

Grupo Éxito - 3Q22 Results Conference Call Transcription

María Fernanda Moreno: 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, Mr Ruy Souza, 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 third quarter 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 greet all of you. It's very good to have you here again for this call for our Q3 results.

I'm going to go straight to **slide #4** and to speak about the change in structure and increase the float and shareholder base for Éxito in the project that we are advancing here, this is the project for the listing of Exito through ADRs and BDRs, while maintaining its position and improving its liquidity in the Colombian Stock Exchange, we would be going from a current 96.5% of GPA with a float of 3.48%, which is the current situation to a situation in which by the end of the project Casino would hold 34% GPA, 13% of Éxito position, and there would be a float which would increase from 3.48% to 53%. Probably becoming the most floated share in the Colombian Stock Exchange.

Our stock would be quoted in the New York Stock Exchange through ADR's, in the Colombian Stock Exchange, and through BDR's in Brazil.

This would have an increase in liquidity, clearly an increase in visibility for the stock of Exito and it's an opportunity to unlock value of Éxito which has been punished by the lack of liquidity and it would increase the shareholder base to more than 50,000 shareholders.

Going forward to **slide #5**, we speak about the timeline for this transaction.

We are now in the process of preparation for the transaction and preparation for the listings and this would be ended by December of this year and then during the first quarter of next year it would be the decisions that have to be delivered by the governance bodies of a GPA. And finally, we think that the completion would be done. We expect the end by the first semester of 2023.

Going forward and now getting straight to the results of the third quarter of this year, in **slide #6**, we continue with a very dynamic increase in consolidated revenues. Total Net Revenue was \$5.1 Colombian billion, and with a top line increasing in total by 22.6%. Being a best in class in Latin America and same store sales plus 19.6%. EBITDA grew by 12.9% with a margin of 7.8%.

The share of omnichannel sales got to 11.9% in Colombia. Our revenue continues to be driven by complementary businesses, by the innovation in formats and by the omnichannel sales. innovation in formats, WOW, Fresh Market and cash and carry now represent 39% of the total sales of the company, becoming clearly very material.

Our Net profit was impacted negatively by the lower tax base that we had in the same quarter of last year, by the increase in financial costs, given the rise in interest rates in Colombia and especially by the adjustment of inflationary impacts in Argentina,

If we move to **slide #7**, we speak about our very important ESG agenda, I am giving you a follow up. I would highlight that we continue to work in the three dimensions of the company working to improve the situation of stakeholders.

We continue to work for our shareholders, for benefit our employees and also for our suppliers, and in the second level, working for our community and finally for the improvement of our planet.

I would highlight first, the zero malnutrition that has been set in children, malnutrition and reduction. We are now getting to 45,000 children with a complementary nutritional package. In my planet, we continue to be the main recycler in Colombia, accumulating in the 3Q, 15,000 tons and going through with the initiative of "Soy r", which is an initiative to do the recycling of pet bottles and plastics at the many of our stores, more than 50 of our stores where we are teaming with our suppliers to make it a joint effort.

In the planting of trees to contribute to the forest, we, in Colombia, have completed the redemption of 447 thousand trees donated by our customers and we continue with the goal of arriving to 1 million trees.

Finally, I would say in reputation, in the most important survey done in Colombia, done by *Merco*, we arrived at the eighth position, improving 5 positions versus the last year and in *Radar*, a think tank survey, we arrived in the first place.

Going to **slide #8** speaking about the sales in Colombia, they continue to be very dynamic with a total growth of 15.9% and same store sales of 14.2%. If we look at in a longer term, in two years, the growth is 32.6%.

It is important to say that regardless of the high inflation in Colombia, especially the high food inflation, we have a positive volume of a total of 1.46% increase in the quarter and a very important traffic increase of 13%. This traffic increase in Carulla is given from the turbo project, done in alliance with Rappi going in less than 10 minutes to the households, and given that the ticket is lower, it has assured a very important increase in traffic.

Our focus in Colombia continues to be innovation and it's very important to say that we have customer-centered strategy which has been the philosophy and the mission of Exito. We measure the Net Promoter score, NPS, and it arrived at a very positive grade of 72 against 50 points last year. In the accumulated for nine months, we continue with a very strong growth in sales of 22.1% same store sales.

It is very important the effort that the company is doing to contain the impact of food inflation for our customers, and I would like to say that while food had an increase to the customers in Colombia of near to about 26 points, our increase in inflation or increase in prices was 5.7 points below, which is very important contribution not only to our customers but also to our competitiveness in prices.

I would like to go and to make some remarks about the growth per segment.

In Carulla we had same store sales growing 16.5 points and 21% growth in omnichannel sales.

In the low-cost formats, we had an increase in same store sales of 21.4% and Surtimayorista had the most important growth with another very strong quarter with near to 30% growth in same store sales while arriving to mid-single numbers in EBITDA. The low-cost formats, as a whole, in the last two years have seen a sales growth of 37.3%.

Going to **slide #10**. It's important to go back to our innovation in formats. The total share of our innovation formats today is 39%. As I said before, making a focus on Exito WOW format. Now, WOW stores of Éxito is 33% of the total sales of the brand. They remain with a very positive ROI of 54%.

There is a potential to remodel to the WOW format 89 stores in the following four to five years, and we have seen in those stores that are now mature under this format, a growth of 26 points against the rest of the brand.

Regarding Fresh Market, this now represents 53% of the total sales with a ROI of 15 points, a potential of 58 stores to be taken still to the Fresh Market and a growth of the mature stores of 11 points against the rest of the Carulla brand.

We have seen a quarter after quarter same store sales growth near to 30%. It is the best performing brand today and we are looking at an expansion of around 80 stores in the following three to four years.

For next year our plan is to open between 20 and 25 new Surtimayorista stores which would add something like 22 to 23,000 square meters of retail space to the company from this very good performing format.

In **slide #11** we go to omnichannel to make a focus in the quarter. In this period, we saw increase in omnichannel sales of 23.2%. In Colombia, with a share of 11.9% increasing 80 basis points against the comparable quarter.

In food, where we are making a very important focus and we have a strong lead against the market in the combined service between Rappi partnership and a direct service done by the company, we increased omnichannel sales by 36%, arriving to a high-level share of 10.8%. It's important to say that here the sales break between what we do through Rappi and what we do directly in our own service is around the 50/50, doing a very interesting balance for our omnichannel food service.

In total orders, we arrived in the quarter to 3.5 million and in the year to date to 9.2 million increasing by 58%. We think that we are going to go beyond the 12 million commands in home deliveries by the end of the year.

The pillars for growth in omnichannel and specially in food are the toolbox project of the service. Below 10 minutes is Misurti app that we are using to deliver to the mom and pops.

The WhatsApp chat box service to our customers and the click and collect which is the most profitable service and is now around 1/4 of the total deliveries that we are doing.

In **slide #12**, I would speak about the traffic monetization very (inaudible) year and consistent strategy of the company. I would recall the importance of the credit card now, with a stock of 2.5 million cards arriving to a portfolio of loans near to \$1 billion and growing by strong 46% in Colombian pesos and for two years continues doing banking as a service with important customers where we serve their credit card like Viva air and recently Claro, the main telco player in the Colombian market.

Speaking about Puntos Colombia, it remains as the main loyalty Colombian program, it has today between the customer base of Bancolombia and Exito, 6.1 unique million active customers who have granted Puntos Colombia the data to use extensively and responsibly. Puntos has now 158 partners, this is, companies that issue and redeem points within Puntos Colombia. This program continues to consolidate as a second currency in our country and in the horizon 2 of development we are looking to become as the loyalty program as a service for the small and medium size enterprises to develop payment solutions and of course, to grant Media services out of the important customer base.

Now I would hand it the floor to Ruy to go over real estate and the financials.

Ruy Souza Thank you, Carlos. Mario. Thank you everyone for being here with us. Starting on **slide #13** to give you an update regarding the real estate business. As you know, the real estate business is composed by shopping mall and galleries within the hypermarkets and shopping malls within even malls. The whole business accounts for 758,000 of GLA within 34 assets and we have now an occupancy rate of 96.3% pretty much in line with last year and the the recurring monthly revenue from rentals and administrative fees have been growing 32% for the first nine months and 25% in the third quarter. Viva Malls has 18 assets and 568,000 m2 of GLA.

With a very positive performance and throughout the year, as you can see, net revenues grew 21.7% for the first nine months and the recurring EBITDA 22.3% for the first nine months as well. Viva malls already represents 40% of the other revenues of the company and 13% of the recurring EBITDA at consolidated level for the first nine months. It remains as one of the most important complementary businesses within the company and a very important hidden value in terms of valuation and for Grupo Exito

Moving on to **slide #14**, to review operating and financial performance in Colombia. Whereas I would like to mention that we had another quarter with a solid double digit top line growth and also a recurring EBITDA growth by 2% during the quarter being 9% for the first and nine months of the year. If we go to the P&L for the third quarter, we can see that Net Revenue grew 15.5% once again, positively impacted by the contribution of the innovative formats and also by omnichannel activity.

Our gross margin deteriorated 86 basis points, basically affected by the performance in terms of royalties and also due to inflationary pressures in terms of costs as you saw before, we are having,

we are being five to six points below the food inflation for the country in terms of internal price increase, which is a strategy to maintain also this positive growth in terms of sales.

The gross profit in terms of cash grew 11.2%. Regarding expenses, we had a third quarter pretty much in line in terms of rate meaning that the expenses grew in line with the revenues to reach and EBITDA of 284,000 Colombian million pesos and a Recurring EBITDA margin of 7.7%. If we look the first nine months accumulated period and we can see that Net Revenue grew by 20% with a very positive operational leverage in terms of expenses and diluting almost 90 bps for the first nine months. If we see the bridge, you can see that the contribution from the retail segment has been positive by \$96,000 million Colombian pesos and 10 bps additional contribution. The contribution from the complementary businesses recurrent activity is plus 27.728 million Colombian pesos and we had for the first nine months a decrease in terms of development fees by \$55,000 Colombian million pesos.

In terms of margin, if we compare the first nine months of 2022 to the previous three years, we can see that the margin has been evolving positively and the EBITDA CAGR for the last three years is double digit growth of 10.6% in terms of cash.

Moving to **slide #15** to review the Uruguay financial results for the third quarter, revenues grew at 34.8% in Colombian pesos and 11.1% in Uruguayan pesos. We had a very positive impact with the exchange rate and nevertheless, the growth in terms of local currency was above inflation as well.

In terms of margin up, positive evolution as well as a positive evolution in terms of expenses were pretty much in line recurring EBITDA of double digit, 10% versus 10.1% last year when we see the first nine months and the conclusion is pretty much the same that revenues growing above inflation 26.6% in terms of Colombian pesos.

So, with the stable gross margin, stable expenses and stable EBITDA at 10.2%, 20 bps above last year and pretty much when we compare to 2021 and 2020 in double digit terms.

Moving on to **slide #16** for Argentina financial results, we had a very positive operating performance in Argentina as we saw on the last two quarters.

For the third quarter, revenues in Colombian pesos, grew 71.3%, in local currency grew 132.1% and 125.1% in same store sales, both of them above inflation that landed at 83% for the third quarter. The main thing to highlight in terms of revenues is the launch of the cash and carry format, under the name of mini Mayorista, which is a format very similar to the Surtimayorista in Colombia. We have already converted and launched 5 stores under this format by the end of the third quarter and we have been moving on, in the month of October as well. These stores have been performing very well.

The omnichannel share reached 5.2%, which is almost the double that we had one year ago and they occupancy rate in the real estate business is on the level of 90% which is very positive for the country for the first nine months. Revenues grew 55.8% with a gross margin evolving 100 basis points and a very positive operational leverage diluting expenses by 200 basis points and to a gross margin of 3.4% and a EBITDA of \$41,000 M Colombian pesos compared to \$7,000 M last

year and 1% margin. As you can see on the graph on the right side the evolution on the last three years has been very positive in terms of growth and in terms of EBITDA margin for Argentina.

Moving to **slide #17**, in terms of consolidated figures, we can see that Net revenue reached \$ 5.1 billion Colombian pesos for the third quarter, a billion Colombian pesos additional to the third quarter of last year, with 22.6% growth, with a stable gross margin and with positive evolution in terms of EBITDA of 12.9% in cash, landing with a margin of 7.8%.

In terms of accumulated period for the first nine months, Net Revenue was \$14.4 billion Colombian pesos growing 23.5%. The gross margin was 60 basis points below last year and the SG&A 53 basis points below 2021, which leads to a recurring operating income margin at 4.7% in line with 2021. and a recurring EBITDA margin of 7.8% growing in cash 16.4%.

When we see the recurring EBITDA evolution for the first nine months, by segment, we can see that retail contributed positively with \$158,000 million Colombian pesos. The complementary businesses recurring contribution was \$56,000 Colombian million pesos additional to last year and \$55 thousand Colombian million pesos decrease in terms of real estate development to reach a recurring EBITDA for the Group for the first nine months of the year growing when we compare to 2019 of almost 12%.

In terms of Net Group share result for the third quarter, we landed at \$50,000 million Colombian pesos compared to \$126,000 of the third quarter of 2021.

If we move on to the **slide #18**, I will give you the main highlights to explain this evolution. So, as you see at the third quarter of 2021, we had \$126,000 million Colombian pesos of Net Income. During the first nine months of the year, the operating contribution was positive at \$29,000 million Colombian pesos and there are non-recurring expenses reduced by \$11,000 million Colombian pesos, both contributing with almost \$40,000 million Colombian pesos for the first nine months.

In terms of Income from associates we had a negative impact of \$23,000 million Colombian pesos. As we discussed on the previous quarters there has been having a negative impact in terms of provisions related to the loan portfolio growth, in terms of non-performing loans at levels pretty much stable at low single digit, but it is a very positive growth in terms of loan portfolio but is generating the need to account provisions. We expect that this be a temporary effect because this loan portfolio will generate income on the following months.

In terms of financial result, we had, the IAS 29 impact of \$44,000 million Colombian pesos variation. This is pretty much related to the increase in terms of interest rates, for the third quarter by almost 8.8 percentage points above last year, which is very material, and in terms of this will lead us to have an at think of 9000 million Colombian pesos before the IAS 29 adjustment and before the impact that we have on the 4th taxes due to the positive base that we had related to the to the tax reform of 2021.

Moving to **slide #19**, the financial debt and cash situation at holding level and the main message here is that the net financial debt improved by \$262,000 million Colombian pesos before the dividend payments and the buyback operation that we performed between May and June,

meaning that the cash flow generation to shareholders was \$262,000 Colombia million pesos throughout the last 12 months, which is stable if we compare to \$273,000 in the last 12 months of September 2021.

And the gross debt, as you can see on the graph, rose by 25%, but that structural debt remained unchanged, which is the good news here. This is all from the financial side. I'm heading into Carlos Mario to go on with conclusions for the third quarter. Thank you.

Carlos Mario Giraldo: Thank you Ruy. Going to **slide #20**, I would make a highlight in the following aspects. First, the consistent double-digit sales growth that we have seen for the third quarter and once again growing this year to a total of 22.6%.

The EBITDA also growing double digit at 12.9% with a contribution of all geographies.

Net profit impacted, as I really explained in a very extensive way, by the tax base, by Argentina, inflation impact and by Tuya provisions.

A ESG consistent in the social aspect with focus in children nutrition and circular economy to help the environment.

In Colombia, with innovative formats now arriving to 39% of the total sales and Omnichannel sales around 12% share with food omnichannel more than 10% share.

Our expansion, very important this year, arriving to around 35,000 square meters of new retail space. That is additional to the reforms and to the conversions and the innovation that we have in WOW and Fresh Market and other formats. And looking forward, we are going to expand next year at least in 30,000 square meters with a focus in cash and carry, but also opening stores, like for example, under Carulla brand.

International business finally with a strong performance both in Uruguay and in Argentina.

This has been the presentation for today and we are open to the Q&A session. Thank you very much to all of you.

Maria Fernanda Moreno: I would like to remind all participants, as you can rise your hands to ask questions or to send them through the chat available in the bottom of the screen. If you are going to ask your question out loud, please remember to activate the microphone in your device, indicate your full name and company's name, you send your question through the box available at the bottom of the screen. Please indicate your full name and the company's name and I will proceed to read your questions.

First question comes from Nicolas Larrain, JPMorgan.

Nicolas, you can ask the question please.

Nicolás Larrain- JPM: OK. I thank you very much Ruy and Carlos Mario and thank you for taking my question. My first one was maybe on some outlook that you can give us for 2023 like what trends are you seeing or how should we think about? It's just especially Colombia into next year and my second one was on Omni channel. We've seen high penetration. I was just wondering if you have

a target, or you think that this can go even higher in the future. Is there maybe a sweet spot that you would like to achieve? Thank you very much guys.

Carlos Mario Giraldo: Thank you Nicolas. I will take both questions. The first one about what we see for the 4th quarter or 1st Q next year. Sales continue to be strong. We believe that we have a very demanding base because we have 2 days of non-VAT tax, which is different versus last year. This year we will only have two while last year we had three. That would mean a difference, I would say of around five points in sales, but October, as for now, we saw a very strong continuity in sales performance, even with traffic and volume increases regardless of inflation.

For next year we believe it's going to be a demanding year not only in volumes given the impact of interest rates in consumption, but also it is going to be in profitability given the big pressure that everybody is going to suffer in costs. We are of course preparing ourselves to work very hard in productivity, but it's a reality for all the market.

For facing the year it is important to say that we are doing, first, expanding much more in the cash and carry format. We think that for moments of inflation and of a price conscience by the consumer, this is a key format which is profitable from the first moment and which is keeping a cost level of around 10%, the lowest cost level of any format as far as we know by public information in the Colombian market.

The second thing that we are doing is reinforcing the importance of the variable portfolio of products, around 300 SKUs that now contribute to more than 5% of the food sales of the company which have given us a very good price position in the main basic basket products in food and in laundry and personal care products for the Colombian consumer, the third thing which is going to be very important next year and is being very important this year, is private brands, especially brands like Ekono, which have a very good economic perception and which is increasing by 42% this year.

And finally, what I would say is that home delivery will continue exploding and that's going to be important for next year. So, regardless of the challenges that we are going to see, we believe that we have the instruments, the pillars which will permit us to continue to be very competitive in this market.

Going to omnichannel what is important is that when we compare what happened at the end of the pandemic to what happens today, we are very much, very similar in share to what we had at the end of the pandemic. Just to remember, we went from a share before pandemic of 4.5% to a little about 12%. Now, we are comparing against periods where stores were open, we have seen an increasing share you can see it. For example, in this quarter where we increased above the total sales. In terms of the Omnichannel sales, we believe, go looking forward, is that we probably will be increasing around 100 basis points by year. We don't think it's going to increase as in pandemic because things stabilize and because that the great and the nice combination is increasing sales in the stores and also in the Omni channel activities.

That gives us really a big competitive and comparative edge against other players that do not have the right and strong combination of virtual platforms and strong stores. Maybe they footprint.

Nicolas Larrain – JPM. Perfect. Thank you. And if I may, just this is small one for Ruy.

I just wondered if you could refresh me on what's the consolidated cost of debt, I mean for Éxito and if it's always floating or is there a percentage that is fixed? Thank you.

Ruy Souza: Sure. Nicolás, nice talking to you. Look, in terms of cost of debt, before giving you the figures, we have basically the structure with the revolving credit and the structural that we achieve, which is now around \$200 million and we have contracts with IBR which is now at 11% + 200 basis points, which means that the cost would be 13%. Nevertheless, we have 43% of these debt with a hedge with interest rate swaps, so that the cost actually is not 13% but it's around 11%. We have like a benefit by having this hedge of around 200 basis points and the revolving credits which have contracts with IBR plus 350 or 400 basis points.

Throughout the year, we use roughly \$600,000 million or \$700,000 million of these revolving credits and during six or seven months of the year. So, all altogether we have in Colombia a cost of around \$131,140 million for the year of 2022. For 2023 you expect that the rates will begin to decrease, but in terms of average rates comparing 2022 to 2023 will be pretty much the same, meaning that the cost of that should be pretty much the same when we convert 2023 to 2022 and from 2024 the interest rates will normalize compare to the previous figures that we had, for example on 2019, 2018

Nicolas Larrain – JPM. Understood. Thank you very much Ruy, thank you very much Carlos Mario.

Maria Fernanda Moreno: Now we have a question from Francisco Mora. Please go ahead, Francisco.

Francisco Mora: How are you. Good morning.

Carlos Mario Giraldo: Good morning, Francisco.

Francisco Mora: I have two questions. You mention the change in the promote score from 50 to 75. Is not usually to see this abrupt change. Do you have a detail for the change in the measure?

Carlos Mario Giraldo: You mean the change in the Net Promoter score, right? What I believe is that during the last year we had some impacts in Net Promoter score coming from the disturbance that there was in supply chain which was very difficult for the consumer. But at the same time there's a huge emphasis on Customer experience in the company and we have had an increase in Net Promoter score in Carulla, Exito and also in the popular brands and especially in the online. The online service had huge challenges during the pandemic and now it has leveled, and we have improved a lot the experience both but especially in the service post. They're buying in this kind of service. I know it's a huge hike and our big challenge is going to be in a continuous improvement. Obviously from a high level.

Francisco Mora OK. And in the private label, you mentioned the elimination of the 30 ingredients from child products. Do you know which are these ingredients or some of these?

Carlos Mario Giraldo Yes. As you know, in Colombia, we're having legislation which is creating the obligation starting next year to include in the food products, negative seals that come from excess in sugar, or from excess in salt, or from excess in fat.

What we have done is, taking more than 500 references and work with them, ideally, in order to be able to be with no negative seals next year. In Taea, such an important brand, is going to arrive near to \$90,000 million in sales and is becoming now the third healthy brand in Colombia compared to the one of suppliers, because there's no other important retail healthy brand that has the goal in five years to become the leader in healthy brands in Colombia. So, for us, the work is very aggressively in reducing and in doing some re composition, some redefinition of the products or excluding some of the portfolio. This is our priority at this moment with our suppliers, the team has been concentrated in this tag with innovation and Taea is a key differentiator private high-level brand for this company.

Francisco Mora: Ok. Thank you very much, Carlos, Mario.

Carlos Mario Giraldo Thank you, Francisco

Maria Fernanda Moreno: If there are no more questions at this time, I will now turn the call over to Mr Carlos Mario for closing remarks.

Carlos Mario Giraldo: I thank you all very much for being here for the 3Q22 Results. As you know, everybody's facing important challenges coming out of inflationary environment in the world. But today in Colombia also and impact not only on consumer but also in costs. And we are prepared to face that with productivity and with our formats, products, our private brands and our own channel facilities.

We believe that we continue with historic record growth, about 20% , this means that this year we will probably add to the company like 1/5 of the size that it had in the previous year, which is a lot when you think about the company that has been for many, many, many years in the market.

The second thing is consistency. We continue to be consistent, but dynamic within the consistency: in innovation, in digital platforms and the combination with our physical footprint and consistent in the importance to customers and profitability of our complementary businesses.

We believe that the process through which Éxito is going through the definitions of GPA is going to be key for shareholders. It is going to give liquidity, from 3.4% to near to 53% and give a huge opportunity to unlock as much of the value that the company has.

And we also will continue to promote ESG standards. We know that governance is key and today governance continues to be very strict in the company. We know that our alliance with the Community is key for keeping reputation in the high standards. It must do and to be very close to the heart of our consumers. And we finally know that today we have a huge responsibility for the environmental balance in our brands and the planet.

Thank you very much and we look forward to seeing you for the complete year results at the beginning of next year.

Maria Fernanda Moreno: This concludes the conference. Thank you for participating.