

## Grupo Éxito - 4Q& FY23 Results Conference Call Transcription

February 28, 2024

**María Fernanda Moreno:** Good morning, everyone, thanks for joining us today for Grupo Éxito's fourth 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 the Tender offer 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 Mario Giraldo**, thank you María. I want to welcome to all of you to this conference of our fourth quarter and full year results for 2023. First, as María said, we are going to refer to the Tender offer outcome, in this **slide #5**, as you all know there has been a change of the controlling shareholder of Exito and the ownership and position you can see in the slide #, today Grupo Calleja after the tender offer holds 86.84% position in Exito, the rest of the float is the 13.2% which is distributed 1.2% in the New York stock exchange, 0.7% in the Colombian stock exchange and 11.3% in B3 in Brazil. We have today around forty-two thousand shareholders distributed in those three markets.

If we go to **slide #7**, we will emphasize in our ESG initiatives development, our main focus, as always in our Zero malnutrition initiatives through Exito foundation, we benefited last year around 72 thousand children with complementary nutrition and in association with national and local Governments. In the governance part, I would highlight that in the Merco survey made in Colombia Exito came number seven in reputation and number one in the retail, we scored 73 out of 100 in S&P global sustainability assessment for 2023 between the top ten global retailers in this classification and I finally say we continue to be very strong recycler of carton and plastics in Colombia reaching near to 19 thousand tons last year.

Going to **slide #9**, we speak about highlights for the fourth quarter of last year for the financial results. We had a Net Revenue of COP\$5.4 billion, growing minus 12.6% impacted mostly by the very strong Argentinian devaluation. If we exclude the FX impact both from Argentina and Uruguay the Net Revenue was -1.3%. In the positive side with solid performance in Uruguay, in Real Estate and clearly the Net profit evolution. Gross margin arrived to a margin of 25.4% that is stable despite competition.

EBITDA arrived at a margin of 9.7%, +8.1% if we exclude the FX impact and -1.9% with FX impact. Our Net Result for the fourth quarter was \$118 thousand million vs a loss of \$77 thousand millions of last year during the 4Q23.

Going to **slide #10**, we can see the full year results. In a full year result, we see a Net income growing by 27.2% and arriving to near \$126 thousand million. Revenue arrived to \$21.1 Colombian billion growing 2.4% in pesos and growing 8.7% if we exclude the exchange impact. Gross profit margin improved by 28 basis points despite the investment in margin specially in the Colombian market. Strategies such as the more than 500 unbeatable price basic basket products that we have in Colombia.

EBITDA came to \$1.64 billion, -1.4% and this would be +0.8% without the FX impact. If we exclude the operational tax impact that we had and that was not in the base, we have a growth, comparable growth of 2.4% in the consolidated EBITDA for the full year 2023.

We had a positive free cash of \$123 thousand million and inventories were down by almost six days. Our capex continues to be strong and consistent and this year, it arrived to \$522 thousand million.

Going to **slide #12** we speak about our revenue performance. Sales in the annual consolidated showed a growth of 2.4% and 8.6% without the FX impact impulsed by Uruguay which had a growth in sales in local currency of 9.8% and in Argentina with a growth in sales in local currency of 245% which is above the local inflation.

Colombia revenues grew 3.6%. In the 4Q23 we had a result in sales negative at 1.3% excluding the FX impact with Colombia flat figure and Uruguay 4.9% positive in local currency and Argentina 380% in local currency growth.

Colombia was impulsed by the fresh product category growing 8.1% and the FMGC 6.3% we were negatively impacted by the electro category mainly electro and appliances category which diminished by 8.8% very much impacted by the high interest rates in Colombia and the lack of credit dynamics seen during the last part of last year. The best performers in Colombia were Carulla with a growth in food of 13% and our omnichannel growing in Carulla 49% and been a strong basis of the growth of Carulla.

In **slide #13**, we continue to see innovation at the center of our strategy. Now representing 42% share of sales and growing the share of 60 bps. Exito wow format and hypermarkets now represents 36% of the hyper sales and the mature stores under the wow innovation concepts, that have more than 24 months have a growth of 24% over the rest of the brand that do not have the wow concept.

Something very similar is for Carulla Fresh Market, now it represents those Fresh Market stores, 63% of sales and those mature stores with more than twenty four months have a growth near of 14% above the rest of the Carulla stores

Going to **slide #14**, we speak about our Surtimayorista, Aliados and misurtti. These three are targeting the mom and pops market, which is resilient in Colombia, we still have near to 200 thousand important mom & pops representing still more than 40% of the consumer market.

Our Surtimayorista, 64 stores now represents 5.4% of sales, we arrived with a very important dynamic in new Aliados to 2.430 partners and their sales now represent near USD60 million and we arrived also with Misurtti with 34 thousand mom& pops buying through Mi surtti representing a figure of around USD20 million. This is a B2B app which is highly successful in selling to the mom&pops especially of our private first price products private brand.

In **slide #15** we speak about Omnichannel. Exito had a record sales in Colombia with more than USD500 million which is a historical figures for our Omnichannel strategies and it had top share of 12.7% gaining seventy basis points. The growth was most important in food with dynamic growth of twenty two percent and getting to a share of 11.9%, one of the highest shares and representation in all the American Continent in food retailers. We had 19.3 million home delivery service growing 44% this includes what we do directly with Carulla and Exito and through our service of home delivery in alliance with Rappi.

In **slide #16**, Real Estate had an impressive year and impressive evolution and contribution to results. We have today 794.000 of GLA with an occupancy of 97.6%, it confirms the position of Viva Malls as the first operator of shopping malls in Colombia. Viva Malls had an increase of 20.7% in the recurring EBITDA.

In **slide #17**, Tuya, our credit card company in alliance with Bancolombia had a challenging year in line with what we have seen in all the financial sector specially in consumer credit. This confirms the relevance of having our partnership with Bancolombia and being allied with an expert in the management of credit risk.

High provisions were done and there was a depuration of quality and we got to a stock of 1.6 million cards taking decisions to assure the strength of the business we maintained Tuya with a AAA rating for funding purposes.

En **slide #17** we also speak about Puntos Colombia. It is not only a high potential business of monetization of our database but now it has a very material customer base composition. It is present today in 1 out of 3 households in Colombia, clearly representing by far the most important loyalty coalition in our country. With more than 7 million registered current customers. It has a high issuance and redemption opportunity, not only for the partners, but also for all those retail and service partners that are today redeeming points through Puntos Colombia.

Now I get the word to Ivonne to go through the financial and I will come back with conclusions

**Ivonne Windmueller:** 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 fourth quarter and full year 2023.

Let's continue on **slide #18** to review the operating performance by country where we see a consolidated margin gain of 106bp for the quarter thanks to the real estate performance and the cost control action plans.

**In Colombia**, as previously presented, Net revenues for the quarter at 4,5 billion Colombian Pesos, flat in variation versus previous year, and for the Full Year 15,8 billion Colombian pesos with +3,6% growth. These top line results were thanks to a solid Real Estate evolution the consistent performance of the omnichannel food sales growth over yearly food inflation and the increased share of the innovative formats despite the consumption slowdown environment where the non-food sales were affected by higher cost of credit and lower purchasing power.

Quarterly gross margin at 23% and Full Year at 22.5%,\_boosted by the real estate business and higher base effect from food industry relocation. Additionally, margin reflects the action plan in costs, compensating price investment and inflationary effect in the cost of goods.

SG&A grew 8% for the quarter and 11,9% for the Full Year, impacted by the ongoing inflationary pressures and the increase in operational tax after the implementation of the tax reform passed in December 2022. Excluding this effect, SG&A grew 9,4% below CPI level, thanks to the strong action plans in expenses of around 260 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 407.940 million Colombian Pesos, increased 3.4% and with 9,1% rate, improving 29bps. For the Full Year, EBITDA decreased 7,6%. This result reflects the impacted sales performance due to a lower consumption mainly in non-food category, the inflationary pressures in costs and expenses and the higher operational tax partially mitigated by the positive contribution from the real estate and other complementary businesses as well as the strong action plans in costs and expenses. When excluding operational tax effect EBITDA decreased 2,2%.

Uruguay for the quarter with a top line that decreased 7.8% in Colombian Pesos due to exchange rate effect. In local currency a positive top line evolution of 4,9% despite droughts and higher bases in Punta del Este, driven by the performance of the Fresh Market stores. Full year revenues grew 18% in Colombian pesos and 9.8% in local currency, around 4PP above local inflation.

Gross profit in local currency grew 5.6%, above revenues growth, and reached a rate of 35.5% improving 23bp\_thanks to the successful commercial strategies and increased share of the Fresh

Market format. SG&A grew below sales evolution thanks to cost control action plans and reached a dilution of 103 bps thanks to top line performance.

Recurring EBITDA for the quarter at 112.986 million Colombian Pesos, increased a 5.1%, and excluding fx effect, a 19.3%. For the full year, EBITDA grew 27% with double digit margin of 10.7% improving 76bps. The Uruguayan operation continued as the most profitable business unit in the group.

And finally, Argentina with its results in Colombian Pesos strongly affected during the quarter by major devaluation effect after the new President took office. Fourth quarter with Net revenues that grew 380% in local currency. For the full year net revenues decreased 39,9% in Colombian pesos but grew 245.5% in local currency, over 30PP above local inflation. Sales during the quarter were driven by anticipated purchasing under high inflation forecast, the outstanding performance of the C&C format Minimayorista, the increase share in the omnichannel share [share 17.3%], and the Real Estate business contribution with solid occupancy levels.

Gross margin reflected the higher share of the Cash and Carry format. SG&A for the full year grew below sales growth in local currency and improved 19bps, thanks to the sales performance that allowed the dilution and the consistent and strict cost control plans.

Recurring EBITDA for the year reached 49.300 million Colombian pesos and grew in local currency 274% improving rate in 36bps.

Let's move forward to **slide #19** to review the Company's consolidated result.

Net revenues reached in the quarter 5.4 billion Colombian pesos and decreased 1.3% excluding FX effect. Year to date, Net Revenues of 21.1 billion Colombian pesos and grew 2.4%. When excluding the FX effect from the international operations, Net Revenues grew 8.7%

Fourth quarter gross margin stable with last year at 25.4% boosted by the Uruguayan and Colombian performance, compensating the impact in Argentina due to higher share of the C&C format. Full year gross margin with an improvement of 28 bps.

During the quarter the three operations showed a positive performance with sales growth above CPI levels, thanks to the consistent commercial strategy, omnichannel share improvement and innovative formats performance. Other revenues, driven by the growth of 19,7% of the Real Estate business contributed to the positive evolution. Top line performance for the quarter, together with the consistent focus on action plans in cost and expenses across the three operations, compensating inflationary pressures led to a positive EBITDA contribution from the operation offset by devaluation effect in Argentina and operational tax in Colombia.

Full year recurring EBITDA at COP\$1.6 billion decreased 1,4% reflecting operational performance in Colombia and devaluation effect from Argentina, partially compensated by the results from Uruguay. When excluding the operational tax base effect, the consolidated EBITDA grew 2,4%.

Going to **slide #20**, the group net result for the quarter reached 118.749 million colombian pesos and for the full year 125.998 million colombian pesos. The result reflects the lower operating contribution from Colombia and Argentina, partially offset by the Uruguayan operation.

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

- i) (First) a positive effect on income tax due to base effect of differed tax impact in the fourth quarter of 2022 and the use of tax credits
- ii) (Second) Net losses from the financial business Tuya due to higher provisions amidst non-performing loans deterioration across the financial sector and the compressed intervention margins.
- iii) (Third) An impacted Net financial result due to higher interest rates increasing the cost of debt
- iv) (Fourth) Higher minority interest coming from the improved performance in Uruguay and Real Estate business in Colombia with Viva Malls
- v) And (last) higher non-recurrent expenses related to the Spin-off and the DRs listing process

Finally, **on slide #21**, regarding the cash and debt position of the company, we would like to highlight a positive Free Cash Flow of COP\$123 thousand million, thanks to the improvement in working capital by reducing inventories in 6.2 days. Cash generation despite sales slowdown, lower dividends received and increased investments.

Net financial debt with a total negative variation of 345 thousand million Colombian pesos. When excluding dividend payments and the investment in increasing our share in Grupo Disco, Net Financial Debt would be stable with last year.

Gross debt increased by 75 thousand million Colombian Pesos due to new lines to cover the share increase in Grupo Disco in Uruguay, compensated by the planned debt maturities.

As a conclusion, Solid Cash flow position of the Company, allowed the strategic and recurrent operational investments, share increase in Uruguay and the dividend payment to shareholders.

### **Summary Financials**

Now, as a summary for the full year 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 evolution 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 in local currency around 4PP 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 30 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 high single digit when excluding fx effect from international operations. SG&A reflecting the strong inflationary pressures, that were partially mitigated by the constant cost action plans and efficiencies.

**Net result positively impacted by corporate tax, offset by the operational contribution**, 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 his conclusions.

**Carlos Mario Giraldo:** Thank you Ivonne, as conclusions I will begin by making emphasis on the fact that Grupo Calleja is now the main shareholder of the Company with more than 86% of the shareholding position. As you have seen, Grupo Calleja is a true retailer, a strategic shareholder that has been highly successful in its markets and is going to add a lot of value to this Company from its knowhow and from the opportunities we are working together, for example, with common suppliers, most of the international suppliers in consumer goods that are common to both companies and have commitments with both organizations.

Second, I would say that it is very important our strengthening of the position in Uruguay, as you know in Uruguay, we have Disco unit where we have local partners and Devoto unit where we have a 100% position as Exito.

In the Disco unit we acquired a 6.66% stake position clearly reinforcing our controlling position in the Disco unit and as a whole in Uruguay.

Our Net Revenue was based on the Colombian growth of 3.6% that it is very important if we consider that the retail environment in Colombia was highly challenging and, as you have seen from Dane, the retail sector had a decrease of 4.7% last year in Colombia. And it was also boosted by Uruguay growing near 10% and the growth in Argentina in local currency which was above the local inflation.

At the end we have COP\$21.4 billion in sales, growing 2.4% and 8.7% without FX impact and we maintained EBITDA margins for the 4Q at 9.7% and FY 7.8%, this is based after having a lot of pressure coming from expenses, from inflation and doing a lot of productivity initiatives inside the organization, it is also based on a level retail margin despite high competition specially in the Colombian market.



Net Income increased by 27% and our working capital with a positive generation of COP\$123 K million.

The Organization remains resilient despite the low Colombian consumer confidence and despite the volatility of Argentinian macroeconomics and we are currently working on efficiencies to confront inflation specially in Colombia in dynamics in our commercial part which is very important, in maintaining the high dynamics of our real estate business and in the innovation in formats an also of course the support of our omnichannel initiatives.

These would be my conclusions and we are open to Q&A session.

**Maria Fernanda Moreno:** Thank you, Carlos Mario, I would like to remind all participants that you can rise 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 Mr Nicolás Larrain from JP Morgan, Nicolás, please go ahead

**Nicolas Larrain:** Good Morning, Carlos Mario, Ivonne, María Fernanda, thank you for taking my question.

I want Carlos Mario to touch base a bit on the last piece of your remarks before jumping to Q&A on the synergies you will get from Grupo Calleja I wanted to hear from you some impressions on what they can do with Exito in Colombia, what knowhow they can bring from El Salvador into Colombia that can help Grupo Exito locally just your first impressions on them, any changes on the strategy or anything that would be important to mention, that would be appreciated.

**Carlos Mario Giraldo:** Nicolás, it is too soon to make a big long term remark but what I can say is that we are working together in a collaborative way that I am impressed with the knowhow that they bring into the business having being one of the most successful retailers competing against the big players in the world, the focus that they have in the retail business and in the customer in the center and in working in a very important collaborative way with the most important suppliers and I am very positive and very optimist of the leverage that they would bringing to Exito in the different markets where we work.

**Nicolas Larrain:** Perfect thank you very much.

**Julián Ausique:** Hi everyone and thank you for having my questions.

The first one is related to income tax, I understand that is something related with loses that you have during the year, but I would like to understand a little bit better the impact or the positive impact of the income tax on net result in the quarter and the year.

And my second question is related to Tuya business, what are the expectations that you are having for this year and if you have any updated maybe on the results that Tuya during January 2024 start and the third question is related also with expectations you have with Grupo Calleja, and if there is any changes in the strategy on Grupo Exito, I know this is very soon to say something about it but I don't know if you have something new about maybe changes in the strategy of Grupo Exito that is currently the Company have right now.

**Carlos Mario Giraldo:** I am going to start with the third one then I handed to Ivonne for the first two questions. As I said before it's too soon to say, what I can assure you is that we are working in a very collaborative way, that they bring a lot of knowhow into the business and that they are completely committed to the impulse the dynamism in sales and in growth for Exito, the efficiencies in the company and the profitability of the organization, about strategic changes there is nothing particular that I can say at this moment.

**Ivonne Windmueller:** Thank you Julian, first on the income tax effect, we had two effects compared to last year, first is that in 4Q 2022 we had a one shot in the deferred tax, this was according to the tax reform we had into effect in 2022, having a positive base effect for 2023 and in addition we had the use of tax credits considering we have accumulated tax loses.

Regarding Tuya, what we are speaking for this year in the business, it continue to be a difficult year for the financial sector taking into account that we are still in high interest rates, so, the compressed margins of the business continue with pressures during this year, but the business is working, as Carlos Mario mentioned before, in the production of the portfolio, having risk management in order to reduce the risk exposure and therefore to mitigate the impact in the provisions in order to compensate what the business in the income coming from the interest rates are seen for the year, so it continues to be a challenging year for the financial sector in Colombia.

**Maria Fernanda Moreno:** Thank you Julian, do you have any additional question? Now, the next question is coming from Oswaldo Oliver, please go ahead.

**Oswaldo Oliver from Bain:** Thank you for taking my question, thank you for your presentation, I have a question regarding the conversions and the openings of the innovative formats, you opened less stores in the Carulla Fresh market and in Exito wow in 2023 compared to 2022, what were the reasons for that?

**Carlos Mario Giraldo:** Yes the reasons for that was clearly the decision in the allocation in capex

because we had a very important emphasis on growing through Surtimayorista and in creating a leverage in the Surtimayorista going to the low income market and we opened near to 20 Surtimayoristas, but we continue working on conversions in Exito and Carulla, that's a priority, we have an important stock of stores to be converted and the good thing is that each time that we have done that, they have grown much more than the rest of the brand and they have improved their margins, the EBITDA margin given the growth in sales, but also the mix of products that is purchased by customers. So, this is an ongoing strategy.

**Oliver, Osvaldo:** Thank you.

**Maria Fernanda Moreno:** if you have more questions, please let us know through the chat. There are no further questions at this time, I hand over Carlos Mario for closing remarks.

**Carlos Mario Giraldo:** What I would say is that this has been a historic year for Exito. Not only the listing in the different stock exchanges but the Tender offer that takes to a change in the controlling shareholding. The entrance of a very strong true retailer, highly successful not only in the competition against the most important retail in the world but also in the profitability which makes it one of the most profitable retailers in all our continent.

Our strategy continues to work on innovation and customer experience where our NPS is one of the most important highs increases in many years. Omnichannel has a share of around half percent of the total market in Colombia and we think this permits us to get to the most important households in the main cities of Colombia. We believe that our international businesses are continuing to perform, the Uruguayan in a very strong way and Argentina has been facing in a very efficient way the different challenges in the country. And finally, I would say that it is very important to say that we have maintained our margins and specially our commercial margins despite an important competitive scenario.

Thank you very much to all of you for been here present, and we hope to see you back in the presentation of our Q1 results.

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