

Grupo Éxito Fourth Quarter 2020 Results Conference - Transcription

Operator: Welcome to the Grupo Éxito Fourth Quarter 2020 Results Conference Call. My name is Karen. I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session. During the question and answer session, if you have a question, please press star (*) then one (1) on your touch-tone phone. Please note that this conference is being recorded. I will now turn the call over to Maria Fernanda Moreno, Investor Relations Manager. Mrs. Moreno, you may begin.

María Fernanda Moreno: Thank you, Karen. Good morning to everyone. Thank you for joining today Grupo Éxito's fourth quarter 2020 results. At this time, I'm pleased to present our Chief Executive Officer, Carlos Mario Giraldo, and Chief Financial Officer, Ruy Souza. Now please move to slide number 3 to see the agenda. We will cover Grupo Éxito's financial and operating highlights, performance by country and consolidated financial results for the fourth quarter 2020, also the Outcome and Outlook 2020. Thank you for your attention. I will now turn the call over to Mr. Carlos Mario Giraldo.

Carlos Mario Giraldo: Thank you, Maria Fernanda, and I want to thank you all for being present for our yearly results call.

After having gone through one of the most challenging years for the humanity for Colombia and for businesses, I have the pleasure to present Grupo Éxito's solid results for the year with the best sales growth in years, strong cash generation and strong net results, a stable consolidated EBITDA and a special emphasis on solidarity and help to our communities with a very important impact on reputation and a sustainable proposition for the future.

If we go to slide number four, I would begin by making some highlights of the results. We had a very strong retail execution, with a growth of 7.2% same-store sales, driven by our digital penetration, 2.6 times what we had in 2019, and by our innovation formats.

In the financials, it is important to highlight a very efficient SG&A increase of 2.5%, which is in our goal, always having SG&A below the sales growth and a net profit multiplied by 4 times against the net profit of 2019.

In operational highlights, it is important to highlight that our omnichannel sales in Colombia had a very high share of 12.4% and in Uruguay of 3.3%. And we had also that our credit and real estate businesses, probably the most pressured by the pandemia, were resilient and made their concentration of efforts in supporting our customers.

The CAPEX focus was 75% of all the CAPEX between the innovation in formats and the digital investment in IT and logistic platforms.

We had a very strong reputation recognition, being within the top 10 global retailers in the Dow Jones Sustainability Index, and we made a big effort to support through the Éxito foundation the Colombian children in their nutrition with 255,000 nutritional packages.

If we go to slide number five, the important message here is that we had in 2020 the strongest sales progression in four years in Colombia, with an increase in sales of 5.1% total and 5.3% same-store sales, with a very strong fourth quarter, increasing our sales at 8.8% same-store sales. This increase in sales was driven not only by digital but by our Éxito WOW formats conversions, which increased sales by 13.9% and our Fresh Market, with an increase in sales in this Carulla Fresh Market innovation format of 18.4%.

In slide number six, when we go to the different retail segments, Carulla and Éxito were the best-performing brands during the fourth quarter with a double-digit increase in sales of 10% each, Éxito involved by the WOW innovation format and by the non-food categories, and Carulla by the Fresh Market innovation format, which grew 7 points above the other Carulla stores. And by the omnichannel, top share between the group of 14.9%.

In the low-cost segment, with Super Inter and Surtimax, we had a recovery during the fourth quarter with a growth of 5.3%, thanks to the beginning of remodeling, especially of the Super Inter stores.

And in the B2B segment, we were negatively impacted by the professional customers and the crisis that they are having, especially hotels, restaurants, and to some degree, the mom-and-pop stores.

In slide number seven, we speak about innovation. Innovation has been key for Éxito in the last years, and we have been consistent in it, and it is today more important than ever. The first format I would highlight is Éxito WOW, now arising to represent 20% of total Éxito sales and with a growth of 12.4% higher than the rest of the brands.

With a more than 30% ROI and a potential for new innovation of Éxito stores, of 43 stores in the mid-, high and premium kind of Éxito stores, and more than 100 stores in an economic middle-class format that we are starting to develop this year.

The Carulla Fresh Market now represents 26% of the total Carulla sales. It grew 7% more than the rest of the Carulla stores and had an ROI above 15%. A total potential between big-sized and medium-sized Carulla stores, of 80 stores to be converted to the Fresh Market. Carulla has been designed as one of the best stores to visit in the world by the British Institute of Grocery Distribution.

Going to slide number eight, and speaking about our low-cost formats, Surtimayorista and Aliados now represent 5% of sales. Surtimayorista arriving to 34 stores, and it is probably one of the exceptions in Colombia as a low-cost profitable store and Aliados arriving to near to 1,500 partnership with mom-and-pops of medium and big size. It is important to see it's a huge potential because mom-and-pops still have near 30% of the grocery market in Colombia and this is probably the most important advanced kind of alliance cooperative that is being done with the mom-and-pops.

Our private label in food was near to a 17% share, highlighting Taeq, which is a differentiated health style of life, private brand, the only in the Colombian retail environment.

In non-food, a top penetration of 36% of our apparel and home private brands like Arkitek or Bronzini or Finlandek.

In slide number nine, I want to highlight what was one of the most important developments in the year for Éxito, and it is our omni-channel digital participation. I would say that the good thing is that when the pandemia started, we were not starting with omnichannelity. We have been working it during the last years, and we have invested highly in technological and logistic platforms. This permitted us to go from a share of 4.5%, which was already the highest in Colombia, to a share of 12.4%, which is unmatched in Latin America food retail. The share for food is 8.8%, which compares with the best-in-class in the world.

The sales in omnichannel were COP 1.46 billion, and they were multiplied in Colombia by 2.7 times. That is something near to USD 400 million, which is completely material for any retail company. And the good thing is that it is sustainable. And that we see our omnichannel sales staying above double digits, given that it is a trend that we see in our consumers.

We arrived to 8.5 million deliveries. That is an increase of 83% in a joint effort between our own deliveries of Éxito, Carulla, Surtimax, Super Inter and the delivery is done by our exclusive partner Rappi. We can say that our own deliveries were around 45% of the delivery sales and the Rappi exclusive partnership in food made around 55%.

If we go to slide number ten, we speak about digital key initiatives, which have been prioritized in Éxito, and they are core to our business.

First, our marketplace. It is one of the most important marketplaces in Colombia. It had a weight of 26% of our non-food online sales and a growth of 82% in the GMV.

Our Click & Collect is being key, not only to offer security, health to our customers, convenience to our customers, but also profitability to our online service. We now have Click & Collect offer in more than 430 stores, and we accomplished near to 1 million orders in Click & Collect.

Éxito is the most popular retailer brand in Colombia by Google Search, more than two times the second brand in Colombia.

In slide number 11, we speak about our big digital potential and our initiatives. First, investing highly in our apps, Éxito and Carulla apps, within the most important apps in Colombia, not only in retail and they are not only transactional but they are highly relational.

We have established the service of my discount, Mi Descuento, of which our customers redeemed more than 4.3 million coupons through the apps of Éxito and Carulla.

Also, we highlight Tuya, Tuya Pay, the digital wallet, to compete with other digital wallets in the market, key for the penetration in the base of the pyramid. Here, one of the services of the Tuya pay wallet is the QR payment at stores.

Éxito Media also was launched last year, and it's very important for the monetization of our database with our suppliers and other business partners.

If we go to slide number 12, we speak about the monetization of our traffic, customer traffic and confidence, and our assets. Here, it's important to speak about Puntos Colombia. We have been speaking in the last two years about Puntos Colombia, the customer coalition that puts together a customer base of the leading bank in Colombia, Bancolombia, and the leading retailer, Éxito. Altogether, 13.4 million customers. That is 26% of the Colombian population and more than 60% of the purchasing capacity of the Colombians.

We do not only have the alliance with the bank, but we have attracted more than 105 allies, that is, service companies, restaurants, apparel companies, etcetera, who are being issuing and redeeming points within this ecosystem. Puntos Colombia is deemed to become, in a few years, really, the second currency of Colombia, and it is now being highly traded within the ecosystem of all these allies of which I spoke about.

On slide number 13 we speak about our real estate business and Viva Malls. Viva Malls, currently with 34 assets, became the first commercial operator in Colombia of shopping malls, with 758,000 square meters of GLA. Our main goal last year, which we achieved, was to maintain the loyalty and stability of our tenants and their survival, and to maintain the best tenant mix in the market. We achieved it with an occupancy rate of 92%, which is very important, considering the big impact in many shopping malls of closure of around four months last year. Our Viva Malls, if we look at the medium term, between 2017 and 2020, had a very positive increase in EBITDA CAGR of 23%.

Slide number 14 highlights the importance in the increasing sales that come from innovation formats and from omni-channel strategy, which accounts to 75% of the growth. This permits us in a profitable way to continue growing in the market regarding the high competition, but the importance of these two strategies, doing things better, adding value to our customers, giving high service, and at the same time, leading the trend of omni-channelity, not only in food but also in non-food. I would hand now to Ruy to go through the financials, and then I'll come for the rest of the presentation.

Ruy Souza: Thank you, Carlos Mario. Good morning, everyone. Thank you for joining us today. I'll continue on slide 15, reviewing main highlights in terms of financial performance in Colombia, where, in 2020, we had a performance driven by a solid contribution to EBITDA from retail businesses, adding more than COP 100,000 million to results when compared to 2019.

Starting from top line, net revenues grew by 4.8% in Q4 and 3.7% throughout the year, with same-store sales growing by 6%, driven by omni-channel and innovative formats performance, mainly. Other revenues, as you see, were still negatively impacted during Q4, contracting 29.2%, while the contraction for the full year was 25.2%, meaning COP 182,000 million.

The gross margin posted in Q4 was 23.9%. It was still negatively impacted by the complementary businesses contribution. For the full year, gross profit was in line with 2019,

and gross margin was 83 basis points below, with the retail plus services perimeter contributing with plus 40 basis points.

SG&A once again improved, in terms of rate, comparing to previous year, being 56 bps below 2019 for the Q4 and 39 bps below 2019 for the full-year figures. SG&A grew below inflation throughout the year, thanks to several efficiencies we had.

In terms of EBITDA, for the full year, the result was COP 976,000 million, an 8% margin with a strong contribution from retail and services. As I was mentioning, it was more than COP 100,000 million and a plus 60 basis points contribution to EBITDA margin. This was offset by the negative variation we had from the complementary businesses regarding minus COP 137,000 million and 120 basis points.

Moving forward to slide 16. In this slide, we will review the performance of our international operation in Uruguay, which again showed a positive trend of EBITDA margin improvement, this time in Q4. This improvement was 175 basis points compared to previous year results.

In Uruguay, net revenue growth was minus 1.5% for the quarter with the touristic season affected by frontier closures. However, it was plus 4% for the year, with same-store sales growing by 9.3% in local currency. This was thanks to the omni-channel growth as well as in Colombia and also the fresh market performance, which in Uruguay represents already 43.4% of total sales.

Q4 results were driven mainly by a strong gross margin improvement. This was related to assertive execution of assertive promotional activities and efficiencies and markdown in logistics, while the annual results were driven by improvements in all aspects: sales, gross margin and expenses.

2020 EBITDA landed at COP 278,000 million and double-digit margin of 10.3%, growing 16.6% and improving 112 basis points in terms of EBITDA margin.

In the next slide, number 17, we will review Argentina performance, where we were able to post 393 bps margin improvement, EBITDA margin improvement versus 2019, despite the continued challenging macro environment. Annual net revenues in Argentina reached COP 874,000 million, contracting 10% with sales growing 21.7% in local currency.

Argentina performance was mainly affected throughout the year by mobility restrictions, by limited opening hours for the stores, lower consumption level and the extension of the price control policy.

Despite the negative impact seen in the real estate revenues, we were able to sustain occupancy levels at 90% for the Argentinian real estate operation. In Libertad, gross margin reached 32.4% in 2020, 161 bps below 2019, also negatively impacted mainly by the lower contribution of the real estate business and also by the price setting decree and sourcing constraints. On the other hand, internal efforts in terms of expenditures benefited by the operational excellence program, continued leading expenses to grow below local inflation.

EBITDA in Argentina landed at COP 16,000 million for the year, with a 1.8% margin, 169 bps below 2019. I would like to highlight for Argentina that we saw a recovery trend in Q4 and we were able to reach an EBITDA margin above last year, despite the macro headwinds that we had in this operation.

So moving on, to review our consolidated results, in the next slide, number 18, here we can see that our EBITDA was stable, with a strong contribution from retail and services and that net income grew by four times, improving 109 basis points versus 2019. These strong results were built with sales growing by 7.2% like-for-like with constant FX driven by omni-channel growth 2.6 times, by innovative format performance and by the contribution of reopened and refurbished stores.

Other revenues contracted almost 30% in Q4 and 25% in full-year terms, meaning COP 195,000 million, reflecting COVID-19 impact in shopping centers and financial services, mainly. Total net revenues reached COP 15.7 billion for 2020 full-year figures.

Gross margin in Q4 was 26.3% and still reflected lower contribution from complementary businesses and for the full year, gross margin landed 71 bps below 2019, with retail and services contributing with plus 80 basis points.

Total expenses, as we already mentioned, grew 0.5% in Colombian pesos and improved 48 basis points in terms of rates for 2020. And in all three countries, we had expenses growing below local inflation and below sales growth in Uruguay and Colombia.

Recurring EBITDA reached COP 1.27 billion, stable versus 2019, with retail and services generating positive contribution of COP 151,000 million, 80 bps in terms of margin and offset by lower contribution from complementary businesses by COP 159,000 million. Recurring EBITDA margin landed at a resilient 8.1% for the year.

Finally, as I mentioned, net group result four times. It reached COP 231,000 million and improved 109 basis points for the 2024 year figures. In the next slide, we will detail the evolution we had in terms of net income.

So moving on to slide 19, the net result evolution from COP 57,000 million of 2019 to COP 231,000 million in 2020 is mainly explained by positive variations from Colombia retail performance, Uruguay performance, and a leaner financial structure while on the other side, we had negative variations from complementary businesses, as I explained before, income tax and non-recurring expenses that throughout 2020 was mostly related to COVID-19 and to restructuring processes we carried out throughout 2020. I would like to mention that our expectation for non-recurring expenses for 2021 is to be roughly around half of what we had on 2020 full year figures.

Finally, on slide 20, regarding our cash and debt situation at holding level and free cash flow generation for the consolidated perimeter, I would like to highlight the following: first, holding cash generation was COP 104 million in 2020. A strong cash position helped to face liquidity constraints amid COVID-19 and to deliver dividends by COP 1.12 billion. The total

net financial debt variation between 2019 and 2020 was minus COP 1 billion with these two previous aspects added up.

By the end of 2020, cash position reached almost COP 2 billion, and the company had other COP 700,000 million available in revolving credit facilities.

Lastly, consolidated free cash flow, including this time Colombia, Uruguay and Argentina, reached COP 325,000 million in 2020, which shows a very positive trend in terms of free cash flow generation in the consolidated perimeter. Now I'll turn the call back to Mr. Carlos Mario Giraldo to go on with our main conclusions for the year of 2020. Thank you.

Carlos Mario Giraldo: Thank you, Ruy. We can go to slide number 21 to the main conclusions. First, conclusions at the group level for the three countries, a net income progression of four times, very strong; a consistent free cash flow generation, both in Colombia and at consolidated level; a stable EBITDA near to COP 1.3 billion.

What I would say, very important, is the strong retail performance in all the regions, but especially with a consolidated gain in margin of EBITDA of 80 basis points, which compensates partially the difficulties that the pandemic exerted on the complementary business.

It is important to say that our complementary businesses stay strong, remain with very strong fundamentals and we can expect a turnaround and a recuperation, especially of the credit and real estate businesses for this year. And a historic same-store sales growth of 7.2%.

In Colombia, the omni-channel digital unmatched leadership with a share of 12.4% sales and multiplying by 2.7 times, arriving to near to USD \$400 million. And a consistent and proven innovation formats of WOW and Fresh that are arriving to the third year and are demonstrating year after year growth against the rest of the brands and the market.

A consistent market share gain also in Colombia, which is very important and proves the preference of our customers.

In Uruguay, a consistent profitability gain of 112 basis points to a margin of EBITDA of 10.3% and in Argentina, a solid Q4 at 10.8% EBITDA in a resilient year, given the difficult circumstances in Argentina.

In slide number 22, we make a quality check of the performance that we had against the outlooks that we gave starting 2019, which obviously were changed rapidly given the pandemic. If we look in detail at the slides, which I'm not going to go in every part, you can see that it's full with green lights because we had positive results against outlook in revenues, in CAPEX, in omni-channel share, in innovation contribution.

The only yellow is the EBITDA margin in Colombia, given the pandemic impact and the complementary businesses result. However, as you have heard from Ruy and myself, with a very strong retail business performance.

In slide number 23, it is important to show again the business model of Éxito and the ecosystem of on/off retail, that is the integration of on/off when you have a share of more than double digits, it is clear that all the processes have to point to the selection, the free selection of our customer and the seamless service on or off, and also the complementary businesses with established strong partnerships in Tuya for the credit, with more than 2.7 million cards issued. In insurance business, with Suramericana, with a penetration of more than 1 million customers buying insurance and in our real estate with Fondo Inmobiliario Colombia as the main operator of commercial real estate in the country. And with the high potential of our customer coalition that, as you saw, is now above 13 million customers and the new business of Éxito Media.

If we go to the outlook for 2021, what we expect is an improvement of our net result, with a reduction also in the non-recurrent expenses: a CAPEX between USD \$110 million and USD \$130 million for the consolidated perimeter, with the innovation formats and logistics and IT to support omni-channelity as the main investments; in Colombia, an improvement in the contribution coming from complementary businesses; an increase in EBITDA margin of the Colombian full operation; and retail investment in expansion and conversions at more than 30 stores.

At the Uruguayan level, a Fresh Market Disco and Devoto arriving to near half of the share of the sales in that country, where premium formats are the main participants in the market, given the profile of the Uruguayan consumer, and a difficult tourist season that will impact us mainly in January and February, but things will normalize from there on.

And in Argentina, a gradual top line recovery with EBITDA margin improving versus last year. So this would be the presentation, and we would open it to the Q&A, and we will be open to that, Ruy and myself.

Operator: Thank you. We will now begin the question and answer session. If you have a question, please press star (*) then one (1) on your touch-tone phone. If you wish to be removed from the queue, please press the pound sign or the hash key (#). If you're using a speakerphone, you may need to pick up the handset first before pressing the numbers.

And we do have our first question from Julian Ausique, from Davivienda Corredores.

Julian Ausique: Hi everyone. Hi Carlos, hi Ruy. Congratulations for the results for 2020. I have three questions that are really easy ones. I would like to know, due to the efforts that you have done in terms of net financial debt that you have been reducing, I would like to know how the leverage ratio ended for 2020.

And my other two questions are related to the CAPEX focus that you mentioned but you will open some stores in Colombia, remodeling, but I would like to know the retail expansion of the store will be focused on Carulla, Fresh Market and Éxito WOW.

And finally, it's just to know that if the expenses savings that you have had during 2020 will continue for 2021? Thank you.

Carlos Mario Giraldo: Yes. I'll begin with the CAPEX question and then hand it to Ruy. First of all, in our CAPEX, which in all the perimeter is between USD \$110 million and USD \$130 million and in Colombia, between USD \$90 million and USD \$110 million. The emphasis is going to be, first, Éxito WOW format. We're going to do at least eight of them and some pilots in popular format that is to those stores, which are adverse to middle class, and in Carulla Fresh Market, that is the second emphasis. And then the third one is we started last year with a lot of success, some remodelations of our Super Inter stores in the region of Cali and coffee region, and they were very successful so we will do also some stores for Super Inter. That would be the emphasis, and again, that would take, I would say, around 55% of our CAPEX. Another 25% of our CAPEX would go to support digital penetration, the digital projects, our logistics picking, packing and delivery facilities, and also the IT systems.

Ruy Souza: Julian, thanks for your questions. I'll start with the question regarding our indebtedness and our leverage situation. For 2020, in terms of gross debt/EBITDA ratio, which is the leverage that we have in our debt contract, we'll end it with 1.1 times EBITDA, and we expect to decrease this leverage throughout 2021 by roughly 15%, accomplishing with our amortization schedule for the debt that we have.

In terms of net debt, net / financial debt leverage, we landed with a positive 1.4%, but we had, of course, a seasonal effect by the end of the year. And our net financial debt leverage ratio throughout the year is roughly minus 0.35. So we expect actually a good evolution in terms of indebtedness for 2021.

And regarding the question about the SG&A, our expectation for 2021 is to still grow SG&A below sales growth and below inflation growth. This is thanks to the initiatives that we carried out throughout 2020. They were implemented throughout the year so that we will have like an annual impact happening in 2021. Hopefully, I was able to answer your questions.

Operator: We have our next question from Nicolas Larrain from JPMorgan.

Nicolas Larrain: Hey, guys. Good morning. Thank you for the call and thank you for taking my questions. I had more specifically one, piggybacking a bit on the last question on expansion. You guys discussed the remodeling and the rollout of the innovation formats, but I wanted to understand the number of new stores, not conversions or remodeling, but actual new stores that you think about opening in 2021 and onwards, especially on Surtimayorista, Éxito and Carulla.

And also my second question around other assets. So you guys have operations in Argentina that are a bit challenging, while Uruguay is also very mature operations. Have you guys thought about any asset divestment, any other non-core asset divestment that you might be thinking of in the future? Thank you.

Carlos Mario Giraldo: Okay. I'll take your questions, Nicolas. First, about the expansion, we will be doing around three new stores, big-sized stores, of Éxito and Carulla. And number two, what we believe is that we are giving priority to the conversion of the big flagships of

Éxito and Carulla. First, they take important CAPEX. But second, it's the best investment in ROI, with ROIs of above 30% for Éxito and above 15% for Carulla, which contrasts with what other retailers are doing in opening stores that have no ROI, no return and no profitability. And can you remember me the second question, excuse me?

Ruy Souza: Investments in...

Carlos Mario Giraldo: Okay, okay. Yes, about our assets in Argentina and Uruguay. For the moment, we don't have ongoing divestment plans, but we do not out-rule any possibility. It's a good business for the company and a good return for the company. And it is important to understand that at this very moment, they are very strong assets. First, in Uruguay, you've been a very consistent profitability in Géant, which gives it an important valuation as a standalone business. And in Argentina, I would highlight especially the value of our real estate business of 15 commercial galleries, which went through a difficult time last year, as every real estate business in the world, but which will maintain an occupation level above 90%, which is very positive to start the year. And these galleries are the number one or number two gallery in size and importance in each of the middle-sized cities outside of Buenos Aires in Argentina.

Nicolas Larrain: Perfect. Thank you, Carlos Mario. Can I just do a follow-up? So when you mentioned the three new Éxito and Carulla, this is combined three new stores? Or you plan to open three Carulla's and three Éxito? And also on Surtimayorista, what's the plan there on expansion?

Carlos Mario Giraldo: It's combined new stores. And in Surtimayorista, we are going to privilege conversions from other popular stores into Surtimayorista because clearly, it has also the best ROI, and it has proven to be very successful.

Operator: And we have no further questions at this time. I will now turn it over to the presenters for final remarks.

Carlos Mario Giraldo: Thank you all for being present in this call. I would give a final message. It has been a clearly a year full of challenges, but full of resiliency, adaptation and agility in the organization to answer to them.

It's incredible to see that given the impact that we had reinforcing our provisions in our credit business, which makes it strong today, and also protecting the occupation in our shopping malls that the company protected at the consolidated level, its EBITDA at 1.3 billion and also multiplied net profit by four times. This is thanks especially to a very, very strong retail business, both in food and in non-food, that increased its profitability by 80 basis points.

Here, it's important to highlight the two main levers for this retail performance, other than efficiency and you saw it in the expenses in the SG&A, it was the impact that we are having coming from innovation and the omni-channel, unmatched share at the LatAm level. I would see again the importance for the future of the monetization ecosystem of Éxito and the big potential that our customer coalition of Puntos Colombia is having as a currency that has been born in Colombia.

Looking forward, we continue to see clear fundamentals in our retail and complementary businesses and upside coming from real estate and credit and a business model which is profitability and contrasts with what's being done in the market. We believe that we have to privilege the conversions, which have a very positive ROI for the company. It's a pleasure speaking to you, and we look forward to our next conference.

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