

## **2Q19 CONFERENCE CALL GRUPO CARREFOUR BRASIL**

### **Operator:**

Good morning ladies and gentlemen, welcome to Grupo Carrefour Brasil's second quarter and first half of 2019 conference call.

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions will be given at that time. If you should require assistance during the call, please press the star key followed by zero.

As a reminder, this conference is being recorded and broadcasted live on the investor relations website at: <http://www.grupocarrefourbrasil.com.br/>. A slide presentation is also available on this site.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments because of macroeconomic conditions, market risks and other factors.

It is now my pleasure to turn the call over to Mr. Noël PRIOUX, Chief Executive Officer, to start the conference call.

### **Noël Prioux – CEO**

Good morning and thank you for joining us on this call to present Grupo Carrefour Brasil's second quarter and first-half 2019 results. I am joined on this call by Roberto Mussnich, CEO of Atacadão; Carlos Mauad, CEO of Banco Carrefour, and Sébastien Durchon, our Chief Financial Officer. Daniela Bretthauer, our head of Investor Relations, is also with us. I will start with a brief overview of the key highlights of our performance in the period. Sébastien will detail our financial performance, and Roberto, Carlos and I will present the key performance highlights of our different businesses. Paula Cardoso could not join us for today's call so Sébastien will present our digital highlights. After my concluding remarks, we will then open the floor to your questions.

Our presentation is available for download on our investor relations website.

The first half provided a demonstration of the strength of the ecosystem theme we introduced at our Investor Day in March. Even in a challenging consumption environment, Grupo Carrefour Brasil posted double-digit growth in both sales and profitability in both the second quarter and the first half, thanks to a solid execution of our strategy.

I'd like to mention some of the key advances of the first half as we continued the development of our omnichannel strategy, with a focus on connecting the physical world and the digital one. Click & Collect is now available in all stores, of which 50 operate with their own inventory, with two-hour pick-up. We now have Drive for online food orders pick-up available in 17 stores, also 3 side stores in operation in Sao Paulo.

Our Marketplace continues its rapid ramp-up, and we now have 2,600 sellers and 2.4 million SKUs in our platform at end-June. We introduced Carina – Our Artificial Intelligence-enabled virtual after-sales assistant, which we will comment on in greater detail later.

Our ecosystem concept goes hand-in-hand with partnerships to speed up our digital transformation and enhance our service offering and we continued to make progress in the first half. Rappi is now available in 88 stores and in 22 cities, nearly twice the Q1 figures.

We also launched at the end of June a pilot with Magazine Luiza for the sale of appliance in a shop-in-shops concept in two stores and a similar partnership with Swift for meat sales in 12 stores.

The goal of the ecosystem is to multiply touchpoints with customers through stores and services and to offer them increasingly personalized offers. We now have 15 million registered users whose data we can leverage, and we also increase connections through new stores. In the first half, we opened nine new Atacadão stores, in line with our target to open 20 this year, and we continue to develop proximity with 2 new Market stores and a new Express store, bringing our proximity network to more than 130 stores at end-June. Speaking of innovation, Banco Carrefour will launch an Insurtech which Mauad will comment on.

Finally, we are also advancing in the digital payments area with Scan & Go now available in 15 Express stores, payment via QR code through the app and the soft launch of an NFC digital wallet.

As you know, the Carrefour Group has set itself the global ambition of being the leader in the food transition for all, bringing healthy food to consumers at accessible prices, and on slide 4, you see that we took new steps towards that goal in the first half.

Healthy food aisles are now rolled out in 59 hypermarkets and the target is to complete the roll-out by the end of the year. In the first half, we increased the healthy assortment by 32% with 500 new SKUs.

Organic food is increasing even faster, with an 82% growth rate in terms of sales on the back of a 34% increase in assortment in the half, with almost 300 SKUs added. We are working closely with suppliers to increase our offer further.

We are also advancing in our aim of increasing the share of private label in our food offer, which now represents 13% of total food sales, a 2-percentage point gain over Q1, and we target 20% penetration by 2022. With 516 new products launched in the first half, our private label sales have increased 33% in the period.

And we have added new features to Cybercook, the foodtech we acquired at the end of last year, including nutritional and price data and functionalities to search for recipes based on food restrictions or using leftover ingredients from previous recipes, thus contributing to avoiding food waste.

We recently hosted an Act for Food event in Sao Paulo and launched our new media campaign, which I hope you have all seen on TV to reinforce Carrefour's public commitment to healthy eating.

I will now hand over to Sébastien to comment on our numbers in greater detail.

### **Sébastien Durchon - CFO**

Thank you, Noël and good morning, everyone.

On slide 6, you see how this strategy translates into numbers. I will present here the key numbers of the quarter and the half. My comments are on numbers prior to the implementation of IFRS 16 for the sake of comparability.

Let's start with our Q2 performance: our gross sales rose 12.9% to R\$ 15.3 billion. Adjusted EBITDA grew in line with sales to nearly R\$ 1.1 billion, for a margin of 7.6%.

Adjusted net income, Group share, rose 11% to R\$ 419 million, equivalent to a 3% margin, broadly stable year-on-year.

If we look at the half-year performance, the pattern is very similar: gross sales were up 10.9% to R\$ 29.4 billion. Adjusted EBITDA was up 14.5% to R\$ 2 billion, with margin up 26 basis points to 7.6%. Adjusted net income, Group share, at R\$ 832 million, was up 19%. Our net debt was R\$ 1.1 billion, excluding receivables, a leverage of 0.3x, or R\$ 3.3 billion including discounted receivables.

Let me now focus on the context in which these results were achieved.

Slide 7 provides a "backdrop" to this performance. Indeed, the headline numbers that I just presented are all the more remarkable as they were achieved in a challenging consumption and macro-economic environment.

As you know, the Brazilian economy has underperformed expectations, due to delays in implementing key reforms, even if we have seen some advances recently. This has led economists and the government to lower their growth projections for the Brazilian economy for the year, and unemployment remains persistently high.

At the same time, we have operated in a somewhat volatile inflation environment, with food inflation rising in Q1 and Q2, as shown on the first graph on the slide, and then gradually easing most notably in June, suggesting more moderate inflation for the rest of the year.

This combination of a weak economy and high food inflation has impacted retail sales, as you see on the graph on the right-hand side of the slide as per Cielo's Broad Retail Index, the ICVA. It shows a decrease in consumption that began at the end of the first quarter and continued in the second quarter, but with a gradual pick-up again towards June as inflation eased.

I wanted to highlight this as it is important to have in mind as we comment on our performance in the period.

On the graphs on slide 8, you can see consistent year-on-year growth in sales both in Q2 and H1.

Our total gross sales in Q2 of R\$ 15.3 billion were up 13.5%, which marks an acceleration over the 9.9% growth recorded in Q1. Beyond our solid performance, Q2 was also boosted by a positive calendar effect of 0.8%, as Easter was in Q2 this year.

The graph on the left-hand side shows that we have added R\$ 1.7 billion in gross sales in Q2 2019 vs the same quarter last year. Atacadão's contribution to our gross sales has grown in the period, reflecting its steady pace of expansion.

Similarly, in H1, our gross sales reached R\$ 29.4 billion, a growth of 10.9% or R\$ 2.9 billion year-on-year.

On the right-hand side, we look at the breakdown of sales. You see that quarter after quarter, the pace of like-for-like growth has increased and reached 7.7% in Q2, the best performance in the past 3 years. This was driven both by Carrefour Retail, whose like-for-like growth of 8%

in the period constitutes its best quarterly performance in the last five years, and by Atacadão, whose like-for-like growth in Q2 accelerated over Q1 to 7.6%.

The contribution of expansion has also risen quarter after quarter, largely thanks to Atacadão's sustained pace of store openings, with a Q2 contribution of 5%.

This growth in the context I described earlier is clear evidence that our strategic choices are paying off.

Let's now turn to a look at our simplified P&L on slide 9. Our net sales in Q2 posted a strong quarterly performance, up by 12.6% and by 10.6% in H1.

Gross profit was up in double-digits both in Q2 and H1, increasing by 12.4% and 12.5% respectively, driven by growth in all our business units.

Gross margin was up by 36 basis points in H1 and was broadly flat in Q2 at 21.7%. Margin improved at Carrefour Retail by a strong 31 basis points in Q2 but was down 24 basis points at Atacadão. Roberto and Noël will discuss this in greater detail shortly.

SG&A expenses were up in Q2, in line with sales growth. However, as a percentage of sales, they were stable, reflecting productivity gains and our continued financial discipline.

Our EBITDA increased 12.7% in 2Q19 to R\$ 1.1 billion and 14.5% in 1H to R\$ 2.0 billion.

Pursuant to the material fact disclosed on May 12, we recorded in this quarter an ICMS provision for staple basket (Cesta Básica) items recorded under other operating income and expenses. This extraordinary provision does not impact the calculation of adjusted net income or dividends.

Excluding a one-off foreign exchange gain of R\$ 45 million, financial result remains stable.

Our adjusted net income, Group share, was up in double-digits both in Q2 and H1, up by 11% and 19% respectively, which constitutes a very solid performance.

On slide 10, I will conclude this quick financial overview with some information on the 2019 Interest on Equity payment schedule.

We remind you that our dividend distribution policy is to pay 25% of adjusted net income.

In 2018 we made a total payment of R\$ 470 million, with an advance payment in December 2018 of R\$ 380 million and a complement of this payment in June 2019 of R\$ 90 million.

Similarly, we have decided this year to anticipate a total amount of R\$ 470 million in dividends in the form of Interest on Equity. The payment will be in two equal installments R\$ 235 million, the first in September and the second in November. A potential complement can be paid out in 2020 depending on the final net income for 2019.

Let's now look at our performance by business unit, and for that, I will now hand over to Roberto to comment on Atacadão's performance.

**Roberto Müssnich – CEO of Atacadão:**

Thank you very much Sébastien and good morning to all. For the fourth consecutive quarter, Atacadão recorded double-digit growth in its total sales, demonstrating the strength of its low-price image and of its commercial strategy. This growth also reflects our decision to

significantly accelerate our expansion with 12 new stores in the year to date, including 9 in H1. Atacadão's gross sales grew 14.8% in Q2 to R\$ 10.3 billion.

LfL sales accelerated over the previous quarter's already strong growth, rising by 7.6% in Q2 after a 6.8% increase in Q1. We saw growth both in the number of tickets and average ticket in Q2.

In a challenging consumption environment, as Sébastien mentioned our gross margin was 15.2%, as a result of our strategy to maintain the concept of the cash and carry model where we had:

- a tough comparable base as Q2 2018 gross margin benefited from a positive exceptional impact during the May truck drivers' strike.
- greater focus on the merchant (B2B customer), with a positive reflection on sales on "Day A"
- ramp-up effect of new stores

Excluding expenses related to the expansion of the last 2 years, the distribution costs as a percentage of sales would be 7.9%, 40 basis points lower year-on-year in Q2, reflecting our strong productivity gains in more mature stores.

Despite all that, our EBITDA grew in double-digits both in Q2 and H1.

On slide 13, we take a more detailed look at our expansion strategy. With 9 openings in H1 and another 3 in July, this brings our total openings in the year-to-date to 12, surpassing 200 locations throughout Brazil in line with our goal of 20 new stores this year.

As you know, Atacadão is one of the retailers with a truly nationwide presence in Brazil, and our openings were well distributed in 8 different states in H1.

Our model has proven once again to be resistant to the market dynamics. We managed to maintain our value proposition and price image, while delivering higher and sustainable results, in absolute terms.

With that, let me hand over to Noël to comment on Carrefour Retail.

### **Noël Prioux – CEO**

Thank you, Roberto. On slide 14, you see the main performance indicators for Carrefour Retail.

The strategy we have been executing over the past couple of months is clearly showing up in results. Carrefour Retail turned in its best like-for-like quarterly sales performance in five years, with growth of 8% in Q2, accelerating over 6.1% in Q1 and marking a very sharp increase vs the 0.8% like-for-like growth recorded in Q2 one year ago.

Gross sales in Q2 were up by 9%. This strong sales growth validates the strategic decisions we have taken over the past year, including the decision to reposition hypermarket prices to improve their competitiveness, ongoing food transition initiatives, an enhanced value proposition and our steady ramp-up in e-commerce sales.

Gross profit rose in both Q2 and H1 and accelerated in Q2. Gross margin was also higher. This improvement reflects better margin at Carrefour as a result of commercial initiatives as well as better gross margin in our e-commerce.

Our distribution costs, at 20.5% of net sales, were broadly stable year-on-year, reflecting our continuing efforts to maintain financial discipline to fund investments linked to the roll-out of Carrefour Retail's omnichannel strategy.

In Q2, adjusted EBITDA pre-IFRS 16 was up 14% to R\$183 million, a sharp improvement over Q1.

Let me now hand back to Sébastien present our e-commerce advances and then Carlos Mauad will comment on the bank's performance

### **Sébastien Durchon - CFO**

Thank you, Noël. As Noël mentioned at the start, in Paula's absence today, I will comment on our digital initiatives. I will do my best to speak with the same passion and energy as she always does, so that she is not mad at me when she returns.

Reflecting our growing emphasis on building an omnichannel ecosystem, e-commerce was again the fastest-growing segment within Carrefour Retail, and GMV's share of total Carrefour Retail sales in H1 reached 11% vs 7% in the year-ago period. The percentage is even stronger in non-food, which represents 32% of total Carrefour sales.

Q2 saw another strong performance, with GMV rising by 59%, more than five times the market's growth rate of 11%.

Orders were up by 56% and visits increased by 89%.

Our average ticket rose 6%, which is a very strong performance considering that the market's average ticket was down 13%, according to E-Bit.

A key part of our e-commerce growth is the development of our marketplace, which continues to expand rapidly. We added another 400,000 SKUs in Q2, bringing the total to 2.4 million, nearly three times more than one year ago. And the number of sellers also grew to 2,600 from 2,000 in the previous quarter and 374 in Q2 of last year, a seven-fold increase in one year. As a result, the marketplace now represents about 17% of our e-commerce GMV.

On the following slide, I'd like to highlight two of our many recent omnichannel initiatives.

The first is our virtual after-sales services assistant Carina, which we launched in April. Enabled by Artificial Intelligence, Carina gives Carrefour one of the most advanced after-sales services in Brazilian retail.

Through WhatsApp messages, Carina can answer customer questions on a broad variety of topics, such as store locations and promotions. She can also: track e-commerce orders, provide invoices for Carrefour and Atacadão cards and a host of other services.

By the end of June, we had approximately 300,000 interactions with Carina. We're working on upgrading Carina further so she can do the Q&A session in the next earnings call!

The second is on the development of food e-commerce. As you know, we have set ourselves the ambition of being the leader in food e-commerce in Brazil and we have a very focused

strategy that relies on developing the service infrastructure. The Carrefour app already accounts for one-third of our online food orders and we are quickly rolling out services to make delivery and pick-up fast and simple. The Rappi delivery service is growing rapidly, with a presence now in 22 cities and in 88 stores. Drive is available in 17 stores and it has a Net Promoter Score above 75%, and with 3 side stores, we are growing our capacity to make orders available in a short timeframe, which is key in online groceries.

These are just two quick examples of a strategy that is clearly gaining momentum.

Let me now hand over to Carlos Mauad to talk about Banco Carrefour.

### **Carlos Mauad – CEO Banco Carrefour**

Thank you Sébastien. Once again Banco Carrefour stands out for the strong growth in its results.

Carrefour Card total billings, still in expansion, rose by 54.4% on a year-on-year basis. The Carrefour Card also grew by 20.8% even though it's a much more mature operation as a result of the investments we have made together with Carrefour and Atacadão since January. Banco Carrefour total billings reached R\$ 7.8 billion.

The loan portfolio grew 36%, totaling R\$ 9.5 billion in the period. On a comparable basis, under the Central Bank methodology, credit provision totaled R\$ 946 million, with a coverage ratio of 11.2%. Such performance is a result of a credit management dynamics which includes careful acquisition of new customers, data-based allocation and review of credit limits and an increasingly efficient digital collection and invoicing system that keeps costs well-controlled.

Growth of adjusted EBITDA accelerated, reaching R\$ 252 million in Q2, an increase of 19.4% in relation to the same period of the previous year, driven by growth in net interest margin and diligent cost management.

In the next slide, I would like to share with you our cultural transformation and work dynamics, taking the customer to the heart of the bank's business decisions. All projects are closely linked to each phase of our customers' journey, ensuring an increasingly solid experience by strengthening the consumer's relationship with our ecosystem.

Investments in our promotional platform, store communication and the "Usou, Zerou" initiative have proven to be powerful tools for customer engagement with store and credit cards. Another important initiative is the decision to accept the Carrefour card in the Atacadão store network, which should bring additional revenues in 2019 of almost R\$ 300 million.

Banco Carrefour is establishing a marketplace for the sale of insurance. The main insurers of the Brazilian market are integrated in this platform and the acquisition process is totally digital, with full customer empowerment. We will have products completely customized for our customers. We started selling to our own employees and after this soft launch, we will open the platform for all our ecosystem customers, with special conditions for Banco Carrefour cardholders.

I can assure you that the Bank is now experiencing a real revolution. All areas are part of the journey and are responsible for our customers.

We transformed the structures, where we grant clients autonomy in a collaborative and transparent way, abandoning a siloed organization in favor of self-organized teams. Currently, 62% of the structure is in the Agile model and we want to reach 100% by December.

Given this new reality, all our projects are connected to the experience we provide our consumers, strengthening the culture of “test and learn”.

Coupled with this transformation of work dynamics, Banco Carrefour has been building a strong pillar linked to data. Data capture, architecture and application permeates the entire customer journey by constantly improving communication channels and content, as well as improving the operation's credit risk management.

Finally, at the end of the second quarter we implemented the technology chassis that will transform all our channels: PWA (Progressive Web Applications). The experience our customers will have in our app, in self-service stores, on web platforms, both mobile and traditional, will be unique. We will have more flexibility, development cost efficiency and more performance. This new platform will enable Banco Carrefour to optimize both customer service and cross-sell products for its customers.

There is a lot more to come in the next months. The bank's agenda is full of new initiatives and we will surely have a lot more news by the end of the year.

Let me now hand back to Noel for his closing remarks.

#### **Noël Prioux – Director-President**

Thank you, Mauad. To conclude, I think you saw through today's presentation that the Carrefour Brasil ecosystem is at work and advancing. Our growth, even in a challenging consumption environment, is the consequence of a well thought-out and well-executed strategy.

The multiplication of touchpoints is clear with over 500,000 new Atacadão cards and 480,000 Carrefour cards issued, more than 90 million visitors in our e-commerce in the last 6 months, more healthy SKUs, more transactions and an increasingly omnichannel approach. All these are elements of the interconnected ecosystem we are building to drive more sales and more profitability.

With that, I conclude today's presentation. Thank you very much for your attention and we can now move on to the Q & A session.

#### **Operador:**

*Ladies and gentlemen, we will now initiate the Questions and Answers Section. If you would like to ask a question, please dial \*9. If at any point your question has been answered, you may remove your question from the queue by pressing \*9. Very well. Our next question comes from Joseph Giordano, with JP Morgan. Good morning, Joseph.*

#### **Joseph Giordano – JP Morgan:**

Hi, good morning to all, thank you for picking up my question. Actually, I have three groups of questions. The first one is for Roberto: I would like to understand the positive dynamics in Atacadão. I would like to understand your rationale, Roberto. What do you think about the

evolution of the competitive environment? The expansion here seems very successful, so I would like to understand if the more mature model in some regions of Brazil is showing changes in the store maturation curve? Is it getting up to speed a little faster? Lastly, I would like to know if you already have your pipeline contracted for the remainder of this year and the next. You have a guidance of 20 stores, but I would like to know what you already have in-house. And also, what do you think about the severe inflation on food? As for retail, a question for Noël, I would like more details on Rappi and to understand if it does actually bring non-traditional customers to Carrefour. How has the customer base evolved over time? As for CRM, in terms of what Mauad commented on big data, how are you leveraging card data and the higher data collection and checkout identification in retail to improve store execution and value proposal? Thank you.

**José Roberto Müssnich – CEO of Atacadão:**

Good morning, Joseph. You asked about my rationale, and I am struggling not to have a bounty on my head in the market. We are working hard, there is a growing competitive environment in the market, which is normal, even though our competitors do not have some of the sustainable competitive advantages Atacadão has, as I told you. Inflation grew slightly in some months of the first quarter, leading to higher internal food inflation at Atacadão, though it became stable in June. July has been seeing a relatively low inflation, which makes us expect something around 3.5% to 4% at the end of the year, nothing much higher than that. In terms of expansion, the market is ready to welcome our model. The Atacadão brand is extremely strong where we are going. We created a map of these eight stores in the second half, and they were really successful. Our expansion pipeline is extremely strong, starting with 10 stores to be built and open next year. This usually happens by July or August. This year we started building 10 stores for balanced openings over the twelve months of the year. Project pipeline for next year remains strong, and we have been maintaining the same strategy. This means entering markets that are ready for us to make the distribution, serve sellers both with the same strength as Atacadão and end customers, within a relatively large service hub in the cities we are entering. We are maintaining the same strategy, we have been entering new markets and drinking clean water; we are strengthening our position in markets where we already have some extremely strong stores, with very fast maturation, and the result was seen in like-for-like, which was significantly consistent with our strategy, even though we only have 15% of the mature base with less than three years of age. This means that 15% of the base has a more positive ramp-up in terms of growth than the rest. Over 60% of our base is mature, and 60% of our base has been constantly attacked. And although this model has been constantly attacked it remains violently strong, which is very good, because it shows us that we have to be better day after day, and we change our day to day activities and our tactical plan to achieve the macro strategy we set out to implement. We are still alive and there is no bounty on my head. It is above my shoulders and still heavy. Best wishes to you.

**Joseph Giordano – JP Morgan:**

Thank you, Roberto.

**Noël Prioux – CEO:**

The entire strategy with Rappi... We have Rappi, but we also have Drive and Click & Collect, so we have many options for our customers. But in terms of Rappi, we do have an impressive progress and dedicated organization that allows us to offer spectacular service levels - the best in Brazil, I believe. With that we can offer great service and have a significant portion of new customers in our base. By offering good service quality we attract new customers, which is the Carrefour card. We are doing well. Mauad will talk about the customer base evolution.

**Carlos Mauad – CEO of Banco Carrefour:**

Thank you for your question. We have two converging agendas within the group in terms of data. Evidently, in the banking environment we use a lot of the data collection, architecture and design applied to credit, because it is in the core of a banking structure, which is a very well-developed business that has been improving in quality due to information collected in our own ecosystem. Today, the bank collects 100% of the data that we internally call buffer ticket, which is basically the customer's cart, registered or not. In many regions, CPF identification at checkout is required by law; other regions offer tax incentives for consumers to share their CPF, and other agencies have simply encouraged customer identification at checkout, which applies to both Carrefour and Atacadão. So, regardless of whether or not consumers have a card, this information is collected at checkout in each of the stores, and used to improve the entire credit design, so that we can achieve increasingly competitive approval rates at our points of sale. Carrefour has a data initiative in place that has been accelerating rapidly and is more connected to consumption: how do you build a recommendation driver, especially within the food e-commerce strategy linked to the app, for instance, where there is little room for offerings? You need a recommendation driver for consumers to always guarantee a seamless experience and achieve high conversion levels, given the firepower they provide us with. When we look at the group from a structural standpoint, data collection is very well-developed. All information in our ecosystem is being duly collected. We have been working hard on design to be able to turn data into consumer engagement, as well as communication with highly-relevant content, effectively helping to transform data into a great asset of our ecosystem. So, we have two converging initiatives: bringing in more customers and constantly improving the Procel of products for the customer in our ecosystem.

**Joseph Giordano – JP Morgan:**

Perfect, thank you very much.

**Operator:**

*Very well. Our next question comes from Robert, with Bank of America. Good morning, Robert.*

**Robert Ford – Bank of America:**

Good morning to all, and congratulations on the results. Thank you for picking up my question. Noël, there seems to be a lot more going on at the Carrefour Retail division than a

simple scale improvement for Easter. Could you give us some color on what is behind the higher income at Carrefour Retail, such as a higher marketplace share and fair cost prices? And how sustainable do you think this improvement is?

**Noël Prioux – CEO:**

In terms of retail, it is easy to understand. First of all, it is an obsession with sales. For two years we have worked hard every day - it is not a joke - to break with tradition, changing all categories and products, and this has already been leading to impressive growth. Once again we are taking other initiatives that lead us to massive growth, and I think this is due to the new dynamics we started two years ago or so, bringing results. This is based on the assumption that e-commerce brings new customers. Especially in Click & Collect, producer delivery has been creating value, giving us an opportunity to assemble a store that has completely changed in the last two years. We have inflation on producer quality, we have an image of perishables that we had never had in the last few years. We lowered prices, which is what we wanted, and lowered them even more in early June, because we want to provide customers with spectacular quality and good prices. We will not stop there; we will keep this pressure every day. From that we also have other solutions with private label. In one quarter we grew two percentage points, which is outstanding, and penetration shows that the products are good and prices are affordable, and customers like that. We will keep this up. As for PGC, we have the same perishable products, much more natural chemical products. All of this is a trend. But I want to be the leader of food transition. So, we will not stop. We have other initiatives in motion, so it is hard for competitors to keep up. That is very interesting for us. And I am at the store every week. Every week. I talk to customers and we take action every week. Little by little, this gives us an accelerated pace, which I believe we will maintain. We do have a “can’t talk” rule, but the model is going to show that hypermarkets have great potential, especially in Brazil.

**Robert Ford – Bank of America:**

Got it. Thank you, Noël. And now you are making money with your proximity concepts? Do you see any material acceleration in their growth every now and then? Please.

**Noël Prioux – CEO:**

Yes. We talked about it last time. You know that a year ago I was not convinced by the model. Today, it is the opposite. After one year, we already have strong growth of over 20%, and every month we see the same pace. We are doing really well. I do not think it is enough. I would like to think of a slightly more aggressive version, and we have some ideas that will enable strong growth next year as well. With that, I am convinced that we have a model. Now we can do more.

**Robert Ford – Bank of America:**

Thank you again, Noël, and congratulations.

**Noël Prioux – CEO:**

Thank you very much.

**Operator:**

*Very well. The next question is from Tiago, with Itaú. Good morning, Tiago.*

**Tiago Macruz - Itaú:**

Good morning, everyone. Thank you. My first question is for Roberto. At the end of last year you had that favorable decision regarding the ICMS-ST benefit in states excluding São Paulo. We expected this to maybe flow into Atacadão's 2019 results, but apparently it did not happen in Q2. Would it be reasonable to assume you had to invest part of this benefit in prices, given the competitive environment you mentioned, Roberto, in Joseph's question? This is my first question. The second question is for Sébastien. Could you give us an update on your in-house strategy to make these ICMS-ST benefits cash, instead of accounting benefits in the results? Has there been progress in this direction? And the last question: you said you have been gaining new customers online. I would like to understand if this means you are including users who shop at Carrefour through Rappi, and if Rappi customers are migrating to the Carrefour app you mentioned in the release. These are my three questions, guys. Thank you for your time.

**José Roberto Müssnich – CEO of Atacadão:**

Great to hear from you, Tiago. Let's talk about investing in price. It is funny how you talk about ICM-ST benefits as if we had this visibility on a daily basis. We do not. What does this mean? It means that the market is a living being, it changes every day, and we have to adapt to the reality of the market. We insist: Atacadão is top line; we work to maintain the same performance, and our track record shows constant performance. Evidently, we will not cease to take opportunities to gain more, but either way, investments in price in my opinion should be a day-to-day decision, based on the market, based on our purchasing conditions, and based on what the market demands, so that we can always have the same type of model, which is everyday low price. Once we have the price tool in sale and the cost control we work so hard to maintain at everyday low price, - both in simplicity and the extremely lean model we work with - we work daily to keep this up. And we have been doing just that. Investing in price is not something we do as a means to achieve something specific. We work according to the market, and this strategy has proven to be extremely efficient for the model. I hope I answered your question.

**Tiago Macruz - Itaú:**

You did, Roberto. Thank you.

**José Roberto Müssnich – CEO of Atacadão:**

Thank you.

**Sébastien Durchon – CFO:**

As for the second part of your question regarding ICMS-ST and the monetization of these credits, there is one very important aspect: before the Supreme Court's decision regarding ICMS, we already had ICMS-ST credits, and there are no consumption problems. Every year we manage to consume approximately all credits in the operation. What really did create a different situation was the Supreme Court's decision on ICMS-ST on assumed income, and the right for all companies to change from assumed income to taxable income. With that, we began to recognize more credits and waited until this year to take initiatives to consume these credits. It is a very technical issue, so I will not get into many details, but we evidently have been making changes in logistics accounts to avoid generating more credits, because the problems were very much due to, as we expected, coincidences between the markets. We also have initiatives to sell part of the credits, and the Laws have been changing as well. Here in São Paulo, the technical department called Caixa 17 is now changing to Caixa 42, and with this new ruling it will be a lot easier to use credits offset directly at purchase. So, this set of initiatives is moving according to plan. Another topic that will be on the radar here is the pension plan reform. We have been hearing a lot of things about it, many positive things about this reform, so we see it in a positive light. We also think it will make it easier to end this system. We have to pay due and undue taxes at the end of the month and receive reimbursement as credits thereafter. Another question you asked was about new customers from Rappi and their migration to the Carrefour app. Like we said, we have many new customers from Rappi; our CRM team identified that these customers did not usually shop at Carrefour. This means we had a significant increase in the number of new customers. Not many of them migrate to the Carrefour app, because it is still early on, but I can tell you that they are both growing rapidly. We have additional new customers at Rappi and a growing number of customers in the Carrefour app. So, I am not sure this is how things are going to unfold, with Rappi customers migrating to the Carrefour app; we do have initiatives to encourage that, but either way we have significant growth in the website, regardless of Rappi.

**Tiago Macruz - Itaú:**

Perfect, Sébastien, thank you for your answers.

**Operator:**

*Very well. The next question is from Ricardo Cathcart, with Bradesco. Richard, Richard Cathcart. Good morning, Richard.*

**Richard Cathcart - Bradesco:**

Good morning. Thank you, everyone. Two questions on my side, first on e-commerce. In the release you mentioned that you opened three side stores this quarter. Could you tell us more about this experience you had with this side store? I know it has not been a long time, but it would be interesting to understand if you managed to improve efficiency at Rappi and own delivery, and what the impact is on hyper sales as well. The second question is for Roberto. You also mentioned in the release that you focus on corporate consumers, especially on A Day. I would just like to understand if you see any signs of economic recovery among these

consumers. I am specifically referring to your customers in the food service market. Thank you.

**Noël Prioux – CEO:**

As for the slide I showed you about side stores, the advantage of a side store is the great service level. I think the most important thing is when a customer orders 10 products and receives 10 products. We have a 96% service level, and if you know anything about the global market you will know this is the best service data we have on Carrefour and other players. The interesting thing about side stores is their good service level, dedicated inventory, and dedicated people. So, considering that the first stores opened two or three months ago, it really has not been very long, but they give us a good outlook for the future, as we will build approximately 15 stores by the end of the year, already in progress. We are working to achieve 100% of side store capacity to open others; that is the model. This is going well; we already have a connection with all of them - Carrefour, Rappi, side store or Drive, which we will use for Rappi. We also have dedicated teams to offer good service levels, and we will plan another activity to pursue our ambition to become leaders in Brazil's food e-commerce market. We are on a good path, I would say.

**José Roberto Müssnich – CEO of Atacadão:**

As for your question, Richard, regarding our focus on corporate consumers, B2B, we really are focused on serving sellers - not only sellers but also the industry, which is our partner, where we have great capillarity in Brazil. We are present on every river bank in the Amazon region and every border in the South of Brazil. This makes the industry pass it through a little, giving us a chance to work for the model's efficiency. As for food service in general, we see some instability in food service. I do not expect significant growth in this industry specifically. What we hear from these people specifically is that they are waiting for this mood to change. The expectation is for big political decisions that will put more money in the market. Yesterday we had one of those decisions, regarding the FGTS unemployment fund, which can also bring a significant increase on that front. It is our expectation that this scenario will change from stable to optimistic. That is how we are looking at it. I hope I answered your question, Richard.

**Richard Cathcart - Bradesco:**

It's great, thank you for the answers.

**Operator:**

*Our next question is from Tobias Stingelin, with Citibank. Good morning, Tobias.*

**Tobias Stingelin – Citibank:**

Good morning, thank you for picking up my question. I would like to know if you can give us more color on how e-commerce margin has evolved, specifically. Maybe if we compare e-commerce gross margin in the second quarter of last year, first quarter of this year, second

quarter of this year. Just so we can have an idea on how it is evolving. I would also like to know if there are still many losses, many investments exceeding SG&A, related to all of these projects. Specifically, it should bring more operating leverage in the quarter, even due to Easter, but there was none. I am not sure if there are a lot of projects, if you are still required to make heavy investments in the segment. Last question: regarding like-for-like growth in Carrefour Retail, you reported 8%; if we exclude e-commerce it should be close to approximately 5% adjusted for calendar. Could we take a look at how much the food and non-food segments grew each? Thank you.

**Sébastien Durchon – CFO:**

Thank you, Tobias. I will start with the second question. Your math is perfect, that is exactly it for the 8% LfL. Excluding contribution from e-commerce, it is 5% at physical stores. We cannot disclose food and non-food; we do not do it here, and we do not do it in the group in France. What I can say is we have a very good trend in food, but an even better trend in non-food. With the changes we implemented at the end of last year and beginning of this year, we had double-digit growth in non-food. As for the other part of your question, regarding e-commerce margin, it is the same trend we already had and commented on in previous periods. We started this e-commerce operation six years ago with low gross margin, in order to be attractive in terms of credit. Over time, the margin gradually improves. It is not a significant change, but it gradually improves for two reasons. The first reason is that we already have a relevant operation; our e-commerce posted revenue of R\$1.5 billion last year, and this figure will be much higher this year. With that, we do not necessarily need to be as aggressive in terms of price, that is the first reason. The second reason is marketplace growth. That is why we keep saying that it is very important for us to have marketplace growing fast, and the cost and revenue structure there is totally different - we get a take rate, which significantly helps the entire e-commerce operation. So, margin improves gradually in e-commerce. Notice how this quarter, looking at the whole picture, e-commerce plus physical stores, our gross margin grew 0.3 percentage points. Of course, there is still a dilution from e-commerce. So, store margin grew more than 0.3 percentage points. We got to a point where - and I think we said this last year - we can fully pay for an investment in e-commerce without pressuring the operation's gross margin too much. Looking ahead, we will have more investments in non-food e-commerce. We have done that already. So, in the food segment now we have to grow, achieve breakeven and generate profit. We have only just started with food, so it still requires investments, and the second half of this year was not very different from the first half in terms of investments. Well, that is the result, the entire margin expanded. So, it is possible to develop food e-commerce even with a short investment period. We believe we have to do that now to achieve the direct, sustainable growth we want and have seen so far.

**Tobias Stingelin – Citibank:**

Great, Sébastien, thank you.

**Operator:**

*Our next question comes from Gustavo Oliveira, UBS. Good morning, Gustavo.*

**Gustavo Oliveira – UBS:**

Thank you. Sébastien, my question is also regarding operating leverage in Retail. Following up on what you were just saying about food e-commerce growth, I would like to know what kind of mix you would have in terms of channel? Because if you do Rappi, which is already 40% of your sales, maybe your margin is a little better. But what I understand from your previous questions is that there is a certain strategy to migrate to other delivery formats, such as last mile and click & collect. Correct me if I am wrong, please, but I believe they have a slightly lower margin than what you would achieve with Rappi. So, I would like to understand this strategy. Following-up on...

**Sébastien Durchon – CFO:**

Rappi would be very interesting for us as a means to attract more customers. But for us that is additional result, because there is almost no cannibalization; these are additional customers, but we want to have a take rate for them to. With our app, we have logistics costs, but gross margin is much better. So, no, Rappi is not necessarily the most profitable format for us. It helps develop the food e-commerce operation, which is precisely why we want to develop all delivery channels at the same time. We have already started using side stores, of course, with Rappi, to facilitate its operation; we will use it for our own delivery service as well. The strategy is... We have to open up this e-commerce food market, convince customers of the service quality, and for that we have Rappi with fast delivery, our last mile delivery, Drive, and we plan to unfold all of them simultaneously. At the end of the day, customers will get to choose.

**Gustavo Oliveira – UBS:**

Customers, right. Thank you for clarifying. That was very clear. Now, if I consider that you will have similar growth to what you saw in non-food, where gross margin was already expanding in retail, can we say this current margin level is low? Should it grow going forward? Is that how you are looking at your business model?

**Sébastien Durchon – CFO:**

Like we said, when Carrefour's margin dropped last year, many people were complaining, and at the time we were already saying that there was a short-term investment, but with all of these initiatives. We can improve the gross margins of both physical stores and e-commerce, which is exactly what is happening now. Is there more room for gross margin to grow? Yes, there is a little bit more room.

**Gustavo Oliveira – UBS:**

Right. I have one last question for Mauad, please. In your fact release you said shopping frequency with the Atacadão card grew approximately 5.4 times in the quarter, due to purchases outside the stores. Evidently, this quarter you had an increase in billings, I think, and maybe even in frequency at Atacadão stores, due to the campaigns you had, especially Usou Zerou. But how are you looking at opportunities outside the network? I mean, looking ahead, portfolio and billings will grow significantly due to sales outside the Atacadão network. What was the decision to accept the Carrefour card like? I know, obviously, it is all just one thing, but how is it affecting billings, card frequency; etc.?

**Carlos Mauad – CEO of Banco Carrefour:**

Thank you for your question. Just a quick correction. Usou Zerou is limited to Carrefour. The Atacadão card continues to charge annual fees, as designed in 2016 and implemented in 2017. But in terms of frequency, what happens specifically with the Atacadão portfolio is that customers gain an in-depth understanding of the product as its life cycle evolves. When we sell a product as Atacadão card at Atacadão stores, and often to customers we are introducing to the financial market, we are then responsible for their financial education. Customers often think that is the only payment method allowed in the Atacadão ecosystem. We gradually show them that our private label card can be used at any point of sale with a payment terminal available. So you will probably see something very similar to what we see with the Carrefour card, where the off-us share, meaning purchases outside the Carrefour-Atacadão ecosystem, gradually increases. Half-year close figures show 50/50 results with the Atacadão card: 50% of the customer's spending is at Atacadão, and 50% is already outside. When you look at the mature portfolio as a Carrefour portfolio, this figure is 25% in, 75% out. It is a matter of financial education, about educating customers on the product, showing them that they can use part of their credit outside our stores. OK? This business is specifically important for the bank for a number of reasons. From the PNL standpoint, this transaction has a completely different economix from transactions carried out at Carrefour and Atacadão stores. Then there is the consumption profile. This is the information we are collecting from consumers to understand their spending profile, and whether there are any opportunities, from a communication standpoint, to attract this customer to consume a certain SKU or service in our ecosystem, instead of outside. These are the two main advantages of having off-us billings grow and gain share in the portfolio.

**Gustavo Oliveira – UBS:**

As for this 50/50 result, do you think it is already stable?

**Carlos Mauad – CEO of Banco Carrefour:**

No, it is not stable. The trend is for off-us spending to gain share; it does not channel on-us billings, but it should gain share as we strongly revise the limits of the Atacadão portfolio, given that month after month this portfolio collects more information and we are able to increase the credit limit of these consumers, and naturally they begin to understand that the card can be used to shop outside of our stores as well. I do not believe the Atacadão card will

reach the same level we see in the Carrefour portfolio, at a 25/75 ratio, but I think off-us will continue to grow its share.

**Gustavo Oliveira – UBS:**

Thank you, Mauad.

**Carlos Mauad – CEO of Banco Carrefour:**

You're welcome.

**Operator:**

*Our next question is from Irma, Goldman Sachs. Good morning, Irma.*

**Irma Sgarz - Goldman Sachs:**

Good morning. Thank you for the opportunity to ask a question. I have two follow-up questions on the areas that were obviously very impacted by the comparison base with the World Cup, the truck drivers' strike last year, the Easter, so it is a little difficult to understand the underline or the recurring aspect of the area. How do you think we should look at it? Should we consider 5% in prices, and once again 8% including e-commerce? How should we look at this figure for the second half of the year? Of course there are also the impacts from the economy, in terms of expectations for a recovery in consumption. Inflation has also eased a little. Combining all of these factors, what is your expectation going forward? And my second question is a follow-up on one of the first questions about data strategy. I would like a clarification on whether you already have an integrated vision of CPS to basically put together the entire journey of the so-called omnichannel consumer, who shops once, maybe a couple of times on the app, then the website, then the store, and many store formats. And maybe Rappi deliveries can be considered as well. Do you already have a customer view on that? Thank you.

**Sébastien Durchon – CFO:**

With regard to like-for-like, you are right. Every quarter we have many events that make this comparison difficult. But I think my answer is to look at the trend. Every six-month period has different events... There is Easter in a quarter, then something else the next quarter, but if you look at the retail trends, there is a very clear recovery movement. The first quarter of 2018 was going well initially, we had a deflation, then deflation went up again, so we had a lot of inflation. This year, not so much. I think the retail deceleration this year and fourth quarter of last year in like-for-like was 3.5%, then 6.1% in the first half of this year and 8% in the second half. This is not mainly due to events in the quarter, because this half there was a decrease in consumption from last year. So, it was a very difficult change. Still, retail managed to grow. Like Noël said, it was all due to the initiatives taken last year, such as credit repositioning, in some hypermarkets, assortment, launch of the healthy products aisles, private label efforts - with private label currently representing 13% of food sales, while last

year it was 7%. So, in two years we managed to almost double private label penetration. There is a set of initiatives, in our opinion, that explain our current performance. Again, we had a very challenging year, so had we not made these decisions last year, we would never have posted the performance we see today. This means that, based on the assumption that the economy will not change, we have no reason to act differently in the future. Now, as you correctly put it, there are some government initiatives, such as the FGTS release, PIS/PASEP, which would definitely help. As for data strategy, we have a department at Grupo Carrefour Brasil focusing on integrated data. That is exactly what we have done: we collected all data we had spread across various business units and started using them through omnichannel initiatives. Like Mauad said, Usou Zerou is a very interesting omnichannel initiative. The decision was made by the bank to help the bank, because it brings in new customers and, at the same time, acknowledges their loyalty and encourages them to shop more. That was also the case with the bank's decision to access the Carrefour card at Atacadão. Why did we make this decision? Because we looked at the data. We started to implement many initiatives to leverage the abundant data we have.

**Irma Sgarz - Goldman Sachs:**

Thank you.

**Operator:**

*Very well. Remember: if you would like to ask a question, please press star 9 (\*9) on your phone.*

**Noël Prioux – CEO:**

OK, I believe there are no further questions, so I will conclude the call. I hope you all got a chance to understand the strategy of Grupo Carrefour Brasil's ecosystem, as well as the advances resulting from strategic decisions and investments made in the last few years to build an interconnected ecosystem and guarantee profitable and sustainable growth in the future. Thank you very much for your attention, have a great day.

**Operator:**

*Carrefour Brasil's conference call is now concluded. Thank you all for joining us, have an excellent day.*