Q4 2011 Earnings Call

Company Participants

- Adalberto Pereira dos Santos, CFO, IRO
- Jose Gallo, CEO
- Unidentified Speaker, Unknown

Other Participants

- Andrea Teixeira, Analyst
- Christiane Remington Horatio, Analyst
- Fabio Monteiro, Analyst
- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Hillary Brown, Analyst
- Robert Ford, Analyst
- Stephanico Castro, Analyst
- Sula Rizu, Analyst
- Tobias Stingelin, Analyst
- Valle Kende, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen and thank you for waiting. At this moment we would like to welcome everyone to Lojas Renner's 4Q and Full Year of 2011 Earnings Conference Call. We would like to inform you all that today's live webcast, including both audio and slideshows may be accessed through Logas Renner's S.A. website at www.lojasrenner.com.br, in the Investor Relations section at the webcast platform.

As a reminder, questions will only be taken by telephone. Also this event is being recorded and 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. (Operator Instructions).

Before proceeding, I would like to mention that forward-looking statements that might be made during this call are based on the 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, they depend on circumstances that may or may not occur in the future.

Investors should also 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. Jose Gallo, CEO. Mr. Gallo, you may begin.

Jose Gallo {BIO 1822764 <GO>}

Good afternoon, everybody. Once again, it's a great pleasure for us to present our results. Last year was rather different because there was an alternation between growth phases [ph] with the reduction of our businesses in Q3 and then, coming back to normal in Q4. We started the first months of 2011 with a vigorous economy and very major growth year-on-year.

We had major challenges in this year and for instance the issue of the cotton, which is a very important raw material and a possible impact on our gross margins. And we also had to unveil 30 stores in one single year, twice the number of unveilings of the previous years. And of course, we had the challenge to maintain our operating expenses, aligned with 2010, in spite of an increase in our preoperational expenses.

Over the year we also acquired Camicado, a network of 27 stores in the house ware area and which was acquired in May. And this new operation had a small diluting effect on our margins and added to the Company a very new avenue of growth. And during this period we worked strongly on the integration of the corporate and support areas of Camicado. And the search [ph] phase is almost concluded already.

And for 2012, we still have a series of important actions plans and initiatives to be implemented, more focused on the commercial area, the cotton [ph] area and the ambience of the stores. And that will translate into higher sales and margins in the first -- in the second half of 2012.

And in 2011, we devoted ourselves to improving our Internet operations. We tested the specialty store model with the Blue Steel brand. And we started the construction of our distribution center with 50,000 square meters in Rio de Janeiro imported for our logistics and we also devoted our self to the launch of the new look and feel of the stores. And we were able to eliminate some difficulties in our operationalization of the co-branded cards.

And because of that, we were not able to get to the target of 1 million cards that we had estimated for 2011. And in spite of all these projects. And targets. And challenges, we had a very positive year. Especially for our retailing operations where we had a 17.6% increase in sales, 7.2% in Same Store Sales. We had also had an expansion of our gross margin during all the quarters and in the year as a whole. And we delivered a 50 basis points growth in this margin.

And expenses on the other hand were 35.5% of the net revenue, compared to 34.7%. Even after opening the new 36 stores and the consolidation of Camicado. And the EBITDA margin for retail got to 16.1% vis-a-vis 15.6% in 2010.

Financial services continued to have a good performance and delinquency, which was very much talked about and considered as a challenge. It followed our target of being slightly higher than 2010 and much lower than previous years. It was 2.9% this year vis-a-vis 2.8% [ph] in the previous year.

In spite of all of the changes that we saw in the macroeconomic scenario and also, the strike of almost one month in the postal office services and the financial services results, of course, were impacted by the higher expenses related to the co-branded rollout. And with the expenses with we realizing [ph] our financial areas products -- financial products area. And the 30 new stores Renner and I would like to stress that 20 of these new stores were unveiled in Q4 of 2011.

If it were not for this reason, the business, the financial services business would have grown over 30% in 2011 year-on-year. And with our strict expenses control. And inventory management. And the capacity to foresee and react very quickly to different scenarios. And the dedication of our team, guaranteed the very satisfactory execution in the retailing operations over the years.

We saw a change in the pace of sales in Q3 and besides the issues of the unfavorable temperature and deterioration of the macroeconomic scenario. We had the impact of cannibalization of sales in some stores and also, a major reduction in the area of our store in Shopping Bahia. Although, it's called Bahia -- it's at Belo Horizonte. And the impact of the shopping center not too slow [ph] one of our most important stores and also, we had the discontinuation of the request brand, which is the Premier [ph] Contemporary brand and also a later launch of our summer collection.

In Q4 we saw a good upswing. But we felt that the results could be even better if it were not for the late opening of 10 stores that we had to open in December, very close to Christmas. Due to delays in the delivery of construction work in shopping malls for 2012. We have more challenges and opportunities in spite of uncertainties about a potential crisis in Europe and the effect that this could bring about to our domestic economy.

This year we will again inaugurate 30 Renner stores, four are going to be street stores. And we are going to remodel 25 units. And 12 of them are large stores.

We also have our new ambience, the new look and feel in our store, which will be rolled out to all the new operations, as well as the remodeled ones. And this will be the first year in which we are going to accelerate our activities in this remodeling of stores. And this should be extended to the next five years.

Our e-commerce store, the virtual store, should also lead to considerable level of sales. And will be among the 30 largest stores in the Company. This year we will decide whether we will go ahead with the Blue Steel project, depending on its potential. And we will review, this year, the potential number of Renner stores in spite of the target of 255 stores in 2015, which is maintained.

And we believe that we also have the opportunity for additional stores and besides for Camicado, we also see the potential of between 100 and 120 stores in the next five years. This year, we are going to open the new distribution center by the middle of the year. And starting the push-pull process, which totally changes the way we send our products to the stores.

And for Camicado we are going to open at least six new stores. And we will be implementing improvements in the commercial part of that. And first we want to do that. And only after that we are going to accelerate our expansion. We will also speed up the rollout of the co-branded cards with the target of over 1 million cards issued this year. And we are already starting to revitalize our traditional Renner Cards already with the new design, new functionalities. And a higher ease of use for our clients.

All this together shall deliver us a good sales growth. The more accelerated in the second half and the gross margin should expand marginally. However, the expenses will be impacted by our new distribution centers. And we are working with an EBITDA margin being relatively stable year-on-year.

These were my initial remarks. And now, I would like to give the floor to our CFO, Adalberto, who will be talking about the results obtained. And afterwards we will be together here to answer any questions that you might have.

Adalberto Pereira dos Santos {BIO 16803045 <GO>}

Good afternoon. Besides Gallo, we have Gildo Melo, here our General Finance Manager, Luciano Agliardi, our General Manager for the Controllers Offices and Paula Picinini, our IR Manager.

Starting the presentation with slide number three. We have the evolution of the consolidated net revenue, which in Q4 2011 was BRL972.2 million, growing by 18% overall. And 5.3% in Same Store Sales. During the year, we had BRL2.9 billion, which gives us a growth rate of 17.6% for all stores together and 7.2% in Same Store Sales.

This growth was influenced, of course, by the very positive macroeconomic environment during the first part of the year. But also by the assertiveness of our recently opened stores and the capacity that our styling area has to detect and deliver regarding different preferences of fashion. And in the different regions of the country.

And finally Camicado, which in the full year already at 3.5percentage points to our net revenue. Once again, I would like to remind you that all data presented here refer to Camicado and Renner for 2011. However, they are not being presented pro forma for the previous years.

Now going to slide number four, on the left, we have the footprint of the Renner and Camicado stores. And the three Blue Steel pilots and all cities. And you can see on the right the evolution of our sales area, which read 333.5 thousand square meters, corresponding to 197 stores that's [ph] the combined operation of the total 167 of Renner, including the three Blue Steel and 30 of Camicado with areas of 318,000 square meters. And 15.5 thousand square meters, respectively.

On slide five, we present our gross income and the gross margins from the retailing operation. As you can see in Q4 for 2011, gross income was BRL513.5 million in expressive growth, 22.1%. But the most important thing here is the gross margin that reached 52.8%, growing 1.7percentage point growth year-on-year. And if we consider only the Lojas Renner operation, the margin would have been 53.3% with an expressive gain of 220 basis points.

And this improvement is driven by the combination of good assertiveness of our collection with an adequate inventory management. And which ultimately implies lower stock outs and lower markdowns. We could also talk about the some effects of the reduction in cotton prices domestically. And the dollar effect for the imported product, which participation had a higher weight in the spring, summer collection last year.

In the year growth income had a growth of 18.8% with one BRL1.5 billion. And gross margins going up to 52.5% and compared to 52% in 2010.

I would like to remind you that without Camicado, the margin would be 52.9% with a 90 basis points increase in the business in a year that in which one of our major inputs, which is cotton suffered at a price increase higher than 160% besides the assets mentioned. I would like to remind you of the operational initiatives implemented over the last year such as the improvement in the inventory management system by color and by size, the recheck [ph] and the development of our local and international supplier chain.

And anticipating under the remark [ph], although we didn't expect material margin gains in the Camicado operation during the first month, the gross margin, which initially was 40.8% [ph]. And estimated to reach 47.3% by 2015. Already, closed last year with 43.5%, even without implementation of more effective measures on the products and suppliers side of the operation.

On slide six, we can see selling expenses, BRL233.9 million in Q4, representing 24.1% of the net revenue from merchandise sales, vis-a-vis 23.8% in Q4 2010. During the year, the total was BLR775.5 million, representing 26.8% of net revenue, vis-a-vis 26.1% in 2010.

These increases are driven basically to the higher levels of preoperational expenses relative to the more aggressive expansion plan executed in 2011 in which only in Q4 we opened 23 new stores. And also, we had the consolidation of Camicado, or most of it was consolidated in Q4.

On page seven, general and administrative expenses, 16.9% increase year-on-year for the Fourth Quarter representing 7.7% of net revenue, practically in line with Q4 2010. For the year, the percentage was 8.7%, practically in line with the previous year.

On slide eight, we show you the financial results -- financial services results break down BLR20.5 million in Q4 vis-a-vis EUR33.5 million during the same period last year, full year, 2011, BRL125.1 million vis-a-vis BRL121 million in 2010. Impacted mainly by the expenses in the rollout of the co-branded cards, which don't generate relevant revenue first.

And the higher expenses coming from the high number of stores opened in 2011. And delinquency slightly higher year-on-year due to the macroeconomic scenario, which was more difficult. And also because of problems with collections and delays caused by the postal office strike that lasted for 28 days.

Even considering a slightly higher level in losses, the result of the area would have been BRL116 million and would represent a growth higher than 33%, if we excluded the extra expenses that I mentioned. The deterioration of the macroeconomic scenario in Q3 also generated a lower demand for credit products and a lower participation of the Renner Cards as a result in 2011.

The result of the financial services represented 21.1% of EBITDA compared to 24% presented in 2010. I would like to stress that credit losses net of Recoveries for full year 2011 were 2.9% of net revenue from Merchandise sales, 0.1percentage point higher than 2.8% presented in 2010. And still lower than the historical levels for the Company as Gallo mentioned.

Now, slide number nine. Losses on the private label portfolio. In Q4, 4.2% vis-a-vis 3.4% in Q4 2010. And here we are normalizing the figure. We are not considering the reversal of BRL10 million that were done in the period. And full year 2011, we have 11.1% vis-a-vis 10.2% [ph] for full year 2010. And I would like to remind you that in 2009, we had 15.3%, in 2008, 15.8%. Losses over 2011, would be slightly higher than 2010. But much lower than historical levels.

Now, going ahead with our analysis of our portfolio, we saw in the period in Q4, a very positive evolution of the aging of the same with the level of past dues presenting an important reversion in the upper trend that we saw in Q3 whereas during that period we had a 240 bps variation year-on-year.

And the comparison of the Fourth Quarter year-on-year leads us to a lower growth around 100 bps. And this confirms our thesis that most of the deterioration that we saw in Q3 and here in this case about -- or more than 50% came from the postal office strike. And we saw a sensitive improvement in the more recent bracket of the portfolio from one to 30 days which delivered the best index in the last five years.

On slide number 10, the first payment default indicator, which shows and confirms a positive trend for the portfolio. Because we have October 2011 lower than the 2010 levels that were already very good. And this indicator shows the situation of new clients who are over 60 days past due after their first purchase.

Going to slide number 11, we see the chart with the consolidated EBITDA, BRL222.6 million in Q4, 24.8% increase in the absolute values and the EBITDA margin, 22.9%, 1.3percentage point higher than 21.6% delivered in Q4 2010. We must remember that this quarter we had an association of events with a negative impact such as the difference in provisions and the higher expenses in the rollout of Mei Catao [ph]. And a large concentration of new stores.

And if we take all of this into account, we can see the importance of the margin gains obtained. And the rigor with which the Company has been controlling its expenses. And which is part of our corporate culture already. It is embedded in it.

Now going to a full year 2011, EBITDA reached in the year BRL592.6 million, a 17.3% growth. And consolidated EBITDA margin, 20.5%, the same as 2010. Here once again, if we consider only the Lojas Renner operation, the margin would have been 21.2%, 70 bps higher year-on-year.

On the upper part of slide number 12, we see the net financial results for Q4, which was BRL6.1 million negative vis-a-vis BRL6.2 million positive in the previous year. In the year, the result was BRL2.8 million vis-a-vis BRL27.3 million positive in 2010. Those were the quarters for the full-year. The change in the levels related to the cost of a new capital structure adopted as well as a lower net cash during the year because of the higher investments. And also, the acquisition of Camicado, an operation that has already been totally settled.

Now, talking about a cash -- net cash, or cash and cash availability. On the lower part, cash and cash equivalent amounted to BRL578.3 million on December 31st, 2011. And this net of the indebtedness of BRL363.3 million leads us to a net position of BRL215 million. And breaking down the indebtedness of the Company we have BRL315.6 million, referring to the issuance of the debentures that was done in July, BRL36.5 million related to funds raised with the Banco do Nordeste. And BRL11.2 million full term operations of Camicado.

Slide 13. Net income of the combined operations, BRL119.1 million with a 12.2% margin in Q4, vis-a-vis 15% in Q4 2010. The reduction is due basically to the higher financial expenses already mentioned. And a higher percentage paid [ph] of income tax during the quarter because of the recognition of interest on [ph] owned capital, which is now done on a quarterly basis at a higher level of depreciation. In the year, net income was BRL336.9 million with a 9.4% growth. And a consolidated net margin of 11.6% vis-a-vis 12.5% in 2010.

On the same slide, we show you on the right the return on invested capital of the combined operation 8.6% in Q4, vis-a-vis 12.4% in Q4 2010. For the 12 months, ROIC was 28.6% vis-a-vis 32.9% in 2010. In both cases, the reduction was caused by the higher position in operating results. Resulting -- operating assets resulted from the higher level of investments made.

Slide 14, balance sheet, I would like to draw your attention to the evolution of inventories growing 45% in the period, accumulated. And besides having to do with the inventory, which was needed for the new stores opened in the Q4, it reflects also the early inventory for the winter collection, the -- winter items, which participation -- the collection will be slightly higher. In the other line items, I would like to stress in non-current liabilities, the inclusion of the senior quotas of FIDC, BRL343.7 million and debentures, BRL298 million.

Slide 15, information about the Company's investments, which amounted to BRL152.6 million in the quarter. Of which BRL98.9 million refers to the opening and preparation of new stores. In the accumulated period, investments amounted to BRL296.6 million and BRL188.3 million in new stores. Amount -- rather in line with our projections made at the beginning of the year. To the right, we show the evolution of the expansion plan for the Company in 2011. We open 30 Renner stores, being 12 Traditional and 18 Compact, three Blue Steel pilots and three Camicados. All according to our initial estimates.

This is important to stress that of the 30 brand new stores, only 15 were in new shopping centers, 12 were in already existing shopping centers. And three are street stores. And another important information is that 17 of the 30 new operations opened this year. They are in cities where we didn't have any operations before for 2012 we are going to have 40 Renner stores, Traditional and Compact and six Camicado and the expansion of Blue Steel depends on a definition about the project. And the definition will be made over the year.

On slide 16, we have the cards issued, which reach a record of 19 million. And the evolution of the average ticket for a private, which increased by 9.1%, now, being BRL155.78 for the 12 months, the average ticket was BRL145.43 at 10.1% growth.

On slide number 17 on the left, the evolution of the total average ticket for the Company in Q4 increasing 6.7%, reaching BRL110.37. And during the year, the increase was 7.5% with the average value being BRL105.01.

To the right, we have the evolution of payment means into total sales of the Company. Where we see that in Q4 sales of our private represented 54.2% of total sales, vis-a-vis 55.9% in Q4 2010. In the year, the participation of Renner Card was 54.7% vis-a-vis 56.6% in 2010. One of our projects for 2012 is to continue to revitalize our Renner Cards, our private label, which will have the new designs. And new functionalities. And a higher ease of use, which together with other changes we believe will be increasing its attractiveness.

In finalizing, I would like to emphasize once again what Gallo has already said about the importance of the results obtained in 2011. In spite of the cotton crisis and the strong slowdown of the economy in the Third Quarter. And the change [ph] represented by the new level of new stores, Renner is delivering results, which bring about not only absolute growth, which is important. But most of them already have important operational efficiency gains.

And more than that, all these results were obtained at the same time the Company advanced with important strategic projects to achieve sustainable growth in the region and the long run. That is to say in spite of quite a lot of hard work, we didn't have the much feared distraction of the management, the acquisition of Camicado. The (inaudible) project, the rollout of the Compact stores, e-commerce and development Blue Steel.

The improvement in the capital structure and the financial cycle. And the new concept of our stores. And the expansion of our distribution are initiatives that all together will guarantee the growth of the Company and the competitive capacity of the Company in the next few years.

These were my remarks. And now, we are available to you to answer your questions. Before doing that we would like to invite you to participate in our extraordinary shareholders' meeting, which will be held on April 12th with a proposal for changes in our by-laws. And also, in our ordinary shareholders' meeting of 2012, which will be held on April 20th here in Porto Alegre, at the Lojas Renner. I would like to remind you that we are first and foremost a corporation. And your vote is very much important. Thank you very much.

Questions And Answers

Operator

Thank you very much and now we would like to start our Q&A session. And we would like to ask you to ask first the questions in Portuguese. And afterwards, we will be opening for questions in English. So questions in Portuguese first. (Operator Instructions). Our first question comes from Guilherme Assis from Raymond James. Please proceed, sir.

Q - Guilherme Assis {BIO 16143141 <GO>}

Good afternoon, (inaudible). I have two questions. The first, is I would like to understand a little bit better the gain in the growth margin? You partially explained that and where it came from. But I would like to understand the trend. And what we can expect for 2012. Gallo had mentioned that he does not expect an additional great gain in the gross margin.

But seeking to account [ph] the cotton price. And the exchange rate. And the mix of local suppliers. And public, private and everything that was mentioned here, I believe that there might be an additional gain. What do you expect? I'd like you to elaborate on the gross margin? That would be my first question.

My second question is I want to understand your expectations regarding sales. I believe Gallo mentioned that he expects that 2012 to be in order roll [ph] improve over time. And I understand that the comparison basis, although -- with 2011 more favor an improvement along the year. So I would like to know what do you think for January is the scenario that you've expect is materializing?

A - Adalberto Pereira dos Santos {BIO 16803045 <GO>}

Good morning, Guilherme, this is Adalberto. Okay, let's talk about the margins first. We had an important gain in the margin in the First Quarter and then analysts and investors (inaudible) wondering whether a new parameter was created. If you gain BRL150 million in a quarter, then you might expect that in the full [ph] next year, you are going to have the same amount for the whole new year.

That is not a bps, is 150 bps. What happened in the Third Quarter? We came in the middle of an extremely one less sorted [ph] collection with extremely fortunate in developing and distributing the collection to different regions of Brazil. In addition, we weren't the first to (inaudible) way increased imported items for the fall and spring collection.

And it's all generated that gain. For next year, we are not going to have such an upside. We expect to have marginal gains. We're always increase [ph] there are marginal gains. You forget their gross margin cuts off [ph] Renner with rare exceptions, they have an average between 0.5 bps and 0.11 [ph] bps.

And when you are going to perceive the kind of gain, well sometimes it gets a little lower. Sometimes a little less, which are not what -- this is what we're going to pursue. We're not going to have. We can't expect BRL150 million should be on the average. And I am going to give the floor to Gallo to talk about the selling environment for 2012.

A - Jose Gallo {BIO 1822764 <GO>}

Good afternoon, Guilherme, like I mentioned only [ph] we expect a second half stronger -- a stronger second half. But there is a lot to analyze. In a sense that we are going to have the same points as the First Quarter because the First Quarter showed around to [ph] normal sale.

They put this up again in terms of the economic variables. Inflation impacted the Third Quarter. But it is more under control now. We had all of the following adjustments, many of them in the month of November. We also have done the minimum wage increase that will take place now. And we're not [ph] closing the trust, consumer's trust that is [ph] consumption is driven by trust, consumer's trust.

Recently, a photo was published showing the optimism of households and it is the highest since August of 2010. So we now remember all the time for this conditions for good work [ph].

Q - Guilherme Assis {BIO 16143141 <GO>}

Gallo [ph], just to add to my -- just to add, I'd like to understand the performance along the Fourth Quarter. We have never bid of an effect of the climate, the temperature. In fact, in the Third Quarter (inaudible). And I think the (inaudible) was reduced along the Fourth Quarter. So in the month-on-month comparison, how was it? It was in (inaudible) many different delivered stronger management reflected in January. Or, do you think that it is an average for the quarter. When you say that in January, the First Quarter seems to be similar to the Fourth Quarter. Could we have an average of this 5%?

A - Unidentified Speaker

Well in December we had a slower [ph] lower than on the quarter because the comparison days was quite high. But in October and in November, we had no change.

Did you (inaudible) the comparison base for December of 2011 was 14.8% after in store sales. Except the comparison base is very high. Other than that, we see that the first two months of the quarter, February and November were the ones that performed the best.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you.

Operator

Our next question comes from Ms. Andrea Teixeira, JPMorgan. Please proceed.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Hello. Good afternoon. Thank you for accepting my question. I would like to understand the maturity of the stores. If they can in fact after new stores are opened. Gallo has talked about the delays caused not by yourselves. But because of the civil construction (inaudible) was delayed. But in addition to that, could you elaborate whether there's any additional effect of cannibalization?

And my second question has to do with the CapEx. That plan of the 25 remodeling that you're planning. It just got interesting. What kind of CapEx levels do we expect for 2012? And my third question, from what I understood, do you think that the growth [ph] Same Store Sales is stronger or similar to? That is the first question. Thank you very much.

A - Unidentified Speaker

Regarding the remodeling, the renovation of the stores (inaudible). Indeed, a renovation of the store. What we would reduce the sales of that store during the renovation period. And it is a reduction of 15% to 20%. Renner [ph] are going to permit 12 important remodeling.

When you talk about important remodeling's we mean a complete remake of the store. The sales will suffer initially. But then they'll pick up again later on with a new look and feel.

Q - Andrea Teixeira {BIO 1941397 <GO>}

And so, there's cannibalization of the stores -

A - Unidentified Speaker

Yes. Cannibalization has happened. But we face -- we see cannibalization as an investment for the future. We wanted to say (inaudible) get to they're the top five floors [ph] in clothing and apparel. We have considering the total market. Considering that 45% is a formal [ph] market, they (inaudible) market. We hold 9% to 10% market share. So we still have a lot to do in this consolidation process.

Initially, we have to consider that we have to plant the seeds. We have to have square meters to accommodate all of the consolidation process that will take place. You cannot ask but it is something that I would like to remind you about, which is when you think about growth. You must think about the main stores. We think that our growth takes place in (inaudible) stores.

But it also comes from increasing the market share of our current stores. But these are the stores that haven't matured forward yet to give you an idea Andrea, here in the south region when marketed [ph] our card [ph] the market share and I have had to remember there's a direct relationship between the card market share and the sales market share.

Here in the South region, considering cost of A minus B, we have a market share of about 40%. In the Southeast region, our share is about 22%. In the Northeast about 19%. And in the North region, 14%. And in the mid-West region about 15%. So our run of market share could gain. Not only (inaudible) stores. But you also in terms of using our current square meters better. We have to sell more by square meter. That is another way to grow.

Q - Andrea Teixeira {BIO 1941397 <GO>}

I do appreciate your explanation because (inaudible) really it shows how different -- the different -- the average investor dollar. Another observation, what has been happening all through circulation of shoppers? (inaudible) traffic of shoppers seems to be steady. Once it moves the (inaudible) traffic improves in Same Store Sales in a matter of better mix in the margin often depends on the imports. What happened, Gallo? Were the total stores (inaudible) for main stores in terms of circulation of shoppers?

A - Jose Gallo {BIO 1822764 <GO>}

Well I would say the traffic or circulation of shoppers has shown a slight increase. (inaudible) we were impacted in the First Quarter by certain reduction in the number of shoppers. But in our stores I would say that the number of shoppers is really normal. We don't see major fluctuations in our business.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay. So if I worked in (inaudible), 20 (inaudible) could be an investment in (inaudible) in terms of investing in systems, making sales, distribution centers. And (inaudible) of the thought which will eventually bring the positive effect on Same Store Sales that perhaps that you really would suffer. The fact that these 12 mainstream stores that you will be remodeling is (inaudible) remodeling mean closing the store for a while? Or, it's just a renovation that will take place while the store works -- remains open?

A - Jose Gallo {BIO 1822764 <GO>}

When we are talking about a gradual remodeling, we will not close down the store. The store will always be operational, even if partially. During the remodeling we expect sales to be reduced at around 15% to 20%. But a later rally [ph], a later pick up of sales in the third or fourth month, the sales will be regained. And we will see a sales increase as a consequence. Although the remodeling starts soon.

Q - Andrea Teixeira {BIO 1941397 <GO>}

When is that?

A - Jose Gallo {BIO 1822764 <GO>}

It has actually started.

For the first half of the year, we have 10 remodeling. And then 10 new stores opening. Not everything happens at the same time. But we have 10 remodeling operations started already.

Q - Andrea Teixeira {BIO 1941397 <GO>}

How long do you think they last, two to three months?

A - Jose Gallo {BIO 1822764 <GO>}

Yes. Two to four months I would say.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Okay, three to four months. Okay. Are you ready to give us the guidance for CapEx? Because if you're making your calculation that probably Renner would have to increase the CapEx a little bit because of all of these initiatives.

A - Unidentified Speaker

Indeed, if you look at all the remodeling initiatives, the new stores plus the expansion of Camicado (inaudible). See [ph], not because of during that more construction itself. But all of the equipment required. We are expecting a CapEx of BRL400 million for 2012.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Perfect. And as for the clarification from Gallo and Adalberto, make an (inaudible) question. You talked about a gain of 50 basis points in the retail margin. Is this considering the consolidation of Camicado? Or, simply to Renner stores' expansion.

A - Unidentified Speaker

This is considering the combined operation, Camicado as well. Your question is interesting. When you talk about Camicado, the base case. Had 40 stores and we were expected to reach 47. And we are already at 44 stores with no change in terms of the private, because the privates are the ones that are going to increase the margin and the sales.

So if Camicado thinks they're doing quite well. And as for the CapEx, BRL287 million, increasing to BRL400 million in Renner and BRL20 million for Camicado, BRL420 million in total.

So it's not just (inaudible) stores, the United States [ph] remains the same but we're investing more in the remodeling. About 30 (inaudible) BRL9 million in the investment in the distribution center. That increased from BRL100 -- it increased from BRL30 million to BRL65 million. But we're going to be getting all of these figures.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you very much.

Operator

Our next question comes from Gustavo Oliveira from UBS. Please proceed.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good afternoon. My first question has to do with the logistics and the opening after DC [ph] (inaudible). When it will open? And more important than that is when will you adopt the new logistic push and pull process to ship items to the stores? When will this be affecting the stores and how many stores will be joining in the process?

A - Jose Gallo {BIO 1822764 <GO>}

The DC will open in July. And it will look [ph] at operating with the new process, push and pull process. Currently, our distribution centers are -- you will go into Renner and go out through the other door. Approximately 60% as the privates will be distributed to the (inaudible) 40% will be shipped according to sales. And the goal of that is to increase sales and at the same time reducing some markdowns.

All of that will happen with the new DC, the new distribution center. They will supply particularly the stores from Rio de Janeiro in the Northeastern stores. Total effect of that well we will see the total effect of the second DC we should open with approximately the same size in 2013 or '14.

And (inaudible) two to five years, we will see the full effect of this operation with the full push and pull operation from the two DCs. With that, we'll be able to better work with the imports. We will have a greater ability to receive and ship imported products to the stores in a more orderly fashion. And this is necessary for the organic growth of the Company. These are the three main objectives. But I can understand (inaudible).

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Initially all the Rio stores and Rio (inaudible) will be working with this new concept. The stores in the South and the Southeast will remain, at least temporarily the growth [ph] concept?

A - Unidentified Speaker

You are correct. Particularly supplied by the current distribution centers I mean, with South and the South stores.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

And when will we expect the new process to work really well. So first you need to expand the older the DC then (inaudible), can you migrate them gradually to push and pull?

A - Unidentified Speaker

That can't be done because it requires new equipment. We currently receive everything by grow [ph] and packages. And we will start receiving differently. We'll need the correct equipment to rationalize costs and to ship the product by SKUs to the stores.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Saying your CapEx plan for this year would include the good yield, a higher investment for distribution centers. You are considering the expansion of the old, the current DC?

A - Unidentified Speaker

No. We are not going to be working on the old DCs yet. We're only going to apply the push and pull into a new distribution center. Even be will [ph] for a while. Is this sophisticated equipment that cannot be installed in the old DCs. We'll only install as the new equipment in the new DC

Q - Gustavo Oliveira {BIO 15129435 <GO>}

How soon do you expect to migrate the South and Southeast stores to the new (inaudible). How is this going to unfold?

A - Unidentified Speaker

Well once the DC is ready, we are going to have a blending moment [ph]. And we're going to be operating with both systems in parallel. Then we'll be fully migrating. What might happen is that we're going to have a reasonable size of the trust [ph] the DC.

This is a very complex population. In -- what (inaudible). We'll have a working group with eight executive who have been working for a year and a half on this, for instance. Everything is being studied in length and very well simulated. We are starting to prepare our suppliers. But it this really going to change the profit [ph] supply chain.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Great. And my last question is regarding the imports. I saw in the balance sheet that imported material increased a lot compared to last year. And this is the effect of Camicado in (inaudible) a lot or because in the Renner store, they're going to be working with a higher level of imported products?

A - Unidentified Speaker

No in Camicado is not influencing this number. This number is mainly influenced or reflect the fact that we were going to have an early [ph] inclusion of the fall, winter items. But forget [ph] to run us off today. We are going to see foreign [ph] products for fall and winter. Because we are -- what we move forward with new collection. And this is the main reason why we see an increase in the inventory of imported items.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

And you don't have a lot of foreign or exchange rate gains, the best [ph] yield is more gain related to sourcing [ph]?

A - Unidentified Speaker

Yes. When you have an exchange rate, effects are going to remain stable throughout this stage.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay. Thank you.

A - Unidentified Speaker

Something else that I wanted to mention is that the winter collection, a part of the winter collection is influenced by the cotton price. And all going to benefit from that, for the imported items that we are going to start seeing the benefit long after 2012. In the Fourth Quarter (inaudible) a slight benefit compared to the domestic product.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay, understood. Thank you very much. So if I understood Gallo's comment. I'd like to have the benefit in the imported product is due to the cotton price, which has reduced the currencies remain stable. But you might get some gain from the exchange rate. So might even be able to expand your growth margin for this year. Did I interpret you correctly?

A - Unidentified Speaker

Yes, I guess we can discuss this more in depth. Because when we talk about the decrease in the common price, you can capture some benefits. You have for example the labor issues in China. You have the inflation of labor in Brazil. (inaudible), for Chinese [ph] mixing the cost of products, the cost of goods.

And in addition to that, if you have the retail dynamic, many players in some specialized chain have a lot of inventory. And now they're selling out their inventories. Those in certain situation it is more difficult to distant [ph] your own margins. After competing [ph] (inaudible) you have to maintain your market share. So not necessarily all of the cotton price decrease will be transferred and translated into a better margin.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay. Thank you.

Operator

Our next question comes from Christiane Remington Horatio [ph] from (inaudible).

Q - Christiane Remington Horatio {BIO 16576809 <GO>}

Good afternoon, I have two questions. The first (inaudible) if you elaborate the increase in the inventories it seems in this quarter, particularly compared to the same quarter of the previous year? And the second question has to do with the level of integration of the Camicado stores. What can we expect? When are we going to have full integration of this acquisition? Could you give us an update?

A - Unidentified Speaker

And so the increase in the inventories. It is very much related to what I mentioned. The early inclusion of items -- of imported items.

As for Camicado since the acquisition until the end of 2011, we integrated particularly all the (inaudible) of interest and to clarify, currently all the bank offers and running in Renner headquarters, human resources, accounts payable, account receivable.

So I guess a 90% [ph] of the integration process is complete. Now, what we were getting started now is on adjusting the fourth piece -- the firstly, point of sale, the physical stores themselves. There two to three stores we believe they need remodel. All of the other stores are in relatively good condition. And they can go on for a while before we have to remodel them.

Secondly, products, it's almost on a 100% change. Camicado did not (inaudible) supplier. And that's what we are trying to do now. We (inaudible) great opportunities of suppliers that do not supply to Camicado. We are now -- we have (inaudible) programmed instructed procurement process. And all of that will translate in (inaudible). We're introducing the comfort of lifestyle.

Now, we are going to exploit traditional -- new traditional and modern lifestyle, street lifestyles. All of these studies are complete. So new collections, the products are being procured even the new methodology. The effect will started being seen particularly in the second half of this year, that makes us believe that we are going to be able to have at least 30% more (inaudible) using the same (inaudible).

Meaning such a weight gain [ph] increase so we can have the high average ticket for the (inaudible), including new products, which according to the (inaudible) lifestyle does not exist (inaudible) Camicado.

Finally, payment conditions, credit card is accepted in all stores now. And the Renner Card represents (inaudible), which is a 12% [ph] of total sales. But here in the South region, it reaches 15% to 22%. We got started here about two or three months ago. And our goal is to reach 20%, 25% share of the card on [ph] Renner, which means people back going back to the stores. And buying more. And we start improving the loyalty of our shoppers using the card on [ph] Renner, the Renner Card.

So the same thing that we expect Renner will happen to Camicado.

Q - Christiane Remington Horatio {BIO 16576809 <GO>}

Just adding to the question. Looking for (inaudible) of all this change. And the new strategic position of Camicado, do you have an estimate of how much you would have in Same Store Sales and growth in the Camicado stores after the implementation? That is to say, how much additional sales could be generated with that?

A - Unidentified Speaker

No. We cannot make a safe estimate yet. As I said before, many of these things are starting during the first half of this year. And your question has to do with Same Store Sales for Camicado, correct?

Q - Christiane Remington Horatio {BIO 16576809 <GO>}

Yes.

A - Unidentified Speaker

No. We cannot estimate this yet.

Q - Christiane Remington Horatio {BIO 16576809 <GO>}

And the last question is the following. I would like to better understand the results from financial services that had a drop in the quarter. Especially in credit losses. I would like to better understand this. You mentioned that delinquency at good levels. And some indicators are better than historical levels. So what could we expect for the future in terms of results from financial services? Smaller credit losses closer to 2010 levels?

A - Unidentified Speaker

Christiane, is your question about Q4?

Q - Christiane Remington Horatio {BIO 16576809 <GO>}

Yes, Q4.

A - Unidentified Speaker

Q4 is a very non-typical quarter. We have a different comparison basis discussed in Q4 2010. We had the reversal of a position of BRL10 million. And this year we have a complement, or supplement of BRL5.8 million, which rather changes the comparison basis. Talking about losses for the whole year. I have already mentioned that they were slightly higher on an annual basis. And when I compare it to the portfolio, I think this is a very interesting comparison. Because we were 11.1% vis-a-vis 10.1% last year.

Once again in 2008, it was 15.8%, 15.3% in '08. So we are much lower than our historical levels. And our projection for it next year is to be close this percentage. So next year we should have simply different from what we had this year in 2011.

In 2011, we had a better first half than a degradation in the second half, which was accelerated because of the postal office strike. And in 2012, we would have the (inaudible) situation. Slightly worse during the first half with 8 [ph] marks improvement in the second half. And the year-on-year comparison will be at the same levels we already had indications in the portfolio when we see the aging of the portfolio.

We see what I mentioned in my presentation. The first bracket -- the first range already is at the best historical levels. And in October it was the best historical levels. So the situation in 2012, in the worst case will be equal to the previous year. Thank you.

Operator

The next question comes from Mr. Tobias Stingelin from Santander. You may proceed.

Q - Tobias Stingelin {BIO 1557190 <GO>}

I have three questions. Good afternoon. Gallo, you said that you are reviewing the extensions process. And you are encouraged with the possibility of additional stores. What could be changing? How do you see the situation for 2014, for instance? This is the first question.

A - Jose Gallo {BIO 1822764 <GO>}

We see that shopping centers are looking for smaller cities and towns. And shopping centers that are being expanded -- opportunities already in different neighborhoods. And just to give you a better idea, the stores have 47 meters of leasable area for inhabitant versus 1,000 acres and 72 in the US, 213 in France, Mexico, 81. And the 267 in the Southeast.

And we see that the gains didn't happen only in the C class, this happens in all classes. And because of that many of the cities that wouldn't be of target before, be it the city or a neighborhood in a city, which were not interesting. All of a sudden they became interesting in terms of establishing a Renner's store because a lot of cities, a lot of urban centers have lots of traffic. And many other disadvantages. And we believe that there are many more things happening. And many more responsibilities than we saw before.

Q - Tobias Stingelin {BIO 1557190 <GO>}

So during this year should we expect some announcements from you regarding changes in the program?

A - Unidentified Speaker

What we are doing now. We are turning out a whole series of evaluations. And during the year, we will possibly come back to you and say something. Because (inaudible) 55 stores. And that's it, life is over, you cannot think like that. So there are so many other opportunities (inaudible), which are who is going to occupy so to say the state. When you see consolidation of the three largest stores. Let's say utilities, 50% hyper markets, 40%.

We only have 9%. And we don't know even projecting 40% or 50%. But let's say 20%, 22%, this is totally feasible and clear.

So you can see that -- who is going to receive all this potential? Those who have the necessary square meters. And who will need more square meters than we have today in order to be able to tap into all those potentials. And when we evaluate the growth in apparel for instance, when a person changes the (inaudible) they started consuming more. When the D class becomes C class the percentage becomes higher from C to B and from B to A.

So there's a whole dominating [ph] in this gain and (inaudible) power. So people start consuming more and more apparel. And who is going to take tap into these opportunities. Those who have more square meters. And those who will be focused mainly on the major players in the market because it's very difficult in this country to go from small to medium. And medium to large. The tax business so perverse that accompany, in order to become a middle sized company has to make such a huge effort.

That only handful are able to do that. So the chance for the big players to get into this consolidation process is much, much higher than the appearance of a new consolidator.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Thank you very much. And what about CapEx, more specifically? I understand that you say this is a three year program. So if I understood correctly, are you taking into account logistics, et cetera? So it's reasonable to believe that this will be for this year, next year. And maybe in 2014. Does it make sense?

A - Unidentified Speaker

Tobias, though we have to check the figure indicator for the first distribution center. We have investments amounting to BRL65 million in equipment, plus BRL20 million in systems. Then a little bit less afterwards because you can take advantage of the equipment that already exists and the two others.

That will be BRL740 million. And Gallo mentioned the focus on the next few years on the remodeling of some stores. So it does make sense, BRL400,000 -- BRL400 million does make sense. So we can get into details afterwards as we remodeling stores and some of them are very large.

Q - Tobias Stingelin {BIO 1557190 <GO>}

And this has an impact of 20% to 30% on your sales. I have the impression that Same Store Sales for this that was slightly lower than inflation seems to be a little bit too conservative. Does it have to do anything to do with the remodeling of the stores? That could be lowering those figures?

A - Unidentified Speaker

There is a lot of sales when you remodel the stores. But immediately afterwards, you have gains. And the gains could be between 15%, 10%, maybe a little bit lower than that. In remodeling, it's from 15% to 20% and not from 20% to 30%. The figure is lower than the one you mentioned.

Q - Tobias Stingelin {BIO 1557190 <GO>}

And one last question. What about the co-branded? We have only seen the burden of the co-branded. This is an old project. And the cost and advancements in the development and brand is quite high. And your target was 1 million. And you didn't hit the target. So when would you be able to see revenues coming? Or, significant revenues coming from that so that we can see a turnaround or reaching a breakeven point at least?

A - Unidentified Speaker

I don't quite agree with you because the project started in 2010. In 2011, we started the rollout in the first half, 140,000. Then we said it's up because it's a co-branded card. It's thinking it to be a private. And it will cause a lot of this system integration, our internal systems with the processor system. The processor is outside the company.

So we had to make some fine tuning there. So we restarted the rollout in Q4. And this generated the extra expenses that you see. The idea is for 2012 we would close the year with around 1.2 million, 1.3 million cards issued and 4 million for this year. We should get to a breakeven point. So revenues and expenses should reach a breakeven point. And afterwards we will see additional results for the financials of the city [ph] area similar to expenses.

If we don't take into account the FIDC and we look at the balance sheet. And the net cash position. Of course, there is FIDC there. And when we see the financial expenses and the level where it was, it could be low in every term. But it is a big change.

Q - Tobias Stingelin {BIO 1557190 <GO>}

So how should we see this?

A - Unidentified Speaker

There is a combination of factors there. You have a drop in revenues because of lower net cash positions. Since we paid -- fully paid for Camicado in May, June. Then, of course, we had less revenue. This is significant.

And Paula can send you the complete breakdown. So you have the debentures and you also have the effects of the financing of our financial operations. We started with BRL180 million and BRL120 million in Q3. And Q4 we settled the operations. And because of that we had additional financial expenses. And for this year we expect less.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Can the vendor be totally replaced by the FIDC?

A - Unidentified Speaker

In some places you have to maintain the operation. Because FIDC had some portfolio limitations. You have a chat [ph] for instance, for past years. Then you raised a percentage. And the strike in the postal office had some bearing on that. When you reach this, you have to start operating vendor. And this has an impact on your financial expenses.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Okay. Thank you very much.

Operator

Mr. Robert Ford from Bank of America.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you very much. Good afternoon, everybody. And congratulations on your results. Could you talk about the Blue Steel trend? And a little bit more on your experience of the Meu Cartao [ph], the card users.

A - Unidentified Speaker

At least two [ph] where we have three pilots. One in Porto Alegre, one in Sao Paulo. And one in Minas Gerais. What we are currently doing is the following. We are testing products. And very clearly we have already noted that we can sell a higher average ticket compared to Renner. A higher amount. And we see also very clearly that people come back to the store more frequently. And we need time to develop specific items of a higher ticket. We have to check with some suppliers who will be producing smaller amounts. And this is a testing process.

We have to create practically some specific suppliers that will be supplying specific items. And that will be establishing the amount of sales per square meter that we will be achieving for each month Blue Steel stores. And that has to be higher than the others. So we have to create new product. And place them in some product lines that we do not sell at Renners. A brand of sneaker that is a very specialty brand that wouldn't sell at Renners, as we are placing at Blue Steel. And many things that we are doing in order to check how much we can get in terms of sales per square meter to see if it's feasible or not.

Q - Robert Ford {BIO 1499021 <GO>}

And in your view to get scale more quickly, are you -- do you tend to hold a franchise system? How can you improve scale for Blue Steel?

A - Unidentified Speaker

Well this is also something that we are considering in building a model. We are modeling also for the possibility of having a franchising model. Let's talk about the Meu Cartao card, 540,000 cards since the end of the year. This year, 1 million -- 1.2 million, 1.3 million estimate. And what we can say that 135,000, 145,000 average tickets rounding out 150,000, four to five times a year. And if we multiply 150,000 by five, we will have BRL750 per year which would be BRL60 of spending per month.

Just to be compared to Meu Cartao. Meu Cartao has BRL60 per purchase five times a month. So the spending would be BRL60 for spending of Meu Cartao of BRL300 per month. To date, we believe that the portfolio could reach at the end of 2012, BRL100 million, which is a personal (inaudible) portfolio. A product that tends to become more and more important in our portfolio. When we close 2011, the portfolio represented BRL30 million just to give you an idea.

Q - Robert Ford {BIO 1499021 <GO>}

What services do you have for the Meu Cartao cards?

A - Unidentified Speaker

Well traditional services. And the client can choose a Master Card. Where you can have four dependents. And you can withdraw money abroad. And many other interesting features. But the difference that we want the card to have and we are studying the issue of the Loyalty program of course. But we want to have something different and focus on our target audience. The quality of the service delivered especially by our work station. So we want to have advantages before we talk about the Loyalty program. And our cards doesn't charge for annual fee. It doesn't charge an annual fee. Gallo is reminding me of that.

Operator

Mr. Fabio Monteiro from BTG Pactual. You may proceed.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Good afternoon, Gallo and Adalberto. A question about the (inaudible). I would like to know something. We'll a slightly better macro scenario. And you said that generally was okay, a good performance. So what do you expect in terms of organic growth for 2012? What kinds of improvements? And is there any risks that you see in the macro scenario, in the macro economy that we should pay attention to?

A - Unidentified Speaker

I believe that's on the macro level eternally, things are very good. We don't see any major or significant variations. And quite the opposite. Inflation rate is even lower, which helped us. And trust higher. And I think that went very smoothly.

There isn't a negative point unless we have some negative surprise coming from Europe. But we have full one in Brazil. It continues and total payroll [ph] continues. And so, I really don't see anything in our radar screen that could bring any worry to our minds. Or, make us be more careful, any major changes. No. I don't see anything like that.

I think this is it. And we have already talked about organic growth. We are going to open 30 new stores. We have Camicado with six. And we have the remodeling's and the new stores that were opened last year. We're opened 22 new stores in one single quarter, in the last quarter. And the only contribution that they have given us so far was on the expenses side. And now we are going to have these stores that will start to contribute this revenues and other expenses.

Besides, I think our collections are very good. And you can see that we see things before everybody does. We know when a collection is good or not. So our winter collection, we believe our collection is very good. Our winter collection is very good. And it should be a very good year.

Q - Fabio Monteiro {BIO 3711690 <GO>}

I would like to hear from you about the different performances per region. And maybe Sao Paulo. Do you see more competition? Or, do you think there is any level of saturation already in some region of Sao Paulo or somewhere else?

A - Unidentified Speaker

Well the new regions go faster. And when I made my remarks, I said that our card share in regions of Brazil. This is half or even less than half of what we have in mature markets such as the South of Brazil, which means that in these areas we can place more cards [ph] and generate more sales per square meter. Not to mention the new stores. And the new stores naturally, they grow much faster than the conventional stores. But mainly the new markets. They kind of have an obligation to grow faster than mature markets and accept [ph] an age to the South regions are shared.

For instance, in North region it's 13%, 15%. In the Midwest, 20%, in Sao Paulo, et cetera. So we can still tap into whatever we have today.

Q - Fabio Monteiro {BIO 3711690 <GO>}

And what about the Compact stores and the Women's stores. Is there anything you can share already with us in terms of performance or internal rates of returns?

A - Unidentified Speaker

Fabio, we have been talking about this for quite a long time. But sometimes you have more margins. But sometimes (inaudible) higher [ph]. EBITDA goes up and everything finally has to make more investments in CapEx and ROIC. New store, one was recently opened in Sao Paulo and Vila Limpia [ph]. And the performance is even a little bit higher than our estimates. And the other one is Rio Grande do Sul and Cashias do Sul [ph].

And the shopping center itself is not only a good performance. That is to say it is lower than the expected. So we have to wait and see. But the performance of the store itself is higher than our estimates. But we have to wait for a few months before we say anything more concrete.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Thank you very much, Gallo and Adalberto.

Operator

Sula Rizu [ph] from (inaudible) Asset Management [ph] with Ms. Rizu, you may proceed.

Q - Sula Rizu

Good afternoon, thank you for the opportunity. I have three questions. In the last introduction, he talked about commercial innovation. And that you believe would be rather interesting that could spill [ph] sales in 2012. When you also talked about new functions for the card. Are these the same thing? Are these two things the same or are they separate? Could you elaborate on that?

A - Jose Gallo {BIO 1822764 <GO>}

I'm sorry I really didn't get the first part of your question..

Q - Sula Rizu

What about commercial innovation.

A - Unidentified Speaker

These commercial innovations that are mentioned are probably related to our new store environment. And it's more in this sense. The new store environment and the remodeling of the stores. And the new stores that are already being opened according to this new model. And we are working with our merchandise. And we are trying to enchant the client. And we are trying to decrease the 500 queues [ph] at the checkout. And improvement sales who in the fitting rooms. And many little things that altogether they bring about a very good results. But this is what I meant.

Q - Sula Rizu

And the cards?

A - Unidentified Speaker

We are going to bring some innovations in order to have a more competitive card vis-a-vis traditional cards. Although we are launching our numbered cards. We believe that private card has the space. There are people who love it. And we are making it more modern and more user friendly. And simple innovations such as changing the layout of the card itself.

And also, the technological platform that will allow us to work the different payment plans. The Renner and Camicado can be different in different regions. And I will be able to offer the bill instead of the invoice that is to say because sometimes people prefer to pay at the bank. Because the little booklets that you receive for the interest bearing sales sometimes (inaudible) going to offer different means to people. Okay. Thank you very much.

Q - Sula Rizu

Okay. Thank you very much. Adalberto, of the 40 stores that you will be opening, what is your expectation in terms of increasing your selling area as you have stores with different sizes for 2012?

A - Adalberto Pereira dos Santos {BIO 16803045 <GO>}

I can talk in absolute terms. We expect to close the year with 391.6 thousand square meters vis-a-vis 233 in 2011. Okay? And this will be giving us a 17.4% rate, which should be the average for the next three to four years. So it would be between 16% and 18% in the next three to four years.

Q - Sula Rizu

Thank you very much.

A - Adalberto Pereira dos Santos {BIO 16803045 <GO>}

And [ph] that's from Meu Cartao.

A - Unidentified Speaker

You had mentioned an additional expense when you expect a breakeven in 2012. So I consider about BRL30 million to BRL45 million additional coming from votes [ph], right? We have to check that it will be (inaudible) from non-recurring expenses for example just like you have in the stores. When you change the ramp up of growth (inaudible) you grow 15 stores. We grew -- they grew 15 stores and now 40 stores.

In the event will have an impact on financial services. There was an intention not only 2011, more particularly in the last quarter when we opened 22 new stores. It was a large impact. But this is not why we're calling [ph]. For a (inaudible) we can adjust to the (inaudible) sure thing [ph] is that (inaudible) we should break even.

Q - Sula Rizu

Okay. And understood. And my last question. Now, you have a new financial structure, more efficient with a little bit more inventiveness [ph]. (inaudible) Fourth Quarter?

A - Unidentified Speaker

The financial expenses grew. They were [ph] (inaudible), almost to BLR20 million (inaudible). So I would like to understand.

Q - Sula Rizu

What can you expect in terms of the financial (inaudible) expenses for this structure that is currently have for 2012?

A - Unidentified Speaker

It is the (inaudible) is good (inaudible) and more expensive (inaudible). There are other things in addition to the cost of (inaudible). (inaudible), there's a little bit of that. But I believe that (inaudible). I'm sure it's quite easy to forecast (inaudible) can work with a debenture cost. (inaudible) for this kind of investment. Does that (inaudible) going to work? Or was it (inaudible) cash (inaudible).

When [ph] we have the definition of strategic cash. About 150% of the EBITDA. And we are going to get your number, the expenses. Particularly to do with debenture expenses. And we (inaudible) of a lower financial revenue because of the investments. So it's just the cost of (inaudible) basically, yes. But I have thought it was something extra. A huge space [ph], can adjust the cost of debentures, yes.

Q - Sula Rizu

Thank you. I understood, thank you.

Operator

Our next question comes from Stephanico Castro [ph] from Persing Investimentos [ph].

Q - Stephanico Castro

Good afternoon. My question has to do with fiscal re-incentives [ph]. Are you going to join any fiscal incentives in the Rio de Janeiro distribution center for the (inaudible) this year? And I provide you [ph] to comment. And the reason to (inaudible) regarding (inaudible) products we can just (inaudible) many ways.

A - Unidentified Speaker

Well this is not (inaudible) this impact the make up? It's for the fiscal incentives in Rio. I'll talk about the (inaudible) in terms of cost of the (inaudible) fiscal incentives for the (inaudible). We do not put together any operation based on fiscal incentives. Fluctuation has to be (inaudible) with no fiscal incentive. If there are -- well. So much that perhaps that would be a plus. But the operation has to be able to (inaudible) talking about incentives, fiscal incentives. We really have none.

In Central Catarina [ph] there are two gains in that operation. We have a basic production because of the 24 [ph] payments deferment, 35 month payment deferment. And so that's all available. So we're not talking about anything that (inaudible) BLR15 million [ph]. It's not really material [ph] for our operation.

Q - Stephanico Castro

Okay, perfect. Thank you.

Operator

Our next question comes from Valle Kende [ph] from Goldman Sachs. Please proceed.

Q - Valle Kende

I would like to (inaudible) renovation plans that you talked about. How many of the stores against residential remodel in the next year? From (inaudible) the storage, (inaudible) we're going to be 25 remodeling's. How many stores did you remodel last year? How many do you intend to remodel between (inaudible) in '13 and '14?

A - Unidentified Speaker

(inaudible), okay. This is Gallo. Let me try to answer your question. Indeed, you have 25 remodeling's planned for this year. If you want more accurate (inaudible) to the plan. We've used that [ph] in the next -- with another three years we will be practically done. Or, we will be (inaudible) years that we will have another all of our stores. Now, I can't really accurately tell you how many are full makeovers of the stores. I can't say that. (inaudible) the (inaudible) 45 years ago. (inaudible) we're finding extremely marveling.

(inaudible) of remodeling. Will you (inaudible) well-meaning remodeling. Part of fixing this (inaudible). Then, there's the makeover after 10 to 12 years. Now, how many are in each space? I haven't got that from the top of my mind. But I can look forward [ph] to (inaudible). And I can't answer. I can send you that answer later. So that (inaudible) have these two types of remodeling. And we need a refreshment of the store probably [ph] (inaudible) after opening in a major one after 10 to 12 years.

Q - Valle Kende

I understood, thank you. Perhaps you could give me some indication regarding the cost of a (inaudible) remodeling. And the cost of a makeover remodeling?

A - Unidentified Speaker

Makeover remodeling (inaudible) building a new store from scratch. Especially [ph] the cost of opening a new store. There is a mini, mini [ph] remodeling renovation with (inaudible). Something around 20% of the costs are being used (inaudible). These smaller renovation efforts would cost about BRL300 -- BRL400,000 each, maximum. This can be exchanging the line fees [ph] or painting. We are not talking about their conditioning systems or major assistance [ph].

Q - Valle Kende

Thank you. And one last question. Company price -- with the company price and interest rates dropping, do you see any room to (inaudible) part of this (inaudible) to the (inaudible)? Or, do you think it's not worthwhile doing that? And perhaps you could include that as a margin gain.

A - Unidentified Speaker

And the market will have color. We can in some cases do that. Because in terms of price of a product, you see it's -- you don't (inaudible). Get the product. And I multiplied it by X. And that's how I get my prize [ph]. Our buyers, (inaudible) your -- we value our (inaudible) products. And we have to go (inaudible) with the markets. If the market adjusts, we have to adjust as well.

Q - Valle Kende

Okay, perfect, thank you.

Operator

Our next question comes from Hillary Brown from LV Asset Management. Please (inaudible), Hillary, you may proceed.

Q - Hillary Brown {BIO 17336815 <GO>}

Hi, I have two questions. I wanted to get back to the planned CapEx for 2012. And make sure that I understood the right numbers. I heard BRL400 new and risk. And I'm not quite sure if that includes the cost for the distribution center. My second question is do you expect your level of provisions in Fourth Quarter to be stable to 2012? Or, do you expect them to increase or decrease?

A - Unidentified Speaker

Could you just repeat your second question, please?

Q - Hillary Brown {BIO 17336815 <GO>}

Do you expect the level of provision to be stable through 2012? Or, do you expect any changes?

A - Unidentified Speaker

I have to speak with (inaudible), as well [ph]. You are correct. In the CapEx for 2012 is estimated to be BRL420 million, BRL20 million for Camicado. The remaining BRL400 million for Alana [ph]. Of these BRL400 million, most of it will go for the opening of new stores. BRL210 million. And that does include the cost for the distribution center. Thus, they will already include the investments for (inaudible). As for the level of (inaudible), this is also very controversial scene. Because summation traditions [ph] called office [ph] (inaudible) expenses. And we're talking about a level of losses. Level of losses for 2012 will be (inaudible) in line with what happens in 2011.

When you talk about the traditions balance, that's what you have left in your efforts. The allowances (inaudible) call [ph] (inaudible). That level fluctuates according to the (inaudible) from you [ph]. And if you have (inaudible) platform in your profile [ph]. If the half of your portfolio improves, the system automatically readjusts for the level of coverage. That's a very interesting thing. Allow me to give you an example.

First, the Tadesco [ph] Bank works [ph] with a coverage level on the over (inaudible) date [ph] last year portfolio of 184%. It is another bank -- another publicly traded bank (inaudible). That works with 114, Tadesco [ph], 184%, ENG [ph] with 115%. The difference tends to be with the risk situation of the portfolio on the balance.

Renner works with 212%. (inaudible) many (inaudible) according to your (inaudible) further dynamics. But as Renner (inaudible) qualified [ph] (inaudible). Not true. The truth is they have unmeetable [ph] portfolio. A coverage of 6.5%, a losses in (inaudible) have been (inaudible). In other words, we have so many ways there [ph] comparing (inaudible) and losses. So that should remain stable.

Operator

Okay, thank you, (inaudible). That concludes the question and answer session. At this time, I would like to turn the phone back to Mr. Gallo and Mr. Adalberto for closing remarks.

A - Unidentified Speaker

Well everyone, thank you very much for the questions. I have (inaudible) today is with a record number of questions. I think this was very long, just the Q&A session. And this is very good. It shows that you were very interested in our company. We appreciate that. We hopefully have clarified your doubts and answered your questions. If you think of anything that you would like to ask, we are always here -- always here for you. Thank you very much for your (inaudible). If you (inaudible) anything, please get in touch with us and with our (inaudible). We hope to be talking to you again very soon. Thank you very much.

Operator

Thank you, this concludes today's presentation. You may disconnect the line at this time. And have a good day.