

## Q3 2017 Earnings Call

### Company Participants

- Laurence Beltrao Gomes, Chief Financial Officer and Director of Investor Relations

### Other Participants

- Fabio Monteiro, Analyst
- Franco Abelardo, Analyst
- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Joseph Giordano, Analyst
- Maria Paula, Analyst
- Robert Ford, Analyst
- Thiago Macruz, Analyst
- Tobias Stingelin, Analyst

### Presentation

#### Operator

Good afternoon, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to Lojas Renner's Third Quarter 2017 Earnings Conference Call. We would like to inform you that today's live webcast is being recorded and broadcast simultaneously, including the slide show that you may access through Lojas Renner's website at [www.lojasrenner.com.br](http://www.lojasrenner.com.br) in the Investor Relations section at the webcast platform and in the MZiQ platform. As a reminder, questions can also be asked via the phone and via the platform.

We also inform that this event has been recorded and all 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-session session, then further instructions will be provided. (Operator Instructions) We'd like to remind you that questions from journalists can be directed to our press office at the number 11 3165 9586.

Before proceeding, let me mention that forward-looking statements that might be made during this call relative to the company's business perspectives, projections and operating and financial goals are based on the beliefs and assumptions of Lojas Renner's management and on information currently available to the company. Forward-looking statements are not a guarantee 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 will turn the conference over to Mr. Laurence Gomes, CFO and IRO. Mr. Gomes, you may begin.

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

Good afternoon, one and all. This is Laurence speaking. And we are here today to speak about our results for the third quarter 2017. Here with me are Mr. Jose Gallo, CEO; Paula Picinini, General Investor Relations Manager; and Luciano Agliardi, Controller.

As we have been doing in the last quarters, I will present some main highlights of the period and then we will move on to the question-and-answer session. The presentation will also be available on the webcast platform for support, if necessary.

Very well. The third quarter of 2017 was marked by a good level of sales with improved customer traffic in our stores. Camicado and Youcom also contributed to this performance, growing 35% and 48%, respectively.

Net revenue from merchandise sales increased by 20% and same-store sales were up 13.4%. For the first nine months, net revenue from merchandise sales increased 15.2%. It was 15.2% higher than the first nine months of 2016, and same-store sales posted a 9.5% growth.

In the quarter, gross margin reached 53.9% against the 53.7% in the third quarter '16 due to the commercial strategy adopted as well as to the positive effect of contracted exchange rates for imported products. Nevertheless, we see -- we could see that the economic scenario is still influencing a price-sensitive behavior on the part of our customers.

And Renner continues to work to ensure its competitiveness and coherence in our market positioning. We also highlight the strict control of expenses in the company, which ensured that we had BRL120 million [ph] reduction compared to the net revenue of sales.

Another highlight is the result of our financial products, which benefited from the growth of our co-branded cards after we migrated to Realize CFI, our financial institution. Also contributing to this result was the improvement in our loan portfolio quality and improvement in collection. As a consequence of improvement in retail and credit operations, EBITDA totaled BRL299 million with an EBITDA margin of 19.8%, an all-time high for the third quarter. Year-to-date until September, total adjusted EBITDA was BRL872 million with a margin of 19.9%.

Finally, our net income was 65.3% higher than the third quarter of 2016 while our net margin was 260 bps higher year-on-year. In the first nine months, net income totaled BRL400 million with a net margin of 9.2%.

I believe these were the much relevant comments. And now we would like to open the floor for questions.

## Questions And Answers

### Operator

Thank you. (Operator Instructions) Our first question comes from Guilherme Assis with Brasil Plural. Please go ahead, sir.

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

Hello, good afternoon. Laurence, and all, thank you for the opportunity. Laurence, I would like to know more about one of the highlights of the results. You talked about some point, and looking at the figures, we know that we had a 3.4% average ticket increase. And we also see an increase in customer traffic through the start.

Could you give us some color on what's happening? Because with economic context, I think it was important for you to think a little bit about your commercial strategy and your promotional strategy, because as you mentioned, there were some factors that helped you in your gross margin year-on-year. You have the -- had in operation over imported products, also the ICMS and PIS and COFINS taxes. So my impression is that you're investing part of these gains in margins.

You also talked about the competitive environment. So I would like to understand, first, how do you see customer traffic? What is your pricing strategy? And how you see competition and how competition is behaving in this economic environment? And how you are behaving as well?

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

Guilherme, thank you for the questions. So to begin with, I think that what's happening is confirming our initial expectations that we had this year. In other words, we believe that we would see an economic rally in consumption environment, which will be improving gradually, and I think that this is exactly what we're seeing. We see the environment improving gradually. There's no strong rebound that allowed us a gradual recovery.

Macroeconomic conditions have been healthy [ph]. We have the oil inflation rates, and that is driving recovery in the purchasing power, interest rates are declining, there is a reduction in consumer indebtedness. You see the labor market is also improving. So all of them contributing and resulting in more continuous trust. These external factors, which I believe created better environment and better customer traffic.

On the other side, we live in the autumn winter parts. We continue with a healthy transition, healthy collection. I think that now we have a well-balanced price pyramid, a healthy and robust inventory, and I think that this also contributes with the good customer traffic and results.

Now Guilherme, while we have been talking about investments and margin, well, that doesn't change. The promotional environment, I think, is better now than it was last year, but still the market is rather competitive. Consumers remain very cautious. And I think that our main target is to remain competitive, but always coherent with our market positioning. We have to be aligned with our strategy.

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

Okay. Thank you, Laurence. If I can ask a follow-up question, please? It's more specific, a more specific question regarding Meu Cartao delinquency rates and how you see the portfolio. So you mentioned the transition to Realize CFI. Can we expect that the forecast will go back to a more normalized rate close to 23%, 24%, because it's above 30% now? What can we expect on that regard?

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

Here, I think it is important to highlight that the product went through a very important structural change, a structural change that came from a Central Bank's Resolution 4549, which created a functionality of payment installments and revolving credit risk from limitations. Now, that's elongated payment maturity time. We can allow for payment in more installments. Now, that elongates the portfolio.

We also had an important internal point with Meu Cartao purchases that were made in-store. Under the payment book mode that has been booked in Meu Cartao portfolio, and now we'll have a different dynamic and some delay is normal.

In the case of payment book, customers can pay a few days late, but we have a certain payment now under Realize CFI. When we book everything under Realize, the delay in the payment book mode increases and we have some more installments past due, but it doesn't mean that there's a deterioration. It's just that the portfolio -- capacity portfolio is a little bit thicker. So this is the new dynamic linked to this new product.

In addition, there is another change, which is the write-off. Normally, we would write off payments that are 180 days past due and now it's 360 [ph] days according to the rules of the Brazilian Central Bank. So those that needs to be written off, now they remain in the portfolios in past due, but what is important is that we have 100% provisioning, which does not result in a higher networth. So this is important to understand. So this is the change in the portfolio.

The quality of the portfolio is good. We have Meu Cartao, Quick Withdrawal, Saque Rapido, all three portfolios are of good quality. We're very happy with that quality. There is an improvement in the environment, as I mentioned, but also an improvement in loans. We have had a good recovery of credits, of loans. We also had the workers'

compensation from the FGTS that was released for individuals, and now they either could use it, but we have more technology, which increased our efficiency in collections.

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

So from what I understood, there is a structural change and this is having an effect on the portfolio. But from what I understood, it's just a matter of accounting. It's just a change in the way you are booking all of these things.

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

Yes, correctly, you understood it right.

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

Okay. Thank you, Laurence.

**Operator**

Thank you. Our next question comes from Thiago Macruz with Itau BBA. Please go ahead, sir.

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

Thank you, Laurence. Still on that point on Guilherme's question, I would like to understand the result we get here, we got the impression that might be a mismatch between revenues and losses given the migration of the portfolio. Is this a fair statement? Or otherwise, is it fair to say that we should have a substantial pickup in provisions in the coming quarters, because perhaps in this quarter, we are not seeing this. How about then the improvement in the portfolio? Perhaps that could be a fair statement.

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

Well, Macruz, I think that this is limited to Meu Cartao. I think that with this change that we mentioned, well, I think that this is an important structural change about our product. And I think we're uncertain to say how consumers will be viewed [ph]. On one hand, we might have a pileup of installment payments. But some analysts believe that this will contribute to organizing consumer's individual payment. But regardless of that, I think that there might be a relative mismatch.

But in this quarter, as I mentioned in the release, we complemented our provision, so that we can have a level of provision above the number required, the amount required by the Central Bank. This is a practice of mainstream banks and that we also booked this provision now because of this structural change in the product. But again, I would like to underscore that the quality of our portfolio, including the quality of the Meu Cartao portfolio, have been shown a quality improvement. There's no sign of deterioration of the portfolio. We are very satisfied and we have peace of mind regarding that, and we're conservative. That's why we complemented our provision and decided to book a provision higher than the requirement by the Central Bank.

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

Okay. So that has changed, and there is another change?

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

So related to Resolution 4549 by the Central Bank, it sets forth rates for past due payment, rates for the product. So that's another change. And I believe it's way too early now to say whether this is going to be detrimental for credit quality.

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

Thank you. Perfect. This is very clear. And if I may ask one last question to see whether I understood what you just said ago mentioning [ph] about (inaudible) Realize. Do you think that the contribution to the EBITDA would have been very similar, one thing would have offset the other? This is my last question. Thank you.

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

Yes, it makes sense. Yes, it's a fair statement. I believe that the previous question was clear.

**Operator**

Our next question comes from Robert Ford with Merrill Lynch. Mr. Ford, go ahead.

**Q - Robert Ford** {BIO 1499021 <GO>}

Thank you, Laurence. Congratulations for the result. Thank you for taking my questions. Camicado had an increase in the quarter. Could you comment on the improvement that is promoted in assortment? How do you see the relative value contribution and the quality of the location of the new stores and potential growth? And still on that, could you comment on progress on e-commerce and Camicado, please?

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

Okay. Thank you for the question. Yes, I guess, regarding Camicado, we see an evolution and consolidation in our mix of products. I think that this is the main point about the results of Camicado. And the introduction of the concept of Lifestyle in Camicado, this is one of the strategic pillars of Renner. We are also implementing this concept in Camicado, consolidating this improvement in product mix.

And also, we evolved in sorting [ph]. We have more variety now and more suppliers. We have greater share of imported products as well. All of those has led to a more assertive [ph] assortment. We believe that in the last two to three years, during which we failed through unfavorable economic conditions, Camicado could find good locations in shopping malls. Camicado was able to sign leasing contracts with lower prices, lower rates in the last two years. And so we are very happy with Camicado.

Camicado is going through a ramp-up of operating margins this year, and we expect that this process of ramp-up of operating margin will continue next year. I think that Camicado

remains with our plan of opening 125 stores. This gives a target of 125 stores by 2021.

As for e-commerce, we continue in this process of deploying our technology platforms. This process began last year, and this year, we advanced quite a lot in our specific e-commerce platform. We are gaining market share and we are growing 3 times more than fashion sales, online fashion sales in Brazil. But we believe that there's still a potential to be captured there.

When we use our potential capacity of these infrastructure investment, coupled through our knowledge about fashion, improvement in the assortment of our collections, we believe that we can increase our market share. I believe that there are some functionalities and features to be implemented in the foreseeable future and that's why we are confident that we will continue to grow the importance of e-commerce channel looking forward.

**Q - Robert Ford** {BIO 1499021 <GO>}

Thank you very much. And again, congratulations on the result.

## Operator

Our next question comes from Mr. Franco Abelardo with Morgan Stanley. Mr. Abelardo, go ahead.

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

Good afternoon, Laurence and the whole Renner team. My first question -- well, actually, I have three quick questions about the loans portfolio and results at financial services? Number one, could you give us some visibility of the percentage of past due payments? They were over 180 days past due. According to the prior methodology, these would be considered losses. I don't know if you broke this down. Anyway, I can see the ranges of past due payments of Meu Cartao portfolio, just like the private label portfolio. But perhaps you could break this down for us to follow. This is my first question.

My second question is, looking at the whole loan portfolio, I tried to analyze this net of this transfer of the portfolio to Realize. We saw a 38% increase in past due payments and only 22% increase in provisions for losses in the balance sheet. Why do you have this mismatch? Is it related to what my colleague asked? Will this be offset in the coming quarters? Or if the provisioning for past payments will be offering a mismatch?

And the third question, does Renner intend to reduce interest rates to consumers following reduction of the Selic interest rate?

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

Thank you for the question. Well, that range of 180 days to 360 is about 3%, 3% of the portfolio; this is the main thing. And regarding coverage of provision, I think it is important to highlight that we have a significant improvement in our private label

portfolio and a substantial improvement also in the Quick Withdrawal, Saque Rapido portfolio as well. I think that this is the main point here.

Coverage of these two products was reduced, but there was a great coverage increase for Meu Cartao portfolio. That's the main part that really had a structural change for the product. And this is why this mismatch, we had a 38% increase and 22% coverage, it's because of that. But the main point here, again, I have to point out that the level of coverage of Meu Cartao portfolio was increased more because of the structural change and not due to a possible deterioration of credit. On the contrary, the quality of the loan is increasing. So the total level of coverage of portfolio increased from 109% to 125%, and that is the material point here.

Regarding the pass-through and the reduction of interest rates, yes, as we had mentioned before, we were waiting for the consolidation of the market and macroeconomic indicators, and now we believe it is possible to start to pass through this reduction in interest rates. This will probably happen in the month of November. We will reduce the 0+8 installment pulling an interest rate from 7.9% to 6.9%.

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

So will you be breaking down the ranges of past due payments for Meu Cartao portfolio, will you be providing this kind of information?

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

Well, this information is not yet available. But yes, we can look into that. We are considering how we are going to be recording this. But Realize will be publishing a balance sheet every six months. So periodically every six months, we will publish this.

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

Okay. Thank you. The answers were helpful. Thank you.

**Operator**

Our next question comes from Mr. Fabio Monteiro with BTG Pactual. Mr. Monteiro, please go ahead.

**Q - Fabio Monteiro** {BIO 3711690 <GO>}

Good afternoon management [ph]. Well, I have two questions. One, I would like to hear about how you see Christmas, what your expectations are for Christmas and the acceptance of the collection, at least until beginning of this new season? And I would like to hear about your first impressions about Uruguay, do you still plan to have three stores by year-end as you intend to open more stores next year? And do you see the possibility of expanding to other countries as well?

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



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Thank you, Fabio, for the questions. As I mentioned before, we have good expectations. As mentioned, our price and product pyramids are well balanced. Our assortment of inventories is good and I believe that we are well positioned, well prepared for the end of the year and the holiday season. We also believe that the macroeconomic environment will continue to improve gradually.

As for the opening of stores in Uruguay, we opened our first store on September 7th, and it was a good opening. Customer traffic exceeded our expectations. And we're rather excited with the performance, the sales performance that we've had in that store to date. That gives us confidence and energy to continue our expansion in Uruguay. In November, we're going to have two more stores opening.

And the fourth Uruguay store is expected to open in the first quarter, perhaps first or second quarter of 2018. Right now, we are focused on our experience in Uruguay. We are focused on consolidating our brands in Uruguay, in developing our business model in another country. So our focus for now is on Uruguay.

**Q - Fabio Monteiro** {BIO 3711690 <GO>}

Excellent, Laurence. Thank you very much.

## Operator

Our next question comes from Mr. Gustavo Oliveira with UBS. Mr. Oliveira, please.

**Q - Gustavo Oliveira** {BIO 15129435 <GO>}

Hello, good afternoon. Congratulations on the strong results. I want to go back to the beginning of your remarks. You talked about consumers being very cautious and still price-sensitive. In the earnings release, you were talking about gross margin. So do you believe there is room to expand the gross margin from the retail operation? Is this how you see this? Or is it you would prefer to maintain a lower margin for a while to remain competitive? And also, I would like to understand if you believe that this is really a macroeconomic situation or do you see a change in companies' strategies lowering their prices? This is my first question.

My second question is kind of related to the first -- do you prefer that I ask them all at once?

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

Yes, go ahead, and then we'll answer them all.

**Q - Gustavo Oliveira** {BIO 15129435 <GO>}

I would like to understand -- maybe this is related to my first question. I would like to understand your average price increase in Meu Cartao vis-a-vis the company as a whole because the company as a whole definitely grew more than the average price of Meu Cartao. I don't know whether you have specific promotions in Renner Card that is leading

to a lower price increase or is it something related to the mix? I'd like to understand this dynamic. I don't know if this is related to some specific strategy or to competition.

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

All right, it's a good subject. Thank you very much for your questions.

**Q - Gustavo Oliveira** {BIO 15129435 <GO>}

Thank you.

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

Again, I have to highlight that the most important thing for us is our market positioning. This is how we focus our attention. We want to have Renner's position compared to some specific players in the market. I think that for two years, we take the very difficult moment for Brazilian retail, have the expansion, we have very high inventories, and all of that. We're actually in a very competitive, promotion-driven environment.

And what is happening now, I believe, is we are leaving behind this environment. But this is a gradual improvement. It's not an abrupt change. We are gradually leaving behind that adverse situation. Of course, we try to position the company well. So I think that more than a structural change, this is a macroeconomic improvement. It's what we envision and so we are moving towards a steady normality.

Of course, it's still very incipient. There is still a lot of uncertainty at the political level when we think about 2018. But we don't -- if we don't have any surprises, politically speaking, we believe that more positive conditions will continue in 2018. I think that this realm has been driven by consumption. And it is a realm based on solid fundamentals, lower interest rates, inflation rates and improvement in employment. So I think that we are living now a moment of transition, perhaps leaving behind a low activity moment and moving towards a better environment.

I think that this is the point. But we are paying attention to that in terms of how we position the company, how we can remain competitive. And again, the most important thing is Renner's position in terms of serving our customers, our products and everything has to be aligned with our strategy and our position.

Regarding the difference in growth of the average ticket of Meu Cartao in the stores. Well, we are building that in-store average ticket, so we have a certain customer traffic going to Renner stores and these are customers who do not have our card. They use black -- a black card or perhaps higher-income bracket, customers use their own credit cards. And that makes the average ticket of in-store purchases grow more than Meu Cartao average ticket.

Also, we have seen a change in behavior. We have seen more usage of debit cards. We see some caution in customers trying to avoid interest-building payment conditions. So we see a reduction in the share of card payment, and this has driven a lot more by a

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change in behavior. And this is explained by consumers being more cautious right now. This is how we can explain this difference.

**Q - Gustavo Oliveira** {BIO 15129435 <GO>}

And I'm sorry, one follow-up question. Gross margin, do you think that there is room to improve the gross margin significantly if the economy stabilizes in coming year or should we expect something more unstable [ph]?

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

Well, in the next quarter, we expect that improvement will continue in terms of the gross margin. But perhaps, it will not be sufficient to recover the lower margin that we had in the first nine months. And for 2018, well, we are still putting together our budget. But I think that the given conditions now can support a marginal expansion of our gross margin.

**Q - Gustavo Oliveira** {BIO 15129435 <GO>}

Okay. Thank you very much, Laurence.

**Operator**

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

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

Hello, good afternoon. I have a quick question about something that has been mentioned in the past, but for a while, haven't heard anything about it. I want to ask about the chain of suppliers. I know that you work very closely with them, and in the past, there were moments when local suppliers have been not impressed so much. And when the economy rallied, they were not well positioned.

So I would like to understand, what is your visibility for 2018 regarding the capacity of your local suppliers? And what are you thinking about the mix of imported cost products and local assortment for 2018? Thank you very much.

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

Thank you, Irma, for the question. I would say that we continue with our supplier development programs. They are an important part of our expansion plan. We continue with this program. We are enhancing this area and rather consistently. And as we mentioned before, we need suppliers that have the capacity to follow Renner's growth, not only with their production capacity, but also in a sustainable fashion and in a responsible fashion. This is a very important point. This is a strategic point, strategic theme for us at Renner.

Now in the current environment, the current context is favorable. We see available capacity. There's no pressure from the external environment. So we have supply capacity

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that is making us comfortable. We do not have visibility and even we do not see any need to change the mix of imported goods and local goods.

We believe that if changes occur, these will be one-time of changes. We believe that the local supply capacity is very important because that's where we get agility in development and placement of these products in our stores. So this is very clear to us that we have supplier capacity, and for 2018, we can only expect improvements in that area related to our suppliers.

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

Thank you.

## Operator

Our next question comes from Mr. Joseph Giordano with JPMorgan. Mr. Giordano, please continue.

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

Hello. Good afternoon, everyone. Thank you for taking my question. I have a quick question about expenses. Yes, indeed [ph] impressive work in terms of the achievement in expenses, in terms of store efficiency. So I'd like to understand, expenses grew. I would like to know, what is your gimmick? What is same-store expenses? And what was incremental expenses at opening new stores, because you accelerated the process of opening new stores in this quarter. Thank you.

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

Thank you, Joseph, for the question. I think that this was an important achievement for third quarter. We were able to contain our operating expenses. As we said in the beginning of the year, we expected to see some pressure and we are being able to offset this pressure, pressures that would come from new projects, projects as incorporation of our financial institution, the opening of the store in Uruguay and our part of stores, stores that do entail expenses and a percentage of SG&A, a higher percentage in the first year, because the stores go to a maturing process and sales by square meters are lower in the first year such as you open a new store.

Perhaps we were not accurate in saying, what is organic and what was the pressure. So perhaps we cannot be accurate in answering your question. So I prefer to ask you for a little more time. We haven't got this information here and we'll get back to you, okay?

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

Okay. So on second question regarding resource. Here in Sao Paulo in particular, we see a slightly higher volume for street stores. How do you see the performance of these stores vis-a-vis the stores in shopping malls? Because some of these street stores are in high customer traffic areas and close to shopping malls. How do you compare them?

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

Well, the new stores are performing well. We haven't seen any difference. These new stores are following the same behavior pattern of the new stores opened in the last three years. In other words, we are able to deliver results even with slightly lower sales in the first two years. Still we are able to deliver a better operating result than we had in the prior group. But we haven't observed a relevant difference compared to these new stores.

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

Thank you.

**Operator**

Our next question comes from Maria Paula, BB Investment. Please go ahead.

**Q - Maria Paula** {BIO 19356895 <GO>}

Good afternoon. Thank you for taking my questions. Congratulations on the result. I have two questions. You mentioned in the release, capacity migration of Meu Cartao into Realize. You changed the limit that can be used in-store and out. Do you have any way to measure if this can lead to an increase in the use of these cards? Do you think that this will reflect -- have an impact on your financial numbers?

And my second question has to do with Youcom. We have seen strong sales with that brand in recent quarters. But at the same time, gross margins have been dropping more than the average for the company. So I would like to know, are you still testing the model? What else do you need to do to mature this? Some time ago, you mentioned that your idea was to have franchises up to strength. Does this still apply? And if so, when?

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

Thank you, Maria Paula for the questions. First, an important point to highlight is that, in fact, we're seeing all in the low and mid-risk customers. In other words, customers with a better risk -- better credit risk. This was done in April, even known situations, and we haven't seen any change in terms of the credit quality.

As I mentioned, credit quality for all portfolios is doing good. They're doing well. So I just see a slightly higher number, a higher share of use than we had before. And this is exactly the goal of Meu Cartao. We want to have our customers with this card in their wallet and using them. We are relying on the use of this card for our business. So there's no relevant change here in terms of private. And it helps us. It was one of the factors that drove the growth in our revenue, not only an increase in revenue, but also an increase in growth of our Meu Cartao portfolio.

Regarding Youcom, Youcom is a somewhat newer business. We are in the process of maturing the brand. We're looking on the branding. We have a gross margin that is at the level of specialized source. And we are in the process of consolidating the brand, consolidating the mix of products. It took us a while and it was only natural to go through

this in Camicado. And now Youcom is going to a profit similar of what we had with Camicado, specifically about this period. Again, it's fulfilling our expectations and the targets for the brand. We're happy with what has happened so far.

Now specifically about the margin, as you asked, we had a collection transition. In here, I have seen that we have more price changes. We moved to a new collection with more markdown than we expected at Youcom and that's where the margins were a little down, but still the levels remain competitive.

**Q - Maria Paula** {BIO 19356895 <GO>}

Thank you.

## Operator

Our next question comes from Mr. Pedro Pinto with Credit Suisse. Please go ahead, sir.

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

Hello, actually, this is Tobias. Laurence, I think you answered this question before also [ph]. The specific change, the coverage for Realize, you had a positive impact on the results. If you have a pro forma, do you know what is the net impact of this change of the financial operation? I know that you answered this before, but it wasn't very clear to me. You said that there was an impact. I want to understand how this impact was, I just want to have some color on that.

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

Tobias, hi. Thank you for the question. We had an increment in provision for losses [ph]. About BRL16 million incremental provision from Meu Cartao, so that we could be at a level higher than the requirement by the Central Bank, that also had an impact here. But in addition to that, I think that there was an important change. When we migrated the portfolio from Meu Cartao to Realize, the first positive impact was the reduction in funding costs. We had a substantial reduction in funding costs when we went to market.

And we are dealing with a competitive environment in order to reduce funding costs. And funding instruments are more variable now. We also have PIS and COFINS, liability [ph] on revenues and the tax charges are lower than what we had before. Now that we are in the financial institution, PIS and COFINS, which is 4.65%, that is the percentage of the tax, 4.65% compared to 9.25%, which is what we had before, before we migrated the portfolio.

And I think that we have -- this portfolio increase also influenced when we migrated provision [ph] so in fact, possible [ph] payment book migration, all of that led to some improvement. And also, the number of installments also drove a growth in our portfolio. I think that these are the main factors explaining the higher revenue that we had from Meu Cartao products or related to Realize, our financial institution.

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

Okay. Thank you.

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

So negative, I think, would be BRL16 million, an incremental provision for Meu Cartao. So all of the rest -- all of the other impacts we're talking about here are positive.

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

Do you know what is the net result of that?

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

I don't know that. Looking forward, there are chances [ph] of new rules that the gains [ph] will improve. We're not going to be provisioning more and more to BRL16 million, and we can also benefit from better taxes, et cetera.

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

So I just want to understand now about this transition more, can you disclose the net impact? What is the big change in the coverage?

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

It's important to mention that we have an IR higher than Realize. We have cost of following this up that is higher because Realize is now (inaudible). So we have a higher expense factor that is required by the regulation. However, I believe that we have full gains in terms of governance facility. And the net result for the full year will be neutral, I think, will be neutral at the bottom line.

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

All right. Thank you.

**Operator**

(Operator Instructions) This concludes the question-and-answer session. At this time, I would like to turn the floor back to Renner's management for closing remarks.

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

Well, I would like to thank you all for participating. On behalf of our management, I would like to say that we are ready and available for further questions that you might have. Please just get in contact with our Investor Relations team. We are always available. Thank you very much, and I hope that you will join us in the next quarter call.

**Operator**

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

FINAL

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