Q3 2020 Earnings Call

Company Participants

- Alvaro Jorge Fontes de Azevedo, Chief Financial Officer
- Fabio Adegas Faccio, Chief Executive Officer
- Paula Picinini, Investor Relations

Presentation

Operator

Good afternoon, everyone. Thank you very much for waiting. And we are going to start our video conference of Lojas Renner. But I would like first to make a very short disclaimer. This webcast is being recorded and simultaneously translated and the slides of the presentation are available with our webcast, Investor Relations.

All questions must be sent by chat to this platform. Questions from journalists may be forwarded to our press office at 2165-9586.

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Now, we would like to turn the floor over to Paula Picinini, our Investor Relations Manager.

Paula Picinini {BIO 19739367 <GO>}

Good afternoon, everybody, and thank you very much, Carla [ph]. We are here to talk about the results of the third quarter. And virtually, we are all together, Fabio our CEO; and Alvaro Azevedo, our new CFO, and he will be introducing himself momentarily. And you will learn something about him. But before giving the floor to Fabio, it is important to talk about the third quarter.

This quarter, as we said in the release, was characterized as a turning point, but we believe that the most difficult parts of the second quarter [ph], under the bridge in the third quarter. We had a process of reopening of stores and at the same time, our e-commerce continued to grow in an accelerated fashion.

So we are going to talk about four operating aspects during this call and I would like to ask you to go to Slide number 3 of our presentation. So that we may start by talking about sales. In the third quarter, we had a very gradual process with the reopening of stores happening, according to the government rules [ph] set forth in each one of the cities. And we also had mainly restrictions regarding opening hours and days of the weekend, even fitting rooms that were closed. And during the quarter, we saw very clearly three different performances in groups of stores.

The first one in the north and the northeast regions that -- where the pandemic started before and flexibilization as well. And we see that life has gone more back to normal, but our sales are even exceeding our initial estimates, pre-COVID estimates, we are exceeding our budget. Then we have another group of stores in the Central area of the country where flexibilization is more advanced and we also see more normal traffic in the stores.

And in this group of stores and the middle of the country, sales are already converging towards our initial budget. And then we have a third group of stores and more relevant because of the concentration of stores that we have in this area, and as part of the country with the State of Minas, Sao Paulo, and then we get into the (inaudible) state of the south, where we have a higher concentration. And with many restrictions over the quarter, and more recently starting to be more flexible, so traffic starting to go back to normal.

People are starting to feel more at ease to go to shopping centers. And in this group of stores, we are not yet at the level of our initial estimates and due to the weight that they have, they shan't [ph] having this impact on the effort of the company. But in fact a res -- we had more restrictive July and August regarding opening hours and the final sales extended. And in September, when we launched the Spring-Summer collection, we was -- it was very well received by clients and in spite of the major difference that I said between and among the regions and this slow go back to normal, there has not been more structural changes in the behavior of our countries, and in September, more specifically, we had a good sales performance and gradually, we were glad getting closer and closer to our initial forecast for sales and this is very good.

And in bed count, it is our in-house methodology for market share estimates. We had gained in all the weeks of September at the same time that e-Commerce continued to grow at three-digit and this is very encouraging. And now looking at October and thinking about the fourth quarter, we see that this trend continues and this encourages us, we are bullish. We believe that the fourth quarter could go back to more normal levels.

And also our pre-COVID initial budget. So there is a very important measure hear about this recovery and that I would like to stress. Now going to Slide number 4. Another highlight was our gross margin. We underwent pressure if we compare the gross margin of this quarter on a year-on-year basis, and in lower proportion, if we draw the same comparison with the second quarter of 2020. And we see that during this period our commercial decisions were very correct and we had very timely markdowns with the appropriate discounts for the moments that we were leaving. And thus, our inventories were reorganized and rebalanced. And today, we have a very good inventory with top quality for the launch of the spring collection for our clients.

So in October, still gaining market share with our bank account. And about the fourth quarter, and here already given sequence to what we have seen so far. We believe that we will have almost normal margins. We still have some discounted items. But the stores have structured collections and the stores are very well prepared for the year-end.

And now on Slide number 5. I would like to talk about another point that I believe is very important in our operations. As our sales went back to historical levels, operating expenses went back to normal as well. Maybe when we talk about rent that went back to the usual levels and also the opening hours that were reduced and the suspension of contracts and all the incentives on the part of the government that started to be cancelled in our structure.

So, this quarter brought about this challenge in terms of controlling our expenses. We had to work very hard in order to control expenses because we had the improvement in sales and in margin. But this didn't really follow the recomposition of the main costs. But all in all, it is valid because we were able to achieve the 3.5% reduction. And when we look at G&A, we were able to have a 10% drop in this period. So in the fourth quarter -- well, there is a very important message here because, with all the control that we have, we believe that in the fourth quarter, we will have a natural process of growth, of sales, the stabilization of margins, and adjustments in expenses; expenses being more in balance with this reality, which will help us to give a -- or to give back a EBITDA margin in the positive field.

And the last point that I wanted to mention has to do with credit and please turn to Slide number 6. So we have maintained the quality of our portfolios. We kept delinquency under control in the period. Nevertheless, we had a very, atypical situation in regard to revenues because the portfolios were practically stable, vis-a-vis the fact that we had a long period of stores closed and the private label sales did not happen such as it was before.

And basically, in the co-branded during this period of social isolation and also this was reduced. So when we talk about the revenues, we have the effect of portfolio strategy stable combined with exceptions that we gave our clients in order to give them support to help them during this pandemic. So we waived the interest rate on the rears and we reduced the revolving credit interest rate in order to help our clients, and their financing helped them reorganize their budgets vis-a-vis the situation. And we also accelerated the collections and we became more and more active in renegotiations, and also in prepayments because of the scenario that was still very uncertain vis-a-vis delinquency.

So the result of financial products, this effect was non-recurring, because in the fourth quarter, gradually, we should be reestablishing our revenues by means of the liberation of credit limits and by the recomposition of interest rates and mainly because of sales and shopping that are going to go back to normal, with all the stores opening.

And so we have been accelerating the campaigns and incentives for the use of cards, which we will allow as to rebalance the operations and the results from financial operations. So these are the most important points and clearly, it was a gradual evolution in the quarter. September gave us a degree of comfort and things are happening in this direction and the trend continues in October. And we are prepared to have a fourth-quarter almost going back to normal.

So, thank you very much and I would like to give the floor to Fabio, and he will be talking about the digital transformation of the company and everything that we are doing in this regard. Fabio?

Fabio Adegas Faccio {BIO 19664887 <GO>}

Paula, thank you. Good afternoon, everybody. And in fact, while the worst is already water under the bridge, as Paula said, we are bullish about the fourth quarter and the e-commerce operations. And this has been a highlight, mitigating some effect of the pandemic in the previous quarters and we also understand this will be sustaining a major part of our sales from now on, guaranteeing good results. We continue to be encouraged by the result of our digital sales. And I'm sure that we are -- have already reached a new level. And some of the initiatives that are being implemented now will allow us to continue growing at very high levels.

And at the same time, we will continue to expand the sales of our physical stores, our brick and mortar stores, going back to normal. And right now, we have around 93.5% of the total hours that we can have in brick and mortar stores. A 100% of the stores are open, but there are some restrictions regarding opening hours, days, et cetera, and in the number of people as well. So the brick and mortar stores tend to increase their performance, improve their performance over the next few months. And e-commerce should keep its performance with the potential -- or even, with the potential of physical stores we opened [ph], one of the most important initiatives that makes all the difference is ship from store. This modality allows us to use the inventory of our stores in order to service all the e-commerce orders to send to the clients' homes with the lower delivery cost and also shorter time.

Currently, we have about 20% of our online sales being serviced by the stores that are already enabled. So we have 200 stores, and this grew. And in practice, we can offer our clients faster deliveries and this drives online sales, mainly for more remote locations. And this is a very important competitive advantage because, ultimately, we become -- or we are closer to more remote locations in a country such as Brazil, with continental dimensions and this makes all the difference in the world.

And all our stores are enabled for ship from store and store pickup. So the clients can go and pick up their purchases in a matter of hours anywhere in Brazil. And this is a very important competitive advantage. And another initiative that I would like to highlight, is the infinite aisle. It's is still in a pilot stage, but we have already some stores that we have uploaded to the infinite aisle with a huge potential.

We understand that the pandemic accelerated the process of learning of client, much more people buying online. And we had a structural change during that period and the behavior of consumers changed radically. It accelerated I would say between three years to five years compared to what was planned or estimated. And infinite aisle, for instance, drives our online sales because it increases considerably the assortment and also the depth of the items that we make available to our clients. Just to give you an idea of this increase, in 2019, we had a target of having over 1 million items available online and it was difficult for us to go beyond that. And when the pandemic started, we were able to make available with a lot of effort over 1 million, and then over 2 million, and over 3 million, and now we have over 5 million available.

And when we say that we have the infinite aisle, we are talking about only from 1 million to 50 million pieces, it's this whole inventory of the company and it considered -- it increases sales, it increases margins, and it decreases stockout. When we talk about the structural projects, I would like to remind you that we have three main pillars in our structuring project, the single view of the client, the product lifecycle, and Omni. With the first one we have already achieved an increase of 9 percentage points in the active client base, 67% of transactions are identified and 75% of the revenues identified in this, allowed us to increase the client base for the campaigns and with more organized and optimized communication, with more productivity, a higher engagement of the client.

And in the first campaigns, we had a comparison to the control group, an increase in monthly visit, a higher average expenditure, an increase in the number of items per ticket, and more Omni participation.

I would like to remind you that they have -- this in the Omni, you have three times more, in the second project, the product life cycle. Besides the collection totally done by means of product lifecycle management, PLM, with all the domestic suppliers already integrated to the system, we conclude our annual plan of having 17% of items with distribution to the stores being done by means of artificial intelligence. And this was our target for the end of December and we have already reached that at the end of September.

With no human interference, whatsoever, the operations were built by our team and we continue to do all sales forecast with use of artificial intelligence. And now we start the same initiative that Youcom, where we have already reached 5% of items allocated in the same way, that is to say, artificial intelligence, and we are preparing the pilots forthcoming cargo sale in the Omni project.

Besides the ship-from-store initiative and the infinite aisle, we continue with all the implementations that were underway, highlighting the breakdown of orders by the needs of our orchestrator because they can come from e-commerce, from a store, or from two stores, and that this is done by means of an orchestrator that was a 100% developed by our own in-house team.

So this is another competitive advantage that we have delivered. And with a quick ramp up from now on. And also sales through mobile devices and the digitization of stores, and the sales without using checkout counters represent 20% of total important evolutions in Pague Digital, which is the digital pay where the clients can pay by means of their own cellular phones with brand Renner Card. So they have self-checkout. We have the device of our employee for clients that do not want to stay online or use the checkout counters or the client does the self-checkout by means of their cellular phones. And I hope that very quickly we may present to you new initiatives and new improvements that we are already implementing.

And as you know, we usually do first and then we talk about it. So I cannot talk about some of them yet. But I'm sure that this is going to place and set a new level of operation, mainly in the digital side of the operation and via Realize [ph] we had many achievements and many initiatives that are coming on stream, such as the digital account and picks.

And we also have an investment at the new head for the operation for Realize, and we will be bringing them to talk to you. Gustavo [ph] might be able to join the team, one month ago, more or less. And very soon we will be introducing him. I have already talked about that a little bit, but I would like to mention that the (inaudible) at Sao Paulo said, we have the coming on board of our new CFO that has been with us for 60 days already, Alvaro. And Alvaro will be introducing himself and talk about Gustavo. This is an important change. And I would like to say that this is a very important change, not only in terms of the expertise and the quality of the professional that we bring on board, but also a relevant change in the governance of the company, as CFO and the Head of Realize and this brings a better governance.

And the CFO with a focus on the function and the Realize ahead for focusing on the growth of Realize. Gustavo has a lot of experience in digital operations, financial operations. He had a career in banks and retail companies, and more recently he founded a start-up for credit solutions for the logistic network. And he joins our team to continue with the transformation of Realize and plans to drive the business by means of our retail brands as well.

Regarding, Alvaro, I'm not going to say anything, he's here. So I would like to ask Alvaro to introduce himself. Then I would like him to introduce himself. okay.

Alvaro Jorge Fontes de Azevedo {BIO 18094961 <GO>}

Thank you very much, Fabio. Thank you, Paula. And I would like to thank, everybody, presence in our presentation. My name is Alvaro Azevedo, I'm the CFO and Investor Relations Officer of Lojas Renner. 60 days ago, I took this office. In my professional experiences of 37 years in the financial industry with national, international companies. I was CFO and COO of Banco Votorantim for about seven years. I was the CFO of HSBC for eight years. CFO of HSBC Argentina for six years and I worked for HSBC Bank UK, (inaudible) Brazil, Citibank Brazil, among other banks.

And the experience in the financial industry will help me join Gustavo in the financials of Renner and in credit and audit [ph] as well. Now with the segregation of functions. Good business with the COO and the corporate CFO helping manage the business. And now talking about the business itself, I would like to talk about my first two months. And what I have already been able to detect.

The company has very strong corporate values, robust governance, organized management, planning, and execution of the planning and with a unique view of its main characteristics. Very much oriented to the execution of the plan and the team has a major strategic view and a systemic view and an operational view as well of the company and the market.

And with a lot of experience of the modus operandi in the physical world of retail and the digital world, and bringing an important knowledge of the business to the company and capacity to execute with a lot of agility, a unique agility. You have already heard about many project already underway, which were mentioned by Fabio, and that are evidence of what I'm saying.

Talking about the pandemic, I would say that all the measures adopted because of the pandemic made a whole lot of difference to the business in terms of looking after the employees and the public, and the company was able to react very quickly and the company emerged even stronger and a bigger partnership or a stronger partnership with the chain of suppliers. From the viewpoint of financial capacity, I see many opportunities as well. It's a sound company with a long-term view and a high capacity to execute plans with a clear value proposal, important competitive advantages, and a very consolidated brand, with all that, with the strong cash generation, and with a low leverage.

So I believe that we should continue to look for the optimal capital structure based on financial leveraging which will allow us to continue to grow our store chain, at the same time that we will be continuing to invest in the digital transformation and in the Omnichannel offer.

In cash, we have about BRL1.9 billion and our net debt is about BRL1.1 billion. Our net debt-EBITDA ratio is 0.8 times and our obligations for the next two months with amortizations of debt taken over the pandemic will be honored with comfort. And this gives us an opportunity to continue to feel comfortable, looking for projects and initiatives that may guarantee high returns and a positive free cash flow generation.

We also have the opportunity to continue investing in the digitization of businesses and seeking more and more synergy between the retail brand and Realize, with our ecosystem becoming more and more differentiated and attractive to our client. And it is by means of the journey that I intend to contribute to the ongoing growth of Renner.

Thank you very much for the opportunity and very soon we will meet personally. And now we will be available to answer your questions.

Questions And Answers

A - Paula Picinini {BIO 19739367 <GO>}

Thank you very much, Alvaro. Now we are going to open for questions. And we already have a list of questions. The first one is from (inaudible) from Merrill Lynch. And, Fabio, could you please answer it.

With the success of our e-commerce, what about the ROE of the brick and mortar stores? And the second is very much related to how much the pandemic is making us rethink the location of our stores. And the third has to do with Camicado. How much of its performance comes from the pandemic and how much has to do with the execution of the business? And how do we think about Camicado from now on, online, et cetera?

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Paula. Thank you, Bob [ph], for the questions. About online and physical store, shipped from store, it occupies only a very small area in the stores. So, we don't really need a lot of room for this operation. And some of the stores had to be reorganized from the viewpoint of the layout. But it has already been prepared in all the stores. And I would like to remind you that the type of product is different from other segments of the industry.

When we talk about segments where you have heavy product or large product items that occupy a lot of room, you need to do this in the layout of the stores. But in our case, our items are over the [ph] door, hanging, and it is necessary really to remodel the stores. So we have already prepared the ship-from-store areas in all our stores. They are all enabled already. If so -- last mile and optimization of our route is -- everything is being done. So it does not have an impact on the operation of the stores because most of the inventory is in the store and we do the picking in the store itself or in the inventory. But we have RFID in all the stores. So, differently from other players, we have RFID everywhere.

Regarding shopping and standalone stores, in times of pandemic, both continue to be important, major [ph] countries such as Brazil and there are differences, not because of the pandemic, but because of the region, because of the location. So, smaller cities and some neighborhood stores, et cetera, are different from large shopping centers or large commercial centers, but all are important. Our mix in the next few years and maybe next year, it tends to have a volume of standalone stores in smaller cities and towns because of the expansion of shopping centers that was slower.

We already knew that before the pandemic, so we made a very strong investment in shopping mall stores when there was a boom in this area and we also had many projects for standalone stores that were waiting for the right time to be implemented.

So, there are some that are still occurring in malls but a small number. And right now in this moment of pandemics, we have opportunities that arise because of the pandemic in shopping centers and we are also interested in that. And as far as the stand-alone stores are concerned, we also have an opportunity now. So we're going back to our speed of expansion now, keeping our targets for 2025.

About your third question about the performance of Camicado. How much comes from the pandemic and how much has to do with the operational improvements? It is very difficult to quantify that but it comes from both, and your question is very timely. There is an improvement in sales coming from the pandemic because people stayed home more and they decided to invest in their homes. So the industry benefited from that and Camicado as well, but we benefited more than some competitors because we track that.

So we believe that the operating improvement of Camicado has a lot to do. We did what we had to do and the Camicado team was reinforced and they are having an excellent performance. And part comes from this segment, right? Part of that is because of our team that is doing a splendid job.

Operator

Thiago Macruz from Itau BBA. He says that we -- our trend is organic growth. And he says that the digital world seems to be more dynamic. So, M&A's part of Renner and it has to do with the online world as well. Is that correct, Fabio?

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Macruz. Thank you. In fact, we pay attention at all times at opportunity that arise and that makes sense. So, organic growth or M&A, what really matters as far as we are concerned is whether this makes sense or not. And if it does make sense, we will be assessing it. But it has to make sense.

Operator

(inaudible) HSBC. The first two questions to Paula. The evolution of same-store sales and what about the end of September? Any perspectives regarding promotions for November and December if you're going to be more aggressive in prices.

Another question. Paula, the performance of financial products, the performance of revenues in different products, and how do we see this from now on?

A - Paula Picinini {BIO 19739367 <GO>}

Thank you. Thank you, Philippe [ph]. First about same-store sales. When we saw the top line, we are already on the positive side as same-store sales slightly positive. Because we have this evolution, this granular evolution, in the beginning a smaller contribution from physical stores and more from online, and now you can see in October that physical brick and mortar stores are closer to normal with a positive contribution.

So I would say that this is a combination between e-commerce and brick and mortar stores. It's very healthy and this encourages us a lot because it is very much directed to going back to normal. It is already converging towards normal. And so far, this is what I can say. And about promotional activities, we had this mainly in July, which is the period of final sales and promotions, and we extended it up to August and the spring-summer collection was launched only in September.

And now, the markdowns will be some leftovers in the stores, but they are high-quality products. So we will continue to have a very -- I would say a very comfortable process because the most difficult part happened in the second quarter and this evolution will continue, and in the fourth quarter it will go back to normal or it will be closer to normal.

And about Financial Products, as I said at the beginning, the highlight is delinquency and the quality of our portfolio. So we were very conservative at the beginning of the year, when the stores were closed and we took measures and we made additional provisions. And what we saw was that delinquency was better than we expected.

And so, this is evidence that we are -- were very well prepared for the end of the year. On the revenue side, it was an atypical situation and it can be easily explained by the fact that in April and May, we had stores that were closed. And the client that buy with the Renner Card, they didn't buy because they usually use the Renner Card. Clients of new [ph] cartel that use this card in social isolation when they were home so this went down so portfolios did not grow to normal levels. And the effect on revenues comes in the period over the next quarter or the following quarter.

And again, this is a period of re-composition, the fourth quarter, and having sales going back to normal. And credit origination happening. As [ph] business as usual, we have promotions and were rebalancing our portfolios and our revenues to continue our credit operations that have always been positive and profitable. Thank you.

Operator

(inaudible) is from BTG. Has to do with gross margin, EBITDA margin. Could you talk about the recovery of traffic in stores and the normalization of inventories? How do you see all that? And e-commerce, should it continue to be a factor of pressure?

So, maybe, Fabio could start.

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Carla [ph]. Thank you, Louis [ph]. And the margin pressures come from competition because they don't have inventories as well adjusted as ours. Regardless of the sales channel and it's quite the opposite because online sales are very healthy, and they are giving us better margins than we had before. So we suffer less in this sense, and we had a stronger drop as Paula said, in our margins, in the second and the third quarter, especially in the second, and a little bit in the third, and now margins tend to go up because we have leaner inventories and they are newer than most of our competitors'.

And even in a more aggressive environment from the competition viewpoint, we have products that the competitors don't have. So there is no strong competition in some of our items. And we do have one promotion or other, but on the other hand, we have competitive advantages that were achieved by our team because they were able to design and to develop and so our chain also producing. And this gives us competitive advantage vis-a-vis other players. So this helps margins and also the environment will be better.

Gross margin and EBITDA margin. Not at the previous levels but there are some sales that are starting to converge and margins also getting closer to a normal scenario for the fourth quarter, for the end of the fourth quarter.

Operator

Thank you, Fabio. Two questions from Irma Sgarz from Goldman Sachs. The first one has already been answered and the second has to do with expenses. And I would like to understand the increase of expenditures with promotions and outsourced services, third-party services, and which were the lines that impacted the most in the third quarter and what do you expect or how do you expect these lines to perform?

A - Alvaro Jorge Fontes de Azevedo {BIO 18094961 <GO>}

When we talk about expenses, when we look at selling expenses, they adjust as sales go back to normal. In SG&A, we had a lower level of operation in store. So, of course, this had an impact in -- all logistics, which is an important line. And also all the benefits of the government and the provisional measures in terms of reduction in the opening hours, and the suspension of contract, and all this is gradually going back to normal.

So when we look ahead, in the short run, we should have rent going back to normal and lubes [ph] going back to normal, the operation of transactional product as well. And we should see a recomposition and together with that -- and it has to do with the medium and the long run. So we go back to investment and project, we resumed them, and all the digitization initiatives that could bring some additional expenses to our business, but not with -- to the detriment of our margins, of our profitability, because this is all part of a major transformation that we are carrying out.

Operator

Gustavo Oliveira [ph] from UBS. What about the impact of Corona voucher [ph] on our sales because this is a relevant point. Try do a guess.

A - Alvaro Jorge Fontes de Azevedo {BIO 18094961 <GO>}

Well, it's undeniable that Corona voucher [ph] injected a lot of money in the economy. It was one of the biggest injections that we have ever seen in our country and certainly, this has an impact on our segment, but we understand that our segment was not the one that benefited the most from that, other segment benefited more. They became stronger with this financial collaboration, so to say. But when you see this gradual decelerating and at the same time, the economy going back to normal, this mitigate an negative effect of a sudden withdrawal of this benefit.

We didn't benefit so much and it -- with the gradual recovery of the economy and with the gradual reduction of the benefit, the economy could even be in a better situation if it were not for the shortage of some raw materials because of the pandemic. And so, all in all, I believe this should mitigate any negative effect regarding the removal of the benefit.

Operator

Joseph Giordano from JPMorgan. (Technical Difficulty) of the initiatives made or taken during the pandemic, what could be continued for the next few quarters, in this new normal?

A - Alvaro Jorge Fontes de Azevedo {BIO 18094961 <GO>}

Thank you for the question. We have to think that Renner has been working for a long, long time with a vigorous management of its cost, so the savings that you refer to and that were obtained in the last few months, mainly in occupancy expenses and salary expenses, in general, they will ultimately have a short life, because as stores go back to normal, normal opening hours, et cetera, and as labor agreements go back to normal, the benefit tends to decrease and disappear.

So, Renner has always had an efficient cost management. This is the reason why we should not have significant gains. Some things will happen with all this culture of home-office, there were many lessons coming from that with the reduction of expenses in facilities and travel expenses, but as Renner was already very efficient in terms of managing costs, we should not expect major gains. It will -- what will happen is a gradual and natural recovery on revenues.

Operator

Another question from Joseph now to Fabio. Two questions to Fabio.

Within the structural projects, how do you see the role to be played by Realize, its digitization and client relationship, and maybe you could talk about the marketplace of Camicado, the participation, et cetera?

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Carla. Thank you, Joseph. Two questions are important and they go hand in hand because they have relevant rule [ph] in our system, with a very good performance of Realize for the client, Renner clients, we can have product that will be bringing other forms of revenues for the group, offsetting the pressure on margin, that the whole market tends to have.

So having more products that can be offered and better services and clients for the Renner Brand clients, and we have a lot to be done. Yeah, at Realize and Camicado, because the -- Camicado can be better supported by Realize because it brings better products and services to our clients or optimizing the sales of Camicado products and driving the sales of Realize and Youcom as well. We have many initiatives underway, such as the digital wallet and other -- other forms.

And mainly regarding the clients of Camicado and Youcom, among other things, that can and should be in our core business, and we are even lagging behind. I believe that the coming on board of Gustavo helps us do this. And Realize, besides being a company of more revenue point, it also brings in a sustainable fashion values for the future and it is really a win-win situation for the whole group.

And when we talk about the marketplace in Camicado, things go hand in hand, because we Realize can also check the sales of the Camicado sellers and that bring about revenues to Camicado and also benefits that we could be delivering. So marketplace of Camicado is an accelerator of our ecosystem and Realize is one accelerator of our system and we have a lot that remains to be done. And as things materialize, we will be bringing them to you.

Operator

Richard Cathcart from Bradesco BBI.

He would like to know about the Omni clients because it's very important for us in terms of frequency and revenues? And how are we structuring ourselves to cater to these clients, how do we organize ourselves in order to cater to this client, and retain the client, and keep the relationship with the client?

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Carla. Thank you, Richard. And you are correct. This is a very important client. All the clients are important but the trend is that almost all clients have become Omni in the future because in the Omni life, there is no division between physical and online. And if you give the client an Omni experience, this is a joint experience, this is integrated, an integrated experience.

And it makes all the sense in the world and -- because you have a more fluid service being delivered and the client can -- it's very flexible and very user-friendly, and this is why they end up buying more because it makes all the sense in the world. So, the way we retain the client is by means of more and more Omni tools, more and more services, more and more enchanting the client in the digital world, in Omni, in the integrated world with better products, better services, lower lead time, shorter lead time, and at the same time, communication with these clients, more and more granular, because before we communicated with large groups and then with large clusters, and now with smaller clusters until we reach a one-on-one communication, ultimately.

And when all the database treated by LGPD and we are much ahead of all the other players in the market. And with all that we can communicate better, express the best service, the best products, and have a better communication, and retaining client in an Omni fashion. And in the future, almost all clients will be Omni.

Operator

(inaudible) from 11 [ph]. She talks about the relevance of Black Friday to our business and how we are preparing ourselves?

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you for the question.

Black Friday in our segment is more important on the online channel because it becomes even more important this year because the participation of online went up exponentially in our business, so we are -- have been preparing ourselves for a few months already for this event and we will continue with the same proportion, and -- of growth that we have been having, but the absolute value will be much higher. We broke our records, our Black Friday records on days that were not specific of any event. So our expectation for Black Friday is very positive, mainly for online.

And we have our inventories prepared for this moment. And both promotional inventories but also inventory that were bought specifically for this purpose, and we prepared ourselves over the whole year. And, in general, the participation was relevant already, but it was better than last year, than the previous years, and this year we have a preparation that is a little bit different. We are extending the period in order to avoid agglomeration, lots of people coming to the stores. So this is the reason why this period is going to be longer because we think about the safety of our consumers. So we will have also a good performance in the brick and mortar stores as well. Not only online.

Many of the questions have already been answered. But talking about gross margin. I would like to say how we are seeing the competitive environment, the promotional environment in the market?

So, Paula? I think Paula got disconnected. Maybe it would be best if I answered it, while we wait for Paula.

Well, the competitive environment was more aggressive before the second quarter and third quarter, and we already have a more normal situation, of course, more competitive than the previous years, but not as competitive as it was maybe in the third quarter. And we continue to have the most renovated collection in our segment and this helps us a lot.

We have a very good preparation of items for November, for in -- promotional items, as well as Christmas inventory, and some players are facing difficulties in terms of selling their old inventories and receiving the new inventories, and out [ph] inventory situation is already normal. And we guarantee -- we have guaranteed all our inventories for the November events and December events as well, according to our sales estimates.

We are very comfortable with our inventory levels so far, with no problems in terms of stockout that we can foresee differently from others because some are being more aggressive because of this problem regarding stockouts.

Operator

Thank you, Fabio. The last two questions from two different people; (inaudible) Investment [ph], and another one from Philippe [ph] from HSBC.

But they are related to digitization. So, Fabio, could you please answer. What about the fashion delivery? Could you explain and give us a little bit of color? And the digitization strategy for Youcom? So, two questions regarding digital. Now, Fabio got disconnected.

So, could you talk about Youcom digitization and fashion delivery?

A - Alvaro Jorge Fontes de Azevedo {BIO 18094961 <GO>}

About Youcom, one of the advancements that we had in the pandemic was a much higher integration between the business units. If at the beginning of our digitization, we started the process by Renner and then we went to the other brands.

During this period, we joined forces and we started to work in a more integrated fashion. So, many of the initiatives implemented the Renner, but our core store pickup, ship-from-store, the allocation of items with no human interference, and artificial intelligence, all of that is being done or rolled out to all the other brands.

So Camicado has a different kind of product, so it is not possible to do it simultaneously. But what works for one brand, works for the others. And we are launching the Youcom app and we already have 6% of the items we allocated by artificial intelligence.

So doing everything that is positive for Renner. Doing this or rolling this out for all the brands, so you can see that we are now doing everything at the same time, and one benefits from the other. So, Youcom, it have a very relevant evolution in this sense. About fashion delivery, we still have the pilot in place and we are selecting clients to whom we offshore products, already understanding the client profile and recognizing the client and their new product so that the client may have a more appropriate choice.

So this is something rather new, but it's still in a pilot stage. And many clients are receiving that, and with the client of Renner Card, we are talking about 12 million active clients in this Brand.

A - Paula Picinini {BIO 19739367 <GO>}

With that, we close our Q&A session. And the Investor Relations area continues to be available to you if -- should you have any additional questions. And I would like to give the floor to Fabio for his closing remarks.

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Carla, Paula, Alvaro. Thank you, everybody. We are very confident in the improvement that we expect for the next few months and even in the third quarter, as

Paula said at the beginning, it had a very different performance compared to the two first quarters of the year, with a very big improvement over the two previous quarters.

And we continue to be optimistic about that because every single month we get closer and closer to the pre-pandemic scenario and Renner as a company has evolved quite a lot, has learned quite a lot from the pandemic, then we gain productivity, we invested in online, and we are much better prepared. We were already very well prepared, but we are even better prepared for an environment that tends to have a gradual improvement.

So, we trust the fourth quarter will be good and over the next few years, '21, '22, we expect a very good development. Thank you very much. And we are available if -- should you have any additional doubts. Thank you very much.