from Uruguay and lower differed tax by a higher tax loss.

Negative variations coming from:

- i) Net financial result due to higher interest rates increasing cost of debt
- ii) Higher minority interest coming from improved performance in Uruguay and Real Estate business in Colombia with Viva Malls
- iii) Impacted result in the financial business Tuya due to higher provisions amidst non-performing loans deterioration across the financial sector

- iv) And higher non-recurrent expenses related to the Depositary Receipts listing process.

Finally, on **slide #20**, regarding the cash and debt position of the company, we would like to highlight a last 12-month Free Cash Flow of COP\$115,000 million.

Net financial debt remains stable when excluding COP\$534,000 million of dividend payment and buyback operation in 2022; Cash level showing the low base effect of year 2022 closing and additional gross debt of COP\$387,000 million, from higher revolving credit lines in use.

Solid Cash flow position of the Company allowed the investments required to follow the growth strategy and to comply with payments to shareholders.

Summary Financials

Now, as a summary for the financial results, we had a Colombian perimeter with high single digit sales growth thanks to the performance of innovative formats and an omnichannel that showed double digit growth and improved penetration in 44bps, with other revenues decreasing by non-recurrent base effects. SG&A with inflationary pressures and base effect of operational tax.

Uruguay with sales performance above inflation and gross margin benefited by promotional performance with an EBITDA margin at double digit improving its level.

Argentina's sales, over 20 percentual points above local inflation, gross margin reflected mix effect and price investment, but together with the control of expenses improved 67bp its EBITDA margin.

Consolidated revenue grew at double digit and SG&A with pressures partially mitigated by the constant cost action plans and efficiencies, that lead to an EBITDA growth of 9%.

Net result with positive operational contribution offset by non-recurrent and one-off effects and a solid capital structure and cash generation to shareholders.

I now give the floor back to Carlos Mario for the conclusions.

Thank you, Ivonne. Going to **slide #22**. We see that we had a very strong quarter with sales growing 19,7%, two-year sales for the first quarters of 2022-2023 growing by 49% EBITDA growing 9% and in comparable base by 21.5%

With Colombia growing 9.4% and taking in consideration 5 points of non-VAT days sales in the base it would be at comparable near to 14%.

Food sales as a driver with an increase of 14.4% and a very strong increase in Omnichannel home deliveries sales of 29%.

Comparable EBITDA in positive grounds in Colombia despite the expense pressure and the operational tax discount we had in the base.

Uruguay in its best moment growing above inflation near six points with an EBITDA increase of 62% and a margin which is top in the region of 11.9%.

Argentina, clearly resilient and propositive with sales growing 29 points above inflation with a Cash & Carry contribution now a 13% of sales and ABITDA growing 92%.

I finish by saying that it is a very important historical moment for Exito in which we are completing the file of the DRs before the stock exchange New York and Brasil plus adding an additional liquidity in the Colombian market and that this will permit the company fundamentals will gain additional visibility from the investors.

Thank you very much for your attention and now we open it to the Q&A.

Maria Fernanda Moreno: I would like to remind all participants that you can raise your hands to ask questions or send them through the chat available if you are going to ask your question out loud, please indicate your full name and the company's name. If you send the question through the chat available, please indicate your full name and company's name and I will proceed to read your questions.

We have a question from Nicolas Larrain from JP Morgan. Nicolas, please go ahead.

Nicolás Larrain. Thank you, Maria Fernanda, Carlos Mario and Ivonne for taking my question. I have a one specific on Colombia, would you please explain a little bit more about the operational tax change you mentioned if this should be recurrent impact or if some way can offset all the impact in the quarter for long. Thank you very much.

Ivonne Windmueller: Thank you Nicolas for your question, the operational tax that is coming from the tax reform that we had on December, 2022 previously this operational tax we were able in the fiscal book to have a discount of the 50% of the value of the tax, which was an impact only 50% in the accounting books. After the tax reform this dis countability was taking off so, the tax is 100% deductible impacting P&L in 100%. As your question, it would be recurrent, we are going to see this effect quarter by quarter as we don't have it in the base

Nicolás Larrain. Thank you, Ivonne.

Maria Fernanda Moreno: The next question is from Julian Ausique from Davivienda Corredores

Julian Ausique: I want to thank you for having my question. I would like to understand better the impact that we have in other revenues in Colombia because we saw a decrease of the revenue of about 3.5%, I understand it was something related with the real estate business, but if you can give us more color about the impact and also I would like to understand the amount of the provision that the Colombia operation had because of Tuya. Can help me with these numbers. Thank you.

Ivonne Windmueller: Thank you Julián, regarding to your first question, the Net Revenues impact are the following: in the first quarter 2022 we had COP\$42,500 million related to real estate development fees and around COP\$31,000 million additional sale of property, the impact that we have in the first quarter 2023 is a sale of property of COP\$29.400 million having a net impact of COP\$13,000million.

For the second question, we had an increase of the provisions in Tuya, I just want to remind you that those provisions expenses are not within the Grupo Exito P&L because we have Tuya by share of profit but is impacting Tuya results and we have an increase of 120% of provisions when compared to first quarter 2022. I hope I have answer to your questions.

Julián Ausique: Yes, thank you.

Maria Fernanda: We have a question from Nicolás Larrain.

Nicolas Larrain, yes Maria Fernanda, thank you for taking the follow up, I want to ask how are you seen the performance specifically in Colombia and Uruguay.

Carlos Mario Giraldo: Nicolás, we have to be prudent at this moment given the filing that we are doing in CVM and SEC we cannot deliver guidelines on top, what I can only say it that Colombia is going to continue to make evident a slowdown in economy, GDP is projected a one percent growth.

We saw this quarter and I think it would be something that is going to be expressed in the rest of the year, the volumes slowdown between three and four percent while traffic increase of more than six percent. This is interesting because it shows that customers are there, they are coming with more frequency, but with a lower size of ticket, reflecting, of course the inflation impact on people.

In the second Q, we have to see that we are also going to have in the base a non-VAT Day this is the last one and I think that is positive that we no longer have a non-VAT tax because it will reflected a on eday huge sale impact of the supply chain of the organization. We continue to see a consumer trading down and that is express, for example, in the unbeatable portfolio of products which offer the best price in the market against local competitors or national competitors with more than five hundred products.

We continue to see a good dynamic in last mile delivery and pressure in expenses in a very good performance of a real estate business. The good news for Colombia is that food inflation is showing that is giving a break to the consumer it has been reduced from 28 percent to 21 percent in three months and if things goes as we see it continue to reducing in a good way.

Speaking about a Uruguay y economy continues to perform very strongly that conference of investors in Uruguay es amazing and you can see the exchange rate with continues to see revaluation against the US dollar in many months and with our business to continue in very positive grounds that is as much as I can say for this moment.

Nicols Larrain – JPM Understood Carlos, Mario, Thank You so much for the color.

Maria Fernanda Moreno. OK, if there now for the questions at this time I want to recall to Mr. Carlos Mario Giraldo to closing remarks.

Carlos Mario Giraldo: Thank you for being here. I think that we are very satisfied with what we have seen in an historical growth of 45% in two years in our first quarter.

We can see also the contribution of the different business units, this time that is the growth was impulse by your International Business Units. We can see also that we are having a payback of our strategy consistent with innovation, omnichannel and with complementary business and even though the Financial Business is having a momentum of high provisions, other businesses like real state are taking the stance and giving us a very positive contribution with of twenty two percent in its real income and we are also using a very interesting trend coming from our loyalty allies Puntos Colombia.

Éxito persists in a consistent strategy continuous with an important expansion plan focus on innovation format transformation but especially this year in the expansion of new meters through the Surtimayorista Cash and Carry going to the mom & pops which represent 47% of the total consumer goods in Colombia.

Éxito continuous with a very strong financial bases with cash generation, low debt, important growth opportunity. I believe that moment of uncertainty in the markets and Colombia is not the exception.

I will thank you very much for being here and I hope to see you in our next conference.

Maria Fernanda Moreno. This concludes the conference, thanks for participate.