# Q3 2015 Earnings Call

## Company Participants

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

## Other Participants

- Franco Abelardo, Analyst
- Guilherme Assis, Analyst
- Irma Sgarz, Analyst
- Joao Mamede, Analyst
- Joseph Giordano, Analyst
- Richard Cathcart, Analyst
- Thiago Macruz, Analyst
- Tobias Stingelin, Analyst

## Presentation

### Operator

Good afternoon, ladies and gentlemen, and thank you for waiting. Welcome to Lojas Renner's Third Quarter 2015 Earnings Conference Call.

We would like to inform you that today's live webcast, including the slideshow maybe accessed through Lojas Renner's website at www.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.

We would also like to inform that participants will be in listen-only mode during the Company's presentation. After the Company's remarks are completed, there will be a question-and-answer session when further instructions will be provided. (Operator Instructions) We would like to recommend that questions coming from journalists should be taken by our press office, so please call (11) 3165-9586.

Before proceeding, we would like to mention that forward-looking statements that might be made during this conference call related to Company's expectations, projections, financial and operating goals are based on the beliefs and assumptions of Lojas Renner's management, and information currently available to the Company.

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

Now, I would like to turn the conference over to Mr. Laurence Gomes, Chief Financial Officer and Investor Relations Officer. Mr. Gomes, you may proceed.

## Laurence Beltrao Gomes {BIO 15361799 <GO>}

Well, good afternoon one and all. This is Laurence speaking. And we're here today to speak about our results for the third quarter of 2015. We have here with me Mr. Jose Gallo, CEO; Mr. Luciano Agliardi, Controller, General Manager; and Paula Picinini, IR Manager.

We'll go now into the presentation. So first slide, please. The third quarter was once again marked by continued sales performance for Renner's Camicado and Youcom, and by significant margin gains in the retailing operation. Along the quarter, analyzing the different months of the quarter we've had our most relevant performance in the month of July.

Given a weak comparison base of last year, because of the FIFA World Cup of 2014, let me now give (inaudible) we already told you the effect of a stronger comparison base of the prior year. We had a better performance in August and September of 2014, but still when you analyze our accumulated sales performance, we see that we continue to post satisfactory growth, and we see no clear signs of slowdown. This performance enabled us to achieve merchandise sales of 19.2% and same store sales of 12.6%. Gross profits grew by 21.4%, and gross margin increased from 52.1% to 53.1%.

Operating expenses, more than average we remain very much focused and disciplined on expense management. We have a strict budget control. And that allowed us to maintain our SG&A at 36.9% even with higher logistics expenses and electricity crisis. Given all of that, we expanded our retailing operation EBITDA margin by 1 percentage point and posted a 28% growth in this account. (inaudible) product, the results was down 22.4%, impacted by a lower revenue growth which was negatively impacted by new sales (inaudible) traffic and higher funding costs. We have a select funding cost of 7.3 [ph] in the third quarter (inaudible) so higher funding costs. And also given the strategy to accelerate the whole debt collection cost. All of that means that if we collect before new savings, if we recover this debt factor, we have lower expenses related to interest rates and funds.

We also saw some deceleration in delinquency level for all three products, mainly Saque Rapido also known as Quick withdrawal. Even this being related to the current macroeconomic environment in the company's historical level, we have thoroughly monitored the behavior of the different portfolios in each range of past dues and also managing and implementing some new initiatives. What this talks about is since last year we had some incentive initiatives aiming to save the line this level of losses.

And this is where we've already shown an improvement in the quality of our portfolio. We consider quality of the portfolios and we believe such initiatives will also contribute to stabilize delinquency in 2016.

Please go to slide 4. Here we show you -- this chart is about net losses and past dues in our portfolio. In the top chart, our private label card. We see some stability in the level of past dues and an increased allowance of doubtful debt, given the higher provisions adopted, particularly acquiring to a higher sales volume (inaudible) given the sales volume and also given lower recoveries of loans written-off after 180 days past dues.

In the middle chart, we see Saque Rapido, which posted an increase in past dues as well as in losses, best performance, it has our projections and expectations, but we are already implementing some actions which should gain stability to those figures. Finally, the third and bottom chart, I gave the performance of our Co-Branded Card Meu Cartao with higher delays compared to last year, and with slightly higher loss rates representing the macroeconomic environment.

To end this brief presentation, I would like to make some very quick comments on the other business two business units. In Camicado, we had a good sales performance this quarter with an increase in gross margin, very well controlled expenses and the opening of one new store.

For Youcom we've doubled sales related to the third quarter of 2015 year-on-year, and gross margins continues to expand.

And these were my initial remarks so far. And now we would like to begin the question-and-answer session. Thank you very much.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now initiate the question-and-answers session. We would like to read out the question (inaudible) will be taken first, and subsequently we will open some time for questions made in English. (Operator Instructions) Please remember, the phone questions will be answered through the webcast platform. Our first question comes from Joseph Giordano with JPMorgan. Please go ahead, sir.

### Q - Joseph Giordano {BIO 17751061 <GO>}

Hello. Good afternoon, Laurence and all. Thank for taking my question. I guess that's a main question for the quarter. Have to do financial products. I think the surprise came with a revenue increase so way below our expectation. So I'd like to understand Laurence, how much of the revenue growth was impacted by Fed[ph] or by (inaudible) perhaps a higher tax burden was a surprise. Could you please elaborate? Thank you.

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

This is relevant in fact just the taxes amounted to 5 million in the quarter. So this was indeed a material effect, but like I said in my brief presentation, so this currently is form 10.85% on average increase into 14.25%, (inaudible) also had an impact, but the main factor was (inaudible) taxes and the impacts of the higher funding costs.

## Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you. By looking at the Retailing Operation, you said that for August and September you had a more difficult comparison base. When we think about performance over the quarter, comparing to the pace that we had in the first half of the year. Are you ending the third quarter with a high ticket or medium ticket for same-store sales. And what about for the fourth quarter perhaps the comparison base, will it be strongest for year. So what can we expect in terms of transaction gain?

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

So we ended the quarter with two digit, but again the transaction in the fourth quarter, I think it is important to think that we have a very high comparison base, last year -- we had 17.3% last year. So our expectation remains the same. We don't see any clear signs of falling down. What we have seen is that our collection has been very well accepted, we have seen a good customer traffic in our stores. And that is a positive sign for us. And our expectation remains unchanged. We expect one digit, we have a medium digit and low digit for the first quarter. And we're talking here about same-store sales, okay.

## Operator

Our next question comes from Mr. Franco Abelardo with Morgan Stanley. Mr. Abelardo, you may proceed.

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

Hello, good afternoon, everyone. My question is a follow-up question regarding credit. Will this tax increases will be (inaudible) in the coming quarters or so, right. So how we should expect revenue from financial services to fall for private label cards in the coming quarters. That would be my first question.

My second quarter has to do with the quality of the portfolio. I think it's interesting that you mentioned that you're going to implement some initiatives to control delinquency in order this should give us a better quality in the portfolio.

But my question is, what is the expected delinquency level for you, will it stabilize at the current level, more or less that we had in the third quarter, and (inaudible) risk that delinquency rates may go back to higher levels as we had in 2009 and '10. I think this was the last stressful period that we had in the credit portfolio of Renner, and I'm optimist given the macroeconomic environment.

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

Franco. Thank you for the question. Definitely, I think it is very important that we put things into (inaudible) And it is really important to contextualize this, frankly, Renner is considered in our credit policy, so we are quite conservative and quite consistent, with not changing our payments and our credit terms or our credit policy. It's really important that I trust this. Credit trends, conditions remained the same.

We have actually non-existent campaigns for that, but it's really important to mention that approval rates of sales, six percentage points compared to the same period of last year. We are (inaudible) and this is why we're improving the quality of our portfolio.

Another important piece of data is that our credit limits are growing older than inflation. In addition, the occupancy rates of credit limit remain the same year-on-year. So we're more analytical about this and we do follow this every week, we will (inaudible)every week.

We cluster our debt collections by region by store, by age group, by job type, and what we have been seeing is that the recent release any changes in social classes in region, we see (inaudible) performance and makes us to believe delinquency independent on the macroeconomic scenario. There is a deterioration of disposable income, given our inflation rate at the moment.

And I think that this is an important sector, we are making some practical adjustments one time off adjustments, we are acting where we see there is a need to act, hopefully strategy remains the same, because we have a very conservative policy.

So going back to Franco's question, in the fourth quarter, we expect to capture and I'll just remind you that we increased the rates of (inaudible) for all products in the end of the first quarter, and we will now capture fully that increase now in the first quarter. Revenue will be included, then we believe that this is an increase in the provision for doubtful that will be lower.

Now, statistic exchange (inaudible) action, considering our attitude and our access (inaudible) and using our technology it's also important to point out that we shared in the beginning of the year that we were introducing a new tax collection infrastructure. And this new collection infrastructure brings new technology that will increase our productivity. Like I said, the number is not so focused on that collection must bring this money back. So the new purchases are increasing, and by deploying this new tax collection infrastructure, this infrastructure was completed along the month of September.

So, only now we will set operating with a full capacity of this new debt collection infrastructure as of October 1st. So 2015 based on all that, the new debt collection infrastructure, new technology, technical adjustment should be at that collection operations. With all that, the challenge remains but we will seek to deliver a very similar delinquency rate to that of 2015. And so in our opinion the macroeconomic scenario will deteriorate, which will have several internal initiatives that showed in your expectation upside, the worsening of the macroeconomic scenario. This is our first statement (inaudible) so 2016, we need to seek normally a swap in the consumer rates.

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

Perfect. Thank you very much.

## Operator

Our next question comes from Mr. Guilherme Assis with Brasil Plural. Please proceed, go ahead.

## Q - Guilherme Assis {BIO 16143141 <GO>}

Hello, good afternoon. Good afternoon, Laurence. Thank you for taking my question. I would like to start a detailed discussion about financial services and products. Could you speak a little about the good performance of the retailing operation?

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

Well, in order to financial services question discussed lastly, I would like to understand the strategy a little more. Quality was clear. And in fact that Renner is a conservative company. So that's only we're taking all measures, all actions through the delinquency level that's another quick one. And I think that this is a good strategy. Now looking at this scenario, not talking just about Renner performance which remains good in the macroeconomic scenario. We have seen some downgraded expectations for GDP growth.

So I would like to know. So this half of these things at the moment will come when it won't limit for accelerate to change this could be no long so conservative to encourage the retailing operation. We see some competitive strength to do this. And not exactly right now, but we'll tried this in the past with some short-term results that is a mid-term long term, there is a whole to build at this pace.

## Q - Guilherme Assis {BIO 16143141 <GO>}

So, I would like to understand from you, do you have this kind of discussion internally, or are you keen to just have a conservative financial operation. And so your results are so good, so what you said for the fourth quarter, the expectation is with the difficult comparison base will be harvested and this is good. Well, perhaps next year this is the kind of discussion that will arise. So I would like to know the new release of this kind of discussion will be valid for next year?

And my second question now regarding the retailing operation. How the core performance of the economy influence your expansion plan, because I understand that you have a long-term expansion plan. You communicated this to the market side clearly. But for example with your delay is in the opening of shopping malls, does this impact you, are you going over your CapEx for opening new stores given the macroeconomic scenario? Fair enough. Thank you.

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

Guilherme, thank you for the question. Well, let me mention that was in credit to leverage sales. Well, this is a discussion that does not exist and never existed at Renner. This is (inaudible) this is the principle we never leverage the retailing operation with credit (inaudible) and very consistent regarding that. So this is not on the table, we are not having that discussion internally, and this is also important to highlight the positioning of Renner. We are disciplined in our positioning of that trend. And then also we know our target customers, we know them, we know our customers, we want to attract customers because of our fashion collection, because that there is good purchasing experience, because of our products and not because of payment conditions or other possible strategies, so we are focused on fashion and on purchasing experience, shopping experience.

Now your second question can be answered by Gallo.

## A - Jose Gallo {BIO 1822764 <GO>}

This is Gallo. Good afternoon, Guilherme. Regarding the expansion for next year, we are putting together our budgets. It will be submitted to our Board of Directors now in December and then we will set the pace of expansion, the number of stores to be opened so on and so forth.

But yes, we do shift towards on the economy, so we are going to balance this opportunity, as I said this is what is going to define the number of new stores that we will be opening next year. As you know, at Renner, we signed contracts from new stores with quite a long time before we opened, and so we will have now to find a balance between being cautious and to take advantage of the opportunities. It is important to mention that we have foreseen all of our stores in existing shopping malls that already exists this year.

So this shopping mall are already working they are up and running and the shopping malls are where we are going to our new stores will improve the results, and there's something else that (inaudible) don't know. People talk about 30%, 40% of vacancy rate in shopping malls, and we follow the shopping malls closely and the sales results of our stores fits exactly our budget. And I would, seeing this slightly above our expectation which means that we (inaudible)about the shopping mall with 30%, 40% vacancy rate can still offer the business for Renner at Camicado and Youcom. I think that the opportunities are even better. We have a number of stores that are not knowing for anything (inaudible). And so this will give rise to new opportunities for Camicado and Youcom, with this we have to be balance. All of this opportunities are there, and I caution and this is what the balance will be defined in December.

## Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you, Gallo. This is very clear. If I may ask a follow-up question. I have the microphone. What about the portion so far, you officially opened a new distribution center that's been operating for a while and I was to know about the implementation costs. Is it going according to budget, according to schedule. Do you still maintain that this should help, it grow by better margins from the middle to the end of next year? How is this unfolding?

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

Well, our (inaudible) in September in Santa Catarina. It is already up and running and we've now started to implement and deploying the push forward selling strategy gradually said the beginning of the second quarter of next year we will be operating (inaudible). We don't include this for the end of this year, because we didn't want to impact our end of year operations annually. But this is operating normally and by resuming of the second quarter next year we will be operating in both stores.

## Q - Guilherme Assis {BIO 16143141 <GO>}

Great. Thank you very much.

## Operator

Our next question comes from Thiago Macruz with Itau BBA. Please go ahead.

## Q - Thiago Macruz {BIO 16404924 <GO>}

Hello. I have two questions. First, do you see any more conservative approach in cost negotiations with local suppliers, perhaps with improved real deprecation and they ever to try and to increase their prices and to recover their profitability?

And my second question, we have seen a consistent drop in the coverage of the product label cards. What's explaining the strength, do you have a number which would be comfortable to operate in the coming months. I'm trying to find the (inaudible) for this metric in the short term?

## A - Jose Gallo {BIO 1822764 <GO>}

Well this is Gallo. Regarding the suppliers, Renner has -- I will try to explain, this is a mutual agreement relationship with our suppliers, at least once a year we need to rebalance suppliers accounting for approximately 80% of our products, and in that meetings, we jointly decide where we're going, what our plans are, and we exchange ideas about improvements and what we can do additionally to face and cope with the current macroeconomic scenario.

At Renner, we have four or five engineers, which we did not have in the past and these engineers are working with our suppliers, trying to increase productivity, nationalization (inaudible)electricity savings, water savings and so all of those withdrawn, so obviously now negotiation for the quite rigid quite tricked in our negotiation. But we always reach a consensus, always following this rational of working close to our buyers not cancelling orders and involving out compliance to the partners. And this is particularly important at this point, because our suppliers also feel a little bit of the pressure, because of the securities and they will have to give them a level of confidence and the counterparty of this level of comfort in the region of technical season.

You asked a question about coverage, well total coverage of the private label remains at the same level of last year, total coverage.

The point is has the quality of the credit portfolio improved?, We see an improved percentage of (inaudible)in the younger age groups. So we require now a lower provision, the lower allowance for doubtful debts in this younger age group. And the younger age groups are the one that compensate the higher volume and so we use such an improvement in the operation and improvements in efficiency and in credits granted.

## Q - Guilherme Assis {BIO 16143141 <GO>}

Okay, so thank you very much for the answer.

## Operator

Our next question comes from Mr. Richard Cathcart from HSBC. Please go ahead.

## Q - Richard Cathcart {BIO 16457807 <GO>}

Good afternoon. I have one more question about the first quarter. One had (inaudible) that your expected same-store sales of the consumers. What can you expect the same store sales of the two (inaudible) what can you expect for SG&A. Will they become more or less stable, the percentage of sales. That is my first question. Now, second question is about financial attributives. Will you able to maintain operating cost more or less flat year-on-year, including the expenses to continue in the first quarter? Thank you very much.

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

No. We're sorry, our efforts to deliver on SG&A there is something very much in keeping with what we've had last year although we do have these new structures that we're talking about. There is structure, higher electricity charges et cetera. We also have our new payroll which also impacts the first quarter and the month (inaudible) will everything in our power to deliver results including that last year. The second question about financial costs, I think it is important to highlight, that we are implementing a number of initiatives, earnings to liquid through upward financial service revenue. So we are doing quite good over there, trying to think about some initiatives to operationally push this area. This answers your question, right?

## Q - Richard Cathcart {BIO 16457807 <GO>}

Yes, it does. Thank you, very much, Laurence.

## Operator

Our next question comes from Irma Sgarz with Goldman Sachs. Please go ahead ma'am.

## Q - Irma Sgarz {BIO 15190838 <GO>}

Hello. Good afternoon. I'd like ask about the real depreciation, the foreign exchange evaluation in recent months. I'd like to know what you think about pricing. What you expect for 2016? Particularly at the moment that the real depreciation, it's having an impact.

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

Irma, thank you for the question. We have made comments on that. We have a foreign exchange hedging crisis, we always try to avoid exposures in currency in our cash flow. With that, our orders have been placed and we have been (inaudible) for 2016. We have placed the orders for the winter collection and also some products for December collection. So we are quite competitive for 2016, we are basically okay, in that area. But the major talent remains for 2017, for this revenue. (inaudible) might be reduced it is possible that in some categories we might be replacing by a local products.

In Renner, we believe especially in China, we'll have those developed new suppliers, we have a very structured sectors in China, we have new relationships in China in that couple to our (inaudible)will perhaps enables us to have better negotiation to mitigate the foreign exchange impact.

Now, costs only could have two customers, but hopefully we'll do this very much aligned with our price policy, reflecting our market position. In market positioning this is the major challenge that we see, and we're discussing this internally. So if we might do in a combination of all of this alternatives.

## Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you, if I may ask a follow up question. From what I understand, you have a hedge, there will be a gap between the moment you place an order of a products actually priced (inaudible). So it can exactly mean that in the (inaudible) by now you have just placed orders now for the 2016 new winter collection, higher borrowings, unless you have a higher currency to offset that.

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

Well, 2016 definitely this will be a very challenging year in terms of sales and operating margin. We have been making a lot of improvements and adjustments. We have more structures in our collections, we're making adjustments in the -- product distribution and allocation. Well, in terms of foreign exchange valuation, some of the signs will be passed through gradually the customer, but I repeat, without changing our market positioning, we have to focus on quality products. We will not change the quality of our product. Now faced with the current scenario, we don't see more idleness that we see more availability of suppliers in Brazil and also in Asia, so (inaudible) over there have also added to some better negotiation condition.

## Q - Irma Sgarz {BIO 15190838 <GO>}

Okay, thank you.

## Operator

Our next question comes from a Tobias Stingelin with Credit Suisse. Please go ahead.

## Q - Tobias Stingelin {BIO 18290133 <GO>}

Good morning. (inaudible) by the foreign exchange rate, what is the risk that you expect from next year. That's my first question, comparing with this year. And secondly, what your trends in the credit policy from the beginning FDA to recognize that some, (inaudible) than you expected. (inaudible) turns up policies and practices, what have you changed in the first ten months of the year? And then you talked about same-store sales and you talked about in July, August and September the sales decelerate down a little bit, I think you said, you're doing well, your collections have been well accepted in the third quarter you're probably working with a mid single digit.

So what is the problem is it the general comparison base, can you give us some insights on that, are sales slowing down, and will you (inaudible) the explanation. Could you elaborate?

## A - Jose Gallo {BIO 1822764 <GO>}

Okay. Let's answer the first question first, the foreign exchange, average foreign exchange rate up 360 for 2016, second question, what changed the quarter from (inaudible). Using the technology what we introduced, we are introducing in 2016 with the new credit model, and some to quick or second half it is, now that the new (inaudible) there were some changes to the processes.

We also review the maintenance of credit limit, so we've started having this kind of maintenance, at before hands (inaudible) now, credit point we're more restrictive. So this was a combination of actions that we've implemented. Sales in the fourth quarter of last year we had 17.3%, and this was quite balanced along three months, so we had a higher digit in all, actually high two digits in the three months of the first quarter. So when we talk about the low digit for the first quarter of 2015 is because we have quite a high comparison base.

## Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you. Could you be more specific about this new infrastructure?

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

You asked about this infrastructure seeing that probably everything if goes well. Next year, the delinquency rate will be similar to what we are going to have this year.

## Q - Tobias Stingelin {BIO 18290133 <GO>}

So talking about this new infrastructure. What is that new infrastructure?

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

Okay, I apologize if I wasn't very clear. Well we had in debt collection -- to have of our own debt collection fees, and then despite that was ranged, and we change, removed, we hired a third-party provider. And now we are renting the whole new infrastructure and have new collections, the whole price regarding equipment and technology. So now in a different location. So all of our employees moved or transferred to this site. Now we have more powerful dialers.

So today the amount of call for operator for employees increased by 30%. We have another metric voice with song system. And the call is only transferred in certain conditions under the human voice. So this kind of the activity and this kind of process (inaudible) measures. Seconds can be measured and very important for increased productivity of our operators. And now we changed a little the collection system. We changed some of our partners and our source of collection efforts with the same campaign, we had some new negotiations and that has been providing quite a material improvement.

## Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you. And my last question. What is the impact of the new payroll taxes? Will that impact will start to result by year-end? So what do you expect?

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

Well, we have for the margin and the impact of where it result in 2016, an impact that we expect different 35 million to 40 million.

## Operator

And our next question comes from Joao Mamede with Santander Bank. Mr. Mamede, please go ahead.

## Q - Joao Mamede {BIO 15265292 <GO>}

Good afternoon, I would like to go back to retailing expenses. This is (inaudible) causes result for the quarter. While you had high electricity charges, we have taken higher logistics expenses and labor that are impacted, but on the other hand you were able to manage all of that quite well.

And you've been doing so for quite a while. So looking forward, whether these pressure, cost pressure should continue, so I would like to understand what do you think, what are you considering about the expenses, at what line items are you able to control and the initiative? Perhaps these initiative -- perhaps you should have an excess of the percentage of sales incentive system that will be stable or perhaps lower for the reselling operations.

This is my first question and the second question is, I know that financial services have been discussed last year, but I just want to understand from the customers standpoint, any role of incentives that you see, in terms of consumers seeking more product, either A or B, we (inaudible) covered with a growing demand and flow with a lower format, once in half on past working capital. So I just want to understand what is this.

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

It is important to mention that Renner always wants to take action before, in 2013, we started a programs to optimize our credible to improve our operating efficiency and productivity, we were to buy from external consulting firm a program called (inaudible), and we remember that along 2013 for the project and as we said you for this increase in project to prepare for 2015, we were already concerned about the low economic scenario. So we implemented another internal program to with the new activity, and consider range to capture opportunities internally.

Given that, this has been a fashion at Renner. We need to find opportunities in house, we need to find opportunities in our operation. And also opportunities in our commercial relations that always with the focus in house to improve operating efficiency. So for 2015 a long time we have been preparing ourselves for a challenging scenario in 2016, and where we need that methodology that we need in 2015 where we are now (inaudible) the budget for 2016. So again, it's more of the time, it is continuing with this activity, it is continuing with this principle, which we have adopted.

Regarding financial products, we do not see anything that is (inaudible) of customers. As I mentioned that while we see some macroeconomic scenario that is impacting the income. So households are finding it more difficult to make, and I got this something, so you have to do (inaudible) low performers and the other products. But this is the nature of this kind of product in this kind of scenario, this is a characteristic of those products, and it is the product on which we access the most, and where we became more (inaudible) store.

## Q - Joao Mamede {BIO 15265292 <GO>}

Thank you, Laurence. If I may ask one last quick question. (inaudible) to a reasonable leverage cost. But today Renner's is generating a lot of cash and deposits is in very change, even with a more challenging macroeconomic scenario, the company that a cashcow. So also you may define for your cash and efficiency what you going to invest. Is there any possibility, I will discuss (inaudible) Board level?

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

We didn't increase dividend payout as it (inaudible) at this moment of caution and the Board remains focused on a lower payout level (inaudible) stabilize, and perhaps in the future tends to increase dividend payout.

## A - Jose Gallo {BIO 1822764 <GO>}

Well, this is Gallo. Indeed your question has to be answered by the Board, by the Board of Directors. What we are doing now is putting together our budget, our CapEx requirements, clear, and based on all that, the word of the investors will decide on the dividend payout policy, I really cannot answer that. This is a decision to be taken by the Board.

## Q - Joao Mamede {BIO 15265292 <GO>}

Okay. Thank you, Gallo.

## Operator

Our next question comes from Mr. Tobias Stingelin from Credit Suisse.

## Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you, (inaudible) to the guidance, but what would be the CapEx for next year? That's my first question, and the second question is, so market had an expectation at the next year, (inaudible) could be translated into margin expansion. And this year, the sales are, where the tax increase on payroll perhaps part of the deal that you could use for the expenses would be out, Gallo, CapEx?

## A - Jose Gallo {BIO 1822764 <GO>}

Again I cannot answer your question about that. We have to put the budget first, and our CapEx requirement, all of that will be submitted through and approved by the Board, after the poll, we believe the results will be held as of the second half of next year.

## Q - Tobias Stingelin {BIO 18290133 <GO>}

Gallo, I'm sorry, I want to be more significant my question, because from what we understood this margin expansion with incremental, in normal conditions, the push and pull gains would come to the margin, and my question now is given all of these pushes that we see that were not expected six months ago, perhaps, this gain will not materialize on the margin, because they have to move the gains to compensate at the end of the tax benefit, as we are appreciated with the (inaudible)something to restrict, (inaudible).

## A - Jose Gallo {BIO 1822764 <GO>}

Well, it's certainly correct. We are segregating a number available, we are talking about the exchange rate of interest rate push and pull, so here's what I can tell you, we believe that we're going to have a flat margin in 2016, with (inaudible) margin, but it is indeed a year that will be quite challenging. So we perhaps can about talk about it. This is a webcast (inaudible) I feel very -- my financial details. But I say that fully that continues to remain cautioned we're doing a lot of things, and we're going to a structural change movement at the company. We want to be more and more agile, and most of the company will remain positive in terms of our fashion collections and set in our products. Next year in March we will be in our new store across the street. We will have a better operation, which are now separated by flow. I don't know if this competition (inaudible) and we have separated areas, so in the new locations it will all be on the same floor.

Don't ask me how much this will impact the margin for us. But it will definitely going to be about new synergy with all that goes together. WE are working closer and closer to the market, to our stores. And we believe that there will be an opportunity for consolidation. We can have some competitive spaces and we can have competitive partnership, fashionable products, high quality apparel. We can all have the new changes from the cost.

So, I missed this whole story. There are challenges ahead, but there are opportunities, but you can see the world's minimal compliant, we made in this kind of situation normally separate month. So we see that automobiles are posting 20% to 25% reduction in sales, household appliances minus 16% and we don't see apparel dropping down much, so it's that. Customers are more cautious, we don't want to -- we have consumers a low (inaudible) And at this stage, we have a good opportunity. The amount that we offer and packaged with added value. We will not change our market position. We continue selling to income at a minus cost, we will know of the downgrade, to lower income directly, so we're not going to get this out, we're not going to give up on our positioning in discipline, it's all continuing, because in the past declines, we have an experience in that direction, we decided we have an offering for lower income bracket. We've been in (inaudible) what was not in our market positioning, so we will continue to be what we are? We believe that we have a strong profit, customers continue on (inaudible) that go for strong brand.

And as sales for decline, as you know, this is our day-to-day job, and those for (inaudible). We have people who read the papers every day, watch TV everyday and we have obtained the best counterparties. We are going through a slow down, but we are (inaudible) along this journey I mean, I just expects this to be primitive scenario, this is a moment, we will come out of this crisis, and this is we tell our people, our team, when this is over, when the crisis is over, we'll come out of this stronger.

In the future we'll have a higher license share than we currently have, and everyone of our people is to receive that, and if we're able to do that, we'll (inaudible). This is our story at the Lojas Renner. The morale is quite high, -- (inaudible)

## Q - Tobias Stingelin {BIO 18290133 <GO>}

The next question is alright, so what can I do to help the company?

## A - Jose Gallo {BIO 1822764 <GO>}

It's up to the Renner management to make it very clear and what direction we are going and what is everyone's role in this journey. This is how we are facing the crisis. We are realistic, we're not optimistic and we're realistic because we're coping with this crisis, -- exactly what all of us need to do to have this (inaudible) this crisis along with journey. At the end of this journey hopefully we'll be even better positioned than yesterday.

## Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you, Gallo. And I hope that you do that. Thank you.

## Operator

(Operator Instructions) This concludes the question-and-answers session. At this time I would like to turn the floor back to Mr. Laurence Gomes for closing remarks.

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

Well, I would like to thank everyone for participating in this conference call, and we hope to see you soon. Mr. Gallo, thank you very much. Well, if there are any questions that you might have, please do not hesitate to contact us. We're here for you, we're here to tell you how things are unfolding, what we expect for the future. And I want to say something else with regards, I've been in retail for quite a while. And statistically speaking, (inaudible) normally Christmas are quite good. And I think that this is going to be a booming

Christmas season, that's when we start hearing jingle bells, people will go out and shop, again this is not going to be a splendor that we can see at Christmas, so this is going to be a good Christmas. Thank you very much.

## Operator

Thank you, this does conclude today's presentation of Lojas Renner. You may disconnect your line at this time. And have a nice day.