

Y 2015 Earnings Call

Company Participants

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

Other Participants

- Bernardo Cavalcanti, Analyst
- Fabio Monteiro, Analyst
- Franco Abelardo, Analyst
- Guilherme Assis, Analyst
- Joao Mamede, Analyst
- Joseph Giordano, Analyst
- Robert Ford, Analyst
- Thiago Macruz, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen and thank you for waiting. Welcome to Lojas Renner's Conference Call to discuss the results of the Fourth Quarter and the Full Year of 2015. We would like to inform you that today's live webcast, including the slide show may be accessed through Lojas Renner's website at lojasrenner.com.br in the Investor Relations section at the webcast platform. As a reminder, questions will be taken by telephone and by the platform as well.

We would like to inform you that 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 over, there will be a question-and-answer session and further instructions will be given. (Operator Instructions) I would like to remind you that questions coming from journalists may be addressed to our front office through the number 11-3165-9586.

Before proceeding, let me mention that forward-looking statements that are made during this conference regarding the Company's projections and operating and financial targets, and beliefs and assumptions on the part of Lojas Renner's management, as well as information currently available to the Company.

Forward-looking statements are not guarantees of performance, they involve risks and 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 affect the future results of the Company and leads to results that differ materially from those expressed in such forward-looking statements.

Now I would like to turn the conference over to Mr. Jose Gallo, President of the Company. Mr. Gallo, you may proceed.

Jose Gallo {BIO 1822764 <GO>}

Good afternoon, everyone. We are here today to talk about the results of the fourth quarter and the year of 2015. We have Laurence Gomes, our CFO; Luciano Agliardi, our Controller; and Paula Picinini our Senior IR Manager.

Before talking about the financial data, I would like to say a few words about 2015 and make some remarks about the next year 2016. In this past year, we had important change in the economic and political environment, which led to a certain reduction in income and also higher level of unemployment and a major drop in consumer confidence.

Nevertheless, we were able to overcome these effects and we developed 17.4% growth in our net revenue and 10.8% in same store sales, vis-a-vis 11.1% in same store sales in 2014. We were above the performance of the apparel and footwear markets, which according to IBGE was down by 5.1% up to November, compared to August, of 17.4%.

In the last few years, we implemented a whole series of initiatives that when combined and executed in a consistent fashion, they are translated into better quality products, also better modeling and also we invested a lot in the display of our stores with our new visual merchandising and with the more spontaneous shopping and creating more cross selling in our stores. And because of all of that, the shopping experience becomes more pleasant by means of many changes that we made such as simplification and agility in our queue and our checkouts are faster.

And all of these measures brought about 45% reduction in the time in our queue, also with a very important renewal in our fitting rooms that are lighting, they are bigger, they are more comfortable and undoubtedly all that led to an increase in the value perception on the part of our clients, our consumer and also the new ones that we are receiving in our stores and translating into a better shopping experience.

We believe that growing two digits in such a complex environment was only possible because we have a consistently motivated team. Everybody focused on sales and also knowing the role to be played by each one of our people, very much focused on the execution, productivity increased, and also and more importantly, watchful regarding demand from our consumers, from the market and also very important in this period is very big concerned with cost reduction, expense reduction, always vigilant in this regard. Along these lines, we invested in three large firms that are underway and will be concluded between 2016 and 2017. And we expect that when we totally implement our

new push-pull logistic process, plus the reactivity of our whole supply chains and all the projects to increase productivity by means of our CFC.

Of that, these three lines will bring us higher sales per square meter, higher gross profit and dilution of operating expenses, which will be translated into better margins in the future. For 2016 specifically, we know that the challenges are still big, and in spite of that, our objective is to gain market share and tap into all the opportunities that may arise in moments of instability and economic adjustment such as the one that we are having today in Brazil.

We believe that strong brands with clear competitive advantages will continue to stand out in a highly fragmented market in which we operate. Our decisions will continue to be focused on the long run and because of that, we are maintaining our store expansions at the expected pace. We will be opening 25 new stores of Renner, 15 Camicado and additional 20 Youcom, totaling 60. Total investment in our capital budget is BRL550 million of CapEx this year. And considering the news about the closing of stores, combined with the slowdown of some operators and given our capital structure, we are prepared to tap into additional opportunities to occupy new points of sale that might arise and in some cases even with the lower investment need.

I would like to remind you that when we approve a new store, we are not thinking about the next quarter or the next year, we are sowing and we're placing new square meters that besides the current market potential of today, when we inaugurate these stores, they will be ready to receive the sales coming from market concentration, consolidation of the market. We need more square meters, we know that the apparel market is very scattered and depending on the potential of the store, with times in the current potential.

With the market concentration, we really need more square meters in order to be able to receive all this concentration and these are areas that are profitable, but that will see their profitability increase, considering these consolidations.

For many years we have been working consistently to improve our business, always guided by a clear mission of being very close to our main consumer and we are accomplices [ph] to say that the modern woman always offering fashion at competitive prices in friendly and practical environment, always with excellent service. Crisis come and go. We know that there is a shift in consumption today and some sectors suffer more, others less. We see durables being more diversely impacted and the automotive sector as well.

And for us, in apparel, in a way the effect of the crisis seem to be more moderate, because the loss of purchasing power or the insecurity in the acquisition of more expensive items lead consumers to turn to lower average ticket items such as apparel and some plans that the families had, such as traveling abroad are becoming domestic trips and the purchase of a new car or purchases of lifeline or electronics or real estate. A niche part of the income that would be invested in these projects, be used for the acquisition of other items. And you may be sure that we will be seeking all of the opportunities that we can in order to give a very good year in terms of results.

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And now, I'll give the floor to Laurence and I will be available to you to answer your questions.

Laurence Beltrao Gomes {BIO 15361799 <GO>}

Good afternoon, everyone. I think we could go straight to page two and I will try to make quick remarks about the information about the fourth quarter. Net revenue grew by 10% and same store sales 4.5%, net of the effects of the pay roll tax increase in December, same store sales would have been 3.8%, a percentage very much aligned to our expectations for this quarter, due to the high comparison base of 2014 and I would like to remind you that we grew 17.3% in 4Q 2014.

Below, you have the gross margin of 55.7%, in line with the margin of the same period last year, which reflects the stability of Renner and better percentages from Camicado and Youcom, 48.2% and 60.4% respectively of gross margin.

And lastly, I would like to mention, the retail EBITDA was 453.2 million, and the total EBITDA 491.7 million. Our net income reached 251.5 million with a 15% growth on a year-on-year basis.

Now going to slide number three, where we have the information for the full year of 2015. And we highlight the growth of 17.4% of merchandise sales and same store sales 10.8% growth. Gross margin in the year evolved 1 percentage point, reaching 54.8%. As a result, this left clearly a good acceptance of our collections and the adequate commercial strategies.

Besides the efficient inventory management over the year also deserves to be highlighted. Once we had a growth of only 1.7%, and our inventories, whereas our revenue grew by 17%. Operating expenses increased by 18.4% and the percentage was slightly higher than the growth of sales, due mainly to the increase of the cost of electric power and the new stores opened during the year.

Nevertheless, I would like to mention that when related to sales, expenses were only 0.3 percentage points higher than last year, showing the results of our strict expense control. If we were to exclude the effect of the increased payroll tax, the ratio of SG&A over net revenue would have been practically an effort.

As to the result of financial products, we saw a 4.2% reduction on a year-on-year basis and this reflects the effect of the lower growth of revenues during the year due to the higher funding costs and also because of the levying of the PIS and COFINS taxes on revenues since July and this result also translates the effect of higher volume provisions because of the growth in our sales and also because of the higher levels of losses. Thus the total EBITDA for the year was BRL1.2 billion with an 18.4% growth and adjusted EBITDA margin of 22.9%, a performance higher than the one that we reported in 2014.

Now on slide number four, we have the breakdown of our results to business. On the first part, we see the evolution of Renner with the major growth in sales 16.5%, gross margin

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55.2%, almost 1 percentage point higher than last year. And I would like to mention that the good commercial performance also impacted a better inventory turnover that didn't grow on a year-on-year basis.

Now, Camicado on slide five. We would like to highlight the significant performance during the year with a sales growth of 26.3% and 46.6% gross margin due to the improvement of our mix and our new visual merchandising model implemented over the years. It's important to highlight that Camicado started to give a positive contribution to our consolidated net income.

Here we have Youcom, highlighting the sales that more than doubled during the year and gross margin of 58.5%, already getting close to our target established at the beginning of this project. In order to reach these results, we implemented improvements in product development, visual merchandising and the operational management of our stores.

On slide number six, we have some information about financial products that during the year contributed 16.7% of the total EBITDA. As you can see on the chart below, this percentage was lower than the one historically in the last few years that was about 20% contribution.

On the right, we can see the delinquency indicators for the three products. We have past due percentages on our portfolio a little higher than last year and higher losses, however, aligned with our historical levels. And when we analyze our portfolios, we do not identify any specific worsening points, but what we see is a homogeneous behavior in all regions and client profiles and because of that we understand that this process is part of the current mass economic cycle. For 2016, the delinquency levels will continue to be under pressure, but we do not expect any material changes over 2015 due to the measures that we have been implemented in our credit assignment and maintenance of low merchandize, collection activity, besides more discipline on the part of consumer behaviors, and all those helps us to go through this cycle. We can see that the private label portfolio has a better quality and a higher participation of medium and low risk clients, and you can see that in the explanatory notes in number 27 in our income statements.

Now going through this last slide, I would like to show you our prospective for 2016. According to the capital budget that we published yesterday, we will be investing BRL550 million into capital, with the inauguration of 25 stores of Renner, 15 Camicado, 20 Youcom. In this total, we include investments in the remodeling and refurbishing of stores and updates in IT and systems, which include updates in our ERPs, commercial credit and back office.

On the operational side, I think it's important to say that for 2016, we estimate that the expansion of sales and same store sales, although more moderate than in 2015, we continue to be based on share gains and maturation of stores. As always, we will be consistently seeking a good level of sales and efficient inventory management, besides operating improvements to neutralize the impact of the exchange rate on our gross margins. We know that expenses will -- deserves double attention in order to offset the

inflationary pressures on cost, as well as the effect of the new taxes on our payroll and new taxes on revenues on financial products. It will not be a surprise for us if we see a very small decrease in our gross margin vis-a-vis 2015.

So these were my remarks and now we are available to you to answer your questions.

Questions And Answers

Operator

Thank you. Now we will start the Q&A session. We would like to first ask questions in Portuguese and afterwards questions in English will be taken. (Operator Instructions) Mr. Guilherme Assis from Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

Good afternoon, Gallo and Laurence. Thank you for the question. I think the results are quite in line with what the market expected with some points. The difference between you and retail in general, due to the initiatives that you carried out, new stores, et cetera.

And trying to get deeper into the initiatives and thinking about the short-term, what should we expect? I would like to understand your view about the difference, this gap in your release and in the call you said that the apparel market is slumping and in spite of that the sales are still going up, increasing this gap. So what do you intend to do to keep this gap? Is it possible in such a difficult year to keep those big differences between your performance and the markets' performance, as you are working with a more cautious scenarios? And maybe you could talk about sales after the end of the year, what kind of trends you see in traffic into stores? If traffic is being maintained, so that we may understand. This is one question.

And the second question has to do with consumer finance. I think it's a point of concern on part of investors, because of the impact of cost of funding, the PIS and COFINS taxes plus an increase in delinquency levels and regarding delinquency in the data that you published, we see that the delinquency level at the end of 2015, was higher and it looks more or less like the 2008 level delinquency, which was the previous crisis. Do you think it will further deteriorate? And I know that you were telling out all these initiatives and do you expect with all these initiatives to keep delinquency levels under control, or do you expect a further worsening over the year? So these are my questions. Thank you.

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

Thank you, Guilherme. Let me answer the first question. What are we doing? Well, basically the first thing is product development. For quite some time, we have been investing a lot in learning what the consumer wants and transforming this very quickly into product. So, we need the reactivity on the part of our suppliers. They have to be agile. So we are placing our best deals.

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We are very focused on transforming the wishes of the consumer into products, reducing the delivery time and improvements in efficiency and I mentioned in other calls that our concern is so big that today we have two engineers at Renner working here. Five years ago, we didn't have that. And they are focused on improving productivity, improving cost, reducing the consumption of water in our suppliers, reducing energy consumption, so that they are more sustainable in terms of product creating. Something very important will be happening.

In March, we will be moving to our new building, those of you who know our headquarters, you know that we have two towers of 750 square meters each floor. And today, our style and other areas are in -- sorry. And in our new headquarters we will have more synergy because the floors are much bigger about 3,000 square meters each floor. So this will lead us to be more agile and from the store viewpoint in visual merchandising, we have a better consistency, better presentation, better display and the better cross selling, because we facilitate the choice of the consumer who is in the store.

And we also invest very much in training of our store people. Many women have just a little time available, they cannot stay in line. And we are consistently improving. We will continue to do the same, but better and better each and every day. This is what we are already doing and this is what we will continue to do. And all this will shore up logistics and the investment that we made in logistics, it's not just the push-pull system. Push-pull gives more concrete results in the second half, but the distribution centers are reducing their delivery time. The distribution centers to the stores, which means that the products are coming faster to the stores. And this is what we have been doing.

And in the moment such as this one, it's very important and this is something that was not showing in the figures. But we are preparing ourselves to tackle this crisis and we have been doing so since the end of 2015. So we are slashing costs, slashing expenses and we ask our people, listen, we have to be more efficient in the development of our collection; we have to be more assertive; we have to be faster. So, if you have a team that knows exactly where the company wants to go and what is the role to be played by each and every person in this turbulent time. So, you can really materialize that.

About your other question, January was good. It was better than our expectations and we expect things to continue this way.

Q - Guilherme Assis {BIO 16143141 <GO>}

What have you been seeing at the stores? What about traffic in the stores now in January and could you draw a comparison to the end of the year? Do you think consumers are more cautious? They are coming less frequently the stores? Is there any impact that you could mention or do you think, things continue as they were at the end of the year?

A - Jose Gallo {BIO 1822764 <GO>}

Well, there is an interesting thing. People are not traveling abroad so much, they are traveling in Brazil. And there are people who cannot even travel domestically, so as they

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are grounded to stay in their hometowns and cities, then they go to shopping malls or they go to shopping centers and we continue to gain share.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you, Gallo.

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

Guilherme, here is Laurence. Answering your question about delinquencies. We do not expect a material increase in delinquencies for 2016. We will be very much aligned with the growth in the portfolio. And it's very important to stress that Renner has a very conservative policy, a very consistent policy regarding credit assignments. And since 2014, we are being even more careful in terms of approval and our approval rate has been dropping. We also streamlined our collections and credit recovery policies through some improvements and processes that we implemented in 2014 and mainly in 2015 that will be maturing in 2016. So, we expect to proceed all of these benefits already in 2016, but we depend on the macroeconomic scenario, of course, so this is basically the answer. Thank you.

Operator

Joseph Giordano, JPMorgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good afternoon. Thank you for the questions. I would like to understand the issue of the gross margin. You said that the challenging -- there was a more challenging scenario and the exchange rate. How do you see this impact in the prices this year, usually transfer a 5%, 10% through the final prices or so? And looking at the same store sales and going back to what Gallo said in relation to traffic, do you believe this could cause a drop in traffic in the stores and how do you see your competitors transferring these increases to final prices? And in same store sales, I would like to go into this payroll tax increase issue. What kind of the impact do you see in same store sales for the short run, due to the payroll tax increase?

A - Jose Gallo {BIO 1822764 <GO>}

Well, talking about the gross margin first. We work with something that we call non-compared shopping or purchase. In our prices in apparel this is -- it's usually the third of the four factors that defines the shopping or the purchase. The first one is, fashion, style, then the quality of the service; and thirdly, price. We know that there is a range of approximately 20% and if you exceed this range, the person does not buy. Let's say, you've got -- and well, you want to buy 100 and the price is 110, then the person buys. So the price is not that relevant.

In fact, today we are really transferring these costs and making necessary adjustments up or down in certain categories. And another thing is that we are being able to improve some of the processes, concentrating more on some suppliers and our purchasing processes, and because of that we have better cost and better gains in our margins. So,

we are using all these mechanisms in order to guarantee a margin that may be compatible with the results that we want to deliver this year.

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

This is Laurence. About the impact of the payroll tax increase for the year, we estimate BRL20 million to BRL25 million impact on our total EBITDA. It is important to stress that in December it would be right to take that figure and extrapolate it for the year, because in December we carried out a re-composition of charges on vacations at the 13th salaries, so the estimates for the year is around BRL20 million to BRL25 million.

Q - Joseph Giordano {BIO 17751061 <GO>}

I would like to ask another question about credit fees. I believe that the first installment will be due in a few days because of Christmas. So, what do you see in terms of delinquency? Do you see a deterioration in the short run?

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

No, we have some positive signs of the quality of our portfolio as we mentioned. Some quality indicators are showing an improvement of the quality, but it's still too early to say anything. But I can say that it is aligned with our expectation for the year. This is what I can say for the time being. Thank you.

Operator

Joao Mamede, Santander Investment.

Q - Joao Mamede {BIO 15265292 <GO>}

Good afternoon. Could you go into detail, because I really didn't quite understand the expectation? You're talking about a more moderate -- about what -- and about the new expansion plan that you announced, I remember that you repeated frequently about 40, 50 shopping malls, where you would like to be, but where you are not yet. Are these your first targets that you have for this expansion? Gallo mentioned in his presentation that many point of sales are being left by other competitors and so, could you say if these 40 or 50 stores in shopping malls that you mentioned are your first target for the year?

A - Jose Gallo {BIO 1822764 <GO>}

Joao, our growth is defined mainly based on negotiations that happened two or three years before. In the 35 stores we have shopping malls, we have expansions and some street stores as well. And this is what defines the number of stores, so much so that we already have a portfolio of new point of sale for Renner for the next two years. I cannot say accurately, but I believe we might have 50 or 60 stores that might be opened in the next couple of years. There might be a couple of delays, but they're not all shopping malls, some are expansions of existing stores and some are street stores.

And besides there is an additional component here, we have some retailers that are shutting down their stores. And this means one additional opportunity as far as we are

concerned and this is why we are looking very carefully these opportunities that are already happening this year.

Q - Joao Mamede {BIO 15265292 <GO>}

Excellent Gallo. Thank you. I would like you to answer my first question about sales and -- we saw one digit drop in terms of your financial products and I would like to -- (Technical Difficulty) during the first quarter and over 2016, could you talk about the financial services dynamics? Do you expect an improvement in delinquency and the initiatives that you took in this regard? You already see a rebound in your revenue from financial services. So for 2016, what do you expect?

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

This is Laurence. The fourth quarter already brought about an improvement in terms of the delinquency rates or the pass-through, so with the good performance of the revenues. And for 2016, we see stability. Revenue growth very much aligned with portfolio growth; portfolio growth, very much in line with retail growth; and net loss is also very much in line with the growth of the portfolios. So we believe we will see stability in the financial products area, ending the year with growth.

About same store sales, we cannot say this now. It's important to look at the history of same store sales during the last two years. You have to check the historical average debt price to go hand-in-hand with inflation. Thank you very much.

Q - Joao Mamede {BIO 15265292 <GO>}

Thank you very much.

Operator

Thiago Macruz from Itau.

Q - Thiago Macruz {BIO 16404924 <GO>}

Good afternoon. We saw that in this quarter you reinforced your coverage ratio, which is something that you are doing historically, no worsening -- significant worsening in your credit portfolio. You intend to keep this coverage level for the year or are you going to consume this fact or to see a trended fact that you created? And you said that you do not expect a relevant worsening of credit in 2016. But in spite of that, you have increased your coverage. Do you intend to keep this and be conservative in regard?

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

This is Laurence. It has always been conservative in terms of credit assignments and we always like to have the opportunity to remind you of that, but working with our models will be based on the history of delinquencies and we can also project our portfolio and project scenarios for our portfolio. And this is a reason why we decided to reinforce our coverage, but the idea is to maintain this coverage level over 2016.

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A - Jose Gallo {BIO 1822764 <GO>}

Thiago, this is Gallo. I would like to add something. For over 20 years I have defended a thesis and I hope it will continue to be valid. What I say in the thesis is that, the Brazilian consumer depends quite a lot on credit. So if one Brazilian consumer is blacklisted, his life becomes hell. He can no longer rent anything or buy a telephone or have access to water or not even pay (inaudible). So Brazilians have learned to work with credit over the last 20 years or so, we have never had a credit crisis at the level of the consumer, such as you saw in 2008 in the United States with the mortgages.

Very often, when you have a problem, the problem is closer to one specific company and not the whole sector. So, what normally happens is that, you see -- because of unemployment and other factors, you see an increase in delinquencies, but it stabilizes with time.

Diario Popular published a very important survey that says that Brazilians are trying to adjust their income, maybe working overtime or doing some part-time jobs besides the regular jobs. And I continue with my thesis, my theory, it has proven to be right in the last 20 years and I hope it continues to prove right. Thank you.

Q - Thiago Macruz {BIO 16404924 <GO>}

Thank you.

Operator

Robert Ford, Merrill Lynch.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you very much. Good morning. Thank you for the presentation. What about sales in December? What about competitors going down and in terms of sales and markdowns?

A - Jose Gallo {BIO 1822764 <GO>}

Certainly normal markdowns or sales in -- at Renner. So we didn't have any increase in our inventory levels, and we're operating with higher interest rates. And in January, we already started to sell our new collections and maybe this helped us achieve good results. It's really more of the same, that is to say there is no surprise regarding additional markdowns. About competition, what we see in terms of competition, it's something that I have already said a couple of times. That was a very favorable period here in Brazil, mainly 2003 to 2011 in which everybody had a good performance, competence and incompetence as well, everybody had a good result.

And now with the shrinking of the market, there is a real test of competitive differentiation and the value proposal. Those who have a clear value proposal, they stay in the game and those who do not have, then they get out of the game and those who are not competitive, they're shutting down. So this is why you see vacancy in shopping centers and street

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stores, you see so many signs saying for rent, for rent, and those who are really making money today are those who are collecting these rent.

So what we see today is something predictable, which is the market concentration, and this brings about an opportunity to gain share. Stores being shut down and we are a winner in Camicado and Youcom. We are taking advantage of the situation, because Renner is more in the long run, however, Camicado and Youcom, they can tap into the opportunity more quickly, and we're seeing good opportunities today for new points of sale, mainly for Camicado and Youcom.

Q - Robert Ford {BIO 1499021 <GO>}

And what about the grace period of the rent at shopping centers? What about the shopping center market in terms of cost et cetera?

A - Jose Gallo {BIO 1822764 <GO>}

Well, I would say that this is limited by case, because the shopping centers have to become more flexible. They are becoming more flexible because of the situations. Sometimes you get a grace period for the rent or a better negotiation. There are opportunities for better negotiations today even in shopping centers. Thank you.

Operator

Bernardo Cavalcanti, Goldman Sachs.

Q - Bernardo Cavalcanti {BIO 19852901 <GO>}

Good afternoon. Thank you for the opportunity, I have three questions. I would like to understand the gross margin profile for the year. And you were talking about the negative expansion of the gross margin, EBITDA margin. I believe this will be coming from higher SG&A, going up more than the gross margin gains and to imagine that it will be flat to over the first half and we will expand as of the third and the fourth quarter. (inaudible) you expect. I don't know whether I'm right in the way I'm interpreting what you said.

And the second question is regarding inventories. You have a reasonably low level of inventory at the end of the year. Do you feel comfortable with this level or is it too low and if -- have you had any stock outs during the fourth quarter?

A - Jose Gallo {BIO 1822764 <GO>}

No stock outs in the fourth quarter. And what we're doing is, we are improving the whole integration of the chain -- of the supply chain. So there were no stock outs.

Q - Bernardo Cavalcanti {BIO 19852901 <GO>}

About the gross margin. Does issue of the payroll tax increase changes in geographies or shapes?

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A - Jose Gallo {BIO 1822764 <GO>}

Because it brings pressure on expenses as well and not only on the gross margin, we have been insisting on this point and we are trying to -- because really what we visualize for 2016 because of the environment and more promotional trend that we have been seeing since May. And this is a very particular year because of the macro situation, macroeconomic situation, and also because of the exchange rate situation. We have a very competitive hedge, but compared to last year's hedge, we have a normal 30% increase. So, the capacity to pass this through maybe in 2016, the evolution process of the gross margin that that (inaudible) has been obtaining over the year.

We will come to a stabilization this is why we say we expect to stable gross margin and maybe slightly higher expenses, because of payroll tax increase and because of that we expect a slightly low EBITDA margins. But we are going to make our (inaudible) to deliver a stable EBITDA margin. We have the increase in the tax burden, many increases in PIS, COFINS and the income -- and also the tax review of the last five years that we saw in 2014-2015, and that will not happen in 2016. So these are the main reasons that explain a slightly lower total EBITDA margin for 2016 as what we expect.

Q - Bernardo Cavalcanti {BIO 19852901 <GO>}

One last question, thank you, about competition. We read in the news that some companies in spite of the fact that they do not have this competitive advantage that you have. They have important brands and they are going to difficulties and this could mean a very important strategic opportunity for you because of the brand, because of their point of sales and I would like to know if the Renner Board is willing to take advantage of M&A opportunities in this moment of difficulty or if you are no longer looking at that and you're just expecting organic growth.

A - Jose Gallo {BIO 1822764 <GO>}

We value our market position. We are positioned in the A minus the B and the C class classes. We have a major preference to our organic growth and right now in the market, we do not identify anybody that is comparable with this and we have a very good opportunity to grow organically in the future. It is not a coincidence, but both Youcom and Camicado, they try to exactly to reach essential classes, this is what we know how to do, this is our expertise and this is what defines our deflations, whether we are going to do something or not, but there is nothing in our radar screen in terms of M&A opportunities.

Q - Bernardo Cavalcanti {BIO 19852901 <GO>}

Thank you. Good afternoon.

Operator

Fabio Monteiro, BTG Pactual.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Good morning, everyone. My question is about push-and-pull. Could you give us an update on the Santa Catarina (inaudible)? What about the ramp up and what is your expectation in terms of the volume vis-a-vis the total, how much this will represent by the end of the year and also the way (inaudible)? How much this represent in volume terms? A general updates about the DCs.

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

The ramp-up is occurring as planned, very much helped by all the learning process that we had it Rio. We have already signed with the logistic operator that gives us support in Santa Catarina. Santa Catarina is already receiving all our inputs and having the same operation and the same system, and in spite of not having push-pull end-to-end, we are doing part of the push-pull, which is not due, but we're doing part of it already.

But mainly what we are seeing is that we're having a better integration in terms of cost reduction and also a higher reduction in our lead time. Efficiency, the reduction of the lead time and the byproducts of that is that we might work with more inventories and we are starting to see this and we see a gain that we had not mentioned before, but we see that is being materialized, cash flow would be transferred gradually. And in the second half, this is when we will really see our debt, but we are very happy with everything that is happening in our logistics.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Thank you. Another question about suppliers. What about the situation due to the fact that the apparel market had a weak performance with stores being closed? Do you see the industry and suppliers as a whole closing their doors or how do you see the scenario for 2016?

A - Jose Gallo {BIO 1822764 <GO>}

Confidence is very important and major part in the reduction of consumption is due to the decrease in confidence. It's needless to offer credit, if consumers do not have confidence and less confident consumers, they will be looking for stronger brands and one supplier who is insecure, so to say, this supplier will also look for strong brand. So, suppliers do not like to run the risk of not being paid. They usually do not have a very capital resource together.

With that, we have all the support that we give. We're very close to our suppliers and we help them improve their processes. And because of that, we have a very high loyalty on the part of our suppliers. And besides, it's very good to have this kind of relationship with suppliers, because we are going through a import substitution process, we'll certainly import less. So if you import less and if you have your local suppliers very close to you working hand-in-hand with you in the bad situation.

But it's important to say the following, our relationship with our suppliers is a consistent one. We always want to have a win-win situation with our suppliers. If we place an order, the order has to be honored and we started this process a long time ago and when you

get to a moment such as today, then you really reap the fruit. We are very strict in our negotiations. However, we comply with our contract a 100%.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Thank you, Gallo.

Operator

Franco Abelardo from Morgan Stanley.

Q - Franco Abelardo {BIO 17416219 <GO>}

Good afternoon everyone, thank you for taking my question. Most of my questions have already been answered. However, I still have one left regarding the assumptions, both maintaining growth in financial services in line with revenues, with sales. Do you consider that past dues or delinquency will continue to be stable or do you believe there will be an increase in delinquency because of the macro scenario such as we saw in 2015?

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

This is Laurence, Franco. Delinquency could be slightly higher losses over our portfolios, but by the end of the year, when we close the year, the contribution of the financial products will have a participation similar to 2015.

Q - Franco Abelardo {BIO 17416219 <GO>}

When you talk about a possible decrease in the EBITDA margin for 2016, looking at retail only ex-financial services, is that correct?

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

No, it includes everything. We are including everything there.

Q - Franco Abelardo {BIO 17416219 <GO>}

And regarding growth in same-store sales. In 2015, the growth was basically in line with inflation. And you mentioned that, historically this has been the same. So could we extrapolate this to 2016, same-store sales in line with inflation and what about the effect of the change in the tax rate, this will bring a contribution of 130 basis points to 140 basis points over 2016 if we consider the increase in taxes.

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

No, our benchmark for same-store sales is inflation and we'll continue to have this as part of our trend. What we see today is an instability of inflation and here in-house we continue to have inflation as a part of reference. If there are no surprises along the way and when we talk about inflation, we talk about the IPCA, the Consumer Price Index and the inflation in apparel is lower, it's around 7% something. Last year overall inflation and for apparels it was around 4.4%. So we are referring to general inflation, okay.

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The IPCA, the channel inflation shows, if you look at 7.7% something for 2016, then this would be more or less the parameter that we could take as a basis. You know that we don't give a guidance, we don't talk about figures, okay.

Q - Franco Abelardo {BIO 17416219 <GO>}

What about the tax increase?

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

I calculated 130 basis points for 2016.

Q - Franco Abelardo {BIO 17416219 <GO>}

Could you confirm that?

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

It's one percentage point.

Q - Franco Abelardo {BIO 17416219 <GO>}

Thank you.

Operator

(inaudible)

Q - Unidentified Participant

Good afternoon. Thank you for taking my question. Could you talk about Camicado and Youcom? You have been running these operations for quite some time already. Is there anything specific that you see and the need to change in your business model, the lay out of the stores or the model of supply. So what could further improve the results of these stores or these operations? And the second question is the following.

A - Jose Gallo {BIO 1822764 <GO>}

All the brands are positioned in the same social classes.

Q - Unidentified Participant

But can you see any difference in the behavior of these classes, I'm talking about Youcom, Renner. Do you see any difference in the behavior of these classes vis-a-vis the macroeconomic scenario, maybe you call is a brand that could suffer more than the others because of the macroeconomic scenarios?

A - Jose Gallo {BIO 1822764 <GO>}

Well, this is an interesting question, because we see a very similar behavior and even better both in Camicado and Youcom and this has an explanation. Both operations are

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improving the mix, and this has been materializing consistently and the consumers are perceiving this and because of that, they even grow more in same store sales than Renner. And Youcom has the obligation of doing this because the brand is being built, that is to say, it's a new brand and naturally Youcom growth has to be bigger than a more traditionally known brand. What I can say is that we are very pleased with the mix, we have very good managers for these brands.

Camicado is already a very traditional brand, very well-known. And we have been opening stores in the Northeast, for instance, and we will have big surprise, because normally the people from the Northeast, they come to Sao Paulo and they see the local brands and Youcom is building image very well. Youcom is finding its niche and it places itself between the high-end and price competition. And Youcom is placing itself with a very current fashion, very compatible with the target client at very competitive prices. So practically, we don't have competition in this niche. This is something very interesting and it's not easy to new entrants in this category because building a brand as fast as we are building, it's not very easy.

And on the other hand, you have the speed of growth, accelerated the process and knowledge of the brand. At Camicado, we have a new type of display, and it will be imported for you to schedule a meeting here with Paula to go to Youcom and to go and see Camicado as well. And what we see is that the brands are being strengthened, they are increasing in their participation, it's a very interesting project. Thank you.

Operator

Guilherme Assis, Brasil Plural. You may proceed.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you very much. I would like to ask together with the regard to published the minutes of the shareholder -- of the meeting, extending your terms of office. I think it'll be very welcome on the succession side and to decide not to renew this for an additional two years. The (inaudible) people being trained are more obvious candidates to succeed two years ahead, thinking about two years ahead. Could you talk about succession?

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

Well I can tell you that, first, it was a very big surprise for me and today. Would you (inaudible). Do you remember there was a five year contract with another three. On the market, all of a sudden started to think about three and three and three and it was only natural for this to happen. Regarding development of succession, we have a very good leader, development process here at the company. Our concern is not with the successor of Gallo, but succession in general, we have great plans, many things in the pipeline in this regard.

I know other companies, I can guarantee to you that only a handful of companies in Brazil have such a well-structured plan as we have in terms of succession.

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Q - Guilherme Assis {BIO 16143141 <GO>}

You can go to bed with lot of comfort -- because investors or everybody is very happy to see this renewal and the quality of the Renner management is unquestionable, but the fact that you're remaining for longer, does that mean that nobody is ready to replace you? Could you give us some color about that? How are you dealing with that? And thinking in the long run, how will you see this evolution in conference calls in three years' time for instance, should we have any degree of concern?

A - Jose Gallo {BIO 1822764 <GO>}

No you shouldn't be concerned at all. I repeat that the process is very well structured here and the company. And our process is very well developed. Succession in general in the company is a process in which all the executives of Renner have this general source of internal development. And on a quarterly basis, I report the evolution of all officers to the people's committee and every half year due to the Board of Directors. And I repeat, only a handful of companies in Brazil have such a great plan for leader trainee and succession plan. You can be very comfortable, because there will be people as competent or even more competent than I am answering questions during the call, and I hope you will participate in the call (inaudible) in previous time.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. Thank you Gallo.

Operator

Now, we close our Q&A session. And I would like to give the floor to Mr. Gomes for his closing remarks.

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

I would like to thank you all for your participation, for your attention. It was a great opportunity for us to clarify doubts about our company. Have a very good weekend and see you next time.

Operator

Lojas Renner's conference call is closed. We thank you for participating, and wish you all a very good afternoon.

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