4Q23 Earnings Release
Assaí (ASAI3 BZ)
February 22, 2024

Operator:

Good morning everyone and thank you for waiting. Welcome to the earnings call for the fourth quarter of 2023.

If you need simultaneous translation, we have this available on our platform. To access this, please select the interpretation button through the globe icon at the bottom part of your screen and choose your language of preference, Portuguese or English.

We'd like to let you know that this earnings call is being recorded and will be provided on the IR website at ri.assai.com.br where you can also find the earnings release.

During our presentation, all participants will have their mics off soon after we'll begin our 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 are announced, a request to activate your mic will appear on the screen. Then you must activate your mic to submit your questions. We'd like to ask you to submit all your questions at once.

All of the information in this presentation and possible statements that could be made during the earnings call related to business perspectives, forecasts and operational targets at Assai 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 refer to future events and thus rely on circumstances that may or not occur. Investors must understand that other operational conditions and market conditions could affect performance and lead to results that differ materially from those mentioned in future statements.

Now I will pass the floor to Gabrielle Helou, our Investor Relations Director at Assai.

Gabrielle Helú

Good morning and welcome everyone to our earnings call for the fourth quarter of 2023.

Today we have Belmiro Gomes, our CEO, Daniella Sabbag, our CFO, Vlamir Dos Anjos, our Commercial and Logistics VP and Anderson Castilho, our Operations VP.

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

Belmiro Gomes

Thank you, Gabi.

I would like to thank you all for being here during this earnings call as we present the numbers for the fourth quarter of 23.

And of course, the full 2023 year, which was very significant for Assai´s history and a year where we have the closing of an internal process with the expansion and conversion of our stores.

So the numbers we see now in our fourth quarter earnings and during 2023 are numbers that reflect the work of over 82,000 employees in our company that are operating different stores and logistical centers and administrative office functions, as well as all the support from our management, and the board.

And throughout 2023, Assai becomes a true corporation with the exit of the former controller shareholder during a year where we have an environment of deflation in the food sector that's very strong.

So in our perspective, we ended the fourth quarter in a very positive way. The company is ending the fourth quarter with 16% growth in total throughout the year where we had no inflation, as you probably saw the household inflation was 0.50% in the end of 2023.

And the 16% are very relevant as they come along after the fourth quarter of 2022 where we had a total growth of 38% due to the fact that growth in the fourth quarter of 2022 we had an important cycle of openings with 37 new stores opened in the fourth quarter of 22.

The 16% really makes the company at the end of the fourth quarter reach a level of growth of 60% in two years. So when you add up both years of growth, and the growth of the fourth quarter represents an increase of R$ 2.7 billion of additional sales.

The fourth quarter continues the expansion process with the 27 stores opened last year and 12 of these took place in the fourth quarter. So Assai ends the year with 288 stores under operation, we're still missing two stores to complete the extra project.

The main stores have already been opened and in our vision, we'll provide some more details and the numbers for this important project, and this includes our results and earnings, but also conquering new customers with this new positioning, demonstrating that the company is really on the right track to perform this project, with growth of almost 60% in two years and almost 90% when you look at a three-year period.

With the strong cycle of expansion and new store openings that the company went through. So what we've seen throughout this fourth quarter is an improvement, especially since the second half of November.

And throughout 2023, we saw an environment of deflation, consumer debt levels, and greater caution toward volumes of purchases, but especially among our B2B public.

At a moment when you have a drop in prices, this customer also becomes a little more cautious with how they're going to set up their stocks, which impacts the volumes in the second and third quarters. And this is was not repeated in the fourth quarter.

So from the second-half of November, we already noticed an improvement in volumes and we ended the fourth quarter with a progression in sales of approximately 3% and an important market share gain in the fourth quarter, but also in the end of 2023, with a positive combination in the fourth quarter of growth in the same store sales and tickets in the same stores as well as volumes.

And so of course this scenario we've seen throughout 2023 demonstrates that cash and carry and Assai are not immune to the economic scenario when it comes to indebtedness among families as well as trade downs.

But in our vision, it also brought benefits if we look at the increase in customers and the amount of tickets. In this scenario of a more difficult and complicated economy, customers also start searching for our channel.

Which includes customers that need to keep their supplies in their business, but also families that are searching for ways to save money. Even in a period where you have a drop in inflation, the volume of bulk and replenishment shopping kept very strong growth rates.

So we ended the year with a growth in our tickets that was very positive. +79 million tickets in this fourth quarter, a total of 290 million tickets in the year. And this represents a store flow of approximately 420 million people throughout the year of 2023 and from this volume, 45 million people visiting our stores in December.

So as everyone knows, we went through an intense store opening process for organic stores, but also our conversions, and alongside this process we also had important changes in our business model, changes that in our perception keep the Assai characteristics of having a strategy that is quite bold anticipating changes in the market and especially anticipating any purchase trends and movements among the end customers.

So the penetration has been even greater in Brazilian households and among customers and this comes from this strategy. The conversion process with extra stores and our entrance into more central regions to be closer to the mid and higher-income public and closer to customers that are in the food service sector was a very precise strategy.

The innovation of including butcheries, sliced cold-cuts, and bakeries, increasing service levels and improving customer service gave us one of our biggest achievements in the year. Because we became the physical store business that is most present in Brazilian households, we were able to reach one in every four households in Brazil. In some cities and regions, especially in the Southeast and major regions, we are already close to almost 50% penetration in the households, and we've been able to enter new social levels as well.

So this combination and change in the business model, especially including new services, stores in more downtown regions and an increase in occupation costs in these stores, also generated possible concerns with people asking us if we would lose the cash and carry model characteristics. But I think this is very strong in the fourth quarter when we see the efforts of the team combining productivity gains, ongoing maturity of the stores and the strong expansion process we went through.

But especially the culture in the company, which is a low cost culture searching for ways to do more but balancing this out with the purchase experience, demonstrated the drop in expenses.

Expenses had a reduction compared to the fourth quarter of about 90 bps considering the productivity gains we had and the large amount of stores opened and cycle of new stores in the end of 2022 which are already in a maturity process.

And this team effort made us have a better level of expenses which also allowed us to invest more in competitive advantages, especially in the stores that are still reaching maturity. And so this is a reflex of our strategy.

We have this impact of 50 bps in our gross margin in the 4th quarter, and this is also impacted by the smaller volume of openings, since we have commercial expenses and agreements for store openings, and the strong expansion cycle in 2022, so this increased the gross margins. But this combination allowed us to deliver an increase in our Pre-IFRS EBITDA.

So as you can see in our earnings release and in this presentation, we're really focusing on our pre-IFRS vision, considering that this in our perception reflects our operational performance better because it's a lot more connected to the cash generation, and it's the EBITDA that's already considering the lease.

And when we close the fourth quarter, we reach 6.1% and a nominal increase in the EBITDA value of 33%, which is higher than our increase in sales.

And especially considering that even with the impacts of the second and third quarters, the end of 2023 brings an EBITDA in a pre and post-vision, compared to what we saw throughout 2022, fulfilling the guidance provided by management, in the end of last year, where even in the deflation environment we were in that could impact the EBITDA at a pre-operational level, it would be stable compared to last year.

And so the company as you all know, went through a very important cycle of investments. The total amount of investments in the year was over R$ 5 billion, considering the carryover we had with the CAPEX of the stores opened and all the rest of the payments that had to be made to GPA which ended now in January 2024.

But even in this process with strong expansion and almost doubling in size with almost 60% growth in the last two years, the company kept its strong cash generation and this operational cash generation reached R$ 4.6 billion in 2023.

And we all know that the implementation of this conversion project and the acquisition of the commercial spots, the organic stores and the investment costs increased our debt levels. And Dani will talk about this a little more.

And it also pressured the financial expenses considering the company´s leverage levels. But even with this entire cycle and this strong opening process, the net margin reaches 1.9% in 4th quarter and a total per year of 1.2%.

And at this moment where the company reaches the completion of the project focused on deleveraging, this is a line that we think should have a strong increase from now on.

You can advance on to the next page please.

So on this slide we share a bit of this considering the magnitude and relevance of the project, and how the conversion stores have been behaving.

So of course this shift in our positioning was important and it's the first time I think that cash and carry can really get into major regions and big cities and locations where due to restrictions in the real estate market and difficulty to get permits, it becomes very difficult to open organic stores. Throughout 2023, even with this more challenging environment, and changes in what we estimated in the beginning of the project, not only the SELIC rate or the higher interest rates, but all the scenarios with consumers, the store network proved to be stable in its ramp-up.

The average revenue we share here of the first 47 store openings we had in 2022 have an average revenue of R$ 22 million in the first quarter going on to R$ 28 million in the end of the fourth quarter, which is very close to the three times we had mentioned which was the company´s objective.

And in our perception, we still have a lot of ramp up and growth in our sales up ahead.

So when we look at this in an isolated way, only in the food sector perimeter, since we also don't sell home appliances, which is something that hypermarkets had a strong share in, this multiple can reach over 3.8 times, very close to the target of the project which was about three times more.

So the growth in sales was also accompanied by maturity in the pre-IFRS EBITDA vision. And as we all know, these stores do have higher occupation costs, but they also attract customers with higher income and have an average ticket that's a lot higher.

There's also the issues with the commercial galleries as we can should also bring in some important profitability gains to these stores, but the growth of the EBITDA pre-IFRS was also stable from 2.6% in the first quarter and reaching 5.6%, which is considered in the closing of the fourth quarter and also very close to the legacy stores in the company, and here we want to remind you that the higher cost is already affected in this margin perspective.

So once again, the EBITDA pre-IFRS as well the post-IFRS vision, which is the base for cash generation in the company, you can see this evolution, the evolution of the maturity, expense discipline and the consistency and efforts of the commercial area to adjust the product mix, which is very important to ramp up the stores, commercial dynamics, communication in our marketing teams and the promotional campaigns for these stores.

And then at the end, you can see this positive set of factors.

And this also makes the company have an important leap in its growth, demonstrating how these conversions and how this expansion has been very precise even though it did lead to a higher leverage level than what we imagined in the beginning of the project.

So with this, the value of the EBITDA is completely stable even with over 115 stores still maturing, this percentage is quite stable and we have an increase of 20% compared to the previous year and 33% when we look at this fourth quarter.

So the post-IFRS EBITDA also followed a progression, and obviously, there is a geographic shift, since most stores are already operating, and pre-operational leases are of course completely operational already.

So now I would like to pass the floor on to Daniella as she talks about the net income and our leverage level.

Daniela Sabbag

Hi, this is Daniella.

Good morning everyone.

And now we're going to move on to Slide 5 where we get into our earnings and our net income.

So in the fourth quarter, our earnings reached R$ 736 million and if we exclude interest on lease liabilities, the results reached almost 2.6% of the net sales and R$ 478 million.

So this increase is a bit more than R$ 200 million year over year and in the full year, we have a financial result of R$ 1.8 billion and R$ 800 million more.

Now when we get into the main effects, we can see a bigger volume in the gross debt, especially when we consider the maturities of the debts and commitments the company had in 2024 and 2023.

But throughout the year, we issued a CRI of R$ 1 billion to fundraise in July and we also raised funds for the maturities in 24, the debenture for 800 million in December, and some other debt rollout processes that we also operationalized. So then we also have a smaller effect from an accounting perception, which is the capitalized interest due to the final phase of the conversion project.

And so in the quarter, we have a capitalized interest that's lower, representing R$ 123 million, and about R$ 80 million would be the net cost of debt, while all the rest is in the IFRS 16. And in the year this effect is over R$ 400 million and the net debt cost is R$ 344 million.

So in the year we have the impact of the average interest which also affects our debt which went from 12.4% in 2022 to approximately 13% considering this average interest in 2023.

So these are the main effects and of course, we have an impact on our net income which ended the quarter with R$ 343 million and the greatest level in the year with a margin of 1.9% with all of the seasonality in the quarter. And we also had operational leverage that was very important in the quarter which was very positive. And we have the quality of the expansion, with the maturity of these 115 stores in the last three years which also helps a lot and leads to this net income in the quarter.

So with this, we can also demonstrate the resilience of our business model even in a context with inflation, sorry, deflation in 2023 and very high interest. And so in the year, our profit reaches R$ 776 million with a margin of 1.2%.

Then we reach the cash generation side and leverage, and so as Belmiro mentioned R$ 4.6 billion in cash generation in the last twelve months, which is a growth of R$ 453 million year over year.

So this result comes from the growth of the pre-IFRS EBITDA which grew 20%, leveraged by everything we had already discussed with the sales growth, maturity of the stores and the control of expenses as mentioned, and also an improvement in our cash cycle, which at the end of the day is translated into a lower need for working capital.

And so we can see this generation is sufficient to fund all of the investments and expansion and payments. However, we still have this high level of interest that affects the cost of the debt of R$ 1.8bi.

So we'll end the year with a net debt of R$ 13.1 billion and our leverage reached 3.8x.

And so the results you see here on the blue line of this graph, the 3.8x and this leverage reduction is superior than we expected, especially due to this operational generation and everything we mentioned with the maturity. And we had mentioned during the Investor Day, that the leverage in the end of 22 had a reduction of 0.3 times. So this drop of 0.6 year over year is even higher than what we had presented there.

And so here I think we can we can really surprise everyone, despite what we heard from analysts etc, and we consider the leverage between 0.8x or 0.9x of receivables and this number includes the receivables in the company.

When we look at the Gray line, we have the vision we presented here that we normally used to disclose until the second quarter. But here we don't have the receivables and as well as the payment of the commercial real estate spots. But we just wanted to mention both perspectives so you can keep up with them.

And also in 23 we paid R$ 2.4 billion in installments for the acquisition of the commercial spots and in January we already paid off the last installment which was R$ 900 million.

So in the concept of the covenants for financial contracts, our leverage was 1.79x, which was a lot lower than the limit we have of three times, which represents a difference of almost R$ 6 billion compared to our very comfortable position with our covenants.

And so when we get into the deleveraging process for 24, we should continue this process to deleverage the company with an ongoing and growing cash generation, and the end of the payments as well as I mentioned previously, as well as a lower level of investments that we have for 24, with 15 stores due to another factor that also contributes to deleveraging which is a lower interest level in 24.

So now I finished my slides here and I'll pass the floor to Belmiro to finish our presentation.

Belmiro Gomes

Hi Dani, thank you so much and I'll go back to highlighting this three-year period on this slide. Considering the moment when we made the decision to search for stores in downtown regions and include more services.

All this happened in 2020 and 2021. We had a very different reality with interest rates in Brazil, we knew they were low, but the movement we started was quite bold and strategic to position new stores demonstrating that through our results, and it was very positive movement.

We had a strong level of investments. The company invested the cost of debt and what we already had as previous debts, a total amount of about R$ 16 billion reais, but the company was able to generate over R$ 11 billion already during this period.

So the operational cash generation is very strong in our food sector, we had strong cash generation our operation and this is one of the important milestones at Assai.

And this this level of leverage funded a project that had a beginning, middle and end. And when we complete this project we'll start seeing the deleveraging process in this period.

But all of this allowed the company to go from 184 stores to 280 stores with R$ 39 billion reais and over R4 73 billion reais.

One of the biggest companies in Brazil, one of the biggest private employers in Brazil and we have been able to keep our strong cash generation.

So in 23, although there has been turbulence in the year, the maintenance of the pre-IFRS EBITDA and operational cash generation really gives us certainty and confidence about the strong deleveraging trend we're facing in the near future.

Now about ESG, last but not least, Assai is a reference in this topic. We had many highlights now throughout the fourth quarter of 23 Assai kept its position in the sustainability index at B3, and we also kept our carbon efficiency index.

We had an advance of over 10% reduction in the scope one and two emissions with an increase in the waste repurposing.

I want to thank all of our sustainability team and the different departments involved. This is all part of the culture of the company and part of our business model within the decisions that really make the company keep on a sustainable trend when it comes to cash, but also sustainable when it comes to social responsibility.

In our role of responsibility with over 480 tons of food delivered to over 94 social organizations, some work that continued in 2023 besides the strong work we've done during the period of the pandemic with all of the efforts implemented in the communities we're in. But we also had an important Seal, which is about women on board and we have important advances to be made as well as the inclusion of people that are over 50.

So the indicators in the company of course represent ongoing improvements and they had an important evolution with more than 43% black individuals in leadership positions, 25% women in leadership positions and the amount of employees that have disabilities, which is above the legal quota or minimum reaching 5.4%. And that's an important achievement with a company that has over 82,000 employees this year.

You'll see some of our strategic pillars in this revision of the work we've performed alongside the board, in the Sustainability Report , and this is all based upon three pillars.

So operations that are efficient, reducing our climate impacts, of course, always promoting the guarantee of responsible supply, continuing our work with the development of our people and communities that we are present in, in a country that has a lot of social inequality like Brazil and big differences from one region to another.

And then of course, we always try to encourage entrepreneurism and we perform many different projects with the Assai University.

And we try to also implement a very entrepreneurial vision in the markets we are in, of course keeping the ethics and transparency in our business based on the best ESG practices mentioned in the overall market.

Moving ahead in 2024, we have a strong focus on deleveraging as we have been highlighting.
The conversion project had a beginning, middle and end and now we've completely finished it.
The last installment we had to pay to GPA for the conversion stores we paid now in January.
And even so the level of debt that the company had in the first quarter should drop compared to the fourth quarter, which allows us to set a positive scenario in the leverage position reduction.

And we expect that at this moment we'll see a reduction in the leverage considering the indicator that we had already highlighted in the Investor Day we had in 2023. And this is due to the fact that we ended our payments to GPA.

We have a reduction in the levels of investments and expansion. We have 15 stores expected for 24.

And so we have a huge difference when it comes to the level of investments the company performed in the last few years to this level we're in now.

And when we add this all up, with what we've already seen in the fourth quarter, both towards sales and the maturity of the stores leading to greater cash generation, combined with a lower rate that's also expected by the overall market compared to our interest rates today, which will allow us to have improvements in our net income and also reduce the financial costs and deleverage the company.

So when you look at the macro scenario, you can see the levels of expenses we delivered in the fourth quarter, which are of course a result of the operational efficiency and they're sustainable in the long run.

And of course, the company will continue to balance out its competitive advantages with the ramp up of the stores and maturity. And this will also lead to an evolution of the EBITDA margin in 2024 compared to what we had now in 2023 with a series of opportunities for profitability of the assets as well as improvements in the network of stores.

We still have a lot of stores that are maturing, and this gives us the opportunity to explore our galleries better and include new categories of products and adjustments in the existing categories, adjustments also in the service areas we implemented in the past years.

So this allows us to estimate a scenario that's more positive in 24 than what we had in 2023, besides the continuity of our phygital strategy.

So this is pretty much it from my part of the presentation.

Now I'll pass the floor back to Gabrielle Helou, our IR Director.

Gabrielle Helú

So thank you, Belmiro.

We're going to start the Q&A session now. Now we'll begin our Q&A session.

We want to remind you that if you have any questions, you must select the Q&A icon on the bottom part of the screen. Write your name, language, and company and enter the queue.

As you are announced a request to activate your mic will appear on the screen. Then you must activate your mic to submit questions.

We'd ask you to all please submit all of your questions at once. Our first question is from Thiago Macruz, a sell-side Analyst at Itau, Thiago we will activate your mic, so you may proceed please.

Thiago Macruz, Itaú:

Hi guys.

Good morning and congratulations on the quarter and year.

My question is related to sales in the beginning of the year, we've got some feedback that the return of the food inflation has helped with the sales in the beginning of the year.

But I wanted to ask you guys if you guys have experimented something like this, if you guys have seen this happen and if there is an expectation of a possible recovery in the stock levels among B2B customers, Do you guys consider it reasonable that this would happen in the next periods in 2024?

And finally, you did a great job controlling expenses this quarter, but I just wanted to understand if we can imagine that this is a whole new journey and if the expenses have really changed levels now.

Belmiro Gomes

Thank you Thiago I think we will split the answers here among us.

The beginning of the year has been very positive, a lot more positive and in line with what we saw and the fourth quarter was a little more positive also.
And now I would like to pass the floor to Wlamir so he can talk about expectations for inflation and stock levels among B2B customers.

And Anderson can also talk about our expenses as we had an important reduction in the fourth quarter. We invested more in our competitive advantages and have been working on being more aggressive in this process.

And this is really connected to expense discipline.

Wlamir dos Anjos

Good morning, everyone.

Thank you for the question, Thiago. When it comes to inflation here, we have an expectation this year of about four to 5% inflation.

We still see a scenario of volatility in commodities, which has been going on forever, rice goes up, oil drops. But when we look at the industrialized products, we have an expectation for inflation, but of course the inflation helped in the first days this year, but we also have additional volumes.

So just as we grow in our volumes in the fourth quarter, this is something that's very important for us , because customers are buying more than before at the same store base.

And so when we looked at the B2B stock levels, we still have to be a little bit careful. I believe that the purchase movements and greater concerns towards working capital will be kept among these small entrepreneurs.

I don't think we're going to have greater stock levels than normal. But of course the improvement in the sales and the macroeconomic scenario will make them buy greater volumes.

But I don't think we're going to have a stock-up process at this point in time, I'll pass the floor back to Anderson so he can talk about expenses.

Anderson Castilho

Thank you Wlamir, Thiago and everyone.

I think expenses were a big highlight and it demonstrates the discipline of our teams, at the stores, DCs and offices.

And we know that overall it's always about controlling each line. So we have another point that's very important and was mentioned previously. This is the dilution of expenses and maturity of the stores, we opened over 60 stores last year plus the year before and we still have important productivity gains in the stores.

With the value proposition we presented in our stores in the past few years with more services like butchery cafes, all of this really brought greater maturity and experience with our lessons learned. So this helped us control more of our costs, as well as lower costs, which is what we really believe in with this model.

So we think this cost reduction is sustainable up ahead. Of course, we always have to control productivity on an ongoing basis especially. So we always have to be as efficient as possible to be able to keep our expenses stable.

And so I think it is feasible and we are super controlled when it comes to expenses. But I think the main effort with the team is the store productivity being more efficient so that we can keep these levels of expenses low.

And I think that's pretty much it. Thank you.

Thiago Macruz

Excellent guys.Thanks for the answers.

Operator

As we move on, our next question is from Felipe Casemiro, our sell side analyst at Bradesco BBI.
Felipe we will open up your mic. Please, you may proceed.

Felipe Cassimiro, Bradesco:

Thank you.

Good morning everyone.

First question here is, could you give us a little more details on the drivers and the drop of the gross margin in the fourth quarter just so we can understand the trend up ahead.

So the fourth quarter is very seasonal and this time the gross margin was below 17%. So sorry, you can continue.
Yeah, great.

Belmiro Gomes

The fourth quarter has two combinations of factors. We were searching for more operational efficiency. So as we saw we would have an important reduction in expenses.

We had a mix of investments in better competitive advantages.

We also have an impact from the previous year, considering that the stores opened in the end of 22, considering that we had a new mix of services, with many different agreements with suppliers as well as the store openings and we wanted to consider the drop in margins, which took place, with approximately 0.40p.p. or 0.30p.p. which would be equivalent to the agreements for the store openings.

And the fourth quarter of 2022 had a huge amount of stores opened, especially extras where we had some important renegotiations and we highlighted this on the call, with better terms and also support with the suppliers, and we had achieved some gains in our perception.

This positioning brings us an opportunity with the cash & carry format that's very important to have a lower cost format and lower sales for individuals and businesses in closer locations.

So obviously having a cash and carry store such as the Congonhas store in front of the airport, with an amount of almost 10,000 SKUs for individuals and B2B customers, is also significant to industry and so this also represented a lot in the fourth quarter, and part of this intends to help competitive advantages.

And from now on, our expectation is always to maintain the gross margin but this will depend on balancing out the expenses, which we believe are at a new sustainable level and we also have to consider the store maturity.

So we have a big amount of stores still and as you probably saw in the 1st, 2nd, 3rd, quarters with our pre-IFRS EBITDA, and we are always going to be searching for sales improvements which are always going to be more important than our expenses.

So there's also an effect in the gross profit as we search for ways to be more competitive.

But we do imagine a stable level in the gross margin.

Felipe Cassimiro, Bradesco:

OK, perfect.

Thank you so much.

And then my second and last question is about Capex.
We think this has been a very recurring topic in the last quarters among the questions, so you spent 80 million per store this year I believe.

So is there any initiative to reduce expenses per store in the next two years for example?

Belmiro Gomes

Yes, OK, thank you.

We do have initiatives and I think we also have to look into the fact that we have had quite a bit of expertise with the conversions.

We had an initial batch when Assai was still a GPA subsidiary and the stores that came from extra such as the Congonhas store for example, is a store that has over 40,000 square meters of built areas. So these stores have a structure reinforcement process with multiple floors that is more expensive.

This normally doesn't happen in an organic store. So this of course pressured the investment line.

Now these stores also had a big store gallery area, besides the actual stores, that also require investments, but the main factor really was floor reinforcements. But what we try to do in the stores conversions is that even if there was an investment, they will have an OpEx and maintenance level that's just like an organic network store network.

So we didn't leave anything for later when it comes to execution, even though we would have to handle a higher investment.

We could even postpone certain services that would have to be done a year or two later.
But it would be a lot more expensive to do this with the store open.
So the switch in the firefighting system, which is not the same model used for a hypermarket, but especially when it comes to the stores with multiple floors that require higher investments and also considering the store size.

So this of course changes a lot according to the store network. And then you also have the execution of organic stores, which are stores with a big area.

We have stores that are being built with over 15 or 16,000 square meters plus the hypermarket conversions. So yes, there have been many initiatives to reduce CapEx.
We had a peak in prices of food but also construction materials, but also other equipment like pallet ports, metals, air conditioning and firefighting systems that were also impacted.

So this is also connected to the size of the stores if you notice our average sales per store, that grows as well. So this is connected to the size of the stores also.
If we have a store that's 4000 square meters, it's one amount or 9.000 square meters will be another amount.

So of course it's a high investment, but we must also consider that this store network adds on a sales area, but also the constructed area, galleries and especially parking areas.
So a lot of the projects we have for the new stores are mainly because on average an organic store had 400 parking spots and the stores that came from extra had an average of 800 parking spots.

So this allows us to work in other categories without bottlenecks that we would see in certain cash and carry stores where there's a lack of parking spots on the weekends for example.

Felipe Cassimiro

OK, that sounds perfect.

Thank you.

Operator

Next question is from Vinicius Strano. Sell-side Analyst at UBS.

Vinicius we will open up your mic, so you may proceed.

Vinícius Strano, UBS:

Hi guys.

Good morning and thanks for taking my question.

You are presenting a major evolution in the maturity of the conversion stores, but I wanted to know more about the organic stores. So for example, do you think you can give us a little more detail on the performance of these stores, the legacy stores compared to these conversion stores?

And any comments on same-store sales or possible cannibalization in stores, as well as any kind of perception towards the future of the store network would be great.

And another point that called our attention also in the quarter, was the reduction in the days of your stock .

So could you also explore some of the drivers in the stock improvements and how we can consider the dynamics for working capital up ahead?

Belmiro Gomes

Well, thank you, Vinicius. I'll start answering and then I'll pass it Wlamir to talk about the stock.

So cannibalization was something that we already expected would happen in the beginning of the project, although it was low in our perception due to the fact that historically Assai would not have stores close to where the extra hypermarkets were because we used to be part of the same group.

But Even so B2B customers that represent about 40% of our sales and these kind of customers sometimes drive a little farther to find cheaper prices. So going back to the Congonhas store as an example, customers would buy at the Nações Unidas store which was organic but now he can buy at a closer store. So we had an impact of about two to 3% of cannibalization in the legacy network that was impacted by the extra project which was already expected by the company's numbers.

Part of the same store sales do have part of the store maturity aspect that influences this, but these are only 14. Because most of the store openings that were done in 22 in the fourth quarter took place in a sequentially between October, November, December, with most of them in November and December. And there should be a higher impact on our same stores with the maturity of our stores in the first quarter of 2024.

But the legacy network is still stable.

So when you look at the fourth quarter, even if we were to exclude the store maturity factor, we still have the same stores positive in the legacy stores when it comes to volumes, of course not in the total amount that we presented here.

But what's important to highlight is that the conversion store network has benefited from the expertise we have in the organic network, but the organic store network will also be benefiting from the conversion project now.

So most of the services included that we highlighted within the extra store network will now be replicated also in the organic store network.

So same dynamics with categories and even other realities with suppliers and commercial conditions will also benefit the organic network.

So the legacy stores or organic stores also receive benefits from the extra stores.
Even if we just consider the maturity effect, there was still a positive impact, although there is still a positive small percentage impacted by the store maturity.

So cannibalization is in line with what we expected.The expectations for 24 is that as most of the services that are being included in the organic stores, so we still have quite a big batch to be delivered, will also lead to growth in this store network that came before the extra conversion project.

And I'll pass the floor on to Wlamir so he can talk about the stocks a bit now.

Thank you, Wlamir.

I think you're on mute. I think Wlamir just had a connection issue.

Well, I will answer the rest of this, but I can give you a bit of input on the stock.
I think Wlamir had some issues, technical issues, but the stock has a normalization line in the fourth quarter considering that especially in the end of 22 with the new stores, you open up with a higher amount of employees and stock and a higher level of expenses, and margins that are lower of course.

But when you look at the pre-IFRS EBITDA curve that we demonstrated throughout the quarter, it's the first time we show this kind of ramp up due to the importance that the conversion stores had to investors.

But this also happens on the opposite side with the stock until you balance things out between categories, product mixes, what we sell more in one store or the other, makes you have to have a higher stock initially.

But in our vision now we've reached a normalization level that is sustainable for stock levels.

I hope that's clear.

Vinícius Strano

That's great.

Operator

Moving on, our next question is from Luis Guanais, sell sell-side analyst at BTG.
Luis, we'll open up your mic so that you can proceed, please. Luis, you may proceed.

Luis Guanais, BTG Pactual

Hi, good morning, Belmiro, Dani and Gabi.

My question is about competition.

Could you talk about this competitive environment a bit from the end of last year as well as the beginning of this year, with the scenario of the acceleration in the inflation you mentioned at the beginning of the call, but also hopping in with a second question that's related, which is if you could help us think about this growth at a margins level when we consider this year and the next years as well, what do you think will be taking place in the share gains from regional players or productivity gains?

You also mentioned some initiatives that are taking place in the in the stores.So if you could mention this.

Belmiro Gomes

Thank you, Guanais.

What we expect is when we look at other competitors in cash and carry, our value proposition is very unique compared to the rest of the market. And so when it comes to entering higher social levels and also supplying B2B customers, and food service where we have a strong focus.

Our vision is that this will help us attract customers from three different segments, from competitors that operate in the same format as us but we also an important impact in the retail processes with some supermarket chains, since these new stores include cafes, high levels of service, good lighting and cleaning makes the store become more attractive for day-to-day purchases as well.

So we've seen this increase in the flow, especially in these stores that are more central in the extra stores with very strong customers coming in from retails with supermarkets.

So we also see another factor that supports us and helps us with this, which is the increase in logistical costs in Brazil, in the middle of last year there was a decision from the Supreme Court about the measure with the new truck driver law that also impacts a series of obligations for companies and industries that operate door to door.

That brings advantages, with the increases in logistical costs for deliveries door to door, especially in big cities making us become more attractive for these B2B customers that buy with us that also have the advantage of not having such a big working capital demand.

So competition is always very intense.

The sector went through an intense movement with high growth with regional players and in our vision the numbers we saw in the fourth quarter demonstrate that although we're in a challenging environment with a more competitive scenario we were able to reach levels of sales per square meter, productivity and cash generation that really makes competition constantly adjust its policies and try to find ways to create and reach the best performance in the market.

But the market is always very competitive. So the inflation does help, we do have a difference in inflation in 2024, but that's not that relevant especially when we take a look at the beginning of 2024.

Gains are coming mostly related to volumes than inflation and this also allows us to estimate that the actual consumers and customers would have a little more resources considering that we've gone through three years with a huge trade-down effect, a switch in brands and product trade downs which is about 10 to 12%.

So I don't expect a major boom capturing this, but we do expect an improvement in the economic scenario and the interest rates that are really high at the moment.

But part of this will also allow us to capture what we've seen at least now in the beginning of the year.

Luis Guanais.

Thank you, Belmiro.

Operator

Our next question is from Felipe Rached, Sell-side analyst at Goldman Sachs.

Felipe we will enable your mic so that you can proceed. Felipe, please you may proceed.

Felipe Rached, Goldman Sachs:

Thanks guys for taking my question.

I wanted to start off with a quick follow-up on Macruz's question at the beginning of the call to get into more details.

The line of personnel seems to have grown way below revenue. So I wanted to get into a little more details, and ask you if we should consider changes in operating stores, and any details you can mention would be great.

So moving on to a different topic here, during the Investor Day at the end of last year, you talked about some initiatives to increase monetization based on these assets you already have.

You mentioned also exploring opportunities with the commercial gallery areas, selling retail media, but also some aspects related to financial services. And so maybe creating new products, considering receivables from B2B customers, credit in the stores and other initiatives that are very interesting.

I wanted to know if you could give us an update on how you expect these initiatives to move on in 2024, if you have certain priorities. And any other details would be very important.

Belmiro Gomes

Ok thanks. I'll be talking about the new services, and all of the projects we mentioned during the Investor Day are in progress, but some of these have higher levels of prioritization. Such as the financial services, Pet products entering our Assai portfolio.

So of course there's a series of new initiatives and we should provide some new visibility when we close this 1st quarter now.

We should also consider the possibilities of gains and the discussions we are having at this moment about deployment, so we'll have some more solid data, but of course also from the perspective of exploring some categories of products. The commercial galleries are in progress as well.

We actually almost finished the refurbishing work we had to do now in the 3rd and 4th quarters, with the leases occurring, and the increase in customer flows also helps us lease these spaces.

There's an intention to explore these advertising spaces. For those of you who saw the NRF materials in NY, you probably saw this topic highlighted.

And remember that in December, we had 45 million people coming through our stores. And so in total, we're talking about 450 million people.

So this represents an opportunity in major stores, which have big spaces for advertising media and not only for our suppliers like Nestle or Unilever, but even for companies from other segments.

Due to the amount of customers from all social levels.

And so yes, the company does expect to capture important revenue sources and of course in the maturity phase, the main focus initially was to guarantee the execution from a product or service perspective which is Assai´s core.

Then now we'll start seeing a focus on having a bigger volume for expansion and this also leads to the possibility of having more maturity in new categories.

But we won't disclose too many details as we want to continue being an innovation and improvement reference. I'll pass this on to Anderson now so we can talk about productivity gains as well.

Anderson Castillho

Well, Felipe, once again thank you and good morning.

Actually when we look at expansion, we had major volumes opened in the last few years, but in every store we open we are always optimistic. But we have a new team that is good but not experienced, and we always need to ensure good levels of service, which is a concern we have in our operation.

As mentioned previously, in this value proposition we have tried to find ways to stand out.
And so we consider that we do have a big differential in this model.
But of course we had experiences and maturity with our lessons learned from the new services.

There's no major structure change actually now I think we have a value proposition that is very positive already we're going to focus on providing excellent services to customers.
And when you open up a store, the maturity process requires some natural changes and adjustments at some moment or another.

And the store that sells more, you position more people there. If the store sells less, you adjust the team.

But at the same time you have lessons learned and gains in the productivity in the operation.
So I think we've been maturing positively and we've been working on this team to deliver more productivity. And the main point is productivity scale gains and so that we can deliver better services.

So that's what we've been working with over the years.

Felipe Rached

Thank you. Very clear.

Operator

Now moving on, our next question is from João Soares, Sell-Side Analyst at Citi, João we will enable your audio.

So you can proceed, please, you may proceed.

João Soares, Citibank

Thank you. Good morning.

First of all, I wanted to hear from you in regards to the organic expansion and also when it comes to competition.

One point I thought was interesting is that you mentioned bringing customers from traditional retail and attracting these people. So where do you see bigger opportunities?

Which states or markets do you think you can attract these kinds of customers to perform their day-to-day shopping and explore how we can see this mix evolving between B2b customers and B2C customers?

And the second question is also about the CAPEX.
I think it's clear that you'll have smaller CAPEX when you look at organic versus conversions.

But I wanted to understand if we can quantify this and we have a number of about 70 million reais for conversion CAPEX. I wanted to understand how you can compare this up ahead and what's the sustainable levels of CAPEX store. Thank you.

Belmiro Gomes

Thanks João. Well about the organic network, we have a mix in the organic network. And so among all of the players in Brazil, Assai is one of the players that has the biggest expertise to operate with different store sizes.

We have stores with 1400 square meters and stores with 10,000 with all the differentials that this brings.

So we have a group of stores that we mentioned during the Investor Day and also during other opportunities and we can see that we have stores that have very different sizes.
So to give you an idea, in the organic store network this year we have stores that are 4000 square meters, but there are also stores that are 75000 square meters.

So in the Southeast, the expansion this year is really well distributed, we have other expansions also in the north in Macapá, Manaus, Belém we have stores under construction in Guarulhos at the moment.

So we want to highlight that the expertise to operate different formats allows us to have a broader perception when it comes to organic growth. We're assessing projects that are 3000 square meters and others that are 8000 square meters.
So the search for these kinds of customers really grew with the inclusion of these new services and location of these other stores as well.

So most of the expertise with the extra stores will help us in the organic expansion as well.
So we're going to be opening up a store in Guarulhos, Bairro dos Pimentas, between Trabalhadores and Dutra, which is the first store in the region with 400,000 inhabitants.

And so even in the southeast or metropolitan region of Sao Paulo and Rio de Janeiro, we still have major opportunities for Assaí. In other markets, in the Northeast and north of Brazil, where Assai already has a pretty good level of penetration, there's still room for growth such as the projects in Manaus, Belém and Macapá.

But as you balance things out with these stores and you bring them into more downtown regions with a bigger offering of services, cash and carry also stops being an option that is exclusively for monthly shopping.

So we've seen a bigger search for day-to-day shopping as well, for customers that used to mix our channel with other channels and even for customers that aren't used to performing big purchases.

So when you look at workers or people that receive monthly salaries, buying a big monthly shopping is more interesting. But there's also a lot of people who are informal and they buy daily, right.
They don't have like a monthly salary.

So we can also service this kind of customer now as they are used to buying smaller purchases here and there. We had seen this happen in some conversion and organic stores already.
So our objective is to continue to be even more present among the population and the 25% penetration rate demonstrates this.

And for CAPEX effects, there's a big variation.

So if the project also has some variations in the sales area for organic stores, with 3-4 thousand square meters we should still be working with the 70 million reais as you mentioned. And the projects that we planned for 2024 that we had had to hold on to during the conversion project, are big stores.

Besides the Guarulhos store we also have Cidade Tiradentes, as well as the reopening now of the store in Vila Maria, the first cash and carry in Brazil that used to be a Makro store and that we were able to renegotiate a lease contract for.

It's a very important store as well with high expectations for sales. We also have a project for a store in Guarujá and Angra dos Reis. These are other stores that are very strong when it comes to investment perspectives.

So what's the balance point for this project, right, the ROIC when we look at the invested capital versus the expectation for sales and what we generate for cash versus working capital in these stores.

And so we should have a network of organic stores that's going to be a little more mixed.

So not only stores that are like 6000 square meters, 7000 square meters, so we would see stores that are 3000 – 4000 square meters and bigger ones as well, there's room to continue to advance.

I think that my answer was a little long here, but I hope that was clear.

I wanted to give you a little more info here.

João Soares:

So maybe just one more point here.

Do you think that with this greater investment versus competition, I wanted to understand a bit of this dynamic comparing with other players.

So we see values that are a little smaller for some players in organic stores.

Belmiro Gomes

No, if its an organic store and a comparable project, I don't think there's going to be a difference in the value between what we do or what another player can do. For organic stores, it's a lot simpler and you have this variation according to the size of the project.

If we have a project for stores that are a lot bigger, there will be a big variation. So if you consider from a construction project perception, there will be projects that are going to cost maybe R$ 30 million without the equipment and others will cost R$ 70 million.

So instead of looking only a the average investment per store, you have to look at the average sales per store as well, compared with other players.

Is it possible to have a store that costs R$ 40 million?
Yes, there's some stores that are going to cost that. But of course, the volume of sales in the store is not going to be the same as a store that may cost R$ 70 or R$ 80 million to build.

So the Guarujá project is a big store there and it is our first store in the region. So it's a store where we expect to sell about R$ 380 to R$ 400 million per year.

So that's important to look at because you always have to consider the average revenue per store. So we have 280 stores with over R$ 20 million in revenue.

So in the conversions, yes, we do have greater CAPEX in multi-level stores, and normally in a conversion in the market there is a preference for stores that require less investments which are normally ground-level stores or smaller stores.

So in the extra store network, when we looked at competitors for example, with the hypermarkets before that were ground-level stores, the conversions cost is a lot lower than the conversion cost for a store that's on multiple floors where you have underground parking etc.

So the cost to increase the load on the flooring from 800 kg/2m to 3 or 4 tons is a lot higher, which is what we require for our format, it ends up being a lot higher.

So what determines this is the sales expectation and location value, so it can´t only be an isolated metric per average store.

João Soares

OK, understood.

Great.
Thank you.

Operator

Next question is from Rubem Couto, a Sell-side analyst at Santander, Rubem we will enable your audio. You may proceed please Rubem.

Rubem Couto, Santander

Good morning everyone and thank you for taking my question.

I think my points were already covered, but I just have a last follow-up here on the discussion of expenses to give us some tangibility here. Do you think you can quantify the relevance of the pre-op expenses in the fourth quarter of 22 when you had a lot of store openings and how much this was now in 23.

Thank you.

Belmiro Gomes

Well, in 23 it was very low. In 23 we had pre-op expenses that were impacting.

Of course I wouldn't be able to quantify this, but I think Gabrielle can send you this information later because in 23 it's not that relevant. In 22 we had a bigger impact on our expenses still.

So we already expected that in the fourth quarter of 22 there would be an impact.
So then you have the effect of the store ramp-up. So we went from 14 stores to 288 stores.

So coincidentally year over year we were adding on new stores.

But of course, the proportional level was never that significant as it was in the end of 22 with 115 openings in 3 years. So margins are lower and all of this of course reflects the ramp-up that was expected, with margins lower, sales starting off lower.

So I think that in 22, we had about half 0.70 or 0.50 bps of pre operational expenses.
But I think Gabrielle can get back to you with this information with greater precision and not only pre-op, but also there's another aspect that we also highlighted.

Simply because with new stores, you have costs that are a lot higher at the beginning of the operation and searching for ways to attract customers to the stores that are more downtown regions. And for higher income customers there is also a sales curve that is gradual.
And then of course, it makes you have to work with this higher expense level initially.

Rubem Couto

So yeah, I can also get the rest of the information with Gabi later on, that´s great.

Thanks for the answer, but this point you mentioned calls our attention, which is where these expenses actually helped you guys to make the decision to invest a little more on your competitive advantages in this quarter.

And I think this is a pretty different dynamic compared to what you guys were discussing throughout the year where the elasticity and price investments weren't really bringing major returns on equivalent sales.

So you guys weren't working on this that much. So could you notice what changed from now on to have this elasticity returning?

Is it something related to the profile of stores and the socio-economic levels?

Belmiro Gomes

So of course, since we had provided the guidance on balancing out EBITDA margin, we were going through this process throughout the quarter.

But the perception in the fourth quarter which is something we already estimated, considering the volume of sales and how we would have a dilution in expenses, that we would have room for investments and this would have to happen in December.

And so you can notice that there's more caution from customers throughout the entire year.
In December, you have the festivities and of course, you have parties and celebrations.

So if there's a moment where you could use the strategy that was a little different than the 2nd and 3rd quarters, so the tests for investments that we had in markets and prices, where you would sell at a lower margin, but wouldn't bring any impacts to the volumes.

But in November, with the 13th salary people received as well as in December, this equation would maybe be a little different.

And that's what happened. So since we were supported by the lower expenses with the conversion stores we were able to combine these factors and search for more sales volumes but also increase the maturity curve speed on the conversions especially.

Rubem Couto

Great, very clear! Thanks.

Operator
So the next question is from Alexandre Namioka, Sell-side analyst at Morgan Stanley.
We will enable your audio.

You may proceed.

Alexandre Namioka, Morgan Stanley

Hi thanks for taking my question.

I think most of the questions have already been answered, but I wanted to talk about a point regarding Forfait which you mentioned on the fourth quarter, which was 1.5 billion and this was related to suppliers of products.

But then when you compare these R$ 1.5 or R$ 1.1 billion compared to the numbers that you guys had provided in the third quarter, we can see that there's an increase in this forfait factor.

And this was mostly related to the products. So I just wanted to understand if the effect for the third to the fourth quarter was something that's more seasonal or if there's something different involved that impacted this.

Belmiro Gomes

OK, great.

So this is not our decision, the supplier decides to do this, but the terms and contracts are not modified.

But our suppliers of course can decide to discount this which doesn't depend on us, all we have is an agreement to facilitate this where part of the fees the banks get for this operation can also generate gains for the company.

So we register these operations, but they are not subject to our decisions.
So our perception is that we have high interest, the cash position is tight for everyone and it's natural that these suppliers will have an increase of their volumes and discounts to be able to handle expenses in the end of the year, especially with the 13th salary requirements.

So this is an operation done by the supplier. We just monitor these activities considering the agreements we have.

But this is a decision made by the supplier, regardless of if they provide products or equipment.
So the discount on receivables is one of the oldest kind of operations in history, right, back then in Mesopotamia.

So this perception was created in the market due to past events maybe, but this is a decision made by the suppliers all we do is suggest that they do these operations with our partner banks.

Alexandre Namioka

OK, perfect, very clear.

Operator
So our last question comes from Joseph Giordano of the Sell Side Analyst.

Joseph, you can proceed.

Joseph Giordano, JP Morgan:

Thank you, guys.

So I wanted to explore this issue with the price investments as mentioned by Belmiro.

What have you guys seen as a gap in your average basket , versus competition, and we've been starting to see how Assai is transferring less prices than the main competitor, a lot more in line with the price adjustments made by the regionals.

So then the second question is about the working capital. We've seen an extension of about 10 days excluding Forfait on the suppliers line. So I wanted to understand if this is structural, if we should see these 75 days get back to those 60 or lower than 60.

Belmiro Gomes
OK, thank you.

Wlamir will answer this one.

Just remember that the Forfait operations are made by the supplier.

Wlamir dos Anjos

So just about competition here, obviously we look at these competitive movements and for competition, we have the variation store by store, cluster by cluster.

So it's kind of like you have to consider 2 aspects or more, according to competition, whether it's national or regional competition, it doesn't matter from a competitive perspective, the company becomes more competitive.

So this policy is a lot more individualized. Due to the size of the company and the amount of places we're located in, you can't say it's a single policy, right.The strategies are operated according to the region's reign and you, if you have a regional competitor that's more competitive, we will also be more competitive.

So it seems like we had an issue with the connection.

We'll be coming back in just a few seconds.

Belmiro Gomes

We did have a technical issue here with the connection. We'll all be hopping back in just a second.

So we had a challenge in the beginning of the year with the increases in ICMS tax rates in many states but we have already been able to transfer this in January and February. So we have been very optimistic about the beginning of the year.

So Joseph we had improvements of 5-6 days in the end of the year but when we look at the increase in terms this is due to better negotiations with suppliers in 2023, a smaller volume of store openings, if we compare with 2022 we opened 37 stores compared to 12 this last year. But we will keep up with the same policies on working capital, which should not deteriorate in any way with the same discipline as always.

Joseph Giordano

Perfect thanks.

Operator

We have finished our Q&A session. And we will now pass the floor to the company for their final remarks.

Belmiro Gomes

Well thanks to everyone for participating in the call and keeping up with the journey we have experienced in the company with the closing of 2023. We had market turbulence this last year. With customer debt and deflation which impacted the 2nd and 3rd quarter more. This year we completed the largest transformational project in the food sector, and we have been generating cash and conquering customers. And with the improvements in the economic scenario ahead of us we are on a new trend.

The company continues to focus on deleveraging and we're continuing to search for ways to consider growth and this is a positive expectation for 2024.
So I want to thank all of my team for the work that has been done throughout 2023.

As I mentioned, I didn't discuss all of the numbers here, but this is due to the 450 million people that visited our stores and bought from us and also our daily efforts with the major team we have that was able to build a company that tripled in size in the past three years with a growth CAGR of 28% and a company that always grew with its own cash generation.

Ever since we changed the Assai model, we never received any investments from former controllers. The company has generated leverage, but we believe it is an investment for the future. An investment for a positioning and differential, investing in our people and our value proposition and what we have been working towards daily to keep a differential in the market.

Thank you all so much.

Operator

The earnings call for the fourth quarter at Assai in 2023 is officially ended.
The Investor Relations department is available to answer any future questions that may exist.
Please have a wonderful day and thank you for participating.