Conference Call Transcript
Results 1Q22
Assaí (ASAI3 BZ)
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Operator:

Good morning, everyone and thank you for waiting, welcome to Assaí Atacadista´s Earnings Call for the first quarter of 2022.

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.

The presentation is available on our website.

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 submit a question, click on the #Q&A# icon at the bottom of your screen and type 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 advise that all questions be presented at once.

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

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

Investors should understand that general economic conditions, market conditions, and other operating factors may affect Assaí's future performance and lead to results that differ materially from those presented in such future considerations.

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

Gabrielle Helú:

Good morning everyone; thank you for participating in Assaí's first-quarter earnings call for 2022.

The speakers present are Belmiro Gomes who is our CEO, Dani Sabbag our CFO and our Commercial and Logistics VP, Wlamir dos Anjos and our Operations VP, Anderson Castilho.

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

Belmiro Gomes:

Thank you Gabi, thank you everyone for participating.

The Assaí team is here today and we will have shorter presentations with the first quarter numbers, since we released them previously.

Now we are presenting the results and want to provide more time for #Q&A# with questions you may have, since the company's executives who run the business are present, including our Commercial Vice President, our Operations Vice President and our Chief Financial Officer.
And we would like to talk about market trends a bit more.

Before starting, I would like to thank the Assaí team in general in our different areas, and those who are working on projects currently in action.

The company has more than 45 construction projects being deployed at the same time; it is a very important year in Assaí's growth journey.

Assaí has been recognized for its strong expansion journey with new units opened, but 2022 has a special touch since it will be an all-time high in the number of openings and especially with the conversions of stores from the Extra Hipermercado acquisition project.

As we briefly look at sales, as you observed and we´ve already disclosed, we had an increase of 21% in the total base and most of this increase comes from our store network expansion efforts.

Last year, in 2021, 28 new stores were opened and 19 were opened throughout 2020, representing reinforcement stores in markets where Assaí was already present.

From 2013/14 onwards, when we started our entry into several states, we were in some cities where we launched our first store and last year arrived with the so-called reinforcement stores, such as Rondonópolis, Porto Velho, the expansion of our presence in Belém do Pará, Amazonas and several other markets.

The performance of these expansion stores, as in previous years, has been very positive and has also caused a bit of cannibalization in Assaí's store network.

But in our view, this is the correct strategy, as quite frequently a store in a certain region may have very strong performance, per square meter, and often even have challenges with its capacity to provide customer services.

So, the organic expansion also aims to consolidate our presence in regions where we have exceptional performance and demand in the market.

As a result, the store sales base suffered a little and had around 7% growth compared to last year. It´s worth mentioning that this quarter was perhaps one of the most erratic in progression differences, since the month of December. January was a little better than December, February was much better than January, March was substantially better than February, and April was much stronger than March.

There are some behavioral changes that I will talk about ahead which we have observed, both from the end customer and also from the food service businesses that are now returning to a slightly more regular level of activity, with a less severe pandemic scenario.

Our margin was very stable, beyond numbers, the stability you are seeing is a mix of efforts made by our commercial and operational area in several projects, negotiations with suppliers and good performance in the new units.

As we invested in competitiveness, especially in some markets where we have new players entering, with positive and negative points as well, we also managed to end the quarter, in our vision and considering the economic moment we are in, with a good margin level, balancing this with company competitiveness.

There was also a strong effort in this first quarter since inflation has had greater momentum than everyone and the market in general expected. Inflation also reached the expense line, so there was a gigantic effort by our team in operations, logistics, and the administrative team to perform optimizations, with cost reduction projects.

We are having pre-operational costs arising from this record expansion, as we have personnel hired, training in progress, travel, projects, and various efforts to be able to meet the needs of the expansion, and these factors generate natural pressure on expenses.

We noticed this pressure now in the first quarter and it should come a little stronger within the second quarter, but even so, expenses had a variation that in our view was only 0.2%, causing the EBITDA to have a strong performance of 6.6%.

The expansion, which I will cover more in a specific chapter ahead, has advanced as planned, we increased our target for organic stores a little at the beginning of the year because we had a target of 10 new units and 2 new projects that ended up accelerating their approval timings a little more, which we will work on.

So at this moment, we are considering an expectation of 12 organic stores for 2022 and 40 new Extra stores. This is the minimum level probably, according to the progress throughout the year, for construction work and project approvals.This could possibly increase a little more, but we will have more visibility on this at the end of the second quarter.

We also strengthened our digital initiatives, with a structural change that I will highlight ahead.

In sales, as a quick overview, the company had significant growth in the last 3 years, with an 81% increase in revenue. This obviously leads to inflation costs, with the increase in food prices, but this strong increase in sales is mainly coming from store openings, achieving improved performance within the same store network as well as for stores from the expansion, not only the expansion in these 3 years, but the expansion in previous years.

Gross profit, in our view, remained stable in 2022, at a level that is well above what we operated in 2019 and even in 2018 and 2017, with the competitiveness that the company has been working on, and especially when you look at the main performance indicator of any commercial food operation, which is the sales per square meter.

When you look at any number of sales per square meter, Assaí's performance shows that we are being highly competitive, attracting customers from various store profiles that we have at the moment, but also ensuring a healthy balance between maintaining the margins that the company needs, and keeping competitiveness.

And with that, in the last 3 years, although sales grew 81%, EBITDA doubled in the last 3 years, because the company is a strong cash generator and Daniela will highlight this a little on the next slide.

So, even with the growth in the number of new stores opened in this period, 47 stores in 2 years, the company has been able to grow and ensure significant margin growth as well.

And in the EBITDA, since its conversion index is very significant in cash, this allows the company to support projects we have especially for investments and growth.

And to present this slide, I will invite Daniela Sabbag our CFO.

Daniela Sabbag:

Thank you Belmiro! Good morning everyone!

Moving on to slide 6 with our earnings, we ended the quarter with financial expenses representing R$ 302 million, 2.6% of our sales.

Our earnings were impacted by the sharp increase in the interest rate, as we have discussed, and the CDI in this period increased five times, that is, from 0.49% to 2.43%, which is very relevant.

And throughout 2021 we refinanced all of our debt, reduced the cost of our debt by about 1 point, and managed to extend maturity as well. CDI, the average cost of our debt, was CDI +1.48%.

This movement was fundamental to reducing the effects of this interest increase at the beginning of the year. Also in the quarter's result, we had a positive impact of the mark-to-market with our CRI issued (Brazilian Certificates of Real Estate Receivables) representing R$ 1.5 billion that positively impacted the result by almost R$ 58 million, which is a non-cash effect in line with accounting standard requirements, and we expect these effects to not be very relevant going forward.

Also in the quarter, we completed 3 funding initiatives planned to cover the entire investment, the highest investment level in 22, these added up to R$ 3 billion, which includes a debenture we issued in January worth R$ 2 billion.

A commercial note (Brazilian Nota Commercial) worth R$ 750 million was issued in February, and finally in April, in the second quarter, more recently we raised R$ 250 million as well.

The total cost of debt remains at CDI +1.5%, and an important highlight in this slide is the table on the right that shows the variation in the net debt, we have very robust cash generation, as Belmiro mentioned, and it is increasing, very much driven by our Working Capital efficiencies.

So, as you know we have a very cash-generating model and this generation was R$ 3.2 bi in this quarter. As a reminder, in the 4th quarter last year, we had R$ 2.9 bi in cash generation.

We are continuing to have very significant sequential growth; on this slide we also present how investments were higher than the EBITDA in the last 12 months.

When we add the payment of the Extra Stores representing R$ 1.9 bi plus the investment, this generation becomes very important, considering all of the investments we have ahead, and obviously, financial expenses impacted this debt so we closed the quarter with R$ 6.3 bi and 2.2x as our debt ratio.

The operational performance was very robust in the quarter, we managed to capture a lot of the results of the commercial dynamics and the accelerated store maturity. We had 32 stores in the last 12 months. An important highlight is our efficiency in controlling expenses.

We managed to control expenses, due to this context pressured by inflation. However, as we mentioned, the increase in the interest rate, caused a very relevant impact on net income, representing 120 BPS.

And thus, we accounted for R$ 214 million as our net income and a margin of 1.9%, confirming the resilience of our business model.

I will turn the floor back to Belmiro for his comments about our digital initiatives.

Belmiro Gomes:

Thank you, Dani!

When it comes to Digital as we mentioned earlier, Assaí began a series of projects after the split with GPA. We are now reinforcing this structure, and Sergio Leite will now take on the New Business position at Assaí.

Sergio was the person who conducted our project when we restructured the *Compre Bem* stores, a professional with diverse experience and know-how concerning several areas of the company, as well as experience with different activities.

We are currently working on another new project, we also began working with Rappi as a last mile partner, besides Corner Shop, and today our customers already have this option in 17 states and more than 55 cities.

And we have some news we are working on within a project we intend to launch a bit before opening these new stores from Extra Hipermercado, since the public that is around these stores has a greater demand for digital services, the level of needs is different than the standard customer of the stores we had up until now at Assaí.

So will have news about this in the near future.

And the company´s major focus in all of the areas now is expansion, expansion, and expansion. Mainly with refurbishing and converting Extra stores.

We made an effort to launch some stores within this first quarter, including these stores in Porto Velho, Belém, Petrolina, Nossa Senhora do Socorro which is next to Aracaju in Sergipe, and recently a unit very close to the historic center of Salvador.

An extremely densified region, it is a unit that has already been built next to Barris, where there is no cash & carry. We have concentrated a lot of openings within the first and second quarters this year, so the company will have a very strong focus on reopening Extra units in the third and fourth quarters this year.

So, as I mentioned earlier, we are increasing our target for organic stores a little and probably at the end of the second or third quarter we can also advance, perhaps not a very significant number of stores, but especially with the amount of Hypermarket Extra stores and the organic stores.

Construction projects are progressing, and they are in line with the level and schedule that the company expected, Extra ended its operations in December last year, so there was a period of negotiation with owners, getting licenses, mobilization, and construction site preparation.

Among the 60 stores we already have, 40 are already under construction now.

There is an impact on conversion costs since inflation has been persistent, not only for food items but also for construction material costs.

So, the project is in line with our expected numbers for construction, considering the necessary construction work expected to transform a hypermarket into a cash and carry store.

But there is an increase, and we should have a clearer vision of these numbers in the third or fourth quarter, which will simply reflect the variation at the moment for construction material prices.

Mainly concrete and steel had some unexpected impacts in the first quarter with the war in Ukraine.

But the project is progressing spectacularly in our vision. After Extra closed, there were 103 hypermarkets in total, and we noticed that most of these sales did not migrate to other hypermarkets.

We have noticed that these sales migrated to supermarkets and especially to other cash & carry stores. Unfortunately, but also, fortunately, we didn't have so many stores near Extra, which helps us incorporate this store network.

So initially, with the closing of these stores, we observed that other chains captured this volume in sales, but this will be something temporary because as soon as an Assaí store opens with our value proposition, a completely new and redesigned modern store, with a new service proposition, we have very positive expectations.

Since the network of converted stores, today already has, as pointed out on several occasions, better EBITDA performance and better sales per square meter, mainly because they are stores in regions with greater density, in capital cities with the same profile as the stores that are going to be launched now.

There is also a Working Capital effect, which is a little more positive, since when we look at Assaí's Working Capital today, we have a mix of stores that are in the northern region of Brazil, and these regions are very difficult for inventory time from a logistics and supply perspective, unlike a store that is in a capital city.

As we have already said this, it may seem repetitive, but this will allow the company to enter the wholesale format in regions where you often do not have as much availability, there is a large populational density and there is no cash & carry store. Today the store model is prepared to serve consumers regardless of their social status.

In addition to the traditional public, which was already buying in our format, we have also seen new social classes that have sought this purchase option.

In our vision, we will be opening at a very, very positive moment since the pressure on prices has led to a need for savings among the population.

When we looked at the first-quarter numbers, we obviously did not have these disclosed, but we still see a strong trade down movement made by the population, even the high-income public searches for better prices at this moment, when there is a perception that there has been a general price increase.

So, in our view, it will be a very good and assertive moment, when we reopen the stores from this Extra project.

In ESG, we are presenting some other advances. The company is a reference for some topics, especially with the number of people with disabilities, as well as diversity and women in leadership positions in the company.

We know that we have a long way to go with all of this, but we have increasingly improved, with more focus, effort, awareness, and training about issues related to diversity and the company´s social responsibility especially due to the food sector we operate in.

So, several of our projects, with modern initiatives, have already been incorporated into our expansion stores. In this first quarter, the operational department has made an effort to connect more stores to the energy free market.

These stores prevent us from having to start the diesel generator at peak times, so today practically 92% of our store network is already connected and the company continues to advance with its new projects, promoting wind power and solar power.

We also received another award from Bons Negócios, and Assaí has a very close relationship with micro and small entrepreneurs. This is where mass job creation in Brazil takes place.

This quarter, we also joined the Women 360 movement, and maybe I'll leave this up to Gabi and Dani to discuss a bit more later.

And now as we are headed to the final part of our presentation, we will talk about trends a bit.

In the second quarter, we noticed the acceleration of inflation within the first quarter, and this is not unknown to anyone.

After the impact coming from Europe, some commodities that perhaps had a level of stability gained new strength and impetus for price increases, and some product chains are not yet recovered. Recent impacts in China have affected Brazil.

Variations in the currency have also made us face a disruption and there is still not a normal scenario. The company's assessment is that yes, we will follow on with a trend that is perhaps not a rising scenario, but it will remain at high levels, such as the inflation we had now in the last month of April.

Inflation has been much more persistent, much longer, and stronger than the market as a whole expected. In the food sector, this causes difficulties for the population, when you consider all of the price increases in the last three years, which on the other hand, generates a positive movement for our business.

As I mentioned before, we had a very different ramp-up within the quarter itself and this movement continued in April.

To give you an idea, April is also an atypical month, since Easter is in April, and we had this out-of-season carnival in April this year as well. Even with trade down in April, what we noticed with the holidays as well, was a greater movement with shopping by the end consumer, especially in the first two weeks, with monthly purchases to supply their homes. There was an improvement in the presence of food service customers in our stores.

Since the period of the pandemic, we know that the food service channel including bars, restaurants, snack bars, tourism-related activities, or even utilizers, such as daycare centers and schools, has been greatly impacted.

April was more positive for this group of clients, with this, we got to grow almost 40% in the total base.

Of course, April is an atypical month, but its performance and the volume of customers from May to that moment, make us estimate a second quarter with growth above 30%. Once again, this movement, in our view, makes us have an extremely favorable moment as we reopen Extra Hiper stores.

There is a very big expectation for the reopening of stores that are already under construction, either by the population surrounding, because for many people it was the only large food supply store in the region.

There is a very high expectation of B2B customers including entrepreneurs, bars, restaurants, snack bars, and mini groceries. There is also a very high expectation on behalf of our suppliers, as some product lines that are specifically sold in cash & carry stores will now have a unit within a central region with greater density.

This also provides benefits for suppliers, as they also have advantages in this movement ahead.

Assaí is an extremely favorable scenario, in our view. The plans continue and the company remains strong, focused on its growth path, and this is all I had to present at the moment.

I'd like to pass on the floor to Gabi so we can begin the questions and answers session.

Thank you all so much!

Gabrielle Helú:

Thank you Belmiro! We can move on to #Q&A# now.

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 take our first question from Daniella Eiger Xp's Sell-Side analyst.
Daniella we will activate your audio so you can proceed.
You may proceed, Daniella.

Daniella Eiger - XP

Good morning Belmiro, Dani and Gabi thank you for taking my question. I have two questions.

The first one is actually to confirm and explore a little more of the sales dynamics at the beginning of the second quarter, and how you are looking at it, despite a lot of uncertainty regarding the year. What is the expectation for this year?

And also on the profitability side, I think you mentioned Belmiro, that we have to expect slightly stronger expense pressure in the second quarter, but I imagine that we should start seeing a reversal in the third quarter, as the Extra stores are being opened, so if you could talk about these two points it would be great.

And one for Dani, regarding the use of the R$ 1 billion that you must be reimbursed for in this second quarter. Would you plan to pre-pay debts?

These are my points, thank you!

Belmiro Gomes:

Dani, thank you!

In the dynamics for the second quarter, expenses are expected. And then Anderson who is our Vice President of Operations can cover this, but the store expenses are really under control and we even had some optimizations and gains.

But in the second quarter, perhaps not as impactful as well, we will have a greater impact than the first quarter, but there was also an acceleration in sales at that time which also generates an extremely positive dilution effect.

And since the stores are opened in capitals where we already have a presence, there is a higher level of expenses. In the second quarter, our approach will be to invest more in competitiveness and create a bigger movement, there will be an impact, as expected, but maybe it will be 40 BPS at most, in terms of expenses, since at this moment we are rebalancing sales expectation, which generates a very interesting dilution effect.

Anderson Castilho:

Belmiro, I would also like to contribute to this point about expenses, I think that expenses are part of our business DNA, because we work with very low expenses in our operation.

The operational team, store team, and back-office team already perform significant efforts towards this, as Belmiro said, when we look at the first quarter compared to the previous year, the difference was very small, perhaps a very small impact from pre-operational expenses of the Extra stores.

And now in the second quarter maybe it will have greater significance, as you mentioned, but as we start to open these stores they will also start to be diluted.

We also can´t forget that last year we also had an all-time high in store openings, with 28 stores and 21 stores in the last quarter.

So, at the end of this first quarter, there is some importance, but I think there are many different factors that should be considered.

I always say that with expenses in Assaí, because it is a low-cost business, there is no big line to discuss, work needs to be done with a line-by-line approach in our team, the operations team, the store team, the support team, and the other areas so we don´t lose track.

We are a low-cost and low-price business, as Belmiro also mentioned sales, this gives us dilution and is favorable as we are looking forward.

We have very positive expectations, but it is a daily effort in our team.

The team looks at all the lines so that we can have positive returns overall.

So, I think that to add to what Belmiro mentioned, there is much more from the second quarter weighing in with pre-operational expenses, our store teams have already started training also so that we can do a great job with these store launches. We are very careful about this but it is very much in line with the team's work and with the other stores.

Daniela Sabbag:

Dani about the R$ 1 billion reimbursement, that we receive from the real estate fund, at this moment we will not pre-pay the debt, but obviously, it strengthens our cash flow to manage all the investments we have with the Extra project mainly up ahead.

So, at this point, we will not pre pay the debt, possibly later, but now the priority is the investment in Extra stores.

Daniella Eiger - XP

OK thank you!

Operator:

Okay, our next question is from Felipe, Sell-Side Analyst at HSBC.
Felipe we will activate your audio so you can proceed.
You may proceed, Felipe.

Felipe – HSBC

Thank you! Good morning, everyone, good morning Belmiro and Dani!

Belmiro, thank you very much you provided interesting color on consumer behavior. What caught my attention in the migration process with Extra stores, with the closing of Extra stores, with consumers moving on to supermarkets and cash & carry stores. You mentioned the confidence that you have in recovering this consumer.

But anyway, this caught my attention because part of these consumers are going to supermarkets now, whether they are looking for more convenience or a stronger assortment of perishables I imagine.

Sorry for the long question, but I wanted to understand your mindset regarding confidence to recover 100% of the Extra consumers, this is still important because you have to gain share and sales have to go up two or three times more.

So, I was not so straightforward, but finally, I wanted to understand your vision a little more about this recovery process.

Belmiro Gomes:

Thank you, Felipe, for the question!

In fact, as the stores closed there was already a restrained demand in the regions where the Extra stores were located, among customers, for cash & carry options.

In the other conversions, sales grew three times more and this was achieved in all regions, a little higher than this. We disclose three as a slightly clearer base, which is more standardized when it comes to the market overall.

The level of risk we have between opening an organic store or a conversion store is much lower with store conversions. In fact, with store conversions, we know about the population around, the businesses around, and especially the level of competition and activity there. Obviously, with the stores closed, customers had to go somewhere else and many of them ended up migrating to what would be the nearest stores.

So given the store model that we have today, and the quality that will be delivered in these Extra stores, we are not uncertain about the numbers that were estimated, to the contrary, we are even more positive now than when we initially planned this last year.

As I mentioned, the pressures on price, due to the need to save, the consumers or even B2B customers, who say: "I want a closer supply center, I want low prices, but I don't want to waste too much time". This is ongoing and is now amplified by a greater search for savings.

So, in our view, this reinforces our positioning a lot. From the stores we opened, to give you an idea, last year, the best performance now comes from a store that was in a region with the exact profile of the Extra stores, which is a conversion that was not from a Hypermarket, it was a shopping mall there in Barra, that was even our concept store.

So in our view, we don´t want to celebrate the rising inflation, but the price increase movement for consumers in these regions leads to this. So much so that there is anxiety in most regions and the construction companies working on the projects as well as our teams have reported this. There are major expectations for the Assai reopenings now.

Felipe – HSBC

I get it, perfect!

I wanted to apologize, but maybe just one more follow-up point on the acquisition of Giga by Cencosud. Does this change something in the competitive environment for you? How is it?

I know you have limited space to comment on this, but anyway, I wanted to understand your mindset towards the competitive environment with this change and consolidation.

Thank you!

Belmiro Gomes:

No Felipe, we do not see any relevant impact, since it is a cash & carry operation moving on to a cash & carry operation as well, the difference is that it was managed by the Mambo team and now it is managed perhaps jointly with the Cencosud team, which may even have a little more difficulty to manage it than the group before.

Some of these stores will be impacted by the reopening of Extra stores, there are at least four or five regions where Assaí will open very strong stores, but honestly, there is no change in the scenario with this recent movement in the market.

Felipe – HSBC

All right, thank you Belmiro.

Operator:

Ok! Our next question is from João Soares a Sell-Side analyst, from Citi.
João we will activate your audio so you can proceed.
You may proceed João.

João Soares – Citibank:

Thank you! Good morning, everybody!

Belmiro, I wanted to explore a point a little. I thought your speech was a little more optimistic and there are some points that have drawn some attention. Well, the first one is the revision of organic openings for this year.

Well, something new to me is the possibility of reviewing the conversions, if I understood correctly, depending on the progress with the construction work, and it seems that everything is going well, there is a possibility of reviewing the number of conversions for this year.

So, I wanted to hear from you about how we should look at those 100 billion in revenues you expect for 2024?

Do you think this number is a little more on the conservative end at the moment? This is our first question.

And the second one is about the market itself, as Felipe talked about the acquisition of Giga by Cencosud, but I think that the market as a whole is still a seller's market, there are other such as the Makro stores as well.

So, I understand that the situation today with leverage etc. is a little more difficult, you are also busy with the conversion of Extra stores.

But the point is: is there any opportunity and what do you think about reviewing the organic store openings a little bit, and working on a bit of inorganic growth as well?

Anyway, I wanted to hear a bit of your opinion regarding the assets that are in the market. Thank you!

Belmiro Gomes:

Obviously within companies, from what we have observed about acquisitions, a positive point is that at least there is a slightly better valuation for regional companies since there were usually some price claims that would not up sustaining an acquisition.

I think at this point, this operation ends up placing these levels in a bit more of a realistic scenario. When we look at the ratio of the amount paid versus sales in these companies.

In our case you are right, we are very much focused on Extra today. At Assaí, we have 217 units plus the Extra units and this gives us a strong distribution and footprint in the national territory.

Especially within capitals, which also reduces the number of players that are relevant, since the level of overlapping has increased among players, both regionally as well as others who also had operations in several states.

So, as one of our board members always says, we are closely listening to any opportunities that may arise.

But at this moment, the company's focus is on the conversions of Extra stores. Even if we were to make an acquisition, for example, it would not be like was Cencosud wanted with Giga, as they were not only interested in the real estate, but also the system and know-how of the wholesale operation, although they already had an operation which is Mercantil Rodrigues. In our case, what matters, in fact, is the commercial real estate, because we have already mastered the system, policy, communication, expertise and personnel.

So, any movement made will focus on this point. In addition to the Extra stores, we also negotiated other real estate. Last year we opened a store with a commercial point we bought from a construction store.

Now we are working on another project where we also bought the commercial point from a furniture store, so this also happens.

The market dispute I think will be to focus on the best positions, especially in our Brazilian capitals that are very densely populated and have huge urban logistical difficulties.

As for the question on the number of conversions yes, we still intend to work with a higher number than what we disclosed, we made a conservative disclosure, and why was this? Because not all of the authorizations depend simply on the company, there are documents required and although they are refurbishing projects that have a lower level of complexity compared with an organic store, there is also a level of complexity in the conversion process.

If you have already worked on construction or refurbishing, you most likely know what we are talking about, and this applies to any type of construction project. Yes, we intend to open the Extra stores as soon as possible, as soon as these assets that are closed today have their doors open and start selling, it will obviously be more beneficial for the company.

So yes, we keep the target of 100 billion in 2024, in our view, we do not have to review it now, but obviously, with slightly stronger inflation nominally, there will also be a slight correction, with customers searching for better prices, this generates a bit more confidence.

Obviously, as a company, we are very secure with any number we disclose in the project, within what we have observed so far, especially now that we are three or four months from starting the opening period, we are even more confident than we were last year.

I don't know if I was able to answer you, João, I also ended up giving you a long answer.

João Soares – Citibank:

The question was also long Belmiro... Thank you!

Operator:

So let´s continue... The next question is from Eric Huang, Santander's Sell-Side Analyst.
Eric, we will activate your audio so you can proceed.
You may proceed Eric.

Eric Huang – Santander:

Good morning Belmiro, thank you for the opportunity to ask a question.

From our side, we wanted to understand a little more about how you have seen consumer sensitivity to prices. I think with this inflation that continues to be super high, we would like to understand a little more about how this can eventually affect your gross margin throughout the year.

Looking a little bit more at the trade down movement. Historically, we have seen it coming from the Hyper consumers, but I think we want to understand a little more about this, as this inflation remains high for a longer period. Have you also seen customers coming from supermarket formats more?
These are our questions.
Belmiro Gomes:

Okay, I think that Wlamir , our Commercial VP, can answer this even better.
Wlamir would you like to answer?

Wlamir dos Anjos:

Hello Eric! Thank you for the question!

First let´s talk about the channel migration process among customers. I will not call it a trade-down movement, but a migration, during this inflationary moment and this has not been happening now only, it is already going on for a few years.

And every time inflation accelerates, customers search for cash & carry stores. I think to add to Belmiro's speech, this first quarter, we had the closure of Extra Hiper stores.

Assaí practically did not capture sales, because we do not have overlaps in these points, but even so, we had a market share gain and managed to grow.

January, February, and March, when we reached the highest level of market share in the last 12 months, so you can see that inflation is also significant. Inflation is bad, but at this moment, we end up leading.

When we look at the trade down and price inflation, we have already coexisted with it and inflation is taking longer than we imagined. We already imagined a slightly different scenario in 2022.

But given what has happened in the market, both internationally and here in the Brazilian market, due to exchange issues, exports, and the logistics chain, in short, we have continued to have this pressure.

Our trade down today was very strong, around 5%.

There are some categories that are even a bit related to the pandemic, mainly hygiene and cleaning products that have lost a lot of traction, and a lot of volume such as bleach, detergent, soap, cleaning products in general, and alcohol. The amounts that were consumed dropped abruptly this year, due to the pandemic situation being less severe.

And what we have done to be very assertive, with this more challenging scenario for consumers, is that we have been able to work on the assortment issue very quickly.

To give you an idea, we have reviewed the introduction of new products, to be able to be at the forefront with this customer, as a change in our assortment from around 6 to 8% depending on the market, on the renewal of the mix monthly, in order to have a policy for prices as well as what to offer customers in a precise manner.

And on the other hand, when we look at this impact, everyone sees an increase in the customer flow in stores, so we ended up eliminating part of this with the trade down, part of this with the migration of customers in our store base. I think that with this combination, we have been very successful in the commercial and operational policies for our stores, as well as the inclusion of new services in the markets where this makes sense.

Implementing a butchery, for example, without losing track, as Anderson said, of the costs. I think that with this combination and the agility we must direct our commercial policy and marketing initiatives, with the promotional calendar that is very assertive and flexible, we will adjust the policy week by week or every 2 weeks, depending on the markets we are in.

So, I think that this combination of inflation is not positive, but we have been able to coexist with it and deliver a good solution, either for the consumer or for small businesses.

I don't know if I answered your question, Eric.

Eric Huang – Santander:

That's great, I think you answered it super well!

Maybe if I could have a follow up, though, regarding the sales performance in April and May. We have seen some competitors talking about numbers, I missed a little at the beginning of the #Q&A# session, but do you think you could mention this a bit? It would be interesting to hear. Thank you!

Belmiro Gomes:

We talked about this a bit, and obviously, April is an atypical month, a month that had Easter and off-season Carnival celebrations, and it was the month where we most saw in-store visits from foodservice customers.

So, April has strong sales acceleration, obviously, there is a calendar effect within April.

At the total base, we grew close to 40% in April, so we can even estimate that in the second quarter, we are setting a growth target above 30%, so of course, by looking at the May numbers, we can re-estimate this.

Eric Huang – Santander:

That 's great, thank you so much!

Operator:

Okay, moving on...
Our next question is from Gabriel Fischer Sell Side Analyst at Credit Suisse.
Gabriel we will activate your audio so you can proceed.

Marcella Recchia – Credit Suisse:

Hi everyone, this is Marcella Recchia. How are you?

Thank you for taking my question. Other people have already covered my questions, but I wanted to know about the following Belmiro:

We are seeing contrasting dynamics in the industry regarding sales and profitability. There are some players prioritizing balanced sales growth while protecting margins like you in this case, while others are actually accelerating sales by investing in the margin and giving up on margins a bit.

How have you looked at this dynamic?

And do you think you will continue on this point, growing with more balanced sales, let's put it this way, compared to other peers, in order to keep margins protected?

Thank you so much!

Belmiro Gomes:

Marcella, thank you for the question.

In fact, if you look at the first quarter, in our total growth vision, we had one of the largest growths in the market, obviously due to the number of stores opened compared to the overall market, maybe there is a player who opened a certain quantity, because their operation was also smaller, and then you have a greater acceleration in sales and a ramp-up.

As I said at the beginning, part of these total sales ended up influencing a little in the same stores, by approximately 2 percentage points. In our view, we have had a very healthy balance between sales and keeping competitiveness, the total growth base shows this, while preserving margins.

Specifically for this second quarter, we should work a little more aggressively on sales, seeking a greater sales volume, but that does not mean that we will make a very heavy movement towards dropping margins.

We always seek to have a healthy balance between these two lines. At this moment, we are preparing for the reopening of Extra stores, so it is natural that we will increase our level of promotional and communication activities.

To support not only the stores that are active now but also the new units that will enter our network.

So, in our view, we have reached a healthy balance. I don't think you can just say I'm going to search for sales, regardless of margins or I'm just going to focus on margins and sacrifice sales.

And there is a very big difference in each region in Brazil, there are regions that have a higher level of competitiveness, and regions that have a lower level, so we have sought this healthy balance.

I do not know whether that message came across.

Marcella Recchia – Credit Suisse:

Super clear Belmiro, thank you!

Operator:

Our next question is from Felipe, Sell-Side Analyst at Goldman Sachs.
Felipe, we will activate your audio so you can proceed.
Felipe, you may proceed, please.

Felipe Rached – Goldman Sachs:

Hi good morning, everyone Dani, Gabi, and Belmiro thanks for the opportunity.

I wanted to explore two themes. The first one is about the Extra stores that will be converted, I understand that they will have a slightly different assortment than most of the other stores, a slightly greater offer in other categories such as the butchery.

Can we consider that this could impact the working capital dynamics looking forward?

Barra's concept store is perhaps a good proxy, how has it behaved in this sense versus the average of the rest of the stores?

And then, if I could explore a second theme, I'm sorry to change topics here. As we are thinking about organic expansion specifically in the north and northeast regions, how have the stores opened in these regions behaved regarding sales and margins?

Are you feeling competition is a bit fiercer than expected, especially when compared to markets where you already have a greater presence, or is everything moving along as expected?

Thank you!

Belmiro Gomes

Thank you, Felipe. As I answer, I will start in the opposite order.

The northern and northeastern markets do have a higher level of competitive pressure, but it is within expectations since we already know the players who are in the region and there are also players who are advancing with their store progression.

I think the best performance response they have had is when you look at our total growth base and can calculate the average revenue per store.

So, the regions in Brazil overall have different behaviors and it is normal, it is expected. There are different income levels among the population and different levels of competition.

When we look at the numbers, obviously we are looking at the whole scenario, and the company continues to open stores in these regions, just recently we opened one in Belém. There are organic projects going on in the region and there are organic projects being prepared that will also take place within this region.

So, as much as each region has its specificity, it is honestly in line with our expectations, including competitiveness.

With working capital, yes, the stores continue to have another level of service and quantity, especially the stores in central regions, and these are not only the Extra stores. Even the organic stores that we can make within the central regions of the cities have a greater quantity of SKUs and a greater quantity of services.

But for working capital purposes, this is actually marginal compared to the beneficial part of the working capital. When we see our Working Capital today, we are looking at an average with stores in the north and northeast, which are more distant regions, where naturally the supply time is higher.

Unlike a capital store, where we receive a good part of our inventory directly from suppliers and manage this with much shorter terms than in more distant regions.

So the impact that we will have with our working capital with Extra store conversions, in relation to the current store network, is much more positive than negative, even when you present this greater assortment, a greater offer of services, a more expanded product mix or options and product brands for this customer.

Felipe Rached – Goldman Sachs:

Makes perfect sense, thank you Belmiro.

Operator:

Our next question is from Joseph, Sell-Side Analyst at JP Morgan.
Joseph, we will activate your audio so you can proceed.
You may proceed, Joseph.

Joseph – JP Morgan:

Good morning everyone!
Good morning Belmiro, Dani, Gabi, team, thanks for taking my question.

I wanted to explore the digital strategy a little more, we see you are growing a lot with the last mile partners such as Corner Shop and Rappi, and I wanted to explore if it would make sense for us to think of a proprietary Assaí platform. Especially as we launch even more Extra stores, where there will be a consumer component that is maybe even a little bigger, and as we think about creating subscription models within Assaí.

So, as the company itself follows a much more of a consumer supply approach, working with more recurrence and loyalty than you see in other brands, and maybe activating other functions. I don't know if this makes sense within the group's strategy.

Thank you!

Belmiro Gomes:

Thank you, Joseph!

When we talk about digital, and with Sergio taking on this new role, we have a very well-structured project, which is in production and will provide new features.

Unfortunately, there are some things I need to avoid mentioning at this point. We will have to wait for the launch of the project now, which should occur at the beginning of the third quarter when we reopen the Extra stores, but yes, there is a demand.

One point that we have highlighted is that digital does not necessarily mean e-commerce or delivery.

The company's goal is that the delivery will really be done by the last-mile partner, we have noticed among customers that there is a need and some desires from a digital perspective, that is not necessarily e-commerce.

In the existing stores, e-commerce appears in the 14th position of importance, just to give you an idea.

And when you look simply at digital services it's also the last priority for customers. Customers want to know if there is a product they are searching for, if there is a queue at the store, if there is a parking space, and what is a product recommendation you could make.

You can have a Store Pickup, instead of necessarily having an e-commerce operation.

In this sense, of joining the physical world with the digital world, we believe that there will be a very interesting proposition for customers as well as suppliers, taking advantage of these Extra stores.

So we do not yet aim to create our own e-commerce platform. But will be more present with digital services, so customers can interact with our own store in the physical world using digital as a means for this, whether or not they are inside the store.

But we have to wait for a little before disclosing the projects that are being worked on. The team is very focused working on this right now Joseph.

Joseph – JP Morgan:

If I can follow up on this Belmiro, with this part of the services with FIC within the group, and if I am not mistaken, there are 4 owners.

I wanted to understand from you how you look at FIC from now on because the Assaí card has gained a lot of relevance, with its own little machine. What do you think about this strategy? Thank you!

Belmiro Gomes:

FIC is not a strategic driver, but we have obviously taken advantage of the large flow of customers. It must have a very strong expansion, as these new Extra stores are launched, and with an audience that will probably use cards more.

So, FIC is following its own project, for cards and some services that are sold, but there is no change in the strategic direction at this moment regarding FIC.

As I said, there is a very large focus in all the company areas towards reopening the Extra stores, so we reached the end of the first quarter with almost 1 million square meters in sale areas, 991 thousand meters.

The stores we will launch now, represent 400 thousand square meters in capitals, so the part in richer regions is 40% of the stores.

So, there is a great focus in the company at this point on delivering the Extra conversions and then there are some other projects that we will start next year.

I do not know whether that message came across Joseph.

Joseph – JP Morgan:

Perfect, very clear. Thank you!

Operator:

Okay, our next question is from Melissa, a Sell-Side analyst at Bank of America.
Melissa, we will activate your audio so you can proceed.
You may proceed, Melissa.

Melissa – Bank of America:

Hi, thank you so much.

Most of my questions have already been answered, but I would like you to give us a little more color on regional sales performance and market share.

So, both the growth part of Cash & Carry as a whole, as well as its performance within the segment.

I would also like to know about the digital strategy if you can provide more details about the numbers with the current last-mile partners and the incremental sales they have had. Do you believe they are attracting new consumers and what are the growth expectations for the channel, especially when opening the converted stores?

Belmiro Gomes:

Thank you, Melissa!

For digital, there is an expectation of greater penetration in these Extra Hipermercado stores, we intend to give a little more color and light when we can launch this other new project that we started to work on after the GPA split, so for now we will still be careful about disclosing this info.

In the release, the numbers of operations with the last mile partners, follow a very strong growth ramp. In our view, most of these customers are new customers or customers who already bought at Assaí and have now used the app to make some replacement purchases.

So, for us to have a more complete view of what we are intending to do in digital, unfortunately as the project has not yet been launched, we will still have to wait for the conversion of Extra Hiper stores.

In practical terms Melissa, what we could say is that the company fits into the profile of the customer who is around the stores, and the demands of customers close to our new Extra stores compared to our previous stores, is very different.

So as you have a customer with another need or demand, you offer new services to meet these needs.

On regional performance, we are present today in 24 states in the country. Amazingly, the region with the largest market share for Assaí is not São Paulo, we have a greater share, for example, in Goiás, Ceará, Rio de Janeiro than here in São Paulo.

In our view, we have managed to be competitive and grow in other regions, regardless of the regions we decided to enter, and the organic expansion stores have shown this.

We will now present the stores that were opened this year, and you can see that most of them were opened exactly in the regions outside the São Paulo market.

So we know each region in Brazil very well and the expectation and level of investments you need for each of them and their performance. There is no region that is currently under control, as all of the regions we are working in still have growth projects for new units, for example.

Melissa – Bank of America:

OK, thank you.

And when you look at the total sales acceleration in April, the 40%, are there different regions that contribute most to this growth rate? I'm also thinking about Like for Like and not just about expansion.

Belmiro Gomes:

The April volumes as I said, which were close to 40% represent an atypical month, and so we need to be cautious while extending April to other months. But the movement ended up being noticed in all of the regions in Brazil with a little more strength, maybe not by region but by stores.

Stores that are in touristy regions, in distant regions where you notice there was significant national tourism. I think we broke a record of national travels in Brazil during this period when people noticed the pandemic lost a lot of strength, especially in April, but there were strong volumes in all of the regions in Brazil.

If we had to highlight this a little more, it would be inside the southeast region.

Melissa – Bank of America

Thank you so much!

Operator:

The Q&A session is now complete and we would like to pass the floor to Gabrielle Helú for the company's final remarks.

Gabrielle Helú:

Due to the schedule, we have ended the #Q&A#, but we will respond to all of the investors who questions. We've been on this call for over an hour.

I will now pass the floor to Belmiro for his closing remarks. Thanks!

Belmiro Gomes:

Thank you Gabi!

Unfortunately, we're done, but maybe next time I can prepare to have a a little more time. We want to prioritize your questions and the company´s contributions because as I said, we have company specialists here to be able to respond mainly to questions about market aspects. I think this is the most important and most interesting part, especially during a year with very strong conversions, which is a watershed moment within Assaí´s history.

I would like once again to thank our team for the work done in the first quarter and the effort that is needed now within the second and third quarters. There is practically an army working on this project, with many people focused on different areas.

Such as the purchase of equipment, the assembly, hiring people, visual communication, purchasing efforts, goods, training operations so that we can handle these 50 store openings that we have planned for this year. Regarding jobs created and investments, I think it will be very important in the regions we are in as well as for the entire country

The team is very focused, very engaged, and the company has its plans and the strategy in line with our plan. Some eventual route corrections are needed, and we have been able to work on these very quickly and we expect to deliver another quarter and year of 2022 with strong results, sharing good news as soon as we start reopening the units.

Thank you all so much!

Operator:

The Assaí earnings call for the 1st quarter of 2022 is finished.

The Investor Relations department is available to answer other questions and concerns.

We would like to thank all our participants and have a good day!