Muddy Waters Capital, LLC
info@muddywatersresearch.com
Director of Research: Carson C. Block, Esq.

Use of Muddy Waters reports is limited by the Terms of Service on its website, which are as follows. To be authorized to access such reports, you must agree to these terms, regardless of whether you have downloaded its reports directly from this website or someone else has supplied the report to you without authorization from Muddy Waters.

Muddy Waters Capital LLC
March 8, 2016

New Information on Casino Casts Additional Doubt on France Recovery; Governance Problems in Brazil Appear Larger than Admitted

- Based on new information, we are revising downward our estimate of 2014 adjusted France retail EBITDA by 9.1%. Based on our review of the 2014 annual report of L'Immobilière Groupe Casino, we now believe Casino inflated 2014 France EBITDA through transactions with Mercialys by €203 million (versus our prior estimate of €140 million). If our new estimates are correct, the core France business generated adjusted EBITDA of only €632 million (versus 2013 EBITDA of €987 million) – meaning Mercialys transactions would have constituted 24.3% of reported France EBITDA. We suspect that our previous estimate for H1 2015 EBITDA inflation will prove to be too low, but we cannot know for sure until Casino files the 2015 L'Immobilière accounts.
- Our investigators uncovered strong evidence that indicates in H2 2015 Casino has stretched payables to its suppliers in France to levels beyond what was typical of Casino, and generally accepted in France. We therefore find further reason to question Casino's assertions that its France business has recovered, and we continue to believe that without financial engineering, Casino would continue to show mediocre performance in France.
- Casino's announced sale of its crown jewel stake in BigC Thailand validates our thesis that the company is hollowing itself out in order to sustain the debt load largely held at the parent level and at Rallye. We view simplifying Casino's structure and financial statements as a negative for the share price, as it will become clearer and clearer to investors that they mostly own a poorly performing retailer in France; and further, the financial statements begin to more accurately reflect Casino's true ownership interests. On the positive side, the premium Casino is receiving for its BigC Thailand stake will likely result in a slight upward adjustment of our SOTP valuation of the company; however, it is too early to determine by how much. It remains to be seen how much of the proceeds will be lost to taxes and dividends.
- Our investigators found evidence that the accounting and governance problems with Casino's consolidated subsidiaries Cnova and GPA in Brazil are likely much greater than have been disclosed, and that these problems are likely attributable to Casino's decision to force out GPA Chairman Albio Diniz, son of the company's founder, in 2013. The information our investigators collected certainly calls into question Casino's ability to operate its far-flung retail empire, and its willingness to be forthright with investors.
- We found a strikingly similar analog to Casino's situation in that of Israeli supermarket chain Mega, where many mistakes by management led to the collapse of a once-promising company. Like Casino, Mega was highly-levered, paid out unsustainable dividends, and has a questionable relationship with an affiliated property company.
- Casino's management shows strong indications of deception toward investors on numerous key business issues. We engaged a behavioral analyst who worked for the U.S. Central Intelligence Agency to analyze Casino's call transcripts and its responses to our prior analyses. The analysis found numerous indicators of Mr. Giscard d'Estaing being evasive or deceptive about the Mercialys transactions, Casino's deleveraging plan, the impact of a downgrade by S&P, and the purported recovery in the France retail

business. This is the second time we have provided this type of behavioral analysis in a report. We first did so in our April 2015 report on Noble Group Ltd. (NOBL SP). At the time, several analysts publicly dismissed the behavioral analysis. They turned out to have been a bit too hasty. Casino investors would do well to heed this analysis, which is appended to the report.

Downard Revision of France Retail EBITDA Estimate

We now estimate that Casino's adjusted France EBITDA from retail sales shrank 36.0% YoY in 2014, versus our prior estimate of 30.0%. We further believe this negative trend has continued well into 2015 – however, we won't know for certain until Casino files the 2015 accounts for subsidiary L' Immobilière Groupe Casino. Our review of the 2014 annual report of L' Immobilière Groupe Casino has caused us to significantly revise upward our estimates of Casino's EBITDA inflation through property sales to affiliate Mercialys.

L' Immobilière Groupe Casino's accounts show gains on property sales to Mercialys in 2014 of €339.2 million.[1] Casino's share of the realized gains is €203 million. We believe Casino flowed this entire amount through EBITDA, thereby making its core France business appear to have a smaller profit decline than actually occurred.

Our original estimate of €140 million of EBITDA inflation was derived from the €94 million neutralization. (See our December 16, 2015 report for details). If one assumes the €94 million neutralization was post-tax, it would roughly reconcile to €203 million, assuming a ~34% tax rate. We believe normal practice (possibly outside of Casino) is to neutralize on a pre-tax basis, but it is conceivable Casino did it on a post-tax basis. A conceivable alternative explanation is that Casino used pre-tax amounts, but there were other eliminations on consolidation that reduced the amount of the neutralization on the balance sheet to €94 million.

RESULTAT EXCEPTIONNEL

en euros	année 2014	année 2013
Résultat de cessions d'actif	339 876 824	22 912 175
Provisions nettes	13 645 847	(29 586 934)
Autres produits et charges nettes	(14 370 472)	(3 023 346)
Total	**339 152 199**	**(9 698 105)**

Le résultat de cession d'immobilisations est constitué principalement par la cession des murs de 13 grandes surfaces alimentaires ainsi qu'un portefeuille d'espaces services et restauration à la société Mercialys représentant une plus value nette de 339 184 144€. Les sites concernés sont les suivants:

Casino's corporate governance framework for the Mercialys transactions raises eyebrows. Casino defended these gains in part by declaring that the transactions were "carried out in

[1] L' Immobilière Groupe Casino 2014 Annual Report, resolution allocating annual earnings.

compliance with a strict governance framework both at Casino and Mercialys".[2] We first note that L'Immobilière Groupe Casino's president – M. Vincent Rebillard – signed the L'Immobilière Groupe Casino's 2014 annual report on behalf of Casino.[3] Mr. Rebillard is also the Chief Operating Officer of Mercialys.[4] We also note that the gains on sale in 2014 equaled 70% of the gross value of the PP&E sold.

Some analysts appear sheepish about pushing Casino for transparency about EBITDA inflation. A public company's accounting is neither "proprietary" nor "sensitive" – it is merely how a company conveys to its owners the health of the business. Investors abet management's obfuscation of accounts at their own risk.

Some have defended Casino by noting that other retailers, including Carrefour and Tesco, engage in sale and leaseback transactions with associates. Those companies have generally been far more transparent than Casino about the effects of these transactions on EBITDA, and they are less material.

- Neither Tesco nor Carrefour are selling a material amounts of assets relative to their sizes. Tesco and Carrefour sold assets in 2014 at prices representing less than 1% and 2% of net PP&E, respectively. In contrast, Casino sold property at prices representing about 7% of its proportional net PP&E in 2014. Another way of interpreting this comparison is that Casino could be using its leaseback rates to manipulate sale prices and the resulting gains.

- Both Tesco and Carrefour treat gains on sales of assets as non-recurring. Such gains are clearly disclosed making it easy to distinguish between recurring income from ongoing retail/business operations and non-recurring gains from real estate sales. Casino does not disclose the gains coming from its property sales to Mercialys. Based on our estimates, Casino booked property sale gains in 2014 representing 24.3% of France retail EBITDA. Had Casino disclosed these gains in a way that was easy to understand, investors would be able to decide for themselves if they really want to put a market multiple on top of what we believe are non recurring real estate gains.

Based on our view of the operations of Casino, Tesco and Carrefour, and how Casino treats gains from asset sales compared to its competitors, we believe Casino's accounting materially misrepresents profitability from its France retail operations.

H2 2015 Payables

It appears as though in H2 2015, Casino increasingly stretched its payables to suppliers in France – possibly to lengths suppliers had not previously experienced from Casino. To the extent this interpretation is correct, it belies the France recovery story, calls into question the quality and sustainability of France operating cash flow, and also implicates Casino's liquidity during the period.

---

[2] http://www.groupe-casino.fr/en/wp-content/uploads/sites/2/2015/12/CP-VA-21-12-2015.pdf p. 3.
[3] L' Immobilière Groupe Casino 2014 Annual Report, resolution allocating annual earnings.
[4] http://www.mercialys.com/about-us/corporate-governance/management-committee

After we initiated coverage on Casino in December, we received information indicating that Casino could have been aggressively stretching its payables to suppliers in France in H2 2015. We engaged investigators to research and opine on the reasonableness of this inference. Our investigators "assess that the company is indeed delaying payments to suppliers, that the problem is significant enough to bear meaning for the company's overall financial health, and that it is specifically tied to Casino's poor performance in Q3 2015 and since. Moreover, we find that Casino's payment practices are relatively poor even within the French context, where only one third of the suppliers to major companies are paid on time, and even though any trends in payment delays over time that [we] detects at Casino, such as a recent increase in the past six months, reflect national trends."

Our investigators polled 12 sources that are familiar with Casino's payment practices in France.[5] Six stated that Casino's payment schedule is an issue for suppliers. Six of the polled sources stated that they were unaware of any payment issues with Casino. Our investigators believe that these sources should be weighted less heavily because they could be sensitive to providing negative information on a significant customer.

Two independent assessments conducted on behalf of the French government and released to the public support our investigators' findings. In November 2015, French market research firm Opinionway, working in conjunction with the Médiateur des Entreprises,[6] published the findings of its comprehensive, qualitative survey of suppliers to French companies.[7] These findings clearly show that Casino's delayed payments are more egregious than those of its peers and of large French companies overall.

According to the Opinionway report, Casino ranks 70 out of 79 for overall supplier relations, trailing its principal competitors Carrefour by five places and Groupe Auchan by 35. One of the factors in the overall rating is the numerical result from surveys of suppliers asking about the companies' "Respect of Payment Periods". Casino's "Respect of Payment Periods" scored 5.7 out of a possible 20. This grade—the French equivalent to an F on a U.S. grade scale – is the third lowest among the 79 companies shown in the study. It is well below the agri-food industry average of 8.4/20, and significantly below Auchan's 10.9/20 and Carrefour's 9.5/20.

The deterioration of Casino's payment respect score is notable. When the same survey was conducted in 2013, Casino scored 8/20 on the delayed payment metric (13 firms scored lower, placing Casino in the 3rd decile from the bottom).[8,9] That the sample size of the 2015 survey was 39% larger underscores how egregious Casino's practice of stretching payables has become.

---

[5] None of these sources is a current Casino employee or owes a fiduciary duty to Casino.
[6] The Médiateur des Entreprises is the corporate ombudsman of the French Ministry for Economics and Finance.
[7] Rapport: "Evaluation des grandes entreprises par leurs fournisseurs", November 2015. The methodology involved the Médiateur des Entreprises contacting 55,000 suppliers to large French companies by mail. 5,335 assessments of companies by their suppliers were collected overall. As the survey participant responses are extensive and anonymous, thus virtually eliminating reputational risk, the responses can reasonably be assumed to be comprehensive and unbiased.
[8] "Des PME qu'on asphyxie," *Challenges*, No. 366, 21 November 2013, pp. 64-70.
[9] http://100000entrepreneurs.typepad.fr/files/r%C3%A9sultats-diffusion.pdf

Investors should juxtapose this apparent behavior against management's insistence that there was a recovery in France retail in H2 2015. We're not sure a company completely comfortable with its liquidity would stretch its payables to this extent.

Mega: an Analog to Casino

The factors leading to the failure of Israel's second largest supermarket chain, Mega, have striking parallels to Casino's current circumstances. David Weissman, former CEO of Alon Holdings (the company that controlled Mega's parent Blue Star starting in 2003) and hands-on boss of Mega, sought to create a retail business empire combining gas stations and food retailing. Below are mistakes the Israeli newspaper Haaretz identified in July 2015 that appear to be similar to those made at Casino: [10]

- **Unsustainable Debt:** Blue Square, Mega's parent company, let the group accumulate sizeable debt to equity.
- **Unsustainable Dividends:** Blue Square paid out 1.5 billion shekels in dividends between 2006 and 2011, despite the huge debt burden.
- **Handcuffed by Real Estate Spinoff:** Weismann split off the group's real estate, including 84 stores rented out to Mega, into a new company called Blue Square Real Estate. Not only is Mega paying above-market rates for the stores it rents from its sister company, in some cases it is renting more space than needed. Mega is locked into these agreements through March 2019.
- **Overvalued Real Estate Assets:** Blue Square Real Estate "generates 78% of its revenues from its rental-property portfolio. But any attempt to lower rental costs is complicated by the fact that the landlord and tenants are sister companies. Now that Mega is downsizing, the fact that it pays higher rents will make it even harder for Mega to find tenants."

At the end, Mega found itself with a negative net worth, was forced to strike a debt agreement with its creditors, had to close 20% of its stores, lay off 1,000 employees and provide a third of Mega's equity to its remaining employees.

Behavioral Analysis

We engaged a firm to do a credibility analysis of four of Casino's public communications from December 16, 2015 through February 5, 2016.[11] The following analysis, prepared by a former Central Intelligence Agency polygrapher, indicates deception in several key areas: the Mercialys transactions, its deleveraging plan, the impact of a downgrade by S&P, and the purported recovery in the France retail business. The analysis is published as presented to Muddy Waters Capital LLC, and redacted only to protect the identity of the former CIA officer.

---

[10] "The Man Behind the Mess at Israel's Mega Supermarkets," *Haaretz*, 8 July 2015; http://www.haaretz.com/israel-news/business/.premium-1.664913

[11] For readers interested in learning more about this type of analysis, we recommend the books *Spy the Lie* (St. Martin's Griffin: 2013) and *Get the Truth* (St. Martin's Press: 2015), both written by former CIA officers Philip Houston, Michael Floyd, and Susan Carnicero.

Credibility Assessment: Casino Guichard-Perrachon SA
5 February 2016

This analysis, which includes a collection of Casino Guichard-Perrachon SA's earnings/sales calls and press releases, reveals multiple clusters of behaviors associated with deception. Below are the portions of these transcripts that demonstrate the greatest concentration of such indicators. This analytical commentary may provide context for the questions and answers as well as descriptions of the deceptive behaviors identified. Each indicator will be identified with a number in brackets (1) indicating its place in the cluster. As a general rule, the greater the concentration of indicators clustered within a response-onset-window, the higher the probability of deception. For the sake of length I have in some places condensed or paraphrased the questions posed by the analysts. In other places, where it is more beneficial, I have included full transcription.

The conclusions reached in this analysis are the independent opinions of [the former CIA polygrapher] and in no way or part constitute a buy or sell recommendation of the underlying security. Be advised that the deception detection protocol is not foolproof, and errors and omissions may be contained herein.

Casino Guichard-Perrachon SA Corporate Sales Call, Q4 2015 Date: January 14, 2016/7:30am GMT Analysis conducted by a former CIA polygrapher
<u>Q&A Analysis</u>
Cedric Lecasble – Raymond James
"And the second one on your guidance for French EBIT in 2016, I know it's a sales conference call but you give some guidance on earnings in France next year. So I have an easy question, how can you split the improvement between purchasing and OpEx efficiency? Thank you."

Antoine Giscard d'Estaing - Casino CFO
"On your question on the French EBIT, you know our business model. You see that when you have a ….operational leverage generated by good volume growth you get technically an improvement."

Giscard d'Estaing's response offers three indicators of deception. First, his remarks provide what is essentially a combination of a *non-answer statement* and a *referral statement* (1) in the phrase "you know our business model." Traditionally, non-answer statements are designed to imply group knowledge of a subject, in essence implying the question is ignorant or the asker should already know the answer. It is also a reference to previously discussed information (referral statement), which is employed to avoid providing detailed information again. A better way to think of this is to pluck it from its larger context. If Lecasble asked Giscard d'Estaing, "How can you split the improvement between purchasing and OpEx efficiency?" and he responded, "You know our business model.", you would see the avoidance of providing detailed information specific to the question presented. He does eventually provide an answer, but it is buried in a larger response. This very well may present a third indicator, referred to as an *Isolated Delivery of Denial* or even an *Overly Specific Answer*. Both of these are designed to cloud a response in irrelevant debris to confuse the listener. It's the linguistic equivalent of a smoke screen. And finally, the second indicator is a fairly straightforward *exclusionary qualifier* (2), found in the word “*technically*”. Exclusionary qualifiers are added to leave open the possibility, or in fact the probability, that the conclusion being asserted is false, partially false, or incomplete. I’m not sure Casino’s investors are interested in “technical” growth but actual growth. Interestingly, this may be a subconscious indicator of the kind of “growth” Giscard d’Estaing intends to “produce” in coming quarters.

Fabienne Caron - Kepler Cheuvreux – Analyst

Yes, good morning Antoine, Regine. Three quick questions from me. The first one, Antoine, I'm sorry, I missed what you said on the French hypermarkets so can you give a bit more color on food, non-food as well as traffic.

The second question is regarding the French EBIT, so you're happy with consensus 2015 of EUR340m? Can you tell us, although you had a good H2, which banners maybe didn't deliver as fast as you expected, because I know that originally you were going for roughly EUR400m and I've seen as well that you've done only four hypermarkets (inaudible) in H2 compared to eight, so I was wondering if it was one of the reasons maybe?

And the last question would be can you tell us if you are on track regarding delivering the EUR2b deleverage at the holding since the announcement mid-December? Thank you.

Giscard d’Estaing’s response to the first question is essentially that because traffic is up and holiday sales were up in food, despite still-falling non-food performance, the outlook is good for 2016. This seems like a weak foundation for such optimism, but these remarks do not reveal many indicators of deception. This is primarily because the question was entirely open-ended (… “give a bit more color”...), which essentially gives the responder license to take his answer in any direction he chooses. His response to the next question, again pertaining to French performance, does reveal indicators of deception.

“I think your second question was on our final landing for 2015 and versus what could have been a previous assumption around the middle of the year. I think what is true is that the mild conditions in the fall have been negative for all the textile sales that we have in some of our stores. Our vision is nevertheless that we performed better than specialized retailers in textile. You probably have more data than us on that front and you might have heard that most of the specialized textile retailers have had a very tough time. But we did a little below our initial expectation.”

First, Giscard d’Estaing’s use of the phrase “could have” in reference to his own statement made in Q3 2015 is peculiar. Is it realistic that he would not recall his own forecast, made only a few months before and released publicly on the Q3 call? Or worse, does he simply throw out arbitrary figures to the market that are not the result of thorough research and planning? What is more likely is that he is trying to distance himself from his previous statements that now have proven false. This type of behavior is referred to as an *Inappropriate Level of Concern* (1). This behavior is seen when individuals are cornered and resort to minimizing the importance of the process or downplaying their involvement or responsibility. Giscard’s word choice is meant to convey that his previous statements are flippant or casual – not that big a deal, when, in fact, his statements incur a massive influence over the financial future of his investors. He is also clearly embarrassed at being called to the carpet. A second indicator is his peculiar use of the phrase "*what is true*"; a potent *exclusionary qualifier* (2). This leaves open the possibility that previous statements made by Giscard d'Estaing were *not* true or not *entirely* true. While some do use phrases like this in routine language, the context suggests an attempt to *convince rather than convey* - the primary indicator of deception. It is also designed to narrow the focus of the hearer onto those points Giscard d'Estaing wants to emphasis. If "it is true" that warmer weather is truly to blame for a shortage of nearly EUR 60 million, then the facts conveyed would do the convincing. This suggests to me the possibility that the EUR 60 million shortage is *not* entirely the result of warmer weather. If so, this is a fact Giscard d'Estaing does not want to emphasize, as it would juxtapose his assertion that a recovery has taken place. It is also curious to note that within the same sentence Giscard d'Estaing states that their "vision" is to outperform specialized retailers in the textile space, and yet admits to having limited data regarding their performance. This statement seems inconsistent at least, self-incriminating at most. *Inconsistent Statements*, such as these, are considered diagnostic indicators of deception (3). Giscard d'Estaing eventually admits, "we did a little below our initial expectation." This admission has, of course, been buried beneath an excuse (warmer weather), a minimization (EUR 60 M as "a little"), and a reference to another sector doing worse than Casino. An important acronym to remember in deception detection is RPM = Rationalize, Project, Minimize. All liars engage in RPM. In this statement Giscard d'Estaing has engaged in all three. And the final indicator is a *Failure to Answer*. Recall that the original question was "are you happy with a consensus of EUR 340 M?" Clearly, Giscard d'Estaing is not "happy" with a shortage of EUR 60 M, but to answer that question in the negative would be an expression of pessimism that would be inconsistent with the "case for '16" he is trying to make.

The second half of Giscard d'Estaing's rather long response (a possible indicator itself) is chopped into more readable portions.

On the EUR2b deleveraging plan, it's a top priority for the Group. It's a subject which we take very seriously. We are very confident.

This plan is here to deliver value for shareholders. It's a commitment of the Company to really deleverage.

As we did in the past we intend to execute it swiftly. We've always delivered on deleveraging plans in the past; this will be the case again.

All of the above statements are referred to as *Convincing Statements* and are strongly correlated to deception. Giscard d'Estaing demonstrates the greatest concentration of deceptive behaviors when asked about the deleveraging plan. He also incorporates what are referred to as "clipped words"; sharp, succinct, highly emphasized language in succession. Remember President Clinton, "I….did not…have sexual relations….with that woman." We all know how that turned out. These words are being emphasized in feigned sincerity to convince the listener of the authenticity of the speaker. The liar unknowingly tips his hand by doing so, as he signals the active listener to the topic at hand as one in which we should have little confidence.

Nicolas Champ - Barclays Capital – Analyst

"Yes, good morning, everyone. Sorry to follow up on Fabienne's question regarding the French EBIT for 2015, but you reiterated at your third-quarter sales conference call last October a guidance of EUR400m for French EBIT last year, broadly stable compared with 2014. Can you explain again, sorry to come back on this but you came up with finally a French EBIT number which is 15% lower, or EUR60m, despite a relatively satisfying number in Q4."
"The second question is about your guidance of a French EBITDA of around EUR900m for this year. Sorry to ask a stupid question but how much is to be expected to be generated by property disposals out of this EUR900m of French EBITDA for 2016."

Antoine Giscard d'Estaing - Casino CFO
"I think your last question was on how we see 2016, I think I answered already what we expect to get. The message I can add to what I already said is we do not anticipate for 2016 a higher contribution of real estate development projects than in 2015. So to be very clear, again in 2016 as in the second half of 2015, the improvement of our profitability will be only generated by our food retail operations with the elements that I mentioned around top-line productivity, purchasing productivity and operational productivity."

I have taken Giscard d'Estaing's answers out of his order to match them with the questions presented. The above answer offers multiple indicators of deception. First, he starts with a classic *Referral Statement* (1) stating "I think I answered that already". He also side-stepped the original question by re-stating it very narrowly to "*how we see 2016*", when the original question had considerably more substance to it. The second indicator is the *Exclusionary Qualifier* "The message I can add…", which is a broad answer to a specific question, excluding the hard number Champ requested (2). Champ did not ask for a generalized "message" but a specific answer. Giscard d'Estaing's assertion that 2016 earnings will contain *no more* contribution from R/E transactions as in 2015, and his insistence (repeated) that gains will "only" be generated by French food operations, is an avoidance of the original question regarding the modified French EBIT forecast. This would constitute a *Failure-to-Answer* (3), as well as an attempt to avoid trying to explain how the "recovery" and "momentum" of the "relatively satisfying Q4" could lead to a downgrade in expectation.

Giscard d'Estaing has repeatedly emphasized the importance of France. Interestingly, Banque de France data revealed the food retail market was positive in October and dipped in November, leaving only one month of growth as the source of their "confidence" in this sector. I believe it is fairly universal for December to be a good retail month. They've further conveyed that Textiles are down and Nicolas Champ of Barclays PLC pointed out that French Convenience had a mediocre Q4. These factors seem inconsistent with the "recovery" being touted.

It should also be noted that Giscard d'Estaing placed considerable emphasis on the assertion "*that we do not anticipate for 2016 a higher contribution of real estate development projects than in 2015."* With little back and forth on this to dissect the issue further, and with no knowledge of what degree those projects contributed in 2015, it is hard for me to ascertain the significance of these statements. The extent to which he stresses this point, however, given the backdrop of the Muddy Waters papers, indicates his desire to convince the market that improvement in earnings will not be correlated to real estate generated monies. Yet, at the same time, his use of the word "higher" suggests that whatever "contribution" has been made in 2015 will continue. This appears to me to be more *convince* than *convey*, and is for that reason likely an indicator of deception.

Reaction of Casino Group to the report of Muddy Waters, December 16, 2015

"Casino has become aware, through a press agency wire, of a report issued by Muddy Waters Capital on December 16, 2015, with the obvious intent to harm Casino, its employees and its shareholders.
This accusatory report contains grossly erroneous allegations that the Group will answer in detail.

In light of this dissemination of misleading information, Casino Group has filed a claim with the Autorité des Marchés Financiers and reserves the possibility to exercise its rights before national courts, including criminal courts."

This short response contains multiple examples of *Attacking Behavior* (1). The purpose behind attacking behavior is to impeach the credibility of the accuser in the eyes of the public. The expeditious involvement of the authorities, while not deceptive in itself, is a form of saber-rattling and posturing designed to exude confidence and ward off the accuser.

Casino Group affirms the strength of its business model, strategic plans and financial structure, December 21, 2015

"Muddy Waters Capital's report contains a number of false and misleading allegations, intended to negatively impact the trading prices of Casino's stock and debt, for the benefit of the report's author who, in his own words, should be assumed to have "a short position in all stocks (...) and bonds covered [in the report], and therefore stands to realize significant gains in the event that the price of either declines."
This paragraph contains *Attacking Behavior* (1) designed to incriminate MWR's motives. Bringing ones motives into question is a form of impeachment designed to erode the credibility of the source, therefore undercutting the reliability of the accusations.
The following constitutes Casino's "response" to MWC's report of December 16, 2015. .

1. Casino Group has solid business dynamics, with its performance driven in particular by the accelerating recovery of its French operations
2. Commercial Real Estate development and monetization is a structural, value-creating component of Casino Group's operations
3. Casino Group's deleveraging plan is entirely consistent with its long-term strategy

4. Casino’s liquidity is strong and comfortably covers all its upcoming debt repayments beyond 2017

5. Casino Group’s financial structure is solid; S&P and Fitch very recently reiterated Casino’s investment grade status

6. S&P's rating methodology relies on analyses and adjustments commonly applied to all issuers

7. Casino Group strictly applies international accounting standards and the Group’s financial accounts are certified by its external auditors. In addition most of its large subsidiaries are listed with additional scrutiny from their respective regulators and market authorities

8. Casino Group's policy is not to issue opinions on external valuations of its stock. However, Casino notes that the average target price derived from the consensus of 23 analysts covering Casino amounts to €55 per share as of December 18th, 2015

As a group these items share a few noteworthy characteristics. First, they are an extremely broad and wide response to very specific allegations. This is a form of avoidance and a selectivity that highlights areas of concern by their omission. The following are additional deceptive behaviors identified within the group. First, a *Failure to Answer* (1). Specific questions require specific answers. Replying to a specific question with a broad answer, provided that the answer is knowable to the one being asked, indicates that the precise answer is one the speaker does not want to provide. These highly generalized responses also constitute a *Non-Specific Denial* (2) and *Convincing Statements* (3). The reader is to assume that these eight points are declarations of innocence, but in fact do not contain any direct denial of any wrongdoing. For example, the statement “Casino Group’s deleveraging plan is entirely consistent with its long-term strategy” is meant to imply that there is nothing nefarious about the plan, yet doesn’t answer the obvious question posed by MWC: Is your long term strategy to fool investors? This reminds me of a case I had once when I asked a young man “Have you ever used illegal drugs?” to which he replied “My entire life my goal has been to not use drugs”. Yeah…but *did* you? Of course he later admitted to doing so. These responses all constitute a *Reluctance/Refusal to Answer* (4). In this context, Casino attempted to redirect the focus of the conversation onto points they want the market to concentrate on and away from those addressed by MWC, while still appearing to have complied with their promise of December 16 to answer MWC’s allegations “in detail”. Such an opportunity to pick apart false allegations could not be resisted by the truthful person. When called to the carpet, the deceptive person will always hide in obscurity, while attempting to save face in the process.

Casino Guichard-Perrachon SA Corporate Sales Call, Q4 2015. Date: January 14, 2016/7:30am GMT

“Lastly and before I move to your questions, I would like to mention that a list of questions concerning Casino has been brought to our knowledge yesterday. Most of them are a reiteration of subjects raised in December, to which we already answered. We note that the real concern in yesterday’s letter is whether there is a true recovery in our French retail operations. As illustrated by the trading we’ve just published for Q4, 2015, we are very confident that it has taken place and that our commercial strategies will continue to deliver strong results in 2016.”
This paragraph from Giscard d’Estaing’s opening comments contain a *Referral Statement* (1), but is potentially more revealing due to its significant change in tone from the attacking behavior identified in Casino’s “Reaction” of December 16, 2015 and “Affirm…” from December 21, 2015. This shift in strategy towards the allegations of MWC represents a tactical change from the

defensive to the dismissive on behalf of Casino's management. A dismissive posture is intended to minimize the significance of the allegations. Such a posture would constitute an *Inappropriate Level of Concern* (2) and should be considered diagnostic.

<u>Update on recent S&P's announcement, January 18, 2016</u>

Due to the abbreviated, bulleted nature of their responses, effectively stripping linguistic context I rely on heavily for my analysis, few of the responses offered material indicators of deception. This is not to say the responses are true, but when removed from conversational context any analysis becomes significantly less reliable. Below are those few portions I feel are noteworthy.

2) What has triggered the Credit Watch in your view?

"In our view, the Credit Watch has been triggered by the following recent developments that may
have an impact on Casino's credit profile

S&P's Credit Watch review occurred after the publication of our Q4 2015 sales, in a context of rising concerns over the macroeconomic situation in emerging markets and the recession in Brazil.
Casino also announced last week the launch of the sale process for its operations in Thailand after having received strong indications of interest

Independently from short-term market volatility, S&P's credit rating generally relies on the review
of a company's Business Risk and Financial Risk profile, factoring long-term strategic drivers and
financial trends"

S&P placed the Group's BBB- rating under CreditWatch Negative on 15 January, a full month after MWC released its original report and two days after it released it's second. I feel that their failure to mention this report as a possible contributor to the S&P decision is conspicuous but to be expected. Any illusion to it as a catalyst for S&P consideration would give it a credibility they can't afford. The fact that Casino highlights the "very recent" reiteration of Casino's investment grade status in item #5 of their "Casino Group Affirms…" document released on 21 December, acknowledges the significance of S&P's prompt re-examination of Casino's credit worthiness. If it's a big deal when they say you're good in mid-December, then it's an equally big deal when they downgrade you a month later.

3) Do you share S&P's concerns on Brazil?

"As a reminder, S&P downgraded Brazil's sovereign credit rating to sub-Investment Grade on 9 September 2015

As we pointed out during our recent Q4 2015 sales update, our Brazilian operations continue to

deliver a good performance in food retail, with market share gains in cash & carry, supermarkets
and convenience stores; we are confident in GPA's ability to deliver a good performance in 2016

Regarding non-food activities, our sales have declined in the context of soft discretionary spending by Brazilian households. Nevertheless, we succeeded in limiting the decline in sales of Via Varejo in Q4 2015 compared to previous quarters, thanks to targeted action plans aimed at finding a better price positioning, particularly through more effective promotions.

As in 2015, our priority for 2016 is to maintain a positive operating FCF for all our Brazilian Activities"

This response doesn't address the macroeconomic concern of S&P or provide specific data regarding the declining sales, and effectively constitutes a *Non-Answer* (1). It further highlights the "limited decline" of Via Varejo, attempting to *Color a Negative as a Positive* (2). The bottom line is the market is weak and they are trying to prop up sentiment. Less of a loss is still a loss. A limited decline is still a decline. These are expressions of hope more than data-rich facts one could cite to support a positive outlook. All the confidence in the world will not change hard economic data.

Summary

This analysis has identified multiple clusters of deceptive behavior. My findings strongly suggest that Casino is not being completely revelatory concerning their deleveraging plan, their accounting practices, the French "recovery", Brazil, and their fears surrounding the S&P re-evaluation of their credit worthiness. Some areas yield more deceptive clusters than others and it is unlikely they are all equal in regard to their significance to Casino's management. It is beyond the scope of this analysis to estimate the impact this deception will have on the future performance of the stock, or speak to the accuracy of the allegations made against them. This analysis does lend support to the following conclusions:

- Casino intends to continue its use of Real Estate transactions to bolster earnings
- Casino will continue to rely heavily on its use of credit
- Casino does not intend to be completely transparent about the details of the deleveraging plan
- There is ample reason to be pessimistic regarding the long-term benefit of the deleveraging plan to shareholders, specifically its ability to increase free cash flow
- There is little reason to trust that a meaningful recovery has been achieved in France
- There is ample reason to be pessimistic regarding short term earnings potential in Brazil
- Methodology specifics aside, there is reason to assume Casino fears an S&P downgrade