Q2 2016 Earnings Call

Company Participants

- Laurence Gomes, Chief Financial Officer and Investor Relations Officer

Other Participants

- Andrea Teixeira, Analyst
- Fabio Monteiro, Analyst
- Franco Abelardo, Analyst
- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Joao Mamede, Analyst
- Thiago Macruz, Analyst
- Tobias Stingelin, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen and thank you for waiting. Welcome to Lojas Renner's conference call to discuss the results of the second quarter of 2016. We would like to inform you that this call is being recorded and simultaneously translated. The slide show is available at the internet at the address www.lojasrenner.com.br at the Investor Relations section under Webcast platform. As a reminder, questions will be taken by telephone and by the platform.

Also we'd like to inform that all participants will be in listen-only mode during the company's presentation. After the company's remarks we will hold a Q&A session and further instructions will be given. (Operator Instructions) We'd like to recommend that questions coming from journalists might be taken by our press office by the number 11-3165-9586.

Before proceeding, we should mention that forward-looking statements that might be made during this conference call related to the company's business outlook, projections, operating and financial projections are based on beliefs and assumptions of Lojas Renner management and an information currently available to the company. Forward-looking statements are not guarantee of performance. They involve risks, uncertainties and assumptions, as they relate to future events and therefore 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 and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I would like to turn the floor to Mr. Laurence Gomes, CFO and IR Officer. Mr. Gomes, you may begin.

Laurence Gomes {BIO 15361799 <GO>}

Good afternoon, everyone. This is Laurence and we are here to talk about the results of the second quarter of 2016. With me today Mr. Jose Gallo, CEO; Paula Picinini, IR Manager; and Luciano Agliardi, Controlling Manager.

First of all, the period from April to June was highlighted by a gradual growth and sales, especially driven by the performance of Mother's Day and Valentine's Day, in addition to the low temperature that we had in May and June. Issues related to the first quarter of 2016 include along the following months and in despite of all challenges of the current economic scenario, we were able to expand our margins as well as business profitability. All of that was possible because of an adjusted inventory management and a strict control of expenses.

Now, turning to our presentation on slide number two, in the upper-left chart we show sales for the second quarter of '16, which were higher an 8.2%. The high comparison base, ongoing challenging economic environment and higher promotional levels in the segment impacted sales performance and same-store sales remained at 2.9.

On the right chart we have gross margin at 57.2%, 190 bps higher than the second quarter of '15. And that increase was thanks to the efficiency in the operation, also to a lower level of markdowns in the winter category, ones we were able to operate with balanced inventory levels and also had a good allocation on heavy winter garments in different regions of the country. The reburden of payroll charges favored the margin in 60 bps and we still had efficiency gain of additional 130 bps.

On the left-bottom chart we have operating expenses on net revenues of 35.8%, vis-a-vis 34% for last year. That higher percentage reflects payroll-related charges and expenses regarding to a higher number of stores opened. And the new DC in Santa Catarina, which was not fully operational in 2015. Not of the fact of the higher payroll tax burden, SG&A would have grown 8.6%, indicating our strict control of expenses.

As a result of these actions, on the last chart of this slide we have retailing operations and EBITDA amounted BRL302 million with a margin of 20.6%, around 50 bps higher than last year.

Now, turning to slide three, we'll comment on different businesses. Renner posted net revenue of 1,364 million, a growth of 6.5% and retailing operations gross margin of 57.6%.

For Camicado, revenue was 81 million, 23.2% higher; and a margin of 50.1%, thanks to measures taken to improve the product mix with more important items and also Private Label brands, allowing to a more assertive collections and lower markdowns, also there investments, renovations and we had an important sector being charged on a new set of products; and investments in renovations and in merchandising display have also had a significant contribution.

Finally, we have information on Youcom with sales growth of 138% and 61.5% margin. These results also translating improvement and constant improvements being applied in the mix and the collection creation and also stores layout.

Now turning to slide number four, we have Financial Products results that were slightly higher than what we had in the second quarter of last year, already showing a stable balance between revenue growth, which was up 2.4% and expenses with provisions and losses, which was a 4.6%. That result is still impacted by the additional taxation offset (inaudible) thereby the higher funding cost.

In addition, we see that customers find themselves more averse to insist and for long term installment plans and they're making advance payments, therefore reducing the share of zero proceeds and sales. About delinquency, it's important to mention that all measures taken along the last quarters are bearing the expected results. We've seen improvement in the recovery levels of credit, vis-a-vis 2016 period. About financial products operating expenses, the slight growth once again as a result, once again, in this area the strict expenses control of the company.

When we analyze the delinquency chart, we can see the private label as a main highlight and once again it improved the credit loss of our total portfolio which went from 4.3% to 3.9%.

Next page, on slide five, we have consolidated EBITDA posting a growth of 9.2% in the quarter and a margin of 24.3%. Net of the reburden in favor of the fact, margin would have been 25.1%. Net income on the other hand was 10.5% higher than the second Q of '15. And in the quarter we have invested a BRL158 million and more than half of that was driven through new stores and remodeling. We opened 21 new stores; seven of those Renner, three Camicado and 11 stores of Youcom. And finally the return on invested capital reached 5.9%, the same level of last year.

Now, on slide number six, we have net debt and free cash flow, which in despite of our current challenges, posted a significant growth in the second quarter of '16; mainly thanks to better operating cash generation and lower investments in fixed assets.

And before we open the floor for Q&A session, I would like to mention and to remind you that the system upgrading will start now in August, and that transition process is running mostly according to our initial plan and a higher volume of products was supplied to the stores in July. And these updates will allow us nimbleness in IT, more accuracy in inventory management, lower maintenance cost in addition to preparing ourselves for the use of new technologies.

These were my remarks about the quarter and you may rest assured that we will remain alert to the current scenario and always be looking for efficiency improvements in our operations.

Questions And Answers

Operator

Thank you very much. So now we will start the Q&A session. (Operator Instructions) Our first question is from Mr. Joao Mamede from Santander Bank. Please Mr. Joao?

Q - Joao Mamede {BIO 15265292 <GO>}

Good morning, everyone. I have two questions. The first one is about Financial Products. As you have already mentioned, the Renner Card was the main positive news in terms of Financial Products; delinquency going down lower losses levels. And on the other hand, you have Saque Rapido, products of Saque Rapido and the Private Label card with some deterioration. I would like to understand what is your mindset for the second half of the year, what is the dynamics of these few other products from now on. You probably have an idea for the second half of the year, if there is a sequential improvement of the losses level. That's my first question.

And my second question, I would like to better understand the gross margin dynamics. Maybe this one of the major surprise -- positive surprises, and specifically, here in addition to the effects that we already know that have been happening in the last years, because of your initiatives. And now so that reburdening of the payroll, also we had extreme temperatures at the end of the quarter that helped you. So, can you give us more details on what really fostered there? Can you think about more adjusted temperature? We cannot predict temperature, but thinking about that how much that have contributed to your margin and how can we foresee that gross margin performance for the second half of the year? These are my two questions. Thank you.

A - Laurence Gomes {BIO 15361799 <GO>}

Thank you, Joao, for your questions. First, about the Financial Products, I think, the main highlight here, yes, is the loss of -- is the drop in the net loss in the Private Label business, thanks to the work we have been doing in the last 18 months. That is very important. We started way back there, we were more conservative, also we were more careful in credit granting, we also use technology for collection, and Private Label is bringing improvements has been significant working capital. What is important here is that we are decelerating the portfolio growth. So, the loss -- or an increase in the loss or a relative participation, wallet share is higher because of that deceleration of the portfolio.

And what is positive is that we see that recovery, an indication of that recovery in Saque Rapido or quick withdrawal. And from now on, we will start stabilizing the losses of Saque Rapido, so the expectation for the year is of a net less on portfolio for Saque Rapido, that is very similar to the one we had last year. That is our goal. That's what we informed.

Meu Cartao, I think, also has a similar effect that is the growing phase of the portfolio is lower. Remember that last year we had that portfolio, around 57 to 60% and now it dropped to 23%. So that loss is because of that lack of growth in the portfolio. So, remember that the product dynamics are different from the Private Label, but we expect that when the portfolio grows or starts stabilizing itself from now on the growth of Meu Cartao portfolio should start to stabilize itself. And we believe that the loss will have a maturation or a maturity of the portfolio and the losses also will settle.

So we are very happy, we are paying attention for this matter, but we are rather happy about it. We expect that the deterioration of those levels, but of course, we wanted to deliver better levels, and the idea would be a little bit less than what we have seen in these two products, but the trend is a positive one. I think that was your first question.

About the gross margin, we've been talking about it in the last quarters as well. About the improvement in the processes we have been developing, I believe, it's important to mention what we wrote in the release. We had more efficiencies in the logistics process. We already capturing more efficiency of logistics infrastructure that is new and yeah not talking about yet or the total new process, but I'm talking about infrastructure and prototype in logistics that would start showing up. And that reflects into an inventory management that is more adjusted. And also, since we started the year with adjusted inventory and we are doing good management of it, so we were able to have a lower level of markdown in this quarter. So these are the main explanations for the gross margin.

Of course, the second half of the year we still believe that we will have good inventory levels and will be able to keep those levels and also we believe that it will be possible to keep on expanding the gross margin for the second or -- for the coming months just as we did last year.

Q - Joao Mamede {BIO 15265292 <GO>}

Thank you very much, Laurence. And just a quick follow-up still on the gross margin. About FX, we went to a period of devaluation of the FX, you have done hedge that gave you a competitive advantage and now we are seeing a movement that goes the other way around. So, what is your hedge for the next six, 12 months and what changes with this devaluation of the exchange rate?

A - Laurence Gomes {BIO 15361799 <GO>}

Well, that's a good question. We had, for the fourth quarter, a higher FX. So I would just add to my prior answer, maybe our expansion is not at the same magnitude as we had. But, the focus, the objective is to continue delivering margin expansion. Yes, we have a hedge level for the second half of the year that is higher than the third quarter and fourth quarter with levels close to BRL4. And for the first quarter of 2017 also, we have those levels close for BRL4 that was a hedge that we had for the first quarter of 2017.

Q - Joao Mamede {BIO 15265292 <GO>}

Thank you, Laurence.

Operator

Our next question comes from Mr. Thiago Macruz from BBA. Please Mr. Thiago.

Q - Thiago Macruz {BIO 16404924 <GO>}

Good afternoon. You said that the market is a little bit more promotional. Do you believe this is a new reality with which you have to deal with or is this an attempt of the competition to sell old inventory?

And my second question has to do with inventory. I had understood that you would work with the higher level of inventory because of the change in the inventory management. Why does that did not happen? Is there a sign that you can operate with lower levels inventory? And these are my two questions. Thank you.

A - Laurence Gomes {BIO 15361799 <GO>}

So, what happened -- the inventory that we had and most part of the inventory that we expected for June ended up coming in July, so it was not a postponement obviously. We have received a higher volume. This was a special operation in which we had received large volumes. Suppliers also delivered larger volumes and there was a delay, but it was from one month to another. So there is no huge impact or negative impact because of that, just the inventory that was to come up in one month in June, and came-in in July. That is the explanation.

The promotional market, we have seen that happening since last year. We have seen a very competitive environment, the promotions are anticipating results and I believe this is also depends on the scenario -- on the economic scenario and how things will happen and the sales base.

So, now what we're also seeing and I believe this is an important moment for consolidation opportunity and we have a chance of gaining market share, and the main structural indicators that come up show that both from IDGE or other research institutions indicators also from private companies they show that we have been gaining market share in this sector, in this industry, and our own indicators also show a gain of market share.

It's difficult to say what's going to happen and how long this is going to last, but we see it as on opportunity that is, if the market is so promotional as it is, we understand that there are problems and for us we understand we have consolidation opportunities and also opportunities to keep on gaining market share.

Q - Thiago Macruz {BIO 16404924 <GO>}

Thank you very much for your answer.

Operator

Our next question is from Mr. Gustavo Oliveira from UBS. Mr. Gustavo, please.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good afternoon, everyone. Congratulations on your results. But, still on the gross margins I would like to better understand the breakdown of those benefits. I know this is a significant gain in terms of logistics and lower markdowns, and maybe if you gain on imports. How can you break that down? I just want to understand which is the lower markdown affecting the quarter. Is it significant or not is it more logistics? Can I project higher margin for them next quarter?

And also to better understand, Laurence, now with -- for this product closer to BRL4, if that is already higher for next year -- for the winter of next year or if you don't have anything for the winter of year, so maybe you have benefit for next year. I just want to understand that hedge.

A - Laurence Gomes {BIO 15361799 <GO>}

I'm sorry, I will start again. We did have a technical problem. When you talk about gross margin, it's always important to understand it is very complex. Markdown and gross margin are results of a commercial strategy that is provided with an entry price and the markdown strategy along the lifecycle of the product. So this is part of the result, this is part of the margin, but also important is the distribution and planning of those items. That is a very important matter that it's part of the gross margin, so it is very difficult to provide you breakdown.

What I think is important here and something that we have done is that we had cold weather and the markdowns of the heavy categories and categories we higher markups, we did have a low level of markdowns, and that was the main factor for our margin expansion in the quarter.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Now, Laurence can you talk about the FX effect?

A - Laurence Gomes {BIO 15361799 <GO>}

Okay, for the first quarter, yes, we have regular [ph] share of the product that is hedged and that is around BRL4 as I mentioned before that is contracted and hedged for part of the winter at BRL4 of 2017.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

That's very good. Thank you very much.

Operator

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

Q - Franco Abelardo {BIO 17416219 <GO>}

Good afternoon, everyone. Thank you for taking my questions. Thank you -- congratulations on the results. My first question is about the visibility of same-store sales along this quarter. We understand that April was a difficult month. We believe there has been a strong recovery in May and June. Can you quantify that? How much was that recovery? What level same-store sales reached? July is still at the same level. How have you started in the quarter? That is my question.

My second question is about the other operating expenses line -- that line has contributed with 50 bps for retailing margin, basically the whole expansion of retailing, especially because of the reduction of the profit sharing in the quarter, and also in the first six months. So, why did you have that reduction? Is it attached to the results and the results were lower than expected? And can we see that line still dropping and contributing to the margin along the next quarter? Thank you.

A - Laurence Gomes {BIO 15361799 <GO>}

So, thanks for sales along the quarter. Yes, as we have mentioned, it had gradual recovery. Remember that April we had high temperature; and when started having colder weather, sales recovered. Our colleague has asked colder weather, so we had a better performance along the quarter, and in June had a level that was much higher than April, basically that's what we have already mentioned.

Q - Franco Abelardo {BIO 17416219 <GO>}

But, can you quantify that April was negative? I'm sorry, in May and June you had a growth or was it closer to the inflation levels. So, how was the dynamics there? I just want to understand the magnitude of the recovery please.

A - Laurence Gomes {BIO 15361799 <GO>}

No, we won't. As we mentioned and we already talked about it in the last call, in April we had high temperatures and that's why the same-store sales of that month was lower. I would not go into the details in terms of figures on a monthly basis of same-store sales, but in the commemorative dates we had very good sales, both Mother's Day as well as Valentine's Day. Valentine's Day was on a Saturday -- actually it was on a Sunday, but the prior Saturday was a great weekend and that helped. So, that is the most detail I can give you. And unfortunately, we do not break down the monthly same-stores.

Q - Franco Abelardo {BIO 17416219 <GO>}

But, did it start in the same level and I'm sorry to interrupt you?

A - Laurence Gomes {BIO 15361799 <GO>}

I'm sorry.

Q - Franco Abelardo {BIO 17416219 <GO>}

July is started in the same levels?

A - Laurence Gomes {BIO 15361799 <GO>}

Well, July is more unstable, but we also have a very promotional month. We see -- we do not see the recovery as low yet, so it's still too early to say anything. I think it is important to wait for this promotional state to go over the change and season collection and we'll see in August now when we have a new collection coming in. And I believe we'll be able to have a better visibility about the performance of the third quarter as well.

Q - Franco Abelardo {BIO 17416219 <GO>}

Okay. It is very clear. Now about the other expenses?

A - Laurence Gomes {BIO 15361799 <GO>}

I'm sorry.

Q - Franco Abelardo {BIO 17416219 <GO>}

About other expenses in terms of the results and the profit sharing?

A - Laurence Gomes {BIO 15361799 <GO>}

Well, the provision value is always according to our expectations for the year and what we have seen so far the level of sales that is lower than our expectations, that's why we are doing lower provisioning than we did last year. Remember that last year we had a strong level of sales. It was one of the best years for Renner in terms of sales performance.

Q - Franco Abelardo {BIO 17416219 <GO>}

Thank you very much.

A - Laurence Gomes {BIO 15361799 <GO>}

Now, let me remind you that -- I think that our speech and our view for the year is that even knowing that this is going to be more conservative and more challenging year, but it's -- the goal was always to protect the operating leverage to maintain operating margins and the same operating margins of 2015.

So we continue concentrating on that. We are committed to it. I think in the first half of the year we have shown it. We have taken several measures and the whole company was engaged, not only the management, but also other sources we're engaged in order to optimize and process it, so that we could adjust ourselves and adjust the company and the operations to the current sales level.

Q - Franco Abelardo {BIO 17416219 <GO>}

Okay. And a quick follow-up on that. In the first half of the year you've had a drop of 90 bps in the EBITDA margin. So, you believe that you should have an expansion in the second half of the year maybe in the same magnitude to offset, so that you can deliver the margins because the mindset that is the second quarter was very good. You had 23 points, but you could accelerate that margin expansion along the second half of the year, is that the idea?

A - Laurence Gomes {BIO 15361799 <GO>}

Yes, exactly. We want to deliver total EBITDA margin very close to the one we had last year even with the additional expenses that we have this year that we did not have last year.

Q - Franco Abelardo {BIO 17416219 <GO>}

Thank you very much.

Operator

Our next question is from Guilherme Assis, Brasil Plural. Please Mr. Guilherme, you may begin.

Q - Guilherme Assis {BIO 16143141 <GO>}

Good afternoon, everyone. Mr. Laurence, thank you very much for answering my questions. I want to go back to the discussion that we had in the prior quarter, because there was a change in the policies with suppliers, also there is some noise relating to the replacement of the imported products by local suppliers. I want to know what is the situation now, what is your relationship with suppliers.

Analyzing your results, your inventory levels, it seems to me that you have already called everything that happened in the first quarter. And from now on, with that level of exchange rate, as you are saying this is an ongoing trend, do you believe you could recover some of the imported products?

And I know it takes some time to happen, maybe that will be reflected only in next year's collection, but since you were able to address the problem in the first quarter and you did it so fast, what is the perspective from now on and how is that going to impact the margin perspective for you? That's my question. Thank you.

A - Laurence Gomes {BIO 15361799 <GO>}

Thank you very much, Guilherme. Well, most of the issues that we've had in the first quarter have been already addressed. We are at a very different situation than what we were in the first quarter. What we have mentioned not just matters related to collections, especially female collections, they have had a good development along the month, but still it takes some time and we do believe that now with the new collections coming in, in August and September, all those issues will be finally solved.

I think that we also had a rebalancing between internal demand -- an internal demand that came from retailers that we're importing, I believe, we had a readjustment in the industry and that was addressed and solved along the first month of the year. So, we don't -- the situation is back to normal.

It's also important to remind you that we have developed a program -- a special relationship with suppliers in order to increase the synchronicity of our operations and production operations from suppliers that is tools and programs that help both in terms of production, as well as in terms of administrative management and financial management as well.

So, today, we have basically all procurement forecast up to the end of the year, everything is planned for purchasing, that's a subject that we considered solved.

Q - Guilherme Assis {BIO 16143141 <GO>}

Laurence, and going further on this subject, so you have settled an office in China, right? I don't remember the number of people; 40 people may be there. Did you change that at any moment with that change in perspective? Do you have a change in the strategy or not? You are maintaining work structure there and will keep on doing it?

A - Laurence Gomes {BIO 15361799 <GO>}

Yes, we should keep it after this. Remember that we are in a very initial stage of that operation. Yes, it has been expressed by the operation. Yes, we have a procurement up there and now we have a better structure, but the main objective is to develop suppliers in the region. That is our main target and we work in the long-term. We believe that an important part of imports in a certain moment in the near future, significant share of imports might be made, but you think that infrastructure we have there. So remember we also have a bottleneck, a lack of winter items in Brazil. In some cases also, we have quality issues. Therefore that becomes a structural matter. So, there is a real need for an operation in order to keep that percentage of imported products in our portfolio.

Q - Guilherme Assis {BIO 16143141 <GO>}

It's clear now. A final question, if I may, so that I can well understand it. Based on the prior questions, you have said that one of the most important reasons of this lower gross margin was because of the lower markdowns in the winter, and also the lower temperatures and the inventory levels also had a little difference from June to July. So, looking ahead, starting on the third quarter, with decrease of the winter collection, and adjusted inventory, is it possible that the margins will not have all of that gain? Would it be right to say something like that?

A - Laurence Gomes {BIO 15361799 <GO>}

Guilherme, yes, we have mentioned before that we expect a margin expansion at a lower magnitude than what we had in the first half of the year. And remember -- and it's important to remember that this margin expansion is thanks to a commercial strategy and more efficiency in logistics operations that combined with planning were the main reasons for that margin expansion.

Q - Guilherme Assis {BIO 16143141 <GO>}

That's great. Very clear. Thank you, Laurence.

Operator

Our next question is from Mr. Fabio Monteiro from BTG Pactual. Please, Mr. Fabio.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Good afternoon, everyone. I want to set aside the quarter and would like to understand how the push and pull project is going and also the reaction of the supply chain. Can you tell us how this process is going? I understand the ramp-up for the DC in Rio was strong. How was it going this year and how is the process for Santa Catarina now?

And you have talked in the last call that in the second half of this year we would start seeing some benefits. So, if you can also go into details on what we can see.

And now already going back to the second quarter, I would like to know if you understand that in the second quarter you had benefits even though it's limited benefits, that is -- if there is also a positive reading of the project that you have been working on for a while now? Thank you.

A - Laurence Gomes {BIO 15361799 <GO>}

Hello, Fabio, and thank you for your question. About the DC, Santa Catarina, the Distribution Center is already stable. Including the logistics operator or the billing of imports, everything is done internally. Starting on May, we had the storing operations down there to make push and pull possible. And we believe our diagnosis is that the performance indicators are doing very well. The stabilizing period was much shorter than in Rio, the learning curve was faster than the one as we had in Rio. So, it really went over our expectations in terms of stabilization of product Distribution Center in Santa Catarina. The push and pull is still being developed. I believe that since Renner Day is a good news is that we have increased the number of items in 20%. We already feel confident to increase that number of items and that is a positive trend, so that we can deploy this plan of capacity occupation for push and pull.

Of course, now we'll stop for a while because of the systems transition probably for a few weeks and then we will come back to the original ramp-up. So it is going very well. For the second quarter, we have already seen an improvement in logistics efficiency as I mentioned, but not yet for push and pull. I believe push and pull will have marginal gain probably only on the fourth quarter. And important is the margin combination and the turnover and better efficiency of our inventories or return on inventory, which is we expect to see in the near future. We expect to have more sales with less inventory.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Thank you very much, Laurence.

Operator

Our next question is from Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good afternoon. Thank you for taking my question and congratulations on the results. A question on the gross margin for Camicado. The growth has been strong in Camicado, and the gross margin is still increasing, but maybe not at the same pace here in the second quarter when compared to the first quarter, and it's a little bit lower than the level of the first quarter. Do you see an impact of seasonality here, maybe it could be impacting the second quarter vis-a-vis the first one or maybe a FX impact that we should consider and how can we understand this gross margin from now on?

And my second question, if you may, it's about Youcom, I know this is a small operation, a starting one, but (inaudible) and opening new stores. So, I would like to listen more about your experience on that in the last three to six months, what are the main learnings and what do you expect to face ahead.

A - Laurence Gomes {BIO 15361799 <GO>}

Thank you for your questions, Irma. Well, Camicado's margin, let me remind you we have a benefit of 200 bps, which is related to the tax of products, and now it is impacting in the gross revenues. So the gross profit is the same, but on a net revenue that is lower, that is the gross margin ends up being higher.

But even then net of that impact -- also if I start with Texas then we also have on Camicado, we had an expansion of 200 bps vis-a-vis last year, and that is a significant result. Thanks to the adjustments in the product mix for Camicado, also thanks to the new visual merchandising strategy that we are working with, and also a better execution at the stores. All of those topics combined provided the performance of gross margin in Camicado. And we expect to keep that level of gross margin with gradual gains from now on.

The second part of the question about Youcom, we had a strong growth of sales in Youcom also after an adjustment in the product mix, because there we have a balanced product pyramid. This is very well received by customers. Also we have updating operations in the stores layout and we are already in the process of building the brand.

We believe that after that first year where we found some difficulties we are now finding the right positioning for Youcom both in fashion as well as in pricing. This is a positive highlight; the gross margin that we had was important. So Youcom is meeting all our expected targets both in sales as well as in margins added [ph] very satisfaction.

Q - Irma Sgarz {BIO 15190838 <GO>}

And do you have an update when do you configure to review a franchise model for this brand?

A - Laurence Gomes {BIO 15361799 <GO>}

We don't have yet the visibility. We believe that at certain moment that will happen if we have not that definition yet. It's important to build the brand to have the consolidation of that value proposition, the positioning, but I believe that an indication would be after 100, 120 stores, with a footprint in Brazil, that we could start thinking on would it be possible to think about a franchise model, but we are still building the brand.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you.

Operator

Our next question is from Mr. Tobias from Credit Suisse. Please, Mr. Tobias.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Laurence, good afternoon. I would like to understand that -- so on this call you highlighted this new system. I want to understand -- I know you have important gains on that, but are you trying to convey a message, here look we are going well -- or maybe we'll have problems in the short-term? I just want to understand, you said that the deployment is going well, but you have been very careful when you mentioned it. So I want to do a cross-reading on it, specifically what are your gains. That's my first question.

And second, even if -- when you said that there is no gain for push and pull, you said that you have had gains in logistics. So, can you separate what is push and pull gain and what is logistics? I want to better understand it. Can you give a type of distinction please?

A - Laurence Gomes {BIO 15361799 <GO>}

Okay, Tobias. This is an important updating, yes, a system updating, and we'll not be receiving, nor shipping products for a week or 13 days at the most. Of course, we are doing a whole preparation for that, we are ready for it, so just to plan the process we took a year and for the project restructuring. This was a project that had a special planning process here in Brazil with a whole team dedicated to it. So, we're very careful about it.

We have had a larger or a -- larger receiving -- received more products of the stores, well supplied. And so, for a period of time the stores will not be receiving any items; and for a shorter period of time, again, this is just a different situation. And all of that should go back to normal in August, and that's why we have been so careful to deal with the system.

It's difficult to say and we have done the system deployment in 2007, the retail also in 2005, this is a net gain of that system. The updating of the system will allow us to have logistics gains, also will help and that new logistics infrastructure will provide more agility, speed, productivity, more accurate inventory level, a better control also for SG&A, and in addition, this is a platform that will absorb new technologies, will kick-in new technologies that will be extremely important and also might contribute to stores operations, will provide more productivity, more efficiency in our e-commerce operations. But, it is important because we are paving the for a larger operation, a more normal operation up to 2021 and on.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you very much. And another question about push and pull and logistics. For the gain that you have related to logistics, but not push and pull, I want to better understand that. Can you explain it?

A - Laurence Gomes {BIO 15361799 <GO>}

We talked about it. The push and pull process is developing itself. As I said, we are doing well. We have a number of items. For instance, the pilot with which we are working now, we have four times the volume that we had last year, so that's very important. I think we are expediting that plan. It's important -- the important thing here is it's not only push and pull, I believe that the combination of a new infrastructure of those assets and also of (inaudible) and that synergy will allow us to take the most benefits from this new logistics platform.

It's also a matter of preparing the supply chain. I think that's also something important we have been doing. Part of that is from the DC to the stores, but also we have that other segment from suppliers to the DC and it has to be addressed. And the combination of all those factors will allow a better logistics, also a more accurate inventory management and therefore we will come to a better gross profit on the inventory.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you very much.

Operator

Our Next question is from Ms. Andrea Teixeira from JP Morgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you. Good afternoon, everyone. Congratulations on the results. I would like to better understand -- the comparison of improvement is 200 bps more favorable in the quarter. But I have to understand the behavior of the consumer. Have you seen an improvement in terms of tickets or traffic? Obviously, what we have seen is impressive, but in a way I don't know if you were able to see any type of down-trading changing, for instance, the average sales ticket seems to be aligned, but a little bit lower than inflation. And can you tell us what we can expect considering that the first and second quarters were rather good if we could think another mid-single digit, but also in high-single digit recovery for the year? That is my question. Thank you.

A - Laurence Gomes {BIO 15361799 <GO>}

Thank you, Andrea. Very well. We have seen a reaction in the flow in the stores. We have not seen a recovery in the flow yet now in July. I think that the shopping malls administrators are also facing that slow drop, that is a non-factor for everyone. We have not seen a change in the down-trade. And even in the lower classes we are still gaining flow and we extremely don't see a change there. What we have seen again is the scenario, the level of (inaudible) still low. The consumers are very cautious or concerned about consumption, but our value proposition is still well adjusted. We have been able to gain market share as already mentioned and that is very important.

I would like to highlight, I will take myself. I believe we have a new collection coming in, in August and September, but we see the third quarter in a very conservative manner. In the first day where that happened, that lack of volatility of uncertainty in July we're seeing and we expect now the third quarter that should be very similar to the second quarter in terms of same-store sales. And for the year, we believe there is more uncertain and it is more difficult to have same-store sales close to the inflation level or aligned to inflation. That is what we see for now.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Perfect. And finally, I know it is difficult to renegotiate lease terms and that has been something that has repeating itself. Do you have a recent view about the year something that -- a margin that we could see something that the market is not counting with improving in terms of cost for instance?

A - Laurence Gomes {BIO 15361799 <GO>}

I think our belief and objectives are the same for the year, Andrea. I believe we have been able to adjust the company, we have been able to be fast, quick to adjust the structure and expenses to sales base. So I'd rather highlight that our objective for the year is to deliver the same EBITDA margin what we had last year.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you very much. And once again congratulations on the results.

Operator

(Operator Instructions)

A - Laurence Gomes {BIO 15361799 <GO>}

We have here -- this is Laurence. We have questions that were asked via platform. The first question is about the growth in net revenue. What is the specific growth of fashion and toiletry separately? And do you have a strategy of having perfume or the toiletry category in Youcom?

And the answer is that we do not breakout sales per category. And we believe that Youcom will not have toiletries.

The second question via platform is what is the forecast to open the first store in Uruguay operation.

And the answer is the first store for Uruguay should be opened in the second half of 2017.

Operator

As there are no further questions we would like to turn the floor to our speaker for his final remarks.

A - Laurence Gomes {BIO 15361799 <GO>}

Thank you all. We will be available for future questions, and you may contact our IR team. Thank you again and see you next quarter.

Operator

The conference call for Lojas Renner has been concluded. Thank you very much for your participation. Have a nice afternoon.