Transcript
Earnings Conference Call
3Q21 Results
Assaí (ASAI3 BZ)
October 29th, 2021

Operator:

Good morning, everyone and thank you for waiting.

Welcome to the earnings call for the result in the third quarter of 2021. If you do need some alternate translation during this call, we have this tool available on the platform. To access, please select the interpretation button through the globe icon, on the bottom part of the screen and choose your preference, English or Portuguese.

So we'd like to let you know that the earnings call is being recorded and will be provided on the IR website of the company on the ir.assai.com.br where you have the release and the presentation; on the link, we will provide on the chat as well.

During this presentation, all participants will have their microphones off soon after we will begin the Q&A session. To submit a question, please, select the Q.A icon on the bottom part of your screen and select your name company and language. As you are announced you'll receive a request to open up your microphone and it will appear on the screen.
Then please activate your microphone to submit any questions. We'd like to let you know that all of the questions should be made at once.

We'd also like to highlight that information in this presentation and possible statements, that could be made during the earnings call related to business perspective, forecasts and operational and financial targets in that company, our beliefs, and assumptions of the company management, as well as information based on information that is currently available.

Future considerations are not a guarantee for performance, involve risks and uncertainties an assumption, because they are related to future events and that depend on circumstances that may you're not occur. Investors must understand that economic overall conditions, market conditions and other operational factors may affect the future performance of the company and lead to results that differ materially from those represented in these future statements. Now, I'll pass on the word to Gabrielle Helú. The IR director at Assaí.

Gabrielle Helú:

Hello, good morning everyone, ladies and gentlemen. Thank you for your participation today during our earnings call for the third quarter of 2021 in Assaí. I'd like to present our speaker today. For this discussion, we have Belmiro Gomes, our CEO, Daniela Sabbag, our Administrative and Financial Director and Wlamir dos Anjos, our VP for Logistics and Commercial. Before I begin the presentation, I'll pass the word for Belmiro for initial remarks.

Belmiro Gomes:

Good morning, everyone, ladies and gentlemen. Thank you, Gabi. First of all, I'd like to thank all of the participants that are listening today as we disclose our earnings in the third quarter. We also would like to thank all of the Assaí team that's responsible for this, we have over 55,000 people spread around Brazil and different stores and they're the ones responsible for the numbers and results, which were very strong in the third quarter. And we're going to get into more details about this up ahead. We can move on to the next slide.

Well, as you've already seen, the net revenue in the state of quarter had an important advance, especially when we consider that in the last year was a year really leveraged by inflation and coronavirus, but especially due to the inflation. We had an important leap, above 30% for the 3rd quarter of 2020, which was the quarter with the highest growth. And thus, the numbers presented in this quarter of R$ 10.8 billion of net revenue and R$ 11.7 of gross revenue represents a total accumulated growth of 56% in 2 years.

When we take a look at three-year period, this sale was practically equivalent, within Assaí's history, with a trajectory of growth, to the doubling of the Company's revenue, the doubling of the company in the cycle of every 3 years, as has been the case in the last decade, in a trajectory the strong growth that the Company has shown.

The highlight of the third quarter is the expansion, the number of stores opened in 2020, and those already opened throughout 2021 have significantly contributed to our improvement in sales. These are stores that started with a good performance in terms of revenue and a very important performance in terms of gross margin, in terms of expenses, and consequently, of EBITDA margin. The margin did not suffer a significant dilution even with this amount of opening of stores opened in the last 12 months.

And this is very important for us because, just as other years, we expanded very strongly, we're going to continue to keep this strong expansion trend combining not only the organic stores, that we have always worked on, but also now that bigger network of Extra Hiper store conversions.

Of the stores opened in 2020, we have three conversions, which are the 3 stores with the best sales and best results within the first year. As we move on with Wlamir and Dani, they're going to give you a lot more details on the numbers. Due to that, in the third quarter the company had an important stability of EBITDA. When we exclude the fiscal credits of a R$ 187 million in the third quarter and take a look at the operational EBITDA - because all those credits are completely monetizing and helped the company's cash position and is a composition of the net income - but when you look at the operational performance of the EBITDA margin, we were able to keep some stability in the third quarter when compared to the year of 2020.

Why is this so important? Because in the third quarter of 2021 we increased about 80 p.p. compared to 2019, while in relation to the same period of 2020, the margin is in line. Also, in line with the EBITDA guidance that we signaled at the time of the spin-off, in the last 2 quarters, and with the EBITDA margin for the year.

So, the margin of the third quarter combined with the results that were delivered in the first quarters of this year, makes us plot 2021 numbers in line or slightly higher than what we highlighted, both from the movement, when we split with GPA, as well as in the various interactions, such as the release of results for other quarters.

This means the EBITDA was kept at these over 0.8% compared to 7%, which was that EBITDA margin in the post IFRS. So, you should discount about 1 percentage points for the IFRS with the level of the lease, which is really low and also dilutes the lease cost.

This stability means that EBITDA remained at this 0.8 p.p. above, against 7% which was the EBITDA margin, in the post IFRS16 view. For the pre IFRS view, you should discount around 1 percentage point the Company's lease level, a normally low lease level, given the store's sales performance, which generates a dilution effect on rent.

So, we ended with a net income of R$ 538 million, which already considered the fiscal credits and also the cost of the debt and leverage that Assaí has. This was almost more than half a billion reais (R$ 538 million) within 5% margin upon the sales, while in the year, at this quarter, we already reached over R$ 1 billion of net income. This demonstrates the result that the company has and the precision of the commercial policies and different expansion practices and activities in the company to be able to deliver this EBITDA margin and net income.

Now, about the debt, Dani will give you some more information on this up ahead. But if we were to consider that in this year, we've already invested over R$ 1.4 billion in our expansion, due to the objective of keeping 25 to 28 stores launched this year, even within heavy increase that we had with the cost of construction materials, a difficulty to have supplies and some construction sites, that had their calendars extended a bit due to some COVID restrictions that also impacted the construction sites this year. So, we'll have a concentration of store opening now in the fourth quarter of 2021, but the company continued to invest.

For you to have an idea, we should invest this R$ 1 billion and 420 million reais this year, which will surpass the mark, or should reach close to R$ 2 billion. Most of it is for investment, for new stores, mainly organic stores. Renovation capex or our other capex claims are not material to the expansion investment. Even with this mass of investment, with a net total of R$ 651 million now in the 3rd quarter, added to an extraordinary payment of interest on equity that was made, in the order of R$ 63 million, the Company remains, as we have always highlighted, extremely cash-generating. And with that, we followed a deleveraging curve, with the net debt/EBITDA ratio reporting an important reduction, reducing 0.6 p.p. compared to the previous year, going from 2.49x to 1.84x. And even in face value, even with an increase in the SELIC and the interests on equity paid, in face value it also reduces to close to R$ 200 million. If you want to go to the next slide...

These 25 or 28 stores will add approximately 11.5% more in terms of sales area to Assaí. In recent years, the expansion, the opening of stores with entry into new places, and important places in which Assaí often has one or two stores, will now continue as part of our organic expansion.

I will get into details about this up ahead. But in our view, we consider that the quarter was very positive. It combines a bit of the first reaction in the market, not the end of the pandemic, but lower restrictions, especially when it comes to the food service sector, which is still very damaged and impacted. When we look at the executive lunch, given that most companies, in offices, are still in the home office, we have a good part of the public that ended up going to work in a company and having lunch close to that company, not showing up, leaving the sector extremely impacted. Nightlife is also impacted, and obviously the increase in inflation, not only in food, as we saw last year, this year, in addition to food, several other sectors, with emphasis on fuel prices, oil products and energy electricity, makes today have a lower purchasing power of the Brazilian population.

And we, as the sector with the lowest cost and lowest selling price, obviously, the cash & carry segment becomes increasingly attractive to the population, more attractive to those who are seeking to maintain their consumption habits and remains an extremely sector important for that customer who now picks up that resumption period.

There is some general anxiety in their overall sector on how it should be operating on the 4th quarter. There are some important sectors that were closed throughout the pandemic. There's also an expectation increase of prices, a possible increase in government incentive, because the accumulated inflation really removed the purchase power of the population - Walmir is going to talk a little bit later about the trade down effect we see today – is obviously due to the fact that a large part of these new resources is destined to food.

Other sectors could be more impacted like durable goods, domestic goods, but food sector is always the most resilient. And since we are the sector with the lower cost and lower self price, of course, this makes the segment and the cash-and-carry more and more attractive for the population. And for those that were intending to keep their consumer habits and brands and it still seems to be a very important solution for these small businesses than now, consider this recovery period.

Since we do the first observations here, that demonstrates that the small businesses are very careful, especially those that are open. If you were to remember, last year, in October and November, there was an expectation that was very positive with the reopening in the end of the year. What we've seen in the past: these entrepreneurs stocked up and Christmas turned out to be very frustrating. So, obviously, this means that, in addition to the issue of lower cash for these micro and small entrepreneurs and small businesses, there is a caution, a fear of repeating what happened in 2020, but it is not the that looks like it will happen.

Fortunately, Brazil continues with a very strong advance in the vaccination rate, which allows us to envisage smaller restrictive measures, so that the population can resume important habits, especially related to tourism, travel, parties, barbecues, get-togethers, eating away from home , which is an extremely important factor for the sector and for Assaí. A sector that, in the same way that its activities had a negative impact last year, specifically speaking of this sector, should also feel positive effects, as this customer can return to the segment.

Well, we can move on to the next slide. Now I'll pass on the word to Wlamir, our Logistics and Commercial VP.

Wlamir:

Good morning, everyone. First, I'd like to thank you so much for participating in our call. Thank you for your participation. And before we begin, I would also like to thank the entire team at Assaí, especially our store team and the teams from the distribution centers, which are the people that really move the company.

Talking about digitalization in Assaí, I think there was an expectation from the market and that was strong concern for many quarters in regard to this topic. As we had already mentioned in other opportunities, we were a GPA subsidiary and we had understood that it wouldn't really make sense strategically to work on this. So that's why we postponed some of the digital initiatives in the company.

But after the spin-off, on March first, we started the company's digitalization movement, and we were quickly able to implement it. We entered a partnership, the first of others that we are working on - about what we should have news for the coming quarters - with Cornershop. We quickly managed to implement it in 16 states. Basically 2/3 of our stores are already operating with apps for delivery and e-commerce, bringing in a bit more comfort for our customers all over Brazil. Gabi, can you change slide, please?

Well, about sales and the platform, that's within our expectations. We're still at the beginning, basically, three months of operation, which is in our expectations and there is a growth trend at every quarter. And as we open new stores, the cities that are covered also automatically enter the platform.

So, about our gross margin now, I would like to highlight especially that as you do see the maintenance of our margin, these are quarters that are not comparable. The third quarter of 2020 and the third quarter of 2021, but this year differently than last year, our anniversary campaign starts in September and October last year due to restrictions. Last year, due to restrictions, uncertainties, even due to the pandemic itself, we had an anniversary campaign that started practically in the second half of September, unlike this year, which started on the first working day of September, when we joined the campaign with greater aggressiveness than last year, even because we had a lot of restrictions, in terms of stores, hours, in short, it doesn't compare.

We also had the opportunity this year to negotiate with our supplier so that we could really have a campaign just as all the other campaigns, and all anniversary campaigns are very strong, where we can always increase market share, considering that, the precision of their commercial strategy is really reflected in the Nilsen numbers.

Assaí remained gaining share in the total base and also in the same store based. But as we talked about the margins, strategy and I'd also like to talk about the inflation and the impact of the inflation in our business. We are at an adverse scenario where inflation in food is not coming through an increase in demand, but an increasing cause with currency issues, electric energy issues fuels and climate effect, which has really the entire supply chain and also pressured the suppliers with an increase in prices.

What we've noticed considering, as Belmiro mentioned, there is a drop in the population’s income. We've noticed that in our store there's a trade down of brand, that's really significant, maybe even stronger than another moment where Brazil went through some difficulties. We've noticed that there is a substitution of products and brands with the maybe the trade down, of type 1, rice or type 2 rice, beef switched for chicken and other premium brands where customers are choosing cheaper brands.

We were already working very hard with the issue of first price, first price brands and, strategically, we reinforced this mix in the last two quarters, which meant that we did not suffer so much from these inflationary impacts. We also observed a trade down of brands, but we have an indicator here that we call PMU, which is the average unit price, by which we could observe a stability in the average price and we had practically no reduction in volume.

This is really important for us. We focus a lot on the volumetric issue and the tonnage that we have. In the same store basis, there's a bit of a retraction. Considering all of the adverse scenario were facing, there was a drop, maybe a 30 bps in the volume, which is practically insignificant.

I'd also like to take advantage of this opportunity to talk about this issue of these suppliers. And the supply chain has started to demonstrate them regularity times, differently than what we had in the previous quarter, where you had the demand but there was a lack of inputs or product. We are now working with stock levels that are more appropriate for the moment we are going through, and we are already preparing for a strong fourth quarter, because, despite the scenario, we should have a consistent fourth quarter.

Daniella:

Thank you, Wlamir and thank you, everyone.

I will continue here with the presentation and talk about EBITDA. The adjusted EBITDA, excluding the fiscal credit effects, reached R$ 838 million in the quarter. If we were to consider five years back, this is an EBITDA that's four times greater, so this is very significant evolution

We had a growth of 17% year on year and a margin of 7.8%, which is stable and is relative to the level of the third quarter. Compared to 2019, we grew 73% in 2 years and sales grew 56%. When we evaluate the 9-month accumulated, this 2-year growth is 69% and, compared to sales, the growth is even more significant, 24%. So, really, we have shown the solidity of this operating result. This result, once again, reinforces that even with a strong basis for comparison in 2020, Assaí continues to deliver very consistent results as a result of all the resilience that the business presents, with this great performance, this very strong expansion and the rapid maturation of our stores.

About the net income, in the quarter we've reached R$ 538 million in net income, a growth of 34% and 0.6% p.p. in the net margin. In the YTD, net income grows 54% and goes over the R$ 1 billion level. We’ve reached R$ 1.1 billion with a margin of 3.6%, an evolution of 0.8 p.p. compared to 2020.

We have to make some adjustments to this profit, as we mentioned before. It has R$ 187 million of net credits net of taxes in the third quarter, and R$ 228 million in the 9 months. In addition, there is a significant difference between the income tax deduction, due to the payment of interest on equity made last year, with an impact of R$ 105 million in the 3rd quarter 2020 and R$ 22 million in the 3rd quarter of 2021. When excluding these effects in order to correctly analyze the profit, on a comparable basis, we have a year-to-date growth of 39%. So, again, much higher than the sales growth presented.

Moving on to the financial result, this quarter, the financial result before interest on lease liabilities was negative by R$ 88 million, which is equivalent to 0.8 p.p. of revenue, and quite stable compared to last year's period. And in the quarter, we had a higher cost of debt, obviously due to the increase in the CDI, which doubled compared to last year, and in the 3rd quarter of 2020, we went from 0.51% to 1.24% of the CDI. This cost represented around R$ 60 million in the quarter.

Another factor that contributed to the increase in the financial result was the higher volume of gross debt in the quarter. What is this? We carried this higher volume due to the second issue of debentures, which the Company made in June in the amount of R$ 1.6 billion. With this funding, we paid the first debenture, the second series of the first issue, which expired in August. So, at the end of the quarter, we have this extra volume load. This movement is part of our strategy to extend the term of the debt to reduce its cost, and I will talk a little further on the next slide in more detail, but just to conclude this slide, the financial result, excluding credits tax represents 1% of net revenue in the quarter.

We ended the quarter with a net debt of R$ 5.2 billion and a reduction of practically a R$ 150 million compared to the third quarter of 2020. And so, for another quarter, we were able to reduce leverage in the company and this has been reduced progressively. We ended the quarter with 1.84x net debt/EBITDA, which is 0.6 p.p. smaller than the third quarter of 2020. We were at 2.50x in the third quarter of 2020 and, as you've seen, this figure has already dropped a lot more than one time. So, we continue with this deleverage due to the strong cash generation that company.

Following the explanation of the refinancing that was made of the first issue of debentures, in addition to the payment of the installment that matured in August. As I mentioned, we also prepaid the last series of the first issue. The fourth series, which, in this case, was the most expensive for us, was paid with the funds obtained from the issuance of promissory notes, in the amount of R$ 2.5 billion, with the cost of CDI + 1.5%. And now, at the end of October, there was another issue, the CRI. With these resources, the Company also completes this refinancing process, and we pay the last series of the first issue until the end of the year, which is a series at CDI + 2.65%. With all this refinancing plan, funding totaled almost R$ 6 billion this year. So, the funding also allowed us to reduce the spread in relation to the CDI by around 1 p.p. and to extend this debt term from 2 to 4 and a half years. That was the point. I'm going to pass on the word to Belmiro so we can continue with the presentation.

Belmiro:

Thank you, Dani.

Now as we talk about expansion, we actually have 11 stores in 2021 that were inaugurated. Today a new store is being opened in Fortaleza, but unfortunately we could not be present. And with this Assaí will reach 195 stores, so very close to overcoming 200 stores. We reached the hundredth in 2016 and the company is undergoing a strong expansion process. This year, as I mentioned earlier, we are going to have openings very concentrated in the fourth quarter, given the built schedule.

In our view, the second half is always the most positive time for store openings. So far, we have opened 11 units, which are distributed in 8 different states in Brazil, and this shows that the expansion is not concentrated in a single region. Our performance has been positive in all regions, and this shows both the strengthening of Assaí's distribution capillarity as well as the focus we have had on regionalization: we have opened in the North region, we have opened in the Northeast, within the Midwest, we opened in the Southeast and we have a strong schedule of openings between now and the end of the year.

We maintain this target of launching about 25 to 28 new units at this moment. We are underway with 25 organic stores and part of the network of 2022 is already under construction. Looking at this new reality, with the issue of inputs, with the issue of the pandemic, which will allow the goal, which we have now readjusted so that the 18 organic stores are maintained for 2022. We will also have an inauguration, an entry into a new state, the last one missing in the North of Brazil, which is the state of Acre. So, this year, between November and December, we should open approximately 15 to 17 new Assaí units and we are already going to turn the year around with approximately eight, nine or ten units, in total, under construction for opening throughout 2022.

This advance, and a little advance in organic expansion, is important, because it will combine with a project that we announced a short time ago, which is the acquisition of Extra Hiper commercial points. Within this year's park, among the stores that opened, two are conversions. Today, within Assaí's top five stores, there are three conversions, out of the 10 top flow stores, at least, we have at least six that were stores resulting from conversions – you can move on to the next slide.

And, going back to this point, highlighting the market, we started, as soon as we announced the Material Fact, to provide a segment with the involvement of landowners, with the involvement of construction companies, of project companies and where we are going to transfer much of the expertise we have, whether in the conversion itself or in the organic expansion itself, for this movement of this greater amount of conversions.

We would like to highlight this opportunity once again to mention that these points are a little different than the organic park that we have at Assaí and also even different than the other conversions we had.

And most of this park of stores now coming, almost all, are irreplicable points! Commercial points that belonged to stores that opened 20, 30 years ago, when in the real estate market it was still possible to identify a plot of land measuring 45 thousand square meters and place a store between 7 and 8 thousand square meters of sales area, with a gigantic amount of parking spots. With the advance of population density, mainly in Brazilian capitals and big cities, it means that today there is a huge difficulty.

The reality in the sector now, just as the cash-and-carry sector, we grew very much in the last decade and maybe also partially in the last decade, but predominately in the past decade. If you look at the history of stores that were open and also look at the locations, you'll see that most of these stores we were not able to provide greater proximity to the customer. We're not able to reach it. And in this movement now, given Assaí's progress, with an opportunity to accelerate our growth as well, the combination of organic expansion and conversions is the right decision at the moment.

So, this project will allow us to acquire some commercial points that would have been impossible to acquire due to the reality of the real estate market. Where due to the time of approval is more difficult. And most of these capitals are in capital cities in Brazil and Metropolitan regions of the capital cities. Of the 71 stores, 63 are within these conditions. The sales area of this park of stores will allow us to add 50% of what we have today, so that you have an idea. The footage is very different from the reality we have today in a part of the Assaí store park and allows us to be in many of them, even closer to the B2B audience. Most of them, as they are in central regions, where they normally concentrate food service operators, which often concentrate small grocery stores, but mainly the food service industry, bakery and other sectors, will allow it to be a nearby store, will allow this merchant customer can stock up faster and you are also close to much higher population centers.

So, the history of conversions demonstrate that the store conversions are normally very quick when it comes to maturity and the store conversion since they're already traditional points and very well known by the population. So, you have some time to attract the customer of an store that was opened and in terms of margins quicker than organic network. This is going to be very important in our view.

In our view, 2022 will be a year where the population will still let you too many economic reasons and different issues that are not within our power, but they should have a bigger search for price. So, this point already combined, the strategy that we've been following in the past years of having a combination, which is improving the purchase experience of the customer through the location of the stores, or the environment of the stores or the level of service place in the store maintaining low prices. Still maintaining a major advantage for the customer or small business.

And so, with the conversions basically were tripled, and they take about six months to reach this total ramp up, with a net income within the first year. The breakeven has been a lot higher since it considers very well-known point.

On the slide, you can see the Carapicuíba store, which is one of our main stores in terms of revenue. The store has 8 thousand square meters of sales area, more than 14 thousand square meters of built area and 830 parking spaces, almost 900 parking spaces. It is one of the main stores in Assaí and which has already been part of this possible conversion movement, it is very much in line with the current number of stores we have acquired. There were a series of obstacles, problems from the past, which prevented some conversions, but the market changes, economic changes that were very fast and the trade down, this growing movement of customer migration, from retail to wholesale channels, make us have great confidence in execution and delivery.

Next steps will be: Extra should end its activities at the end of December, perhaps halfway through January, so that in February we can start the store conversion processes, which will be divided into two waves. We still don't know which stores are the first and second wave as this is also dependent on agency regulations, but the goal is to convert around 40 units in the first wave. These stores will be reopened around June, July and August of next year, and a second wave will start right away, due to the capacity of execution, with delivery in the first half of 2023.

Along with this, 18 to 20 organic stores will be combined, so we will have a year of strong growth, of entry of the brand into regions, and we would always like to enter the Assaí brand, which has been widely accepted by the population, people have seen it, whether in the organic park or in the conversions. We believe that this step is a historic step, a step that will show extreme results and put Assaí back in competition, also in the search for market leadership, delivering and taking it, will be beneficial both for our customers and for the our suppliers, to our shareholders.

About ESG, an important topic, a topic in which today, obviously, there is a reinforcement of the companies, but those who followed Assaí's trajectory know that many of these topics, even before the issue was so strong in the market, already were practiced by the company's commission even by the demand of our controller. Regarding investments, we have, I think, in two states, the largest photovoltaic plant in Assaí's roofs. So, most of our stores are in the free energy market, our matrix is practically all renewable energy. We have a very strong use of photovoltaic and wind power, which already has an extremely important participation in these contracts that we signed in the Free Energy Market.

We have 174 migrated stores at this time, in addition to a series of other initiatives, for example, Academia Assaí Bons Negócios, with more than 16 thousand enrollments this year. Of the total number of people selected, approximately 80% are women, and 80% are self-declared as black or brown, which shows that we have had this project for some years. In addition to the micro and small entrepreneur being a client - Entrepreneurship - there is a role, in our view of society, to foster technical knowledge, financial knowledge for these clients. More than 1,500 were selected and took courses at Academia Assaí, in addition to a series of other initiatives that the Company has been developing in this area. Today we have 25.3% of women in leadership positions, it is low, obviously, but we have been working, but the evolution has been significant, almost 5% advance in the third quarter of last year, compared to this quarter. Furthermore, more than 45% of our leadership collaborators declared themselves black or brown in the last census taken. From the numbers for the third quarter 2021 that's it. Now, I'll give the floor back to Gabi, our IR director.

Thank you very much to everyone.

Gabrielle Helú:

Now, we're going to continue with our Q&A session.

Operator:

Now we may begin the Q&A session. We'd like to remind you that if you need me to question, you must select the Q&A icon, the bottom part of your screen and write your name company and language. As you are now the request to activate, your microphone will appear on the screen and then you must select your language and your microphone will be open to perform questions. We'd like to ask you to please submit your questions all at once. We'll move on to our first question from João Soares, the sell side analysts from Citi. João, you may submit your question.

João Soares - Citibank:

Good morning everyone, and thank you for this call up to questions here.

The first one is about the gross margin. Let me mention some clear messages about how you've been able to keep up this gross margin. But when you look up ahead as you mention with a normalization of the supply chain, and also with makes a small business really gaining strength. Now the end of the year, how should we at least consider a guidance for the gross margin? This would really help us.

And the second question would be about leverage. You have a clear understanding of how much you expect in revenue until 2024, the amount of stores, but I think would be important that if you could, maybe provide us some visibility about how you expect this debt, or leverage to evolve as you pay for the installments of the acquisitions of these hypermarkets. And within this same debt point, if you could, maybe mention a bit of how you have additional space may be to reduce the CDI spread through refinancing. That would be very interesting. Thank you.

Belmiro:

Dani, let's start off the debts?

Daniela Sabbag:

Yes. So João, thank you for your question.

And in regard to the spread work with the reduction of the spread, we've already worked on some important efforts to reduce the spread of the debt from CDI, and we reduced this by 1 p.p., so this is completely done.

But when we look at your question about the perspectives on how our net debt/EBITDA, will be considering the payments as we already mentioned, right? So, if we consider the normal cost cash generation of the company, in December we would have a level that would be very comfortable, below 1,5x net debt/EBITDA. So, this is the starting point, and then we start with payments from December, and 2022 is the most relevant point of this indicator, when we reach the maximum that we are forecasting, which is 2.5x. But this increase is momentary. With the cash generation, we even predict that, given the entire payment of R$ 4 billion, we will have a need to raise only R$ 2 billion, so it is much lower than the total amount, and at the maximum point, it reaches 2.5x net debt/EBITDA, and that quickly drops again in 2022.

Wlamir:

Thank you for the question, João, but about the margin's expectations, even with the addition and the reopening of the economy and small businesses buying a little more in the store, of course, the customer will be working with a lower margin, but we continue to observe the movement in the market, that they're still migration of customers into our stores. So just to give you an idea, until the previous quarter we had a penetration of cash and carry in the Brazilian houses about 63%, according to Nielsen information, but this has already risen to 65% in this quarter. So, were added a significant number of new homes buying in this channel. And since we have a precision and policy, it's quite interesting for small businesses as we also reach the interest and customers and at the stores are really well located closer to the population centers, we really believe in maintaining the margin, but we've also been working together with the suppliers, and we don't see a perspective for a loss or improvement. We believe in the maintenance of this margin.

João:

It was very clear, Wlamir. So just very quickly, Dani about new refinancing and opportunity to reduce the spread by CDA, could you share some information on that, maybe?

Daniela Sabbag:

Actually, we've already made all the effort. We managed to reduce all three debt emissions, some of them even by half, so for now there are no other opportunities that we are seeing in the market as it is.

João:

Okay, understood. Thank you for the answers.

Operator:

The next question comes from Thiago Macruz, the sell-side analysts Itaú BBA.

Thiago Macruz – Itaú BBA:

Hi guys, good morning.

I would like to talk a little about supply shocks, the risks we are buying in the supply chain. You mentioned that you are on the way to normalization, but I would like to understand if this scenario had an impact, throughout 2021, and eventually towards the end of the year, on opportunity purchases.

We know that you, Atacarejo and the industry as a whole are always accessed when suppliers want to deliver the year, and the targets were set in January, but I would like to understand if you are being able to maintain a year-on-year margin. in a scenario where this is not happening, as it happened in other years. That's the idea.

Thank you, guys.

Belmiro:

Well, thank you Thiago for your question. Where you do have a difficulty in the supply chain, obviously the possibility for pursuing opportunities is smaller. So, of course, the concentration, the commercial area is more focused on maintenance and trying to reinforce from first price, level products to reflect of the habits existing with the trade down and because of this we had to leave some of the opportunities sideways, but this scenario should have modified now, and they start giving us some signs of an important trade down among the population.

So, obviously, you will still have consumption, although it will be different, depending on the brand of the product, depending on the supplier, and this opens up opportunities. As we see ahead, because as the chain normalizes of input, as much as the population's habits have already changed, it has already adapted, changed its brand, changed the packaging of products to be able to maintain its purchase in a scenario that supported very heavy inflation in the last 2 years, without an increase in income, so it is very likely, that should come is what I would call a mismatch between premium products and other products, given that this movement has been accentuated very strongly in the latter. It came perhaps smaller than expected during the period of emergency relief, but perhaps it has been taking up a space, a significant size.

It's so difficult to predict some other supply chains. As you mentioned, we're going through a moment of an inflation where this does not come from consumption, but from external problems, like the increase of the commodities in the international market, which is also what happened with deal, impacting our construction and also the agricultural commodities due to climate issues. And when you add up all of this, you still have another factor, which is the loss in value of the real, which has really pressure costs. And then as always, you will have the struggle with the supply and demand offer and throughout 2022 as well.

Within this scenario, we should see some opportunities sometimes not in one category, but for specific brands and suppliers where in some scenarios with a bigger difficulty per sales. This channel, as you said, it really provides us with the capacity to have low-cost inventories because most of the inventories are in the actual stores. If not, it wouldn't make sense. when you have an opportunity purchase, it's no use saying "well, with this product here I have a problem with prices, so I'm managing to buy it cheaper and keep it stocked at a distribution center, because the freight cost and the storage cost will offset all the opportunity cost with the purchase". So it's possible that some scenario will come up, but we're not working with that on the radar yet.

What we have been doing is to keep a very strong discipline in management, we have been seeking strong discipline in inventory management, mainly to adapt to the sector, because most items are not items that require high turnover. So, we were able to adjust very quickly to reflect consumer customer demand, merchant customer demand. Obviously, we still have an expectation now, with the end of the pandemic, that important sectors can return, as I said at the beginning of the speech, Thiago. Thanks.

Thiago:

Thank you very much, Belmiro.

Operator:

Our next question comes from Nicholas Larrain, the sell side analysts from JP Morgan. Nicholas, you may proceed.

Nicolas – JP Morgan

Thank you, guys. Good morning.

You'd already talked about the trade down impact, but I want to understand how you have noticed the traffic trend in different regions. Besides, this, could you maybe talk about the level of recovery of B2B versus the previous pendant prior to pandemic.

Belmiro:

Well, trade down. I hope I understood your question Nicholas, but trade down happens in all the regions in Brazil. So, of course, in the North and Northeast region of the country, you have two movements: you have migration of retail customers to our channel, but also within the channel. You have, of course, if you consider the example of the beef category, you have a switch from beef and chicken, for example.

What happens in this scenario is besides performing the switch, they try to concentrate their purchases in the beginning of the month, because if you have limited money, those pressured by the increasing gas and electric power costs, normally the trend and it's kinds of period is that you have a bigger concentration within the beginning of the month. So, we notice a drop in traffic, and part of this, as we mentioned, is really because customers look at and say, "I don't have so much of an impact in the restriction, I have limited money, I'm gonna go to a cash and carry to buy it once" and then they can reduce their replacement purchases. So, in our channel, for example, there's probably this movement with the concentrated sale, the beginning of the month, but especially in retail channels. They probably see a very similar situation B2B.

B2B is still premature, if you take as an example the school canteen, which haven't returned yet, a good part of some services have not returned and there is great caution from the B2B public, with the issue of inventory and some of them also with very big difficulty box.

Some sectors, like events, have a lot of people that, unfortunately, due to the long period and the restrictive measures, just disappeared. So, in some of these sectors, we know that they can recover quicker, which is the case of food service because you must have a lower level of investments, but of course, that will be demonstrated a bit more up ahead in the 4Q21. And, within the first period of the next year.

I hope that's clear.

Nicolas:

Yeah, it's very clear, Belmiro. Thank you.

Operator:

The next question comes from Bob Ford, Bank of America.

Gabrielle Helú:

Bob, your microphone is open, you can submit your question.

Operator:

Our next question will start and then we'll go back to Bob. So, our next question comes from Irma Sgars, analyst sell side from Goldman Sachs. You may proceed.

Irma – Goldman Sachs:

Thank you for answering my question.

I have a question about the e-commerce. I understand that we're still in the beginning of this experience and the growth of this channel, but as it gained scale, how are you imagining that this should be behaving when it comes to, the profitability of this channel. Could you mention how the profitability of this channel behaves now compared to the profitability of the core business. And how you've noticed this midterm.

Belmiro:

Thank you for the question, Irma.

E-commerce, although to Assaí this is just the beginning, but as I mentioned previously, as a group, we've already been working in this channel and believe it or not we sell too many companies that sell food in the e-commerce. So, we have at least four major customers that buy food with us to sell on their e-commerce. So, although Assaí think that's would not make too much sense strategically, before the spin-off. It is a channel that we have a lot of knowledge about.

Since we decided to enter, through the last milers, it started very quickly within the 3rd quarter and is already in 120 stores, 16 states. There is a fee that is paid to those who operate in the latest media. So, on the one hand, the purchaser is the end consumer, who has a higher margin. On the other hand, we pay, so it has a margin approximately 2 points below what our margin would be, and in line with the margin of what we sell to the B2B clients.

It is obviously still at the beginning of the project. Let's see how the numbers behave in the fourth quarter, but the project had a very strong adherence, there is a portion of the population that is able to pay and that needs to pay for this service, who often want to buy at Assaí, but cannot, can't move and wants to offer the lowest price.

We are going to wait a little longer for the numbers for the fourth quarter, for the first quarter of next year, when new last milers should also be added. But in terms of the overall margin, there shouldn't be any impact. In e-commerce, in the food sector and Cash & Carry, even for players that have been operating for a long time, it still has a very small share.

When we look at the entire food market, especially when you enter the perishables line, product / price, the population's habit is, when possible, is to search, choose in the store. In this movement of conversion Extra stores, as they are in regions with greater purchasing power, they are much closer to the class A, B audience, there should be an increase in this or some other projects, we are already looking in this direction to reflect on the customer's need.

These large and better located stores should also allow for the offer of some other level of service than today, given that the population surrounding the stores, given that today, due to the smaller number of parking spaces, it still doesn't make any sense. These are some news and we also hope, although the main focus is to enter, convert these stores as quickly as possible, which open up new opportunities for Assaí: in the regions where they are located, in the public that surrounds them, the level of income that you have around you opens up great opportunities, whether in terms of services or in terms of product categories, Irma.

Operator:

Now, we'd like to remind you that if you have any questions, you may select the Q&A icon on the bottom of the screen and write your name, company and language to enter the question.

Belmiro:

We're be able to find Bob?

Gabrille Helú:

I think Bob had to disconnect for some reason. But let's continue. So, we did some questions by the chat. So, I answer them here. So, we have a question also about how we're going to be raising these two billion. Dani mentioned, we're still structuring this. A question here from XP ASSET, another question - I don't know if Dani wants to comment -, how do we see the impact of SELIC on the financial result and on our botton line and if we should expect greater pressure on expenses for the next year. Questions from Diogo, from Mellita.

Belmiro:

Well, great point. Obviously, despite the increase in the SELIC rate, Assaí is already on a very strong deleveraging curve. The Company, as we always say, is extremely cash generator. This year, even with this mass of investments that was made, the payment of interests on capital, the company was able to deleverage and bear the cost of debt. On the one hand, we will be offended by the increase in the Selic rate next year; on the other hand, a good part of the stores will be entering this year.

They enter with the contribution for next year, obviously I also think that we will leverage more for Extra conversions, for payment, although for LPG it is paid in installments, it extends, until 2024, within the curve, given the capacity of Assaí's cash generation.

To give you an idea, the 1.5x EBITDA indicator will already be reached in 2023. In 2023, in addition to the increase itself, we should also be able to carry out an extremely important amortization, but, yes, it will obviously have an impact within of our results. It could be that the target we are working on is to end in 2024 with a net debt/EBITDA level at 1x.

With the SELIC increase, it can obviously increase the carrying cost and should have an impact. This was simulated within the projects, within the expansion project, within the project, and now with the acquisition of Extra, we already work with scenarios, both a little of what the market consensus would be and even with scenarios a little more pessimistic, since the unpredictability was great, but the increase in the SELIC has a huge impact on the financial result.

Operator:

We'd like to remind you all that If you do have any questions, you must select the QA icon at the bottom part of your screen, write your name company and language to enter the question.

Operator:

The Q&A session is ended officially. Now we'd like to pass on more work to the company for their final remarks.

Belmiro:

First of all, I want to thank everyone that participated on this call.

This third quarter was very positive and we'd like to think Assaí team for all of the advantage in the third quarter, with the amount of projects and everything that took place now with Cornershop and the commercial dynamics, the anniversary campaigns and store opening. But even the ones that are not opened, require major efforts to train and engage the entire team.

So, this keeps the company very convinced about its precision and its growth path.

And also be precision at the point, and we're going to see in the fourth quarter with the closure of 2021, even with all the turbulence and economic uncertainties in the election year.

We see that our business model is really resistant and resilient, considering all the performance that was that took place during 2020 and 2021. Thank you very much.

Operator:

The earnings call related to the third quarter of 2021 at Assaí Atacadista register is officially ended. The IR department is available to answer. any other questions. Thank you very much everyone and have a great day.