Q1 2021 Earnings Call

Company Participants

- Alvaro Jorge Fontes de Azevedo, Chief Financial Officer and Investor Relations Officer
- Carla Flores Sffair, IR Consultant
- Fabio Adegas Faccio, Chief Executive Officer and Interim Chief Information Officer

Presentation

Operator

Good afternoon everybody. Welcome to Lojas Renner Video Conference about the results of the First Quarter of 2021. Before we start, I would like to give you some information and make a brief disclaimer. This video conference is being recorded and simultaneously translated. All questions must be asked by Chat, by means of the webcast platform. Questions from journalists should be sent to our press office and the number is 11-3165-9586.

And before we continue, I would like to clarify that forward-looking statements that might be made during this video conference in relation to the Company's business perspective, projections, operating targets and financial as well, are beliefs and assumptions of our management based on information currently available. Forward-looking statements are no guarantee of performance, they involve risks and uncertainties as they depend on circumstances that may or may not occur. Investors should understand that general economic conditions, the industry conditions and other operating factors, may affect the performance of the Company and lead to results that differ materially from those expressed in such forward-looking statements.

Having said that, I would like to give the floor to Alvaro Azevedo, our CFO, to start the presentation. Alvaro?

Alvaro Jorge Fontes de Azevedo {BIO 18094961 <GO>}

Good afternoon, everybody. This is Alvaro. And first, I would like to thank you for participating and for your interest in participating today. Fabio Faccio is with us, CEO; Carla Sffair, our Investor Relations Manager, who will be organizing the questions that you will be forwarded via Chat.

As we said in the release, the first quarter was characterized by an increase in number of COVID cases, leading to an intensification of the social distancing protocol. As a consequence once again, we adapted very quickly to the needs of the situation, prioritizing the well-being of our clients, employees, suppliers and our community.

Regarding our business, we adjusted with our product and operation, so that we could have the best possible use of our businesses during and after the temporary closing of the stores. Thus, I understand that we should stress 4 operating point of our first quarter.

Let's start by Slide number 3, where we see the sales performance. The new restrictions regarding our operations put in force, mainly regarding temporary closures that happened in a more relevant fashion in March, included areas of operation very important for us, such as the South and the Southeast, and this led us to operate with 69% of the total business hours of the quarter, vis-a-vis 86% in '20.

I would like to remind you, that until March it was 100% normal and with an important pace of sales, thus net revenue from merchandise sales was 12% lower, same-store sales going down 12.7% at the end of the quarter, we only had 38% of the stores in operation and in some locations where there was more mobility such as the North and the Midwest. If we consider only the days in which the stores were open, the physical unit performance was positive in the quarter and this led to inadequate execution of the operation, then the good acceptance of the fall-winter collection.

Now looking at the second quarter of '21, this behavior became even stronger in the following weeks, mainly as of April 19th, when we started to see more flexibility as the restrictions with the resumption of activities in most stores. Ever since then, we haven't been seeing a very important recovery of sales, a growth of, on average 2 digits over '19.

Currently our stores are open and we had a great week for Mother's Day, the best in our whole history. We have a diversified assortment with quality of the products in the transition and in winter, which generated a lot of attraction to the stores. Traffic is still lower than usual, but conversion is much higher, more items were bag and even with a faster place in the physical stores that we saw in the last two weeks, e-commerce continued to accelerate in this period, because of all the initiatives under way in the quarter. Digital sales, went up by 173% and in April, continue to be high.

Regarding Slide 4, another important point regarding our operations was our gross margin. Once again, we saw a sequential evolution in our margin vis-a-vis the last quarter. Our inventories are well balanced with good quality, but we had the challenge of the exchange rate on important -- imported products and inflationary pressures on raw materials, beside the actual freight and the biggest restrictions in terms of the operation, generated more promotional environment for this period.

Thinking about the second quarter of '21, even having the exchange rate and inflation of raw materials as challenges, we see a more promotion, which is more normalized.

Then the third point that I would like to mention is on Slide 5, and it's about expenses. The operating deleveraging in the quarter came mainly from lower sales, because of the restrictions to our operations, and mainly the temporary closing of stores in March. And as we have already said in many interactions with the market, we have additional expenses related to the acceleration of digital sales and the initiatives related to the digital transformation and developing -- development of our ecosystem and Fabio will be talking about that.

For the second quarter of '21, according to the trend of improvement in sales that we have seen so far, we believe there will be a lower effect of deleveraging, which will help us to bring the EBITDA margin to a positive level. Important to mention that over '21, we will see higher OpEx expenses related to the initiatives that we have already mentioned.

And lastly, on Slide number 6, I would like to talk about the credit part. We have maintained a gradual improvement vis-a-vis the last quarter of '20 with a good quality of the portfolios and delinquency under control. Additionally, the revenues had a greater re-composition, but still impacted by the lower origination of portfolios, as a consequence of the restrictions to our preparations and lower financing requests from the part of clients. We also had an increase in the expenses, mainly due to the (inaudible) digitalization initiatives, together with the development of our ecosystem.

For 2Q '21, we continue to work to guarantee credit quality and delinquency under control. On revenues, we will have an one-off challenge of the lower generation of portfolios, because of lower sales, but we will continue to evolve in measures to liberate credit limit that had been limited and for the competition position of pass-through and financing rates, as well as the offering of open seas of low capital. Also, we are accelerating the sales and organizing campaigns and incentives for the use of operation of cards, which will allow us to rebalance the operations and the results.

Now I would like to turn the floor to Fabio Faccio to talk about digital transformation and the development of our fashion and lifestyle ecosystem.

Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Alvaro. Good afternoon everybody. And before talking about our main initiatives in digital transformation over the quarter, I would like to talk about the construction of our fashion and lifestyle ecosystem and how this business model has been evolving in the Company. September '19, the Board of Directors and the management met to define the strategic priorities for the next few years, for the future. As changes have been very fast in the habits of consumers in a more digital environment, we interested it will be necessary to have a more complete offering in all stages of the consumers' journey and we decided to adapt our business model to meet these demands.

Thus, at that moment, we defined the design of our ecosystem as you can see on Slide number 7. And also, we renewed our value proposition to meet this model. Ever since then, we have been working in the necessary adaptations, the adjustments in our culture, bringing new expertise and structuring our teams. And on March 31st, we presented the plan in our Investor Day and now, we believe that we are ready to invest in the execution of these initiatives, powering up our current platform, so that we may be leading specialized ecosystem in fashion and lifestyle and grow reference in Latin America for this construction.

The main front of investments are related to the extension of product assortment, category, services to our clients, besides the offering of services to partners and sellers. Besides, we are working in the generation of proprietary content and media for more engagement, frequency and stickiness increasing our lifestyle value and reducing the cost of acquisition. Likewise, the ongoing investment in the Omni journey with a bigger array of channels and platforms all integrated brings more digitalization flexibility in the journey, convenient to chat meant as a consequence, an increase in sales and a better productivity and profitability.

Additionally, we are increasing our client facing really is CFI and increasing also the offer of financial solutions that might meet the needs of everybody in our ecosystem, being a very important driver of synergies and results. And we are also structuring a loyalty program that will bring benefit, not only quantitative benefits, but also differentiated experiences, being the link between the different formats of retail and banking and further improving our ecosystem. And so that everything may happen, we need to accelerate platforms and important enablers as well, that can be seen on the lower part of the Slide, driving logistic, technology, data, that will allow us to bridge some of our current gaps, and go ahead in our business model.

And in order to face these plans, that last week, we finalized an offering of 102 million in shares, totally funding of almost BRL4 billion. And these proceeds will bring us agility, flexibility and preparedness, which are necessary to capture all the opportunities associated to the continuity of development of our ecosystem, by means of an organic construction, as well as partnerships and acquisitions. Likewise, they will allow us to invest in the acceleration of digital transformation and they will guarantee the continuity of our work in the Omni DC in Sao Paulo and the expansion of stores, regardless of the economic scenario and COVID-19, consolidating the omni vision associated to our strategy.

This follow-on was priced on April 29th at BRL39 per share with a discount of 2.4% vis-a-vis the closing price of the day, below the average of the recent offerings in the market. And besides, we had a demand of 4 times fold higher than the book, and we are very confident in the trust of our investors about our strategy, our capacity to execute it and I would like to take this moment to thank our shareholders for the trust that they deposit in our Company. We are sure that these investments will allow us to have more enchantment for our clients, guarantee more competitiveness in our business and generate more value to our stakeholders.

Having said that, I would like now to go to Slide number 8, and say a few words about the progress that we had this quarter in many fronts of digital transformation, which is so relevant for our ecosystem. About digital sales, as Alvaro has said already, we continue to deliver an accelerated performance with an increase in traffic and relevance in the app, and still about that the Renner app was the most downloaded among the fashion retailers and absolute leader in MAU. Certainly, the initiatives implemented over 2020 for an increase in the available sales channels, which are 10 options today, contributed to accelerate online sales, as well as the higher productivity of the stores mainly, when they were temporarily closed.

These initiatives are sale by WhatsApp and sale by affiliates and fashion delivery among others, which are gaining relevance and maturity, consistently still about the sales channel. Besides marketplace already established, (inaudible) last week we started that already, with 3P products being sold in e-commerce already, being an important step in the extension of the assortment available to our clients and also it was very relevant for the online sales performance. The use of these stores' inventories that represent 32% of the total sold digitally.

Having all the stores adapted for ship from store, guarantee the flexibility of increasing the availability of stores with the service and while our stores were temporary closed, then give more traction to online, besides a better service to our client. Additionally, 80% of the potential assortment is already available in e-commerce and that half of the online requests were products inclusive of the store and the sale would not have happened if it were not for the implementation of the infinite aisle.

In the stores, we continue to make the checkout more flexible, with more relevance in the mobile mode in the finalization of sales, besides traditional cash. The client may pay anywhere in the store by means of the employees or the smartphone of any client and the mobile modalities represent 31% of the sales of the physical stores in the quarter. With a ticket 19% higher and faster deliveries, more on the client and this powerful combination is fundamental for new level of sales online.

We had a growth of a 102% in the active base of client omni with the frequency and annual expenditure three times higher than the current offline clients and to supplement this formula, we continue with our expansion plan in the physical stores, which have an even more relevant role in this omni, we have already inaugurated 20 stores, 11 Renner, 5 Camicado, 3 Youcom and 1 Ashua, that also increased the number of corners of the brand within the Renner stores to 9, generating more synergies among the businesses and driving our brands.

I would like to highlight the inauguration of our first Guide Shop in a pilot mode, which proposes a new concept for the consumer to have a relationship with the brand. The idea is to offer a totally omni channel experience putting together the best in the physical retail, with the facilities of digital. This is a very recent format, but the first impressions are very positive.

Regarding the unique vision on Slide number 9. We continue to increase our active client base with 84% of our sales identified, and this allows us to increase our client base for our campaigns, and make even more organized and optimized communication with a higher engagement of the clients, that are reached. About content and branding, we accelerated the initiatives this beginning of the year, with a weekly program of Live Shops, implementation of mini stores on Instagram and content co-created with influencers.

Considering these and other actions, the volume of sessions increased by 71% and transaction via social networks went up 103% in the quarter. Regarding the use of data in the product lifecycle, we continue to advance in the distribution of items without human intervention. Besides this, 57% of the basic items of Renner were allocated by means of AI, these items represent a 6.7% of the Youcom sales and 2% of Camicado.

We are also advancing the use of this model in the purchasing process, in the shopping process for the same items that are allocated by artificial intelligence, such as the pilot for the price markdown engine at Realize, also digital account that was in an operational phase with family and friends since March. Now, in May, it was made available to 70,000 client and this digital account is already has a fixed solution integrated authorization of participation by the Central Bank, which occurred in April and in terms of the increase in the client base, we are offerings the Meu Cartao in a direct way, with 5 Renner clients with the option of digital commerce upgrade by the year in the site.

And, about new product, we started the offering of wellbeing and health insurance, besides the extended warranty and subscription services. We are developing product to offer to Camicado sellers, as well as adjustments in the digital solution for Youcom clients. These and other initiatives are already underway and all that in line with the construction of a durable and sustainable ecosystem.

Now let's go to Slide number 10 and talk about the ESG. We launched a collection with less impacting product, that uses sustainable cotton produced by women in the North of Minas Gerais and we launched a collection at Youcom in partnership with young -- youngsters in the community, which is next door to the Company and the sales have part of that goes to the community and by means of these (inaudible), we had more actions to combat COVID-19. We donated more than BRL1.2 million for the construction of a new vaccine plant at the Institute of Butantan. And we made donations for the generation of oxygen in the Amazon and respirators at Rio Grande do Sul, over BRL8 million that we offered to fight the pandemic.

Regarding governance, in April we held our first exclusively with digital shareholders meeting with 64.3% of our capital participating. And as of 2021, the compensation of the management is based on targets of ESG, in what has to do with public commitments for 2021, in regarding climate, social environmental compliance of suppliers and product and as a result, we are again members of the S&P Global Sustainability Yearbook, launched in February in the 2021 edition and thus we go towards the second quarter and into our future.

We know that we might see some oscillation in this short run, but as Alvaro said, we believe that we have already -- we are already beyond the turning point. And we are ready to go ahead. Looking after now but mainly investing in the competitiveness of our business by means of the development of pioneer platform of brands, partners and sellers who are specialized in fashion and lifestyle.

These were my remarks and now I would like to open for questions. You may send your questions by means of the platform and Carla will be receiving the questions and reading them to us. Thank you very much.

Questions And Answers

A - Carla Flores Sffair {BIO 20051296 <GO>}

Thank you, Fabio, Alvaro. I have some questions here. Ron from Citi, but this is a theme that is recurrent in many other questions, so I'm going to put all of them together, they have to do with the gross margin, inventory, markdowns and the commercial environment and I would like to ask Fabio to answer about the competitive environment, the level of markdowns in April and May. And also, talk about inventories.

And Joseph from JP Morgan said -- asked if we have held some inventories, winter inventories to use this year, and also Guilherme from Safra and Vinetu from Soreinvest [ph].

Afterwards, I would like to ask Alvaro to say a few words about the exchange hedges that we have and our expectation about gross margin, for the second quarter and for the year as a whole. So, Fabio?

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Carla. Thank you everybody for questions. As we have been repeating, this moment of pandemic has been bringing a lot of volatility. So, at many moments, we saw a scenario, especially during the whole year, last year, we saw a consistent drop and the bigger challenge and around August and September, things started to improve a little then October, then we had some other restrictions put in place, especially, in March 2021.

But this is volatility continues. However, the scenario is different now, because it's a positive volatility. Restrictions in April and May are lower than what we expected. As Alvaro mentioned, we had an excellent Mother's Day. I'd see -- I believe that since mid-April, we have been delivering a superior performance vis-a-vis our expectations, and we already had a very assertive inventory, with very good quality. We were able to exchange our collections on a timely basis, at a very good timing.

And as I said before, due to the lower number of restrictions, for instance, today we have 100% of our stores already open, and this is resulting into a much higher level of sales than we expected. Because of that, we have a very positive inventory volume, very adequate I would say for this moment and this leads us to believe that, well, we still have half of the quarter to go, but it leads us to believe that once again we will have a very good change of collection, and we do not expect to hold on to any inventory this year.

And we expect to have a very good adequate consumption of our inventories and projecting less markdowns than in the past. In a way and this is still an estimate, okay, so we are still in half of the quarter. So, we have a few days to go, but it leads us to believe that, in spite of pressure coming from the exchange rate and international freight, as Alvaro said, in spite of all that, with all the positive sales and the positive scenario and the -- our inventories, the probability of having -- not having to hold on to inventories and with lower markdowns, we might see margins, more similar to the best moments, let's say, getting close to the levels of 2019, more healthy margins in spite of the relative pressure on the part of the exchange. So far, the expectation is positive. It's too early for us to say anything. But what we can say is that the scenario is better than we expected.

A - Alvaro Jorge Fontes de Azevedo {BIO 18094961 <GO>}

Well, let me now take the answer with two point that the level of hedge, so (inaudible) and the others who are interested in the center, it's important to mention that we have a second quarter and the third quarter totally hedged in terms of our import. So, this gives us -- this makes us very comfortable regarding the next quarters.

And regarding margin, that was another question, and the gross margin expected for the second and the third quarters. I believe we could give you a retrospective here, the first quarter as was said by Fabio, still with some pressure from the exchange rate and inflation as well, squeezing the margin a little bit in the first quarter, but we expect to see a gradual improvement and ongoing improvement with lower markdowns. And as Fabio said, the inventory has a very good composition, good product with a good acceptance, margin becoming more robust gradually and having less markdowns expected, because of the good inventory quality and -- and I think what is important is to say, that gradually we might see some improvement in our margins.

We will still have some investments in OpEx because of the different developments that we are carrying out and that we have already mentioned before and that are already underway. But due to the better sales, the better quality in our inventories and potential lower need for markdowns and all the development starting to bear fruit. In terms of delivery of the initiatives, we will see gradually our margin going up as of, mainly as of 2022 getting to levels close to the post-pandemic levels.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Thank you. There is another question Phil from Citi about the supply chain, and it has to do with what we have just said, if the chain is back to normal, do you believe there will be an additional cost in the future, because of the pandemic effect still? So Fabio, could you please answer?

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you very much. Thank you Phil. In fact, I believe that, now we start to reap some fruits from the partnership of over 30 years or 35, 2015 partnership with some of our partners in the supply chain. And mainly, we show them and we work with them hand in hand during the pandemic. So, the relationship that we have always had in our history, became even stronger during the pandemic, it became even stronger and the team people and the sales people are working very aligned with our partners, with our chain, repositioning productions and working beforehand, so that production may remain active and the windows for demand for items are performing better than expected and what has been most demanded.

So, we have not felt any pressure -- any of the pressures that we see in other segment or also in other players, very much because of the work done by the team historically, and mainly over this last year with our suppliers. So this pressure is not a problem, or does not tend to be a problem as far as we are concerned.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Changing focus, Helena Villares from Itau BBA asks, about our lifestyle platform and more specifically about marketplace. What is our competitive advantage and the work of curatorship and product and we are already a benchmark in the market. Could it be rolled out to the whole platform and drive our ecosystem? Fabio?

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you very much. In Camicado, and also the first test with Renner, we see that consumers, they look for specialized platforms, many consumers look for specialized platforms. We see some of our sellers, these are initial tests, but some of them have a much superior behavior over performance in our platform than in other platforms and also the traffic that is brought by some sellers add to the sale of our own.

So we're bringing our client base that may be would not be there, because they would be looking for products in other category. So this increases our client base. It increases the conversion of the 1P products besides bringing sale for us and for the seller in that category. So the experience has been very positive at Camicado, it's already growing and Renner, this is very recent, we only have a handful of days, but very encouraging, such as the case in Camicado.

It's a very big competitive difference for clients and for sellers themselves.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Thank you. Daniella Eiger from XP, also regarding the ecosystem and a little bit on the supply side. She has been hearing about the offering that was made and bringing a higher liquidity, I know that you have already talked about the long-run 15, 18 months for the use of the proceeds of the offering. But what about our view, do you have any diligence in this regard and what category priorities and fronts? Fabio, maybe you could answer.

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Carla. Thank you, Daniella. As we said at the offerings time, we are talking about the 12 to 18 months. So, there are many initiatives and many of them are organic, the development of our project and that really drive our situation going through, some inorganic ones and about the inorganic ones, we do not have any diligence started and we are talking about the whole range of initiatives, that should be occurring during this period. But certainly, we are already working to accelerate all of the initiatives, be it organic or through partnerships or total inorganic. As of last week, we -- the plans already being -- are still being executed, still along the same lines of the ecosystem.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Joseph from JP, he asks, in the brand strategy and a more digital approach, what about adding new brands to the platform. Fabio?

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Carla and Joseph. We still have a lot of room to grow with our own brand. So, I would say that the biggest opportunity for growth that we have and all the investment that we are making, are in our current businesses, in increasing the synergy among our current brand, Realize, with Ashua, Camicado and Renner. But certainly, when you talk about fashion, it is going to require at some point in time, the presence of one or two additional brands, that could happen, yes, we could have another brand or a few other brands in order to further consolidate the market that we have in fashion and lifestyle.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Now changing shift to Youcom, Felipe Cassimiro from HSBC asks two questions. I would like to return the potential of the brand online. Do you see your potential of online penetration in Youcom more higher than Renner, do you have a specific project for e-commerce and the Youcom app, in order to improve the shopping experience of the client and social commerce for instance for that brand specifically? Fabio?

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you very much. I would say that Youcom has a very big growth potential. It's a brand that is less mature than Renner so, in Omni as a whole online and not physical stores as well such as Renner, but the penetration that we see in the digitalization of retail, the youngsters adhered more quickly, but this is no longer true, because all the age bracket participate in digital and it's a matter of convenience and experience and the profile, because of the public profile Youcom would be, but we started some initiatives first in Youcom, but many started at Renner and all the initiatives that we start, we look at the whole ecosystem. We look at all the companies in the group and we test more than one. And when we decide to rollout the initiatives, then it has to do with all of them, as we said about the use of algorithms and artificial intelligence, we started with Renner, it has been rolled out for Youcom and Camicado as well.

So, the trend of the increase in digitization of Youcom is very real, because there are many initiatives now that starts to grow in Youcom, and also bringing a very big synergy within it. So, this is a very strong trend, regarding increasingly high penetration such as Camicado and maybe because of the maturity of our initiatives, we should see a bigger acceleration in the next few days.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Some questions related to expenses and behavior for the second quarter. Alvaro, could you answer this question, please. And I would like to enter into some details, because this -- we have a combination of questions here from Daniella Eiger from XP, Guilherme Assis from Safra and Rodrigo Yanez from BCI Asset Management.

Rodrigo is bringing a question about the increase in freight expenses, and could you please talk about the future in freight expenses and the other themes in expenses have to do with, how much we will have in additional expenses given all the projects and the way for the development of our ecosystem? And also how much dilution could we have with increase in number of stores?

So you can see that all of the questions are related to expenses. So, Alvaro?

A - Alvaro Jorge Fontes de Azevedo {BIO 18094961 <GO>}

Thank you very much, Daniella, Rodrigo for the questions. And growth in the freight line comes for two reasons. The Omni freight -- freight, which is associated to our e-commerce, which was one of the sales drivers for the first quarter, such as, it also happened over 2020. So, some growth is associated to e-commerce and more specifically in the moment in which the stores were closed. And so there was no store pickup, so this generated an additional freight cost. So we have the Omni freight and the ship from store, which is rather associated to our initiative of decreasing the time -- the lead time, when the client buys the products online and being able to use the inventory that is there at the stores and this improves client satisfaction, because of the shorter lead time, but it generates an additional cost, because of the ship from store method.

And regarding the second question, I jotted it down here. How much could we see in expenses associated to the ecosystem. How many technological developments for the ecosystem could impact our OpEx? Yes, we do expect this to generate some additional impact. We have new structures that are being built. We had many structures that have already been implemented over 2020, and that are maturing now over 2021, totally, and this generates more expenses. Our expectation is that might -- this might generate growth in the expense line from 3% to 5% of the total expenses that we currently have.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Thank you. Joseph from JP Morgan asks a question about the new format of that shop. How could you increase the potential for Renner and could this model be used for Youcom and Camicado? Fabio?

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Carla, Joseph. In fact, we started the test now. So, it's impossible to make any estimates regarding figures yet. But I would say that without this format, well, we have 520 stores in Renner and this format should increase this number, because it allows us to reach smaller cities less, with the lower demographic than we have today, driving the online sales and the Omni model as a whole. And yes, this format is possible for all our business models. But due to the initial stage, it's impossible to give you any predictability and how much this will impact the expansion of all the businesses. But we do believe in this model, and I believe that very soon, we will be able to do the calculation and know how much this increases our potential for expansion in all the businesses.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Bob Ford from Bank of America. Accessories and beauty, what are the opportunity, as we become more and more digital? What about the spaces in the stores and the searches about -- from the clients, how do we deal with these two interfaces? Fabio?

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Carla. Thank you, Bob. This is an extremely important category, as far as we are concerned. We could have a much bigger penetration. It's already a leader in the physical retail, fashion and beauty, but you're asking specifically about beauty and on online, we already have a considerable share of mind, much higher than our competitors. And we could further extend this, and we could make revenues more concrete, our assortment in beauty is small yet, because we had an assortment that was very similar between online, physical and in the last few years, we have been increasing our assortment online.

But it could be further extended. Very extensively, all in the assortment of the products that we already have and in other categories that are related to beauty and in which we do not have anything yet. And this has to do with the longer tail, it has to do with our 1P inventories and also it has to do with partners that might offer products, that we do not have in our 1P, so free this through 3P and beauty is one of the categories such as home and interior design, that have a whole range of products and services, both in 1P and in 3P and we see a huge potential in these categories, such as in fashion accessories, but beauty the assortment is still very small vis-a-vis the others, so the growth potential is even bigger.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Irma from Goldman Sachs. Having to do with marketplace and logistic services for sellers, when do you believe you will be offering the services to the sellers and how much is this related to the DC? Will it only be when this DC is up and ready to go, that this will be offered to your sellers?

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Carla and Irma. In fact, there was an initial plan regarding the need to have the DC ready by 2022, but we are working with other initiatives in order to bring forward this roadmap. In principle, it would be for the second half of '22, but I believe that with the current situation, we will make our best endeavors to bring forward these initiatives to our sellers and bringing also new revenue for our group.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Alvaro, could you please answer this question about provisions and Realize. Ron from Citi. With the operation of stores and more origination of portfolios, do you see an increase in provisions from now on? Alvaro?

A - Alvaro Jorge Fontes de Azevedo {BIO 18094961 <GO>}

Thank you, Ron, for your question. Today we could consider that we are very well provisioned, in relation to Realize. Ever since 2020, we already had this situation of adequate provisioning and we got into 2021 also with a very adequate coverage level and now over the second or as of the second quarter and over the second half, we believe that even with the growth in our portfolio, we will have an adequate level of coverage, with the quality of portfolio much better than we had in 2020. And with the gradual and expected increase in the Realize portfolio, because of the improvement in sales, we believe that the coverage level will be very adequate at least over the next few quarters of 2021.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Thank you, Alvaro. And now along the same lines, from Elisa Montresic [ph]. The short-term results are really easy and target in the medium term for the business and talking about the strategy and the launch of new product and integration of apps in the ecosystem, the digital account, and with the higher penetration of e-commerce and sales, could we expect a higher participation of Realize for EBITDA? So, the result of financial product vis-a-vis the total EBITDA for the year and on?

A - Alvaro Jorge Fontes de Azevedo {BIO 18094961 <GO>}

Thank you very much for your question. It's only natural for us to start looking at Realize, having a bigger share of the group. Realize is one of our arms, it's one of our businesses. And there is a very big opportunity to develop the ecosystem, as Fabio said during his opening remarks.

And now, we started with the whole diversification of product and increasing the offerings of services and insurance and deeper implementation of the digital account with picks associated to it. But all that, it should increase its share, and we will have as our objective also, to use Realize as a driver of interest on the part of our sellers or partners in our marketplaces, lab hand and as it matures.

So, I would say that in terms of expectations and in the Realize ecosystem, we should be seeing an increase in the way the Realize and the EBITDA -- and the total EBITDA of the group. Of course during 2021, this will be gradual. We are rebuilding the portfolio and sales since April, are becoming more vigorous and automatically this will also impact -- it will also impact the growth in the number of opportunities and the number of portfolios via Realize.

Probably over time with -- we will see an increase in the participation of financial services in the overall EBITDA, in the short and the medium brands and you also asked if it would be participating more and more in the process of financing and e-commerce. Yes, this is one of the objectives for the business side for Renner, Camicado and Youcom. So, this is another path for revenues for the business and making it's presence in the Company more and more important.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Andrew from Morgan Stanley. He asked quite a few questions, but some of them have already been answered about inventories and raw materials and promotions and one of them I would like to ask Fabio to answer. In our inventory planning for the year, how do we think about product mix in the scenario? Do we expect to have a return to more model product, with a bigger circulation or will our focus continue to be on more basic products?

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Andrew, thank you for the question. And I think this is a very important question. Of course, in a normal management as I said before, if we had a more -- let's say, if the pandemic was not so bad, but right now with the current situation, well, we expect to see -- we do not expect to hold on to anything and also, only have markdowns when necessary. We have a good consumption of our inventories and adequate speed with no markdowns. May be one mark down, maybe when this is very positive. Regarding, trends -- consumer trends, it had more to do with comfort, I would say, lounge wear, underwear consumptions when restrictions were in place and what we see now, with less restrictions.

We see consumption of kids product and with schools being reopened for instance. So, we see a change in the consumer behavior, buy new items, items that were not required when all the restrictions were in place and now with softer restrictions, not only for children, but also women's fashion and men's fashion, people going out of their homes a little bit or gradually and some going back to their offices, comfort products continue to be important, but we see a higher demand for other items that were not demanded during the peak of the pandemic.

We see a very important movement in the last few weeks and Mother's Day for instance, it comes from the mother's event, it come from the cold weather, because we already had this change. Weather is cooler now and the reduction in the number of restrictions, and this brings more traffic to the physical stores and also it continues online, with evidence of our Omni proposal in spite of the growth in physical stores and also with more categories because people go out now, a little bit more and they consume more products in other categories as well. So comfort, we believe will continue, but items related to work, workplace, school, they are coming back gradually.

A - Carla Flores Sffair {BIO 20051296 <GO>}

I have one question, and another one and we are going towards the end and I think we have been able to answer all your doubts. Felipe Cassimiro from HSBC. Are you opening new stores in 2021? We have been talking about 2025. Fabio?

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you very much, Carla, Rodrigo. 2025, talking about Renner, so if you talk about the Renner Brand it's very difficult to accelerate more than that, because we talking about bigger stores and they are more time consuming project, but we should be within this range for the Renner brand, about five to 10 Youcom, five to 10 Camicado for instance. So, in principle for 2021, the range should be kept like that. But '22, '23, '24 and '25, there should be gradually increasing from 25 to 30 for Renner, may be a little bit more than that and the expectation that we have is to maintain this range for 2021 and accelerating this as of 2022.

Operator

Thank you, Fabio. Just one correction, I'm going to ask two more questions, because we do not want to exceed the time. (inaudible) Invest, with the follow-on. And having all these proceeds in our capital structure being used in up to 18 months, Alvaro, could you please talk about the capital structure and also the cost of capital from now on, when you use the proceeds, after you use the proceeds?

A - Alvaro Jorge Fontes de Azevedo {BIO 18094961 <GO>}

Very well. Thank you very much. We expect to use this capital, as Fabio said, let's say between the next 12 to 18 months. We have a very low leverage as you can see with all the figures of last year and also the figures of the first quarter and as a consequence of this follow-on and the inflow of these funds, and over the utilization of the same, we should be maintaining this low leverage and that recently went through some other funding operations already at low cost, the market cost. But compared to the cost that we had in the past, the cost was much more adequate to the current economic situation or the current economic reality. So in the few months, as this capital is used fully, then we will revisit another future move regarding the leverage of the Company. But for the time being, we have a positive expectation regarding the next few months.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Thank you, Alvaro. Now, the last question. Fabio, what changes in the level of service for the client, with the new DC in Sao Paulo, what are the main benefits coming from this new DC?

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Carla. This is an important operation for us. We already have a very advanced automation in the Rio de Janeiro Santa Catarina DCs, but automation will be much more advanced in the Sao Paulo DC. The operation has already been thought and designed to supply the stores and last mile as well. And the previous DCs, they do -- they perform the two functions, but they were not originally designed for the two functions. This DC has a production capacity that is much better, it is faster, more assertive from the viewpoint of automation and design, to supply the stores and last mile as well.

Besides, it also brings a much bigger area. In this DC, we will have a bigger capacity than we have in our whole structure today and it will also allow us to have all the companies in the group performing services to the sellers in one place, with -- which reduces the freight cost, which is a major cost and bringing more synergy among all the businesses and services to our sellers and gaining efficiency and as a consequence, more frequency in, and a shorter lead time for physical stores and for client directly at a lower cost. And I would like to remind you that being in the state of Sao Paulo, we are very close to most of consumers. So, we impact in a short time, most of our consumers, both in physical stores and online.

A - Carla Flores Sffair {BIO 20051296 <GO>}

With that, we finish our Q&A session. And the Investor Relations team will remain available to you should you have any additional questions. And I would like to give the floor back to Fabio and Alvero, for the closing remarks.

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

I would like to thank you all for participating and we are available here at all time. Should you need any further clarifications, our Investor Relations team will continue to be available to you as usual and we see that the biggest challenges were in '20 and the beginning of '21, but the scenario seem to be rather different from now on. Not only we are very confident in our future plans, but also we have been seeing a very encouraging short-term, very different from the scenarios that we saw until then and ending in the first quarter of this year.

So I would like to thank you all very much and we hope to see you again in our next event.

A - Alvaro Jorge Fontes de Azevedo {BIO 18094961 <GO>}

I would like to take the opportunity to reinforce Fabio's remarks. We are optimistic regarding the next few months, given all the investments and all the programing that we have, regarding the possibilities of development for our ecosystem and based on the results that we have obtained recently and we are optimistic but prudent in the light of the pandemic, that continues to evolve, but people becoming more and more vaccinated.

So, I would like to take the opportunity to thank you all very much for your presence and for the opportunity to talk about our Company.