Financial Performance: Improved margins and financial strength lay the foundation for sustainable growth

Juan Pablo Harrison, CFO

Hello, everyone. Thank you for joining us today. In this section of the presentation, I will show you how the strategic adjustments that Alejandro just mentioned have been translated into our financial position and results. First, I would like to start saying that we are very happy to report that when we see our operations, all of our business units have shown significant improvements compared with last year results. Those are very good news for us, but we think we recognize that we still have opportunities for further improvements across all of our business units. To talk more in detail about that, in the next sections of the presentation, our CEOs will share their strategy and the specific actions that they are following in their respective business units.

Looking at our performance progress since our last investor day in October '22 when we launched our efficiency plan. We can see that the trajectory regarding profitability and financial positioning has been improving significantly. Regarding the profitability, when we see the numbers of the third quarter, we reached an 11.6% of EBITDA margin. This number has been achieved through the implementation of various initiatives in the context of our efficiency plan. Being the most relevant ones, the drastically reduction in our inventory levels, the more optimized marketing activities, our logistic management enhancement, and finally, we streamline our corporate structures.

As a summary, the implementation of our efficiency plan allowed us to save approximately $400 million in SG&A, compared with the very favorable with the $250 million that we originally announced. When it comes to leverage, it's important to notice that almost 90% of the positive trend that we have seen since June last year is a direct consequence of the improvement in the profitability that I already mentioned. However, this positive effect has been complemented this year with a very selective CapEx plan and with the successful implementation of our non-core assets monetization plan, which already achieved approximately $700 million.

Here, I would like to highlight that all the initiatives that we include in this plan have been executed at very attractive conditions and valuations for Falabella. Finally, when we're looking forward, we set a target between 2.5 times and three times in our long-term leverage. We think that with this level of leverage, we will have the flexibility that we need for the future, for capitalizing on any growth opportunity that our business unit could offer across the region.

Here in Falabella, we are committed to maximizing the value for our shareholders, and in that line, we see three key financial priorities. First, continue strengthening our financial position, aiming to capture any growth opportunity that could appear in the future. Second, focusing our investment plan and capital allocation strategy to enhance and boost the organic growth in our business units. And finally, continue improving the profitability levels in the company.

Regarding our financial position and debt, first, it's important to mention that, from a corporate point of view, we have allocated our debt to two companies. 60% of our debt is allocated at the holding company level in Falabella S.A., and 30% is allocated in Mallplaza, which today has a very strong financial position. When we take a look into our maturity, today, we feel pretty comfortable with the maturity profile that we have for the future. However, I would like to explain more in detail, three relevant obligations that we are going to face during the next years.

First, we have a group deal signed with three international banks that is going to have a maturity in November 2026 for $300 million. And second, we have the remaining balance of two international bonds, the first one with maturity in January 2025 for $200 million, and the other in November '27 for $300 million. Here, I would like to highlight that we already have in cash, in our balances, the full amount of money that we are going to need for the payment of the January '25 maturity. Regarding our investments priorities here, we are presenting our CapEx plan for 2025. It will totalize $650 million, representing a significant growth of 30% compared with this year. It's important to highlight that with this kind of CapEx plan, Falabella is recovering the historical level that we invested in previous years.

Talking about the composition of the plan, it's important to notice that we are allocating more than $450 million to open, expand and transform our stores and shopping malls. With this amount of investment, we are looking to boost the organic growth across all of our business units. Regarding the growth we are aiming to open 15 new stores during the next year, focusing on Sodimac stores in Mexico and supermarket stores in Peru, most of them under the brand of Precio Uno, which is the discount format that we manage in this country.

Regarding the expanding and transforming of our footprint, I will highlight two items. First, the plan that Mallplaza has for enhancing the assets in Peru and transforming TRI shopping malls in Chile. Regarding our stores, we have allocated a significant amount of CapEx for remodeling our stores, aiming to adapt them to our current strategy, and, of course, enhance our customers experience in the stores. In the next section, Alejandro, Renato and Fernando will explain in more detail their expansion strategy.

In terms of profitability, we think that with this CapEx plan, combined with a gradual recovery in the consumption levels, we will be very well-positioned for continue expanding our margins for the next years. This will be supported by a mid to high single digit growth in the top line, the recovery in Sodimac operations continue growing in our digital bank business and better economics from our ecommerce operations. Which, by the way, we expect to reach the break even by 2026. All of this will be supported by our focus in keeping stable our SG&A expenses in real terms. In this line, we have set a target of expanding our margins between 200 and 300 basis points by the end of 2026.

Finally, as key takeaways, first of all, reinforce that we already have the funds for covering the January '25 international bond maturity. Second, that we expected to reach break-even in our ecommerce operation by 2026. And finally, and the most relevant one, I would say, is that we're in the middle of the process of recovering our investments, and we think that we are very well-positioned for continue expanding our margins and for reaching our profitability targets. From a financial point of view, here in Falabella, we are focusing on recovering growth, profitability and our investment levels to achieve a balanced and successful digital and physical future.

Thank you very much, and I leave you with Alejandro, which is going to give some insights into Sodimac strategy.