1st Half Results, 2019

Matosinhos, 21st August 2019

Sonae MC's new perimeter

Proforma unaudited figures
reported according to IFRS 16

01.

Highlights

- Another quarter of **record sales** and **gains in market share**
- **Steady underlying EBITDA** on par with benchmark profitability figures
- **Conservative capital structure** providing adequate financial support

Message from the CEO | Luís Moutinho

"During the second quarter of 2019, Sonae MC continued to deliver excellent results, as demonstrated by our strong sales, healthy operational profitability, and improved earnings. It is highly encouraging to note that all segments yielded favourable results, marked by recurring improvements in value proposition and focused and agile execution amidst a buoyant macroeconomic backdrop.

By improving the quality and value of our offers, and making shopping more convenient, we are strategically poised to continue progress at the level of our core businesses. Our clients appreciate our efforts as we continue to transform, as well as explore material growth avenues.

With an abiding belief in our Company, and its extraordinary and unique assets, and revolving capabilities, we look towards the future with confidence in our ability to continue growing and steering the retail revolution, whilst simultaneously delivering sustainable returns for our shareholders."

Coffee shop at a Continente store

02.

Operational and Financial Performance

TURNOVER (€m)	2nd Quarter				1st Half			
	2018	2019	Δ y.o.y.	Δ LFL	2018	2019	Δ y.o.y.	Δ LFL
Total Sonae MC	**1,007**	**1,132**	**12.4%**	**6.7%**	**1,982**	**2,180**	**10.0%**	**3.9%**
Hypermarkets	372	392	5.4%	5.6%	743	761	2.4%	2.6%
Supermarkets	486	544	11.8%	7.1%	957	1,041	8.8%	4.2%
New Growth Businesses & Others	148	196	32.5%	9.0%	282	378	33.9%	8.6%

- Against a backdrop of favourable macroeconomic conditions, the buoyant activity trends from the first three months of 2019 continued into the second quarter, during which Sonae MC posted a sharp acceleration of its sales and gained market share in a highly competitive market.

- Turnover in the first half totalled €2,180m, up 10.0% versus the same period last year, as the business portfolio continued to perform very well, and the Company continued strengthening its leadership position, both in brick-and-mortar and e-commerce, mainly due to:

  i. **Excellent like-for-like growth of 3.9% across all segments** (particularly regarding proximity supermarkets and new growth businesses) driven by increased volumes. Sonae MC continued to innovate and improve its offering, to which customers responded positively, focusing on healthier lifestyles, more convenient shopping experiences and high-quality products at market-leading value (namely in perishables and private label products). In particular, the second quarter saw a solid like-for-like performance of 6.7%, which remained robust, even excluding the positive calendar effect of later Easter compared to the previous year. Also, worth highlighting was the upward momentum of the omnichannel food offer, with online sales up by double-digit figures, with both transactions and basket size growing year-on-year, benefiting from increased speed and delivery coverage plus the expansion of the click & collect network.

  ii. **Accelerated organic expansion programme via which the Company opened 49 new stores** (11 net additions), corresponding to circa 16 thousand sqm. of sales area, marked by the roll-out of the first Continente Bom Dia store under the new ultra-proximity format (300 to 600 sqm. of sales area). This was coupled with the refurbishment of 19 stores, which harbour heightened potential, and which effectively increased sales density over the period. At the end of June 2019, Sonae MC's store portfolio totalled 1,168 stores (or 888 thousand sqm. of sales area).

  iii. **High brand power** with continued improvement in perception and top of mind awareness, along with **enhanced customer engagement.** Nearly 3.9m customers have enrolled in the Cartão Continente loyalty programme, of which >750,000 are already registered users of the new app. These shoppers visit the stores more than average and spend above average.

  iv. **Effectiveness of the Arenal post-acquisition integration efforts** that are going according to plan, and as a result, the Company has achieved the expected synergies.

CONSOLIDATED RESULTS (€m)	2nd Quarter			1st Half		
	2018	2019	Δ y.o.y.	2018	2019	Δ y.o.y.
Turnover	**1,007**	**1,132**	**12.4%**	**1,982**	**2,180**	**10.0%**
Underlying EBITDA	**105**	**126**	**19.3%**	**180**	**207**	**14.6%**
as % of turnover	*10.5%*	*11.1%*	*0.6p.p.*	*9.1%*	*9.5%*	*0.4p.p.*
D&A – Fixed assets	-39	-38	-2.5%	-75	-75	0.3%
D&A – Right-of-use	-16	-27	67.4%	-32	-45	41.0%
Underlying EBIT	**50**	**61**	**20.8%**	**73**	**86**	**17.6%**
as % of turnover	*5.0%*	*5.4%*	*0.4p.p.*	*3.7%*	*4.0%*	*0.3p.p.*
Net financial activity – Financing	-4	-3	-	-8	-7	-
Net financial activity – Leasing[1]	-13	-15	-	-26	-30	-
Other investment income	0	0	-	0	0	-
Non-recurring items	0	0	-	0	0	-
Equity method	0	0	-	0	1	-
EBT	**33**	**43**	**27.1%**	**40**	**50**	**25.8%**
Income tax	-10	-8	-	-8	-5	-
Minorities	-1	-2	-	-1	-2	-
Net profit (from continuing operations)	**22**	**33**	**46.0%**	**30**	**43**	**41.2%**

- Following the adoption of IFRS 16, over the second quarter, Sonae MC completed the review of additional transportation lease agreements under this new standard, with retrospective impacts on the income statement and the balance sheet dating back to the beginning of the year. These changes, applied in the second quarter of 2019, included the replacement of €8.2m of rental charges with €8.0m depreciation on the right-of-use asset and €0.4m interest on lease liability. Excluding this effect, underlying EBITDA performance was broadly in line with the previous year. Furthermore, an additional right-of-use asset to the value of €57m, and lease liability of €58m was registered on the balance sheet for the period. On an annual basis, these changes will increase underlying EBITDA by €16.4m, depreciation by €16.0m, and interest by €0.7m.

- The Company's underlying EBITDA totalled €207m in the first half, growing €26.4m year-on-year, with a resilient underlying EBITDA margin of 9.5%, which remains an industry benchmark.

- This performance is namely due to the continuous improvement and cost-to-serve efforts, as the Company continued to deliver efficiencies and gains in productivity across its operating model, along with the simplification of its business, resulting in a solid underlying operational performance despite the persistent pressure on operating costs (namely labour costs).

[1] Interest on lease liability.

- In the first six months of the year, Sonae MC posted record earnings, as net profit from continuing operations totalled €43m, up €12.5m compared to the same period in 2018, taking advantage of dynamic revenue growth and best-in-class margin profile.

CASH-FLOW (€m)	1st Half		
	2018	**2019**	**Δ y.o.y.**
Underlying EBITDA	180	207	14.6%
Fixed rents	-51	-68	32.9%
Change in working capital[2]	-175	-33	-81.1%
Gross capex	-109	-185	70.1%
Maintenance & Optimisation	*-68*	*-51*	-
Expansion	*-40*	*-52*	-
Acquisitions[3]	*-1*	*-82*	-
Sales & leaseback divestments	0	0	-
Income tax and net financial activity	-16	-11	-
Cash flow[4]	**-170**	**-90**	**47.1%**
Cash conversion[5]	47.4%	63.6%	+16.2p.p.

- For the same period, Sonae MC's cash flow amounted to -€90m (reflecting typical first half seasonality), up €80m mainly due to an improved top-line and the contribution from working capital. A higher level of investment than in the previous year was what drove the change in cash flow from investing activities. As a result, Sonae MC cash conversion[5] ratio stood at 63.6% (+16.2 p.p. vs. H1 2018).

- The Company continued carrying out its investments, of which €51m were assigned to maintenance and optimisation, aimed at revamping selected stores, €52m were allocated to support Sonae MC's fast-paced expansion programme, and €82m were allotted to strategic acquisitions (completed in the first quarter). Major CAPEX projects also included structural investments in the backbone of the business (namely IT and logistics), real estate investments (including the acquisition of properties), and development of new winning business concepts.

[2] Includes impacts from the changes in perimeter that occurred during 2018.
[3] Includes both the equity stake and the assumed debt.
[4] Corresponds to the change in net debt and dividends.
[5] Underlying EBITDA less fixed rents, less maintenance and optimisation capex, as percentage of (underlying EBITDA less fixed rents).

- There were no sale & leaseback transactions completed in the second quarter, hence Sonae MC's freehold real estate ownership ratio stood at 44% as of June 2019, in line with the previous quarter. Towards the end of the first half of 2018, this ratio was 49%.

CONSOLIDATED BALANCE SHEET (€m)	1st Half		
	2018	2019	Δ y.o.y.
Net fixed assets	1,505	1,548	2.9%
Leased assets right-of-use	693	866	24.9%
Goodwill and financial investments	468	516	10.2%
Working capital	-482	-561	16.4%
Invested capital	**2,184**	**2,369**	**8.5%**
Shareholders' funds	608	641	5.3%
Lease liabilities	760	957	25.9%
Net financial debt	816	772	-5.4%
Sources of financing	**2,184**	**2,369**	**8.5%**
Total net debt[6] / unEBITDA[7]	3.9x	3.8x	-
Net financial debt / unEBITDA[7] (pre-IFRS 16)	2.7x	2.3x	-

- At the end of June 2019, invested capital amounted to €2,369m, an increase of €185m when compared with 30 June 2018. This result reflected both the fast CAPEX execution associated with the store portfolio expansion momentum and with the acquisitions completed at the beginning of the year.

- Despite substantial growth investments, Sonae MC benefited from a solid balance sheet that was reinforced in the first half, maintaining a sound financial profile. Net financial debt stood at €772m as at 30 June 2019, down €44m versus the end of June 2018.

- In the first half of the year, Sonae MC refinanced approximately €200m in long term facilities with maturities between 5 and 6 years. With the above-mentioned refinancing operations, the Company maintained a comfortable average maturity profile and a low average cost of debt.

- At the end of June 2019, total net debt[6] in relation to underlying EBITDA was 3.8x, which compares to 3.9x at the end of last year's second quarter.

[6] Total net debt equals net financial debt plus lease liabilities.
[7] Estimated values

03.

Outlook

- Sonae MC foresees a globally positive outlook for the second half of the year, although economic growth in Portugal is expected to ease in the coming months. Additionally, despite some progress in several downside risks in the recent period (including Brexit, US-China trade dispute, and tensions between Italy and the European Commission), the Company anticipates a challenging scenario going forward, with several pockets of uncertainty and a harsh trading environment.

- Against this backdrop, Sonae MC will continue committed to aggressively pursuing its business strategies, which among other things, calls for investing in its operations in order to strengthen its several concepts, achieving higher efficiency with innovative solutions, and expanding its footprint in existing and new markets, with the ultimate goal of continuing to deliver profitable growth and ensuring it upholds its leadership status.

- Looking towards the future, Sonae MC remains well placed to better serve the Portuguese consumer, with the Company standing by all the objectives restated at the beginning of the year and reiterating its confidence in its ability to deliver on its financial targets and ambitions, thus ensuring high long-term value creation.

A.

Store Network

Nº OF STORES	2018	2019			
	Dec 31st	Openings	Acquisitions	Closures	Jun 30th
Total Sonae MC	**1,108**	**49**	**49**	**-38**	**1,168**
Total Company Operated	**758**	**30**	**49**	**-4**	**833**
Continente	41	0	0	0	41
Continente Modelo	126	1	0	0	127
Continente Bom Dia	107	5	0	0	112
Well's	213	5	0	0	218
Arenal	0	1	41	0	42
Bagga	132	1	0	-2	131
Note!	53	2	0	0	55
Zu	15	1	0	0	16
Go Natural supermarkets	10	2	0	-1	11
Go Natural restaurants	28	7	0	-1	34
Maxmat	31	0	0	0	31
Dr. Wells	0	4	8	0	12
Other	2	1	0	0	3
Total Franchised	**350**	**19**	**0**	**-34**	**335**
Continente Modelo	9	0	0	0	9
Meu Super	298	15	0	-32	281
Well's	29	1	0	-1	29
Bagga	7	0	0	0	7
Go Natural restaurants	1	2	0	0	3
Note!	6	1	0	-1	6

SALES AREA ('000 SQM.)	2018	2019			
	Dec 31st	Openings[8]	Acquisitions	Closures	Jun 30th
Total Sonae MC	**853**	**16**	**25**	**-6**	**888**
Total Company Operated	**776**	**13**	**25**	**-1**	**813**
Continente	276	0	0	0	276
Continente Modelo	260	2	0	0	263
Continente Bom Dia	133	7	0	0	139
Well's	21	0	0	0	22
Arenal	0	1	23	0	25
Bagga	8	0	0	0	8
Note!	10	0	0	0	10
Zu	2	0	0	0	2
Go Natural supermarkets	2	0	0	0	2
Go Natural restaurants	2	1	0	0	2
Maxmat	61	0	0	0	61
Dr. Wells	0	1	1	0	2
Other	1	0	0	0	1
Total Franchised	**77**	**4**	**0**	**-5**	**75**
Continente Modelo	20	0	0	0	20
Meu Super	53	3	0	-5	51
Well's	2	0	0	0	2
Bagga	0	0	0	0	0
Go Natural restaurants	0	1	0	0	1
Note!	1	0	0	0	1

FREEHOLD (END OF PERIOD)	2018			2019	
	Jun 30th	Set 30th	Dec 31st	Mar 31st	Jun 30th
Total Sonae MC	**49%**	**48%**	**45%**	**44%**	**44%**

[8] Includes changes in sales area resulting from store optimisation initiatives.

B.

Glossary

Turnover: total revenue from sales and services rendered

LFL sales (Like for Like sales): sales from owned stores that operated under the same conditions in comparable months in both the current period and the prior comparative period, and excludes stores opened, closed or that underwent major upgrade works in one of the periods

Hypermarkets: mainly Continente and Continente Online banners

Supermarkets: mainly Continente Modelo and Continente Bom Dia banners

New growth businesses & Others: mainly Meu Super, Well's, Go Natural, Bagga, Note!, Zu and Maxmat banners. From 2019, it includes Arenal and Dr. Well's banners. It also includes the real estate component that owns the assets and rents them out to third parties

EBITDA: EBIT before depreciation and amortisation expenses, provisions and impairments losses, gains/losses on the disposal of subsidiaries, losses on the disposal of assets and gains on sales of assets excluding non-recurring items

Underlying EBITDA (unEBITDA): EBITDA excluding non-recurring items

Underlying EBITDA margin: underlying EBITDA as a percentage of turnover

D&A: depreciations, amortisations, provisions, and impairments

Fixed rents: rental costs from leased real estate assets

EBIT: profit before interest tax, dividends, and share of profit or loss of joint ventures and associates

Underlying EBIT: EBIT excluding non-recurring items

Underlying EBIT margin: underlying EBIT as a percentage of turnover

Non-recurring items: net capital gains/losses on the sale & leaseback transactions of real estate assets

Change in working capital: working capital variation during the period

Gross capital expenditure ("Gross CAPEX"): maintenance CAPEX, plus optimisation CAPEX, plus expansion CAPEX, plus acquisitions CAPEX

Maintenance capital expenditure ("Maintenance CAPEX"): investments to maintain and refurbish existing stores, as well as investments in non-store areas such as IT, warehousing, logistics and e-commerce

Optimisation capital expenditure ("Optimisation CAPEX"): investments to significantly change the existing stores' customer experience. This type of investment goes beyond a typical shop refurbishment

Expansion capital expenditure ("Expansion CAPEX"): investments to open new stores in the period (including associated real estate investments)

Acquisitions capital expenditure ("Acquisitions CAPEX"): integration of companies/businesses acquired in the period, including the assumed financial debt

Sale-and-leaseback (S&LB) divestments: net book value of retail properties sold in sale-and-leaseback transactions

Net capital expenditure ("Net CAPEX"): gross CAPEX less sale-and-leaseback divestments

Working capital: inventories, trade creditors and trade debtors and other current assets and current liabilities (excluding loans obtained from non-controlling interests, items included in the computation of net debt and Shareholders attributed dividends)

Net financial debt: loans, bonds and other loans, leases and derivatives less cash and bank balances and other current investments

Total net debt: net financial debt plus lease liabilities

Free cash flow: underlying EBITDA, less fixed rents, less income tax expense, and net capital expenditure, less change in working capital, plus other items (non-recurring items, the share of profit or loss of joint ventures and associates, non-controlling interests and dividends received during the year)

Cash conversion: (underlying EBITDA less fixed rents, less maintenance, and optimisation CAPEX) as a percentage of (underlying EBITDA less fixed rents)

Freehold: stores sales area ownership in the percentage of total stores sales area (end of period figures)

Sqm.: square meters

Net fixed assets: property, plant and equipment and intangible assets

Goodwill and financial investments: goodwill, investments in joint ventures and associates and other non-current investments

Shareholders' funds: equity attributable to owners of the company and non-controlling interests

C.

Financial Calendar

November 13th, 2019

Results for the 9 months ending 30 September 2019

Safe Harbour

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These forward-looking statements are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements, including, but not limited to, changes in the regulation, industry and economic conditions; and the effects of competition. Forward-looking statements may be identified by words such as "believes," "expects," "anticipates," "projects," "intends," "should," "seeks," "estimates," "future" or similar expressions.

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