

Earnings call 3Q17

October 20, 2017

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- **Good Morning and welcome to Liverpool's quarterly conference call!**
 - **As usual, we will quickly review the highlights for the 3er quarter and leave most of the time to answer your questions.**

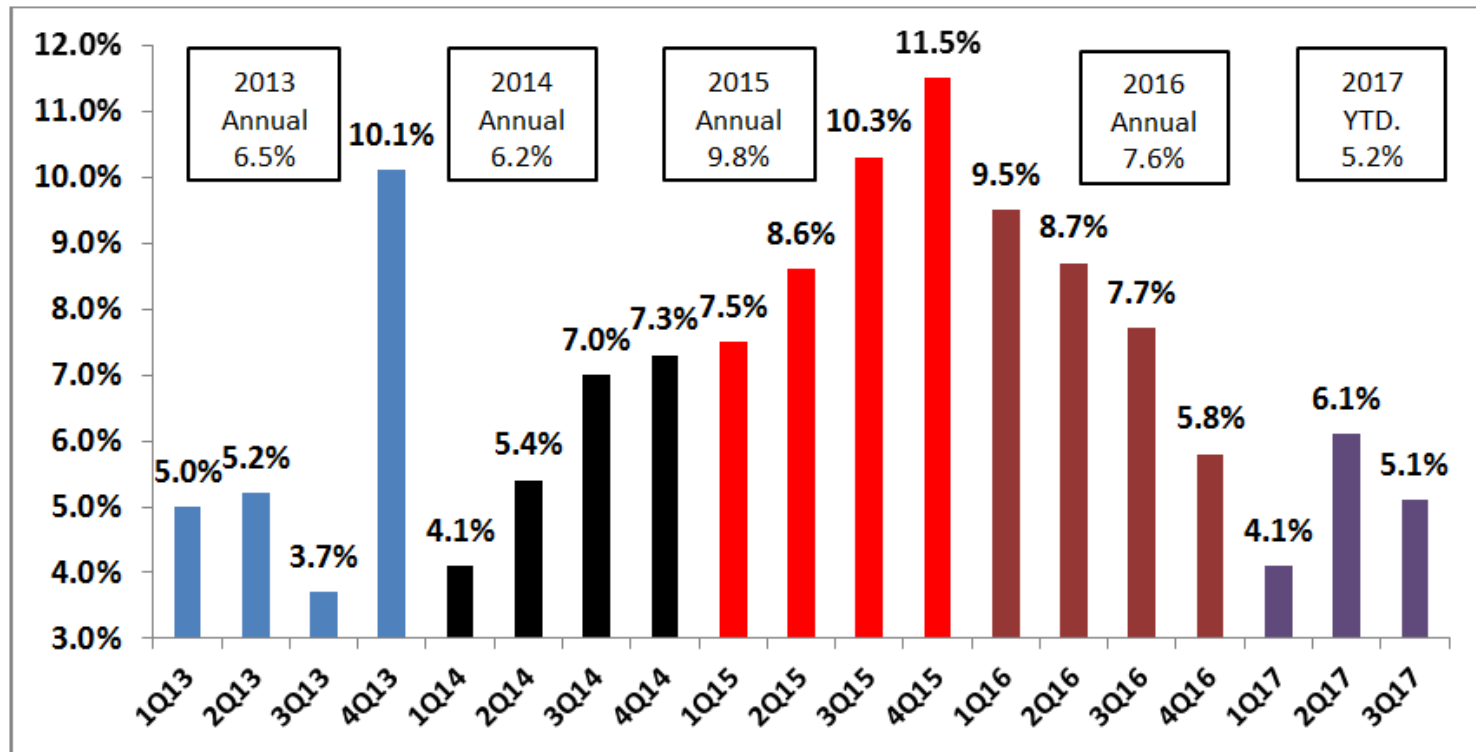
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- The performance of the peso continued its positive trend during the quarter. The average of \$17.82 resulted in a 5% YOY revaluation. However, as all you know, during the past several weeks we have seen a devaluation of close to 6%.
 - Consumer Confidence has recovered from the significant drop in January, and is now 6.1% above September 2016 reading.
 - We continue to see positive readings in terms of formal job creation, unemployment, salary mass, remittances and consumer credit.
 - On the negative side, past 12 months inflation is still running above 6%.

- After the earthquake several **stores and shopping centers were closed** for one to three days while **structural inspections** were conducted. This had an effect of close to **\$200 million pesos in lost sales**.
- **No structural damages** were found in any of our sites.
- **Coapa stores** (Liverpool and Suburbia) and shopping mall (Galerías Coapa) had important non-structural damages. Our current estimates are that they **will remain closed until March 2018**.
- We have **proper insurance policies** for damages and business interruption.
- A **provision of \$186 million pesos** has been booked to cover for **deductibles and some minor repairs**.

Let me share with you some details regarding Suburbia:

- **We have had significant progress with back office integration. During the quarter we integrated:**
 - **Merchandising and Warehouse Systems and**
 - **HR systems, including payroll.**
- **Point of sale and related income controls will be implemented during 1Q18.**
- **As of September 13th, Liverpool's private label credit card is accepted at all Suburbia stores.**
- **On a cumulative basis, the one-time acquisition costs are \$147 MM pesos or 0.2% of our total revenue.**

- **SSS** in the second quarter increased 5.1%, 100 bps below the second quarter. On a cumulative basis **SSS** are up 5.2%. For perspective, Suburbia **SSS** grew 3.2% in this quarter.
- Total Retail Sales w/o Suburbia have increased 9.0% for both the quarter and YTD.
- During these nine months, our **average ticket** increased 6.5% while **traffic** was negative 1.3%.
- For perspective Total **ANTAD SSS**: 4.7% and **ANTAD Department Stores SSS**: 3.6%

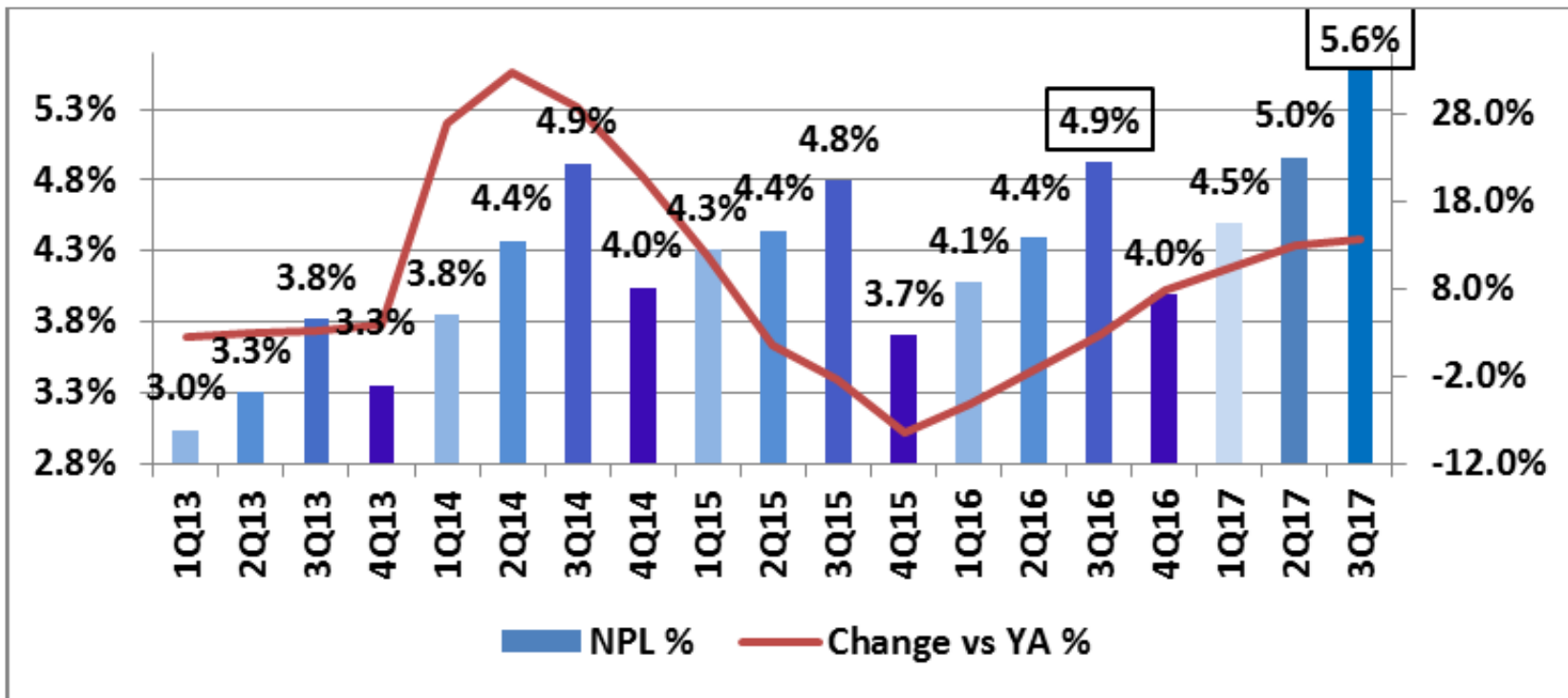


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- In terms of our Categories, we saw higher growth rates in **Accessories, Bedding, the new Geek Zone, Optical and Sports**. Slower sales in **Furniture, TVs and Computers**.
 - By region the **Southeast continues to underperform** (states with a high dependence on the oil industry)
 - **Comparison base will soften** as we move to the final quarter.
 - **Internet sales increased 48.9% and accounted for 3.4% of total retail sales**

- Revenue grew 13.1% during the quarter, well ahead of the 6.8% growth of our Net Portfolio. For these nine months, a revenue growth of 10.1% is being reported. This is certainly good news and reflects a more productive portfolio (less promotions w/o interest) and a higher interest rate – we increased 200 bps back in April.
- Share of sales with Liverpool’s credit cards was 46.3%, an increase of 70 bps vs. YA.
- New accounts grew 7.7%, with an approval rate of 60%.
- Our NPLs reached 5.6%, 70 bps above YA. We have been implementing several measures in our approval, portfolio administration and collection processes to keep this very important indicator in check. Importantly, after the 9/19 earthquake we saw a significant slowdown in payments from our clients in the affected regions, including Mexico City.

- Provisions for credit losses increased 31.5% YOY.

(Pesos Thousands)	Sep 17	Sep 16	Dif %
Initial balance of reserve:	2,516,143	2,219,573	13.4%
(+) New reserves:	2,527,404	1,922,124	31.5%
(-) Write off:	(1,725,631)	(1,447,432)	19.2%
Ending balance of reserve	3,317,916	2,694,265	23.1%



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- **Real Estate earnings increased 4.0% vs. 3Q16 and 3.5% vs. YTD 2016.**
 - **Key money proceedings are now booked throughout the leasing contract duration – this has a negative effect of 200 basis points in the growth rate of revenues.**
 - **On September 12th the “Galerías Tlaxcala” shopping mall opened its doors with an occupancy level of 81%. This is our 26th shopping mall.**
 - **Occupancy levels are stable at 97%.**
 - **We still have not seen problems in terms of collections.**

- **Commercial Gross Margin had an improvement of 30 bps on the 3rd quarter and 76 bps on a YTD basis. Suburbia contributed with 78 and 43 bps on a quarter and cumulative basis respectively.**
- **Consolidated Gross Margin had a 50 bps negative effect in the quarter due to mix effects as the retail division gained share at the expense of the other, higher margin, business segments.**
- **Opex increased 31.5% in the quarter and 23.6% cumulative basis. Suburbia explains almost 48% of the total increase during the quarter and 45% YTD.**
- **Importantly, YTD we have recognized a one-time effect from the expenses related to the Suburbia acquisition and the Ripley project for a total of \$168 MM (investment bankers, lawyers, due diligence) and an earthquake expenses reserve of \$186 MM.**
- **Provisions for bad debts, store openings and electricity rates are the other major contributors to the SG&A increase.**

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- **EBITDA in the 3rd quarter increased 5.8% vs. YA.**
 - **Suburbia was the key driver of this quarter' s EBITDA increase.**
 - **EBITDA without Suburbia decreased 4.9%. If we exclude the one-time effects it increased 1.2%.**
 - **EBITDA Margin without Suburbia decreased 170 bps in the quarter and 50 bps YTD. W/o non-recurring effects, these decreases are 100 bps and 20 bps respectively.**
 - **On a 12 months basis, EBITDA Margin without Suburbia is decreasing 50 bps. Taking aside non-recurring expenses the decrease is 30bps.**

Non-recurrent: Suburbia incorporation, Earthquake reserve and Ripley

EBITDA Pesos - Thousands	3Q2017			YTD			Last 12 months		
	MPs	Dif.	Margin	MPs	Dif.	Margin	MPs	Dif.	Margin
Organic growth	2,618,944	-4.9%	11.0%	9,352,534	4.5%	13.2%	16,450,075	5.2%	15.5%
Suburbia	294,267	n/a	9.0%	615,039	n/a	9.2%	615,039	n/a	9.2%
Total	2,913,211	5.8%	10.8%	9,967,573	11.3%	12.8%	17,065,114	9.1%	15.1%

EBITDA MARGIN COMPARISON

EBITDA	3Q2017			YTD			Last 12 mos.		
	2017	2016	Dif	2017	2016	Dif	2017	2016	Dif
Organic growth	11.0%	12.7%	(169) bp	13.2%	13.7%	(52) bp	15.5%	16.0%	(50) bp
Suburbia	9.0%	n/a	0 bp	9.2%	n/a	0 bp	9.2%	0.0%	0 bp
Total	10.8%	12.7%	(194) bp	12.8%	13.7%	(90) bp	15.1%	16.0%	(90) bp

EXCLUDING ONE-OFF EXPENSES:

EBITDA Pesos - Thousands	3Q2017			YTD			Last 12 months		
	MPs	Dif.	Margin	MPs	Dif.	Margin	MPs	Dif.	Margin
Organic growth	2,787,544	1.2%	11.7%	9,542,103	6.6%	13.5%	16,639,644	6.4%	15.7%
Suburbia	317,291	n/a	9.7%	780,117	n/a	11.7%	780,117	n/a	11.7%
Total	3,104,835	12.7%	11.5%	10,322,220	15.3%	13.3%	17,419,761	0.0%	15.4%

EBITDA MARGIN COMPARISON

EBITDA	3Q2017			YTD			Last 12 mos.		
	2017	2016	Dif	2017	2016	Dif	2017	2016	Dif
Organic growth	11.7%	12.7%	(99) bp	13.5%	13.7%	(25) bp	15.7%	16.0%	(32) bp
Suburbia	9.7%	n/a	0 bp	11.7%	n/a	0 bp	11.7%	0.0%	0 bp
Total	11.5%	12.7%	(119) bp	13.3%	13.7%	(40) bp	15.4%	16.0%	(58) bp

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- **Cash position was almost \$10.6 billion pesos at the end of September.**
 - **On August 25th we issued a couple of bonds in the local debt market for a total amount of \$5.0 billion pesos to pre-finance the debt maturities of close to \$3.2 billion pesos that we have in 2018.**
 - **Net debt / P12M EBITDA at the end of the quarter was was 1.5X.**

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- **Grupo Unicomer management recently discovered a fraud related to some non-existent accounts receivable in its subsidiary in Paraguay, Wisdom Products, which was acquired in late 2015.**
 - **As a result, Unicomer adjusted the value of certain assets and liabilities and reduced the amount of goodwill registered from this acquisition and restated the financial statements of previous fiscal years to include a USD \$52 million write-down against shareholders' equity, a figure that includes the effect of the above-mentioned fraud and adjustments pertaining to other Unicomer transactions.**
 - **Since Liverpool owns 50% of Unicomer, in the attached financial information Liverpool reduced the value of its investment in Unicomer in USD \$26 million or Ps. 489 million against earnings from prior fiscal years.**
 - **We are still in the process of deciding, along with our external auditors, what will be the accounting treatment for these charges for our 2017 audited financial statements.**
 - **Importantly, Unicomer has filed a law suit in Paraguay against the previous owners alleging fraud, falsification of documents and seeking damages.**

Liverpool:

1. Tlaxcala, Tlaxcala (opened on April 19th 2017)
2. Tuxtla Oriente, Chiapas (opened on May the 3rd 2017)
3. Puebla Zaragoza, Puebla (opened on September the 26th 2017)
4. Toreo, Estado de México (opened on October the 12th 2017)

Fábricas de Francia:

1. Buenavista, Ciudad de México (opened on March 21st 2017)
2. Apizaco, Tlaxcala (opened on April the 4th 2017)
3. Tonalá Plaza Lomas, Jalisco (opened on April 11, 2017)
4. Saltillo, Coahuila (opened on September the 5th 2017)
5. Oaxaca Plaza Bella, Oaxaca
6. Plaza Sendero Valle de Chalco, Estado de México
7. Comitán, Chiapas

Suburbia:

1. Campeche, Campeche (opened on October 19th, 2017)
2. Aguascalientes, Aguascalientes

These openings will add close to 5.9% of commercial space, new record year.
With Apizaco and Tlaxcala's openings Liverpool has presence in all states.

Shopping malls: increasing 5.6% commercial space in 2017
Galerías Tlaxcala (opened September 12th 2017)

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- **2017 SSS: +5 – 6%**
 - **2017 EBITDA Margin: 15.4%; 60 bps below 2016 due to Suburbia Mix Effect (-30 bps) and Suburbia Integration one-time expenses (-30 bps)**
 - **2017 Capex: \$6 – 7 billion pesos ex Suburbia**
 - **Net Debt / EBITDA December 2017: 1.4X**

Thank You!