Q4'23 Results

Renato Franklin – CEO

Hello! Welcome to the presentation of results of Grupo Casas Bahia, for the 4th quarter of 2023. This video is provided along with the earnings release. Tomorrow we will hold our live video conference for the questions and answers session.

Q4'23 Highlights

The fourth quarter of 2023 was remarked by important advances in our Transformation Plan, which prioritizes robust free cash flow and improvement of the return on invested capital, above the cost of capital. Therefore, we have proceeded with the necessary restructuring in 2023, and should gradually harvest the benefits of these adjustments throughout 2024, which shall put us in a strengthened position to grow in a structural and sustainable manner during 2025.

The initiatives have evolved within the planned schedule, with some actions being carried out ahead of schedule. An example thereof is the cost reduction front, where, in terms of personnel, we had an adjustment of more than 8 thousand positions reduced by Q4'23, seeking synergies and prioritizing our core activity – this includes a 42% reduction in senior leadership positions by simplifying structures, which brings more agility to our Company; we had the closure of 55 stores which detracted our contribution margin; 30% annual reduction in marketing costs; we also carried out the resizing of 4 Distribution Centers.

On the cost of capital front, adjustment to the purchasing plan and the reduction of excess inventory allowed the release of R$ 1.2 billion and a reduction in the storage period from 95 to 76 days – a record level for the Company, recalling that the initial purpose was to be below 90 days.

We launched the new Casas Bahia Ads platform, which explores the concept of retail media and contributes to increased revenue and margin. Our sellers and suppliers now have the entire ecosystem of Grupo Casas Bahia available for them, benefiting from our omnichannel approach and our entire audience to use the most appropriate channel for their product. With full autonomy through the platform, sellers monitor and optimize their campaigns, reaching a qualified and segmented audience, consequently bringing greater visibility and conversion in sales.

In March 2024, we announced the extension of the debt profile, in the amount of R$1.5 billion for a period of 3 years – reinforcing the understanding and confidence of financial institutions on the evolution of our Transformation Plan. Thus, short-term maturities, which previously represented 59% of the indebtedness, now represent 30% of the total.

And I further highlight the generation of R$778 million in liquidity in the quarter, which allowed us to close 2023 with R$3.6 billion – a healthy position for short-term and medium-term capital requirements.

Despite the short period – considering review of the strategy, changes in management, conception of the Plan, disclosure of this Transformation Plan back on August 10 and most of the initiatives put in place in the 2H23 – we are convinced that we are in right path to making Grupo Casas Bahia increasingly perennial, resilient to adverse scenarios and with robust and sustainable liquidity for the coming years.

I now give the floor to Elcio for the financial highlights.

Elcio Ito - CFO

Q4'23 Results

Thank you, Renato, and hello everyone!

My presentation today essentially covers 3 parts. The first refers to the Transformation Plan and its impacts on the financial statements. The second part is about our priority, which managing the Company through cash flow and liquidity. And the last one refers to the capital structure and the recent debt re-profiling.

For a better understanding, we initially present the accounting values as reported, then the details of the non-recurring effects of the period and, for a better basis of comparison, simulation of the performance excluding these impacts.

We recall that in Q4'22, we had the effect of renewal of the co-branded credit card partnership, while in Q4'23 we had specific impacts from the Transformation Plan, in addition to the tax provision relating to DIFAL 2022.

In terms of the gross revenue, we experienced 11.3% drop. It is essential that we understand the reasons for that event: First: the still challenging macroeconomic scenario. Second: the basis of comparison for the Q4'22 is high due to the FIFA World Cup, which generated an additional volume of sales, especially TVs, where our performance is remarkably strong. And there are 3 movements, associated with the transformation plan, which despite having an impact on revenue, were carried out consciously, prioritizing the profitability of the operation: we stopped working in 23 categories in 1P, which reduces revenue, but we continued to serve our customer via 3P, earning a commission. We closed 55 stores throughout 2023, which in our understanding, were not adding value to the Company. We also reduced incentives in the B2B channel, consequently experiencing drop in sales volume.

Gross profit reached R$2.1 billion, with a margin of 28.7%. This represents an improvement of 2 p.p. year over year. It is worth noting that the impact of the stock clearance sale on Q4 result was substantially lower than in Q3. Therefore, there was an increase of 4.6 p.p. in the accounting gross margin in relation to Q3.

Expenses decreased by 4.4% year over year, already capturing part of the gains from the Transformation Plan initiatives already implemented. The full benefit will be observed throughout 2024, as mentioned by Renato. It is worth highlighting the 18% drop in personnel expenses, evidencing the efficiency and staff adjustment initiatives. It should be recalled that we reduced 20% of the Company's staff and 42% of senior leadership positions last year. Furthermore, we had a reduction in installment plan losses and an optimization of marketing expenses.

Therefore, adjusted EBITDA was R$276 million, with a margin of 3.7%, excluding the impact of 1.5 p.p. of specific and non-recurring effects.

The net financial expenses totaled R$711 million, still reflecting the high level of interest rates. And, accordingly, we recorded a negative EBIT of R$844 million.

Inventory

In terms of inventory, we reduced the balance by R$1.2 billion compared to the previous year, closing at R$4.4 billion.

Compared to Dec/22, we have a 63% reduction in inventory over 90 days. In other words, this reduction movement had a specific focus on slower-moving and older inventory. With each passing month, this inventory had a carrying cost and a lower commercial sales value due to the technological lag.

Inventory below 90 days decreased by just 2%, in order to guarantee an adequate level to avoid sales disruptions. A simple formula, R$1.2 billion multiplied by the average cost of capital, we are talking about savings in financial expenses of around R$200 million per year.
Consequently, the average stock period decreased from 94 days in Q4'22 to 76 days in Q4'23. In other words, a reduction of 18 days, which is the lowest historical level ever recorded at the Company, even exceeding the Transformation Plan's initial target of less than 90 days.

Capital Management

The movement towards reducing inventories combined with adequate management of suppliers led to an improvement of 11 days, year over year.
The investment level also reflects a moment of greater rationality and liquidity preservation. Thus, capex went from R$1 billion per year to R$387 million last year due to the less expansionary moment and the termination of non-core projects for our strategy. It is important to note that we continue to invest in essential projects, such as infrastructure and technology efficiency gains to improve the consumer experience on the website.

Taxes

In 2023, we accelerated the tax credit monetization processes, which allowed a net impact on cash flow of R$1.3 billion in the year. This impact reflects the effort in sales of tax credits to third parties, reduction in structural inventory levels, focus on margin and profitability, and, finally, greater logistical-tax efficiency in the operation. We observed a reduction of R$1.2 billion in the balance of ICMS recoverable on the Company's balance sheet.

Labor Liabilities

In terms of labor liabilities, I reinforce that governance and controls are at very high levels. We ratified the entire process with external advisors to ensure this governance.
I shall now provide some details about what we call legacy liabilities and recurring liabilities. Legacies are lawsuits until 2019, which have an average ticket price for resolving cases that is 6x more expensive than a recurring lawsuit. We observed an annual reduction in these legacy lawsuits. As we finalize legacy lawsuits, the expense and cash disbursement of labor lawsuits as a whole tends to fall. Labor grievances totaled R$1.2 billion in 2023, the same level as the previous year. Of this amount, approximately 70% was attributed to legacy lawsuits.

Indirect Cash Flow

We have already referred to several initiatives that impacted cash flow. We had the best free cash flow in the year, generating R$721 million, which is enough to pay interest of R$625 million in the quarter. Added to the net inflows for the period, we went from a liquidity balance of R$2.8 to R$3.6 billion at the end of the year.
I also note that in 2023 we managed to achieve the best free cash flow in recent years. Thus, we went from a consumption dynamic in the last 3 years to a positive generation of R$648 million in 2023. Without a doubt, this is still insufficient to meet debt service obligations, but a very important reversal.

Leverage and Liquidity

Our gross indebtedness ended the year at R$3.9 billion. Regarding the amortization schedule, I would like to emphasize the extension of the debt profile previously mentioned by Renato, in the amount of R$1.5 billion and a 3-year term.

Thus, short-term maturities, which previously represented 59%, now represent 31% of the indebtedness in the new amortization schedule.

The short-term liquidity ratio, represented by total liquidity divided by short-term debt, was 1.5x in Q3 and we ended the year at 2.9x post debt extension.

It is important to reinforce that we are in compliance with the financial covenants. And we continue working to reinforce and strengthen the Company's capital structure.

I give the floor back to Renato. Thank you all.

Renato Franklin – CEO

Main Messages from 2023

Thank you Elcio. In 2023, we took important steps towards building a profitable and long-lasting Company. We revisited our strategy towards a specialist player approach, focusing on what we have expertise in and know how to operate with profit. Our categories we call core. We changed our corporate name to Grupo Casas Bahia and brought back the 'Totally Dedicated to You' culture, confirming the "back to basic" mentality internally and the recognition of thousands of customers. We also count on the engagement of our entire Grupo Casas Bahia super team.

As previously mentioned, we have structured and advanced in the execution of the Transformation Plan, which will allow additional gains of R$1.5 to R$1.6 billion in EBT in opportunities already structured and partially implemented for capture in the short term.

We raised significant amounts of R$ 623 million through follow-on, R$ 682 million in CCB and agreement and ended the year with R$ 3.6 billion in liquidity position, behind the previous year, solely due to market events that reduced CDCI limits and supplier agreement. I emphasize once again the lengthening of short and medium term debt and that we have a satisfactory liquidity position for the Company's requirements.

Short Term Vision

The macro scenario continues to be challenging in 2024, with demand still suppressed by market conditions for granting credit and interest rate levels.

Resilience of the employment level and the sign of a drop in interest rates, with an impact on the reduction of financial expenses and the historical correlation in the sales of products in our core category, could bring opportunities to be captured by the Company throughout the year.

Accordingly, we maintain our focus on the operation of our Company, our deliveries and operational efficiency, irrespective of external factors. Our Transformation Plan is being well executed by the team, carrying out important actions that will generate benefits captured every quarter. We are close, aligned and have the support of partner institutions for the short term.

I am confident in the execution of the plan, and I emphasize that there is the possibility of advancing some objectives that were planned for Q3'24 for the Q2'24, which reassures that we are on the right path to achieving the targets set out in the Transformation Plan.

Prospects for 2025

Regarding the prospects for 2025, we are undergoing a gradual process of operational, financial and capital structure improvement so that Grupo Casas Bahia becomes a benchmark in value generation and return on invested capital in 2025.

Our goal is to be the largest specialist electronics and furniture retailer in Brazil. This position is only achieved by maintaining the status of leader in the core categories, but with GMV growth and greater scale, gaining online market share in these categories and exploring markets in the physical channel, which are still little penetrated currently.

We want to offer a comprehensive, uncomplicated and customized purchasing journey to our customers through a complete portfolio of products in these core categories, offering services that are also related to these categories, excellence in assisted sales and using our entire database to assist in conversion of sales.

We aim to generate value for our stakeholders with an efficient, lean operation, which provides robust margins for the sector and sustainable cash generation through high-return assets.

This should all be accomplished in a diverse environment, with strong corporate governance and which values good ESG practices on a daily basis, fostering a culture of collaboration, high performance, recognition and growth based on meritocracy.

We are optimistic about the future, very confident that we are on the right path and very clear about our targets. I would like to take this opportunity to thank all our customers, our employees, suppliers, financial institutions and other stakeholders. We will continue to be Totally Dedicated to You!

Thank you all very much and see you tomorrow at our video conference.