

Grupo Éxito - 2Q23 Results Conference Call Transcription

Aug 1, 2023

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

We highlight that the information contained in this presentation and any statements to be made during the call regarding Éxito's business outlook, projections and operating and financial targets, are the Company's management beliefs and assumptions. Forward-looking statements are not guarantees of performance; they involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, market conditions and other operating factors may affect Éxito's future performance and lead to results that differ materially from those expressed in such forward-looking statements.

- At this time, all participants have been placed on mute to prevent any background noise.
- I'm pleased to present our CEO - Mr. Carlos Mario Giraldo and CFO - Mrs. Ivonne Windmueller
- Please, move to slide #3 to see the agenda. We will cover Grupo Éxito's, DR listing process, 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 Maria. I want to welcome to all of you to this report of our Second quarter results. If we go to **slide #5**, I want to make a reminder of the Éxito listing process and the Éxito spin-off from GPA.

As a reminder, this means that distribution of GPA six percent shares all of the near to ninety seven percent share that it has in Éxito distributing to their shareholders to ADRs and BDRs. and increasing the float of Éxito to near fifty three percent and shareholder base by near to fifty thousand shareholders, this would drive, a potential unblocking of Éxito share value. The listing update is as follows: The BDR and ADR filings are already approved by the regulations in Brazil and the US.

We are pending the approval by the colombian regulator and registration in Deceval - the central Securities deposit in Colombia.

The transaction completion forecast would be by the second half of the month of August according with the calculations that we have been able to make.

If we go to **slide #7** I will come back to our ESG initiatives development, these are the main highlights.

always we make the big focus in children nutrition, we got during this first half to near to sixty thousand complementary packages for children complementing the work that the Instituto de Bienestar familiar does in Colombia.

We impulse the “terrazas verdes” which are hydroponic solutions that are being placed in popular neighborhoods in the house and benefiting women led households, Éxito is making the complete commercialization. These are being made in places like “comuna 13” in Medellín or Siloé in Cali, not only by Exito but by other institutions and always these products are being sold at Éxito stores.

We had for the moment 9.5 thousand tons of recollection of recycling in our stores.

42% of our leadership positions are led by female and 92% of the fresh products that Éxito sales are locally source, of them 85% bought directly.

I would like you to see that we are putting a link of a dem in alliance with Google to promote small farmers giving them technological resources to improve productivity. This is being done in the Region of Urabá and Santander for the moment.

Going to **slide #9**, we go to our financial and operational highlights for the second quarter.

I would say we had a double-digit growth, in comparable basis in the consolidated comparable sales of 12.4% which is equal to high single digit consolidated, 8.5% growth in Net Revenue for this the second quarter.

Recurring EBITDA grew by 6.6% with a 7.7% margin, better than the margin that we had in the first quarter with very important Gross margin expansion and despite the expense pressure that we are receiving out of salaries, utilities, occupation costs as most retailers and many companies are receiving not only in Colombia but in many other countries.

Our net result was slightly negative for the quarter given the high interest rates in Colombia, the credit card provisions of Tuya and our spin-ff expenses concentrated in the last two quarters. Our free cash flow, came to COP\$92 M. We registered a high historic Omnichannel share in Colombia of 12.7% driven by food home delivery.

Our real estate consistent contribution continues to be a reality this quarter growing in the consolidated results by 17.8% impulse by real state in Colombia, but also the real state galleries in Argentina.

I would like to read what we can see there about corporate government to be very precise. “On June 26th, Casino Group stated that it’s working on a non-core asset disposal plan and later mentioned that “GPA and Éxito are assets that may be sold as part of the Group's three-year plan for sale of assets, and that on this date, there are no milestones and no sale process ongoing for GPA. The only active project at the moment involving these two companies is the segregation of Éxito’s and GPA’s businesses.”

I wanted to read this because, of course, what we have been communicating about this is everything that has been done through relevant public communication to the market.

Going to **slide #11** we speak about the top line in the three countries and the consolidated sales. In Colombia we had revenues growing by 4.2% in comparable basis, our sales are growing at 9.0% and this is comparable because in the basis we have a non-VAT very strong day with a Net 5.4% impact. This full Impact is in Éxito format which is the format that carries the products of non-food which are normal in the non-VAT days.

It is important to make clear that non-VAT days are eliminated now from Colombia and in this first we had the last two in the base. So no longer we are going to have the effect of the non-VAT days in the base.

Carulla had a 15.4% increase in sales out of the premium market low elasticity to inflation and the contribution of the ten-minute delivery strong project that we have on going. Our Surtimayorista cash carry had a growth of 13.6% mainly out of the expansion. It is important to note, and this is very important that through an effort that we have done to contribute to the Colombian consumer, our internal food inflation was 4.4 p.p. lower than the National CPI. This is very important because it's an effort of productivity, of negotiation with our suppliers without impacting our gross margin but impacting very favorable the wellbeing of our consumers.

In Uruguay, we had strong sales, growing 13.5% in local currency. 5.9 points above inflation and with Fresh market Disco and Devoto stores, being the big contributors with 58% share of the sales in Uruguay.

Argentina has revenue growing at 133%, against an inflation of around 120%. Our performance is much better than the market, however, giving the exchange rate this makes less Colombian pesos of 3.7% reduction in Colombia in pesos. The important thing is that the local sales continue to be very strong and very healthy with an important contribution from the cash carry which now arrives to a share of near 14% of sales in Argentina.

Consolidated sales for Grupo Éxito for the quarter had an increase of 8.2% in the second quarter, which is a comparable increase in sales of 12.3%, complementary revenue had an important contribution with an increase of 16.6% driven by real state.

Going to **slide #12**, I want to remind the important contribution that the innovation formats have had in the results not only in sales but in profitability of the Group.

It really is a big driver of growth and ROI. Today this innovation formats arrive to near to 42% of the sales of Éxito and Carulla and adding to that the Surtimayorista.

Éxito Wow now represents 35% of the Éxito brand sales, those stores with more than twenty-four months have a growth of 27% above the rest of the brand and the ROI of the conversations is above

67%.

The Carulla fresh market stores represent now sixty one percent of the sales of Carulla brand, those stores with more than 24 months of maturity have sales of 14.7% above the rest of the brand with an important ROI of 19.3%

Let me go to **slide #13** where I put together all those initiatives that Exito has to penetrate what we call that traditional market which is made mostly with the mom& pops in Colombia, which are more than 200 thousand in Colombia and still represent more than 33% of the total consumer goods market.

Here, I will start with cash carry Surtimayorista, this is a low-cost proposition going to end consumer and also professional consumer with the lowest cost point in operation of 10%, we now have 59 stores with 13 openings that has been done during the year, they represent 5.5% share in sales and IRO of 32% which is very good considering that it is a low-cost format.

We have Mii surti, our B2B app, one of the most important B2B apps en Colombia, which has been there for one and a half years and now represent sales of around \$7 million dollars, they are selling to around 17K active client's mom and pops, and it has a high potential growth avenue for the Organization.

Let me also make a special mention of our Aliados Program, our partnering with mom and pops and independent supermarkets. Now we have around 1.700 big size superetes or independent supermarkets. It is a cobranding proposition with Surtimax and Super Inter, sales year to date, account for nearly 25 million dollars and the focus that we have with this program is having more partners, but the most important is representing a higher percentage of their sales. This is a high potential also initiative for the Company, given that important proposition that we have for this mom and pops, but specially coming from our complementary businesses but also from our low cost, private brand, specially the Ekono private brand.

Let's go to **slide # 14** and we see the consistency in our Omnichannel, Omni customer differentiation initiative. It grew during the first of the year by 9.7% in sales, they account for a share of 12.5% of the total Colombian sales. In food the share is 11.3 %. Let me make here a point, this is one of the highest shares in all America of any retailer. We had 8.9K home deliveries during the first half and our food home deliveries in food sales increased by 26%.

It is interesting to note that we come from a 4.3% share during pandemic to current sustainable to the 12.5% share. This is a great alternative continues to be a great alternative to work our proximity without having to do and extensive investment en bricks.

The focus of our Omnichannel strategy is increasing our Market place for non-food. The click and collect service for food and non-food in our stores. Éxito and Carulla APP in the quick delivery or fast delivery service that we are doing in the main cities of Colombia.

Going to **slide #15** we speak about real estate. Real estate has a solid reality and potential. Viva Malls, our alliance with Fondo Inmobiliario Colombia where we hold 51%, is the first shopping Mall operator in the country with near to 35% Market share in GLA.

Total real state Viva Malls plus real estate that we operate accounts to 771 thousand square meters with one of the highest occupancy rates of 97% and with revenue growth of 21.7%.

We are in the development of the introduction of the Ikea store to the metropolitan area of Medellin in Viva Envigado adding 54.3 K square meters. Viva Mall, 100% has a value at current exchange rate of around 750.000 million dollars, according with the recent valuation

Slide #16. We speak about a new Project that was announced recently to the market and the Colombian Public. It is going to be placed in Cartagena, which is now probably after Bogotá the most dynamic place in sell of Real Estate in Colombia. This project will be to the outskirts of Cartagena in the route to Barranquilla, in the residential touristic development, it is number one in Colombia and this Project of Viva Cartagena will be under current planification opening in some moments of 2026. This is in alliance between Viva Malls and the best designers, constructors of Colombia and the initial real estate shopping Mall development has an estimated área of 35 K square meters. This will complement very well the portfolio of products that Viva malls has in Colombia. In **slide #17** continuing with complementary businesses, I would say that they are a key part of our monetization model as you know, the Exito Credit card which is in alliance of 50/50% with Bancolombia has had a difficult year given Financial sector increase in delinquency and provisions. Provisions and coverage are better than legal requirements in a very orthodox management of the Company, we have a little above two million Credit cards and near to five billion loan portfolio keeping the AAA rating that we have had during the last years.

Puntos, Colombia, I always speak about Puntos Colombia because of the importance of this loyalty coalition leader also in alliance with Bancolombia putting together the customer base of both companies, it makes a lot of sense that #1 retail and #1 bank put together the customers. It is a great complementation of the issuance and redemption of points.

We also brought allies into this coalition, today we have around three hundred and eighty-seven allies which now are the partners that issue or redeem points, they pay for that and the redemption of this partners, now accounts to 33% of the total redemption.

Clearly this is the number one brand in Loyalty in Colombia, as measured by Kantar with a penetration of Puntos Colombia is near to one out of every three households in Colombia which is huge. Puntos Colombia is increasingly valuable for our customers.

Now, I give the word to Ivonne Windmueller to go through our Financial Performance and our International operations, and I will come later with some conclusions.

Ivonne Windmueller: Thank You, Carlos Mario, good morning and thank you for joining this morning.

I will be presenting the Financial Performance of the Company for the quarter and for the first half of the year. Let's continue to **slide #18** to review the operating performance by country where we see a top line growth and efficiencies across the three countries but still affected by the inflationary pressures in the costs and expenses.

In Colombia, as previously presented, Net revenues at \$3.7 billion Colombian Pesos with 4.2% growth boosted by Real Estate performance (+18.9% 2Q; +20.8% 1H) and sales growth thanks the performance of food (+8.7%), omnichannel (+5.8%) and the increased share of innovative formats (+1.4 p.p). A resilient top line performance despite non-VAT day effect in the base.

Gross margin at 22.7% with an improvement of 42 basis points and 6.2% growth, boosted by the real estate business despite price investment and inflationary effect in the cost of goods.

SG&A grew 13.3% and reached a rate of 19.2%, despite strong cost action plan (2Q~ XX MM; 1H ~85MM), reflecting inflationary pressures on wages and utilities and the increase from operational tax with an effect of around 38 bp in rate. (Effect from the tax reform passed on December 2022, tax went from being a 50% tax credit to fully deductible impacting P&L).

Colombian recurring EBITDA decreased 6.7% at \$270,215 million Colombian Pesos and 7.3% rate deteriorated in -86bps. The result reflects the positive contribution from real estate and other complementary businesses (+75pb) and the income from sale of real estate development project (+39pb) offset by sales performance due to a lower consumption, inflationary pressures in costs and expenses and higher operational taxes (2Q +14MM and 38bp; 1H +31MM and 39bp).

Uruguay with a top line that grew 34.2% in Colombian Pesos and 13.4% in local currency, around 6PP above local inflation, driven by the positive dynamics of the commercial activities; the contribution of the Fresh Market stores reaching a share of 58.2% of sales, and the performance of omnichannel (+7.7%).

Gross profit grew 39.9%, above revenues, and reached a rate of 35.6% improving 145pbs thanks to an improved consumption trend. SG&A grew below revenues and improved its rate due to internal cost efficiencies.

Recurring EBITDA at 118.553 million Colombian Pesos, grew 59.6% and improved its rate 180bps, reaching a margin of 11.3%. The Uruguayan operation continued as the most profitable business unit.

And finally, Argentina with Net Revenues in Colombian Pesos affected by FX effect, but in local currency with growth of 153%, around 32PP above inflation. Sales driven by a positive commercial trend; increased omnichannel share; the outstanding performance of the C&C format Minimayorista, and the Real Estate business contribution with solid occupancy levels.

Gross margin at 34.5% improved 63bps and grew 157% in local currency thanks to cost efficiencies. SG&A deteriorated 172bps impacted by inflationary pressures, partially mitigated by strict cost controls and efficiencies.

Recurring EBITDA grew 150.4% and reached 6.623 million Colombian Pesos with stability in margin.

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

The strong gross margin gains across the three countries and the focus on cost and expenses action plans led to a recurrent EBITDA growth of 6,6% in the quarter and 7,8% in the first half.

First half with double digit top line growth of 13,5%, a solid growth thanks to the commercial performance in Uruguay and Argentina and the positive contribution of Real Estate business in Colombia.

For Uruguay and Argentina, Recurrent EBITDA growth in local currency in the first half of 27,6% and 193,2% respectively, offsetting the Colombian operational outcome that was impacted by: i) strong base effect of two non-VAT days, one in each quarter and ii) a higher operational tax with an effect of 26 bp at consolidated level, but with a positive contribution of non-recurrent Real Estate income.

Recurring EBITDA for the first half at 782.676 million Colombian Pesos with 7,8% growth. On comparable bases, when excluding non-recurrent Real Estate income and the operational tax effect, EBITDA grew 12,1%.

Going to **slide #20**, the group share net result for the first half 2023 was \$38.934 million Colombian pesos and reflected the positive contribution of the operating performance coming both from the retail and real estate businesses, with a positive effect on income tax due to a lower differed tax by a higher tax loss.

The negative variations during the quarter as for the first half are coming from:

(First) The Net financial result due to higher interest rates increasing the cost of debt

(second) Higher minority interest coming from the improved performance in Uruguay and Real Estate business in Colombia with Viva Malls (EBITDA VM +18,9%)

(Third) Impacted result in the financial business Tuya due to higher provisions amidst non-performing loans deterioration across the financial sector

And (fourth) higher non-recurrent expenses related to the Depositary Receipts listing process.

Finally, on **slide #21**, regarding the cash and debt position of the company, we would like to highlight a last 12-month positive Free Cash Flow of \$92.000 million Colombian pesos.

Net financial debt with a negative variation of \$111 million Colombian pesos when excluding dividend payment because of higher investments, the pressure of the financial expenses reflecting higher repo rates and the low basis effect of year 2022 closing. Gross debt increased \$532.000 million Colombian pesos, from higher revolving credit lines in use for seasonal requirements.

As a conclusion a Solid Cash flow position of the Company, allowed the investments required to follow the growth strategy and to comply with payments to shareholders.

Summary Financials

Now, as a summary for the financial results, we had a Colombian perimeter with sales growth impacted by non-VAT base effect of around 5.4PP, mitigated by the positive performance of innovative formats, an omnichannel with food sales growth by double digit and the contribution of the Real Estate business.

SG&A with inflationary pressures and impact of higher operational tax.

Uruguay with sales performance above inflation and gross margin benefited by consumption trend and cost efficiencies with an EBITDA margin at double digit improving its level.

Argentina's sales, over 30 percentual points above local inflation, gross margin gains and control of expenses to mitigate inflationary pressures led to a stable EBITDA margin.

Consolidated net revenue for the semester grew at double digit and SG&A with pressures partially mitigated by the constant cost action plans and efficiencies, that lead to an EBITDA growth of 7,8%.

Net result with positive operational contribution offset by non-recurrent and one-off effects and a solid capital structure and cash generation to shareholders.

I now give the floor back to Carlos Mario for the conclusions.

Ivonne Windmueller 34:52. ¿Hello, everybody, do you hear us? We are here with a technical problem.

Carlos Giraldo 35:04 OK, thank you. So, let's continue.

Going to **slide #23** for the conclusions, the first one, we expect the spin-off completion by the third quarter with a value creation opportunity for shareholders.

- During the quarter, we registered strong sales in the three countries, in comparable basis
- Recurring EBITDA at consolidated level grew six-point six percent, with Gross margin expansion, an important job against the pressure that we had on expenses.
- Net Result driven by positive operational performance and income tax variations, compensated by credit card temporary effects and higher financial expenses.
- Cash Generation at ninety-two thousand million Colombian pesos from working capital evolution.

- Strong performance of Real estate in Colombia and Argentina

- Uruguay as the best performer during the quarter

I wanted to highlight the consistency in the performance of the innovation in formats, the profitability and growth of the Omnichannel strategy of the Company.

These were the main conclusions and now we open the **question and answers session**.

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

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

Nicolas Larrain – JPM: Hi good morning. Thank you, Carlos Mario, Ivonne, and María Fernanda for taking my question. The first one is Carlos if you can comment on how, you see trends in July specially in Colombia and Uruguay. What are you seeing over the last weeks and my second question goes into the debt position, we have seen Exito taking more debt over the past quarters and also discounting more receivables or doing more factoring, I want to understand what the motivation behind this and to understand what's going on about debt.

Carlos Mario Giraldo. OK Nicolás, thank you, let me refer to your first question and I hand the second one to Ivonne. Today I will speak about what we see in July and what we expect probably for the Second semester. We see that as you saw in the Second quarter in Colombia, the consumption has leaked out of Consumer Confidence, high interest rates, I would say consumer credit scoring tightening by most of financial institutions and volumes going down.

We believe that this is something that is going to go through at least during the following months and, of course, we are working a lot in maintaining our margins while maintaining an important contribution to the consumer, especially with our unbeatable portfolio of products and keeping the contribution that we are receiving specially from the real estate business. The interesting thing is that we see that formats like Carulla or the high end Exito have a lower elasticity to inflation and to this consumption trend and that is positive for the Company, and we see the e-commerce online omnichannel consumption trend continues to be very strong.

What opportunities do we see looking forward, the inflation in consumer goods is going down, it's going in a very rapid way coming down it came to have what it was in food since December and we think it would be in single digits very rapidly and that will stimulate consumption and Second that we expect that government subsidies will be activated soon, and they are especially important in the low end areas of consumption in the main cities of Colombia.

Ivonne Windmueller. Thank you, Nicolás for your question, regarding the higher debt we are saying higher non revolving Credit facility mainly for seasonal effects during the first Half and regarding the Factoring that you mention that we are increasing its important here to remind that during the last half of last year, we had an Impact on our factoring process coming from the electronic invoice and the Tax Office platform so we had lower balance of factoring, but when we compared the first half, twenty twenty three with the first half of twenty twenty two, we are aligned in factoring balance, we are just like recovering from the impact that we had during the second half in our factoring processes and transaction.

Carlos Mario Giraldo, Ivonne sorry, I didn't refer to Argentina and Uruguay. What I can say is both both continue to have very strong consumption trends as we saw during the first half of the year.

Nicolas Larrain – JPM: Perfect. Thank you, super clear.

Maria Fernanda Moreno: Thank you, Nicolas. you can rise your hands to ask questions or send them through the chat available at the bottom of the screen. The next question comes from Julian Ausique. Julian, please go ahead.

Julián Ausique- Davivienda: Hi everyone and thank you for taking my question. I have a few questions, the first one is regarding Tuya, the Financial Business. I would like to understand how much the provisions for the quarter were and I would like to understand about the capitalization that Tuya announced last 27 of July. Will Éxito participate in the capitalization? And in the cost of this capitalization. The second one is regarding the cash generation, to understand if it is enough for the capex that the company are planning for this year. Thank you for the time.

Carlos Mario Giraldo: Thank you Julian. I will refer to capex, we continue in a non-alter way with our capex plan, which was around between a hundred to a hundred twenty million dollars and we keep that scenario focusing on the opening of Surtimayorista stores, some Carulla stores conversions and investment in technology and logistics for our Omnichannel and then I handed to Ivonne for Tuya provisions.

Ivonne Windmueller: For Tuya I am not able to refer to the provisions, but as Carlos Mario mentioned during the presentation the provisions have increased because the portfolio has been deteriorated and this is a deterioration across the financial sector. As of the capitalization Tuya reviewed a couple of days ago, we as shareholders are participating in the capitalization. We are shareholders together with Bancolombia supporting the financial business Tuya during the cycle of macroeconomic across the financial sector e impacts.

Julián Ausique- Davivenda: And is it possible to know on how much Exito will participate in the amount.

Ivonne Windmueller: With the fifty percent of the capitalization.

Julián Ausique- Davivienda: OK.

Maria Fernanda Moreno: Thank you, Julian. If you have more questions, raise your hand and ask questions or send them through the chat available at the bottom of the screen.

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

Carlos Mario Giraldo: I would like to thank you all for the participation in the call. I would say that we are highly enthusiastic with all the Management team and with the Board for the historic moment that Éxito lives because of the spin-off process which is going to give a high liquidity to our share not only in the Colombian stock Exchange, but in the Brazilian and in the US stock exchange, with ADRs level two. This will permit to give visibility to the share and fundamentals of the Company and to accelerate growth in the future.

The Second thing is that we see consistency in our strategy and in our profitable growth through innovation through omnichannel penetration and the monetization of the traffic and the confidence that we have receiving from our customers.

We are addressing the main top end the market in a very efficient way, while finding alternatives to proximity through the omnichannel home delivery and low-cost market through Surtimayorista, our Mii surti app and aliados program.

This is a year of big tasks not only in top line dynamics in Colombia but also in margin protection and expense control strategy in which we are working in a very persistent way.

There are new beds coming from the traditional market penetration where Éxito has great assets, as its private brands and the alliance with Mom and pops plus the cash carry, the leadership in food e-commerce, which is more than half the market in Colombia, the marketplace increase through our technological platform, which is now have more than a thousand vendors and the real state, new projects, and data monetization.

I hope to see you for the results call in the Q3 where we hopefully have a new reality in our shareholder base.

Thank you very much.

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