49148026_11-15-2019 Conferencia Grupo Éxito

Operator: Welcome to the Grupo Éxito's third quarter 2019 results conference call. My name is Hilda, and I will be your operator for today.

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session.

During the question and answer session, if you have a question please press * and then 1 using your touchtone phone.

Please note that this conference is being recorded.

I will now turn the call over to Mrs. Maria Fernanda Moreno, Investor Relations Manager. Mrs. Moreno, you may begin.

Maria Fernanda Moreno: Thank you, Hilda. Good morning, everyone. Thank you for joining us today for Grupo Éxito's third quarter 2019 call.

At this time, I'm pleased to present Chief Operating Officer, Mr. Jacky Yanovich; Chief Financial Officer, Mr. Manfred Gartz, and Chief Executive Officer, Mr. Carlos Mario Giraldo.

For this quarter results, please note that the sale of Casino of the shares that Éxito held in the operating subsidiaries CBD and in the holding subsidiaries, Segisor and Wilkes, was approved by the Board of Directors and at the general shareholders' meeting held last September 12, 2019, at a price of BRL 113 per share.

Accordingly, such subsidiaries were classified as discontinued operations and their assets and liabilities held as of September 30, 2019, were classified as non-recurrent assets and liabilities held for sale.

Now please move to slide three to see the agenda. We will cover Grupo Éxito's financial and operating highlights, performance by country and consolidated financial results for the third quarter 2019.

The call will conclude with the Q&A session, and thank you for your attention. I will now turn the call to Mr. Carlos Mario Giraldo.

Carlos Mario Giraldo: Thank you, Maria. I want to thank you all for being present in this conference call.

I will start with slide four. Here, it's important to understand the new perimeter of consolidation of Éxito. Once the tender offer is finalized and there's settlement and there's a closing of that transaction, after which GPA shares held by Éxito should have been transferred.

Once everything is complied, which we estimate will be by the end of November, there will be a new perimeter of consolidation. If you see the data for the second quarter of '19, we showed the consolidation as it was before with Brazil, with GPA, and then you will see the third quarter of '19, where the Brazilian assets are held for sale.

Here, in this new consolidation perimeter, the EBITDA share of Colombia is 79% of total EBITDA; Uruguay, that is Grupo Disco, 18%, and Argentina, Libertad, 3%. The total GLA of the real estate business being so material both for Colombia and Argentina is 929,000 square meters of GLA.

Let's turn to slide 5. This is probably the most dense slide in all the presentation, and I will review it carefully. It shows the principal financial and operating highlights of the third quarter.

What we can say, it's a quarter with an increase in net revenue of 2.8%, which is equivalent to 7.5% when we exclude the FX impact. An 11% increase in recurring EBITDA and a 7.6% margin of EBITDA, which improves by 56 basis points.

Going through the financial highlights, we can say that it's a very important quarter in top line, driven by innovation, by omnichannelity, and the positive impact of complementary business.

At the consolidated level of the 3 countries, we have expenses under control in all the three countries, minus 67 basis points in expenses, thanks to productivity efforts.

Recurring EBITDA, as I said, improved by 56 basis points, not only because of cost control, but especially because of top line progression. And finally, net income is driven mostly by operational activity.

Going into the operating highlights, it's important to note that e-commerce sales continue with a very dynamic progression of 30%. Home deliveries reached a total of 2.7 million, increasing 27%. This includes last mile, but also home deliveries coming from marketplace and e-commerce, and our applications have a very important download of 1.5 million.

Corporate governance and sustainability is an important chapter at this very moment for two main reasons. The first one is the transaction that is now going through. In this transaction, it is very important to note that corporate governance has been rigorously complied both at Brazil and Colombia levels and the audit committees of independent members have had a protagonic place in the finalization and big decisions in this transaction. The tender offer process is ongoing and will be finalizing the 19th of November.

It is very important to say that Éxito was included in the Dow Jones Sustainability Index for emergent markets for the seventh consecutive year, leading retail in Latin America in this very important index.

I would also note that we announced during the quarter very important management changes in Éxito. Jacky Yanovich was promoted as COO, Chief Operating Officer of the company.

Jacky is somebody with 16 years of retail experience in the company with a very important career, even though he's still very young with 45 years.

Then we have Guillaume Seneclauze promoted as a VP of Retail. Guillaume has a wide experience in retail by leading important positions in Carrefour Chile, Poland and Italy, and by being the CEO of Big C, Vietnam, and later by being the Director of the Carulla format.

Within the changes, it's important to highlight that Irina Jaramillo was promoted to head the Carulla brand and format. She has nine years of expertise in the company, most of them leading the textile business, where she did a magnificent job. Irina is the first woman to lead one of the big important formats of the company, and that is a very satisfying for the organization.

Going to slide six. Here, we see our total sales for the quarter and the same-store sales for Colombia. This is the strongest quarter in the last three years, with a progression of 5.8% in same-store sales and accumulation for the year-to-date of 3.8%.

If you look at the graphic in the bottom, you can see that it's the seventh quarter in a row with a permanent improvement in total sales and same-store sales of the company. And if you look at sales comparative with one year before, this third quarter has 500 basis points, more increasing sales than the third quarter of 2018.

Going to slide seven. Here, we get into the detail of the performance of the different brands. All the brands have a good tendency. It's important to say that it was the Éxito brand, mostly composed by hypermarkets and supermarkets which lead the increase in sales, with a total same-store sales of 6.9%, and that Carulla also had a positive progression with 2.5%, mostly impulsed by the Fresh Market renovations.

I would like to note that Carulla was awarded by American Retail as the best retailer in Colombia and one of the best in Latin America. And I would also say that our low-cost brands, Surtimax and Super Inter, altogether had a very important recovery of 720 basis points against the same sales trend one year before.

Finally, our B2B business continues growing in a very healthy way. In the Surtimayorista, we now arrived to represent a 4.4% share of the total sales of the company, with an increase in same-store sales of 17%.

Going to slide eight. You can see here the result of innovation in formats. Clearly, one of the big changes the company has done in the last three years is to decide to act differently in the market. Of course, take care of the importance of having low prices in basic products, but the most important is to grant superior experience to our customers. It has been done in three ways. One, through the Éxito WOW. Éxito WOW is probably one of the few big innovations in hypermarkets, not only in our continent, but worldwide, with amazing results. 15.7% increase in sales in eight stores. We will end with nine stores with the WOW concept and they will now represent near to 17% of the total sales of the Éxito brand.

Also Carulla, which lead this innovation two years ago in a synergy that we brought from Uruguay, this Carulla Fresh Market is now arriving to nine stores. It will end the year with 13 stores, and it will represent above 20% of the total sales of Carulla becoming very material. And as of now, its sales of the Fresh Market stores are increasing near to 15%.

Finally, I have to speak about the Surtimayorista, where we will arrive now to 30 stores, and they are having a very sustainable and healthy increase in sales and giving us a new market which we didn't have, which is the market of professional customers, especially the mom-and-pops, which is a very important target in the Colombian market.

I would also speak about one of our private brands. Even though we're working a lot of value private brands, especially in non-food in the textiles, I would also note that Taeq, private brand, is the only private brand in Colombia, which is focused in portfolio healthy products. It is increasing by 25%. It will represent near to US $18 million of sales by the end of the year, and it is now the fourth most important healthy brand in all Colombia, including the supplier healthy brands. And I would say that in some years, it can aspire to become the leader because of the transversality that it has in many categories. This is another proof of the emphasis that the company has in creating value, creating differentiation and giving additional value proposal to our customers.

Going to slide nine. This is all about omnichannelity, what I call also omni-customer, that is, how to serve the customer in a seamless way, regardless of what his preferences are. In these different ways of serving, now they represent 4.4% of the total sales of the company, increasing by 86 basis points, and increasing in this quarter by 30%. This is very important because it includes the e-commerce, the last mile, and I would make a point in this call about the digital catalogues. Digital catalogues are present in the most important stores, and here, the customer, after visiting the store, can get online and directly order any product that we have in all the logistics system of the company, in all the supply chain, but also in the marketplace. So it's a very interesting way of connecting the physical world with the virtual, a real omni-channel solution.

Going to slide ten, we speak a little bit about our delivery model. Delivery models today are very important. It's the big need especially in the most congested urban areas, and it is the way about getting to the customer wherever he wants in an efficient way that will also be profitable. Here, we are doing a combination of our own deliveries, now adding electric cars first in Medellín and later in Bogotá, and also third-party deliveries with our partners, to comply also with the whole needs of our customers.

We can see here the dark store that we have in Medellín. We will have additional dark stores to make these deliveries more efficient, many of them in the depot centers of our best located stores, so this is a point in which we will be investing a lot and making a lot of emphasis in the near future.

About digital penetration in slide 11, we are now making day-to-day emphasis to enhance our customer experience and to also enable more efficient work inside of the company.

Speaking about customers, it is very important that we are now working a lot in easy-to-pay models. There have been many pilots, but probably the three that are working the best and that will have a lot of expansion within the company are: first, self-checkouts for some of the stores, which are very well accepted by our customers; second, shop & go, that is, the customer shops within the store and then leaves us all what he bought, so that we will take it home, which they really appreciate because it helps with the lines in the cashiers; and very important is the Mobile POS, which are enablers through cell phones and tablets, which permit us to help the customers to make their purchase in any part of the store and especially in highly congested hours. This is something in which we will continue to work and expand because it's the most important aim of our customers to have their time consumption in a very efficient way.

Going to slide 12, speaking about our applications, this is a clear synergy with My Discount application of GPA in Brazil. We have downloaded now -- our customers have downloaded 1.5 million, the application has been downloaded. And for 540,000 customers have used directly discounts through the application. We are also working a lot in the wine applications, in the wine recommendation, especially also using the good practice that we brought from Adega in Brazil.

In slide 13, we make a point of our real estate business, Viva Malls, which is our private vehicle in alliance with FIC, is today the first commercial real estate operator in Colombia. Our recent shopping mall, Envigado, which is the third shopping mall in Colombia by traffic, and Tunja, altogether had 33 million visitors during the first full year of operation. They were highly successful and very well accepted. The important point about our real estate business is differentiation also and a good marketing and digital connection. As differentiation concept, which we have in some of the shopping malls and we'll be taking to the other shopping malls, we have Viva Park, which is a fully dedicated to children entertainment. Viva Sports, Viva Bistro, which is an area for eating of medium and high level, and all the digital content.

Going to slide 14, a very important mechanism of monetization is Puntos Colombia. Puntos Colombia arrived during the quarter to 3.1 million customers with habeas data, with complete habeas data and permission, so that the database can be in a responsible way used. We arrived also to 54 allies, which become part of the ecosystem of Puntos Colombia. 61 million transactions, increasing 8% against the comparable period of the last year.

Going to slide 15, this is a very important bridge because what it shows is that of total increasing sales during the quarter of 5.1 points, 3.9 points came from the Éxito WOW, the Carulla Fresh Market, the Surtimayorista and the omni-channel applications. That is to say that 76% of growth came from new things which have been implemented in the last years and which contribute to a very important differentiation for the company.

I will now hand it over to Manfred Gartz, our CFO, and then I will make some final comments.

Manfred Gartz: Thank you Carlos Mario and good morning everyone. We'll continue on slide 16, starting with the operating results in Colombia. First, quarterly net revenues grew 5.8%, reaching COP 2.9 billion and posting the strongest performance in the last three years. Top line evolution is the result of first, the concentration of openings of refurbished stores that includes five WOWs, three Fresh Markets and five Cash & Carry; second, the increased performance of innovative formats; third, a strong omni-channel growth, and fourth, solid performance of all our complementary businesses. Other revenues grew 16.8% in the quarter.

On the gross margin side, it reached 23.1%, improving 14 basis points versus the same quarter last year. This result is mainly explained by the consistent commercial strategy in retail business and higher contribution of the revenues.

In SG&A, they grew below inflation in the year-to-date view, growing 3.2%. And despite the effect of the 6% minimum wage increase and the property taxes, these expenses trend reflects internal efforts and implementation of cost-savings methodology across all operating units. As a result, the Colombian operation at recurring EBITDA margin level gained 47 basis points during the quarter, reaching 7.6%, reflecting expenses efficiency and solid top line growth.

Please move forward to Uruguay to start seeing our international operations. Here, it's important to say that fresh market concept remains as key for our sales performance through differentiation and superior service with concepts that include ready-to-go food, premium fishery, fresh foods and vegetables, and solutions for the customers such as self check-outs and others. As of now, we account for 16 stores of the country growing 7.4% top line, way above the regular stores. These 16 stores account for about 35% of total company sales, and this is really supporting our top line evolution in the country.

Let's look at the next slide to see the operating performance. Net sales in Uruguay evolved at 4.8% in local currency versus 1.9% of the second quarter. Adjusted by calendar effect, it's important to highlight first, the performance of the Fresh Market as a value format; and two, the results of new commercial proposal in our express format, with tailored assortment and better promotions. This led to net revenues reaching COP 605,000 million, growing 4.5% versus the third quarter of last year and slightly impacted by FX by 0.2%.

Gross margin reached 33.1%, very in line with last year, and this happens despite intensive promotional activities in order to face challenging consumption context.

Very important to highlight in the bottom line. Recurring EBITDA was COP 51,000 million and we posted an 8.4% margin. That reflects almost 90 basis points gain, and they were gained due to better top line evolution and, obviously, the expense dilution.

Let's move now to slide 19 and take a view on our strategic lever in Libertad. Here, it's very important to say that our dual retail-real estate model is very important as a hedge against macro-economic activity. We are the first shopping center operator outside Buenos Aires and the third player in the country, having 170,000 square meters of GLA and 15 commercial galleries. We can afford to maintain a sustainable expansion model, thanks to, I would say, first, a strategic low vacancy program that we have, well-positioned brands, and third, the continued development of new GLA in parking slots and other spaces.

Currently, it's important to highlight that despite the current macro conditions and economic conditions in Argentina, we held 93% occupancy rates, and it's very consistent with the evolution of our operational results.

When we move forward to see the see the figures of Argentina, we'll see that net revenues grew 75% in local currency and 36.1%, excluding IAS 29 effects. Please remember that this is the adjustment that has to make because of the hyperinflation economy. Lower purchasing power affected our sales as well as the turmoil at the economic front.

Important to say that non-food drove the evolution being common electronic the most dynamic categories. Gross margin ended at 35.2%, gaining 52 basis points versus last quarter of last year, thanks to, first, efficient purchases in high inflationary context, second, price optimization; and third, consistent contribution from the real estate business.

On the SG&A side, we had strong pressure derived from devaluation and especially for utilities expense adjustments that were partially mitigated by internal efficiency projects and cost saving programs. Finally, at the recurring EBITDA level, the margin reached 4.3% and past the prior performance of the year, our EBITDA level remains resilient to a macro environment, once again, thanks to our real estate hedging.

Let's move to slide 21 and see the consolidated results. Top line reached COP 3.6 billion, growing 7.5% when excluding the negative effects of 4.8%. Revenues benefited from the innovation levers in Colombia, better performance in Uruguay and the resilient figures that we just mentioned in Argentina.

Also, it was important to mention that over the last 12 months, we have the contribution of 24 openings or refurbishment of stores during that period. SG&A remains under control, growing below inflation in all three countries thanks to efforts and efficiencies in all our business units, and the recurring EBITDA margin gained 56 basis points in the third quarter, reaching the same levels that we had last year by this time.

Now, please move to next slide to review the net group share results. The third quarter of 2019 net income finished at COP 11 billion, improving COP 40 billion versus last year and we can explain that mainly by first, better performance at operational level in Colombia, Uruguay, and the financial result reduction, thanks to lower financial expenses in Colombia. That will be the main drivers of the change in the net results view.

Finally, on slide 23, I would like to show the evolution of the net debt situation at the holding level. I think it's important to say that the net financial debt closed at COP 3.4 billion, increasing 5.1%. This is mainly due to the gross debt closed at COP 3.8 billion. It grew by COP 140,000 million due to the higher Capex and negative effects that we had during the period. But it's very seasonal and it has no further effect during the year. Cash and equivalents closed at COP 544,000 million, very in line with the usual seasonality.

I think having finished that, at this point, I will return the call to Carlos Mario Giraldo.

Carlos Mario Giraldo: Thank you, Manfred. I will go directly to slide 24, with the main conclusions and wrap up.

First, at the consolidated level, we have a new perimeter, which excludes Brazil, which is accounted starting through third quarter of 2019 as a discontinued operation.

Our recurring EBITDA margin expanded by 11% to a 7.6% level of margin. Net income was driven especially by the operational performance, and all of this is supported mainly in innovation, digital transformation, omni-channel strategies, and of course, the income coming from the monetization of our traffic and our assets.

In Colombia, we had the strongest net sales performance in the last period. Net sales and same-store sales grew above national inflation and created traffic gains, which is very important and which has been consistent during all the year. There's a clear positive outcome of the ongoing format renovation strategies, which we will continue, not only with more stores, but by introducing new concepts and new proposals into the currently reformed stores so that innovation will be a permanent trend and not only a stationary decision.

A solid contribution from omni-channel plus 30% increase in sales, now representing more than 4% of total sales and being material, as it is going to continue to be very dynamic.

Innovation in hypermarkets is probably one of the most important things to highlight because it differs from what's happening with hypermarkets in other parts of the world, and Carulla awarded us the Colombian best retailer by America Retail.

In Uruguay, a clear same-store sale recovery against what we have seen in the previous two quarters, independently of the situation in Argentina and the consumption status in Uruguay, and a solid contribution of fresh markets, which in Uruguay become very material, arriving to near to 35% of total sales and, of course, very successful cost controls with cost way below the increase in inflation.

In Argentina, a very solid contribution from real estate business, which gives us a hedge against hyperinflation, devaluation, and also the economic situation and a positive recurring EBITDA margin performance, which differs from what many other businesses are seeing at this very moment in Argentina.

This would be the presentation for the moment. We now open it to Q&A and later, I would come to some final remarks.

Operator: Thank you. We will now begin the question and answer session. If you have a question, please press * and then 1 using your touchtone phone.

If you wish to be removed from the queue, please press the # sign.

If you are using a speakerphone, you may need to pick up the handset first before pressing the numbers.

We have a question from Juan Felipe Amaya from Davivienda Corredores.

Juan Felipe Amaya: Thank you. Congratulations on the results. I have one question about the resources that you will use, given the sale from GPA. If you could give us a guidance of the indicators that we should expect after you pay debt, that I hope you will do that.

And also, I would like to know, recently, I know that the hard discounters are going to open more stores in the Caribbean Coast. What are your strategies to offset this expansion? We could see more openings of Surtimayorista over there and/or conversion from any other banner? Thank you.

Carlos Mario Giraldo: Thank you, Julian Felipe. This is Carlos speaking. The first thing is that once we have a closing and a settlement, the resources will first be used to pay the debt of the company. Depending on the FX position, we believe that we can get to a payment of the total debt of the structural debt of the company.

Of course, this reduces very much financial expenses in more than COP 400,000 million per year and enables us to continue strengthening our Capex investments.

What I would say is that we won't invest only for the sake of investing, but by doing intelligent investments as we have done in the last period.

We will strengthen the opening of WOW stores, of Fresh Market Carulla stores and of Surtimayorista, accelerating the pace that we have today. But also, we will come back to the first stores that we renovated, and we will do additional innovation in these stores by applicating the new discoveries that we have had in the new stores.

Let me give an example. In new stores, like for example, hypermarkets like Poblado or Colina or Barranquilla or Cali, we introduced a very important innovation, which was food trucks, the food trucks that you might find in the streets of New York, and this has been highly well accepted by our customers, like at least three food trucks within the hypermarket. So we will take those to Envigado and to Country, which were the first renovated stores.

Second, we made a very enhanced proposition for children at the toy section, which includes also some entertainment within the toy section, and also the existence of clothing for children and also books for children, and so now it has been so successful that we're going to take that back to the stores.

We will also enhance our real estate business. Real estate business is having a very important return on investment so it makes a lot of sense, and we have now very interesting locations to develop new Viva brand malls. The first ones will be in Suba in Bogotá, which will be starting probably in the first half of next year, and Puerta del Norte in Medellín, in the north part of Medellín, which is a very good shopping mall today. We would be increasing the size of that shopping mall, but we also have at least three more projects.

As we said during the general assembly, we have a total plan of around COP 800,000 billion that would be invested during the following four years, not only by us, but also it's a joint investor with our partners, which have an important part of Viva Malls, but real estate will also be part of the investment, and clearly, technology. Technology and logistics, to have more dark stores, to invest in our applications, to invest in technological solutions for our customers, like the ones I spoke about during the presentation. That will be another important access of our investment.

Altogether, we are going to comply with around US $130 million of Capex this year, and we will probably be increasing that for the next year in some data that we will not announce today, but that we will be announcing probably in the first call of next year when we speak about the full year results. So that would be the answer to the first one.

About hard discounters, yes, they are expanding more in the Caribbean Coast and also in some other parts of the territory. They are an important part of the retailing business. We continue to invest in our value, first price, private brands, also in deliveries, to get in a profitable way to the households, which are around discounters.

But at the same time, we will continue with Surtimayorista Cash & Carry, which I would say, it has more than 3% EBITDA from the beginning. So it's profitable and it goes not only to end consumer, but also to professional consumers. And it is a very interesting response, especially because they are medium-sized stores, which at the same time are kind of wholesalers of proximity. And of course, we would continue enhancing our Éxito, our Carulla stores, and giving the best offers to our customers. So it's having our own route, continuing with our own route, and generating permanent differentiation.

Operator: The next question comes from Nicolas Larrain from JPMorgan.

Nicolas Larrain: Hello, thank you for the presentation. First off, congratulations on the results. I had a couple of questions here. So I wanted to ask you guys about the competitive situation in Colombia, how has it been evolving given the expansion of the hard discounters? And if you could maybe give some details on what are these guys doing in terms of pricing, how aggressive are they being? What is their overall strategy? Is it still expanding or now more cementing their position?

And also my second question on the results on the minority interest, if you could give some more color on the breakdown of that, you know, how much it has to do with malls and additional businesses. Thank you.

Carlos Mario Giraldo: I will take the first one, and then I will hand to Manfred the second one about minority interest.

I want to be very cautious because we have to respect a lot competitors and not speak about their performance or their strategy. But what I would say is that as a whole, discounters account for near 19% of the complete retail surface. A lower participation in sales because of square meter participation.

Number two, they continue expanding, but the important thing to note is that today, their expansion now represents a lower percentage of the total space that they have so the impact in the total market is lower.

Having said this, we will continue looking very closely to pricing. I can tell you that in the products that we have, for example, under Insuperables in Éxito or Máx Precios in Surtimax and Super Inter, we have very comparable prices in the most relevant products of basic food.

But I think that we have to work differently. We cannot address discount stores, filling the country with more discount stores. But we have found a very interesting solution through Cash & Carry, through innovation, through omnichannelity, through last-mile service, and it's working. And of course, we will continue thinking on new ways of growing our sales while creating value, not only to our customers, but also to our shareholders. Because I think our shareholders are looking to profitable business looking forward. Manfred?

Manfred Gartz: On the next question that you have. Please remember that since this quarter, we classified all the CBD's operation as discontinued operations held for sale so what you're seeing in the third quarter is that the net income from continued operations accounted for about COP 17 billion, out of which roughly COP 18 billion is for the controlling stake of Éxito and you have minus COP 1 billion from the minority interest and those minority interests are mainly the Colombian subsidiaries that you have, and Uruguay and the others.

When you have the net income from discontinued operations, that account in this period for COP 163 billion, from the controlling stake at Éxito, it accounts for minus COP 7 billion and the minority interest is plus COP 170 billion. The net of that, as for the controlling stake of Éxito, would be COP 18 billion on the continued operation minus the COP 7 billion of the non-controlling operation. That's where we end up having the COP 11 billion net income attributable to Grupo Éxito.

Obviously, the discontinued operations did account mainly in the quarter for the incorporation of CBD as IFRS 5. And when you see the year-to-date, you have both the CBD and you have also the effects of Via Varejo that was included in the first half so it's going to have the accumulative effect of both companies.

Operator: The next question comes from Carlos Rodríguez from Ultraserfinco.

Carlos Rodríguez: Good morning. In terms of synergies with CBD, like My Discount and some initiatives in the textile business, is there any change, taking into account that you were controlling shareholders and now is the other way around? I mean what changes could be expected going forward?

Carlos Mario Giraldo: It's very difficult to predict if there will be additional changes at this moment. What I can say is what we are doing now and what's continued to work with GPA. First, since the operation was announced, we continue with our regular meetings of the synergy teams in the different companies in all LatAm. There is continuity in the most important synergies, that is textile brand penetration in the different countries, Aliados both in Colombia and in Brazil, which is working very well, best practices of digital transformation, working in processes and better schemes to work with startups, and increasing the presence of Cash & Carry in Colombia, buying synergy both in services and in products to be sold within our stores and the Fresh Market model.

That's only some of those synergies, they continue to work as we speak and of course, what I believe is that we should continue looking for more opportunities to discuss. Clearly, it has shown that it adds value to all the companies and it gives a very positive return to the shareholders.

Operator: The next question comes from Jairo Agudelo from Grupo Bancolombia.

Jairo Agudelo: I have just one question regarding Colombian operation, and it's in relation to the real estate division. Can you give us a little bit more color on real estate division? What percentage of sales represents, what percentage of maybe operating income?

And also, in one of your previous calls, you mentioned that after the transaction of GPA, you had something close to COP 800,000 million for Capex for the real estate business. Can you give us more color on maybe which projects or in which time frame will those COP 800,000 be expended, something like that?

Carlos Mario Giraldo: Okay. First, we have not made a complete disclosure of every one of the other incomes. But what I can tell you is that of additional income, the two big businesses, the two big contributors are our credit card Tuya, and real estate and I would say that both of them account to near to 80% of the other income contribution of EBITDA to the company.

The second thing is that real estate projects have to be divided in two. One is the big malls, the big shopping malls, and the other one is the small developments that we do besides our stores. For example, in many stores, we are adding additional area or taking some area of depot, given optimization of supply chain, and converting them into rental space with very good return on investment. Many of the gymnasiums that we are opening or many of the new tenants that we are having are using that kind of strategy. We call that like the max strategy, which is maximization of the area in productive areas or additional areas beside our stores.

And the second one is the big project, which has a higher visibility. In those big projects, as I told you, we have a goal of COP 800,000 million for four years. That is investment done by our partners and ourselves. Most of that made through Viva Malls, some of that might be some contribution of assets, so it can diminish the cash out that we have to do, and I will name some of the projects. In the short run, we will be starting Suba and probably Puerta del Norte in Medellín.

In the medium term, we are working to develop an important project in Cúcuta, which lacks an important shopping mall around our very important store of San Mateo in Cúcuta. We are also working to develop a high level premium proposition, probably including a five-star hotel inside the walls of Cartagena, around our San Diego hypermarket, and having a very premium hyper or supermarket there. And we are also analyzing the possibility of other projects, especially in Cartagena, where there's a boom in traffic and there's a boom in investment and there's a boom in tourism, which could profit out of that. Those are only some of them. But of course, we have more projects in the pipeline.

Manfred Gartz: Jairo, just to extend the first question regarding the real estate importance. What we disclosed regarding the real estate business has to do with the fact that about 1/3 of other revenues come from the real estate business. And in terms of EBITDA levels, what we have stated is that about 30% of the EBITDA comes from complementary business, out of which about half come from the real estate. But this is pretty much the disclosed information that we have on the real estate business.

Operator: The next question comes from Daniel Duarte from Corficolombiana.

Daniel Duarte: I just have one question regarding the bill project that is currently being discussed in Congress, where companies are going to be required to pay suppliers in less than 40 days. My question is that, operationally, how are you seeing this bill? And if this bill can affect ongoing business in any way?

Carlos Mario Giraldo: First, I begin with first saying, and it is -- it's very difficult to know what will come out of Congress in any country, and ours is not the exception. But this has been a highly discussed bill until today, and as of today, how it is, and it is going to final debate. What it is saying is that terms of payment between big companies will be free and will be freely discussed, and this is very important because this includes, for example, in our case, 82% of the total payables of the company.

Then, terms with medium-sized companies will be going to a maximum of 60 days, which is around the terms that we have with these types of companies, so it doesn't have a high impact, and it will also be going down in a time frame.

And then -- and this is 14% of total payables of the company. And then we have terms with small and micro companies, which I think makes a lot of sense. In practice, many of these suppliers, which are *microempresas* in our case, or suppliers of fruit and vegetables, meat and fish, we pay them even below the terms that the bill is going to include. Here, these terms will go to a maximum of 45 days. We have supported this because we think that is good for everybody, and it would only represent 4% of our total payables. So what I can tell you, as it is today, it won't have a material impact on the company.

Operator: We have no further questions at this time. Now I will turn the call over to Mr. Carlos Mario Giraldo for final remarks.

Carlos Mario Giraldo: I want to thank you very much for being present in the conference. As you know, from now on, once the transaction is closed, we will be speaking about the new perimeter that includes Colombia, Uruguay and Argentina. To give you a magnitude, this means sales between US $4.2 billion and $4.3 billion according to FX. Of course, it varies with FX of the different countries.

92% of the EBITDA of this perimeter is coming from stable economies like Colombia and Uruguay. This is an important message because even if our Argentinean operation continues to be positive, 4% positive EBITDA margin, even if it's impacted some more, it is a relative impact to the full size of our consolidation perimeter, representing today 3% of the EBITDA.

The third big message is that we believe that today we have a proven rationale for growth through innovation, through omni-channel penetration and through asset and customer monetization, including real estate and the customer coalition. I say this because we have repeated this for some years and it is showing it to be material and to be impacting top line, but especially profitable top line because we believe that it's better to grow 5% profitably than 15% with no profits. Because at the end that's what our shareholders are going to receive.

The other thing is that cost control is a discipline in which we are working in the last years because we have inflationary pricings in all the countries and especially in Argentina and Uruguay today, but also Colombia, having salaries increasing above inflation, occupation costs also, and utility costs also. So it is through a very tight cost control in things that we can do through productivity and through lean procedures like Kaizen that we have achieved this thing.

And I would say that, finally, I'm very happy with the evolution of the company, with what synergies are bringing to our company. An example is, Cash & Carry is something that if we would have done on our own, probably it would have taken many more years to arrive to 30 stores and also probably we wouldn't have started profitably. And now we started profitably from the beginning. And I'm also very satisfied with the management renovation and what it means for young talent operating in the company, but young talent, which are fully experienced and which warranty also big innovation activity and energy within the company. So that would be it.

Thank you again for being with us and hope to be with you soon for our next call.

Operator: Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.