Earnings Call Transcription

2Q24 Assaí (ASAI3 BZ)

August 09, 2024

Operator:

Good morning everyone. Thank you for waiting. Welcome to the earnings call for the second quarter of 2024 at Assaí Atacadista. I want to highlight that if you need translation, we have this tool available on our platform. To access, please select the interpretation button through the globe icon on the bottom part of your screen and choose your language of preference, Portuguese or English.

This earnings call is being recorded and will be provided on the company´s IR Website https://ri.assai.com.br/ where you can find the earnings release available. During the presentation, all the 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 and write your name, company, and language of preference and enter the queue. As you're announced, a request to open your mic will appear on the screen. Then you should activate your mic to be able to submit a question.

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

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

Gabrielle Helú:

Hello. Good morning, everyone. Once again, I want to thank you all for participating in our earnings call for the second quarter of 24, and I want to present the main executives present here.

Our CEO Belmiro Gomes, Vitor Faga our VP for IR and finances, and the operations VP and Sandra Viccari, Sustainability and HR VP. So, before we start the presentation, I'm going to show you a quick video, it’s less than two minutes, because we're experiencing a very special moment with our 50th anniversary at Assaí.

This video that's narrated by Belmiro shares a bit of our story, strengthens our origins and partnerships, and also talks about how the company has evolved and the impact on the lives of Brazilians. So, let's move on to the video.

Belmiro Gomes:

Thank you all so much and good morning, everyone. First of all, I want to thank you for your presence and welcome you all to our earnings call for the second quarter of 24.

This is a quarter where we had opportunities to welcome over 2000 new employees, which we hired now in the second quarter. And especially another 2 million new monthly customers. With an increase in the tickets, as you've seen in our presentation and release, Assaí was able to reach a milestone of 79 million customers.

An increase of 7 million compared to what we achieved last year in the second quarter. So 7 million+ represents over 2 million customers. Almost 3 million people visiting our stores, including the new and existing stores in the company.

We showed you the 50th-anniversary campaign in the video and we plan to provide more details about it. Because Assaí traditionally has spectacular campaigns. Not only when it comes to prizes and store activation, but also keeping loyalty up.

And we're the company that's most present in Brazilian households. We're the company that has physical stores with the biggest amount of traffic and people visiting, year over year.

We have been overcoming expectations, so the company can continue to innovate and be a reference in the market. Before we move on to the numbers, I want to talk about the environment in the market. We still feel consumers and the overall B2B customers quite pressured by debt and interest rates.

There are also some changes in consumer habits that make us have a environment with a level of debt and purchase power that's below expectations for this moment in the year. The inflation in our perspective is in line with what's expected by us and the government with a variation level up or down, which is not that relevant. Not such a big change from an inflation and deflation perspective.

We also see a significant reduction in trade down that we had in the first two years of the pandemic. But also, what's impacting the market as a whole is a movement with the reduction of the sizes of the packaging in certain categories of products.

Since we came from an inflation period that was really high, where income didn't keep up. And a lot of the movements that industries and suppliers implemented to keep their volumes of sales were related to changing the size of packages.

So, within the strategy for the second quarter our focus above all is to preserve our cash position, keep up with our level of competitiveness and keep focused on store maturity, promoting a sequential increase of our gross profits and keeping up coherence and consistency, especially in our results.

And we'll see this when I show you the slides on the evolution of the gross profit throughout the three years. And keeping coherence in our policies and keeping the payment terms policies avoiding sudden changes that are applied by the market, which could of course lead to something that is maybe not that healthy for the companies.

So of course, discipline and expense controls maintaining the level of services in stores. The company continues to expand with over ten stores. We had already mentioned previously.

Operator:

Sorry guys, we had a small technical issue, but we'll be coming back in just a few seconds.

Belmiro Gomes:

Okay, we're back now. Could you repeat the last phrase? Belmiro.

Okay, can you share the presentation on the screen? Sorry about that, we had a shutdown here.

I had already talked about the expansion, and traditionally this has been our focus at Assaí, when it comes to growth.

The team has been ever since April, and Anderson can give you some more input later, working on delivering 80 new services in the existing stores, which includes new services like the butchery, bakery and deli sections. This makes the 2 million new customers come from other formats in the food sector, also attracted by not only the location and execution of the stores, but also the new services. So, I think that's the main highlight when we look at the second quarter, and same stores was close to 3% with a balance in the growth of the same stores and also the growth of expansion.

So, we had a growth of 11% compared to last year, 34% in two years, which represents in the last 24 months, and I´m focusing on this period as Vitor will talk about the cash generation as well during these 24 months, but we had over 5 billion in additional amounts. So the company is still working on its investments growing and expanding and we have important store openings in the second semester, like the store in Guarujá which is something we could highlight.

The new unit in Guarulhos and the unit in São José do Rio Preto that we're trying to open this year, or in the beginning of next year, and some markets and regions where Assaí is not present yet with major opportunities. And we should also go over the milestone of 300 stores this year, probably by the end of our anniversary campaign.

So, the EBITDA in the pre IFRS vision, as we all know, we have this trend with the purchase of the extra stores which increased the levels of rent in these locations and we're really highlighting this. And the best way to view this pre-EBITDA is R$ 965 million and a growth of 18% compared to the previous year, higher than the sales. And that highlights that at Assaí 100% of the EBITDA is cash.

And in the pre IFRS vision, we have a margin that's 7.2% and LAIR (Profits before Income Tax) evolution of 66% and Vitor will talk about the net income up ahead. And we also had the impacts from the subvention that we had last year, but we don't have this year. And then you see this ratio between the LAIR and the net income presents a change year over year, but you can see the operational efficiency in the company.

And we have high financial expenses due to the leverage and interest rates. But the company has been very focused on deleveraging. I'm not going to get into too much of the details here because Vitor will cover this later on, but we really know the power of the cash generation in this business.

So, our leverage continues to drop. And we have an EBITDA that is more robust when you split this by the twelve months. Our focus is really this leverage projection.

And so it's important to highlight that this level does not consider possible discounts on receivables, whether they're discounted or not. So, this is always a possibility the company has. And the company has this projection for our net debt EBITDA of 3.2x till the end of the year. But anyways, on this second slide you can see how things have been evolving in stores and with the extra conversions now, we already have sales of over 25% of the average in the company.

And from the ten main stores, when it comes to customer flows, nine are conversions. The stores are very well located, we're talking about the project, and you can see the evolution of the EBITDA especially. Of course, these stores are not mature. So, you can have an idea, the first conversion store reached two years since its opening. Which was the Ceilândia store in July. So, most of the stores are going to start their second full year, by August, September and October, and then of course the end of the year when we'll be completing the 24-month cycle. And we've been working on some initiatives to balance out sales and EBITDA margin maturity.

So, the sales should reach 26 million and the EBITDA margin pre-IFRS, without the impact of the leases. Of course, you have the property tax impact, but it's about 5.4%, which means an EBITDA margin evolution of one percentage point. If you already look at this from December 23 to the end of June 24.

The company has been really focused on improving this store network and the maturity ramp up when it comes to sales and margins, trying to balance out both of these points. And with this we advance about 140 bps in margin compared to last year, and a growth in our revenue in the first semester. When we compare with December, which as we all know is a very atypical month, with about 5% revenue growth, we can move on to the next slide.

Now with the process of conversions, as we all know, we went through a very intense project for the expansion of these conversions, and on this slide, we brought an evolution of the gross profit. So, when you look at the amount of tickets, you can see the company more than doubled or tripled, tripled during this year and the last periods actually, and the gross profit keeps up with the same proportion. So, if we take a look at this from our perspective, there were positive results, as even when you go through such a big process, with the conversion of the hypermarkets and the closings, and during this period, we evolved in this store format and we had two things that took place concurrently.

We had the conversion and opening of the hypermarkets, but also the inclusion of the new services with the butchery and other projects. The first butchery we opened was in the end of 2019 in Sinop in Mato Grosso.

So, there were different occurrences. But when you look at this, due to our commercial dynamic, and even with this evolution, we had a gross profit that was very stable, 16.7% to 16.5%. Now in the second quarter of 24, so in 2021 when we still didn't have the conversions it was higher.

But you can see gradually that the levels of gross profit get back to normality. Even with all of these changes, as we enter new centers and include new services. When we look at the expense perspective, the changes in the dynamics, there was always some skepticism in the market about the shift in formats, and this intends to provide better services to the population with higher income and also provide some possibilities to adapt for B2B and B2C customers with better locations. And in a near past it would be very difficult to believe that you would be able to open a cash and carry operation in these locations.

So the changes in the assortment and the changes in some units and other stores. When we look at the level of expenses, you notice that the expenses in the post IFRS vision where you don't consider the lease is completely stable. So, 9.7%, which is what we see as an SG&A percentage, is prior to any conversion projects for extra and prior to the inclusion of any services as well.

And it's stable from 9.7% to 9.5%. But when we look at the lease, of course, these stores, as we mentioned in the beginning, they have a characteristic with the level of the property that's very different. But the increase in the margins and sales, when we look at those 25% more, more than offsets this.

And this created, especially in our vision, a new possibility for growth in the company, because when you consider the profile of regions where the cash and carry stores used to operate, you could maybe have a higher level of saturation or not have the capacity to penetrate in central regions. So, I'll say it was a big innovation which allowed for major movements, even among competition, as they followed along behind us in the paths we pioneered. And as we wrap up here, I'm going to pass the floor to Vitor as he talks about the EBITDA.

He's going to discuss the leverage.

Now the floor is yours Vitor.

Vitor Faga:

Thank you Belmiro. Good morning, everyone. Belmiro just described a bit of the gross profit dynamic and the SG&A, and we're going to show you here through these two metrics, we can see the EBITDA and an important evolution.

In the EBITDA, when it comes to a quarterly basis, we've seen an evolution from R$ 815 million to R$ 965 million in the comparison quarter over quarter, and a growth of 18%. That comes from an increase in sales, but also the margin expansions. And when you look at the evolution in the six months, you see that there's pretty much the same format, 27% growth and an increase in the margins of 0.6 percentage points.

And so once again, as a basis for the success in the maturity of our stores, so far as they've been converted, but also the deployment of services, as Belmiro explained, and no doubt the control over expenses, which allows us to grow, having an increase in our profitability when we look at the EBITDA line.

So, moving ahead and looking at a bit of the financial results, we also see positive evolution in the comparison with the same period last year, where we have stability when it comes to the representation or importance of this financial result compared to the revenue, which is 2.6% of the net revenue. But when you look at this sequentially and you compare the first quarter of this year with this quarter, you see a reduction, a nominal reduction of the expense, 510 million to 468 million, but especially a dilution of these expenses.

So as a percentage of the sales, it goes from 3% of the sales to 2.6% of the gross sales. So, the evolution of gross profit and expense control generated an increase in EBITDA margin associated with the maintenance. If you look at the annual basis and the reduction, when you look at this in a sequential manner, makes it possible to see a profit before income tax that had a very important growth rate (LAIR).

And when we look at this in the semester, this profit before income tax more than doubled from R$ 135 million to R$ 347 million. So, this was an increase of 157%, which demonstrates we are on the right path when it comes to this strategy that the company has been adopting. What's also important to mention is when we look at the net income, it was impacted in the year of year comparison, due to the significant reduction in the positive effects of the subvention for investments.

But then when we look at the semester view, we have a growth of the net income. So we move on to R$ 258 million reais in this period. Then moving on.

Here we have a comparison. Belmiro quickly showed this in the presentation. We have a comparison and a number that we think we should share with you, which is the operational cash generation.

And we brought this two year cycle which really sets the beginning of the operation in the stores that were converted from the hypermarkets. And here we present this comparison and analysis to show you clearly how the operational cash generation was so strong. The company generated R$ 7.6 billion in cash during this period.

Coming from the EBITDA generation, R$ 6.8 billion in EBITDA generated, but also a positive evolution in our working capital. So there was a major evolution in the number of stores, 84 new stores which includes 64 conversions and 20 organic stores. And this cash generation, if you look at the investments that were required for this expansion, and these investments were very significant when it comes to the acquisition of hypermarkets, or even the opening of these 20 organic stores.

But also when it comes to the refurbishing and implementation of the services, but the company was able to generate the necessary cash to handle basically all of the investments. To be more precise, 88% of this investment was funded with operational cash generation during this period. And I want to remind you all that these stores are still maturing.

So basically, this is an analysis we consider to be very important to share with you, because it demonstrates the strength of the company and how solid it is, and that we're really on the right path to continue to grow our results. But of course, we also have the payment of the interest rates in this period, about R$ 3.4 billion. And that's a direct consequence of our debt levels, as Belmiro mentioned, and the interest rates in this period that also reached levels that were a lot higher.

So, moving on, it's also worth mentioning a bit of the evolution of our leverage, this is an indicator we've been accompanying closely. This is one of our focuses in the company, as Belmiro has mentioned, and we see ongoing improvements and reduction in the leverage. If you look at the leverage by the end of the second quarter, which was at a level of 4.25x, we can see a reduction of 0.6 times.

And that's if you compare with the end of the second quarter this year, and this was an evolution of 0.10x from the last quarter to now. So, this is an indicator we monitor closely and it's one of the company's focuses. Clearly, we've been looking at this and we've been seeing the evolution of the EBITDA.

The reduction of the leverage is happening and it will happen throughout 2024 mainly due to the evolution of the EBITDA. For 2025, we expect to have even greater contributions coming from the reduction of the net debt. Moving on to the next slide, you can see that there's some additional information that we will be presenting, which is the total availability.

So we've been working on a new interpretation on this breakdown, and we brought what's considered the cash equivalents and also the receivables that are not discounted. So the first point that I think is worth mentioning is that we had an issuance of debentures that was very successful, which led to a higher cash position in the end of the quarter and that made us discount less receivables in this period. So that's why we see this significant growth and availability, that's a total R$ 6.9 billion, when considering the sequential growth of 33% and 34% throughout the same period last year.

But when we look at the breakdown with the non-discounted receivables which is substantially greater and that's the fruit of this expansion which is mainly, it's another step we're taking to improve the profile of our debt. So first reduce costs. We had the issuance considering CDI + 1.25 which is substantially lower, which was CDI + 1.49 and the extension of our average term of debt which was 28 months.

But now with this issuance it becomes 32 months as an average term. And Assaí we'll continue to search for new opportunities to improve our debt profile from now one. And so we also want to consider the average cash in the period.

So, it went over to R$ 600 million and it was R$ 640 million in the first quarter of 24. And then in the last quarter, it was over R$ 800 million. And then here, our practice is that we'll gradually increase this cash position, providing more liquidity and increasing the financial solidness.

For this period, that's what we wanted to share with you guys about the financial indicators. Now I will pass the floor to Sandra as she talks about sustainability as a strategic pillar for the company. Sandra, the floor is yours.

Sandra Viccari:

Thank you, Vitor. Good morning, everyone. So, within our sustainability strategy, which intends to really lever prosperity for everyone, all of our initiatives are based on three pillars, which are efficient operations, developing people and communities, and the ethical and transparent management.

And so, as I present the highlights in this quarter, we're really focused on reusing waste, and we avoided sending over 900 thousand tons of fruits and vegetables to landfills. And this is all related to our Destino Certo program which benefits many organizations around Brazil.

And we continue to develop initiatives alongside our 82 thousand employees so that we can create a more diverse work environment based on valuing differences. And we also have over 25% women and 40% black leaders in the company. And in this context, we were recognized among the companies in the Brazilian Stock Exchange (Ibovespa) as one of the companies with the highest rates of black leadership. And we also received some certificates as the best companies for LGBTQ people to work in. By HRC Partnering with Instituto Mais Diversidade and the Forum on Companies and LGBTQI+ Rights. And through Instituto Assaí we are promoting the donation of food, which included over 1300 tons of food, as well as mattresses and different materials to Rio Grande do Sul. During the Share a Coat campaign we had the opportunity to donate 54 tons of coats and blankets sent to social organizations all over Brazil.

And I would also like to end by highlighting some awards and recognition that we received in this quarter, because it really values our performance and the relationship with our customers, which is really essential. So, for the fourth time, Assaí was recognized for the 4th time in first place in the retail category for modern consumers for service excellence. And we were elected for the 9th time, as the best cash and carry operation in the city of São Paulo, which is based on the perception of people that live in São Paulo. And we're third place among the best companies in the investor day category by the Buy-Side. And we were the only ones in the food retail sector on the podium.

And Assaí was considered the brazilian brand that's most valuable in the food retail sector in the Interbrand Ranking. So, these are acknowledgments that really make us happy and confident so that we can continue to work to become a company that's more sustainable, solid, and generates greater prosperity for all stakeholders. So, thank you all.

That's it. And I'll pass the floor on to Belmiro.

Belmiro Gomes:

Okay, can you guys hear me?

Well, thanks, Sandra. Thanks, Vitor, for the presentation. We will now share a bit more about the campaign details for the 50th anniversary at Assaí.

And Assaí, with the amount of 77 million tickets in a quarter, really represents a huge flow of people. It's about 38 million people passing by our stores. And it's the company that's most present in brazilian households with the biggest flow of customers in physical retail stores in Brazil.

And the company operates in a continent, when it comes to the national territory. So traditionally, every year we have very strong campaigns. And this is one of the decisive initiatives for this short period with such an intense expansion, to make the brand really well known and famous in the national territory and generate loyalty among customers.

So, the 2 million customers per month we conquered in the second quarter partially come from the promotion and mouth-to-mouth referrals and search for savings, but also services based on the quality of our culture. And so this year we have a campaign that's probably the strongest campaign in brazilian retail, the strongest one we've ever had in all years. We decided to hire a full cruise ship from MSC cruise, and it's going to be traveling through the Brazilian coast and our customers will be able to win up to 1500 trips.

It's going to be a raffle. So as customers buy, the more they buy, they can expand the chances of winning and being awarded, and also the more they buy from the participating brands. We had over 50 suppliers that are the sponsors of the campaign and besides being highlights, because if the customers buy their products, they can expand their chances to achieve this and they have a bunch of benefits with the expansion of the products and space in the stores.

So it's a campaign that really will affect our customers a lot and also will allow us to continue to move towards conquering new customers. The first award is 5 million reais, and then you have over 50,000 awards that they can use instantly of about R$ 100. So it's going to last for four months and we're going to have strong promotion in different media channels and outlets.

We also shifted our registration process so that we can capture as much data as possible, enriching our CRM in our phygital strategy that Assaí has been working with as well as other future projects, that we have, and especially because we want to keep our customer loyalty and conquer new customers. So, an interesting point is that the company is made up by its people. Above all, the main differential in a company is its culture, right?

So within this, we're going to be sharing this opportunity as well with all of the employees that have been in the company for over 20 years of experience with a plus 1. They're all going to go regardless of the position they occupy in the company. So in this way, we'll also demonstrate to the operational team, working with the 38 million people that if they are at Assaí they will be recognized and awarded, as well.

I'm getting too excited here, so I don't want to go over too much, but I want to thank everyone working on the campaign. It was fantastic. It was a joint effort not only with marketing, but also the commercial and operations areas.

We have a challenging period up ahead, but we have a beautiful campaign and we believe it's going to have really good acceptance. To anchor this, we brought five personalities. Each of these represented a different region in Brazil.

They're very popular. We have Xande de Pilares, Gabi Amarantos, Michel Tela among others. And all of them represent a specific region in our country.

Due to the diversity, they're very popular singers and artists and we brought them on board for this campaign.

Now we're going to show you the campaign video. It's very quick and then we'll get into Q&A.

Clip:

It's great to save. At Assai's anniversary. You can join us on this ship. 50 years. We're so happy to celebrate. 20 million in prizes and awards. Come join us. Trips with a plus one and you're on a size ship. Come on, let's navigate. 5 million will change a life as we have special sales. Everyone can win something. Come and join us. Get lucky. Come become a millionaire and Join us.

An instant prize every single day. 50th anniversary at SIE anniversary a great show of awards and low prices.

Gabrielle Helú:

Now we'll start off with our Q&A session.

Operator:

Please remember that if you have a question, you should select the Q&A icon at the bottom part of your screen. Write your name and company and language. As you're announced a request to activate your mic will appear on the screen.

Then you must activate your mic to submit questions. We'd like to ask you that you submit all the questions at once.

Our first question is from João Soares, Sell-Side at Citi.

So João will open up your audio so you may proceed.

João Soares – Citibank:

Okay. Good morning everyone.

I wanted to explore two points here. First of all, I wanted to discuss the competitive environment. Belmiro, I think we're going through this new discussion, as we have already discussed the new services and then the SKUs.

And so now we're discussing this payment option with installments, and it would be good to get a perspective on your opinion about payments and sales with installments. When we look at the entire country there are some regions don't have a demand for this kind of purchase and payment in installments. But we want to get your perspective on this and also your vision about the growth dynamic.

So, we have a relatively constructive perspective when it comes to food inflation at the bank here. But I wanted to get your feel. Do you think there's going to be a short-term acceleration?

And what's your mindset? Have you seen something change compared to the messages in the last quarter? And finally, the capital structure a bit and expansion for next year and how comfortable you guys are for this expansion plan? I think this is important to cover.

Belmiro Gomes:

Thank you, João.

Well yes, there's a shift in the market and of course, there's always a possibility for changes in the competitive environment. We've been one of the protagonists when we placed services in stores.

And in our perspective, services were just a way to evolve in this model. And you can see there's so many differences in levels of income in Brazil. And so the model that's adequate for one region is not always adequate for all of them.

So, this evolution in the model for the regions we intended to enter with the inclusion of these services was necessary. And so, the number of tickets his demonstrates that it was a very assertive process. And in the second quarter now we saw a change in the payment term conditions presented by our competitors.

So, we've been watching this movement very carefully. You can search for sales with two things, margin and terms. So, margins, you're always going to work towards, recovering, but payment terms are difficult to adjust.

And so the dynamic and impact appear to be a lot more related to the actual wholesale operations instead of the cash& carry physical store operations, because when you expand the terms, the B2B customers that have working capital really pressured with all of their financial situation, when you stretch out and double the terms for B2B customers or even offer three installments, you have an increase in sales and that should impact the market as a whole. But in our perspective, it's a strategy we don't expect to follow, because buying food in installments all over Brazil does not seem like the best strategy. We have a private label card strategy to incentivize the use of the Assaí card.

But at this moment, we're not going to change our policy because this did not actually reflect that much in the stores. But maybe it's more impactful for the distribution wholesale operation that our competitor has. So, if you look at the total numbers in the market when it comes to growth in the second quarter, we're really in line with what the overall market has been seeing in the second semester.

In the second half, besides the campaign, we have many adjustments we've been working on in the commercial dynamic, negotiation with suppliers, product mixes. Of course, the second quarter was slightly below expectations, but the expectation for the second semester is that it should be a more positive period. So, the company has been dedicating all of its efforts to have a more positive second semester.

But of course, this environment we were expecting or projecting in the end of last year, for this year, is not at the same level we expected. The expansion plan is pretty much kept. We haven't at this moment had any different signs.

It's always a process that we have to be reviewing this, because the expansion we have up ahead will be for organic stores. And this is different than when we bought the extras, which we had to opening up as quick as possible, since we were already having the least expenses. But with organic expansions, it's really a matter of decision and you can decide about the level of expansion versus debt, and we always monitor things like that.

But at this moment, we have 15 stores expected for 2024 and 20 stores for 2025. So a lot of the projects have already been advancing quite a bit and this could be something we review, but it´s not what we see at this moment.

But I do hope to have answered your question.

João Soares – Citibank:

Yes, Thank you, Belmiro.

Operator:

So our next question is from Clara Lustosa, Sell-Side at Itaú BBA.

Clara we will open up your mic.

So you may proceed. Please proceed.

Clara Lustosa – Itaú BBA:

Thanks for taking my question.

So more of a follow up on the previous question, but I wanted to explore a bit of the same store sales and how that took place in the quarter, and the evolution throughout the months, and also maybe taking advantage of the payment term and payment conditions topic. You mentioned that maybe this is more attractive for the wholesale distribution business, but what was the performance throughout the quarter and the beginning of the third quarter? When you think about B2B, do you think that they're being more attracted by other payment conditions provided by competitors?

How have you guys been working on this? I think that's the first question, more of a follow up. And the second question is quick. It's like a working capital point. I think you made this very clear in the release that the level of suppliers in the second quarter last year had a one-off effect. But if you could just go over a bit of how we should be looking at this level, maybe closer to 60, 65 days eventually some room for changes.

So, of course, offsetting some of the seasonal effects of the fourth quarter.

Belmiro Gomes:

Thanks Clara. I will talk about the first part and Vitor will talk about the dynamics of the working capital that we can see in the second quarter of last year. So, about the payment terms dynamic especially for B2B.

We can see the consumers always have a different dynamic. So as soon as you provide a higher payment term, you'll increase these purchases. But right now, with the cost of cash, if you increase the limits, you could have higher delinquency rates.

So that's something we have to be careful about and monitor and see if there's any like major modification. I want to remind you that we don't have a distribution wholesale channel. We only have cash and carry sales in the stores.

So of course, these two channels, they do have an overlap. 98% of the customers that buy from distribution also buy in the cash and carry stores. So, they normally have like a product mix.

So if you increase the terms, you also have an increase in sales initially. But if you don't increase this limit, what happens is you'll perform the sales initially, but then you're going to go over their limit, which could lead to delinquency up ahead, besides the cost today of cash. So basically, I think we have to always analyze this and see how this policy will be.

So we will keep our current policy monitoring, and how we've been working in the second quarter, even if this could lead to an impact on the sales for B2B. So of course, you have part of the B2Bs, which includes the transformational public, those customers that work in food service, etc. But the resellers actually just want to know about payment terms and conditions and pricing.

But it's hard to keep loyalty among this kind of customer, the resellers.

I hope I answered your question and now I will pass the floor to Vitor.

Vitor Faga:

Hi Clara. So, thanks for your question.

So, about the working capital, yes, we did have a variation upon the working capital in the same period last year, which is a lot more impacted by the difference, and the fact that the working capital in the second quarter last year, having performed in a very atypical manner with an account for suppliers that was relatively high when you look at the history.

Right, but we described this, I think, in greater detail on page seven on our release. But if you look at this from here forward, you see the working capital behavior is going to be very similar to what we've seen in the first quarter this year. And what we're seeing in the second quarter.

The cash cycle is about five days, basically. So that is what we've seen. And of course, there could be some change, like one to two days up or down in suppliers, stock, etc.

But when you look at the cash cycle, we see this cash cycle that's a lot more similar to what the first and second quarters were. There's, of course, a seasonality effect in the last quarter, the year, and you have a shift in this parameter, considering the high volumes of sales. But this is something that we know about in the industry, and we won't behave very differently.

Very clear. Thank you Vitor and Belmiro

Thank you.

Operator:

Our next question is from Daniela Eiger, Sell-Side at XP. Daniela will open up your mic so that you may proceed.

Daniela Eiger – XP Asset:

Hi guys, good morning.

Thanks for taking my question. My question is very quick. I think most of the topics were covered already, but it's just a follow up on the food inflation dynamic point.

So, Belmiro you mentioned there's not like major changes in the trends, but even today we saw the data on the inflation surprisingly downwards, and It was really levered by categories that are really relevant, like protein and dairy products. So how do you see this dynamic? I know you said you won't see too much of a change, but do you think this could be updated or changed considering the data today?

But also, what are the types of levers you have for possibly working on better profitability and cash generation in a scenario where you may have food inflation that's still not helping that much when it comes to the same store sales dynamic. Thank you.

Belmiro Gomes:

Thank you, Dani. And thank you for the question. When I talked about the variation here in this year from a comparative perspective, looking at the turbulence we had after the pandemic, from an inflation and deflation perspective, there were more sudden movements, but this year it's a lot more stable.

So yes, there are variations in the month-to-month comparison, but we have one component we should keep an eye open for, which is the dollar currency issue, because even the proteins and other commodities are impacted by the dollar. So, if you have the American currency higher, which is not the level we had expected or seen with the change in the consumer environment in the US. And so I think we all were kind of wondering if there could be an effect on the food inflation, just as construction materials that were also impacted, right, with the new stores, especially when we're talking about steel, so there's also a reduction of the inflation. But that's a reduction-flation, as they call it in Brazil, where we have a reduction of the sizes of packaging, where you want to have industry keep the same price unit, the same levels, but you have some occasional trends, so it's difficult to set, because sometimes in the production reductions, considering climate conditions, we see the droughts and everything, and so it could be that in the second half we'll have a different reality because of this.

So we do expect some variations until we reach a higher stability point from a consumer perspective. And even some of the protein and commodities always had some variations, but we don't see, like, major variations for the full year. I think that's the main point.

Not sure if that's clear.

Daniela Eiger – XP Asset:

Okay, perfect. Thank you.

Operator:
Our next question comes from Eric Huang, sell-side at Santander. Eric will enable your audio, so you may proceed, please. You may proceed.

Eric Huang – Santander:

Hey, good morning, everyone. Thanks for taking questions on our side. We have a quick follow-up from Dani´s previous question.

And Dani talked about the dynamic of inflation. And so if you could talk about how you've been looking at the beginning of this third quarter, and as we think about the same-store sales, do you see this as an acceleration or not, just so we can have a better feel on how this has been advancing and then getting back to installments, just to understand where your partnerships are today. You have this partnership with FIC.

I'm not sure if you would like to maybe look into something where you guys can have more control and even some kind of a possible support for market changes. If or should there be a prevailing situation with these payments conditions with installments?

Belmiro Gomes:

Thank you, Eric. I think we were missing part of the answer from the Dani´s question.

And basically, we have in retail as a whole been below expectations. But there are different initiatives in the company to try to offset these effects. And besides what I highlighted, we included another 80 new services, ever since April, which will contribute to the same store sales and other pilot tests, also in product categories, depending on each region and store that also help.

So, we're not just, of course, stopped watching the market. We constantly look into finding more resources and taking advantage of this as we look into the customer flows we have today. I think our greatest heritage is customer loyalty.

And I, of course, we're always searching for ways to work on this, as long as this, of course, doesn't change the business model with low prices. In the third quarter, as we've seen, we're really in line with the second quarter. We don't expect significant variations.

And then the payments in installments, as I mentioned, I think we need to separate this discussion. Right. And Vitor I don't know if you could maybe add on to this issue with FIC, but what we notice in this volume of sales in three installments is not coming so much from consumers but from B2B so not having consumer finance would not make such a difference.

And we have to look at this, as the risk of delinquency could maybe be higher.

So, we're kind of following in the same direction. We're not going to be changing anything severely in the policies or restructuring a financial company or something that will not really affect much of the dynamic. Now, in my opinion, that's it.

Vitor Faga:

That´s it Belmiro. So, Eric, our partnership with FIC, our financial services company, provides all the instruments we need to work with our customers. The Passaí card allows us to offer purchases in three installments, but also in certain items, it allows the customer to buy a smaller amount of products with the wholesale price and not a retail price.

So, we also have in our stores, just to remind you, the same product has two prices, the retail and the wholesale prices, depending on the volumes the customer buys for each item. So, the FIC partnership would allow us to advance as we would like with this issue. And so the issue with the installments, as Belmiro mentioned, is more of a commercial decision to not keep up in this way.

Well, and I think just to add on here with the payments and installments, when you, when we look at the numbers in the market, as we've seen in the competitive environment, the consolidated between the distribution wholesale and delivery wholesale operations. As we don't have disclosure or the breakdown of all this, it could give us an impression that you could have a trend change, which is probably more of the wholesale and the sales volume. But by what we've been observing in the market, and even the share measurements, when we look at the comparable, which would be cash and carry, there's not much of an effect there.

So I don't know if that was clear, but as I saw, this topic had three different questions, I think it's worth mentioning. Yeah, that was very clear.

Eric Huang – Santander:

Thank you, Belmiro.

Thank you, Vitor.

Operator:

So, keeping up with our next question here from Luis Guanais, Sell-Side at BTG. Luis, we'll open up your mic so you may proceed.

Luis Guanais – BTG:

Hi, good morning. Belmiro, Vitor and Gabi. Getting into a bit of the discussion on the productivity of the converted stores, I wanted to understand what the dispersion is like in these stores in different regions you've converted throughout the last two and a half, three years.

And if you could also talk about the cannibalization effects in these stores upon the legacy stores, thank you very much.

Belmiro Gomes:

Thank you, Luis. Yeah, obviously, you have this dispersion, which is very much connected to the performance extra had.

So, we already had this expectation that this would happen throughout the project. This was very close. Of course, there's some variations, right.

Because in certain regions during this period, the closings and reopenings, you had some competitors that opened up, but in some stores, the extra stores that were very strong continue as strong Assaí stores and the ones that are weaker continue weaker. But it's more about the population, potential income levels and competition in surrounding areas. Then the actual store itself.

There's not much of a very relevant impact in this. Of course you have cannibalization. The lower the overlap between Extra and Assaí, any company, as we have a presence in 25 states in Brazil.

Any operation will have some cannibalization level. And also, because the offering in these stores is a lot more robust. But part of the stores that did have cannibalization, when you look at the sales per square meter, we see an average of Assaí performance, which is the best in the sector, about R$ 4.4 thousand per square meter.

We had organic stores that had 7000, 8000. So, it was already like bad service for customers. And we mentioned this cannibalization would be about two percentage points in our project.

You'll probably remember it's about three to 4%. But on the other hand, we preferred to migrate and lose a customer in an older store Assaí going to a newer Assaí store than losing them to competitors. So, we're opening up in regions where we already had stores, so some level of cannibalization would exist.

Of course, the B2B public is willing to drive farther off, and some consumers, due to the practicality of the stores or parking or the level of offerings, adjust because a lot of the stores you can analyze the best indicator by the sales per square meter. You'll see our stores had a really high level of saturation. So, it was slightly above what we expected in the beginning of the project.

But it's not a variation that's going to change the fundamentals for the decision towards the project. And when you look at the fundamentals, of course we're looking at same store sales, but it cannot be seen as an absolute indicator in the sector like ours, where you keep up with this major expansion and naturally you have this self-cannibalization effect. If you look at the same stores, it would be like an absolute perspective if we hadn't had any expansion. But if you look at going from 56 million tickets in the second quarter of 2022 to 77 million tickets now within the second quarter of 2024, and you can see there's an increase of almost 20 million tickets, 7 million per month. So that means almost 13 or 12 million people. That's a huge increase.

An increase in such a big amount like this. Just compare with the population in certain countries. So of course, you migrate customers from competition and you migrate customers to an older Assaí store to a newer store.

And I think you need to look at the total growth basis as well. Sometimes the same stores. Of course, we know the importance it has, but in an expansion process, it can't be the only indicator.

Luis Guanais – BTG:

Okay, excellent. Thank you so much.

Operator:

Our next question comes from Felipe Rached, sell-side at Goldman Sachs.

Felipe, we'll enable your mic, so you may proceed.

Felipe Rached – Goldman Sachs:

Hi, guys. Good morning.

Belmiro, Faga, Gabi. I wanted to talk about the gross margin topic, and then, of course, the competition. We talked about competition a lot, of course, regarding the sales, but maybe more towards the gross margins.

The converted stores have a margin that's a little higher, so they probably have a positive effect in the mix. But I want to know what the dynamic was like if you exclude the mix effect. So how did the gross margin behave if you consider the same store criteria and then adding on to this in similar markets, did you feel competition was more aggressive or is the difference really just in the sales level?

And was it mainly considering the three installments and the dispersion of B2B as well.

Thank you.

Belmiro Gomes:

Okay, so when you look at the gross margin and you exclude Extra, although the Extra stores, not all of them, have the gross margin, gross profit, that's higher than the company´s.

Right. But we're really focused on the EBITDA margin, balancing this out in the stores. And we have organic stores as well, that have higher gross margins as well.

So obviously, we have the clusterization of the prices, and the stores don't follow the same prices for each region and need you have differences. But when you look at the same stores or even the same assortment, the margin was very stable. And I think part of the scale gains we had with this increase, Assaí had in the last two years, we're also reinvesting in pricing.

So the company is really keeping an eye open towards investments and competitive advantages. And we're looking at the numbers, and you're seeing the total numbers and customers themselves. We saw this even with the card, because sometimes they are afraid of taking on debt and paying in three installments, especially when it comes to food.

And so, of course, the market is competitive, and we're following this closely, it's keeping up with a really strong level. So we have to continue to innovate and bring new products, new assortments, and searching for the best pricing.

So, we're not left behind. But when you look at the gross profit, I think you can see the stability the company has. Right.

When you see the three-year highlights. You can see what happened, right, ever since extra came into the base and the beginning of the inflation deflation and the margin was still quite stable all this time. So, at the end of the day, what guides our price policy is our role as a complementary distributor between industry and customers and especially b2b's.

So we search for ways to be the lowest cost channel for industry. So, this makes the margin be an important means to pay the operational costs and be more competitive when it comes to the distribution wholesale and industry itself.

I hope I answered you.

Felipe Rached – Goldman Sachs:

Yes, you did.

Operator:
While moving on, our next question comes from Vinicius Strano. Sell Side at UBS. Vinicius we will enable your audio, so you may proceed.

You may proceed. Vinicius.

Vinicius Strano – UBS:

Hey, good morning.

Belmiro, Vitor Gabi. Thanks for taking my question. Belmiro, what's your perception regarding the price elasticity for consumers?

This is a topic that people covered already a little bit before, but do you think it makes sense to be a little more aggressive with the price investments and try to win more on the volumes? And what have you noticed about the stock levels for B2B customers? And what's your growth perspectives between B2B's and consumers up ahead?

Belmiro Gomes:

Hey, thanks for the question. But when it comes to pricing, of course, the consumers are motivated by price, but that's not the only thing they consider. If you look at any surveys by Nielsen or other surveys, and even our internal surveys demonstrate that more and more, the store location, level of service and service level in the store, store environment and store is all part of the decision-making process, right?

And especially good execution in the stores. So, when we do one on ones with the investors, we invite them to visit a store and a competitor store, especially in downtown regions, so that they can see the level of service. So, the company is still competitive.

And by what we've observed at this moment, consumers are looking for products that have maybe a smaller product size, and if they're in a trade-down period but they also have a consumption level where reducing margins would have to be a very destructive trend that could be bad for the overall market. But also like a big margin movement would maybe not lead to the expected result.

Because you also have consumers in reality where they look at this, and the cash and carry is already a lower price channel. So normally the price difference is like 12%. We're already the search for low prices.

If it's 12%, you go to 13 or 14%. We don't know how much sales this would bring. If we were too aggressive, we could lose margins.

And we're going to sell pretty much the same amount that we would have been selling with the margins we currently have. So, if you look at b2b, we're still very careful while you have this scenario with high interest rates and currency, and this perception that we have, where the economy is generating a little more job and some other indicators. But the overall perception still is that people are very cautious still with their expenses, especially with the last currency increases, the uncertainty about the interest rates and these customers, if they're really quick to adjust, we don't see like major stock up trends.

So, if we had such like a cataclysm in the market, that could maybe lead to higher increases, they could invest in. But the cost of investing in stock today versus an expectation for gains hasn't really happened in practical terms.

Vinicius Strano – UBS:

Okay, perfect.

Thank you, Belmiro.

Operator:

Well, moving on, our next question comes from Bob Ford, sell side at bank of America. Bob, we'll enable your mic so that you may proceed.

You may proceed.

Bob Ford – Bank of America:

Okay, thank you very much. Good morning, everyone, and thanks for taking my question.

Belmiro, how are you looking at the differentiation and competitive advantage? And besides greater segmentation and regionalization, are there opportunities, from a seasonal perspective, for more of a treasure hunt in the stores?

Belmiro Gomes:

I don't know if I got this question, but about differentiation, more and more, like when we showed you the campaign, it demonstrates how we're really trying to adapt to each region. In Brazil, it's a continent, we have huge differences from one region to another. And that happens in the micro regions.

So, if you look at São Paulo or Campinas or the Santos region, you can see dynamics that are very different. So, Brazil has almost like you have one coffee brand per city. So, our big bet on standing out is really at the level of services, and the mix of products.

And there are many other dynamics as well when it comes to activation at the stores, and special festivities and campaigns, and even the types of ads we put in the store to be able to stand out compared to other competitors. So, I think another differential Assaí has that we've presented in many areas is that among all cash and carries, we have the highest diversity in the store formats and network. So, we have stores with 2000 m² all the way to 10,000.

So, in order to do this, you shift all of the logistical patterns and supply. And so this makes the company very resistant and very consistent with the numbers, despite the financial issues and the interest rates, you look at the SG&A and the gross profit and you see that consistency and continuity as pretty much the biggest milestone besides the cash EBITDA transformation. I hope to have answered you.

Bob Ford – Bank of America:

And just to ask you, how have you been thinking about like a treasure hunt approach or more like a seasonal approach to your mix?

Belmiro Gomes:

So, yes, there's many opportunities. We have different projects we're working on and we have some news to share soon with some great opportunities. We're trying to attract and bring in more resources and having a greater share on their pocket.

And of course, we can't make a huge change from a strategic perspective so quickly because we have to preserve cash and also wait for the maturity of the extra stores. And really doing things well done is the biggest focus. But of course, we have different projects.

And as soon as this is a little more mature, we'll be sharing this with you guys. But it's just putting yourself in our place and seeing a company that's going to start off with 300 stores, with 38 million people visiting in a month, and you see so many opportunities. So ever since advances in the galleries now in the second quarter, all the way to other projects with, of course, with retail media and sales of space in the stores.

So now with more solid data, soon we'll be able to bring more information. We don't want to create any false expectations, but of course, there are opportunities for the in and out. Thank you.

Sorry, I didn't understand your question initially.

Bob Ford – Bank of America:

Now it's very clear. Thank you.

Operator:

Our next question comes from Tales Granelo, the sell side at Safra. Thales will enable your mic. You may proceed.

Tales Granelo – Safra:

Well, good morning, Belmiro, Faga and Gabi, I have a quick question here about leverage. I think when we think about 2025, what has the company been seeing as leverage for the end of next year? And what are the levels of leverage that would make the company pay interest on equity (JCP) to be able to have the fiscal tax benefits?

Vitor Faga:

Hi there, Thales. How's it going on leverage? The company has been focusing on reducing the level of leverage, and we are looking for in the midterm, a level of leverage that would be about two times net debt to EBITDA.

But what's most important, of course, as this relies on the interest rates. So we have to have a financial expense that compromises 15 or 20% of our EBITDA, but not more than that. So that's what we've been discussing, and the company is still really focused on deleveraging.

So if we talk about a leverage level for the end of next year, it's still too early because of everything we're seeing in the market and the fact that we still have so much to evolve in from now all the way there. But what we can be more precise about is our leverage by the end of this year, which would be below 3.2x, and our commitment to continue to deleverage the company throughout 2025. And especially about JCP, it's still a little too early to talk about that.

Our focus is deleveraging, and it doesn't make sense to evolve into a discussion on JCP, considering that we're really focused on deleveraging. So. But then from next year onwards, then this discussion can be made in a more effective manner.

Tales Granelo – Safra:

Very clear. Thank you.

Operator:

Our next question comes from Nicolás Larrain, Sell Side at JP Morgan. Nicolás we will enable your audio, so you may proceed.

Nicolás Larrain – JP Morgan:

Well, good morning. Vitor, Belmiro and Gabi. Thanks for taking our questions. Actually, most of the topics were already addressed, but I just wanted to maybe ask you something quickly here.

Looking at the quarter, what was the progression of the same store sales throughout the quarter? Just to understand how you guys are looking at this now for the third quarter.

Thank you.

Belmiro Gomes:

Thank you, Nicolas. Actually, the quarters don't necessarily repeat because in the second quarter you had this displacement due to the Easter period, and we had April and May that were stronger, but in the end of the quarter it was a little weaker in June.

But July already demonstrates different signs. Our estimates for the quarter that are really in line with the second quarter. And even in our sector, the big changes in the quarter are not so relevant, of course, that depends on the dynamics each company adopts.

When you look at this, you see that there's levels that are very similar when you consider the progression throughout the quarter.

Nicolás Larrain – JP Morgan:

Okay, perfect. Very clear.

Thank you, Belmiro.

Operator:

Now we're going to head to our last question today. This is an english question from Andrew Ruben, Sell Side at Morgan Stanley.

Andrew, we'll enable your audio. You may proceed.

Andrew – Morgan Stanley:

Hi, thanks very much for taking the question a bit more on mature stores, if I may. Where are we in terms of the planned cannibalization impacts you mentioned? Are they mostly in the past or should there be some go-forward effects as the converted stores keep maturing?

And then when we think about the normalized mature store growth, should it be at inflation, above inflation when considering the services and I improvements, or maybe below inflation as the sales further spread out with the new store base. Thanks very much.

Belmiro Gomes:

Okay. Thank you. Of course, we want to be above inflation.

The dynamics we have and the inclusion of new services are focused on this. So, cannibalization existed and in our vision, who migrates first is the client that already knows the Assaí brand, as they used to buy at an older store and migrate to a new Assaí. So, this migration is quicker than when you have a consumer that buys at a competitor´s store. So, when we look at these 2 million new customers, most of them come from competitors. And this is also the expectation we have as we evolve with the same stores. I hope to have answered.

Andrew Ruben – Morgan Stanley:

Thank you.

Operator:

Now the Q&A session is officially ended, and we would like to pass on the word to the company for their final remarks.

Belmiro Gomes:

I want to thank you all for your participation. I hope to see you shopping in our stores and on our cruise in February 25. So, we're going to be heading towards the third and fourth quarters, which are the most important periods in the year.

Thank you so much for your participation.

Operator:

The earnings call for the second quarter of 2024 is officially ended. The investor relations department is available to answer any possible statements and questions.

Thank you, all participants, and have a great day.