Q1 2017 Earnings Call

Company Participants

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

Other Participants

- Fabio Monteiro, Analyst
- Franco Abelardo, Analyst
- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Joao Mamede, 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. Welcome to Lojas Renner conference call to discuss the results of the first quarter of 2017. We would like to inform you that today's live webcast is being recorded and translated simultaneously. The slides are being presented at www.lojasrenner.com.br at the Investor Relations section at the webcast platform and also on the Engage-X platform. We would like to remind you that questions will be taken by telephone and by the platform. We would also like to inform you that all participants will be in listen-only mode during the Company's presentation.

Afterwards, we will have a question-and-answer session when further instructions will be given for you to participate. (Operator Instructions) We would like to remind you that question from journalists will be taken by our Press Office at 55-11-3165-9586.

Before proceeding, we would like to mention that forward-looking statements that might be made during this call related to the business group that keeps up the company operating and financial projections and targets are beliefs and assumptions of Lojas Renner's Management as well as information currently available to the Company.

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

Now, we would like to turn the conference over to Mr. Laurence Gomes. Mr. Gomes, you have the floor.

Laurence Gomes {BIO 15361799 <GO>}

Good afternoon, everyone. This is Laurence, and we are gathered here to talk about the results of the first quarter of this year. Today with me I have Jose Gallo, CEO; Paula Picinini, Investor Relations Manager; and Luciano Agliardi, Controller. At this time according to suggestions that we received and also according to limit my remarks, I will not follow the slide of the presentation.

I will be talking about the highlights of the quarter and afterwards we are going to open to receive your questions. Anyway the presentation will be available at the Webcast platform, as a support should you need to refer to it.

Initially I would like to say that when we concluded our budget for 2017, we estimated some pressure on our EBITDA margin as we had a very uncertain scenario for sales and also major challenges regarding our expenses. And we also had non-comparable items in the other operating results. And profit sharing level that was lower than our historical levels.

Besides what we said when we published our annual results in February, we have almost BRL60 million additional in operating expenses related to structural projects that are underway such as supply chain, the Uruguay operation, the new financial products platform and also the incorporation of our consumer finance company, Realize, among other initiatives to improve our retailing operations with a higher degree of integration between stores and procurement, but also specialization of our businesses.

Therefore we understand that the first quarter of the year at (inaudible) was marked by two important factors and that exceeded our expectations. The first one with the sales. With revenue 14.7% higher and our same-store sales 9.1%, which considering the numbers presented in the official statistics lead us to believe that we're gaining market share. And the second were expenses that in spite of still under pressure by the factors that I have just talked about were lower than the projected staying at 43.5% over our net revenue with a 50 BPS dilution.

All those helped us to have a quarter in our view, a very positive one because we saw a good acceptance of our collections and also signs of improvement in client traffic in our stores and other item, and more items per bag. Nevertheless, three months only cannot be translated as a complete inflection of what we lived in the past year. These are positive signs undoubtedly, but we continue to be very attentive to the combination of sales growth and expense control. Trying to neutralize the non-comparable effect of 2016 and therefore seeking margins that may be similar to the past year.

And then the other remarks to regarding our retailing operations and that, the stuff to be highlighted is about our commercial management. The gross margin during the first quarter was 120 BPS lower than last year. And this is part of our decisions to guarantee our competitiveness. And also here, I believe that it is important to point to the fact that unit [ph] always deals with the commercial strategy in a way, in such a way as to guarantee competitive prices consistent with our market position, seeking opportunities in order to maintain our inventories and our sales aligned.

In this first quarter of '17, it was not different, that is to say, we carried out the necessary markdowns and we evaluated opportunities for mark up or reworked on our price pyramids in such a way as to guarantee our competitiveness. And we also had the effect of the higher exchange rate, rates will become favorable to us as of the second semester of 2017.

Having said that, and according to our strategy, the higher priced items that are more visible to our consumers and more affected by the exchange rates, we will in fact adjust it in a rational fashion, so that we could adapt ourselves to our client's expectations. And another point related to the commercial side of our operation are our inventory, because the fact that they have gone up 36% is due in fact to the low level that we operate in the first half of 2016.

And today's levels are adequate and we do not expect any additional markdowns for the second quarter of 2017. And as we said in our February call, our annual gross margin should be maintained stable, because as of the second half of 2017, we expect to reverse these pressures with a more favorable exchange rate and the better economic scenario that could be valid [ph] and as a consequence (inaudible) environment and we allocate that we already start to proceed now in April.

Before concluding, I would like to say a few words about our credit operation, which also delivered good results in the first quarter. On the revenue side, we had positive growth both for private label and Meu Cartao.

In the (inaudible), we said we continue to improve our credit quality of all our portfolios and all those stems from the initiatives that we adopted in the last few years in order to improved credit assignment and also to maintain the correct update of the credit limits, and also as a consequence of the improvements in our collection activities. As to our operating expenses of financial products, I would like to remind you that it will continue to be under pressure as we are currently migrating to the new credit platform and also concluding the incorporation of our financial institution.

These were my remarks and we try to focus here on the highlights of the quarter. And now, I would like to remain at your disposal to answer any questions that you might have.

And you may be certain that we are paying keen attention to whatever is happening right now and all the decisions that we made continue to be focused on the long run.

Now we can open for your questions. Thank you very much.

Questions And Answers

Operator

Now, we will start the Q&A session. We will first receive the questions in Portuguese and afterwards, we will have time for questions in English. (Operator Instructions) Our first question comes from Mr. Thiago Macruz from Banco Itau. Mr. Macruz, you may proceed.

Q - Thiago Macruz {BIO 16404924 <GO>}

Good afternoon. Still talking about the gross margin, I would like to understand. Let's say we can exclude the effect of the exchange rate, what kind of pressure would we see year-on-year in a more competitive environment and going back to competition, do you have any signs of normalization that is to say, more rational behavior, because of an incipient improvement in construction? And the other one has to do with consumer finance. We were very much impressed with the result of consumer finance. I would like to understand if it would make sense for you to increase again the levels of credit assignment, would that make sense? So these are my two questions.

A - Laurence Gomes {BIO 15361799 <GO>}

Thank you, Thiago, for your questions. The first point, I think we said that we -- well, we have already been talking about -- at the beginning of year about our expectation. We closed the year in a very competitive environment, very promotional. And our focus is always discipline in maintaining our position, maintaining our competitiveness. And the figures have been showing that even last year when we had more moderate sales, we were able to gain market share. And we also saw a recovery of these levels in the first quarter according to official data and a difference between the official data and our performance. Going back to a difference, similar to the one that we saw in 2014 and 2015, when we also had a good result. So we already expected a more competitive environment and therefore a higher degree of difficulty in terms of expanding our margins this year, but net of the exchange rate effect which is the gist of your question, it would have been half exchange rate accounted for 50% of the reduction in our gross margin. So, this was your first question. And the second question, I think it's important to say that we are rather satisfied with the drop in delinquency that we achieved and we saw major evolution in this regard in 2016, and we made great stride in private label in the second half and in the third quarter, especially in the Meu Cartao in the first quarter.

We also saw a very good progress in personal loans. And our tactics is focus and different, and we're using more information, we're specialized. And we also see an action plan to capture our inactive card that we invested in our database and we were able to achieve a good result.

So the limit or the catch [ph] they are reviewed every single month. And we believe it's important to do that and also the consolidation of the improvement of the main macro variables and indicators to bring about an improvement, and also the reduction of interest rates.

And all those take some time to really reflect on the real economy, so we're expecting more positive signs -- the last variables to recover that we see in the positive signs that we mentioned. We see that there is a slight recovery in consumer confidence already.

Have I answered your questions, Thiago?

Q - Thiago Macruz {BIO 16404924 <GO>}

Thank you. Yes.

Operator

(Operator Instructions) It is Guilherme Assis from Brasil Plural.

Q - Guilherme Assis {BIO 16143141 <GO>}

Good afternoon, everyone. Thank you for taking my question. I would like to go back to gross margin, Laurence. It's important for us to understand this 120 BPS is due half of that from the exchange rate, and I would like to understand about the other half, the other 50%. We see your inventory levels that are bad [ph] and adjusted when we compare with last year. So I believe you have had more merchandise to make promotions. And does it have to do with inventories as it has to do with the competitive environment, I mean the other 50%?

We would like to understand how much of the sales in this quarter were for marked down items, whether marked down was higher than last year.

And another thing is you have only movement in prices because of competition. I'm not talking about the marked down items, but the ones that are truly priced.

And another question now about the same-store sales 9%. Could you tell us about the evolution in the quarter and the trend from March to April, if you already have something about April that you could share with us to know whether we can expect a higher same-store sales, you have any sign that you could share with us for April?

A - Laurence Gomes {BIO 15361799 <GO>}

Thank you for the participation, Guilherme. First, the second half of the margin reduction, the other 50% reduction in the margin have no relation whatsoever with the inventory levels as we said during our call. Since the third quarter of last year, is improvement in our operations and we placed our bets on having a better inventory situation at the turn of the year and having exchange situation in the first quarter and we could have had that last year if we had more supply in the first half last year.

We had some issues related to the quality of our suppliers and imports last year. So this year we'll have a better situation regarding supply. And also the year, this will become more and more normal. It's important for you to see the consolidated -- this in a consolidated base and you can see that if it matches the sales of the period, so it is much more related to our tactics, something regarding an adjustment of some prices. And some items that had a higher price and that were adjusted so that to a market situation in order to have a fine tuning of our market position, which was roughly fashioned at competitive prices for the prices that our target, our audience. So, according to what we had already said previously in the last few quarters and also in the last conference call, it is more related to this.

And there are some positive signs also. Also now already answering your second question, same-stores differently from the last quarters, the average ticket was one third higher. And this is important, this is good news and very positive vis-a-vis traffic in our stores and the number of items per bag and per ticket as well. It's a bigger bag that our clients are buying and this is also important.

Q - Guilherme Assis {BIO 16143141 <GO>}

Could you go back to the first question please; about your inventory? I know about the competitive prices and the competitive situation. I would like to know whether the competition was marking down. What causes this promotional environment? I would like to understand what is done by your competitors, and do you think that in the second quarter, we will have a different situation?

A - Jose Gallo {BIO 1822764 <GO>}

This is Gallo, Guilherme. Our prices have to be compatible with our market position. On the other hand, it's interesting to see that prices normally are the third item in the choice of a product. Usually the variety of fashion, the quality of the service at the store, and the third one is the price. What happens is that, in this price, we have a range of prices that is evaluated by the client. And after the client finds the product that he or she wants with the difference of 15%, 20% they will go and buy it, but not if the price is higher than what they expected in this range. So, in the reality what we had was a situation in which the prices went or became higher than what the market expected for these items.

So our business is a long-term business. We are not going to create an image of a highly priced store because we want to deliver our items, our products at a reasonable, at affordable price for our consumers. And this is historical, whenever you have winter coming and for everybody, every time you have winter coming, if you ask the consumer, what do you think about the prices? They will say, well, all of the apparel items have higher prices than last year, but this is not true in itself, because they are comparing the summer items to the winter items. And mainly, if you have heavier garment that usually have higher prices and we are not going to hinder our position or our image because of three or four months. We have to maintain our focus on the long run. Thank you.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you, Gallo.

Operator

Fabio Monteiro from BTG Pactual. Mr. Monteiro?

Q - Fabio Monteiro {BIO 3711690 <GO>}

Good afternoon, everyone. Could we talk about sales and inventories because you said that the collection or the launch of the our winter collection was different and you have a new strategy to supplier stores in order to avoid stock out. And you just talked about the average ticket and more items per bag and the increase in traffic.

So, do you have any metrics to reduce stock out, and also the launch of the collection? And you supplied all of the stores in one single day. What about the contribution of this new strategy to a reduction in your inventory level, this new format that you used in order to launch the -- for winter collection? And what should we think about inventories in the next few quarters. So, your strategy to reduce stock count and the contribution of each item to the increase in inventory days, and what about your inventory in the future?

A - Laurence Gomes {BIO 15361799 <GO>}

There are two parts here. It has to do with the push and pull, implementation of push and pull and we are according to schedule. And our objective continues to be the full implementation of the basics by the end of this year, where we have been evolving and we have been increasing the number of items. But we're not going to use any metrics, we're not measuring yet, data and figures about that.

But the main metrics for the result of our push and pull strategy and system is increasing the service level that is translated into the increase in the number of SKUs in the stores. So this is what we have been seeing so far, the increase of presence and we are very pleased with this result and the increase in the presence of SKUs for the stores, with the possibility of reducing our inventory at the stores. So this is one of the first results that we have been achieving from our push and pull system.

And regarding our inventory days, we saw a negative impact that was mentioned since last year. But our expectation for the end of this year is to go back to normal levels. And that our inventory may grow less than the growth in our sales, that is to say aligning these two things.

A - Jose Gallo {BIO 1822764 <GO>}

This is Gallo. Just to make it clear for everybody, when we launch a collection, this is the first time that we (inaudible) Renner. And all the models that were shown during the fashion show, and we're talking about over 200, 250 different items. And the next day, all of them were present in the 300 stores of Renner. So, it was really an excellent result. In this case, we had to increase our inventories in February, but on the other hand, it also helped us regarding our same-store sales. The impact of collection being available, at the same time in all stores, led us to have a very interesting results of same-store sales both in February and March. And in practice, we have to integrate what we have been doing, and having these full packages coming all at the same time at our stores. And this has a lot to do with push-pull and the possibility of the automated DCs [ph] allow us.

Q - Fabio Monteiro {BIO 3711690 <GO>}

One last question about promotion. I'm not talking about you, you have already talked about your biotech [ph] and prices and some categories, but I would like to ask about competition. Because in the last few quarters, we saw a very aggressive competition regarding their promotions and they were higher than the historical levels. I would like to know if there is any difference in the last few months, in the last quarters, mainly after all your competitors launched their fall winter collections. Could you describe the behavior of your main competitors in this regard, please? Thank you.

A - Jose Gallo {BIO 1822764 <GO>}

I believe it went back to normal in January and February. We saw extremely high discounts with very high percentages. And now I think we got into a normal process that is to say, we are back on track. And we see that there are some few exceptions, but if you go around a shopping center, a shopping mall, you'll see that it is really going back to normal. I believe it's becoming normal again with some few exceptions but we no longer see the strong promotional environment such as we saw in January and February.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Thank you, Gallo and Laurence.

Operator

Robert Ford from Bank of America.

Q - Robert Ford {BIO 1499021 <GO>}

Good afternoon. Thank you for taking my question. You have many important projects underway such as your consumer finance company, the push and pull system. Could you give us an update regarding the deadline that you except for these operations?

A - Jose Gallo {BIO 1822764 <GO>}

As we mentioned, we have the implementation of our consumer finance company and that will start the operations in June. We also have the Uruguay project, we're building a platform that will allow us to operate, even in other countries if necessary. You have to adapt of course, because of many different reasons and also regarding suppliers when we have a strong program for supplier support.

And many years ago, we didn't have many engineers in our company, and then today we have some engineers that are involved in our productivity and of course, this is also an investment, and also some structures of our Company in terms of receiving more asserted information regarding shopping practices.

And also the pace by which we open new stores, of course this increases our expenses at that specific moment, so not only the 25 Renner stores but there are also a 15 Youcom stores, 25 and 15 of Camicado. And of course you need to train people to open these new stores. So for -- we are not focusing on this specific year, we have to focus on the next 10 or 20 years. So we have to plan on opening new spaces for Renner because there are very good areas, very good locations both for Renner and Youcom and Camicado.

And you have to take advantage of that today because when our economy goes back to normal, we will be fully prepared to gain share in all of our businesses even more so than today.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you.

Operator

Gustavo Oliveira from UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good afternoon Gallo, Laurence, Paula. I still have a question regarding gross margin. Let's talk about the 60 bps coming from the exchange rate. What about the behavior for the next quarter, you had growth of 3.6 and last year it was 3.5, it's a little bit less bad than last year, but it's also higher than the first quarter. Do you believe you would be able to keep the 60 bps in the second quarter? Would it be higher? I would like to understand the dynamics involved. And also for the second half of the year, I believe one major exchange rate will be even more favorable, what do you think?

A - Laurence Gomes {BIO 15361799 <GO>}

We cannot talk about future margins or give you any guidance, but the second quarter the exchange rate is lower than it was in the first quarter. It is lower than we had for the first quarter, and in the second half of the year, if we see a contribution vis-a-vis last year it will be favorable to us if you compare the half year 2016 to '17.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

But what about the mix for the second quarter, do you believe there could be a lot of pressure on the margin?

A - Laurence Gomes {BIO 15361799 <GO>}

No, because the impact of the exchange rates will be lower, but there are other variables coming into play and also we have less promotions. Gallo is saying here that we see a lot of promotional environment, we see some signs of that, but it will depend once again on our dynamic -- in this dynamic our position and the market position that is to say how the market behaves. We cannot give you more color about the gross margin for the second quarter, that's as far as we can go.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

A question about the average ticket. For the first time in -- I believe two and a half years, the average ticket for the card grew more than Renner as a whole. Was it because of trade up? Will all your clients that have your card start to buy more things than they used to buy, but you start to lose the client that was trading down, and maybe this client that was trading down is looking for another store.

Is this an effect or is it because you gave the higher discount for the more expensive products and they became more affordable for your loyal clients, but you do not have the necessary volume to offset the purchases made in the trade up? Could you talk about the dynamics of your tickets? Is it merchandising or what?

A - Jose Gallo {BIO 1822764 <GO>}

What we saw was an increase in traffic in our stores. As we have data about that, we see those in terms of income brackets as well, and more dispersion. Maybe this was the reason why, maybe the more loyal client, maybe because the improvement in the purchasing power. I believe these are the questions involved, that is to say, these are rather normal, also the increase in sales overall and it ends up diluting the participation of the card.

So we didn't affect anything relevant regarding this change, maybe a low intensity. But we continue to see a very good traffic in those segments.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Very clear. Thank you.

Operator

Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

I have two quick questions. Last year there was a problem with our domestic suppliers and the exchange rate environment became more favorable for import more than last year, but I would like to know what kind of interaction could we expect for this year compared to the previous year?

And the second question is, what about the held [ph] up the chain in Brazil, has it recovered? And I apologize, going back to the gross margin once again, it's not really clear to me. What do you expect the half -- the 50% and the other 50%? Was the pressure related more to promotions or to adjustments in the collection? Was it something like a one-off situation more related to promotions or was it because of an adjustment in the architecture itself, and could we expect that for the next few quarters as well?

A - Laurence Gomes {BIO 15361799 <GO>}

Irma, thank you for the question. Gross margin, once again, it is related to our tactic position and adjustments in some items. It's not structured. It also has to do with the exchange rates. This also impacted our gross margin. Whatever is not exchange rate, it has to do with price adjustments and as we had some markdowns in some items. We also had some price increases in other categories.

So, it has to do with a seasonal adjustment and that is related to the market environment. It's more related to that in fact. And from now on we do not see any need for additional markdowns. The signs that we are seeing are very positive. But once again, it will depend on the environment itself or the market and there are some uncertainties also ahead of us, but we have to track this consolidation and the recovery of consumer confidence.

A - Jose Gallo {BIO 1822764 <GO>}

This is Gallo. Good afternoon. With the suppliers, we have a situation that is either different from what we had last year and with this issue of the exchange rate, companies also suffer this impact. So our national -- all domestic suppliers have a different situation today than last year, so there is no difficulty there. And when you talk about the health of our supply chain, we track this very closely and we're very close to our suppliers. So much so that we are not worried about that only.

I talked about our concern with process fee, productivity with the reduction of the consumption of order, it has suppliers and reduction in the cost of energy. And we're working hand-in-hand with them. We were able to reduce 40% in a laundry operation for instance, and we also concern ourselves with the help of our suppliers. And we were able to get a credit facility with the BNDS that we transfer to our suppliers at a very good cost. And this generates a high degree of trust between our suppliers at Renner.

You know very well that if you have a retail operation you depend much more on the local supply chain. It would be very hard for us to exceed 30% in imports. So we're very careful regarding our suppliers, we have to be closer and closer to them and we promote events and meetings during which we discuss quality, and we take very good care of our suppliers. If we want to be fast, we have to have our suppliers very close to us. Thank you.

Operator

Franco Abelardo, Morgan Stanley.

Q - Franco Abelardo {BIO 17416219 <GO>}

First, what is the contribution of e-commerce in same store sales for the first quarter? The second has to do with additional expenses, the 60 million that you mentioned. How much of these expenses were posted in the first quarter and which line items in your results should we see these expenses included? And the third question has to do with other operating expenses. There was a non-recurrent expenses last year and the level was about 0.5% of sales. Could we think about something close to 1.5% or 2% of sales in your other operating expenses line? So, three questions. Thank you.

A - Laurence Gomes {BIO 15361799 <GO>}

Franco, thank you for the questions. Regarding e-commerce, we do not disclose the participation of e-commerce. What we can say is that e-commerce has been gaining share in our total sales and same-store sales as well. We were growing much more than the growth in apparel. So a good result coming from e-commerce and our expectation.

Our initial expectation was to reach in 2021 the level that we established, and we believe that the target for 2021 will be reached before 2021. But I think it's important to say that in our e-commerce operation is profitable. This is an operation that -- it's not really only a matter of gaining share, it has to do with profitability.

And the second point, additional expenses that we talked about, 60 million, they're related to long-term projects, short term projects as Gallo has said, projects that will bring long-term results.

And also there are two -- you should take it in a linear fashion and a straight line fashion for the second quarter. And regarding our other operating expenses, maybe the normalized level in terms of reference would be, looking at 2014 that is to say before 2015, maybe this is what we should consider is a normal level. Okay.

Q - Franco Abelardo {BIO 17416219 <GO>}

Okay. So it will be more let's say close to 2% such as you had in 2014. What about your target for 2021? Was it to reach 5% of your sales and you expect to reach that before 2021? And what was this level in 2016, can you talk about that?

And the second follow-up has to do with being profitable, it is profitable, but is it less profitable than brick-and-mortar stores or it is similar to it?

A - Laurence Gomes {BIO 15361799 <GO>}

Well, the first question is correct. The initial estimate was to reach 5% by 2021. And as we said, we believe that this will be reached before 2021. Regarding profitability, it's important to say that this operation is the new operation. We're still in the ramp-up of operating margins.

And as we said, we delivered many important projects last year, one of them was the update of our CRP which is our IT platform. And this was an important step in order to strengthen and improve all our tools and all structural conditions of our e-commerce operations. It's important to say that we're still in the ramp up. We are on the right track. But what we see is that today, our margins are lower than the pure players in retail.

Q - Franco Abelardo {BIO 17416219 <GO>}

Thank you.

Operator

Joao Mamede from Santander. It's Tobias Stingelin from Credit Suisse.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Good afternoon. Just to clarify this 15 million that you're talking about, are these products that will come on track after 2018 or is it today and then next year you're going to dilute that?

A - Laurence Gomes {BIO 15361799 <GO>}

They do not -- they do not exist in 2016, so they are part of our structure now. So this year we're not steering through the benefits, the positive benefits that they will bring to our revenues.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Regarding your consumer finance company, are you just waiting for the approval by the Central Bank? And what could change regarding the results of this Company? Do you have any idea of these expenses? Will they change? Is there something you can tell us about your consumer finance company and the expenses related to it?

A - Laurence Gomes {BIO 15361799 <GO>}

Well, first of all, the objective is to have a more agile, more flexible platform for this business. And this will give us a lot of independency and flexibility to be important. There are some points that guided the top line and the benefits and the cost. We believe -- we expect to have an optimization in our funding cost.

However, we have an excellent structure that is bigger. Our structure, our operating structure is bigger than it was, and also the bottom line. We believe that the sites having this agility and these benefits, we will also gain in terms of governance, we will have a more robust governance because of that, a bit more elasticity into the operation and I believe this will contribute one way or another to our bottom line.

Q - Tobias Stingelin {BIO 18290133 <GO>}

So, this is the level of expenses, right? And whatever you have there have to do with the funding cost and taxes, et cetera?

A - Laurence Gomes {BIO 15361799 <GO>}

Yes, correct. Yes.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you.

Operator

Maria Paula from BB Investimentos.

Q - Maria Paula {BIO 19356895 <GO>}

Good afternoon, thank you for taking my question. Could you talk about the Camicado gross margin? Because the behavior was different from the consolidated gross margin. Does it have to do with less price sensitivity of Camicado consumers? And the second question has to do with the company going international. Could you go more in depth and tell us about the opening of stores in Uruguay? What you have in feeling in the local market there? And do you expect to open stores in other countries, because you mentioned that you're setting up a platform, that will be ready also to serve other client -- other countries?

A - Laurence Gomes {BIO 15361799 <GO>}

About Camicado, it has to do with improvement in the product mix regarding the loyalty and quality and a more adequate assortment. In 2016, we made great consistent strides in our product mix in Camicado. So we have a more attractive store, it is more colorful now, more attractive. And regarding the participation of imported products as well, in spite of the exchange rate, we have a better margin there. So these are the two main factors.

Camicado was also quite resilient in 2016 and this was also important. So, it has to do with the better product mix and also the increase in imports.

A - Jose Gallo {BIO 1822764 <GO>}

This is Gallo, regarding Uruguay. As we said since the beginning, we are experimenting, there are issues involved such as the exchange rate and taxes. We do not have a study right now that will serve as a basis for us to start working it in other countries. 40% of Uruguay has a higher average income and a wealthy [ph] distribution of social classes. And also the lifestyle is very similar to the Brazilian lifestyle. So these are the reasons why we have already four contracts signed; two certainly for this year and the two other ones for next year, all this will happen in November.

And we will be tracking the situation to see how they grow. We believe this is very interesting, and we will be competitive in Uruguay, price wise and product wise. So far we can only talk about our impression there, some impressions but they are all good, so it will depend also on the execution. So, this is what we have right now.

Q - Maria Paula {BIO 19356895 <GO>}

Thank you.

Operator

Joao Mamede from Santander. You may proceed.

Q - Joao Mamede {BIO 15265292 <GO>}

Good afternoon. Can you hear me? I have two questions about same-store sales. There's been an adjustment because last year it was a leap year. So there is a slight percentage that brings it up. I know it doesn't have a lot of influence. Regarding financial services, we see a drop in the Selic key rate. So does it change the strategy of your consumer finance with the projections of a lower Selic key rate? Of course, you could have a quicker improvement because of your funding cost. So, do you intend to start transferring the drop of the Selic rate to consumers, because last year you increased the zero plus eight rates? So, do you expect to lower it, if Selic goes down to one-digit?

A - Laurence Gomes {BIO 15361799 <GO>}

Thank you for the question. And I will start by your second question. Yes, we expect to transfer this to our consumers at some point in time the drop in the funding cost, the drop of the Selic rate. However, it's very important for us to see a consolidation of these signs of improvement in the economy, mainly in the unemployment rate which is available that we see it'd be very important for our business.

So, we're just trying to issue [ph] the Meu Cartao with the new rules about the revolving credit, we will be reducing the rate for Meu Cartao. Maybe in the next quarter, we will have a higher visibility regarding the timing for that. But, this is what we can say, this will be Meu Cartao for the time being.

About the first question, it could be that this is an assumption that could be true.

Q - Joao Mamede {BIO 15265292 <GO>}

Thank you very much, Laurence.

Operator

(Operator Instructions) We have a question from the webcast platform and I'm going to read it. It says, some time ago you were talking about an increasing gross margin because of the investments made and now it is no longer the situation. Are you going to invest in your value proposition or in operating cost such as more engineers being hired?

A - Laurence Gomes {BIO 15361799 <GO>}

When we talked about margin increase, we always talk about long-term. We believe that's what happened here in this quarter, it was rather well clarified here. And we explained the situation regarding the high promotional level that we had and also our -- the adaptation of our prices, maybe of the higher priced items in regarding the cost of acquisition that was around $4.

Our value proposition says that -- so, let's go to the operating cost, and you mentioned engineer. This is really irrelevant. This is a very small cost proportionally and you cannot say that this is going to affect the cost structure of the Company. And what we will give you that will be in higher efficiency, vis-a-vis our suppliers, the higher productivity as well with a positive impact on our costs. So, all those will make us more competitive. This is Laurence.

Operator

We still have another question from the webcast platform and the question is the following. About Realize, consumer finance company, could you talk more about this operation and what you expect in terms of results from this investment? When are you going to start up Realize? And will it be a new source of revenue for Renner?

A - Laurence Gomes {BIO 15361799 <GO>}

Well, we have already talked about the financial situation during this call, and we talked about the objective, the strategy and this (inaudible). We expect it to start operations in June. We are still waiting for the pre-operational inspection by the Central Bank. And we expect this to happen now in May. And as we've said, financial product is already a business unit here and the consumer finance company is just a platform for this operation that already exists.

Operator

I believe that if there are no more questions, we will be closing this conference call, and we thank you very much for participating in this call. And we hope to see you again in the next quarter. Thank you very much. Mr. Gallo is in doubt whether everybody is listening or not. Mr. Gallo says that they are no longer hearing the voice of the coordinator.

Once again thank you very much for your participation. We will have a code front [ph] coming, and we will have very good code front in many parts of Brazil which will allows us to have a very good April in our sales. And I would love all of you to come to our stores and see our winter items. Thank you very much, and if you have any doubt, our Investor Relations people will be able to answer any questions that you might have. Thank you very much. Lojas Renner conference call is closed. We thank you for participating and wish you a good afternoon.