Earnings Call Transcription
1Q24 Assaí (ASAI3 BZ)
April 25, 2024

Operator:

Good morning everyone. Thank you for waiting. Welcome to the earnings call for the first quarter of 2024 at Assaí Atacadista. I want to highlight that if you do need simultaneous translation, we have this tool available on our platform.

To access, please select the interpretation button through the globe icon on the bottom part of your screen and choose your language of preference, Portuguese or English.

This earnings call is being recorded and will be provided on the company´s IR Website https://ri.assai.com.br/ where you can find the earnings release available. During the presentation, all of the participants will have their mics off. Soon after, we'll begin the Q&A session.

To submit a question, please select the Q&A icon on the bottom part of your screen. Write your name, company and language to enter the queue. As you're announced, a request to activate your mic will appear on the screen. Then you must activate your mic to submit questions. All questions should be submitted at once.

We want to highlight that the information in this presentation possible statements that could be made during the earnings call related to business perspectives, forecasts, and operational and financial targets at Assaí represent beliefs and assumptions of the company's management, as well as information that's currently available. Future statements are not a guarantee of performance. They involve risks, uncertainties, and assumptions as they relate to future events and thus rely on circumstances that could or not occur.

Investors must understand that general economic conditions, market conditions and other factors may affect the future performance at Assaí and lead to results that differ materially from those listed in such future statements. Now we'll pass the floor on to Gabrielle Helú, the investor relations director at Assaí.

Gabrielle Helú

Good morning, ladies and gentlemen, and thank you for participating during our earnings call for the first quarter of 2024. I want to present the executives that are present today for our discussion.

We have our CEO Belmiro Gomes and our four VPs Vitor Faga, the VP for finances and investor relations, Vlamir dos Anjos, commercial and logistics VP, Anderson Castilho our Operations VP and Sandra Vicari, our VP for people and sustainability.

Before we begin the presentation, I'll pass the floor to Belmiro for his initial remarks. Please Belmiro.

Belmiro Gomes:

Okay, thank you Gabi.

Thank you ladies and gentlemen, for your participation during one more earnings call. I also want to thank our VPs for their presence also as they'll be participating in this presentation and a warm welcome to Vitor. He just joined our team recently. He's going to talk about our financial aspects and bring other contributions. So I want to publicly welcome you Vitor.

And now, as we get into the presentation of the first quarter, I wanted to thank our team from all of our different areas. I want to thank our board as well for their support and interaction with the company. And also we want to thank the 76 million customers that have been visiting all of our stores during this first quarter.

During the first quarter, we had an increase of 13% in the customer flow. As you can see, we like highlighting this a lot and really looking at this in a nominal way, 76 million means a progression of over 10 million tickets within the first quarter. More than 3 million customers in these three first months, on average monthly, due to the conversion work as well as the store maturity that was part of a very big project.

So, to summarize this, it really demonstrates the resistance in the business model, the precision and the value proposition, and the strategies for plans we've worked on with changes in the actual model. We're going to disclose this more during the presentation. And of course, within this evolution, I think Assaí has been one of the main protagonists in the Brazilian food market.

During the first quarter, and now including April, the company reached 293 stores under operation, which means that till the end of the year, Assaí will have over 300 stores under operation in Brazil. And during the first quarter, we had some openings that were very important.

We opened our second unit in Macapá, our first unit was opened there four or five years ago, which is a very productive unit. It's a market that's very logistically challenging.

And another unit in Vila Maria, which is very significant, on Marginal Tietê, and something interesting is that is also where the first cash&carry store by Makro was created in 1972.

And a very important unit in Cidade Tiradentes and one more in Cuiabá as well.

And we just opened the second store in Espirito Santo in Vitória, where we had another opening last year, and so we are moving on with the expansion plan that Assaí has for that market.

So we just went through a huge expansion process, 28 openings in the last twelve months and 80 openings, when we add up the last 24 months. So there's still a good amount of stores in our expansion, that are still in the maturing phases.

And considering the numbers in the first quarter, they consolidate the level of expenses and the changes that took place in our business model did not change the proposal of our business model, which is really to be the best cost option for B2B and B2C customers as well as search for ways to conquer new markets and customers, and especially new social levels in different regions. And we're going to talk about this throughout our presentation. So the conversion project is basically finished.

The level of EBITDA that we deliver within this first quarter, as you saw in the earnings release, it really makes the company get back to the levels of pre IFRS EBITDA margin levels that we had before we began the conversion process. It was a really important evolution, 38% in the pre IFRS EBITDA vision.

So we're really highlighting this pre IFRS, because the last strategic projects really changed our lease expenses as now we're operating within a store network in more central locations. And when we consider this from a real estate perspective, they're basically irreplicable locations in Brazil.

Our EBITDA margin progression, as we're going present up ahead, brings the company to a consolidation of these numbers and an advance that's very important in the same stores in the quarter.

So this quarter has two important impacts. We have the calendar effect with Easter, which is not that significant in our sector, but we also have February 29th, which has a significant impact.

So with this, we delivered R$ 18.8 billion in revenue, 14% growth compared to last year. And considering the combination of the progression of the same stores that I highlighted, but also considering the progression of the 28 new units that were opened in the last twelve months, and if we were to calculate this, we'll see that from the 28 units, 14 of these are organic and 14 are conversions, then we reach an average sale of R$ 18.2 or R$ 18.5 million in these units that were recently opened.

Of course, they begin their maturity curve and progression, but they are at a level that's higher than what we notice in the market on average. The company also registered an increase in market share in the same store vision, which we believe really demonstrates this precision, especially with the conversion project.

And Vitor will also highlight the net income a little more in his presentation, but we have two points to highlight here with the LAIR (profits before Income Tax) evolution in the first quarter, as the base was really impacted by the conversions we had recently worked on.

At the end of 2022 and in the first quarter oof 2023, as we'll see, we had about 60 new stores that had started their margin curves.

And another highlight in the quarter is demonstrating the capacity to generate cash in the company and the business model, which really makes us reduce the level of leverage even in relation to the fourth quarter, which we all know has a seasonality effect that's very strong. And all of this allows us to reestimate the net debt to EBITDA levels now for the end of 2024.

We talked about this in the investor day with a net debt to EBITDA ratio of 3.5x, which will now allow us to re-estimate a whole new level that's lower than 3.2x. And we're going to ensure this is even lower in the next quarters. We can move on to the next page.

So here we can see we have an evolution in the conversion project, as we all know. We highlighted this in other opportunities with the purchase of the extra hyper locations and the conversion project. And this was all part of Assaí´s strategy to enter into central regions with a more challenging project, where, as I've mentioned, we reached 18,000 people, working simultaneously on civil construction.

These stores are in regions where our model was not that present yet. So it really considered an increase of consumers and an increase in capacity for sales and margin generation.

When we look at the numbers in the first quarter, we have a progression in that group of 47 stores that were initially opened, which was 23%, and the pre IFRS margin doubles from the first quarter to this one now.

And a progression in the sales of about 18%, which leads to an average level of R$ 26 million. So, the store network with the extra stores that are still in the beginning as they have been around for less than 24 months, already deliver a pre IFRS margin level that's in line with the company´s results overall.

And that's visible when we look at the pre IFRS EBITDA in the company, since if it were not so, we wouldn't have had that progression of 90 bps that you all saw. You can advance on to the next page, please.

So in the gross profit here we really demonstrate the capacity to generate value because the EBITDA will have a combination of factors and I will talk about our expenses more, but the gross profit really demonstrates the strategy we adopted. The gross profit in this period grew 188%.

If we compare the first quarter in 2019 and the same period in 2024, in 2019 we generated R$ 1 billion in Gross Profits. And now this went up to 2.8 billion. And an increase in the gross margin of 15.3% to 16.3%.

And that was all part of this strategic rationale for the evolution, because this increase in the gross profit was necessary to cover the model where there were some modifications in the last few years, which included an increase in the product mix, and a search for improving purchase experiences and the deployment of stores in the central regions where the cost of leases and IPTU property tax were greater than what we had already considered in the organic store network.

But in our plan, there was already a change in the cash and carry format to be able to enter these higher social levels. And also as we include these new services, besides improving the purchase experience, we also consider the increase in day-to-day shopping tickets. So when you look at Brazil, we have 40% B2B and 60% B2C Customer, besides supplying their monthly shopping or bulk shopping we also wanted to be a replenishment purchase option.

So we won't rely that much on inflation periods when this big bulk shopping is normally the best option for most families.

But when we look at the Brazilian labor market, we see an increase in the amount of informal workers and MEIs (individual micro businesses). So about 40% of the Brazilian workforce does not receive a monthly salary, they receive a daily wage.

So this number of MEIs went up to about 15.3, which is like an individual company, they're Uber drivers and they make daily wages. It's normally more difficult for them to have one big bulk shopping.

So a lot of the operations in this model, with a store closer and a better purchase experience, intend to keep the resilience of the bulk shopping transactions, be a good price option for businesses, bakeries, and grocery stores that are going to supply their food service.

So for the B2C customers we want to be positioned as an option for performing bulk monthly shopping and also smaller replenishment purchases. We believed this was a very precise decision which also made the company a lot more resilient to be able to face any scenario or any adversities or external turbulence. Let´s move to the next slide please.

I think this is really visible with all of the changes in the first quarter. Of course, the fourth quarter always has this kind of seasonality effect. And we had a lot of discussions about the changes made in the business models, the stores in downtown areas, including new services and all of this. And the level of expenses provides this kind of visibility.

When we look at the expense level in the pre-IFRS vision, you'll see that the level of expenses at Assaí which were 9.5% in 2019, are now 9.4%. Even with all of these changes, the increase in the mix, the increase in the services that we placed in the stores, and the lease calculations reflect the company's positioning of having stores in more central regions, and I think the Gross Profit demonstrates that this was very precise, especially for customers in Brazil, where we have a metropolitan area with major density, logistical challenges and traffic that we all know well about
.

And having these more downtown stores becomes an important option for higher income consumers and businesses in the surrounding areas.

So in the conversion process, most of the leases should consider a dilution curve still since most of our leases consider fixed values, and as you reach maturity and they continue through this maturity process, this expense continues to be diluted, but more than offset by the increase in the gross profit. Moving on to the next slide.

Before I pass the floor to Vitor I think that all of this combination is visible in the pre IFRS EBITDA. So the company had levels of investments that are really high to be able to reach this new positioning.

And the company is the second biggest food sector player in the Brazilian market. We've been having a constant sales progression, but we've also considered balancing the growth of our sales and our profitability.

So we always mentioned the hypermarket project was a project with a beginning, middle and end.

And now when we have these stores contributing more and generating cash and EBITDA, and Vitor will discuss this further, we begin this deleveraging process.

And this is going to really be visible as we reach R$ 897 million, this demonstrates that this strategy we adopted was the correct and precise strategy. And the company will now become a lot stronger to continue advancing from now on with organic projects and new opportunities as well with existing store base.

As we mentioned last year, we became the company that's most present in the Brazilian households, one in every four households buys at an Assaí store and in the São Paulo region this is almost 50% of the households.

So we still see a lot of opportunities in many other states. So then finally you have the EBITDA issue and we'll pass this on to Vitor and he's going to get into more of the financial details. Thank you.

Vitor Faga:

Thanks, Belmiro.

Well, guys, now we're going to talk about the impacts of our financial results, because understanding these impacts is fundamental to also look at the LAIR (Profits before Income Tax) and the net income and variations compared to the last period. So in the first quarter this year, the financial results were impacted by four main events. And they also generated a pretty big difference and considerations when we consider the same period in the previous year.

First of all, the completion of the payment for the acquisition of the hypermarkets. Besides this, the MTM of the swap instruments we have for some debt facilities we have that are considering IPCA+ or the pre rate and we swap that to CDI. So this swap operation also was adjusted. And the third factor is the non capitalization of some interest related to stores that were in this conversion process.

And finally, the reduction of the CDI in this period. I want to highlight that two of these factors, the MTM as well as the capitalized interest, are non-cash effects. And these two effects jointly add up to over 100 million reais in the first quarter. When we take a look at the LAIR (Profits before Income Tax) this is mainly impacted by the operational leverage and evolution of the EBITDA as Belmiro described with the maturity of the new stores and dilution of expenses as we can see in greater detail.

And also when we consider the growth of the financial results that I provided in details, considering these four factors and this growth in the LAIR is important as it demonstrates the results in the profitability of the company due to the store maturity process and dilution of expenses.

And finally we reached the net income, which had a growth of 19% as Belmiro mentioned in the beginning of the presentation, as a consequence of this evolution in the financial results and the profits before interest that we just observed, but also considering the comparison with the previous year, it's impacted by the end of the subvention for investments, which modified our comparison basis and leaded to this growth of 19% in the period.

Next slide please. Now we're talking about cash generation. So we had a cash generation that was very significant in the period. We were able to have operational cash generation of R$ 4.9 billion in the last twelve months.

And one important point to highlight is the growth, considering the cash generation we had in the end of the first quarter last year of R$ 1.7 billion. So this was a significant cash generation growth. When we compare twelve months with the same period, and even when we compare this in a sequence, the cash generation that we had, by the end of December 2023, throughout the year, this cash generation we notice now in the first quarter, is R$ 300 million higher.

So this demonstrates that the evolution of the conversion process in the stores and the EBITDA growth was really reflected in the cash generation.

And besides this, it's important to also notice that we had an improvement in the working capital cycle, an improvement of almost five days, 4.6 days, impacted mainly by an improvement in the levels of our stocks.

We described this movement and the details in this process in the release, so that you can get a better feel of this evolution.

As a consequence of all of this cash generation and the capex and the cost of the debt we have, when we compare the twelve months, we have a net debt that's pretty much stable, R$ 13.7 to R$ 13.8 billion.

And the main factor here is the deleveraging process the company is experiencing, as we can see on the right side of the graph. So the reduction of the leverage where at the end of the first quarter was 4.69x Net Debt to EBITDA and now it goes on to 3.65x Net Debt to EBITDA. So it's a reduction of almost one times 0.94x.

And it's important to see that this reduction in the leverage was due to the evolution of the EBITDA. So we can see in the bottom part of the graph, there's an evolution of R$ 2.9 billion in the accumulated EBITDA in the first quarter last year to R$ 3.7 billion now.

So the deleveraging has been taking place through this strong operational evolution and growth of the EBITDA during the period. And as we can see, the net debt was kept pretty much stable in this period. So these were my comments, guys, about the financial expenses, profits, cash generation and leverage. And now I'll pass this on to Sandra as she'll be talking about the ESG initiatives in the company.

Sandra, please.

Sandra Vicari

Okay. Thank you, Vitor. Good morning everyone.

As Vitor mentioned, I'm bringing the vision of our sustainability initiatives during this period where within our strategy for sustainability, we've been trying to evolve more and more with our commitment to the best responsible and transparent operational practices, trying to minimize our impact environmentally. Our strategy has also been to leverage prosperity for everyone. And this is sustained by three pillars. So first, I want to highlight the pillar of efficient operations, where in this quarter we had an important highlight considering our reductions of emissions, where we were able to reduce 9.5% of the scope one emissions.

We continued in line with our target of a 38% reduction by 2030. We also considered over 40% waste reduction coming from our operation through recycling practices, composting and reduction of food waste. And here I want to highlight our correct disposal program (Destino Certo) which avoided that over 370 tons of fruits, vegetables and produce would be sent to landfills. And that also demonstrates our commitment to sustainability.

And during this period, we also performed the third edition of the TOP LOG ASSAÍ award. And it considers the suppliers that support this process for supplying the stores with excellence. And we also considered the sustainability category this year where we're able to also recognize the best practices by our suppliers in regards to fighting climate change.

In the development people, development and community pillar, we've been investing strongly in the training and development of our over 80,000 employees. And we've also been promoting initiatives constantly that contribute to the very diverse and inclusive labor environment where we can provide the resources so that everyone can be valued and respected. As you can see on our slide, our numbers reflect this. And I wanted to highlight that we have over 43% of black people in leadership positions, which is something that makes us very proud.

We also have amount of people with disabilities that's above the legal minimum quota for over eight years and over 25% women in leadership positions. We were also recognized for the second year consecutively in the ranking for diversity by GPTW, reaffirming our commitment to equality and inclusion. And we are also committed to ensuring food security in the communities where we're present. This quarter, we donated over 140 million tons of food and we also became signatories to the pact against hunger, reinforcing our commitment towards fighting hunger in our country.

And finally, in the ethical and transparent management pillar, we disclosed our annual report for 2023 and it demonstrates our results and how we reached these throughout the year. And it also reflects how our strategy for sustainability permeates the entire company, reinforcing our transparency towards all of our stakeholders.

Our commitment to sustainability is an ongoing process and we plan to continue to evolve and especially contributing to a more sustainable future with greater prosperity for everyone.

So that's what I wanted to share and I'll pass the word on to Belmiro.

Belmiro Gomes:

Well, thank you, Sandra. I think that was an interesting chapter.

When we look up ahead, as was highlighted in my presentation and Vitor´s presentation with the leverage issue during other calls, which is the biggest focus in the company.

The company is a big cash generator and has always been throughout its history. The last time we received resources was in 2010. We were always able to grow and grow a lot becoming one of the biggest companies in Brazil and the most present in households with our own cash generation. And the biggest risk we had regarding the payments to GPA was just completed now in January 2024. So we have no more payments.

And now the company has a stronger cash generation, considering the maturity of the expansion process, and the increase in the margins as we can see during this first quarter. And a reduction despite all of the uncertainties, of course, as today the interest curve is under stress, in the interest rates as well, which should help reduce our levels of financial expenses. We have 15 stores expected for this year, 2024, and then we'll go back to a level of expansion of about 20 stores or higher for 2025.

So this year, as we mentioned during the Investor Day and other moments, we have a lower level of investments compared to what we had in previous years.

We are in this process of balancing our ongoing growth, but also deleveraging. And we also have major opportunities when it comes to phygital as well as category adjustments. As I mentioned, we still have about 30% or more than 20% of our store network still maturing. Most of these stores have some opportunities that the company has been searching for ways to explore with different projects, and we've been working on these in certain regions in Brazil, and our size and footprint allow us to work on different tests.

And this model should continue advancing. So there are still some category adjustments and I think there are still opportunities in financial services, some of the commercial galleries as well, that are still undergoing the deployment process, and now an initiative for commercialization as well for advertising spaces. So when we look at 2024, of course, we have all of the uncertainties, we still see consumers quite pressured, although we did see constant drops in unemployment rates. The purchase power of the population is still pressured by debt levels, most people still have high delinquency levels.

But that makes our model continue to be attractive because saving money is important regardless of social level or income people have, which places us in a very good situation compared to the other food formats. We are still a little bit more favorable within this scenario. And when it comes to inflation expectations, unless there are some very big external factors, we're estimating that the food inflation will be about 3- 4% and a gradual recovery in the trade-down volumes we lost during the pandemic, but nothing too strong for 2024.

So the numbers in the first quarter already demonstrate this, and once again, we see the company´s consistency and what we presented within this strategic plan for growth that we were able to demonstrate. The company is resistant and resilient, and despite all of the scenarios that were quite adverse in 2023, we do hope this year will be less adverse than last year. So now I'll pass the floor back to Gabi as we begin the Q&A.

Gabrielle Helú:

Great. So now we can begin our Q&A session.

Operator:

So now we'll begin our Q&A session. If you want to submit a question, please select the Q&A icon on the bottom part of your screen. Write your name, company, and language to enter the queue. As you're announced, a request to activate your mic will appear on the screen. Then you must activate your mic to submit any questions. We'd like to ask you to please submit all questions at once.

Now, the first question comes from Maria Clara, Sell Side at Itau. Maria we will enable your audio so that you may proceed, please. Maria.

Maria Clara, Sell Side Itaú:

Hi guys, thanks for the opportunity.

Belmiro, a topic that always appears during our interactions with investors is the status of the competitive environment, especially in São Paulo. So I want to ask you to please talk about your perception on this.

The second question is about numbers. Specifically, during this quarter, we saw the net income growing a little more than the gross network revenue. Can you talk about the main drivers for this, please? Thank you.

Belmiro Gomes:

Well, we have two important points here. During the first quarter, besides everything else, we had an important point with the EBITDA highlighted.

We had a lot of ICMS rates growing in different states. We had an impact that's quite relevant during the quarter. We had 14 states that had an expansion in the tax rates, and most of these are related to products that are subject to tax substitutions, which makes the correlation of the net revenue versus the gross revenue occur.

So although there is an increase in the tax load, since the product is considered in this calculation, in most of the states that had this kind of change, this generates a difference in the correlation between the net revenue and the gross revenue. Because the product with a substitution has a higher CMV, as you increase the rate. You have an increase in the cost, but you have a difference in the compensation in the tax substitution, which is added to the net revenue, instead of the gross revenue.

But we did have an impact on this rate in 14 states that led to an increase of two, three and even 4% in some cases. So in the competitive market now we have this market accommodation process, of course, with the amount of stores we opened and the Extra conversions, most of the hypermarkets were in the central region.

So we did see some changes in the market with Makro leaving. But today we have about 105 stores in the state of Sao Paulo. The company is very strong, we are the biggest player in the state of São Paulo. Our size, scale and the strength of the brand, especially, we're actually waiting for the new edition of the *Empresas Mais* to publish this, but for 8 years we were considered the best Cash & Carry in São Paulo. So our proposition is superior when compared with other market players.

But of course, we have a scenario with more competitiveness than what we had seen before. But when you consider the average sale per store that Assaí has been working with, you can see how even in this scenario, with more players in the market and more competition, you can see how the company can really stand out with its proposal and differentiate itself, when comparing with other players.

So I think the best path is to look at this average sale per store, in the entire network and the 28 stores we opened last year.

Maria Clara, Sell Side Itaú:

Okay, thank you. That's perfect.

Operator:

Now, our next question is from Ruben Couto, sell side at Santander.

Ruben, please. We'll enable your audio, so you may proceed, please, Ruben.

Ruben Couto:

Okay, guys, good morning. How's it going?

Well, I have two questions here. During this quarter, we continue to see this gradual improvement in the like-for-like. But we had a smaller contribution in the volume growth versus last quarter. And I wanted to know how much of this is the price increases and maybe even the beginning of a trade-up. This was a thesis Belmiro had about how this could eventually happen, and I wanted to get an update on this topic.

And another question is when it comes to the income tax rate, I think this changed a lot with MP1185, when we look at how much of a reduction in the income tax due to the ICMS subvention you were able to have. But there was still something. I wanted to know if this is related to the presumed credit regime. I wanted to understand why it's there, if it's going to continue throughout this year, and what we can consider as the Income Tax rate for 2024.

If you can help with this topic it would be great. Thank you.

Belmiro Gomes:

Thank you, Ruben. As you mentioned, we had this MP1185, which reduced most of the subvention credits we had in many states. Now, the ones that are still there should remain, unless there's some change in the legislation because most of them are presumed profit regimes or even products that are exempt, which are in the regimes of the regulations for the state. So within the regulations in the states, which are valid for Assaí, but also for other companies.

So unless there's big change in the law or in the states, we consider that this topic is really strong. We saw this last year. And so maybe this year, we hope there will be less surprises in the tax scenario, but this is a level that we do expect for the next quarters. So in the first quarter, we searched for ways to be a little more balanced, and we also wanted to balance out the margins. We wanted to bring this level of margins in the company to the levels we had pre-conversions.

In the first quarter, we still have not seen a trade-up effect among the population. You can see that among the population, although we did see a drop in unemployment, the level of debt is not allowing families to recover the same volumes of purchases.

So, we had a slight impact, but it was more of an inflationary impact in the first quarter, but part of this comes from the actual increase in the tax rates that also impacts the price. This increase in the rate also impacts on the final prices. But we still have not seen this. And in our vision, the first quarter was very positive, considering everything we highlighted so far. But we still don't see a very favorable external scenario with B2B customers buying big volumes, because we don't see any expectations for inflation at this point in time. We don't either. Unless the currency continues to be super high pressure, then maybe we would have some kind of effect in the inputs or commodities that are exported, and that would be a worldwide price that could lead to some inflation pressure, depending on the currency. But it's not what we're looking at if we just consider the domestic market at this point in time.

Ruben Couto:

Okay, thank you, Belmiro.

Operator:

Our next question is from Vinicius Strano, Sell-Side at UBS. Vinicius we will enable your mic so that you may proceed. Vinicius, you may proceed.

Vinicius Strano, UBS:

Okay, good morning, everyone. Thank you. I just wanted to explore a bit more about the B2B customers, if you could talk about what you've noticed when it comes to contribution among this customer´s sales, and how you're imagining this customer restocking, considering it's not so relevant today, but how are you thinking about this in the future?

And more strategically, how do you plan to explore the offering of services to B2B customers? And do you imagine maybe structuring a credit facility here?

Belmiro Gomes:

Okay, I'll pass the first part about B2B customers to Vlamir. He's monitoring prices a little more and the behavior of these customers. And Vitor will talk about the service point later on. Okay, thank you guys. Thanks for the question Vinicius.

Wlamir dos Anjos:

When you look at the share of B2B customers today its about 40-45 % of our revenue, we don't see a big stock-up movement. So just as the interest rates and the working capital for this type of customer are really important, and they end up using our stores as a supply point, and we don't expect an inflationary movement that's very different than what we mentioned in the beginning of the year to you, which would be about three to 4%, and that wouldn't motivate anyone to build up stocks.

So we don't expect a stock-up movement for B2B customers. We do have factors that could contribute to inflation that are not under our control, such as the currency, petroleum, climate effects, and external factors that could take place with some changes in the purchase behavior and supply among these customers.

In the last quarters, we haven't really seen much of a possibility for this to happen, we use this jargon which is that B2B customers are going to continue to buy from mouth to hand without setting up relevant stocks in-house.

Vitor Faga:

Well Vinicius as we talk about the service offering. Yes, we are considering increasing this offer because we have services in our FIC partnership that are really focused on individuals.

And we consider that increasing the supply of services to B2B customers will bring greater proximity to these customers and increase loyalty and purchase frequency, which is our final objective.

So we expect to increase the services offered, especially for B2B customers.

Vinicius Strano:

Well, great. Thanks guys.

Operator:

Our next question is from João Pedro Soares, Sell-side at Citi. João we will enable your audio so that you may proceed, please.

João Pedro Soares, Citibank:

Okay, thank you.

Well, I want to take advantage of this service point here because we noticed a gross margin that's a little healthier, and when we look ahead at a bit more of this commercial dynamic, can we see effects that are more beneficial reflecting the gross profit?

And when we consider the margin, the EBITDA margin has also been a very positive point, and expense discipline has been very consistent since last quarter, which is something we've noticed.

And there's a magic number of an expansion in the full year, of about 10 to 20 basis points in the EBITDA margin Pre-IFRS. And I wanted to understand if you guys could maybe give us some perspective on this margin in the full-year. Are you more constructive?

Is this reduction of the leverage guidance reflecting a more constructive vision compared to the full-year margins? And then a final one which is just about the financial revenue of about 43 million. If we were to annualize this, it would lead to a very low number, considering the average cash of 5 billion. So what is behind this number? Can you talk about this a bit? Thanks, guys.

Belmiro Gomes:

Well, we will start backwards with the answer, Vitor can start and then I'll get back to the margins.

Vitor Faga:

Okay, thank you, Belmiro.

Now, the financial revenue from our cash position, it's important to understand how the dynamic works in between months. So essentially, the company's main payments take place on the 1st, the 11th, and the 21st of each month. So our cash during the month behaves as if it were like a mountain, right? So it drops and it goes up and recovers this and then drops again.

So the final vision in the end of the month is not the average cash position. The cash position on average, is different than the final vision of each month because of this dynamic, which is why when you have this calculation backward forward, considering 5 billion, you don't reach the cash profitability. Of course, this is marginally lower or slightly lower than the cost of our debt. But what explains this difference is the fact that we have this movement in between months that makes the average cash position be different than the cash position at the end of the month.

Belmiro Gomes:

Well, let´s get into some information about the EBITDA, then after Wlamir will talk about the expectations for the gross margin.

But the EBITDA we're presenting here is a shift in the guidance for our debt. I think we need other quarters because we got back to this level of EBITDA before the conversion project, and we can consider this now as sustainable. But for the full year, we don't want to take on any other assumptions or guidance of the EBITDA margin.

We're going to monitor this during the second quarter, but I think the first quarter is a pretty good indication of this, and then I'll pass it on to Vlamir to talk about the margins a bit.

Wlamir dos Anjos:

Well, about the margins. Our expectation is the maintenance of the margins. So the commercial and operations teams that take care of the purchase and sales in the business, are always searching for ways to improve the margins.

But we understand that there's also a competitive scenario. And we have to keep some correlation between the gross margin and competitiveness within the market. And of course, keeping our value proposition. So we've been very assertive when it comes to this balance point of the gross margin.

When we consider our sales dynamic. For example, this quarter we gained 30 beeps on the same store base of market share. Even with this very challenging and competitive scenario, we don't expect to have an improvement in the margins up ahead, but to have the maintenance of this margin at these levels.

João Pedro Soares:

Perfect, guys. Thank you so much.

Operator:

Our next question is from Felipe Rached, sell side at Goldman Sachs. Felipe we will enable your audio so you can proceed, please. Felipe, you may proceed.

Felipe Rached, Goldman Sachs:

Hi, guys. Good morning. Thanks for taking my question. I wanted to follow up on this. I think Ruben had asked about this. But you mentioned the ticket and I wanted to explore this issue. I wanted to understand about the volumes in the same store criteria. I understand that the growth of 0.4% does not consider the adjustments of the calendar effects. So if we exclude this, it would probably lead to a drop in volumes in the first quarter.

So I want to understand two points here. First of all, I think Belmiro even talked about this in his final remarks. But I wanted to understand how you're considering the health of the consumer and if this could impact demand in some way in the next quarters. And then the second point is understanding a bit more of this dynamic with volumes and tickets, whatever you can talk about of course, in the converted stores, compared with the legacy stores. Anything you guys can talk about in this sense would be really interesting. Thank you so much.

Belmiro Gomes:

Thanks, Felipe. Yeah, your analysis is right, we had an increase in volumes with the B2C customers, even in the legacy store network.

And of course, the stores that are maturing, considering the progression in the sales, when we look at the inflation there is an increase in volumes. When we had a reduction in the volumes, which was also expected, in the stores with B2B customers, where sometimes we have to have more aggressive pricing during store opening periods. For example, last year we had a lot of customers that were businesses and took advantage of the prices during the opening periods and some special prices we have in the first quarter. But we look at this separately.

So we look at the recurring customers, including the B2C customers and the B2B customers that are also recurring, and customers that are just opportunistic and they take advantage of a bigger expansion period.

When you look at the delta for all of this, you reach a level that's slightly negative but very positive for consumers, which we consider the recurring public. So when you isolate this effect, which is something that happens during all openings, it's something that's relatively normal in this sector where you have B2B and reseller customers that have a lot higher elasticity. So I hope to have answered your question Felipe.

Felipe Rached:

Thanks. Belmiro can you talk about how you're looking at this dynamic with the consumers being pretty leveraged still. Can you talk about how you're looking at this demand environment for the next quarters as well? That would be interesting.

Belmiro Gomes:

Well, we've been working with a maintenance scenario. We see consumers at a level that's the same as what we had seen in the fourth quarter, but maybe slightly better in this first quarter.

But there's still a lot of caution on our side. So we need to have another quarter come along. And we do notice that in the research we've been doing and even in the vision from our team in the day-to-day activities of the stores, that consumers are still pressured by other expenses with shifts in behaviors, as we've already discussed in other earnings calls, but really pressured by the interest rates and a general caution scenario among B2C customers. And most of the improvements we have are related to our efficiency and the gradual store maturity.

And from a more positive view, although our sector is one of the most significant in the food sector in Brazil, you still have a lot of purchases taking place in other formats. So as I mentioned, there's a flow of receipts daily. And we've been focusing on this public a lot, which helps us to continue advancing. But we don't have any trade-up trends or greater volumes.

They continue to be very cautious. And although we saw a deflation in prices last year, and this year a low inflation, it is something that, when you consider the possible gains and we consider the PNAD, studying earnings, when you look at the pandemic period the prices of food increased more than family income and when you add up these factors we can notice that this generates an environment with low consumption. So it's slightly better in this first quarter, but we're still very cautious about this.

I hope to have answered Felipe.

Felipe Rached:

Yeah. Thank you, Belmiro. That was very clear.

Thank you so much. Okay, thank you.

Operator:

Our next question is from Bob Ford, sell-side at Bank of America. Bob we will enable your audio so you can proceed, please. Bob, you may proceed.

Bob Ford, Bank of America:

Thank you very much. And congrats on the quarter. Belmiro, how can we think about the store maturity for the 2022 batch of stores for the year´s balance sheet and also more long term?

And we had a big improvement in the cost structure, also considering a context of greater services in the stores. From now on, how much more do you think you can improve this? And what's the percentage of sales that are identified? Also can you talk about the functionalities of the Meu Assaí app and how this has been impacting the frequency and size of the transactions, and how you expect this to evolve, please? Thank you.

Belmiro Gomes:

Okay, thank you, Bob.

When it comes to maturity, I think the store network from 2022 and 2023, as I mentioned, the average sales within this store network of 28 stores in 2023, we have half that are organic, with a maturity store that's a little slower.

But despite this, when we look at the average sales per store, the sales are positive by R$ 18 million. And the stores that were opened last year should follow the same route.

So no problems from a location perspective. And the sequence of openings or reopenings of the hypermarkets were a lot more connected to licenses than our actual desire for the order of these openings.

So the ramp-up expectation is very similar to what we had in 2023, compared to the network in 2022. So nothing new in this sense.

And the cost structure is something that's very important. There was a major transformation in our sector, and Assaí was one of the protagonists, it was a strategic change keeping up with some market trends, because we had a lot of changes. We saw the amount of hypermarkets closing in Brazil, and we noticed the customer demand for stores positioned closer with better levels of services.

We had many scale gains, considering the size and costs. And the scale gains in our vision also kind of offset these increases, considering the levels of services. And when we consider this, of course, there are greater expenses with the services that were added, like the butchery, bakery, cold-cuts and the coffee shops. And that represents an increase in the head counts and power expenses. But on the other hand, it also brings revenue and margins. And that's why we highlighted this level of expenses. So, as Anderson mentioned, are like nails, right? You always have to cut them down. And so we have to control expenses as much as possible.

I actually want to pass this on to him so he can talk about the levels he expects and then Vitor can talk about the app when it comes to the percentage, presenting the expectations we have up ahead.

Anderson Castilho

Thank you, Belmiro. Good morning, everyone.

Bob. Actually, the expenses, as Belmiro mentioned, are really an important highlight.

In the last quarter, we had a big differential, and we've already demonstrated this as something that's very sustainable. So in the first quarter, once again, we have been very much in line with what we've been doing these years, and what we can see is our team´s consistency and discipline.

So I like to say that expenses are about looking at each line. There's no big line. Each store has a fundamental role in this. And it's important to highlight that all of our store teams have a fundamental role, so I want to thank them, because we really get into major details and of course there is also the store maturity factor that helps with the expenses.

And on the other hand, we have a productivity team with some initiatives and strategy in our business that has also gained greater strength. The team has been gaining more maturity and we also search for efficiency to be able to reduce our expenses, and always balancing this out very well. So balancing out expenses and the purchase experience for our customers. So in the cash & carry segment, we really want to stand out.

We want to bring a value proposition that's very unique. So our customers can really feel comfortable with a store that not only has services and a differentiated mix, but also keeping our costs controlled. So we continue to deploy new services. We have until July this year, another 70 stores that are going to receive the coffee shops, the cold cuts, the butchery, but always keeping track of the expenses.

So we always have this balance point between working on expenses day-to-day activities at the stores and also improving our purchase experience for customers. So Bob, I think that's pretty much it. We understand there is a maintenance trend that is really in line with this discipline and of course, considers the consistency in regards to expenses. So I think that's pretty much it.

Vitor Fagá:

Well, Bob, now we can talk about the Meu Assaí app, we have about 28% of our customers identified and this number has been evolving. Of course, we have a difference between stores. This is an average, we have stores with a greater share, and some with a smaller share. But the strategy here is to evolve in this identification process so we can have better knowledge about our customers and that we can also adjust many of our offers for services and products and the company's value propositions to what these customers are demanding.

So the plan is to increase this volume of identified purchases so that we can work with this better.

Vlamir dos Anjos

Well, if I can contribute here Bob, I think an interesting point here is that these customers who identify themselves on the app, added up to about 1 million customers in the first quarter, and this demonstrates that the app is a competitive differential. We have been partnering with suppliers and have been delivering things that make a difference. And the CRM has also helped us to direct these offerings in a more precise manner.

And when we measure this, the customers that download the app and use the app, have a frequency of 50% more than the average recurrence in the month and they spend 33% more. So we can increase the ticket and add more items to the customer's basket. So it's an app that has really contributed to these advances. Besides the services and digital experience, we've been able to really stand out and continue to grow our customer base, which is what we presented here, with the 13% increase in the customer base.

Thank you Vitor.

Vitor Faga

Thank you.

Operator

Moving now on. Our next question is from Felipe Cassimiro, Sell-side at Bradesco BBI. Felipe will enable your audio so you may proceed, please. You may proceed.

Felipe Cassimiro, Bradesco:

Good morning, everyone. Thanks for taking my questions. Just a question here about the stock level.

So you talked about the normalization to 41 days. And I want to understand if this stock level is what we should expect up ahead, due to the lower volume of openings. So I think we reached a peak in the last two years because of the conversions. So just understanding what the optimal stock level would be, and what we should expect from now on. Thanks.

Wlamir dos Anjos

Now, as we look at supply overall, I think you guys can expect some stability in the levels of inventories. As you mentioned yourself, we reduced the expansion pace. And with this, we can also have a lower level of stock and openings. We have more discipline in the commercial logistics area, in the controls and product flow levels.

And throughout the quarters. We should also have maintenance in the levels of inventories coverage. And also in the maintenance of the purchase terms. So we should not have major variations in this, that are very similar to what you saw in this first quarter. So we're going to consider the discipline and efficiency in the control of the working capital. So you can have some things that vary from one quarter to another, due to seasonality effects, for Christmas or birthday campaigns, where there could be some variations, but that won't lead to much of an impact on our cash position. I hope that was clear.

Operator:

Our next question is from Gustavo Senday, sell side at XP. Gustavo we will activate your mic so you may proceed, please, Gustavo.

Gustavo Senday, XP:

Hi, guys. Thanks for taking my question. I have one that's more specific and directed to Victor. Just taking advantage of the fact that it's the first call you participate in, I want to hear about the opportunities you've already identified. And how you plan to advance with capital costs, working capital, etcetera. And I would also like a bit of your vision for the company throughout this year and up ahead as well, thanks.

Vitor Fagá, XP:

Perfect. Thank you for the question. I'm going to highlight two initiatives. First of all, we highlighted one point, which is operating with the biggest offering of financial services to our customers.

Especially for B2B customers, which is something we need to work on in a very integrated way with operations, commercial, and also with FIC, which is a partnership we have with Itaú. So this is one of our priorities. And then we also need to manage our debt profile.

We had a recent issuance, R$ 500 million which was at a rate of CDI plus 1.25%. And we saw opportunities to bring in other operations that could improve our debt profile, especially when it comes to costs and debt timing. So these are the two short-term priorities we are working on now more intensely.

Gustavo Senday:

Thank you so much.

Operator:

Moving on. Our next question is from Nicolás Larrain, Sell Side at JPMorgan. Nicolás we will enable your audio so that you may proceed.

Nicolás Larrain, JP Morgan:

Thank you for taking my question, guys. I think most of the questions were already answered, but I wanted to ask you Belmiro about the expansion side for this year. How have you considered the plans for 2024, considering this leverage is a little more favorable for this year is there room to accelerate store openings in 24 and 25? Thanks.

Belmiro Gomes:

Okay. Thank you for the question. As I mentioned, this year we're going to reach 300 stores.

We have important units being built at this point in time. The store in Manaus and Guarujá, the first Assaí store in Guarujá, actually. And we should start with the construction of our first store in São José do Rio Preto. I want to highlight this because these are markets that are well known. Everyone knows about their potential and they still don't have Assaí stores.

So if there's some fear about market saturation, there are still important cities. And for this year we're keeping the level of 15 stores. We're already anticipating some prospects for 2025.

Up until now, we don't have a decision yet about increasing the amount of stores for this year, considering the lower level of leverage. But of course, if there is a project that comes up and and there is an opportunity for the licenses, and especially the ROIC, which is how we measure each of the new stores and units, it could be anticipated, but maybe we would begin it this year, but the opening would still be left to 2025, so we would be keeping up with the target for 15 units.

Nicolás Larrain

Thank you. Very clear.

Operator:

Now our last question.

Here is a question in English from Andrew Ruben, sell side at Morgan Stanley. Andrew will enable your audio so that you may proceed. Andrew, please. You may proceed.

Andrew Ruben, Morgan Stanley:

Hi, thanks very much for the question. I'm curious if you could help update us on the latest for the capex per new store. We understand this was fairly inflationary over the past couple of years, but I'm wondering if the inflation in opening capex has started to stabilize or come down. Any update there would be very helpful. Thank you.

Belmiro Gomes

Thank you, Andrew. Thanks for the question. Yes, we did have inflation on construction materials and equipment, especially cement, steel and the metals, which is also very strong just as what occurred with the food sector. And this year we've already seen a drop in this level, but it's still quite high.

Now days an average deployment depends a lot on the type of projects, right? So with the unit in Guarujá, the stacking levels since it´s close to the ocean requires a higher investment as well. And the ROIC is always a determining factor for the decision to open stores. But today, if you were to consider the average type of stores, we're considering a total investment of about R$ 70 million for the deployment of a new unit. But this is an average because we have a very diverse store network.

So we've been operating stores that have a different variety of sizes from 1500m2 to 10000m2. It gives us a lot of flexibility and our own expansion plan, as we have the expertise to operate different kinds of stores, closer locations, distant locations, and multiple floors of parking areas, but on average, this would be it. I hope I answered your question.

Andrew Ruben:

Very helpful. Thank you.

Operator:

The Q&A session has ended. Now I want to pass the floor on to the company for their final remarks.

Belmiro Gomes:

We've already presented an expectation for 2024. I want to thank you all for your participation and all of the directors and team responsible for the work. The second quarter will keep up with this strategic plan defined and the evolution and maturity of the new stores and expansion. Tomorrow, we will also have an important event, which is the annual general meeting. We have some important topics when it comes to the future of the company. And I want to also thank the board for all of their support with this.

As I mentioned, Assaí has been going through a transition process ever since 2020. And so we stopped being a subsidiary, but we had a controller. And now we really have become a true corporation. And we notice that the company continues to be stable, as a major benchmark, trying to meet the needs of our customers more and more, and working with our people to understand our social role within society, considering the challenges in Brazil with a lot of social inequality.

And we hope to once again have your support during the second semester and hope to have your support as well during the general meeting that will happen tomorrow. Thank you all so much.

Operator:

The earnings call for the first quarter of 2024 at Assaí is officially ended. The investor relations department will be available to answer any other questions.

Thank you for participating and have a great day.