Q4 2007 Earnings Call

Company Participants

- Jose Gallo, CEO
- Paula Picinini, IR

Other Participants

- Bob Ford, Analyst
- Gustavo Oliveira, Analyst
- Lori Berra, Analyst
- Sufic Bayla, Analyst
- Uma Sars, Analyst

Presentation

Operator

As a reminder, questions will only be taken by telephone. Also, this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After the Company's remarks are completed, there will be a question-and-answer session.

At that time, further instructions will be given. (Operator Instructions). Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Lojas Renner management and on information currently available to the Company.

They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Lojas Renner and could cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Ms. Paula Picinini, Investor Relations Manager at Renner. Ms. Picinini, you may begin your conference.

Paula Picinini {BIO 19739367 <GO>}

Thank you. Good morning, everyone. I would like to welcome our shareholders and investors to our conference call, in which we will discuss the Company's results for 2007.

I would like also to take this opportunity to highlight some information of the quarter that ended last December. Jose Gallo, CEO; Jose Carlos Hruby, CFO; and Gildo Melo da Silva, Controller and Manager, are here with me today.

First, I would like to take this opportunity also to make some more specific comments on what happened at the end of 2007 and what we see ahead in 2008. During the Fourth Quarter, we experienced a marketing (selection) in the second half of November and December, marking a change in the pattern we had experienced in the first ten months of this year. Given what (has changed), I believe that we had the necessary agility to manage the situation and the slowdown in sales did not affect our results in 2007.

We believe the Company climate changes due to an upturn in the sales of electronics and durable goods, especially cars and houses, as well as telephones and other high ticket items that benefited from their precision of the (hill), the lower interest rate. And the extended payment terms. Probably the 13th salary bonus also had something to do with this growth, given that it's going to eventually -- was paid in the same week that we started to see the slowdown. We believe that customers have used this additional procedure to pay debt instead of making new purchases.

At the time, we were subject to questioning on the rapid change of direction we were experiencing and whether it was limited to Renner only. We believe it was not the case because other retailers were experiencing a similar trend and the big Christmas promotions and payment extensions confirm that their sales had not been as originally expected.

The graph on the page three gives some details of the customer flow for the retail sector as a whole. And, in my opinion, it reinforces information concerning at Renner as of the second half of November. This Company measures customer traffic. And as you can see, there really was a big change in November and December. The figures in the (IBG) monthly retail report, GMC, also confirmed a certain slowdown in apparel and footwear segments, with sales growth in November and December recording less growth than October.

Going to slide 4, it shows the percentage growth in the number of transactions in Renner in 2007 versus 2006, in accordance with the commercial calendar. Once again, it's clear we were experiencing something different from the situation through October and that this trend only began to reverse at the final week of December.

On slide 5, we have highlighted some important points since the big question, which has probably been impacting the share price. It is our growth expectations in our view for 2008. In our opinion, second questions still have to be considered and probably will be only answered with the return of post-Carnival sales, marking the real beginning of the year. It's important to bear in mind that this year we had the Carnival in the first week of February, different from 2006, when this event took place at the end of the month.

Some customers may have committed part of their earnings to finance installment payments of other items and dues. However, we must not forget that whenever the middle-class group is most cash-strapped, customers tend to migrate from more expensive boutiques and upmarket outlets to the department stores. So-called down-trading, where they can find fashion goods with affordable prices, quality and constant credit.

We also have the benefit of lower-income customers who, as their income improves, they tend to move into the formal retail sector, especially to the department stores with well-known brands, quality products, accessible prices and easily available credit.

Another point worth bearing in mind is the question about stamina of the small and medium-sized retailers, who are more aggressive regarding discounts and credit expansion in order to fuel sales and adjust their end-of-the-year inventory. This type of situation always favors the large retailers, who can move into the upcoming collections with the same price, payment options and help to finance it. This may prove an excellent opportunity to gain market share. To date, we still see some stores and boutiques on summer sales while Renner had already launched its fall/winter collection.

Given the positive and the negative aspects that we mentioned, the question that is not clear yet is if there really has been a structural change in the pattern of consumption. At least until now, January and February lead us to believe that there has not. However, the first month of 2008 post-Carnival and the entry of the fall/winter collection should provide us clear evidence on which to base our conclusion.

And finally, slide six shows Renner's prospects for 2008. The year got off to a normal start. The summer sales began a little later. Discount levels were normal for the time of the year. Inventories are under control and we anticipate the launch of the new collections for the beginning of February. What proved crucial was our ability to manage our inventories by postponing our renegotiating orders at the end of the year.

Since November, when we first became aware that something different was going on, we have been working on this front and you can see the results in our Fourth Quarter '07 gross margin, which stood at 46.2% versus 45.5% in Fourth Quarter '06. And as for the January margin, which was better than the same period last year. The success of this initiative was underlined by the fact that our January summer sales began a week later than 2007 because our stocks were at normal levels and there was no need to alter our strategy.

The 2008 growth drivers will be the same ones that benefited our results in 2007 and we see no reason to, at the moment, to alter our initial outlook. Fifteen new stores are planned for 2008. We believe there is room to still improve our gross margin. Other projects include procurement, logistics and supply chain process, will continue to move ahead in 2008. The dilution of expenses will continue, not at the same pace and proportion as in 2007. But (so essentially) to maintain our operating leverage.

And the financial services will continue to make a positive contribution to results. Although growth should be a bit lower than last year's, when the comparison with 2006 was distorted by the initial phase of this new business.

And lastly, I would like to present some information regarding the strategic plan that was concluded at the end of 2007. In this plan, we did (start) certain opportunities and initiatives, in the strategic and operational fronts, which will guide our projects and will certainly add value to the businesses.

Among the initiatives, it's worth mentioning the potential of the store network. During 2007, we did a detailed (distat) where we identified a number of stores that we can help, both in the current format as well as in a smaller format. As for the real estate team, we can double the size of our current chain from 95 units today to something around 170, 180 stores. If we maintain the pace of 10 to 15 new stores per year being unveiled, it can take about six to seven years to happen.

We also reevaluated the opportunity generated for the Renner Card database and the business drivers for this segment. Thus, we should offer new services, such as a personal launch with check already launched at the end of 2007 and other insurance products besides the cobranded card. The study is elaborated by a consultant company also indicated that a banking license may add more value to the business with higher profitability.

(For the March), we have related opportunities to consolidate the brand and explore variations of the core business, creating growth opportunities at the retail segment through new business models taking advantage of the private brands, which we currently operate, as well as other projects and plans that we will mention further.

That brings my comments to the end of our December sales and now I would like to pass to the slide number seven, where we start to present the numbers of 2007 and the Fourth Quarter. As (in line), you can see that net revenues totaled R$602 million in the Fourth Quarter, 18.7% up year-on-year, while same-store sales recorded growth of 7.1%. Annual net revenue stood at R$1.752 billion, 22% more than in 2006 with same-store sales growth of 8.5%.

On slide 8, the map on the left shows where our units are located. We have also shown our operations in the northeast and our first store in the North in the (CDO manout). The map also shows our three distribution centers, one in the state of Santa Catarina, one in Greater Sao Paulo and one is an advanced distribution center in (Gobotondo Garadasa, Penunbook), which provides support for the operations in the northeast. The graph on the right shows that we closed the year with a sales area of 203.5 thousand square meters spread through 95 stores, 14.3% more than at the end of 2006.

Slide nine shows our store productivity. Net revenues per square meter averaged R$3013 in the quarter, up 3% year on year and R$9326 in 2007, 5.2% higher than in 2006.

The next slide deals with our gross profit and gross margins. Gross profit came to R$278.1 million in the quarter, 20.6% more than in the Fourth Quarter '06 and accounting for 46.2% of net revenue. For the year as a whole, gross profit amounted to R$810 million, 46.2% of net revenue. Gains in efficiency from improved procurement and inventory management process helped the period margin as did the highly favorable temperatures throughout the year.

The slide 11 details our selling expenses, which totaled R$128 million in the Fourth Quarter, equivalent to 21.3% of net revenue and R$414.6 million in 2007, representing 23.7% of net revenue. Both periods saw an important dilution of expenses. This was mainly due to bigger contributions from the newest stores opened in 2006 and 2007 and gains in (ko) from the expansion of the business, which had gradually diluted fixed costs.

Slide 12 shows our G&A expenses, which reached R$53.8 million in the quarter, 0.9% down year on year. The percentage of net revenues earned, they fell from 10.7% in the Fourth Quarter '06 to 8.9%. (And though) G&A expenses came to R$165 million, 15.4% up on 2006, primarily due to an increasing logistics expenses as the Company expanded into new markets. Plus the restructuring of the support areas. G&A expenses represented a lower percentage of net revenues than in 2006, mainly because of the dilution of fixed costs as provoked by the higher sales contribution from the most recently opened stores. This improvement corresponded to 0.5% of net revenue.

On slide 13, we have our financial services result. As you can see, we have given them a more detailed breakdown of financial services revenues, net of credit losses, in order to give you a better picture of these revenues. In 2007 as a whole, the results came to R$49.9 million, equivalent to 17.5% of EBITDA versus 14.7% in 2006. The upturn was chiefly due to the improved results from the new financial services, including the 0 plus 8 interest-bearing plan, personal loans and the sale of saving bonds and insurances as of October 2007, in association with (Porto Seguyasya).

On slide 14. And we can see EBITDA and EBITDA margin. EBITDA totaled R$101.5 million in the Fourth Quarter, representing 16.9% of net revenues, substantially higher than the 13.8% recorded in the Fourth Quarter 2006. In 2007, as a whole, EBITDA reached the R$286 million, equivalent to 16.3% of net revenue, well up on the two previous years. The improvement was due to a better sales performance, a bigger contribution from financial services and the positive impact of nonrecurring legal and tax items, which came to R$5.5 million for the year.

On slide 15, we have adjusted EBITDA, where we compare the Company's results excluding results from financial services and nonrecurring results. You can see that the EBITDA came to R$230.6 million, corresponding to 13.2% of net revenues versus 10.9 in 2006.

As you can see on slide 16, the net financial result was an expense of R$3.7 million in the Fourth Quarter and an expense of R$14 million in the full year of 2007. At the bottom of the slide, you can see that our net cash and cash equivalents totaled R$175 million at the year end versus R$193.8 million at the close of 2006.

On slide 17, we have our net income, which totaled R$62.8 million in the Fourth Quarter, corresponding to 10.4% of net revenue and R$156 million in 2007, equivalent to 8.9% of net revenue, 67.7% higher than the previous year.

On slide 18 shows our -- we can see our investments, which totaled R$56 million in the quarter and R$109 million in the year. As you can see from the table at the bottom, most of the funds went to the opening of new stores and the remodeling of existing ones, as well as technology systems and equipment, including the new (Pilosa) distribution center in Santa Catarina.

On slide 19, we show our expansion plan. We closed 2007 with 95 stores and we expect to now create 15 more in 2008. In the table below, we have listed the six stores scheduled to be open in the first half. In March, we will open outlets in Bourbon Shop in Pompeia, in the city of Sao Paulo and Independencia Shopping in (Minazerite), followed in April by units in Aspen Park Shop Center in Maringa, shopping center Taboao in Taboao da Serra in Sao Paulo and Palladium Shopping Center in (Curitiba (ba Parana). In May, we plan to open a new store in Shopping Grande Rio in S. Joao do Meriti, Rio de Janeiro.

On slide 20, we have a summary of our balance sheet. Once again, our main highlights were accounts receivables under assets, which came to R$489.4 million at the year end, another relevant asset item. Permanent assets basically comprising store, installation and technological equipment, came to R$335.2 million. Looking at liabilities, we can see that shareholders' equity accounts for 42% of the total. It's clear that suppliers are still financing all of our (inventor) inventories as well as other asset items.

Slide 21 presents some information on the Renner Card. As you can see, we closed 2007 with 12 million cards issued, 16.5% more than at the end of the last year. Then we have our average ticket, which reached R$116.48 in the Fourth Quarter versus R$120.69 in the Fourth Quarter '06. In the full year of 2007, our tickets averaged R$107.12 cents against R$103.84 cents in the previous year.

Slide 22 gives a breakdown of our payment options. The chart on the top right shows our Fourth Quarter and we also like to draw your attention to the share of interest-bearing plan, which accounted for 15.8% of total sales and that the interest-free payment, which came to 49.9% of the total.

At the bottom right, we have the same information for 2007, where you can see that the interest sales represented 14.3% while sales in up to five monthly installments accounted for 52.9%.

On the last, we have the same information for the previous year. The lower percentage contribution from Renner Card sales is due to a greater number of new stores, where new customers initially tend to pay with other credit cards or cash.

Slide 23 shows our workforce. We closed December with 9183 employees, 1419 more than at the end of the previous year. 1198 of whom are located to our operating unit.

On slide 24, we have some information on our share performance. At the top, you can see the variation in the (ebo vista) and in our share price over the last 24 months. At the bottom, we have daily traded volume, which averaged R$47.1 million in the Fourth Quarter versus 10.8 million in the year before, an increase of 336%. Also in this graph you can see that the Company's market cap totaled R$4.4 billion at the close of 2010.

Slide 25 deals with dividend payments. First, you can see that we paid a total of R$34.7 million in interest on equity in December as authorized by the Board of Directors, equivalent to R$0.2852 per share. Management bodies have proposed booking dividend of R$82.2 million in our financial statements, equivalent to $0.6763 per share, which would form part of the agenda that our next annual shareholders meeting. Together, interest on equity and dividends comes to R$116.9 million, corresponding to 75% of adjusted 2007 net income.

Finally, we show should holding our annual shareholders meeting on March 31 at 11 AM Brazil time. Pursuant to the call notice published in the newspapers today, at which we will deal with important matters, including approval of the 2007 financial statements, the location of 2007 net income and the election of the Company's Board of Directors in (fiscal Q2). Shareholders can find all the information they need by clicking on the address at the bottom of this page. And it is our sincere hope that they will attend the meeting or at least be represented there.

That brings us to the end of our presentation. And, together with our team, we will now be happy to answer your questions. Thank you very much.

Questions And Answers

Operator

Gustavo Oliveira.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good morning, Paula. Hello, everyone. My first question is regarding the gross margin expansion you're having. Are you sourcing more from abroad? Are you importing more in the mix of your goods? Or this is not what's driving the margin?

A - Paula Picinini {BIO 19739367 <GO>}

Gustavo, basically the margins are being improved because we have a series of -- we have certain initiatives that we started in 2005 that are benefiting the process of procurement and the logistics part. We also have one project in the supply chain that is helping us to improve our gross margin. We import about 5% of our products -- maybe there is some chances to increase that. But the main reasons or the main drivers for the growth in our gross margin is exactly the initiatives and the projects that we have in the logistics and procurement part.

A - Jose Gallo {BIO 1822764 <GO>}

Gustavo, this is Gallo speaking. In 2005, we introduced a different tax system. And I used to say internally in the Company that we have two kinds of markdowns, the good markdowns and the bad markdowns. The good markdowns is when we do mistakes -- we do mistakes in the call or in (despise).

This is normal and this is a part of the business. But we have the best markdown. The best is to send the wrong caller to one region or to send the wrong size. For example, we have some regions in the large national, large sales less than other regions. This is the bad markdowns. And we are working to reduce this -- to improve the distribution. And this is one of the reasons additionally I will mention to improve the gross margin.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay. So we should not expect any change in the mix of imports versus local production and --?

A - Jose Gallo {BIO 1822764 <GO>}

We are accelerating this process, Gustavo and the idea, we hired three firms, you probably know, as a traded company last year. And our target is to double, from 5 to 10%; probably in one or two years, we want to achieve this number.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

And are the margins substantially better on the imports?

A - Jose Gallo {BIO 1822764 <GO>}

Slightly better.

A - Paula Picinini {BIO 19739367 <GO>}

You'll have to bear in mind that we have tariffs, we have quotas, we have some other things that limit imports. And also, Gustavo, I think that it's important to bear in mind that it's good to have -- when you have a supply chain as we have here in Brazil, it's also good because sometimes when you have any change in the environment or you need to make adjustments, it's much easier when you have your supply chain very close to the operations. And I think that's the case at the end of 2007 is a good example.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

You mentioned something interesting, which is the quotas we have in Brazil, regarding especially a bilateral agreement with China. This year is the year that this agreement expires. Are you following this closely? Is there any -- how do you think this could affect your business in 2009 and 2010?

A - Paula Picinini {BIO 19739367 <GO>}

Well because the quotas can be eliminated. But we also have, Gustavo, the reference prices and other tariffs and (bareers) to import. So I think that this is not the only thing that we need to pay attention.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

So okay. My second question is, second part of the question is regarding the strategic plan, 170 to 180 stores, six to seven years. Is all that organic growth or you are considering some acquisitions in that number?

A - Jose Gallo {BIO 1822764 <GO>}

Organic growth.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Organic growth. And on the acquisitions that we read a lot of news articles today in the newspapers, is that something that you viewed by existing -- is more change in the market. And you would transform that, convert that into Renner stores? Or you would consider working with different brands?

A - Jose Gallo {BIO 1822764 <GO>}

In the first moment, could be using Renner brand. The problem is we don't have regional department store chains in Brazil and we -- we all the time we look for acquisitions. But it's difficult. We don't -- the existing chains are small chains with small rooms, small sales area.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

But your stores are getting smaller too, aren't they?

A - Paula Picinini {BIO 19739367 <GO>}

Yes. But not in that way, Gustavo. I think that what you mentioned about the news that you read, there is that kind of mistake, because we were to questioned about the growth. We answered that the possibilities are for acquisitions, are organic growth and then we (fought his) explanation that acquisition is very difficult exactly because of the things that Gallo mentioned. And the opportunities are much more in the organic part. But the headlines were like that and that's the real fact.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay. Thank you very much.

Operator

(Sufic Bayla).

Q - Sufic Bayla

Good morning, everyone. Congratulations on the results. I have a couple of questions. The first one is related to the expansion plan. If Gallo, if you could probably give us a better strategic sense on -- I know the stores are getting somewhat smaller and do you think you can give us a better sense of what kind of environment really changes inside the store if anything.

And if there is any opportunities you see to modify more dramatically inside the stores to even go into the smaller formats down the road. I just want to get a sense of the opportunity set in terms of, this is the first time you've revised that long-term guidance; and I want to get a sense on how dynamic that can be.

A - Jose Gallo {BIO 1822764 <GO>}

When we are speaking more to expand or to reduce the size of -- the average size of our stores, means to maintain the same (meeks). But in small sales area. Between 1000 -- around 1000 and then 200 square meters on 1400 square meters. And this can give us opportunity, for example, to go to not only malls. But in downtowns. There are some cities in Brazil that it's possible to open one store in downtown and the mall and in downtown.

I'm confident -- we are more concentrated in malls to, because the opportunity is to but we are beginning to look for downtowns, good downtowns. And this can, in this scenario, downtowns probably, small stores are a better way to enter in that market than our today's side.

Q - Sufic Bayla

Thanks. And I know you've talked about or considered at some point maybe spinning off one of the private labels. I think you guys have done a great job in developing each of the private label brands. And I just wanted to get a sense from you on how that analysis is going.

A - Jose Gallo {BIO 1822764 <GO>}

It can be an opportunity. How we mentioned in our presentation, we finished in the end of '07, our strategic plan. Important to remember then in this Company, strategic plan is part of our (clue too). We began the turnaround of this Company in 2002 with the first strategic plan, in the last strategic plan. We put in this strategic plan all the alternatives and we are creating groups to study and to study and to study the numbers, to study the CapEx and the returns and the profitability. And we are -- we will study these models and to define where it is possible to begin the experience.

Q - Sufic Bayla

Okay. Great. Thank you.

Operator

Bob Ford.

Q - Bob Ford {BIO 1499021 <GO>}

Congratulations on the quarter. I had a question with respect to some of the opportunities you have in your existing credit card base. Of the 12 million total credit cards that are outstanding, what proportion of those do you measure as inactive? And what do you think you can do to reactivate those consumers? Then, specifically if you could, I would love to hear what your thoughts are on the introduction of a cobranded card. You mentioned it in passing. But that, in addition to a banking license sounds very compelling to me.

A - Paula Picinini {BIO 19739367 <GO>}

Basically, historically, we have about 40% of our cardholders as active customers. They did at least one purchase in the last 12 months. Normally, to activate these customers, we have the CRM program, we send direct-mail and even some of these financial products can also bring these customers to the store again. So normally these are the main things that we do to activate more cards or to bring the customers to the stores again.

And about the cobranded card, it's a natural trend when you have a large number of cardholders as we have and you have like 1, 1.5 million new cards per year. To continue expanding the base of your cards, it's a natural trend to launch a cobranded card. But it's not easy and it's not fast to implement. So probably this is our opportunity to the end of this year, next year, maybe. We need to evaluate some modern details and then it's a good opportunity.

And regarding the banking license, you know that we have about 10 to 12% over the spreads that are taxes. We hired a company to exactly to evaluate that and to see the opportunities that we could have in terms of tax savings have in our own banking license. The idea is not to be a retail bank. But just to have this license to have this tax savings and then have more opportunities for other products. And so this is something that is being evaluated.

Q - Bob Ford {BIO 1499021 <GO>}

And Paula, with respect to that evaluation, did it occur post the elimination of the ICMS and the new rules for IOS? (multiple speakers). I'm sorry (multiple speakers) and IOS?

A - Paula Picinini {BIO 19739367 <GO>}

Yes, new calculations are being done exactly towards just the intent and to measure the affect.

Q - Bob Ford {BIO 1499021 <GO>}

Okay. Then with respect to the trends post the sluggish period in December, you mentioned nice uptick last week of December. Good numbers going into Carnival. Are you seeing a commensurate improvement as well with respect to the behavior of the delinquencies?

A - Paula Picinini {BIO 19739367 <GO>}

Well Bob, the bad debt and the delinquency numbers that we presented now at the end of the year, they are not connected to the slowdown in sales or the different environment in the end of the year. They are very, very connected to the fact that we implemented new products.

The maturity of these new products to the base because when you look at 2007 against 2006, just to give an example, we finished 2006 with R$69 million in our portfolio of Personal Loans with only 3% of provisions for bad debt, because the provisions are being constituted based on the delays of payment. So depending on the age of the portfolio, you can have a different situation. And the main reason for the increases that are you are seeing in 2007 against 2006 is exactly the maturation process of these provisions.

I think that's the most important thing, is that when you look at the numbers of our financial services business, you can see that this result increased 84%. And the higher expenses are really connected to the implementation of this business, the maturation of this process. We are absolutely confident with the levels of bad debt that we are presenting with the provisions, with the expenses that we are having in this business.

Q - Bob Ford {BIO 1499021 <GO>}

Thank you very much. It's very reassuring and congratulations again on the quarter.

Operator

(Lori Berra).

Q - Lori Berra

Congrats as well on the results. Just a couple of quick questions. One is, when you were talking earlier about the strategic plan and the opportunity for 185 to 190 stores, was that in the context of the larger store format or the current store format? Or does that include the smaller downtown size stores that you were referencing?

A - Paula Picinini {BIO 19739367 <GO>}

It includes both formats.

Q - Lori Berra

Both formats. Okay.

A - Paula Picinini {BIO 19739367 <GO>}

Yes.

Q - Lori Berra

Okay. The comment you made in the opening discussion about how you see room for SG&A leverage this year probably not as much as in 2007. You mentioned one thing, if I got the number correctly, that there was some reduction and some legal fees in '07 that helped. But aside from that, that may have been sort of maybe onetime, is there any reason why you can't continue to see strong SG&A leverage if the top line materializes?

A - Paula Picinini {BIO 19739367 <GO>}

Different from even our expectations, we accelerated the process of dilution, the operating leverage. And of course, it's not possible to maintain the same pace, the same speed that we had in 2006. So there is still room for some improvements in this part, some more dilution.

But it's not possible to maintain the same pace and the same speed that we had in 2007. Because with the increase in the number of stores, increases in productivity, there will be a certain moment that we will need again to enlarge the teams or to adjust the structure to support the growth. So 2008, we still have conditions to dilute expenses but not in the same way that we did in 2007.

Q - Lori Berra

Okay. Great. And on the financial services, two questions. One is, you mentioned once again in the presentation that financial services were something like 17, 18% of EBITDA in '07. As you think about your five-year program, I would be interested in any kind of benchmark to where you think those can be, looking out five years.

Then the second questions on the financial services is, if we looked at the data correctly, your gross personal loan portfolio declined I guess for the first time in the Fourth Quarter. And I understand totally the comments you made about the past dues are being recognized as they materialize. So that's why they've increased year-over-year. But I'm wondering, the portfolio having been smaller in the Fourth Quarter than it was in the Third Quarter, is there some significance in that? I'm wondering if you are sort of retrenching a little bit on the personal loan portfolio because the past dues are rising or just help me understand how to interpret that data.

A - Paula Picinini {BIO 19739367 <GO>}

Okay. No, Lori, the fact is that the seasonality of the financial products is exactly the opposite of the seasonality of the retail operations. So normally people get their (13) salary, their bonuses, to pay that. And that's why you have a reduction in the portfolio side. But if you look at production of these Fourth Quarter, we have the same levels of the rest of the year. We have been (considering) about R$23, R$25 million per quarter as the principal amount in loans. This is what we call production. And now in this Fourth Quarter we have R$22 million. So it is absolutely normal. It's the seasonality, the natural seasonality of these operations.

Q - Lori Berra

And what -- and the question about what the financial services business might be five years out of your business, is there any way you could give us some sense of that?

A - Paula Picinini {BIO 19739367 <GO>}

Well Lori, we don't have any specific guidance. But we still believe that there is some (stasis) for improvement. We do (feel) our business represented 14.7% of our EBITDA in 2006. Now it's representing 17.5% and there is still room for some improvement. But we don't have any specific guidance.

Q - Lori Berra

Okay. And I guess my last question. And I understand if you don't want to give specific numbers. But in the past, you have given sort of thoughts on what your same-store sales growth might be for the coming year. And I'm guessing because you haven't mentioned, you are not trying to give a range for this year. But if you have one, that would be helpful. If not, I would love any more color you can give. And I appreciate your opening comments, because that was helpful, on whether you think some of -- or what your perspectives are for 2008.

I understood you to say that January and February look promising. But it's hard to extrapolate from that. Some of the issues you mentioned in terms of diverting consumer purchases to electronics and home categories, do you see any evidence that that is continuing post the 13 salary? Would be happy to take any additional comments there. Thank you.

A - Paula Picinini {BIO 19739367 <GO>}

Yes, Lori, as I said, until now. So far, what we're seeing is that things are returning to normal levels. But I think that it's too early to say that this is a trend for 2008. Maybe we need to wait a little bit more. Remember that here in Brazil, everything is stopped during the Carnival wake. So now we are returning to -- we are really starting the year. This week is exactly the week that last year we had our Carnival. So probably it will take another one or two months to have a better color about the trends for 2008 and these things. But so far. So good.

Q - Lori Berra

Thanks.

A - Paula Picinini {BIO 19739367 <GO>}

Then consider, Lori, just a complement, if you look at our compounded average growth from I think '95 to 2007, we had net sales growing about 22.8%. So I think that this is a historical and important number to use as reference because it's very consistent. It's a long-term -- it's a long period that you can use to work on it. So I think that the same-store sales is not necessary to be mentioned now.

Q - Lori Berra

Thank you.

Operator

(Uma Sars).

Q - Uma Sars

I was wondering with regard to your operating expenses in the financial services, this has now doubled to 9.9 from 4.7 last year in the Fourth Quarter. And I understand that of course, this is related to the expansion of these financial products.

But could you help us understand whether you see this now kind of leveling out at this level or whether it is better to look at this as a percentage of your revenues from financial services? Or what is -- could you give us some -- I don't want to say guidance because you seem to be reluctant to give that. But could you give us a feel about where the operating expenses are going to stabilize from here? Thank you.

A - Paula Picinini {BIO 19739367 <GO>}

Well basically, of course when you look one year against the other, we have all the structure that we created. We have the people that are in the stores. We have even the back office that we created here to support these operations.

And of course, this is the main reason for this increase. Maybe you can continue working on the same levels that we presented in the Fourth Quarter because we have a lot of projects, consultant companies and things that we are doing to continue expanding this business. So I think that you can work on the numbers that we presented now in the Fourth Quarter.

Q - Uma Sars

Okay. Thank you. Can I just follow up, are you talking there about an absolute level of this -- about $10 million per quarter or are you talking about this as a percentage figure?

A - Paula Picinini {BIO 19739367 <GO>}

No. The $10 million, the absolute number.

Q - Uma Sars

Absolute number. Okay. Thank you very much.

Operator

There are no further questions at this time. This concludes the question-and-answer section. At this time, I would like to turn the floor back to Ms. Picinini for any closing remarks.

A - Paula Picinini {BIO 19739367 <GO>}

Thank you, once again for your interest in Renner and we look forward to seeing you again in the next two quarters. Thanks.

Operator

Thank you. This does conclude today's presentation. You may disconnect your line at this time and have a nice day.