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Tottus: Refocusing our strategy to better serve our customers

Renato Giarola, CEO of Tottus

Hi, good morning. Let's keep going forward. Let's talk about the food retail. OK. For whom that doesn't know me, my name is Renato Giarola. I've been working in food retail for more than 20 years. I'm Brazilian. I used to work for Carrefour, DIA, a Spanish discount formats, GPA, with premium supermarkets, supermarkets, hyper markets, proximity, premium proximity, \$1.99, it's dollar store, Brazilian dollar stores, after that, supermarkets, Brazilian supermarkets. And I joined the Falabella group last year. It's one year now. It's been one year that I'm working in Tottus. It's being a very interesting challenge, and we are achieving some very good results this year.

Let's talk a little bit about Tottus. We have only two countries, nine stores in Peru. It's 32 hard discount stores, Precio Uno hard discount stores, and 58 Tottus and 73 Tottus in Chile. We are the second in the market in Peru. We are the fourth in Chile, and we achieved \$2.6 billion in revenues. When we compared to Falabella and when you compare to Sodimac, seems lower and seems smaller than, but when you compare \$2.6 billion in Brazil, it's the sixth chain in Brazil. It's quite a huge company also.

The revenues, OK, we have accumulated this year around 5% in increasement, but the last quarter, it's 7% in Chile and 8% in Peru, because of all the leverages we are implementing in the whole year, in the transformation we are still implemented in the projects, and also the project that we have forward for 2025. The EBITDA, we reached two points more, more two points in reaching 7.1 this year in improving with sales, promotions, margin negotiations with suppliers and efficiency. All the time, implementing projects with better efficiency to deliver the foods.

Food, it's interesting because it's basic. It's very stable and essential demands. If we see the households expanding, in Chile, it's 21%. When we see low classes, it's 31.6% of their spend. And in Peru, it's even more, it's 42.5%. When you see the lower classes it's 53%. It's a half of the household spending in Peru with foods. Another characteristic very interesting in the supermarkets is the frequency. We have 1.6 more-around 1.5 more frequency when compared to another business. We have clients every week or twice a month in our stores. We can engage these clients with all the leverages we are implementing. And also, the first leverage that we are implementing and reinforcing is perishables, to bring the clients every week in our stores.

The new Tottus. Why the new Tottus? We started the year looking over the value proposed, and understand the Chilean clients, the Peruvian clients, and what are their needs and their expectations also, and we are doing this transformation. We define the value proposed in the first semester. We started to implement it in the second semester. And we have the whole of next year to finish all the implementation that we defined in the first semester. A better client price, experience equation. Why this, we are supermarkets. We are not discounters. Precio Uno is another thing. We are a supermarket. We should deliver a better experience all the time in perishables, a very good perishables category. And prices also. It's a basic need; it's a basic client need. We need to lower prices all the time with efficiency and better negotiations with the suppliers.

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We have three pillars, experience with low price perception. We're going to talk forward customer engagement and differentiation, operational excellence. About the price, we started the year doing new negotiations with the suppliers and getting closer with the suppliers, changing the way Tottus uses it to negotiate with for the suppliers. We call this structured negotiations. It's a model, it's a methodology that brings more from the supplier and works closer with the supplier. Aggressive pricing model, we drop down 5% our prices here in Chile and also in Peru, a dynamic promotional model. It's the clients of foods. They are all the time seeking promotion. And we started in May to increase the promotional in the stores, and we started to increase much more the sales.

When we talk about differentiation, we have some leverages that we are preparing, and we are implementing the portfolio. We have 15% more SKUs this year, comparing the last year, 2023. Perishables. Perishables. We are working on butchery. We are working on bakery, fruits and vegetables, and bringing the best quality we can offer for the clients. This is food. Every time we try to sell very cheap products, we know that the clients don't want this. The client wants all the time, quality, quality, quality and quality.

Let's talk about the private label. Private Label, we are re-evaluating all the private label we have, and we are going to launch in the next year, another private label with more modern editor and with a lot of differentiation and high quality. We hired some people from Europe, some people from Brazil to help us to do this. It should put the private label on another level, with cost benefit, better cost benefit and to be one of the best loyalty leverages that we have. And also, the corporate loyalty program, because of the frequency that we have with the clients in our stores, it's strengthened. It's a strength that we have, and we are going to go on with this.

Also, experience. We launched last week, a new store in Peru, in Punta Hermosa, with a total different experience. When we talk about the store, when we talk about the layout, when we talk about the perishables, when we talk about the services, and these stores got 15 points more percentage in participation, in perishables, and the NPS also five points more. It's inspiration in some formats, European formats and Brazilian formats also, and it's working very well. The last week in December, we're going to launch, I store here in Chile also, with the same model, with much more perishables. This kind of stores, the participation of perishables, it's around 35%.

Also, the internet, the ecommerce. It's very, very important for us, but the most important for food is this, ninety minutes to deliver to the clients. And we have a very good instructor. We are improving all our application, and we are re-launching our web, a standalone web with a better SEO and marketing. And also, we are going to start to monetize and do the retail and sell the retail in our both channels, web and also the application. Our promise in 90 minutes and 24 hours and 48 hours for known foods, we are completion about 85%, 87%. We are delivering in a very fast way. It's working very well.

When we talk about Peru, we have discount format. This discount format we got a transformation this year, turning to a food discount format with a very low price. And it's working well. It's growing around 15% and 20% since July when we start to implement a very strong format in this--it's a food format. It's very cheap, 10% less than the market, with a lot of rotation and basic goods. All the time, basic goods, rice, oil and promotions and communication also. In Tottus, we are continuing to against the profitability, efficiency and a better store, better experience, a better experience, and better prices also.

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In Precio Uno, next year we are going to start to expand again. Fast-growing demand because we have a 70% of the market in Peru. It's a traditional market, and we know that we can get delivery, a better offer for the clients with better prices and a better quality also. Lower prices, 10% less compared with the market, even with the cash and carries, and even with the traditional markets, we can deliver them with 10% less in prices. We have now five stores to open in 2025 but we are seeking to open more stores next year.

The key takeaways. Next year, we have a lot of projects that we need to deliver for the client to implement in the stores. Here are some highlights. The new private label brand architecture with more modern way to do private label and to bring this loyalty, the client's loyalty. Transforming in-store experience, we are going to change the layouts and bring much more food and much more perishables to entrance of the store and to be a real food retail. Expanding, as I said, six stores, five, six stores in the next year, but we are sourcing and looking for new sites to open stores in Peru, in the whole Peru, in Lima, in countryside. Our format is working well because we have a discount format also for low density.

When we talk about our competitors with a very small stores like Mass, like in Colombia, the UNO, like Mexico, 3B Mexico, they have small stores only for high density. We have stores that come from 800 square meters to 2.5, 100 square meters. And then we usually do very well in low density also. And drive operational excellence all the time, cutting costs and seeking for new methodologies. We have a huge team from Europe and Brazil working with us to change all the logistics that we have, all the operational in stores, methodology in commercial area also, and syncing all the time operational excellence.

OK. That's it. Thank you very much. Now, let's talk about Mallplaza, Fernando de Peña.

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