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CO.PA - Q3 2016 Casino Guichard Perrachon SA Corporate Sales Call

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PRESENTATION

Operator

Welcome to the Casino Groupe third-quarter sales conference call. I now hand over to Mr. Antoine Giscard d'Estaing, Chief Financial Officer of the Casino Groupe. Sir, please go ahead.

Antoine Giscard d'Estaing - Casino Guichard Perrachon SA - CFO

Thank you. Good morning ladies and gentlemen. Thank you for joining this conference call on our Q3, 2016, sales. As you can read it in the press release, we reported significant growth of plus 6.7% for our total sales after seven quarters of decline due to adverse ForEx variations and negative sales in electronics in Brazil. This is our highest growth since Q2, 2013.

We report a solid plus 2.9% organic growth. Total Group sales, as you can read it, amounted to EUR10.4 billion in Q3. Overall ForEx had a positive impact on total Group sales of plus 4%, versus a negative 8.3% in Q2, and this is mostly due to the relating of the Brazil real against the euro.

The calendar effect was slightly positive at Group level at plus 0.4% and in France plus 0.3%. At constant scope of consolidation and currency rates the like-for-like growth, adjusted for calendar and fuel, was plus 1.7% at Group level.

I will now discuss the performances of the four different segments. We start with our operations in France and start with the usual remarks on food inflation, consumption, during the third quarter.

Food prices, excluding fresh, were slightly down year-on-year in August, as in previous months. And this has showed that most retailers have kept their prices stable for a while. And we continue to expect moderate inflation in the coming quarters. Food consumption was slightly positive in July, plus 0.7%. It was stronger in August.

Non-food categories, as you know, stayed under pressure with negative trends during the summer. You might have read that as per [L'Institut Francais de la Mode], textile sales were negative 6.6% in August and minus 1.8% on a cumulative basis.

So, these are the elements of the environment in which we operated in the third quarter. I move to our own numbers.



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So, our total consolidated sales in France amounted to EUR4.8 billion; a bit less than that. They were impacted by two factors. The first one is closure of loss-making stores, a little less than 3%, mostly at Leader Price and at Casino Proximite. And they were impacted by the transfer of underperforming small and medium stores, notably at Leader Price, [and Geant] Casino franchises.

By definition, those two events impact both our reported sales and organic sales. Closure of small loss-making stores had an impact of roughly 0.6% in total French retail sales. And the transfer stores to franchisees had a negative impact of 0.9% on total French retail sales.

We consider, as you know, the franchise model to be very efficient for small stores, discount stores, and in Q3 we have therefore continued to rebalance our portfolio to increase the number of franchised stores. This model, as you know, has been developed for several years with very strong partners. It offers more flexibility and is, therefore, very favorable for both volume growth and profitability.

As of today, around 49% of Leader Price stores are operated in a franchise. 43% at Franprix, 79% for Casino Proximite. And we consider the current proportion to be the right balance for these banners.

So, taking into consideration the sales, the final sales of the franchises to consumers, the gross sales under Group's banners increased 0.7% in the third quarter. As you can read it in the appendix of the press release. And this is a number which is probably more meaningful than total sales.

Year-to-date change for gross sales under Group banner is plus 2.1%.

Concerning the gross sales under banner, it's very important to remind that the most profitable part is food, and food accounts for 85% of the total. So, in Q3 gross food sales grew 1.4%, and 2.5% on a cumulative basis. And this is the reason why we have positive market-share gains. As you know, we have 0.1% cumulative -- gain on the cumulative basis for market shares. And we are among the few operators in France to gain market share.

The last remark is around the comparison base, which was high for this quarter. And it's interesting in that respect to measure the like-for-like performance over two years, which we show in the template in the second page. And, as you can read it, like-for-like sales over two years grew 1.8% versus 0.3% in Q2.

The last element is the element on the calendar effect that I've mentioned, which is that calendar effect was plus 0.3% in Q3.

Let's move now across to a different banner. I will start with Geant. So, the like-for-like sales at Geant grew 0.3% in Q3. Very important to mention is the fact that food sales increased 1.8%, this is comparable to Q2, on the back of a very strong 5.6% in Q3 last year. Fresh products grew nicely by 4.3%.

Non-food sales were negative with a low performance of seasonal products and textile. And the banner increased its market share by 0.1% in the last period of [compare]. In the coming quarters at Geant we have the same plans to continue to roll out the productivity plans to improve assortment, reduce non-food space, optimize operational processes.

I move now to the Leader Price. So, as previously mentioned, total sales at Leader Price were impacted by two business decisions. The first one was the transfer of stores to our franchisees which, at the level of LP, has an impact of minus 3.9%. And the closure of 71 non-performing stores, which has an impact of 1.9%, on Leader Price sales.

Both decisions, by definition, are positive for the profitability of this banner. We think the franchise model is very relevant to certain geographies or competitive situations. It's been developed at LP for many years with partners that operate often more than 50 stores. And these people are excellent at managing the tougher stores.

Of course, since we record -- we only record the wholesale turnover with these franchises, the total sales are impacted by these transfers. If you look at the gross sales for Leader Price banner, the final -- our own sales, we sell out of our franchises it's almost stable year-on-year at EUR657 million a quarter. It would have been positive if we had not closed the stores.



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We'll discuss now the supermarket and convenience formats. And I will start with our largest banner, which is Monoprix. Monoprix total sales, as you can read it, increased by 1.1% and organically 0.8%. And like-for-like over two years we're almost stable. Cumulative market share year-to-date was stable.

The expenses strategy of Monoprix is very efficient. It delivered good results again in the quarter, 10 new stores, contributing to a growth over the last 12 months of 90 stores. Monoprix, as you know, is the banner where we prioritize our CapEx, especially focusing on expansion in city centers.

Food sales improved progressively during the summer with increasing volumes. Non-food sales were more difficult. And they declined under the impact of unfavorable weather conditions, lower touristic traffic, during the summer. But our own sales were probably less negative than the overall market.

I move now to Supermarchés Casino where we recorded a good performance. Like-for-like increased sequentially to reach 2.8% with traffic up 2.4%. Volumes were positive. Excellent performance of fruits and veg. Very good results delivered by the new loyalty program. However, the growth reached a very solid 4.5%, supported by the opening of one store and seven new franchise since Q3.

Franprix, over two years, like-for-like positive. This is the result of the Mandarine renovations. As of end of August 45% of the network has been renovated. Casino's convenience boasted 6% growth over two years. And this is the result of the transformation of the network.

We continue to optimize our stores portfolio. We reduced the number of stores we manage directly. This is a big part of the closures that I've mentioned. Of course, as a result of that, consolidated sales are negative. And the like-for-like of our integrated stores that we keep continue to improve sequentially. And the sales done by franchises increased very strongly, very efficiently; another sign of the relevance of the franchise model for such stores.

I move now to the second segment, which is Latam retail. As you can read it, sales for Latam retail amounted to EUR3.9 billion. This is roughly 39% of our total sales. And organic sales enjoyed a very good growth, plus 13.2%. This is 140 bps better than Q2. Like-for-like 8.2% versus 7.1% in the previous quarter. Total sales were up plus 20.8% with the favorable impact of foreign exchange.

Inside this segment Exito Group, excluding the Brazil part of GPA, maintained a strong growth in Q3. Very good performances, Colombia, Uruguay, Argentina. It illustrates the relevance of our various commercial strategies.

In Brazil the monthly inflation has started to slow down and probably inflation was at its lowest point in July. In this context, GPA food recorded an acceleration of its growth; a very solid plus 14% in organic versus 11% in Q2. 8% for like-for-like, 8.3%, versus 6.3% a quarter ago. And if we exclude the non-food product families the pure GPA food sales in food categories increased plus 7% organically and plus 10.8% like-for-like. We think this growth is probably above the underlying inflation, which, as I said, reached a low level in September.

Across the banners of Brazil, Assai, which now accounts for 37% of GPA food sales, delivered again a very strong performance with high organic growth, plus 45%, sustained by like-for-like and dynamic expansion.

Multivarejo recorded a growth of like-for-like sales of 1.8% in this quarter. More importantly is the sequential improvement at Extra of food sales. Food sales grew 6.1% (sic - see press release, "6.0%") at Extra Hyper. And this is, here again, 340 bps better than Q2, 850 bps better than Q1. And this is driven by the new promotional strategy of the banner.

The other formats, the super and convenience kept growing quite nicely.

I move now to Latam electronics where, as you know, the macroeconomic slowdown in Brazil continues to weigh negatively on consumer confidence with lower purchases of durable goods. In Q3 2016 Latam electronic sales amounted to EUR1.1 billion, a little less than 11% of our total sales.



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They increased on a reported basis by 14.8% like-for-like, plus 2%. And this, of course, was driven by good performance of services and financial services; the right focus on the technology category. And given the continuous decline of the markets for furniture and home appliances in Brazil, posting a net growth general result suggests that the banner continues to gain structure and market shares.

Organic growth was slightly negative, given some store closures that occurred in H2 2015 and Q1 2016.

I move now to our last segment, which is ecommerce. In France we have focused on the improvements on Cdiscount profitability and reduced B2B sales which were less profitable. The priority of our sites is now around the marketplace sales. We have closed some small, underperforming, specialized websites. And we focus on one unique website now, which is Cdiscount.

Cdiscount website sales grew 5.6% in Q3, with a contrasting performance during the summer. A weak July, probably down due to a combination of weather effects and the tragic events that occurred in our country. And much better numbers in August and September with an average of 9.8%, close to our 10% target.

The marketplace performance at Cdiscount was very good, plus 19% on average, in Q3. Marketplace sales reached almost a third of gross national volume, which is an improvement of 347 bps versus the similar quarter 2015.

Cdiscount reached 8 million active customers. And the number of our Cdiscount a Volonte subscribers has doubled compared to last year.

At Cnova Brazil we saw a decline of the business. This is due to the economic slowdown which penalized non-food sales. The marketplace increased significantly 926 bps to reach 21.2%.

As a conclusion, I would like first to stress that we confirm our objectives in France, as you can read it in the press release. These objectives are around recurring trading profits of in excess of EUR500 million; free cash flow before dividends and coupon hybrids that relates to 2015 and before the interim dividend for 2016, a free cash flow over EUR550 million; net CapEx around EUR350 million.

The most relevant KPI by definition to measure commercial performance on trading profit are the gross sales, especially in food. And, as stated before, the gross sales under banner in food were positive in Q3, plus 1.4%, 2.5% on the cumulative basis. And this is consistent with our commercial targets for this year.

At the end of Q3, 2016, the year-to-date unaudited trading profit of French retail operation is well ahead of last year. And this is -- and is fully consistent with our full-year objective.

Across the banners, as you saw it, our supermarket sales grew well thanks to (inaudible) expansion at Monoprix; the success of the Mandarine transformation at Franprix; good execution at supermarket; very strong commitment of all the teams to deliver here, as is the case for HM, which has performed very well in food and where market shares are positive.

And at LP, global volumes of business is almost stable and, as you know, profitability has strongly recovered.

For international operations we continue to record a very strong sales number in Brazil. And this is thanks to Assai and the new commercial strategies at Extra. The recovery in food at Assai is significant, as I mentioned it. 10.7% of like-for-like growth for the food sales of GPA Food is a strong number.

For electronics Via Varejo is maintaining the right balance between sales growth and profitability. And is, by definition, preparing the integration of Cnova Brazil, the offline business, where strong operational synergies are expected.

At Cdiscount commercial indicators are positive. Marketplace position high, which is important for its profitability. And, as you know, in the coming quarters we will also benefit from the purchasing agreement with [Steinhoff].



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And the final word is, of course, our Group has strongly improved its balance sheet, with significant disposal. And has started a phase of simplification as shown already by the ecommerce reorganization.

So, this was my voice over the press release. And now I'm more than happy to discuss the questions you may have. And I turn the mic to the operator.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Edouard Aubin, Morgan Stanley.

Edouard Aubin - Morgan Stanley - Analyst

Yes, good morning, Antoine and Regine. Just two questions for me, the first one on Leader Price. I guess the reposition re the banner from a pricing standpoint over the 2013-2015 period, can you just come back as to why you had the deceleration in momentum? And what, maybe, you're expecting for the next two quarters?

And my second questions regard the guidance you're reiterating on EBIT, the EUR500 million, for 2016. Can you please give us a very rough idea of the impact of change of scope and the franchising process at Franprix, Leader Price, on your EBIT in 2016? Just a rough idea would do.

Antoine Giscard d'Estaing - Casino Guichard Perrachon SA - CFO

Okay, thank you. So, the first question is on Leader Price. So, at Leader Price you know that we have been through a phase in which we, as you said, in which cut the prices. We rationalized the organization. We had initial partners that sold the business to us. This was a couple of years ago.

Over the recent years, prices have been reset to the levels where they are today, which are very good levels, very comparable to [deny] competitors. And the phase in which we have been now for a couple of quarters is to further optimize the organization now that prices are the right ones. And optimizing the operations [which we speak] between the stores we manage ourselves and stores that are better managed by our partners.

So, this has impacted, as I've mentioned, the sale. If we look at the stores that we have kept, so the reported numbers for the like-for-like on a cumulative basis, you see it's on page 2, we are slightly negative, whereas, we were slightly positive. So, it's a small change.

It's fair to say that in Q3 we -- the stores that we kept went through some improvement of their processes which impacted the like-for-like in Q3. Having transferred the stores, the remaining stores we have started to rework a certain number of processes around assortment and things like that.

And the other element which is here is that during this quarter our promotional activity was relatively low for these integrated stores, given that they were under a process of improving best practice -- of rolling out, sorry, best practices.

Back to your second question. I think I've mentioned the fact that we focus on profitability at the level of each banners. And we are happy to see that in 2015 all our banners will be profitable except Geant, which is in a plan to be breakeven next year, as you know.

A lot of measures have been taken and the reorganization of the network is one of them. But I would like to stress the fact that our increase in profitability will be built on better gross margins that are generated by good purchasing gains, by efficiency gains in the stores and by lower cost in stores and better results of the stores we manage.



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So, these are the different elements. All of them contribute to the improvements that I mentioned. Leader Price will be profitable again, like it was in the past. Last year was a year of big price investment. But Leader Price will be profitable again significantly in 2016.

And most of the actions we take will have a carry-over impact next year.

Edouard Aubin - *Morgan Stanley - Analyst*

Sorry -- (multiple speakers).

Antoine Giscard d'Estaing - *Casino Guichard Perrachon SA - CFO*

I will not go further in details. And I think there are a lot of things, so it would be endless to mention all elements of -- that drive the profitability. A portion of our improvements is generated by store closures. A portion is generated by optimizing the management of our own stores and optimizing franchised stores.

Can we have another question please?

Operator

[Ama Jolie], (inaudible) Investment Bank.

Ama Jolie - *Analyst*

Yes. Good morning Antoine. I am Jolie and I have two questions on France. The first one is a follow up. I mean, you mentioned that Geant hypermarket will be loss-making in 2016. And we saw a slowdown in like-for-like sales growth, so, we can have more certainties regarding a potential positive operating leverage.

Clearly the same kind of question but for Leader Price; what are the key potential drivers to improve profitability at Geant hypermarket? Because, at the end of the day, cost-cutting or purchasing synergies, these are some positive factors that we had in the past. So, I'm just wondering what could be the key drivers for the coming two years?

And the second question on Leader Price; if you can give more details regarding the change of internal processes and how it has impacted the trading in stores in Q3. Thank you.

Antoine Giscard d'Estaing - *Casino Guichard Perrachon SA - CFO*

Thank you. So, on Geant, I think the first element which we should highlight is the market share and the growth. So, the growth over two years, you can read it in the press release, is similar in Q2 and Q3. So, the momentum at Geant has to be read in conjunction with the previous quarters.

And very important to mention is the fact that the growth in food sales at Geant in Q3 was plus 1.8% without any openings and with a -- as of today, a relatively low inflation if zero inflation.

So, yes, the base impact is unfavorable to us. But the momentum in food sales is very interesting and is good. So, Q3 we'll see what other retailers will report for hyper sales on like-for-like. But posting a 1.8% for this banner is a good performance.



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Inside this performance, [FMG] products were in line with expectations. Fresh was very good. And, therefore, it's good for our margins. The non-food categories were more difficult, as we know. They were more difficult for the reasons I have mentioned around weather conditions, seasonal products and, to a lesser extent, a soft market for multimedia. But the food-sales momentum is good and we think it's likely to stay like this.

Last element. When you guys will do comparisons in this quarter we had no anniversary. Our big anniversary at Geant is in October and we start next week. And, by definition, it's very important for a food banner like Geant.

Now back to your second question, which is what do we expect to go -- food to do in the coming quarters? And why are we confident that we shall improve the profitability at Geant?

It's a continuous process. So, it's already a strong move this year versus last year, by definition sustained by better purchasing. By definition sustained by selling the right categories. By definition, sustained by improving the contribution of fresh and such categories has started to deliver in Q3. If we keep on delivering in the coming quarters with a carry-over impact, by definition, next year.

We have launched several operational -- review of operational processes with consultants to further redesign, so to speak, the stores. And we expect, once again -- and this is a very detailed, decentralized process of improving profitability store by store.

So food sales, fine. Gross margins, fine. Good momentum in Q3. This should help us in the coming quarters. And once again, the profitability improvement this year will already be very significant.

Now, moving to your second question on yield price, I think I answered already part of it. Having now to operate a smaller base of integrated stores, we have reviewed a certain number of processes around the right assortment, the right inventory management at the level of the stores. This has been a review. This is food retail. It's all about simple things, but when you launch such initiatives, by definition, you impair a little bit your short-term performance.

Ama Jolie -- Analyst

Thank you very much.

Operator

Jerome Samuel, HSBC.

Jerome Samuel - HSBC - Analyst

Yes. Good morning, Antoine and Regine. Sorry to come back on the guidance for full-year EBIT in France, but what is the underlying assumption in terms of organic sales do you expect for Q4? Do you expect an acceleration versus Q3? And have you also noticed a change in trend in September versus July and August? And that's the first one.

And the second one, again on the Leader Price contribution to profit improvement. Can you just give an idea of the magnitude of improvement that it will deliver? Is it about EUR30 million or more in the hundred million?

And on Monoprix, what has been the traffic evolution in the quarter and have you noticed also some improvements in September? Thank you.



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Antoine Giscard d'Estaing - *Casino Guichard Perrachon SA - CFO*

I'll start with the last question since it's the same, then the second question on [the current heading]. So we are very early in the month of October, and the month of October, as I've mentioned it, will be impacted by big promotion plans. We have, this year, our anniversary and other big commercial plans that we can -- well, would not say in advance for other banners.

Now, if we look at the data we have, which are the data of the last four weeks, they are better than Q3, slightly better than Q3, slightly better than September, but especially at Geant, Leader Price and Monoprix. So the trends are slightly positive.

This is probably a transition to your question on organic sales. As I've mentioned, a very important number is the volume in food. We have a good vision of what we have achieved so far.

Having achieved that, it has generated a good improvement of profits in Q3 over Q3 last year. It was already -- and I'm talking only on food retail operations. I'm not talking on real estate, where our vision is still the same than what we discussed at the beginning of the year, with a strong decline, as you know, of the contribution of real estate projects.

So I'm talking specifically food. Improvement in the food profitability was already very strong in H1. It has been again very strong in Q3, when in line with our vision for the full year.

So we don't publish quarterly numbers and these are unaudited numbers. This is our managerial vision, but they give a very fair vision of underlying profitability and we are well in line as we speak. So given what we see in France, we don't disclose a specific number, but, with the interesting trends, we are very confident to achieve the EUR500 million.

On Leader Price contribution to the improvement of profitability, yes, again, it's too early to give a full detailed vision there of profitability per banner. I hardly know any retailer in the world who would give you that level of granularity on all the banners, but it's fair to say that the improvement of Leader Price will be important.

But all banners will improve their profitability, all banners. So I think it's one of them, but it's not the only one. And this gives of course more comfort to the EUR500 million, the fact that it is driven by improvement of several banners.

On Monoprix, sorry, Jerome, I missed your question. Can you rephrase it?

Jerome Samuel - *HSBC - Analyst*

That was the traffic evolution at Monoprix.

Antoine Giscard d'Estaing - *Casino Guichard Perrachon SA - CFO*

So the first thing I want to say, you are all invited to a Monoprix day that we will organize with Mr. Schultz very early November. And we are more than happy at this time to disclose you a lot of information on Monoprix and the value of its business model.

Now, back to your question, it's fair to say that during the summer, the month of August was tough for Monoprix. As you know Monoprix and Franprix are banners where the Q3 is not the most important because they are city center banners and people go on vacation. So if you look carefully at the numbers you see these are small amounts.

Nevertheless, the business environment, especially for non-food categories, was not very good during August. The numbers have improved already in September. And we have a stable client base at Monoprix, so the number of clients hasn't changed. We have a very solid client base. And all the numbers we see for the market shares of Monoprix are pretty stable, so we should not consider the fact that the sales of textile were weak during the summer is a change in the model. It hasn't changed the model at all.



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Jerome Samuel - HSBC - Analyst

Thank you.

Antoine Giscard d'Estaing - Casino Guichard Perrachon SA - CFO

Thank you.

Operator

James Grzinic, Jefferies.

James Grzinic - Jefferies - Analyst

Yes. Good morning, Antoine and Regine. I have two quick questions, please. The first one is, Antoine, why do you expect moderate inflation to return in the coming month? It would be interesting to get your take a little bit more in detail on that point.

And the second one is, if we look back at the past decade of history of like-for-like performance at Leader Price, I guess you may have considered closures rather than transfers. Can you talk us through why you feel that the number of stores for that format is appropriate in France given just how prolonged the period of sales density pressure has been in that format? And maybe more widely, do you think that franchisees may shut some of those stores that has been transferred to them? Thank you.

Antoine Giscard d'Estaing - Casino Guichard Perrachon SA - CFO

Thank you. Inflation, we are looking carefully at the data provided by (inaudible) on different food categories. By definition, we don't see the same situation that the UK retailers face, for other external reasons.

But in our own country, we see that the very strong decline in prices that we had over the last two years is already over and we have signs that across certain product families there is a little inflation. There was inflation already during the summer for fresh and we consider that it's -- when you look at the long-term trends, it's most likely that a moderate inflation should appear.

You are right that it's early to say that because, by definition, the discussion with suppliers has not started. But probably most of them, having seen a cycle in which prices went down significantly, will try to improve slightly the prices. We don't see a big swing here, but we see more the fact that we should be in the positive territory for prices in the coming months and quarters. The month of August, which was slightly negative, is probably not fully representative of the real trend in the market, which is usually in the fourth quarter, which is the big quarter and where people spend more.

So we should watch and see, and this is our vision as we have it today. And of course we'll share with you information if we -- if things turn to more obvious.

At Leader Price, optimizing the mix of stores inside the network is a continuous work. At the end of the day, we have a situation which is moving. Almost every week you get new competitors, you get changes in your environment. You have longer-term trends of areas where people have less money, so you need to adjust.

While looking at these adjustments, you have several ways of doing it. We always want to keep our stores, especially when, on a global vision, they have a positive contribution to our earnings. And when I say that, I mean the wholesale margin that we have as a wholesaler and the result of the store.



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In very competitive environment, independent players manage better their stores. They are closer to the stores. They have the capacity to staff better the stores. They are probably more efficient on the cost. For such stores, it's probably better to have people that are ready to fight, probably with different weapons, the competition.

And if you think of the global retail scene in France, networks where we have a lot of franchisees, and especially the cooperatives, have been relatively efficient for many years. And probably one of the reasons for that is that it's a model which is well adapted, especially when price competition starts. So we think we have reached a right balance today.

And to your last question, which is can some of these stores be shut by our franchisees? Yes, it happens that, as is the case for a very wide network of stores, if at the end of the day you are not capable to manage it efficiently because of excess of competitive pressure you will close the store.

James Grzinic - *Jefferies - Analyst*

Great. Okay. Thank you for that, Antoine.

Antoine Giscard d'Estaing - *Casino Guichard Perrachon SA - CFO*

Thank you.

Operator

Matthew Maley, Deutsche Bank.

Matthew Maley - *Deutsche Bank - Analyst*

Yes. Good morning. Thanks for taking my question. Actually, most of them have been answered. Just one maybe remaining. It was on the Conforama partnership you've announced. If you just could come back on that and, notably, when you expect the impact to kick in and quantify a bit the kind of impact you expect at [AB Clavelle]. Thanks.

Antoine Giscard d'Estaing - *Casino Guichard Perrachon SA - CFO*

The Conforama agreement is an agreement to better purchase categories that we have in common with them, white products, brown products, such products. And this is mostly at Cdiscount and, to a lesser extent, Geant. Cdiscount is a much bigger partner.

Together with Conforama, we are probably a number two for such product families, so the organization has been set up. It should deliver results, so the magnitude of what we will purchase together is a little less than EUR1 billion of sales, which probably 75%, 80% is for Cdiscount and probably 20%, 25% is for Geant.

Inside -- once the organization is in place, which will happen very soon, we should get the benefits within a year. And the benefits, I think even if we've not fully confirmed this number, I think that we're seeing numbers of -- in the magnitude of EUR20 million, EUR30 million of potential gains at full speed, which we think is a realistic number.

Matthew Maley - *Deutsche Bank - Analyst*

Thank you.



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Operator

Xavier Le Mene, Bank of America Merrill Lynch.

Xavier Le Mene - *Bank of America Merrill Lynch - Analyst*

Yes. Good morning, Antoine; good morning, Regine. Two questions if I may. The first one, can you help us reconcile the free cash flow guidance that you're setting up, so the EUR550 million? Initially, you were guiding for EUR200 million, which was actually post-dividend, but it sounds like the EUR200 million post -- pre-dividend means more EUR600 million free cash flow rather than EUR550 million. So can you help us to reconcile the number here? That would be the first question. And if actually it's slightly lower, can you explain why?

The second one, just focusing on the recovery of the food service in Brazil, it seems that in Brazil you had strong promotions. So how do you think it can continue into Q4 in 2017 and what could potentially -- the pressure on margin you will [sense] given potentially higher promotions.

Antoine Giscard d'Estaing - *Casino Guichard Perrachon SA - CFO*

Okay. So on the first one, our initial guidance was EUR150 million to EUR200 million after the dividend and the coupons we pay out the hybrid. And as you know, the dividend plus coupon, the hybrid, is around EUR400 million, a little less than EUR400 million.

What we realized when we discussed this target with investors is when they want to compare the free cash flow generation of our Group with other players they usually look at it before dividend and before hybrid coupon. So this is how you move from the EUR150 million to the EUR550 million.

Now, the EUR150 million is a little less than the EUR200 million initially announced at the end of last year. It has to -- it is explained very easily by the fact that the initial number of this free cash flow generated at the level of France, we include the dividends we receive from our international affiliates, and there's been two changes here.

The first one is, as you know, we have sold our Valiant business, and somewhere the dividend has been paid through the fantastic price we received. And the second one is that in the previous or the initial vision, we had a dividend paid by Brazil in the form of interim dividend. In Brazil, inflation is very high, so it doesn't make sense to pay interim dividend. It's better to keep the money and to pay only one final dividend.

So this is the reason for this change, I would say, between EUR200 million and EUR150 million, but EUR150 million is fully consistent with the EUR550 million. And if you look at our investor presentation, which we posted on our website, you will see that, by definition, we give those two numbers of EUR150 million or EUR550 million. They are fully consistent, one with the other.

On Brazil, the recovery in food sales has started to happen, as I said. And the thing I think we need to highlight is the fact that the food sales are growing in the mid-teen area. Of course, when I say -- but I would say it's a great asset we have.

And if we look like-for-like, they are very strong. Like-for-like ahead of 10% is a very strong number, even in the context of inflation. We think the most relevant inflation is probably IPCA, given our mix, and we are ahead of IPCA given our mix in sales.

So where do we expect to go from here? We expect this to continue.

On margins, as GPA has stated several times, they expect to be ahead in these big promotion plans of extra -- the one, two, three savings steps by getting some financing by suppliers. So the vision is that, first, the topline should continue to grow. And second, both the operational leverage generated by this and better funding by suppliers should help increase the profitability on the sequential basis.

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Xavier Le Mene - *Band of America Merrill Lynch - Analyst*

Thank you.

Operator

Stewart McGuire, Credit Suisse Securities.

Stewart McGuire - *Credit Suisse Securities - Analyst*

Good morning, Antoine; morning, Regine. Just one question left from me, again coming back to the guidance on the trading profit. The stores that you have sold to the franchisees, can you give us any idea of the quantum of the losses that you have exited and also if -- have those stores been sold with no recourse to you? So that if the franchisee was still having some operating losses, would you incur any of those losses below the line or are those absolutely off your books? Thank you.

Antoine Giscard d'Estaing - *Casino Guichard Perrachon SA - CFO*

Thank you, Stewart. First, when we sold those businesses we sold them at a very low price because these are initially loss-making stores. So the vision is that our partners will staff the store, improve the processes, and they have no goodwill, so to speak, in the acquisition itself.

Two things will happen. They either are successful in turning around the situation, which is the case in most -- has been the case very often in the past, once again for very simple reasons and managerial reasons. The staff with good store managers, they put the right resources, they grow a very fast recovery plan. They open longer hours; they optimize costs. They do things that independent guys are better -- efficient at -- are better at doing.

So that's the normal situation. And the other situation can be that they close the store. Closing the store is a decision which has no impact since there is no goodwill in the store and it's been transferred for zero.

Back to your first question, it has an impact of some tens of millions, a low number of tens of millions on the EBIT improvements. And it's an impact on 2016 and it's another impact in 2017 because they will improve these stores, as is the case for the other actions we take.

Stewart McGuire - *Credit Suisse Securities - Analyst*

Thank you very much.

Operator

Robert Joyce, Goldman Sachs.

Robert Joyce - *Goldman Sachs - Analyst*

Hey. Good morning. A couple from me. Firstly, just on the free cash flow guidance, are you able to confirm, Antoine, what the expected level of dividends are from your subsidiaries within that and also the expected cash cost of the finance charge in France this year?

And then the second one is just so we can understand a little bit on the cash impact of the transfer of stores. Are you selling 51% stakes to the franchise holders or are you selling 100% and the ownership?



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Antoine Giscard d'Estaing - *Casino Guichard Perrachon SA - CFO*

On free cash flow, this is not the objective of this call today, so we'll give the full vision at the end of the year. By definition, what I can say is the numbers we've seen, are forecast, are consistent with this objective of EUR150 million. You saw the numbers that we have posted in H1, where we have a very tight management of our financial costs. And we continue to be with the same processes in H2, so there is no bad news here of any type.

On the transfer of our stores with our partners, we usually have a situation where they take the majority of the stores. So we keep an equity investment, so we participate as a minority investor in such stores. These are our partners. These are not guys we want to make a financial (inaudible) operation. These are our partners, and they have been our partners for years and they have been -- and we have been investors in their businesses as minority partners for years.

It's a good way, by the way, to keep them inside the family. We want to keep them as partners. We want to keep them being franchisees of the Leader Price banner itself.

What happens is, as I said, as soon as they get the businesses they improve its profitability and it's therefore good for us at the later stage in the -- as an equity investment.

Robert Joyce - *Goldman Sachs - Analyst*

(Technical difficulty) generally, just to understand, are you formerly 51% holders and now 49% holders of these businesses, in general?

Antoine Giscard d'Estaing - *Casino Guichard Perrachon SA - CFO*

We have minority stakes. As I said, we have minority stakes. It depends. It depends on the guys and the operations. And once again, it's been the case in the past for other agreements we've had with franchisees. We think it's -- once again, they are important members of the Leader Price family. The Leader Price family is very important for the volume of business we generate for the wholesale activity, where we keep good profits.

Robert Joyce - *Goldman Sachs - Analyst*

Okay. Thank you.

Operator

[Nicholas Sohn], Barclays.

Nicholas Sohn - *Barclays - Analyst*

Yes. Good morning. Three questions from me. The first one is you provided a traffic number for the French supermarkets. Could you please also provide the same kind of number for the Geant hypermarket? I'm just looking for a number here.

Second, could you please confirm that there is no more transfer of stores to franchisees planned in the future, so you are pleased with the current proportion, a breakdown of integrated versus franchisees?

And last question, I know this is a sales publication, but could you please comment the current level of EBIT consensus for the full-year 2016, especially after the more favorable currency fluctuation in Latin America? Thank you very much.



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Antoine Giscard d'Estaing - *Casino Guichard Perrachon SA - CFO*

On the last one, Nicholas, I think I already answered. We don't give formal guidance for the Group EBIT before our international affiliates have published the Q3 numbers. So I would not give anything new at this stage. It's too early.

The question on the balance as we stated it, as I stated it in the -- we think it's the right balance today. But today is today. By definition, a competitive situation can change.

I'll just give you an example of that. When you think of Monoprix, Monoprix had very few franchisees in the past. When they started to grow Monoprix they started to operate with franchisees, which happened, by the way, to be guys we work with in Franprix and Leader Price. So these are the same guys. They stay with us for -- and they like all our banners. Some of them have been very good, [but they are] not franchisees.

So the answer is yes and no. At this stage, we think it's the fair balance. But in the future, depending on the expansion strategies of the different banners, we might increase the franchise structure, the franchise proportion, which is relevant for smaller stores. The smaller the stores, the more decentralized they should be managed. The more important the store manager is in the efficiency of the store, probably the better a franchise agreement is for your profitability.

I think you had another question on Geant, and on Geant, we don't disclose, as such, the numbers, but the client base is pretty stable. We don't give the exact number, but there is a very good base of clients. We have increased the number of clients in the past. We've more than stabilized it.

The result of the loyalty card is very good at Geant as well, so when we look at -- and that's one of the reasons for the good number at Geant. Once again posting 1.8% of increase in food sales at Geant in Q3 without any expansion on the top of a very strong number last year is a good performance, we consider.

Thank you. If there are no more questions --

Operator

We have no more questions.

Antoine Giscard d'Estaing - *Casino Guichard Perrachon SA - CFO*

Okay. If this is the case, I thank you all, and happy to discuss at a later stage any other questions you may have. Thank you. Have a good day.

Operator

Ladies and gentlemen, this concludes the conference call. Thank you all for your participation. You may now disconnect.



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