Conference Call Transcript

Results 2Q22

Assaí (ASAI3 BZ)

July 28th, 2022

Operator:

Good morning, everyone, and thank you for waiting, welcome to Assaí Atacadista´s Earnings Call for the first quarter of 2022.

For those who need simultaneous translation, we have this tool available on the platform, simply click on the *interpretation button* on the globe icon at the bottom of your screen and choose your preferred language, Portuguese or English.

This Earnings Call is being recorded and will be available on the company's IR website at ri.assai.com.br where the release is also available. During the company´s presentation, all participants will have their microphones turned off, and soon after we will begin the questions and answers session.

To ask questions, click the #Q&A# icon at the bottom of your screen and write your #NAME#, #COMPANY#, and #LANGUAGE# to join the queue. When announced, a request to activate your microphone will appear on the screen, then you must activate your microphone to ask questions. We advise that all questions be presented at once.

We would like to highlight that the information in this presentation and any statements made during the videoconference related to Assaí's business perspectives, forecasts and operational and financial targets represent the beliefs and assumptions of the Company's Management, as well as information currently available.

Future considerations are not guarantees of performance. These involve risks, uncertainties, and assumptions, as they refer to future events and depend on circumstances that may or may not occur. Investors should understand that general economic conditions, market conditions, and other operating factors may affect Assaí's future performance and lead to results that differ materially from those presented in such future considerations.

I will now pass the floor to Gabrielle Helú, the Investor Relations Officer.

Gabrielle Helú

Good morning, everyone; thank you again for participating in the 2Q22 Earnings Call for Assaí. Today we will have the following executives presenting: Belmiro Gomes, our CEO; Daniela Sabbag, our CFO and Wlamir dos Anjos our Commercial and Logistics VP.

Before our presentation, I will pass the floor to Belmiro for his initial remarks.

Belmiro Gomes

Thank you, Gabi! Good morning everyone, thank you for participating.

I hope we can transmit the information and that it will be useful to demonstrate the company´s moment and the 2nd quarter results.

The 2nd quarter was above our expectations and in line with Assaí's historic journey, presenting high growth rates with a very healthy combination of results and evolution.

The sales volume in the second quarter reached a very strong level of R$ 14.5 billion, a significant leap compared to the previous year with R$10.9, which was our revenue in the second quarter of 2021.

This increase of R$ 3.6 billion reais, where the company basically doubled its sales volume in the last three years. This resulted from a combination of factors, first from the increased flow that we registered within the same stores in the 2nd quarter and also from the reductions in restrictions due to the pandemic, which caused the ***food service*** clients, a very historical and traditional group for Assaí, to resume shopping at Assaí.

The flow in same stores was 5% positive within the second quarter. The flow at the total base, including the stores and the new openings, was over 22% and we exceeded a barrier of more than 50 million tickets within this 2nd quarter.

Other than that, we have a solid performance in Assaí's new stores, the expansion has been highly successful as it was in previous years, with last store batches. The 33 stores opened in the last 12 months represented more than 18% share, making the total growth of the company, as you have seen in the numbers, reach 33% even with the strong growth bases achieved in recent years.

This caused Assaí to continue to gain *share* within our total base, reaching a total sales volume of more than R$ 50 billion in the last 12 months. And when we look at the store network until June 2022, we have an annualized sale of R$ 60 billion.

That is, within this sales volume, there is still no contribution from any of the stores arising from the Extra acquisition; we will talk about this a little later, as we have already inaugurated the first two stores.

The first store was opened on Tuesday, and just now our team in Campina Grande opened the second Assaí store, which came from the project with the Extra Hypermarket store.

With the numbers presented in the 2nd quarter, the numbers expected for the openings, the Company will keep up with the *guidance* shared, of the total revenue of R$ 100 billion by 2024.

Even with this strong growth rate, even with the contribution of the expansion stores, the company was able to find an extremely healthy combination of growth, results, and expansion.

Although we had signaled a possibility to have a lower level of EBITDA within the first half of the year, our strategy, the commercial dynamics, and a series of other actions that our Vice President Wlamir will detail a little later, kept our Ebitda at a highly positive level, very stable compared to the previous year, an EBITDA increment closer than the sales increase, almost reaching 30%, a total R$ 978 million.

There has been a powerful sequential evolution compared to the 1st quarter, which benefited from the dilution of expenses, the return of the *food service* customers, but mainly the increase in flow in the store where we had a 0.8 p.p. margin evolution compared to the 1st quarter of 2022, along with discipline towards expenses.

Daniela will then highlight the financial results a little more. Still, the company is in a decisive moment for investments, due to the project we are working on, given the significant movement and the investments necessary to convert the Extra stores. The company's net income reached R$ 319 million and 2.4% of net margin within the second quarter of this year.

To provide more details and share an interesting update ahead of us, I will pass the floor to Wlamir, our commercial and logistics VP.

Wlamir dos Anjos

Thank you, Belmiro. Good morning everyone.

I will now contribute a bit by talking about this quarter, as it was extraordinary in terms of sales and commercial dynamics. We have very strong consistency in our strategy that was repeated over these three months, April, May and June.

This normality is one of Assaí´s characteristics as we do not have sales peaks, like a ***high-low*** situation, we have a lot of consistency in the evolution and monitoring process every month.

We had a solid increase in competitiveness this year, since the beginning of the year, given the macroeconomic scenario. Still, we have been able to balance sales and competitiveness, and this has made us grow more than 30% in the quarter.

And there was even some uncertainty, a concern among the market, as you can see in the image, we added in most of the stores, not only in the new stores but also in the stores that were already operating, some new services and new categories.

There was even a little bit of questioning from the market and a concern with adding services and expanding the assortment, as we could have an impact on expenses, but actually, we had a reduction in our expenses, and Dani will get into details about this, but it represented about 60 ***bps*** this quarter.

Part of this dilution comes from this stronger, more aggressive commercial dynamic, 50% of this reduction in expenses comes from the dilution, and 50% comes from best practices and reductions in expenses, whether with travels or with third-party services and overall, we had several initiatives in all of the departments in the company.

Looking at the expenses, we have already prepared for 2022, knowing that expenses would be a very relevant topic due to the inflation in all sectors. This would also end up taking place with the expenses.

We have already entered the year with firm discipline, we were able to combine sales, and adjustments in expenses, without losing operational efficiency and service quality. The combination of these factors made us have a brilliant quarter in terms of sales, EBITDA and expenses, and this was very good.

Now let´s talk about *Digital* a bit; with the *last mile***,** first of all, we started our operation nine months ago. As previously mentioned, today we are operating in 55 cities, and we have very robust growth.

The growth of sales with our partners grows at a more robust pace than the expansion of our physical stores, we practically tripled the sales in these two quarters in 6 months, compared to the 4th quarter.

We have low penetration when we look at the share in sales as it, is still below 1% of our business. Still, mainly with the conversions of the Extra stores and the organic stores we are opening in better locations, there is significant convergence, providing convenience and comfort to the customer who prefers this channel. So we can still grow with this *last mile* process.

Moving on, we already had an application that we are now improving, and this week we launched an application called **MeuAssaí** on a platform that already existed.

And what's the big point? Improving customer journey is a strategy; it is not *e-commerce*; it is a ***phygital*** strategy. We bring the digital world and combine it with the physical world.

We have three stores where we started this project. We launched this week in Curitiba, which is a very demanding market as you all know. We started our pilot project there, and in the first two days, customer adhesion was above 30%, well above what we expected.

And I think this will improve loyalty for Assaí, as we will be able to direct sales campaigns, customize offers, and include additional services; in short, there is a vast amount of opportunities on this platform.

We intend to roll it out by December so that all of the company's stores are operating with the app; I think we were being questioned a lot about it, so we performed the kick-off, and we are very happy as during the first two or three days here, the numbers have been very encouraging.

That's it for me, and I'll pass on the floor to Dani now.

Daniela Sabbag

Thank you, Wlamir. Good morning everyone!

Moving on to the slide where we will talk about the financial result and about the cash generation. We had financial result this quarter that amounted to R$ 328 million, equivalent to practically 2.5% of net sales and interest on leasable assets of R$ 107 million, and with this, we have a pre-expense of about R$ 221 million and 1.7% of our revenue.

This comparison with last year demonstrates an increase mainly due to the CDI, which was almost 4 times higher in the period, increasing from 0.8% to 2.9% this quarter. 80% of the increase in financial result is due to the rise in the interest rate.

It is worthy to highlight is the cost of the company's debt, which has been reduced by approximately 100bps in the last 12 months, a very important initiative in this context of rising interest rates, so this is very important for us to try to offset most of this increase.

And a less relevant effect, let's say that it is 20% rounding off the total increase in financial result, has to do with the funding used to finance the hypermarket conversion project, and all of this is very much in line with what we planned from the beginning.

With the inaugurations of the conversions, that have already started, as Belmiro already mentioned, we have a strong cash generation for the coming quarters, and we will quickly have a *deleveraging process* in the company that I will discuss more later.

But another point to emphasize here is that our debt today has a cost of CDI + 1.5%, an average term of 4 years, so here I think it is worth reinforcing that it is very comfortable for the company and these maturities are well distributed over the next few years. This is also very compatible with the cash generation we have ahead, and it gives us even more comfort.

Moving on to cash generation on the right side of this slide, it is important to talk about the almost R$ 3 bi generated, a growth in the last 12 months of R$ 1 bi, so very relevant.

As you know, the company is highly cash-generating and we have a very relevant cash conversion as well, 90% of our EBITDA becomes cash.

So if we add these two lines with the investments and payments for the commercial points we acquired from the hypermarkets, we add R$ 4.6 bi here, the equivalent of 1.6x our EBITDA, so this variation of the debt here in this period is precisely this investment.

Our leverage ratio at the end of this quarter was 2.7x. This level is in line with what we estimated, very much according to our forecasts for the Extra project and this ratio drops quickly, as store openings occur.

So, this generation will strengthen the company even more due to the quality of these locations, and this leverage, in the end, will end up happening in an anticipated manner even, until the end of 2023.

Some comments, as a result of everything that has already been presented, our net income in the quarter reached R$ 319 million, an increase of 21% vs. last year, and almost 50% compared to the 1st quarter of 2022, and a margin of 2.4%. In the semester, net incoome exceeded R$ 1 billion.

These earnings reflect a little of bit of everything we have said so far in the presentation. A sales dynamic that was extraordinary, strong operational leverage with expense dilution and control, as Wlamir highlighted, and all of this was essential considering the entire inflationary context and high interest rates.

Now I will turn the floor to Belmiro to share a little more about the status of our expansion.

Belmiro Gomes

Thank you Dani!

Well, for the expansion, as I highlighted at the beginning, there were 33 stores, mostly organic in the last 12 months. The performance of these stores when it comes to sales, the maturity ramp, is very visible in the company's results, with the contribution effect within this quarter and in previous quarters.

This reinforces Assaí´s foundations for opening stores: growing sales, but also balancing this out strongly with results.

In the second quarter now we overcame the barrier of 1 million square meters of sales area, an important level, an important symbolism, mostly with built stores. I would like to thank our team that is in charge of this project, not only the conversion project but all the new stores, each of these stores is almost a company on its own.

So we had these 8 openings now within the first semester in 7 different states in Brazil, which shows the company's strategy of expanding throughout the national territory, as there are 3 stores in capitals.

We are starting with our first store in Betim, a very important region in Belo Horizonte, we have the Teixeira de Freitas store, Ribeirão Preto store, which is our first store with this new model within the state of São Paulo, Barris within the historical center of Salvador, the 4th store in Belém, the Petrolina store that is on the border of Juazeiro, Nossa Senhora do Socorro, near the Aracajú metropolitan area, and the second store in Porto Velho.

As we discuss expansion a bit more, we started the Extra store conversion project, within what we had presented to the market, and the company is meeting the defined schedule. The first units that we had mentioned would be opening around July and August, already occurred with the first two openings.

You see on the left side there is a large store in Ceilândia, in the Federal District, the opening took place on Tuesday, a gigantic store, a beautiful store, it was less than 100 days of work and one of the fastest construction projects we had, to be able to work on the deployment, the supply. And the unit performed exceptionally in the first days.

Just as the expectations for this store network that will be transformed from now on.

As we have highlighted in several other opportunities, most of the stores from Extra Hiper are within capitals or metropolitan regions.

When it comes to the physical structure, storage capacity, sales area, parking space, and mainly public in the surrounding area, the stores are in extremely densified regions. So much so that the expected performance on average for each of these stores is more than 50%, 60%, 70% in relation to an organic store.

This morning, our team there, with Leon and Claudemir opened the second unit in Campina Grande in Paraíba, and we will now follow a very strong schedule for store openings.

The second half of the year for Assaí will be marked by an extremely strong opening schedule.

At this moment, to give you an idea, we have 50 construction projects running at the same time throughout Brazil, which means approximately 12 thousand people working at the sites. In the foundation work, changing flooring, installing equipment and all of the necessary remodeling to transform a property that was a hypermarket into a wholesale operation.

This implies changes not only in the structure of the property, in the structure of the floor to be able to have the pallet structures, in-store storage, but also the installation of cold storage equipment, different visual communication.

Wlamir has already pointed out that part of these stores will have changes, you can see in Ceilândia, on the photo, where there is a cold cuts area.

The additions, expansions of assortment, and the offer of new services is also part of the evolution of a model and adaptation of the cash&carry model to the target audience, within these regions, with the results that have been above expectations, as the model changes are being made.

We have 61 hypermarkets for conversion, 20 conversions will now be carried out within the 3rd quarter of 2022 and we should open 40 stores by December.

So as these stores begin operating, as Dani highlighted about the company's leverage, the investments necessary for the conversion caused the company to have an increase in leverage but it is a conversion process and, just like the leverage, has a beginning, middle and end.

As the stores reopen with the strong cash generation that is notoriously based on Assaí´s business model, we have a drop in this leverage curve very fast.

There is a huge effort from our team, and I will take the opportunity to thank all of our team involved, as well as a series of partnering companies that are in this project together to conduct these 50 construction projects that are happening today in 15 states, 14 states, and the Federal District, as well as in different states in Brazil.

This is what we had to share about the expansion, and I think that later on in the call we should have a few more questions, but the message that the company wants to convey is that everything is moving along as planned.

Everything we have planned, since the acquisition of the Extra Hiper points from an execution, construction, and store opening standpoint, is as planned or even better than planned.

When it comes to the market as well, this economic moment in our view, and I will talk about this a bit more when we cover the ***ESG*** part, will also be very favorable for this opening period now in the 2nd semester.

Now as we are close to finishing, we are going to talk about *ESG*. The team celebrated a lot as we received a certification, a *GPTW award, Great Place to Work*, which indicates the best companies to work for.

This is an external recognition of what our team already sees in practical terms, considering Assaí's culture as a company that people like to work for, and this has been very strong.

Our culture is what has also sustained growth, you cannot grow with the volumes we have, and the speed of our growth, if beyond training and processes, you do not have a very strong culture that permeates people, that creates a feeling of ownership, but receiving this recognition from a third-party is also very rewarding.

Especially during this very strong moment for job creation, we closed the 2nd quarter with more than 60 thousand direct employees. With the hires that will be made and the jobs generated for the new units, we must reach the end of 2022 with more than 70 thousand employees.

A highlight, within this recognition, is the issue of diversity as we reached a very high score compared to the market, higher than 90%, in addition to a series of other recognitions that the company received within the actions we have been working on, from Instituto ETHOS and *Iniciativa Empresarial pela Igualdade Racial.*

We recently carried out the first survey on diversity, partnering *with Instituto Identidade do Brasil*, in addition to strong advances in diversity and inclusion not only for LGBTQIA+, but also for people with disabilities, we are currently almost 10% above the legal quota that is 5% and Assaí has 5.5%.

We also had incentives through the Academia Assaí, supporting micro and small entrepreneurs with an increase of more than 82% in participants enrolled

Among those enrolled, approximately 54% were women, entrepreneur women, so we have many microentrepreneurs especially in ***food service***, led by women, by the women's team and more than 56% are black and brown.

In addition to reducing gas emissions, as well as several other fronts that the company has not only disclosed to the market but is also working very hard to approach such as social responsibility, equality and inclusion. Now we are almost heading to our questions and answers session.

For the 3rd and 4th quarters, the company's expectation remains very strong, we have already overcome expectations as we closed the 1st semester despite all the turbulences and uncertainties arising from the pandemic.

With a series of modifications, the external impacts, exchange rate impacts, and inflationary impacts the company maintained a very solid pathway, a combination as we have already highlighted, of sales growth, results, and opening stores.

We have an extremely challenging 2nd semester ahead with the number of stores to be opened, from a market perspective, and what we see ahead for the 3rd and 4th quarters is very in line with what we have seen within the 2nd quarter, July has demonstrated this. We know that there is an election period ahead, but there is also a series of aids, and initiatives made by the government for income distribution, where to allocate more income, and this will obviously have a beneficial impact on the food sector.

And when it comes to reopening stores, the price peak, the inflationary issue, it creates a natural movement, and as I highlighted, we had an increase of more than 5% in the store flow volume at the same stores base.

So the population is searching for lower prices. And the wholesaler format currently has the greatest penetration in Brazilian homes, we believe that today Assaí is a reference within this sector.

And the reopening of the stores in our view will occur with a ramp up that is even better than expected, since there will be a natural search, either for low prices, or for a better shopping experience, or for the service, or for the values that we have been striving to offer daily.

Before opening for questions and answers, I would like to thank our entire team once again, each of these 60 thousand employees in different areas, occupying different positions. When we look at the numbers and say it is a company with a R$ 60 billion in revenues in an annualized view.

Believe me, there is effort, there is a joint effort involving several people, several teams, and several areas, working day after day to be able to deliver not only the numbers that we are presenting as a publicly traded company, but mainly the services that we deliver to each customer, every ticket, every purchase, every sale at an Assaí store.

Having said that, we will now open for questions and answers.

Thank you so much!

Operator:

Now we will start the Q&A session and would like to remind you that in order to submit a question you must click on the #Q&A# icon at the bottom of the screen and write your #NAME#, #COMPANY# and #LANGUAGE# to enter the queue.

When announced, a request to activate your microphone will appear on the screen, then you must activate your microphone to ask questions. We kindly ask that all questions be submitted at once.

Let's take our first question from Daniella Eiger, Xp's Sell-Side analyst. Daniella we will activate your audio so you can proceed.

You may proceed, Daniella.

Daniella – XP

Thank you, good morning! Thank you for taking my question.

I have two here, the first one I think is everyone's focus on this issue with the Extra conversions, the Extra stores, which started effectively this month.

And what caught my attention is that you used the word "at least" a lot in the conversions, the 40 conversions there, and after "at least" 52 new stores this year.

So I wanted to understand if there is room for you to surprise us with this number and if this "at least" is because maybe you can even accelerate more than you previously expected?

And also, if you can give us some update on the expected *economics* (I know that the stores that were opened are still very incipient), for the conversions or even those that you did in the past, in short, just for us to have an *update* in this sense.

And my second question is about the sales dynamics, the acceleration in same-store sales was in fact very strong, not only for you but also for your peer, as reported this week by Estado.

With a contribution from the distribution wholesale operation, perhaps they performed a little higher, and I wanted to know about the profitability strategy as well. But my question is just understanding what you are seeing up ahead, Belmiro you mentioned that the government aid should clearly help, but we already have July without the aid.

So I want to understand if this has accelerated the *business, and also how much the B2B* recovery has impacted. I wanted to understand if it has already returned to the pre-pandemic level or if there is still an additional opportunity in *same-store sales* and ongoing recovery in this channel.

I guess those are my questions. Thank you!

Belmiro Gomes

Thank you, Dani!

Well, about conversions, we really have said "at least" because we have a larger amount of construction project underway than the number of openings we disclosed.

In fact, we have 50 construction projects in progress, there are at least 8 more units that should start to achieve the legal licenses. But why are we being a bit cautious?

Because it obviously has a lot of external factors, relying on public agencies, authorizations, as well as the ability to perform the actual construction work. The construction projects and the Extra stores that we call *Pilotis* require reinforcements in the structure, and this requires extra time.

So the goal is to open a larger number of stores, we are being conservative by saying that we believe it is a comfortable number, but the goal is that, as I said, the leverage came first with the investments before the store openings. For us, the sooner we reopen these stores, the better, as we will already enter into a positive dynamic for sales and cash generation.

The goal, yes, is to have a larger number than we are announcing, we should have slightly clearer visibility of this now throughout the 3rd quarter, so that in the 3rd quarter we can also try to bring positive numbers.

As for store reopenings, we already have very strong expertise when it comes to reopening stores from hypermarket formats, from other companies as well, where we bought the POS within central regions. This type of store has a very different characteristic compared to organic stores mainly when it comes to the sales ramp up.

As a strategy, in organic Assaí stores, we try to open them with the greatest sales volume as possible, even if we work with B2B clients from distant regions more, even if this impacts a curve in the ramp among B2B clients afterwards.

So the stores from the Hypermarket formats are even stronger, so the expectations are very positive, usually the ramp for sales or margins in stores in regions with greater density, and most of these stores are in a region where you do not have other retailers or *cash & carry players*.

Especially when we consider the standard of stores we are opening now, which is very positive.

Among the numbers, we highlighted at the beginning of the project when we created the BP for the project if we were to make adjustments, they would be upwards instead of downwards, obviously it is still very early as we just opened the first store, and the second store was opened today.

But to give you an idea about this forecast, for the Ceilândia unit, if we are based on the first day we can already estimate a turnover of around 4x to 4,5x the previous revenue level from the hypermarket model, even after adjusting the numbers according to inflation. So we would highlight the numbers in this sense.

As for the second part that was the same store sales issue, you touched on an important point and I think this is comparable, comparing same stores with the same stores and not same wholesalers with same wholesalers.

At Assaí we do not have a wholesale distribution operation and counter wholesale operation, which is where you get a B2B client, you reduce margins, and then you burn a very large amount of margins, reaching a high sales volume, but this is a sale that does not generate recurrence.

Strategically we are focused on the end consumer, with the *food service* public, the utilizers, these are recurring clients, we also serve resellers strongly, but for large volume sales, the stores would often not even be able to provide this.

If we look at the sale per square meter which is one of the largest indicators it is reaching R$ 5 thousand per square meter, and this is already close to R$ 5 thousand when considering expansion.

When you go to the mature store network that's almost R$ 5.5 thousand per square meter, that's a lot higher if you look at the other market *players*.

What we saw in the 2nd quarter: we had an event at a company with a very high sales volume at the wholesaler base, but this can lead to a strategy like this, each company has its strategy, and this ends up limiting the room for margins and competitiveness for new stores especially.

And we invest in our store base because, in our view, this is the audience that can give you loyalty, this is the audience that will buy with you this month, next month, it is the restaurant that will come here every week.

So this is the competitiveness that we actually look for, and this is visible when you compare, not only the same stores indicator but the combination of the total sales indicator and especially the profitability indicator when you make this combination.

I believe that each company has its strategy, there is no right or wrong strategy, there may be one that is better or worse, but I believe that the strategy we use as a cash & carry operation only, is an extremely assertive strategy, combining these three factors, Dani.

I don't know if I answered your question.

Daniella

You did Belmiro, thank you! Congratulations on the results achieved as a company.

Operator:

Moving on to the next question from Luis Felipe a Sell Side analyst at **BTG**. Luís we will enable your audio so that you can proceed.
You may proceed, please, Louis.

Luís Felipe Guanais – BTG Pactual

Good morning everyone, good morning Belmiro and Dani!

I have two questions here on our side, I think the first question is a specific point, regarding capitalization of interest, I understand that it has an occasional effect, as a large part of the stores are still closed and not operating.

Could you share a bit about the schedule for this capitalization, and what would be this scenario over the next quarters, should this reduce over time? This is our first question.

And a second question Belmiro, you mentioned this, and I think Dani's question also referred to it a bit as well.

We are seeing a very high growth scenario for ***cash & carry*** in Brazil even with this inflationary situation, which is very favorable for migration to the format, the format has gained a lot of ***share*** over the years, based ***on*** this trade-down effect and we have seen this now.

My question is if, with the conversions that we will see over the next quarters, there is still room for an *upside (*in some of the estimates that you had 6 months ago, when *cash & carry* was in a good situation, however, a less favorable situation than we see now.

These are my two questions, guys, thank you!

Belmiro Gomes

Thank you, Luís.

I will answer the last one and then pass it on to Dani so she can talk about the capitalization issue, but yes, there is a curve for that.

As you highlighted, the scenario is really favorable for the Cash&Carry format, we always like to highlight this and I think Assaí has been the player that is pulling the market a bit even.

Because today, when we look at it, it´s not only about price, but of course price is the most important, so we have made changes in the model. Wlamir spoke about this, but with the changes we have made, and the adjustments implemented to suit that surrounding population, according to their income profile, we have been careful to not allow this to increase operating costs.

So, we have managed to keep operating costs controlled. Costs were 9% within this 2nd quarter and this makes it possible to keep a smaller margin, even now with a much more attractive shopping experience for customers.

In the shopping experience, in our view, for the final consumer it is an experience that is even better than other supermarkets, when it comes to store lighting, assortment, so this has been done, and it made the channel attract the amount of customers we have attracted. To give you an idea, when you add up the entire park we work with an average 3 million more customers per month this year, compared to last year.

So yes, at this moment we have a situation that is even more favorable than what we saw last year.

So, obviously, when you look at the price increase in the food sector, not only in Brazil but worldwide, even among the population that has a little more income, they feel like they need to save. The search for cheaper shopping options, and buying the same product, continues and we see this movement today in all social classes in Brazil.

So, depending on the store when you make the necessary modification in the store, even the high-income public has adhered strongly to the model, so we see room for this.

That's why I said and have already pointed out a few times that if I looked at the project's assumptions when the acquisition of the Extra Hiper stores was idealized, they would be kept and adjusted upwards.

We will obviously be cautious, have the openings, and see what they do, but the expectation based on our expertise, and experience we have in the market, is that yes there is room for improvement and your interpretation is completely correct.

So, I'm going pass the floor to Dani so she can talk a little bit about capitalization, but before that... Is this first answer clear?

Luís Felipe Guanais

It's super clear, Belmiro, thank you!

Wlamir dos Anjos

Belmiro, before passing it on to Dani I would like to add some data that I think is important.

Luis, I have data from *Nielsen* here, and to give you an idea, they include the modern market with retail, cash & carry and pharma.

The importance of the cash & carry channel at the beginning of January was 36%, and it ended June with 41%, so there was a 5% increase in the food retail share.

So this reflects and reinforces what Belmiro said that we still have a lot of room ahead.

Luís Felipe Guanais

Excellent! Wlamir, thank you too!

Daniela Sabbag

Well Luís, thank you for your question, so let's talk about capitalization, I will take advantage of your point and also answer some of the questions we have frequently heard.

First of all, we are following an accounting standard that stablishes that companies must capitalize on borrowing costs, which are directly attributable to the acquisition and construction of an asset.

It is important to keep in mind that this capitalization is not something we can do or not do, we must do it because we are following the accounting standard.

And this is not a new practice. If you look at our past quarters, there is always a capitalizable interest line within CAPEX.

This amount obviously became more significant due to the relevance of the Hypermarket conversion project, but it is a recurring practice.

You asked about how this amount will behave over time, in fact, this is it Luís, as you inaugurate stores you no longer capitalize on this interest.

So as Belmiro presented to you, we have several number of stores to open now during the next quarters.

Now I would like to share our assumptions and estimates, of course we will respect this schedule a lot and may have some variation, but the amount in this quarter should drop 50% in the next quarter and then another 50% in the fourth quarter.

So this capitalization due to the store openings is taking place as predicted, and as the standard defines it, obviously.

Luís Felipe Guanais

Super clear Dani, thank you!

Operator

Continuing on with our next question from Ruben Couto, a Sell Side analyst at Santander.
Ruben, we will activate your audio so you can proceed.
Go ahead, Ruben, please.

Ruben Couto – Santander

Good morning everybody!

Just to confirm this margin issue, I think this quarter had a very healthy margin given this inflation context, this pace of openings, conversions and Belmiro as you mentioned, the pressure for profitability due to everything we expected to see in the first semester that did not appear.

But now with this accelerated delivery of conversions in the 2nd semester, should we finally expect some margin impact for the 2nd semester or should this strong growth lead to keeping margins at this level that we are reaching now?

Thank you!

Belmiro Gomes

Well Ruben you saw at the beginning of the year we mentioned that the EBITDA margin could suffer a penalty of around *50 bps* in the year, it did not happen in the first half given the positive context we had so far.

It is still too early to predict that it would not occur, but looking at the trend, maybe the 50 *bps we expected should not occur***,** we are still maintaining this forecast, due to all of this situation with the government aids, and other market issues.

But a store reopening is always a store reopening, and the need for competitiveness can appear, even though it is a different reopening profile now that usually requires a lower level of investments in margins, but there is also a very large amount of stores.

Even if there is no investment plan, if there is a very strong sales volume in the openings there may be a dilution effect. So we keep that estimate of what we said for the year around 50 bps, now maybe signaling a little further down, but obviously, we will be a little cautious as we look at the 3rd and 4th quarters.

If there is a need for such, we will invest in margins, but also if there is not as I said at the beginning, we always work on balancing this out, and if there is not a need for this, the company will deliver as much margin as possible.

Ruben Couto

Excellent. Thank you!

Operator

Anyway, the next question is from Thiago Macruz, Sell Side Analyst **at Itaú BBA**.
Thiago, we will activate your audio so you can proceed.
You may proceed.

Thiago Macruz – Itaú BBA

Thank you, guys, excellent!

Good morning, everyone…good afternoon now.

I have two questions Belmiro. You will have several openings during the second half of this year that no other cash& carry player has had in history.

I imagine that the relationship you have with suppliers is already exceptional, but with a size like this in a binary way in 6 months I wonder if there can be additional *procurement* opportunities for improvements in product purchasing dynamics.

I wanted to understand a little bit about this from you if possible?

And the other question is that we have been experiencing a slightly tighter price dynamic in wholesale, as I am talking to you and to some other private competitors.

We saw part of this process with the gross margins this quarter, that was absolutely offset by a reduction in expenses.

Can you give us your thoughts on this, will this dynamic remain in the 3rd quarter, is it reasonable to suppose that the environment is perhaps a little less competitive?
How are you seeing this?

Those are my two questions.

Thank you, guys.

Belmiro Gomes

I think I'll go back and talk about the environment and then I'll pass it on to Wlamir so he can talk a bit about the margin and negotiation with suppliers.

The competition ended up being very strong within the 1st and 2nd quarters, but part of our margin dilution has to do much more with the weight of the expansion that was 18%, which is almost 1/5 of the sales in the 33 newly opened stores, so you generate a dilution effect.

Just as they performed better, we had less impact on expenses than we had in other years.

We always have to keep our eyes open when it comes to competitiveness, it´s difficult to say, but with all of the movement we have seen in the market, even with the government aid, and the way the economy is behaving, we don´t consider that there will be a very different scenario than what we have looked at now within this 2nd quarter.

Maybe you have a little more. Your interpretation is correct, it is possible that even for the 3rd and 4th quarter, there could be a lower level, and competition could maybe be lower than what we saw in the 2nd quarter.

Since the results among most of the operators that are in the market, looking at what Nielsen has monitored, everyone ended up also having a very strong 2nd quarter so this should naturally lead to greater caution before making a very abrupt price drop.

And there is another issue in our sector, also, as we are still going through a period of very high inflation, if you do not adjust prices, when you sell to B2B customers, you may end up losing stock many times. Because these customers have purchase power, and their elasticity is very high.

So looking at the 3rd and 4th quarters, we see a stable scenario for margins in relation to what is being applied now in the 1st and 2nd quarters this year.

Thiago Macruz

Perfect!

Wlamir dos Anjos

Thiago, thank you for the question.

Now about suppliers, we do have a great relationship with our partners, and when we look at this issue, perhaps our biggest concern is the with the inflationary process, since 2020.

This makes the negotiations a little more difficult, with price adjustments, so we are not the first and do not like to be the first messenger to share the bad news with customers regarding price increases.

So, there is a slightly heavier negotiation, but we have a structure and way to lead the purchase opportunities that appear in this inflationary movement. Our purchasing centers are decentralized, we have offices all over Brazil, to capture regional opportunities, not only those in large centers.

And to support this expansion ahead, we have very strong planning processes. In March we gathered all our suppliers, most of them, the most representative to talk about our expansion plan and so they could prepare, since some industries and some supply chains still have a lack of products, so that we could maintain our inventories at a healthy and competitive level.

So this relationship is very close and we are comfortable about it, as I said, it is a little tenser with the inflationary pressure, as it has been in other periods in Brazil, but it is under control.

I don't know if I answered your question.

Thiago Macruz

You did, it's super clear, guys, thank you very much for the answers.

Operator

Moving on, our next question is from Felipe, a Sell Side analyst **at HSBC**.
Felipe, we will activate your audio so you can proceed.
You may proceed, please, Felipe.

Felipe Cassimiro – HSBC

Thank you very much, good morning, everyone!

Well my question about price and margin I think has already been answered, so I think I'll move on to the digital aspects.

Wlamir mentioned the new features and it seems to me that the strategy is very focused on discount and price. So could you give us an idea of what the digital strategy is, is to be more aggressive in price compared to the stores, compared to competitors surrounding these stores? I wanted to understand the digital strategy.

What about the converted stores, in addition to the additional services such as cold cuts, and butcheries, do you have space to create a dedicated e-commerce area for better services for consumers?

I understand that in the current stores, space is very limited in the sales area, but these new stores have a much larger space, so I would like to understand if there is any strategy in this regard.

Thank you!

Belmiro Gomes

Thank you, Felipe, for the question!

Well, going back to the digital issue, we had already pointed out that in Assaí, when we were with GPA, it didn't make much sense for us to compete with Extra or Pão de Açúcar in the digital universe.

We made the first moves as Wlamir said, with the ***last mile*** issue, but the goal of the new app now, is what the market has called ***phygital***, you provide digital experiences while keeping the customer in the physical store and it is not limited.

Although it will have a strong discount approach, as well as price, industry product launches, and other things that even the industry is interested in, but we are also interested in the segmentation issue.

There are a number of experiences, and we will now have this pilot and should bring a little more details throughout the 3rd quarter but there is a lot of interesting stuff inside the app, together with what we have and the market has seen, which would be digital experiences in the physical environment, even regarding the actual service.

Whether you can schedule something in-store, there are some innovations and very interesting things that come in this app.

For the converted stores, yes, considering the location and the size of the store, you have space to explore the pick-up from store, you have space to explore some other things that the store network currently could not have or the region where these stores were located did not have this demand that we see within the regions now with greater purchase power.

At this moment, the company is very focused on reopening stores in the traditional model we operate in, but there is a trend for adding other services for customers, which is part of this digital universe.

Your interpretation is correct, yes, Felipe.

Felipe

Perfect, thank you Belmiro.

Operator:

Our next question is from João Soares Sell Side analyst at **Citibank**.
João we will activate your audio so you can proceed.
You may proceed, please, João.

João Soares – Citibank

Thank you. Good afternoon, everyone.

Two quick questions here on our side.

The first one is regarding services, if you could give us a little more regional granularity Belmiro, and where you are having to do more, offer more services, where there will be more expansion in the assortment.

We would like to understand a bit about the competitive dynamics you talked about a lot, but could you give us a little more regional granularity, and where you are having to make more adjustments? This is our first question.

The second one, I think is for Dani.

We would like to hear a little more about leverage given this greater investment, as you talked about 50 construction projects already in progress, we would like to understand how things will look, there is still money from the real estate fund you will receive.

So to understand how the leverage is for the end of the year, and the expectation here is to know if something will be changed.

Thank you!

Belmiro Gomes

Thank you João!

Regarding services, they are not linked to a specific region in Brazil but perhaps they are more related to the regions within the capitals themselves, where the stores are located.

So obviously we have a greater tendency to expand the assortment in a region where you have a populational environment with greater purchase power, depending on the commerce in the surrounding area.

So much so that the butchery service for example, or sliced cold cuts, wine section, and a number of other things that have been added, are being implemented all over Brazil.

In cities where you may not have as many service offerings such as the cities in the countryside for example, we saw photos of the Teixeira de Freitas store in the countryside of Bahia, but this also occurs in the capitals.

The objective is obviously not to attract customer replacement shopping, but rather the monthly supply, of the needs that he has, the final consumer for example that may need a butchery, or sliced cold cuts, can have his needs supplied.

As much as I say this, Wlamir even highlighted this in his speech, you may have an increase in expenses, but much of these expenses are marginal since most of them, the fixed costs in these stores already occur naturally, such as rent, or other expenses that will occur whether there is that service offer.

So much so that we have already deployed more than 100 butcheries in the past two years, in all of the regions in Brazil.

There were also some changes with the meat that allowed us to gain a little more competitiveness, when compared to neighborhood butcheries.

There is a very significant search for quality among the population, and this is also applicable among the ***cash & carry*** public.

What we see in this issue is a natural evolution of the model, but there is no specific region to talk about, like if it will be more towards the north, or further northeast, all of the regions are receiving these new services.

Daniela Sabbag

And about leverage, this level of 2.7x is very similar till the end of the year, with very little variation.

And as we said, from 2023 onwards, when we already have the most important stores opened, we will begin deleveraging especially in the 2nd semester, and it should reach less than two times.

João Soares

Perfect Dani, thank you Belmiro.

Operator

Our next question is from Vinicius Strano, Sell Side analyst **at UBS**.
Vinicius we will activate your audio so you can proceed.
You may proceed, please, Vinicius.

Vinicius Strano – UBS

Hello. Good afternoon, everyone. Thank you for taking my question.

Could you talk about what you have seen regarding the evolution of volumes in the current scenario?

And here's a second question.

On the financial services offer, can you talk about the main features and how you intend to scale the Passaí card and if it should be more important now with the openings of the converted Hypermarkets.

Thank you!

Belmiro Gomes

Thank you for the question, Vinicius.

When it comes to volumes, as I said, we had a positive increase in flow and we have been gaining volume, this does not materialize entirely in the same stores because we are still experiencing a ***trade-down*** effect.

An increase in the food prices, and the population has also made a ***trade down*** with brand replacement, choosing other products or even trading down the category to manage the food price increases.

So much so that when we look at the volume measured per kilo, there is a greater evolution than when you look at the update and inflation on top of the sales volume.

It has been positive and we have been looking at this, due to this increase in flow and while the trade-down effect persists we may not be able to fully capture the effect of this within the sales volume.

I don't know if that's what you asked.

And about financial services, do you want to answer Dani?

Daniela Sabbag

Yes, I can, Belmiro.

In fact, we are predicting an acceleration of the numbers of Passaí cards that will naturally accelerate with the inauguration of the conversions.

We estimate a growth of more than 30% for the growth of the card base, so we are talking about maybe more than 600 thousand cards, the estimates are great.

So with that, of course, ***FIC*** grew, and I will take the opportunity to emphasize, that in this quarter our growth in ***FIC*** with the revenue was above 20%, very significant growth, and the card will help this acceleration.

Vinicius Strano

Thank you Belmiro and thank you Dani.

Operator

The next question is from Joseph Giordano the Sell-side analyst at **JP Morgan**. Joseph we will enable your audio so that you can proceed.
You may proceed, please Josef.

Joseph Giordano

Hello everyone, thank you for the question.
In fact, I wanted to explore a little bit more of the features we have on the platform to accelerate growth, so that we can see some competitors exploring this a little more.

So I wanted to come back to an issue, we see a digital application platform being added, and as Belmiro mentioned you are also starting to see the ***food service*** coming back strongly.

I wanted to understand how you're seeing an opportunity here to accelerate the company's distribution wholesale initiative and even think of it as something more digital to connect with and eliminate that phone table where someone is taking orders.

And a second question that goes to Dani is that I wanted to understand what you are seeing today when it comes to construction inflation, we talk a lot about food inflation, but also construction inflation has become very high.

I wanted to understand if there is any change in the ***CAPEX*** expectations, based on what you are seeing today.

Thank you.

Belmiro Gomes

Hi Joseph thanks for the question.

Yes, Wholesale distribution is a possibility that the company has.

At this moment, the focus is to convert the Extra stores as this is a gigantic number of stores, this project is the company's priority project, but there is a market that has still not been explored.

There is a part of what the market considers digital, that is not always digital, it is the same operation they had 20 years ago that was already transmitted online and sometimes they put on some digital makeup.

Today we already have most of the orders that are also transmitted when they are serviced at the store for digital, we should probably structure this, there is an opportunity, and we must look at it carefully.

There is a project we held on to a little, but now in 2023 we should advance with it, but the focus at this moment is to do the Extra conversions. And obviously, to provide a digital experience as I talked about the ***phygital*** strategy for the customer who is in the store today.

But there is a possibility for both wholesale and distribution that will obviously continue as it is implemented so technologies can enable this scenario.

About construction material Dani, I think I will answer this as we are quite involved.

Yes, there has been inflation that should have a reflection on the costs for stores, but on the other hand, with the quantities of work, we managed to have some scale gains, for the purchase of the equipment services hired, to reduce some costs.

So, you have some companies that have two, three, or four conversions ongoing that ended up also bringing us some gains in negotiations.

We saw a very large peak mainly concerning concrete, and steel, as many of them were impacted by the increase in fuel, they are low added value products and when you have an increase in fuel these inputs suffer a very strong increase.

But apparently, from what we have seen, this has been stabilized now.

Obviously, it´s been stabilized with a high basis, just as the food prices rose without the inflation as well, but it is nothing that in our view will have a great impact on the project, and what we outlined, along with what we planned Joseph.

Joseph Giordano

Perfect!

If I can add a distribution wholesale *follow-up* question here Belmiro, in five or six years from now when we have already finished with Extra, and we go back to that expansion with 30 stores per year.

How do you see the potential of the distribution wholesale, with the revenue share or contribution, since the **ROIC** of this investment is quite high, given that the entire asset base is already there, and you greatly increase your store turnover?

Belmiro Gomes

In distribution wholesale, most of the players do not operate with perishable products or commodities with low added value items.

So, the line of products sold has been changing, it has been reducing, possibly now it will start to stabilize, so much so that the same customer who buys from the cash & carry also buys from distribution wholesale.

But the distribution wholesale usually does not deliver rice, or soybean oil, and it will not deliver flour, because the cost of transportation for a distribution wholesale would eliminate almost all the margins obtained.

The distribution market is a 100% price market, you have a customer who has been buying from a wholesaler for 30 years, and tomorrow there is another wholesaler, offering the same product, at a lower price level, and this customer quickly switches. He changes his supplier and starts to buy from this other wholesaler, so it is a transitional market that is price-based.

In our strategy, we do not saw what we call a window of opportunity, unlike a store and commercial point where you always want to be the first mover, in a good location, generating loyalty among customers surrounding the distribution wholesale operations, whether it began three years ago, a year ago, four years ago or begins next year, does not make much of a difference to be honest.

So, the strategy that the company adopted was first, you are seeing the map of Brazil here behind me, and we want to have stores all around the national territory and once the structure is created then yes, an opportunity will be created.

This project will happen just as we had this Extra movement now, this movement was a priority for obvious reasons, but there is a lever ahead.

It is difficult to nail how much it would be when it comes to share, because when you look at the total share, it may not be as significant, but when you look at some categories of products mainly the non-perishable products with high added value, it could contribute positively.

In the market, depending on the *player*, we have seen that they operate with 10%, 15%, 20% in distribution, it is an operation with a high ***ROIC*** as you highlighted.

Once most of the assets are added, but it also messes with your cash dynamics once you provide different payment terms for certain sales volumes.

But it is still a growth lever that has not been explored by Assaí and it is a very important lever.

Joseph Giordano

Perfect, thank you Belmiro.

Operator

Our next question is from Irma Sgarz , a Sell Side analyst at GS. Irma we will enable your audio so you may proceed.

You may proceed, please, Irma.

Irma Sgarz – Goldman Sachs

Hello, good afternoon. Thank you for taking my question.

I just have one question about these two waves of conversions.

The first wave that is happening now stands out in some way from the second wave, that is, it has characteristics in common with these first stores that may differ a little from this second wave.

And also in relation to these conversions. Obviously, it really is a huge project, congratulations on the first steps, I wanted to know how you see this issue of really delivering this regular amount of ten stores per month.

Is there some concern or some factor that you look at more, whether in the authorizations from the city halls, the volume of contracts that you need to sign, or construction materials (I don´t think so based on the previous comments), that you are looking at with maybe a little more focus to make sure that all deliverables happen on schedule?

And the third question: Just to confirm, what is the schedule for the other stores, about 30 stores, if I'm not mistaken, in 2023?I had more or less the beginning of the 1st quarter in my head, but I wanted to confirm that.

Belmiro Gomes

Thank you for the question.

Well, normally in the first wave it should be like this, but obviously as you have better sales there is a better ramp, but unfortunately this is not possible, there needs to be a balance between obtaining the licenses and the construction process.

Depending on the construction which is the case of the stores from the hypermarkets which we call *pilotis*, you have underground parking, and the time required for adapting and reinforcing the structure is a little longer.

Depending on the region where it is inserted, depending on the neighborhood, there are also work schedules you need to follow.

But what is most determinant is always the issue with the legal documentation, we already have most of the work permits, but there are many other documents that are also issued even during or after the completion of the construction work.

There is no very different feature to be honest, between the first wave and the second wave from a sales and results perspective, this is a lot more related to engineering than actually revenue or even a ramp-up.

There is also no restriction when it comes to regions in Brazil, to give you an idea, we started conversions in all the regions because the states where these Extra stores are located in, already have Assaí stores, under operation.

And to avoid having a concentration of store openings in the same region causing a bottleneck many times within the team or even in the supply in that region. So the fact that we have 12 regional offices and 12 mini headquarters scattered throughout Brazil also helps us a lot at this moment to make this conversion movement, so what we should see is a wave of stores with very similar performance.

We have high expectations for some stores, unfortunately, there are still some processes, legal processes for license and project approvals, working on the surrounding areas of these stores, which is why they will end up in the second wave.

We have the same objective, and we already have the projects completed for all of the stores, so we should start another batch of stores at the end of the year to be opened in the 1st quarter of 2023 or at most in the second quarter of 2023.

The goal is to capture the 1st semester and obviously, in 2023 you will have this project fully completed and all of the stores will be open.

I don't know if I answered all your questions, Irma.

Irma Sgarz

Perfect, thank you very much, very clear.

Operator

Our next question is from Vinicius Preto, a Sell Side analyst at **Bank of America**.
Vinicius we will activate your audio so you can proceed.
You may proceed, please, Vinicius.

Vinicius Pretto - BOFA

Good afternoon, everyone.

A ***follow up*** question on assortment and service initiatives. Could you give us a little more detail about the categories that are being added?

What percentage of the sales area does it make sense to convert and how have you seen the impact of this initiative when it comes to flow, margin, cost structure and has it impacted the return on investment that you considered for the conversions?

And here's a second question. Drug Stores, is this a category that would make sense to Assaí?

Thank you.

Belmiro Gomes

Wlamir would you like to answer?

Wlamir dos Anjos

I will reply. Thank you Vinicius for the question.

In fact, the issue with the assortment is a concern as we do not want to transform our store into a hypermarket, since we need to control operating costs. We have developed some categories mainly in the beverage, grocery and personal hygiene sections, where we have the opportunity to expand the assortment.

This is not a rule that applies to all stores, we are not adding more sales areas for this in existing stores. In this group of stores that come from hypermarket conversions, we already have larger stores which allow us to work on or expand the capacity of these sections.

We have been very careful so that we do not cross the limit, so to give you an idea, we operate with an average of 8,500 *SKUs* currently, and these stores we are opening have approximately 10,000 *SKUs.*

We are adding 1,500 *SKUs* between grocery products and services, with the service issue in fact the customer purchase mission is a little different which makes us quite comfortable.

The customer, as a rule, does not go to Assaí to buy meat for example, he goes to Assaí for his monthly shopping, and previously, before we offered this service, he went to a retailer or a butchery in his neighborhood, or even a competitor who operated with a butchery shop to make this purchase.

In fact, we capture him right when he is shopping, there is a different mission as I think we have been able to make a combination of a better shopping experience for the consumer, and with these services we can also serve B2B, restaurants end up buying from us at the butchery especially.

Because we have quality products with fair prices, and we also offer sliced cold cuts.

So we have been able to improve the assortment, this is not applicable to all stores, there are things that are different in each region in Brazil and we have to adapt.

But this is a trend and with the hypermarket stores many opportunities will appear.

At first, we want to open the stores, and then over time we will understand the profile of each region and each store and if we understand that we have the potential and capacity to increase this assortment beyond 10,000 *SKUs* without compromising our operating costs, we will do so, but for now, the objective is exactly what I mentioned.

I don't know if I answered your question.

Vinicius Pretto

If you don´t mind complementing it.

Have you observed an increased flow due to these new categories so far?

Wlamir dos Anjos

In fact, the flow increases for example, in the car tire category, where the customer does not go to our store because he decided to buy a tire, so for some categories you do attract new customers.

For others, you will take advantage of the existing flow, and cross-channel migration, offering more assortment for this customer by increasing their basket.

So I think there is a combination of things, there is an increase in flow by inserting categories and there is an increase in the purchases among customers who were already in the store, I think it is a combination of both factors. But it does increase the flow.

Vinicius Pretto

OK.

And the last one was about drug stores, is this a category that makes sense to add?

Wlamir dos Anjos

No, it doesn't make sense now.

Belmiro Gomes

And maybe I can add to this.

In the store conversions, we will have several stores with a gallery, and we would prefer to rent the area to a drug store than enter this market, no intention at all.

Vinicius Pretto

It's clear, thank you guys so much.

Operator

Our next question is from Andrew Ruben, a Sell Side analyst at **Morgan Stanley**.
Andrew will enable your audio so you can proceed.
You may proceed, please Andrew Ruben.

Andrew Ruben – Morgan Stanley

Thank you for taking my question. Did you mention the food service customers going back to the stores, do you know where that sector is compared to the pre-pandemic levels, and any other type of customer where you still see room for a post-pandemic recovery? Thank you very much.

Belmiro Gomes

For the food service customer, we already noticed a recovery, but it is not yet at the pre-pandemic level since unfortunately during the lockdown period many restaurants were closed, and if you visited restaurants lately most have been full.

So we also believe that there is a possibility for volume recovery within food service, we also know that the price increase ended up impacting the cost of eating out.

If it were not for the high food inflation, perhaps food service could already be at an even stronger level.

There are still some sectors that have not fully returned such as school cafeterias, institutions related to education that are having a gradual return, business lunch restaurants in regions close to offices, and with the home office reality they also ended up being greatly impacted.

There is still uncertainty about whether this is something that will be totally lasting, permanent or whether it is also temporary.

But we still see some sectors that have the potential to come back post-pandemic. Many places related to schools, some other recreational activities, meetings, parties, and festivities, I think there is still room for more.

So we still look at the scenario of a reduction in the pandemic restrictions, apparently, we are at a level of level of stability, with the possibility of recovery and we have a positive perspective.

Operator

The Q&A session has now ended.

Now we would like to turn the floor to the company for their final remarks.

Gabrielle Helu

Thank you again for participating the IR department is available, if you have any additional questions.

Good afternoon.

Belmiro would you like to say anything else?

Belmiro Gomes

Just want to thank you all.

For staying until the end, for the questions, for the presentation and we will see each other in the 3rd quarter earnings call.

Thank you all so much!

Operator

The Assaí earnings call for the 2nd quarter of 2022 is finished.

The Investor Relations department is available to answer other questions and concerns.

Thank you all for participating and have a great day!