



Cnova N.V.

Third Quarter Fiscal Year 2016 Financial Results

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C O R P O R A T E P A R T I C I P A N T S

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C O N F E R E N C E C A L L P A R T I C I P A N T S

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P R E S E N T A T I O N

Operator:

Greetings and welcome to the Cnova Third Quarter Fiscal Year 2016 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please push star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Christopher Welton, Investor Relations Officer. Thank you, sir. You may begin.

Christopher Welton:

Thank you, Operator. Good day, everyone, and welcome to today's call. The purpose of the call today is to go over our third quarter financial results. In addition to myself, we have our CEO, Emmanuel Grenier, and our CFO, Stéphane Brunel. They are on the call with me today as well.

So, the conf call slides are available on our website. This call is also being audio webcast, and a replay will be available on our website about an hour after we finish here.

So, let's start. If you look at Slides 2 and 3, they have our forward-looking disclaimers. These apply to the entire presentation as well as the related documentation. Our listeners are strongly encouraged to read these in their entirety now.

So, before we go over the slides, our CEO, Emmanuel Grenier, would like to provide some opening remarks. Emmanuel?

Emmanuel Grenier:

Yes. Thank you, Chris, and good day to everybody. So, before we go over our third quarter results and answer your questions, I wanted to address three things upfront. First, July was a tough month in France due to bad weather and events on July 14, as you remember, both of which held back activity. We turned around that unfortunate trend at the end of the quarter and are continuing to see a positive trend so far in October, and marketplace helped here as its size continues to grow and we are also adding fulfillment services.

Second, Cdiscount à Volonté, what we call CDAV, our customer loyalty program, continues to grow and is having a positive impact on GMV and net sales. The customer who joins CDAV, ends up ordering about five times more often than before.

Finally, we are rolling out new services on a regular basis. We are moving to a 24/7 delivery model. We are not there yet, but you can order today and be delivered same day, Sunday, or at night.

So, with that, I turn the floor back to Chris.

Christopher Welton:

Thank you, Emmanuel. Before we go on, on this slide, because of the pending reorganization of Cnova Brazil with Via Varejo, our reporting structure changes. As you saw in the press release that we put out this morning, Cnova Brazil is now accounted for as a discontinued activity, and this can be seen on the right-hand side of the slide. So, let's go into the nitty-gritty of the presentation.

We have separated the presentation into three sections. First, we'll take a look at the key indicators for the quarter, I'll go through that with you, and then Stéphane will go over in more detail the financial results, and finally, Emmanuel will give you an update on what we are working on and what lies ahead.

So, turning to Slide 6, we can see that GMV was up more than 6%, and as Emmanuel indicated, this integrates a negative performance in July. Nonetheless, the marketplace now accounts for one-third of GMV, following a strong year-on-year growth of close to 350 basis points. As a result, net sales were up 3%, while the French gross margin improved more than 40 basis points to 14.1%. Finally, free cash flow came in at breakeven, which was a result of net cash from activities and it's perfectly matched cap ex.

On Slide 7, let's look at GMV a bit more in detail. As we explained, we had a bad July, we had negative growth. We caught up at the end of the quarter, but we were not able to get back into double-digit growth territory. The bright spot was of course the marketplace, which continues to grow. We expect this to remain the case in the quarters to come. Emmanuel and the rest of the team is putting a lot of effort here to increase the number of sellers and also offer them more services such as fulfillment.

On the next slide, we look at three metrics. These are the metrics that are driving our growth. So as I just said, the marketplace continues to grow. We are putting a little more emphasis on quality customer service here. This explains why we see a slight dip in the number of sellers during the quarter. Orders were a bright spot for us during the quarter. We are also very good in the area of SEO and it's not just us saying that. Our new mobile app is having a very positive impact on our mobile conversion rates and our CDAV clients, that's Cdiscount à Volonté, our customer loyalty program as Emmanuel said, they're ordering more often than our regular customers. In categories, we remain the market leader in home products. Our overnight delivery services are helping to push these items as well.

Now, I would like to turn the floor over to Stéphane who will take you through the P&L, look at cash flow and give you an update on Brazil.

Stéphane Brunel:

Thank you, Chris. On the key figures slide, just to remind what Chris said upfront, the figures here reflect Cnova with Brazil a discontinued activity with of course the exception of net loss from discontinued activities near the bottom of the slide. I will go over each line item on the following slides.

Here, we have net sales which were impacted by a poor month of July for reasons already explained. We also cut back on some of our B2B activities with a negative -3% impact on our 3Q net sales because we just weren't making the return expected. In addition, the closure of French specialty website account for another negative -1.5%. The increase in marketplace commissions is a function of both a larger base and also commission increases that we put in place last year and earlier this year. On a nine-month basis, net sales growth was close to 10%, despite the soft third quarter.

In terms of gross margin, we continue to make progress. We're up 46 bps during the quarter, mainly due to marketplace expansion and low-cost consumer financing fees. On a nine-month basis, France is up 44 bps, in line with our internal target, which is to show a full-year improvement versus 2015 between 30 and 60 bps.

In terms of SG&A, we are slightly higher overall year-on-year for a couple of reasons. We spent more on marketing, as we launched a new brand strategy, which is You Are Richer Than You Think, plus we beefed up our IT staff to meet. All in all, on a nine-month basis, SG&A costs in France improved by 50 bps versus 2015, which is in line with our full year 2016 target of stable SG&A costs as a percentage of net sales. At the EBIT level, we improved on the quarter. At Cdiscount, we hit breakeven year-to-date at the end of September. As we mentioned in our press release this morning, we expect to be above this level at year-end. Cash flow was breakeven as the positive change in working cap fully financed our capex during the quarter.

Finally, let's take a look at how things are going at Cnova Brazil. Third quarter top line numbers are relatively weak, but they are healthier on the back of higher margins and lower marketing spend. Furthermore, recent trends show a significant improvement as you saw in our press release. GMV and net sales continue to suffer from the macro in Brazil. There is also greater focus on profitability, as we can see with the gross margin, it jumped about 650 bps for two main reasons: marketplace growth combined with better direct sales product margin and a new VAT regime that allows Cnova Brazil to take advantage of new tax credits, which represents 280 bps in the increase. On the operational action plans, the ERP migration is behind us as customer service is much better than in the 1Q. Finally, EBIT came in at minus 75 million BRL due to increased SG&A, legal claims and increased provisions.

Now, I will turn the floor back over to Emmanuel.

Emmanuel Grenier:

Thank you, Stéphane. I want to talk about four key points on this slide. First, our number one priority is CDAV, Cdiscount à Volonté, our customer loyalty program. It has grown tremendously. The churn rate is going down and we are finding that our customers order five times more frequently on average after they join CDAV. They also get to take advantage of exclusive special discount offers. We intend to grow this customer base aggressively next year.

Second, we are focusing a lot on growing our marketplace. This allow us to increase the range of SKUs available to our customers, and with the addition of marketplace fulfillment services, our vendors can take advantage of our CDAV program and benefit from the higher order rate.

Third, Alimentaire Express is our grocery delivery service. We differentiate ourselves by offering this service to our entire customer base. We are working in synergy with our parent company, Casino, and expect to significantly increase the number of SKUs beyond 4,000 for one-hour delivery in Paris.

Fourth, we are adding new services to increase existing revenue streams and to create new ones. For example, three weeks ago, we launched Cstream, the only online multimedia entertainment offer available 24/7, it means music, video and books online. It only costs EUR9.99 per month and a third of what you would have to pay to access the same content via existing single media offers.

Finally, you all know that in real estate, this is location, location, location. For us, this is delivery, delivery, delivery. We are rolling out new options on a regular basis. For example, we just started Sunday delivery service in Paris. Nobody else offers this.

On Slide 17, our overall priorities are quite simple: expand our CDAV customer loyalty program aggressively; increase the marketplace with a focus on fulfillment services; reduce delivery time by rolling out more options; and add new services to monetize our traffic.

To finish, the transfer of Cnova Brazil to Via Varejo on Slide 18. This is almost completed. We have an EGM tomorrow where we expect a large majority of our shareholders to approve the transaction. Assuming that happens, the transaction should close next Monday which would reinforce Cnova's financial structure with an expected significant net cash position at the end of December 2016. Once that has happened, Casino will be in a position to launch its tender offer to acquire Cnova shares listed on the NASDAQ and Euronext. We have been advised that they expect the offer to be launched before the end of the year. In closing, I would like to reiterate a couple of things. First, my team and I are fully concentrated on the French market. We have one goal in mind, expand Cdiscount's market leading position in France. This creates value for our customers and stakeholders alike. Second, our goal is to offer more to our customers and deliver as quickly as possible.

So, that concludes our slide presentation. We are now ready to turn to the Q&A. Operator, may we have the first question, please?

Operator:

Thank you. We will now be conducting our question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad now. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. Once again, if you would like to ask a question, press star, one on your telephone keypad. One moment please while we poll for questions.

Thank you. Our first question comes from the line of Tom Wharram with Bernstein. Please proceed with your question.

Tom Wharram:

Good afternoon. Two questions from me. First of all, just a bit of clarity on that last point. Did I understand correctly that you're going to have a net of cash position after the sale of Cnova Brazil. Second of all, if you could just talk about margin going forward and sales growth and how you think about the balance between high sales growth and margin. Thanks very much.

Stéphane Brunel:

Thanks very much for your question. So, on the first point regarding net cash position at end of December, yes you have understood me perfectly well. If we look at things clearly, so the net cash position at the end of September 2015 is minus EUR120 million. If you look at our 3Q performance ex-Cnova Brazil last year, we generated around EUR170 million of free cash flow in the fourth quarter, that's in the 20-F. So, it creates automatically a positive net cash position, and in addition to that Cnova will get the proceeds from the reimbursement of the shareholder loan of Cnova Brazil, and as well as the

remaining cash components. So, yes, we strongly believe that Cnova will post strong capital structure and financial structure as at end of December 2016.

With respect to your second question and clearly as we have always expressed, we are strongly committed to increase gross margin going forward and to increase profitability significantly as well, and that will be clearly one of our key goal in 2017. In the short term, what we can say that we can confirm exactly under the same terms the guidance we delivered to investors in the early days on this year, i.e., an improvement of the French reported EBIT becoming positive, and we reiterate our internal targets with respect to improvement in gross margin and change in SG&A costs. With respect to the last point about balance between margin and sales growth, I turn the floor to Emmanuel if you want to add some other things.

Emmanuel Grenier:

Yes. Three messages here. The first thing is that as you know, we have the leadership on prices on the market and we didn't change this policy in the last month and the last year because we are 5% to 10% lower than the competition, but there is no more investment that we had in the past, the same kind of investment.

Second thing, our priority is Cdiscount a Volonté as you understood. This is driving sales because our customers like that and they order a lot more. So, it will be the first pillar to drive sales in the months coming and about margin and increasing on the margin it will be about the marketplace. The marketplace is growing in GMV and is growing in terms of margin as well. Now, we have the marketplace growing in GMV and in terms of margin we developed two things. We had a little increase in commission in the last month on some categories, this is helping the margin. The second thing is that we are developing new services to the vendors which is helping the margin as well, new services, as for example, visibility package on the site and we are selling that to the vendors.

Tom Wharram:

Okay. Thanks very much.

Operator:

As a reminder, if you would like to ask a question, press star, one on your telephone keypad. One moment please while re-poll for any additional questions.

Thank you. Our next question comes from the line of Stephen Ju with Credit Suisse. Please proceed with your question.

Stephen Ju:

Thank you. Emmanuel, interested in one of your strategy items on Page 17 for France to develop fulfillment services to your sellers. What exactly does this involve? Do you think you'll be making direct investments for increased fulfillment space, or do you think you'll follow the example of what Alibaba has done in its (inaudible) partnerships with carriers. Also units are up 20% and GMV is up 6% which implies your ASPs are down year-over-year. I think you called out softer performances from PCs and home appliances but are you seeing any signs of softer consumer demand overall in France? Thanks.

Emmanuel Grenier:

With fulfillment service, this is a key thing. I remind to everybody why this is key. Thanks to fulfillment, you can have two things. First, you increase the service level to customers because you are managing in our DCs, with our carriers, all the delivery to the customer. The second thing is that when a product, one SKU is belonging to the fulfillment, this SKU belongs at the same time to Cdiscount a Volonté, so

delivered for free the next day to the customer. So, so far we use the square meters we have in our DCs. We speak about not big products but small products so we have organized our DC to store thousands and thousands of SKUs in our DC. So, so far no more investments on that. We have implemented that in our DCs. So, this is a key thing, this is a priority because this is the bridge between the marketplace and Cdiscount a Volonté.

About the French environment, as you have seen, yes we can say that the macro are soft because there was this bad weather and there was this terrorist attacks we had, so we cannot tell you something else about that, but at the end we don't have impact on the macro. So, we are focused on three priorities, and as you see compared to one or two years ago these priorities are, we are more focused on France, they are on Cdiscount a Volonté, they are on the marketplace and they are on delivery options to customer, these are our three priorities.

Stephen Ju:

Thank you.

Operator:

It appears we have no further questions at this time. Mr. Welton, I would now like to turn the floor back over to you for closing comments.

Christopher Welton:

Thank you Operator. Emmanuel, did you want to finish off the call with a few comments?

Emmanuel Grenier:

Yes. Four key points I will repeat. First, expanding CDAV customer loyalty program—which is our customer loyalty program, very aggressively. Increase the marketplace with a focus on fulfillment service, with fulfillment service making the bridge between both of them: CDAV and marketplace. Reduce delivery time by rolling out more options. Just remember: same day, Sunday and at night, because we are able to deliver on Sunday, to deliver the same day and to deliver at night. New services to further monetize our traffic. The first service was this Cstream new entertainment offer we offered to our customers three weeks ago. Thank you very much.

Christopher Welton:

So, that concludes our call. Just a reminder to our listeners that we're having our EGM tomorrow to vote on the Via Varejo-Cnova Brazil transaction. Normally we will put out a press release after the EGM to give you the results of the vote and you should be looking out for that. Other than that, thank you for listening and we look forward to answering any of your questions off-line.

Operator:

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.