Q&A

Raimundo Monge
So, before we turn to the Q&A, I wanted to comment that in-person attendees have received a paper sheet with a survey for your feedback of today's events. We will be very grateful if you can complete this for us, and we will be collecting after the we finish the Q&A. For those who are joining us today in the webcast, the service is available under the research tab, and thank you very much. And with that, let's turn the question first with the in-person, and then we can move to the webcast.

Alonso Aramburu
Thank you. Alonso Aramburu from BTG Pactual. First of all, thank you very much for providing guidance for the next couple of years. Very helpful. I wanted to ask about the culture of Falabella. Enrique started the presentations by talking about transformation and embracing simplicity at the company. And I'm just wondering how ingrained all this has become in Falabella and has the culture needed to change for this to happen, for this to be sustainable over the long term.

Alejandro González
No, Rios was supposed to be here, he's the Head of HR, but doesn't matter. I don't think the culture needs to change. I think we need to embrace what has always been the culture of Falabella. Every business has its different flavors, but there are some common things that we all share. And part of that is, this entrepreneurial spirit that we have. And I think that's what, recovery. But at some point, just to be very open with you guys, four quarters of negative results was something that, as I said before, you didn't expect, we didn't expect. And I think based on that lack of expectation, but probably the reaction was not the one that you would have expected with that.

But now, we realize what we had to do, and now it's basically going back to action. We used to have several, sentences that would reflect the culture of Falabella. One of those was making things happen, and I think that's key. But then again, I wouldn't say this is a cultural change. Maybe, if you want to say at some point during these four quarters we had, we were a bit, knocked down. Maybe we were probably surprised with this belief, but it's basically going back to that, which is the spirit that I see in the company today, by the way.

Andrew Ruben
Hello. Hi. Great. Thanks. Andrew Ruben at Morgan Stanley. Thanks very much for the presentations and all the detail. I'd like to dig in with a couple of follow ups on the guidance if I may. When thinking about the 12.5% to 13.5% target, I'm curious how you think about a breakdown between gross margin and SG&A, and within the context of you've had SG&A control over the years. You're talking about flat in real terms, while also increasing the investment plan. So I'm interested how to bridge those figures. And then second would be within the low end to the high end of the range, what do you see as some of the swing factors to get between those two? Thank you again.

Juan Pablo Harrison
Thank you, Andrew. Regarding the improvement, the expanding of our margins, I would say this is a combination of effects. First, on the revenue side, we are expecting to reach mid to high single-digit growth

for the next years. This is going to be mostly a consequence of the improvement in Sodimac operations and revenues and the better results and growth in our e-commerce business. So, this is on the revenue side. On the SG&A expenses, as Alejandro mentioned in his presentation, we are pretty focused on transforming Falabella into a very, very effective company. Although we don't have any additional efficiency plan, we expect to keep our SG&A expenses growing below inflation.

So, if you can make our revenues growth over the inflation, which is in the countries we operate, is around 4%, it will mean that we are going to improve and expand margins for the next years.

Alejandro González
If I can complement Juan Pablo when he says e-commerce, it's part of what we've been discussing here about this, let's say, adjacent sources of income like value-added services, fulfillment services, those are things that we're starting to do, and they are gaining traction. Those are things that we didn't have five years ago. But it's part of that. And that's part of the, as he mentioned, of the objective that we have to make this break even because we're getting some other sources, more than just saying that we're going into different pathways of income.

Felipe Ballevona
Hi, everyone. Felipe Ballevona from Santander. I have two questions. The first one for Juan Manuel. I mean, the question is, how do you expect the bank's profitability to behave with a growing loan portfolio? And my second question is for Alejandro. Sodimac Alejandro, sorry. It's about, you mentioned that you expect revenue to start recovering the second half of next year. So, my question is, if you could give us a little bit of more color, and it should be the beginning of the second half, later second half, and what are the specific drivers for this in order for us to start seeing recovery in Sodimac? Also, by the way, thank you for further presentations, very helpful.

Alejandro Arze
We think that is going to begin at the beginning of the second half of the year. We are already seeing some trends of recovering, so we think it's going to be at the beginning of the second half of the year. I didn't hear the second part of your question. Sorry. Your question had two parts.

Felipe Ballevona
Yeah. Just what are the drivers we should see in order for
Juan Manuel Matheu
I think it's basically how fast it going to start the home market selling and also the recovery of the construction in the country. But we are seeing some of those trends already happening.

Felipe Ballevona
You already see the housing market

Alejandro Arze
A little bit. Yeah.

Felipe Ballevona
A little bit?

Alejandro Arze
Yeah.

Felipe Ballevona
OK. Thank you.

Juan Manuel Matheu
Regarding the banking business, let me split it in parts. First, in Chile, I am guessing that you're asking specifically about Chile. In Chile, what we see going forward is an increase in top line. As I mentioned, we believe that we're going to recover our consumer loan portfolio growth. We are already doing that, so we're going to increase top line. And also, we are going to see an increase in the cost of risk. And that's because in 2024, we actually improved significantly, the health of our portfolio and that drove liberation of risk probation. But in the mix, we are expecting some growth in net profit.

In terms of the banking business outside of Chile, were very optimistic. In the case of Mexico, 2024 was the first year in which we had profits, and we are expecting those profits to grow significantly given operational leverage. We already achieved the volume that is going to create this operational leverage. In the case of Peru and Colombia, as I mentioned, 2024 was a year of a lot of rethinking in Peru, coming back to profitability, and we expect important profitability growth in 2025 and so on. In the case of Colombia, we are going to go back to profitability, or we expect our plans are to go back to profitability in 2025.

Raimundo Monge
You have two questions from online. Hello? OK. Now it's working. So, one question is from Hector Maya from Scotiabank. Considering the lessons learned from the past few years, what have you done differently in e-commerce? And could you give more details on what you mean by becoming a more curated marketplace? And the second one is Irma Sgarz from Goldman Sachs. How should we think about the trajectory of GMV growth from here - feels like a lot of pieces are now in place or is there anything specific that you feel can trigger this. Also, within this, how should we think about mix between 1P and 3P going forward?

Alejandro González
Let me take the first part, because we've done a lot of self-analyses, and things we did that work, things we did that didn't work. And I guess the most relevant part probably would have been to keep the specialist sites from Sodimac and Tottus. I think that's probably the one thing that we did that really didn't kick in the customer as we were expecting. And therefore, the improvement that we're seeing this year also reflects that there was a lot of value there. The rest, a big part was investments that we didn't have.

And let's just say that when the pandemic came, it did change the competitive environment big time, and the capabilities that we had at that point, which, by the way, were way better than the so-called competitors we had at that time. The reality after the pandemic was totally different, and we were facing, competing with top world players. So that's the one thing that I would have done. And I think Francisco if you can get all the marketplace part.

Francisco Irarrázaval

Thanks for the question. I think sometimes we use a word that means something to us, but it's not necessarily clear. The curator is the guy who sits in the museum and determines what can enter the museum or what cannot enter a museum. That's not really what we mean by curated marketplace. What we mean is that the Falabella brand stands for quality, stands for authenticity, stands for long-lasting memories, and those things we do want to curate more in some categories. So, for instance, in makeup, we are thinking of a very by-invitation-only sort of marketplace, because we don't have or take any risks there, whereas in other areas as computer accessories or cables, we are definitely going to be much, much open in that regard.

One year ago, we had 20,000 sellers, and we still have 20,000 sellers, but they are not the same sellers. So, we are in this process of refining what's being sold with much more care about the quality in some categories, and more flexibility in other ones. And how we envision the penetration of 3P in the future. We see a huge opportunity here. Most of the e-commerce in the world is at a half and half; we think we're going to get there. We've been growing twice or three times faster in 3P than in 1P, so that's a trend we do want to keep. But then again, it varies from category to category. There are some categories that we're pushing very aggressively towards 3P because it's more profitable, it's more flexible. The best example would be furniture. And there are other categories when we're not really pushing that too much. Best example maybe perfumes, So, it's not one single answer to that question.

Felipe Molina
Hello. Felipe Molina here from Scotia Bank. Thank you for the invitation. I have a question regarding the bank. Would it be fair to assume that you have an attractive opportunity to grow consumer loans? Would this be part of the focus of your strategy for the bank? If so, how would you leverage your digital capabilities to drive growth in consumer loans? And do you believe Bank of Falabella could potentially become one of the top three players in this field in Chile?

Juan Manuel Matheu
OK. Thank you, Felipe, for the question. I think that during these very challenging credit risk years, what we have done is actually acquire more customers, and actually deepen our relationship with these customers. That has been reflected in the number of purchases, the volume of purchases, and the principality levels. I think that now what we will do is to leverage that customer base, that bigger customer base, and more loyal customers, in order to grow in consumer loans. That is something that we can clearly do through our digital capabilities. Most of our consumer loans are actually contracted by the customers in our apps, in our web, and as you have well seen, we increased also the number of customers actually interacting with our web app and in our app. So we believe that we are going to grow in consumer loans, and we are going to leverage on our digital capabilities.

Alonso Aramburu
Hi. Thank you. A follow up on the bank. There's different levels of profitability, very different between Chile and Peru and Colombia. When you think on a consolidated basis, which is how you report it in the financial statements, what do you think is a sustainable level of ROE for the consolidated banking operation? Do you have a target for that? And when do you think you can achieve that?

Juan Manuel Matheu

There, I was going to look to Raimundo to see what I can say. And I can't say but let me tell you the following. In the case of Chile, we are expecting basically, to increase somehow, or increase a little bit the ROE that we have achieved during the last months. In the case of Peru and Colombia, we believe that we are going to be able to significantly increase ROEs in those countries and the same in Mexico. And I think that you can actually look at the trajectory that we have been having in Colombia. Actually, I think that it shows clearly that we are in the way to do so. The same happens in the case of Peru. And in the case of Mexico, as I mentioned, I think that we have been showing an increase in the top line with no need to increase significantly our SG&A and our operational costs. So, I would say that ROE, in a consolidated view, will be favored by an improvement in the ROEs of our businesses outside of Chile.

Alonso Aramburu
OK. And just also following up on that, how replicable do you think is the strategy that you have implemented in Chile, becoming more of a digital bank in Peru and in Colombia? And another question separate from that, there was very little talk about Brazil. If you can make some comments about where Brazil stands in the strategic focus of the company for the next five years?

Juan Manuel Matheu
In terms of how replicable, I believe, or we believe, that there are things that are very much replicable, and those are two main things. One is the digital value proposition. And we are organized to actually do so. We have a digital factory that works for Chile, Peru, Colombia, and Mexico, and we have the same idea of architecture in all the countries. And that's something that we thought about several years in the past, to be able to develop a customer journey and be able to replicate that digital customer journey in the four geographies. So, I think that is something valued by the customer in all of the markets we operate in. And also, we are organized, and we have the IT architecture that will enable us to do that.

The second replicable thing is benefits. We have been pioneers in providing a lot of benefits, both from the ecosystem, and from outside the ecosystem, with a loyalty program in all the geographies, and we believe that that's really distinctive from our strategy and very valuable to customers. So those things we believe are replicable. Then our business is a very much regulated business. So whenever go to a country, we are going to see differences, maybe in our revenue model given those regulations, in terms of interchange fees, in terms of maximum interest rates. So, what we are really very conscious, and I think that that's a lesson learned. You ask about lesson learned in a previous question, is that we do think that our customers value digital, our customers value benefits, but we need to be very conscious on the different regulations in our banking businesses, in the different markets, and adapt our model to those situations.

Then there was a question about Brazil, right?

Alejandro Arze
Regarding Brazil, our main objective is to recover profitability. We're not going to do more investments until we do that. So, in the next years, we don't forecast that. So, it's that simple. That's why we didn't go through like in deep.

Javier Toledo
Yeah. Hi, everyone. Thank you for hosting the investor day and for taking my question. Javier from Itau Asset Management here. Again, on the banking business, when you look at the EBITDA margin evolution,

one of the business units that is pretty far from pre-pandemic levels is the bank. So, I just want to understand, where should we expect EBITDA margin levels to behave during the next couple of years, and if there is any possibility to see those levels of 28%, 29% again in the future. Thank you.

Juan Manuel Matheu
OK. I think that maybe Raimundo, you can provide exact guidance on numbers, but I can elaborate a little bit on trends. As I mentioned, I think that there are differences country by country. In Chile, there are maybe three factors to consider. One is the evolution of our consumer loan portfolio. As you have seen, our consumer loan portfolio has been pretty stable through these years, and that is something that is going to change. Our consumer loan portfolio, we expect it to grow, and that's going to actually increase the interest generated.

Second, there's a cost of funds. Interest rates in the country have been decreasing. The central bank rates have been decreasing, and that is a trend that will probably continue. So those two factors increase the volumes and also decrease, and the cost of funds will actually drive an increase in net interest margin. In terms of risk, what we expect is to improve slightly the health of our portfolio. That is something that we have accomplished during the last year, but now we think that that is going to remain pretty stable. When there are changes in the health of the portfolio, that can actually increase risk provisions, or actually decrease risk provisions.

So that's why I think that going forward, or this coming year, our cost of risk can actually go up, But adding all of that, we expect a slight increase in net profit. That's Chile. In the case of Peru, we see room for risk to go down. There's still room for that. I think that the economy there, or maybe the market, the consumer credit market is in an earlier stage, so there's still room for risk to go down, and that is something that we expect to benefit from. In the case of Colombia, again, I think it's more like Chile. We expect volumes to start growing, but a little bit more into the future. Interest rates there will probably go down too - I mean, the cost of funds will go down. So those are the trends that we are seeing going forward.

Raimundo Monge
So, I have two questions from the online audience. One is from Nicolas Laraine from JP Morgan. He wanted to get some comments on the competitive environment in Chile, particularly in the online form from other marketplaces and in the home improvement stores. And the second question is related to home improvement in Chile, from Hector Maya. You talk about the strategy and focus on the professional-client segment, but could you also share your strategy with the general retail consumers that represent 50% of the sales, and is there space for improvement on the margins from a more favorable mix or with your loyalty?

Alejandro Arze
Well, definitely, the final consumer is very important for us. In the presentation, I highlighted more the professional customers, since we think that their frequency and ticket purchases is very important and it's very high, and they also influence a lot some of the customers with whom we're doing a project. Also, in the last couple of years, the sector has been more impact in the construction segment, is the construction done by professionals or business to business. So that's why we expect that the recovery is going to be higher in that segment than in the other. But we also expect a growth in the final consumer sales for the next years.

And in terms of margins, we're also expecting recovering margins to the levels that we had before the pandemic, or close to that. And an important factor in the recovery of those margins are our private brands, as I mentioned. During all the pandemic period, and a little bit after, we weren't able to import all the brands that--all our products from our private brands, so we had to rely on suppliers and that affected the overall margin that we had. But now that we are importing back as we used to do before, you can see, if you visit our stores that we have more innovation. You have more new products, more special buys, and that will foster the consumption that our final customers do at our stores.

Francisco Irarrázaval
Regarding competitiveness in retail, I think retail is a super, super competitive industry. We compete with every best brand in the world. We compete with every channel. We compete with local marketplace and international marketplaces. We compete basically with everyone because goods won't ask for permission to cross a border. They just come in. But this has always been like that. I think Falabella is very used to competition. We have been immersed in this competitive environment for a long time. It's always been the case that we have competitors. And I do think that in that scenario, it's important to know what are you very good at, and what are the gaps that you need to fill. We are very confident that we're very good on omnichannel. We're very good on having the best brands and providing an omnichannel branded lifestyle-oriented sort of user experience. That is something that is actually very, very hard to replicate, and I think we're going to partner very strongly with the best brands because they do want the same. So that's one thing.

Now, the gaps, I think we're really filling the gaps in terms of services, in terms of speed, in terms of post-sales, the home delivery team here, led by Benoit, has been super fantastic in that sense. So, we're really filling the gaps, and we're very aware of those gaps, and we're confident that we're going to be able to close them. And on the international side, we're placing a lot of focus on bringing high-end brands internationally only. So our international marketplace is oriented mainly for big, super well-known brands coming from the outside that are not available here. We're not going to compete with cheap, generic items. Nothing is out of our scope. I'm not really afraid of that.

Benoit De Grave
Maybe just to compliment, we're seeing our how our strategy is getting traction through our specialty value proposition, through Tottus and Sodimac on one side, and for the more general value proposition, through Falabella. And this is gaining traction online, but it is also getting traction with the omnichannel value proposition. The ratios of research, online, purchase, and offline that we see are showing us that strategy is the right one, we believe.

Itaú BBA
Hi, can you hear me? Yes? We are from Itaú BBA. I have a question regarding CapEx. You mentioned a lot about CapEx, regarding the offline part of the business. I just want to understand if - and you also mentioned, also that you guys have done a lot of things during the '18 to '22 period. I just want to understand you in the IT part of the business and the logistic part of the business, if there is anything else that you need to come to complete what you are expecting, of the strategy going forward, in terms of logistics, IT, anything that maybe are still pending going forward? And my second question is regarding the guidance. It's heavily dependent on sales and fixed-cost dilution. So I just want to understand how flexible is the

company and the strategy if that strategy is not met, if, for example, the macro conditions are not good enough to meet the increase in sales. So how flexible you guys are to adapt and change that, you also mentioned that you don't have any other like synergies going forward. Just quick on that.

Benoit De Grave
OK. Thanks for the question. So you asked a very specific question about CapEx in technology and logistics. What I can say is that we've done some CapEx in those areas in the previous years, and we've announced those investments in the previous years, but today, this is done mainly through OpEx, right? So, because the developments have been done, and therefore what you see in the new CapEx for next year, for example, in technology and logistics, is mainly through OpEx. And the reason is that we are deploying technology? And we are able now to capture so many new deployments in warehouse management, last mile management, and also in digital e-commerce, as I mentioned, omnichannel, stores and merchandising, and digital banking.

And the second part of your question, if I may respond, at least at the delusion of fixed costs, this is what's also happening in the e-commerce part, where, through growth, we are diluting very quickly, the fixed cost, and that's the reason why we are putting that target of reaching break even by the end of 2026. But since we are capturing this, those synergies across the business unit, because we do have those different platforms, but customer-facing different platforms, but at the back end, it's all the same, we may be able even to reach that break-even before.

Alejandro González
If you allow me to compliment Benoit, mid-single digits, is not what I would describe as a way to heavily depend on increasing sales. It's more in line to what we're saying, because actually, in 2025, we're expecting probably '26 should be more of a normalized year. But '25, I mean, you see any projection of any economies, it's not going to be a booming year in any of the main markets that we have. So, it's more of a kind of recovering things, keeping efficiency costs at some point, SG&A taking care of them, and growing less of inflation. And it's more of a continue, basically doing what we have. And some of these incremental sources of revenue that we have are like value-added services, which are relatively high margins compared to the other products that we have.

Felipe Molina
Hi. Felipe again, here from Scotia. I wanted to know if there is an update that you can share regarding the conversations with the rating agency considering the leverage target that you aim for of 2.5, three times net debt to EBITDA. Thanks.

Juan Pablo Harrison
Thank you, Felipe. Our rating agencies are already here, so I have to be careful. No, no, no. As always, I would say we have maintained our very close relationships with them, having meetings, I would say, every month and sharing our projections, and defining certain commitments. And I would say today, we are pretty focused on achieving the goals that we commit with them. I would say that this is the center of our attention today, in the relationship with them, to gain credibility, to demonstrate to them that we are capable to achieve what we are projecting.

Alejandro González

Yeah. If you allow me to compliment, we're willing to give them a hard work so we're going to go back to numbers consistent with investment grade as soon as we can, and then it's their sovereign decision.

Raimundo Monge
I have another question here from the online audience. Raimundo from Itaú. It's for Mallplaza. It's regarding what you think are the growth opportunities in the Chilean real estate sector. Is Mallplaza aiming to expand its footprint in the country, both organic or inorganic opportunities?

Fernando de Peña
Thank you for the question. We see growth in Chile mainly by Brownfield and mainly in tier-A malls. And the reason is that retailers want to have the best proposal in tier-A malls, because of the size of the market and because of the capacity of attraction people of these tier-A malls. We just opened two weeks ago in Mallplaza at 20,000 square meters of lifestyle. And there we have Zara 4,000 square meters, an H&M of 3,500 square meters, a Casillas, 1,500 square meters. So that's the trend, and that trend will be mainly in tier-A malls.

The good news for Mallplaza is that we have a big amount of tier-A malls in Chile. By other hand, in tier-B malls that there are malls that lead to mid-market, we have almost all of them. So, there we also are seeing a lot of demand. So, then we think that we will have growth, Brownfield growth. The good news for Mallplaza is that we have land available in almost all of our tier-A malls. So, we think that this trend will happen in Chile, in all the tier-A malls, not only Mallplaza malls, of course.

Saying that, we don't see too much growth in Greenfield. For sure, we don't see a tier-A mall by Greenfield, but maybe, there will be specific growth with Greenfield. That could happen or will happen. By the same way, in tier-A permissions, they are very, very complicated. There are two or three cases that we know about the press that they have a lot of conflict, one, six years of conflict. Another one, two years of conflict. So, then it's so complicated to do Greenfield and the market, it's so well served that we don't see too much Greenfield in Chile, but maybe some specific project for sure.

Raimundo Monge
Is there any other question here in the audience?

Unknown
It's more like an open question for Alejandro. I think one of the messages that I took from the presentation is that you're well prepared to grow again, but you're making an assumption that growth always comes with profitability. It's not easy to grow with profitability, so why not put this investment plan with also an efficiency plan being more, let's say, specific on this issue, more than saying that just SG&A will not grow, in real terms? That's the question.

Alejandro González
Yeah. Please don't get the feeling that - I mean, two years ago we announced a plan we were supposed to go, Juan Pablo explained, $250 million. We ended up getting $400 million and it was slightly $400 million with FX. It was slightly more than that. But don't get the feeling that we're not looking for that. I think the message is that we're not going to do something that dramatic. At that point, by the way, we ended up reducing the FTs by 50%, the whole company. That was a lot of pain.

The message is, we're going to probably be more tactic. There are several things that we're going to be simplifying the organization. And I would guess, it's part in our DNA to be continuously looking for savings reduction. And I'm not going to look at the rating agencies. And two years ago, a year a half ago, we were not able to comply with what we were saying into the markets. We were surprised with the performance we were having. So now we're going to play on what we know we can rely on, but I'm pretty sure the aim for us is certainly to go down in SG&A. But it's going to be something that's going to be a function also of eventually, new business roads that we can get.

That's why I was mentioning all this, for example, fulfillment service is something that we're starting to do, and it's something in which we already have the assets there so we can monetize that. Same thing, value added service, not only in the sites, in the shopping malls, we're witnessing opportunities that go beyond what we consume. That's why we are confident with the numbers that we had. But rest assured that - I mean by the way, keeping SG&A flat with inflation, assuming that you're growing in sales, that also implies a reduction for us.

Don't forget that most of our salespeople, they do have a viral payment. People in the store, they get a viral payment based on performance. So, there's going to be more - point is, we're not going to do something traumatic. You're not going to see another 15% of the company going down, because, among other things, the majority of the people that work at Falabella are in the stores. And please don't get me wrong, that, I would say channel has always been performing. I mean, the Falabella stores, they're always been profitable. Francisco said, well, there were some stores that were underperforming. Well, we took them off. Which, by the way, there may be someone, some other store in the future, but what we're seeing is that when you spice up the experience and this more specialist approach, we've done some pilots on that, and the performance have been, I mean, two, three weeks ago, with Roberto Paula here at Parque Arauco, it was crazy. And those are things that we're starting to basically put some effort.

And that's why, if you see in the investment land, there's a lot about experience, same thing in what Fernando was mentioning about the shopping malls. But that said, I'm always getting ready to - I mean, don't forget that I used to be the guy running the acts in this company, so I look for savings everywhere in SG&A. But the point is that you're not going to see something that dramatic, like the $400 million that we saw, unless we bring some technology thing that we are, as Juan Manuel was mentioning, we're getting to this to see if we can get savings, but nothing that I would be able to comply or to commit with the investment community.

Lunch? Thanks a lot, everyone. And see you in two years or hopefully in one. Bye.