Transcript
Earnings Conference Call
2Q21 Results
Assaí (ASAI3 BZ)
July 28th, 2021

Operator:

Good morning, everyone, and thank you for waiting. Welcome to the Second Quarter of 2021 results teleconference of Assai Atacadista.

This event is being broadcast simultaneously over the internet via webcast and can be accessed at https://ri.assai.com.br, where the earnings release can be found.

During the presentation, all participants will have their microphones disabled, and after that we'll begin the questions-and-answers session .

For questions, please select the icon Q&A on the bottom part of your screen, write your name, company and language to get into the queue. As you are selected, you'll receive a request to open up your microphone on the screen, and then you should activate it to be able to submit your questions. We'd like to kindly ask you to submit your questions all at once.

We would like to say that the information provided and possible declarations that could be made during the video conference related to the prospects for the business, forecasts, and operational and financial targets of Assai represent beliefs and assumptions of the company's management as well as the current information available.

Future discussions are not performance guarantees: they involve risks, uncertainties and assumptions, as they refer to future events and therefore depend on circumstances that may or may not occur.

Investors must understand that general economic conditions, market conditions and operational aspects could affect the future performance of Assai and lead to materially different results than what have been presented in the future forecasts.

Now, I would like to pass the floor to Gabrielle Helú, Investor Relations Director of Assaí.

Gabrielle Helú:

Good morning, everyone. Thank you for your participation at the earnings call for the second quarter of 2021 at Assai. Our goal today is to talk to our executives to understand better our operational performance and the quarterly results.

I would like to introduce the participants: we have here Belmiro Gomes, our CEO; Daniela Sabbag, our CFO; Wlamir dos Anjos, our Commercial and Logistics Vice President, and Anderson Castilho, our Operations Vice President.

Before starting the presentation, I would like to pass the floor to Belmiro for his opening remarks.

Belmiro Gomes:

Thank you Gabi, thank you to everyone who is participating. The goal as mentioned earlier is to go over some of the main highlights, but also to talk about the scenario that we faced in the second quarter from the operational and economic perspectives, as well as the results that you have already had access to in the published release.

The environment in this second quarter of 2021 remains challenging due to the restrictions imposed by the pandemic, which our Operations Vice President will highlight as well up ahead.

In our view, we had again a strong quarter, both from the perspective of store operations as well as sales operations. It was a very strong second quarter for Assaí, thanks to the team's work and the involvement of our over 51,000 employees, mark that we have achieved within the second quarter, helping us to present today, once again, strong, solid and, above all, consistent and continuous results, as Assaí has been reporting in recent years.

Net revenue for this quarter exceeded R$ 10 billion; almost R$ 11 billion in terms of gross sales and Adjusted EBITDA reached R$ 793 million. It's important to highlight that in this second quarter the company recognized a volume of R$ 63 million from Supreme Court decision on the exclusion of the ICMS tax from the calculation basis for PIS and COFINS tax.

Having that said, all the numbers that we will show throughout the presentation include this credit, but also the operating income where there is no interference from this tax credit amount, where R$ 40 million were added to the net revenue, and R$ 21- 22 million were added in the financial result.

This is important to show you the consistency in the operational performance, margins, expenses, and other results, since the tax credit is not recurring, it's related to previous years. What we look daily is the operational development, sequential performance of the first quarter in comparison to the second quarter, and also in relation to last year, since the operation seeks to sell and improve competitiveness in the store operation, but not based on tax credit, nor under a special regime; we don't have the operation sustained under a special regime.

Net income is the main highlight of the second quarter, amounting R$ 305 million, which is an important progress compared to the previous year. Another indicator that we've been really focusing on is the ratio between the debt level and EBITDA at Assai, which our financial director will be able to get into more details about it up ahead.

Assaí reached for the first time the level of R$ 10 billion in net sales, what represents strong growth, and not only when we look at 2020 and 2021, as both last year and this year have pandemic effects, effects that are not the same from one quarter to the next. The pandemic has proven to have different behaviors, obviously the situation on 2021 is not compared to 2020. But, when we look at the evolution throughout 2019, there's significant growth of 54% in revenues, with sales hiking from R$ 6.5 billion to R$10 billion.

The increase in the second quarter remained in line with the reported in the first half. In the semester, it represents a growth of 22%, which also corresponds to 52% against the first semester of 2019. And now, I would like to pass the floor to our Commercial Vice President, Mr. Wlamir dos Anjos, who will give some details about margins evolution in the second quarter. Thanks.

Wlamir dos Anjos:

Good morning, everyone. It's a pleasure to be here with you today.

Well, I think instead of talking about the numbers, I'm going to talk about the reasons that led to this robust margin delivered in the second quarter of 2021.

I think one of the main reasons was related to the increase in the share of B2C customers in our stores. And another important project we've done in the second quarter was the strong fight against ruptures, led by the commercial operations and logistics teams, which showed a very positive result in our stores.

Another thing we have been talking about and practicing is adapting our assortment to each region of the country, which has been a differential. We're really into monitoring this trend and even with this shift in the customer mix, which gives us an opportunity to improve our assortment even more so that we can be more assertive.

Besides that, our very assertive expansion strongly contributed. The fast maturation of stores opened in the last 12 months also contributed to our strong growth in margin.

This quarter we had a strong sales campaign calendar, with several actions happening during the quarter, and I would like to highlight some that I think were key to achieve these numbers: Easter, Mother's Day, Northeast Cup and São João campaigns. In addition to these campaigns, we have been able to convert this into sales and margin on the store level.

Also, regarding the margins increase, we carry out a weekly work throughout Brazil, in every region where we are, to monitor our levels of competitiveness. So, despite having a substantial increase in the margin compared to 2019 and 2020, we are managing to maintain the levels of competitiveness and assertiveness in our business.

Complementing this issue, and I think it confirms the fact that competitiveness is being maintained at ideal levels we believe in for our business, is the market share gains, according to Nilsen. According to Nielsen, we had a market share gain in the same-store sale view, which was very robust, and this contributes and reinforces our precise successful strategy.

And finally, when we take a look at the gross margin, as you can see on the screen, we added on R$ 350 million in gross margin in this quarter, with a 26% growth compared to the second quarter 2020, even a little bit above sales growth.

And I think this leads us to an excellent result for all the efforts with the assortment, competitiviness and stores' activations campaigns. So, I think we ended up the quarter very successfully.

Before handing the floor over to the Vice President of Operations, Anderson, I would like to thank our entire team, and especially the commercial and logistical areas, thank the team for their efforts, dedication, and engagement. not only in this quarter, but in this long path that we have been following.

Thank you all and I'll pass the floor over to Anderson.

Anderson Castilho:

Thank you, Wlamir. Good morning, everyone.

Looking at this slide, we show an operational view with a 10 bps reduction if allocating the 2020 covid expenses to get a more comparable view. And, considering this scenario, it shows the very strong discipline of our operational team, our store team, which has this very clear. It's in our DNA to offer lower prices aligned with expenses control. This comes thanks to a very strong teamwork, carried out by the management team, the store manager and the entire team, who look at this control on a daily basis so that we can really ensure the efficiency of operations, reducing expenses, while improving speed and quality of our customer services.

We must not forget that we are still in the pandemic period. When compared to the same period last year, what changes in relation to last year's pandemic scenario is that we have some lessons learned. However, our customers' entry control continues as well as employees' absences, especially from pregnant women, in addition to other employees still on leave. Also, the expenses with alcohol gel at the client's entrance, which is fundamental. So all of these processes still go on.

What we have as a shift in some regions where we have a restriction in store operating hours. Last year we didn't have this. We had all these procedures, but we didn't have some stores with shortere closing periods. So now we still have a group of stores that are being affected with reduced operating hours, but, as the vaccine evolved,this is being reduced. Assaí is currently present in 23 states and 113 cities; 113 cities bring us a great responsibility, but at the same time, the team has evolved a lot to adapt to each city, each region, each city hall, in order to provide our best service.

We noticed that, especially at the end of June, there is already a resumption, especially in small businesses. As Wlamir said, we already see an improvement in this audience, as their period of work activity is starting to increase; it's a slight improvement, but it's still always a point of attention. We see changes in some regions; As I said, the restrictions still exist, in some regions more, others less, but our team is always very active and very agile to adapt to this movement.

In this quarter we had 3 important openings, continuing the expansion plan to open between 22 and 25 stores this year. This is already our business strategy. Normally, in the second half, we have a very large number of openings; the team is prepared, well trained and has the capacity for this.

As I said, we can work quickly in the regions in a very strong way, which demonstrates this gain in efficiency in reducing expenses and controlling daily activities, despite our presence and the fact that we areopening stores in several cities at the same time. We have a big challenge, but the team is capable to do this work.

I think it's also worth complementing it, reinforcing our work as a team. And I think Assaí is the sum of several parts, as I always hear. Our team makes all the difference. I wanted to reinforce the work of the store team; it is the team that is face to face, working with our customers, delivering the best to our customers, ensuring safety, offering good services to our customers and deliver our best on a daily basis. Having a low price, good services, quality and a good assortment is what we look for on a daily basis for our customers. I would like to give the word to Belmiro, our CEO, to continue the presentation.

Belmiro Gomes:

Thanks, Wlamir. Thanks, Anderson.

The EBITDA, as we highlighted at the beginning, had a strong increase, reporting a significant evolution in relation to the previous year, an advance that, excluding the tax credit, increased 30 bps; it goes from 7.2% in the post IFRS-16 view, to 7.5% now in 2021. Much of this, as well highlighted by Wlamir and Anderson, comes from the work of the team in general, in controlling and maintaining margin under control, assortment strategy, pricing, expenses control, which has proven to be very effective. This has allowed us to go through the pandemic period, which still affect merchants' activities, with part of our public not yet present in the stores.

Assaí has managed to go through the pandemic period, showing solid gains in sales, solid gains in results, as shown by the evolution of sales, EBITDA margin and net income.

It's also important to highlight the extremely relevant contribution in the numbers, not only for this quarter, but also in the first quarter, from the new store openings at Assaí. The stores opened throughout 2020 proved to be extremely effective, with sales improving above the initial expectations, and mainly also in terms of the maturation of the results, whether from margins or of the expenses view. These stores arekey, driving the results of the first quarter and the second quarter, and allowed us to be reporting the numbers that are on the screen: a very strong increase of the EBITDA margin, 64% in the last 2 years, and a stability of growth in both the first half and the second quarter, with relevant growth of more than 27%.

Having that said, consequently the net income of the company is the main highlight of the second quarter. It reported a major evolution of 40% in comparison to last year, excluding this portion of the tax credit that impacted net income.

Last year, we had a stronger evolution of prices with an inflationary behavior as well, but it's also caused impact throughout 2020, more especially in the second semester, and now throughout the first semester of 2021 as well, with an inflation pressure in some categories. And what we've noticed is a stability in the second quarter of the prices compared to the first quarter. So, we realize that we've basically reached the limit of what customers' pockets can handle, and there's not much more room for new price increases. Also, we've noticed in the second quarter some different trends in categories, like commodities, which still have high prices, but the prices increase have lost a bit of strength . But other categories, for example, beef, are now going through some price peaks as well.

In addition, we've noticed a channel trade down from the end-costumers in the market , which has benefited us (and the sector in which we operate), but also a trade down within the actual product categories, and some categories suffering a bigger effect than others.

So, of course, all the work done by our team really helps us to deliver a really positive net income. In this first semester, the net income increase goes over 80%, which proves that the business model, the company's culture, the store opening strategy and the focus on organic expansion have been very effective within the strategy that Assaí has been following.

Moving on to the next page, Dani will talk about leverage and debt, a topic that we have been working hard daily. Thanks.

Daniela Sabbag:

Thank you Belmiro, good morning, everyone.

Continuing the presentation, on slide 7, let's talk a about the financial result, which shows an expense that totaled R$ 145 million this quarter. But, we always look at this number excluding the effects of lease interest, the expense related to the net debt, totaled R$76 million. This represents 0.8% of our revenue and a 10 bps reduction compared to the second quarter of 2020. In the first half, this gain is more pronounced, with an improvement of 50 bps compared to the first half of 2020.

So just to remind you, this result is a consequence of the reduction in debt due to the Company's cash generation. Last year, we paid the first series of our debenture issue, so this gain reflects that movement. If you compare the average CDI, year over year, it is very similar, so the gain comes from the lower volume of debt.

In addition, as Belmiro mentioned in some moments of the presentation, we have a positive effect of R$ 22 million of monetary adjustments of these credits that we recognized, but even without these credits, financial expenses decreased as percentage of net revenue by 0.3 p.p. in the semester. When looking at the second quarter, it is a 10 bps decrease, but it isn't' relevant when compared to the semester.

And when we consider the increase in the interest rate, we have highlighted this with you and I would like to reinforce it again, we expect a financial result that approximately represents 1.8% of revenue. Obviously, the higher SELIC rate brings an increase in the financial result and in financial expenses, but we already have the effect of important renegotiations within this process.

Also, I would like to comment that we have continued this deleveraging process. In debt, year over year, we have an improvement of almost R$ 400 million; the net debt/EBITDA ratio, as Belmiro already pointed out at the beginning, is 1.9x EBITDA, well below the level we saw last year of 2.7x, an improvement of 0.8x EBITDA versus 2020.

We currently have an increase in gross debt this quarter, which occurs because, in May, we had the second issuance of debentures in the amount of R$ 1.6 billion aiming to pay the second series of the first issue of debentures that we made, which matures in August in the amount of R$1.8 billion.

Also, we are working with the treasury department, taking advantage on the market opportunities, with the goal to prepay this debenture that has higher costs. And the market is offering us good opportunities. So we will issue a CRI (certificates of real estate receivables) of R$ 1.5 billion and we will also issue a promissory note of R$ 2.5 billion that will allow us to address the maturities of 2022 and 2023.

I think that a key point here, is that we extend the debt maturity from 2 years to 4 and a half years, with a rate much lower than the first issue. We are talking about CDI +1.5% in these new fundings that we are working on. In June, we have a position of CDI +2.3%, so to face these SELIC increases, we are also getting good renegotiations of our debt cost.

Anyway, I just wanted to emphasize the Company's comfortable and healthy position in relation to indebtedness; the excellent operating performance helps us a lot in this process of improving our debt profile and reduce this indicator of 1.9x EBITDA, although very comfortable for us. We will continue this work of deleveraging the Company this year and in the years to come, mainly due to the strong cash generation of Assaí.

So, I'll give the word back to Belmiro.

Belmiro Gomes:

Thanks, Dani.

ESG is a topic that has obviously gained more relevance and I would like to bring you some of our actions. Assaí has a very strong knowledge of its role in society, as an agent of change. Some actions taken during this second quarter include the goal we set of 30% reduction in our operation's carbon footprint by 2025; Several ESG topics today are linked to the variable remuneration of middle and senior leadership. Approximately 5% of variable compensation today is made up of these indicators.

There were several other initiatives, from an increase in our rate of recycling and disposal of waste to landfills, in addition to many others that aim to promote a fair working environment, gender equality, racial equality, equal treatment with all employees.

And we have over 25% women on leadership positions, 65% of our employees consider themselves as black or brown. And in this quarter, will had the possibility to start a partnership with TransEmpregos. We also were able to adhere to LGBTI+ Forum for Companies and Rights.

This is not something just placed outside the Company. This is worked a lot inside the Company. As an example, we have our share of PCD's: Assaí currently operates with more than 5.2%, even above the legal quota of employees with a level of disability, showing that inclusion, work, respect, and diversity are part of people's DNA, and so, consequently part of the Company's culture.

And as you move ahead to the next slide, we really highlight some prospect from what we're imagining up ahead for the third and fourth quarter. Assai is growing and the main driver has been organic expansion. So we have a huge challenge in the second semester, when we are going to launch about 22 to 25 new units. We have now 25 under construction in different states. To give you an idea, in the last 12 months, we have added 100,000 m² of sales area and approximately 350,000 m² of built-up area.

The objective of this year's organic expansion plan is to build approximately 150,000 m² of sales area and more than 500,000 m² of built-up area. The civil construction scenario has also been a challenging scenario; the construction input chain has been under heavy pressure (metals, steel, concrete) and there is a great movement of construction at this time in the country, also residential, which has made it a little difficult. But our team is very well engaged.

This requires a huge effort in planning, building and setting up the store, with units spread across several states in Brazil and stores being built at this time in the northern region of Brazil, in Amazonas, Pará, Piauí, São Paulo, Minas Gerais, in Rio de Janeiro, Pernambuco, Paraíba and so on.

To give you an idea, the 19 units opened in 2020 should carry out approximately 20 million transactions this year, which means that more than 40 million people will go through the units opened in the last year. Assaí continues to have a very strong engine, with the main focus on organic growth.

In the third and fourth quarter, we have, in addition to this opening calendar, an expectation that, with the advance of vaccination, we can see a scenario with lower restrictions, allowing customers who are in very important sectors that are currently affected, and who are Assaí's customers, to resume their activities and, consequently, resume their purchases.

We have a very positive expectation on post-pandemic recovery. Bars, snack bars, restaurants, buffets, businesses related to tourism, schools, there are several sectors of customers that are very important, which at this moment are either paralyzed or with restrictions that prevent them from supplying.

The Company's objective with the commercial and operational strategy has been, mainly, to keep this customer who came in searching for lower prices. In our view, as in other moments, this customer will remain very loyal to the channel since he had the opportunity to verify the price difference and the same quality of customer service offered in stores. So, to summarize, we are working to keep the consumer who came during the pandemic period and add the merchants who at that time could not come because of their activities.

We further estimate that approximately 6% to 7% of our total sales volume is affected by the impacts of the pandemic. Obviously, this depends on how vaccination and the behavior of the pandemic will advance in the country, but the expectation, I think not only of Assaí's team, but of the market in general, is that we will see positive effects in the third quarter and the beginning of the fourth quarter.

Other very important projects are also on going at the beginning of the third quarter, with the closing of a partnership with Cornershop. In the third quarter, the customer will already be able to have an option to buy online from Assaí. Obviously, we have a very strong focus on physical stores, but several projects in the sense of digitalization and e-commerce and even wholesale distribution are in progress at this time to be delivered either in the second half of the year or next year.

Before opening for Q&A, I would like once again to thank the effort of our team and all areas involved, the more than 51,000 employees of the Company, which is among the 10 largest private employers in Brazil.

This year, Assaí expects to invest more than R$ 1.6 billion in the opening of these new stores, to generate more than 8,000 new jobs. With this, in our view, we fulfill a very strong social role in generation of jobs, increasing the level of competition and competitiveness in several cities. And the consumer is always the one who is the most benefitted from this

This is the result of work as a team, an effort of many hands, the effort of several areas, which even at this time of the pandemic has been dedicated, has been making efforts, has written this very beautiful path that we have seen in recent years and that had a sequence now in 2021. For my part, that's it. Thank you very much .

Gabrielle Helú:

Thank you, Belmiro.

Before starting the Q&A, I just want to remind you of our Shareholders' meeting on August 11 to vote the stock split. All the documentation necessary to participate is available on our IR website. We can proceed to the Q&A session.

Operator:

We will now begin the Q&A session, remembering that to ask questions, you must click on the Q&A icon at the bottom of the screen and write your name, Company and language to join the queue. A request to activate your microphone will appear on the screen and then you must activate your microphone to ask questions. We kindly request that the questions be asked all at once.

Let's go to our first question, it's from Thiago Macruz from Itaú in Portuguese. Thiago, we will open your audio so you can ask your question. Please go ahead, Thiago.

Thiago Macruz – Itaú:

Hi there. I think you guys can hear me, right?. Well, clearly, you guys are one of the only food retailers that are really capable of maintaining profitability and really expand even more in the second quarter, which is very impressive. But I want to understand the following: Do you feel that with the market maybe not seeing the same tailwind as last year, do you feel a more promotional competitive environment? Are there any dynamic shifts that are noticeable on your side?

And my second question is: You have mentioned now at the end of the presentation, additional 6 to 7 percentage points of top line in a scenario where the transformer returns to operating at a level similar to 2019. I would like to understand if you imagine that, if this materializes, it should lead to a change in the profitability dynamics. Which for me is a huge highlight that you made in this second quarter.

These are my 2 questions guys, thank you.

Belmiro Gomes:

Thank you, Thiago.

The competitive environment, as Wlamir highlighted in his speech, is always as competitive as it has always been, and much of this margin improvement has a lot to do with what Wlamir pointed out, with the mix, assortment, differentiation. We're already getting prepared and with a greater participation of the final consumer. Obviously, this increases margin, but there were many of the policies and dynamics implemented by the Company that ensured this movement. Also, it’s important to emphasize that the good performance has a relevant contribution of the store’s opened in 2020.

When you see the share of the expansion, depending on the level of margin that we need to operate in a new store, you might influence the result. Approximately 20 bps of this improvement comes from the better maturity ramp of the store’s opened in 2020 in relation to what we had in other years.

The expectation is that, as we have an economy opening and companies starting promotions, the environment may become a little more competitive than today. On the other hand, in a scenario of restriction due to the pandemic, as Anderson mentioned, we have many of our stores still impacted by the number of people; as we have the highest sales per square meter, we have the highest number of people per square meter, so consequently we expect a positive consumer effect on this.

The return of the small businesses, naturally due to price mechanics, will dilute the percentage of margin, but if this is also aggregated in sales, it will help us dilute the percentage of expenses.

What we have been signaling for the second half is a stability in the margin compared to the second half of last year, even in the scenario of reopening. We have been looking at our commercial policy, at the price level vis-à-vis suppliers, and we are very confident in the strategy of maintaining the margin, and if there is space and there is an opportunity to expand the margin, it will obviously be done, but at this moment what we have been signaling that it is much more a maintenance of the margin.

Thiago, I hope I have answered your question.

Thiago Macruz – Itaú:

You answered, Belmiro. Thank you very much for your answers and congratulations for the quarter.

Belmiro Gomes:

Thanks

Operator:

Next question comes from João Soares from Citi in Portuguese. We'll open your audio, João, so you can ask your question. Please go ahead, João Soares.

João Soares – Citibank:

Hi, good morning everyone, thanks for the call.

Belmiro, I think it's interesting, and I'm sorry to insist a little on this point of competition, but I think it's important to look at: when you show the stores network and the expansion plan that is ongoing, there is a lot of things still concentrated in the countryside of São Paulo. Sales are still quite concentrated in the Southeast. Today, we are seeing many regional players in this region announcing significant investments in stores expansion, so if you could comment on these competitive dynamics, looking at the number of stores and the expansions in these regions that are important to you, it would be very useful.

And the second point, the expansion plan calls our attention when you look at the composition of sales, the expansion and the relevance of the credit card. If you could comment on whether this dynamic was abnormal this quarter and the delta at least vis-à-vis 2Q20, because 2Q20 was a very atypical pandemic quarter or you really see the credit card increasing relevance? And if possible, how could this impact the working capital? Those are two points, thank you guys.

Belmiro Gomes:

Thanks for the question.

Going the other way around. I think the credit card has 2 effects. Last year, have in mind that corona voucher in the second quarter allowed to increase the volume of sales in cash or in aid itself, and that it was a bigger aid than last year. So, we are going to see the effect now of a difference in the composition in the second quarter of this year compared to the past, and I think even more strongly in the third quarter, which was a period in which aid was at a higher level than it is today, not only from the point of view of the value of the aid, but also in the number of beneficiaries. So, you can see that part of the customers migrated from the credit card to the aid at the time, and this year, as you have the lowest income level, and I think it's for the general population, unfortunately, this goes back to using more credit cards.

Looking at working capital, we do not see by the share of what it can achieve that it could have a relevant impact in terms of cash, mainly because it is always the Company's option to prepay receivables, which is not something that we will need, especially by the cash level we are maintaining, as Dani highlighted.

About the location: The competitiveness is dynamic and moves according to the regions of Brazil. Today, approximately less than 50% of our sales are made in the Southeast and the rest are already in other regions of Brazil. This year's expansion plan is mainly focused at expanding Assaí's presence, not only in the Southeast, but also expanding our presence in states where we have operations, and which still have space for many stores. So, this year, we should inaugurate the second unit in Porto Velho, a third unit in Manaus, two more units in Belém, at the moment there is another under construction in Teresina and a second unit is already coming, a new unit in São Luís do Maranhão, new units are coming in Pernambuco, there is a new unit planned for Bahia, so we are well distributed.

Well, regarding competitiveness, we've noticed that you have some trends that are not the same from one region to another. But obviously, some player for example, depending on which region it operates, could have more pressure on margins, but they're not going to sustain this kind of level of competitiveness for such a long time. Our own size, our diversity of stores and regions allow us to even make margin offsets, allowing us to deliver the result on margin you saw here today.

So, competitiveness is always very important. A point that is also worth noting is that both the 2020 store network and a part of the 2021 has the goal to increase our presence in regions where the Assaí brand has already penetrated and is known. The beneficial part of this is that we have a better margin level to operate in the beginning, because you dilute the cost of that region, personnel who were already there, marketing expenses, scale with the supplier, logistical gains, you have it when you arrive with the second, third, fourth store.

On the other hand, we also suffer from our own internal cannibalization. The 2020 network had a good performance, but it removed approximately 1.5 points of sale from the same store network, but this is foreseen within our own expansion plan.

Within the organic expansion, the consumer usually goes to the nearest store, he doesn't travel too much; but the merchant, if you take the example of Porto Velho again, we have a unit in Porto Velho and we are going to place a unit on the other side of the city. Many of the merchants that are on the other side already buy at the first store, so it is natural that there is a migration and this is always foreseen when we do our DP for each new unit.

I hope I have answered your question, João.

João Soares – Citibank:

Absolutely, Belmiro, super clear, thank you.

Gabrielle Helú:

The next question is from Danniela Eiger from XP, in Portuguese.

Danniela Eiger – XP:

Hi guys, thanks for taking my question. I have two questions.

Belmiro, you commented briefly on these new initiatives by the Company at the end of your introductory speech, both in terms of digitalization and the wholesale distribution. If you can add a little more color on digitization: is the idea to be more focused on B2B? And is this partnership with Cornershop more directed towards this segment or not? And in the matter of wholesale distribution, if you can eventually bring how it has evolved? Is the idea for next year? Any new information you can bring here I think would be nice.

And my second question, and obviously, even in the release itself you show that the expansion is super on track. Your organic expansion shows the stores performing better than expected, but we have also seen a strong movement of M&A in the market, not only in your sector, but also in other segments. I would like to understand how you would see or if you are seeing some opportunities in the inorganic movement. Would that be considered, or is the idea to really get more focused on the organic expansion?

These are my two questions.

Belmiro Gomes:

Thanks, Danniela.

Yeah, the company is always looking at this, we have an area dedicated for M&A, but obviously we always do a comparison between what you have as return. So, of course with organic expansion we have some issues with timing and a maturity but of course you can choose the best part, so that's another positive point and this has been a fundamental cornerstone for our performance. So, priority is going to be the organic expansion. But that doesn't mean, we're completely closed off the M&A opportunities.

There are opportunities that may appear in the market and we are paying attention, always following up and it is possible that this will happen, but if it comes, it will always be complementary to the organic expansion. We have been operating with a ROIC above 25% with organic expansion. We have seen some acquisitions in the market of some Companies. Perhaps, when comparing customer demand, the comparison between organic expansion with acquisition, and then perhaps in this case the decision was more advantageous. It is the policy of each Company.

Obviously, as we grow and we placed more stores in different states, we also create an overlap in a lot of companies, even the regional ones. And this overlap can be a restriction in this transaction, but it is possible; if it makes sense to the company and to the shareholder, you can be sure it'll be done.

Regarding the new initiatives, we'll have to wait for a few more details. The wholesale distribution is also being advancing along, but also with the pandemic and challenges in construction, we've had to focus on the building new cash and carry stores this year. Having said that, the wholesale distribution should be happening in the next year.

Talking about digitalization, we have this first partnership with Cornershop. When we talk to the B2B target audience, we already have an internal channel that we're restructuring, and we see strong a potential for this. With B2C, as I said on other occasions, we were a subsidiary of GPA and we understood that it was already being done within the group. Now Assaí has its own means. We are structuring a project and I think there are some nice news to sshare now in the second half. I hope I answered, Dani.

Danniela Eiger - XP:

Super clear, thanks, and congratulations for the quarter.

Belmiro Gomes:

Thanks.

Operator:

The next question is from Irma Sgarz of Goldman Sachs, in Portuguese. We will open your audio so you can ask your question. Please proceed, Irma.

Irma Sgarz – Goldman Sachs:

Thank you very much and congratulations for the results.

I'd like to ask a question related to SSS that you guys posted, that obviously got strong again. But when we look at inflation, it obviously seems to be a little below the inflation that we have seen in the second quarter. I know this does not necessarily translate to inflation that you are seeing at the end, in Assaí purchases. So, I would like to understand the composition of this SSS, when you look at volume compared to ticket and prices. And how do you see this evolution in the coming quarters? And how much do you still expect of pressure on prices ? And on the other hand, how is the volume evolution, given everything that is happening? On the one hand, the reopening, but on the other hand also less Corona Voucher, inflation pressures on the consumer's pocket...I would like to understand more about your moment.

And the other question: pressures on the cost of logistics; if you are seeing something in this direction or if it hasn't been a concern? Thanks.

Belmiro Gomes:

Thank you, Irma.

When making the composition, inflationary pressure, at least at the beginning of the year, was expected to be at lower levels than it is today. What we saw in the second quarter was stable prices with a downtrend. It lost as a percentage of inflation, and part of that is not just because the price fell, but also because last year's base was already rising. We have also seen an important customer tradedown: the customer has had difficulty maintaining their consumption habits. This is not uniform across all product categories, but if you look at for example commodities, for example rice, despite the prices increase, the price of a packet of rice is not unattainable to the point that someone changes the brand. So, a category like this, although with the price increase, you have a low tradedown. When you go to a beef/meat category, this one has a very strong tradedown: the person has been trading, for example, beef for chicken. Having said that, when you look at the total, we had a tradedown effect higher than 5% within the same categories in the quarter. As you mentioned, in the second quarter, on a SSS, we remained stable in terms of volume. To close this account with inflation: we have the tradedown that plays down and the inflationary composition itself, which will reach the same store base as we had.

So, the volumes were stable compared to the second quarter of last year and we had an increase in the number of tickets, but the increase in the number of tickets, in our view, we even disregarded it a little bit, because it can be much more of a behavior that the customer adopted in the pandemic. Last year, the costumer restricted in-store visitation and focused on a single purchase. As, in some cities, you now have a smaller impact of the pandemic compared to last year, you can see the consumer returning to the traditional supply purchase, but also the replacement purchase within the same month. So, today, we remain cautious when evaluating this issue of tickets, because this could simply be an effect movement. But, in terms of volume, it ended up being stable compared to last year. I don't know if the answer was clear...

Irma Sgarz – Goldman Sachs:

Yes, perfect. I also had a question about the pressures on logistics. Do you see anything on that?

Belmiro Gomes:

Wlamir, if you can answer about shipping and logistics...

Wlamir dos Anjos:

Irma, despite the rise in diesel and fuel in general, the impact at the end has not yet happened. Also, we have had productivity gains, with the maturation of our operations and expansions in some states and distribution centers, so we are not worried about the logistic impact in the next semester. In the first half, we had no impact, and we should remain at the same expense levels in relation to sales. Thus, the logistical cost should not change.

Irma Sgarz – Goldman Sachs:

Perfect, of course, thanks.

Operator:

The next question is from Andrew Ruben of Morgan Stanley, Andrew we will open your audio so you can ask your question. Please go ahead, Andrew.

Andrew Ruben - Morgan Stanley:

Great, thanks very much for the question. I was wondering if you could talk a bit more about the trends in SG&A. We notice the leverage even when including the COVID costs it seemed like a bright spot. So, what are some of the specific store or corporate level initiatives supporting this performance and how far along are you in these initiatives? Thank you.

Belmiro Gomes:

Thank you, Andrew, for your question.

The expenses, when comparable, as Anderson said, were stable compared to last year. There are still expenses related to the pandemic. We continue with in-store flow control, on the issue of hygiene, employees on leave, so there is pressure on SG&A for the pandemic, which, in our view, as the pandemic decreases, we have some expectations of gain in the SG&A line in due to the sanitary protocols that are followed on behalf of Covid.

But we don't want to nail, for example, a date expectation, as you may unfortunately have a new variant. And the percentage of the population vaccinated with the two doses in Brazil is still low. So, we prefer to be more cautious in order to expect an eventual gain capture in this line. We had an increase in corporate expenses, after the GPA split-up, even due to the split itself, with the creation of new areas, and services that were carried out on a shared team became fully individualized between the two Companies. So, in our view, what we have been signaling is a stable SG&A expense percentage compared to the previous year and stable EBITDA margin.

That doesn't mean we didn't have important gains. Some expense lines, such as rental, which are not included in the post-IFRS EBITDA, but are within the pre-IFRS EBITDA and affect the Company's cash. The rental expense, which affect part of the store network, is adjusted by the IGP-M and the IGP-M has risen very heavily this year, showing an increase higher than expected, hitting around 30%.

Other gains we had, mainly the shrinkage, operational discipline, reductions in energy costs and optimization of some other processes allowed us to offset these effects, even when considering the pre-IFRS16 view. But we don't want to give any expectations of possible potential for improvement, as the Covid doesn't depend on us. We hope a lot for its decrease, but it may not happen.

Operator:

The next question is from Joseph Giordano of JP Morgan, in Portuguese, Joseph, we will open your audio so you can ask your question. Please Joseph, you can proceed.

Joseph Giordano – J.P Morgan:

Thank you, Belmiro, Gabi. Congratulations on the results. I have two questions. I think the first one is about the positive impacts of a tax reform involving ICMS, regarding to incentives that would help you to be more competitive in the chain. And the second is to understand the capital structure. What should we expect when looking forward? We saw a small sale and leaseback transaction happening recently. I would like to understand if we should see more transactions like this going forward, and what might be the ideal level of leverage that we should expect for the Company going forward, in order to better understand what the distribution of dividends should be. The Company has a very robust cash generation and a very heavy Capex with this acceleration, but if there would still be some kind of cash left...what we should expect? I would like to understand these three pillars. Thanks.

Belmiro Gomes:

Just talking about the BTS operation, which was much more a BTS than an SLB. As we accelerate the expansion plan, it would require a higher level of investment. The operation, although it is a mix of BTS and SLB, aims to reduce the level of investment that we need to continue the expansion. Other operations in this sense may take place, but it does not affect Assaí's current store network. That is a contribution using third-party capital.

We are structuring an operation to carry out a CRI, to make some operations related to the real estate market that offers advantages within this balance that the Company has sought to achieve between indebtedness and continuing investments. As you said, the Company is very good at generating cash, so, obviously, we will keep trying to make the lowest possible investment within the expansion plan that we have.

In terms of debt, Dani, do you want to comment a bit in terms of leverage?

Daniela Sabbag:

Yes, I can comment, Belmiro. Well, Joseph, we will keep reducing leverage, as we've already mentioned in other calls, aiming to continue with this reduction, and although 1.9x EBITDA is comfortable for the Company, we will be very close to 1.5x at the end of the year, which is already excellent. But in the long term, it will be between 1x and 2x, and it could be closer to 1x, for sure, given the strong cash generation that we have achieved and that should continue, as Belmiro said.

Belmiro Gomes:

About the tax reform, if there is a drop in the income tax rate, and Assaí pays a high-income tax, based on the net income that you have seen, , from our point of view, the reduction in the income tax rate has a positive effect on us.

Regarding ICMS, the expectation is always about equality. The problem is not the tax that you often pay, but it is the aberrations that we have today in some cases of legislation that often have significant differences, for example, as a special regime. We see companies that are planning to enter a new state and the first concern is not knowing where to set up the store or where the logistics center will set up, but to get a system to pay less tax than others, so this often creates a scenario unbalanced competitiveness for all.

Given that, the expectation always with the reform is that we need a simplification and an isonomy of treatment, because a complexity that we have today is related to the difficulties which are imposed on the Companies in this matter of tax administration.

I don't know if it was clear...

Joseph Giordano – J.P Morgan:

Yes, thank you very much.

Operator:

The next question is from Bob Ford, from Bank of America, in Portuguese. Bob, we'll open your audio so you can ask your question. Please Bob, you may proceed.

Bob Ford – Bank of America:

Good afternoon, everyone and thanks for the question. Belmiro, what are you thinking about the cash and carry market share in all foods and where does it stabilize, in your opinion? And what are you thinking about food inflation in the balance of the year? Is there a relationship between the waves of inflation and the growth of new buyers?

Belmiro Gomes:

In terms of market share, looking at channels, cash and carry has gained relevant participation in recent years and, in all the movements we have seen, it should still continue with a period of gain.

When we look at the penetration rate in households in Brazil and, looking at what the cash and carry target audience would be, you have regions where the model is much more penetrated and denser, with about 92% of households, and there will be a region even in Brazil, which is between 40% and 50%. Given that, we also see that the cash and carry market will increase, even due to the value proposition it has taken in terms not only of price, but also due to the growing concern with the location of stores, with the shopping experience, as Wlamir highlighted, with an expansion of the assortment, mainly for the final consumer.

The segment, in general, has also invested in innovation and, in some cases, has adapted to different regions of Brazil. For example, we are adapting ourselves and including services in some regions that we understand is necessary, so this makes us still estimate a growth for the whole market. It is obvious that there is competitiveness and competition among sector players, so, within our expansion plan, all these factors are taken into account. We will open 75 new stores within 2021, 2022 and 2023, therefore, we should see the sector increasing at least another 6 p.p. of participation within the food channels in Brazil.

Regarding inflation in the second half of the year, Wlamir, I don't know if you want to comment a little on the expectations...

Bob Ford – Bank of America:

And please, if you notice a relation between waves of inflation and the growth of new buyers for Assaí.

Wlamir dos Anjos:

Talking about inflation, Bob, our expectation is to maintain prices, because in the second half of 2020, we had a significant evolution in prices in all segments. And what we have been looking at now is a certain stabilization, with movements that are isolated from price increases or decreases. So, we believe more in maintenance because it is also limited to the purchasing power of the population, which is quite compromised to the detriment of the pandemic and the issues of decreasing corona vouchers. We don't see much room for a price increase like we had last year. Therefore, with what we have seen, we believe more in maintenance, looking at food, cleaning products and personal hygiene in general.

Commodities, as usual, have price fluctuations. They are very volatile: week up, week down; you have movements for climate, dollar, exports, but this happens every year. I think we have an expectation that, unlike what happened in the second half of 2020, there will be a maintenance in the prices of goods and, if an increase happens, should be small. I don't know if I answered your question...

Bob Ford – Bank of America:

Yes thanks. But I would also like to know if you noticed a relation between the waves of inflation and the growth of new buyers for Assaí.

Wlamir dos Anjos:

Do you want to explain, Belmiro?

Belmiro Gomes:

It does. If you look at Nielsen's food channels, you will see that there is an enormous performance difference depending on the format. As I said initially, we have two trade downs happening right now: one is for brands, which we record internally for a lower income level of the population vs. the price increase, and the other is for channels that, if you do the math I told you about, approximately 40 million people will go through the stores we opened in 2020. As you have a lower level of income and you have a price increase, especially in food, consumers will always avoid as much as possible changing the brand they are used to, especially food. So, this has had a positive effect, not only for Assaí, but I think for the whole cash and carry sector.

The expectation is that this will be accentuated a little more as you have a reopening, because then you will have other components. Today, the person is not having expenses with going to the restaurant with the family, the trip itself... the service will put pressure on this income. That's why we are extremely confident that the consumer who is coming in this period will not leave in the post-pandemic period.

Bob Ford – Bank of America:

Thank you very much, it was super clear.

Operator:

Remember that to ask questions you must click on the Q&A icon at the bottom of the screen and write your name, company and language to enter the queue.

The next question is from Fernanda Guerra, from Ibiúna Investimentos, in Portuguese. Fernanda, we will open your audio so you can ask your question. Please, Fernanda, you can proceed.

Fernanda Guerra – Ibiúna:

Hi guys, how are you? My question is quick: I would like to understand better the destination of resources from new funding. You even mentioned that you should address the amortizations of the third and fourth series of debentures. Do you intend to prepay in the coming months? Thanks.

Daniela Sabbag:

Yes, we do. Our goal is to pre-pay the series that expires in 2022 and 2023, actually. These are the two most expensive series, which are CDI +2.8% and we really have a very good opportunity to capture CDI +1.5%. But, as I emphasized earlier, it's not just that: extending the debt profile is also very important for us. So, we extend this profile, which is from 2 years to 4.5 years.

Fernanda guerra – Ibiuna:

It was clear. When do you intend to prepay?

Daniela Sabbag:

We are in the process of completing these works... towards the end of this quarter or the beginning of the next one, most likely in the fourth quarter.

Fernanda guerra – Ibiuna:

It's great, thank you very much.

Operator:

The Q&A session is now closed and we would now like to turn the floor over to the Company's closing remarks.

Belmiro Gomes:

Before handing the floor over to Gabi, I would like to thank everyone who participated: thank you Dani, Wlamir and Anderson who were together here at the presentation and the team that is here. We are just the representatives of 51,000 employees from different areas and a joint effort that is made not only by our team, but even by partner companies. We continue with this growth, this expansion in store openings, with the focus of being a transforming agent in society, promoting competitiveness, bringing low prices, challenging others and being challenged as well. So, within that, the Company continues to write its strong trajectory in terms of solid results, in terms of sales consistency . Thank you very much to everyone, I thank our team once again and I return the floor to Gabi, who has a very important message for the shareholders who are listening here.

Gabrielle Helú:

I have already commented, but I reinforce here again: we called a meeting for the split of our shares in 5. The meeting will take place on August 11th, so, for our shareholders who are interested in participating, they can look for the documentation needed on our IR website. I think it's good for everyone to have a more liquid stock; remembering that our share is one of the most expensive on the Ibovespa.

I thank you on behalf of the Company for participating in this videoconference. The IR team is available if you have any further questions.

Thank you.

Operator:

Assaí's results videoconference for the second quarter of 2021 is now closed. The Investor Relations department is available to answer any other doubts and questions.

Thank you very much to the participants and have a good afternoon.