

Grupo Éxito

18052020_1Q20 Results Conference Call

>> Thank you for joining us today for Grupo Éxito's first quarter 2020 results.

At this time, I would like to ask all participants to put on mute to prevent any background noise and to set the camera off to improve the quality of the call.

Please note that this conference is being recorded. To participate in the Q&A session at the end of the call, please send a message through the chat including your full name and company to put you on line.

At this time, I'm pleased to present our Chief Executive Officer, Mr. Carlos Mario Giraldo and Chief Financial Officer, Mr. Ruy Souza.

Now please move to slide three to see the agenda. We will cover Grupo Éxito's financial and operating highlights, mitigation strategies to face Covid-19, performance by country and consolidated financial results for the first quarter 2020 for the operations in Colombia, Uruguay and Argentina.

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

Carlos Mario Giraldo: Welcome, everybody, to this call for Grupo Éxito first quarter results. I want to thank you for being here present by Teams.

I would begin by slide four by saying that the first quarter of this year showed an important revenue growth of 9.7% at the consolidated level and an increase in Ebitda of 2%.

As revenues, this is probably one of the most dynamic quarters that we have had in many years. It is important to note that the company has given, as it has done before this moment, a great impulse to all our omni-channel sales, both food and non-food, and our leadership is key in the new normal that we are seeing, because we believe that this is not only a boom of e-commerce given the pandemia, but it's something that will remain at a high level in the future.

It is also important to say that we have dedicated important human and monetary resources to support employees, to support customers, and to support our community through the pandemia. We believe that this is a moment in which the companies, and especially companies that have such an important significance in our countries, especially in Colombia and in Uruguay, cannot -- may not remain silent and may not remain in the backyard.

Going to some highlights, our sales growth were driven by omni-channel sales, with a growth of near to 45% in Colombia and 39% in Uruguay. Home deliveries in Colombia came to 1.2

million, plus 36% versus previous year. Our applications were downloaded now by 2.4 million customers. TUYA restructured debt to support around 250,000 customers. And our real estate shopping malls and galleries were temporarily affected by the closures that have been done during the quarantine, both in Colombia and in Argentina.

As Capex, we came to COP 52,000 million, focused on omni-channel, technology and innovation, and we opened two Surtimax stores.

Our net income margin came to 0.5%, being positive against a loss in the first quarter of last year. You will hear later Ruy Souza, who is now -- during many months now as CFO of the company.

And as in the social part, we made a contribution of 48,000 nutritional packages to children in Colombia through the Fundación Éxito, which has the vision of zero malnutrition in Colombia in some years from now. And as of April, we came to a total 100,000 of these nutritional packages going to different cities and provinces of Colombia. And we advanced payment to over 860 suppliers, small and medium-sized suppliers, to support our supply chain, and to support the most vulnerable suppliers in our chain.

Going to slide five, I want to make some reflections before speaking about what we have done in Covid. We believe that today, customers are looking very closely to big companies and to companies in their responsibility. They are looking and asking companies to go to the maximum standards of protection and of supporting their communities. The keywords today are reliability, coherence and sensitivity, and these words are going to have a very important impact in corporate reputation and in the preference of customers in the future. We believe in this, not only because of this commercial impact, but because it forms a very important part of the DNA of this company, and we have to be faithful to it.

Éxito has led in Colombia the most strict protocols of protection for customers and for employees and that creates, at the end, probably what is going to be the first key of decision for customers in the future in food and non-food retail, which is going to be having confidence on the retail brand that is offering you a full solution.

When we speak about what we have done to protect our customers and to protect our employees, we have done a permanent disinfection of all the key parts of the stores, cleaning stores and shopping carts every time we give it to a customer.

We launched our White Line, the only one to have launched it in Colombia, for free deliveries to health care professionals; exclusive service hours to high-risk groups, vulnerable groups, especially elders, and we have strengthened very much our e-commerce channels and home deliveries and applications.

If you look to the two pictures in the bottom, the first one is the image of our White Line, which has been very well received, not only by health people, but also by all the community. And second, we see also the call-and-collect areas in the stores. We were the first ones to create health and collect areas in almost 440 stores, which gives us a very important advantage, not only in giving our customers the possibility to drive in and get their food and

groceries, but also in -- I mean, imposing these kinds of sales in an alternative that has been very well received by the customers.

In community work, not only did we anticipate payments, making an investment of COP 60,000 million, which we will more than counterbalance by a reduction in Capex, but we thought that it was a very important moment in the country to support our small and medium-sized suppliers. And it has been very well received, as an example given by a company in the country. And we also, of course, have been working very much with our Éxito Foundation.

If we go to slide six, we see that in supporting our employees, we gave them, from the start, hygienic kits to all the staff. We manufacture on our own, through our textile business, masks for protection and have been delivering them, not only to our employees, but to the market. And we are the retailer with all kinds of mask solutions for customers and for other third parties. And we made a 10% wage bonus during one month to employees, given the hard work that they have done and giving them a stimulus, which is not the most important. Because I can say that as of now, for example, the absence, the rate that we have had within our stores is not above 5%, which is amazing for a moment in which people are worried for their health.

We gave acrylics. We placed acrylics at the cashiers of our stores to protect both customers and employees, and we are measuring, at the entrance of the stores, the temperature to our employees and in different moments during the day. And we are also measuring voluntarily those customers' temperature, the customers that wanted to be taken, which has given them a reassurance of the confidence, protection and security that the company is warranting.

We also offered, and it was a public thing that got a lot of exposure, up to 500,000 grocery baskets, what we called a *mercado popular familiar*, family-popular, small-purchase grocery, with 12 basic products for US \$4 at 500,000 customers so that people could be -- could express their solidarity with people that needed food. As of now, we went up to 600,000 of them because of the high demand and high public exposure. And we, of course, made the donation of the nutritional kits to the kids in their houses through the Fundación Éxito.

If we go to slide seven, you can see that net sales were very positive in Colombia, Argentina and Uruguay, even without the Covid impact. We measure here the Covid impact and show that at a consolidated level, we had a total sales increase of 12%, of them 7.7% without the Covid impact.

I would like to highlight some trends that we are seeing. The first one is a clear customer preference towards supermarkets and home delivery solutions. A reduced frequency because people are not going to the stores every day, they are trying to go at most 2x per week, but they are increasing the size of their average basket. What is important, and I would highlight this trend, is that we are seeing a trend towards a once-in-a-week, full-purchase journey, which is a great opportunity for full-offer formats, like our hypermarkets and our supermarkets, both the premium supermarkets and the popular supermarkets, and for our Cash & Carry that will profit from this visit with a high basket from the professional customers.

If we go to slide eight, we see the strongest same-store sales performance in three years at plus 9.6%. That is plus 5.3% without the Covid impact. And we see a consistent progression in sales during the last two years. If you look at the bottom-left bars, you will see clearly that progression even if we subtract the impact of Covid.

Going to slide nine, we see the performance of the different segments and brands. The drivers for all of them were food business, omni-channel strategies, and innovation. It is important to say that even though omni-channelity has been so important in these last days, the innovation stores continued to perform much better than those which have not been transformed.

In Éxito brand, which increased in the Q 7.9%, we see a consistent, long-term growth in Carulla brand, which grew 15.1%, the best-performing banner during the first Q. We saw an increased share of its sales within the total group. In the low-cost brands, Super Inter and Surtimax, they had a magnificent quarter, growing 13.3%, clearly being a destination in the popular neighborhoods of the main cities. And in our B2B business, which includes Cash & Carry and Aliados, we had a strong sales increase of 21.6%.

Going to slide ten, it's all about innovation formats. As you know, we have been transforming Éxito stores into the WOW innovation format and Carulla stores into the Fresh Market. In the transformed Éxito stores, sales performed, increasing 14.6% that compares against 7.2% in the rest of the system, and account for more than 17% of the sales of the brand.

In Carulla, something similar happened, with sales increasing 24.7% versus 13.3% of the rest of the Carulla stores and representing near 27% of the total banner. We now arrived to 32 Surtimayorista stores with the two openings, with increasing sales of 13.3% and representing now a material 4% of total sales of Éxito group in Colombia.

In applications, you see in slide 11, this is a very important part of our omni-channel strategy. Every time there's a higher share of sales done through the applications. And here, what we are seeing is that there are many applications, but few applications are going to be relevant in the market. And we want to be within them and to lead this trend against the applications of any type of business, not only retail. We have now 2.5 -- 2.4 million downloads and increasing the solutions that we offer through the applications. And we had 4.7 million discounts that were directly redeemed through the application. And the frequency, every month, on average, of use of the application by customers is 5.2 times, which makes it clearly go through the path of relevancy that we are looking for our applications of Éxito and Carulla.

If we go to slide 12, we see the reflection of what's happening in omni-channel sales. They increased by 44.6%. They account now for 5.2% of total sales of Éxito, plus 132 basis points. They came to 1.2 million home deliveries in food, putting together our own service directly done by the company through the drive-in and through our stores or through our dark stores and the service done by our exclusive partner, Rappi, which also had a very important increase. So if we put together all that, we can say that food e-commerce and home delivery service is going to have a very important increase in the following months, as we already saw it in April. And it is something that really, it's a trend that is here to stay. And Éxito, I would

say, without being presumptive, is in the best position today in Colombia to represent this trend.

Our call-and-collect service really picked up rapidly in two months. It accounts now for one third of the home deliveries that are made directly by Éxito. We had increased -- important increase in e-commerce, non-food and food, in marketplace, in last-mile deliveries, in digital catalogs and in click-and-collect. As you know, we have all those services that account for e-commerce, food and non-food in the world. And the interesting innovation here is drive-in, because in drive-in, we're the only ones offering a wide drive-in service in Colombia, which is a trend that we see very well expressed, especially in Europe and in some brands of the U.S.

If we go to slide 13, we can see the impact of innovation and omni-channel in sales. And the big picture here is the 50% of the total ex-Covid growth is represented by the innovation in formats and by the omni-channel penetration of the company.

I will give the word now to Ruy Souza, our CFO, to go through the results and through the financial figures. And then I will come back to some conclusions and also to give you some update on the business.

Ruy Souza: Thank you, Carlos Mario. Good morning, everyone. Thank you for joining us today. I'll continue now on slide 14 to share with you the main highlights about the performance in Colombia.

Starting with net revenues, which grew by 9.3% during the quarter, we enforced the positive trend observed in the last quarters, as Carlos Mario already mentioned, and reaching COP 3 billion. Top line was mainly driven by, first, solid growth of the innovative formats, as we just have seen, the formats of Éxito WOW, Carulla Fresh Market and Surtimayorista; second, a strong omni-channel growth; third, which is a good news, a solid food sales growth at the level of 12.8%; and obviously, four, the Covid-19 context impact. But it's very important to mention that sales ex-Covid grew by 5.3%, which is a very good trend as well.

The other revenues on the other side were negatively impacted during the contingency, mainly due to higher provision required by TUYA, our credit card business, in order to maintain an adequate level of provisions, having in mind the risks that are related to the Covid-19 context.

The gross margin posted in the first quarter of 2020 was 22%. It was negatively impacted by an accounting adjustment that represents 171 basis points and 52 basis points related to the Covid-19 impact in this complementary business, mainly TUYA. These two impacts adds up to 223 basis points, which means that isolating these two effects, gross margin would have grown 20 basis points.

Going through SG&A, which landed in the first quarter at the level of 19.8% of net revenues, SG&A has been benefited, mainly from the accounting adjustments that I mentioned before in terms of gross margin, but in this case, positive of 171 basis points and also benefited from expenditure efficiencies. Thus, the recurring Ebitda in the operation in Colombia reached

COP 178,000 million with a 5.8% margin. Covid-19 impact in the first quarter Ebitda was negative at the level of COP 11,700 million. And isolating this impact, Ebitda would have grown 3.4% comparing to last year, improving COP 6,200 million. This is for Colombia.

Please now move forward to slide 15 to review our performance in our international operation in Uruguay. Net sales grew by 12.1% in local currency during the first quarter. And this is mainly explained by, first, a better-than-expected summer season; and second, omni-channel sales growth at the level of 39%, as we have already seen, and also a food sales growth of 15.3%. Important to mention also that Fresh Market stores in Uruguay just reached a 43.5% share on total sales.

Net revenues then grew by 5.4% despite the negative FX impact. Gross margin was 33.5%, which is 110 basis points below the first quarter of 2019, which is explained by negative sales mix from lower non-food sales and higher basic products share in the food categories related also to the contingency.

The recurring Ebitda reached COP 80,000 million and a very good margin at 11.3%, improving 48 basis points, with a positive COP 4,400 million impact due to Covid-19. In Uruguay, the food sales share is much higher than the other countries, then we have seen a positive impact due to the context. But it's important to highlight that the margin improvement, the 48 bps improvement in margin is almost completely explained by the operational performance, excluding the Covid-19 impact.

Moving forward to slide 16, now to review our performance in Argentina. Still facing a challenging macro environment, Libertad posted a 47% same-store sales growth, excluding calendar effect. The good performance in sales was already seen before the Covid-19 impact, explained mainly by the successful commercial strategies and solid performance during carnival, as we have seen also for Uruguay.

In Argentina, food sales grew by 58.9% above inflation. And net revenues were negatively impacted by the real estate business constraints in terms of traffic and closures.

First quarter of 2020 net revenues reached COP 291,000 million. Gross margin was at 31.5%, which is 86 basis points below last year, impacted by lower contribution of the real estate business related to the current context. We have seen in Argentina important gains in terms of SG&A at the level of almost five percentage points coming from gains in terms of electricity expenses, marketing expenses, and also operating efficiencies. This led Ebitda to grow 165 basis points and COP 5,200 million, partially offset by the Covid-19 impact calculated as COP 1,800 million and 64 basis points. Thus, Ebitda grew by 100 basis points, reaching almost COP 5,000 million compared to COP 1,5 million in the first quarter of 2019.

On the next slide, 17, we'll go through the consolidated results, having in mind what we have already seen. First, I would like to mention that the top line grew double-digit despite the negative FX impact, and 12% when excluding it. Innovation and omni-channel were the main drivers to the net sales growth, alongside with the food sales performance. Net sales grew

7.7%, excluding Covid-19 impacts. Other revenues were negatively impacted. Net revenues were above COP 4 billion.

Gross margin in first quarter 2020 was at 24.7%, reflecting the accounting adjustments made in Colombia, the lower contribution from complementary business in Colombia and Argentina and a higher promotional activity in Uruguay and Argentina. Gross profit grew by 2.3%.

Recurring Ebitda reached COP 263,000 million and 6.5% margin. We calculated the Covid-19 impact as a negative COP 9,200 million in the consolidated view, which means Ebitda would have grown 5.6% when excluding it.

And now please move forward to slide 18 to review our group net share results evolution. So on first quarter of 2020, we had a net income in positive ground, at the level of COP 22,000 million compared to a minus COP 13,600 million in the first quarter of 2019. This improvement is mainly explained by a positive variation in the operation performance regarding Uruguay and Argentina; an improved capital structure, leading financial results to improve almost COP 68,000 million; a negative variation of COP 21,000 million coming from the income from associates, mainly the case of TUYA, our credit card business, and negative variation in terms of discontinued operations and income tax. The net income improved by 3 bps during the -- comparing to last year's first quarter.

And now, finally, on slide 19 we can see the evolution of cash, gross debt and net debt situation at holding level. Net financial debt closed at positive COP 630,000 million, improving COP 3.9 billion versus the first quarter of 2019, reflecting, first, a reduction of the gross debt level by COP 2.7 billion with the payment of the structured loans by the end of 2019 and new credit lines taken at a level of COP 890,000 million in March of 2020. Second, cash and equivalents improvement of COP 1.2 billion, with this cash position by the end of the first quarter, which is a very healthy situation and at the level needed to strengthen the company's future. We believe that in terms of cash and net debt position, we are very well positioned. We made -- it's important to say that we made some Capex adjustments in order to maintain the situation on the following quarters and sustain our good cash position level.

At this point, I'll give the floor to Mr. Carlos Mario Giraldo to go on with the call. Thank you.

Carlos Mario Giraldo: Thank you, Ruy. I will go to slide 20 with the conclusions.

I would say, in a nutshell, first that it is very important today to have a very important cash position, and Éxito has it, and -- plus a commercial dynamics that does not start today but comes from previous quarters. We are expressing in our strategy and execution what I would say the most important modern trends, that is to be prepared to fewer visits, more important visits in tickets. We have the formats for that in our hypers and supers.

Being strong in home deliveries. We have our own service and our Rappi alliance, which together make a very strong combination. Having a drive-in, which has started in Europe, and today is a great solution for those who have parking lots with reliable confidence on the

customers. And having a strong investment and reliable investment in customer and employee protection.

Going to the slide in the Latam platform, we can conclude that there were strong net sales in the quarter with the same-store sales growth, excluding Covid-19, which confirms the trend that we have seen in previous quarters. Our consolidated recurring Ebitda growing 2%.

And I would say, despite the Covid effect on the complementary businesses of the company, the net income boosted by the solid performance of international operations and our financial structure. The protocols applied strongly in all the countries in which we operate. And omni-channel activity is booming and strengthening the e-commerce strategy that we have been delivering for many years. But that has today a special momentum to pick up on sales.

In Colombia, net sales growing ex-Covid by 5.3%, boosted also by the food category that grew 12.8%; strong sales growth of innovative models, our WOW with plus 14.6%, our Fresh Market are plus 24.7% and our Cash & Carry with a plus 13.3%; a solid omni-channel performance, as we said, near to 45% growth and arriving above 5% of total share of sales for the organization; and improved net financial position -- debt financial position by COP 3.9 billion with a strong cash position at the end of the quarter of COP 1.2 billion. And a Capex that has been adjusted internally by COP 200,000 million. That is 50% of the Capex. This leaves us the Capex that we need to continue with some limited number of WOW stores, a Fresh Market and some Cash & Carry, but giving total importance to a great opportunity we have today, and it is to support with more technology, logistics, dark stores, reforms within the supermarkets and hypermarkets to support the bigger impulse that we are having through our omni-channel different strategies.

In Uruguay, quarterly net sales growing by 12.1%, 6.1% if we exclude Covid effects and a solid, very important contribution of Fresh Market stores, which now account to a very important figure of 43.5% share in sales.

And in Argentina, net sales growing by 45% if we exclude Covid-19 impacts. And very strong operating levels, given a very important commercial performance, dilution of fixed and variable -- fixed costs, excuse me. That helps to counterbalance the negative impact of the real estate business in Argentina.

Before going to Q&A, I would like to make an update on the business once we already are towards the middle of May, because I know it's very important for the moment and things are changing rapidly. What I would say is that in April, we had a very good dynamics in food sales, which continues with a very strong food sales purchases, preferences in our formats, both offline and online and the combination of both. We had a very solid market share gain since the beginning of the Covid times. And the food delivery is booming. I would say that it is booming much above what we saw in the figures of the first quarter, and it is going to remain as part of the new normal but our infrastructure is prepared for this with our stores, with our locations, with our dark stores, with our leading distribution centers in all the country, with our own cars, and with our alliance with Rappi.

In non-food, initially, end March, we were highly impacted by the Covid as a message for consumer. That remained during mid of April. And during the last 2.5 weeks, we have seen a gradual improvement, not still in positive grounds.

The credit card, TUYA, the non-performing loans are performing better than initially expected. We have a very good solvency and liquidity position. The focus of the card has been the customers and supporting the customers during the times. As I said, more than 250 customers have seen some kind of solution with the company of TUYA during these times. And we remain with a very orthodox provision policy, with provisions at this moment above 100% of the loans below 30 days.

In our real estate business, we have still our shopping malls closed for all formats that are not consumer goods and pharmaceutical goods. That means that our revenues for food and pharmaceutical will be around 25% to 30% of the total rentals that we normally receive. We are going to see a gradual opening of the shopping malls and galleries, as we have seen in other countries, as we are seeing in Spain, in Poland, in France and in other countries, and as we are seeing today in Argentina where, since some days ago, we already saw opening of galleries in three of the cities. And we think that more of the cities will follow this trend.

We remain with a very strong cash position, as Ruy made the point in a very complete way. And the reputation measures that we are receiving for Grupo Éxito are amazing, which is a reflection of the responsibility of the company, all its 40,000 employees, all of its executives have taken at this moment because we really believe that acting under a solid purpose, a purpose that goes beyond only business will not only support reputation but will also support a strong business in the future.

These would be the remarks for the moment and I would give the word to María Fernanda Moreno to give the turn to the different -- Q&A session and to go through it.

María Fernanda Moreno: Thank you, Carlos Mario. At this time, please send a message through the chat, including your full name and company, to put you in line. We have a first question coming from Mr. Daniel Duarte, from Corficolombiana. Daniel, please activate your mic to raise your question. Thank you.

Daniel Duarte: Hi. Can you hear me right now?

María Fernanda Moreno: Yes, clear.

Carlos Mario Giraldo: Yes, Daniel.

Daniel Duarte: Ok. So thank you for your presentation, and congratulations on everything the company has been doing during the pandemic by supporting the community in various trends. So I've got a couple of questions. My first question is regarding the working capital. What has been the behavior of the accounts receivable and, in general, the working capital management of the company?

My second question is regarding the real estate business. Have you really had negotiations with clients regarding the payment of rents? And if so, could you please share with us what are some of the terms that you have negotiated?

And my third question, I don't know if you -- you going to be answering those questions, and then I can ask two questions after that?

María Fernanda Moreno: Yes. We will answer your questions, and then you can raise furthermore if you have.

Carlos Mario Giraldo: Ok. So Daniel, thank you for your questions. I will take the first one on real estate and then hand over to Ruy to work on the specifics on working capital. On real estate, what I would say is that we have worked with the Colombian government, we have worked with the tenants and with the owners of the other shopping malls in order to do something that is reasonable and responsible. So what we have accepted for the moment is that as the shopping malls are closed, the tenants during that time will not pay the rentals. But they will pay the administrative costs, the administrative fees that we have, which is a joint responsibility. So that's what we are doing for the moment. And I would say we have a very good relationship with all our tenants, and we have had agreements with almost all of them to go through the Covid contingency, because we think our real estate business has been great. Occupation levels are key. We want to remain those occupation levels. And this is a long-term business, which we have to look at jointly with our tenants. And fortunately, we have the best tenants in Colombia.

María Fernanda Moreno: Daniel, do you have further questions...

Ruy Souza: Let me work on the working capital question from Daniel, then I'll hand over the word to you. Daniel, thank you for your question about working capital. I'll now answer you, dividing in a few answers. So first, about the receivables, we have not seen a negative impact so far because the receivables are mainly linked to the real estate business, and as of March 31, we have not seen a significant impact. Of course, we have been working with the tenants, as Carlos Mario already mentioned, towards a few initiatives to compensate for it, for example, the Viva Malls marketplace to reactivate sales from the tenants so that we can mitigate the potential risks in terms of receivables.

In terms of payables and inventory, we have anticipated some purchases, and we had an impact in terms of inventories that we are planning to compensate during Q2. And we had also three days impact related to the payment anticipation to small and medium suppliers. But these were all compensated by the decision we made in terms of Capex postponement so even though we had some minor impacts in terms of working capital with the decision we took about Capex in terms of cash and net debt, we have been able to compensate all the risks that already appeared. Thank you.

Daniel Duarte: Ok. Thank you. I just have two more questions. The next one is regarding the purchase proposal that came up from the Uruguayan business. I don't know, maybe you

can give us some updates on what happened to that. And the last question is I would like to know some of the terms of the new debt, of the COP 890,000 million new debt.

Carlos Mario Giraldo: Yes, Daniel, I'll take the first one and then hand to Ruy for the new debt terms and conditions. Uruguay, what I would say, I would have to respond as I did in the last quarter conference, and that is that the company, when there is a business that is material for the company, that is relevant to investors, and that is really moving forward and has to be announced, it will be announced. For the moment, there's nothing we have to announce and nothing that has been done on any on our material businesses or divisions, including the international divisions. So I'll hand it over to Ruy.

Ruy Souza: Thanks, Carlos Mario. Daniel, about your question regarding the new loan, I can say that we closed this deal with two of the major banks in Colombia, in local currency debt, with the cost of debt below the IBR plus 4%, which means that we were able to negotiate our interest rate in the world that was before the Covid-19 impact. And these two deals regards a much pretty -- between one year and six years with different tranches. I don't know if it's clear.

Daniel Duarte: Yes. Perfect. So thank you very much for your answers.

María Fernanda Moreno: Thank you, Daniel. Next question comes from Mauricio Paz, from BBVA. Go ahead.

Mauricio Paz: Hi. Do you hear me well?

Carlos Mario Giraldo: Yes.

Mauricio Paz: Ok. Congratulations on the good results amid of this pandemic conjuncture. I have a couple of questions, probably for Ruy. The first one is, could you please elaborate on the accounting adjustment of 171 basis points on the gross margin in Colombia, please?

And the second question is about performance beyond March. How did April look like in a consolidated basis? And if there is there any trend that you can spot on the performance of sales and income for both Colombia and the rest of the geographies?

Ruy Souza: Thank you, Mauricio. I'll first answer your question about the 171 basis points of the accounting adjustment, then I'll share the second answer together with Carlos Mario. So regarding this accounting adjustment, it's very simple. Until the second quarter of 2019, we were accounting expenses related to production zones such as the bakery, the fishery, the butchery. We were accounting that in SG&A, and then we moved these expenses to costs in 2019. And that's why we see a negative impact in terms of gross margin and a positive impact at the same level in terms of SG&A. And from now on, this will be the new accounting rule. In the second quarter, there will still be a difference, and then from third quarter of 2020, it will be fully comparable.

Regarding the trend that we have been seeing, I'll first answer you in terms of cash and net debt, and then I'll hand over to Carlos Mario so that he can explain to you our operating challenges. In terms of cash, because of the decision we took regarding postponement of

Capex and this new loan and credit that we took, and all that we have been doing in terms of expense control, we do not see a risk, a material risk in terms of cash position for the second quarter nor for the fourth quarter of the year.

In terms of operating, we have started April with a good trend in food sales and also with negative impacts in terms of credit card business in TUYA and the real estate business. But now I'll hand over the word to Carlos Mario so he can elaborate more.

Carlos Mario Giraldo: I would go back to some of the things that I covered in my update. First, we are seeing food sales very strong. The share of food sales and non-food sales that are going through the e-commerce and through our omni-channel solutions is increasing in a very important way. We see a very strong gain in market share, given the preference, I would say, not only for our commercial offers, but for the assurance and confidence that they give to our customers. And so that's very positive. We are seeing the non-food sales being impacted in the end of March and also in April but with a gradual improvement as people begin to think again on the normal solutions they need. Of course, it differs by categories. We are obviously selling a lot of computers, a lot of games for home, a lot of solutions for the houses, a lot of sports material, and we are selling less TV sets and less cell phones and less textiles today. But the good thing is that -- and we saw it for Mother's Day, there was a very important improvement in that trend.

In our real estate business, the shopping malls remain closed in Colombia, but we are operating the food formats with no problems and the pharmaceutical formats, and that accounts for between 25% to 30% of the total revenue in rentals of the shopping malls. We believe they are going to begin opening probably towards the end of the second quarter and go towards normality in operation in the second half. We just launched a very interesting and innovative marketplace for Viva Online, which began this weekend with a very interesting first response from consumers.

And in our financial business, we are seeing non-performing loans better than what we initially expected. Of course, not at the level that they were before the contingency, but I would say, until today, under control. And we keep very good liquidity position, very good solvency position and an orthodox policy that has always been the joint policy of the partners of keeping a very good level of provisions, which today are above 100%.

And finally, what I would say is that looking forward, we are rethinking many things to give a lot of more emphasis to dark stores. We have two dark stores, and we plan to have at least one or two more. We are operating now logistically in a very efficient way from 90 stores which do food delivery, both our own service and Rappi's service. Our home deliveries and e-commerce in April is booming, and we will give you figures later. But they are booming above what's happening in the market because it got us very well prepared. Of course, we have service problems because we have had some occasions in which it has been impossible, even with our infrastructure, to serve completely the customers. And our customer attention and service is now our most important concern.

And we have seen a very important surge on reputation, really. I think our employees have been very close to the customers. They have been with a very positive attitude, all executives and also our employees, our 32,000 employees in the front line, in the stores. And that has given, I would say, Éxito a very close position and follow-up with the Colombian population, with the needed population, with the children of the country. And with that, giving the best protection to employees and customers. We have learned from others have done in other countries, in China, in Europe. We advanced to take those solutions first into the market, and we have been trying to be a pioneer in everything that our customers and employees need in this very difficult but important moment of their lives.

Mauricio Paz: Thank you for your answers and I wish you the best going forward in these very exceptional times.

Ruy Souza: Thank you, Mauricio.

María Fernanda Moreno: Next question comes from Ben Theurer from Barclays. Ben, please activate your mic to raise your question.

Benjamin Theurer: Good morning. Can you hear me?

María Fernanda Moreno: Yes.

Benjamin Theurer: Thank you very much and thanks for all the detailed disclosures. So actually, the first question I had was just asked, so I'm going to skip that one. Now on a follow-up to that, so you gave a very nice detail on different regions with the impact. Could you elaborate a little more on the dynamics in between traffic and ticket, particularly throughout April?

And then second, how do you think the current situation is going to shape and change the consumer post-Covid within Colombia, Uruguay and Argentina towards a more use of omni-channel? So just to understand where you think the consumer is heading to and how consumer experience currently is with all the omni-channel platforms you're offering. Thank you.

Carlos Mario Giraldo: Not easy to answer your questions because nobody has the magical stick to look in the future. But what I would advance is the following: first, we saw it from international conferences and from very clear people in the knowledge of modern retail of what they are seeing today in other countries and in Colombia. We are keeping the number of customers. We are not losing customers, but we are losing frequency of customers. That is -- and we are gaining some customers that were not before in our formats. That is that the same person will not make three visits or four visits a week but will make one or two. But when he comes into the store, he tends to buy much more and to profit the visit. Customers are preferring those formats that give them comfort, security and assurance that they will be protected and that the employees are being very well protected.

There's a big, big question in the world, both online and offline, about the formats and brands that are not taking care of their employees, which I think is the worst thing you can do today.

I think that if you take care of your employees, you take care of your customer, and your customer takes care of your business.

What we are seeing also is that, of course, there's a big trend towards fresh products, fruit, vegetables, meat, grains, things that can also -- that there's a substitution of restaurant food through the retailers and that people want to have prepared or near-to-prepared food in order to finish the preparation at their homes, that we are having a very interesting cross sale, which I think is going to be more important in the future, between food and non-food in our hypermarkets. That is, if a customer goes to find the food, we believe it is going to be inclined also to find non-food solutions within your store in order to get them in one visit.

And the other thing that we are seeing is the customer is very much concerned for sustainability, for protection of employees, for their own protection and to see that the company is really interested in their welfare. We're seeing an opportunity for relational marketing, for the use of big data in which, of course, we have an edge in the country. And we are seeing that the same customer will buy in different moments online and offline, depending on the need that he has, and that a service like the drive-in is a very interesting crossroads between online and offline to answer to current trends.

People are going to look for goods to serve their homes, to develop their homes into kind of office work but also gym work. And we have seen a surge of that. We have seen a surge of looking for solutions, for individual and electrical transportation within other trends in this company. And we have seen also a very important increase in our own brands, in our private brands, especially on those brands that are good or better, that is, very good quality-owned brands.

I would say that as much at this point, but what will come, nobody knows, what I really got from specialists in other countries, what they are seeing is that there's a very important increase in a full-purchase visit from the customer. Once he gets into the store, once he gets into the shopping mall, once he goes through the protocols and through the strictest protocols, he tends to remain there and to do a full purchase. And this is increased by the fact that there are restrictions in the different provinces and cities, which do not permit every person to go every day into the store. But people are finding that more than to go to some stores to get two, three or four items, it is a good business and a good thing to balance life, work, health and food needs to go and do a complete purchase when he goes to do it.

Benjamin Theurer: Ok. Perfect. Thank you very much for the detailed explanation. That's all on my side. Thank you very much. Stay safe.

María Fernanda Moreno: Thank you, Ben. The next question comes from Joseph Giordano, from JP Morgan. Joseph, please open your mic to raise your question.

Joseph Giordano: Hi. Good morning everyone. Thanks for taking my question. I have a few ones. So the first one, I think, is for Ruy. So looking at the capital structure of the company, it's somewhat, let's say, inefficient from a tax perspective. So I'd like to understand how

should we see leverage going forward and if we should expect like incremental dividends, like we saw in Q1.

The second question, I think it's more like for Carlos. So thinking on the store format and then the Capex plan, so I'd like to understand what -- how do you see the outlook for Cash & Carry in Colombia? So how has the business been evolving? And what are the plans here?

And lastly, like you guys touched upon several initiatives on e-commerce as well as the huge development that we saw in the past month. So probably like we fast forward maybe five years of the strategy into like a few weeks. So here, I'd like to understand how do you see that changing, the expansion plans for the company and also the store formats. Thank you.

Ruy Souza: Thank you. I'll start with the answer regarding the capital structure and our leverage for the upcoming quarters. In terms of capital structure, we believe that with this credit that we just took and the operating performance projected for the year, we are so far with a level -- with an adequate level to cope with our obligations. We do not foresee any major change in our capital structure looking forward.

About our leverage, I can answer almost in the same way. We're expecting leverage in terms of gross debt not more than one time Ebitda by the end of the year, which is a very good level for leverage in terms of gross debt. And in terms of net debt, still a positive leverage by the end of the year. So I can answer that with the decisions we took with the operating performance we are projecting, I believe we have the adequate level of gross debt and with a healthy level of leverage. And then we do not foresee any major change in our capital structure.

Carlos Mario Giraldo: I will go to the second question, and I will capture some insights I heard before. Today, things happened in one day that we saw happening in one week, and in 1Q that we saw happening in two weeks. And that has been the reality for us. I mean, for example, our management team meets every day, every day for two hours, making a follow-up, including Saturdays now. We're going to meet only five days a week. But it has been incredible, the velocity to make decisions and to put things to happen in the ground and in the stores. And that included, for example, that we are making a strategic planning as we speak, in May. Something we never did in May, we started to do in August or in September. So things are changing. But agility is happening today as a natural thing.

One of the things that we thought rapidly was Capex. We said, "Okay, we have COP 400,000 million in Capex. What should we do?" So we decided first to delay part of the Capex because we want to remain in a very strong cash position. I think that today, cash is key and that we should have that cash position assured. But that doesn't mean that we are not going to continue with the formats that have been very successful. We will at least do two WOW stores, one or two Fresh Markets and at least four Cash & Carrys within others, and some reforms in Super Inter and Surtimax that are giving very good results.

But in this moment, we have to do one thing, and it is to give a priority to what needs to have a priority. And today, the priority is to serve our customers in the omni-channelity, and we

are not serving them as we should. I mean, we still are having requests from 2% - 3% of our customers from food deliveries and a higher percent from non-food, and that has to go down. And we have to be the best in service levels. So we are going to invest in that, in technology, in logistics, in people, in dark stores, in our relationship with Rappi, our partner, etcetera. So that's the big, big, big priority that we are having today, and that has to happen very rapidly.

And the second thing that we are doing is that we are delaying some WOW, some Fresh, some Cash & Carry, but they will be done. However, we want to understand what the customer wants of a new WOW, of a new Fresh, because there are going to be new requirements from the customer, and we want to introduce that back in the current WOWs and Fresh Markets. We want to take with our suppliers that are ready to invest, because they want to invest with us some of the winning proposals, product and category proposals in WOW and Fresh products into other stores with a low Capex requirement from our part, but that will be happening this year. So we are not stopping. We are continuing, but also we want to understand very well the requirements of the store of the future and how we can leverage our physical stores with our growing online service.

María Fernanda Moreno: Joseph, do you have further questions?

Joseph Giordano: The last one -- no, that's it. Thank you.

María Fernanda Moreno: Okay, thanks. So now we have Richard Dolhun, from Westwood. Richard, please activate your mic to raise your question.

Richard Dolhun: Yes. Thank you very much for taking my questions. I had two on working capital and the gross profit margin change, but they were both answered. But I would like to ask a third question, please. In the question-and-answer, one of the statements that were made that we're seeing good trends in quality owned brands. Are you referring to private label here? And if you are, can you expand on private label trends and opportunities that you're seeing here in this current situation, please?

Carlos Mario Giraldo: I like that question. I'm going to speak for the moment for food and consumer goods' private labels. We are seeing a very important increase in their sale, but not only in the basic categories, but also in the categories that have some specialization. For example, the highest-growing private label today for us is Taeq, which is the private label that goes all across in the healthy segments. So people want assurance of good products in healthy categories. That is something that is going to increase a lot, and that's what we are seeing to date.

Having said that, there's a second trend that we are also including a lot, and it is a trend towards local and towards regional. And I think that you see it in the U.S., you see it in Europe and you're seeing it in Colombia. People want to buy Colombian, to think Colombian, to walk Colombian, because many of the suppliers know that it's going to be key also for their sustainability. We just started some days ago a huge campaign about buying Colombia, thinking Colombia, supporting Colombians. And Éxito is in a very good position because in the past, we took the decision to buy Colombian, even our textiles, through our textile

manufacturers, and most of our food, we're at a level of near to 95% of buying local. And we are seeing that that's also a very important trend, not only buying Colombia, but buying local in each of the regions. And the support that we are giving our suppliers through this advanced working capital is going to help us a lot in creating those bonds to be able to buy very strongly the Colombian products.

Richard Dolhun: And can you quantify what the private label or your own brand sales are, as a percentage of overall sales? Is there a target for that? Or is this just being opportunistic with what you're seeing here now with people looking more locally and nutritionally with Covid? Or can you expand on that a little bit, please?

Carlos Mario Giraldo: Yes. As a total, in food private labels, our private label accounts for the group level near to 17% of total sales. It differs by format. Carulla will be lower, 8% - 9%, Éxito at the average level, and Surtimax, Super Inter, between 28% - 30%. But at this very moment, it's increasing as a percentage of sales. Still difficult to know the figure. But we're going to pursue, specialized private labels, because we think that's an important trend. And to get into new categories of healthy segments, for example, is going to be key. I cannot give you a figure of where we think it's going to end the year. And as we speak, we are working in the planification to promote that much more.

Richard Dolhun: Thank you. And my last question, what is your share of Colombian basic food and packaged good sales in the country? And how has that been trending, please?

Carlos Mario Giraldo: We do not give that information until now. But what I would say is that our share, if we exclude the traditional channel, that is the mom-and-pops, and we include only the modern stores, including the discounters that are measured, it is something around 40%.

Richard Dolhun: Thank you very much, and congratulations on a good quarter. And stay safe.

Carlos Mario Giraldo: Thank you very much for your questions and comments.

María Fernanda Moreno: Thank you, Richard. We have now Felipe Oliveira, from Oceana. Please go ahead.

Felipe Oliveira: Yes. So my question was pretty much answered. Could you just -- maybe I can just make a follow-up. Do you guys could quantify the impacts of the higher credit provision in the first quarter? And when we look for the second quarter, one thing that is not clear for me is -- I understood you mentioned that it's being better than expected or at least at safe levels. But compared to the provision size of the first quarter, should we see a higher provision in the second quarter?

Carlos Mario Giraldo: I will begin, and then Ruy can complement me. In the first quarter, what we did is that we had no royalties and no profits from the credit card. We reinforced the economics of the credit card. So that was the impact in the business, that we had no royalties when last year we had a very normal flux of royalties into our results. And we've done the

adequate provisions in March, and we're doing them in April. And the rest is to be seen. But as I told you, the delinquency rates at this very moment are better than expected and under control. That is not to say that we will not face additional problems. But here you have to see, in this business, three things: first, solvency, and it's great; second, liquidity. We've seen a flight to quality. So we've taken a lot of people bringing the money into TUYA. And third, non-performing loans, and they are better than expected and under control.

Felipe Oliveira: Yes. No, that's very clear. And looking at the sales figure overall, I see you guys look very confident on the second quarter, with all the net impacts. What I understand is that food is performing as good as it was, and non-food is improving, right?

Carlos Mario Giraldo: Yes. We have challenges with non-food. All the world is going to have challenges with non-food, not only specialized, but general formats like our hypermarkets. I think that people, when they visit the hypermarket, they are going to have a trend to buy their non-food as they make the visits. Especially when we have formats, as noted, as Éxito WOW hypermarkets, which have a very good offer of non-food, specialized in electronics, specialized in textiles and a very good complementary offer in home products.

Felipe Oliveira: Yes. Very clear. Thanks, Carlos Mario. Thanks, Maria Fernanda.

María Fernanda Moreno: Thanks, Felipe. Next question comes from Carlos Corredor.

Carlos Corredor: Hello. Good morning and thank you for the opportunity. First of all, thank you again for the time, and congratulations on a strong quarter. So I'm really glad to see that the strategy, the omni-channel strategy that Éxito has, along with the digital transformation such as implementing kiosks, digital catalogs, e-commerce, Cash & Carry, they have really shown a positive impact and strong sales results, not only prior to the pandemic, but even during the Covid-19 crisis. We are seeing similar trends worldwide, not only in Latin America, but as well in Europe, Asia and in the U.S. So my question, I think that it was already answered before, so just following up again on the question. Thinking about expansion, are there any additional plans for 2020 to increase the footprint of WOW, Fresh Market and Cash & Carry locations, not only in Colombia but also in Argentina and Uruguay? Thank you.

Carlos Mario Giraldo: That's a good question, and my answer is, strategy means to choose and to sacrifice. At this very moment, we are going to sacrifice some of the WOW, Fresh conversions that we have and Cash & Carry. We're going to do some because we want to continue in that innovation mode and probably have a bit much stronger deployment next year.

But we believe that at this very moment, there's a low fruit to be caught in omni-channelity, and you have to be the best because the best will take it out. And so I think that we have to - it's presumptuous to say it. But it would take a very important slice of the pie, and we have to play that game.

But as we don't want to keep innovating on WOW and Fresh, what we decided is that teaming with our suppliers, we're going to take the best propositions of innovation in WOW and Fresh

into other stores with a co-investment of our suppliers and our own, that is to see in cosmetics, in pet food, in imported liquors, for example, where our suppliers are very, very prepared to invest. As they have lost a lot of liquor sales in other channels, like restaurants, in cafeterias, they are looking at Éxito as a huge opportunity.

Other important textile brands are looking at Éxito as a very important opportunity to deploy their innovation. So we are going to try to become a destination for innovation with partnership with other parts.

And in Cash & Carry, for the moment, we're going to do four Cash & Carry. But the other is to reinforce the position of the ones that we already have, to reinforce the relationships with our mom-and-pops, which is very strong today, and the comeback of restaurants and cafeterias who are going to need a lot of support, and our Cash & Carry is going to be a great alternative.

Carlos Corredor: Okay. Thank you very much. I appreciate your answer.

María Fernanda Moreno: Thank you, Carlos. Next question comes from Jorge Sánchez. Please raise your question.

Jorge Sánchez: Yes. My question is -- it is short. My question is about what about the plastic policy and recycling? Before the Covid, everybody was talking about the plastic. The plastic was the enemy. But before the Covid, we had to use everything in plastic, and gloves and everything. So the plastic transformed in a good material. The question is what about the policy of plastic sustainability for circular economy in Éxito?

Carlos Mario Giraldo: That's a great question, and that's an issue we're going through. First of all, we are the big recyclers in Colombia, not only plastic, but carton. We recycled 23,000 tons, the first recycling company in Colombia, and that goes to the foundation, what we get out of this recycling. We are starting to recycle, for example, PET materials, and that's going to continue. And as of plastic bags, one-use plastic bags within the stores, in the short run, we have had to increase their use because of protection, for example, in fruit, vegetables and fresh bread. But we will continue with our purpose on circular economy and looking forward together with our suppliers, with new materials that can serve the double purpose of being good for the environment and being good for the health protection of our customers.

Jorge Sánchez: Thank you for your answer and best regards.

María Fernanda Moreno: Thank you, Jorge, for your question. There are no further questions at this time. I will now turn the call to Mr. Carlos Mario Giraldo for the closing remarks.

Carlos Mario Giraldo: First of all, I want to excuse myself and my team for such a long conference. Our conference is normally only one hour. But obviously, there were a lot of questions. I know everybody is going through challenging times, and we want to understand what's happening. And nobody has the crystal magic ball, but I think we are working towards a better society, and we have to reinforce that.

I would start with one sentence, and it is "there's always light after the night." And I think that we have to look at that light and those people that can be delivering that light. And we have tried to deliver some light even within the night, especially to the most vulnerable people, and clearly to protect our employees.

Most companies will suffer from the Covid. That's clear. For Éxito, it is a clear mid- and long-term opportunity. Because as a company, given our structure and what we have done and what we represent, we have comparative advantages. The first is a very important food business mix in all geographies. What the food business has shown in this crisis is that it is resilient and something that normally you don't ask yourselves, but that the human being always has to eat and to have health solutions. And those are two things that you do online, offline or a combination of both. But you will always have to serve food and medicines to people. And that's a very important thing that we should not forget looking forward.

The second is that we have e-commerce and food delivery leadership, both in Colombia and Uruguay, and we want to reinforce it and to create a very high standard of service to our customers. That's our obsession today.

We have a clear innovation footprint that won't stop. It will continue in other forms, and we want to discover what the store of the future is going to look like and to be the first ones to propose it in Colombia, in Uruguay and in Argentina. And that corporate reputation is very much challenged today but will continue to be very important in the purchase decision, and we are working for that credibility and for that confidence. Confidence is going to be very important in the tree of decisions from the consumer as it is being today.

And finally, that having a strong capital structure is very important for the moment, but we want to keep it in order to be able to take rapid decisions in expansion and in reinforcing those things that will become important for the future.

I want to thank you all very much for this conference, for your questions. Your questions are always very good and they help us to think looking forward and the strategic and tactical decisions that the company has to take. Thanks a lot, and see you in the next conference.

María Fernanda Moreno: Thanks to all. This concludes today's conference. Thank you for participating.