Cliente:	GRUPO ÉXITO
Servicio:	Transcripción
Duración:	82 minutos
N.° Páginas	19
Descripción material enviado por el cliente:	Audio en formato VLC
Calidad material:	Bueno
Nombre archivo final:	Trp_46395562_conf_Resultados_IV_Trimestre_2017_Grupo_Éxito_Final

Operator: Good morning. My name is Richard and I will be your operator for today's call.

At this time, I would like to welcome everyone to the Grupo Éxito third quarter 2017 conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session. Thank you for your attention. Ms. Maria Fernanda Moreno will begin the conference today. Ms. Moreno, you may begin.

Maria Fernanda Moreno: Thank you Richard and good morning everyone. We appreciate you join us today for Grupo Éxito's call. At this time I'm pleased to present our Chief Executive Officer, Mr. Carlos Mario Giraldo, and our Chief Financial Officer, Mr. Manfred Gartz.

As per today's agenda, slide number 2 will cover Grupo Éxito's financial and operating highlights, followed by a review of the performance by country and consolidated financial results for the fourth quarter of full year 2017.

Then, we will review the company's 2017 strategy, followed by a business outlook and then we will move to the Q&A session.

Thank you for your attention. I will now turn the call over to Mr. Carlos Mario Giraldo.

Carlos Mario Giraldo: I want to thank you very much for being at this conference. I welcome you to the general review and then to the Q&A session.

We will go directly to slide number three. Here what we begin to see is that 2017 is the year where we begin to see the consolidation of the international strategy of Éxito in retail and in complementary businesses such as real estate that consolidate the company as a South American consumer goods leader. Synergy plan is going in the right direction, with synergies captured at the operational profit level of USD $100 million and expressed in the consolidated year results.

Joint purchasing multiplied by three times in volumes of imported goods. Also joint purchasing on top conditions with the international suppliers.

Textile model, which was originated at Éxito Colombian hypermarkets, now implemented in the four countries' hypermarkets and the fresh market innovation taken to 16 stores, a fresh market innovation that was first seen at Disco in Uruguay.

As financial highlights, we have a net result that multiples by 5 times what was obtained last year. Yearly top line growth of 9.4%, which is very good if we see that in most of the countries consumption was not very good and that it is above the consolidated inflation average of the region.

Recurrent Ebitda increasing by 24% and a strong performance of Pão de Açúcar in Brazil and Grupo Disco behind this growth of consolidated Ebitda, which shows and ratifies the importance of diversification and of having assets in different and important markets.

Consistent productivity plan showing results at the expenditures level, especially in Colombia and Brazil, as you can see especially in the fourth quarter.

Expanding in key formats like cash & carry with 28 stores, proximity formats in the main countries and the fresh market innovation.

Traffic monetization, key for obtaining profitability and the announced launch, which will be done in this first half of the year, of "Puntos Colombia" in alliance with a main bank in Colombia, Bancolombia, and the retail–real estate dual model going forward in a profitable way, both in Colombia and Argentina.

Finally, in sustainability, Éxito included in the Dow Jones Index for emergent markets for the fifth consecutive year and Éxito Foundation continued with the vision for Colombia of generation zero malnutrition.

If we go to slide number four, we can see in the financial highlights that Éxito executed a debt refinancing plan in the last part of the year with a syndicated loan of USD 450 million with nine international banks and a revolving credit facility of COP 500,000 million within the local market.

Our consolidated Capex for the region for the year was COP 2,2 billion and the expansion activities were focused in the cash & carry and in the proximity formats.

In real estate, there are two big projects in Colombia going forward with big investments in the year: Viva Envigado (65% completion), which will be the most important shopping mall in Colombia and Vica Tunja, in the region of Boyaca, while in Argentina we advanced with 10,000 additional GLA in meters.

Going to slide number five, we can see transversal strategic initiatives in the different countries. It is interesting to see, if you look at the four countries, that there are some initiatives that are already being pursued in most of the countries and they show the integration model which has been obtained in two years and a half. One of them is the textile model in all countries present and cash & carry in Colombia and Brazil, fresh market model in all the markets and the dual retail-real estate model for the moment pursued in Colombia and Argentina.

If we look at Colombia in innovation, apart from that we see a very strong commitment with omnichannel strategy having a strong leadership in Colombia and making a lot of emphasis in modern transversal initiatives in omnichannelity like the market place and the last-mile delivery in the main cities of Colombia.

In Uruguay it is convenience format, which has been imposing the increasing market share and regaining market.

In Brazil it is store portfolio optimization towards Assaí, which has given extraordinary results and of course the renovation of our premium format, the most profitable format in Brazil, which is Pão de Açúcar and finally in Argentina, consistency with the dual format around the real estate proposition.

Going to slide number six, we speak about the net sales performance in Colombia for the fourth quarter. Top line sales were impacted and also same-store sales by different factors, within them the food inflation deceleration and the weak demand in the Colombian market. In this food inflation deceleration, we went from a food inflation in 2016 of 7.22 to a food inflation of 1.92. This is great for consumers and it's going to promote future growth but in the short terms it impacts the sales in money. The sales figure was COP 2.9 billion, with a decrease in same-store sales comparable basis of 6.2 and total sales of 4.1 in the quarter and for the full year of 3.1 total sales and 4.5 in same-store sales.

It is important to note that as of December the Nielsen basket of consumer goods, which has 27 baskets of the most important categories, showed that there was a decrease of 2.8 in the total basket measured by Nielsen.

In the middle of the difficulties of commercial and consumption in Colombia, we have some things that are very important, that are being very dynamic and that create a base for future growth. One of them is the omnichannel growth -19%-, arriving to around USD 93 million of total sales, which now is material for future years, considering that this is normally a market that is going to increase double digit per year and the second thing is the cash & carry, which arrived to nine stores and that has shown for the year an increase in sales of 52% and in the quarter of 82%.

If we go to slide number seven, we see this innovation initiatives in Colombia which are consistent and profitable. The cash & carry, where the nine stores had several conversions and these conversions show a multiple of two times of what they sold under the previous brand, which shows the relevance and the good acceptance of the format, both by the professional customers -that is mom and pops, restaurants and cafeterias- and by the end consumer in a very similar result, multiple and mix of sales as what we see in Brazil.

We also see that it is a format that has shown to be profitable from the first year, something that we rarely see in different expansions that are being done in Colombia.

In the fresh market model, this is a great innovation started in Uruguay, where we have around nine stores and now it has gone to five stores in Brazil and also to one store in Colombia which was launched in Bogota with extraordinary results and shows quality differentiation, healthy products and freshness. This is going to be rolled out to other stores in Colombia and the most important initiatives rolled out made mostly to the Carulla stores.

The omnichannel strategy with sales growing 19%. Mobile application now has 22% of these sales. We launched a very strong home delivery initiative in alliance with the home delivery last-mile leader, which is Rappi, with a 26% growth for the full year but more than 50% growth in the last months of the year and with digital catalogs now in more than 70 cities of Colombia accounting for 38% growth in sales and permitting to sell in other stores the different portfolio that the stores do not carry. This is clearly an omnichannel strategy in the best form as it is seen in the most advanced stores in the US and Brazil.

If we go to slide number eight, we see the initiatives in Colombia that create monetization of traffic and here real estate is at the head of them. We arrived now to near 2,000 rented spaces in Colombia in 29 shopping malls and commercial galleries. Of these, 12 shopping malls, the biggest of them, are being contributed to Viva Malls and two big projects are under construction. These are Envigado, with 240 commercial sites and 140.000 square meters of GLA, which will be opening by September-October of this year and will become the most important shopping mall, not only in Medellin, but in the country. We also have Tunja, a very important shopping mall in the eastern part of our country. Viva Malls had a very good first year, with profits at a 100% against budget and our real estate business had an increase in income of 25% and it is going forward, not only with Viva Malls but with the internal developments in Éxito.

Initiatives for monetization do not include only real estate. If we go to slide number nine, we see the complementary businesses, which are ancillary income which nurtures the margin of the company and permit the company to be price competitive in the market while earning money and having positive Ebitdas which contrast with many things that we are seeing in the market.

If you see these complementary businesses, you go to financial retail, now with 2.6 million credit cards, where the MasterCard, which is an innovation and which is having a very interesting performance, arrives to 500,000 cards; with the travel business at 210,000 clients in alliance with Avianca; with our mobile business now being the fifth player in the Colombian market, profitable, and near to one million customers; with our insurance alliance with Suramericana arriving to one million customers, being the main seller of micro-insurance products in Colombia and our non-banking correspondent making near 17 million transactions in our cashiers, in alliance with Bancolombia and also with the banks of the Aval Group in Colombia. All of these complementary businesses are profitable, are improving their profits year after year and they are having a good growth.

Looking forward, it is the loyalty program "Puntos Colombia" that has a very important upside: it is the largest ecosystem of point issuance and redemption to be done in Colombia, with a customer base of ten million customers. First phase will be about the sale and purchase of points and the margin that is created here and the attraction of customers from allies and creating a big ecosystem of loyalty customers and a second phase will go towards the big data monetization potential, which is one of the most important things that the most advanced companies are doing worldwide and here we have a unique opportunity to do it, first in Colombia and then to take it to other parts within the region.

Going to slide number ten, we see the net sales performance in Brazil. Top line and same-store sales is up in the quarter 6.8 and 8.2 by the end of the year for the full year, driven by Assaí increase.

I want to make a point here. GPA in Brazil had in 2017 the best growth of all international players, with gains of market share both in the cash & carry segment and the hypermarket segments managing very well once the deflation that we saw in Brazil, which was something that we had never seen in Brazil, a deflation of 1.87, but seen a very important increase both in volume and profit. This shows that the company is very healthy, that it is gaining market share and that it is giving the Brazilian consumer what it was, that is a very important premium format like Pão de Açúcar, which went through 50 renovations and a cash & carry which went through a very important expansion and conversion phase to arrive to net sales increasing 27.8% and same-store sales increasing 11%. Now Assaí represents 41.3% of all the food business in Brazil.

Multivarejo at the same time, even if it is in the part of the market that is losing grounds against cash & carry, has done two things which are very important. The first one is to strengthen Pão de Açúcar as the premium format with renovations and innovations in the fresh market and the second one is to go through with the digital transformation, starting with "My Discount", which had four million downloads in Brazil. Brazil sold for the full year the equivalent to COP 41 billion.

I'll turn the call over to Manfred and then I will come back to speak about synergies and final remarks.

Manfred Gartz: Thank you, Carlos Mario. Good morning everyone. We start on slide 11.

Quarterly, net revenues reached almost COP 3.1 billion, decreasing 4%. Fiscal year 2017 ended at COP 11.1 billion and decreasing 2.8%. Other revenues grew 15% in the year, mainly driven by the performance of the real estate business, which grew 25%.

Gross margin in the quarter decreased 128 basis points. It's important to note that more than half came from the years accounting reclassification of [unintelligible]. That means moving some costs from SG&As and cost of sales with low bottom line effect in order to homogenize reporting across LatAm. That's also why SG&As are flat on the quarter.

Macro conditions and consumer environment explain the remainder. Gross margin in 2017 ended at 24.6%, just 40 basis points versus last year, out of which about half corresponds to the reclassification.

On the SG&As side, the operational expenditures grew 3.7% in the year, including expansion and way below the inflation of the expenses structure of the company. Debt grew on a case-by-case basis between last year's CPI at 575 and the minimum wage increase of 7%. It is the lowest increase since the introduction of IFRS in Colombia. This also shows the commitment of the company to protect the bottom line.

Finally, the Colombian operation reached an annual recurring Ebitda of COP 633 million and a margin of 5.7. Although below the results of 2016, still a competitive margin.

Moving forward to slide 12, I'll start with a review of the performance of our international operations, starting with Brazil. Net revenues grew 7.8% in the quarter and 13.4% in the year, reaching COP 40.9 billion, confirming the strong and consistent performance of Assaí.

Gross margin reached 24% of sales, increasing 18.4% versus last year, benefiting from commercial strategies, the development of non-food categories, lower shrinkage levels and store maturity.

In terms of SG&As, the strong sales control and the implementation of efficiency initiatives in head count, logistics and energy, among others, during the year allowed a dilution of about 50 basis points and grew 10.5%, even offsetting the higher costs that come from store renovations and conversions.

Recurring Ebitda ended at COP 2.7 billion, growing 48% and resulting in a 6.6 margin. Even after excluding tax credits, recurring Ebitda ended at COP 2 billion and growing 31%.

Please move now to slide 13. Net sales in Uruguay in local currency for 2017 grew 7.7%, outperforming inflation. These results come as a consequence of an assertive commercial strategy and the expansion of the Devoto express format, which ended at 33 stores.

Same-store sales grew 6.1% during the year, again outperforming food inflation, especially driven by the fresh category. Also, textiles and home categories ended strong.

Net revenues reached COP 2.6 billion in the year, rising 8.8% and getting market share in the country. At the gross margin, it finished the year at 33.9%, 80 basis points below 2016 due to cost increases in logistics and increased promotional activities at the hypers. However, this effect was compensated at the SG&A level by an extraordinary control that also offset high wage increases.

On the recurring Ebitda side, it grew 8.8% in the year to COP 205 billion, maintaining a strong 7.8 margin, demonstrating consistent growth and solid profitability levels.

Let's take a view on Argentina on slide 14. Argentina continued experiencing a gradual recovery, driven by a required economic reform, economic stability and an improved macro environment of Brazil and Uruguay. However, consumption environments remained complex and as in the other geographies of Éxito's footprint, the change of trail in inflation pressure the cost structure of the company.

For 2017, net sales grew 21.1% in local terms, while center sales grew 20%. Nevertheless, it showed during the year an increasing performance, finishing strong in the fourth quarter at 27% in total sales and 26% in same-store sales, both above CPI.

Net revenues grew 5.3% to almost COP 1.5 billion, reflecting a more possible retail performance and the contribution of the real estate business.

Gross margin increased 20 basis points in the year, as volume recovery started to slowly happen and improvements in the real estate performance happened.

SG&A grew slightly below local inflation, offsetting the pressure of an expense structure that grows somehow at 2016 inflation of 43% versus the current 2017 inflation. Finally, recurring Ebitda reached COP 64 billion, with a 4.3 margin.

Please move forward to the next slide to see the consolidated results. Top line revenues reached COP 56.4 billion with a 9.4% year-over-year growth. These results reflect the sales performance of Brazil and Uruguay and the contribution of complementary businesses, particularly real estate in Argentina and Colombia.

SG&A grew below the net revenues and diluted 10 basis points, reflecting productivity efforts and other cost cut initiatives to offset the downward trend in inflation that pressured line margins.

Recurring Ebitda margin grew by 24% to 6.4%, improving 80 basis points. Recurring Ebitda reached COP 3.6 billion in 2017. Excluding tax credits, Ebitda reached COP 3 billion and grew 11.7%, even more than revenues.

Finally, bottom line net income group share grew five times that of 2016 to COP 217 billion, a 400% growth year-over-year. I will double click this result on the next slide.

That five-time improvement in net income results mainly as follows: first, a solid and strong performance of Brazil during the year. Two, productivity efforts throughout the region and three, improved financial results as interest rates lowered in Brazil and Colombia.

Regarding the dividend proposal, on February 20th 2018 the board of directors of Éxito proposed a dividend of COP 243,20 per share, equivalent to a 50% pay-out ratio. This dividend is to be paid in four installments, as in the past. Obviously this proposal is subject to the approval of the general shareholders' meeting to be held on March 23rd 2018.

Now, at the holding level net financial debt closed at COP 2.5 billion, decreasing 16%, aligned with the company's strategy. Cash and equivalents flow at COP 1.6 billion, driven mainly by working capital improvements and increased dividends from subsidiaries.

Adjusted net financial debt / Ebitda ratio ended at 3.5, coming from the 3.13 ratio in 2016 due to macro conditions and consumption environment in 2017.

Just to remark, last December the company executed the refinancing of an international syndicated facility of USD 450 million and the local revolving facility of COP 500 million, both of which were due on 2018. Now the new date for those two facilities is 2020.

Thank you and at this point I will return the call to Mr. Giraldo to continue.

Carlos Mario Giraldo: Going to slide 18, we have a look at the map of the main road that we have followed in synergies in the last two years and a half, where you see that we went from capturing USD 5 million of impact in operational results in 2015 to USD 100 million in 2017 and I think that is very in line with the guideline that we gave at the beginning of USD 160 million in two years.

In 2015 we made a corporate structure definition for integration. We started 15 projects and we have gone all through 2017, where we have now 28 joint projects execution and the integration office that has representatives of all the countries have shown to do a consistent and incremental work during all the years.

If we go to slide 19, we see the USD 100 million that were obtained last year.

In slide 20, one of the synergies is joint purchases of commodities that are normally purchased in international markets. Before, every country did it on its own. Today, we are doing more than 1,000 containers a year, multiplying by 3.5 times what we used to do one year before, more than USD 44 million in purchases with discounts that vary between 5 and 15% given the critical mass in purchasing that we are doing.

If we go to slide 21, we see the textile synergy. Here we have taken to 57 stores in all the countries the look and feel type of strategy in textiles of creating value to our customers through private brands like Arkitect and Bronzini that are being now sold in all the countries. More than 1.3 million units of textile exported from Colombia but also beginning to do local production under our designs to make this type of strategy sustainable in the long term.

If we go to slide 22, we see some images of the Surtimayorista cash & carry in Colombia, which is following the type of sale mix and the type of value proposition to customers and the profitability path that we have seen for many years in Assaí in Brazil, which of course has been the orientation for the cash & carry in Colombia.

In slide 23 we see a great innovation that has been done in all the countries with the fresh market. We believe that the fresh market that we can see in Bogota, in Sao Paulo, in Cordoba and in Montevideo are at the level of the best fresh markets that we can see in Europe and the US, creating a lot of value to the customers in the different propositions and one of the axes of development in the future is going to be to strengthen the premium formats, given the importance, profitability and the resilience that they have against the competition of other formats.

If we go to slide 24, we will see also the expansion of proximity in Uruguay arriving to 33 proximity stores, being the main expansion in this country and very unique as a solution to the restrictions in the Uruguayan expansion legal system.

If we go to slide 25, we see the real estate projects in Argentina arriving to 170,000 square meters of GLA. Today, we are now the third national player in commercial real estate and the leader outside of Buenos Aires and in the last three years Libertad has been the leader in expansion in the real estate business in Argentina, with occupation rates that are now arriving above 90%, which is a very healthy level.

In slide 26 we see the digital transformation initiatives that we are starting in the Pão de Açúcar and Extra stores in Brazil. More than 4 million downloads to our “Meu Desconto”. The application features include personalized promotions from our suppliers, store locator, and also the way of making express check-out by planning the time in which one customer is going to the cashier. This is also being translated to the other countries, starting with Carulla in Colombia.

In slide number 27 we see the outlook for synergies for this year. We believe we are going to benefit around USD 120 million. Half of them are coming from expansions of business models around the region, like cash & carry, express, loyalty schemes in all the countries, textile model, and fresh market. Half of them come from efficiencies at cost level in purchasing of goods and also in purchasing of services of IT and also by the best practices, for example in the good management of shrinkage and other part comes from the economies of scale and joint purchasing level.

If we go to slides 28 and 29, you can see in the detail the guidance that was given last year for the different countries at Éxito level and the big message is that the guidance is in line with our performance in all the countries in expansion, in format focus, in cost exercise, in real estate, in synergies, only to speak to some part of the guidance that we were given.

Finally, in slide 30 I will give you some conclusions of this conference. Speaking about the full year of 2017, it shows again the benefits of regional diversification and the positive outcome of consolidated results of Éxito at sales level, Ebitda and net profit, having a net result improving in a substantial way.

We also see a consistent cost and expense level gain in the different countries, creating a leaner operation in the region, which is an ongoing commitment and which is going to show a quarter-by-quarter improvement, as you are going to see, starting by Colombia.

An annual synergy plan captured, as has been previewed, around USD 100 million, and surpassing the expected plan which originally was announced above USD 50 million.

A solid contribution of real estate operations in Colombia and Argentina and finally something very important for the present and for the future, which is the continuous strengthening of the omnichannel strategy, which is not something new. It is something that we have been working on for many years but with specific and very important chapters like the marketplace, the digital kiosks and also the last-mile service, which has been already launched, the traffic monetization and the innovative leverage strategies that were shown during the conference. These are all key elements for long-term profitability at Grupo Éxito level.

Then, going to slide 31, having some 2018 perspectives we see a positive effect in consumption coming from lower inflation and lower interest rates, mainly in Colombia and Brazil.

A continued gradual economic recovery and operational outcome in Brazil and Argentina.

A retail expansion focus on the most attractive formats, starting with fresh market, convenience and cash & carry.

Focus on cost and expense controls, as was the case starting in 2017.

Strengthening the omnichannel strategy as something which is absolutely key and will become every year more important in these countries, as it is today in the developed countries, and traffic monetization to continue improving contribution from complementary business.

Looking at the outlook for 2018, normally in this conference we give some guidelines. What we can say for Colombia is that we are pointing to a retail expansion of around 20,000 square meters, with at least eight cash & carry Surtimayorista stores.

We are taking fresh market to at least five big stores and the best performing transversal initiatives in the fresh market to be rolled out at Carulla stores.

“Puntos Colombia” to begin operations during the first half of this year.

SG&A expenses to grow below the inflation rate in Colombia.

Viva Malls expansion to around 160,000 square meters of GLA and with a Capex, excluding the Viva Malls Capex, of COP 300 billion.

In Brazil, retail expansion focused in 20 Assaí stores, including some conversions, renovations of 20 additional Pão de Açúcar stores, a gradual implementation of the fresh market model at Pao de Açúcar level.

A Capex of approximately R $1.6 billion.

In Uruguay, an ongoing expansion to the convenience format with 8 to 10 stores and in Argentina an ongoing development of the dual retail-real estate business.

Finally, at the LatAm platform, run rate benefits from synergies of approximately USD 120 million.

If we look at the big picture of what we have seen in the exercise in 2017, it has not been the best economic year for all the region. Of course we see some recovery in Argentina and Brazil, but still to be confirmed in the following years and still not covering the full benefit of the economic recovery. We have gone through a very difficult economic year in Colombia, as everybody knows.

However, if we look at the consolidated big picture results, you have a year which is acquitted at all lines with sales increasing more than 9%, with Ebitda even without exceptional incomes, which are operational but are exceptional, but if you exclude the exceptional income, Ebitda growing at 11.7%, with net profit multiplying by 5 times and especially looking at the strategy in the long term, with right decisions and right moves in formats, in real estate, in omnichannelity, at cost level and with the force of integration, which has proven to be a very important impulse force for Grupo Éxito in the region with very united, committed and energetic teams in all the countries.

This is the conference initial presentation for this session and we will open our Q&A session.

Operator: At this time I would like to remind everyone, in order to ask a question simply press * then the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key. We'll pause for just a moment to compile the Q&A roster.

Our first question online comes from Antonio Gonzalez, from Credit Suisse.

Antonio Gonzalez: Hi. Good morning, Carlos Mario and team. Thank you for taking my question. I have two questions. The first one is on Colombia. The recurring Ebitda of the Colombian business throughout 2017 declined 23%, right? Obviously you've gone in detail through the competitive environment that perhaps might not be very rational, food deflation, the macro deceleration and so on, so I understand the drivers of this decline, but I wanted to see if you can share with us your big picture assessment. I know this is not part of the guidance, but when you see the path towards recovery, what can you share with us? Do you foresee strategically that it'll be a two, three, four-year recovery or do you think you can recover this lost Ebitda in say the next year or so?

Also, what's your strategic assessment? The Ebitda margin of this business used to be slightly above 7%. You have some structural changes in the business -more competition, omnichannel and so on- but on the positive side you have the real estate business and some of the efficiency initiatives that you described, so if you have to guess whenever that stabilization happens, do you think the Ebitda margin of this business can come back to 7% or is it going to be structurally lower than these levels?

Carlos Mario Giraldo: Thank you for your question. I'll start by saying that when you see the expansion that is happening in Colombia, and you have seen even in the last days some scandals going around that, but even if you go to formal players that are doing that expansion, no one today has shown the ability to gain one peso in profit after ten years of work.

I think that is not the kind of work that you expect from Éxito. It is easy to open stores everywhere and not to have productivity per square meter but we have decided not to do that. We have to play the game differently so it has to be a combination of different things. First, using the right formats, and we are choosing formats in the extremes of the formula, that is, in the high level, which is the premium format, which works right in the region and where are clearly the regional leader in South America in premium formats, and number two, choosing a different type of popular format, which is the cash & carry, which has created a structural and profitable revolution in countries like Brazil and Argentina. I make emphasis: structural and profitable, as we have seen not only in Assaí but also in competition players like Atacadao, the format of Carrefour, so this is one thing that we are doing. Of course it takes some time. It has to create a material base and that's why we are opening an important number of cash & carries and for example the nine that we have today will be selling something between USD 85 and USD 95 million during this year, which now is material after one year and a half of existence. The cash & carry also has a very interesting ROI because the investment per square meter is much lower than in other formats.

The second thing that is important is clearly to remain a service provider to our customers, to keep the alliance of our customers and we are measuring the service levels and to give you one indication, this year in the Gallup measurement that we have, we arrived to 4.42, which is a very top level under any retailer, and the net promoting score for the Éxito brand was 67, which is even higher than most brands in retail in the world, so we worked here.

The third thing is of course to target prices and we are doing it in 200 categories which form the Pareto number of what our competitors are working, but for us only represent 15% of our sales and here we are assuring that we have at least the same prices or even below and we are doing something similar to what Brazil is doing and it is a very important private brand initiative to increase the competivity of our private brands in the basic categories.

We have decided to be the fresh product category specialist at all levels –premium, medium, hypermarkets and popular. This is something that nobody can copy and there's no international specialist in fresh categories so this is something unique to Éxito and we believe that on top of that traffic monetization is key, as we have seen with the different complementary businesses and with real estate, which we call some kind of ancillary income which contributes to our profitability.

At the same time, we are working very hard at the synergies as you have seen and at the cost level. What's going to happen? Nobody knows but we are aiming that 2018 will be a year of stabilization of our margins. That's our internal aim. We don't want to be bullish about the possibility of recuperating 100 or 150 basis points of Ebitda level. That is something that to do you would have to not be committed with competivity in the market but of course it means that to keep that level we invest more to the market but we get more profit from the complementary businesses, which is fortunately a scheme which is unique for Éxito in Colombia and of course in years to come there will be the possibility to increase gradually the margins, but for the moment in this year we are aiming to stability in our Ebitda margin.

Antonio Gonzalez: This is very helpful. Thank you. If I may, I wanted to ask a follow-up that is related with the Ebitda levels in Colombia, I guess. When I see the leverage that you have at the holding company level, you're showing a 3.52 times net debt to Ebitda trailing last twelve months. Perhaps this question is more for Manfred. I understand that the internal target was to be closer or below three times. I obviously can see that the Ebitda compression in Colombia is having an impact on these leverage figures but I wanted to hear your assessment on what's the most realistic or updated expectation that you would have for 2018. I just wanted to ask, can you remind us if the covenants on the debt are tied to the holding level leverage? Or is it at the consolidated level? Because I understand there's a covenant at around three and a half times which gets revised every month of April. Thank you.

Manfred Gartz: Hi. Thank you for the question. I'll address it in small pieces. The first one has to do with how we ended. We were presenting the results of the first quarter in May. What we said to the market is that we envisioned that the covenant, that the indicator would be around +/- 10% of what we ended in 2016. One of the reasons why we said so is that we were seeing macro conditions in Colombia deteriorating, consumption conditions not reacting properly, and what we said is that if consumption does not react by the end of the year, probably it'd be in the upper range of that sense. If you see the result that we post, as of this year at the end we are slightly off so we are pretty much in the range of what we discussed. That's one part.

The other part that has to do… I think it's important to recall that we come from a 3.8 times indicator two years ago so I think it's part of the trend of deleveraging, it's part of the strategy that the company has. I think 2017, as Carlos Mario has mentioned, has been a particular year for Colombia and that obviously puts some pressure on the indicator.

A little on your question on whether this is a holding company or not, as per our current contracts we have both, but this particular one that we want to follow, this is at the holding level. As of now, the current… and it is also important to notice that this is an incurrent indicator. It's very important to notice that. This is an incurrent test indicator. As of now, the threshold that we have is four times. I hope this answers your question.

Antonio Gonzalez: Holding level. Correct, Manfred?

Operator: Thank you. Our next question online comes from Federico Perez, from Bancolombia. Please go ahead.

Federico Perez: Hi. Thank you Carlos Mario and Manfred for the presentation. I have two questions. The first one is, at the beginning of the presentation you guys said that you moved some SG&A expenses to the cost of sales. Can you give us a bit more color on this?

The second one is regarding Colombia's wealth. This one is more focused on the sales. We've seen a very tough quarter for the company, where same-store sales decreased 6.2% mainly driven by a tough consumption scenario here in Colombia. I would like to ask how you see the performance of Colombia for the coming months, especially the first half of the year before the presidential elections here. Thank you.

Carlos Mario Giraldo: Thank you, Federico. I will start with the second one and that is the perspective for Colombia and how we see the things coming.

I will say first that I want to be cautious because last year all of us were seeing that the second semester was going to be better and it didn't work that way but here I think there are some grounds to be gradually positive. The first one is that household expenditure is gradually improving. Of course the first part of that expenditure is going to pay existing credits but it will eventually express in better consumption.

The second thing is that clearly we have low food inflation of 1.92. This low food inflation has two impacts. One is that people are going to have disposable income. Salaries are going up 5.9% so the difference between the two is clearly disposable income for people. Here it's interesting because the same happened in Brazil and this disposable income, the first impact that it had was a very important reaction of non-food, because people bought the same food but they got some money that they put into non-food. I think this is a trend that we are going to see in Colombia, that we are going to start an important reactivation of non-food categories such as electronic categories.

The third element to be moderately positive is that the lower interest rates will eventually transfer not only to better investments and better investments create economic surge, but also to a reduction in interest rates in consumer retail credits.

Where are we coming from? It is important to understand. We are coming from negative baskets of 2.8 and we are coming from a negative retail as measured by Dane and we are still at negative grounds in consumer confidence but we are seeing a gradual improvement.

At Éxito level, what we can say is that we are seeing a gradual, still not strong, but a gradual recovery from the loss that we had in quarters three and four of last year. We are seeing that this recovery is being first expressed in the non-food categories and looking forward the elements that we have to look to are: first, the electoral cycle, which I don’t give a lot of importance to. I think it has some reduction in government expenditure, but there have been years in which even if there’s elections the economy and the consumption has been strong. We have the World Cup. I think the World Cup creates a positive feeling in consumers but also it has an important impact in consumption, both in consumer goods and in electronics. Finally, we see that especially for retail consumer credit seems to be much better than last year. These would be my previous and first reactions to your questions and I’m going to hand it over to Manfred to speak about the first part on SG&As.

Manfred Gartz: Ok. Regarding your first question, I will start saying that what we wanted to do is to make an adjustment to assure IFRS principles and proper consolidation practices. What does this mean? As part of our review, as the way to align all the reporting for both internal exercises and control and external communication we need to guarantee that we have the same policy on certain accounts and this is an account that comes from the replenishment on products at the store levels. Those are the employees that after products are taken from the shelves need to replenish them new. This is a net account. That means that this includes some supplier contribution. Just to give you a sense of how this adjustment works and why this is a sales sum adjustment at the end, it’s that when I mentioned that a little more than half of the 128 basis points difference comes from this, I explained with growth numbers. About 70 basis points come from this. This is roughly COP 23 billion. If you adjust that and you move COP 23 billion out of gross profit and put it in SG&As, what you’ll see is the prior reporting that we had in the prior quarters. That would drive and explain that SG&As would no longer be -0.1% but +4%. Still, very low, still under the company’s commitment to protect bottom line, so what we actually did here in the fourth quarter, what happens is it has a retroactive effect of the whole year in just one quarter. That’s why when you see on the year results, you see that effect is less big at the end. I hope this answers your question.

Federico Perez: Very clear. Thank you so much. If you don’t mind me, I would like to ask another question regarding the cash & carry formats. You opened three Surtimayoristas during the quarter here in Colombia and you told us you expect these Surtimayoristas to give a two-time increase in sales before their transformation process. How long can this take so they start selling two times the sales that used to produce when they were the old format? Thank you.

Carlos Mario Giraldo: When I speak about two times the sales they had under the previous format, it's an immediate reaction. It's from day one so as an average there are some stores giving more than two. Some slightly less than two, but as an average we will give two times then as we come to the first year, there will be a same-store sale growth as we continue gaining attractiveness for the format and it is something very in line with the trend that we see in Brazil.

Federico Perez: Perfect. Thank you so much, Carlos Mario and Manfred.

Operator: Thank you. Our next question online comes from Juan Chipatecua, from Porvenir. Please go ahead.

Juan Chipatecua: Hi. Thank you for your presentation. I have basically two questions. First, can you give us any insight on the negative result in the equity method that we find in the whole year? The second one is if you can give us some guidance or some time expectations on the process of divestment of Via Varejo. Thank you so much.

Carlos Mario Giraldo: Yes. I will start by the second one. The divestment process of Via Varejo is an ongoing process. We have ratified it and that is why we consider and we continue having Via Varejo as a non-consolidated operation. Having said this, you know that it's an M&A process. An M&A process takes time and especially between the moment in which the process started and today absolutely material things have happened, both in Brazil non-food market and at Via Varejo level which has taken Via Varejo to improve substantially, more than forecasted, both its sales and profitability and it has taken its share to go from near to R $8 or $9 when this all started to R $26 at the point that today stands, so you can understand that this creates, of course, challenges in the middle of the process, but it is a good result for shareholders and I think that the fact that it has taken some time and it has been carefully done has been in the benefit of shareholders.

I'm going to hand it to Manfred to go on with the first part of the question.

Manfred Gartz: Ok. Juan, this is Manfred. Just to be quite sure on your question, would you remind specifically your first question please?

Juan Chipatecua: …in the whole year it was a negative value of approximately… give me one second… approximately COP -36 billion. Thanks.

Manfred Gartz: I'm trying to… I'm trying to get… that number to respond correctly.

What we have especially at the consolidated level… what we have is impacts from Inova and Brazil that were offset [unintelligible] and some others associated and that's where I see a negative equity impact that… at the equity method.

Juan Chipatecua: Ok. Do you know what happened exactly at this Inova level?

Manfred Gartz: No. These are the operational results.

Juan Chipatecua: Ok. Thanks.

Operator: Thank you. Our next question online comes from Nicolas Barren, from JP Morgan. Please go ahead.

Nicolas Barren: Hi, Manfred and Carlos Mario. Thank you for the presentation and for the question. Just super quickly. If you have any estimates on how "Puntos", the loyalty program, will impact the P&L. What kind of benefits will the company reap, besides the whole loyalty thing? Will it have some benefits for the P&L also? Just wanted to get your impression on that. Thank you.

Carlos Mario Giraldo: Still we are not giving a guideline on the results of "Puntos Colombia". It is in the phase of pre-operations. Management is already there and it's working since the last four, five months and we are in the process of putting together the specialized IT system that will take the complete database of customers both of Bancolombia and Éxito and of course have the adequate protection of that database and the segmentation of the same.

But only to give you some ideas of the kind of business model, the first one is that today both Bancolombia and Éxito issue points for their services or for their products and these points are redeemed only within each company. That is, "Puntos Éxito" is only redeemed within the products and services of Éxito. What will happen now is that these points can be redeemed within all the ecosystem and also within the ecosystem of the "aliados" or allies. We have now already 20 allies that are on the vehicle. These allies are people who have restaurants or boutiques of textiles or services like gymnasiums or cinema, etc. and of course airline services and they give all opportunities of redemption to the customers but at the same time of issuance. That means that there's also a commercialization of the point. The scheme is that one point normally has a cost of COP $1, only to give you an example. Normally between 70% and 80% of the points are used within the year if there are important redemption alternatives and the rest of the points that are not used go through a kind of shrinkage. That means that they are no longer disposable so when you have a cost of 100 for one point, at the end it goes down to 80 or 75. When you go to sell the point to an "aliado", you sell it at different prices according with the attractiveness that this type of redemption opportunities have to the "aliado" and his customers so you will sell it at 105, 110 or 130 and the margin of the business is the margin between the price and the cost.

What's interesting about this scheme is that it is a database and a technological business with no inventory, with no shrinkage of products and with also a creation of an additional loyalty sensation because for a customer that has "Puntos Colombia" and he can spend them in a lot of solutions, within them a very important solution in food through Éxito and in financial services through Bancolombia, it is very attractive to remain within the system, so this is the scheme and of course the best if you have many loyalty programs of these in England and Brazil they work fine, but for the first time the innovation is to have a big coalition where the two partners are massive issuers and massive consumers of points, like the leading bank and the leading retailer in Colombia. The only other benchmark that you have in Colombia is LifeMiles and you have seen the great value that LifeMiles has given to its shareholders.

Nicolas Barren: Perfect. It is very clear. Thank you very much.

Operator: Thank you. Our final question comes from Rodrigo Torres, from Valor Analitico. Please go ahead.

Rodrigo Torres: Good morning, guys. Thanks for the presentation. I arrived late to the presentation so I want to be clear that a disinvestment was announced in Via Varejo stores in Brazil. Can you please clarify that for me?

Carlos Mario Giraldo: Yes. As we said before, the disinvestment process continues. It is an ongoing process. It has taken time but at the same time circumstances both in the non-food market in Brazil and in the share value of Via Varejo have changed dramatically and when we started the process, it was a share value between R $8 and $9 and today it's R $26 and the result of the company has improved a lot. But to give a straightforward answer, the strategy of the company to focus in food is an ongoing strategy and that means that we continue the disinvestment process.

Rodrigo Torres: Ok. Thank you. I have two questions, please. Can you give us information about the Éxito Prime program that was launched at the end of last year? I want to know how market participation has been in 2017 compared to discount chains and what is the expectation or the guideline for 2018. Thank you.

Carlos Mario Giraldo: First, Éxito Prime. Éxito Prime is part of the omnichannel strategy of the company and as we have launched marketplace, we have launched last-mile service, we have launched digital catalogs for the company, we are recently launching Éxito Prime to give our customers the possibility of having free delivery if they commit by paying a fee and by being a loyal customer to exito.com. For the moment it only applies to non-food and we will see in the following months if we extend it to food, but we have to be first cautious that we have all the right systems –IT and logistic systems- so that it will function with a high level of satisfaction for our customers.

In e-commerce what we have learned not only Amazon but from other key players in the world is that it is not only about selling cheap but it is about giving a great customer satisfaction and we have been very strict about that and the good news is that the last rating that we got from Invamer Gallup on exito.com and carulla.com was above 4.4, which is a very important level of satisfaction, of course with improvements to be done in the future.

About the second one on market share, we don't have a complete market share because Nielsen does not measure all the discounters. It measures some discounters but what we believe is that our market share, given their expansion, would have been impacted in around 200 basis points but we prefer to have 44 profitable market share points instead of 46 non-profitable market share points and of course we are serious about market share but we are going to target the profitable segments of the market with profitable formats, with omnichannelity, with innovation, with a focus on fresh products, and all the other complementary strategies which we spoke about during this conference.

Rodrigo Torres: Ok. Thank you so much.

Operator: No further questions at this time. Mr. Giraldo, do you have any closing remarks?

Carlos Mario Giraldo: Yes. I want to thank you all for being here and even if I repeat some things, I want to be very emphatic on them. The first one is that when you look at the big picture, consolidated results show the benefit of diversification and the benefit of being present in the strongest LatAm economies. Colombia has been strong some years. Brazil has been weak some years. This year was the other way around, but that's the importance of diversification. If Éxito was completely concentrated on the Colombian market, probably there would be a higher concern from you guys so it's important today not only to have different tokens in different markets but also to have the learning and the integration coming from cross fertilization in all the markets.

The second thing is that net profit improvement is there and that is important for shareholders and we are keeping the policy of the company of giving around 50% of profit distribution, which can be changed in the future, but for the moment it is stable as it has been in the past years.

The third one is that the integration process is not theory. It is a reality. You can see it in pictures, you can see it in bricks, and you can see it in non-bricks strategy in all the markets and it is going according with the planning, with a very important internal process.

I think that there's a gradual positive regional outlook because of decreasing interest rates and inflations in all the countries, because of improving consumption expectations in Brazil, Argentina and gradually in Colombia and because of good productivity inside our different divisions at SG&A level.

Éxito is focused on a profitable recipe that includes focused price investment. Of course we have to do it in basic categories, expansion in profitable and attractive formats, omnichannel focus and fresh products category specialization and strength. On top of that, it has a unique value creation opportunity for the company and for shareholders, which are showing their benefit gradually and they will become more and more material for the company like traffic monetization coming from things as strong as real estate, complementary businesses and future coalition, integrated benefits and synergies and the upside that we are receiving and will receive from Brazil and Argentina being… I would say Brazil a very interesting example because internally in the last three years GPA has taken the right decisions in the right formats and in the right productivity schemes, which are showing their benefits.

So these would be my final remarks and again I thank you very much for your presence.

Operator: This concludes today's conference call. You may now disconnect.