Q1’24 Results

Renato Franklin – CEO

Intro

Hello! Welcome to our presentation of Grupo Casas Bahia’s results for the Q1’24. This video is released together with the material for disclosure. Tomorrow we shall hold our live video conference, for the Q&A session.

Highlights

The Q1’24 evidences gradual improvement in our results, following the announcement of the Transformation Plan made back there in August 2023 and a second semester marked by the implementation of most of its initiatives. The month-over-month evolution within the quarter was also important. Thus, in the Q1 we began to reap part of the benefits, which will sequentially gain traction throughout 2024.

We have been adding new sources of revenue to our ecosystem, which despite being incipient, have shown consistent growth, diversifying our revenues and substantially adding up to the contribution margin. Here we will observe an important improvement in margins each quarter.

An example is our Casas Bahia ADs platform, which is ready to offer advertisers the most comprehensive Brazilian retail media ecosystem. On a single, self-service platform, the partner finds a true omnichannel solution, ranging from in-store activation to online, from social media to out-of-home media, among other opportunities such as proprietary data and highly actionable insights for advertisers, whether big brands or marketplace sellers. I also note that we expanded the number of advertisers by 7x compared to the previous quarter, also increasing operating revenue by 15% and GMV transacted on the platform by 20%.

With a unique and integrated logistics infrastructure, we make the most of our omnichannel approach to increase the operation efficiency and profitability. We have 29 distribution centers and more than 1,000 stores, making our network available to sellers and non-sellers.

As a result, our third-party logistics operation recorded an annual growth of 53% in customers, 74% more orders and an 84% increase in gross revenue, while the multi-marketplace fulfillment operation experienced a 12% increase in the number of customers and 14% in gross revenue. This stance has allowed us to profit the most of a ready asset, without requiring additional capex, in addition to bringing revenue, cost dilution and increased profitability.

Elcio will provide further details on the results, but I would like to emphasize the important improvement in gross margin, which advanced from 23% in the Q3 to 27% in the Q4 of last year and reached 30% in the Q1’24. This trend reflects the end of the one-off effects of clearance sales to optimize inventory levels and indicates an increase in service penetration that should increase throughout the year.

We keep strict cost control and can observe the results of the adjustments to the staff and store portfolio that we made in the second half of the year. We remain with a lean, synergistic, and optimized structure.

Addressing the spotlight to our core activity and to generating value, we have mobilized complementary businesses to our ecosystem so that they contribute to profitability. This can be observed in the 3P operation, which experienced organic advance of 10% in GMV, capturing the discontinuity of categories in 1P, and with revenue growth of 13%.

This discipline combined with our strategic repositioning allowed us to reach the lowest cash consumption in the last 5 years, as forecast, since seasonally the Q1 records consumption for retail. This is the main highlight of the quarter: The best cash flow for a Q1 in 5 years!

And precisely due to the progress of the initiatives and the confidence of the main creditors in the Transformation Plan, the Company, in common agreement with such creditors, was able to implement in a safe, effective and transparent manner the reprofiling of financial debts, as detailed in the material fact and in the videoconference held on April 29th, which exclusively addressed this topic. I also take this opportunity to inform you that we have created a section on our IR website, where all the materials published on the topic have been included.

In general terms, the reprofiling covers R$4.1 billion of debt, increasing the average term from 22 to 77 months and reducing the average cost by 1.5 pp. I also note that the scope is limited to this amount, that is, we follow on with the ordinary life, without impacts for customers, employees, suppliers, sellers and partners, who continue to have their commitments honored on their respective due dates, without any interruption or discontinuity. I would like to emphasize the positive impact of this agreement on all stakeholders. Capital markets, suppliers and insurers have provided very positive feedback. And we even had an increase in sales both online and in brick-and-mortar stores in the week of the announcement, a reflection of the also positive organic media.

I now give the floor to Elcio, to present the financial highlights.

Elcio Ito – CFO
Results

Thank you, Renato and hello, everyone!

Concerning the financial topics, I want to address 3 blocks. The first is the execution of the Transformation Plan and the results of the Q1. In the second, we shall talk about cash flow and liquidity. And finally, the structural reprofiling that we informed last week.

Regarding the first block, we maintain the discipline of executing the Transformation Plan. The quarter's performance gradually begins to reflect the results of our Plan. And, unlike the previous two quarters, we have a significant reduction in non-recurring events.

In the Q1, net revenue declined by 14% due to operational decisions associated with the Transformation Plan, which, as expected, reduce revenue at the initial moment, but prioritize the profitability and sustainability of the operation in the medium and long term.

This variation mainly reflects the discontinuity of 23 categories in the 1P operation, which we continue to sell through 3P, monetizing through commission rates. In addition, since 2023, we closed 57 brick-and-mortar stores that were detracting the Company's margin and finally reduced incentives in the B2B channel.

Gross profit totaled R$1.9 billion, with sequential improvement in gross margin to 30% in the quarter. We continued to focus on operational efficiency and greater service penetration into revenue. It is worth recalling that the gross margin in the Q3 and Q4 were 23% and 27.6% respectively. I emphasize that the second half of 2023 had the impact of the clearance sales held to release older and slower turnover inventory.

We continued with strict control rigor in SG&A, with staff adjustments made last year that allowed us to reach annual reduction amounting to R$128 million, equivalent to a 7.5% drop. I also take this opportunity to highlight the 14.6% decline in personnel expenses as a whole, from R$773 million in Q1'23 to R$660 million in Q1'24. In other words, we achieved R$113 million reduction in the Q1 alone. It should be noted that these reduction percentages were achieved even with the inflation rate or mandatory salary increase of around 5%.

Thus, the adjusted EBITDA margin also shows a sequential improvement, reaching 6.1% in the Q1. Observe that we came from a -1% margin in the Q3 and 2.2% in the Q4 of last year.

Net financial expenses totaled R$486 million, still reflecting a high level of interest rates. We had a non-recurring monetary update gain of R$238 million related to the Pis/Cofins subject matter of the "thesis of the century". Accordingly, we recorded negative earnings before income tax of R$502 million and a net loss of R$261 million, which is R$36 million better compared to the same period of the previous year.

Given the context and evolution of the Transformation Plan, we are happy with the results, but very aware that we are still far from the Company's potential. We continue our steady work on executing the Plan and expect a gradual improvement in results in the coming quarters.

Inventory and Suppliers

In terms of inventory, we maintained the level of R$4.4 billion reached in the previous quarter. Compared to March 2023, it represents a R$2.1 billion reduction, a movement made mainly in older and slow turnover inventory, as we have already discussed in previous quarters. Last year we operated with 110 days of inventory and ended the Q1'24 in 78 days. In other words, that is a 32-day reduction in inventory turnover.
We continue to foster greater efficiency in the commercial and logistics team. Observe that we have evolved sequentially in terms of inventory quality. Inventories with the highest turnover, those up to 90 days, are 4% higher compared to the Q4'23. We also had a 14% reduction in inventories over 90 days, compared to the previous quarter.
We are still keeping the beat to maintain and increase sales without stockouts, with the lowest possible inventory level. We have projects and initiatives regarding assortment, logistical models and partnerships with the industry that can lead to even greater efficiency.

Cash Flow

We shall now discuss the cash flow, which is the Company's priority.
In terms of free cash flow, this was the best Q1 in the last 5 years!
Free cash flow was negative at R$176 million, reflecting seasonality for retail in general. However, observe that this flow was much more negative in previous years.
We remain firm with the discipline of capital employed, whether working capital or capex. Furthermore, we are focused on the subjects of tax monetization and labor lawsuits expenses.
Hence, we closed liquidity at R$2.9 billion, which level is below the Q4, as expected, but above the Q2 and Q3 of last year.

Reprofiling of the Debt

As Renato already mentioned, we announced, in common agreement with our main creditors, a reprofiling of unsecured financial debts of R$4.1 billion.
The reprofiling includes the extension of the amortization schedule, including a grace period of 24 months for payment of interest and 30 months for payment of principal.
Thus, the amortization term goes from 22 months to 78 months, and we have 1.5 pp reduction in the average cost. Thus, the Company will preserve R$ 1.5 billion in cash in the next 9 months of this year and in total R$ 4.3 billion until 2027. As you can see, this reprofiling brings a structural change in the Company's cash flow for the coming years.
As we discussed at last week's videoconference, this extrajudicial reorganization structure was already filed with the approval of the majority of creditors, to obtain its formal approval. It should be noted that the perimeter of this structure reaches only unsecured financial creditors. We

have no impact on suppliers, insurers, marketplaces, sellers, employees, etc.
I now give the floor back to Renato. Thank you, everyone.

Renato Franklin - CEO
Transformation Plan

Thank you, Elcio. Our Transformation Plan continues to advance, progressing on initiatives that should add between R$1.5 and R$1.6 billion in EBT.

We can say that the first phase of the Plan has been executed, with immediate adjustments addressed at defining our strategy as a specialist omnichannel player, reviewing the assortment, optimizing inventory levels, reducing expenses, closing brick-and-mortar stores with a negative contribution margin and readjusting distribution centers. These are topics on which we must maintain discipline and continue to pursue opportunities for improvement.

We are now starting the second phase of the Plan, with the evolution and identification of new levers that should strengthen our positioning in core activities and drive our future growth.

An example is use of a new tool based on advanced analytics that improves product pricing. Using several internal and external databases, the engine performs real-time analysis of price elasticity, clustering and applies more than 10 other analytical models, to dynamically determine the price of each SKU in each channel. In the coming months, this model shall be put in place in a phased manner by categories, covering around 70% of the Company's revenue.

In addition, we are using technology to increase the effectiveness of salespeople in brick-and-mortar stores and sellers on our marketplace. With an advanced analytics tool in the palm of their hands, they will receive clear information about their performance, tips for selling more products that perform better and will have greater engagement through gamification. Furthermore, the store salesperson will have better monitoring of their customers relations. Marketplace sellers will have dashboards of indicators and insights into their sales, and the marketing campaign strategy will be optimized.

I emphasize that the implementation of most of the Plan's levers has occurred as expected and the evidenced sequential improvement in results makes us confident that we are on the right track to have a more robust free cash flow and a greater return on capital.

Main messages

I emphasize that the diversification of our revenue has evolved through logistics, credit, retail media and service penetration, leaving us less exposed to fluctuations in demand and making us more resilient in adverse scenarios.

Our strategic positioning as a specialist has allowed us to focus on what we do well and contribute to the bottom line. This reassessment of focus and resource allocation allowed us to make complementary businesses such as 3P, Bartira and banQi profitable.

Also, the diligence in executing the Plan and in day-to-day operations allowed us to obtain the best cash flow in the last 5 years, even though it reflects the seasonality of consumption for the quarter.

I also highlight that the agreement we made for the reprofiling of the debt addresses the execution of Liability Management, foreseen as an initiative of the capital structure levers presented in the Transformation Plan and guarantees greater management focus on operational levers, which evolve gradually, in addition to continuing to improve the Company's capital structure, including the credit financing model.

Our millions of customers will continue to have all the facilities and tools available in more than a thousand brick and mortar stores and e-commerce, to purchase products available in the Casas Bahia and Pontofrio chains, with quality, promptness and confidence.

I would like to thank all our customers, our employees, suppliers, financial institutions and other stakeholders. This is just the beginning, but it is a great start! We are looking forward to delivering the next quarters, with gradual improvement in each of the indicators, preparing the Company for a new cycle of growth from 2025 onwards!

We will continue to be Totally Dedicated to You! Thank you all very much and see you tomorrow at our video conference.