



# 9M23 Results

Conference call transcript

Moderator: João Dolores, Sonae SGPS, CFO

16 November 2023 | 15:00 pm Lisbon/UK time

**Operator:** Good afternoon. We welcome you to Sonae's Nine Months 2023 Results conference call. During the presentation hosted by Mr. João Dolores, Sonae CFO, all participants will be on a listen only mode. There will be an opportunity for Q&A at the end of the presentation. If you wish to ask a question during the Q&A session, you may do so by pressing the star key followed by 1 on your telephone keypad. If you're experiencing any difficulty in listening to the conference at any time, please make sure you have your headset fully plugged in, or alternatively, please try calling from a different device. I now hand the conference over to Mr. João Dolores. Please go ahead, Sir.

**J. Dolores:** Hi everyone, good afternoon. Welcome to Sonae's results conference call for the first nine months of 2023. Besides myself and the Investor Relations team, we have on the call Cristina Novais from Bright Pixel, Fernando Van Zeller from MC, Luís Mota Duarte from Sierra, and Paulo Simões from Worten.

As you know, the third quarter of the year continued to be marked by a challenging macroeconomic environment and persistent geopolitical tensions. Nevertheless, the Portuguese economy continued to be quite resilient. The inflation rate remained high, although in a downward trend both in the Eurozone and in Portugal. Despite some financial pressure on companies and households, the labour market remains quite resilient, with the unemployment rate decreasing even further and closing the quarter at 6.1%, the lowest level in the past two decades. The Portuguese economy continued to grow, although at a lower pace, but still reaching 1.9% growth, significantly above the EU average of 0.1%.

As you know, a significant part of our activity and underlying value creation is related with portfolio management, and in 2023 we have executed a number of important milestones in terms of capital allocation. During the first half of the year, we acquired the remaining 10% stake in Sierra at a 10% discount to NAV, and now hold 100% of the company. Universo reached an agreement with Bankinter Consumer Finance to create a leading consumer credit operator in Portugal (completion is awaiting regulatory approval from the Bank of Portugal, but we expect to close the transaction before the year end). MC reached an agreement for the combination of Arenal and Druni in Spain, resulting in the leading health, wellness & beauty player in Iberia, with completion expected also in the coming weeks after the approval of the Spanish Competition Authority. Bright Pixel, our corporate venturing arm, made six new minority investments and currently has over 40 companies in its portfolio, including three unicorn companies.

In Q3, Sonaecom acquired Sonae's direct stake in NOS, 11.3% stake in the company for €213m, reaching 37.37% of the total share capital in the company. And already in October, we concluded the sale of our stake in ISRG, resulting in €300m of cash proceeds and a capital gain of €168m that will impact Q4 results.

Within our portfolio management activity, we launched Sparkfood, our investment platform dedicated to innovative companies in the food-tech space, with a focus on the development of sustainable and healthy solutions. It's a space we have been analysing over the past three years, having made our first investment back in 2021, and, recently, we have committed more capital to widen the portfolio to a few additional exciting companies. Sparkfood is exploring investments in two main business platforms, the Alternative.s platform, which aims to be a European supplier of next-generation alternatives to animal proteins, namely plant-based food, and also the Ingredient.s platform, whose goal is to be a global provider of natural ingredients for health and wellness, food systems and animal nutrition. In parallel and directly linked to these two platforms, Sparkfood launched Venture.s, an area dedicated to invest in scale-ups that will fuel innovation in both core platforms across different areas. By the end of the first nine months of 2023, Sparkfood portfolio included five investments and more than €110m of capital invested, two investments in the Alternative.s platform, one in the Ingredient.s platform and two in the Venture.s side of the business unit.

So, regarding operational performance of our businesses in Q3 and starting with retail, I would like to point out that during the first nine months of 2023, MC had a very positive operational and financial performance, in a quite challenging macroeconomic and competitive environment. Top line grew 9.6% yoy in Q3, with a LfL of 8.7%. This was fuelled by both grocery and non-grocery formats as the company surpassed €4.8bn in sales in the first nine months of the year with a total growth of 12% and a 10.4% LfL increase. This enabled MC to retain its leadership position in the food retail market in Portugal.

Continente had another positive quarter on the back of very effective decisions regarding assortment, pricing and promotions, underpinned by a unique customer data set. At the same time, we continued to ensure a state-of-the-art store network through targeted refurbishments and new openings. In the first nine months of the year, MC opened six proximity stores and two large supermarkets in the country.

The Health & Wellness & Beauty banners maintained their strong growth profiles both in Portugal and Spain, as we look forward to partnering with Druni and scale this business in Iberia.

Regarding profitability, the top line performance, together with the decrease in energy costs and the ongoing operational efficiency measures, enabled MC to offset the pressure of trading down movements and price investment initiatives, leading underlying EBITDA to reach €179m in Q3, an increase of €21m yoy, or 14%, with a margin of 10.2% and a total of €458m in the first nine months of the year, representing a margin of 9.5%.

Capex stood at almost €200m in the first nine months of the year, but still, the company was able to generate €113m in free cash flow, an increase of 11% versus 2022.

Moving on to Worten. Worten also had a positive quarter, being able to outperform the market and reinforce its leadership position in Portugal, with market share gains both offline and online. In Q3, the company posted a 2.5% yoy growth to €323m and +5.2% in the first nine months of the year, reaching €880m. If we include marketplace sales, total GMV reached €923m ytd, a 6.5% increase versus 2022, with new categories in the marketplace showing a much stronger growth level.

**Operator:** I'm sorry, Mr. Dolores's line has disconnected. Please stand by for a moment while we reconnect.

Thank you, everyone. Mr. Dolores, please continue.

**J. Dolores:** Hi everyone, apologies for this. I'm not sure where the line, where the connection broke off, but I will try to resume my presentation. I believe the connection broke at the end of Worten's presentation. So, I was just saying at the end that this is naturally a critical period of the year for Worten with the Black Friday and Christmas seasons, which will be very important for the company. And so, we remain confident that Worten will show another strong display at the end of this year.

Moving on to Sierra, the company maintained its growth momentum with another strong quarter across the board. In the European shopping centre portfolio, tenant sales reached double-digit LfL growth compared to both last year and the pre-pandemic period. This was fuelled by an increase in footfall and also higher occupancy rates, which rose by 0.5pps to 98%. The services activity also continued to be a significant driver of operational performance, with double-digit EBITDA growth. Significant milestones in the quarter included the clearance from the Competition Authority to manage CTT's real estate portfolio, with closing expected in Q4; progress on several real estate vehicles; commercialisation of the prime mixed-use asset, Republica 5, in Lisbon; the acceleration of construction works on the third office Tower of Colombo and the expansion of property management contracts across Europe. So, good progress on a number of strategic levels for the company in the quarter. Net results increased 21% yoy to €54m in the first nine months of the year on the back of a strong Direct Result evolution and NAV increased €74m since the beginning of the year, having surpassed €1bn.

On the technology and telecom side. As you know, NOS published its nine months results a couple of weeks ago and delivered a strong operational and financial performance. During Q3, turnover increased 7% yoy to just over €400m and reached around €1.2bn in the first nine months of the year, with very positive performances from both the Telco and Cinema Exhibition activities. In terms of profitability, EBITDA also maintained a positive trend in the quarter, a 13% yoy increase to €200m, reaching €553m at the end of the first nine months, at 10.6% growth rates versus 2022, benefiting from the top line growth coupled with a good evolution in margin of +2.2pps to 46.7%.

Regarding our corporate venturing arm, Bright Pixel continued to explore new opportunities to expand its active portfolio, which already includes more than 40 companies around the globe and reinforce some of its existing investments. These investments led to a slight increase in both NAV and Cash Invested in the active portfolio to €332m in the case of NAV and €167m regarding Cash Invested. Despite the current global pressure on valuations for tech companies, Bright Pixel's portfolio continues to show a strong resilience, as we do not expect significant changes in our total portfolio valuation in coming quarters.

On a consolidated view, Sonae maintained a strong top line growth in Q3, as total sales grew 8% yoy in the quarter, surpassing €6bn in the first nine months of the year, mainly fuelled by the performance of MC, which continued to be impacted by a strong inflationary context, although, we already saw stabilisation of volumes in the quarter. In terms of profitability, consolidated underlying EBITDA increased 13% yoy to €205m in Q3 and reached €506m in total in ytd terms, with a margin of 8.4%, 22bps above last year. Total EBITDA stood at €581m, 7% – hello?

**Operator:** Yes, we can hear you.

**J. Dolores:** You can hear me? Ok. I was getting indications that the call had dropped again. So, I was mentioning that total EBITDA stood at €581m, a 7% increase yoy, with a positive contribution from equity consolidated businesses, namely Sierra, which partially offset the fact that there were no significant transactions in a period and therefore no significant capital gains. This positive operational performance was however, more than offset by increased depreciations following our investment efforts in the expansion and digitization of our businesses, higher funding costs given the increase in interest rates and also higher tax expenses, leading Direct Result to drop to €167m in the first nine months of the year. Indirect result also reduced this year, mostly due to the lower valuation gains in Bright Pixel minority stakes and to lower revaluations of Sierra shopping centres when compared to last year. All in all, Net result (group share) stood at €135m in the first nine months of 2023.

In the last twelve months, Sonae generated €206m of free cash flow before dividends paid. This solid free cash flow generation results from the strong operational performances of our main businesses, which I mentioned before, coupled with our portfolio management activity and the dividends received from our investments. So, at the end of the day, consolidated net debt declined once again to €982m after dividends paid to our shareholders and partners, which totalled €161m in the period.

The Group's capital structure remains solid with a low leverage level, significant liquidity available and a stable debt maturity profile which stands above four years. At the end of September, our holding LTV decreased even further to 6.6%, and at the sub holding level, leverage metrics remained well within our defined thresholds. MC maintained a solid capital structure with a net financial debt of €509m and a ratio of total net debt to EBITDA of 2.8x, below last year's level. NOS presented a net financial debt to EBITDA after leases of 1.9x, in line with last year's figure, and at Sierra gross LTV reduced significantly to 38.5% versus 42% last year.

Last but not least, Sonae's NAV based on market references amounted to €4.4bn at the end of the first nine months of 2023, 4% above the June level, mainly fuelled by MC, both in terms of operational performance and also market multiples. Going forward, we remain confident that our portfolio of companies will continue to play to win in their respective markets and that we will maintain a solid growth level and create superior economic and social value.

Thank you. You can now open the session to Q&A.

**Operator:** Thank you. As a reminder, if you would like to ask a question, please press the star key on your telephone keypad followed by 1. Please press star 1 to pose your question. To withdraw your question for any reason, you may press star 2. You will be advised when to ask your question. Our first question comes from João Pinto of JB Capital. Please go ahead.

**J. Pinto:** Hi everyone. Thanks for taking my questions. I have four if I may. The first two on Sonae MC. The first one, if you could update us on capex plans, how many store openings do you expect for this year and for 2024, and if you intend to accelerate the refurbishments, given that the second-largest player is accelerating on this front?

The second question, also on Sonae MC. As inflation decelerates, are you seeing signs of lower trading down pressures, and are you seeing any material changes in terms of competitive environment?

My third question on Sparkfood. Do you intend to continue to grow this division through M&A, and what the level of capex that do you intend to allocate to this division? And finally, on NOS, following yesterday's news on Eurobic, is there any update on the availability of Isabel dos Santos stake on the company? Many thanks.

**J. Dolores:** Thank you, João. Maybe I'll start, and I'll take the Sparkfood and NOS questions, and then I'll hand it over to Fernando to take the MC questions.

So on Sparkfood, yes, the idea is to continue to grow this business unit through M&A. As I mentioned before, we have made already a number of investments, I would say each of them relatively small, given the size of the Group. But we have a strong ambition to grow and invest in this space, which we believe is a space that has a lot to do with our mission and with the capabilities that we have. And we see good opportunities to continue to grow in this segment.

In terms of the amount of capital that we plan to allocate to this new business unit, we don't have a specific guidance to provide you with. It really depends on the opportunities that might arise. What I can tell you is that we have a dedicated team, a small, dedicated team, looking at opportunities in the space, and I wouldn't be surprised if in the next 12 months we would see at least the same level of capital that we have invested up until now, invested in further opportunities.

Regarding NOS, well, I don't know exactly the terms of the transaction that was announced yesterday and, to be quite frank, I don't think you can extract any insights from that at this point in time to the situation in NOS. From what we understand, the stake or the participations that Isabel dos Santos holds and that ultimately own the stake in NOS, continue to be seized. But we will obviously monitor the situation closely. As you know, we are quite comfortable with the economic exposure and with the position that we have in the company up until now. And we don't feel that there will be any significant changes in the near future regarding that. But I will hand it over to Fernando to cover the MC questions.

**F. Van Zeller:** Hello. Hello, good afternoon. First of all, on expansion. So, as you mentioned, we are actually accelerating the expansion plan, especially on our Bom Dia format, the proximity format. As of the end of Q3, we have opened eight grocery stores. As of today, we have already opened 13 stores, and our plan is to open around ten more until the end of the year. So, we are going to end up the year with the expansion in our proximity format above our initial guidance of openings. For 2024, our goal is to maintain more or less the same level of openings we have seen in the past. Again, mainly anchored around the Bom Dia format. And so, probably around 15 to 20 stores. And obviously, if we can accelerate even further, we'll do it.

In terms of refurbishment, as you mentioned, and as you have seen in the numbers, we have accelerated this year a little bit the refurbishment of our store network, obviously, mainly focused on our larger formats and especially Modelo, as our Bom Dia format is more recent. And our plan is to keep more or less the same level for the upcoming years in terms of refurbishment of the store network in Modelo and in Continente hypermarkets.

On the second question around inflation and the trading down, as João mentioned, in Q3, we have seen the volumes more or less flat. So, obviously, a positive trend versus especially the first quarter and the beginning of the year. In terms of trading down, we are seeing more or less the same trend. So, there is still a little bit of trading down, but to a lower extent compared to the first two quarters of the year. And so,

we are positive on that, although we still see some pressure on trading down. And the private label share on our sales has more or less remained flat over the last few months. But obviously, there is a little bit of seasonality on private level as well.

Around the competitive tension, it is true that competitive tension keeps high. As you probably know and have felt, we have continued to invest in price in a very competitive market with a lot of players investing more and more in price, very strong campaigns as well, and promotions in the market in some players. And in terms of expansion plan, as you also know, there has been an acceleration of expansion plan of many players. And so, we are feeling a very competitive market in Q3, obviously also already in Q4. But as João mentioned in the beginning of the call, we have consolidated our market share, and we remain positive in this very highly competitive market.

**J. Pinto:** That's very clear. Thank you very much.

**Operator:** Thank you. Our next question comes from António Seladas of AS Research. Please go ahead.

**A. Seladas:** Hi, good afternoon. I have two questions related with Sparkfood. Namely, if you can provide some colour on Gosh! figures and the performance, and just to understand if the philosophy of the investments is similar to Bright Pixel. So, minority stakes or not? Just to consolidate and to keep the stakes for many, many years. And regarding Sonae MC, if you can provide some colour regarding costs, namely energy and staff costs for 2024, please. Thank you very much.

**J. Dolores:** Very good. Thank you, António, for your questions. I will take the Sparkfood questions first and then again I will hand it over to Fernando. So, on the performance of Gosh!. Gosh!, as you know, was our first investment in this space already a couple of years ago. The company has been performing well. In the last two years, we went through a significant transformation in the company, replacing parts of the management team and reviewing the strategy of the company. The last few months have been quite positive. The company has been able to outgrow the market, gain market share in the British plant-based food market, gaining listings, new listings in new supermarket chains, and currently, today it is present in practically all major supermarket chains and also in a number of food services providers in the country. And so, the company is growing well and gaining market share in the UK market.

As for the philosophy of Sparkfood, the idea is not exactly to have the same philosophy as Bright Pixel, because Bright Pixel focuses primarily on venture capital type investment. And so, the idea is always to invest with a view to an exit. In our case, in the case of Sparkfood, in this case, it's not exactly the same thing. We do have a Venture.s arm that I explained before where the philosophy is similar, and so it's also a corporate venturing activity in a number of innovative areas around the food production system. And there, the idea is mostly the same as in Bright Pixel, so, invest in minority stakes, help these companies to grow and then eventually help them with a path to be a part of a new ownership going forward, and so making an exit and making significant returns out of those exits. But the other two platforms, the two ones that I mentioned originally, so Alternative.s and Ingredient.s, there the objective, the target is much more to invest with either a controlling stake or with an influential stake in companies that might be significant OpCos for us in years to come, and so not necessarily with a view to exit. Fernando, do you want to take the MC questions?

**F. Van Zeller:** Sure. Hello again. So, in terms of energy costs, just a little bit of background, maybe on this year. So, as you saw Q3 2023, we have seen a material decrease, more than half of decrease on the energy cost

versus 2022. By the summer, the Q3 2022 was extremely high, so, we have obviously seen a material decrease in this quarter. Next quarter, we won't have the same kind of leverage, in the sense that the energy costs of last year in Q4 were more or less aligned with what we are seeing for Q4 2023. For 2024, as you know, there has been a change in terms of access tariffs for the energy, so, we know that the access tariffs are going to be around €20 per megawatt versus a zero value of this year. So, we are seeing an increase in access tariffs, and we are also seeing an increase in the expected spot prices. There is obviously a lot of volatility and still uncertainty around energy costs, but I think it's fair to say that the energy costs in 2024 are going to be significantly higher for us compared to 2023.

On the staff costs, we are also expecting a relevant increase in terms of the costs. When we look at 2024, we are obviously going to see the inflation, as we discussed in the past, food inflation going down to more normal levels, I would say, and obviously some pressure on the cost side in these two items that you mentioned, staff costs and energy, which are clearly going to be above food inflation. And so, we are quite focused on making sure that we continue our operational efficiency program and all the efficiencies we can get to compensate the pressure that we are going to have on the cost side, and namely on these two lines that you mentioned, staff cost and energy, which are clearly going to go above the top line growth driven by inflation.

**A. Seladas:** Ok, thank you. Just a follow-up question on Sparkfood. Are we going to see or are you going to release some kind of financial information in the coming quarters or in next year regarding this business unit, or no?

**J. Dolores:** We expect to give progressively more information on this. I mean, it's still a relatively small area within the Group, but as we expect to scale the activity, we expect to provide more information. We are quite optimistic around this. To us, it's more a valuation play than a typical retail play, where you're mostly focused on revenues and operational margins. And so, in some cases, we are talking about segments which are really innovative and just now starting to emerge with high-growth rates. But we will for sure provide more information on the different segments as we go along. But we feel quite optimistic that we can play a role in the growth of sustainable and healthy solutions in terms of food production and consumption in the next few years. We see a lot of opportunities to pursue buy-and-build opportunities in the sector, and we currently have an active pipeline with several opportunities that are being currently explored by the team. But yes, we will be providing more information in the future about this.

**A. Seladas:** Ok, just to clarify, I think that you mentioned 30% of the current investment is what we expect for the next 12 months. Did I understand well?

**J. Dolores:** No. What I said is, we are not committing to any capital allocation, obviously, because it depends on the opportunities that come up. And we have been very thorough in our analysis of any potential investment opportunities. And so, we will always be careful when allocating capital. But I wouldn't be surprised if we were to allocate in the next 12 months at least the same level of capital invested that we have allocated up until now, which is roughly above €100m.

**A. Seladas:** Ok, sorry. Thank you very much. Thank you.

**J. Dolores:** Thank you, António.



**Operator:** Thank you. As a reminder, if you'd like to ask a question on today's call, please press star 1 on your telephone keypad. Our next question comes from Guilherme Sampaio of CaixaBank. Please go ahead.

**G. Sampaio:** Hello, Guilherme Sampaio from CaixaBank BPI. Good morning. Good afternoon. So, just one for me. If you could provide a bit more colour on the rationale for the margin increase that we've seen in MC in the recent quarters and the decision not to reinvest even more in price? Thanks.

**J. Dolores:** Go ahead, Fernando.

**F. Van Zeller:** Hi Guilherme, thank you very much. Thank you very much for the question. Just in terms of margin, as you know, we don't disclose the breakdown of the margin. What I can tell you is we have done a significant investment in price in Q3 2023. That obviously has driven our commercial margin down in an important way. This was more than compensated by the energy cost. As I mentioned, the energy costs dropped by more than half in this quarter, and that's why you see an increase in EBITDA margin in Q3 2023. But this is mainly driven by obviously some operational efficiencies, but mainly the energy cost, which has decreased by a very significant amount. But I wanted to reinforce that given the current context and the competitive setting, we are seeing we are very focused on investing in price, making sure that our price leadership continues in the market. And that's obviously the key focus for us at this moment. But you actually see an increase in margin, EBITDA margin in this quarter because of these dynamics.

**G. Sampaio:** Ok, thanks.

**J. Dolores:** Thank you, Guilherme.

**Operator:** Our next question comes from Artur Amaro of CaixaBI. Please go ahead.

**A. Amaro:** Hi, good afternoon. Just one question. Maybe it's a little detail. Last quarter, MC, you stated that MC had gained market share. This time you said that you consolidated your market position. Can I read between the lines that you continue to increase market share, or it was a more stable core in terms of market share? And that's it. This is my question.

**F. Van Zeller:** Hello, thank you very much for the question. In terms of market share evolution, the trend across since the beginning of the year has been more or less the same. What we have been mentioning on the calls is that we have been maintaining and consolidating our market share. The trend on the third quarter of 2023 was more or less in line with the previous two quarters. And so that's where we are today in a very competitive market. And again, in a market where there has been a significant expansion in terms of square metres, some of this expansion has been done by competitors in the market with less cannibalisation than us. And so, we just want to reinforce that we are quite confident, quite happy on the consolidation of the market leadership in this very competitive environment with a strong expansion of competitors.

**A. Amaro:** Ok, so just a follow-up based on the data that you have available, and unfortunately, we don't, can we say that, is it fair to say that the food retail market is growing for all the players as a whole?

**F. Van Zeller:** So, look, I'm not going to speak for the other players. What we are seeing and what you saw in our account has been a LfL growth of around 8% in the grocery side. Our market share was more or less stable and obviously the market has grown more or less 8%. If all the other players are increasing sales, I'm not sure. This is the dynamics we have seen. Obviously, the level of inflation we are seeing helps the players



to get positive LfL in this quarter, but I'm not sure if all the players have been increasing. What I know is we have grown more or less in line with the market in this last quarter. Again, in a very challenging environment, we have a very high market share already in the market, and so we were able to maintain our market share in a quarter where the number of square metres continued to expand at a fast pace. And that translates a bit the competitive setting we are seeing in the market.

**J. Dolores:** I would just add that it's fair to say that given the level of inflation that we've seen this year, it's fair to assume that most players in the market grew. Obviously, the most important consideration is a relative performance consideration. So, what's happening in terms of market share and in terms of volumes for each player. And there, as Fernando said, we are very happy with our performance this year, and there are clearly players who are suffering a bit more than others.

**A. Amaro:** Ok, so just another follow-up, if I may. So, based on your figures, MC figures, and on the nine months, the volumes are increasing or are growing yoy, or it's just the price effect?

**F. Van Zeller:** Sure. No, look, I think we already mentioned this in the past, but being very clear. So, as João mentioned, on the third quarter of 2023, we have seen the volumes flat. We started July with slightly negative volumes due to the weather. The weather this year has been colder than in July versus last year. And so, we have seen an impact mainly around products like frozen products, soft drinks. So, we have seen there a decrease in volumes in July, which was recovered in August and September. And so, we have been flat. Ytd we are still slightly negative, based on the fact that, as you remember, on Q1, we have seen a negative trend on the volumes, which was driven, obviously, by the very high level of food inflation that we have seen in the first quarter.

**A. Amaro:** Ok, very clear your answer. Thank you very much.

**F. Van Zeller:** Thank you.

**J. Dolores:** Thank you Artur.

**Operator:** Thank you. As a final reminder, if you'd like to ask questions, please press star 1 on your telephone keypad. And as we have no further questions coming through, I'd like to turn it back over to Mr. João Dolores for any closing remarks.

**J. Dolores:** Ok, thank you very much, everyone, for listening and for asking questions. As you know, the end of the year is a critical period for all our businesses, as we remain focused on making sure that we deliver the best value propositions and come through at the end of the year with a solid performance. So, we will speak to you again when we present to you precisely the Q4 results and the yearly results in March. So, talk to you soon, and all the best of the future. Bye, bye. Thanks.

**Operator:** Thank you very much. That concludes today's conference. You may now disconnect.

-----