Sonae 1H20 results - conference call transcript

Moderator: João Dolores, Sonae SGPS, CFO

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Operator: Welcome to Sonae's First Half 2020 Results Conference Call. During the introduction hosted by Mr. João Dolores, Sonae's CFO, all participants will be on a listen-only mode. After the introduction there will be an opportunity to ask questions. If any participant has difficulty in hearing the conference at any time, please make sure you have yours fully plugged in or alternatively calling from a different device. If you go to ask a question during the Q&A course of the day, then you may do it by pressing star one at your telephone keypad. I will now hand the conference over to Mr. João Dolores. Please go ahead, sir.

João Dolores: Thank you. Hi, everyone, and thanks for joining our Q2 results conference call. As usual, together with me today, I have Rui Almeida from Sonae MC, I have Paulo Simões from Worten, Miguel Moreira from Sonae Fashion, Luís Mota Duarte from Sonae Sierra, and Cristina Novais from Sonae Investment Management, as well as our Investor Relations team as usual.

As you all know, after a very positive start to the year, the Covid-19 pandemic hit us in mid-March, and it was essentially during Q2 that we felt most of the impacts of this situation today. Some of our businesses felt a tremendous pressure in their activity, namely through spikes in demand, changes in consumption patterns and also disruptions in the supply chain and had to adapt very quickly. This was the case in food retail, Worten in Portugal and also NOS. I'm happy to say that our reaction in all these businesses was very agile and effective, and the quarter's results show very positive performances in all of them.

Other businesses in the portfolio were practically forced to shut down, as you know, particularly during the lockdown period, and had to find innovative ways to continue to operate and also focus on cash preservation initiatives. This was the case at Sonae Sierra, Sonae Fashion, ISRG and also some other retail banners. Despite the challenging context for these businesses, which naturally translated into a decline in results, I would like to highlight the successful implementation of cost reduction measures and also the rationalization of CapEx, which were critical for the group to maintain a solid liquidity position throughout this period. In all these businesses, we are now seeing an encouraging rebound since reopening, and we remain positive for the months to come.

So I'm going to do a brief overview of each business, and then I'll talk about consolidated results as usual. Starting with Sonae MC.

Sonae MC had once again a very positive quarter with strong sales growth, good momentum in the online operation and a reinforced leadership position in the Portuguese market, and this despite the very challenging context and a number of disruptions to its regular activity. In Q2, turnover grew 9.2% to €1.2 bn with a like-for-like sales increase of 6.2% and a particularly strong growth in all food retail formats and also in the online business. Once again, our customers valued Continente's wide assortment, availability of products and the safe and clean shopping environment in our stores, and this resulted in consistent market share gains and higher customer satisfaction. This was true for both large formats, given their broad offering and higher sense of safety and also for proximity supermarkets as consumers look closer to home for their everyday essentials.

Nonfood formats had a tougher quarter as they were forced to temporarily shut down up to mid-May. This was true for Arenal in Spain and also Dr. Wells, Bagga and Go Natural restaurants in Portugal. All in all, in the first semester, Sonae MC's turnover reached €2.4 billion, 11.5% above last year, with a like-for-like growth of 8.3%. And operating profitability stood slightly below last year, 9.3% versus 9.5% last year, mainly impacted by the incremental costs related with the pandemic, particularly in Q2 and also changes in channel and product mix. The company continues to follow a very disciplined approach to cash flow management, namely by improving cost efficiency in several fronts by rationalizing capital expenditures without compromising its growth plan and also by optimizing working capital management. Sonae MC's net debt decreased over €100 million year-on-year and its leverage ratios remain at comfortable levels.

Moving on to **Worten**. Worten had also a very strong quarter, both in terms of top line and profitability, with, I would say, quite different contexts in Portugal and Spain. In Portugal, all stores remained open, with the exception of Worten Mobile and the iServices stores located in shopping centers. These started to reopen gradually in May. In Spain, all the stores in mainland were closed during lockdown. And in the Canary Islands, we had also 6 stores that closed down at that time. All the stores in Spain that were forced to close down only started to reopen at the beginning of June. Overall, trading performance was very positive for Worten globally with 9% like-for-like growth, mostly driven by the Portuguese operation, where Worten continued to extend its clear leadership position and also by the surge in online sales in both Portugal and Spain, which increased by a factor of 4 year-on-year. This performance in e-commerce is good evidence of the work that has been carried out at Worten in recent years to improve its value proposition and also of the ability the team showed to quickly adapt to the needs of customers in a completely different context. Regarding profitability, the top line performance, coupled with the closure of 14 loss-making stores in Spain in the last 12 months, drove underling EBITDA in Q2 to improve from €7 million last year to €12 million this year, an improvement in margin from 3% last year to 4.7% this year. Overall, another good and encouraging performance, particularly in Portugal and online.

Regarding **Sonae Fashion.** Sonae Fashion was one of the most impacted businesses by the pandemic, as you can imagine. All its stores were forced to close down during the lockdown period. Despite this restriction, the team at Sonae Fashion quickly implemented a number of initiatives to continue to serve its customers and limit the negative impact from the social distancing measures that were put in place. The online channels continued to deliver very high growth rate during Q2, obviously not enough to compensate the off-line inactivity since mid-March, and sales declined 42% like-for-like year-on-year. All in all, Sonae Fashion's turnover stood at €53 million in Q2, 32% below last year. Regarding profitability and given the sales evolution and the extra costs directly related with Covid-19, underlying EBITDA was down by €15 million year-on-year to negative ground and stood at a negative €12 million in the quarter. Since mid-May, stores have begun to reopen with better-than-expected performances and with already positive like-for-like figures in the last few weeks, despite all the restrictions that are still in place and also the limited footfall that we're seeing in shopping centers.

In sports retail, **ISRG** was also forced to temporarily close down all its stores during the lockdown period, both in Portugal and in Spain. So a very similar story to the fashion business. And in this context, Q1 sales, which run from February to April in ISRG and consolidate into our Q2 accounts, took a severe hit and EBITDA decreased to negative ground. Therefore, the contribution to Sonae's results was a negative €6 million in Q2. And meanwhile, the reopening process started gradually since mid-May and the rebound in sales has been quite positive, and we are seeing double-digit growth rates ever since.

At **Sonae Financial Services**. Sonae FS was one of the least impacted businesses by the pandemic, but still we saw a slowdown in activity during the lockdown period, namely concerning new credit card issuance, credit card usage and new personal loans. Turnover in Q2 fell €1.6 million year-on-year to €7.6 million, driving the first 6 months of the year to a flat performance year-on-year. Underlying EBITDA also saw a slight decrease year-on-year to €1.3 million in Q2. In spite of this challenging context, the Universo Card registered an estimated record market share since its creation, fueled by the strong boost of online purchases in sectors like grocery, clothing and home appliances, which were significantly above historical figures.

Moving on to **Sonae Sierra**. Sierra was among the most affected businesses by the pandemic as well. There were severe restrictions in place to the normal functioning of all shopping centers across the portfolio in both Europe and Brazil, which resulted in significant impact on Sierra's activity and results. The company's direct result was very much influenced by expected rent discounts and provisions regarding Q2 and a reduction in service fees, namely in property management and also in development services due to some delays in projects. Regarding rent renegotiations with tenants, and as you probably know, Sonae Sierra has taken a constructive approach and reached an agreement with most tenants for the months of April to June, and this is what has been accrued in the Q2 accounts. As for the company's indirect results, it was highly impacted by downward property revaluations in Q2, both in Europe and in Brazil. And these revaluations were a function of both increases in yields and also operational impacts from the pandemic. Sonae Sierra ended Q2 with a NAV of €947 million in total, 7% down when compared to the end of Q1, mainly reflecting the decrease in investment property values, asset impairments and also the devaluation of the Brazilian real.

Regarding **NOS**. As you know, NOS has already published its Q2 results and these were also impacted by the pandemic and with the stronger impacts operationally when compared to Q1. These impacts were particularly relevant in the cinema exhibition business, given the forced shutdown of movie theater and also in roaming revenues, given the travel restrictions that were put in place; and also in premium sports channel billing, which was only resumed late in the quarter. In any case, the core telco business showed a quite resilient performance with commercial activity starting to pick up after the lockdown period in mid-May. In total, revenues fell by 12% in Q2 with EBITDA decreasing only 8% and net income was less affected due to a positive evolution of most lines of our EBITDA, namely the capital gain related with the sale of the wholesale business in the quarter. EBITDA minus Capex was only down by 2% due to savings in Capex, and the company's balance sheet remains quite strong and should be further reinforced by the Cellnex Tower deal, which was already approved by the Portuguese Competition Authority in Q3.

I would just like to make a quick note regarding the announcement that we made last week regarding NOS and ZOPT. As you know, NOS is an important asset in our portfolio, and we have always stated that we were happy with the exposure and level of control that we had in the business, but we also said that we would always strive to find the best possible solution for the company in any given context, and the operations that we announced last week aim to achieve precisely this. We agreed with our partner, ZOPT, to terminate this JV. And when executed, this operation, together with the acquisition of an additional stake in NOS, will result in a shareholding in the company of just above 1/3 of the share capital, a position which will allow us to remain a reference shareholder and continue to help the company execute its strategy.

Finally, regarding **Sonae IM.** In terms of operational performance, Sonae IM's portfolio showed a quite solid behavior, positive notes in particular for the cybersecurity companies, which show double-digit growth in the semester and contributed to the 4% year-on-year increase in Q2. Underlying EBITDA was positive in Q2 and partially offset the negative results of Q1. The pandemic impacted mainly Sonae IM's M&A and portfolio development activity with a few planned investments and exits that were postponed in the quarter. In any case, in the first semester, Sonae IM still entered the share capital of one retail tech company, Sales Layer, and made an early stage investment in a company linked to short video technology, while continuing to make some follow-on investments in its portfolio companies.

So all in all, Sonae's consolidated turnover reached €1.6 billion in Q2, a 5% increase year-on-year, mainly influenced by Sonae MC's strong performance and also by the very positive trading at Worten. Underlying EBITDA at the group level stood only slightly below last year on a comparable basis despite the negative evolutions at Sonae Fashion and Sonae Sierra. Consolidated net results reached a negative €16 million. This was strongly impacted by the lower real estate asset valuations registered in Q2 at Sonae Sierra, which I mentioned before. During this period, Sonae continued to reinforce its capital structure. Net debt at the end of Q2 was down 28% year-on-year, and we have been able to refinance more than €650 million since the beginning of the year, maintaining a low cost of debt and a maturity profile above 4 years. We continue to anticipate no significant financing needs in the short term, and we remain confident that Sonae has the adequate liquidity levels even if more adverse scenarios materialize in the near future.

So that's it for me from now. Thank you for listening, and feel free to post questions to all of us. Thank you.

Operator: As a reminder to ask the question it is star one on your telephone keypad. For preparing to ask your question please ensure you have it fully plugged in and unmuted locally. Our first question comes from João Pinto of JB Capital Markets. Your line is now open.

João Pinto: Hi, good morning everyone, thanks for taking my question, the first one on NOS, given it is a strategic asset, do you feel comfortable with a 33% stake? Or would you consider to increase this in the future? Also on NOS, is there any reason why doing the additional stake acquisition through Sonae SGPS instead of through Sonaecom? Moving on to Sierra. Regarding the possibility that tenants will only have to pay the variable part of rent, could you update us on this proposal? And if they go ahead, do you have any estimate for the potential cash impact? And finally, on Sonae MC, could you give us some colour on sales dynamics in the third quarter? Can we expect high single-digit sales like-for-like in Continente and positive in adjacent formats? Thank you.

João Dolores: Thank you, João. I'll take the first couple of questions on NOS, and then I will ask Luís and Rui to take the questions on Sierra and MC. So the first question, on if we feel comfortable with the position that results from the operations that we announced and also if we would want to increase our exposure, I think the resulting shareholding for Sonae is one that we believe continue to position us as a reference shareholder in NOS, and obviously, it gives us more options regarding our exposure to the business in the future. But at this stage, I mean, we are mostly focused on executing the solution that we announced to the market, and that we believe results in a stable shareholding position for Sonae and one that will enable us to continue to support the company and its management team in the near future. Regarding the acquisition of the additional stake at Sonae SGPS and not Sonaecom. This was basically a portfolio and financial decision taken at Sonae SGPS level, and it was approved by Sonae's Board and executed at the holding company level. And so that's the main reason why we did it at Sonae SGPS and not at Sonaecom's level. Luís, do you want to take the Sierra question now?

Luis Mota Duarte: Sure. Good afternoon everyone. I'd like to start by saying that unfortunately, we are currently in a situation where a newly formed association, which has been recently created, has been repeatedly and consistently spreading false information about the sector, which has reflected a material lack of understanding of the shopping center. They have inclusively misinterpreted information that has been made public by the likes of us and by other operators, which they have used to lead politicians and the public opinion to materially inaccurate conclusions, including the law, which you referred to. In practice, what this means, it means I will need to be a bit more I will need to be a bit less transparent when it comes to information because I know that there is a risk that it can be used against us because it's going to be falsely interpreted and used.

Having said that, in terms of the actual law, I think you were referring to whether the law goes ahead or not. The law is in effect. The law has been published. So this is now the case that tenants only have to pay the variable rent. But in order to explain to you the impact this has on us, there are a couple of things I wanted to flag to you. Firstly, in terms of to understand how the shopping center model works, it is mainly based on a minimum fixed rent, which means that, for example, last year, which was a very normal year, it means that the turnover rents are either variable rents only represented around 3%, 4% of our total rental income. This means that the variable rent is not a measure of sales performance. There is a significant difference between the normal performance of the tenant and what he would pay in under variable rents only. This means that the variable rent is really just upside sharing. That's the way it should be seen, and that's why it's usually quite a limited number in our financial. I'd also like to flag that Portugal nowadays represents roughly half of our portfolio. So we have presence in many other countries where we have seen a much more normal behavior from the regulators, and I'm including here countries like Romania, Italy, Spain, Germany, Colombia, Greece, Brazil, etcetera.

But I'd also like to clarify that we have a small shareholding in these assets. So on average, in Portugal, we have around between 15% and 20% stakes on average. But to give you a sense in terms of actual impact, we are talking about rents overall from our European portfolio on a run rate basis in the order of 60 million euros, of which around half comes from Portugal. And the impact we estimate from purely dropping fixed rents, even before any impact from declining sales, is around 40%. This means that if sales decline, say, 20% from August onwards, that tenants will have a 50% discount on average on their rents. So there is a very significant disproportion between sales decline and actual rental discount, which is reflected in this law. This law and unfortunately, I mean the different parties were not consulted when it came to actually drafting this law. And therefore, what is a very complex ecosystem, like the shopping center, where we have many different type of players, very large operators, very small operators, mom-and-pop shops, we have seasonal businesses in the year, we have seasonal intraday businesses, players with different liquidity positions and different financial positions, we have operators like banks to restaurants, et cetera, which makes it a very dynamic, a very vibrant, but a very heterogeneous ecosystem. Unfortunately, the law applies to everyone in the same way. Basically, it forces us to look into to apply the variable rents defined in the contract, where it was negotiated as something entirely different and in a entirely different context, we have to apply it now to all the different players. I can give you some examples of some distortions that this law creates. But for example, we have large international retailers, which have recorded sales increases of around 2% to 3%. They will have a rent reduction of 23%. On the other hand, we have some smaller tenants, which have seen sales declines in the order of 25% and are going to witness a rent increase of 42%. This to say that the law doesn't achieve its objectives and has been incorrectly drafted. And the impact that it has on us, on Sonae Sierra specifically, I will not be able to tell the exact figures, but I think I give you the rough guiding figure, so you'd be able to calculate what you think it's going to be.

João Dolores: Okay. Thank you, Luís. Rui, do you want to take the Sonae MC one?

Rui Almeida: Good afternoon to you all and specially to you João. Regarding our like-for-like sales and especially in the third quarter and up to now, we are having positive like-for-like sales and above the inflation rates, according to the inflation rate that we are measuring internally, that is approximately 3% and it's pretty much influenced by the prices that we are witnessing in the fresh products. So up to now that's what we can tell you regarding the sales in the third quarter.

João Pinto: Thank you very much.

João Dolores: Thank you João.

Operator: Our next question comes from José Rito of Caixabank. José, your line is now open.

José Rito: Yes, good afternoon. So I have one question on Sonae MC in terms of margin evolution and the decline of 20 basis points that we saw in H1, if this is a good reference for the full year. My second question on Sierra. You mentioned that the impact on indirect results came from the yield increase on the properties. If you can specify how much was, in average, the increase in H1 in the property yields and if you expect further increase in yields in the second half of the year. And finally, on NOS, now that ZOPT has been dissolved, what are the implication in terms of the stake that has been seizure, namely if the court could now revert this considering that ZOPT has been dissolved.

João Dolores: Thank you, José. Just I will take the NOS question first, again, and then I'll hand it over to Rui and Luís. So just a slight correction there, ZOPT has not been dissolved, it has not been terminated yet. We have announced an agreement with our partner to do it. But the execution of the termination of the JV is still not completed. And obviously, the ideal scenario to execute this operation is one where the court allows for a smooth termination of the JV and the sharing of assets and liability between the parties. And we are hopeful that this scenario will be possible in the near future and namely that this seizure of shares will be well, the measure that was taken by the court will be changed in order to allow this to happen as smoothly as possible. Rui, do you want to take the question on the margin evolution at Sonae MC.

Rui Almeida: Well, good question. Good question. Unfortunately, I have some difficulties to give you the guidance because we are living in a very volatile economic and social environment. I have a lot of difficulty to give you a properly frankly, I don't know, I don't know, I don't know. Frankly, I don't know. I don't know what will happen tomorrow. And if the year-end will be tomorrow, probably I would tend to say, yes, it could be more or less a figure that we would have until the margin will be pretty much the same that we have in the first half. And frankly, for the year-end, I don't know. Frankly, I don't know. It will be so volatile, and I don't know. I don't we don't know if we will have a second wave of the Covid-19. I don't know if we will have a second outbreak, that will be huge and massive. If we need to respond, and we need to frankly, I don't know. I apologize.

José Rito: I understand. No, no, it's okay.

Rui Almeida: If you want more figures. But frankly, I don't know.

José Rito: But in terms of the evolution in Q1 and Q2, so I think that in Q1, the margin underlying terms was broadly stable, and it declined slightly in Q2. What was the main drag for the margin in Q2? And going forward, well, I understand that bonus, you paid some bonus...

Rui Almeida: Yes. We referred that we consider also some extra costs we could use it as well as being related to Covid. Yes, in the third quarter, we registered costs related direct costs and investment costs from crisis management initiatives, mainly including incremental staff costs and staff bonuses, as you mentioned, to reward for and distribution center associates, safety expenditures regarding incremental cleaning, effort to sanitizing materials and personal protective equipment that you were mentioning a while ago. And the total cost in the first half totalized roughly €13.5 million. And that were totally recorded on the second quarter of this year. That's why our margin was a little bit penalized in second quarter. That's pretty much it.

José Rito: Okay. I understand. But from a competition point of view, are you seeing any major changes, let's say, over the last 6 months versus what was last year? Just to understand if this margin specifically margin impact in Q2 was mainly on this Covid managing extra costs? Or eventually, if you had to be a little bit more aggressive on prices, how it stands in terms of competition environment?

Rui Almeida: So it's very difficult to comment on competitive strategy as well, and I would prefer not to comment to competitive strategy. And up till now, we are seeing some competitors' reactions, which we feel pretty much normal. We basically see that the promotional activity suffered a little bit decrease in April, that was normal due to the Covid situation. But now it's coming to the normal situation, back to normal figures, that's according to Nielsen. We come to the normal ratios that we were having in the last year. So we are coming to the normal situation, to a normal situation that we were having last year.

João Dolores: Okay. Luís, do you want to take the questions on yield?

Luís Mota Duarte: Sure. So in terms of the yield evolution of our portfolio in Q2, we saw, on average, across our European portfolio, yields increase by 10 to 20 basis points. In Brazil, yields increased by 50 basis points, 5-0. But in Brazil, we have seen significant yield tightening over the past. The total impact in valuations is driven by 1/3 operational impacts and 2/3 yield compression sorry, yield expansion. In terms of the valuations going forward, so bear in mind that the valuations were conducted in June at a point in time when the lockdown was in the process of being lifted and when some impacts were still uncertain. Also in Portugal, the law was just rumored to be a reality when the valuations were conducted, which is also why these valuations as an industry practice included a material valuation uncertainty disclaimer, which reflects the uncertainty of the valuations at the time and going forward. Our view is I mean, from a fundamental point of view, I mean there are no real reasons as to why valuations should shift significantly. One, because we are seeing a very solid, coherent recovery of sales in our shopping centers. In July, for example, trading outside of Lisbon, because Lisbon, of course, was more impacted by the opening hours, but outside of Lisbon, we saw a 25% decline in sales compared to last year. We're seeing very encouraging figures now in August as well. And these figures are overestimated. So what was look the decline looks higher than it really is because of 2 factors. It's basically restaurants and cinemas are the ones that are seeing the biggest declines. All the other sectors are quite below this average that I mentioned to you of 25%. So on one hand, from a fundamental point of view, we are seeing a good recovery continuing going ahead. Interest rates continue to be low and there's no sign as to why they should increase. So all of that should help support yields. Having said that, we do understand that valuers and the financial markets are under significant pressure due to Covid and due to its uncertainty. So concluding, I do see that there is significant uncertainty in valuations going forward, and we see the risk more on downside.

José Rito: Okay, understood.

João Dolores: Thank you José.

Operator: As a reminder it is star one to ask a question, I repeat, star one. Our next question comes from Tim Attenborough of Santander. Tim, your line is now open.

Tim Attenborough: Yeah, good afternoon. Thanks for taking my question. Most of them have been answered but just a couple of clarifications. So were you just saying on Sierra, the new law assumptions are not in the NAV? The next valuation will be, what, at the end of December? But thank you for all the colour that you've given us. Next question for Rui, just I missed what you were saying on like-for-likes and the sort of exit rate. April's like-for-likes at MC were, what, 4.6%. So that implies quite a strong sales exit rate. Is that a fair assumption? And could you repeat what you said about fresh deflation? And my last one would be, another great quarter from Worten. Is Spain now breakeven? And I suppose the real question is, is now a 5% EBITDA margin the new normal? Thanks, I'll leave it there.

João Dolores: Thank you, Tim. So let's start in order. Let's start with Luís and the question on Sierra.

Luís Mota Duarte: Yes. Okay, hi, Tim. You're right, the new law assumptions were not reflected in the NAV. I mean the value at that time probably assumed probability of it occurring, but it was only being rumored, so effect that unlike any other risks that exist at the time or it would normally do. But the actual law was not in place yet, and it only entered into only became law by the end of July. As I mentioned to you, in terms of its impact from an operational point of view, the figures I gave you earlier, the only other thing is if the valuers now want to attribute a risk premium to Portugal for regulatory risk, which I suspect what happened was pretty much unexpected and unseen in any other country. I doubt that they will do that, but I think that's the only meaningful risk that I see.

Tim Attenborough: And how would you see, sorry to interrupt. And could you just how would you see yields moving in Europe in the second half? I'm just really trying to get a feel or reassurance on the NAV. And this new law only runs until the end of the year?

Luís Mota Duarte: Correct. So this new law only impact up until December this year. So it basically goes from August to December. When you mean Europe, I suspect you mean our portfolio in Europe. So we do not cover...

Tim Attenborough: Yes, yes.

Luís Mota Duarte: We do not cover the countries which we usually see significant yield evolution and where most of our peers trade in, like in the UK, like France, like Germany. So we do not operate there. We operate in Portugal, Spain, Italy, Romania, Greece, et cetera. It's a difficult question for me to answer. I would say that what we have seen in Q1 is eventually is a meaningful shift. It's a very meaningful shift. And it will depend on now as to whether valuers will concede to market pressure around Covid impact or whether they will look at the fundamentals of the assets. It will also depend on whether there's another wave or another lock down. But what I can tell you, rather than throwing out a figure which would just be a guess estimate. I think the shift that happened in June is meaningful. And there are significant mitigants in our portfolio as to why any valuation, future changes, which are flag where the risk is on the downside, to be very material. But Tim, I have to qualify with the massive uncertainty that's currently out there.

Tim Attenborough: Understood. But thank you for that.

João Dolores: Thank you Luis. Rui, do you want to take the question on like-for-like and also fresh deflation.

Rui Almeida: Yes, Tim, I apologize, but I need to ask you, if I may. I don't know if I fail to understand you properly. You were asking me like-for-like regarding the third quarter or April? I missed to understand you properly.

Tim Attenborough: Okay. Sorry. Your like-for-likes in April were, what, 4.6%. The figure you actually reported of 6.2%, you know, implies a strong exit rate. I just wanted to know if that was a fair assumption and good momentum going into July and August. And then the other part was, I missed what you said on fresh deflation. And so I wanted to try and get a view of inflation or deflation in 3Q.

Rui Almeida: First of all, our like-for-like in April was a little bit higher than 4.6% due to the fact that we're in the middle of the pandemic and the impact in our like-for-like in April was a little bit higher. But if I said it was 4%, I apologize, but it was a little bit higher. That's why we justify like-for-like so high during the second quarter because we have, in fact, like-for-likes much higher in the second quarter, as we stated in the report that we launched yesterday. In the second...

João Dolores: Rui, I think where Tim was going is if we see if we saw an acceleration of sales growth throughout the quarter. So if we started at a roughly a level of around 4% to 5% in April and then accelerated that sales growth in May and June and going into Q3, if that Q3 if that momentum is still there.

Rui Almeida: Sorry. Well, I missed your point. I was totally I was looking for the other report. I missed your point. Could you repeat...

João Dolores: And Tim, please correct me if I'm wrong, but I think what Tim was asking is if the sales growth momentum increased throughout the Q2. So if we started out with a sales growth of around 4% to 5% and then this accelerated in May and June. And if that acceleration in sales growth is also impacting Q3. And going into Q3, if we're seeing a more accelerated sales growth.

Rui Almeida: Okay. You are not considering year-on-year, you are considering a year-on-month, month-on-month?

Tim Attenborough: Correct.

Rui Almeida: Okay. Yes, I see, okay. Okay. But anyway, April was a good year. As we referred on the previous conference call, as we said, back in that conference call, we were witnessing a very good sales due to the pandemic and the response of the pick-up sales that we were having back in that month. But that's why we were having very good sales in the second quarter. But now focusing on the third quarter because I think that's what you think, you were basically focusing your questions, right?

Tim Attenborough: Correct.

Rui Almeida: Focusing your question. On the third quarter, what I was basically referring to João, while ago, is that now we are having positive like-for-like above inflation rates. And our inflation rate up to now and measured by us is approximately 2%, influenced again and continuing to be influenced by the peak that we are witnessing on fresh produce. As we were having, for instance, during May and June, as we were having here in Portugal, that's what we are having today. So we are growing, continuing to grow in volumes up to now, growing in volumes in Sonae MC.

Tim Attenborough: Okay, I got it, thank you. And there was the last question on Worten.

João Dolores: Yes. Paulo, do you want to take that one?

Paulo Simões: Yes, good afternoon to you all. Thanks, Tim, for the questions. So regarding Spain, Spain profitability improved during the quarter, given the closure of non-profit stores last year and some of them already this year. But also because we implemented, following the pandemic, a series of cost control measures, including layoffs temporarily layoffs in Spain Mainland and Canary Islands. So the results that we are seeing overall in Worten for the quarter are being delivered in a quite extraordinary environment. So it's very difficult for us to look forward and say this is the new normal. And in addition to that, we will have a third and fourth quarter that we think will continue to be impacted by Covid-19. So it's very difficult for us to point you towards a new normal of EBITDA margin just yet. So we will need to wait for the situation to normalize, get back to more regular operations to see where we stabilize after all the changes that we've been implementing and after the pandemic becomes under control.

Tim Attenborough: Ok, understood. Thank you.

João Dolores: Thank you Tim.

Operator: Our next question comes from António Seladas of A|S Independent Research. Antonio, your line is now open.

António Seladas: Thank you very much for the presentation. Just on Worten and Sonae Fashion, 2 questions. For Worten, taking in consideration that Spain was most of the quarter closed, should we see more closures on your stores in Spain? Or do you think that the current infrastructure, the current level of operation in Spain is fine? So that is the first question. Sonae Fashion, should we see more digital from now on, more online shopping and less overtures? Or you will keep to your plan of keeping opening new stores, namely on Salsa. That's 2 questions. Thank you.

João Dolores: Thank you, António. Paulo, if you want to continue and take the Worten question first, and then we'll hand it over to Miguel.

Paulo Simões: Yes sure. Thanks for the question. Regarding future closing of stores in Spain, we are constantly analyzing the performance of all the stores. But as I comment before, the current situation is quite extraordinary. So we will be monitoring the performance of the stores going forward, see the impacts and how structural are some of the impacts that we are seeing in the market, namely the online growth and everything else. And then based on real performance of each store, we will decide on what to do in the future. For the moment, I think it's very, very early to comment on future closing of stores in Spain.

António Seladas: Do you think that okay, I understand that. But do you think that you believe in 2 or 3 quarters, you will have a picture? Or you need more time to understand what you should do in Spain?

Paulo Simões: Again, it's difficult to comment given that the pandemic is still ongoing and it's difficult to foresee what could be what will be the future impact. Having said that, hopefully, by the year-end or beginning of next year, we should start to have a more clear view on how all this should be evolving.

João Dolores: Okay, okay. António, maybe let me just add to what Paulo just said. I mean, obviously, Paulo mentioned this, there's a lot of uncertainty right now regarding what is going to happen in terms of macroeconomy and the different geographies and in Spain as well. But I think we made a statement recently that 2020 would be our last year of losses in Spain, and we are still committed to make that happen. And so what other decisions we take in the next few months will be towards the goal of achieving this outcome of 2020 being the last year in which we register losses recorded in Spain.

António Seladas: Okay, understood.

Paulo Simões: Thank you João for complementing.

João Dolores: Miguel?

Miguel Moreira: Yes. Thank you for the question, António. And starting by the end regarding the stores, our plans do not include the opening of additional sqm. We want to have a flexible store networks, and we want to be present in locations that help us to be close to our clients. But at this moment, we want to optimize what we have. We will probably relocate some stores to reduce or close others. And if some good opportunity arises, we might open in new locations in total alignment with the strategy and positioning of our brands. Having said that, for the next years, obviously, will be especially focused on developing our online operations, taking advantage of all the efforts we are doing regarding new platforms, reorganization and dedicated teams and benefiting from the acceleration that we have on the last month that confirms the potential of our value proposition.

Operator: Ok, thank you. I would like to remind you that is star one to ask a question, and it is star file up o one. We do have a follow-up question from José Rito of Caixabank. Jose your line is now open.

José Rito: Yes, just on the Worten, just to I'm not sure if you mentioned, and can you clarify if the like-for-like was positive in Spain in Q2? And also, if it will be possible to maintain an online operation in Spain without physical stores? Is this feasible from an operational point of view? Not sure if it makes sense, just to basically clarify because you have at least the experience of having stores closed in Spain in Q2. Thank you.

João Dolores: Paulo, the floor is yours. Paulo?

Paulo Simões: Sorry I was in mute. Thank you, José, for the question. Regarding the like-for-like in Spain for the quarter, honestly, it's quite meaningless. We closed all the stores during most of the quarter. So I don't think that it's really relevant to look at the like-for-like during the few days that we operate in a few stores that were open. Regarding keeping an online-only operation in Spain, well, we have not studied until now. So we will have to decide what to do. As João were saying, we are committed to deliver our plan of this the last year with losses in the Spanish market, and we will act accordingly until year-end. And that's what we are working on. If we keep only the online in Spain or not, it will depend on how good and how the business is doing going forward. Sorry, very difficult for me to comment on online-only operations. We don't have online-only operations in many of our geographies. It has not been our model. So it's difficult for me comment on that.

José Rito: Thank you.

João Dolores: Okay, thank you, José.

Operator: We also have a follow-up question, João Pinto of JB Capital Markets. João, your line is now open.

João Pinto: Hi, hi again. On Sonae MC, a couple of questions, if I may. The first one, could you share your market share evolution during the second quarter? Sorry, if I missed it. And finally, if you could elaborate on the current consumer dynamics. Is traffic improving or consumers are still going less often to supermarkets? And also, the sales mix is coming back to normal of the environment involved in the third quarter versus second quarter?

João Dolores: Thank you João. Rui?

Rui Almeida: João, regarding the market share, we grew according to Nielsen, we grew 50 basis points this first half of this year. We regained market share. And to give you the exact figure of market share is very difficult, as you may understand. We there is no universal institutional entity to give you the proper market share. Usually, we follow, as you know, the class retail data. We don't have yet, the figures for 2020. Our estimates for the first half of 2020 are between 23.7% to 23.9% based on National Institute and Nielsen. That's what we have for this year. Regarding the second question, if you could repeat please, João?

João Pinto: Yes, sure. Just if you could give some colour on the consumer dynamics. If traffic is improving or if consumers are still going less often to supermarkets. And the same thing for the sales mix. Is the sales mix...

Rui Almeida: Same thing for? Sorry?

João Pinto: Sorry?

Rui Almeida: The same thing for?

João Pinto: For the basket mix, for the sales mix. Is it coming back to normal or mainly basic products that people are purchasing?

Rui Almeida: Some colour. Okay. Well, at this stage, the last quarter in the second quarter, we could define some differences in the consumption of the customers. Well, this is during the wake customers started to behave in a different way in our stores. For instance, they start to buy at different hours during the day due to the lockdown. They started for instance, in the past, they used to buy at the end of the day. Now they used to buy more concentrated during the day, but during meaning during the morning and the beginning of the afternoon, more concentrated during the working days. Today, they're doing, for instance, during the weekends, weekend started to lose some weight comparing to what we used to have in the past. Frequency decreased a lot. Average basket increased heavily. Consumers continue to privilege the fresh produce, continue to privilege proximity, continue to value these things. And on the operations online, online grew a lot. They grew a lot. And they are something that we are witnessing very well. Online grew heavily. And we invest a lot in the online to respond to the customers in that front. And that's pretty much what we have witnessed in the change of the consumers on this in the last quarter. That's what happened in the in that front. And that's probably what we could do in that area. I think that's basically it.

João Pinto: Thank you very much.

Rui Almeida: Thank you João.

Operator: As there are no more questions, this will conclude today's event. We thank you all for your presence today. But ladies and gentlemen, you may now disconnect your lines.

João Dolores: Thank you, everyone. Talk to you in November. Bye-bye.

End.