Grupo Éxito - 4Q22 Results Conference Call Transcription

Maria Fernanda Moreno: At this time, all participants have been placed on mute to prevent any background noise and I am pleased to present our CEO, Mr Carlos Mario Giraldo and CFO, Mss Ivonne Windmueller, please move now to slide #3 to see the agenda. We will cover Grupo Éxito´s financial operating highlights performance by country, consolidated financial results for the fourth quarter and FY 2022 and for operations in Colombia, Uruguay and Argentina. The call will conclude with the Q&A session in which all participants can rise their hands or send the questions through the chat available at the bottom of the screen. In any case, please indicate your full name and company's name. Thank you for your attention. I will now turn the call over to Mr Carlos. Mario Giraldo.

Carlos Mario Giraldo: Thank you, Maria. I want to greet all of you. It's very good to have you here again for this call for our 4Q22 results.

In slide #4 we have the Éxito DR´s listing, which represents a Distribution of 83% Éxito shares currently held by GPA done with ADRs & BDRs, a potential increase in Éxito's float from 3.5%to~53% and a potential increase in shareholder base, by adding GPA base (currently of ~50,000 holders)

The result of this it that there's a high potential value unlocking for Exito shareholders, giving liquidity and visibility, given the fact that the project includes listing of Exito´stock in three markets, in New York, Brazil and Colombia.

In **slide #5**, I will go through the main highlights of the project.

We are now in process of listing before the CVM in Brazil and SEC in US.

The initial filing has started and we are pending the approvals from the two authorities. Exito Already made the share split from 1 share to three in order to facilitate this exchange.

The approval from GPA Governance bodies has been obtained in February. GPA General Assembly approved the capital reduction needed for this share distribution.

The transaction completion is projected depending of course on the authorizations of CVM and SEC for the end of first semester.

If we go to **slide #6** now, we start to speak about the results for Exito for the year.

In 2022, we had a yearly same store sales increase of 20.5% at the consolidated level. This is a record in the last years for Grupo Exito.

The recurrent EBITDA increased by 8.3% with an 8.1 margin

If we adjust the recurring EBITDA excluding the non-recurring real estate income in the base, that increase in every that would be 12.6%.

Omnichannel share at the end of the year was 9.6% and if we look only at Colombia, it would be 12%. And if we look only at food, that percentage of the share is 10.5% one of the highest that you can see in the whole continent in a big size retailer.

We had a solid 22.7% total sales growth impulse by innovation formats and by omnichannel penetration.

We also had the lowest SGA as percentage of sales level since 2015 that is 9 basis points below the historic levels.

Net income was impacted by the Argentina inflationary adjustment.

By that deferred non-cash tax effect coming from Colombia and Argentina, by the increase in the provisions of TUYA credit card and the higher interest rates seen in Colombia this year.

The net income was benefited by the operational results of the company.

The dividend proposal that the board approved and it's going to be taken in March to the General Assembly is to distribute 217,393 million Colombian pesos. That is COP 167.5 / share, which constitutes a dividend yield of 4.9%.

The Capex that we executed during 2022 was near to $500,000 million Colombian pesos, adding 31,000 square meters of new store area and intervening with wow fresh markets etcetera or Surtimayoristas, 50,000 square meters of retail area.

If we go to **slide #7**, let me speak about S ESG SUSTAINABILITY development achievements, which are very important for Éxito.

In our big goal of bringing malnutrition to 0 for Colombia is the vision teaming with the government and with NGO's. For 2030, we gave nutritional packages complementary to around 60,000 children during the last year.

In governance, Merco measured reputation of Colombian companies all size, national and international, and Exito is the top eigth company in reputation. Exito is also classified within the best global retailers in the Standard and Poors Sustainability Index.

In the ESG environmental initiatives we achieved now and accumulated 43% reduction in the footprint of the company in scope one and scope two.

Exito is today the main recycler of carton and plastics in Colombia and obtained last year in recycling 20,517 tons of recycle material.

88% of our fresh products are bought locally. Of those 86% directly to the producer, eliminating additional intermediation.

In **slide #8,** we speak about the Colombian sales performance.

Sales in Colombia increased by a total 18.4% last year and 12.3% in the fourth quarter. Even though in the fourth quarter we had two non-VAT days in the base.

Despite inflation, especially inflation in food, our volumes last year increased by 3%.

We had a huge effort to protect consumers from inflation. While inflation in food was 28% to the market or prices to the market increased 770 basis points below food inflation by strategies like anticipating purchases and obviously translating productivity efforts from the company.

We also saw some trading down of the consumers into our private brand and especially to the portfolio of unbeatable products, which has been highly successful in the market.

If we go to **slide #9,** we see the sales performance in Colombia by banners.

Exito increased sales by 18.4%. Carulla brand increased by 18.9% , boosted by 19% share in home delivery, the highest share in home delivery within all our brands. The low cost brands within them, Surtimayorista increased 16.9% same store sales. Surtimayoristas which today this cash and carry format has 40% of its sales going to mom and Pops, increased by 26.8% its same store sales during 2022.

If we go to **slide #10** we speak about the innovation formats. The way in which they are increasing their sales against the other stores that have not been converted into Wow, Fresh Market or Surtimayorista. and the ROI that they have which gives us confidence to continue in the following years in this conversion process into the Wow Exito hypermarket stores, the Fresh Market Carulla premium stores and not only conversions to Surtimayorista, but especially new openings of this cash and carry, very successful for it.

Exito sales around WOW now represent 34% of the total Exito brand. In the case of Carulla, they represent 59% of the total Carulla sales. Those stores that are under the Fresh Market concept are high premium, high innovation, high service, imported products, refined liquor and offer a very important service level.

Surtimayorista low cost continues to have a high ROI, being the lowest cost format within the company and I believe in all the country with a cost level around 10% , it has the lowest CapEx per square meter of the whole organization.

The ROI on investments to conversions was for the Wow around 62% for the Fresh Market around 19% and for the cash and carry around 24%. This gives us the confidence to continue working in these conversions and in that expansion around this branch.

If we go to **slide #11**, we speak about the Omni channel performance, one of the best in all Latin America, and even compared with a United States retail players, especially in food.

I would say that or our omnichannel sales, that is those that are come from last mile or marketplace or ecommerce or click and collect within others or sales from our apps. They increased a total 18.2%, meaning a share of 12% of total Exito sales and with 13.3 million home deliveries.

Which is a combination of our own deliveries and the deliveries of our products done by our last mile ally, Rappi. This means that we are getting to one out of every four Colombians with a home delivery. If this could be expressed as an average.

Omnichannel is a sustainable strategy, it came to remain.

From the start, we went, after the pandemia, from 4.5% to about 12% and we've remained there and as you can see, they even grew a little above the total sales growth in Colombia this year when in many other geographies Omnichannel sales are going down as a share of sales. Even with the reopening of the physical stores.

We are working a lot in new capabilities.

One of them, of course, and you know it very well, because many of you are customers of this service, is the Turbo, a fast delivery that we do with Rappi an exclusive portfolio of Carulla and this is the rapid delivery service of up to 10 minutes.

But we are also working in the Misurti app. Misurti is an app that is a dimmed to work with the mom and pops so that the mom and pops can in a digital way, ask for our product in a bid to be service. And it is growing in a very successful way with now near to 20,000 mom and pops in scribed in the misurtii App.

Non-food online, as I said, represented 10.5% of total food sales and has a very important share in the food online sales in Colombia with more than 50%, which gives us the confidence to continue working to remain as an absolute leader in this food online service.

The increase of food online service sales this year was 25%.

If we go to **slide #12**.

I start to speak about our ASSET and traffic MONETIZATION starting by our real estate business.

As you know, Exito through Viva malls is today the shopping mall leader in the Colombian market.

And Viva Malls holds around 568,000 square meters of GLA, comprised by 18 assets, those are big shopping malls or medium sized commercial galleries. The recurring EBITDA of the Viva - real estate model- increased by 20.4% and represented around 13% of the group EBITDA.

The real estate occupancy rate is now 96.5% coming to the good levels that we had before the pandemic.

If we go to **slide #13,** We speak about two very material complementary businesses other than other complementary businesses that I don't refer to, but that are also becoming important as insurance and travel and also are telco business.

In these complementary businesses, let me speak first about the financial retail. That is the company TUYA held 50/50 by Exito and Bancolombia.

Today it has 2.1 million cards, been one of the leaders in number of cards in the Colombian market, even compared with banks.

That loan portfolio came near to 4.5 billion Colombian pesos, growing by 25%.

Tuya has developed a very interesting service that is called banking as a service. Giving its know-how in this retail business and today it runs the business of Alkosto, one of the most important players in electronics sales in Colombia and Claro the telco leader.

This has been a year of transition for Tuya given the high level of provisions that have been done, partially given the loan portfolio growth of 25%.

Let me speak about Puntos Colombia.

Puntos Colombia is a high potential business. It is our reality. After three years of existence, it put together the customer base of Bancolombia credit cards and of Exito customers.

It is a very interesting complementary alliance because the bank, through its credit cards, is a net issuer of Puntos Colombia, while Exito is an issuer but also a very important redeemer which gives alternatives not only to the customers of EXITO, but also the customers of the rest of the brands and companies that pertain to this coalition.

Today we have 6.2 million active high user customers that is frequent users of Puntos Colombia. We also have 161 allied brands. Those are brands of gasoline or of generations cinema, fast food, other retailers that work with Puntos Colombia.

It has a full potential of a second horizon of development, other than obtaining a margin from selling and redeeming points, and it is coming from loyalty as a service. Puntos Colombia today is developing platform to give loyalty as a service to small and medium size companies that do not have the way of having a loyalty program and also media business. Given the strength of the customer base that Puntos Colombia has.

I will hand it over to Ivonne to go through the financials and through our operations in Uruguay and Argentina. And then I will come back with some conclusions.

Ivonne: Thank you, Carlos, Mario. Good morning, everyone, and thank you for joining us this morning. I'm glad to be here with you today presenting the financial results of the company.

Let's continue to **slide #14** to review the financial performance in Colombia, where we want to highlight the double-digit top line growth and the stable annual operating results. Despite effects in the gross profit.

Net revenue grew 11.1% in the fourth quarter and 17.2% for the full year. This is around 5 real points above the inflation.

Top line growth was driven by first a solid commercial strategy. Second, the increased share of innovative formats by 23 basis points. The continuous growth of our omnichannel business that reached 1.8 billion Colombian pesos in sales and forced the growth of the real estate business considering higher non recurrent incomes in the base.

Regarding the growth performance in 2020, 75% of the 162 basis points of margin reduction came from base effects due to higher non recurrent real estate income in development fees and property sale as well as income from the royalty, this in addition to other effects in retail related to the mix on sales and price investments. The remaining 25% effect on margin is coming from the annual recognition of higher cost of processing goods.

Our truthfully in the fourth quarter as a result of the relocation of upper food industry side with an impact of around 40 basis points, around 1/3 of this recognition is from the period of 2021, but registered in year 2022 due to low materiality for the consolidated results. When isolating this effect, the first quarter will be a gross margin deterioration of 108 basis points and EBITDA with growth.

SG&Agrew 13.5% below sales and revenue evolution with a dilution of 5075 basis points and reached a low rate of 17.4%. Expenditure efficiencies led to an EBITDA of 8.1 percent 132 basis points below last year but stabling cash thanks to the contribution from retail and complementary businesses that compensated the effects mentioned above.

Moving forward to **slide #15**, we will review the performance in Uruguay. The operation posted a strong annual top line growth of 34.4% with a positive effect of 20.7%. In addition to operational efficiencies that led to an EBITDA growth of 30.9% to a 9.9% margin, annual sales in local currency, are above inflation to 11.4% total and same store sales and 11.2% driven by the performance and value proposition of Fresh Market stores that grew 9.9% points above the other stores and represented a 52.9% share on total sales.

Gross profit grew 35.6% thanks to cost efficiencies and margin gains rose 32 basis points, while SG and A increased 53 basis points in terms of rate due to recognition of the actuarial valuation of a pension plan created. When excluding this non-recurring expense as a percentage of Net Revenues will be in line with last year's outcome.

And recurring EBITDA grew 30.7% to a 9.9% margin and improved 20 basis points to a 10.4% rate when excluding the pension plan effect on expenses. Otherwise continue being as the most profitable operation of the group.

Please move to **slide #16** to discuss the operating performance in Argentina.

The operation showed a positive performance and top line grew 2.1 times. While it's recurring EBITDA grew 2.6 times in local currency, sales in local currency grew 103.7% and 96.1% in terms of same store sales driven by first, increased traffic and second, the implementation of a multiformat strategy with the launch of the cash and carry under the Mini Mayorista banner and 3rd, the evolution of omnichannel that improved its penetration in 142 basis points. The real estate business also showed the positive performance and grew 93.7% benefited from improved commercial trends and high occupancy levels.

Gross profit showed positive evolution of 67 basis points to a margin of 34.5% and grew above sales growth thanks to lower price investment action plans to improve markdown and the positive contribution of the real estate business.

SG&A dilution originated from solid sales performance and strict cost controls to mitigate the inflationary pressures.

Annual EBITDA grew 83.2% and reach 75,700 million Colombian pesos with a margin gain of 93 basis points above last year. Closing at 4.3% margin.

Let's move forward to **slide # 17** to review the company's consolidated result.

To highlight the double-digit top line and EBITDA growth when excluding non-recurring effects from the basis, thanks to a strong retail performance across the three operations driven by innovation with a 40% share in sales and Omni channel that grew 18.9%.

In the consolidated perimeter, sales grew 22.7% during 2022 / 3.6 billion Colombian pesos above last year. Other revenues grew 6%, leveraged by the positive performance of the real estate business that grew 8.5% but affected by non-recurrent income in the basis and the absence of TUYA royalties, annual net revenues grew 21.8% and reached 16.9 billion Colombian pesos.

Gross margin reduced 79 basis points affected by the annual cost of goods recognition in Colombia after the relocation of our food industry site and the higher non recurrent income of real estate and Tunja in the base.

SG&A reflective control action plans to mitigate the inflationary pressures across the region. Expenses had the lowest rate of the last seven years of a 20.3%.

Recurring EBITDA reached 1.6 billion Colombian pesos 8.3% above last year with a positive cash contribution from the retail and complementary businesses, partially offset by the non-recurrent income or real estate business. When isolating these effects, recurring EBITDA grew 12.6%.

Finally Net group share result was $99,072 million Colombian pesos, a decrease of 71.9% by effects that we will review on detail on the next slide.

Slide #18: The Group Share Net Result showed positive variations in operating performance of $71,055 million Colombian pesos coming from the retail and real estate business, but partially offset by the following cash and non-cash impacts. Total cash effects of 185,000 million Colombian pesos mainly from higher financial expenses despite gross debt reduction.

Financial expenses over 8%, four points above 4Q21 due to the increased interest rates.

On the other hand, total non-cash effects of $1 61,000 million Colombian pesos coming from deferred tax adjustment in Colombia and Argentina, in Colombia due to the increase in capital gain tax of 5% dual points and in Argentina from adjusted statutory rate, inflationary adjustments in Argentina IAS 29. And finally, the impact from Tuya, share of profit affected by higher provisions with a portfolio growth of 25.6% and nonperforming loans deterioration-

Finally, on **Slide #19**, regarding the cash and debt position of the company, we would like to highlight that the strong cash flow position of the company leveraged our strategy and investment required. The payments of dividends, the buyback operation, and the amortizations.

Net financial debt decrease $151,000 million Colombian pesos, when excluding dividends and buyback, net financial debt was affected by working capital variations mainly from first, higher inventories due to sales seasonality changes, second temporary effects on payables from the implementation of regulatory requirements and third, increase of financial expenses, expenses from higher repo rates.

Now as a summary for the financial results, we had a Colombia perimeter with double digit growth, thanks to the performance of innovative formats, strengthening the competitiveness and Omnichannel that showed solid growth and maintain the penetration.

SG&A mitigated inflationary effects and reached low expenses rates above with sales performance and above inflation and gross margin benefited by cost efficiencies with an EBITDA margin at double digit. Argentina sales with 8 percentual points above inflation. Gross margin reflected the commercial strategy and low-price investments. That's together with the control of expenses improved 93 basis points its EBITDA margin.

Consolidated revenue grew at double digit and SG&A it's the lowest rate since 2015, thanks to strict cost control action plans and efficiencies leading to an EBITDA growth of 8.3%.

Now I give the floor back to Carlos Mario for the conclusions on **slide #20**:

Carlos Mario Giraldo: Thank you, Ivonne. I would rapidly go through that because many of them have already been highlighted. We had a very positive 2022 with annual net sales growing 22.7% out of the impact of innovation, Omnichannel penetration, real estate income within others.

Our recurring EBITDA growing at a consolidated level oF 8.3% and adjusted by non-recurrent at 12.6%.

The lowest SG&A level in many years and net income impacted negatively by the non-cash effects of Argentina inflation and deferred tax. That deferred tax in Colombia and Tuya provisions and the cash impact of the increase in interest rates in Colombia.

Dividend proposal, very positive given the cash generation of the company of $167.5 pesos per share.

In Colombia, sales growing up 18.34% and a volume expansion which is very important in this scenario of 3%.

A solid contribution from innovation, which now represents in the WOW, Cash & Carry and the Fresh Market 41% of the total sales of the company and omnichannel growth of 18.2% above It or at the level of the sales growth in Colombia and the food above this growth surpassing by 25% in food, online service Surtimayorista growth at 32.7% and like for like at 26.8% or EBITDA growth in Colombia would have been 5.7% when adjusted with non-recurrent real estate income in the base.

In Uruguay, strong annual growth of 11.4% above inflation in that country and with a margin near to 10% in Argentina, our growth beating inflation, which is very high in Argentina

EBITDA expanding its margin by 93 basis points and a very good performance of a real estate footprint in Argentina, 11 cash and carry stores that were launched and which are having an important contribution to the sales growth of our division in that country.

If we go to **slide #21**, I won't go through all the details. This is the outlook versus the outcome. You can see that they are in green, which reflects that we surpassed the objectives in top line in expansion and in sustainability within others.

Thanks a lot for being here and now I open it for Q&A session.

Maria Fernanda: I 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 if you are going to ask your question out loud, please indicate your full name and the company's name. If you send the question through the chat available, please indicate your full name and company's name and I will proceed to read your questions.

The first question comes from Nicolas Larrain from JP Morgan. Nicolas, please go ahead.

Nicolas Larrain – JPM. Thank you, Maria, Carlos Mario and Ivonne, for taking my question. Mine was specifically more on the balance sheet table. I wanted to ask you on this regard. The first one is if you could point to us what is the cost of debt you're having now over the benchmark in Colombia? And also, I saw that you disclosed the cost of factoring. I wanted to understand what's the average cost in Colombia for factoring trying to understand here, how much?

OK, I will start with the cost of debt, the average cost of debt of the company is between 11 and 12%. Given the fact that we have debt that was acquired in the past and a combination with new debt, obviously today the interest rates are higher than that. And if there is need for new debt, it would have a cost between for Exito giving a AAA risk between 16 and 17%.

Which would change the mix and that's the reason why we are being very cautious in the debt increase and that we're keeping our CapEx this year very, very similar to what we had last year. Of course, a very much focused in a very interesting format directed to the mom and pops which is Surtimayorista. I will hand it to Ivonne for factoring.

Factoring cost is around $40 to 45,000 million Colombian pesos for the full year.

Nicolas Larrain – JPM Perfect. Thank you. And if I may have a follow up, could you help us understand thinking about 2023? Thank you.

What would be the impact for Colombia of the relocation of this facility you mentioned in the release? I understand that in fourth quarter we had an accumulated impact, right? But how should we think about it for the full year of 23.

Yes, as you know, it had an impact in the full year 2022 of around 40 basis points in the gross margin, what we believe is that it will have an impact in the first quarter, which would be as we are seeing it now and smaller in percentage to what it was the last year and it should be stabilized by the end of March. We had an important impact in January, much less in February and we expect that in March it will be on budget according with the historical levels of productivity of the factors. You can use the basis for 2022 impact.

Nicolas Larrain – JPM- Perfect. Thank you very much everyone. OK.

Thank you, Nicolas and next question comes from Julian. Julian, please, you can talk now.

Julian.

Maria Fernanda: Really, I do have to unmute your microphone.

Just on the case. You are on. Your microphone is on. He's in line.

You can speak now.

That's OK.

OK, you may have some issues with your line.

The next question comes from.

Ivonne: Maybe Julian if you can write your question down on the chat.

Have any more questions?

Maria Fernanda: Julian is writing his question and he says that he would like to understand if the impact from taxes were recognized only during this quarter.

Carlos Mario: Yes, Julian, this deferred tax impact from Colombia and Argentina was a onetime recognition in 2022.

And and it's important to understand where it came from in the tax reform, there was an increase in capital gains from 10 to 15% according with the tax law. When you have that, you have to recognize a onetime deferred tax with what would be your expectation in capital gains in the assets of the company for the future. So, we did it at once, but it's a completely non cash.

Maria Fernanda: OK, so I think we have another question through the chat. Is Andres Duarte. He wants to know what our current fundamental price estimation is being used for the listing and delisting process taking place.

Carlos Mario: OK. The listing and the and delisting process with CVM and SEC does not have a price and outlook for the share of the company. Of course, we have internal valuations which we can not reveal, but of course what we are going to see is first, that there was a split of our share from one share to three shares, it was done last year. Second, that we are going to increase our shareholder base by 50,000 shareholders, and third thing is that we're going to gain a lot of liquidity and floating and there's going to be an arbitrage between the three stock exchanges, and we believe. as it happened in Brazil where Assai was spin off from GPA, that there can be a very important unlocking of value for the shareholders effects. You can take the indicators of EBITDA and make the multiples, calculate them against peers and in any caseyou will find a huge potential for the Exito shareholders and all this process has been done to give the opportunity to shareholders of GPA and also to shareholders of Exito to capture value.

Maria Fernanda: OK, so if you want to ask another question, please raise your hands and or ask them through the chat available.

Maria Fernanda: OK, there are no further questions at this time. I'm sorry we have some.

We have a question right now is from Julian. Julian is asking about commenting a little bit more about Tuya in the P&L and and the expectation for the business this year.

Carlos Mario: OK. In Tuya we had in 2022 an impact as we mentioned through the presentation coming from the growth of the Portafolio growing above 25%. And we had also a deterioration of the NPL which was a deterioration across the financial sector even though the indicator from Tuya is still on single digit. The expectation for this year is to a stabilization. We had higher provisions and as I mentioned last year, to protect their results from this year. So the expectation is a stabilization for the business during this year.

Maria Fernanda: Please let us know if you have an additional question, please.

OK, there are no further questions at this time. I will now turn the call over to Mr. Carlos Mario for the closing remarks.

Carlos Mario: Thank you, Maria, and thank you Ivonne for the call and for your intervention. I want to say at the end, I think we are in our historical moment for the EXITO shareholders and for the Exito share.

We're going to a situation in which our stock is going to be quoted in three markets, probably the only stock in Colombia that is going to be very important because it gives an additional liquid stock to the Colombian Stock Exchange, only speaking about Colombia and it has a high floating level which has been for many of the analysts, attractive for the Exito stock, given the historical very strong results of the company.

And the second thing is that in the competitive scenario, we have found highly performant format, the WOW conversions and the Fresh Market have brought experience to our brands while keeping a portfolio of unbeatable price basic food products that are very competitive in the market.

And we have found a very strong alternative of growing in the low-cost segment with the Surtimayorista, the cash and carry which most important target are the mom and pops.

Mom and pops in Colombia are around 260,000. We're teaming with them through Misurti app, through the Aliados strategy and through the Surtimayorista. And this is a new market. It it is a blue ocean for the company with small cannibalization with our current big selling brands, Exito and Carulla.

We continue to grow to promote online alternatives. We have found that those customers that purchase online, purchase at the same time in our physical stores, a purchase multiply by 2 when a normal customer only purchase 1 in the physical store.

We believe that the full competitive format in the future is a real omnichannel alternative where you offer a good experience in the stores or online. It is what we call today a figytial player as we see some of the most important players in the world becoming and we see some, even some pure players of online going to physical alternatives given that this is very important trend.

We continue to see market opportunities. We see a very strong scenario in EBITDA given the strength of the economy and given the big level of investment coming there.

We have issues in Colombia, as you all know, but we are performing in a good way within those issues given the fact that we have the adequate formats and the adequate commercial strategy.

So, thank you very much for being here and I hope that we will be back in some months to go through our Q1 results.

Maria Moreno: Thank you, Carlos. Mario, this concludes today's conference.

Thank you all for participating.