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AN OWNER-OPERATOR TO RALLY AROUND
MARCELO P. LIMA, HELLER HOUSE

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An owner-operator to rally around

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Marcelo P. Lima – marcelo@hellerhs.com – +1 (305) 520-9855

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Our presentation today: We'll be talking about a retailer

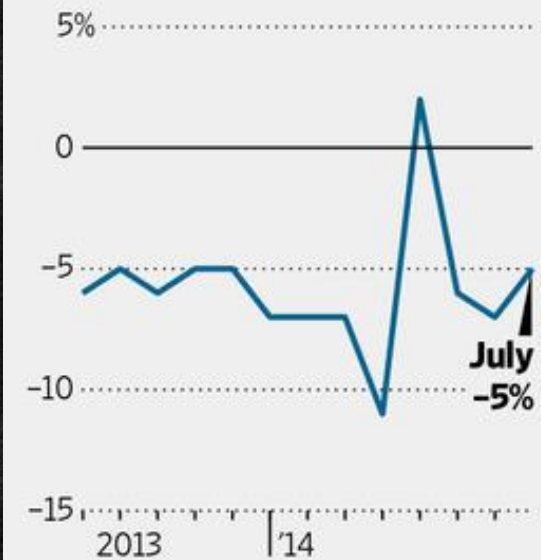
- 1 main security (and lots of related ones)
- Over \$2 billion market cap (controlling assets worth over \$10 billion)
- Growing fast, long runway, excellent management
- Hard catalysts for value realization
- Bargain price: would be worth 42% more today if liquidated
- Potential upside of 200-300% over the next few years as story plays out
- ...it's a bit complicated, so please bear with me...

Let's talk about retail

- Physical retail is dead! (Right?)
- Just read the headlines: *WSJ, Shoppers Are Fleeing Physical Stores* (Aug 5) and *The Great Mall Exodus* (Aug 6)
- Marc Andreessen: "Software eats retail."*

Checking Out

Monthly retail store visits, change from a year earlier



Note: Data are from tracking devices installed at 40,000 U.S. stores.

Source: ShopperTrak

The Wall Street Journal

And yet...



- In Seoul, South Korea, the world's most web-connected city, physical retail is thriving

Another example



Selfridges

- Opened in 1909
- Just four locations
- Thriving: generated £488m in sales and a 15% pre-tax margin in 2012*



The reality is...

- Ecommerce sales are **only 6% of all retail sales**
- **Half of ecommerce sales** are actually going to retailers with physical stores*
- Anecdotal: physical shopping is still a pleasant, entertaining, fun activity, which lets you discover things you didn't expect or know about
- Conclusion: retailers that adapt and successfully integrate physical and online will thrive

Back to the future


- Online-only retailers are starting to seek out physical stores
- “Shoppers suddenly paid more attention to un-flashy pieces often overlooked online. More women bought multiple necklaces that could be worn together. And perhaps most importantly, co-founder Daniella Yacobovsky **said shoppers typically purchased three times as much merchandise as an online BaubleBar customer.** “Having the opportunity to touch and feel our product is a big value,” Yacobovsky said.”*

The Washington Post

Business

Online shopping is the future. So why do so many Web retailers want to be in stores?

By Sarah Halzack August 19 [Follow @sarahhalzack](#)



Bonobos is among the Web-first retailers that are pushing to have a brick-and-mortar store, shown on Tuesday, August 19, 2014. At their Bethesda store, shoppers can try on clothes and then order the items online. Retailers are finding the old-fashioned way of selling goods has some unique advantages. (Photo by Nikki Kahry/The Washington Post)

When online jewelry shop BaubleBar opened a brick-and-mortar outpost in Manhattan, the retailer quickly realized just how different its in-store shoppers are from its Web customers.

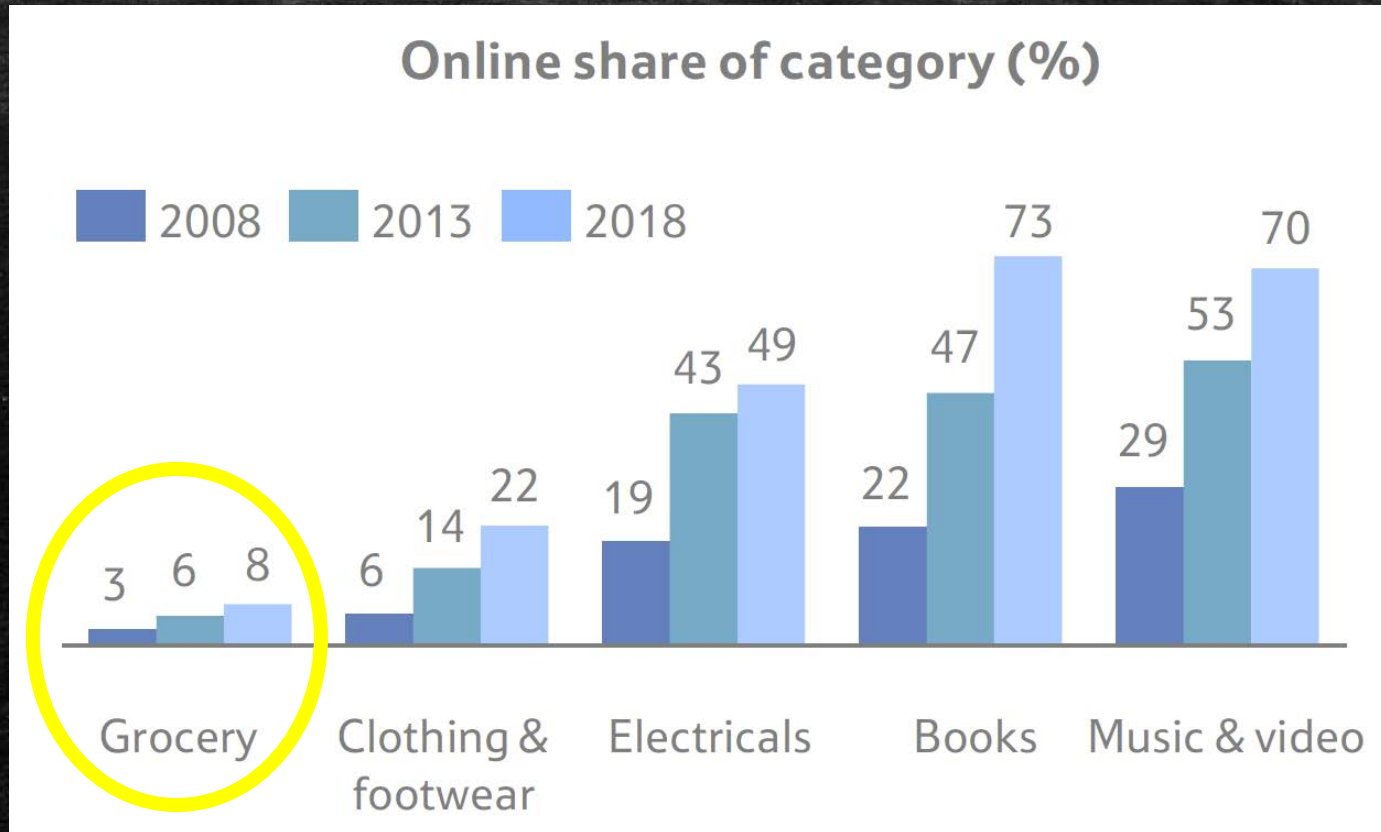
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Now, let's talk about food retail

- Food retail is changing, operators must embrace ecommerce
- Analytics and competitive prices more important than ever
- Focus and strategy are critical; low margins means mistakes are amplified
- Despite all this, food retail is the least affected by technological change, making it much more stable than other types of retail

Grocery least affected by ecommerce



...but very affected by mismanagement

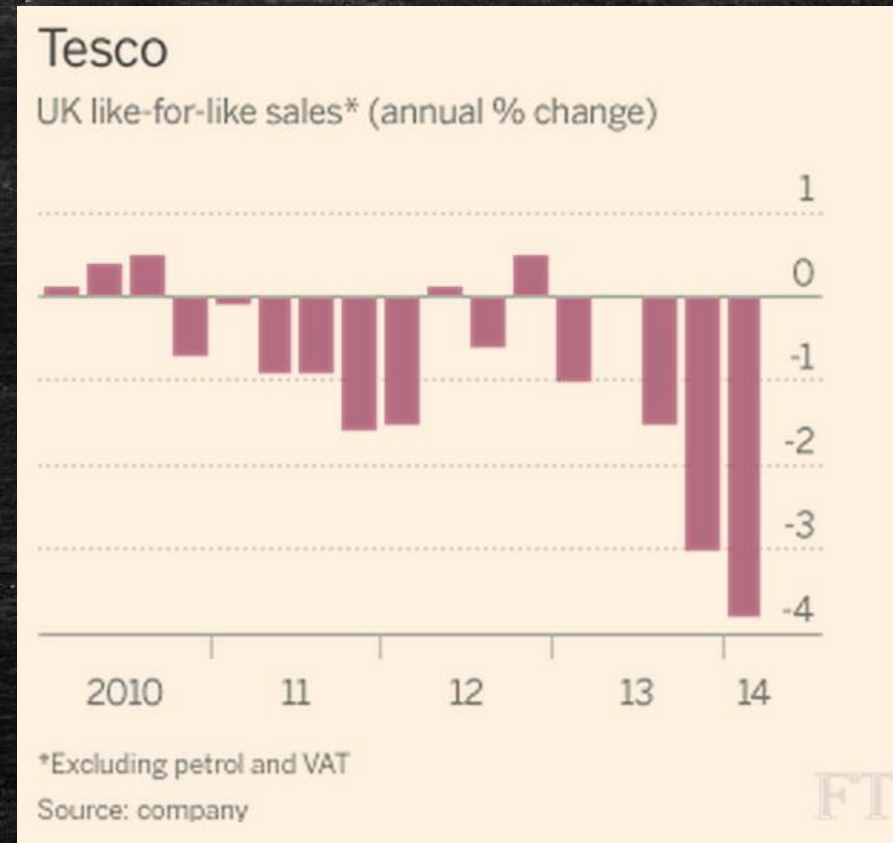
- Tesco is a good case study of a food retailer that lost focus and failed to react to the changing landscape

Tesco's missteps

- Expansion into US (at a cost of over £1 billion) and China broke the successful formula of making money in the UK and reinvesting it there to benefit UK customers*
- Didn't react quickly enough to lower its fat margins at home, allowing competitors to become stronger - German discounters Aldi and Lidl thrived
- Failed to appreciate trend towards smaller top-up baskets, more frequent trips to convenience formats
- Very high exposure to large stores (66% by retail space excluding stores smaller than 10,000 sf) results in lower sales densities and inefficient use of capital**

Tesco's missteps - continued

- Spent money on "Blinkbox," a music-streaming service, Mobcast, a digital book store, the restaurant chain Giraffe, and launched the Hudl tablet
- And... of course... it has four corporate jets*
- The result:



A retailer that gets it

Our idea today:
Groupe Casino, a global retailer

GROUPES
Casino

NOURRIR UN **MONDE**
DE **DIVERSITÉ**

Key Stats

Ticker:
CO FP
(Euronext Paris)

Recent price:
€90.8

Market cap:
€10.28 billion

Dividend yield:
3.4%

What is Casino?

That's a good question... does anybody know?

Sell side: “We view Casino as a French group mainly.”

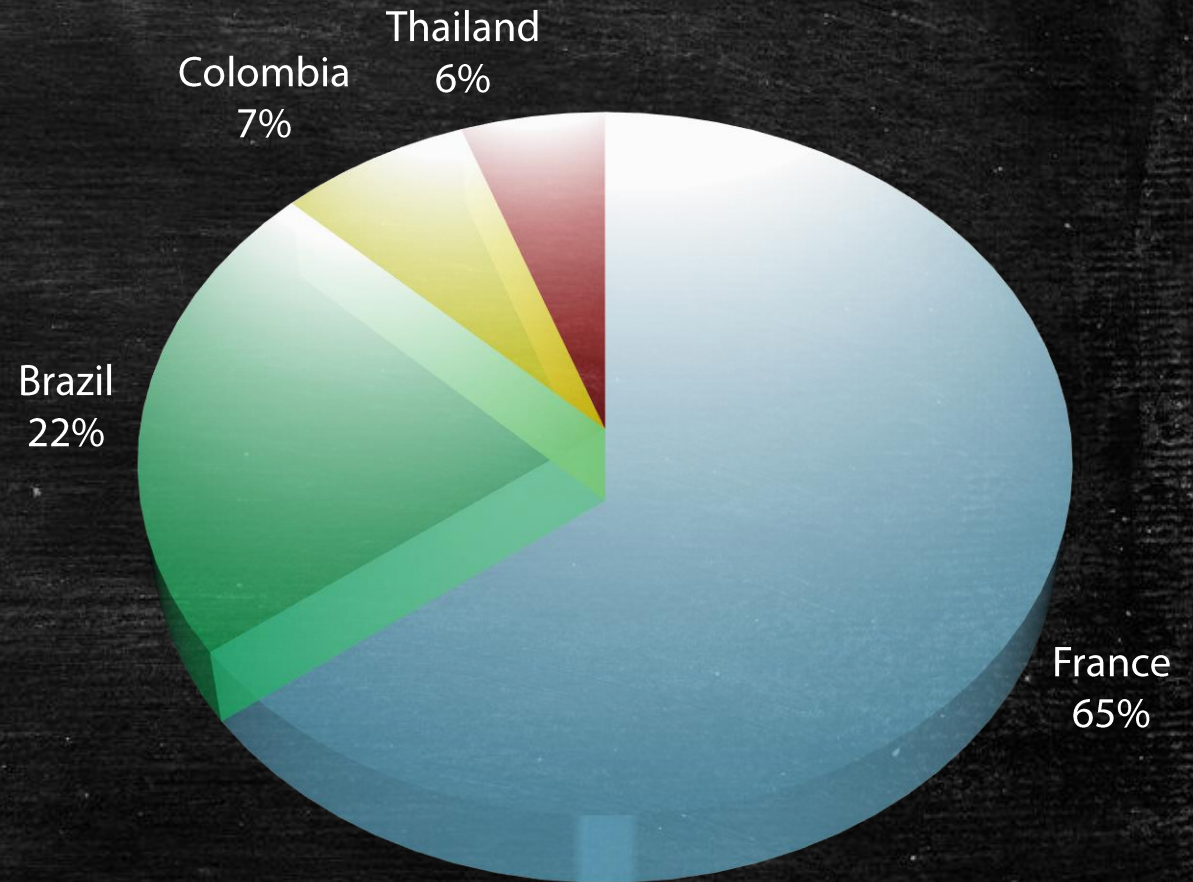
J.P. Morgan Cazenove Europe Equity Research, October 10, 2013

Casino's sales

Here's what the sell side sees:

True, Casino's sales on an economic, look-through basis are predominantly French

Total 2013 sales: €30.12 billion

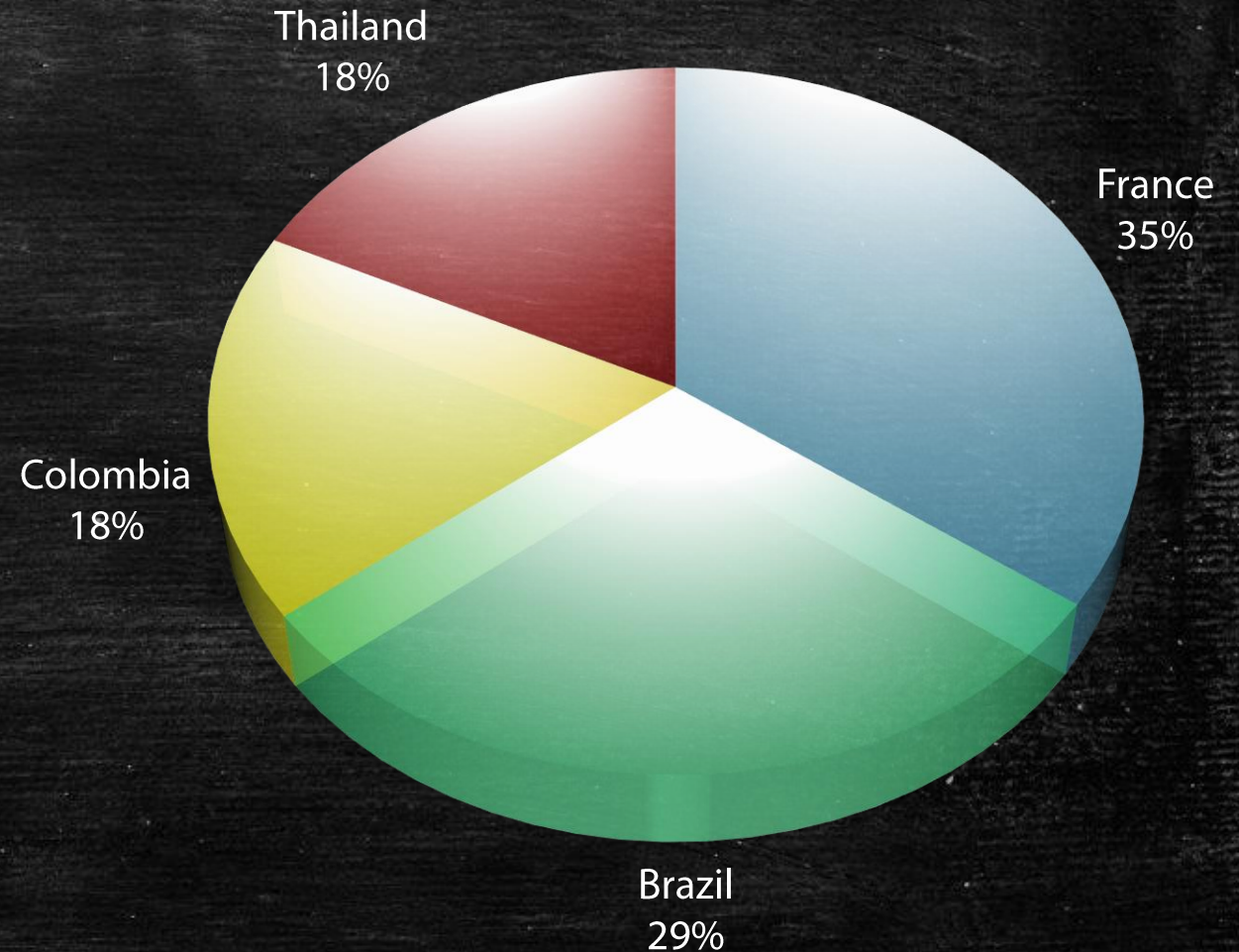


Casino's look-through earnings

Here's what matters:

On a look-through basis, 65% of Casino's profits come from abroad.

And they're growing much faster.



France



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Brazil



Colombia



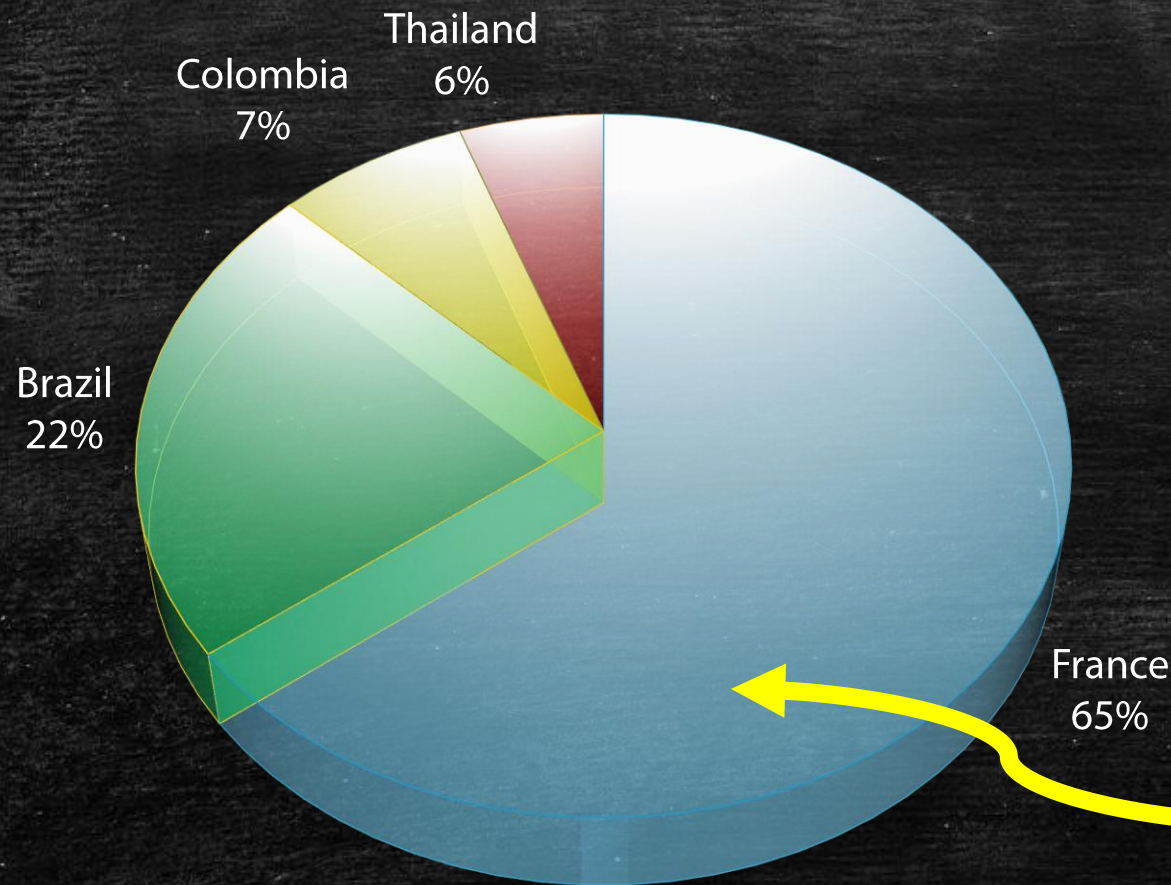
Thailand



Market value: Is it really a French group?



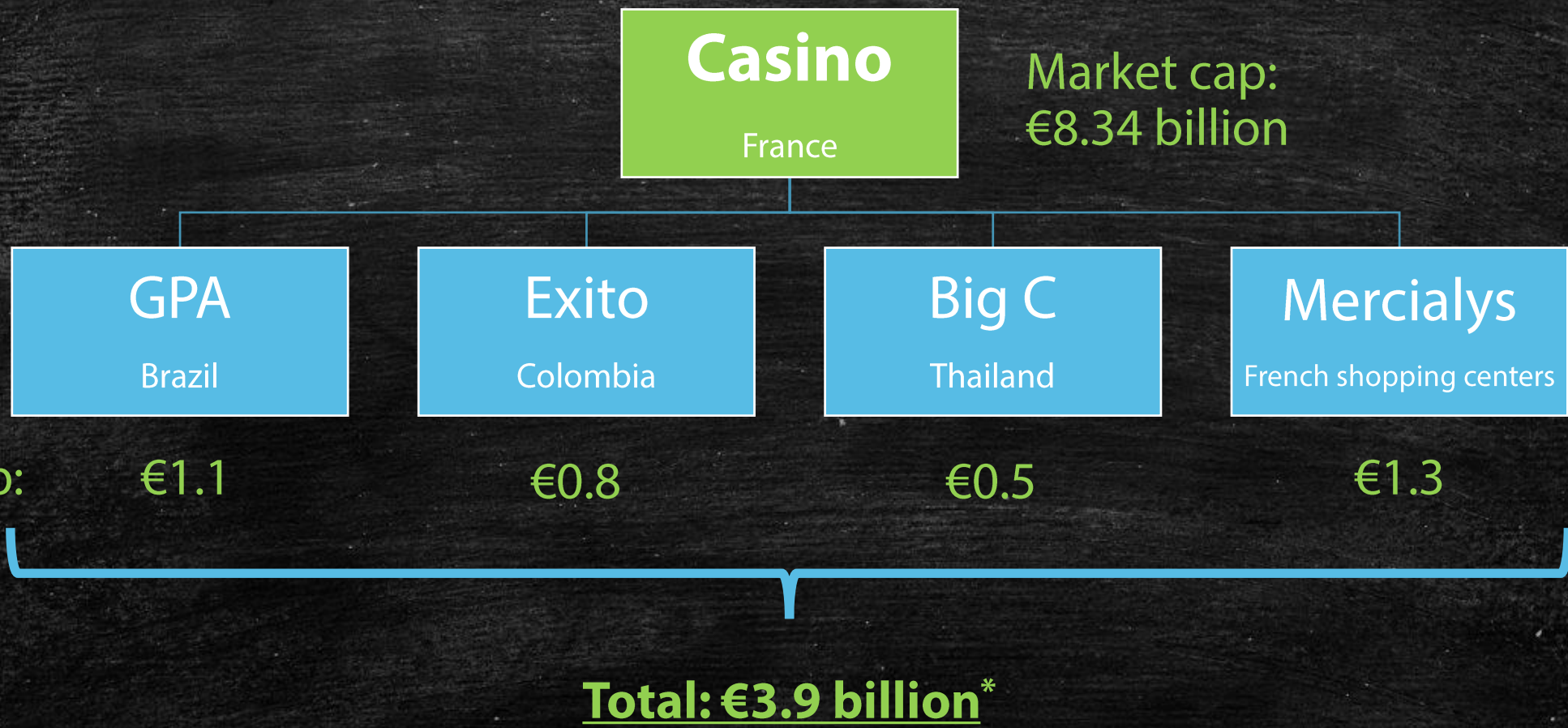
Casino's sales Being paid to own France



- With a market cap of €10.28 billion and holdings worth €11.42 billion (€10.7 billion of which are in Brazil, Colombia and Thailand) the implied value of Casino's French retail business is **negative €1.14 billion**

Being paid to own this slice

It wasn't always this way. Back in 2007...



In 2007, market ascribed **positive value** to French businesses

- With a market cap of €8.34 billion and holdings worth €3.89 billion, the implied value of Casino's French retail business back in 2007 was **€4.5 billion**
- Since then, the value of Casino's holdings grew by **194%** while Casino's market cap is up only **23%**
- **Current environment in France has something to do with this, but we'll see how the fast-growing subsidiaries will drive returns regardless of what happens in France**

The man behind it all
(and this is important)

“I used to talk to Bill [Gates] all the time, and I’d always use this expression that a ham sandwich could run Coca-Cola.”*

~Warren Buffett

Except... food retailers aren’t Coca-Cola.

You need more than a ham sandwich to run them.

Jean-Charles Naouri – biography

- Born in 1949 (65 years old) in Algeria
- At 14, won first prize in Latin and Greek exams in France's national "concours general"
- At 15, passed his baccalauréat with highest honors
- At 18, ranked first in the nationwide entrance examination to the École Normale Supérieure in Mathematics
- Earned a math PhD in one year



Jean-Charles Naouri – biography (cont.)

- Subsequently, studied economics at Harvard for two years on a scholarship
- Obtained a perfect score on the LSAT before returning to France and attending the École Nationale d'Administration*
- Served as chief of staff for Pierre Bérégovoy, Minister of Economy and Finances from 1982-1986
- Architect of French financial markets reform (futures, options, and commercial paper markets)



Jean-Charles Naouri – biography (*cont.*)

- At age 38, joined Rothschild & Cie Banque as Managing Partner
- Established his investment fund Euris, with help from David Rothschild. Euris was “an ingeniously structured holding instrument that allowed it with a relatively small initial placement to control significant shares of blue-chip companies such as L’Oréal, Canal Plus, and Carrefour.”*



Putting Casino together

- Naouri used his fund Euris to take over Rallye, a struggling retailer, in 1991
- In 1992, he swapped Rallye's assets for shares of Casino Guichard-Perrachon, founded in 1898 by Geoffroy Guichard
- In 1997, fended off a hostile offer from Promodès, kept control
- Also in 1997, bought a stake in Monoprix (France)
- 1999: bought stakes in Thailand's Big C, Colombia's Exito and Brazil's GPA
- 2000: bought a stake in Cdiscount (ecommerce)

Epic battles for control

- Over the years, Naouri had epic battles with the families of the various companies he took over (Monoprix, GPA, Franprix and Leader Price)
- Known as a tough negotiator
- Consolidated full control over all holdings over the years



Naouri's most public battle was that against Abílio Diniz, whose family founded Grupo Pão de Açúcar in Brazil

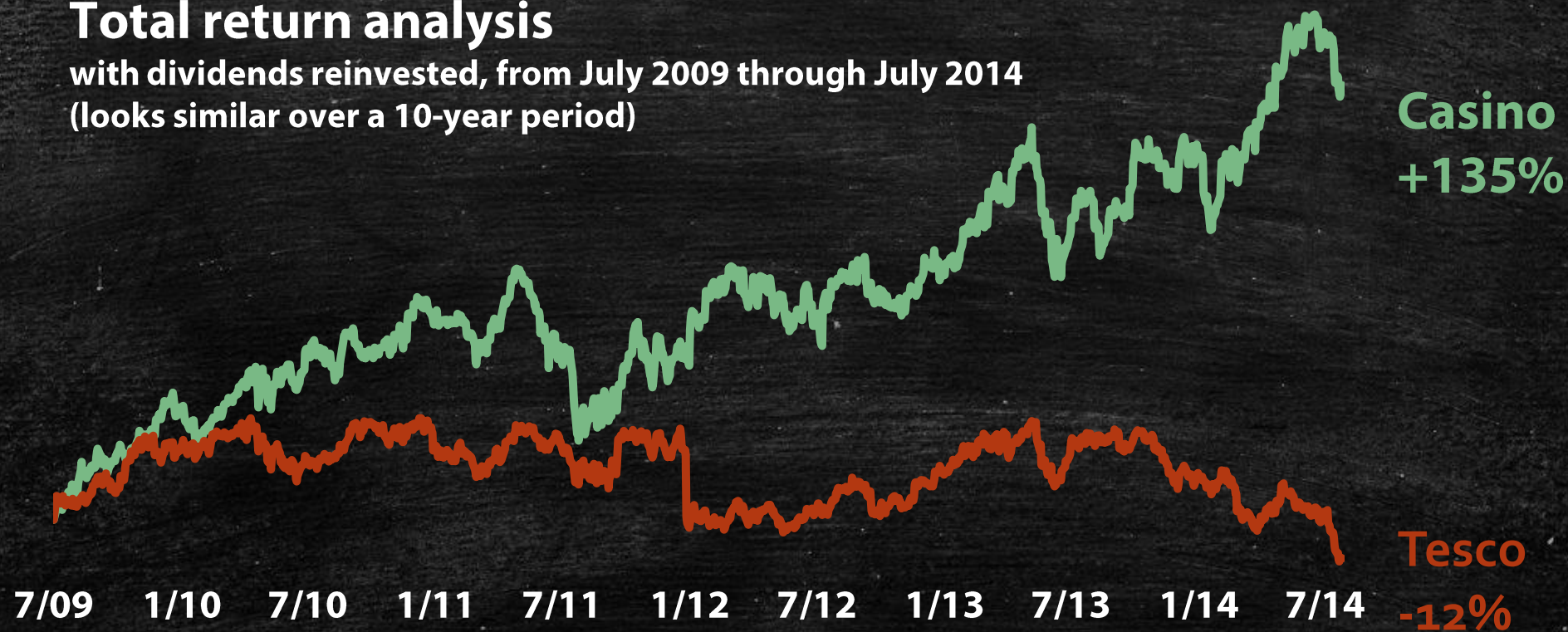
Naouri's superior long-term strategy

- Naouri understood early on that retail was moving away from mass and into “precision commerce”; tailored offering to customers and acquired footholds in proximity, convenience, high and low ends.
- He also realized that growth at home would be difficult, and focused Casino's portfolio in the most promising emerging markets
- Dual retail/real estate strategy: every time Casino builds a big store in France or abroad, it builds a shopping center around it. This creates high quality rental income from surrounding tenants and is a hedge as retail trends move away from big boxes.
- Strong in private label, offering innovative (instead of “me too”) products to better compete with brands

The result

Total return analysis

with dividends reinvested, from July 2009 through July 2014
(looks similar over a 10-year period)



Source of growth:
Casino's foreign holdings



Grupo Pão de Açúcar (GPA) – *Brazil*

- Brazil's largest private employer, leader in food and non-food retailer
- Operates 1,999 stores across 30.1m square feet, plans to grow food retail portion by 57% over next two years
- 2013 same store sales growth of 9.0%, net sales up 12.8%
- Expanding GLA of shopping centers by 20% per annum
- Growing network of convenience banners
- Plans 650 new stores by 2016, equivalent to 4 new stores per week
- Publicly traded, on a forward P/E of 16-17x based on 2015 estimates

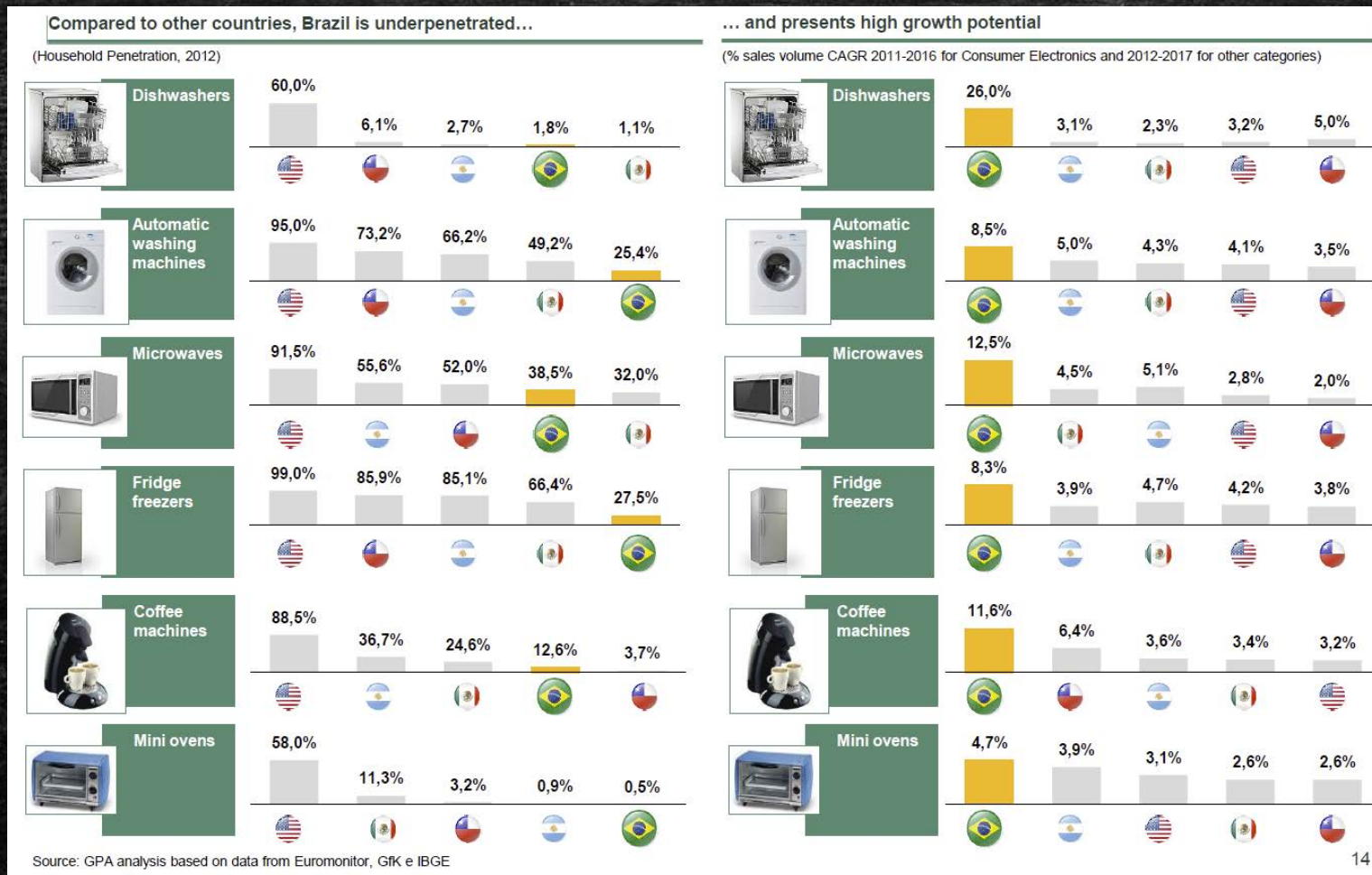
GPA's steady growth over the years



Via Varejo – Brazil

- New name for two well known Brazilian non-food retailers Casas Bahia and Ponto Frio, both top-of-mind in terms of brand recall
- In aggregate they sell more than their next four competitors combined (26% market share and growing)
- Difficult to replicate: dense distribution network with over 9m sf of distribution centers and a fleet of 2.6 thousand vehicles making 40 thousand deliveries every day
- Publicly traded and 43.35% owned by GPA (62.3% of voting rights)

Via Varejo's exceptional opportunity in Brazil

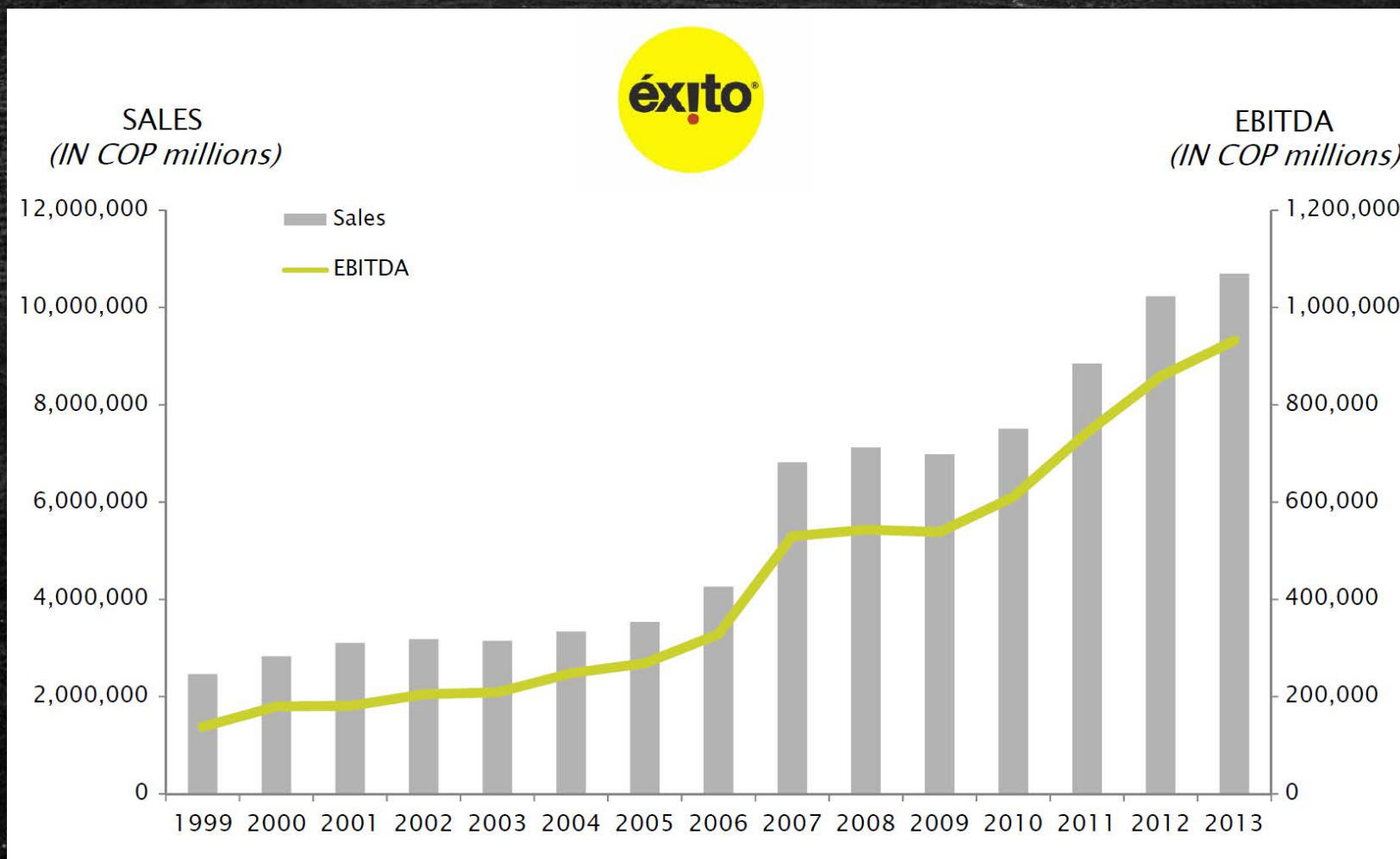


Brazil: under-penetrated and high growth potential

Grupo Exito – Colombia & Uruguay

- Leader in food retail in Colombia with 40% market share
- Operates 470 stores in Colombia, 54 in Uruguay
- Recently announced the acquisition of 50 stores from Super Inter, a competitor in Colombia
- Growing middle class means the opportunity to expand formal retail into an additional 200 towns across the country
- Over past ten years, consolidated sales have grown at 16% CAGR
- Publicly traded, on a forward P/E of 20x based on 2015 estimates*

Exito's steady growth over the years



Casino's strong Latin American brands: 5 in the top 20

LAS 20 MARCAS MINORISTAS LATINOAMERICANAS MÁS VALIOSAS

Valor en millones de euros

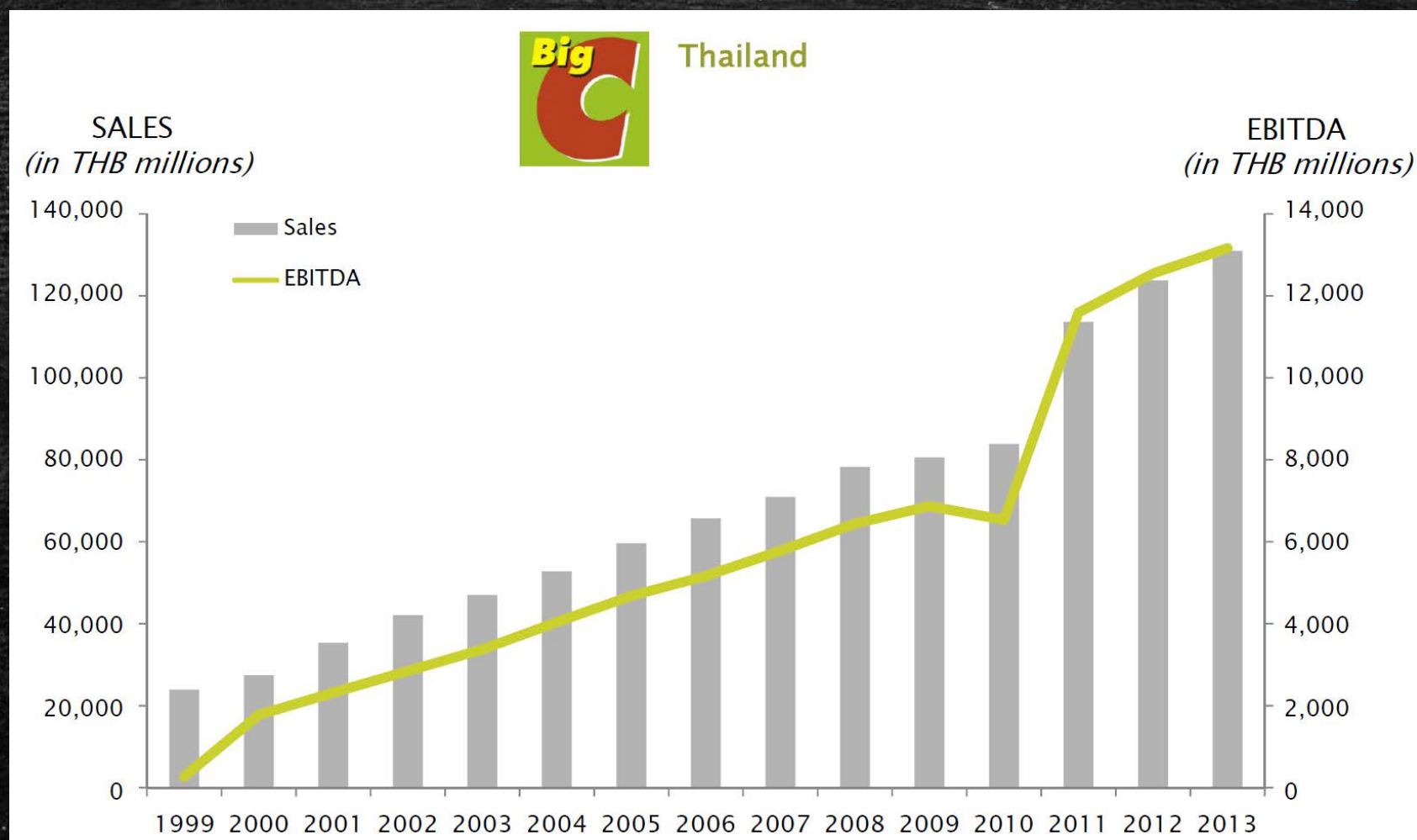
EMPRESA	PAÍS	SECTOR	VALOR
Natura	 Brasil	Cosméticos	2.367
Oxxo	 México	Minimercados	1.961
Bodega Aurrera	 México	Supermercados	1.961
Falabella	 Chile	Grandes almacenes	410
Liverpool	 México	Grandes almacenes	364
Casas Bahia	 Brasil	Muebles y electrodomésticos	315
Sodimac	 Chile	Artículos de construcción	286
Elektra	 México	Electrónica y electrodomésticos	275
Renner	 Brasil	Textil	268
Lojas Americanas	 Brasil	Grandes almacenes	240
Superama	 México	Supermercados	239
Extra	 Brasil	Hipermercados	197
Hering	 Brasil	Textil	196
Éxito	 Colombia	Supermercados	185
Suburbia	 México	Textil	130
Tottus	 Chile	Supermercados	120
Havaianas	 Brasil	Textil	119
Pão de Açúcar	 Brasil	Supermercados	110
Ponto Frio	 Brasil	Muebles y electrodomésticos	110
Arezzo	 Brasil	Textil	93

EL PAÍS

Big C – Thailand & Vietnam

- Thailand: owns 559 stores and 127 shopping malls; co-leader with Tesco in hypermarkets
- Half of EBIT comes from shopping mall rents
- 11% CAGR in sales since 1997
- Low proportion of modern retail in the country (44%) compared with developed Asian countries at 95%
- Substantial growth ahead: over next three years will **double hyper and supermarket store count, double the number of shopping malls, and triple the convenience format store count**
- Publicly traded, on a forward P/E of 20x based on 2016 estimates*
- Vietnam: privately held by Casino, licenses Big C name; only operator in hypermarket and shopping center segment

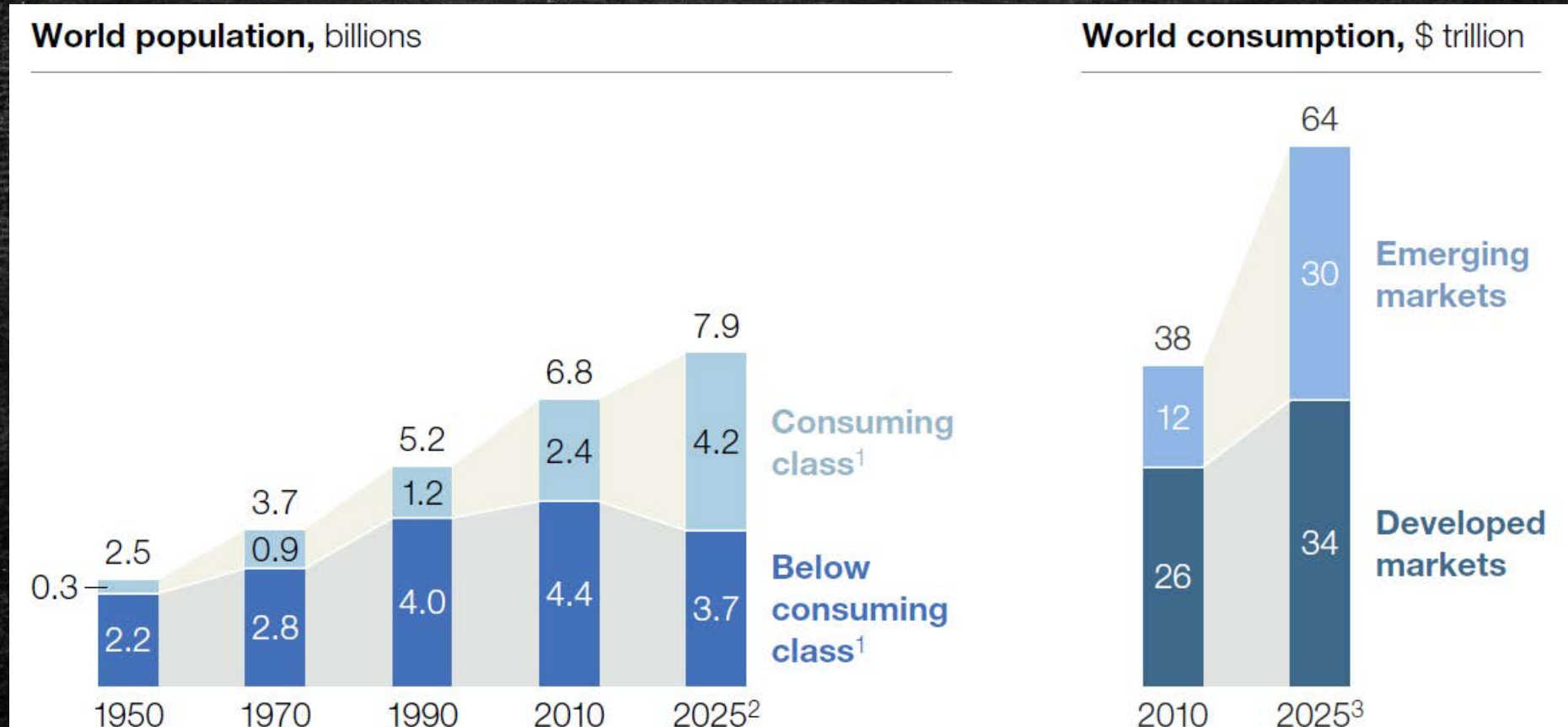
Big C's steady growth over the years



Tailwinds in emerging markets



Megatrend: the advent of a new consuming class in emerging countries



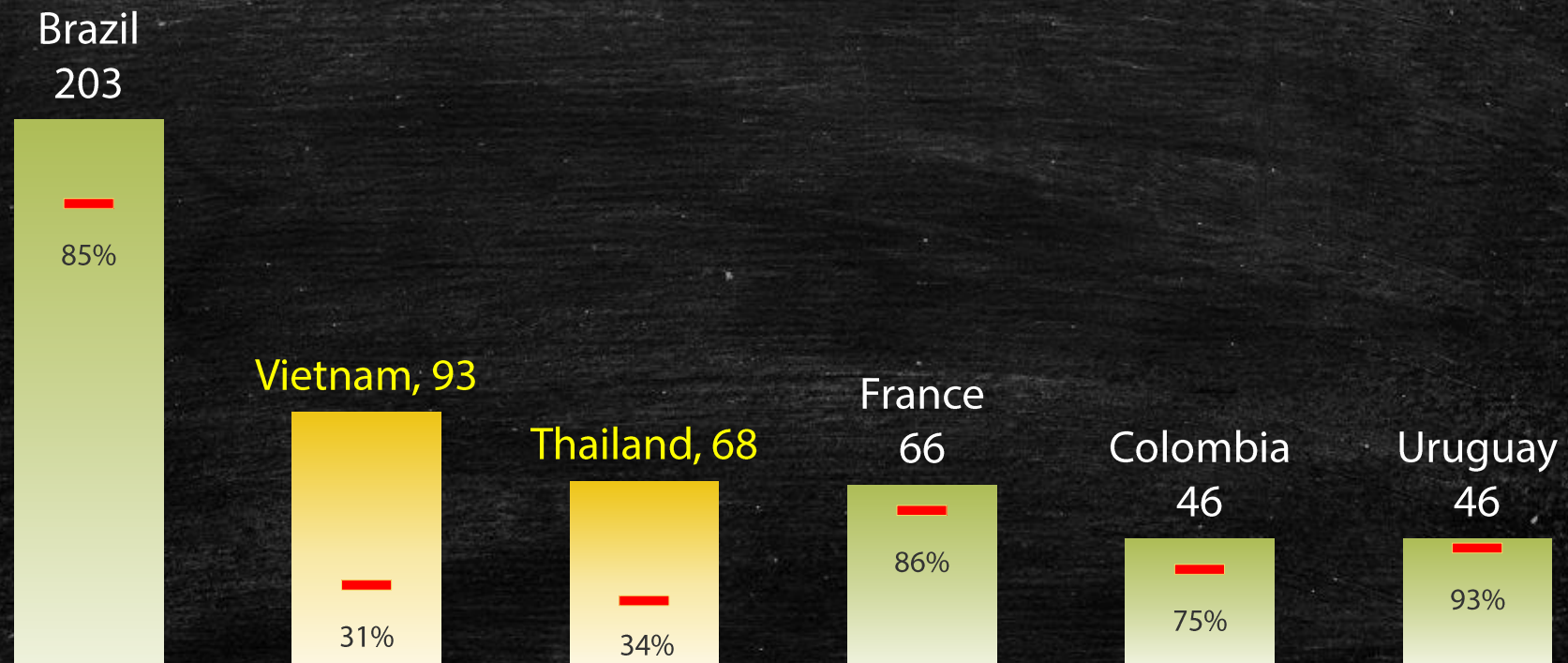
150%
growth

vs.

50%

Large populations

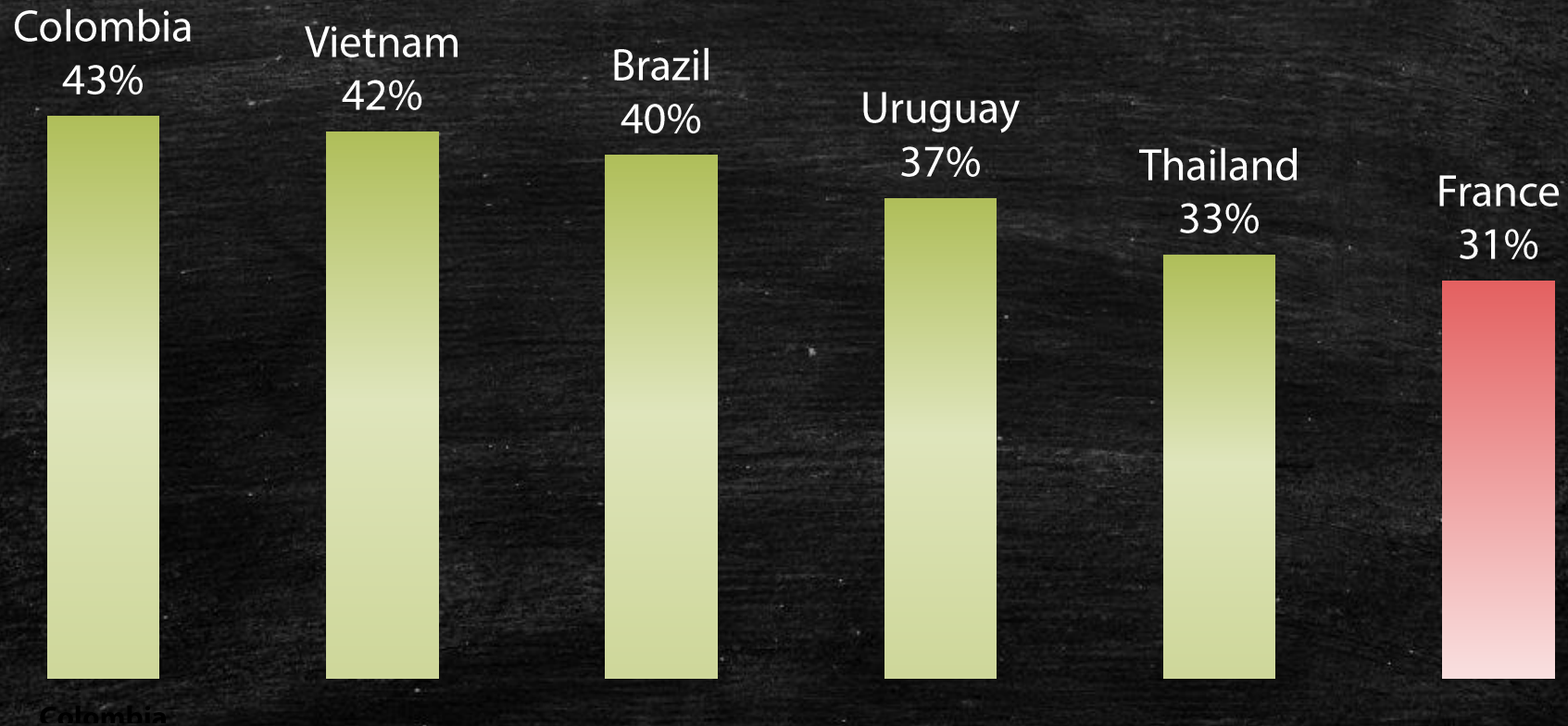
- In aggregate, Casino is present in countries with 523 million inhabitants
- Low urbanizations of Vietnam and Thailand are a tailwind for modern retail



Population in millions and percent urbanized, 2014 estimates

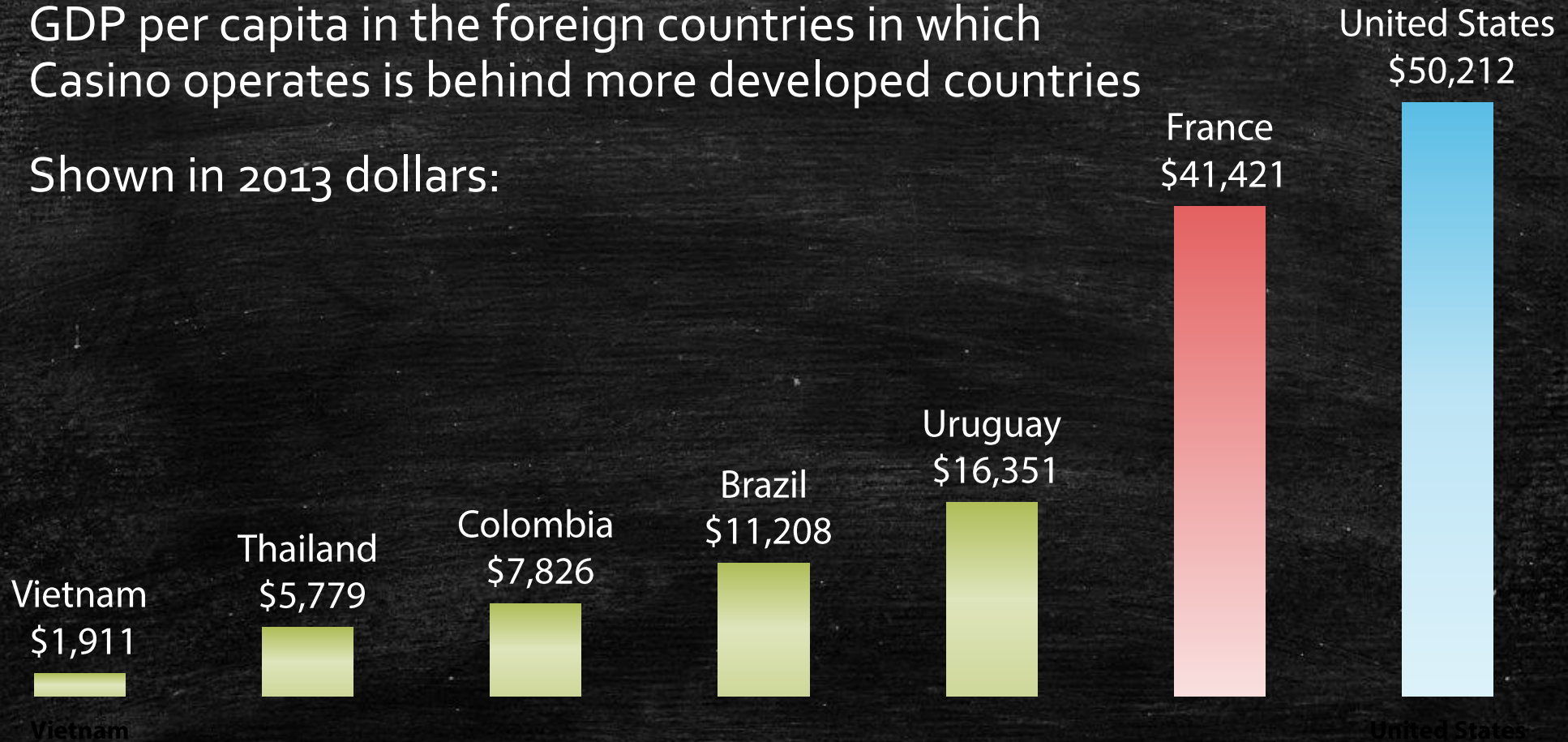
Favorable demographics: Young countries

- Percentage of population ages 24 and under:



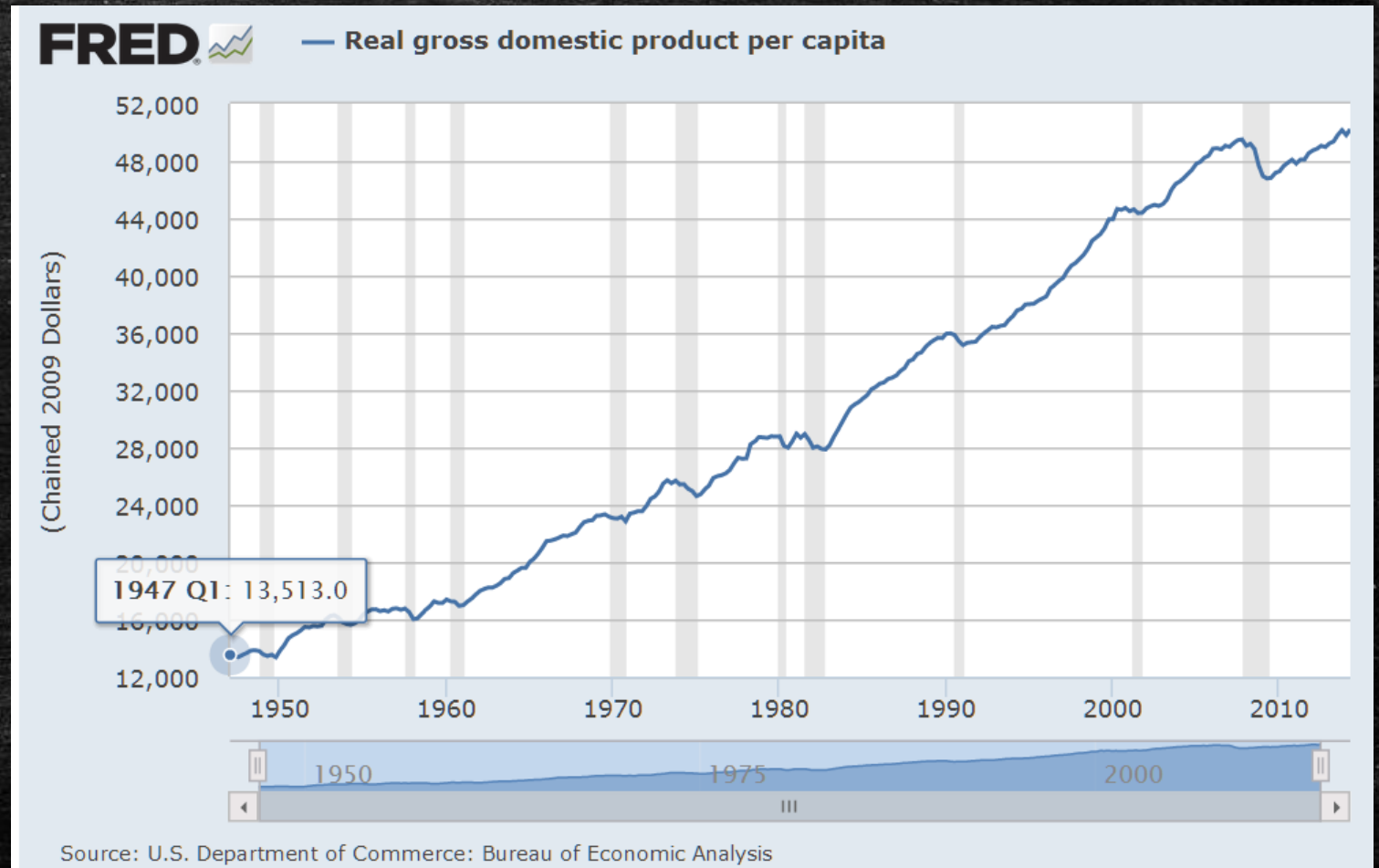
GDP per capita has substantial runway

- GDP per capita in the foreign countries in which Casino operates is behind more developed countries
- Shown in 2013 dollars:



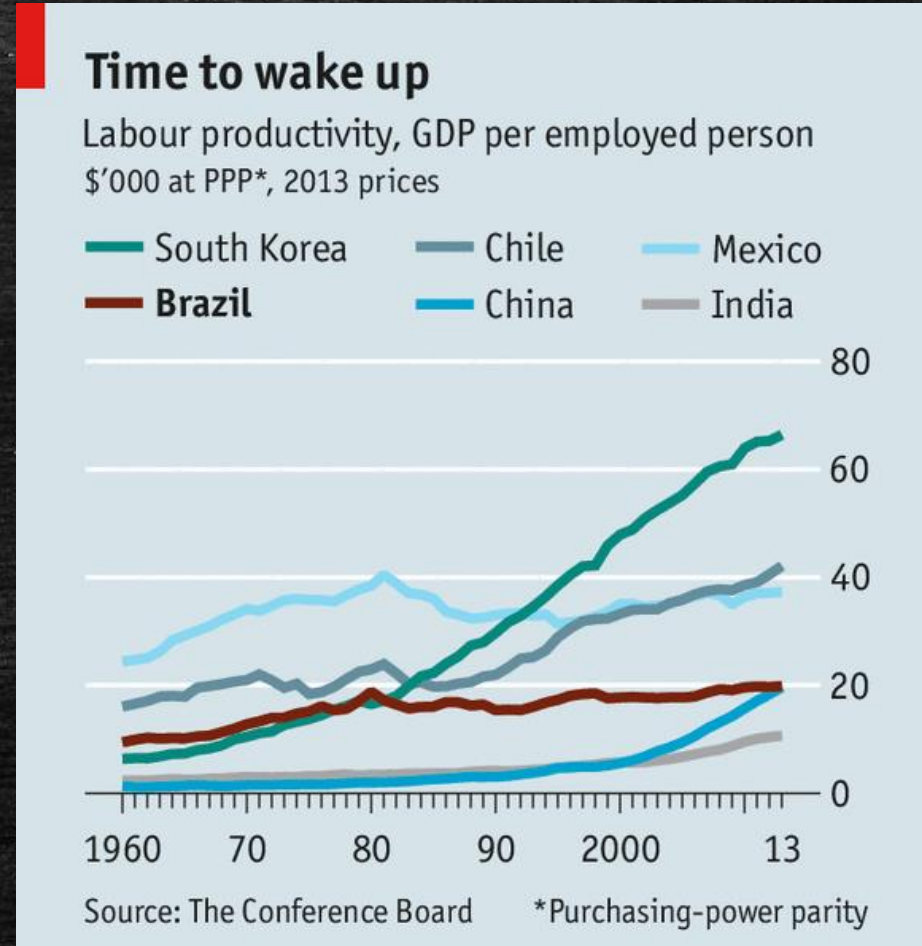
Brazil is back in the 1940s

- Brazil's GDP per capita, adjusted for inflation, is where the US's was back in the 1940s
- Brazil today: \$11,208
- US in 1947: \$13,513 (2009 dollars)



The 50-year snooze

- Over the past 50 years, Brazil's GDP per capita growth has lagged other emerging peers
- The upshot: there is a lot of potential upside as wealth per capita increases



Potential catalyst to wake up Brazil

- Coming up: October elections
- Broad discontent with incumbent president Dilma
- Growing support for newcomer Marina Silva
- "A win for Ms. Silva [...] could spur a developmental leap for Brazil, which embraced democracy in 1985 after a long dictatorship but has struggled with corruption and inefficiency ever since."



Naouri betting big on Brazil

- R\$ 2 billion (US\$ 800 million) earmarked for 2014 expansion
- Quote from 2013 Q4 conference call:

“In Brazil, the investments are planned for 2014 to – stability compared to 2013 doesn't mean that we're going to slow down CapEx because our ambitions are considerable. We want to expand very rapidly in Brazil, because we believe that the potential of GPA is huge. GPA – really, Brazil is more a continent than a country, and we believe that the expansion of GPA into the cash-and-carry Assai format, in particular, and Minimercado Extra convenience stores have a lot of potential for the future. So, we have a lot of ambition for Brazil, and we are going to spend R\$2 billion and we want to pursue a very dynamic development strategy in Brazil.”

Summary of emerging market thesis for Casino

- Large populations, growing wealth per capita, growing middle class
- Large number of consumers reaching tipping point where incremental wealth translates into discretionary purchases and higher margin staples
 - Example: In Brazil, GPA converted an entire neighborhood from their lower-end *Extra* banner to more upscale *Pão de Açúcar* because the average income had reached a tipping point and conversion resulted in high return on capital
- Within this growth in population and middle class there is additional penetration of formal retail
- Fast growth into underpenetrated urban areas will result in additional stores, shopping centers, faster SSS and rising rents

Let's take a look at France



Tepid growth, good strategy

- Naouri has long said that the French market has little growth
- Instead, what's shifting is buying patterns: hypermarkets are out, convenience city-center formats are in
- In 2005, Casino spun out Mercialis, a REIT containing the shopping centers surrounding its hypermarkets
- It has been a very successful strategy, as the big boxes are converted to additional shop space

Mercialys's Grenoble shopping center



Casino was a pioneer in private label

Why is it so important?

- Private label was the original way of selling goods: by the 1930s, retailer A&P* was the largest in the world, and was responsible for the quality of the products sold
- With the advent of radio broadcasting, advertising was used by brands to draw customers into retailers, shifting the power from retailers' private brands to branded manufacturers, who were now held responsible as "agents of trust" with consumers
- Competition among retailers turned brands from profitable, to sold at cost, and eventually to loss leaders, in order to attract customers
- With improvements in technology and logistics, it made sense for retailers to commission exclusive products which they could price competitively and garner a much higher margin, shifting power back to retailers
- With retailers controlling the customer interaction, five of the top eight FMCG** manufacturers are now retailers (Unilever and Coca-Cola are not even in the top ten)

One of the first examples of a branded product: Ivory soap, 1886



- “Examine before you buy” – Procter and Gamble were nudging grocers to stock Ivory soap so their customers wouldn’t be fooled into buying soap of a lesser quality
- Eventually, P&G cut out the middlemen (distributors) and dramatically grew their sales force, becoming a strong influence at the point of sale

Private label today

- In the US and Europe, during 2000-2010, private label was responsible for the majority of growth in packaged foods
- Private label share of FMCG sales approaches 20% and growth rate has surpassed that of manufacturers' brands in 9 of the last 10 years
- Example: in 2005, best-selling brand in US grocery market was Walmart's "Great Value" brand
- Penetration varied by country. Highest is Switzerland (47%), with France at 29%; Brazil is a mere 8%, which spells opportunity for GPA

Overview of French banners: Casino Supermarkets

- Casino Supermarkets: 410 stores, average sales area of 17,200 sf, private label penetration is 36% of sales



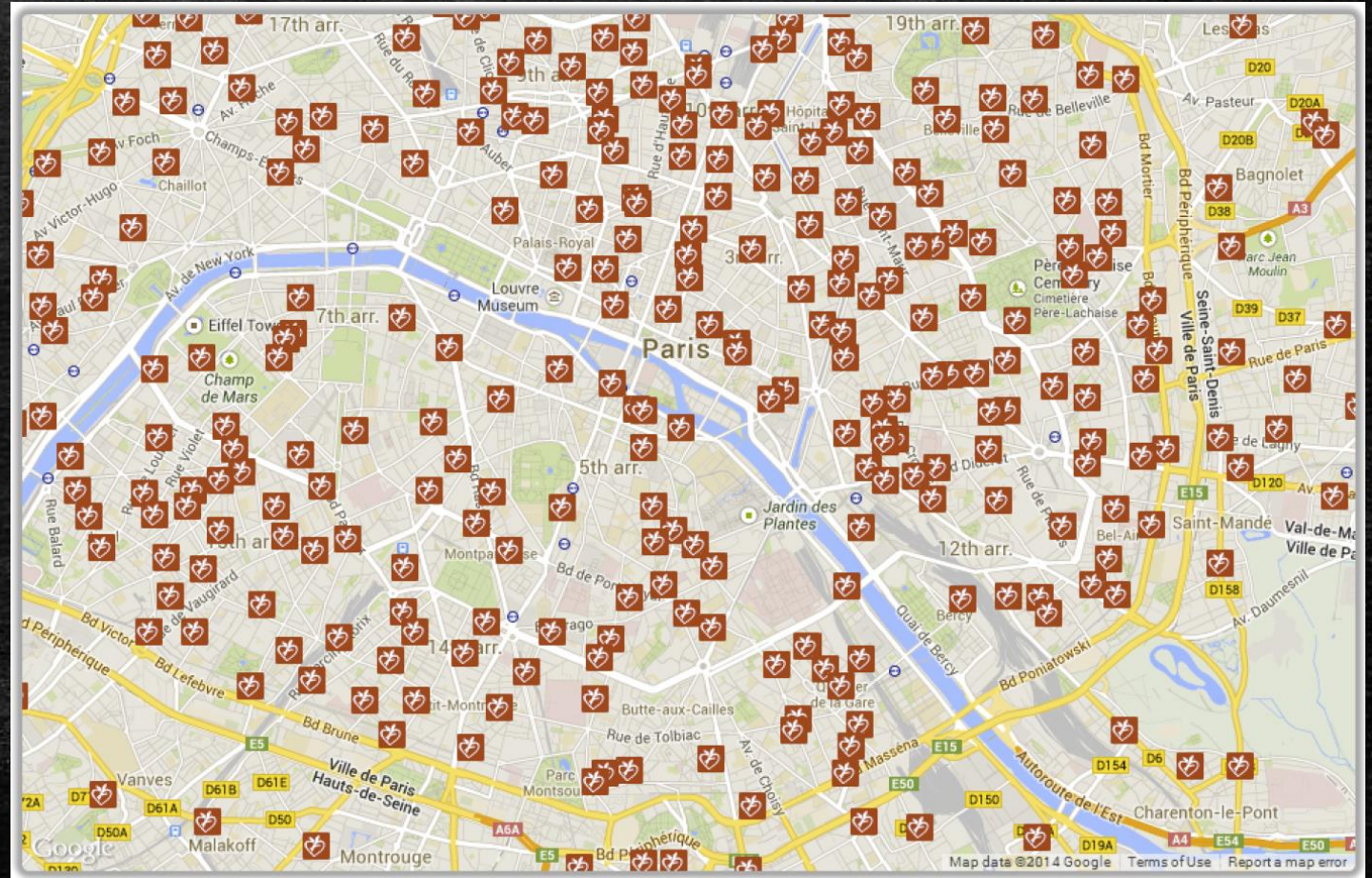
Monoprix

- 584 stores, very attractive format both from a shopping experience perspective, and with the highest operating margin, at 6.9% in 2013
- Offers both food and non-food items
- 40 new stores opened in 2013
- Strong private label strategy



Franprix

- 885 stores – the unavoidable convenience store
- Naouri: “It is difficult to replicate by anyone in Paris.”



Franprix – very convenient



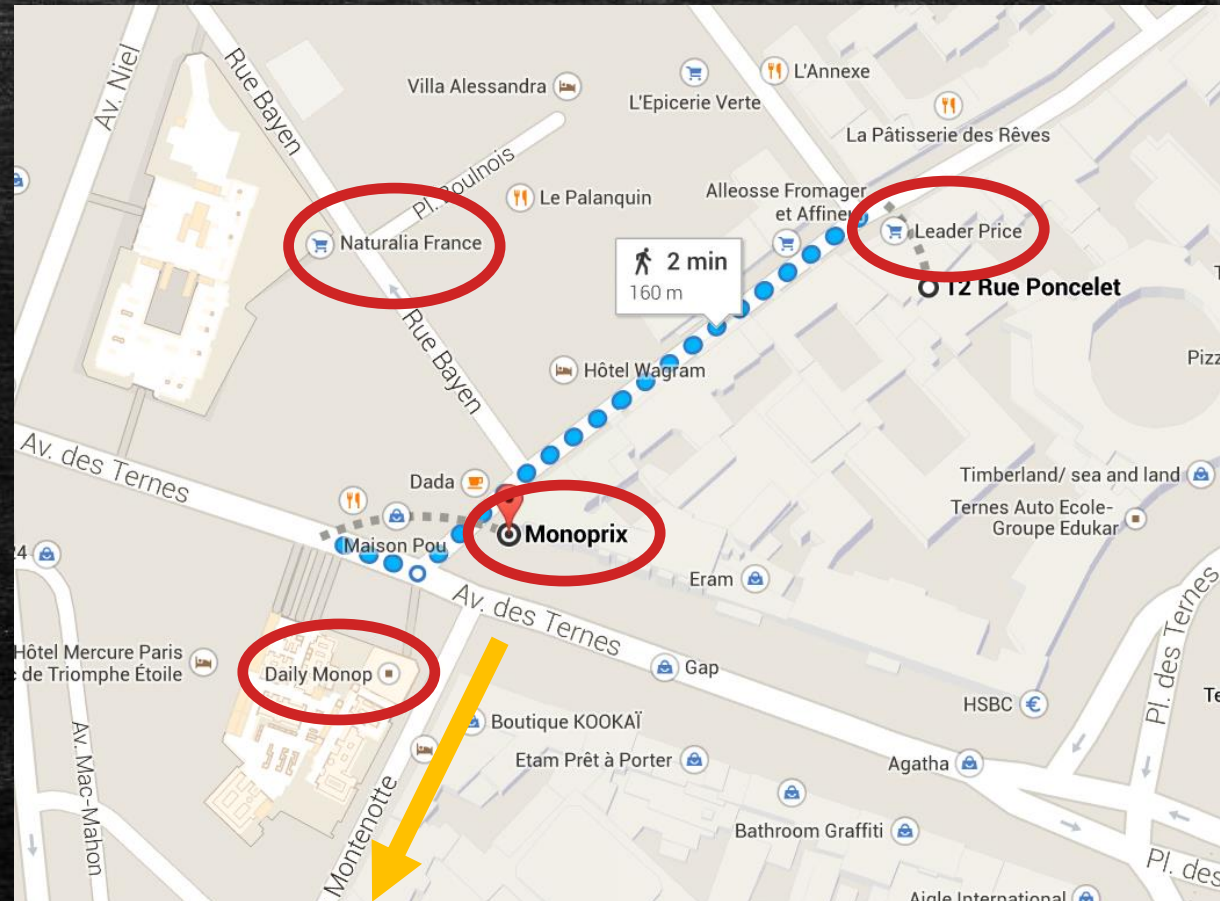
Leader Price

- 619 stores; mission of selling quality products at affordable prices
- Stocks 700 items year-round at less than €1
- More affordable than hard discount competitors
- Only sells national brands if economics similar to private label



Lots of options within walking distance

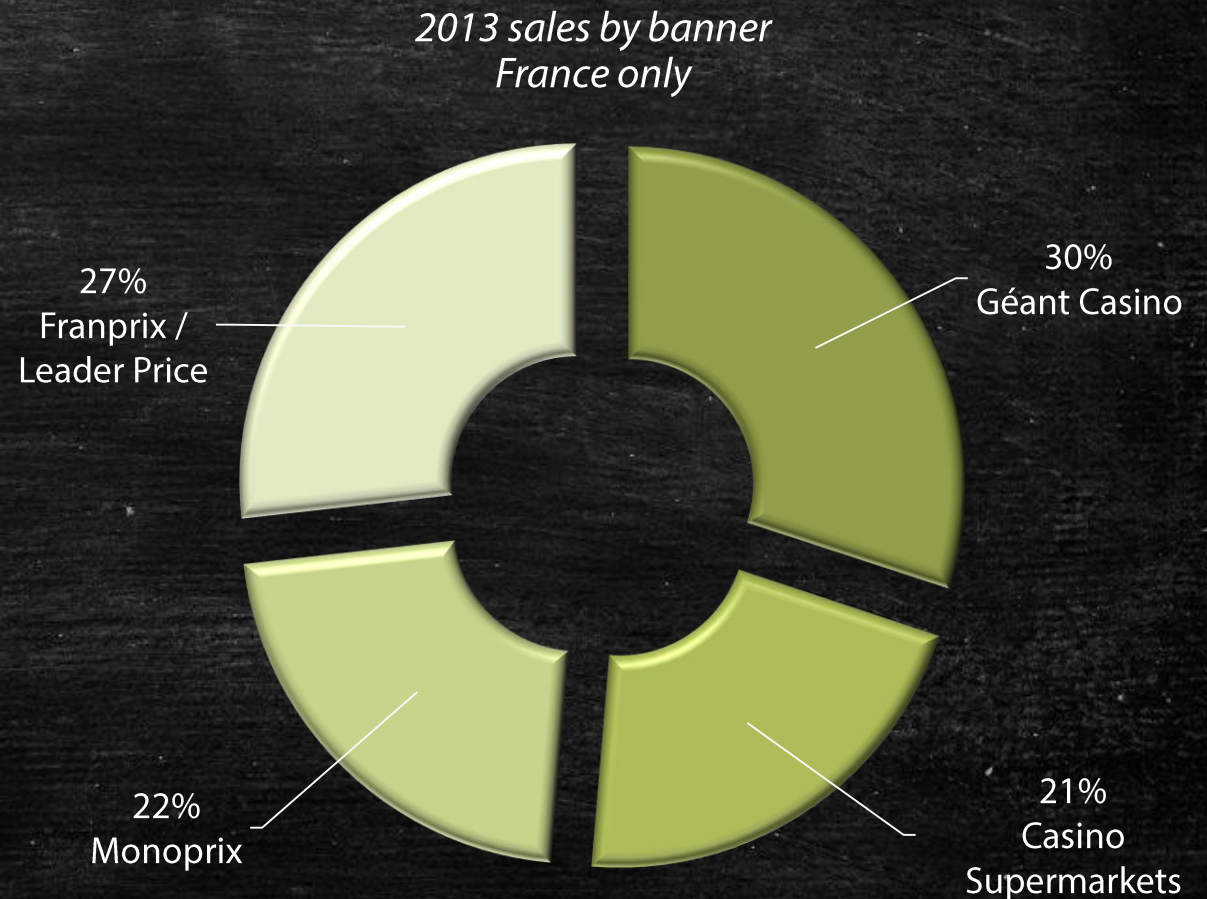
- Walking around Paris, there are many locations dominated by Casino's banners
- This is a few blocks from the Arc de Triomphe and Ave des Champs Elysées



Champs Elysées
a couple of blocks away

Summary of French thesis for Casino

- No growth overall, just a shift from Casino's hypermarket format to convenience (Casino, Monoprix, Franprix/Leader-Price, Petit Casino, Vival and Spar)
- Analysts have been worried about Casino's hypermarket banner, Géant, due to high prices; that has now been remedied and Géant has the lowest prices among all competitors
- Shift to convenience could benefit Casino's margins over time
- Any return to GDP / employment growth would be icing on the cake



Casino's real estate holdings



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Casino owns substantial real estate

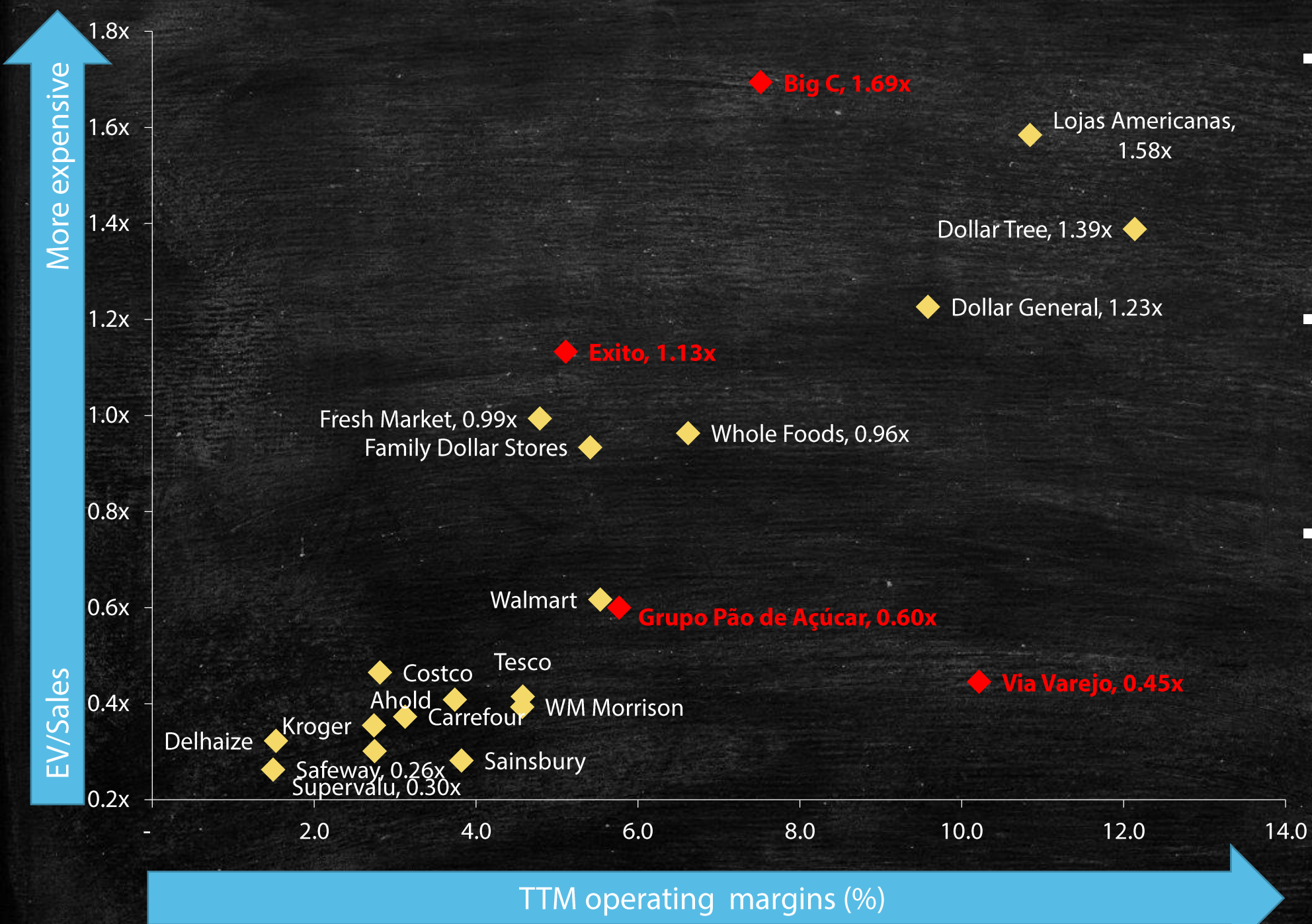
- Like many retailers, Casino owns substantial real estate
- Unlike many retailers, Casino has been adept at actively managing its holdings and highlighting value through spinoffs and asset swaps with Mercialys
- Casino owns €4.2 billion of real estate in France, primarily in hypermarkets and Monoprix stores
- In addition, Casino owns €1.25 billion of real estate abroad, primarily in Thailand and Colombia
- Has indicated a desire to spin off a REIT in Thailand
- Growth in Brazilian malls could create a REIT in a few years

A detailed look at Casino's valuation



Let's properly value the French business: Comparable multiples

- Universe of similar retailers trade at vast multiples from 0.26x enterprise value to sales (Safeway) to 1.69x EV/S (Big C), with multiples somewhat correlated to operating margins



- Big C looks fully valued, although 50% of EBIT is shopping center rents
- Grupo Pão de Açúcar and Via Varejo look undervalued
- Casino's French business should trade at premium to Tesco's 0.42x

Valuing the French business today

- Using 0.50x EV/S for the French business, we arrive at EV for the French business of €8.16 billion
- This counts French sales at €16.3 billion, which excludes the portion of French sales attributable to ecommerce and unlisted foreign subsidiaries
- Unlisted foreign subsidiary sales:
 - Argentina €428 million (we value at 0.25x sales due to current economy)
 - Vietnam €468 million (we value at 1.5x sales due to growth profile)
 - Indian Ocean €862 million (we value at 0.5x sales, in line with French business)
- Total French + unlisted subs: €9.4 billion EV
- Plus current market value of listed subs (€11.4 bn): €20.8 billion EV
- **Less parent company net debt of €6.9 billion, we get €122 per share, which only fair values the French business today (Casino has 113.1 million shares)**

Perhaps too much?

- The problem with using EV/S of 0.50x for the French business is that we estimate the French EBIT margin is 3.1%, skewed down by the low margin hypermarket business
- This results in an EV/EBIT multiple of 16x, higher than comps at 12-15x
- In 2013, Franprix and Leader Price's operating margins were 3.5%, and Monoprix's were 6.9%
- Food deflation in France and price cuts at Leader Price may lower margin in 2014
- If Casino can shift more of its sales to the higher margin banners and shrink hypermarkets over time, there is an opportunity for the market to award its business a better multiple

Using EV/EBIT instead

- If we apply a 13x EV/EBIT multiple for the French business instead – which is at the high end of comps and one turn higher than Carrefour – we get EV for the French business of €6.55 billion
- Adding up the value of the listed and unlisted subsidiaries, total EV is €19.2 billion
- Less parent company net debt of €6.9 billion, we get €108 per share for Casino, fair valuing the French business
- But these methods tell us what Casino is worth today, not what it's worth in the future
- There is also the additional value from the €4.2 billion in real estate (€37 per share or 41% of Casino's market cap) – what would it be worth if monetized?

Conclusions drawn from this exercise

- Casino has assembled an impressive array of assets over the years, but as a result, it has also accumulated a lot of debt (although on a consolidated basis, net debt to EBITDA is 1.6x, down from 3.8x in 2005)
- **Control battles are over: in order to highlight the value of Casino's French business, Casino should focus on deleveraging**
- With parent company net debt of €6.9 billion, a substantial amount of value would accrue to Casino shareholders as debt is paid down
- **However, this analysis is static; it's more important to look at the value Casino will create in the next few years...**

A better way: Look-through earnings methodology

- Start with French and unlisted subsidiaries' sales, excluding ecommerce, and apply the current estimated EBIT margin of 3.1%. Grow sales at 1% per year to be conservative.
- Estimate Casino's parent company debt service (current bonds outstanding of €8.4 billion – this includes Casino's deeply subordinated perpetual bonds, which it treats as equity, and Monoprix's convertible bonds)
- We believe the average cost of debt is 4.1% and debt service is €348 million
- Apply French statutory tax rate of 34.43% to arrive at net income estimate for France

Look-through earnings methodology – cont.

- Then, we add the look-through net earnings of all public subsidiaries: GPA, Exito, Big C and Mercialys, using Casino's economic ownership of each, converted to euros at the current FX rate
- On this basis, Casino is trading at 18x 2014's estimated look-through earnings
- However, if we assume growth in sales in the listed subsidiaries in line with recent trends, and stable margins, Casino would earn €8.2 per share on a look-through basis in 2017
- At €90.8 currently, Casino is trading at only ~11x 2017 estimated earnings
- At 18x in 2017, Casino would trade at €148, or 63% upside

Still not accounting for full value

- Our estimate of value in 2017 implies a market cap for Casino of €16.75 billion
- Yet the sum of the portion of the public subsidiaries owned by Casino would be €16.6 billion
- Still attributing little value to the French business
- Any parent company deleveraging and improvement in France would add to this
- **Bottom line: Casino's ownership of fast-growing emerging market retailers should drive the stock over the next several years, regardless of France**

Casino has a
hidden asset



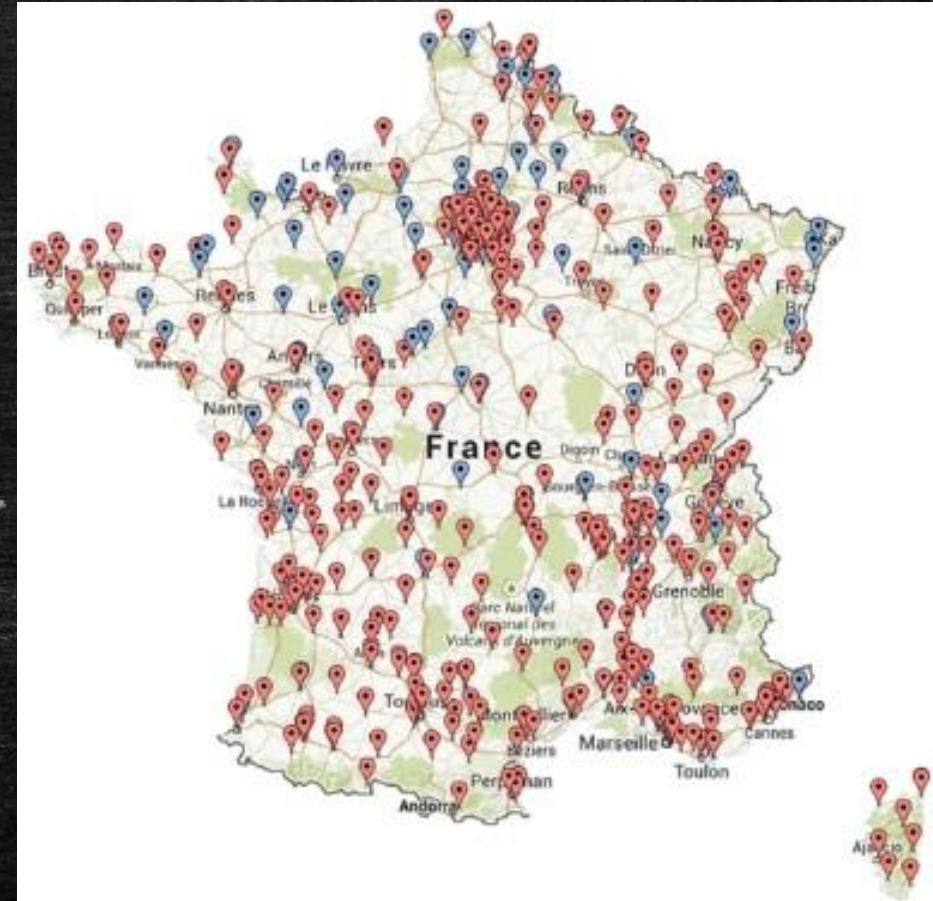
Spotted at the Musée du Louvre

Cdiscount

- Cdiscount was founded in 1998 and became part of Casino in 2000
- Currently the number one ecommerce retailer in France, 2x the size of the number two player, with a market share of over 25% in technical products and over 10 million customers
- Sales grew 7x between 2003 and 2009; €1.42 billion in sales in 2013
- Sales continue to grow at a brisk pace; GMV* CAGR of 15.1% over past 5 years
- Extensive marketplaces segment with 5.5 million items from 2,800 vendors (launched only three years ago)

Cdiscount's logistics advantage

- In Europe, the “Click-and-Collect” model is more prevalent than in the US
- In the first half of 2014, 56% of orders in France were delivered through Click-and-Collect, accounting for 59% of revenues
- Cdiscount has a network of over 17,500 pick-up locations (see right), larger than any competitor

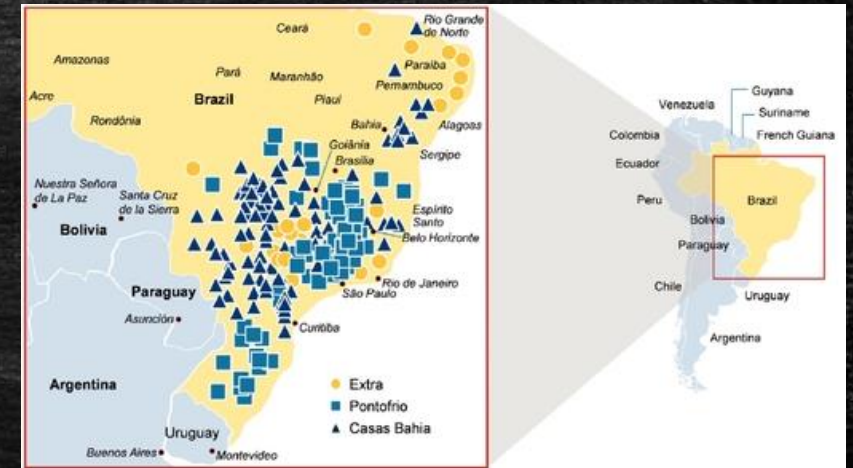


Cdiscount: specialty brands & international expansion

- In addition to Cdiscount's main sites, it also operates specialty sites, such as Comptoir Santé (health and beauty products) and MonCornerDéco (high end home décor)
- In 2014, two new concepts will launch
 - MonCornerBaby – premium one-stop site for maternity products with subscription
 - MonCornerBrico – do-it-yourself home renovation products and tutorials/advice
- In first half of 2014, Cdiscount launched operations in Colombia, Ecuador, Thailand and Vietnam
- Launched operations in Ivory Coast in partnership with Bolloré Group's Africa Logistics, and will expand into two additional African markets by the end of the year

Brazil: Nova Pontocom

- Nova Pontocom is the e-commerce platform of Grupo Pão de Açúcar
- Number two player in Brazil, GMV CAGR of 49% over past 5 years
- Sales of €1.47 bn last year, and up 48% YoY in the first half of 2014 compared with 26% for the Brazilian ecommerce sector in general*
- Gaining market share at expense of competitors: from 8% in 2008 to 17% last year
- Experienced management team: Germán Quiroga, founder and CEO of Nova Pontocom, was a founder of americanas.com, part of B2W (#1 player)
- Pilot Click-and-Collect program with 2,000 store locations



Cdiscount + Nova Pontocom = Cnova

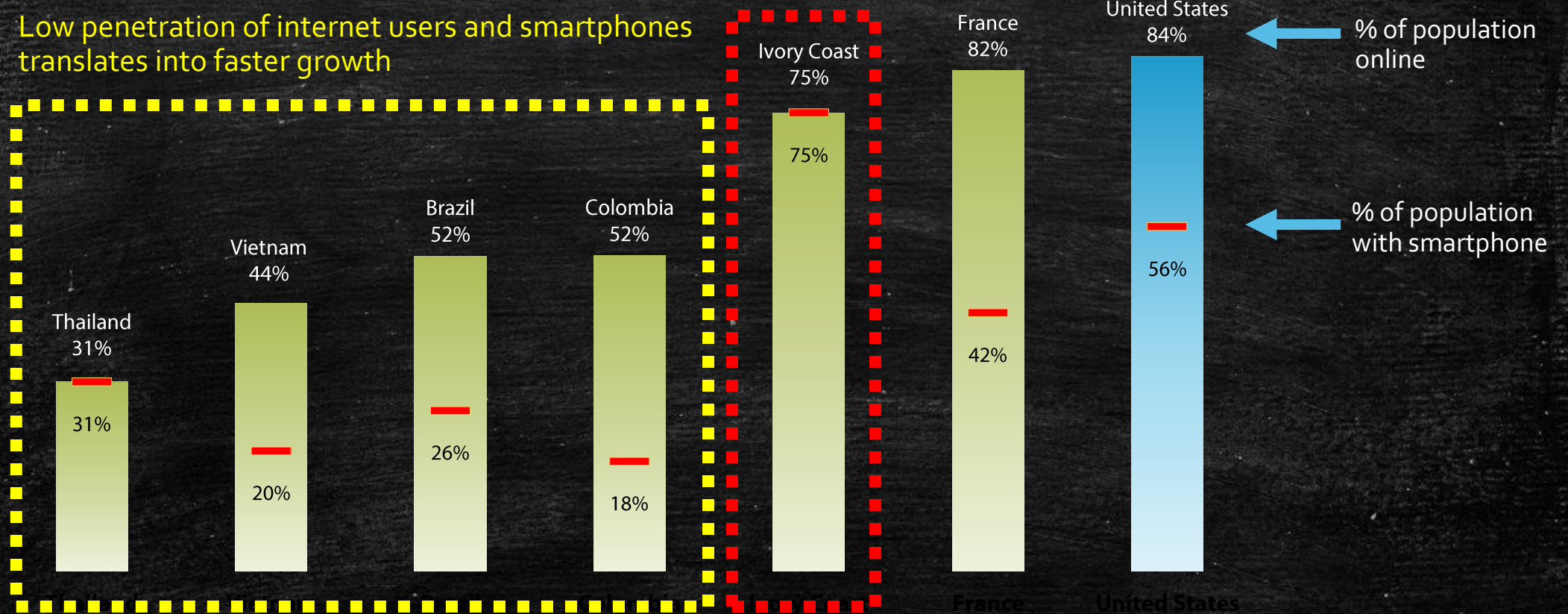
- Casino is planning an IPO of Cnova on the NYSE in order to highlight the value of this hidden asset
- Registration statement has been filed with the SEC
- Total sales of €2.9 billion in 2013 and growth of 29% to June 30, 2014



Internet and smartphone penetration are tailwinds for Cnova

African countries can leapfrog other countries with very fast smartphone adoption

Low penetration of internet users and smartphones translates into faster growth



Sources: <http://data.worldbank.org/indicator/IT.NET.USER.P2>
http://en.wikipedia.org/wiki/List_of_countries_by_smartphone_penetration
http://www.atelier.net/trends/articles/cote-ivoire-government-hoping-turn-country-regional-ict-hub_424740
Company filings

Accretion from Cnova IPO

- Cnova did €2.9 billion in sales last year and may do €3.4 billion this year, ignoring new sales from Colombia, Ecuador, Thailand, Vietnam and Africa
- We estimate Casino's economic ownership of Cnova at 64.17% (with the balance owned by GPA, Via Varejo, Exito and some members of management at Via Varejo)
- Public comps trade at very diverse multiples; lowest multiple of sales is B2W (Nova Pontocom's direct competitor in Brazil) at 1.5x sales
- Next is Amazon at 1.9x sales, Ocado and AO.com at 2.3x sales and Asos at 2.6x sales
- We'll use the lowest multiple for Cnova, 1.5x sales

Accretion from Cnova IPO – cont.

- With €3.4 billion of sales, at 1.5x sales, Cnova could be worth €5.2 billion
- Casino's direct and indirect stakes would be worth €3.3 billion, or €29 per share; assuming modest growth, could easily be worth €4.3 billion by 2017, or €32 per share, assuming Casino IPO's 10% of its holdings

Summary: what Casino should be worth today and in a few years

Valuation Method	2013/2014 Per share	Potential Upside	2017E Per share	Potential Upside
13x EV/2013 EBIT + Cnova*	€142	57%		
0.5x EV/2013 Sales + Cnova*	€151	67%		
Look-through earnings + Cnova			€180	98%

But... there is one more thing...



Our idea today (really):

RALLYE

Key Stats

Ticker:
RAL FP
(Euronext Paris)

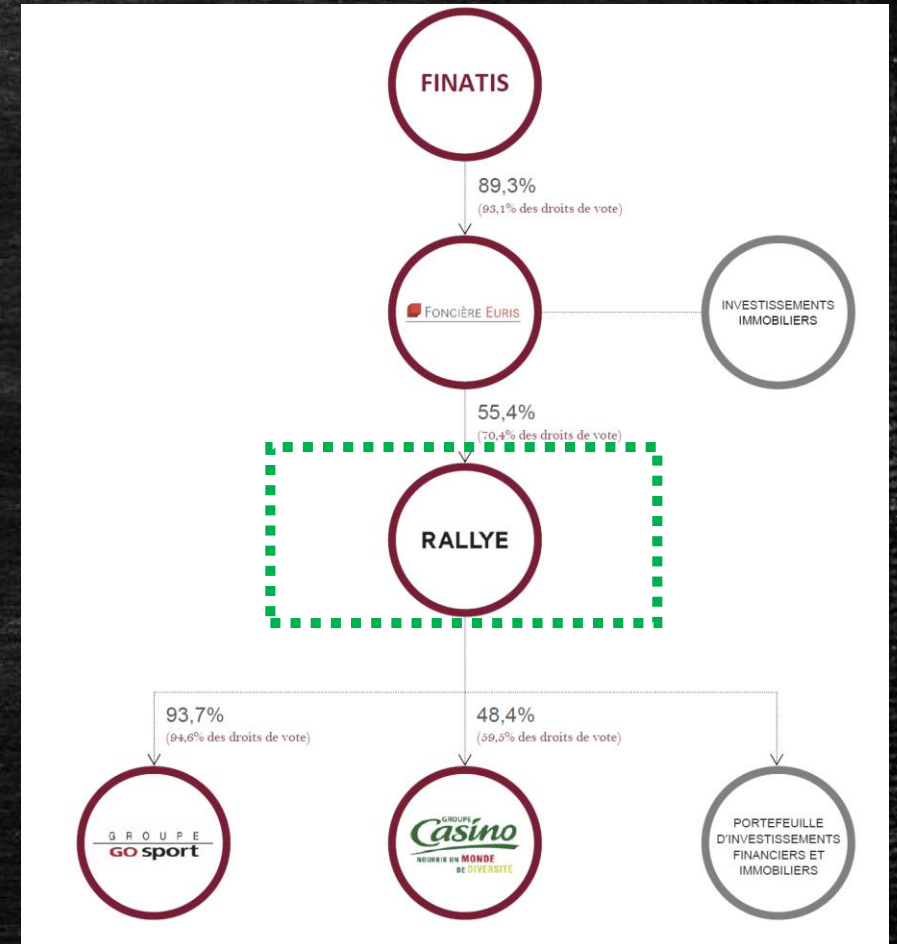
Recent price:
€36.4

Market cap:
€1.77 billion

Dividend yield:
5%

The best way to invest in Casino: Rallye

- Rallye SA is the first holding company in a chain of three companies used by Jean-Charles Naouri to control Casino
- It owns 48.4% of Casino's shares (59.5% of voting rights) worth €5 billion today
- It trades at a 30% discount to its holdings of Casino at the current stock price of €90.80
- There are no holding company taxes in France; if Rallye were liquidated, it would immediately capture 42% upside



Rallye: leveraged exposure to Casino

- Rallye has €2.7 billion of net bond and bank debt
- It also owns €224 million in financial assets, €165 million of which it is in the process of disposing*
- Prior to 2008, Rallye received a lot of cash flow from its financial assets, in addition to Casino's dividends
- Only used cheap bank debt; in 2009, was forced to pay a high price to access bond markets due to instability in the banking sector
- Rallye has been actively deleveraging by conducting tender offers and refinancing its high cost debt (2009 bonds at ~8%) with lower cost issues (2014 7-year bond at 4%)

Yield-to-maturity of Rallye's 5-year bond is at all-time lows

- Extremely low Eurozone interest rates give Rallye an extraordinary opportunity to refinance higher coupon bonds into lower coupon, similar maturity issues, as it did earlier this year



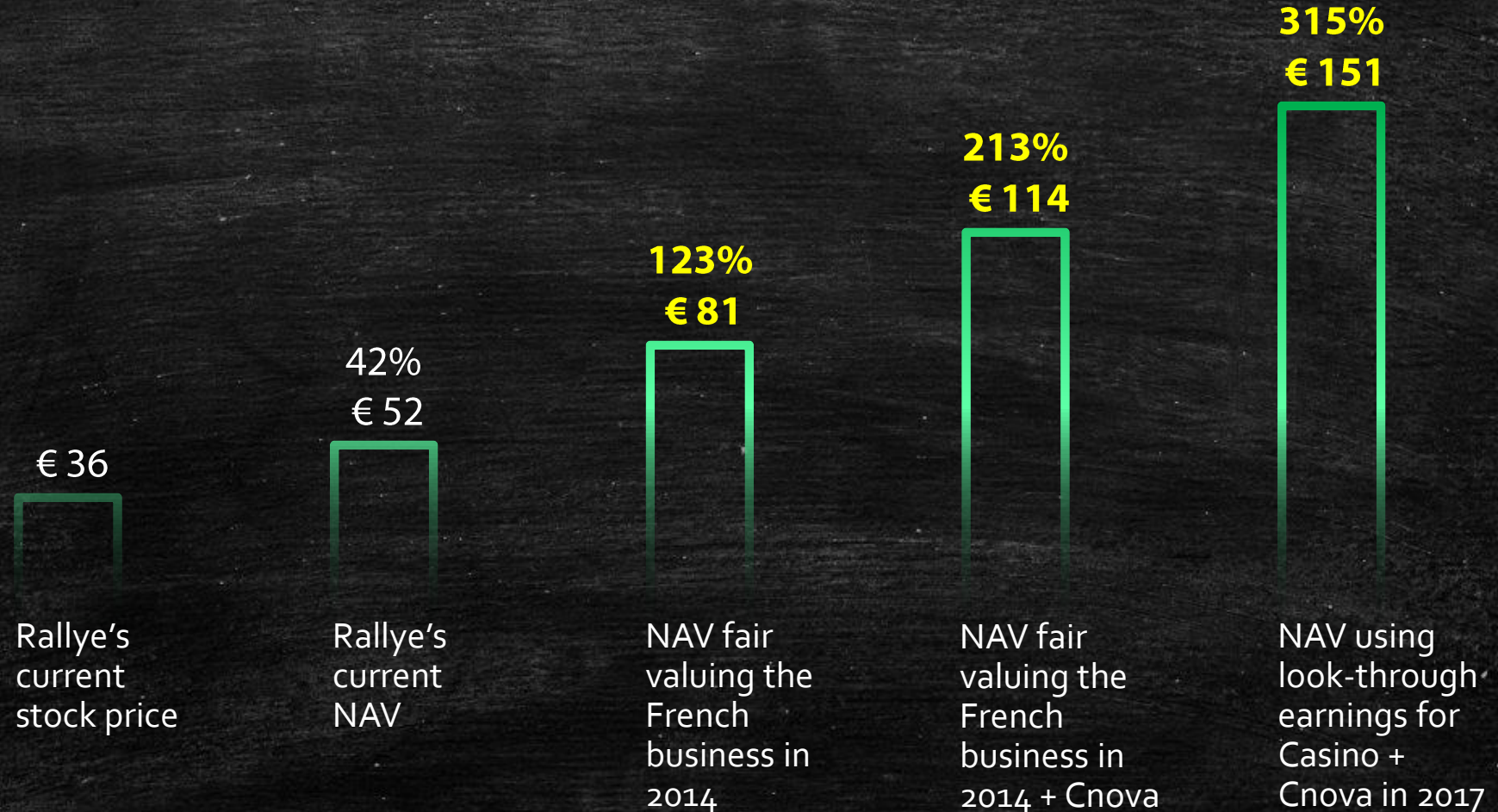
The deleveraging of Rallye

- Rallye has €2 billion of inexpensive, undrawn credit lines maturing in Feb 2018, giving it plenty of liquidity
- In addition, Rallye has been accessing the commercial paper market, with a ceiling of €750 million, which lets it borrow at Euribor + 30 bps for up to one year (this is currently less than 57 bps all-in)
- Using these tools and bond tender offers, within two years, Rallye should be in a position to build NAV on its own (dividends received by Casino, less debt service, less dividends paid out > zero)
- Growing dividends from Casino will help: Casino has grown its dividend 6% compounded since 2001, and a larger contribution from foreign subs should accelerate this pace in coming years

Rallye's upside based on Casino's growth

- As Rallye deleverages and begins building NAV, its discount should narrow, and will eventually trade at NAV
- On a look-through earnings basis, Rallye trades at 7.1x 2013 earnings and 3.9x our estimate of 2017 earnings for Casino
- Rallye's current NAV math:
 - Casino's market cap: €10.3 billion, €5 billion owned by Rallye
 - Plus other financial assets of €224 million, less net debt of €2.7 billion
 - Equals NAV of €2.5 billion, or €51.75 per Rallye share
 - Currently trades at €36.40

Rallye's NAV per share and potential upside



Why this opportunity exists

- Extremely complex corporate structure, with eight publicly traded entities in four different currencies, confusing accounting (IFRS consolidation), no holding company financials, intricate debt issues
- Hard to understand the full picture, including the opportunities for growth in emerging markets and the quality of management; many get stuck on France, when in reality France matters little
- Low profile CEO and foreign company have received very little English press
- Limited free float: only €800 million of Rallye publicly traded makes it too small for most institutions*

Summary

- An investor in Casino's equity is getting a set of fast-growing emerging market assets and an attractive French business with substantial real estate holdings, plus a global, fast-growing ecommerce business, for free
- Hard catalysts in the form of Cnova's IPO and future real estate spinoffs
- Very cheap, leveraged way to invest in Casino, through Rallye
- Substantial value creation opportunity for Casino and Rallye as the emerging market subsidiaries grow, and Casino and Rallye delever
- All assets, with the exception of Mercialys, are controlled by Jean-Charles Naouri, who is very hands-on, has proven to be a great owner-operator and financial engineer, and should continue to generate returns for shareholders

Thank you!

NY Value Investing Congress – September 8, 2014
Marcelo P. Lima – marcelo@hellerhs.com – +1 (305) 520-9855