



Sonae SGPS 9M21 Results

Conference call transcript

Moderator: João Dolores, Sonae SGPS, CFO

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J. Dolores: Hi everyone, thank you for attending Sonae's Q3 results conference call. I'm joined today by Rui Almeida from Sonae MC, Paulo Simões from Worten, Hugo Martins from Sonae Fashion, Luis Mota Duarte from Sonae Sierra, Cristina Novais from Sonae Investment Management and, obviously, our Investor Relations team. As usual, I will do a brief presentation with an overview of our performance in the quarter and also in the first nine months of the year, and afterwards we will open up the session for Q&A. Starting with the market context, very briefly, as you all know, we continue to live under some restrictions and direct impacts from the pandemic during the quarter, but already with very encouraging improvements over the last few months. The vaccination rates in both Portugal and Spain are quite high and therefore the public health context remains largely under control, which enables a gradual return to normality.

Before we dive into the operational performance, I would like to give you an overview of our most recent portfolio management activity. So, this was a particularly active quarter for Sonae as we announced a major deal in the beginning of August by establishing a partnership with CVC, in which we sold 24.99% stake of Sonae MC for initial upfront value of €528 million. We also acquired Gosh, a UK plant-based food manufacturer, which allows to Sonae to invest in a high potential sector while expanding our international footprint and driving a more sustainable future. In addition, and also during the quarter, Sonae MC sold its 50% stake in Maxmat and Sonae IM monetized its interests in Bizdirect and CB4 and also entered in the shared capital of Citcon.

So, now going to the operational results, starting with Sonae MC. For Sonae MC this was another positive quarter with a strong delivery from the food formats and also a robust recovery of the non-food formats, after a long period of restrictions which impacted these banners quite significantly. Total turnover grew 5.3% yoy and 2.3% like for like in Q3, the exact same evolution as in the first half of the year on the back of a very good trading performance of 2020. In food retail, we continue to gain market share and increased our leadership gap, having posted positive like for like growth across all formats. The online business also continued to grow, having reached a 40% yoy increase in the first nine months of the year, proving that our digital approach is being well recognized by our customers and also translating into higher loyalty levels, which significantly impacts stores sales.

Regarding profitability, Sonae MC maintained a broadly stable underlying EBITDA margin of 10.9% in the quarter, on the back of productivity gains and a permanent fine-tuning of its core business processes, in spite of some pressures that were felt in terms of energy costs. In the first nine months of 2021 underlying EBITDA improved 6.1% yoy overall to €384 million, with a margin of 9.9%. Sonae MC also continues to execute on its expansion strategy, with seven additional Continente Bom Dia stores, the proximity format, but also refurbishing a number of food retail units, while investing in the reinforcement of its logistical capacity and also its technological backbone. In terms of free cash flow, the company reached €169 million in the first nine months of the year, an additional 42 million when compared to last year, also driven by the conclusion of the sale of the 50% stake in Maxmat, which represented a cash in of €68 million. This cash flow generation lead to a reduction in net debt of just over €100 million to €453 million, even after the dividend payment of €140 million in the second quarter of this year. So, total net debt to underlying EBITDA reached an all-time low of 2.9 times.

Moving on to Worten. At Worten, Q3 was also quite a positive period for the business. Worten ended the quarter with a 7.2% like for like growth, clearly showing the company's solid and recognized omnichannel value proposition, including the marketplace and also a significant growth in the services business line, leading to the reinforcement of its leadership in



Portugal. In terms of total sales, Worten reached €285 million in Q3, a slight decrease yoy of 3%, which is basically explained by the repositioning of the operation in Spain Mainland. On a proforma basis, so excluding this movement, consolidated turnover increased 8% yoy in the quarter. In year to date terms, total turnover increased 3.6% yoy, a 12% like for like increase, reaching just over €800 million in the first nine months. The online channel continued to perform extremely well, I would say, and at the end of the first nine months, growth was already above 30% versus 2020, which was already an extraordinary year for our E-commerce operation. So, overall online sales grew by a factor of three since 2019.

Regarding profitability, underlying EBITDA reached €20 million in Q3 and €51 million up to September, a level of profitability which is a factor of both our top line positive performance and also the repositioning process that we executed in Spain.

Regarding Sonae Fashion, Q3 was marked by a sales performance that was increasingly positive throughout the quarter, as Covid-19 related restrictions were gradually lifted. Still, total turnover reached €95 million in the quarter, a 6% yoy decrease, which reflects a weaker than expected recovery of footfall and sales performance after the reopening of stores in Portugal. In year to date terms and despite all the restrictions to store operations in the beginning of the year, Sonae Fashion's total turnover stood at €230 million, almost in line with 2020, which is a positive sign in our view. In terms of profitability, I would like to highlight that Sonae Fashion was able to post an underlying EBITDA of €8 million in the quarter, which means that the yoy evolution in year to date terms is still quite positive.

As for Iberian Sports Retail Group, the latest quarter showed another very positive set of results, both versus last year, but also versus 2019. Total growth, versus 2019, actually reached 32%, with the online channel remaining an important growth avenue for the company. So, total E-commerce sales increased by a factor of four since 2019 and this is still before the consolidation of Deporvillage, the acquisition that was made at the end of June, beginning of July, which will only impact revenues in the coming quarters. So, overall, the last nine months registered top line levels above both last year and 2019 figures, as I said before, with total turnover reaching €590 million, a a double digit increase of 26% yoy, and of 18% versus the nine months in 2019. Regarding EBITDA, once again the top line improvement was able to drive profitability upwards and, in the last nine months, EBITDA improved by €51 million yoy and €20 million versus the same period of 2019. So, this resulted in an EBITDA margin improvement to 11.5%. All in all, the contribution of ISRG to Sonae's results in Q3 reached €6.7 million, above both 2020 and 2019 figures. This performance has carried on to August and September, with ISRG showing growth and profitability enhancements in line with the ones that we saw in previous months across all channels and geographies.

Going forward and looking at Sonae Sierra. Sonae Sierra's operational activity showed steady progress, during Q3, following the improvement of the pandemic context and also the relief of restrictions in our main European geographies. In this context, occupancy rates remain high and tenant sales were already very close to 2019 levels in the European portfolio at the end of the quarter and, in some assets, even above 2019 level. The services business line delivered a positive evolution in the quarter, showing significant signs of returning to a more normalized activity. If we look on a proportional accounting basis, direct result in Q3 stood at €12 million in the quarter, already practically in line with 2019, and €23 million in the first nine months of the year, which compares with €5 million last year. Indirect result in the quarter was practically flat, as we typically do not revalue assets in Q3 and, all in all, net income reached €6 million in the first nine months of the year, which represents a yoy increase of €26 million. NAV increased marginally to €913 million and LTV remained at quite conservative levels.

At Sonae Financial Services, the performance was overall positive in operational terms, the main leading indicators showed sustained improvements after the relief in restrictions and also the gradual increase in consumer confidence. The Universo operation continues to increase its customer base and the number of cards issued, the number of users, reached circa 936 thousand, an increase of 23 thousand versus the previous quarter, and the efforts to develop the digital front continued and, today, circa 60% of Universo card clients are already digital users. The market share in the Universo card continued to increase and reached 14% in Portugal, year to date, which compares to 13.5% for the same period of last year. In terms of financial results, Sonae FS delivered a total consolidated turnover of €9 million in the quarter, in line with last year, and only slightly below 2019. In terms of profitability, results are still subdued, given the transition stage which we are living in, going



into the new business model with Banco CTT. A special note to MDS, which has been posting very positive results with significant increases both in top line and operating profitability when compared to 2020 and also to 2019. So, all in all in proportional terms and considering the 50% stake in MDS, turnover for the first nine months of the year stood at €49 million, slightly below last year, and underlying EBITDA was practically null, given the transition stage that I mentioned before at Sonae FS with Banco CTT.

Moving on to Sonae IM, Q3 was another quarter with important developments in the portfolio management front, with the conclusion of the sale of Bizdirect and CB4, during the quarter, which resulted in capital gains of around €10 million. And also in the first nine months of the year, Sonae IM concluded the acquisition of a minority stake in a new company, Citcon, which specializes in technology for retail. In terms of operational performance, Sonae IM recorded better top line and underlying EBITA figures versus 2020 and, in the first nine months of the year, total turnover increased by 6.4% yoy to €43 million and underlying EBITDA also continued to improve. So, today with a total cash invested of €150 million in the current portfolio, as of September, the company's NAV amounts to €324 million.

Moving on to NOS. NOS continued to post a solid operational performance in the telco segment and the media and entertainment segment was marked by a strong recovery due to a steady return of people to movie theatres. Turnover amounted to €366 million in Q3, 5.6% above last year, the second consecutive quarter of growth since the fourth quarter of 2019, leading to a turnover increase of 3.1% yoy in the first nine months, just above €1 billion. Profitability followed the same trend, with an EBITDA increase in Q3 of 6.6% yoy and, in year to date terms, 1.4% to €478 million, which leads to a margin of 46%. Net income increased by €2 million yoy to €46 million in Q3 and increased by more than 50% in year to date terms, to €120 million in the first nine months, which obviously implies an increased contribution for our accounts. The company continues to show a conservative leverage profile with a net debt to EBITDA after these payments of 1.7 times and maintains an investment grade profile. I would obviously like to highlight that, already in October and after 200 days of bidding, the auction for the allocation of the 5G frequencies ended, with NOS acquiring the largest fraction of the spectrum released, and in all possible bands which positions the business very well to lead the 5G revolution in Portugal.

So, in consolidated terms, turnover surpassed €5 billion in the first nine months of the year, an increase of 4.7% yoy, mainly fuelled by the positive contributions from Sonae MC and Worten, as well. Similarly, underlying EBITDA increased 6% yoy to €415 million in the first nine months, above last year by €22 million. Total EBITDA, in the first nine months of the year, was positively impacted by the capital gains that I mentioned before related with the sale of Maxmat at Sonae MC and also the sales of Bizdirect, CB4 and Arctic Wolf which happened in Q2 at Sonae IM. All in all, EBITDA reached €531 million, standing significantly above last year, driven by the better underlying operational profitability, but also obviously by the significant level of capital gains and the recovery of equity method consolidating businesses. As a consequence, direct results reached €169 million, as of September, versus €40 million last year, while indirect income also improved versus 2020. All in all, net income reached €158 million this year, significantly above last year's figure, but also significantly above 2019. In terms of operational cash flow, Sonae's portfolio released a total of €120 million during the last 12 months. If we add to this the free cash flow generated in our portfolio management activity, Sonae's free cash flow before dividends paid stood at €555 million in the last 12 months, which after dividend payment which occurred last May, lead to a significant decrease in our consolidated net debt to €857 million at the end of September and to an all-time low LTV of 9%. This solid capital structure is, obviously, complemented with a comfortable financing position, with a low cost of debt of 1.1% and an average maturity profile of 3.4 years. So, this is it from me for now and I will now open the session to Q&A. Thank you very much.

Operator: Ladies and gentlemen, the Q&A session starts now. As a reminder, if you wish to ask a question, please press star one on your telephone keypad now. When trying to ask your question, please ensure your device is unmuted locally. Our first question comes from João Pinto from JB Capital. Joao, your line is now open.

João Pinto: Hello everyone, thanks for taking my questions. Firstly, on capital allocation, what do you intend to do with your own shares? Will you keep them to use as liquidity to invest in the future or would you consider a cancellation?



Secondly, also on capital allocation, following the Sonae MC deal, I imagine you're looking for alternatives to invest. We know you are not in a rush, but can you tell us if you are already seeing good candidates to acquire, including the sectors or nothing in the pipeline, at the moment?

Third, on Sonae MC, like for like is solid despite the best comps. Can you tell us if it remained positive in October? And also on Sonae MC, can you give us some color on OPEX's pressures and the competitive environment? And how do you see margin evolving next year? Thank you.

J. Dolores: Thank you João for your questions. I will take the first one and I will ask Rui to comment on the Sonae MC ones. So, in terms of capital allocation and starting with the own shares. Look the TRS cancellation was basically a financing decision. So, as you know the equity swap that we had with Banco BPI was the financing arrangement and, obviously, with a significant cash proceeds that we received in recent months we had to optimize our credit facilities and this is one of the operations that we decided to terminate, given the analysis that we made. So, these shares and all honestly these shares, were already in accounting terms, they were already considered as own shares and they were also, in practice, our shares as we were exposed economically to the variation of the shares. So, in that regard nothing really changes for us. So, basically, we terminated a financing arrangement and those shares remain as our own shares and so we do not have any changes in the outlook and in the possible usage of these shares going into the future. So, the straight answer to your question is no, we do not plan to cancel the shares.

Regarding the cash proceeds from the CVC transaction and the alternative possible uses for those cash proceeds. I mean, you're right. I think we have discussed this in the past and we do not have or we didn't have at the time of the transaction any specific use for those cash proceeds, and that was not the main rationale to do the transaction. And we will remain as I said before, very disciplined in looking at alternative investments, opportunities and we will look at opportunities that make sense for us with a long-term perspective. Obviously, we do have identified opportunities in our current portfolio to invest and we will continue to invest in our current portfolio and we are also looking at opportunities outside of the current portfolio. We just announced recently the investment in Gosh!, which is a sector which we like, this food & agtech sector is the sector which we believe that has a lot to do with Sonae, has a lot to do with who we are. We will probably continue to look for opportunities in that segment, but also in other segments that somehow relate to us and where we feel that we have a right to play. But whenever we have something to announce, we will obviously do it. Rui do you want to take the Sonae MC questions?

R. Almeida: Sure, João. Hi. How are you? And thank you for your questions. And just beginning by October, the performance in October was very positive, pretty much the similar to that of the evolution that we presented in the like for like in the third quarter, so was okay then we feel very confident to the rest of this year to continues to present very solid setups of results. Going into the other questions related to the market environment, well, will continue for sure as aggressive as it is today, but we feel very confident to maintain the benchmark levels of profitability that we are presenting in the market. We are very confident, due to the efficiency programmes that we are developing internally which came to us with very good results.

João Pinto: Rui, just to follow up on that one. Are you seeing inflation in negotiations with suppliers and energy costs, logistics,...? Anything relevant?

R. Almeida: Yes. Well, up to now, what is happening is the fact that the energy costs and transportation costs are increasing heavily, but not yet having a dramatic point of view in terms of the cost structure. But if the costs continue to evolve the way that we are seeing and we are witnessing in last month's, yes, for sure that all retailers will need to consider those cost evolutions in the prices that they are offering to the customers, obviously.

João Pinto: Very clear, thank you.

J. Dolores: Thank you João.

Operator: Our next question comes from José Rito from CaixaBank. José, your line is now open.



José Rito: Yes, hi. Good afternoon to all. So, question on Sonae MC and post the clarification on the LfL momentum and margins. Just a quick question on the online sales performance that has been quite strong this year, despite the fact that last year was also a strong period for the online channel. If you can share some data on these channel economics, namely if it is already matching positive, and if it is not what is needed for this part of the business to start to have a positive contribution to the EBITDA. So, that will be my first question.

Then on Worten, we saw this strong like for like in the quarter and the question if this was driven by Portugal or Spain or only Portugal? And what categories has been driving growth? And also on Worten, in terms of marketplace strategy, if you can share any insights, namely the percentage of GMV, any term targets, if this is margin accretive or not. And finally, I think that João mentioned that the online channel is also been performing very well. Question if you are seeing lower sales densities in stores in Portugal. Thank you.

J. Dolores: Very good, thank you José. Let's do this in order. I'm listening to a bit of noise, so not sure if everyone can mute. Okay, better now. So, let's take this in order. Let's start with Rui on the Sonae MC questions and then Paulo will pick the Worten ones.

R. Almeida: Hi, José Rito. How are you? I'm fine and I suppose you are ok, according to your voice, seems to me that you are in a good shape. The question is very striking, in fact. Generally, as we see the online business in our company, we see the business as an omnichannel approach, meaning that the customers of the online are basically the same customers we have in the offline business and when we look to the online business, we look to the customers we have in the online portfolio, meaning that we look to the EBITDA of those customers and they are offering us very high levels of EBITDA, meaning that they are very profitable, meaning that the online is also very possible to us. Yes, the online business as it is, well, if we only consider the acquisition and the purchases that our customers do in the online, we are fighting to get, well, we are almost fighting to break even in terms of EBITDA, but those customers, the same customers, go to our stores and, in fact, the combined levels of EBITDA they offer us are much higher than the average that we get from the regular customers, so we see that these operations have been very profitable, in fact. I don't know if I answered to your question.

J. Dolores: Very good. I think so. So, should we move on to Worten on Paulo Simões?

P. Simões: Ok. Good afternoon to you all. Thank you José for your questions. So, regarding the like for like and the geographies performance, we saw positive like for like performance in all our geographies, strongest like for like in Portugal, sorry in Spain Mainland, in fact, because we focused the operation in the online, mainly the online, and we have been investing heavily to guarantee that we'll continue to grow. So, on a like for like basis, we were able to grow significantly in Spain, especially in the online channel. But all geographies were positive in terms of like for like sales performance.

Moving on to the marketplace, regarding the GMV percentage, it's still small, but it's growing very fast and we have high ambitions for this business model. We believe it's going to be one of our main growth avenues in the long term. We are preparing the company to extend in terms of new categories and repositioning the brand, so, we are able to expand our business to those new categories and enlarge the marketplace contribution to our profitability. If it is profitable? Yes, it is. As you know the marketplace business model is quite simple, I would say, so we charge a commission to our sellers, we don't have stores, we leverage the online infrastructures, so certainly accretive to the EBITDA of the company.

And, moving on to our stock performance, given the good performance of the online channel, in fact in the third quarter, our market share, our offline market share grew, so also our stores are performing very well. We see positive like for like in our stores, gaining market share, so very healthy operation offline. Notwithstanding the fact that we see the consumer electronics markets slightly contracting in Iberia, at Worten our sales performance has been positive so, things going for now very well. I think I covered all the questions from José.

Operator: Our next question comes from Artur Amaro from Caixa BI. Artur, your line is now open.

A. Amaro: Hi, good afternoon everyone. I have two questions if I may. I would like to know if it's possible to disclose the market share of Sonae MC and Worten, since you've been repeatedly gaining market share. And if possible, number 2 and number 3 in terms



of players. And I also understood that this partnership with the CTT has changed the business model of Sonae Financial Services, so, when can we expect positive EBITDA for this division? And thanks for taking my question.

J. Dolores: Very good, thank you Artur. I'll take the last one on the partnership with CTT and then I will ask Rui and Paulo to comment whatever they can disclose on the competitive positions in both Sonae MC and Worten. So, regarding the partnership with CTT, as you know we've discussed before, it's a change in business model and, so, previously with the partnership with BNP we had a commission which we charged upfront for the generation of credit, of loans, and now we are basically building a credit. We are building a credit along the time and so this means that we will take a while until we reach run rate in terms of the credit production. And, so, we have this initial value in terms of credit production which translates into lower results. Going into your question directly, this is temporary and we expect to reach positive levels of EBITDA in the next few quarters and reach the same level of profitability, at least, that we had historically, in the next 12 to 18 months, depending obviously on the evolution of the business and obviously also the restrictions that are still in place and that also affects our financial services activity.

A. Amaro: Very clear, thank you João.

J. Dolores: Rui and Paulo, can you share some lights on the question that the Artur posted please?

R. Almeida: Yes, ok, sure. So, hi, well starting by the question regarding the market share. Well, this is a very difficult issue to approach because there are several institutions, well, there are no institution giving us the proper figures for market share in Portugal. What we generally use is some internal research regarding the market evolution and also the information from Nielsen. Nielsen generally gives us the market share variation, and, in fact, we are growing in terms of market share 30 basis points, comparing to 2020, and roughly almost one percentage point comparing to 2019, which is amazing. Well for instance the other key players in Portugal, Pingo Doce is growing 20 basis points in terms of market share according to Nielsen, but losing 2 percentage points against 2019. Well, then we have all other players losing market share, like for instance Intermarché, this year Intermarché is losing market share. Mini-Preço is losing market share, Auchan is losing market share and LIDL is growing market share, it's growing roughly 40 basis points in terms of market share and reaching approximately 10 percentage points in terms of market share, 9 to 10 percentage points of market share. Ourselves, we believe that we have approximately 24% of market and we continue to grow market share and we feel very confident to assume that according to the last figures in October we will continue to gain some market share.

A. Amaro: So, just a little follow up Rui. So, the gap between you and player number two, in this case, Pingo Doce, has been widening.

R. Almeida: Exactly, exactly. Yes, yes, well, yes, because it's very simple, because if we compute for instance the sales they announce to the market and the sales that we use, basically the sales from our hypers and supers divisions, the difference between those two players are increasing every year and we are gaining market share. In this year we will continue to gain some market share comparing to the figures that we were having last year.

A. Amaro: Very clear, thank you very much Rui.

R. Almeida: Thank you, thank you.

J. Dolores: Regardless of the sources, we have been widening the leadership gap versus second place in the market, in the last two years, quite significantly. Paulo do you want to take the Worten question?

P. Simões: Sure, thank you for the question Artur. So, regarding Worten market share, we also use some references based on market research, mainly enable retailers that work with GFK, in our case, get covered on this panel of retailers that covers the largest majority of the market. It is something that doesn't cover all the market, so we have to do some estimates, some extrapolations to reach our estimates, and it's our own estimates of market share, it's as Rui was mentioning, it's also the case in Worten, we don't have any official number of market share. So, regarding Worten in Portugal, we have around 30% market share and we are now market leaders. In our estimates we are market leaders clearly. In the Canary Islands, we are co-leaders with MediaMarkt and we have a very small operation in Spain. Regarding the overall market share in Portugal, which is what impacts more our results, we have gained around 1.8% market share in the third quarter and year to date 1.3%.



A. Amaro: And by the way, can you just give us a little idea of how much is the market share of player number 2? In Portugal?

P. Simões: No, we don't have any information.

A. Amaro: Ok, very well, thank you very much everyone.

J. Dolores: I think it's also fair to say that our online market share is very close to our offline market share and, in some quarters, it has even surpassed our offline market share in recent times.

P. Simões: Yes, it was the case again in the third quarter. It's very similar, one with the other.

A. Amaro: Thank you.

J. Dolores: Thank you Artur.

Operator: Our next question comes from António Seladas from AS Independent Research. António, the line is now open.

A. Seladas: Hi, good afternoon, thank you for taking my questions and congratulations for these figures. I have two questions, first one is related with ZOPT, if you have any information that you can provide us regarding the legal process, when it should finish or what are your thoughts about this?

And second question is stipulated with your financial structure that you mentioned that is quite solid, probably more solid than ever. Should we consider or it makes sense to consider an extraordinary dividend by March, April next year, if you don't buy anything until the first quarter, or not? Thank you very much.

J. Dolores: Thank you António. So, on ZOPT, the answer is quite a straightforward one, it's no, we do not have any developments on the judicial front. So, unfortunately the situation remains the same, again as we've said before, the company has not been affected by this by any means, and so the company is, as you can see by the results, is still operating, continues to operate normally and executing its strategy, and the 5G auction was a very important milestone in terms of strategy execution and something that we wanted to ensure that the company would come out of the option as a leader in terms of the spectrum acquisition, and so that's the most important thing for us. Obviously we would like to this situation to evolve and to enable us to execute what we have announced to the market already over a year ago, but unfortunately up until now we do not have any more developments to communicate.

Regarding the financial structure and the possibility of an extraordinary dividend. Look, this is obviously, as you know we are still far away from the end of the year and it's not Sonae's practice to distribute extraordinary dividends as long as we have interesting investment opportunities to allocate our capital, and I would use that as your best case scenario going forward, we have a very steady and stable dividend policy, we believe that it is a very attractive one with a very interesting dividend yield, so I would not expect any extraordinary dividends, but it is a question to be discussed at the end of the year and obviously we're still in November, so, but I would take that assumption as your base case.

A. Seladas: Ok, regarding ZOPT, your intention to breakdown the joint venture still remains valid, yes?

J. Dolores: Yes, yes, so we have not changed our intention. Not only our intention, but also the agreement with our partner to do so. And so, we have reached an agreement over a year ago with our partner to dissolve the partnership and that still is our intention. And so, but obviously we would like to do it, making sure that we have no issues with judicial authority and that the dissolution can occur in the smoothest way possible, and that's why we have been patiently waiting for that possibility to occur. But up until now, things are still a bit tight up.

A. Seladas: Ok, ok, thank you very much.

J. Dolores: Thank you, António.

Operator: There are no further questions from the participants lines. Now, I hand over the floor to Mr. João Dolores.



J. Dolores: Ok, so if there are no further questions being posed, I would like to thank you all for listening and for placing your questions and next time we speak will be on the back of the yearly results, which we continue positive that will maintain the positive trend that we've seen up until now. So, thank you very much for listening and see you next time.