Q2 2012 Earnings Call

Company Participants

- Adalberto Santos, CFO
- Jose Gallo, CEO

Other Participants

- Felipe Oliveira, Analyst
- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Juliana Rozenbaum, Analyst
- Ricardo Boiati, Analyst
- Tobias Stingelin, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. And thank you for waiting. Welcome to Lojas Renner's Second Quarter of 2012 Earnings Conference Call. We would like to inform you that today's live broadcast including this audio and slideshow, may be accessed through Lojas Renner's Web site at www.lojasrenner.com.br in the Investor Relations section at the Webcast platform.

We would like to remind you that questions will be taken by telephone and also through the platform. We would also like to inform you that participants will be in listen-only mode during the Company's presentation. After word speaking, start the 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 relating to the business performance of the Company, perspectives, financial and operating targets are beliefs and assumptions of Lojas Renner management as well as information currently available to the Company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions, because they relate to future events, and therefore will depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Lojas Renner and could cause results to differ materially from those expressed in such forward-looking statements.

Now I would like to turn the conference over to Mr. Adalberto Santos, CFO. Mr. Santos, you may begin.

Adalberto Santos {BIO 16803045 <GO>}

Good afternoon. First I would like to mention the presence of Gallo, our CEO, Gildo Melo, our Corporate Finance Manager, and Luciano Agliardi, our General Comptroller's Officer.

As we all know, during the Second Quarter of the year we have lived a very challenging period for (inaudible), which decide the incentives, promotional activities over the whole quarter, result in the effect (inaudible) to an extent by the abnormally high temperature, especially in the South and in the Southeast.

And a pyramid was the negative additional impact of remodeling of important operations, we could see that sales had a good performance. It enable growth and same-store period very much in line with the First Quarter.

In June we had a deceleration with weather concentrated in the more temperatures tested states in the South and the Southeast, and we do not exclude the possibility that the deceleration has been also due to the slowdown that we saw in the industrial sector of the country, with major concentration and therefore the major participation in overall income is looking located these regions.

Now I would like to start the presentation with slide number three, where we have some highlights for the period, first, net revenue for merchandising sales with 14.1% growth, and the same with same-store sales, 3.4% increase, which is in the attractiveness of our new operations on the attractiveness 512 collection. The Web sales grew by 62.8% when compared to the First Quarter of 2012, showing the positive operation of these new channels.

Also highlighted is the gross revenue from the retailing operation, reaching 54.6% with a 0.7percentage-point expansion and here critically only the Renner operation. It would have been 0.9 pp expansion in the quarter, five Renner stores and two Camicado were opened, with an expansion in the selling area of 11.2 thousand square meters. And delinquency continues at an all-time low, and Meu Cartao reached 1.1 million plastics issued. And finally, a reason of pride for all of us is the fact that we received the award of the best in retail by the (inaudible).

On slide number four, we have the evolution of the consolidated net revenue -- there is a slight mistake here. Where you read 2T11 it's 2T12, as you can see for the quarter. The consolidated net revenue in Q2 was BRL855.2 million and in the semester BRL1.5 billion, with a 14.1% and 16.3% growth, respectively.

And those reflect again, the attractiveness of our collection, the contribution of the recently opened stores, and also inclusion of the Camicado sales and the same-store sales, considering only the Renner operation we see 3.4% in the quarter, versus 9.8% in Q2 2011 and 4% in the accumulated period between January and June versus 10.4% in the second half. And we had relevant impact of the stores we remodeled, especially in Q2, 1.1% estimated.

Going to slide five, you have to the left the macro distribution per region on the Renner and Camicado cities and stores, as well as the three Blue Steel. And you can see on the chart on the right the evolution of the selling area, 348.4 thousand square meters, corresponding to 207 stores with the combined operation of the stores. We have 174 units of Renner, including the three Blue Steel and 33 Camicado. In June, Camicado already contributed 5.2% of the selling area for the Company.

On slide number six, we see the growth margin of the consolidated operation, which was 54.6% in Q2 2012, with a 0.7percentage point expansion year-on-year. I would like to stress once again that the gross margin of the Renner operation alone had a positive evolution of 0.9 pp and a drop in the cotton price and a higher participation of imported products and the better inventory management, where the main factors that contributed to the improvement delivery. In the half-year view, the consolidated gross margin was 54%, 0.4 percentage points higher on a year-on-year basis, where we had 53.5%.

On slide number seven, to the left we see selling expenses, BRL226.1 million, representing 26.4% of the net revenue, and in the half-year BRL434.3 million. These expenses in the Second Quarter were affected by expenditures with the recently opened operations by the pre-operating expenses that the stores that will be when they -- in the Third Quarter and also fixed expenses of the stores being remodeled.

To the right, we have G&A, BRL69 million in the Second Quarter, and the six month BRL133.2 million. Despite of the pressure of higher logistics costs and the Camicado consolidation, these expenses remained practically stable versus the net revenue from merchandise sales as compared to the same period last year.

Then slide number eight we have a table with the breakdown of the results from financial services, BRL32.3 million in the Second Quarter versus BRL32.1 million in the previous year. This result was impacted by the co-branded expenses, a higher number of the Realize Lojas Renner and a higher collection activities in the first half. The results of financial services was BRL73.2 million versus BRL70.6 million in the first half of 2011, maintained the same percentage of representation in the EBITDA of the Company, that s to say 26.7%.

Now let's talk about slide number nine, net losses of recoveries on the profit label portfolio, 3.9% in the Second Quarter, with a percentage of past-dues at 19.6% versus 20.7% last year. As you can see, delinquency still at comfortable levels.

Slide 10, the same data but now related to personal loans, which was a highlight of the financial services, with losses on the portfolio reaching 3.6% in the Second Quarter, versus 5.8% in the Second Quarter of 2011, and the percentage of past-dues, 16.3% versus 17.5%

in the same period last year, showing the attractiveness of our actions in terms of assignment and recovery of credit.

Now, slide 11, we see the chart with the EBITDA evolution, which was in the Second Quarter BRL190.4 million and EBITDA margin 22.3% with a 1.7percentage-point reduction. In the semester, consolidated EBITDA was to BRL274 million and EBITDA margin 18.6% versus 20.9% in the first half of 2011. This reduction is totally in line with the Company's expectations, and reflects the impact related to the expansion of our stores, the remodeling and refurbishing in the period, additional expenses of logistics and also the consolidation of Camicado.

On the upper part of slide 12, we see the net financial results that in the Second Quarter of 2012 was negative by BRL6.5 million, versus a positive balance of BRL1.4 million in the Second Quarter of 2011. For the half-year the results were also negative, BRL10.5 million, versus a positive balance of BRL7.1 million last year and, I would like to remind you, that the exchange related to the cost of the new capital structure adopted.

Now we are going to cash availability, in the lower part we show cash and cash equivalent. That amounted to BRL356.2 million in June 2012 and net of the BRL366.9 million debt, with a net debt of BRL10.7 million besides that. Now breaking down, we have BRL319.2 million, referring to the issue of debentures in July last year, BRL30.4 million related to funds raised with the Banco de Nordeste, and BRL17.3 million related to Camicado working-capital financial operations.

On slide 13, we see the net income of the combined operations amounted to BRL103.5 million, with a 12.1% margin in the Second Quarter versus 15.1% in the Second Quarter of 2011. In the six months, net income was BRL139.2 million versus BRL161.1 million in the first half of 2011, and the net margin dropped by 12.7% -- fell 12.7% to 9.4%. We should mention that this reduction is perfectly in line with our expectations, as it essentially reflects the costs associated to a more leveraged platform structure together with a higher depreciation cost stemming from a lower intensive investment cycle, which is the norm.

But moving on now on the same slide, we see on the right we consolidated our ROIC, 7.4% in the quarter and 10.2% in the half-year. Reductions that we see are also related to these factors which I have just mentioned, besides the business and operating asset base used.

Moving to slide 14, we show you the cash flow calculated by the indirect method for the first half of 2012. We see a free cash flow generation of BRL5.9 million. We can see that the higher inventory expenses would be truly offset by positive variation in the other line items, especially import financing.

On slide 15, we have information about the Company's investments, which amounted to BRL86.5 million in the quarter, of which BRL25.6 million refer to the opening preparation of new stores. In the accumulated period, the investments amounted to BRL156.3 million in the half-year, BRL33.1 million in distribution centers under this line where we have the investments made in the new units in Rio de Janeiro to reopen in late August.

On slide 16, we have a list of openings scheduled -- openings carried out in the first half of the year, seven Renner and three Camicado.

On slide 17, we show the chart of the cards issued, 19.8 million plastics, growing by 10.6%. Our co-branded cards, Meu Cartao reached in June 1.1 million cards. On the lower part of the slide, we have the evolution of the captain venus the Renner card average ticket, which in Q2 was BRL161.46, and in the semester BRL151.50.

On slide 18 on the left we have the evolution of the total average ticket of Renner in Q2 BRL118.94 and in the first half a 6% increase, reaching BRL109.97. To the right we have the distribution of the breakdown of the forms of payment. In Q2, the Renner card represented 53.4% of sales and in the half-year 52.5%.

On slide 19, we show you the Company's head count. In June we had 14,355 employees, being 12,485 in stores and 1,870 administers and distribution centers. And we see a total growth of the number of employees at 6.8% compared to 14.9% in the selling area, the administrative staff had a reduction of 5% in the same period.

On page 20, we end our presentation listing some of-the-future perspectives for the Company that we would like to share with you.

First, we keep our positive expectations regarding the improvement in the consumption environment, remarked as of the Fourth Quarter of 2012, notwithstanding these expectation and in spite of the fact that we have structured as of -- for the execution of the expansion plan, we believe that the same could be affected by the delay in the opening of some shopping centers, as we have already seen during the first half of the year. And this event is confirmed should be limited to the Renner operation, and there are no signs so far of similar problems that could affect the expansion plan at Camicado.

All the other strategic investments, especially those related to the new distribution center and the first distribution center in Rio de Janeiro will be opened in August and also the remodeling of stores (inaudible). And together with these initiatives, we also keep our positive price in relation to the other projects that we've been supporting the long term strategy Company, more specifically Meu Cartao, Camicado, Blue Steel and E-Commerce.

So that is what we would like to tell you. And now we are available to you should you wish to ask any questions, okay? Thank you, very much.

Questions And Answers

Operator

Now we would like to start the question-and-answer period. First question in Portuguese will be answered. Then afterwards questions in English will be answered. (Operator Instructions) I would like to remind you that we will also be answering questions asked by means of the platform. Mr. Guilherme Assis from Raymond James, you may proceed.

Q - Guilherme Assis {BIO 16143141 <GO>}

Good afternoon, Adalberto, and everyone. My first question has to do with the competitive environment and the gross margin that we saw in Q2, because there was a deceleration in the sales, as you said yourself for everybody in the sector, not only you. And some of the players were a little bit more aggressive during the quarter. And they ended up doing their final sales and discounted sales before, so what was Renner's strategy? Was there a negative impact on your gross margin because of that?

So I would like to know what your strategy was and whether you saw any impact due to the fact of the strategy followed, and what could we expect from now on, both in terms of gross margin, as well as the environment, the consumer environment? Do you think there will be an improvement, because I know this was a good quarter.

And the second question has to do with your new product, which is called the right card. What about the plans that you're carrying out with lower interest rates, has it been successful? What about the impact that this is having on your sales overall?

A - Adalberto Santos {BIO 16803045 <GO>}

Guilherme. Good afternoon. Regarding the competitive environment, this is exactly what you said yourself. It was a difficult period since the First Quarter, because normally you have the end of a collection in the second, and in the third we have a campaign during the whole period, so sometimes reaching 60% discount since March, April, up to the end of June.

And it will help the Company quite a lot with a very adequate collection between the first and the Second Quarters, and this was a very well done and very well executed collection, and I think this way it's a very good contribution in mainly in April and May.

And in June there was a change in the situation, because (inaudible) and the Company really brought forward the spring and summer collection, and with the strategy of inventory management, but it's different from last year, because last year we delayed the launch of the spring/summer collection that first had to do with the climate situation. I think you saw a 40% increase, more or less, but this was the strategy followed by the Company, and that was a bit of guarantee of margins that we achieved ultimately.

So we have a good beginning of the second half of the year, July and August. In the past with the new cards it's very well received in some areas, and some launches have been giving a very interesting result, (inaudible) participation has (inaudible) except with the card as a whole. (inaudible) effect if you implement some changes and improvements in the way you use them, they do have a longer life.

Q - Guilherme Assis {BIO 16143141 <GO>}

So about my third question. So you brought forward your summer collection just in spite of your strategy. What about the Third Quarter? Do you have better same-store sales than you had in June? What kind of outlook do you have?

A - Adalberto Santos {BIO 16803045 <GO>}

We are very fortunate with the design of our spring/summer collection, and it will be better than the second half or the Second Quarter.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you.

Operator

Mr. Ricardo Boiati from Bradesco, you may proceed.

Q - Ricardo Boiati {BIO 16528742 <GO>}

Good afternoon. Regarding delinquency in financial services, we see that operating expenses had a major growth in the Second Quarter, and you mentioned that part of that referred to collection activities. So the higher expenses are in part explained by lower collection activities, and what do you foresee regarding delinquency?

And now the other question is about your net margins. The current exchange-rate levels should have a positive impact on your growth margin because of your imported goods, so does that have any effect on your bottom line for the Third Quarter?

A - Adalberto Santos {BIO 16803045 <GO>}

Regarding delinquency, there is a major participation of collection activities. In financial services you can split into expenses regarding the May cut-down of BRL4.8 million in the period that we stored, BRL1.4 million in collections. It helped on the receivables side of the balance sheet, BRL2 million.

BRL8.2 million is the total and contributing to the levels that we showed to date. It's interesting to see that if you compare this quarter to the past quarter, that is to say the same quarter last year, we are operating with a higher level of provisions, with 3.5 today and in 0.8 for the Second Quarter, 0.5, 3.5 versus 2.8, and 0.8, 12.4 versus 10.6. And this would normally or marginally lead us to an expense for a higher level of losses, and what offsets it is the recovery of the items that are mentioned, and this is covered by this additional collection expense.

Going to the gross margin, growth could be expected for the second half. In the first one, you have the difference in the prices of cotton, as I mentioned, during the second half, although we have this effect of the imported items or line items such to reap the benefits from the cotton prices. So we do not believe there will be a big change in the cost situation that we have, just to give you an idea for all the operations in the year. Our import operations are hedged about 1.87 or 1.90.

Operator

Mr. Felipe Oliveira from JPMorgan.

FINAL

Bloomberg Transcript

Q - Felipe Oliveira {BIO 16557799 <GO>}

Good afternoon. I have two questions. The first has to do with delinquency levels and the personal-loan portfolio. I see that you had a very good improvement in your level of losses. At the same time, I see that personal loans had a slight drop year-on-year. So I have two questions. The first one is whether you were more careful in credit assignment, and how do you see the evolution of this personal-loan portfolio?

And the second question is if the improvement in delinquency is related to a higher degree of caution or whether you had a learning curve, that is to say, if you improved your learning and your processes. And if you could apply this to 0.5 or 0.8, then it could further improve the situation for you, which is already rather good.

A - Adalberto Santos {BIO 16803045 <GO>}

The policy used is the same as we use for cards, and the system for credit assignment has a learning curve, of course, as we assign credit, and there is a maturation of the collection profits as well. The ultimate result is a drop in the delinquency levels, which was as positive surprise for us. We expected something a little bit higher than that in terms of the delinquency, so we will try to keep these levels of the second half of the year. So it basically worked with the system that has been maturing over the years and that we have been fine-tuning.

Q - Felipe Oliveira {BIO 16557799 <GO>}

And I have another question. Looking at the evolution of the EBITDA, there was a (inaudible) pressure on G&A in the last three years because of the economic situation. How do you see the evolution of the EBITDA margin for the remainder of the year? Do you believe it will remain stable?

A - Adalberto Santos {BIO 16803045 <GO>}

Ever since the beginning of the year, we have been sharing this with you. We are always seeking a level such as the level that we had last year. We already expected a higher pressure during the first half of the year because of the opening of new stores and also more stores being refurbished, so we believe that, yes, it is possible to reach an EBITDA equal to what we had at the end of last year, in part of the additional pressure of our expenses.

Regarding the macro scenario, we have been debating this quite extensively here in the Company, and there is a combination of the climate with the investment situation in this quarter. In the first half of the year, we saw better performance in the whole country. Of course, we had the North and the Northeast that have an outstanding growth rate, but there are other important states with even two digit growth rate.

So we cannot say that we've had big macroeconomic impact on our figures. It is more because of the investor situation here in the Southeast plus the temperatures that were very unseasonal.

Q - Felipe Oliveira {BIO 16557799 <GO>}

Have you been counting the bags, the shopping bags and even where you have competitors, because our perception is that your execution was much better in the First Quarter because of the activities of your collection. Do you see the same trend in terms of number of shopping bags?

A - Jose Gallo {BIO 1822764 <GO>}

This is Gallo. Yes, we feel this trend, and we can see this by means of our monthly, sure the EBITDA is carried out by (inaudible). And when you see the numbers that go from January to May, we see that apparel and footwear retail grew by 7.1% in Renner from January to May -- 5.8%, I'm sorry, 5.8%. We took a little correcting self -- the market. And we grew by 14.4% of the same period from January to May, so you can see those indicators show that we are on the right track.

Q - Felipe Oliveira {BIO 16557799 <GO>}

Thank you, Gallo, and Adalberto.

Operator

Next question Juliana Rozenbaum, Itau BBA.

Q - Juliana Rozenbaum {BIO 2155607 <GO>}

Good afternoon. I would like to ask to the inventory situation, your increase in your inventory. Is this increase more related to the spring and summer collection that Renner had in your inventories and that you started to sell, or is it because of last year the winter collection?

A - Adalberto Santos {BIO 16803045 <GO>}

The 30% more, we could split into the 14%, 16%, when we go to 4% winter items that are no longer in the collection. 20% would be (inaudible), which would be the new collection, the spring/summer collection.

Q - Juliana Rozenbaum {BIO 2155607 <GO>}

In the Second Quarter I thought we would see a higher relevance of these stores that are being remodeled that are major operations, and we thought that the percentage was lower in the Second Quarter than in the First Quarter. Did you change your schedule of remodeling of stores, or --

A - Adalberto Santos {BIO 16803045 <GO>}

No, not at all. Started the major remodeling, we're already finished in the beginning of the Second Quarter, so it was a relief in terms of the impact (inaudible).

Q - Juliana Rozenbaum {BIO 2155607 <GO>}

So you were able to finish the remodeling before the schedule?

A - Adalberto Santos {BIO 16803045 <GO>}

No, it's according to our schedule.

Q - Juliana Rozenbaum {BIO 2155607 <GO>}

And the performance of these stores as soon as they are opened? What about the indication? Is it encouraging?

A - Jose Gallo {BIO 1822764 <GO>}

Yes, it is very encouraging and very interesting -- this is Gallo answering -- because these are large, major stores and that were being remodeled, and they are growing around 5% to 10% more than the normal growth that you could expect.

Q - Juliana Rozenbaum {BIO 2155607 <GO>}

Thank you, very much. Great.

Operator

Mr. Gustavo Oliveira from UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Two questions. The other distribution center that will be opening, is it going to be adapted to the new logistics principle that you are establishing, and do you have any idea of the short-term risks? Of course, the benefits are great when you look to the long run, so do you know how many stores you will be delivering to, what is the ramp-up?

And the second question has to do with Blue Steel. Do you have a more well-defined long-term plan for this year and for the next year, for the remainder of this year?

A - Adalberto Santos {BIO 16803045 <GO>}

Regarding the DC, we are investing in this process approximately in the last two years in a team team of eight or nine executives that contacted many centers and visited the best DCs, and it was a very meticulous job carried out. And we also had the opportunity to visit three or four companies that faced problems, so in the whole process, we are trying to be directed by this (inaudible). We are trying to learn and to avoid any kind of negative situation.

Regardless of that, this new distribution center will be catering to the Northeast, so anything that might happen will not have a negative impact on the Company, because we have contingency plans for everything. Everything that happens can very quickly be operated in the same way that we are operating here. That is to say our contingencies haven't started thoroughly and we are very comfortable with that, due to the time that we have devoted to studying those.

And regarding Blue Steel, the figures for our three stores are very interesting and they are very encouraging. We have learnt quite a lot and for those who know very clearly which is the product characteristics that we must have in this type of store, which is different from a department store. They are all different there.

Secondly, we moved to carry out some adaptations in terms of the furniture used and other things, because the buyers have a different behavior because it's a more specialized store, and we have to reduce the investments and we have already established a figure that shows the feasibility of the product and the sales per square meter have already exceeded our expectations in the relevant fashion.

And our major challenge now is the brands in the whole learning process. We have to predict the future, and according to this prediction for the future, we could later on get into a multi brand or franchise system. We've reached a conclusion that if we do that, the Blue Steel brand could help us, but there could be some difficulty in terms of finding franchisees, knowing that this brand is related to Renner. Because of that, we have to have a differentiated brand, an independent brand, and we already have some alternatives.

And a major challenge has to do with the registration with the INDI, and very soon we will know exactly what the brand will be, and we are not going to close these three stores and we will be defining the process.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you. Gallo, do you believe that for the time being if you change the brand of the three new stores you could judge where we can see if the first continued to be higher, or do you think that this is not the way the consumer sees it?

A - Jose Gallo {BIO 1822764 <GO>}

We supposedly have to make additional investments in the brand, and I would like to remind you that these are not investments made in our department stores. They are another kind of investment. It has to do with special media and it has to do with events. It's not going to be like a major investment such as you have to make when it's a department store. And so, we are still studying.

In terms of the consumers, I want to say in order to know that a store is a brand associated to Renner and those who go to the store and they buy (inaudible) and the fact that it is Renner, but anyway (inaudible) feasible to develop a new brand and this position that we are facing, Blue Steel in this market segment.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Thank you, very much, Gallo. Thank you, Adalberto.

Operator

(Operator Instructions) I would like to remind you that some questions asked through the webcast platform will also be answered. Mr. Tobias Stingelin from Santander, you may proceed.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Good afternoon. I would like to understand the concern you have with the opening of some stores. How many stores, Gallo and Adalberto, do you believe are running the risk of not having a timely delivery? That is to say, if they are not opened by November or December, when do you intend to open them?

A - Adalberto Santos {BIO 16803045 <GO>}

We believe that the most (inaudible) to factors, and in this case, they would be opened in the First Quarter of 2013.

Q - Tobias Stingelin {BIO 1557190 <GO>}

So what about the people that you have to hire, et cetera? Then this would all be pushed into next year?

A - Adalberto Santos {BIO 16803045 <GO>}

Yes, we have to adjust everything. We have a very close collaboration among all the areas here, all the levels that are involved in the opening of a new store, and we keep those who -- all the internal areas are informed of what could happen with this or that store.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Thank you. What about the CapEx up to 2014? With your trying to be opening all the new stores, what is involved in your CapEx for the next two years?

A - Adalberto Santos {BIO 16803045 <GO>}

This is Adalberto. BRL200 million per year for new stores, BRL100 million for refurbishing and BRL100 million for systems and logistics, those are the breakdown.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Was there another distribution center scheduled you will start in this coming August? And with the new system, do you intend to have another distribution system next year maybe?

A - Adalberto Santos {BIO 16803045 <GO>}

Either by the end of 2013 or beginning of 2014.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Going back to the Light card, the question on Light, which was the name of the card. (inaudible) date I know it's going on very well in terms of replacing it, but what about your

-- (inaudible), have more electricity so to say, that in others. And we must have a higher one than the one that we have in 0.8 and not ever -- this is not happening.

A - Adalberto Santos {BIO 16803045 <GO>}

What is interesting is it can probably use -- be used in special date etc, in special occasions, until it fluctuate has a significant improvement after some actions taken, so we will probably keep 0.8 for special occasions.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Thank you.

Operator

(Operator Instructions) Our next question comes from Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

When you talk about an expectation for improvement by the end of the year, are you counting on a higher impact of the remodeled stores, as Gall said? Do you consider them new stores, that is recently opened stores, or should this have an impact by the end of the year? And could you give me some details about the schedule of store remodeling for the next few years?

A - Adalberto Santos {BIO 16803045 <GO>}

The remodeling of stores is not that relevant, because pace is very good. Regarding the remodeling of stores, we are working with 12 stores need remodeling per year, and this is more or less what we will continue to do. This is the pace of our remodeling up to the (inaudible).

We talk about 12 stores being remodeled, we are talking about stores that really need that in Sao Paulo for instance. I don't know whether you had the opportunity to go to our stores in the Center Norte shopping mall. However, if you had the opportunity, you will see that this is the new Renner store and if you compare it to the other ones, you will see a big difference. So what we tend to do is to remodel 12 stores per year.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you.

Operator

Guilherme Assis from Raymond James.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you for allowing me to ask a second question. I would like to go back to Blue Steel. I would like to understand a little bit better -- you were talking about finding a new brand for Blue Steel and the model that you are considering, and I would like to know exactly why or what do you think was the problem or stumbling block to continue to develop the project and to have it originally. And would you consider an acquisition of an already existing brand?

A - Adalberto Santos {BIO 16803045 <GO>}

This is a longer project. This is a definition. Details have already been defined, so we are going to expand this brand and we will have another brand one day in the future. We will try to go to smaller outlet centers with another brand with a franchisee but we believe that this still would represent a certain degree of conflict due to the fact that it comes under the Renner umbrella.

So let's imagine that the first 100 stores would be our own stores, and if we lead to conclusion that we should do a franchise system, then we would -- so we have -- since the beginning, since the inception we have to consider this possibility, so this is basically it.

As I said before, in the next two or three weeks you will already have the brand, the final brand, and we are already evaluating brands that are available in the market and we already have three options. Then the thing will start to roll out. We will open stores before the end of the year, another store, and we will have a lighter model (inaudible) in terms of cost, and next year since they start to roll out.

Q - Guilherme Assis {BIO 16143141 <GO>}

Based on what you are saying, based on the pilots, you believe that it's associations between Blue Steel and Renner was not important to you in terms of maintaining your status?

A - Adalberto Santos {BIO 16803045 <GO>}

Yes, exactly. And we could see some problems later on in the future.

Q - Guilherme Assis {BIO 16143141 <GO>}

Thank you, very much.

Operator

Our next question comes from Paul from BlackRock.

Q - Unidentified Participant

Adalberto, to understand this issue of the inventory level at the end of the quarter. The five stores that could be at risk in terms of not being open by the end of the year, would there be a possibility of your having excess, surplus inventory in the Fourth Quarter because of that?

A - Adalberto Santos {BIO 16803045 <GO>}

No, not at all. So Guilherme asked your question. We talked about the 20%, and it had to do with the fact that we had brought forward the collections, the spring -- the spring/summer collections. Last year, we had exactly the opposite situation, because we delayed the collection and in this quarter we are doing exactly the opposite. So no, there is no risk whatsoever. The things are not related neither in the First Quarter nor the Fourth Quarter?

So these five stores, among 180 stores, inventory of 180 stores, all stores -- this is not still represented, this doesn't mean quite a lot in the overall picture. Part of what we buy is here in Brazil. Here is the (inaudible), so what we do is 45 days for instance we think why the store is not going to be ready by the end of the year, so we have plenty of time to adjust and to fine-tune our order book. So we can do this. We can adjust it to the level, and this is not relevant, because we are talking about five stores versus 180.

Q - Unidentified Participant

One additional question. So the CapEx would be also postponed to 2013, and so what are you going to do with this extra cash? Are you going to pay out dividends or are you going to have stock buyback program?

A - Adalberto Santos {BIO 16803045 <GO>}

The CapEx at these stores is not relevant. We are talking about BRL6 million, BRL24 million overall for the four stores. That is not representative at all.

Q - Unidentified Participant

Thank you.

Operator

Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

The average ticket, 5.9% increase -- what was the reason for this hike? Was it because the collection had a better acceptance, or was it because last year winter was very much delayed? That is, the temperatures were higher for a longer time? So was it because of the product mix, the inventory mix? So could you give me the rationale for that?

A - Adalberto Santos {BIO 16803045 <GO>}

The average ticket is 3.5% price, 2.5% more items per ticket. So clients are buying more each time they buy something, so you have to add up these two percentages in order to get to the final figure for the average ticket increase.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you, very much.

Operator

Mr. Tobias Stingelin from Santander.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Thank you for the follow-up. We talked about Blue Steel, but I would like to talk about Camicado now. It has been with you for over one year, and as of the second half, I believe we should see more consistent EBITDA margins coming from Camicado. So could you tell me about your expectation? What could we expect at the evolution so far?

A - Adalberto Santos {BIO 16803045 <GO>}

The behavior in sales at Camicado is interesting. Just to give you an idea, 6.7% in June, July, in line with debt. Imported products, differentiated products are a highlight for Camicado, and we have to -- we still are waiting for the final registration for us to be able to import directly.

And we mastered the product cycle better now because we took over the Company a while ago and we have to check whether this or that item is selling more or this or that item is selling less, and now we have the situation with the imported products. We are waiting for the price to come quarterly next year we will be accelerating. We are going to put our foot on the accelerator for Camicado.

Q - Tobias Stingelin {BIO 1557190 <GO>}

And you said that the challenges in mix -- do you already know the mix that you were having? Have you defined that?

A - Adalberto Santos {BIO 16803045 <GO>}

One thing is buying from importers, from middle men and another thing is buying from the supplier abroad, so there is a major gap there in terms of price. So we need this kind of solution. We need to achieve -- obtain the license for direct import that will probably be granted to us in October. Then we will be able to achieve an increase of 3% to 5% in our margin coming from the products -- from the imported items, about 20% imported today, now, right now in our overall mix, imported products.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Thank you.

Operator

Now we would like to close the Q&A session. I would like to give the floor back to Mr. Adalberto.

A - Adalberto Santos {BIO 16803045 <GO>}

Once again, I would like to thank you all for participating in our call, and myself and Gallo and our IR people will be available to you at all times. Thank you, very much.

Operator

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