

Casino Q4 2019 Sales

16 January 2020

Good afternoon and welcome to our 2019 fourth quarter sales conference call. I am here with Régine and the IR team. It is still time to wish you a happy new year.

I will start with some general comments on our 2019 full year sales performance, before providing details on the fourth quarter sales.

2019 was a year of transformation for our business. We focused on our best formats, our best geographies and our best categories. At the same time, we have continued to invest in technological solutions to boost customer traffic through our autonomous stores, increase customer loyalty through our apps, and develop new sources of growth in B2B revenues with energy, data monetization and cloud computing. This will continue in the coming quarters. And with the completion of our 4,5bn€ disposal plan in France by March 2021 we are confident that we will be well positioned to compete successfully in the rapidly evolving retail environment.

In terms of the full year performance, 2019 sales amounted to €34.6bn with like for like growth of +2.2% and organic growth of +4.2%. These numbers no longer include Leader Price, which has been classified as a discontinued activity as a result of our decision to sell this business and the advancement of our negotiations. Including Forex effects, total sales were also positive at +0.9%.

In France, annual LFL sales grew by +0.3%. Our banners demonstrated strong resilience even in the environment of the December strikes. With good growth in customer traffic since Q4, boosted by the accelerated roll-out of our autonomous stores, we

believe we are well placed to deliver sustainable sales growth in the coming quarters.

Cdiscount had another year of strong profitable growth, with +9% GMV over the year and an increasing share of marketplace each quarter, +4.5 points in Q4. Share of marketplace is a key lever of profitability and the successful launch of new services such as travel, and the ten-fold growth of the number of third-party SKUs eligible for express delivery have both helped to drive an increase in our marketplace share.

In Latam, organic growth remained strong at +9.7%, once again driven by the very rapid development of Assai, coupled with good performance of the new supermarket formats in Brazil and a successful turnaround of our banners in Colombia.

Before going into the details of Q4, a few more words regarding the performance in France for the year.

First, the accelerated development of our digital solutions, where we believe we are well ahead of the competition. This has resulted in a significant improvement in customer service, with more than 300 autonomous stores opened in the evenings, on Sundays and in some case, 24/7. In all our banners, our smartphone applications are now widely downloaded, boosted by the regular add-on of new services, features and specific advantages for our customers. This allows them to scan and pay for their products without waiting for a cashier, and shop outside regular opening hours. This has translated into higher traffic, and is expected to lead to more loyal customers and higher sales per customer. Our overall customer flow was +0.8% in Q4 despite the impact of the strikes. Our Supermarkets registered +2.3% client flow in Q4. This should accelerate in the coming months with the roll-out of the autonomous store concept.

Second, our ecommerce activities are on a very good track. Share of ecommerce was 24% at Q4 2019 compared with 18% published last year. I have already mentioned CDiscount, which has performed very well this year. Food e-commerce also posted an excellent performance, up +9.6% over the year, significantly above the overall market. This was due to a number of initiatives across our banners, including the Amazon partnership with Monoprix which has extended its operations to the Côte d’Azur. Looking forward, we will benefit from the opening of the Ocado warehouse at the end of Q1, which will significantly improve the efficiency of the e-commerce business and bring the Monoprix offer to places where it was not available before. We are very excited by these developments. Friends&Family will be able to order on Ocado from March 22nd, and we expect this to be game-changing for Monoprix.

Third, organic food sales amounted to €1.1bn in 2019. We have the benefit of our experience of operating Naturalia, which brings us the know-how when dealing with organic food suppliers and helps us design new private label products in all our banners, particularly in proximity and urban stores which are benefiting most from this trend. We fully intend to further enhance our positioning in this fast-growing market, and we have started opening new pure organic convenience food stores under convenience banner which are called “Casino#bio”.

Fourth, our B2B businesses have accelerated their development, in line with our plans. These are very valuable sources of growth looking forward. The contracts already secured will yield incremental profits in the coming year, particularly at GreenYellow with a solar pipeline that grew by +126% to 451MWp, with new projects in Africa, Asia, Latin America and France. Data monetization also had a strong year with sales up 51% at 61m€, in keeping with our initial projections.

Finally, our successful refinancing has significantly improved our liquidity. The average maturity of our credit lines has been extended from 1.6 years to 3.6 years and we raised €1.8bn of new financing in the market which allowed us to buy back bonds, and extend our average debt maturity. We also remain fully committed to realize our disposal plan and further reduce our leverage.

A last word regarding our EBIT guidance for 2019. This call is meant to discuss our Q4 sales, our books are not closed yet and our full detailed results will be presented at our annual results presentation. Based on the available information today, we can just give a first estimate of our French Retail EBIT : up +5% in 2019, with an operational margin up +20bp, from 2,9% to 3,1%. Our cost savings plan and our reduced exposure to loss-making stores have allowed us to improve our results while absorbing 70 M€ of additional rents as a consequence of the disposal plan. With the bulk of the additional rents already factored in our 2019 results and the full-year impact of our cost-cutting and Rocade plan yet to come in 2020, this leaves us in a good position looking forward.

Now to 2019 Q4 sales. Group sales were at +3.6% in organic, +1.6% in LFL. Total sales were -1.4% including a -3.2% foreign exchange effect.

In the fourth quarter, the retail market in France was rather heavily affected by transport strikes in the main cities. The impact was particularly strong in Paris and Ile de France. Kantar registered a -2.8% decrease in FMCG, the worst performance over 3 years in December, due to the context of the strikes. In this context, our banners showed impressive resilience, with increased client flow (+0.8%) and stable LFL in Q4, with our premium banners most exposed to the Paris area actually gaining in sales and in clients.

Three items are of particular relevance in this context, and bode well for our strategy of sustainable growth.

First, as I mentioned at the beginning, **we now operate more than 300 autonomous stores** across all banners. We plan to accelerate the roll-out of this concept, which was started at Monoprix and Franprix and which has been extended to Supermarkets, Hypermarkets and Convenience. It has proven effective in boosting customer traffic, with a 10% uplift in Supermarkets and 5% in Hypermarkets where the concept has been deployed. By the end of Q1, half of our Supermarket and Hypermarket network will be equipped, compared to a third of Supermarkets and a fifth of HM at the end of Q4. This should benefit our total traffic and by extension our sales. The roll-out in Convenience is more recent, with 40 stores at the end of Q4. It is already providing a significant uplift in traffic and we will extend it further to our network of convenience stores. Overall, this is the main feature of Q4 and we expect it to continue in the coming quarters: the recruitment of new customers thanks to extended opening hours where we have no real competition. These new customers then turn into loyal buyers in our stores, further boosting our sales without the need for costly promotions.

Second, we continue to increase the digitalization of our loyalty programs, with new features added to our apps (Casino, Franprix and Monoprix) and new partnerships built with merchants through our internal start-up MaxIt. CasinoMax user sales represented more than 20% of hypermarket and supermarket sales over the last two months of the year. Among the new features worth highlighting, CasinoMax has extended the concept of monthly subscription to that of a yearly subscription program, a unique feature in France.

Third, our buoyant segments performed well again: +10% on food ecommerce, and +6% on organic food.

Increasing loyalty and purchasing frequency of our customers is key to our future progress; successfully rolling-out technological solutions in our stores, regularly upgrading our digital loyalty programs, and broadening our offer in popular segments will all contribute to these foundations for growth.

Now going through the different banners:

Monoprix LFL sales grew by +0.2%, despite its strong exposure to the Paris area, maintaining a positive client flow even in December, as recorded by Kantar. We had a positive dynamic in food and household products. Ecommerce recorded double digit growth thanks to the extension of the Amazon partnership to Côte d’Azur. Among recent innovations, the Beaugrenelle flagship store recently presented a new beauty concept in partnership with L’Oréal, which yielded a strong uplift. Naturalia continues to perform well, helped by 9 new store openings during the quarter. In total the banner holds 93 autonomous stores.

Franprix had a +0.6% LFL growth with positive customer traffic, despite being mostly exposed to the Paris area. Organic food sales grew by 16%. As announced last quarter, the non-food offer has been expanded with new corners: HEMA low-price original-design housewares in 58 stores, “... le drugstore parisien” beauty offer in 30 stores, and a selection of Cdiscount products in most of the store base. Stores that benefit from these new offers have delivered stronger customer traffic, and as this traffic translates into more loyal customers, the extension of these corners should contribute to sales in the coming quarters. We plan to open 80 Franprix stores in 2020.

Casino Supermarkets recorded +0.4% LFL growth, and +1.2% over two years. Thanks to the extension of opening hours in 100 autonomous stores, customer flow was at +2.3%, which bodes well for sales in the coming quarters, as new customers turn into loyal ones. The Casino Max Extra loyalty program, which provides a 10% discount over a month against a €10 fee, accumulated 200,000 subscriptions over the quarter. This offer now features a yearly subscription option. Customers who subscribed to the program had a double-digit growth in their purchases. Buoyant segments also experienced a very good dynamic with organic food sales growth of +12% and ecommerce growth of +15.6% over the quarter.

Géant Hypermarkets LFL sales were -0.7% over the quarter. This performance includes a 5 point gap between the best and last quartile of stores, which is an important consideration in the context of our disposal plan. We have deployed our autonomous technology in 20 stores allowing for openings on Sunday afternoons and during bank holidays, which translated into improved customer traffic for the banner in Q4. In non-food, we have continued to develop the model of physical marketplaces, with the roll-out of corners operated by specialists. Physical marketplaces are both more profitable than traditional non-food sales, and more aligned to specific customer needs, contributing to the traffic in those stores. We will keep on rolling out these initiatives in the coming quarters.

Convenience sales were -0.3% on LFL this quarter, +2.2% over two years. The mix has improved, with the share of private label up by +4 points. Autonomous stores are being rolled out as well, starting with 38 stores this quarter, with a positive impact on traffic that we see accelerating in the most recent weeks. And a new concept called

“Casino#bio” was launched during the quarter, with more than 4,000 organic food references, including 700 private labels, taking advantage of the know-how developed through Naturalia.

Let’s move on to our new businesses, through which we leverage our assets and client flows to create value in B2B.

GreenYellow accelerated its development in Q4, in solar panels as well as energy savings solutions. New solar international projects include the biggest solar parking shelter in Morocco with STMicroelectronics which covers an area of 4,000 sqm, a project in Colombia with SEB group, and a project on Roland Garros airport in La Réunion. In France, notable recent projects included a 4.7MWp installation at the car racing circuit of Nevers Magny-Cours.

GreenYellow also signed new energy efficiency contracts during the quarter, among them Samson Regulation, a player in mechanical and industrial engineering. In Brazil, GreenYellow has now completed one thousand energy efficiency projects.

New businesses were also added such as the sales of green energy to corporates in Brazil, a new offer allowing customers to buy natural gas through Cdiscount, and a new partnership with Jedlix, a start-up specializing in “smart charging” to automatically recharge electrical vehicles when energy is the cheapest and generate reduced carbon dioxide emissions.

In total, GreenYellow’s solar pipeline increased from 150MWp at end-2018 to 450MWp at end-2019, on track to reach its target of 950MWp by 2021. The pipeline secured today and its accelerating

momentum gives us a high degree of confidence in GreenYellow's future profit growth.

3W.relevanC 2019 sales reached 61M€, a 51% growth year on year, in line with our target. The partnership with Orange Advertising was awarded the LSA Innovation Marketing Trophy. It allows the measurement of TV advertising impact on customers' buying habits, using a common set of Orange and Casino data. 3W.relevanC also received the Data & Creativity Prize in the FMCG category for their Precision Marketing campaign to support the launch of the new Actimel product.

Our ScaleMax Data Center business has secured contracts with several clients in banking such as BNP Paribas and Natixis, and with start-ups specialized in Artificial Intelligence as well as 3D animation studios. While we compete against very large players in this business, we have several advantages: we capitalize on unused space with no incremental costs and re-use the heat generated by the cores, which are powered by GreenYellow solar panels. We are also among the very few French players in this market. This makes for a commercial offer that is both attractive for our customers and quite profitable.

Moving now to **Cdiscount**.

The detailed sales report was published on January 15th. I will sum up the main highlights.

This was another year of profitable growth for Cdiscount, which maintained over 9% GMV growth, with a marketplace share of GMV up 3.7 point for the year to 38.1%, in line with our plan to reach 50% marketplace share in 2021. This performance was driven by three

main pillars: the sustained acceleration of the marketplace, the success of new B2B services, notably travel, and European expansion.

In Q4, Cdiscount registered a record-breaking Black Friday performance at 73m€ in one day (+27% vs 2018). Marketplace share of GMV was up 4.5pts during the quarter, in line with our target. Overall GMV growth during Q4 was 6.5%, including an impact of -3.4pts due to a no-hit video game market. Excluding this impact, GMV growth during the quarter was in line with the previous trends.

Now to the three main pillars already mentioned.

First, the consistent high growth of the marketplace. This has been driven by the rapid extension of fulfillment by CDiscount, growing 63% over the year. It now represents close to a third of marketplace GMV. Third-party SKUs eligible for express delivery went from tens of thousands at the end of 2018 to over a million at the end of 2019. This is a very significant transformation, linked to the logistics efficiency of Cdiscount and its base of loyal customers, which are made accessible to our best merchants through express delivery. This trend is set to continue in the coming quarters, reinforcing the share of marketplace and customer loyalty in a virtuous circle.

Second, we have witnessed again a stellar performance of B2C services. Travel increased +49% between the first and second semesters and, for the full year, was 10 times higher than in 2018. This reflects the impact of increased customer loyalty and new packages, including a partnership with Disneyland. Cdiscount Energy was up +86%. Ticketing was up 3.4 times in Q4. New services are being rolled out regularly and our customers can now buy a wide range of offers, making Cdiscount their everyday platform.

Third, the international platform has expanded quickly, with +85% GMV growth year on year in Q4. Cdiscount now delivers to 25 countries, with 47 websites directly connected to Cdiscount at the end of 2019. The International Marketplace Network, which was launched in September, has been joined by hundreds of sellers in the last four months – this alliance addresses over 230 million customers and offers a single, simplified seller interface. This is a major source of growth for CDiscount's customer reach and it allows Cdiscount's customers to choose their purchases from a far wider range of suppliers.

These three pillars have contributed to the increased attractiveness of the Cdiscount à volonté loyalty program, which now represents 36% of its GMV. It has grown 10% over the year, reaching more than 2 million members. At the same time, Cdiscount's brand awareness has strengthened with an improvement of 7 points, with over 20 million monthly unique visitors.

Overall, this quarter completes a successful year for Cdiscount and the foundations have been laid for future profitable growth, driven by the extension of our offer through international partnerships, increased customer loyalty and further transformation of the model into a platform for all types of services.

Let's move on to Latin America.

GPA has already provided a detailed report on its Q4 sales on January 15th, and its earnings will be released on February 19th. Exitó's

earnings will be published on February 17th. I will therefore highlight the main points.

During the quarter **Latin America** sales rose by +3.4% on a same store basis and by +9.2% on an organic basis. Foreign exchange effect was -6.7%.

We have successfully completed the reorganization of our Latam business. Casino owns 41% of GPA which in turn owns 97% of Exito. This is a simpler, leaner structure and with the transfer of GPA to Novo Mercado in February 2020, the listed shares of GPA should become more attractive to international investors.

In **Brazil, GPA Food** sales were up +8.4% on an organic basis over the quarter. Over the year they recorded a strong organic growth of +10.3%.

Assai has accelerated its expansion this year, with 22 new openings, representing an expansion of 20% in the sales area, as the new stores are bigger. This is above our initial target and the network now totals 166 stores. In Q4 alone, 13 stores were opened, a record. This has contributed to an impressive +22% growth in sales in 2019, on the back of a very strong 2018. Assai has entered three new Brazilian states in 2019, in keeping with its strategy to extend its national footprint. This confirms what we have been stating in the past quarters: Assai has a lot of potential for further growth in areas where it was not present before, with even bigger and more profitable stores. At the same time, customer loyalty has continued to improve with the fast development of its Passai card, now totaling 1 million active cards.

At **Multivarejo**, we have seen very good results in the store portfolio transformation project, in all business units, and we have put in place a strong process to ensure a turnaround of Extra Hipermarkets.

Pao de Acucar, our premium banner, now includes 46 renovated stores representing 40% of total sales. Their performance was 7 points above non-refurbished store. We plan to renovate another 15 to 20 stores in 2020, coupled with the expansion of 5 to 10 stores.

In supermarkets, another 33 Extra Super stores were converted to Mercado Extra or Compre Bem during the quarter. Over the year 92 Extra Super were converted, resulting in a portfolio of 100 Mercado Extra and 28 Compre Bem stores. Both new banners posted good performance during the quarter, both in sales and client growth, with Mercado Extra up +5% in LFL and Compre Bem up +15%. The completion of the conversion of Super Extra stores to these new successful formats will be completed in 2020.

Proximity stores recorded a strong +10% LFL growth, on the back of a very strong Q4 2018 (+19%), a testimony to the success of the new commercial strategy. The quarter marked the resumption of expansion in the format, with the opening of 9 Minuto Pao de Acucar stores.

As for Extra Hiper stores, they have been segmented into two groups with dedicated governance. The first one includes high performance stores representing 70 stores, two thirds of the store base, with good locations and high customer traffic, for which a plan to further improve quality of service and optimize the offer is being designed. The second segment includes hypermarkets that are underperforming, which will be mostly converted into Assai stores or,

in some cases, sold or closed. Once this process is completed, Extra Hiper will be on a stronger footing to deliver sustainable, profitable growth.

Finally, GPA has showed solid progress in its strategic digital transformation initiatives this year. Food ecommerce was up 40% over the year, driven by the expansion of Express and Click & Collect delivery to 125 stores. James Delivery registered around 35% growth per month. And loyalty apps registered more than 11 million active downloads, comprising more than 20% of Multivarejo sales.

In Colombia Exito delivered a robust growth thanks to solid performance of the innovative formats Wow, Carulla Fresh Market and Surtumayorista, as well as the strong growth in its omnichannel operations and the strengthening of its digital transformation activities.

To conclude: this was a year of transformation for the group. The successful refinancing, the good progress of our disposal plan and the acceleration of our digital and portfolio evolution initiatives means that we are very well placed to compete successfully across our markets.

In France, we are focused on strengthening our client base in our best performing formats. As a result of the disposal plan, we have successfully increased our focus on our most attractive banners and are encouraged by the very good trend we are seeing in customer recruitment, despite the strikes in December. Looking forward, we are confident that our omnichannel strategy to drive more engaged customer will translate into higher sales across all of our formats.