Q3 2012 Earnings Call

Company Participants

- Adalberto Santos, CFO
- Jose Gallo, CEO
- Unidentified Speaker, Company Representative

Other Participants

- Alan Cardoso, Analyst
- Andrea Teixeira, Analyst
- Fabio Monteiro, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Miguel Cordon, Analyst
- Pedro Selli, Analyst
- Tobias Stingelin, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to Lojas Renner's conference call to discuss the results of the Third Quarter of 2012. (Operator Instructions)

Before proceeding, I would like to mention that forward-looking statements that might be made during this call are based on beliefs and assumptions of Lojas Renner's management and on information currently available to the Company. 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. Adalberto Santos, CFO. Mr. Santos, you may proceed.

Adalberto Santos {BIO 16803045 <GO>}

Good morning, everyone. Today with me I have Gallo, our CEO; Gildo Melo, our CFO. And Luciano Agliardi, our Comptroller's Office Manager.

The result of this quarter in reality confirms the consistency of the Company's course[ph] which since the beginning of the year estimated an acceleration of the economic activity. As of the second half this acceleration combined with the strategy of differentiated launch of the collection with an early launch in July and an adequate inventory management brought to the Company an important growth in sales and gross margin expansion.

I would like to start our presentation by slide number 4 where we highlight some of the main indicators of the period. Net revenue from Merchandise Sales grew by 22.2% and same-store sales of the Renner operation, 13.2%, with a needy effectiveness of the new operations inaugurated as well and the correctness of the launch of the spring-summer collection launch.

A highlight to the gross margin for the Retailing Operation, 1.2percentage points increase and the Renner operations expanded by 1.5percentage points. Retailing EBITDA grew by 47.6% with an important dilution of SG&A of 2.3percentage points.

Financial services with a better contribution (inaudible) by 26.5% keeping the low levels of delinquency. Total EBITDA reflecting the good results of retailing and financial services growing by 40.8% in the quarter with an 18.4% margin, 2.4percentage points higher quarter-on-quarter.

Year-on-year, net income of the Company had a growth of 20.9% and net margin 8.5% practically in line already with what was delivered in the Third Quarter of '11. Through this quarter the Company started operating its new distribution center in Rio, the shared services center, a new e-commerce platform and the advantage club of the Renner Card and they are all strategic projects that will be supporting our growth in the long run.

On slide 6, we have the evolution of the consolidated net revenue back in Q3 was BRL803.3 million and year-to-date BRL2.3 billion growing by 22.2% and 18.4% respectively. This growth, as I said, reflects the correctness of our collection, the effectiveness of the operations that were recently opened, the pick up of sales in the remodeled stores including Camicado same-store sales reached 13.2% vis-a-vis 3.8% in Q3 2011 and 7.1% between January and September vis-a-vis 8.1% in the same period 2011 same-store sales.

Slide number 7, to the left a map of the distribution per region of the Renner and Camicado stores and cities as well as the three Blue Steel pilots. We can see on the right the evolution of the selling area 353.1 thousand square meters corresponding to 211 stores in the combined operation. Of the stores were 176 units of Renner including the three Blue Steel and 35 Camicado, which in September already contributed 5.4% of the selling area of the Company.

On slide eight represent the gross margin of the consolidated operation, 51.4% in Q3 '12 expanding 1.2percentage points year-on-year and the Renner operation alone had a positive evolution of 1.5percentage point. The adequate inventory management, the lower cost of cotton in both national and imported items as well as the strategies to pre-launch the spring-summer collection were factors that contributed to the improvement. In the year-to-date, consolidated growth margin was 53.1%, 0.7percentage points higher year-on-year. And in 2011, it was 52.4%.

On slide nine to the left, selling expenses, BRL217.7 million in Q3 '12 representing 27.1% of the net revenue of merchandize sales and BRL652.1 million in the nine months with 26.6% of the net revenue dilution consulted in the quarter and is due to the higher contribution of the stores opened in Q4 2011 and also the stores that were remodeled besides the rigorous expense management.

To the right, G&A which was BRL74.1 million in Q3 and in the nine months BRL207.3 million in spite of the higher pressure of logistics costs and consolidation of Camicado. These expenses have already dropped vis-a-vis the net revenue. In fact, that we see in the quarter a reduction of 50 bps.

Slide 10, the breakdown of results from financial services. BRL43 million in Q3 vis-a-vis BRL34 million year-on-year, a 26.5% increase. The higher contribution of sales finances a private label and the co-branded card as well as the low delinquency, that continues at an all-time low for the Company were the highlights of our results. And in the nine months the results on financial services reached the BRL116.2 million, growing 11.1% and a percentage of representative (inaudible) on the EBITDA of the Company of 27.5% vis-a-vis 28.3% in the same period 2011.

Now, going to slide number 11, we have the losses net of recoveries in the private level portfolio, 2.9% in Q3 '12 with a percentage of past dues of 21.1% vis-a-vis 23.9% in Q3 2011. On slide 12, the same data. But now related to personal loans, which were the highlights of financial services with losses reaching 4.4% of the portfolio in Q3 vis-a-vis 5.8% in Q3 2011, in percentage of past dues 16.2% vis-a-vis 18.1% in the same period of 2011.

As we can see, delinquency still is in very comfortable levels, at all-time low showing the consistency and the consecutiveness of the assignments, maintenance and recovery of credit policies of the Company. Now, slide number 13, we have the chart with the consolidated EBITDA evolution, BRL148.2 million and the EBITDA margin of 18.4% in Q3, an important 2.4percentage point increase.

This improvement stands from the combination of a better level of sales with a better gross margin and a strong management of our expenses as well as a higher contribution from financial services. In the nine months, consolidated EBITDA was BRL422.2 million, EBITDA margin was 18.5% vis-a-vis 19.2% on the same period of the previous year.

The pressure on the margin that we saw in the nine months referred to the low performance that we saw in the first-half of the year. And as was mentioned before, it was already expected and, as you can see, start to being changed.

On the higher part -- upper part of slide 14, we have the net financial result that in Q3 was negative by BRL14.9 million vis-a-vis a positive balance of 1.7% in Q3 2011. In the year-to-date this results was also negative by BRL25.4 million vis-a-vis a positive balance of BRL8.8 million in the nine months of 2011. Reminding you that the change is related to the cost of the new capital structure adopted.

Now, talking about the net cash or cash and cash -- in the lower part we have BRL643.7 million in September, a net debt of BRL657.5 million leading to a net debt of BRL13.8 million. And breaking this down, we have BRL615.1 million referring to issue of debentures in July 2011 and last August. BRL27.4 million related to funds raised with the Banco do Nordeste and BRL15 million related to Camicado's working capital operations.

On slide 15, we see the net income of the combined operation amounting to BRL68.5 million, an important 20.9% growth year-or-year. Net margin was 8.5%, practically in line with Q3 2011. In the nine months net income was BRL207.7 million vis-a-vis BRL217.8 million for the first nine months of 2011 and a drop from 11.3% to 9.1%, a reduction due to higher financial expenses stemming from the new capital structure and a higher level of depreciation.

On the same slide, on the right we see the consolidated ROIC 5% in Q3 and 14.9% for the nine months. Once again, reminding you that the reductions that we see are directly related to the factors already mentioned and particularly to the growth in our operational asset base used.

Slide 16, information about the Company's investments that in the quarter amounted to BRL86.4 million of which BRL36.3 million referred to the opening and preparation of new stores. In the year-to-date investments amounted to BRL132.1 million. In these nine months I still talk about BRL52.3 million in the line item distribution center where we have investments channeled to the new unit of Rio de Janeiro that was opened in late August.

On slide 17, we have a list of new stores opened in the nine months; nine, Renner. And five, Camicado. On slide 18, we have the card issued, BRL20.2 million plastics, growing by 10%, the Meu Cartao card in September, 1.1 million cards. And the lower part of the slide, we have the evolution of the average ticket for the Renner card in Q3. It was a BRL147.66 and for the nine months it was a BRL150.13.

Slide 19, on the left, the Renner average ticket evolution, BRL108.16 in Q3 and the nine months, an increase of 6.7% reaching a BRL109.33. To the right we have the distribution of the means of payments over the total sales of the Company and in Q3 the card, the private card represented 52.9% of our sales and in the nine months it was 52.6%.

On slide 20, we have the headcount of the Company, which in September was 14,285 employees. The 12,370 in the stores and 1,915 in the administrative area and in distribution centers. Year-on-year we have a total growth in the number of employees up 3.3% compared to 15.9% growth in the selling area and administrative headcount had a reduction of 3.5% in the same period.

Now, I would like to give the floor to our CEO, Jose Gallo, who will be talking about the outlook for the Company for the next few months. Thank you.

Jose Gallo {BIO 1822764 <GO>}

Good morning, everyone. Continuing on slide 22, we see some of the future perspectives for the Company that we would like to share with all of you. We keep our positive expectation for an improvement in the consumer environment for the Fourth Quarter of 2012. And we already see signs of that in the good performance of our sales in October.

In spite of those expectations and in spite of the fact that we have structured ourselves through the execution of our expansion plan, we will probably not be able to open the 30 stores that we were ready to open due to the delay in the opening of some shopping centers. Therefore this will be reduced to up to 25 units. And on the other hand, the expansion of Camicado will have a positive change and we could get to up to 10 stores by the end of 2012 for more than what we provided for in the initial plan.

For the next few years, the Company maintains its expansion plan already disclosed to the market as well as all our strategic investments, particularly those related to the new distribution model and also those related to the remodeling program for the stores. And those will continue still in the first few years.

We also maintain our positive outlook regarding the other projects that are supporting the long-term strategy of the Company. And more specifically Meu Cartao that already started to deliver the first positive results Camicado. That should start to give an even higher contribution as of 2013. The revitalization of the private label card as we had already said at the beginning of the year with the new layout, the red[ph] card and the new platform for those cards and also the Clube de Vantagens, the advantage club that will try to make our private card even more attractive.

And E-commerce with a new platform that allows us to customize the contracts with the client and the products to each client that hit on the button. And I would like to talk to you about our specialized project, which is called Blue Steel. For the time being it is maintained. And the rollout will be in 2013. We will be opening 15 stores from a 100 to a 120 square meters of selling area with already with a new brand. That will be disclosed to you in a timely moment. And in November we will be opening another Blue Steel store already contemplating or already -- with all -- everything that we have learned with the three pilots and with new recruitment to increase our productivity in these stores.

And our stores will be first opened in the major cities of the country, in shopping centers and the CapEx will be BRL300,000 and in some cases we will have to have additional cost due to the payment of additional expenses in the main shopping that are already consolidated. And that will be used for the introduction of the brand to the market. So it's necessary for us to participate in these already consolidated shopping centers.

Nothing prevents us to open franchises. Initially they are our own stores. And with the launch of the new brand and the conversion of the Blue Steel stores. We will be telling you later all about the development of the projects. And before we open for questions, on slide number 23, I would like to share with you some recognitions that we received in the last few months. And we would like to thank everybody who gave their contributions so that we could have all these acknowledges; our consumers, suppliers and our team of internal people.

The Melhores e Maiores magazine, Exame 2012, we ranked 1st in the retail category. The Isto E Dinheiro magazine ranked first in the retail category. Carta Capita magazine, the most admired companies in Brazil, we ranked first in the textile retail category. Capital Alberto magazine, a very important magazine, the best company for shareholders in 2012 highlighting governance in 2012. We are very happy because this is what we tried to achieve consistently. And also Valor Economico, the best in people management, we rank third in the group with more than 10,000 employees.

And another award by Institutional Investor Magazine. We obtained many awards. Best investor relations program and other awards given to the officers of the Company. And I would like to thank analysts for the evaluation, the very positive evaluation that they made of (inaudible). Of course, we get this award and this is very nice because they recognize the past; however, they do not guarantee our future. So it's very good for our egos; it's very nice. But we have to continue our endeavors in order to get other awards. Okay, having said all that, now we would like to open for questions. Thank you, very much.

Questions And Answers

Operator

Thank you, very much. And now we would like to start our Q&A session. First we are going to receive questions in Portuguese. Afterwards, we are going to open for questions in English. (Operator Instructions) Fabio Monteiro, BTG Pactual.

Mr. Monteiro, you may proceed.

Q - Fabio Monteiro {BIO 3711690 <GO>}

My question is about the distribution model. What about gains that you estimate for next year? With the distribution center of Rio de Janeiro and over the next few years with the new (inaudible) that you have adopted? Thank you.

A - Adalberto Santos {BIO 16803045 <GO>}

Hi, this is Adalberto. The Rio distribution center has already started to operate in late August and it already accounts for the distribution of about 3% of the overall products of the Company in the last month. So it is still in test. But it is already giving us this result. And the one we are testing out is the distribution with the SKU system, we're guessing, the effectiveness of the SKU distribution in some units instead of the (inaudible) model.

In fact, the gains coming from the new model will depend on the implementation of push-pull and also implementation in other distribution centers. Expected material gains will probably be achieved as of 2015 material gains. And how will we verify this? Based on our gross margin gains, of course, with three distribution centers, the G&A will be higher than with two this season because we are talking about three DCs of 50,000 meters vis-a-vis two of 14,000. So the G&A will be higher and this will be paid for by margin gains as of 2015.

And we would like to share this with you because we believe that this will bring about a huge transformation for the Company such as we had (inaudible) seven years ago. And this is really responsible for the gains in gross margin that we have been delivering in the last few years. Last year with the cotton program, we had four Qs with gains in gross margin. And this year once again it is a Third Quarter where we deliver gains. And these are not small gains, 122 -- so we expect the new systems to guarantee the continuation of the process, at least 50 bps per year. This is our expectation.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Thank you, Adalberto. Another question about sales. I would like to have an idea of how much the cosmetics and perfumes and accessories represent in the total sale of merchandize and how much is represented by third-party brand that you have in the stores vis-a-vis total sales.

A - Unidentified Speaker

The way we report, we do not break down per category. We have never done that. And I will not be able to tell you about the shares, the third party -- well, you know that predominantly we work with our own brands. And third-parties represents less than 3% of the total.

Q - Fabio Monteiro {BIO 3711690 <GO>}

And one last question. Consumer finance, for us to think about 2013, do you think we could work with what percentage of the consolidated EBITDA?

A - Unidentified Speaker

Fabio, we like to talk about this area more in the long run as you know since last year we have already been working with a possibility of a scenario of a drop in interest rates. And since July when we started this November, we were the first to cut interest rates and so we're already working with a scenario of lower interest rate. In the long run we believe in the possibility of maintenance of total 20% and some companies have 20% today as you know.

And if they drop to half, they were dropped to our levels. So it seems to me totally feasible the strategies to deliver more services and a better penetration. In the client base, some of our products represent 3% or 4% in our client base. And so we have quite a lot of room to grow and they have to be aligned with the value proposal of Renner, a whole product portfolio since financing and loans and insurance, any product that we might offer in this area. We have to be fully aligned with the value proposition of Renner on the policies of enchanting our consumers et cetera. Instead of 22%, we could have 19% or 18% during a short time next year because the development of the product takes some time. So it's very difficult to launch an insurance, a new insurance from -- overnight. But in the long run we expect to maintain 20%.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Thank you, very much.

Operator

Gustavo Oliveira, UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Operating expenses of your financial services. In the quarter you had a lower growth than the net gains. And I would like to better understand this, how we should project this line for the next few quarters and for the next years because you made many investments in order to launch a new card and investments in infrastructure and I would like to know if as of now we could see already a dilution of these fixed costs.

A - Unidentified Speaker

Gustavo, Bom dia. Good morning. The wave[ph] report maybe -- we tend to improve the wave report. In fact, we didn't see a specific expense reduction for this area. The evolution of expenses for this area, which means basically people and systems, if you compare that, we have a variation around 7%. This is an area that has some interesting operational advantages. And afterwards we will be getting into details about the area in an easier way to understand. But you can consider 40% of the Company's EBITDA. We have three groups of expenses that ultimately change this percentage of fixed expenses. With the third-party collection company the rollout of Meu Cartao, the card. And as you open stores, as the report is consolidated, ultimately you have a distortion is the figures. But our investor relations people will be able to give you more details if you wish.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay, I will contact them. Thank you.

Operator

Andrea Teixeira, JPMorgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Congratulations for all the awards. I would like go back to distribution. We saw an increasing even and the only thing in the result with the increasing inventory due to the new distribution center and also the (inaudible) rate. But it seems to me that this is not being implemented yet fully. How could we project the distribution and the behavior, your inventory levels.

And also Adalberto said something about the repositioning of the financial services. Should we see some different move? I know that you said that you do not intend reduce interest rate. But somehow this could be an effect on competitiveness and because of that you would have this small drop, 19% of the EBITDA for a short time. Is there a time schedule for that or should we only think about that around mid-2013?

A - Adalberto Santos {BIO 16803045 <GO>}

Andrea, this is Adalberto. We should talk about the short term and the long term. In the short term, there is an improvement. In the Second Quarter you saw inventories growing by 42%. And at that time we said that it was somewhat related to winter and the opening of new stores. And the growth in sales. And now this goes to 30% and our outlook for the end of the year is too close with the variation of the volume of sales. You had this slight drop. But it will be corrected or offset the end of the year. In the long run this could be interpreted as a loss of efficiency. We already had 5% a year. Now, this is getting close to 4%. And there are many different explanations. But the main ones are the higher participation of imported goods that have a longer cycle and a higher number of new stores in the chain that usually have a slower turnover.

We are implementing measures in order to go back to have the best indices such as we had in the past or something close to that. If you take what we have today and you compare to international players located in Europe closer to Asia et cetera. But all measures have been taken in order to improve the cycle more specifically in what we can't speak.

Now talking about financial services we have already started and we intend to work with products aligned to our value proposition and the 0.8 reduction that we believe we will have the opportunity to further work on that. There is a very low elasticity there. This is what we identified at that time in terms of the rate and this is probably related to the very low ticket, BRL150, a difference of 1% or 1.5% or 2%. The material effect is very low.

So the elasticity of consumers is very low. Maybe you have a high elasticity in the level of operation regarding the products that are offered in the stores higher than in the service and in the interest rate. Of course, we still look ahead and we continue to believe that interest rates will go down in Brazil. So we have to offer more services, insurance and other services that may facilitate the lines of women.

Q - Andrea Teixeira {BIO 1941397 <GO>}

About stirring Camicado, Blue Steel. I understand that you will be giving us some details later on but do you an idea of the size expected and the locations? Are you going to have Blue Steel where you already have branded. And do you have a time schedule for the rollout, for the two formats?

A - Jose Gallo {BIO 1822764 <GO>}

This is Gallo. Relating to Blue Steel, we imagine a potential for a chain of about 400 stores. Camicado could get to 100 to 130[ph] stores.

A - Unidentified Speaker

I am sorry, I am coughing. But I apologize to all of you says Mr. Gallo.

A - Jose Gallo {BIO 1822764 <GO>}

We started with the stores that are wholly owned by us to develop the brand and afterwards we will be more aggressive going to 30, 40 stores per year.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you, very much, Gallo and Adalberto, for the explanation.

Operator

Tobias Stingelin, Santander.

Q - Tobias Stingelin {BIO 1557190 <GO>}

I would like to understand SG&A in your operating expenses, which had a good result this quarter. I understand that part of that was because of the new stores and the maturing of stores and cost reductions. You also opened the shares of Blue Steel centers in the quarter. So could you tell us about the impact of the different measures? And if you look ahead, what else could we expect in terms of reduction in your expenses and the shares of Blue Steel centers?

A - Adalberto Santos {BIO 16803045 <GO>}

Tobias, this is Adalberto. It is difficult to measure what comes from where. The shares of Blue Steel center should start to bring about results as of 2013 when you start flooding the businesses of the Group into that. Camicado, part of that will be transferred to them. And Blue Steel show what could be expected for the next few quarters. You could expect a very efficient management in this area.

We always talk about quarters. We never talk about months. But specifically SG&A this year compared to last year, we saw a reduction of general expenses. So the Company works very hard on managing expenses on a daily basis. This is our routine. We do not wait for things to happen in order to take measures. So every month we tell you about all the accounts, all the line items of the Company. It's truly in the DNA of the Company.

Q - Tobias Stingelin {BIO 1557190 <GO>}

The drop is really surprising, the variation on a quarterly basis. But have you done anything more radical in this from quarter to quarter. You said, well, we grew too much in the previous quarter. So let's cool it down. So could we expect a higher annualized impact?

I know that you monitor it. But it looks like you have done something else something beyond.

A - Unidentified Speaker

No, there is nothing different. We are talking about 13,500 items every day. But I know it is really surprising and I have another information to share with you. I don't know whether you read our report in detail. But when you analyze the growth of the Company going from 16% to 18.4% for the quarter, there are two non-recurrent elements and if it were not for them, it would be 1.2percentage point from 16% to 19.6%.

And if you look at the PPR in the same quarter last year, this year we had 6.4%. And other operations we had positive balance last year. And it is recurring items. And the two combined would be BRL9 million that would give us one of the highest income in retail, 1.2percentage point.

It had to do with a very stringent, stringent and efficient cost management. So I understand that this will continue from now on. We will continue to see this positive development in spite of the opening of the new stores. Now, of course, I understand that there's no impact. But I believe there was still -- yes, in spite of additional expenses, in spite of the opening of new stores, we will always be looking for an improvement in our cost management.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Could you talk about co-branded more specifically? You talked about revenue coming from the co-branded. So what about the future. And the co-branded was done with 15%, the revenue generated. And I believe which should be close to 9% or 9.9%. Could you expand on that?

A - Unidentified Speaker

You are right. The co-branded, we probably have a higher impact on the reduction because we will be introducing this as of December 1st. At each quarter, we should be improving the disclosure of our figures. We have already talked about the revenues. And in the quarter the products already brings about the positive results, more or less around BRL800 million. And some products that we intended to introduce next year might have an early introduction and the existence of the co-branded invoice facilitates sale. We have about BRL80 million already in the portfolio. Delinquency is at low level and past dues as well. So the evolution is very good.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Thank you, very much. Gallo, how do you see consumers now? Are you bullish? Is there anything you can tell us about how you feel about it and your gut feeling about consumers for the Fourth Quarter?

A - Jose Gallo {BIO 1822764 <GO>}

Income for Brazilians continues to go up and delinquency is going down. And why that is so? Because probably some of the purchases that were made two or three years ago, consumers that bought appliances in 8 installments or 12, there was a big reprice demand for that. And this was partially catered for. So you end up having a better possibility of paying your bills. So with your income going up and delinquency going down. And we have consumer confidence that is maintained.

Because of all that, we see Q4 as an extension of Q3. And in a way, we are projecting this for 2013 as well. But more specifically in our case, there is no micro economic variable coming into play and that we could say will affect consumers. We believe it will be stable and even with a slight improvement.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Thank you.

Operator

From the webcast platform. Miguel Cordon, Windmill Equities.

Q - Miguel Cordon

The question is about the results of the E-commerce and if the margin -- and about the margins.

A - Unidentified Speaker

The evolution continues to be very positive in terms of sale. As I said, in the previous quarter I said that growth has been 62% quarter-over-quarter. And when we compare the Third Quarter with the previous year, it is -- here it is higher than 100% with the evolution of the platform, the new platform that was implemented.

And we introduced some other items for E-commerce and the margin tends to be slightly lower in the future because you have more sales of scents, perfumes, fragrances. But the sale of apparel is having a very good performance. So the margin, the difference is very small for the Company.

It is important to say that we are always seeking volume of sales; however, we never weigh our results on bottom lines. We do not want to sell a lot and by sacrificing our margins. So we believe that we can achieve very healthy margin and gradually increasing the volume of sales.

But typically in apparel, you don't compare because these are unique pieces, that is to say each piece of apparel. So our intention is to increase our businesses. And we have changed our platform having a more interactive platform, creating the opportunity for a better communication with the clients that gets on our website and see. We intend to make specific offerings and customized offerings and always having a very healthy sale and a healthy margin.

Operator

Irma Sgarz, Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

I have two questions. First, I would like to better understand what is going on and what is the progress of Camicado EBITDA margin. It was negative in this quarter. And I would like to understand what is the time schedule regarding improvements to the margin and what kind of changes are you carrying out in Q3 and what we could expect for the Fourth Quarter and for the first half of 2013?

And then other question is a follow up on Adalberto's comments about the new distribution systems. I would like to know the games of the push-pull system, about 50 bps through year. And is this going to start in 2015 or are you going to achieve this gradually?

A - Unidentified Speaker

Irma. Good morning. Starting by Camicado, we had the whole integration process and it was done successfully. Integration is completed. We have the back office input are likely with us already. So this was a very good performance in this area. And imported product in Camicado, we underestimated the time that was necessary as we started to do a direct implementation in order to have better margins than what should take one or two months ended up taking six or seven months.

So there was a gap there where we had a stock out of products that were important. And I'm talking always about the important products mainly in decoration, home furnishings. And we're cleaning, we're tackling that. Our people, we have people in China now. And we already have received encouraging news to pick up the slow and we already have people who are giving us the necessary support in China, local people. And next year everything should be fine tuned. That is to say regarding products and the flow of the merchandise. And this is a big potential that Camicado has.

This year, we were 10% or 15% below our initial sales estimate exactly because of this excess time when we were waiting for a license to import directly. So this has had a negative impact on our sales. And I would say that in the First Quarter of 2013, things should be stabilized. And we will be operating with gains. And from then on then things will start to take of undoubtedly.

Q - Irma Sgarz {BIO 15190838 <GO>}

Have you obtained a license?

A - Jose Gallo {BIO 1822764 <GO>}

Yes, 45 years ago. And our people are already in China, already organizing everything for our direct importation. And this -- there is a huge growth opportunity here for Camicado because we all the time receive requests from shopping malls and shopping centers to install Camicado there because this is a product mix.

With our 37 stores, we are the market leaders. And there is a huge demand for new stores in shopping centers. But we are focusing more in some regions. And we intend to expand all over Brazil. But there are many big growth opportunities. And we see no operator in the market that does that on a national basis.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you, very much.

A - Adalberto Santos {BIO 16803045 <GO>}

This is Adalberto about distribution. Yes, the answer is yes. The results that we expect from the new model will be achieved in 2014. As of 2014, we will have margin gains stemming from the new season, which doesn't mean that we are not going to look for margin gains in this operation already in 2013. We will not depend only on the push-pull system to achieve margin gains next year. We will try to get some gains. They will be small, yes. But there will be tackling that.

Operator

Alan Cardoso, Bradesco.

Q - Alan Cardoso {BIO 15933677 <GO>}

I understand you can hear me, right. Yes. Could you inform how much the refurbished stores or remodeled stores contributed to your gains in this period?

A - Unidentified Speaker

It's very hard to quantify, Alan, because at the same time you have these stores that were remodeled and you have others that are shut down to be remodeled. So one thing more or less offset the other.

There is an average number that we analyze. And after some time after the store has been remodeled, we -- up to six months after being remodeled the performance of the store is between 5% to 10% higher than it was before the remodeling. And this is the average for the remodeled stores. They sell some 5% to 10% more than previously.

Q - Alan Cardoso {BIO 15933677 <GO>}

I would like to know what you learned with Blue Steel. You said that in the new stores you will already incorporate whatever you have learned from these pilots. So could you talk about that?

A - Unidentified Speaker

We got very encouraging sales per square meter figure. And we were very much encouraged by that. We were able to see the product mix in the specialized chain and see that it supports higher average ticket with higher prices as well than in a regular department store.

We saw that the CapEx was high. So we reduced something like 700,000-800,000 and we brought this down to 300,000 in an average store. We adapted some types of equipment in the way that is more consistent. And also the display of the products, we simplified our process of points of sale.

It is not necessary to have the high degree of sophistication that we have (inaudible) exclusive products, we will have exclusive products and the differentiated products with a higher price will be exclusive of these stores. And they were very well accepted. And also what has to do with the productivity of the sales team. That with this new kind of display, we will need to have less sales people. And this will bring about a cost reduction. So this is what we learned.

Q - Alan Cardoso {BIO 15933677 <GO>}

Thank you. Thank you, very much.

Operator

Pedro Selli, Gan Chiff.

Q - Pedro Selli

Congratulation for your results. My question has to do with the performance of the stores opened in the last 12 months. The performance of the new stores opened in the last 12 months dropped 16% per square meter. Is that correct? Exactly what happened, could you clarify this, please?

A - Unidentified Speaker

It's very hard mathematically to see. Mathematically the calculation is correct. And what you can have is a different combination of stores opened in different locations. But on average, we continue to have 60% productivity as soon as we open a store. When compared to the present, that is the same stores operating in similar markets, there is new operational standards.

Q - Pedro Selli

Could we expect a similar maturation curve?

A - Unidentified Speaker

Normally, three years for a compact store, five years for a traditional store. And then I believe the far eastern store in San Paulo, for instance, is much faster, the maturation is much faster.

Q - Pedro Selli

Historically, looking at the sequential profit of performance of new store there's something that didn't -- hadn't happened since 2008. Why is it so different now the performance of the new stores vis-a-vis the mature stores?

A - Unidentified Speaker

Most probably because of the volume of new stores that we opened in 2008. We opened 10 stores. And the competition of the portfolio. We opened 30 stores last year, this year 25. So it has a mathematical effect.

Q - Pedro Selli

Thank you.

Q - Unidentified Participant

There may be some situations of cannibalization that at the first moment could help further reduce the ratio that you have just mentioned. But this is not so relevant. Between one year-and-a-half or two years you totally offset with cannibalization. But has cannibalization increased this quarter vis-a-vis the previous quarter?

A - Unidentified Speaker

Well, we would have to do the math here. It's very hard to say how much happened of cannibalization on one quarter or another quarter. It's more on a yearly basis that we can tell, not on a quarterly basis.

Operator

(Operator Instructions) Now, we would like to close the question-and-answer period. And we would like to give the floor to Mr. Adalberto Santos for his closing remarks.

A - Adalberto Santos {BIO 16803045 <GO>}

Once again, thank you very much for your retention. And we hope to see you in our next meeting. Thank you, very much.

Operator

Lojas Renner conference call is closed. We thank you very much for your participation and wish you a very good day. Thank you.