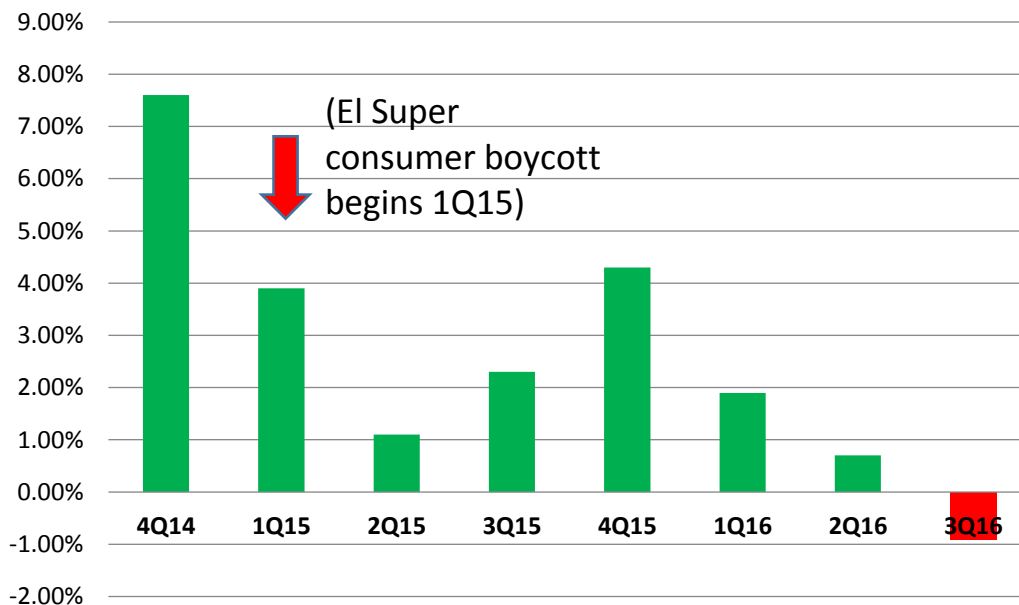


Chedraui 3Q16: Same Store Sales Turn Negative Again—Rats!

- Same store sales return to negative territory as consumer boycott engages over 2.5 million shoppers, with over a quarter million turned away
- As the boycott laps itself and El Super fails to beat a low bar, 2-year stacked SSS continue downward trend
- In addition to the boycott, continued health code violations—including the temporary shuttering of a store due to a rat infestation—shook sales amid widespread media coverage
- Chedraui shares continued to significantly underperform the MSCI Emerging Market Latin America index

Analysts who had expected US Same Store Sales of 2% were disappointed by the 3Q performance of El Super, Chedraui's U.S. banner which actually posted a same store sales *decline* of -0.4%. Of additional concern, the weak 3Q sales figures came a year after a -0.5% decline in same store sales in the year earlier period, turning what should have been a very easy comparison into the first negative 2-year stacked same store sales result in several years.

El Super: 2yr Stacked Same Store Sales Turn Negative



The negative same store sales in 3Q will make the company's stated goal of achieving same store sales growth of 2 to 3% in 2016 practically impossible.

Boycott Engages Over 2.5 Million Consumers

Ahead of the 3Q earnings call, analysts had hoped to hear from Chedraui's leadership regarding the impact of the U.S. boycott on sales at El Super. But once again, neither Antonio Chedraui nor Carlos Smith even mentioned the ongoing consumer [boycott](#) or long running labor conflict.

Through the month of September boycott lines at 22 stores have reached over 2.5 million consumers and turned away more than 270,000 of them.

El Super Boycott

<u>Through 9/30/2016</u>	<u>Total</u>
Customers engaged	2,576,119
Customers turned away	277,295

During the 3Q16 the boycott's impact was likely boosted by the revelation of a major public health violation which resulted in a mandatory 48-hour closure of a South Los Angeles El Super store by county health officials due to a vermin infestation. El Super workers and their union have [repeatedly](#) drawn connections between poor labor conditions and unsanitary conditions in the stores. One news [report](#) quoted a pest control expert who stated the El Super store had "a massive rodent population." El Super representatives said they were cooperating fully with the Los Angeles Health Department.

The store closure and infestation received widespread coverage in [English](#) and [Spanish](#) language television in Southern California, which included video clips of mice scurrying among food displays at another El Super store and live interviews with shocked consumers.



"I came here just because I was passing by, but I had already stopped buying meat and things like that here because I had heard about the problems," Inglewood resident Luisa Zamora told *La Opinion*. "Once I got a letter in the mail telling me that the meat was not the temperature that it should have been, and that they had found worms in the meat" she said. "I just come for the tomato and the chiles, but knowing that there are mice, forget it."



Community concern regarding unsanitary conditions at El Super stores has been a major challenge for the company for over two years. On February 18, 2014, the Coalition for a Better El Super - consisting of LA-area community organizations Strategic Action for a Just Economy, East LA Community Corp, Pueblo & Salud, and Strategic Concepts in Organizing and Policy Education - endorsed complaints to the LA, Orange and San Bernardino County Environmental Health Departments about conditions at El Super.

Since the time of that complaint, health inspectors from those counties have documented:

- 1,374 total violations of health regulations
- 285 "Major" or "Critical" code violations
- 37 violations involving "Rodents, Insects, Birds or Animals"

As the labor dispute and consumer boycott continue with no end in sight, it is unlikely that Chedraui's U.S. segment will be in a position to give the company's sagging stock price the boost it clearly needs.

Chedraui Underperforms Latin American Peers: 1 Yr Change

