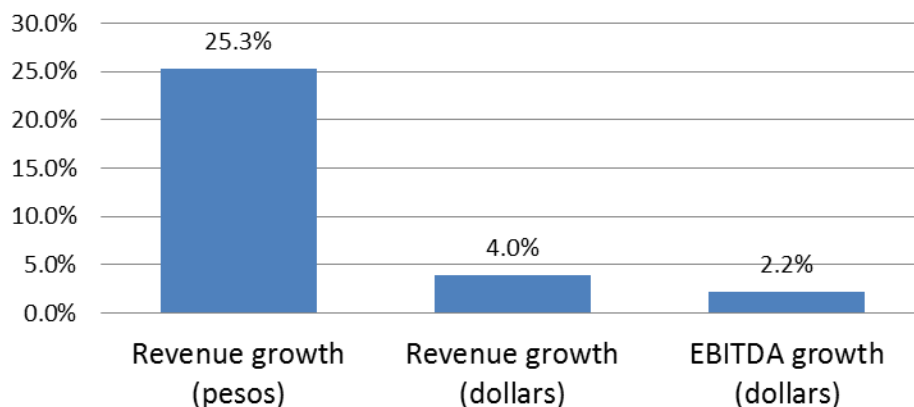


- Continued SSS declines at El Super, despite a boost from the inclusion of relatively new stores in the same-store base
- Customer traffic appeared to decline for the 5th consecutive quarter since the U.S. consumer boycott began, and the decline accelerated on a 2-yr stacked basis
- U.S. government compliance data for 2015 shows that El Super consistently cut labor hours at El Super stores subject to the boycott, while hours at the non-boycotted stores remained relatively flat—further undermining the company’s denials that the boycott is having an effect on sales
- Findings from OECD and NAFTA labor [complaints](#) expected in next two to three months

Growth Segment?

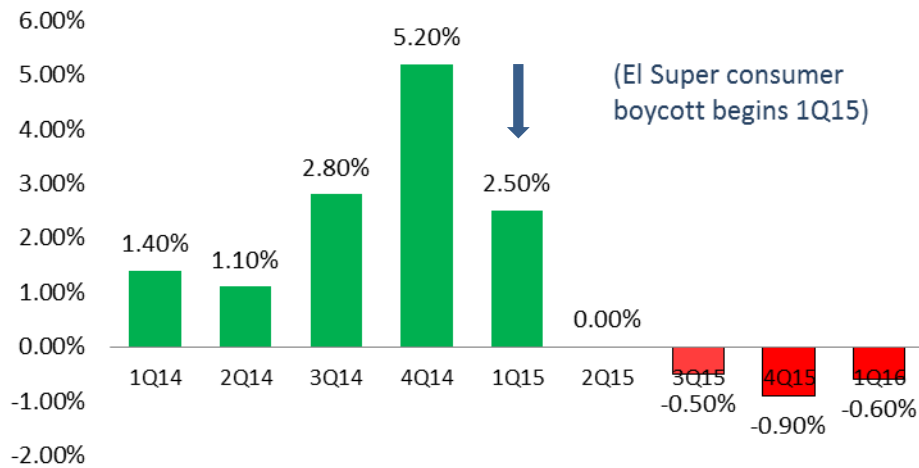
In its 1Q16 report released last night, Chedraui boasted of 27.5% growth in the U.S. segment, consistent with the high growth rates the unit has reported over the past year. In fact, measured in pesos, El Super has contributed significant growth to the topline of Chedraui’s consolidated results, with revenue over the past 12 months growing more than 25% compared to the year before period. Yet when the dollar-peso currency effect is removed, the actual growth of the U.S. segment’s revenues was less than 4% during this period. As the chart below indicates profits at El Super grew even less—just above 2%.

Less than meets the eye: *El Super Growth, LTM through 1Q16*



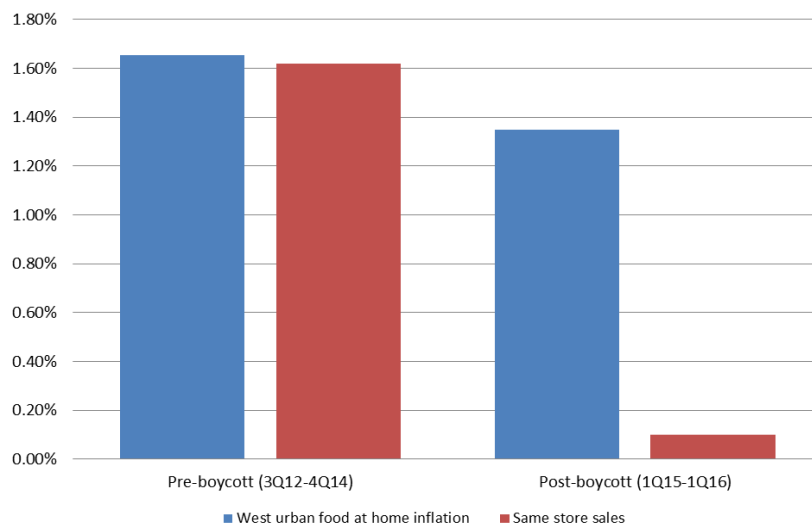
The primary driver of disappointing sales growth in the U.S. segment is the negative same store sales reported over the past year, a period which coincided with the consumer boycott in the U.S.

El Super same store sales



As they have previously, company officials attributed the decline in SSS at El Super to deflation, particularly in meat. But food-at-home inflation was essentially flat during 1Q16 (-0.03%), thus continuing a five-quarter trend of SSS at El Super below the rate of food-at-home inflation, a trend which, again, has matched the period of the consumer boycott.

El Super Boycott Impact: Inflation vs SSS



Worse Than It Looks

What should make the negative same store sales at El Super even more troubling to investors is the fact that 1Q16 SSS likely received a significant boost from the inclusion of four relatively new stores in the period just prior to the last 12 months. As Chedraui itself has estimated it typically takes several years after opening a store for it to mature and achieve its full sales potential, and during those early years the annual increase in sales would be expected to be much larger than for a mature store. The four new stores—two opened in the 4th quarter of 2014, and one each in the 2nd and 3rd quarters of 2014—would have been included in the 1Q16 SSS base, and we would expect year on year growth at these four stores to have been much greater than the rest of the company's simply because of their newness. Although we lack the information necessary to determine the magnitude of the effect, it seems likely that the 1Q16 new store benefit represents the largest new store boost to El Super's SSS in more than a year.

Numbers Don't Lie

Recently available U.S. government data on labor hours during 2014 and 2015 at 17 El Super stores in California and Arizona, eight of which were subject to active pickets as part of the consumer boycott during 2015 and nine of which were not, reveals an interesting pattern. Fluctuations in the number of hours of labor employed at food retail establishments are not unusual, and can be explained by a variety of factors including local market economic trends, weather and store specific factors; in any given year some stores may use slightly more or slightly less labor than in other years. What is noteworthy about recent data maintained by El Super in compliance with the Occupational Safety and Health Administration (OSHA) is that it shows that El Super consistently cut labor hours at all stores in our sample which were subject to active pickets in 2015, while hours for the non-picketed stores in our sample were relatively flat and showed no consistent pattern: roughly half reported small increases in labor hours, while half reported small decreases. The OSHA compliance data is consistent with comments from El Super workers who have reported some store managers blamed the consumer boycott for poor sales and resulting in the need to make cuts in hours, and further undermines the company's denials that the boycott has had a negative effect on sales.

Change in Total Hrs Worked EI Super (2014-2015, based on OSHA compliance data)

