

## **Grupo Éxito – 3Q24 Results Conference Call Transcription**

**Nov 13, 2024**

**Ivonne Windmuller:** Good morning, everyone, thanks for joining us today for Grupo Éxito's third quarter 2024 results. Please note that this conference is being recorded. At this time, all participants have been placed on mute to prevent any background noise.

It is my pleasure to introduce Mr. Carlos Calleja, CEO of Grupo Éxito; Mr. Carlos Mario Giraldo, General Manager for Colombia; and myself, Ivonne Windmuller, CFO and (IRO) Investor Relations Officer of Grupo Éxito.

Please move to slide number 2 to acknowledge the note on forward looking statements.

Turning to slide 3, we have the agenda. We will begin with remarks from our CEO, Mr. Carlos Calleja, followed by the status of our sustainability strategy, the review of the financial and operational highlights, as well as our financial performance for the third quarter and first nine months 2024. The call will end with key takeaways and a Q&A session. Thank you for your attention. I will now turn the call over to Mr. Carlos Calleja

**Carlos Calleja:** Thank you, Ivonne.

Good morning, everyone. It's a pleasure to greet you again, and I appreciate your interest in this presentation of Grupo Éxito's third-quarter results. As in our previous calls, I want to update you on our progress and the results we are seeing.

The past three months have been intense but productive. We are working on multiple fronts to move from a transition phase to a transformation phase, within the company. Our transformation objectives include refining our company strategy, as we mention in the past, organizational structure, and company culture.

We continue to implement our commercial strategy to increase top-line sales in same-store meters, focusing on two main areas: improving our store layouts and product range, while implementing a differentiated and efficient value proposition for customers through an extraordinary in-store experience. At the same time, we are offering important savings through dynamic and continuous promotions and lower prices. We are actively working strategically with our suppliers who are supporting us in these initiatives. Our goal is to enhance our customers' lives with an aspirational value proposition at a great price.

We are also pursuing cost reduction initiatives, aimed at increasing store profitability per square meter, by implementing a more agile and efficient structure alongside the right

processes. This work is being done not only at the operational level but also at the corporate level, where we continue to simplify our structure and streamline processes to become a more agile and lean company.

Thanks to the commitment and effort of our teams and suppliers, this quarter has yielded the best results of the year, so far. That said, these results are not where we want them to be, but they do mark the beginning of a gradual and consistent improvement, that we are working tirelessly on.

Carlos Mario and Ivonne will provide more details on our various initiatives, but I want to highlight some key efforts underway in Colombia. Remember, our operations in Colombia account for 75% of Grupo Éxito's activities. Our retail brands have gained 1.2 percentage points of market share in the same meters during the third quarter of 2024, and recently, this is important to note, we have seen multiple weeks with market share growth in total meters, a first since the aggressive expansion of discount players in Colombia began.

First the basics: We are committed to upgrading all our stores to a level of service we can be proud of. This year and next, we will focus on investments in maintenance, lighting, and refrigeration equipment, etcetera. All work done on this front will contribute to a better experience and improved service for our customers.

We are gradually unifying the brands under Éxito and Carulla, with 24 stores converted so far and around 30 expected by year-end. Carulla will be our supermarket format, and Éxito will be our hypermarket format, offering both food and non-food categories. We are on route to simplify our brand architecture and focused on developing these two main formats towards maximum efficiency, maximum productivity, and maximum profitability at the store level.

Our goal is to create a replicable model, like Grupo Calleja's operation in El Salvador, which has been a great success for us, allowing us to expand easily and profitably in the future. There is significant potential for growth, especially in Colombia and Argentina, while Uruguay already holds a leadership position in this supermarket format.

We have successfully implemented Grupo Calleja's model of high and low promotional activations throughout each month. This strategy has allowed us to achieve higher market penetration with fewer promoted SKUs, SKUs on sale, and we expect further improvements over time.

We renewed the thematic day promotions around our fresh categories: Farmland Tuesdays, Fresh Meat Wednesdays, and Celebration Fridays, offering special discounts on fruits and vegetables, meats, and liquors. These initiatives have been well-received by our customers. We also renewed and strengthened our Unbeatable Price portfolio, "Los Insuperables", providing a savings and relief alternative for Colombians when they most need it. This portfolio includes over 1,000 own-brand products as well as leading national brands and has seen a 14.3% growth in sales.

All these programs work well and have the potential for further success. While positioning takes time, all indicators suggest we are on the right track.

Regarding the results of the quarter, I would like to highlight a few things. We are seeing a recovery in food sales in Colombia, Uruguay, and in Argentina. We hope that with greater savings and a broader assortment for our customers, we will continue this path of recovery.

The real estate business remains a significant growth driver for Grupo Éxito in the region. Viva Envigado, the largest shopping center in Colombia, has seen great success, especially after the opening of Ikea which has been a game changer for that mall, I was there that day, we inaugurated Ikea in Envigado and it was extraordinary, it was something really incredible, a traffic that I don't think we have ever seen.

Our operations in Uruguay continue to drive results due to successful commercial activities and growth in the non-food category. The remodel and rebranding of our Geant hypermarket have yielded excellent growth, I was also in Uruguay recently and was very impressed with what the team has done with the hypermarket format. Argentina remains a resilient operation, with sales growing 79% in local currency despite challenging macroeconomic conditions. That said, there significant challenges in terms of consumers, and we 100% focused on navigating the economic climate the best way possible.

At Grupo Calleja, we are committed to a transformation that ensures the company's sustainability for the next 50 to 100 years. We will continue to advance initiatives that support this goal in the short, medium, and long term. Culturally, we are working to transform into a less corporate, more entrepreneurial, agile, and lean company, where everyone, at Grupo Éxito, adopts an ownership mentality. In our company we like to say, "we must take care of each penny, and in doing so the dollars will take care of themselves".

With that, I will hand it over to Carlos Mario and Ivonne to provide more details about the financial results of this third quarter.

**Carlos Mario Giraldo:** Thank you, Carlos, and welcome all to the to this meeting and to this call. Let us move to slide number six, where we speak about our consistent sustainability strategy and initiatives directed to benefit customers, suppliers, our societies in which we work and the planet in general. Starting with nutrition and our goal for 0 malnutrition in Colombia. This year until September, we have reached around 50,000 children benefited with our package of food that is near to 20% of the Colombian municipalities. 13,000 tons of carton and plastics have been recycled and making us the main recycling company in the country and the resources of this carton are all going to foster the nutrition of children. We continue to be the main purchaser of fresh products, fruit, vegetables and meat, around 88% of these purchases are done directly to producers at the local level and in textiles, our local purchasing of 93% of the garments, that we sell, are not only a big benefit to more than 250 small companies all around Colombia, but also a clear competitive advantage given the taxes that the government have today in Colombia. Obviously, this is not a short-term strategy, but a long term competitive advantage.

Let us go to slide #8, where we speak about the main highlights, the main financial highlights at the consolidated level. Consolidated top line revenues were up by 2.2% in Colombian pesos and 6.6% if we exclude the FX impact. We had growth in all the territories with Colombia

growing 2.5% Uruguay 5% and Argentina 79%. Our EBITDA result was the best, year to date, the best quarter, with recurrent EBITDA growing by 4.1% and 8.7% if we exclude the FX impact. This compares against a year-to-date EBITDA result decreasing 11.3%. Net loss was 34,733 million. The drivers for this net loss were the main one, restructuring costs; We are having important restructuring cost in a reduction of the headcount mainly at the corporate level and also in the closing of non-profitable, non-viable stores, we look at that very carefully, because we do not like to close stores and we do it only when we see that they are non-viable in the future.

Here, these restructuring costs were around 32,000 million, being the main driver of the net loss, financial expenses also, but they are reducing versus various previous quarters. Tuya had negative impact, but at the same time in the last three months, we saw a gradual recovery in the Tuya credit card business and the Argentina operation and especially the effects impact that it has in Colombian pesos.

During the last 12 months, we have opened 51 stores, and I would say that Luz Maria Ferrer finally, this is an important part of our message, was named as new Commercial Vice President, she is a great woman leader within the company with 19 years of expertise.

If we go to slide #10. We speak about the top line performance and in top line performance, as I said before, this was the best quarter with a 2.2% increase in revenues and 6.26 excluding FX impact. Going to Colombia, sales in Colombia increased by 2.5% best increase in the year, with food increasing 3% and driving growth, this compares against food inflation in Colombia of 2.73%. Non-food increased by 1.2%, and this is important because this non-food shows recovery not only in Exito, but it gives a hint of the gradual recovery in consumption in Colombia.

At our retail national sales and this is all Colombia retail, had decreased to August measured by Nielsen of 2.2%. So, our growth compares favorably against the Nielsen measurement, and this reflects what Carlos was telling you previously and it is, this is a net gain in market share in the quarter, both in total sales and especially in same store sales.

Finally, it's important to say that at Exito our food inflation is 90 percentage points. Excuse me, 0.9 percentage points below the national food inflation of 2.73%, this reflects the effort, the conscious effort the company is doing to give savings to our customers and give the best savings proposal in the market. In Uruguay, our sales grew by 5%, driven by the Fresh Market format, which grew 50 basis points above the rest of the stores. In Argentina, our sales grew by 79%, that is below inflation, affected by the macroeconomic necessary decisions that are being taken at the local level by the government.

Let's go to slide #11 and I want to make a lot of emphasis in the following three slides because they reflect the strategic focus in Colombia of our initiatives today as they have been summarized by Carlos Calleja. Let's speak first about in Slide 11 that we are concentrating our brands, our formats, gradually around Exito and Carulla they are, no surprised, the best performers of our brands and they make around 86% of our total sales here we are working in best product assortment, in innovation and in promoting customer experience.

1st The gradual brand unification to Exito and Carulla, so long 24 stores of Surtimax, Superinter and Surtimayorista have been transformed to Exito and Carulla brands, and we will end this year with approximately 30 stores. These stores, these 24 stores as a whole have been growing

by 12.7%. That is clearly above the average of 2.5% growth that we had for the total Colombian business unit, which shows the initial benefit of these conversions. This is a three-year plan where we will approximately be converting around 150 stores.

2nd initiative is our assortment, to enrich our assortment. This is a great opportunity as competitors, both traditional competitors and clearly discounters, restrict their offer and focus their offer. We are doing a full shopping experience destination with a wide assortment for our customers. Of course, Exploring the best products in the market and the expectations of our customers. In average, we have introduced into our stores around 2,100 SKUs, that is enriching the assortment by approximately 30%, so long 4.6% of the sales of the stores receiving this new assortment are represented in the new products that have been introduced.

We continue with our innovation around the Wow Exito hypermarkets and Carulla Fresh Market stores with consistency, we have, We are doing, taking the best initiatives of the WOW and the fresh markets to some of the stores this year, 8 Carullas and eight Exitos are going to receive the best and most profitable and better perceived initiatives by our customers, so long we have done 8 Carullas and by the end of the year we will complete the 8 Exitos as well.

Going to slide #12. We continue with the strategy and there's a part of the strategy, of the commercial strategy that is centered in providing savings to our customers and these are extended to all the banners, not only to Exito and to Carulla, but to all the organization banners in Colombia. This commitment strongly reflects also the expertise that we have seen and proven during many years in Super Selectos in El Salvador, starting with the high and low, a strong high and low focus on SKU's that are very important for our customers, especially concentrated in the payday weekends which are key for consumption in our country.

The second part are some thematic days, those are days that in the mind of our customers are always going to represent special discounts in specific categories. Tuesday, for example, is concentrated around fruit and vegetables and they receive a special discount for all the customers in all the brands during Tuesdays, so long since we launched this initiative, it has been growing by 16%. Wednesdays, we recently launched an initiative in which some specific meat products, which are big traffic drivers, will receive all Wednesdays discounts for our customers, this has been probably the best received initiative and it is growing by 39%, and in Fridays we call them celebration Fridays, which was traditional in Carulla, now taken to all our brands and so long it has been growing by 33%.

Finally, I want to mention something which is a consistent initiative since almost seven years, which are our unbeatable price products. These were concentrated originally in Exito, now they are being taken to all the brands, they were originally only food private brands, now they include around half of products from national leading brands in an effort that our suppliers are also doing and also, we are including some non-food products of textiles and electronics. As a whole, the Unbeatable prices products are around 1000, Half of them private brand and the others to national brands. As a whole, they are going by 14% and the best growing SKUs are those that have been introduced by our suppliers with the leading brands that all our customers love.

Turning to slide #13, we spoke in the previous two slides of the strategy, the commercial strategy, the brand strategy. Here we speak about the cost expense initiatives and process optimization driving to a leaner organization, as of today we have a strong control, and we will continue having it in SG&A despite the high inflation in Colombia. While inflation in Colombia accumulated to September is 5.81%, our year-to-date expenses are growing by 2.2% and the third quarter expenses decreased by 1.8% and we expect to continue driving this strict control in expenses and process optimization. The main levers for this are restructuring cost, restructuring in the organization headcount and also in some non-profitable stores, reduction in logistic costs, energy optimization, IT expenses, controlling shrinkage and negotiation with key suppliers.

In slide #14, let's speak rapidly about performance by segment, as we told, the big picture food drives growth, but in the short term non-food is also showing a recovery, and by formats Carulla is the best performing brand growing by 9% Exitto growing by point 4.7% and low cost formats have showed a decrease both in the year and in the quarter.

Going to slide #15, we speak about omnichannel initiatives, as you know, this is a long going strategy of this organization in Colombia and a differentiator. It is also driving growth, year to date we have sold around 1.6 billion pesos, growing 4% representing around 14.7% of the sales of the company in Colombia and with 70 million home deliveries orders fulfilled around 24% growth. Since the pandemia the share of omnichannel has increased in a very important way, as you know, it went from around 4% to 12%, but the interesting thing is that it remained in that level and even this year and last year it is growing to around 14%. The share of food sales in omnichannel is 13.4% for the third quarter, this is a top percentage share compared with our peers in all America.

Going to slide #16, let's speak about our real estate business in Colombia with our strong consistent performance, Viva malls the leading shopping malls vehicle in Colombia had a recurrent EBITDA growing by 12.3% year to date, Viva Envigado became the number one shopping mall in Colombia by GLA, with 159,000 square meters GLA with an average visitors per month of 2.7 million visitors. IKEA was entered as a new anchor to Viva Envigado, having Viva Envigado today the most important anchors in Colombia and the most important national and international brands, it added 8000 square meters GLA and today we also added a new concept to have experience and to have leisure within our shopping mall, which is called "Jardín Nomada", it is directed to new young tech nomads and executives and it is around 2000 square meters of GLA. I hand now to Ivonne so that she will go through the financials of the quarter.

**Ivonne Windmuller:** Thank you, Carlos Mario, let's continue on slide #17 to review the financial operating performance.

In Colombia, as previously presented, Net revenues for the quarter at 3.9 billion Colombian Pesos, growing 2,8%. Sales performance was driven by food sales, that grew above the local food inflation thanks to the fresh categories while the non-food performance showed a recovery trend. Other revenues grew 9.0% driven by the recurrent Real Estate operation and other complementary businesses performance both with double digit growth.

Quarterly gross margin at 21.1%, 41 bps below last year reflected the strong commercial activities and was compensated by the positive real estate recurrent performance that grew 12.5%. SG&A, with an outstanding performance decreased 1.8% and improved 88 bps, reaching the lowest rate of the year. This was achieved thanks to the ongoing cost control action plans and efforts that amounted around 103 thousand million Colombian pesos during the quarter and 228 thousand million Colombian pesos year to date.

Colombian recurring EBITDA for the quarter at 250.722 million Colombian Pesos, increasing 10.9% and with 6,4% rate that improved 46bps. This result shows a changing trend and reflects the improved sales performance, the positive contribution from the real estate and other complementary businesses as well as strong action plans in costs and expenses.

Uruguay for the quarter with a top line that increased 5.1% in local currency and flat in Colombian Pesos due to exchange rate effect. The positive top line evolution was driven by the promotional events and the performance of the Fresh Market. Gross profit in local currency grew 6.9%, above revenues growth, and reached a rate of 36.3%, improving 62bp thanks to solid sales evolution, the improvement in logistic costs and better negotiation with suppliers to support commercial activities. SG&A grew below inflation at 2.1% in local currency and improved 84bps in rate, thanks to cost control action plans and efficiencies. Recurring EBITDA for the quarter at 98.161 million Colombian Pesos, increased 28.6% when excluding fx effect and with double digit margin of 10,4% improving 190bps. The Uruguayan operation remains therefore as the most profitable business unit in the group.

Argentina with Net revenues that grew 82.1% in local currency and 0.9% in Colombian pesos. The sales performance reflected the macroeconomic adjustments to address the inflationary context affecting consumption, partially compensated by the Real Estate business contribution that grew 156.5% and continued with solid occupancy levels. Gross margin at 30.3% reducing 202bp, showed the higher price competition and the increased share of the Cash and Carry format. SG&A grew above sales growth heavily impacted by inflationary pressures partially mitigated by the ongoing plans and efforts in cost control. Recurring EBITDA for the quarter in a negative territory reflects the lower sales evolution, price investment and inflationary effect on cost and expenses.

At consolidated level net revenues, with its best sales performance, reached in the quarter 5.2 billion Colombian pesos and grew 2.2%. When excluding FX effect from international operations net revenues grew 6.6%, top line reflected the consistent commercial strategy, a gradual recovery in the Colombian operation and other revenues with positive contribution driven by the performance of the recurrent Real Estate revenue. Gross margin impacted by the strong commercial activity from new strategies to improve sales dynamics. In terms of SG&A, the consistent focus on action plans in cost and expenses lead to an improvement of 42bps and managed to compensate the inflationary pressures in wages and other indexed expenses. The third quarter closed with a consolidated recurring EBITDA at 342.181 million Colombian Pesos and grew 8.7% when excluding FX effect. EBITDA shows a recovery driven by Colombia and Uruguay, both with a double-digit growth.

Going to slide 18, The net result for the quarter with a loss of 34.733 million Colombian pesos. The net result reflects the positive contribution from the retail operations from Colombia and

Uruguay in addition to a positive variation in the performance of Tuya due to an improvement in the Non-Performing Loans.

These positive effects were offset by; first, the operating performance in Argentina, which we already reviewed. Second, higher non-recurring expenses for the restructuring process in Colombia amounting around 32,000 million Colombian pesos during the quarter. Third, net financial result impacted by FX effect from Argentina and Uruguay partially compensated by lower cost of debt and factoring operations in Colombia and fourth, higher minority interest from improved results from Viva malls and the Uruguayan operation. First nine months net result closed with a loss of 91.331 million Colombian pesos reflected the lower operating contribution and higher non-recurrent expenses for restructuring process in Colombia.

Going to slide 19, in terms of cash, the company closed the third quarter with a lower free cash flow generation of 102 thousand million Colombian pesos and a net financial debt deteriorated by 206 thousand million Colombian pesos. These results reflect the impacted operational performance and base effects of higher extraordinary dividends received during the fourth quarter 2022 and a delay of tax credit refunds that are usually received during the third quarter of the year. The effective working capital strategy, achieved through close collaboration with suppliers, helped mitigate high inventory levels while supporting commercial dynamics and reducing factoring operations to lower the financial costs. We remain strongly focused on optimizing and prioritizing investments to ensure liquidity and protect the cash flow in the current consumption environment.

As a summary for the financial performance, we posted an improved top line results thanks to the food sales growth and a partial recovery of non-food. To highlight, the solid omnichannel performance and the positive recurrent results of the Real Estate business. The consistent and strict cost and expenses action plans compensated the inflationary pressures allowing the Colombian operation to decrease its expenses and at consolidated level to improve the rate 42bps. The strategic management of the working capital and the investment prioritization and optimization partially mitigated the impacts from operational performance and base effects in the cash flow generation.

Thank you for your attention and I now give the call back to Carlos Mario for the conclusions.

**Carlos Mario Giraldo:** Let's go to slide #21 to the main conclusions.

The first one is clearly a consistent and solid commercial strategy with the now impact in the market, both in sales and in market share, with first Exito and Carulla as the destination brands and banners with the richest assortment in the market and with savings consistent initiatives to customers.

This was also the best quarter all over, especially in Colombia with food growing by 3% and a recovery in non-food which, for the first time in the year, is in positive grounds. Recurring EBITDA growing versus previous quarters above 10% in Colombia and above 4% at the consolidated level with Uruguay also with a great performance above 20% growth.

Strong cost control consistent in the three countries and in Colombia within the quarter a -1.8% evolution in SG&A's and a consolidated level a positive impact of reduction of 42 basis points. Real estate continues growing and solid with high occupation levels, and in Colombia Viva Envigado becoming the first Colombian shopping mall by GLA.

Uruguay, with solid results and double-digit growth in EBITDA. Argentina, with short term negative impact in sales from macroeconomic adjustments, but with a solid base in the regions in which it operates, both in retail and real estate.

Omnichannel is part of our sustainable differentiation with a 14.7% sales share and near to 400 US million sales, accumulated year to date.

Finally, net profit impacted by restructuring expenses, financial cost, Tuya business and Argentina results and the FX impact.

Thanks a lot for being present we open now this call to Q&A and at the end of the Q&A, Carlos Calleja will come with his final remarks.

**Ivonne Windmuller:** Thank you, Carlos Mario. We are now open for the Q&A session, I'd like to remind all participants that you can raise your hand to ask questions or submit them via the chat function at the bottom of your screen. If you wish to ask a question out loud, please remember to unmute your microphone and state your full name as well as your company's name. If you prefer to submit your question through the chat, please include your full name and company name and I will read your questions out loud.

I remind you that you can raise your hand and ask your question or submit them via the chat.

**Carlos Calleja:** OK. I guess if there's no questions or do you see anything, Ivonne on the screen?

**Ivonne Windmuller:** OK. No, there is no questions then, so I will turn the call back to you, Mr. Carlos Calleja, for your closing remarks.

**Carlos Calleja:** Thanks, Ivonne. Thanks, Carlos Mario. I just want to close by saying that at Grupo Exito, as in Grupo Calleja, we have enormous faith in, in Latin Americans and in people, we believe in their enormous potential. We believe that our people, given the opportunities, will drive our region forward in terms of development, both economic and social. And we look to dignify the lives of Latin Americans with an extraordinary and differentiated value proposition, ensuring everyone, we like to say this, we believe this. Everyone deserves the best near their home and what is the best mean? It means the best customer service, the best assortment, the best product quality, the freshest, best quality produce the best meat, the best bakery products, the best shopping experience, and the best savings through strong and permanent high low strategy, with the best offers every day.

Achieving this requires constant daily effort with consistent work positive results grow, at Grupo Exito and at Grupo Calleja, we are testament to this, our growth curve and productivity indicators in El Salvador as Grupo Calleja is known proving, and this is the success we also aspire to for our Grupo Exito operations in Colombia, Uruguay and Argentina. I am confident that the actions we are taking to move from transition to transformation, with all the hard work that the team's putting in will improve the company's results and provide better returns for our shareholders who believe in us. We are 100% committed to achieving this objective.

Thank you all for being here and hope to see you guys on the next call. Thank you Carlos Mario and Ivonne for all the work setting up this call.

**Ivonne Windmuller:** Thank you, Carlos. So, this concludes today's conference. Thank you all for participating.