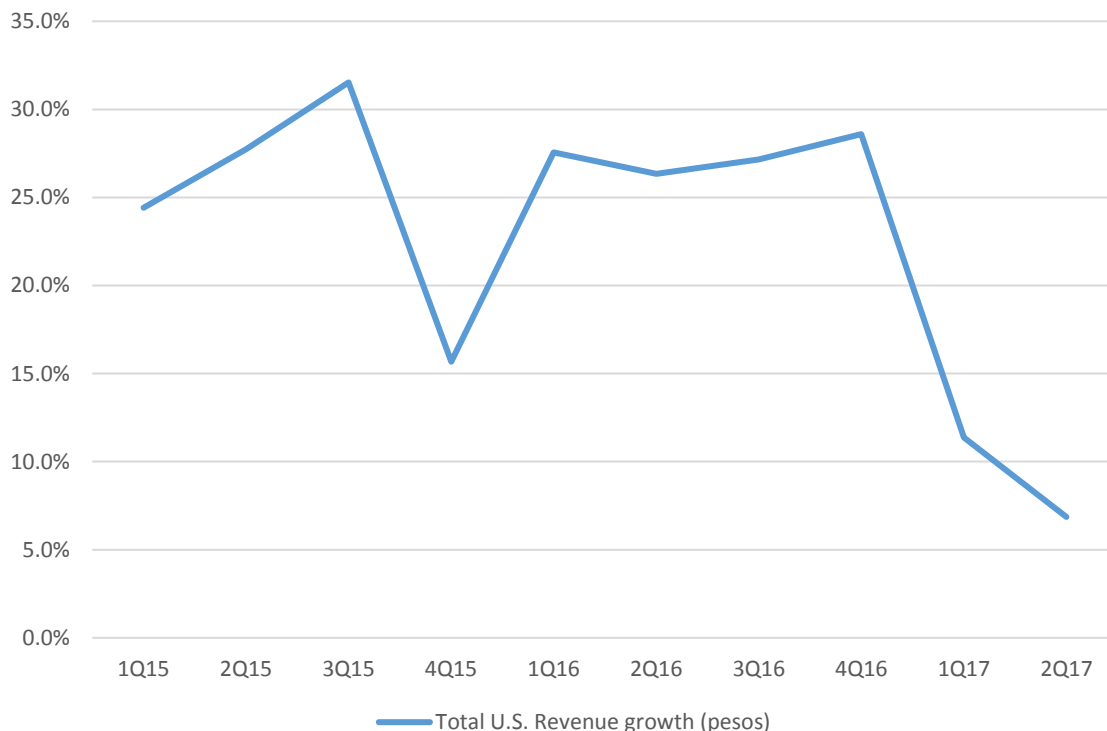


El Super 2Q17: U.S. SSS Still Negative As Profit Falls and Trump Connection Festers

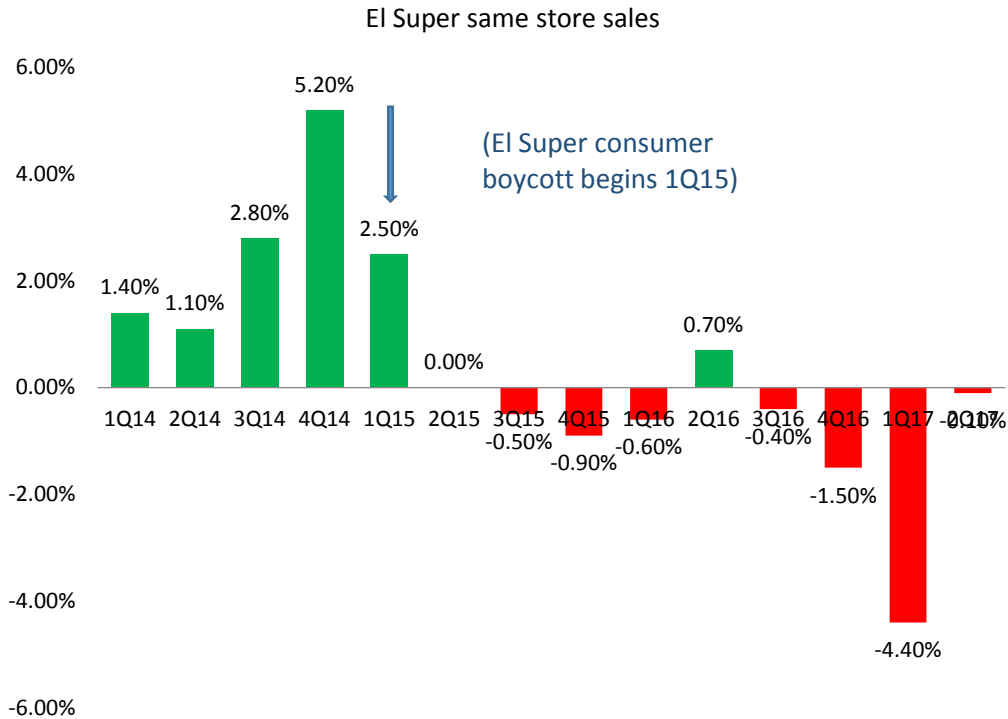
- *US SSS fall again in 2Q*
- *EBITDA declines 5.7%*
- *Boycott highlights Trump as it reaches 3 million consumers*

Wednesday after the market closed in Mexico Chedraui reported 2Q17 earnings, including a declining rate of sales growth (8.2% vs nearly 12% in the 2nd quarter of last year). The weaker sales growth was driven by a large decline in the rate of growth in US sales (expressed in pesos) during the period. US sales in pesos had registered quarterly increases of nearly 25% over the past two years, but this quarter's 6.9% growth rate was the lowest in two and a half years.

CHDRAUI: Diminishing Sales Growth from U.S. Segment

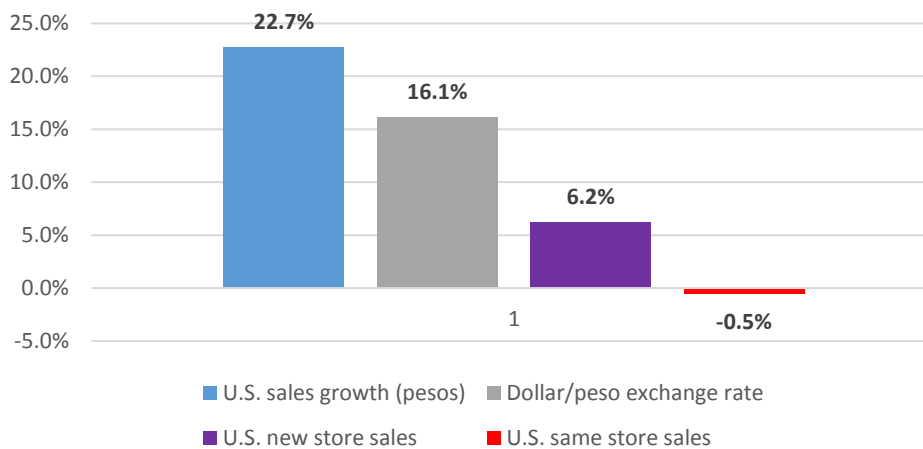


Weak 2Q US sales were largely driven by negative same store sales of -0.1%, the 8th quarter without positive same store sales growth since the U.S. consumer boycott began, as the chart below illustrates.



With such disastrous sales growth during the period of the boycott how did the company achieve double digit growth in the U.S. segment prior to the recent quarter? New stores provided some growth but the bulk of the sales growth attributed to the U.S. segment during the last two years was derived from a significant weakening of the Mexican peso relative to the U.S. dollar, averaging over 16% each quarter (see chart below). But now this dubious source of “growth” appears to be ending. In the 2nd quarter the gain from currency was just 3%.

CHDRAUI: U.S. Contribution to Sales Driven by FX
Average quarterly growth rates since start of consumer boycott



Yet even to achieve the weak U.S. sales results in the 2nd quarter the company engaged in significant price reductions, squeezing profit margins and resulting in a -5.7% decline in U.S. EBITDA vs 2Q16. Going forward investors will be watching this metric closely as the profitability of U.S. operations may suffer if the company is forced to cut prices further.

For his part U.S. CEO Carlos Smith attributed the weak 2Q performance to the fact that the company's stores were closed on May 1st "in support of the community we serve." Smith was referring, apparently without irony, to the massive [May Day protests](#) for immigrant and worker rights in Los Angeles. The protest was led by a diverse [coalition](#) of labor and community organizations, including the United Food and Commercial Workers union, which represents 600 El Super workers at 7 stores in Southern California.


Smith's excuse lacks credibility on several levels. For example, this year May 1st fell on Monday, typically one of the slowest days of the week for grocery stores, and most purchases forgone that day would have occurred subsequently during the quarter. The fact that the company chose to close the stores is likely a result of the fact that it would not incur a significant cost in doing so, as well as the recognition that the political sentiment among El Super's customer base was on the side of the protestors, an uncomfortable fact for a company that's engaged in a protracted labor dispute.

"I'm marching today because my coworkers and I will never give up on our struggle to win dignity, respect, and a fair union contract at El Super," [said](#) Fermin Rodriguez, a cashier at the El Super grocery store in Los Angeles, CA and member of UFCW Local 770. "I'm also marching because as hard working people, we contribute to America's economy and well-being and we deserve to be treated as human beings not as scapegoats of failed economic and immigration policies."

Not surprisingly many protestors focused their anger at President Donald Trump, whose approval ratings [continue to fall below historic](#) levels. Given the heightened concerns about Trump in the U.S. Latino community it is likely that many customers frown upon the [documented](#) links between El Super and the Trump candidacy. Indeed, picketers in front of El Super stores during the second quarter passed out thousands of flyers detailing that relationship (see above).

The consumer boycott passed an important threshold in the 2Q17 when it achieved over 3 million consumer engagements, including over 325,000 turnaways.

¡No compres en negocios cuyos líderes apoyan a Donald Trump!



El vicepresidente de El Super, Sal Marcianti dio directamente dinero a la campaña presidencial de Donald Trump, a menos de dos meses de la elección.

La red de conexiones entre El Super y Trump es mucho más profunda:

La empresa matriz de El Super, el Grupo Comercial Chedraui es propiedad en un 86% de la familia Chedraui de México. Dos miembros de la familia Chedraui, Ramón Chedraui Eguía y su padre, Antonio Chedraui Obeso, son socios del grupo financiero Sherman Financial Group, con sede en Estados Unidos.

David McGrath, un banquero de inversiones de Sherman, dio \$25,000 dólares, el 7 de octubre de 2016, al Comité de la Victoria de Trump. El comité fue creado por Donald Trump junto con el Partido Republicano para aceptar grandes donaciones y coordinar el apoyo a Trump antes de la elección presidencial.

¡BOICOT El Super!

El Super Boycott

<u>Through 6/30/2017</u>	<u>Total</u>
Customers engaged	3,024,176
Customers turned away	325,189

It's difficult to estimate the precise percentage of potential El Super shoppers reached by the boycott message, but given these numbers it is clearly a very large portion. By way of comparison, Pew Research [estimated](#) the size of the Hispanic population in the LA-Long Beach-Anaheim MSA at 6 million in 2014. It would not be a stretch to suggest that as a result of the 3 million plus customer engagements, together with the significant Spanish language [media coverage](#) of the issue, a majority of El Super's addressable customer base has been exposed to the boycott message.

Where In the World Is the Tsumat?

While Latinos in the United States face a challenging future under the Trump administration, it is unlikely that the Mexican owners of El Super, the Chedraui family, can empathize with the chain's customers in this regard. We do not know whether Alfredo Chedraui, chairman of Grupo Chedraui, was in Los Angeles for the May Day protest, marching in solidarity with thousands of his *compatriotas*, but we do know that in June the 49.9 meter superyacht named "TSUMAT" we believe he is the owner of was [touring](#) the French Riviera. We will continue to monitor the Tsumat's Mediterranean odyssey in the quarters ahead.