Y 2016 Earnings Call

Company Participants

- Jose Gallo, Chief Executive Officer
- Laurence Beltrao Gomes, Chief Financial Officer and Investor Relations Officer

Other Participants

- Fabio Monteiro, Analyst
- Franco Abelardo, Analyst
- Guilherme Assis, Analyst
- Joao Mamede, Analyst
- Joseph Giordano, Analyst
- Richard Cathcart, Analyst
- Roberto Browne, Analyst
- Thiago Macruz, Analyst

Presentation

Operator

Good afternoon ladies and gentlemen, thank you for waiting. Welcome to the Finance Conference Call of Lojas Renner to discuss the fourth quarter 2016 and Year of 2016 Results.

We would like to inform you that today's live webcast is being recorded and simultaneously translated. The slide show can be accessed at the address www.lojasrenner.com.br at the Investor Relations section at the webcast platform, and also in the Engage-X platform. As a reminder, questions will be taken by telephone and the platform.

Also we would like to inform that all participants will be in listen-only mode during the company's presentation. After that we will start a question-and-answer section when further instructions will be given. (Operator Instructions) We would like to recommend that questions coming from journalists that might be taken by our Press Office on the number 55, 11-3165-9586.

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 would like to turn the conference over to Mr. Jose Gallo, CEO of the company. Please Mr. Gallo, the floor is yours.

Jose Gallo {BIO 1822764 <GO>}

Good afternoon, everyone. We are here gathered today to discuss the results of 2016, and before turning the floor to Laurence, I would like to make a few remarks about this past year, as well as the challenges that we have ahead. With me today also Paula Picinini, our IR General Manager; and Luciano Agliardi, our Controller.

2016 was by all means a very challenging year for all of us. We had internal issues in the beginning of the year and also inconsistencies in two of our women's apparel brands, we have discussed them already during the past year. That also impacted our performance in usual temperatures during part of the year, and also lower consumer traffic in the malls during the Olympics. All of that under a deteriorated macroeconomic scenario in addition to a political uncertainty that have impacted the confidence of our consumers. And we know that in order to have consumers going out, we need to have income but also that risk level.

And also in 2016 in addition to the inflationary pressures, we had almost R$100 million of ex [ph] expenses due to the return of payroll charges and also expenses related to new projects that are important ones which we are implementing. Therefore, we have proven the business model resilience, the company's resilience. With net sales of R$5.7 billion, we had a gross margin in 55.7%, it did not change and EBITDA margin totaled 23.4%.

We have also updated our technological base, our ERP, and it went under normal conditions, we should highlight that. In that period of time, our back-up activities had to be suspended for 15 days also as planned when we are able to migrate data from one system to another. Likewise, activities recovery were gradual along the next 15 days and the process was fully normal and we have already explained it.

This was a crucial step for our strategy of growth once it will allow us among (technical difficulty) things to have a greater number of stores, we will be able to operate abroad easily, and also we will be able to add new services to our potential both for our e-commerce, and we will be enabled to use new technologies of multi-channel and also we will be able to have a more accurate inventory management.

Now as far as 2017 is concerned, we intend to maintain our expansion plan. As you have seen in our budget which was already approved by our Board and published yesterday, we will invest R$500 million this year and that includes opening 20 to 25 Renner stores, including three stores in Uruguay; 15 [ph] stores Camicado and 25 Youcom.

We are aware that this is not going to be an easy year, but the local comparison base, especially in terms of same-store sales with the adjustments and internal issues that have impacted us in the beginning of 2016. A slow improvement of the economic environment allow us to forecast a positive sales growth as per our history, but excluding 2016, and we believe that this is going to be in line with inflation rate for same-stores.

It's also important to highlight that we have a few good things in terms of the economy. We have salary adjustments for around 10% to 11%, we had inflation of around 4.5%. We will not have a loss in the purchasing power and that will help us to see changes in the trip [ph] levels both in the company sector and in the private sector, as well as in terms of consumers. And I believe this will allow us to have lower rates which will also help us about the gross margin.

We already can see a few benefits that come from a higher scale of items under the push pull system. Nevertheless, this promotional environment might call for reinvesting improvements in greater competitiveness. For this year, we have several ongoing projects and initiatives that according to our projections will increase extra R$60 million in expenses. These are expenses related to the improvements in store's operations also the interaction between the stores and procurement.

We want to stress to complete our reaction projects and supply chain, obviously that could result in benefits. And we also have additional expenses for Uruguay operations, and we have mentioned that in the past calls. Although we have opened three stores, we have to develop an IT base that is broader in order to allow us eventually to operate in even other countries. And we cannot do it just part of it, we have to do it completely, so that the company can become international.

Also we have a new platform for financial products that will support our financial company, Realize. Because of all of that, our future sales level will be crucial to ensure an EBITDA margin close to the levels of 2015 and 2016.

Remember in 2016, we have had some of the non-recurring results that allowed us to go over 23% of margin, which was first time thing. But for 2017, once we are not going to have these recurring impacts and because of the challenges mentioned related to new projects, we know we will face pressure on our margins.

However, was assured that we are alert to the current scenario. We have adjusted all operating issues that have challenged us and that we're not favorable in 2016. We have very good collections and we are very much focused and succeeding again. We believe in the opportunities, and as usual we are doing the best we can in the short-term, but always aiming the long-term. We are ready for the challenges that we are going to face in the macroeconomic scenario, our team is extremely engaged, and by the way, it has been extremely engaged in 2016. And part of this important results, is thanks to a great dedication to all our employees. And I'm sure this year will be just as important for Renner.

I now will turn the floor to Laurence and he will discuss the results that have been delivered yesterday.

Laurence Beltrao Gomes {BIO 15361799 <GO>}

Good afternoon, everyone. This is Laurence and I would like to turn to slide two in the presentation where we have sales. We had both in the fourth quarter as well as in the year around 5% growth in net revenue. It is worth mentioning that in despite of lower than expected growth, we did have an improved sales performance when compared to market in general, which by November as per the Monthly Commerce Survey had dropped 6.2%.

On the bottom of this page, I have information on the gross margin for retaining operations. In the quarter, gross margin was 55.8%, in line with the prior year's margin. That stability is because of greater promotional activity, but also because of the exchange rate impact over imported products. In the year, our margin was 0.9 percentage points higher, thanks to gains in the first half of 2016.

On slide number three, information about operating expenses which have increased 5.8% in the quarter and the year expenses over sales was 36.2%. As Gallo mentioned, we have been strict about our budget and we did take in pressures coming from new projects and taxes. Therefore, net of the return of payroll charges, our expenses under comparable basis would have grown only 0.8% in the year. That year was especially highlighted by our capacity in a strictly managing expenses.

On the bottom of this slide, we have EBITDA margin for retailing operations which increased 1.6 percentage points end of fourth quarter of 2016 and it was stable throughout 2016.

Now turning to slide number four, you will see the breakdown by business model. Renner had net revenue of R$5.3 billion, 3.5% higher 2016 and gross margin of 55.8%. Camicado, once again has proven to be very resilient to their economic scenario and posted sales growth of 18.2%. Net revenue was R$348 million and gross margin was 52.8%. These results are thanks to several improvements that are being implemented in Camicado. These initiatives include better assortment, greater number of decoration items and gifts, a growing volume of imported items, a greater number of proprietary brands and also changes in visual merchandizing as well as stores renovation. So improvements in the e-commerce and in wedding list services have improved the performance.

About Youcom, we have reached sales of R$82 million and a growth of 96.5%. Gross margin was 59.6% and we continue growing here. Youcom performance comes to prove the opportunity that we have and a highly fragmented environment to distinguish ourselves in the young fashion concept with quality and competitive prices. The current scenario has also allowed us good opportunities for negotiations of commercial spot which was good for both Camicado and Youcom. We then were able to open more stores than initially planned.

Now turning to slide number five, we have information on financial products. With the results of R$63 million in 4Q 2016, the year financial products represented 18.8% of EBITDA and results grew 20.6%. That performance is thanks to an improvement on the revenue and to lower level of losses in Renner Card that also reflect the important improvement in credit losses because of initiatives implemented. As we have talked along the year, we have implemented initiatives in credit granting, credit limit updates and collection strategies.

On the bottom, we have charts for credit performance per product. In the private label here, we see a drop in past dues percentage over the portfolio, 11.7%, and a significant drop and losses that went from 13% to 10% in personal loans. There was also an improvement in past due and losses percentages which remained stable at 22.4%. In Co-branded Meu Cartao, there was an increase in past dues and credit losses percentages. Once this product has a natural vulnerability to the economic scenario, and also because there was a slower growth of that portfolio.

Now turning to EBITDA. We have the performance of 4Q 2016 with a growth of 15.5% and margin of 29.6%. In the year, we had 1.3 billion in operating cash generation, 7.4% higher and the margin was 23.4%. As we have already mentioned, the results reflect our strict expenses control, the gross margin is at a competitive level. We have good results in financial products and also some impacts coming from tax review. We do not include the return of the payroll charges. Our margin would have been 28.7% higher than the fourth quarter of 2015, in 2.3 percentage points. I would like to stress that in all situations excluding any of the impacts that we have already mentioned, our margin has expanded both in the quarter as well as in the year. So now we will turn to the lower chart, where we have net income of R$300 million in the 4Q 2016, an increase of 19% and a total of 625 million in the year with a margin of 10.9%.

Turning to slide seven, our CapEx of 513 million and ROIC of 21.4%, slightly lower than the 22% of 2015.

On slide number eight, we have our free cash flow which was 70% higher than the past year, impacted by the operating cash generation and lower investments in fixed assets. The allocation of working capital here came from higher inventories which basically have been funded by suppliers.

About inventories, that were 20% higher in December of 2015, I would like to remind you that in the first quarter of 2016, we did have some issues regarding the lack of products because of the fragmentation of the importing process, as well as a stricter control as far as quality is concerned. And that happened last year. Now in 2017 we have the level of inventories and we have our full collection there. By the way, our new collection has been launched nationally on February 7, just few days ago, and we brought the main trends. And at the same time, the e-commerce was already selling the items. It is also good to remind you that we will be opening more stores in the first quarter of 2017.

Also an innovation and this is the first year in a preview of our collection launching, not only in the e-commerce the pieces were already available, but also in all 300 stores. Just on the next day, the stores had a full collection there, very well.

Now turning to slide number nine, we have some of the remarks made by Gallo. For instance, we plan investments of R$500 million for openings of 20 to 25 Renner stores, including one in Uruguay, 15 Camicado and 25 Youcom. We will continue working on major structural projects in which we are investing, including greater scale of push and pull through, reaction project, suppliers' program and others. We will also invest in a new and modern e-commerce platform always aiming to increase our competitiveness in the long-term with consistent market share gains.

Finally, I would like to say that the Board of Directors just yesterday has approved to bring their request, the increase of capital stock for profit reserves with also a bonus for shareholders. We should highlight that the increase of capital stock is going to be just a change between accounts, and it's not going to impact the P&L of the company. Shareholders will receive bonus one share for every 10 shares on the date of the general meeting that approved that request. Very well, these were our remarks. So now we are available for your questions.

Questions And Answers

Operator

Thank you very much. And now we are going to start our Q&A session. (Operator Instructions) First question is from Mr. Guilherme Assis, Brasil Plural. Mr. Guilherme?

Q - Guilherme Assis {BIO 16143141 <GO>}

Good morning. Good morning, Gallo and Laurence. Thank you for answering my question. Actually, I would like to go over a few topics that you mentioned. Laurence, you talked about inventory levels that have increased a little. Last year it was below expected, you have already mentioned that in the past. And you were able to fund that with the providers, so it was not a high impact on the working capital?

But Laurence mentioned that the quality of the inventories is right. It is already reflecting the new collection, and it's out on the stores. In a very promotional environment, that has grown a little bit more -- more than the average of the company. I think about that possibility, maybe you had a little bit over, and how can we understand that in January of the promotions, the sales that you had. Do you have anything that came, that was left from that period of time? Did you have a more promotional environment in the beginning of the year? Can we expect that inventory level to go down along the quarter or along the year?

And now about the collections. We saw that last year we did have problems, you had made changes in the management team, and I would like to know, is this inventory, is this collection is full adjusted? We talked about it briefly, but I would like to know if you can give us a few more highlights on that, please?

And a second question. It is about Youcom. You are growing the number of stores. Can we have an update on that? Do you have plans to start offering franchising of Youcom in order to expedite growth?

A - Jose Gallo {BIO 1822764 <GO>}

Good afternoon, Guilherme. This is Gallo. You are right. The environment is still a promotional one. I have been in the malls. So, as people want promotions and sales, they go to other stores. If they want something new, they go to Renner. That is the difference. Let's assure that everyone that goes to the mall -- you know, you will have a lot of people already looking for new collections, and this is our competitive advantage. And I also should say that we know that there was very little missing and that's normal that to be sold still from past collections.

As you said, we had less inventory last year. And in order to do that simultaneous launching of collections, and we say, this is the see now, buy now. And we did that not only in the e-commerce, but also in our 300 stores, it's wonderful. We were able to do a huge integration between procurement and logistics, and that is the major reason why we have those inventories.

About the collections, we are very happy about it. We have a renewed team, and really the figures will show that we are in a very different position in terms of the quality of the collections.

Well, I would like to add that we have a number of stores opening in the first quarter that is higher than the first quarter of last year. For Youcom, considering the context and the economic scenario maybe the new negotiations, I think Camicado and Youcom had the best results. And also we were able to have smaller formats, but also I can tell you that Renner had important advancements that were able to offset adjustments and pressures in the first half of the year. And also the opening of new stores which have contributed to the whole cost structure in random.

Now going back to Youcom, it still has an important advancement. Our gross margin is aligned to the initial plan, and also sales and operating margins aligned to the plan, what we had planned in the year. So, we intend to open 25 stores for Youcom, 15 stores for Camicado in 2017. Also, we believe that these favorable growth conditions will still be there for a while.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. Laurence, if you can add to that in the case of Youcom anything about franchising?

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

We believe that the brand is following a good path, but it's not the right moment yet. We still need to mature that brand; it needs to be known in Brazil. We believe that, yes at a certain point, but our points for Youcom are to reach 300 stores in 2025. We do believe there is a growth potential actually in 2021, I'm sorry, but yes, we believe that at a certain point in time of that trajectory, we will take into consideration the format, the best structure for growth, and franchise could may be one of the possibilities in order for us to reach those 300 stores.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you very much.

Operator

Our next question it's from Mr. Thiago Macruz, Itau. Mr. Thiago, please.

Q - Thiago Macruz {BIO 16404924 <GO>}

Good afternoon. I have two questions. First about that strategy of investing more in competitive collections to follow a trend of some of your competitors. I would like to understand, this strategy has already been implemented in the summer collection and part of that is already in the gross margin of the fourth quarter or is this something that we should expect and see for 2017 providing some pressure into your gross margin?

And second about consumer finance, you had great results in the quarter, especially in private label. And we saw that what usually happens in the fourth quarter is that you end up creating a very good buffer there. Here you have not done it. But this is the lowest level that you have had in the last four years, and what is your expectation? Do you think this is just a consequence of a better -- expectation of an improvement after the end of the year? Those are my two questions, and thank you.

A - Jose Gallo {BIO 1822764 <GO>}

Good afternoon, Thiago. About the collections, remember usually we launch seven to eight collections a year. So, what we have done was just to anticipate something that was going to happen in March, we anticipated till now. So we will keep on working on that pace from seven to eight collections as we have been doing. That should really improve and getting the collection right will help us in our gross margin.

Now about the financial products coverage, that is a reflect of our provisions which also reflects the quality of the portfolio. That's what we have seen, we already mentioned it. Because of credit granting that was more strict or more careful that we have started even before 2015. The quality of our portfolio has increased. We were able to recover more (inaudible). We were able to do that, but we believe that figures here are there. Therefore, we have a lower provision and lower coverage of some. But we are now projecting stability in losses for 2017. January figures are good. We have good numbers there, but with the development that we had in 2016, we believe in the stability for 2017.

Q - Thiago Macruz {BIO 16404924 <GO>}

Just to see if I understood on the first question. Our question and our doubts are related. We tried to understand those four quarters and the gross margin, it was already impacted by all your strategy of being more competitive in prices, is that right?

A - Jose Gallo {BIO 1822764 <GO>}

As it has been mentioned, we did have a more promotional environment. From now on with the new collection, we expect to have a slow improvement. We have seen this improvement little by little as we have mentioned, and in the fourth quarter itself, there was a growing performance and we are just seeing the same now in January. We were able to start well this new-year. So we expect to have a slow improvement month by month, quarter by quarter, especially in the second half of the year.

We have been saying that we want to keep a high level of competitiveness, but that depends also on the market. We've seen that there has been an inventory adjustment of players and competitors and the market as a whole in 2016, and at the end of the day, we'll be looking for our operating margins and we will be caring about our position.

Thiago, going further on the fourth quarter, the company has a market position about prices and product. What we usually do in a promotional situation is that when we are developing a collection, we have a pyramid [ph]. We have a fashion for an essential pyramid and also prices. We have five categories of prices. What we do then is to have a higher amount of taxes of lower prices, what we call P1 and P2. So you become more competitive price-wise, but that does not mean necessarily that you are advancing your margin, you will have lower prices, but approximately you were maintaining the same margin. So you will have more P1 and P2 prices at the stores.

Q - Thiago Macruz {BIO 16404924 <GO>}

That is very clear, Gallo. Thank you.

Operator

Next question is from Irma Sgarz from Goldman Sachs. Ms. Irma, please.

Q - Roberto Browne {BIO 16864913 <GO>}

Actually this is Roberto Browne. I have a question about consumer finance, especially about the spreads now that we see interest rates going down and we see differences and the revolving credits for credit cards. What is the scenario for that? How do you see it? How is that going to impact your future operations? Thank you.

A - Jose Gallo {BIO 1822764 <GO>}

Well, about the measures that you were seeing now in credit cards, it is good to remember that they are restricted to Meu Cartao. Also it's important to remember that Meu Cartao represents one-third of revenues of financial products. Very well, we are still assessing our model, our position, how we are going to work and nothing has been defined. Yeah, it's going to start only on April 3rd, but we are obviously trying to combine what's going to be better for customers and for operations.

Rates tend to drop in the second half of the year. We also believe this is a good measure. It is a more sustainable one for consumers to -- for also for consumers that use installment plans, they will have more time for the installments. And I think that will help the discipline and the organization of consumers themselves. So, we are still defining how the model is going to work. This is an important measure, and within that movement to drop spreads in the mid and the long-term, all of that is positive for the consumer environment and also the cadaster positive, the positive register will allow us or we will be able to provide results or it will reduce delinquency itself.

Q - Roberto Browne {BIO 16864913 <GO>}

Very well. If you allow me an extra question, please. Now about margins. You talked about investing the prices -- improving prices so that you can be more competitive. And maybe, we would like to have an update on how our initiatives to increase efficiency, if you can tell us about the impact for push and pull this year and how your margin should be impacted along the year?

A - Jose Gallo {BIO 1822764 <GO>}

Very well, we are still implementing structural and long-term projects. 2016 was an important year. We were able to conclude the implementation of a second distribution center and we were able to start working with push and pull. This is a scale gain. We have high reliability in that operation. We intend to add 2017 with 100% of basic products operating in push and pull. It is as scheduled, I repeat, it is reliable, it is efficient, it is going very well.

Another important project was the ERP update of the company. Our new tech platform was an update, but it had a high magnitude and impacted back office operations, and it was a major project, and it was concluded smoothly under normal conditions, and this new platform will allow Renner to add new technologies into our operations. And not only to operations and we believe that in the purchasing experience itself, we will be able to capture. We intend to capture benefits there. In addition, this new platform allows extra possibilities in our e-commerce channel, contributing to the integration that Renner aims, integrating the physical channel and the online channel.

Also important to highlight here in terms of productivity, and I will join your question, this was a challenging year. Renner looked inside in order to find opportunities, internal opportunities to review processes, activities, and it was something that happened throughout all stores, all areas of the company. And it was very important in order to provide the results we see. Also our Shared Service Center is very important for reducing cost. It also has taken a step forward, helping and contributing to the results of last year.

And again the impact of real valuation, we should see that reflected along the year. I'm sorry, I forgot to answer the second part of the question. The exchange rate today is not favorable in this fourth quarter, but it should be competitive for the next half of the year. So it should be neutralized along the year, that's why we believe that the exchange rate should play a neutral role in the fiscal year.

Q - Roberto Browne {BIO 16864913 <GO>}

Thank you very much for your answer.

Operator

Our next question is from Mr. Richard Cathcart from Bradesco.

Q - Richard Cathcart {BIO 16457807 <GO>}

Good afternoon. My first question is about working capital and a report with the CapEx projections for 2017. We see an investment forecast of working capital of R$18.5 million which seems to be low. I would like to ask you to explain why it's so low?

And my second question and a follow-up about the exchange rate question. In the second half of the year when the exchange rate turns to be more favorable, are you going to use that flexibility to invest in the other collections or is it possible that you will have the expansion on the gross margin that is for the second half of the year?

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

Well, it's also important to remember that imported products represent 30% of our collections. There is an offset, I usually say that that we usually offset that between the two halves of the year, but Renner aims to protect the operating margins and the gross margins. We do know that the environment is going to be a challenging one. Gallo mention that we will be alert to the market and we also will be paying attention to promotions and to promotional environment. But we will look for protection wherever it's possible and we will continue that trajectory of slow improvement in the gross margins, whenever possible.

Another question about the working capital then. I think that the inventory levels explain that reduction. We can see a moderate growth for 2017 as well. And the inventory levels that did have a higher need of a turnover this year.

Q - Richard Cathcart {BIO 16457807 <GO>}

Thank you very much.

Operator

Our next question is from Mr. Franco Abelardo, Morgan Stanley. Mr. Franco, please?

Q - Franco Abelardo {BIO 17416219 <GO>}

Good afternoon, and thank you very much for taking my questions. First, it's about the expansion. And the guidance, it is -- you say, it is between 20 to 25 Renner stores for 2017. And of those three in Uruguay, that compared to 25 new stores in 2016. Why do we have that drop and openings for Renner stores? And can you give us any visibility of those 20 stores in Brazil will be in new malls and existing malls, and how many of those will be in street stores?

And in the long-term in terms of expansion plan, you would need to open at least 30 stores a year in order to reach 400 stores in the future. So, do you expect to open more stores -- more than 30 stores in 2018? Do you have operating capacity? Do you have sales points so that you can reach that level of over 30 stores a year?

A - Jose Gallo {BIO 1822764 <GO>}

Well, Franco, we know that during the year, things get to be very dynamic. That's why we'd say 20 to 25 stores, including the three ones in Uruguay. So things will happen during the year, we might have better opportunities, and therefore, we will see those opportunities. That is the game.

About our plan for 2021, yes, the figures are maintained and we have an opportunity to open 30 stores. And of course, we are just being cautious here. We'll just open 20 to 25. But we have a capacity of opening 30 to 40. We are not concerned about our internal capacity and nor about our suppliers' capacity. We work closely with them, we are developing our suppliers. We usually say that five years ago we had an engineer in the company. Today, we have 10 engineers that are working with our suppliers in order to improve productivity. We do invest a lot in our suppliers. We have annual meetings with them. Therefore, I feel very confident about the future.

As far as this year is concerned, we have four stores on the street and the other ones is in the mall.

Q - Franco Abelardo {BIO 17416219 <GO>}

So now please help me understand, I understood, there should be an improvement in the economy in 2017. We agree with that. So why the expansion plans is on the wrong way? Why you are decelerating your expansion scenario? You are being more cautious for 2017. And if we are -- we have a possibility of having better economy, is this a matter of investment or you are not finding good commercial spots for the new stores. What is the reason why you are limiting the stores openings?

A - Jose Gallo {BIO 1822764 <GO>}

Well, to open 60 stores, you think there is a cautious plan. Look around town and look around the places, you see how many rent signs you see all over?

Q - Franco Abelardo {BIO 17416219 <GO>}

Yes, I'm talking specifically about Renner stores and the long-term plan that you have disclosed.

A - Jose Gallo {BIO 1822764 <GO>}

Well, I believe that opening 60 stores is really a bold action, considering the scenario which we are coming from. So, we also have to work in a balanced manner. I don't know if we say that we'll open 40 Renner stores, maybe some of the investors could question and find it strange. And if we say we're going to open five stores, also people would not understand.

So, we have talked to our Board. We understand we know about our capacity. We know what are our objectives in terms of indebtedness of cash maintenance, and all of that is being assessed.

We have some improvement in the economy, yes. But we have the car wash operation and we don't know what's going to happen. So if we were to talk about 40 stores, and all of a sudden, an important change happens politically, the people will say why were you so bold, and say that you're going to open 40 stores. So that's how we do things. We evaluate risks, opportunities and possibilities and we prepare ourselves for that. That's how we think or we work.

Q - Franco Abelardo {BIO 17416219 <GO>}

Okay, it makes sense. Thank you. And a quick follow-up. You said that you want to have a stable EBITDA margin for the year. Does it make sense to say that you have a similar behavior to what you had in 2016? You have a higher contribution of financial services and maybe a pressure on the retailing margins for 2017. You expect to have a stability in retailing operations as well as financial services?

A - Jose Gallo {BIO 1822764 <GO>}

Well, it's important to mention our market share and market competitiveness. We expect to have improvements, but we still have a very challenging scenario in the market. The impacts of a lower interest rate as well as lower inflation should have -- should take some time to reach the real economy. Therefore, we are still seeing a high unemployment rate.

And about the gross margin, as we have said before, we always try to capture gains of projects that have been implemented in the past years. And now, we need to pay attention to the market to see how it is. It has been very competitive, very promotional along 2016, especially in the second half of the year, and it's still the same. So, I just would like to consider once again. We might use these gains to maintain market share without impacting our position, of course, but once again, for that we can remain competitive. This is a card we have on the table.

But now about EBITDA margins and what you are still implementing long-term projects, always focusing on the long-term. New stores do have high levels of operating expenses that impacts us. We have lower margins and higher SG&As. There are projects such as Realize, our financing company. And we expect that probably in June, we will have more results, but they end up bringing expenses before the results we see. And the platform of financial products we are implementing is the same thing.

We are switching from the processing company that is in our legacy system and we are turning to a market processing system. This is an important major project that also impact Realize. And it will allow us to add technology in order to provide us agility in financial products operations. So, once again, we have important projects for 2017 that might add to our operating expenses in 2017.

Q - Franco Abelardo {BIO 17416219 <GO>}

Thank you very much.

Operator

Next question is from Mr. Joao Mamede, Santander. Mr. Joao, the floor is yours.

Q - Joao Mamede {BIO 15265292 <GO>}

Good afternoon, everyone. My questions have been addressed. I just want to follow-up on financial services. You mentioned that you expect that along 2017 you will finally implement the financial institutions. What is the process like? How is that going to impact your business along the year?

When you talk about financial services dynamics, at the end of 2015 and beginning of 2016, it was difficult. You had to do an adjustment. The end of the year was stronger because of everything that you have done along the year. So, now we understand, it might have some positive moment in the first half of this year, or maybe even stronger than retail growth with higher share. But thinking ahead with the implementation of the financial institution, what is going to change in the dynamics if it's going to change anything at all?

A - Jose Gallo {BIO 1822764 <GO>}

Very well, Joao. The project is following our schedule. The system has been parameterized. The process is just waiting operating inspection from the Central Bank. We are a little bit before that, but we are almost there at the pre-operational stage, and we expect to start operations in June. So, everything is following according what was planned. We will start with Meu Cartao portfolio and then personal loans portfolio.

Operations will not change. We already mentioned that Realize financing and investment will be concentrated in Renner's retail operations with the same positioning. There are not going to be any changes in the businesses strategies in the long-term, in the mid and the long-term. What is going to change, is that we will have greater independence and flexibility in those operations.

We believe that in the future and we hope and we expect to have gains coming from that flexibility and agility. That observant's costs is also offset by the flexibility and the funding costs that we believe that it is going to be lower. So, basically this is a more appropriate platform to support retail operations.

Q - Joao Mamede {BIO 15265292 <GO>}

It is very clear points. Thank you. And another final question. For 2017, you started with favorable wins from financial services. You have started a new cycle now with a positive reflect. You understand that for this year, the share of financial services over total EBITDA could be higher than what it was in 2015, 2016 closer to 20% what you have already had in the past?

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

Very important question, Joao. Thank you. Considering that this year we have a moderate sales base, the production or the development of financial products was also lower that is going to impact the portfolio and the revenues of 2017. So this is going to be due to lower production and development. And also there is no platform of financial products and there is no processing company and financial institutions. They also amount to higher expenses and so the increase of expenses -- of financial expenses will be higher than revenue growth. Therefore, the share of financial products should be stable in 2017.

Q - Joao Mamede {BIO 15265292 <GO>}

Excellent. Thank you very much, Laurence.

Operator

Our next question is from Mr. Marcel Moraes from Deutsche Bank. I'm sorry, but Mr. Marcel has removed himself from the queue. Our next question is from Fabio Monteiro from BTG Pactual.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Good afternoon. I would like to go over sales performance. Have you seen any difference in terms of performance in the malls for A, B classes when compared to C class malls or more in women's apparels or male's apparels, or maybe in Northeast and Southeast? In addition to this macro issue that you have already mentioned in terms of competitiveness of being more aggressive in terms of promotions, I also would like to understand if there has been an extra issue that could help us understand the topic?

A - Jose Gallo {BIO 1822764 <GO>}

We have not seen anything that we could label as relevant. Maybe the Northeast has decreased the sales volume a little bit, but other than that we have nothing to be highlighted, anything that would be too significant. About women's and men's apparels, what we have and we'll see it now, is that new women's apparels collections, and we expect to have a recovery there.

And we have already seen it in January and we are just expecting to see what is going to be the impact of what we have done in the preview, except for the Northeast that we have lower sales days, but just a little. In the North also, we have that free -- duty free area that has been impacted. And as far as I can remember right now, that's what I can tell you that was different.

Q - Fabio Monteiro {BIO 3711690 <GO>}

That's great color. Thank you.

Operator

Our next question is from Mr. Joseph Giordano from J.P. Morgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good afternoon, everyone. Going back to Fabio's topics, the average ticket of the company, it grew 5% in the year. Gallo mentioned that you have adjusted the collection mix in terms of prices without impacting the gross margin. I would like to understand if you can break down that average ticket, the items per bag and also the change in the average price point of this mix, what was really an inflation transfer of the product price?

The second question has to do with the stores check-outs. You have stores growing around 10% a year, but the number of check-outs per store dropping in the same rate. So, what is that like in the material stores? Do you see any type of cannibalization in terms of your stores? Thank you.

A - Jose Gallo {BIO 1822764 <GO>}

About the ticket, the behavior that we have seen is a behavior of consumers that are sensitive to price. We've seen an increase of the company ticket that was similar to the card ticket. Also important, the tickets growth of different payment options have similar growth, the credit ticket, credit card ticket and debit ticket, they were all similar. And as far as prices are concerned, we have already set a price aligned to inflation and IPCA of around 7%. And as we usually say, we had operations that were negative in a little bit over 5%.

Q - Joseph Giordano {BIO 17751061 <GO>}

About stores cannibalization, do you have anything that you could tell us?

A - Jose Gallo {BIO 1822764 <GO>}

We have not seen an impact in that sense, anything about cannibalization.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you.

Operator

Our next question is from Mr. Franco Abelardo, Morgan Stanley.

Q - Franco Abelardo {BIO 17416219 <GO>}

Thank you very much for taking my another question. About the shares bonus, I would like to understand, is it just to realize the profits reserves or it has to do anything to do with Realize, do you want to increase the capital stock? What is the rationale for that bonus?

A - Jose Gallo {BIO 1822764 <GO>}

So, this is an integration of reserves. That's it. It has nothing to do with Realize or any other operations. We also believe, this is an opportunity of having this bonus distribution with a profit reserve that is going to bring about benefits, increase liquidity and also may bring the benefits for our investors.

Q - Franco Abelardo {BIO 17416219 <GO>}

Thank you very much.

Operator

Please wait, while we collect more questions. We will now conclude our question-and-answer session. I would like to turn the floor to Renner, so that they can have their final remarks.

A - Jose Gallo {BIO 1822764 <GO>}

Hello, this is Gallo. Thank you all very much for being here with us in this call. Once again, we are available to provide you further information and rest assured. We are well prepared. Just to give you an idea, we have here with our Executive Board, we're having a WhatsApp group. And in the first and second weeks of January, it was very interesting that one of the participants of the group sent everyone, well, 2016 is over and 2017's EBITDA starts in January 2nd and that's how we see things. We are ready. We are prepared. We have a highly motivated team to face everything that comes our way.

I'm sure that we will have a good year in 2017 except for any political surprises. Well, thank you very much. We will be here available in the IR department for any additional information. Thank you very much, and I'll see you in the next quarter.

Operator

The conference call for Renner Stores is concluded. Thank you very much for your participation. Have a nice afternoon.