8 August 2018

Casino Group: Casino rejects the Bernstein estimates related to operations with its franchisees

Paris, 8th August 2018 – Bernstein (Sanford C. Bernstein Limited) has today (8th August 2018) released a report focusing on Casino's relations with its French franchisees. Casino refutes the report's presentation of the cash impact of those operations. As acknowledged by the analyst in the report, the results of the franchise partnerships are fully disclosed and appropriately accounted for. Casino has a number of franchisees in its convenience formats (Franprix Leader Price, Casino….) of which master franchises. As a result, stores move from franchise to integrated and vice versa. Casino has majority or minority stakes in those companies which results into different accounting treatments. In summary:

- Casino has no obligation to buy back the stores transferred to franchisees
- In a very unlikely scenario where all the stores transferred would have to be simultaneously closed, the one-off cost for the Group would be limited to around 50M€.

Casino strongly believes in its franchised business model. Partnerships with franchisees have been historically at the core of the Group strategy, especially for the Franprix and Leader Price banners.

In particular, Casino would like to underline the following wrong assertions in the report:

- As already mentioned by the Group in its financial communication and financial statements, loss-making stores were transferred to franchisees with a purpose to improving their profitability (thanks to costs cutting initiatives, improvement in the offering, reduction of shrinkage, …). These corporate master-franchisees (among which Mr Zouari and Mr Hadjez) have been long run, major and well-known partners of the Group, with strong financial capacities. Some of them have even actively contributed to iconic new concepts (Leader Price drive-thru, Next, …).

- Casino has no obligation to buy back these stores, unlike what was mentioned in the Bernstein's report. Moreover, the stores that were transferred in the past (2015 and 2016) have been showing encouraging recovery; considering this success, other underperforming stores have been sold to franchisees at the beginning of 2018. Other stores have been closed.

- As a pre-requisite to the transfers, Casino usually recapitalizes the store by an amount corresponding to the past losses. It is a one-time only process. The minority JV which are presently loss making generate a cash loss which will be reduced over time and non performing stores will be closed. Write down of intercompany loans should not be doubled counted, hence:

  - the 157M€ of losses mentioned by the report and serving as a base to the 6€ reduction in the broker 's target price is a false number as it is mixing P&L and cash flow elements
  - the -42M€ losses estimated by the analyst as a run rate figure (for the stores with a 49% ownership) correspond to a figure which is set to decline over time. It is worth mentioning that is not an EBITDA loss but rather a net income one (including amortization)
  - dividends paid to minorities are already taken into account in the FCF of the Group
  - « fees for perimeter transactions » of 33M€ in H1 2018 have nothing to do with transfers to franchisees ; they are related to exceptional fees related to the current M&A projects
  - « impairment of loans » for 28M€ are not a recurring cost ; it is the depreciation of loans granted in the past, hence it cannot be added to current losses
  - « pre-funding » at 51% is materially false : there is no equity payable, and Casino cannot be compelled to offset losses beyond 49% for its share of equity.

As a conclusion, Casino confirms its commitment to reduce its net financial debt in France by at least 1Bn€ in 2018, which includes all elements related to the transactions with franchisees.

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CASINO GROUP

ANALYST AND INVESTOR CONTACTS:

Régine GAGGIOLI - rgaggioli@groupe-casino.fr - +33 (0)1 53 65 64 17
Or
+33 (0)1 53 65 24 17 - IR_Casino@groupe-casino.fr

PRESS CONTACTS:

Casino Group – Direction of Communication
Stéphanie ABADIE - sabadie@groupe-casino.fr - +33 (0)6 26 27 37 05
Or
+33(0)1 53 65 24 78 - directiondelacommunication@groupe-casino.fr

Agence IMAGE 7
+33(0)1 53 70 74 84 - Karine ALLOUIS - kallouis@image7.fr - Grégoire LUCAS - gregoire.lucas@image7.fr

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