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Sodimac: market leadership through an enhanced value proposition

Alejandro Arze, CEO of Home Improvement

Good morning. My name is Alejandro Arze, and I'm going to talk to you about the home improvement business that we run here. Sodimac is today present in seven countries. We have more than \$5.7 billion in revenues. We serve more than 20 million customers with more than 260 stores, and we are number one in market share in Chile, Uruguay, Peru and Colombia. We have been facing a global slowdown in the construction industry in the last couple of years, has been very tough for the industry, but we see that the interest rate are starting to go down. That will accelerate the sales of homes and that will foster the construction business.

As a matter of fact, the official projections for the main countries we operate are starting to go better, and we see how the sales of new homes and the construction's GDP is projected to growth next year. With that, we are projecting that our sales are going to recover in the second semester of next year. During this period, we have been working on our margins, and we have been reducing our SG&A so that we feel that that would leave us in a lot better position to capture that growth of the market, so we are prepared to grow and recover profitability.

We have a winning strategy for our three customer segments, the consumers, the professionals and the business-to-business. Our value proposition is to offer all products and services at the best price and in the right quantity. The right quantity is very important for professionals, they need to have job lot quantity, all of these in one place with a seamless omnichannel experience. Our strategy has resulted in a strong brand awareness. In our main countries, we have more than 90% brand awareness in Chile Peru and Colombia, and more than 60% top of mind awareness in Chile and Colombia.

To lead the home improvement market in the main countries we operate, our strategy is focusing four pillars. We're focusing on the pro, we're focusing on our private labels, the growth in omni channel, and also the product and expert experience innovation. The professional customer is very important for us. He has a lot larger frequency than our regular customers and a bigger ticket. So, we are building the relationship with them through a loyalty program and a specific loyalty program for the pro that is called the CES, that is aimed to build that relationship, giving them the right product at the right price, at the speed they need the products to be on their job site, and with the proper financing.

We're also improving the experience that our professionals are having with us. One example is we set up a new app. So when you subscribe yourself to our loyalty program and you log into your regular app, that app will automatically lead you to a customized professional app that has your professional products, has your loyalty scheme details, has customized discounts. And we are also building, every day, more capabilities for the customer. And this is something that we did, was some of the capabilities that Benoit mentioned, that we built. We were able to launch this in a very short period of time.

We're also improving the service that we give to the customers within their experience at the store. We are personalizing services for our best loyalty scheme customers at the store. We assign one salesman that the customer can call. He can ask the salesman for quotations. He can ask that salesman to pick up the items so he can just go to a store, pay, collect them and go to a job site. And we can even deliver those to the job site right away, without the customer even going to the store. We also set up some co-workspaces

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at our stores where professional customers can go, can quote for their customers and then purchase the products and go directly to a job site. We have already done this in 95 out of our 260 stores.

Our second pillar is private labels. Private labels are very important for us. They already account for around 30% of our sales. And they're very important because they give us some important things. They allow us to differentiate from the markets. When you have a private brand, it's a brand that no one else in the market can have, so we differentiate from our competitors. It's very important for us in terms of profitability, just for you to know, and the all in margin of our private brands are around 10% higher than the regular brands that we run. It also gives us the possibility to have product authority. When you develop your own products considering the needs of our customers that we know of them at the stores, you can have products that are specially designed for them and gives you product authority within the different categories.

And finally, when you have strong private brands, they also give you stronger supplier negotiation or more negotiation power. When you have a power brand in a certain category, you can have better negotiations with the other suppliers of that category. The third pillar is to grow in omni channel, and we are doing that to become a specialty superstore in home improvement, basically leveraging five strategic access. The first one is assortment dominance. As we have mentioned before, we are planning to increase our 3P offering through 3P sellers, and that will allow us to have all the long tail and become key players in different categories. All of that with frictionless purchasing experience, we are working on improve our after sell services, we are differentiating the pro client functionalities, as I already mentioned two slides ago, and increase the profitability, mainly through Sodimac media and also through the selling value added services.

I want to share with you that at the end of the last semester, we re-launched Sodimac.com to position ourselves as the home improvement leaders in Latin America. With that, we were able to strengthen the brand, improve our value proposition through a more specialized Home Improvement website, and we also benefit from the research online effect that has on offline purchases. As an example, our GMB in the third quarter grew 30% and our monthly active users grew 84%.

The fourth pillar is that we are strengthening the in-store exhibitions to improve our customer experience. I'm going to share with you three examples of what we are doing. The first one is that we are moving from, in some categories, to have inventory, to have exhibition, to get more showrooming. One example is in floorings. We used to have in the flooring department, like the exhibition and the inventory all in the same place. And given the size restrictions that we have, we were able to show only a certain amount of SKUs. With the capabilities that we have been developing for the home delivery, what we did is we put all the inventory in a centralized warehouse. We used the space at the store instead of having inventory for those items to use them as a showroom. So, we increased the amount of tiles, for example, that we show to the customers, improving their experience. In every single store where we did that, the sales of flooring increased more than 30%.

Other thing that we are doing, the last year, we have been transforming some Maestro stores in Peru to Sodimacs. We just transformed four stores, and in each one of those stores, once we finished the transformation, we grew 50% in each one of them. The third initiative that I want to share with you is that we are developing a compact format. With this format, we're aiming to target either small cities or urban areas where you cannot find the proper lot to install a big store. So, we already opened three of those, and

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we base this format in the experience that we have in our smaller stores in Brazil. We already opened three stores, two in Mexico, in urban areas in one in Sincelejo in Colombia, which is a small store.

With all this, we are well positioned to capture growth in our main markets. In Chile, our objective is to maintain our leadership position. We have a strategy that is defined category by category to recover growth, margins and profitability, maintaining a strict expense control without effective affecting the consumer experience. In Colombia, we're aiming to expand the footprint in new cities, maintaining the operational efficiency, and we have also some potential areas of growth, improving our value proposition in the business-to-business market. And in Peru, we're going to continue with the transformation of some Maestro stores to Sodimac. This year, we plan to transform between nine and 10 Maestro stores to Sodimac, enhancing the customer experience and innovating the showrooming.

Mexico is the highest growth potential for Sodimac. We have been here already six years. We have 15 stores in seven cities. We're selling more than \$200 million and 36% of our customers are professional customers. Most of them are already enrolled in our loyalty program. In Mexico, we have been optimizing and standardizing our stores that allow us to capture efficiencies and improve profitability and also allow us to grow faster and open new stores in a better way. We have been enhancing also our loyalty program in Mexico, and we are looking for the benefit of scales with new stores in relevant cities.

With that, I will move to my takeaways. We're going to keep developing the professional value proposition in order to increase that segment's loyalty. We are going to improve our assortment to become an omni channel in the home improvement superstore. We are prepared to resume growth and increase profitability in our main countries, and we will continue expanding our footprint in Mexico.

With that, I'll leave you with Francisco Irrázaval, Falabella.

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