# 2nd Quarter 2020

# EARNINGS RELEASE

# SMU S.A.

AUGUST 31, 2020

# Executive Summary: SMU S.A.'s Consolidated Results

SMU's 2020 results have been affected by the COVID-19 pandemic and by the lower number of stores in operation, following the social unrest in Chile that began on October 18, 2019. These situations have led to lower sales, primarily due to public health restrictions, including quarantines and shelter-in-place requirements affecting over 50% of the Company's stores and causing a significant reduction in customer traffic and purchase frequency, as well as high additional expenses required by public health protocols. Throughout this period, the Company has prioritized the well-being of its employees and customers, striving to always ensure a safe shopping experience.

**Revenue** for the first half of 2020 (1H20) totaled CLP 1,130,288 million, similar (+0.2%) to CLP 1,127,685 million reported for the first half of 2019 (1H19). Revenue for the second quarter of 2020 (2Q20) amounted to CLP 525,011 million, 6.1% lower than CLP 558,968 million obtained in the second quarter of 2019 (2Q19), offsetting the strong top-line growth reported for the first quarter of this year.

Revenue for the second quarter of 2020 was affected by quarantines and other restrictions implemented due to the public health crisis that caused a significant reduction in traffic and frequency of purchases, especially in the Unimarc and Mayorista 10 formats, and **particularly in stores located in city centers**. In the case of the OK Market format, the reduction in opening hours that has been necessary in order to comply with a curfew imposed by the government in order to minimize movement and contagion has had a further negative impact on sales after 7 pm. On the other hand, the **Alvi format has reported significant sales growth during the second quarter**, despite having five fewer stores in operation than in 2Q19: **revenue for this format grew 8.8% year-over-year, and same-store sales growth was 21.3%.** The strong performance in Alvi is largely explained by growth in B2B sales. In addition, in the **e-grocery format, Telemercados, revenue doubled in the quarter**, reflecting the fact that many clients need or prefer to receive their groceries at home, without going out. **Operations in Peru also had a strong quarter, with same-store sales growth of 7.4**, as customers migrated from traditional trade stores to modern channel stores, which are perceived to be safer given the public health crisis.

**Gross profit** amounted to CLP 333,385 million (29.5% of revenue) for the first half of 2020, an increase of 1.0% with respect to CLP 329,965 million (29.3% of revenue) for 1H19. With respect to the second quarter of 2020, gross profit amounted to CLP 153,840 million, a decrease of 6.1% with respect to CLP 163,749 million, in line with the decrease in revenue. Gross margin remained stable at 29.3% for both 2Q20 and 2Q19.

**Operating expenses**[1] as a percentage of revenue amounted to 22.7% in 1H20 and 21.3% in 1H19. Likewise, in the second quarter of 2020, operating expenses as a percentage of revenue amounted to 24.9% (21.7% in 2Q19). This increase is explained by the increase of 6.7% in operating expenses in 1H20 and 7.9% in 2Q20, driven by extraordinary expenses related to COVID-19 (amounting to CLP 5,276 million in 1H20 and CLP 4,568 million in 2Q20), which combined with lower revenue, resulted in lower operating leverage.

**EBITDA**[2] totaled CLP 76,962 million (EBITDA margin of 6.8%) in 1H20, a decrease of 14.2% with respect to CLP 89,648 million in 1H19 (EBITDA margin 7.9%). EBITDA for the second quarter of 2020 amounted to CLP 23,038 million (EBITDA margin 4.4%), a decrease of 45.8% with respect to CLP 42,513 million (EBITDA margin 7.6%) for 2Q19.

[1] Operating expenses = distribution costs + administrative expenses – depreciation - amortization
[2] EBITDA = Gross profit – distribution costs – administrative expenses + depreciation + amortization

Excluding the extraordinary COVID-19 expenses, EBITDA for 1H20 would have amounted to CLP 82,238 million (a decrease of 8.3% with respect to 1H19) and an EBITDA margin of 7.3%. With respect to 2Q20, EBITDA would have amounted to CLP 27,616 million (a decrease of 35.0% with respect to 2Q19) and an EBITDA margin of 5.3%.

The Company reported a **non-operating loss** of CLP -36,177 million for 1H20, compared to CLP -32,077 million for 1H19, a difference of CLP -4,100 million that is primarily explained by non-recurring effects recorded in 1H20, related to loss from acts of vandalism in the first half and the fine handed down by the Chilean Supreme Court. In 2Q20, non-operating results improved cy CLP 7,461 million, mainly due to lower inflation with respect to 2Q19 and non-recurring effects recognized under "other gains (losses)."

SMU reported **net income** for the first half of 2020 of CLP 357 million, a decrease of 97.4% with respect to CLP 13,846 million for 1H19. This variation, CLP 13,489 million, is primarily explained by the decrease in operating income, in addition to the higher non-operating loss, partly offset by the income tax benefit. With respect to 2Q20, the Company reported a net loss of CLP -6,544 million, a difference of CLP 12,650 million with respect to the net income of CLP 6,106 million obtained in 2Q19, explained by the decrease of CLP 9,339 million in operating income, partially offset by the improvement of CLP 7,461 million in the non-operating loss.

With respect to the **financial situation**, in June 2020, SMU carried out the placement of series AK bonds for a total of UF 3 million, with a bullet structure maturing in 2025. This transaction allowed the Company to improve its liquidity position, optimizing its amortization schedule by refinancing financial liabilities that were going to mature in the coming months.

With respect to **operating indicators**, in the first half of 2020, SMU's **same-store sales ("SSS")** increased 3.7% (decrease of 2.7% in 2Q20). **Sales per square meter**[3] amounted to CLP 376,420, an increase of 3.0% with respect to 1H19 (CLP 349,148 in 2Q20, a decrease of 3.6%). With respect to operating efficiency, the Company's rate of **centralized distribution** amounted to 54.5% in 1H20, an increase with respect to the 46.3% reported for 1H19, and 58.8% in 2Q20, the highest level of centralization the Company has had. SMU plans to continue increasing its rate of centralization in the coming years, as part of its strategy to improve its operating efficiency, inventory management, and in-store product availability.

[3] Sales per square meter are calculated on the basis of average monthly sales for the period.

# Management Commentary

With respect to the release of earnings for the first half and second quarter of 2020, SMU's CEO, Marcelo Gálvez, stated, "The public health crisis has had a series of impacts on our business this year, beginning in late March, both at the top-line level and in terms of expenses, and these effects are reflected in our operating results."

Mr. Gálvez went on to say, "The pandemic has triggered significant changes in our customers' shopping habits, due in large part to mandatory quarantines, shelter-in-place orders, and other restrictions that have been implemented in order to fight the spread of the virus. In particular, restrictions on movement have led to a substantial reduction in traffic, with a consequent fall in sales. This effect has been particularly noteworthy in stores located in city centers. We believe these changes are temporary and will gradually be reversed as restrictions are lifted. In fact, this has been our experience during the month of August, when quarantine and shelter-in-place orders were lifted in certain locations."

He added, "The reduction in traffic has especially affected the Unimarc and OK Market formats. And the significant increase in stock-up purchases has further negatively impacted Unimarc, where our value proposition is focused on proximity and providing a quick an easy shopping experience for customers making fill-in purchases. However, performance in the cash and carry segment was strong, driven by Alvi, where B2B sales showed significant growth. Our e-grocery format also had a strong quarter, with sales doubling compared to the second quarter of 2019. Operations in Peru contributed, as well, with same-store sales growth of 7.4% in the quarter."

"Throughout this period, we have put the well-being of our employees and customers first, and this has been reflected in our customer satisfaction studies, where customers' evaluation of store cleanliness and order has improved across formats. At the same time, we have adjusted our promotional activity according to our customers' needs during the pandemic, with marketing campaigns that emphasize 'safe shopping conditions and safe prices' (*Precios a la Segura*) and offering attractive discounts on basic products that are in high demand (*El Despensazo*)."

"With respect to margins, the company maintained a stable gross margin in both the second quarter and the first half, despite changes in mix resulting from changes in customer preferences related to the pandemic."

"In terms of our financial position, while EBITDA generation was lower during this period, it is important to note that we carried out a local bond issuance in June for a total of UF 3 million, improving our liquidity position and helping to optimize our debt maturity profile for the coming months."

Mr. Gálvez concluded by saying, "During this pandemic, we have remained committed to fulfilling our social responsibility as a food retailer, not only by taking care of our employees and customers, but also by taking care of the communities in which we operate. As a part of this commitment, we launched a campaign called *Unidos Salimos de Esto* ('We Will Get Through This Together'), which facilitates donations to more than 150 organizations in different parts of Chile, in order to help people in need."

# Highlights

**Placement of Series AK Bonds**

On June 19, 2020, SMU carried out the placement of series AK bonds in the local market for a total of UF 3 million (approximately CLP 86 billion or USD 106 million)[4] at an annual interest rate of 3.5%. The proceeds from this bond placement will be used to refinance financial liabilities, enabling the Company to further optimize its debt amortization schedule for the coming years.

**Standardization of Bond Covenants**

On July 30, 2020, holders of SMU's Series B, D, G, K, T, and W bonds approved two modifications to the bond issuance contracts. The purpose of the proposed modifications was to standardize covenants across all of the Company's bond lines: Lines 650 (series D, T, and W); 667 (series G and K); 668 (series B); 649 (series AK); 964 (no series currently outstanding); and 965 (no series currently outstanding).

As a result of the approved modifications, the indebtedness covenant for all bond lines requires the Company to maintain a ratio of net financial debt to equity less than 1.03 times in its quarterly financial statements. Net financial debt is defined as net financial liabilities, excluding liabilities related to store rental contracts. The other change approved was a correction in the definition of EBITDA in bond lines 650, 667, and 668. The previous definition had erroneously excluded the word "amortization". EBITDA now has the same definition in all of SMU's bond lines.

# Conference Call

SMU will host a conference call and webcast for investors on Wednesday, September 2, 2020 at 10:00 am ET/ Santiago to discuss its second quarter 2020 results.

Dial in:
Toll-Free US Dial in #: +1 (800) 319 4610
International Dial in #: +1 (416) 915 3239
*Please dial in 5-10 minutes prior to the scheduled start time and ask for the SMU Earnings Call*

Webcast (live):
http://services.choruscall.ca/links/smu20200902.html

After the call, a recording will be made available at:

https://www.smu.cl/en/inversionistas/informacion-financiera/

[4] The UF, or *Unidad de Fomento*, is a Chilean currency unit indexed to inflation.

# Analysis of Financial Statements

SMU's consolidated results for the periods of three and six months ended June 30, 2020 and 2019 are presented in the table below. All figures are expressed in Chilean pesos (CLP) and have been prepared in accordance with International Financial Reporting Standards ("IFRS").

***Table 1: Consolidated Income Statement***

| (CLP Million) | 2Q20 (IFRS 16) | 2Q19 (IFRS 16) | △% | 1S20 (IFRS 16) | 1S19 (IFRS 16) | △% |
|---|---|---|---|---|---|---|
| Revenue | 525,011 | 558,968 | (6.1%) | 1,130,288 | 1,127,685 | 0.2% |
| Cost of Sales | (371,171) | (395,219) | (6.1%) | (796,903) | (797,720) | (0.1%) |
| **Gross Profit** | **153,840** | **163,749** | **(6.1%)** | **333,385** | **329,965** | **1.0%** |
| *Gross Margin (%)* | *29.3%* | *29.3%* | | *29.5%* | *29.3%* | |
| Distribution Costs | (7,889) | (7,265) | 8.6% | (16,493) | (14,903) | 10.7% |
| **Contribution Margin** | **145,952** | **156,484** | **(6.7%)** | **316,892** | **315,062** | **0.6%** |
| *Contribution Margin (%)* | *27.8%* | *28.0%* | | *28.0%* | *27.9%* | |
| Administrative Expenses (Excluding Depreciation) | (122,904) | (113,971) | 7.8% | (239,930) | (225,414) | 6.4% |
| **EBITDA** | **23,048** | **42,513** | **(45.8%)** | **76,962** | **89,648** | **(14.2%)** |
| *EBITDA Margin (%)* | *4.4%* | *7.6%* | | *6.8%* | *7.9%* | |
| Depreciation and Amortization | (21,611) | (21,737) | (0.6%) | (43,466) | (42,775) | 1.6% |
| **Operating Income** | **1,437** | **20,776** | **(93.1%)** | **33,495** | **46,873** | **(28.5%)** |
| Other Gains (Losses) | 2,245 | (193) | n.a. | (5,058) | (415) | 1,120.2% |
| Financial Income | 186 | 163 | 13.9% | 451 | 463 | (2.5%) |
| Financial Expenses | (12,473) | (12,545) | (0.6%) | (24,643) | (24,555) | 0.4% |
| Share of Profit (Loss) of Associates | (547) | (1,112) | (50.8%) | (1,015) | (2,067) | (50.9%) |
| Foreign Exchange Differences | 76 | (18) | n.a. | (588) | 119 | n.a. |
| Income (Loss) for Indexed Assets and Liabilities | (1,353) | (5,623) | (75.9%) | (5,325) | (5,622) | (5.3%) |
| **Non-operating Income** | **(11,866)** | **(19,328)** | **(38.6%)** | **(36,177)** | **(32,077)** | **12.8%** |
| **Net Income (Loss) Before Taxes** | **(10,430)** | **1,448** | **n.a.** | **(2,682)** | **14,796** | **n.a.** |
| Income Tax Expense | 3,886 | 4,658 | (16.6%) | 3,040 | (950) | n.a. |
| **Net Income (Loss) from Continued Operations** | **(6,544)** | **6,106** | **n.a.** | **357** | **13,846** | **(97.4%)** |
| **Net Income (Loss) of the Period** | **(6,544)** | **6,106** | **n.a.** | **357** | **13,846** | **(97.4%)** |

*n.a. = not applicable. Indicates a comparison in percentage terms between a positive number in one period and a negative number in another period.

# 1. Analysis of Income Statement

## 1.1. Results of Operations: Food Retail Segment

### 1.1.1. Revenue

**Revenue** for the first half of 2020 amounted to CLP 1,130,288 million, similar to CLP 1,127,685 million for 1H19. With respect to the second quarter of 2020, revenue decreased 6.1%, totaling CLP 525,011 million.

Los ingresos del 1S20 incluyen el reconocimiento de CLP 4.424 millones (incluyendo CLP 1.819 millones en 2T20) correspondientes a una estimación del pago del seguro por lucro cesante por los locales que estuvieron cerrados producto del estallido social. Si bien este monto se reconoce como un ingreso, cabe aclarar que el cálculo del reclamo considera conceptos como los gastos fijos y margen de cada local, por lo que el monto no es equivalente a la venta perdida, sino que se aproxima en términos generales al EBITDA perdido más la suma de gastos fijos. En este sentido, los ingresos del primer semestre y segundo trimestre de 2020 no son del todo comparables con los mismos períodos de 2019.

Revenue for 1H20 includes the recognition of the preliminary estimate of the indemnity for business interruption insurance, CLP 4,424 million (including CLP 1,819 million in 2Q20), for stores that were closed due to the social crisis. Although this amount is treated as revenue, it is important to note that the insurance claim is calculated on the basis of fixed expenses and the margin of each store, and therefore this amount is not equivalent to the loss of revenue. Instead, it is a closer approximation of the loss of EBITDA, plus fixed expenses. In this sense, revenue for the first half and second quarter of 2020 is not fully comparable to revenue for the same periods in 2019.

The preliminary amount recognized for business interruption insurance is included in the revenue by format in table 2, below, but it is not included for purposes of same-store sales or sales per square meter.

***Table 2: Revenue (CLP MMM)***

| REVENUE (CLP MMM) | 2Q20 | 2Q19 | △% | 1H20 | 1H19 | △% |
|---|---|---|---|---|---|---|
| UNIMARC | 346 | 382 | *-9.4%* | 761 | 780 | *-2.4%* |
| CASH & CARRY | 147 | 149 | *-1.0%* | 306 | 291 | *5.3%* |
| OK MARKET | 10.9 | 13.2 | *-17.5%* | 23.8 | 26.3 | *-9.5%* |
| TELEMERCADOS | 3.2 | 1.6 | *105.6%* | 4.7 | 3.4 | *39.7%* |
| OTHERS(*) | 2.0 | 1.5 | *34.9%* | 4.5 | 2.9 | *55.6%* |
| FOOD RETAIL CHILE | 509 | 546 | *-6.8%* | 1,100 | 1,103 | *-0.3%* |
| FOOD RETAIL PERU | 15.9 | 12.5 | *27.1%* | 30.1 | 24.4 | *23.2%* |
| CONSOLIDATED | 525 | 559 | *-6.1%* | 1,130 | 1,128 | *0.2%* |

(*) "Others" includes all income other than that generated by the Company's operating formats presented in the table.

Food Retail Chile revenue decreased 0.3% in the first half of 2020 with respect to the same period of the previous year, and in the second quarter revenue decreased 6.8%.

By format, Unimarc—the traditional supermarket—decreased 2.4% in 1H20 (9.4% in 2Q20). Revenue for the cash & carry format increased 5.3% in 1H20 (decrease of 1.0% in 2Q20). With respect to the OK Market convenience stores, revenue decreased 9.5% in 1H20 (-17.5% in 2Q20). Revenue for the e-grocery format, Telemercados, increased 39.7% in the first half of 2020 (105.6% in 2Q20), reflecting the fact that due to the pandemic, many clients need or prefer to receive their groceries at home, without having to go out.

In Food Retail Peru, revenue (measured in Chilean pesos) increased 23.2% in 1H20 with respect to 1H19, and 27.1% in the second quarter. Measured in Peruvian Soles, revenue increased 5.1% in the first six months of the year and 9.0% in the second quarter.

***Table 3: Same-Store Sales Growth (%)***

| SSS (△%) | 2Q19 | 3Q19 | 4Q19 | 2019 | 1Q20 | 2Q20 |
|---|---|---|---|---|---|---|
| UNIMARC | -0.4% | -0.1% | -1.2% | -0.5% | 6.3% | -7.0% |
| CASH & CARRY | 2.6% | 3.0% | -0.2% | 2.0% | 19.3% | 5.9% |
| OK MARKET | 4.7% | 5.5% | -8.6% | 1.7% | -0.7% | -11.6% |
| FOOD RETAIL CHILE | 0.3% | 0.7% | -1.2% | 0.0% | 9.3% | -3.3% |
| FOOD RETAIL PERU | 11.7% | 0.8% | -8.8% | 3.0% | 0.9% | 7.4% |
| CONSOLIDATED | 0.7% | 0.7% | -1.1% | 0.2% | 9.5% | -2.7% |

**Same-store sales (SSS)** increased 3.7% in the first half of 2020 and decreased 2.7% in the second quarter, with respect to the same periods of 2019.

In Chile overall, SSS decreased 3.3% in the second quarter of 2020. As a general trend, there was a significant reduction in the number of transactions in the period, reflecting quarantines, shelter-in-place orders, and other restrictions that have been put in place in order to fight the pandemic. This reduction has been particularly noteworthy in stores located in city centers. For example, in Unimarc's case, centrally-located stores account for approximately 30% of sales, whereas for Mayorista 10, these stores account for close to 60% of sales. The reduction in traffic in the quarter was partially offset by an increase in average ticket, which practically doubled with respect to the second quarter of 2019, and demand was more concentrated in basic or stock-up products than in fill-in or fresh products.

By format, SSS for Unimarc decreased 7.0% in 2Q20, whereas cash & carry saw an increase of 5.6%, strongly driven by Alvi, which had SSS growth of 21.3% in the quarter, reflecting growth in the traditional trade channel, as well as institutional sales. OK Market convenience stores decreased 11.6%, due in large part to the reduced operating hours under pandemic-related curfews. In this format, essentially the entire reduction in sales can be attributed to the after-7 pm time window.

Food Retail Peru—which accounts for approximately 3% of SMU's 2020 revenue—recorded an increase in SSS (measured in Soles) of 7.4% in 2Q20, as customers migrated from traditional trade stores to modern channel stores, which are perceived to be safer given the public health crisis.

*Table 4: Sales per Square Meter (Thous. CLP/M2)*

| SALES PER SQM (CLP Thousands/sqm) | 2Q20 | 2Q19(*) | △% | 1H20 | 1H19 | △% |
|---|---|---|---|---|---|---|
| FOOD RETAIL CHILE | 351.9 | 367.6 | -4.3% | 380.7 | 371.0 | 2.6% |
| FOOD RETAIL PERU | 280.0 | 223.7 | 25.2% | 266.3 | 218.1 | 22.1% |
| CONSOLIDATED | 349.1 | 362.4 | -3.6% | 376.4 | 365.4 | 3.0% |

(*) The Company has carried out a process of remeasuring the selling space of all of its stores, updating the information when applicable during the first quarter of 2020. Historical figures been restated in order to be comparable to 1H20 and 2Q20 information.

**Sales per square meter** reached CLP 376,420 for the first half of 2020, 3.0% higher than 1H19. In the second quarter of 2020, sales per square meter amounted to CLP 349,148, 3.6% lower than in 2Q19.

Food Retail Chile sales per square meter grew 2.6% in 1H20 compared to 1H19 (decrease of 4.3% in 2Q20 vs. 2Q19). For its part, Food Retail Peru (measured in Chilean pesos) recorded an increase of 22.1% in 1H20 and 25.2% in 2Q20.

As of the end of the second quarter of 2020, SMU's food retail operations included **505 stores** in Chile, distributed from Arica to Punta Arenas—similar to the 508 stores in operation at the end of June 2019—and a total of **484,442** square meters. It should be noted that the Company carried out a process of remeasuring the selling space of all of its stores, updating the information when applicable during the first quarter of 2020. Historical figures have been restated in order to be comparable to 2020 figures.

The number of stores as of June 30, 2020 includes 12 stores that were not operating due to fires or other damage caused by acts of vandalism during the social unrest in Chile beginning on October 18, 2019. By format, these 12 stores include five Unimarc stores, one Mayorista 10 store, three Alvi stores, and three OK Market stores.

During the first half of 2020, the Company opened five OK Market stores and decided to permanently close five Unimarc stores, three Mayorista 10 stores, one Alvi store, and four OK Market stores. All of these stores had sustained significant damage in the context of the social unrest in Chile, with the exception of two OK Market stores, where the decision to close was based on performance, as part of the normal course of business.

In Peru, as of June 30, 2020, the Company had 24 stores, with 18,494 square meters, for a total selling space of 503,036 square meters at period end.

### *Table 5: Number of Stores and Sales Area (Thous. Square Meters)*

| NUMBER OF STORES | 2Q20 | 2Q19 |
|---|---|---|
| UNIMARC | 287 | 289 |
| CASH & CARRY | 95 | 99 |
| OK MARKET | 123 | 120 |
| FOOD RETAIL CHILE | 505 | 508 |
| FOOD RETAIL PERU | 24 | 24 |
| CONSOLIDATED | 529 | 532 |

| SALES AREA (THOUSANDS OF SQM) | 2Q20 | 2Q19(*) |
|---|---|---|
| UNIMARC | 348 | 350 |
| CASH & CARRY | 123 | 127 |
| OK MARKET | 14 | 14 |
| FOOD RETAIL CHILE | 484 | 491 |
| FOOD RETAIL PERU | 19 | 19 |
| CONSOLIDATED | 503 | 509 |

(*) The Company has carried out a process of remeasuring the selling space of all of its stores, updating the information when applicable during the first quarter of 2020. Historical figures been restated in order to be comparable to 1H20 and 2Q20 information.

### *Table 6: Store Openings and Closures in the Food Retail Segment*

| OPENINGS AND CLOSURES | 2Q19 | | 3Q19 | | 4Q19 | | 1Q20 | | 2Q20 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | OPEN. | CLOS. | OPEN. | CLOS. | OPEN. | CLOS. | OPEN. | CLOS. | OPEN. | CLOS. |
| UNIMARC | 0 | 0 | 1 | 0 | 2 | 0 | 0 | 0 | 0 | 5 |
| CASH & CARRY | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 |
| OK MARKET | 2 | 0 | 1 | 0 | 1 | 0 | 5 | 4 | 0 | 0 |
| FOOD RETAIL CHILE | 2 | 0 | 2 | 0 | 3 | 0 | 5 | 4 | 0 | 9 |
| FOOD RETAIL PERU | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

## 1.1.2. Distribution Costs and Administrative Expenses

**Distribution costs plus administrative expenses** (excluding depreciation and amortization), as a percentage of revenue, amounted to 22.7% in 1H20 and 21.3% in 1H19 (24.9% in 2Q20 and 21.7% in 2Q19). Administrative expenses in 2020 include extraordinary expenses directly related to the pandemic amounting to CLP 5,276 million in 1H20 and CLP 4,568 million in 2Q20. Excluding these extraordinary expenses, operating expenses as a proportion of sales would have amounted to 22.2% in 1H20 and 24.0% in 2Q20. The increase with respect to the prior year is explained by lower revenue and the resulting lower operating leverage.

**Distribution costs** for the first six months of 2020 totaled CLP 16,493 million, an increase of 10.7% with respect to 1H19. Distribution costs as a percentage of revenue increased from 1.3% in 1H19 to 1.5% in 1H20. The increase is the result of the increase in centralized distribution across formats, as well as higher fuel costs and the increase in the exchange rate and inflation. However, higher levels of centralization have a positive impact on gross profit, as suppliers pay the Company in exchange for the logistics services it provides. With respect to the second quarter, distribution costs totaled CLP 7,889 million in 2Q20, an increase of 8.6% with respect to 2Q19.

**Administrative expenses** (excluding depreciation and amortization) totaled CLP 239,930 million (21.2% of revenue) in 1H20, an increase of 6.4% with respect to CLP 225,414 million (20.2% of revenue) in 1H19. With respect to the second quarter, administrative expenses amounted to CLP 122,904 million (23.4% of revenue) in 2Q20, an increase of 7.8% with respect to CLP 113,971 million (20.4% of revenue) in 2Q19. As mentioned above, this increase includes CLP 5,276 million in 1H20 and CLP 4,568 million in 2Q20 in expenses that are directly related to the pandemic and that account for 2.3 percentage points out of the 6.4% increase in 1H20 and 4.0 percentage points out of the 7.8% increase in 2Q20.

The increase in administrative expenses in the first half of 2020 was primarily due to the following:

a. Increase of CLP 6,418 million (+5.4% YoY) in personnel expenses. In addition to CLP 936 million in expenses directly related to COVID-19, this increase was due to the higher minimum wage and inflation adjustments, partly offset by a lower average headcount with respect to the same period of 2019.

b. Increase of CLP 3,501 million (+125.1% YoY) in insurance expenses, reflecting the higher costs of coverage, resulting from the higher claims ratio following the social unrest in Chile that began in October of last year, after the policy renewal.

c. Increase of CLP 3,238 million (+7.7% YoY) in services, including CLP 1,595 million in expenses directly related to COVID-19, such as sanitization services, as well as security guards, in the context of the social unrest in Chile.

d. Increase of 1,456 million (21.6% YoY) in IT services, primarily due to maintenance of investments in technology during prior periods.

e. Increase of 1,081 million (16.4% YoY) in credit card commissions, as the use of electronic forms of payment has increased during the period.

f. Increase of 1,040 million (20,9% YoY) in external services, primarily due to expenses associated with strategic projects.

g. Increase of CLP 1,036 million (+16.3% YoY) in services, including CLP 1,857 million in hygiene and personal protective equipment and other materials necessitated by the pandemic, partially offset by savings in other materials.

These increases were partly offset by a decrease of CLP 3,675 million (-38.0% YoY) in advertising expenses.

The increase in administrative expenses in the second quarter of 2020 was primarily due to the following:

a. Increase of CLP 3,089 million (+5.0% YoY) in personnel expenses. In addition to CLP 936 million in expenses directly related to COVID-19, this increase was due to the higher minimum wage and inflation adjustments, partly offset by a lower average headcount with respect to the same period of 2019.
b. Increase of CLP 2,183 million (+10.5% YoY) in services, including CLP 1,544 million in expenses directly related to COVID-19, such as sanitization services.
c. Increase of CLP 2,117 million (+151.1% YoY) in insurance expenses, reflecting the higher costs of coverage, resulting from the higher claims ratio following the social unrest in Chile that began in October of last year, after the policy renewal.
d. Increase of 790 million (19.6% YoY) in IT services, primarily due to maintenance of investments in technology during prior periods.
e. Increase of CLP 722 million (+23.2% YoY) in services, including CLP 1,315 million in hygiene and personal protective equipment and other materials necessitated by the pandemic, partially offset by savings in other materials.
f. Increase of 682 million (+19.5% YoY) in external services, primarily due to expenses associated with strategic projects.

These increases were partly offset by a decrease of CLP 1,768 million (-40.5% YoY) in advertising expenses.

***Table 7: Average Headcount***

| AVERAGE HEADCOUNT | 2Q20 | 2Q19 | △% | 1H20 | 1H19 | △% |
|---|---|---|---|---|---|---|
| STORES CHILE | 26,103 | 27,667 | -5.7% | 26,751 | 27,899 | -4.1% |
| HEADQUARTERS CHILE | 2,006 | 1,682 | 19.3% | 1,972 | 1,662 | 18.7% |
| FOOD RETAIL CHILE | 28,108 | 29,349 | -4.2% | 28,723 | 29,561 | -2.8% |
| STORES PERU | 452 | 509 | -11.2% | 464 | 528 | -12.1% |
| HEADQUARTERS PERU | 152 | 135 | 13.1% | 152 | 137 | 11.0% |
| FOOD RETAIL PERU | 604 | 643 | -6.1% | 615 | 664 | -7.4% |
| CONSOLIDATED | 28,712 | 29,992 | -4.3% | 29,338 | 30,225 | -2.9% |

### 1.1.3. Gross Margin, Contribution Margin, and EBITDA

**Gross profit** for the first half of 2020 totaled CLP 333,385 million (29.5% of revenue), an increase of 1.0% with respect to CLP 329,965 million (29.3% of revenue) in 1H19. With respect to the second quarter of 2020, gross margin amounted to CLP 153,840 million, a decrease of 6.1% with respect to CLP 163,749 million for 2Q19, in line with the decrease in revenue. Gross margin remained stable at 29.3% for both 2Q20 and 2Q19.

**Contribution margin** grew 0.6% in 1H20, totaling CLP 316,892 million, compared to CLP 315.062 million for 1H19, amounting to 28.0% of revenue in 1H20 vs. 27.9% in 1H19. With respect to the second quarter of 2020, contribution margin amounted to CLP 145,952 million (27.8% of revenue), a decrease of 6.7% with respect to CLP 156,484 million (28.0%) in 2Q19.

**EBITDA** totaled CLP 76,962 million (EBITDA margin of 6.8%) in 1H20, a decrease of 14.2% with respect to CLP 89,648 million in 1H19 (EBITDA margin 7.9%). EBITDA for the second quarter of 2020 amounted to CLP 23,038 million (EBITDA margin 4.4%), a decrease of 45.8% with respect to CLP 42,513 million (EBITDA margin 7.6%) for 2Q19.

Excluding the extraordinary COVID-19 expenses, EBITDA for 1H20 would have amounted to CLP 82,238 million (a decrease of 8.3% with respect to 1H19) and an EBITDA margin of 7.3%. With respect to 2Q20, EBITDA would have amounted to CLP 27,616 million (a decrease of 35.0% with respect to 2Q19) and an EBITDA margin of 5.3%.

**EBITDAR** (EBITDA less lease expenses) amounted to CLP 92,240 million (EBITDAR margin 8.2%) for 1H20, a decrease of 11.1% with respect to CLP 103,810 million (EBITDAR margin 9.2%) obtained in 1H19. In the second quarter of 2020, EBITDAR totaled CLP 29,226 million (EBITDAR margin 5.6%), a decrease of 40.4% compared to CLP 49,051 million (EBITDAR margin 8.8%) for 2Q19.

## 1.2 Non-operating Income[5] and Income Tax Expense

The consolidated **non-operating loss** for SMU totaled CLP -36,177 million in 1H20 and CLP -32,077 million in 1H19, a difference of de CLP -4,100 million. This variation is primarily explained by two non-recurring effects, both of which were recognized in the line-item “other gains (losses)”:

a. **Losses from acts of vandalism:** During 1H20, the Company recorded losses of CLP 5,306 million, due to social unrest and acts of vandalism that took place in the period, where some stores were looted or damaged. This amount was partially offset by the recognition of CLP 2,797 million, corresponding to the estimated amount of insurance to be recovered for these losses. Consequently, the net effect in the first half of the year is CLP -2,509 million.

b. **Free competition proceeding:** On April 8, 2020, SMU was notified of the ruling by the Chilean Supreme Court in relation to a complaint filed by the Chilean antitrust authority (*Fiscalía Nacional Económica* or “FNE”) before the Antitrust Court in 2016. The ruling increased the fine imposed on the Company to a total of 6,876 Annual Tax Units. At the date of the ruling, the Company had already recorded a provision equal to 3,483 Annual Tax Units, and therefore the effect for 2020 is only 50% of the fine, or CLP 2,064 million.

The non-operating loss for 2Q20 improved by CLP 7,461 million, amounting to CLP -11,866 million, compared to a loss of CLP -19,328 million for 2Q19. This variation is explained primarily by (i) the difference of CLP 2,438 million in other gains (losses), essentially due to the CLP 2,797 million for insurance recovery mentioned above, and (ii) the difference of CLP 4,270 million in losses on inflation-indexed assets and liabilities, as a result of lower inflation in 2Q20 compared to 2Q19.

The **income tax benefit** for 1H20 amounted to CLP 3,040 million, a difference of CLP 3,990 million with respect to the expense of CLP -950 million for 1H19, primarily due to the worse pre-tax results. With respect to 2Q20, the income tax benefit amounted to CLP 3,886 million, lower by CLP 772 million than the CLP 4,658 million recognized in 2Q19. Although pre-tax results were worse in 2Q20 than in 2Q19, the higher inflation in 2Q19 had a positive impact, due to inflation adjustments to the tax loss carryforward.

## 1.3 Net Income

SMU reported **net income** for the first half of 2020 of CLP 357 million, a decrease of 97.4% with respect to CLP 13,846 million for 1H19. This variation, CLP 13,489 million, is primarily explained by the decrease in operating income, in addition to the higher non-operating loss, partly offset by the income tax benefit. With respect to 2Q20, the Company reported a net loss of CLP -6,544 million, a difference of CLP 12,650 million with respect to the net income of CLP 6,106 million obtained in 2Q19, explained by the decrease of CLP 9,339 million in operating income, partially offset by the improvement of CLP 7,461 million in the non-operating loss.

[5] Non-operating income = Financial income and financial expenses + Share in profit (loss) of associates + foreign currency translation differences + income (expense) from inflation adjusted units + other gains (losses)

## 2. Analysis of Statement of Financial Position

***Table 8: Statement of Financial Position as of June 30, 2020 and December 31, 2019***

| (CLP Million) | June 2020 (IFRS 16) | December 2019 (IFRS 16) | △$ | △% |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and Cash Equivalents | 43,605 | 50,810 | (7,205) | (14.2%) |
| Other Current Financial Assets | 20 | 21 | (1) | (4.3%) |
| Other Current Non-Financial Assets | 22,989 | 17,955 | 5,034 | 28.0% |
| Trade Accounts Receivable and Other Receivables, Net | 81,413 | 91,813 | (10,400) | (11.3%) |
| Accounts Receivable from Related Companies | 988 | 1,525 | (538) | (35.2%) |
| Inventories | 197,806 | 195,744 | 2,062 | 1.1% |
| Current Tax Assets | 1,407 | 4,263 | (2,856) | (67.0%) |
| **Total Current Assets** | **348,228** | **362,132** | **(13,904)** | **(3.8%)** |
| **NON-CURRENT ASSETS** | | | | |
| Other Non-Current Financial Assets | 254 | 250 | 4 | 1.7% |
| Other Non-Current Non-Financial Assets | 2,249 | 2,178 | 70 | 3.2% |
| Non-Current Accounts Receivable | 1,561 | 1,525 | 35 | 2.3% |
| Non-Current Accounts Receivable from Related Parties | 8,500 | 7,000.0 | 1,500 | 21.4% |
| Investments Accounted for Using the Equity Method | 14,056 | 14,275.9 | (220) | (1.5%) |
| Intangible Assets Other Than Goodwill | 62,123 | 65,745.2 | (3,622) | (5.5%) |
| Goodwill | 475,880 | 475,717.2 | 163 | 0.0% |
| Property, Plant, and equipment, net | 708,767 | 723,285.9 | (14,519) | (2.0%) |
| Deferred tax assets | 429,786 | 425,721.9 | 4,064 | 1.0% |
| **Total Non-Current Assets** | **1,703,176** | **1,715,700** | **(12,524)** | **(0.7%)** |
| **TOTAL ASSETS** | **2,051,404** | **2,077,832** | **(26,428)** | **(1.3%)** |
| **LIABILITIES** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Other Current Financial Libialities | 193,961 | 139,327 | 54,634 | 39.2% |
| Trade and Other Current Payables | 330,001 | 382,858 | (52,858) | (13.8%) |
| Accounts Payable to Related Companies | 845 | 1,879 | (1,033) | (55.0%) |
| Other Current Provisions | 6,177 | 3,796 | 2,381 | 62.7% |
| Current Tax Liabilities | 1,650.9 | 797.9 | 853 | 106.9% |
| Current Provisions for Employee Benefits | 18,502 | 21,533 | (3,031) | (14.1%) |
| Other Current Non-Financial Liabilities | 4,484 | 10,617 | (6,133) | (57.8%) |
| **Total Current Liabilities** | **555,621** | **560,808** | **(5,187)** | **(0.9%)** |
| **NON-CURRENT LIABILITIES** | | | | |
| Other Non-Current Financial Liabilities | 784,243 | 790,225 | (5,982) | (0.8%) |
| Non-Current Payables | 34 | 56 | (22) | (39.0%) |
| Deferred Tax Liabilities | 2 | 76 | (75) | (98.0%) |
| Non-Current Provisions for Employee Benefits | 3,470 | 1,927 | 1,542 | 80.0% |
| Other Non-Current Non-Financial Liabilities | 1,264 | 3,323 | (2,059) | (62.0%) |
| **Total Non-Current Liabilities** | **789,013** | **795,608** | **(6,596)** | **(0.8%)** |
| **TOTAL LIABILITIES** | **1,344,634** | **1,356,416** | **(11,782)** | **(0.9%)** |
| **EQUITY** | | | | |
| Issued Capital | 523,742 | 523,742 | 0 | 0.0% |
| Retained Earnings | 32,095 | 47,300 | (15,205) | (32.1%) |
| Other Reserves | 150,933 | 150,373 | 560 | 0.4% |
| **Equity Attributable to the Owners of the Parent Company** | 706,770 | 721,416 | (14,646) | (2.0%) |
| **Non-Controlling Interest** | - | - | - | - |
| **Total Equity** | **706,770** | **721,416** | **(14,646)** | **(2.0%)** |
| **TOTAL LIABILITIES AND EQUITY** | **2,051,404** | **2,077,832** | **(26,428)** | **(1.3%)** |

## 2.1. Assets

As of June 30, 2020, SMU's **total assets** decreased by CLP 26,428 million (1.3%) with respect to December 31, 2019, totaling CLP 2,051,404 million.

**Current assets** as of June 30, 2020 decreased CLP 13,904 million (3.8%) with respect to December 31, 2019, totaling CLP 348,228 million. The primary variations during the period were:

a. A decrease in current trade and other accounts receivable (↓CLP 10,400 million), primarily explained by a decrease in the account receivable from Transbank, due to the business cycle.

b. A decrease in cash and cash equivalents (↓CLP 7,205 million), explained by the variations that are described in section 3. Analysis of Statement of Cash Flows.

c. A decrease in current tax assets (↓CLP 2,856 million), primarily explained by the decreases in education and training-related tax credits and in recoverable taxes from previous years, due to the recovery of taxes during the period.

These decreases were partly offset by:

a. An increase in other current non-financial assets (↑CLP 5,034 million), primarily explained by (i) an increase of CLP 7,740 million in prepaid insurance, reflecting the renewal of the Company's insurance policies during the quarter; and (ii) an increase of CLP 1,556 million in advances to foreign suppliers, partly offset by a decrease of CLP 4,244 million in the VAT credit.

b. An increase in inventory (↑CLP 2,062 million), due to lower sales during the period.

**Non-current assets** as of June 30, 2020 decreased 0,7% with respect to December 31, 2019, totaling CLP 1,703,176 million. The primary variations during the period were:

a. A decrease in property, plant and equipment (↓CLP 14,519 million), primarily due to depreciation of CLP 37,075 million, partly offset by additions of CLP 23,176 million.

b. A decrease in intangible assets other than goodwill (↓CLP 3,622 million), primarily due to amortization of CLP 6,391 million, partly offset by additions of CLP 2,769 million.

These decreases were partially offset by an increase of CLP 4,064 million in deferred tax assets, primarily due to inflation adjustments to net operating losses, and an increase of CLP 1,500 million in non-current accounts receivable from related parties, from the loan to the associate Unicard.

### 2.2. Liabilities

As of June 30, 2020, the Company's **total liabilities** decreased by CLP 11,782 million (0.9%) with respect to December 31, 2019, totaling CLP 1,344,634 million.

**Current liabilities** as of June 30, 2020 increased by CLP 5,187 million (0.9%) with respect to December 2019, totaling CLP 555,621 million. The primary variations during the period were:

a. A decrease in current trade and other accounts payable (↓CLP 52,858 million), associated with the cut-off date for payments, as well as the payment of dividends during the period.
b. A decrease in other current non-financial liabilities (↓CLP 6,133 million), primarily due to a decrease in the VAT fiscal debit.
c. A decrease in current provisions for employee benefits (↓CLP 3,031 million), mainly due to the payment of short- and long-term incentives.

These decreases were partially offset by:

a. An increase in current other financial liabilities (↑CLP 54,634 million), primarily due to an increase of CLP 85,753 million in obligations with the public, for the transfer of the series G and K bonds, which mature in March 2021, from non-current to current. This increase was partially offset by a decrease of CLP 30,934 million in bank loans, reflecting the payment of the refinancing of the loan with Banco BICE through the placement of the series AK bonds in June, partially offset by new short-term loans contracted during the period.
b. An increase in current provisions (↑CLP 2,381 million), primarily due to the provision of the fine imposed by the Supreme Court ruling described above.

**Non-current liabilities** as of June 30, 2020 decreased by CLP 6,596 million (0.9%) with respect to December 2019, amounting to CLP 789,013 million. The main variation in the period was the decrease of CLP 5,982 million in other non-current financial liabilities, primarily due to the decrease of CLP 12,233 million in obligations for rights of use, partially offset by increases of CLP 5,001 million in bank loans and CLP 4,098 million in obligations with the public.

### 2.3. Shareholders' Equity

**Shareholders' equity** decreased by CLP 14,646 million (-2.0%), primarily due to a decrease of CLP 15,205 million in retained earnings related to the payment of dividends in May 2020.

## 3. Analysis of Statement of Cash Flows

***Table 9: Statement of Cash Flows for the Six Months Ended June 30, 2020 and 2019***

| (CLP Million) | June 2020 (IFRS 16) | June 2019 (IFRS 16) | △$ |
|---|---|---|---|
| Net Cash Flows From (Used in) Operating Activities | 4,336 | 66,153 | (61,817) |
| Net Cash Flows From (Used in) Investing Activities | (19,511) | (25,790) | 6,280 |
| Net Cash Flows From (Used in) Financing Activities | 7,970 | (21,658) | 29,627 |
| **Net Increase (Decrease) in Cash and Cash Equivalents Before Effect of Exchange Rates** | **(7,205)** | **18,704** | **(25,910)** |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **(7,205)** | **18,704** | **(25,910)** |
| Cash and Cash Equivalents at Beginning of Period | 50,810 | 82,644 | (31,834) |
| **Cash and Cash Equivalents at End of Period** | **43,605** | **101,348** | **(57,743)** |

During the first six months of 2020, cash provided by **operating activities** totaled CLP 4,336 million, a decrease of CLP 61,817 million compared to CLP 66,153 million for the same period of 2019. Cash provided by sales of goods and services increased slightly, in line with the increase in revenue for the period. However, this effect was offset by increases of CLP 45,287 million in payments to suppliers, CLP 9,817 million in payments to employees, and CLP 16,028 million in dividend payments.

Cash used in **investing activities** for 1H20 totaled a net outflow of CLP -19,511 million, compared to a net outflow of CLP -25,790 million for 1H19, a difference of CLP 6,280 million. The variation year over year is due to a decrease of CLP 5,587 million in **CAPEX**, which includes purchases of property, plant and equipment and purchases of intangible assets and amounted to CLP 17,253 million in 1H20 and CLP 22,840 million in 1H19. This decrease reflects the fact that in the first few months of the year, the Company's investment plan was affected by the social crisis, as the general safety conditions necessary to move forward with certain projects, such as remodels and new store openings, were lacking. In addition, during the second quarter, the plan was affected by restrictions related to the COVID-19 pandemic.

Cash used in **financing activities** for 1H20 totaled a net inflow of CLP 7,970 million, mainly explained by: proceeds from loans for CLP 120,097 million, including the placement of the series AK bonds in June (UF 3 million) and other short-term loans contracted during the period (approximately CLP 35,500 million), partially offset by: (i) payment of bank loans for approximately CLP 64,530 million; (ii) interest payments of CLP 23,170 million; and (iii) payments of financial leases for CLP 24,427 million. In 1H19, cash outflows from financing activities amounted to CLP -21,658 million, primarily explained by: (i) interest payments of CLP 24,595 million; (ii) payment of financial leases of CLP 20,314 million; and (iii) loan repayments of CLP 8,129 million, mainly pertaining to letters of credit; partially offset by the placement of the series W bond in June 2019 (UF 1 million).

## 4. Financial Indicators

***Table 10: Financial Indicators***

| | | | Jun. 2020 | Dec. 2019 |
|---|---|---|---|---|
| **LIQUIDITY** | | | | |
| Liquidity Ratio | times | *Current assets/current liabilities* | 0.63 | 0.65 |
| Acid Ratio | times | *(Current assets - inventories)/current liabilities* | 0.27 | 0.30 |
| **LEVERAGE** | | | | |
| Total Liabilities / Total Assets | times | *Total liabilities / Total assets* | 0.66 | 0.65 |
| Total Liabilities / Equity | times | *Total liabilities / Equity* | 1.90 | 1.88 |
| Net Financial Liabilities / Equity | times | *(Other current financial liabilities + other non-current financial liabilities - cash and cash equivalents)/Shareholders' equity* | 1.32 | 1.22 |
| Current Liabilities / Total Liabilities | % | *Total current liabilities/Total liabilities* | 41.31 | 41.34 |
| Net Financial Debt / EBITDA | times | *(Other current financial liabilities - current obligations for rights of use + other non-current financial liabilities - non-current obligations for rights of use - cash and cash equivalents)/EBITDA for the last 12 months* | 2.66 | 2.15 |
| Net Financial Liabilities / EBITDA | times | *(Other current financial liabilities + other non-current financial liabilities - cash and cash equivalents)/EBITDA for the last 12 months* | 5.04 | 4.44 |
| **WORKING CAPITAL** | | | | |
| Days of Inventory | days | *Average inventory for the period / Daily cost of goods sold for the period* | 44.45 | 43.54 |
| Accounts Receivable Days | days | *Average current trade and other accounts receivable for the period / (Daily revenue for the period * 1.19)* | 11.59 | 9.84 |
| Accounts Payable Days | days | *Average current trade and other accounts payable for the period / (Daily cost of goods sold for the period * 1.19)* | 67.65 | 75.03 |
| **EFFICIENCY (12 months)** | | | | |
| Interest Coverage (Last 12 months) | times | *EBITDA for the last 12 months / (financial expenses for the last 12 months - financial income for the last 12 months)* | 3.75 | 4.02 |
| Gross Margin (Last 12 months) | % | | 29.80 | 29.68 |
| EBITDA (Last 12 months) | CLP MM | | 185,328 | 198,015 |
| EBITDA Margin (Last 12 months) | % | | 8.06 | 8.62 |
| **PROFITABILITY (12 months)** | | | | |
| Return on Assets | % | *Net income last 12 months / Total assets* | 1.03 | 1.66 |
| Return on Assets (excluding goodwill) | % | *Net income last 12 months / (Total assets - goodwill)* | 1.34 | 2.16 |
| Return on Equity | % | *Net income last 12 months / Shareholders' Equity* | 2.98 | 4.79 |
| Return on Invested Capital (including goodwill) | % | *Operating income last 12 months / (Accounts receivable + inventories + intangible assets + goodwill + property, plant and equipment)* | 6.45 | 7.20 |
| Return on Invested Capital (excluding goodwill) | % | *Operating income last 12 months / (Accounts receivable + inventories + intangible assets + property, plant and equipment)* | 9.37 | 10.38 |

With respect to **liquidity** indicators, the difference between June 2020 and December 2019 is mainly due to the fact that the decrease in current assets was greater than the decrease in current liabilities.

With respect to **indebtedness** indicators, the most significant variations (in net financial liabilities/equity; net financial debt/EBITDA; and net financial liabilities/EBITDA) are explained by (i) the increase in financial debt (and, consequently, in financial liabilities); (ii) the decrease in equity; and (iii) the decrease in EBITDA for the last 12 months, for the reasons described in sections 1 and 2 of this document.

With respect to **working capital** indicators, the variations in accounts receivable days and accounts payable days are explained primarily by the increase in accounts receivable and the decrease in accounts payable, respectively.

With respect to **efficiency** indicators, the most significant changes are due to the decrease in EBITDA for the last 12 months.

With respect to **profitability** indicators, the most significant changes are due to the decrease in operating income and net income for the last 12 months.

## 5. Risk Management

The main risks faced by SMU, as well as certain measures taken by the Company to mitigate such risks, are described in note 4 to SMU's consolidated financial statements as of June 30, 2020.

## 6. Relevant Events During the Period

1. On January 17, 2020, SMU restructured its outstanding loan with Banco BICE, originally signed on September 30, 2019 for a total of CLP 55,000 million and maturing on January 17, 2020.

   The new conditions include the following payment structure; (i) six equal monthly installments of CLP 850 million in principal, beginning on January 21, 2020; (ii) 17 equal monthly installments of CLP 2,800 million in principal, beginning on July 21, 2020; and (iii) a final payment of CLP 2,300 million on December 21, 2021. Interest payments are made on a monthly basis at a variable rate (TAB 30 days in CLP plus a spread of 120 bps).

2. On March 20, 2020, the Company filed an Essential Fact, informing that the Board of Directors agreed the following:

   (1) To call an Annual Ordinary Shareholders' Meeting to be held on April 9, 2020, at 10:00 am, at Cerro El Plomo 5680 11th floor, Las Condes, Santiago, in order to be inform the Company's shareholders of and/or to submit for the approval of the Company's shareholders the following matters:

   a. Approve annual report and financial statements for the 2019 period.
   b. Approve the report of independent auditors.
   c. Approve remunerations of Board of Directors and other corporate committees for the 2020 period. Inform Board of Directors expenses incurred during 2019 period.
   d. Inform activities and expenses of Directors' Committee during the 2019 period and determine remunerations and budget for the 2020 period.
   e. Inform operations referred to under Title XVI of Law No. 18,046 (related-party operations).
   f. Designate independent audit firm for the 2020 period.
   g. Designate credit rating agencies for the 2020 period.
   h. Dividend payment and distribution of net income for the 2019 period.
   i. Designate newspaper in which legally required notifications will be published.
   j. Review any other matter that is of interest to shareholders and pertains to the Annual Ordinary Shareholders' Meeting.

   (2) To submit for shareholder approval at such Annual Shareholders' Meeting a proposal for the payment of a final dividend in the amount of CLP 4.49327 per share, for a total amount of CLP 25.937,746,410, to be charged to net income for the year 2019. Such dividend would

be paid on April 28, 2020 to shareholders of record as of the fifth business day prior to such date.

3. On March 24, 2020, the Company filed an essential fact, informing that the Board of Directors had agreed to implement technology to facilitate remote participation in the upcoming Annual Shareholders' Meeting. This decision was based on the current measures and recommendations issued by the Chilean government in relation to Coronavirus or Covid-19 and is in accordance with General Standard No. 435 (Norma de Carácter General N°30) and Circular Letter No. 1141 (Oficio Circular N°1141) issued by the Financial Market Commission.

   The notifications regarding the Shareholders' Meeting that will be published in the newspaper and sent to shareholders will include information regarding this option. Details about how to participate remotely in the Shareholders' Meeting will be made available in the coming days at the following link: https://www.smu.cl/JOASMU2020.

   Depending on how the Covid-19 situation continues to develop in Chile, the Board of Directors may decide that all participation in the Shareholders' Meeting must be remote, not in person, in which case shareholders will be notified in a timely fashion through the above link.

4. On April 8, 2020, SMU signed the restructured loan with Banco BICE, originally signed on September 30, 2019 for a total of CLP 52,450 million, originally maturing on April 16, 2020.

   The new conditions include the following payment structure; (i) three equal monthly installments of CLP 850 million in principal, beginning on April 16, 2020; (ii) 17 equal monthly installments of CLP 2,800 million in principal, beginning on July 21, 2020; and (iii) a final payment of CLP 2,300 million on December 21, 2021. Interest payments are made on a monthly basis at a variable rate (TAB 30 days in CLP plus a spread of: 120 bps through June 16, 2020; 140 bps between June 17 and September 16, 2020; 160 bps between September 17 and December 16, 2020; 180 bps between December 17, 2020 and March 16, 2021; and 200 bps between March 17 and December 16, 2021).

5. On April 8, 2020, the Company filed an essential fact, informing that it had been notified of the ruling by the Chilean Supreme Court in case number 9361-2019, in relation to a complaint filed by the Chilean antitrust authority (*Fiscalía Nacional Económica* or "FNE") before the Antitrust Court in 2016. The ruling increased the fine imposed on the Company to a total of 6,876 Annual Tax Units and confirmed the obligation to adopt a compliance program with respect to free competition, complementary to the Company's existing program. This sentence cannot be appealed. The Company remains absolutely convinced that it did not participate in any pricing coordination with its competitors. The events in question took place between 2008 and 2011, at which time SMU had just entered the food retail industry as a small player.

6. On April 9, 2020, the Company filed an essential fact, informing that at the Annual Ordinary Shareholders' Meeting held on that date, shareholders approved the payment of a final dividend in the amount of CLP 4.49327 per share, for a total amount of CLP 25.937,746,410, to be charged to net income for the year 2019. Such dividend was paid on April 28, 2020 to shareholders of record as of the fifth business day prior to such date.

7. On May 2, 2020, the Company filed an essential fact, informing that on the same date, Mr. Álvaro Saieh Bendeck had presented his resignation as director and Vice Chairman of SMU S.A. On the same date, the Board of Directors designated Ms. María Francisca Saieh Guzmán as director and Vice Chairwoman of the Board.

8. On June 19, 2020, the Company filed an essential fact, informing the placement of dematerialized bearer bonds in the local Chilean market under Series AK (ticker BCSMU-AK),

charged to the bond line that is registered with the Securities Registry of the Superintendency of Securities and Insurance under number 649 ("Series AK Bonds"). The series was placed at an annual interest rate of 3.5%, with an annual coupon rate of 3.0%, and a maturity date of April 30, 2025.

The placement of the Series AK Bonds was for a total amount of UF 3 million. The Company intends to use the total amount of the net proceeds from the placement to refinance existing financial liabilities.

## 7. Subsequent Events

1. On July 30, 2020, the Company filed an essential fact, informing that on the same date, SMU's bondholders of the (i) Series D, T, and W bonds, which are charged to the bond line that is registered with the CMF's Securities Registry under No. 650 ("Line 650"); Series G and K bonds, which are charged to the bond line that is registered with the CMF's Securities Registry under No. 667 ("Line 667"); and (iii) Series B bonds, which are charged to the bond line that is registered with the CMF's Securities Registry under No. 668 ("Line 668") held bondholders' meetings, which took place remotely.

   At such meetings, bondholders approved, among other matters, the following modifications to the issuance contracts of Line 650, Line 667, and Line 668: (i) to modify the Company's indebtedness covenant, changing the calculation from net financial liabilities over equity to net financial debt over equity and establishing a restriction of 1.03 times, to be measured beginning on September 30, 2020; (ii) eliminating the definition of "Net Financial Liabilities" and adding the definition of "Net Financial Debt in the respective issuance contracts, and adding the definition of "Shareholders' Equity" in the issuance contract for Line 650; and (iii) modifying the definition of EBITDA. As a result, the covenants in the issuance contracts for Line 650, Line 667, and Line 668 will be the same as the covenants in the issuance contracts for the bond lines registered under numbers 649, 964, and 965.

2. As of August 31, 2020, the status of the Company's stores in Chile is as follows:

   - Unimarc: of the 286 total stores, 282 are operating.
   - Mayorista 10: of the 63 total stores, 62 are operating.
   - Alvi: of the 32 total stores, 29 are operating.
   - OK Market: of the 123 total stores, 112 are operating. The closed stores include eight OK Market stores are located in universities or malls that are temporarily closed due to the COVID-19 pandemic.

About SMU

SMU is the largest Chilean food retailer, based on number of stores, and the third largest Chilean food retailer, based on revenue for the year ended December 31, 2019. We operate our food retail business in Chile through four different formats: supermarkets (*Unimarc*), cash and carry stores (*Mayorista 10* and *Alvi*), convenience stores (*OK Market*) and an online grocer (*Telemercados*). We also operate in Peru, through two food cash and carry brands, *Mayorsa* and *MaxiAhorro*.

Caution Regarding Forward-Looking Statements

This press release may contain forward-looking statements. We have based any such forward-looking statements largely on our current beliefs, expectations and projections about future events and financial trends affecting our business. Although management considers these projections to be reasonable based on information currently available to it, many important factors could cause our actual results to differ substantially from those anticipated in our forward-looking statements. The words "believe," "may," "will," "aim," "estimate," "continue," "anticipate," "intend," "expect," "forecast" and similar words are intended to identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities and the effects of future regulation and competition. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks that predictions, forecasts, projections and other forward-looking statements will not be achieved. In light of the risks and uncertainties described above, the forward-looking events and circumstances discussed in this press release might not occur and are not guarantees of future performance. Therefore, we caution readers not to place undue reliance on these statements. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update or revise any forward-looking statements included in this press release because of new information, future events or other factors.

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