

Grupo Éxito - 3Q23 Results Conference Call Transcription

Nov 9, 2023

María Fernanda Moreno: Good morning, everyone, thanks for joining us today for Grupo Éxito's third quarter 2023 results. Please note that this conference is being recorded.

Note on Forward-Looking Statements

This document contains certain forward-looking statements based on data, assumptions, and estimates, that the Company believes are reasonable; however, it is not historical data and should not be interpreted as guarantees of its future occurrence. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the Company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations, expectations in connection with the company's ESG plans, initiatives, projections, goals, commitments, expectations or prospects, including ESG-related targets and goals, are examples of forward-looking statements. Although the Company's management believes that the expectations and assumptions on which such forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements.

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Reconciliations of the non-IFRS financial measures webcast are included at the appendices.

At this time, all participants have been placed on mute to prevent any background noise.

I'm pleased to present our CEO - Mr. Carlos Mario Giraldo and CFO Mrs. Ivonne Windmueller.

Please, move to **slide #3** to see the agenda. We will cover Grupo Éxito's spin-off outcome, the update on ESG strategy, Quarterly highlights, financial performance and Conclusions.

The call will conclude with the Q&A session in which, all participants can raise their hands to ask questions or send them 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 Giraldo, thank you María Fernanda. I want to welcome to all of you to this conference of our Third quarter results. If we go to **slide #5**, we recall the listing of Exito Shares in the New York Stock Exchange, the Colombian stock exchange, and B3 in Brazil. It has been completed in the three markets taking the liquidity of our share to 53% with an increased shareholder base to around 53 thousand shareholders. The initial float in August has had some variation, in the case of BDRs it went from 81% of the liquidity of the float to 66% at Sep 30, in ADRS from 13% to 28% and Colombian stock at 7%.

If we go to **slide #7** we speak about the advance in our agenda of environmental, social and Governance initiatives.

First to highlight Lactatón, this is the breast-feeding camping that we do every year and is a national trend. This time it was number one trend in X (Twitter) and it is key for children nutrition which remains as the main Exito social contribution.

Exito came out Seventh in Merco reputation classification gaining one position, and it remains as the number one in the retail sector.

Our Carulla Fresh Market format for the first fourth consecutive year is declared, recognized, carbon neutral certified by Icontec en Colombia.

Paisana brand which was developed by Exito and donated to the Colombian state for peace, process communities was an agreement between the National Federation of Retailers, Exito and *Fondo Colombia en Paz* from the Government to promote it with all retail not only with Exito.

If we go to **slide #9**, we speak about our third quarter consolidated highlights. First to say that our top line growth was 0.5% in Colombian pesos or 9.1 % if we exclude the foreign exchange impact which came basically from the Argentinian impact in the valuation. Main contribution to this growth came from international businesses, Colombia remains positive regardless of the difficult, macroeconomics situation,

Net Revenue of \$5.1 billion, growing 0.5% and 9.1% excluding foreign exchange.

EBITDA at \$328 thousand decreasing 17.6% impacted mainly by inflation in expenses. This EBITDA decreased 13.1% if you exclude the FX effect. Free cash flow in line with the last twelve months of 2022 when you exclude the extraordinary investment made in Uruguay to increase our share in the Disco business unit.

The main positive aspect that we want to highlight is the real state result with high occupation and profitability growing 16.5% in rents and fees also the growth above local inflations both in Uruguay and Argentina. As challenges, we have to say that the main one is the Colombian macroeconomics affecting the consumer demand.

The negative retail last month's evolution in Colombia, total retail, in August was -10% while manufacturing sector was around -6%, also the high interest rates impact specially in non-food product consumption in all the Colombian market.

Inflation is a key element in different aspects, first it helps the real state rents because they grow with a reference to inflation. In food the inflation came out yesterday 12M to Oct at 10.36% coming from a top point in December of last year near to 28%. It is important to highlight that Exito inflation to the market is three-point six percentage points lower benefiting our consumers and making an important effort and regardless of this, in the year today, we keep our commercial margins stable.

Net result impacted by the Tuya credit provisions, by high interest rates regarding our debt and by the non-recurring expenses on the spin off process.

Strong performance coming from Omnichannel with a top 13.5% share in Colombia and a solid growth of 16.8%. Strong also performance in our innovation formats specially the hyper markets Exito Wow and the Fresh market of Carulla both grew this innovation formats around 6 percentage points above the rest of the Exito and Carulla brands in the year-to-date figures.

In **slide #11** Our Revenue performance in all countries was positive in local currency. First Colombia Net sales growing by 2.4% in the third quarter and by 5.0% in the year to date, with food positive at 5.6% regardless the effort that the Company did in the inflation to consumer as I said of 3.6 percentage points. Non-food on the contrary decreased by 5.3% impacted by consumer confidence and by the high cost of credit. The best performer in segment and brand was the premium Carulla format with an increase of 12.8% and it has to do with the lower elasticity to inflation of this segment of consumers and also with the Omnichannel strength of this premium segment.

Low-cost formats and brands Impacted by consumer access to credit by its low disposable income and by the negative momentum of professional customers.

Going to Uruguay, sales grew by 7.4% in local currency, above inflation and with strong market share position, we concluded the acquisition of two independent supermarkets and the Fresh Market continues to evolve and now represents 57% of the Uruguay sales.

In Argentina, sales grew in the quarter by 191% which is very ahead of inflation, which is a top of 138%. Foreign exchange saw an impact in the Q3 in Argentina which materially impacted those results of sales and profitability when expressed in the consolidated results in Colombian pesos.

Cash carry is performing very well. Now, we have 11 stores, they account for 17.8% of retail sales, they are responsible for the most important part of the growth against inflation and really making a difference in Argentina.

Real estate with a strong performance with fees growing with inflation and with a 94% occupation.

Slide #12 speaks about the innovation formats which continue to be in the center of our differentiation. Exito Wow, the new generation of hypermarkets, now represents 36% of the brand, as I said before growing in this year, around between 6 and 7 points above the rest of the Exito Brand sales impact of 26.2% for mature transformations in more than twenty-four months.

The Carulla Fresh market, which is bringing to our customer differentiation, green market proposition, freshness and also sustainability, for example, eliminating, and we are the first brand to do that in Colombia, plastic bags in cashiers, represents now 63% of the brand sales

Going to **slide #13** let me speak about of a very important part of our strategy, which is going to be reinforce in the following years and it is to target in association with traditional market specially with the mom and pops and with independent mini and supermarkets. They represent more than 40% of the consumer goods market in Colombia, so it is a huge potential and becoming a reality for the company.

We get there in a three-food strategy, first with Surtimayorista which continues with its expansion with 14 Surtimayorista year to date being opened representing now 5.5% of the total sales in Colombia and impacted negatively in the short run by the economic cycle of our professional customers, institutional customers.

Aliados or Allies or partners which is a cobranding proposition with mom and pops and independent supermarkets growing by 12.3% arriving to \$169 thousand million pesos and with a huge opportunity. We ended September 30 with 1900 aliados and it is increasing in number in a very strong way looking towards the end of the year.

Mii Surtí, which goes to those moms & pops of lower size which do not give us the right size to

become directly partners, it is an APP, a digital solution for B2B sales to this mom & pops, it arrived in the year to date to 54 thousand million Colombian pesos growing by 53%.

Going to **Slide #14**, we speak about Omnichannel which continues to be a key differentiator and a strength of this Organization, especially in Colombia. It reinforces the importance and the share. In the Q3 representing 13.5% of the total retail Colombian sales and growing by 16.8%, arriving in the year to date to 14 million orders and in the year to date, also, coming to important and material sales of near to \$1.4 billion Colombian pesos.

It is boosted by food e-commerce, our main strength and the last mile delivery. Food, e-commerce now represents around 12.8% share, one of the highest in all Latin América an even compared with US players and it grew in the quarter by 25.5%. Our apps Exito and Carulla penetration growing by 71% in our Market Place, a very important initiative for our non-food sales with a share of 29% and growing in the quarter by near to 46%.

In **slide #15** we speak about the real estate business. It is, as you know, our main monetization business benefited in this case by the high occupation, by the brand recognition of Viva Malls and also by the inflation in rents. We have to highlight Viva Malls which is 72% of the total gross leasable area of our Real Estate Business and with a very high 97% occupancy rate. There is a scarcity value today in the market, given that in the last years very few new shopping malls were constructed because of the pandemic situation. Viva Malls with a revenue year to date, growing by 14.4% and EBITDA by 20.4%. Revenues from rentals and administrative fee growing by 18% in Colombia.

In **slide #16** an update on the real state current projects. The Envigado Viva Malls shopping mall extension to have the introduction of Ikea is going as planned, it would be opening in 2024 for around 17 thousand sqm of GLA and more than 50 thousand constructed area. It would be the first Ikea in the metropolitan area of Medellín for the moment and the only one announced. We also delivered *Calle Bistró* innovation restaurant area in Viva Villavicencio.

In **slide #17**, I want to speak about other complementary important businesses, material businesses as Puntos Colombia and our financial retail Tuya business. Puntos Colombia with a strong growth and positioning is now present in one out of every three households in Colombia, recognized as the number one brand in loyalty programs according to Kantar and it is now having near 6.7 million active customers that have given its express Habeas data to our business. These active customers growing by 10.6% we continue to bring ally brands that issue and redeem points within Puntos Colombia coming to around 530 ally brands.

Speaking about Tuya, this business has had a very challenging year protecting the fundamentals of the business as most of the financial sector has been doing with consumer credit sector given a decrease in demand, a strengthening in all the criteria for new credit card and for scoring. Our non-performing loans at low double-digit made a growth in the provisions that we make for the business

to remain at very stable and sound and clearly about legal requirements. We are starting to see some early signs of better risk performance.

In **slide #18** about Uruguay, we want to announce the acquisition of a minority stake of 6.66% in the Disco unit as you recall in the Devoto unit we have 100% and now with this in Disco unit we come up to 69.15%. We also made the acquisition of two independent supermarkets.

In **slide #19** speaking about Argentina, Libertad sales above market and above inflation with eleven cash and carry leading growth, now representing near to 18% of sales and with 14 shopping malls or commercial galleries with a very good occupancy rate of 94% mainly with local tenants and with revenues growing by 172% in local currency during the third quarter. Now I hand it over to Ivonne Widmuller and then I will come back for the conclusions.

Ivonne Windmuller: Thank you Carlos Mario, good morning and thank you for joining us this morning I will be presenting the financial results of the company for the quarter and for the last nine months.

Let's continue on **slide #20** to review the operating performance by country where we see our international operations with sales growth above CPI levels in local currency and the consistent costs and expenses efforts across the three countries to mitigate the inflationary pressures.

In Colombia, as previously presented, Net revenues for the quarter at 3.8 billion Colombian Pesos with 2.9% growth and 11,3 billion Colombian pesos with +5.1% growth for the nine months. This, thanks to a solid Real Estate evolution, the consistent performance of the omnichannel, food sales growth and the increased share of the innovative formats under a consumption slowdown environment. Non-food sales affected by higher cost of credit and lower purchasing power.

Quarterly gross margin at 21.6% and Year to Date stable at 22.3%, boosted by the real estate business and reflecting the action plan in costs, compensating price investment and inflationary effect in the cost of goods.

SG&A grew 11.6% for the quarter and 13.3% during the nine months, impacted by the ongoing inflationary pressures and the increase in operational tax after the implementation of the tax reform passed in December 2022. Strong action plans in expenses, around 60 thousand million Colombian pesos for the quarter and 128 thousand million Colombian pesos throughout the year, to mitigate the inflationary pressures on wages, utilities, and other fix costs.

Colombian recurring EBITDA for the quarter at 226.065 million Colombian Pesos, decreased 20.6% and with 5.9% rate deteriorated in -175bps. Year to date, EBITDA decreased 12.7%. The result reflects the positive contribution from real estate and other complementary businesses (+40pb),

offset by sales performance due to a lower consumption mainly in non-food category, inflationary pressures in costs and expenses and the higher operational tax.

Uruguay with a top line that grew 7.3% in Colombian Pesos and 8.6% in local currency, this is around 4PP above local inflation. Top line result driven by the performance of the Fresh Market stores with 80bp growth above regular stores and reaching a share of 57.7% of sales. Year to date revenues grew at double digit in local currency, above twice the inflation level.

Gross profit grew 9.9%, above revenues growth, and reached a rate of 35.7% improving 83bp thanks to the successful commercial strategies and increased share of the Fresh Market format. SG&A grew above revenues due to higher labor and marketing expenses related to store expansion.

Recurring EBITDA for the quarter at 80.267 million Colombian Pesos, decreased an 8.6%. Year to Date, EBITDA grew 17,2% in local currency, with double digit margin of 10.7% improving 49bps. The Uruguayan operation continued as the most profitable business unit in the group.

And finally, Argentina with Net Revenues in Colombian Pesos affected by FX effect, decreased 28.1%, but in local currency with growth of 190%, over 50PP above local inflation. Sales driven by the increased commercial dynamism after the preliminary elections, the outstanding performance of the C&C format Minimayorista, the increase share in the omnichannel share, and the Real Estate business contribution with solid occupancy levels.

Gross margin reflecting the higher share of the Cash and Carry format and price investment. SG&A grew below sales growth in local currency, improved 320bps as percentage on Net Revenue thanks to sales performance that allowed the dilution and the consistent and strict cost control.

Recurring EBITDA for the third quarter reached 6.0% margin improving 90bps. Year to Date Recurring EBITDA grew 5.9% in Colombian pesos and over 180% in local currency and reached 43.192 million Colombian Pesos improving 21bps in rate.

Let's move forward to **slide #21** to review the Company's consolidated result.

Net revenues reached \$5.1 billion Colombian pesos and grew 0,5% for the quarter. Year to date revenues for \$15.7 billion Colombian pesos grew 8.9%. When excluding FX effect from international operations, net revenues grew 9.1% during the quarter and 11,7% as of September.

Year to date gross margin reached 25.8%, improving 39bps boosted by the Uruguayan operation and margin stability in Colombia, compensating the impact in Argentina due to higher share of the C&C format.

The international operations showed a solid commercial performance with sales growth above CPI levels and EBITDA with positive contribution to the consolidated result. Other revenues, driven by

the growth of 16.7% of the Real Estate business also contributed positively. The consistent focus on action plans in cost and expenses across the three operations led to a SG&A growth in the quarter of mid-single digit compensating inflationary pressures. Nevertheless, the Colombian operational outcome was impacted by:

- i) lower sales, mainly in non-food category affected by high credit cost and lower purchasing power decreasing consumption in durable and semi-durable product.
- ii) Inflation pressuring cost and expense's structure, but thanks to the consistent actions plans, during the quarter, expenses grew at a slower pace than previous quarters.
- iii) a higher operational tax, coming from the reform approved in December 2022 with an impact of 27bps in the consolidated EBITDA margin.

Nine months recurring EBITDA at \$1.1 billion, decreased a 1.2%, three-year double digit CAGR of 11.1%.

Going to **slide #22**, the group net result for the quarter with a loss of \$31.685 million Colombian pesos reflected the positive contribution of the international operations and complementary businesses and a positive effect on income tax, offset by the operational retail result in Colombia affected by the macro and consumer headwinds. Year to date, net profit of 7.249 million Colombian pesos.

Other significant effects in net result during the quarter and year-to date are coming from:

- i) (First) An impacted Net financial result due to higher interest rates increasing the cost of debt
- ii) (second) Higher minority interest coming from the improved performance in Uruguay and Real Estate business in Colombia with Viva Malls
- iii) (Third) Impacted result in the financial business Tuya due to higher provisions amidst non-performing loans deterioration across the financial sector
- iv) And (fourth) higher non-recurrent expenses related to the Spin-off and DRs listing process

Finally, on **slide # 23**, regarding the cash and debt position of the company, we would like to highlight a last 12-month positive Free Cash Flow of \$103 thousand million, showing stability versus last year, when excluding investment in capital increase in Uruguay of 124.000 million Colombian pesos.

Dividends received from subsidiaries plus the efforts and improved management in working capital, mainly in inventories, allowed investments and dividend payment to shareholders.

Net financial debt with a total negative variation of 353 million Colombian pesos, if we exclude dividend payments, negative variation reduces to 136 million Colombian pesos, as a result of higher investments and the pressure on the financial expenses reflecting the higher repo rates.

Gross debt increased \$427.000 million Colombian pesos from higher revolving credit lines in use for seasonal requirements and new lines to cover the share increase in Grupo Disco in Uruguay.

As a conclusion, Solid Cash flow position of the Company, allowed the strategic and recurrent operational investments and the dividend payments to shareholders.

Now, as a **summary** for the nine months financial results, we had a Colombian perimeter with sales growth impacted by a slowdown in consumption, partially mitigated by the positive performance of innovative formats, omnichannel and the contribution of the Real Estate business. Gross margin stability despite price investment and inflation effect in cost of good. SG&A with strong expenses action plans as an effort to mitigate the inflationary pressures and impact of higher operational tax.

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

Argentina's sales in local currency over 25 percentual points above inflation, gross margin impacted by higher share of the C&C format but compensated by a strong control of expenses to mitigate inflationary impacts led to gains in EBITDA margin.

Year to Date consolidated net revenue grew at double digit when excluding devaluation effect from international operations. SG&A continue with inflationary pressures, that were partially mitigated by the constant cost action plans and efficiencies.

Net result with positive operational contribution from international operations offset by slowdown in Colombia. Non-operational effects from higher financial costs, negative contribution from the financial business and higher non-recurrent expenses. Solid capital structure allowed the required investments and a positive free cash flow.

Thank you for your attention and I now give the floor back to Carlos Mario for the conclusions.

In **slide #25** as conclusions, we have to highlight, first, that the spin-off process and listing of the stock is concluded since then with an impact increased volumes and liquidity of our share.

The request for tender offer authorization has been submitted by Grupo Calleja to the *Superintendencia Financiera de Colombia*, the process is pending.

Resilient consolidated performance driven by international operations which grew above national local inflations.

Colombia revenues growing by 2.9%in the quarter and 5.1% year to date, reflecting the consumer trend and the high cost of credit, specially in non-food.

The positive consolidated sales growing by 9.1% in the quarter and 11.7% in the year to date when we exclude the FX impacts.

Operational performance reflecting the inflation in cost with commercial margin stability in the year to date even after making an important investment in prices with a lower food inflation as compared with Colombian market.

Advance in key commercial projects like expansion of our key innovation formats, the Viva Malls new projects and the collaborative association with aliados and Mii surti,

Our Net result as expressed by Ivonne impacted by credit business results, non-recurring spin off, process expenses and financial expenses.

Now we are open to **Q&A**, and you are welcome to put in place your questions.

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

The first question comes from a Mr Nicolás Larrain from JP Morgan, Nicolás, please go ahead

Nicolas Larrain, thank you Maria Fernanda, Carlos Mario and Ivonne for taking my question. I want to focus on the Colombia business, can you comment a bit Carlos Mario, how have you seen volume and ticket particularly in the case of Exito hypermarkets and also performance in Carulla has been pretty resilient than overall solid (inaudible) despite de tough macro.

Carlos Giraldo, thank you Nicolás, I start with volumes, volumes for the year are down 3.9% that compares against last year where volumes were growing by 3.0%.

I would say also that we can see is that we are not losing customers or traffic, but this is a result of a lower size basket by our consumers.

The best performing brands have been the innovation brands, in the case of the Carulla we are seeing in the year to date that the Fresh Market stores grew above 7% and that compares of a growth of 1.4% of the non-fresh market stores. And in the case of the Exito Wow we see a similar

phenomenon growing above 7% in the wow Exito stores which compares with a reduction of 0.2% in non- wow stores in the year to date. I believe it covers your question.

If you send your question through the chat available at the bottom of the screen, please indicate your full name and company 's name and I will proceed to read your questions.

There are no further questions at this time; I will now turn the call to Mr. Carlos Mario Giraldo for closing remarks.

Carlos Giraldo, I want to thank you for your presence, I want to highlight the double-digit year to date consolidated sales in a very challenging year specially in Colombia, the healthy margins that showed that regardless of price investment and challenging margin, the combination of innovation, real estate, a very solid growth from Carulla contributed to keep the margins at a very healthy position.

The consistency in the strategy with innovation formats with Omnichannel penetration and now playing the opportunity that the traditional channel means for the Company growth and the company stock now open to high liquid markets with dynamic transaction levels.

Finally, as seen by Merco and other readings in Colombia very strong reputation and recognition for the company and its brands,

I want to thank you and I will see you for the call next year when we speak about the full year results at the beginning of the year.

Maria Fernanda: This concludes today's conference. Thank you for participating.