Conference Call Transcript
1Q23 Assaí Earnings Results (ASAI3 BZ)
May 05th, 2023

Operator:

Good morning everyone and thank you for waiting, welcome to Assaí Atacadista´s Earnings Call for the first quarter of 2023.

For those of you who need simultaneous translation we have this tool available on the platform, simply click on the interpretation button on the globe icon at the bottom of your screen and choose your preferred language, Portuguese or English.

This Earnings Call is being recorded and will be available on the company's IR website at ri.assai.com.br where the release is also already available.

During the company´s presentation, all participants will have their microphones turned off, and soon after we will begin the questions and answers session.

To ask questions, click the #Q&A# icon at the bottom of your screen and write your #NAME#, #COMPANY#, and #LANGUAGE# to join the queue. When announced, a request to activate your microphone will appear on the screen, then you must activate your microphone to ask questions. We request that all questions be presented at once.

We would like to highlight that the information in this presentation and any statements that may be made during the videoconference, related to Assaí's business perspectives, forecasts and operational and financial targets, represent the beliefs and assumptions of the Company's Management, as well as information currently available.

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I will now pass the floor to Gabrielle Helú, the Investor Relations Officer at Assaí.

Gabrielle Helú

Thanks Rodrigo.Good morning everyone. Thank you all for participating in our 1Q23 Earnings Call for Assaí.

I would like to introduce the executives with us today for this discussion, Belmiro Gomes our CEO, Dani Sabbag our CFO, Wlamir dos Anjos VP Commercial and Logistics VP and Anderson Castilho VP of Operations.

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

Belmiro Gomes

Thank you Gabi!

Good morning, everyone. I wanted to thank you for coming.

The first quarter of 2023 was an important quarter for us, since during our last general meeting we had a control change. Now the company will no longer have a defined controlling shareholder and will become a true corporation.

And on the eighth of this month, our new board will begin its term, as the members were elected. during our last meeting, and these are extremely qualified professionals, who will help the company and support shareholders in this transition period. From a corporate point of view, they will not only help us from a governance perspective but will certainly contribute strongly to the business.

In the 1st quarter, Assaí maintains a history of high growth rates, we grew more than 30% in the 1st quarter, a total growth of 33% with an emphasis on the same store sale basis which is at 7.4%.

But obviously, we had a very strong contribution from the expansion, especially from the converted Extra stores, we will talk about this more ahead.

But anyway, we had significant share gains during the 1st quarter of almost 2.4 p.p., reaching the largest share that Assaí has ever had in its entire history, and overall we add a sales volume of R$ 4 billion compared to the 1st quarter of the previous year.

So, I also wanted to thank the team, especially our store team that is in the day-to-day operation, servicing almost 100 million people who have visited our stores during the 1st quarter, with various operations.

The company had a very strong increase in flow in the 1st quarter, there are more than 16 million tickets, adding up to R$ 16.6 billion and 33% growth, a very strong contribution from the expansion we had.

An important highlight is that we have maintained a balance, a discipline to balance our sales growth, same stores management, and also the maturity curves for the new stores.

It is a relevant amount, the largest amount we have ever had of new stores operating at the same time, there are 60 openings that were made in 2022 and 29 openings that were also made in 2021.

We have kept a very strong balance between the maturity ramp and not neglecting our competitiveness. So much so that the gross margin despite the number of stores, remains totally stable compared to the previous year with an increase of 0.1 p.p..It mainly means that the new units, the new stores, are not being detractors or confiscating margins.

Another important highlight is discipline on controlling expenses. The cash & carry model is a low-cost business, that is, when we look at the variation in expenses that we had vs. the previous year, it is much more linked to this larger number of stores.

It is natural that with a gigantic store network, during its maturity and profitability ramp, there will be a greater level of operating expenses, due to the personnel we add, advertising work, or the activations that are made once the stores are mature.

In our view, we had a very strong expense balance, and then the operational part of Assaí was extremely stable. The 33% total sales growth also brings with it an increase in the gross profit of about 26% and an EBITDA margin in a relatively stabilized post-IFRS view. A drop, a slight drop vs. the previous year of 0.3%.

But a low variation, practically most of our stores there, approximately 40% of the sale, came from newly opened stores, that had just opened in the last two years.

The Net Income is impacted, and Dani will talk a little further ahead about this, due to the cost of carrying the debt, we are experiencing a very dangerous combination with the interest rate, the highest interest rate in the world, and food inflation is practically 0%.

So this generates pressure, at the moment when the company is following a growth journey.

During the first quarter we opened 3 more stores, 3 conversions also from Extra stores, adding up to a total in the first quarter of 266 stores operating throughout Brazil.

At this moment we have 28 more stores in the works, of which 13 are conversion stores of the hypermarket project that were acquired and 15 organic stores. Most of these organic stores were already scheduled for last year, and they will open now throughout 2023.

They will bring even more of a contribution, an acceleration within the company's growth project, and will of course complete the conversion project with the hypermarkets.

As we talk about the project, the Extra project was the largest store conversion project, and when we talk about converting hypermarkets to wholesale stores it is a very significant conversion. It´s not like when you convert a brand, or a cash & carry store to another cash & carry, or hiper to hiper.

The conversion of a hypermarket to a cash & carry format requires structural work, was a model where we simply acquired the commercial points, we have no liability risk in this operation. Neither from a labor contingency perspective, nor from a personnel perspective, that is, the stores that belonged to Extra were totally emptied out and there are no cabinets left, nothing left, they have been totally renovated, and there are others being renovated now.

And these stores are only five months old. So during the first quarter, we have been dedicated to finishing the store galleries and ABL work at the stores opened in 2022 since this was not an initial priority.

The Extra stores, which came from last year, have approximately 727 shops, an ABL area of more than 80,000 sqm that is being completed now within the 1st quarter or in the 2nd quarter.

The level of shop adherence has been very strong, we still have 46% vacancy, much more than we are finishing and delivering, and with these stores as these shop owners also start occupying these spots, they should help us in terms of flow and attracting more customers to these stores.

Despite this, these stores are currently performing within what we estimate for this Extra project. approximately 70% of their sales potential. Even with less than five months of operation, these stores already perform and deliver a sales level that is higher than the historical average of the company with the entire Assaí network that has been opened over the years. During the first quarter, their performance was close to R$ 22 million of monthly sales in this first quarter, which is a quarter that is the most challenging quarter of the year, as everyone knows, due to seasonality.

And the positive point, as we highlighted at the beginning of the project, is that the stores have an EBITDA margin already that we have never achieved in the organic stores, already contributing with 5% upon five months of operation with our 1st quarter after the store openings cycle in the post-FRS 16 views vs 7% that we have with the rest of our store network.

So, our sale at that moment, are 2.2x what Extra sold with the hypermarkets and 3.2X when we compare with the food sector only. Since hypermarkets as everyone knows, sell lots of electronics and different product categories that wholesale stores don´t operate with normally.

So, we understand, the anxiety you have towards this project, we understand the anxiety and immediacy that the project could, for example, deliver, but like any growth project, first you invest then you reap.

Just like everything along the growth path for any other retail company, you have the investment, opening, and maturity phase of the store. The stores have been recently opened, they are following a curve within the ramps of maximum and minimum levels expected.

So, we are keeping up with this trend, we reinforce the credibility, and everything we believe in with the unique locations, and how much these stores will contribute to our store network, providing an extremely competitive differential.

Regarding our competitive differential in the future, given that they are in extremely dense population regions, obviously with the movements towards this magnitude with the number of stores and when we look at the tickets that were added in these stores.

We have approximately 4 to 5 million more customers and additional tickets per month. Obviously, each store requires an adjustment now within its ramp, considering the assortment, margin and competitiveness, depending on the region where the store is located.

The maturity curve is steady. Obviously, there are market difficulties we are experiencing with this movement with the challenging market and consumers that are much more focused on the basics. And this has no correlation for example, with the Extra batch, of course it impacts the store network in the company as a whole.

Now I will pass the floor to Dani, so she can highlight the adjusted EBITDA and I'll be back in a little while. Thank you.

Daniela Sabbag

Thank you Belmiro! Good morning, everyone.

So moving on with the presentation here we will look at slide four.

Here we have the EBITDA graph for you, an analysis here, is that we had an important increase of R$ 200 million year over year and I wanted to highlight three main points about this performance.

So, the first point that Belmiro has already mentioned and is worth highlighting, is the expansion, so it is a margin that we consider very resilient considering the strong expansions we had in the last twelve months when we opened 59 stores.

That is, one would expect a margin with even greater pressure due to this expansion, but we had a unique performance. Whether it's the conversions that mature quickly or the quality of the organic stores we open, it helps to maintain this level that we understand is very sustainable going forward as well.

Regarding the pre-operational expenses for the expansion, we always like to highlight this and here we have 10 more bps this quarter of relative expenses for stores that have been and will be opened. So, when we look at the recurring view of the business, the reported EBITDA would have 20 bps of pressure and not 30 bps.

And in relation to the margin pressure, it is also worth mentioning that in the second semester of 22, we had 50 bps of pressure on our margin in the third quarter, 60 bps in the fourth quarter.

So, what I'm trying to say here is that the margin pressure for the first quarter, quarter by quarter, is much lower than what we observed in the second half of 22.

Moving on to the next slide please, we share our earnings and cash generation. So, our R$ 630 million in earnings, representing 4.2% of our revenue and excluding lease interest of R$ 200 million approximately, we have a net expense of R$428 million, representing 2.8% of our sales.

These earnings were mainly affected by the average CDI in the period, which rose 34%, we then went from a CDI in the quarter of 2.43% to 3.25% and this is the main impact. But there also is the volume of the average debt in the quarter, which is slightly higher than the debt in the first quarter of 22 due to the funding transaction in the beginning of 22 to fund the investments for the expansion.

Our debt position was R$ 10.9bi and now R$ 12.7bi in addition to the interest that is embedded here.

As for net debt, we ended the quarter with R$ 8.1 including credit card receivables and a leverage level of 2.78x.

And then we brought this graph down here, at the bottom to show you that this level is very much in line with the level that we observed in the second and third quarter of 22.

And also in line with our expectations and everything we designed, considering this immense expansion project we have been executing. So, in the next quarters, in the second and third quarters of 23, we will observe a level that is very similar to the first quarter of 23.

Everything is under control, and everything is very much in line with our *covenants* that we have agreed upon with the banks, I think we have been reinforcing this, either with Gabi or in meetings with Belmiro and me.

So, we want to make it very clear to you that we do not have a risk here of non-compliance towards our *covenants* that the deleveraging process has been following the calendar for this entire conversion and expansion project in the company.

And we do foresee deleveraging in the fourth quarter, around the level that we reached in the fourth quarter of 22 which was 2.2x. So, it must be a very similar level. So, we wanted to share this message with you all.

And when we talk about this cash generation, accumulated in the last 12 months, we had a generation of around R$ 3 billion, which made it possible to finance all our investments, including payments for commercial points.

And on debt and cash generation, it is in line with our estimates, if we consider the maturity of the 59 stores and all the stores that are reaching maturity as well as the organic ones. And we also really need to highlight that we have 28 stores under construction.

To finish my part and move on to the next slide about our net income, as we highlighted in the entire presentation...We have very resilient operating results, but they still reflect all these high investments that we made for the expansion, of course.

And with this expected maturity, we want to highlight that this profit is impacted by the maturity in progress. As Belmiro said, I will reinforce the organic conversions, the level of sales and margin.

So, this has been translated into greater productivity and sales per sqm, but also into profit, and in the future, we will reap the benefits of the quality of this expansion.

So, in this whole context, we reached R$ 72 million in net income in the quarter, very impacted obviously by this scenario with high-interest rates that we have been facing.

Well, these are my comments, I wanted to pass the word back to Belmiro to talk about the app and ESG.

Belmiro Gomes

Thank you Dani!

We had the launch of the new Meu Assaí app, I think a lot of people always ask us about Assaí's strategy, for the online issue and what we believe very strongly in is the **phygital strategy.**

Today we are one of the companies, the second largest retailer in Brazil, one of the companies that has a gigantic amount of people visiting stores, more than one hundred million people visiting our stores.

And within that we believe in a series of opportunities, so the new app has a commission, and it is already starting with our CRM base with more than 7 million registered customers.

It was the fifth most downloaded app during the week of the launch, with more than 30% of the tickets identified inside and this allows us to understand the advantages of this new app. I think it greatly enhances our customer shopping experience in the physical environment of our stores.

But this time, we were able to work with some issues since we work with both the end consumers and traders from the most diverse types of sectors. Offer differentiated promotions and specific product lines, customers that register have some specific discounts granted. It also shares campaigns, promotions and especially the initiatives with our suppliers.

Now we have a very strong digital environment, it has been an extremely great success within the base, this app will also help us when it comes to customer loyalty, especially, and the new Extra stores that have a much higher purchase power audience.

So, it also allows us to classify and explore, and brings a level of purchase behavior information to the company regarding our different target audiences like we never had before.

So, I wanted to thank the team that worked hard on this launch, we must reap very positive results from this phygital strategy that we are moving forward with.

Moving on to the next slide, with the ESG part, obviously, due to the size of the company, a company with more than 75,000 employees. Our role in social responsibility is very strong, Assai is always a reference from the point of view of working with society and **ESG.**

So we kept up with a series of actions, during this first quarter now, without neglecting these points, despite the amount of store openings, and the company is aware of this.

And as a highlight, we were elected for the eighth consecutive time, as the best wholesaler here in São Paulo, Folha de São Paulo always evaluates the best player in each sector, despite the very large number of stores here in São Paulo, which shows the company is on the right track.

I also wanted to highlight the **GPTW** index as we are also among the ten best companies to work for, whether people with disabilities, Assai is one of the few companies that has more than the legal quota of People with disabilities, as the legal requirement is 5%, and we are at 5.4%. And also when it comes to people over fifty, in addition to a number of other actions.

Before moving on to Q&A, here is what we look at and observe ahead.

We have seen a challenging environment, I think for all companies, a much more challenging environment. The consumer, as I said, turned a little more to the basics, and is more cautious when shopping.

We have also noticed a sharp slowdown in food inflation. So, obviously when we look at the results, and the numbers in the first quarter, in our evaluation, considering the operational part, we are well protected, but obviously since we are undergoing our largest investment in growth we are paying the cost for this. Now moving on to our financial expense costs.

The interest rate, it took off a lot and currently in Brazil we have the highest real interest rate in the world, when looking at the food perimeter it is the highest in the world. Because we have food inflation that is practically at zero and the high-interest rates, so as long as this persists with this interest rate, we should continue to be pressured from the leverage point of view.

We maintain our expansion plan, mainly because we need to complete the Extra stores project, with some of them we still had some difficulties from a license point of view but most of them are already under construction at this time.

But we are being more cautious, starting new projects, reflecting the current interest rate versus inflation reflecting the current interest rate versus inflation that is specific to the sector today.

So this makes the company cautious, although we have announced 40 stores for this year, none of them have been canceled. But for organic stores they are subject to our decisions, it is the moment when we start the work and obviously we will have a balance between a search for deleveraging, we know today's concern about the leverage in the company, and keeping our growth rate.

This is not only a movement Assaí is experiencing, but the market as a whole has also made the same movement, there are high construction costs, high-interest rates, and very high costs, this makes us cautious towards investments.

The company remains very focused on the maturity ramp with the stores, on maintaining a healthy balance between margin and sales growth.

So, our goal is stability in our margin this year in relation to last year and reach the end of the year with a net debt / EBITDA ratio as we have published of 2.2x, as we highlighted in some other opportunities.

Those are the big challenges we are seeing ahead.

And now I'd like to close and open to questions and answers.
Thank you all so much!

Operator:

Now we will start the Q&A session and would like to remind you that in order to submit a question you must click on the #Q&A# icon at the bottom of the screen and write your #NAME#, #COMPANY# and #LANGUAGE# to enter the queue.

When announced, a request to activate your microphone will appear on the screen, then you must activate your microphone to ask questions. We kindly ask that all questions be submitted at once.

Let's go to our first question it is from João Pedro Soares, Sell Side analyst at Citi.
João we will activate your audio so you can proceed.
Please João, go ahead.

João Pedro Soares – Citibank

Thank you. Good morning, everyone.

Belmiro, I think I wanted to explore two topics here, the first one is if you have clear guidance for 2024 sales, this was counting on the conversion assumptions and I also imagine that it relied on the macro assumptions, on price, volumes.

It looks like the conversion is going well in line, but I think this level of inflation might hurt this 2024 guidance. So I wanted to hear a little bit about it.

Also, it would be great to hear about ***uplift targets*** and if you still keep them at three times ***uplift*** with the margin above the legacy store levels.

The second topic is about the **tradeoff** between leverage and organic openings, this has been a recurring theme and you seem to be quite confident that you will not need to revisit the openings despite this leverage level.

So I think I wanted to hear a little bit about if we could have some alternatives here to reduce this leverage, we understand, Dani talked a lot about this natural deleveraging, but if there are alternative ways here like maybe a *sales lease back* to reduce this leverage.To anticipate this deleveraging.

Those are the questions, thanks.

Belmiro Gomes

Thank you João Pedro.

Yes, I think the first quarter with Extra stores shows that we are on the right track, as I said, as much as it is, the points are strong, we have never had, for example, stores from the historical period of Assaí's inauguration that would already start the first quarter at this margin level or even at the sales level we registered.

So much so that even with the amount of almost 80 new stores less than two years old, 60 last year, we had no degradation in the gross margin and even the expenses which were a very big concern.

Given that these stores also have a different operating model, the variation in expenses is very much in line or even low in relation to the number of stores. So yes, it is maintained, as we have great confidence in these commercial points from Extra.

Obviously, it is a movement considering its size and magnitude and you always have competitive reactions and that make you adjust during the period, but the three main bases are kept.

The 2024 guidance does have a component of inflation, we will now wait for this second quarter, to see how this relationship between inflation versus volume behaves.

Since we also went through very strong years where the population had trade downs, there was a drop in volume and there is an expectation also for a little recovery, but obviously, this will be subject to the macroeconomic scenarios.

Depending on the inflation rate, or if there is a deflation considering the exchange rate issues, some commodities that had downturns, which could generate a climate of uncertainty. But our vision is that it is still too early to review this.

Now the second and third quarters, might indicate a little more of that. So we didn't take our foot off the accelerator with the expansion with Extra conversions, but in the organic ones yes, we're a little more cautious.

If there had been, for example, a scenario with lower interest rates, we had already seen a sign from the COPOM (Brazilian Central Bank commission), and we have already started this downward movement, obviously, we would be more confident to start the projects we approved.

So we now have a total of almost forty projects, apart from those that are under construction this year, for the design of organic stores awaiting some legal approvals and others awaiting our internal authorization to start a store precisely because of this leverage concern.

Leverage and deleverage a little faster, there is an element that in unavoidable, it is now necessary to open these stores, we need them to generate cash. So at the beginning of the project, we had mentioned that the company would go through a higher leverage level for a moment.

Obviously, we have an interest rate and especially for our case, I think for any company we will always compare, what the interest rate is today, not the Selic interest rate, but there is the cost of funding versus the inflation.

So as I said, you have inflation, for example, we have seen several people talk about this, and it is the highest interest rate in the world.

From the food perimeter, I think it is the biggest in the world and that makes us a little cautious.

It may be that we have an effect on the 2024 guidance, but in our view it is also not as representative, since even the organic ones that can be impacted, from 23 and 24, did not have such a significant contribution either.

And regarding the inflationary scenario, we will have a slightly clearer measurement now within this second quarter.

A positive point is that we do not see an increase in the interest rate at this point in time, so the interest rate is already at its maximum limit.

What is uncertain for us and the market as a whole, is when the downward movement begins.

We also do not look at this moment and say well, considering that the food prices have stopped rising and the consumer reduces, we will still reduce volume. So I guess that keeps it, within the numbers.

Ah always another alternative, I will be a little cautious when talking about this, since the last speech ended up being a little misinterpreted, but obviously, any other deleveraging initiative can often be evaluated.

Whether a *Sale-Lease-Back* or exchanging an organic store and using a **BTS.** What we do not have on the radar, I repeat, we have no expectation and no study in progress to launch a primary offer in the market. That’s something to be very clear and very transparent.

João Pedro Soares

It's super clear, Belmiro, thank you!

Operator:

Our next question is from Thiago Macruz Sell Side Analyst at Itaú.
Thiago we will enable your audio so you can proceed. Please, Tiago you can proceed.

Thiago Macruz – Itaú

Cool, guys, thanks.

My question is about the lease. This quarter, we saw a number that is slightly above what we expected for the period and sequentially an important increase versus the fourth quarter.

Could you give us a little more color on this topic? Did it have any temporary impact? Or *one-off* that justified this sequential increase?

That is my question.

Belmiro Gomes

Yes Thiago.

For some lease agreements, we pay them throughout the year for the minimum amount, and with some lease agreements, there is a minimum and variable sales value.

So how is the most significant part of the contract made? You pay the minimum yearly, when you arrive at the end of the year you calculate the sales variable and pay this additional amount.

Although this has already affected the earnings in 2022, that is, it affects the earnings in their accrual month, or the cash outflow is made in the first quarter, because this is expected to occur at the end of the year.

So, with the arrival of the Extra stores, there are more contracts with this type of payment, so exceptionally, during this first quarter, there is this effect of having a slightly higher lease value.

This is simply a variable on the sales value that gets paid.

I hope I answered your question Thiago.

Thiago Macruz

Yes, Belmiro you answered it. Thank you very much.

Operator:

Our next question is from Luís Felipe Guanaes, Sell Side analyst at BTG.
Luiz we will enable your audio so that you can proceed. Please Luís, you can proceed.

Luís Felipe Guanais – BTG Pactual

Good morning, Dani, Gabi and Belmiro.

I think I have two questions here on my side, Belmiro, the first is if you could talk a little bit about what we could expect from working capital dynamics, over the next quarters. We saw a deterioration in this first quarter.

And the second point, in line with what you said about the macro situation, we always talk about the competition within the food retail sector.

I wanted to hear your vision a little, if you think this should favor you throughout the year, considering the price and margin *tradeoff*. So, if you could also talk about competition, along with this second question.

Thank you.

Belmiro Gomes

Thank you.

Working capital, it has an effect compared to the first quarter of the previous year, then maybe you need to go back to look at 2021 and 2020.

Last year we had a change in our payment terms to suppliers, it was during the first quarter so that we could have longer payment terms on average. This change actually caused a beneficial effect last year, as it is today in the same payment system, the effect is null and we also have a large number of new stores as a factor.

The new units, for the first time we open the year with such a relevant volume of stores and as I showed their sales are above the average stores in our network. So, they also have a stock above the average level in our network.

It is normal in the initial store maturity period, so that you can calibrate the inventory volume, and product mix volume, you work with the stock, so it really is a very specific effect only.

I think it is worth looking at 21 and 20 and you will see the actual volume of *working capital* which is totally in line for this year.

We have been looking for term improvements with suppliers, it is a year where I think the market as a whole has been searching for this. Mainly in our case, since we still have a relevant growth among our stores up ahead, so you can imagine we have 30, 28 stores in progress.

So, there is still a relevant volume of merchandise to be purchased, batches of stores that will begin operations and this also allows us to look for term improvements with our suppliers.

Food competition, a consumer that is more focussed on basics, this favors cash & carry, maybe this is not fully visible despite the strong numbers that we deliver. Because we had significant store openings at the same time, whether we are opening the Extra stores, or our competitor also converting stores, although most of them were already from cash & carry to cash & carry.

So, obviously, as much as the sector has a very strong capacity to attract new customers, it is obviously not completely immediate. Especially when you are in high-income areas.

With this pressure, this combination of income issues, and pressures from some tax issues that should also impact product prices, it always increases the relative advantage of our channel over other retail channels.

So saving is important for the entire Brazilian population, and they can save on basic food or important products in our sector.

Another point that I would like to highlight, is that many times we see the market, ah but the sector..... but there is the sector and each **player individually.**

And the players are not faithful to each other, each cash and carry company despite operating in the same format, has a huge difference, whether in the store operation model, in the services offered, or customer experience.

Just look at the average store turnover for each of the **players** and you will see that there is a difference or in the sales per sqm.

So many times people say ‘’ah but the sector’’. Okay, sector, OK, but we compete with other competitors.

There are regions where we do not even have stores, and there are already other cash & carry companies there, but this does not prevent us from reaching these regions.

The expansion was not always done simply in new found lands, so I will take advantage of the fact that there are almost 600 people listening to us to ask that you please try to separate things.

If anyone is curious, just take the ranking from ABAS for 23 and look at the sales, divide them by the number of stores and you will see the big difference that exists in the sector. The sector is much more heterogeneous in its value proposition than everyone imagines.

So when we look at growth space, future growth space or the company's ability to penetrate regions, we are not simply considering the format as a whole.

We are also looking at how much our advantages, with our proposition, our business model, and the experience we offer inside the store is also differentiated compared to competition operating in the same sector. Sorry if I was a bit long with this, but I took the opportunity to make this comment.

Not sure if that was clear.

Luis Felipe

Excellent Belmiro, thank you for your answer.

Operator:

Moving on, the next question is from Vinícius Strano Sell Side analyst at UBS.
Vinicius we will activate your audio so you can proceed.
Please, Vinicius you can proceed.

Vinicius Strano – UBS

Thank you, Good morning, everyone.

Belmiro, a question here about your consumer mix, given that you have a slightly larger mix here via B2C with the new Extra stores, could this perhaps offset a bit of the deflation effect going forward, maybe with a slightly better volume or even a trade-up.

And also if you could discuss what your performance was like at the stores, maybe with a bit of the month April, given that you should face some comparison bases here that are little more difficult.

Thank you.

Belmiro Gomes

Thank you Vinicius.

Yes, there is an expectation as I said, even the stores that have already been opened, are on a ramp and there is still something from the physical aspects to be added, with extra shops inside our stores to be opened. And there is also news that will come from inside the app, these aim to accelerate the maturity of these stores, with space to capture.

Obviously, last year, we were very focused on reopening, due to the level of expense and costs that we had been carrying along with these stores and still carry with the stores that are still closed.

So yes, it is possible because it is a population with a higher level of income.

In general, what we have seen in the market from the B2C and B2B customers is at the price level, inflation has stopped but stopped with food prices at high levels. So what you have is a search for savings, but no stocking up.

So, we have an expectation, that this ramp can also help us ***offset*** the issue of deflation that we have seen and that lies ahead.

We have already seen the month of April in line with March and if you saw the **IPCA-15** on March it will be very similar now in April. So, we are working towards this second quarter, with very low inflation expectations.

Some actions must be taken to try to offset this effect a little, especially regarding the B2B volume because we know that from an inflationary point of view, there are not gains.

There are also some very strong initiatives in the company for rebalancing and spending, through the last decade, and in recent years, we have gone through several fluctuations of high inflation or low inflation.

And we have been able to maintain very strict discipline with expenses, some expenses are fixed, but there are many expenses and optimizations we can also carry out in a deflation period.

I don't know if I ended up answering your question, Vinicius.

Vinicius

Sure that´s clear, thanks.

Operator:

The next question is from Rubem Couto, Sell Side analyst at Santander.
Ruben we will send you a request to open your mic. Ruben, can you proceed please.

Ruben Couto – Santander

Good morning everybody.

My question is another follow up on the working capital issue.

Here specifically in the supplier line, from what I understand it seems to have had a seasonal point here that is sequential versus the fourth quarter, but throughout the year can we expect a level of supplier days that is closer to what we had in the fourth quarter?

I would like to understand some of those comments from the last call, in which you mentioned that some gains here in this line with suppliers, were recurring, and will this continue....I would like to better understand this dynamic.

Belmiro Gomes

Yes, you can consider this, and in the second quarter you will see a much more favorable ratio.

We have now also rebalanced our stock levels during the month of April, we were able to control our stock levels, and this will bring a stronger balance in the relationship with the supplier. This will be applicable.

Obviously, we had an effect last year with the gains, when we changed the payment schedule for suppliers, but we will see this stronger from the second quarter onwards.

Ruben Couto

Great, thank you.

Operator:

Moving on, the next question is from Danniela Eiger, Sell Side Analyst at XP.
Daniella, we'll enable your audio so you can proceed. Please, Daniella, you can proceed.

Danniela Eiger – XP

Good morning Belmiro and Dani, thank you for taking my question.

First, just a small follow-up on the issue of reviewing possible organic growth rates.

You mentioned that fifteen stores are already under construction, does it make sense to think that these may be pretty much guaranteed, and the others are being reassessed or postponed in this scenario?

And my second question maybe is more like for Dani, I wanted to understand a bit more about what we can consider as the level for financial earnings during the next quarters.

We have been noticing a worse scenario at each quarter, despite the stable interest rates... so looking at the market interest rates I would like to understand how the drivers are and how you consider this line´s evolution moving forward.

We see there is an anticipation of the receivables, you mentioned this issue regarding the negotiations with suppliers, I don't know if there can be some kind of impact on your side as well. Anyway, now from a financial perspective.

So could you bring a little more color on this line and drivers and also from the tax line, which really benefited the quarters ahead.

And only one point regarding the financial earnings, a follow up, regarding interest capitalization, as we can reconcile this with the earnings dynamics.

And then just one last follow-up, going back to Belmiro, in April you mentioned that you expect lower inflation, pressure during the quarter. If you could talk about this a bit, how has your performance been this quarter, can we imagine performance similar to this in relation to growth?

Thank you.

Belmiro Gomes

Thank you Dani! I was surprised you weren't the first to ask questions, let´s go.

Organic stores, yes. We are not canceling any projects that are obviously approved projects, due to the maintenance and leverage pressure, maybe some would have already been started before. We will wait now during the second and third quarters, but we are not canceling any projects in any way.

We actually have to take advantage of the opportunity to renegotiate construction project prices and equipment prices which exists in this pressure environment.

The issue of holding on to this project a little, has to do with the level of leverage, as I said, we aim to reduce the level of leverage in the company.

And what we have seen is a slowdown in new projects, in the market as a whole. I think the market ended up in a phase where you have the maintenance of interest rates with food deflation, and this impacted everyone. All **players** have invested heavily in growth in recent years.

So this is the movement, and that's why it's not a concern, because I'm not leaving a project that someone will else take over in that same place. Our project continues.

Now we are just being a bit more cautious, in the beginning of the construction project we are evaluating how to balance the projects, the importance they have, each one´s characteristics, regarding the level of leverage in the company.

It is the effect of the interest rate today, with food inflation at zero, the interest rate at 3.75%, although we are a cash & carry operation, no matter how resilient the business is, you need to be cautious until you can see clear signs of the beginning of the downturn in interest rates that have been harmful.

And besides this, as I highlighted, I think at the beginning when you look at the operational aspects, the performance in our view could be better, but it is very positive. You have the cost of debt at the moment the company is in due to our project, but this moment also requires caution and discipline.

I'll pass it to Dani to answer your other question.

Daniela Sabbag

Dani, thanks for the question.

On financial earnings, when we look at seasonality considering the payments we have, they are more concentrated in the second half. So we must have financial earnings behaving very similarly in the second quarter as they did in the first, some variations are natural, but they should be very similar.

And a little higher in the second half, due to cash outflows and everything, but it's natural and from what I see from the consensus in analysts' projections for 2023, this is a good alignment. We do not expect earnings to be very different from the consensus in the market, Gabi will be available to share what we are seeing with you.

But it is very similar to the consensus.

On capitalized interest, I think it is worth mentioning, as we opened a lot of stores in the fourth quarter of 2022. The capitalization base in the first quarter becomes the smallest we have observed in the last four quarters, so it dropped a lot.

The stores began to arrive more significantly in the second quarter of 22, so I believe it is a good reference for us here at the moment, let's say the peak of the stores present in our full quarter.

Because in the first quarter, you will remember that we had received a portion of the stores but not all of them. So when we look there, and I just reviewed these numbers, we have R$ 183 million in the second quarter of 22, R$ 169M in the third quarter, R$ 104M and now R$ 60M.

So, we are considering a very relevant drop, that is, R$ 183M and now we have one-third of that value. And it tends to fall more and more.

And I would like to take advantage of your question, Dani, to highlight what we have already said in other calls, but I think it is never too much. We are following the accounting standard, according to this accounting standard, companies must capitalize the costs of the loans that are directly attributable to construction and the acquisition of an asset.

So, it is not a new practice in the company, if you look at our release history, long before the Extra project, there is a capitalized interest line that is this exact standard.

So, we're following the rules in the book, so I think these are the points I wanted to highlight.

If I missed anything in your question, please let me know.

Danniela Eiger

Yeah, about Income Tax and then from Belmiro about April. Please.

Daniela Sabbag

Ok sure.

So, about Income Tax yes, the basis for the subsidy actually considers the the tax benefit with ICMS. So obviously this has a variation depending on the company´s sales.

But this is more or less the level that we expect, obviously there is the variation as you have more sales where this ICMS tax benefit is applicable.

Belmiro Gomes

About April Dani I am so sorry I had not finished answering your question.

What we have seen, is that April has been very similar to the first quarter, very similar to March.

So, we did not see any great differences, perhaps a little difference with the new stores, as they have their natural ramp, but in the general store network, the difficulties we saw in March persisted into April.

So, when we look at the second quarter, it should be very much in line, maybe slightly better, then when we look at each quarter.

Maybe not against last year's base, since during last year we had a comparison with inflation that is a little different, but we see a second quarter that is very much in line with the first quarter.

Danniela Eiger

Excellent, thank you guys.

Operator:

Moving on, the next question is from Joseph Jordano, Sell Side analyst at JP Morgan.
Joseph we will enable your audio so you can proceed. Please proceed.

Joseph Giordano

Hello, good morning everyone, good morning Belmiro, good morning Dani, thank you for taking my question.

I wanted to explore with you maybe some growth in sales that have not been explored by the company, and I would like to understand what you see as opportunities currently for wholesale distribution.

Maybe in this deflation moment, it could be a good lever to improve the turnover of these stocks.

Going back a little on the conversion issue, we talk about competition a lot.

I wanted to explore this with you, try to understand if you see a greater movement with B2B or B23, leaving the most mature stores and going to these new stores, that is, I want to understand this issue regarding cannibalization.

And finally, going back to this last point regarding the ICMS incentive, within all of the discussions that have been happening recently I wanted to understand if you consider a risk for a possible change in understandings towards this incentive.

Thank you.

Belmiro Gomes

I don't think so. I'm going to let Dani talk about this incentive because she knows a lot more about tax issues.

But I think that regarding the ICMS incentive, we also expect to capture some positive effects, since some tax benefits today, especially the benefits granted specifically to some companies, from some regions in Brazil where we do not have the same benefits.

So, this creates a historical difficulty to compete against the distribution wholesale operations or even against distributors or other cash & carry companies that have a tax burden that is much lower than ours.

So there is a goal, I think it´s a good moment to regulate issues, so that they can be fair and that what is applicable to one may be applicable to another.

We see positive perspectives, in some states, we even have institutional efforts working towards isonomy, when it comes to tax incentives. This can help us in competition with distribution wholesale operations, with products that have a rate difference that reaches 13% in the tax burden.

And with this, even if we have the scale and a good value proposition, you end up not being as competitive due to tax issues.

Distribution wholesale is still a growth lever, I think it's important that you even asked this question, if you look at our main competitor and his operation.

If we isolate the first quarter, from what I saw in sales, maybe Assaí for the first time in history surpassed our main competitor in revenue, when we look at the cash & carry stores exclusively, because we do not have distribution.

We were focused on completing the conversion project, it is essential to complete this project, so that these stores contribute with the revenue base.

But it is something that the company, as I was already highlighting, has been evaluating and it is one of the possible levers and avenues for growth.

It is a business model that requires low investments to implement, but it requires discipline when granting credit. So this can also impact a bit of our cash position when we start the operation.

I believe that in our fourth quarter, we will already have less pressure from an investment perspective.

Most of the payments we have to make throughout the second and third quarters, and then we can start some projects in this sense, but it is one of the levers.

There is also a very large lever of opportunities, especially within the stores in the central regions, we did not simply put the same store model that we historically operated with in the suburbs in the central regions.

We have already made a number of adjustments, some are well-known by the market, so we even disclosed our sales per store to show that even with these adjustments the model remains extremely strong and resilient.

But from a category or even customer flow perspective, there is more to be done, as I highlighted the issue with the **ABLS** and galleries, the new app we also have some goals for.

I think that also from a supply perspective, some corporate funds with suppliers to increase our distribution role and give us more strength with the B2B public, would also be one of the levers.

There is cannibalization, I think we obviously impacted the other players, mainly regional players who were in central regions, where there were only hypermarkets before.

I had already talked about this a while ago, and how we kind of created an exclusion zone within the central regions since we avoided competing with our own hypermarkets, at the time when Assaí was a GPA subsidiary.

So there is cannibalization in the sector and with our own stores, some old ones that were counter-effective with seven or eight thousand reais of sales per m² , which were very uncomfortable for the customer. Having stores nearby for the customer was also foreseen in the project.

We calculate the effect of cannibalization today as being around 2% to 3%, within the store network we had opened now in 2022.

But it was also part of the project, as a brand positioning and it is preferable for us to be in this spot than having another competitor present there. It was also part of other services.

Now Dani can cover the incentives with Joseph.

Daniela Sabbag

Yes, I will.

Well Joseph we have some points that I wanted to highlight. The benefit that the company applies today is according to the tax laws in force and for this specific benefit.

Assaí does not benefit from any favorable decisions that are exclusive to the company, and this is something based on the law you know about, 160 / 2017.

So I think that we will obviously follow what the government has been saying closely, and if there is any change we will always have to evaluate it.

We have no risk in what we comply with today, we are convinced that we are complying with exactly what is in the law currently, and we know the discussions in this regard can be extensive.

We are closely following these movements, the government talks about economic feasibility in this sense and we are complying with the investments.

So this investment grant, we have fully complied with since 2017, we have made investments above 10 billion, precisely 11 billion.

So we will keep our eyes open and re-evaluate according to the guidelines that the government provides, but we have been monitoring this topic closely.

Belmiro Gomes

And I think one point I ended up not highlighting and wasn't clear when I answered about the second quarter issue compared to the first quarter.

We obviously expect the second quarter to grow in relation to the first quarter, even due to the seasonality that exists within the quarters.

What I said, is that maybe the total growth rate or the same store growth rate, given that probably the inflationary composition is different, may not be totally equal, but there is growth expected for the second quarter compared to the first quarter. Considering the composition of the seasonality in the quarter.

Regardless also of the stores that we open now in the second quarter, which has a relevant number of stores to be opened now within the second quarter.

Joseph Jordano

Perfect, thanks a lot, guys.

Operator:

Now our next question is from Irma - Sell Side Analyst **at Goldman Sachs**
Irma, we will activate your audio so you can proceed.
Please go ahead.

Irma – Goldman Sachs

Good morning, it's almost the afternoon, but thank you for taking my question.

I just wanted to go back for a moment, to discuss the expectation for the year's margin, including the gross margin and Ebtida margin, I understand the special moment with the large conversion and expansion project.

I think the movements in the first quarter were well explained.

How should we think about these movements for the rest of the year, since in the gross margin, on the one hand, there are offenders, with promotions during openings?

But I also imagine that perhaps there will be some special negotiations with suppliers considering these volumes to stock up a new store.

On the other hand, obviously in expenses as you well explained there are some things that exist at first and then end up being diluted.

So looking at this overall scenario, how do you imagine the margin for the year and can we still expect a more or less stable margin year after year or are there some points we need to leave aside with the expansion or that may suffer pressure?

Thank you.

Belmiro Gomes

Well, I think you were right on, and within this set of factors we have offenders and we also have positive points.

We have, for example, the maturity ramp itself, the new stores, especially those that come from conversions, that have already entered into activity with a higher margin, which may continue to grow.

In a scenario where the industry is also having difficulties, I think the fact that we are still opening up stores, helps us with some negotiations.

On the other hand, we also see that there must be pressure from a competition perspective, so when I said we are seeking to offset these effects and the company seeks to maintain margin stability.

The first quarter, which is usually the most challenging and complex quarter of the year, we had a 0.3% variation. Looking at offenders and detractors, the positive aspect is that we are working with a stable margin compared to the previous year.

Irma

Sure, thank you.

Operator

Now let's move on to our last question.
It's a question in English and comes from Andrew Ruben, Sell Side analyst Morgan Stanley. Andrew, we will activate your audio so you can proceed.
Please go ahead.

Andrew Ruben – Morgan Stanley

Hello, thanks. I have a quick follow-up question here. You mentioned not canceling the organic openings, but what about conversions… have the numbers changed? Could you update the schedule for the completion of this project, thank you!

Belmiro Gomes

Thank you Andrew.

For the Organics yes, because this is really up to us, but the focus is to finish the conversions.

The difficulties we had from a schedule point of view are much more linked to some complex projects for the stores that remained, which are within central regions and the approvals and licenses required.

We won´t wait on conversions, because the conversion stores have rent expenses, there are pre-operational expenses that consume the company's cash.

So the focus is to finish the conversions, we have a quantity now within the second quarter and then in the second semester, but in the beginning of the second semester, we should settle most of them.

There are two or three stores where we are having legal issues for approvals, despite the fact that they are already commercial spots.

The licenses depend on the level of interventions you need to do, there are rennovation permits, authorizations from environmental agencies, authorizations from agencies linked to historical heritage aspects, and they can be a little more time-consuming.

This is not the case when you have a conversion from one cash & carry store to another cash & carry store. So this is basically the reason here. But the company is fully focused on finishing the hypermarket conversions as soon as possible.

Andrew

Thank you.

Operator:

The Q&A session is now complete and we would like to move on to the company's final remarks.

Belmiro Gomes

Thank you everyone for participating.

Today we discussed these different points transparently, with the doubts, concerns, victories, and advantages we have now achieved within this first quarter.

We have a challenging environment there, but the company is on the right track, the company has been on this growth movement historically. The company was always about growth and looking to the future, making investments now to reap results forwards.

So we know that now we have a combination of high-interest rates, and many new stores being opened. But this will result in a much stronger company, a much better-positioned company.

It often also takes time and patience, we are working on the store maturity, which is also why we opened them in the first quarter, which was one of the points of concern.

There are factors that do not depend on the company, especially in relation to the interest rate, as we all expect a milder interest rate, and that it can hurt our earnings less, which in our view have still been very positive.

Thank you very much, everyone.

Operator:

The Assaí earnings call for the 1st quarter of 2023 is finished.

The Investor Relations department is available to answer other questions and concerns.
We would like to thank the participants and wish you all a good day!