Q4 2017 Earnings Call

Company Participants

- Jose GallÃ³, CEO, MD and Director
- Laurence BeltrÃ£o Gomes, CFO and IR Officer

Other Participants

- Franco T Abelardo, Equity Analyst
- Guilherme Assis, Analyst
- Irma Sgarz, Equity Analyst
- Joseph Giordano, Senior LatAm Healthcare Analyst
- Luiz Felipe Poli Guanais, Research Analyst
- Marcel Moraes, Senior Analyst of the Brazilian Retail and Household Personal Care sectors
- Paola Mello, VP and Analyst
- Tobias Stingelin, Director
- Unidentified Participant, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. And thank you for waiting. Welcome to Lojas Renner conference call to discuss the results of the Fourth Quarter of 2017.

We would like to inform you that all participants -- we would like to inform you that today's live webcast, including the slide show, may be accessed through Lojas Renner's website at www.lojasrenner.com.br Investor Relations section at the webcast platform and also with the MZiQ platform.

We would like to remind you that questions will be taken by telephone and by the platform. (Operator Instructions) I would like to remind you that questions from journalists may be taken by our press office at the number 55 (11) 3165-9586.

Before proceeding, we would like to mention that forward-looking statements that might be made during this call related to the business perspectives of the company, projections and operating targets and financial targets are beliefs and assumptions of the part of Lojas Renner management as well as information currently available to the company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they refer to future events. And therefore, they depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may also affect the future results of the company or lead to results that differ materially from those expressed in such forward-looking statements.

Now we would like to turn the floor over to the Mr. Jose GallÃ³, CEO. Mr. GallÃ³, you may proceed.

Jose GallÃ³

Thank you very much. Good afternoon, everybody. First, I would like to apologize for the delay. We had an operating problem here in our part. But everything is perfect now.

Today, we are here to talk about the results of 2017. But before giving the floor to Laurence, I would like to make some remarks about this past year and also the opportunity that we have ahead. We have Paula Picinini today, our General Investor Relations and new Business Manager; and Luciano Agliardi, Controller; and Laurence as well.

In 2017, once again, our business model showed to be resilient. To the scenario that we had at the time, we resumed a good sales growth, maintaining our operating margins at levels -- very high competitive levels and even in a low activity context.

We were able to continue to invest and the increase of the selling area. And I would like to mention that we talked to many of you in February. And we then defined some guidelines as well as some expectations about what will be happening this year. And on our part, we are very comfortable because I talked in February -- everything that we said in February has already been delivered. We inaugurated 70 stores. And this is important to be considered in the current context and also doing retail in general. 70 stores, in our opinion, is something very close to (inaudible) because we opened Renner, Camicado, Youcom stores. And we also inaugurated our first operation -- international operation in Uruguay. And we are very much encouraged by the performance so far. And we intensified our focus also on our process for -- to capture trends, fashion trend, develop collections and also assorting structure and maybe interaction between stores and procurement in order to be more assertive in our collections. So in 2017, we were able to have Realize, which is our financial institution. So we incorporated it. And it is a digital financial institution, in fact. And the objective is a good support to our business and the business structure. We will start to have more governance, more agility, flexibility and efficiency in our consumer finance. And we expect to offer new functionalities and services to our cards clients who are very numerous, approximately 6.5 million -- 6.7 million cards. And this is a very good thing for us to work and do additional things for our clients.

Looking at 2018, we will continue investing in improvements that will allow us to have more accurate inventory, promoting productivity gains and a higher use of technologies. And here, we start talking about digital technologies, in fact, in order to improve multichannel experience. And I think it's very clear to all of you that we have been making very heavy bids on multichannel because we believe that brick-and-mortar stores and online stores supplement each other in great synergy. And we will -- we start to see this very clearly with many international players. And we intend to keep our expansion plan according to the budget plan that we presented, BRL 620 million, which means new 25 to 30 Renner stores, including 2 additional stores in Uruguay; 10 to 15 Camicado stores; and 20 to 25 Youcom stores. And this year, such as we do constantly, as to profitability monitoring process, we will continue. And we are going to find some low-performance units. And for this reason, we chose to shut down 5 Renner stores and 2 Youcom stores. In order to avoid any question, we have no intention of closing any additional Renner stores in this year. And also, we don't see anything relevant that would lead us to do this. So this is the first time, I would like to stress, that we are shutting down stores. And maybe because of the enthusiasm, hopefully stores and shopping centers in spite of all the very in-depth studies done with the content evaluation supported by company, an excellent company in the market. So by closing these stores, we evaluated that the clothes of these stores are going to be taken over by other units and there will be a transfer. So to say, of our clients to these new stores. And we've been increasing the profitability of these stores that will receive these additional sales. And we know that (the EO) points to an upswing in consumption in spite of the uncertainties in the political environment.

I would say that if we had no political problems, we would have a very interesting year. But anyway, the scenario continued to be favorable with no inflation in interest rates. And maybe we do not -- we are not aware of the fact that the (inaudible) has changed. And there is -- the miracle that was in two years we were able to grow the Selic rate from 14% to 6%. And those who are older know very well that it was incredibly difficult to reduce 1% of the Selic rate. And it falls from 14% to 3.5% without mentioning inflation. In less than two years, we went from an inflation of 9% to 2.85% or 2.95%.

If you look at the past, if you remember the past, when we were able to reduce 1percentage point from one year to the other. And inflation is a big feat. And we had a very high -- (inaudible) that we also see an important improvement. We see some sectors making some moves that are very relevant to this area and improving this environment level. So we believe that we will be able to keep our growth rate and also our share gains. And when we evaluate our growth and compare this with some market indicators, you can see that our conclusion is that we are gaining share and very much focused on our operating improvement that we have been implementing and that will be improved.

As to our gross margin, we expect a valuation in the promotional environment. And together with our commission management, they should think about conditions for us to exceed the levels of 2017 this year.

Now talking about SG&A. We believe there will be stability vis-Ã -vis net revenue because of major projects, expenses and structures and operating improvements have already been concluded in these past years moving into Fourth Quarter.

In relation to financial credit, it's important to highlight that after a period of structuring of Realize and also technological updates, we should have a year with stability in the levels of delinquency and more moderate creation of revenue because of the reduction in interest rate and also the maturation of Meu CartÃ£o. We will continue to grow Meu CartÃ£o higher than the economy indicators but not as much as happened in the past.

Now I would like to give the floor to Laurence, who will talk about details of our results. Yet today, we delivered this to you already. Thank you.

Laurence BeltrÃ£o Gomes {BIO 15361799 <GO>}

Good afternoon, everyone. This is Laurence. And I would like to talk very quickly about our performance in each one of the businesses. But before talking about the other result, I would like to make some remarks about the First Quarter of '17. This quarter, in terms of sales and gross margin, was a good quarter. We had constant improvement, a greater improvement month-over-month. We have a good Christmas, good traffic in shopping centers and the trend that will continue -- or continue in 2018.

As to the growth margin, as we expected, we also had an improvement in our gross margin with the growth of 1.2percentage points -- or 0.3percentage points net of the PIS and COFINS taxes effect, the favorable dollar. And the more stable promotional environment also contributed to this performance in the quarter.

As for the expenses were higher due to a shift in the marketing budget for the Fourth Quarter of '17 and the structural targets that are on the way. But mainly because in 2016, in the First Quarter of 2016, there was a weak performance of sales and we had to hold our expenses and we had to check our expenses. And in 2017, this became normal when you compare to different quarter of last year or the previous year. But as GallÃ³ mentioned himself, this past year was marked by our resilience in 2017. We consider that we have delivered all the other results according to our estimate. And in spite of all the macro challenges, we got to a growth in our revenues, up 15.4% and same-store sales reaching 9.2%. And in spite of several projects and operating improvements that are underway, we were able to have a decent margin reaching levels that were similar to 2016 if we exclude the non-comparable items that led to the margin of that year to reach a record level of 23.4%. As a consequence, our net income reached BRL 732.7 million, a 17.2% increase year-over-year.

Now I would like to talk about the result of each one of the businesses. At Renner, net revenue reached BRL 6 billion with an increase of 14% with an improvement in traffic in our stores. And our gross margin was stable, 55.7%, in spite of the competitive environment and the more price-sensitive customers. In spite of the pressure that we had in our operating expenses, we were able to keep our margins at highly competitive levels.

Camicado. We delivered a 27.4% sales growth. Net revenue was BRL 444 million. And the gross margin reached 54.1%. These results stem from a series of improvements that are being implemented.

As for Youcom, we reached sales amounting to BRL 124.4 million with a 51.7% gross margin, reaching 60.3%. And we continue to progress in the construction of this project. The Youcom performance evidences the opportunity that we had in a highly fragmented market, the opportunity to differentiate ourselves with a concept of one fashion with quality and competitive prices.

And finally, results on Financial Products that grew 32%. This was a really important year for our consumer finance operations because besides replacing the technological platform. We started operation of Realize after the institution that at the end of this year, held the full credit portfolio of the co-branded cards.

And before finalizing, I would like to reinforce to our invitation so that all our shareholders may participate in our extraordinary shareholders meeting, scheduled for February 28 at 2:00 p.m. In this event, we need to have a minimum quorum of 67% in order to be -- order to approve all of the changes that we have proposed by means of the updating of the statement of the Novo Mercado regulation as well as some improvements recommended by our management. The participation of our shareholders can be in person or by public request for Power of Attorney or by remote voting, which means that we count on all of you.

So these are my remarks. And now we are available to answer any questions that you might have. (Operator Instructions)

Questions And Answers

Operator

(Operator Instructions) (inaudible) from ItaÃº BBA.

Q - Unidentified Participant

Could you talk about your expectations regarding the gross margin for this year? And if you could give us some details about this hedge for 2018 and how it compares to what you had in 2017? And it would -- do you believe that it's an area will be much more benign for the gross margin. Do you expect to have an expansion in your gross margin? Or will you have a more conservative expectation in this regard?

A - Laurence BeltrÃ£o Gomes {BIO 15361799 <GO>}

Thank you for the question. This is Laurence. We see 2018 with favorable conditions for good performance. And GallÃ³ has already talked about it. And we see and we believe in an upswing -- or could be an upswing of the economic activity in the country which is driven by consumption differently from other moments in our history. But it is the recovery that is supported by fundamentals by an interest rate that encourages and supports the recovery of the purchasing power. And interest rates that are historically low and credit little by little being made available in the economy by the banking center for individuals. And with that, we believe in a recovery in the level of confidence as well, of course together with the less promotional environment with a certain degree of normalization. So to say, of the commercial environment. So having said that, we believe that we have good conditions for 2018 and also good conditions to review our expansion, the gradual expansion of our gross margin in 2018. And the previous case of 2016, 2017 were years that we lagged a little bit behind. But we already knew that. So it's going back to normal which means that in 2018, it will be possible, in our opinion, to go back to that level of expansion. In relation to the exchange rate, our imports have already been ordered. We already have a very good level of coverage. In fact, 80% is already locked in as levels grows to 3.30%, 3.30%. Yes, exactly.

Operator

Guilherme Assis from Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

I would like to ask 2 questions. Going back to the gross margin. I know you have already talked about it and somebody has already asked. But I would like to understand the impact of push and pull in your results in logistics that you have made in distribution logistics and the systems. Do you already see a contribution from these endeavors? And what are the potential gains that you envisage that you have already been achieving from your push and pull as the market was more promotional and it had to do with your competitiveness? And do you believe this will be an additional growth driver for 2018 on? So this is one question. And the second question, I would like to understand the rationale of your shutting down some stores. I know that you evaluate the performance at each one of your stores but I would like to understand. While GallÃ³ made it very clear that you have no intention whatsoever of closing additional stores. But with these specific stores, could you give us some background about what happened and how long it took to made the decision to close these stores? And what kind of criteria did you have in order to support this decision? Were they street stores or shopping mall stores? And could you talk about these stores that you closed?

A - Laurence BeltrÃ£o Gomes {BIO 15361799 <GO>}

Guilherme, this is Laurence. And thank you for your questions. Guilherme, as we have been repeating, we continue to evolve. And we said that during the Renner Day last year about the evolution of our results in terms of our logistics process. And we expect to tap into part of this belief that we have that it will be possible to resume the gradual expansion of our gross margin in 2018 and in the favorable environment and also with a combination of all the projects and all the improvements that we carried out and that we have been carrying out, including the logistics project and our distribution. So we have closed the year reaching all the targets of our push and pull. And the rollout has already started for the other projects. And this is going quite well. But I would say that this is a combination of manufacturers. And in our expectations and our beliefs, we have the (canter) these benefits that come from the new distribution and the logistics system. Now let's talk about the closing of stores in a nutshell. How do we approve our store? You may very well imagine that we received many different alternatives. And what happened is that, at the first moment, we check how things are going and our expansion, how it's going. And when we see a certain degree of feasibility, we carry out a more in-depth study. We have an external consultancy company that have been working with us for a long time. So we know very well how to calculate sales. Then, we carry out a feasibility study, during which we require a relevantly higher IRR than the WACC. And this is all brought to the occupations officer (Lauren) and I participate myself in this committee and then we approve the store. What I can tell you is that this rigor. We used to have 320 stores. After 25 years of operation, we closed 5 stores. And the reason is very easy to explain. Our managers, they evaluate this other return and the expenses in each one of the stores. And what happened is that, 2 of these stores are in shopping malls, absorbed -

- these are not new stores. They were relatively old stores. And other shopping centers were affected by a new mall that was opened. And the cannibalization degree was higher than necessary, I would say. So this is very dynamic. And our profit -- or profitability is the name of the game as far as we are concerned. So there is no need to be there. There are no big explanation. This is a matter of profitability, our financial revenue. And this is only normal when you evaluate even very successful companies. (inaudible) for instance, is a big success story. And they closed stores. But this is something very normal. This is business as usual. We make all the necessary efforts before making this decision. And when we take this decision, we know that most of these clients, most of these customers will be channeled to the other stores that we are opening, okay.

Q - Guilherme Assis {BIO 16143141 <GO>}

Just a follow-up. Still talking about the stores that were closed. This happened in the Fourth Quarter. So did this have an impact on this quarter, too, after March, 2 now; and 3 up to March?

Operator

Mr. Marcel Moraes from Deutsche Bank.

Q - Marcel Moraes {BIO 20057766 <GO>}

My question is about operating expenses. In 2017, we saw the grade of stability but in part -- but in spite of the benefits brought about by the PIS and COFINS that contributed to this higher figure. Do you believe by 2018 or the pace of opening of stores continues to be very fast? And what -- seems -- I don't know whether it's going to be the same level of 2017. So it seems to me that we will have 2018 with some pressure on your SG&A such as was the case in 2017 if we exclude the benefits of the PIS and COFINS taxes. So could you talk about that, please?

A - Laurence BeltrÃ£o Gomes {BIO 15361799 <GO>}

Marcel, this is Laurence. Thank you for the question. Along the thin lines that we said previously about the favorable conditions and the way we interpret the current conditions and over the year, as GallÃ³ mentioned, we have a degree of uncertainty with political scenario. But if you adopt the base case scenario, there will be no big surprises. And taking this into account, we believe that we will have a good pace for our sales in spite of consuming our structure projects that we have been implementing and also with a quite high number of new stores. We believe that in spite of all that, we will be able to keep our operational leverage and the SG&A as a percentage of our expenses at a stable figure. This is our belief, as I said, in spite of all the projects that we have underway. As I said before, these projects, think about the increase in expenses first. Then afterwards, we have the full gains coming from these and others. So in spite of all that, we believe that we will be having relative stability in our SG&A vis-a-vis our revenue.

Operator

Joseph Giordano of JPMorgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

I would like to talk -- I would like you to talk about the expense side, the position for the rise of assets around BRL 15 million. Is this related to the closing of stores only? Or do you have any other factor? Or anything else that we could expect from now on? And when I look at the SG&A, which was a good surprise for the quarter, we see that the line item of third-party services were the biggest player in this increase. So I would like to know what exactly do you mean by third-party services. And could we expect an additional increase in this line item?

A - Laurence BeltrÃ£o Gomes {BIO 15361799 <GO>}

Joseph, thank you very much for your question. This is Laurence. And the answer is yes to the first question. This amount is related to the provisioning for the write-off of assets. That is to say the operations that will be discontinued in 2018. But I would like to add a little bit more color to this. This is a process that has to do with the monitoring of profitability. And besides, the approval process that GallÃ³ mentioned by our committee, we also have the monitoring every half year regarding the profitability of each store. And we try to project first stores with a low performance, what could be done, what actions could be taken in terms of operations or a renegotiation of cost, occupancy and product mix. And we consider all of the possibilities to do our housekeeping in these stores and increase the future projection or the future results of these stores. And when we have this compared to the value of the current asset, this is when we make the decision regarding the process. And I believe that in the Fourth Quarter, in relation to the increase in expenses, we had a shift of marketing expenses from the Third Quarter to the Fourth Quarter of '17. We also have more structural projects that are continuing, that are ongoing. And among them, I could mention is the specialization of stores, the implementation of ERP at Youcom and the continuation of the activity project. And as GallÃ³ said, also actions focused on multichannel operations. So these are the projects. And third-party services here, they involve mainly the e-commerce channel and the actions taken in our e-commerce in order to strengthen our channel. And also, in the Fourth Quarter, we had some expenses related to the increase in our internal logistics efficiency, a bigger effort in our logistics in order to reduce our lead time with a higher speed and a higher frequency. And I believe that this effort also be a contribution to our sales performance in this period. For this year, we do not see anything different. I would say just the normalization. And we have already fitted ourselves into this expectation of a stable SG&A for 2018.

Operator

Franco Abelardo from Morgan Stanley.

Q - Franco T Abelardo {BIO 17416219 <GO>}

I have 2 questions, in fact. The first one has to do with the growth of same-store sales. I would like to understand the beginning of 2018 in this regard. And Mr. Gallo have said that he expect a good growth phase to be maintained. But we know that the basis for comparison as of the beginning of this year becomes stronger coming from a recovery in 2017. So I would like to know if, in spite of that, we could expect same-store sales reaching a high digit as was the case in 2017? Is this your expectation? Or because of this higher basis for comparison, should we see a more normalized level, more, let's say, close to inflation? This is my first question.

A - Laurence BeltrÃ£o Gomes {BIO 15361799 <GO>}

Your question is very good, because it is going to give me the opportunity to talk about that. 9.2% growth in same-store sales. In the Fourth Quarter, 8.7%. Inflation, 2.95%. I think we have to positively cycle our sales because one thing is to have same-store 8%, 9% or 10% with an inflation of 8% or 9%. And when I look at 9.2% and 2.95%, I think we are operating at a very good level. If you asked me, why? This is the idea. Well it's a difference of over 6percentage points. So a difference of more than 6percentage points is something huge. And if you consider the cost of this apparel, the garment. Is this optimal? No, no. This is not optimal. If you read all the reports over the last 20 years, you will never think that it is optimal, the result. Peak is when everything is very good, it is very good. I will -- I think the figure is good, reasonably good. Afterwards, of course, we will be evaluating things as they are. But for this year, what we intend to achieve is the continuation, more or less, in the same pace. But I would like to remind you, that we have to recycle a little bit because inflation is no longer 9%, it's 2.95%. So our requirement for productivity, et cetera, they have to be based on this 2.95% inflation rate.

Q - Franco T Abelardo {BIO 17416219 <GO>}

Very clear. And my second question has to do with the retail margin, the gross margin. Between the -- well, it was close to 17% which is very similar to what you had in 2013. You reached 18%, 19% for '15, '16. And now you're going back because you have some many projects, many areas being invested into. And the margin that you had in '15, '16, is it feasible to be obtained in the short run? Or was there a more relevant set to a nonrecurring factors that would prevent you from seeking the same level of margin for retail this year not -- net of Financial Services?

A - Laurence BeltrÃ£o Gomes {BIO 15361799 <GO>}

Thank you for the question, Franco. This is Laurence. In '13, '14 and '15, it's important to remind you that we had the benefit that represented 1.4percentage points of the SG&A. 1.4% or 1.4percentage points in this account. For 2018, we do see some conditions to go back to normal, to have sales performance and the operating performance going back to similar levels, such as 2014 and '15. Similar to '14 and '15, that's about the benefit of the payroll, right? And now you have some benefit from the PIS and COFINS rate. So how much would that help you with these taxes?

Well we continue to have a new array of stores. And the new stores, they have a maturation curve that starts with a higher SG&A than the mature stores. And the project continue, that is to say -- as I've said before, the projects continue, ongoing. And we are focused on strengthening our competitiveness and our value proposition. And as Gallo mentioned, that we have already mentioned, we continue to make strides in our operational efficiency and improving the shopping experience. What I can say is that we are comfortable that we will have -- delivering very high competitive margins in 2018.

Operator

Tobias Stingelin.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Laurence and Gallo, what was the total spend in marketing 2017 comparing to 2016? How much did it go up? And taking it out seasonality as well comparing the quarters.

A - Jose GallÃ³

Hi, Tobias. there was a percentage of sales that was lower than last year. What will be happening, is that there was a shift. As you know, it was shifted in part to December, the one part that was supposed to be in November. So there was no increase in the marketing budget. Let's not call it marketing, it's communication and advertising. If you consider the net revenues of last year. So you don't have to have any worries about that. There was no increase.

A - Laurence BeltrÃ£o Gomes {BIO 15361799 <GO>}

This is Laurence here. Tobias, I would like to add to what Gallo said. In the Fourth Quarter, we had the shift and this concentration there for us and the marketing expense grew up, grew 44% in this quarter. But 12% in the year. So much more than the growth of our net revenue.

Q - Tobias Stingelin {BIO 18290133 <GO>}

What about your allocations between online and traditional media? Are you growing more in online media? And what about the performance of your sales -- online sales? Could you talk more about what Gallo said at the beginning about the multichannel strategy while it was changing?

A - Laurence BeltrÃ£o Gomes {BIO 15361799 <GO>}

Right. And importantly, we do not talk about percentages. But we see a very good growth in social media, et cetera.

Q - Tobias Stingelin {BIO 18290133 <GO>}

And when you start to see the effects of your communication efforts and you see that e-commerce and the results of e-commerce and brick-and-mortar stores and social media, everything is intertwined. And so what about an update of your online operation sales? How much they are growing vis-Ã -vis your expectations?

A - Laurence BeltrÃ£o Gomes {BIO 15361799 <GO>}

I would say that it is rather interesting, higher than our expectations. And the most important thing is that it is profitable. And we even want to accelerate it further what we thought we would be achieving in five years, we would be achieving in three years. And that every passing day, I have no doubt whatsoever about the synergies between the brick-and-mortar stores and the e-commerce. You can see the synergies very clearly. In order to carry out certain things, you cannot really start from scratch. Two years ago, we invested very heavily in a platform, in technology and this new platform gave us the capacity and the potential to carry out many things that we did in e-commerce. And that we would not be able to do without the platform. So you have the digital world here. And we are paying a lot of attention to that and many things are going on and you have artificial intelligence. And you have algorithms. In processing capacity, there's so many things that, of course, there is the cloud that there will always be a new platform for processing. And without that you just stay outside the digital world. So our investment was relatively high. But it has to do with the structural projects. Very often, you have the OpEx and you have the CapEx. But vis-Ã -vis the potential for e-commerce and everything that we can do, you know how many processes we have to change? 148 processes have to be changed because of this new platform and going to Uruguay. It was for 1.5 years, we were looking for opportunities, we were preparing ourselves. And sometimes, it's not enough attention is given to this. But the base that we have, well, it would allow it to reach 400 stores for instance. And now, we can make more stores and we still have the objective of having 430. Our capacity to go abroad, our capacity of having a major e-commerce operation, supporting our operations in general. So sometimes you do not see figures about that. But I want to make this very clear to you.

Q - Tobias Stingelin {BIO 18290133 <GO>}

And one last question. You've said that the Fourth Quarter of '16 was difficult because you were very efficient in expenses. And if I remove everything, not structural expenses and project expenses, looking only at the recurring base for expenses, because it was very efficient in 2016. What about 2017?

A - Laurence BeltrÃ£o Gomes {BIO 15361799 <GO>}

Well if you remove all the investments that you made. Tobias, this is Laurence. As I said before, in the Fourth Quarter -- well, our year was very difficult. And over the years, we accelerated and we went more in depth with the program to check our expenses that year especially in the Fourth Quarter. And this is the reason why we say that the results are not really comparable because of the efforts that were made. But if we were to remove or exclude these structural projects, the SG&A in the quarter would have gone up 18%, still higher than the growth of our expenses. This is what explains the difference between the 15.7% growth in net revenue. As I said before, with a faster speed and our level of services that our logistics and our e-commerce, all these things being improved. But also, the marketing side -- the market side. So these were the factors that came into play, making the difference between '18 and '17.

Operator

Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

I have 2 questions. One more in line with Tobias' question about e-commerce. If you can give us more details about your initiatives in the pipeline to integrate more and more your brick-and-mortar stores to e-commerce? And the other one has to do with Camicado. That was a good result and I would like to know a little bit more about how much this has been helping you in your overall figures? And additional feedback about productivity in the sales area. And the other one has to do with housekeeping, same-store. Does it include e-commerce or not?

A - Jose GallÃ³

Irma, this is Gallo. I really have a lot to add to what Tobias -- to what I've said to Tobias about e-commerce was one thing that escaped me was the following. When you talk about support, we have a new website. Our new website is much more modern, more dynamic, more user-friendly. So this kind of improvement allows us to have a higher degree of interaction between e-commerce and our -- for instance, our purchasing area. E-commerce is totally free to come to us and choose products and the amount of each item and things that you mature gradually and you become more and more efficient and interaction become stronger and stronger. And when you get to -- into an e-commerce process, very often, you have a degree of rivalry between brick-and-mortar and online operations. However, here at Renner, it was practically 0. So we have a lot of synergies between these 2 areas. So all these factors lead us to grow 2 or 3x more than the indicator, 3x more than the e-commerce of apparel. Our e-commerce grows about 3x more than Itau in general. We continue to invest, we are going to accelerate further and we are going to invest more to make us even more agile than we are today. And more and more multi channels.

A - Laurence BeltrÃ£o Gomes {BIO 15361799 <GO>}

This is Laurence, Irma. Thank you for your question about same-store sales whether it is included. And in relation to Camicado, in our opinion this was another good year for Camicado as well. We had a good growth in our sales. And we reached our targets in terms of growth and good negotiations regarding R&D, seasoned competitors. Gross margin, the evolution also in the number of products and the introduction of lifestyle in 2016 and that is maturating also contributed in the increase in the participation of imported goods as well contributing to improve our assortments and it was one of the highlight. And we are advancing also in terms of suppliers for Camicado in our chain. In Camicado, Camicado is already close to international levels of operating margins and international benchmark. So we are very pleased with the performance of Camicado.

Operator

Mello Paola, (inaudible) Investments.

Q - Paola Mello {BIO 17712227 <GO>}

Could you talk about the reduction of 3.3% in the total sales? Was there any problem regarding -- do you intend to go back to a higher level of participation? And what are the new functionalities and services that you intend to offer through your finance company? And what is your expectation regarding your working capital for 2018? Do you have room for improvement regarding your suppliers and clients and inventories?

A - Laurence BeltrÃ£o Gomes {BIO 15361799 <GO>}

Mello Paola, this is Laurence. Thank you for the questions. First, about the participation of our private label card, this has been an ongoing challenge in the last few years due to the economic scenario, through years '15 and '16, were years of recession, low economic activity. And we became more cautious in terms of extending our terms -- the payment terms. And we have to exert some self-control with this regard. But also, our clients were more careful in the use of cards. And this is what we saw. Customers avoiding to pay interest rates during the recession period. And on the other hand, we had a good performance in terms of acquiring new clients and activating new clients. We had 1.8 million new cards. But on the other hand, we had churn in our card base and with a figure that is higher than is desirable. So for 2018, we are working to the revitalize and taking actions to revitalize the Renner Card. As Gallo said, this also has to do with our multichannel operations and with the digital shopping experience. And over 2018, we will be able to evolve and bring some additional oxygen to the Renner Card. So these are the main points. Regarding functionalities and services, I think it's important to mention that the financial institution started operations in June and ended the year with the total portfolio of the co-branded card and we are now migrating our portfolio of personal loans and the fast withdrawal. And this year, we will be starting migrating new customers as well to this company, the private label. We have already started our project in '18 to migrate the private label card in 2019. In terms of the product portfolio, there will be no change. But we'll continue to have the same portfolio. However, we are going to strengthen these products. We are going to offer different experiences in this portfolio of products. But in the short run, what we see is an update in terms of insurance and assistance this should change. But no change in terms of the client experience in terms of products and product positioning, this does not change. For 2018, in terms of working capital, here at Renner, we are always looking at opportunities to seek value for our working capital. There is an ongoing effort on the part of (inaudible) to tap into opportunities. And we see some room for improvement in our working capital mainly in what regards, inventories. And as far as clients and suppliers are concerned, this will be stable. But this year, this will come from our inventory turnover.

Operator

(Operator Instructions)

Q - Unidentified Participant

This is (Laurence). The question's on basic trading. The first question is the following. The wage payout in 2017, what is the future of cash?

A - Laurence BeltrÃ£o Gomes {BIO 15361799 <GO>}

Regarding the payout, this is a decision made by our board. We met our investments through our cash generation and this is decided by the Board. And the second question has to do with the pace of new stores inauguration for Youcom. It will be normal, it will be maintained. And the last question has to do with the future of the cash surplus. I have already answered that when I answered the first question.

Operator

We have another question coming from (Julie) (inaudible).

Q - Unidentified Participant

Do we intend to open less stores of Camicado this year and what about online for this category? And this will be driving Camicado, the online operation?

A - Laurence BeltrÃ£o Gomes {BIO 15361799 <GO>}

What we believe is that we will have 10 to 15 new stores. It will be rather similar to 2017, in 2018. In relation to the e-commerce of Camicado, we are making all the endeavors that were mentioned by Gallo in e-commerce as a whole. When we talk about e-commerce, we talk about all formats of e-commerce. I would like to add that Gallo, the percentage of e-commerce in Camicado, the percentage of the sales has to do a lot more with the characteristics of products, as happened internationally.

Are there any more questions?

Operator

Luiz Felipe from BTG Pactual.

Q - Luiz Felipe Poli Guanais {BIO 19933939 <GO>}

Regarding your growth margin dynamics. Could you talk about the market competition in 2017 and '18? And do you intend to invest some of your gains in gross margin mainly those coming from push and pull in price competitiveness over the next a few quarters in order to keep the level of growth that you delivered in 2017?

A - Jose GallÃ³

Thank you for the question. As we said before, we expect to tap into the benefits of the target that we have already implemented. And together with a favorable environment, we believe that we will be going back to the gradual expansion of a gross margin. In 2017, we talked about having a more aggressive stance vis-Ã -vis prices and it was in the First Quarter of 2017. As the environment became more and more normal, we closed the Fourth Quarter as we expected with an expansion of our gross margin and we expect to see a continuation of this process. So I think we will go back to the normal guide of expansion of the gross margin.

Operator

Now we close the Q&A session. And we would like to turn the floor over to Renner for the closing remarks.

A - Laurence BeltrÃ£o Gomes {BIO 15361799 <GO>}

We thank you for your participation. And we will go ahead. We know that in Brazil the year starts after Carnival. But as far as Renner is concerned, we started on January 1. So thank you very much. And we are available to answer any questions that you might have about Renner. Thank you very much for your presence.

Operator

Lojas Renner conference call is closed. Thank you very much for participating. And we wish you all a very good day.