Q1 2016 Earnings Call

Company Participants

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

Other Participants

- Alan Cardoso, Analyst
- Andrea Teixeira, Analyst
- Fabio Monteiro, Analyst
- Franco Abelardo, Analyst
- Guilherme Assis, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Joao Mamede, Analyst
- Robert Ford, Analyst
- Thiago Macruz, Analyst
- Tobias Stingelin, Analyst

Presentation

Operator

Good morning, ladies and gentlemen and thank you for waiting. Welcome to Lojas Renner's Conference Call to discuss the results of the First Quarter of 2016. We would like to inform you that this conference is being recorded and simultaneously translated. The slide show of the same may be accessed at www.lojasrenner.com.br at the Investor Relations section at the webcast platform. As a reminder, questions will be taken both by telephone and by the platform.

We inform you that all participants will be in listen-only mode during the company's presentation. After the company's remarks are completed, there will be a question-and-answer session and further instructions will be given. (Operator Instructions) I would like to remind you that questions from journalists may be forwarded to our press office at 55-11-3165-9586.

Before proceeding, we would like to mention that forward-looking statements that might be made during this call related to the company's business perspectives, operating and financial projections and targets are based on the beliefs and assumptions of Lojas Renner's management and on information currently available to the company.

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

Now, I will turn the conference over to Mr. Laurence Gomes, CFO and IRO. Mr. Gomes, you may begin.

Laurence Beltrao Gomes {BIO 15361799 <GO>}

Good afternoon, everyone. This is Laurence and we are gathered here to talk about the results of the first quarter of 2016. With me are Jose Gallo, CEO; Luciano Agliardi, Controller; and Paula Picinini, Senior IR Manager.

Before we go to the financial data, I would like to mention some important points about this quarter. We started the year with a good sales performance in January. In February, we continued in line with our budget. In March, we had some changes in the performance of sales growth [ph] figures, some considerations on our part and the main reasons for the performance delivered are very much related to our own management.

First, we postponed receiving the imported items and also we saw a lower availability of lighter garments in our stores during the transition phase of the collections. We also had some other issues related to an increased quality control rigorous, which ultimately impacted receiving some categories. Besides, I would like to highlight specific collection issues, we generated a performance that was below what we expected this year, it had a lower assertiveness in part of our collection and this led to a decent performance between and among the brands.

In the segments that were impacted, we have already taken the necessary measures. However, we understand that the total alignment will happen over the next few months. And we saw that all the measures taken so far were right, we have proven right in the northeast [ph] nevertheless in the southeast and the south, the warmer weather, warmer than historical averages has been bringing an additional challenge in these regions specifically, we see items of in between seasons with good levels of growth. But in the products of -- for the winter the demand continue to be lower, and those of course, exactly in the areas where we have the higher number of stores.

We believe that in spite of these challenges, we will be able to change the picture of the next few months. We are monitoring all the relevant aspects of sales and margins for the next few quarters, mainly after the transition period of the systems and that will happen in July and August, where we will have the total update of our ERP and retail systems. I believe that it's important to remind you about this process once we will be increasing the coverage of inventories at the stores in order to guarantee that they are adjusted for the period of transition and the systems upgrade that we are planning are important, once they will allow us to be more agile from the IT viewpoint and more accurate in inventory management, also have a lower maintenance cost as well as preparing ourselves for the use of new technologies.

Now, going to the presentation itself, I would like to comment the charts that you see on slide number two. On the left-hand chart, I show the first quarter of 2016 sales. On the right, we have our gross margin that reached 55.6% vis-a-vis 54.4% in the first quarter of '15 and this growth came from a low markdown level in the quarter and even with the lower inventory due to the postponement of imports and higher quality control, which presented the inclusion of some items and the lower number of lighter products, we were able to make our margins grow by 120 bps or 60 bps net of the effect of the return of payroll social charges.

On the lower part, we have on the left, our operating expenses over net revenue, 44% vis-a-vis 40.3% last year and this higher percentage reflects the higher taxes due to the return of payroll social charges and the higher cost of electricity, as well as expenses related to the new stores and the new Santa Catarina DC. And of course, all that in relation to sales that were lower than expected. On the last chart on the same page, we show the retail EBITDA, which was 117 million with a 10.9% margin about 200 bps lower than last year, but in spite of that even better than estimated in our budget for this quarter.

Now, going to slide number three, we have some comments per business. At Renner, we had 998 million in revenue with a 5% growth and retailing gross margin, 55.7%. At Camicado, revenue was 68 million, growing by 19.5% with a 53.5% margins. And this already reflects the measures that we are adopting to improve the product mix with more imported items and more private label products as well without the investments in remodeling and the new visual merchandising. And lastly, we'll have the Youcom information with sales growing by 81% and 57.5% margins. The Youcom results also translate the ongoing improvements that are being implemented from the viewpoint of collection mix and development.

Now, going to slide number four, I show you the credit information, informations on financial products, the results of financial products were slightly higher than the one delivered in the first quarter of 2015. This a better balance already between the growth in revenue and the growth of expenses, growth of provisions and losses.

In this aspect, I would like to mention that all the measures adopted over 2014 and 2015 are bringing about the expected results, in spite of a very unstable macroeconomic environment, we had a delinquency growth of 10%, much lower than the 50% [ph] that we saw over 2015. Still about delinquency, I would like to mention that we see clear signs of improvements in our portfolio especially, when we analyzed the different positive ranges. When we look at the chart on the right of this page, we see that private label has already presented a significant performance of regarding the loss in the portfolio which went from 2.4% to 1.8%.

Now, going to slide number five, we see the consolidated EBITDA with a 6.5% drop in the quarter, and net income that in its turn was 10.5% lower than in the first quarter of 2015.

Noticed that, those cheaper drop in net income is compared to the data is due to the higher depreciation expenses of BRL115 million, growing by 19.5%. And lastly on slide number six, we show our indebtedness and also the free cash flow that in spite of the challenges of the current situation, delivered a significant growth in the first quarter of this year.

These were my remarks about the quarter. And now, we are available to answer any questions that you might have. It's important to mention that we are paying keen attention to the current moment and the internal issues have already been addressed and our outlook for the year continues unchanged. Thank you. Now, we will start the Q&A session.

Questions And Answers

Operator

Questions in Portuguese should be asked first and afterwards we will open for questions in English.

(Operator Instructions) Mr. Franco Abelardo from Morgan Stanley.

Q - Franco Abelardo {BIO 17416219 <GO>}

Thank you. Good afternoon. Regarding same-store sales, could you quantify the same-store sales at the Renner brand without Camicado, without Youcom? I would like to understand it was -- it was negative in the quarter or whether it was large only in March. And if you could share some information about the trend for same-store sales in April. Do you see an improvement or is it still negative mainly for the Renner brand? So this is my question.

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

We don't breakdown the same-store sales performance, but same-store sales of Camicado and Youcom was relevant, it was very good as we said before in the presentation. We are tapping into gain from the actions that were taken over 2015 -- since '14, but gradually deepened over 2015. So we talked about the quarter. The quarter was great [ph] and January was very good, February was in line with the budget; and in March, we had this discontinuity of the pace for the quarter.

Well, we still have a low visibility that's the challenge that we are facing now in April, which leads to higher temperatures, higher than the average than last year for April. Just to mention one example, we have average temperatures in Sao Paulo, six degrees higher than the average of last year. And even in Porto Alegre last weekend, the temperature was 20 degrees higher when compared to the same weekend of last year. So you can see that this is a major stumbling block and it seems that a cold trend will come to the South of Brazil now and going up to the mid-west and probably the stumbling block will gradually disappear.

Q - Franco Abelardo {BIO 17416219 <GO>}

Just about to understand, when you say that you have postponed imported products probably winter, the mix that you had before wasn't yet prepared for higher temperatures or did you have imported most of the winter products?

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

And just to make it clear, the postponement happened because today our logistic is much more efficient. So I must say that in the last few years, we received very often in November or December all these products. And we decided to break this down and we didn't count on some delays on the part of our suppliers abroad and some delays also because of port -- local port activities here. And but most of the imported products are winter articles; and as Laurence said, the temperature is much higher now than it was in the previous years and 15% higher in fact on average and this makes a difference and it will continue to make a difference in this quarter.

Q - Franco Abelardo {BIO 17416219 <GO>}

The second question has to do with the gross margin. The Camicado gross margin increased significantly over 7 percentage points. Was there a non-recurring effect, you mentioned an increase in the participation of imported products and private label products that it helps the Camicado margin or this 53.5% margin could be considered as a new level for gross margin for Camicado from now on? Thank you.

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

The Camicado mix has been improving every single day. And in this mix which had the participation of imports to products, which bring about a higher margin. And besides, we have our bargaining power which is increasing because, we are by far, the biggest chain in Brazil for decor engaged in home furnishing, we have 68 stores. So we have the best bargaining power in the market, but the higher participation of imported products and all this brings our margins to this level. We believe it's sustainable, it is recurring. There was no specific stat -- no, no specific stat, it is sustainable.

Q - Franco Abelardo {BIO 17416219 <GO>}

Okay. Thank you.

Operator

Andrea Teixeira, JP Morgan. You may proceed.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Good afternoon, Laurence. Hello, thank you for the question. Could you talk about suppliers. I think, you have a better situation regarding suppliers now. Are you really comfortable now that over the next few quarters, this group of suppliers that you have selected I believe it has some relationship with labors and will they be able to meet when it demand? This is my first question.

And looking ahead the push and pull we implemented over the second quarter. I would like to understand how this can impact your plan regarding your new logistics methodology?

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

This quarter there was a major transformation in our current suppliers in Brazil. Just to give you an idea, our EBIT [ph] showed some data regarding imports of apparels, dropping by 46.8% and production was 9.6% lower. So, what is the result of that domestic manufacturers?

In their scenario, they didn't factor in the import substitution or if they do it, it is not enough. And there was a recessive scenario they though there would be a decrease in production because they started to see that the small and medium sized companies were buying less. So we have suppliers preparing to produce less and not considering the volume of import substitutions and of course there was a mismatch as a result of that and all things are starting to come back on track. We already seen some signs of return to normal situation and we return positive production capacity because people have shut down some facilities.

And just to give you one example, talking with one supplier, he was getting ready to have 8% less orders because of the recession. When seeing the small and medium sized buyers buying less (inaudible), the result is that he has 38% more in terms of a book order, so they end up not factoring in all these things. And but anyway things are going back on track and in one or two months' time we will have a return to a normal situation regarding production and also the development of some additional suppliers.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you, Gallo. And one last question if I may. We had 5% increase year-on-year in volume of t-shirt, which was quite low in the quarter. Do you see any trade down in some category or some category selling more than others? You've talked about the summer articles or the summer items still performing well, do you see any trade down?

A - Jose Gallo {BIO 1822764 <GO>}

As Laurence mentioned, we sold very well in January and we sold more than expected the lighter product such as t-shirts and Bermuda shorts et cetera and we ended up having a shortage of these merchandising -- merchandises. So we -- and we cannot -- we could not replace that because we have fall and winter merchandise coming in. So we lost sales in these products that have a lower price and they are lighter weight.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you, Gallo.

Operator

Guilherme Assis from Brasil Plural. You may begin.

Q - Guilherme Assis {BIO 16143141 <GO>}

Good afternoon, Gallo, Laurence. Thank you for my questions. I would like to go more in depth on these questions that you are talking about. Regarding the collection for instance. I understand that the whole impact is coming from different sources over the quarters, you mentioned the mix, the imported goods, and the weather, et cetera, but one thing that you mentioned in the release and that you have not talked about in the Q&A, is what that recollection was that resulted than the previous ones.

Maybe as you said yourself, maybe it was because you sold more summer products and it took a longer time for you to start selling the winter and fall merchandise, and then you ended up having a full coat [ph]. Is that all or do you believe there were mistakes in the collection chosen? Was that a fact that consumers that don't accept, some of the items that you chose and if it was the case, could you define what was wrong? Was it because of fashion reasons or other reasons? So, I would like to better understand from the side of the assertiveness of the collection what happened in the quarter? If you can quantify this and also know what you have already done in order to improve this?

And I would like to ask my second question already. So, regarding suppliers, I think its clear Gallo, the issue that you described between domestic projection and import substitution and the mismatch. But talking about Renner, what is Renner situation in this kind of scenario? If I'm not mistaken, as far as I can remember, you had 180 and 170 suppliers of apparel, local suppliers of apparel. So, what has changed? Do you have a lower number of suppliers now, because of this situation that you described and the suppliers that you are focusing on. Are they committed to deliver more to Renner? What is going on regarding your suppliers? So, these are my questions. Thank you.

A - Jose Gallo {BIO 1822764 <GO>}

Guilherme, regarding the effectiveness of the collection, our problem happened with cheaper [ph] brands regarding color and print in the women's collections. This is where we had problems and they are important brands. We know that most of our consumers are women. As we buy in a relatively short cycle, 60, 90 days, you have to complete all the items. And in this case, the items that were not very well accepted as I described and I'm sure that in two or three months, things will go back on track and we already know what happened and we took the necessary measures to correct.

Regarding our suppliers, most of them are not exclusive, they also supply to other companies. And what happen is that, what I mentioned very often they end up accepting more orders than they can really deliver. And also some retailers offer to some suppliers' non-realistic prices and that that cannot be maintained.

So what is happening regarding production capacity. The marketing is advancing itself. The small and medium players are reducing their orders from these suppliers and very clearly, we are organizing ourselves and requiring more capacity from some suppliers that we couldn't buy so much from before.

This is very abnormal, a very abnormal situation because if you have a reduction of 46.8% in import of course, you have the consequences in the local market. We have large enough number of suppliers. We have a very good relationship with them. We have been investing in these suppliers for quite a long time already and I -- we place our trust on them and we pay them on time always. So things are going back to normal. So it was really an abnormal situation.

Q - Guilherme Assis {BIO 16143141 <GO>}

But you did have to reduce the number of suppliers?

A - Jose Gallo {BIO 1822764 <GO>}

No, quite the opposite. We have 120 main suppliers more or less, and an additional 40 to 50. So, what we do at a time like this, we take the suppliers that are our suppliers and we take more orders to these suppliers in order to offset what happened with some that a little bit too eager, so to say.

Q - Guilherme Assis {BIO 16143141 <GO>}

May I ask another question, Gallo? While talking about competition, you were the first company to publish your results and, we have been reading the newspapers that apparel sales in Brazil are dropping and that there are many competitors, even non-listed companies that are suffering and some of them are filing for bankruptcy protection. And how do you see this competition? I understand that the situation that are impacting everybody and until the last quarter, we were in a much better situation than the others, and now we've seen competition becomes even fiercer. So, do you believe there is room for you to gain additional market share from these competitors in the near future? And this improved your results?

A - Jose Gallo {BIO 1822764 <GO>}

Good question. Guilherme, the market in the first quarter was extremely competitive price wise. What we saw in the market those things that we had never seen before totally outside the reality price reductions that cannot be explained. And this happens not only from national or domestic competitors but also international competitors, they slashed their prices. And today, we see some small and medium-sized players having already sales of winter products and of course, this is not sustainable. Of course, this cannot be sustained. One could never imagine for instance having one small important player selling jeans for BRL29. So the math's that are thought at school cannot really explain this. So clearly this is what we have been saying there. We see a concentration going on and for four, five years we have already been talking about that; and we see many stores shutting down and at a certain point in time you cannot really survive because you don't have cash. So at a certain point in time this -- okay, this generate sales, but these are sales that will destroy the future of these people that are doing these crazy things.

This is not sustainable at all. I really don't remember having seen in these last 10 years to 15 years a quarter with so many promotions, so many offers and many of them totally outside realities. This means decapitalization of companies and most probably this will not have a very happy ending and then, you see opportunities to gain markets.

Q - Guilherme Assis {BIO 16143141 <GO>}

So if I understand besides the components that you talked about in your release and so far during the call, you also had competition playing a role during the first quarter because of the very aggressive stance, you gained less market share than you've gained after the fourth quarter of last year?

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

Well, this reduced -- this went down just for a short while because then you have a very big offers of products and mainly due to the fact that in our case as we didn't have the lighter garments, we were not able to take it through this population because we were getting ready for the winter merchandise. And of course all these players with low prices -- and we having this shrinkage in terms of products, but I believe the stuck-out, I mean that what we see the certain stability mainly regarding our main competitors. I think the size war happened more in the small and the medium-sized companies. And maybe with another market indicators such as (inaudible) that really have access to a bigger universe, we believe that this will be hitting the smaller and medium-sized companies.

But in a nutshell, we're here, we're seeing all this and we are adapting and something that we always reinforce is that, we have the core attention and what can we do in a time like that? You'll have to open the base of the pyramid in fact and the core as essentials, but you maintain the pyramids, you carry out the adjustments that you don't worry of your position, who you are or the quality that you deliver because things come and go.

Of course, nothing good lasts forever and nothing bad lasts forever. So exchange over time and we have to keep our position because, I believe this is our biggest asset. Of course, we will be adapting the base of our pyramid, but we will continue to be who we are and what we are.

Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. Very clear. Thank you very much, Gallo, Laurence.

Operator

Mr. Joao Mamede from Santander.

Q - Joao Mamede {BIO 15265292 <GO>}

Good afternoon. I had two questions. The first one is a follow-up regarding the sales in the quarter, I apologize for going back to that. But could you give us some color about the more recurrent effect? I mean, the ones that could still impact the second and the third quarters, and what was the impact of that in the quarter and what was one-off -- that one-off and that you were able to quickly change and say about at this point?

I would like to mention Easter. Did you have any consequence of Easter because, the holiday was in March and last year it was in April. So do you have any kind of mismatch because of the Easter holidays? And now regarding financial products, we see an important improvement in the losses of private label and delinquency continues to improve. So as Laurence said, there will be an additional improvement in the future. So what is the loss level that you expect to stabilize over the year? And will it be maintained for the other products that is to say co-branded is a newer product still maturing. So is there anything different regarding co-branded vis-a-vis private label that we should expect?

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

Joao, thank you for the question. This is Laurence. Yes, I would like to start by the second question about the financial products. In the first quarter, the results coming from all the actions that we took and that we have mentioned in the last few calls are clearly all the actions that we implemented in credit assignment, being more rigorous and being more selective in the assignment of credit and also we carried out some fine tuning and improvements in our credit limit maintenance. So we were very careful regarding our other clients. And we believe that these are also effect coming from the collection structure that we talked about during the last call that we've implemented in September, adding technologies and increasing productivity in our collection processes.

So these are important points, all of them. And we have to continue to gain efficiency in the collection operation. We have been very assertive in credit assignment and more effective collection process. So we expect the delinquency level to remain stable over the year vis-a-vis the levels that we see now and mainly last year. So we believe that delinquency will grow much less than what we saw last year. And regarding the other products, we also expect stability in Lojas' co-branded and (inaudible).

A - Jose Gallo {BIO 1822764 <GO>}

This is Gallo. These figures show that we have broken (inaudible) more recent [ph], the evidence of things that I have been holding for over 20 years, regarding consumer behavior, Brazilian consumers. I think it's not the first time that you hear we say that the consumer -- the Brazilian consumer, he has considered credit as an asset because, if they lose this asset, they can no longer rent anything, they cannot spend, they cannot purchase anything if they lose credit, so it is a big asset. So sometimes you have a mismatch, which is just temporary and then, you have a return on track. And this is something that I have been repeating for 20 years and once again, it is confirmed. Even at the level of the Central Bank, these levels are relatively stable. So this is what normally happens.

In terms of credit, sometimes people say, wow, there is going to be a deterioration in credit, but this is not so. Only if you assign credit to somebody who does not deserve it, we have never gained share by means of credit, and we are very careful. We do not make extravagant plans, so you cannot be extravagant.

Now, recapping a little bit and going back to what we have said. So, what happened was that, we had lower or a lower amount of lighter products and, so we no longer need these lighter products because, then we have winter coming and these two brands for women that I have already referred to and we are adjusting and something's that hindered a little bit of focus whilst, the fact that November last year, we decided to be more rigid regarding quality control. So our rejection of items increased and it ended up having a negative impact also on the first quarter. And all this issue of imported products has already been solved.

Today we already have 75% of the imported items that are already in our stores and in our warehouses. And internal factors are going very well. And our major challenge now is not under control, which is the weather, it's not under our control as Laurence said. The lighter categories are growing 15, 20 percentage points more than the heavier garments. And this is clear when we look at our collections and only the cold weather will be able to resolve -- solve this part.

Q - Joao Mamede {BIO 15265292 <GO>}

And one last part, Gallo. So when you overcome all these problems and of course, the weather, there is nothing you can do about it. But I know that the first quarter is less relevant for the year showed a figure little bit lower than your budget, it doesn't make a lot of difference for the whole year. So having said all that, could we expect same-store sales similar to inflation or the target that you have established is still the same, do you have the same target?

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

This is Laurence. We have a very difficult comparison base for the second quarter of last year and all the points that we have raised, April started with very high temperatures and it will depend on the quarter and the climate, the weather for the second quarter. So there is nothing I can say right now.

Q - Joao Mamede {BIO 15265292 <GO>}

I was referring to the full year.

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

Okay, I apologize. So I apologize for the answer. For the year, we continue with the same perspective. Exactly what we said at the beginning of the year expecting a more moderate growth vis-a-vis 2015 and also seeking similar margins. And if they come a little bit lower than expected, this will not be a big surprise either. This was not part of your question, but I would like to mention that the budget for store, new stores continues unaltered. We will have 25 new Renner stores; 20 Camicado; and 20 Youcom -- 15 Camicado. So this -- we'll continue as planned.

Q - Joao Mamede {BIO 15265292 <GO>}

Thank you.

Operator

Fabio Monteiro from BTG Pactual. Mr. Monteiro, you may proceed.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Good afternoon everyone. I have two questions. One has to do with the first quarter sales, a lot has already been said about that, but I would like to understand which of these problems was the most important? Okay you said, the temperature, the weather, the non-acceptance of some colors and print for the rational market, very competitive. So, you mentioned a lot of factors. I would like to understand, if you see one of these factors playing a bigger role in the result that you achieved.

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

Hello, Fabio. Well your question is almost my answer. It's very difficult to say 20%, 30% a higher quality control had to do more or the impact was more on our jeans product we sold while in January. We had a good performance in January and what happened that in February was our suppliers could not supply more because of that issue I referred to, import substitution and we needed lighter garments at extremely low and competitive prices, totally abnormal.

So, it's really a mix and so I cannot tell you all these factors had a weight of 20% to 30%. It's a mix of everything, I really don't have anything to add. And also the collection and the two brands in the women's product didn't have a good performance and this ended up impacting because, women's products are very important for our chains.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Okay, another question about something that you said at the beginning of the call. I think you said that you divided the products in terms of receiving them and not one-off delivery, and that amount carrying so much in your inventory. Is there any fact of the push and pull regarding receiving the product in different batches that is to say over the season?

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

Yes. Regarding our imported products, we already had this system. Unfortunately, we were not very fortunate in this regard. Maybe it would be best if we had scheduled to receive 15 to 20 days before. Because we used to receive in November, December and now we'll see it in January. Push-pull will start to show results in the second quarter. We already have push-pull in operation. Our people are preparing themselves. They are adjusting to that. And in the second half of the year then we will have the effect of push and pull.

Q - Fabio Monteiro {BIO 3711690 <GO>}

Thank you very much.

Operator

Mr. Thiago Macruz from Itau BBA.

Q - Thiago Macruz {BIO 16404924 <GO>}

Good afternoon. You mentioned that March was weaker and you mentioned many reasons for that. This is when you've increased the rate of the 0+8. Are they independent? Are the issues inter-dependent or is there a relationship between them and what about the impact of this measure so far?

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

There is zero relationship between these two things. As an installment, it's almost interceptable so there is no relation whatsoever between these two things.

Q - Thiago Macruz {BIO 16404924 <GO>}

Thank you.

Operator

Alan Cardoso from Haitong.

Q - Alan Cardoso {BIO 15933677 <GO>}

Two questions. January was okay, March was impacted because of the supplier situation and the climate et cetera, so you didn't have time to correct that for March or April because you've said that the cycles was around two to three months and competition continued to be very aggressive. And we will only have cooler weather in Sao Paulo for instance as of now. So do we run the risk of having a negative same-store sales for the second quarter? Would you say that this is a reasonable risk or big risk?

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

We still have a lot of uncertainty. It's very risky to do guess work and we cannot be very assertive in our answer. So once again, I do not want to be repetitive, but the weather is fundamentals.

Q - Alan Cardoso {BIO 15933677 <GO>}

In this quarter, we saw a very big loss in terms of private label, very big drop and illustrative [ph] on the part of the company that led to this loss. Don't you believe you were too selective in your credit scoring and taking sales because of that? Could we imagine a bigger loss in private label, but better sales to understand the trade-off between the credit score and the impact on sales and on your margins in retail?

A - Jose Gallo {BIO 1822764 <GO>}

We don't see a relevant drop in the card participation in our sales. This is the first point. Second, we have enough limit and we are maintaining our limit and we believe it's a very balanced -- well balanced situation. And also the increases in these limits were below inflation and we also see an increase in our client base.

We saw an increase in our client base, which was very well -- very much in line with the overall growth in our portfolio. What we see overall is a drop in consumer confidence and clients becoming more careful regarding spending their money. So the drop in 0+8 and because of the high uncertainty that we have in the country, which leads clients to prefer non-interest bearing operations or even the debit or cash operations.

Q - Alan Cardoso {BIO 15933677 <GO>}

Another question, during your speech you said that in June, July, August, you will be improving ERP and your systems overall. Does it have to do anything with the push and pull implementation -- pull implementation?

A - Jose Gallo {BIO 1822764 <GO>}

No, nothing whatsoever. It has nothing to do with push and pull and with the implementation of push and pull.

Q - Alan Cardoso {BIO 15933677 <GO>}

What will be the update of the purchasing models with your purchasing model that we implemented in 2015 (inaudible) an ERP that was implemented in 2007?

A - Jose Gallo {BIO 1822764 <GO>}

So what we will have is the update of these models, of these systems. And it's important to stress that because at the time in 2005, 2007, we didn't have any disruptions because of the implementation of these systems. And what we will be having now is an update of these systems and above all, this will make us much better prepared than we already have the level of maturity and knowledge of the system and this is it.

Q - Alan Cardoso {BIO 15933677 <GO>}

What are the benefits that you believe will be coming -- what will be because of your suppliers regarding supporting the systems?

A - Jose Gallo {BIO 1822764 <GO>}

No, no, it's part of all of those projects. The store expansion projects that we have and that we have been developing and the activity projects, these are all long-term projects that we are implementing. And this project specifically will make it possible for us to have an IT platform that will be supporting when there is growth in the future. Not only supporting a bigger company or when there's growth beyond 2021, but will also (inaudible) the capacity to add new technologies in order to improve the operations and improve the shopping experience and becoming a company closer and closer to the clients and more agile and faster.

Q - Alan Cardoso {BIO 15933677 <GO>}

Okay. Thank you for all the answers.

Operator

Mr. Robert Ford from Merrill Lynch.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you very much. Could you talk about the expansion of shared service center and the (inaudible) that you expect?

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

Could you repeat your question?

Q - Robert Ford {BIO 1499021 <GO>}

Could you explain the expansion of the shared services and what you expect for this year regarding shared services?

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

We're doing the fundamentals, we continue on this 12% as we said in the last quarter. We are reassessing some activities that were not in the initial plan because of the results that we have been obtaining. And we are reevaluating the scope so that it can become bigger. What I can tell you is that, we already have a little bit over 50% implemented.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you. What about the real estate market? Are you being able to have better condition for the new stores?

A - Jose Gallo {BIO 1822764 <GO>}

This is Gallo, good afternoon. Normally, for Renner, we have situations that were negotiated two, three years ago, but even in these cases, we sit down and we talk and we renegotiate the terms. Meaning for Camicado, which are smaller stores, 450, 500 square meters and Youcom, 200, 200 and some square meters, this is, when we get very good conditions because, we have specialized stores that are shutting down and because of that we see very good opportunities in the market.

There are some bigger stores that end up shutting down. And in this case, for Renner, it's a very good opportunity, but the opportunity which are fewer than the ones that we see for Youcom and Camicado that are smaller areas.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you.

Operator

Gustavo Oliveira from UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Two follow-ups, please. One, regarding imported products and the postponement of receptions that just create a risk of excess inventory for the second quarter or can you adjust based to the suppliers that delayed their deliveries to you? So this is my first question.

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

No, it does not create any problem because in a way, these are lighter products than they were 5 years, 10 years ago. So we see a bigger possibility to sell them. This was a doubt that I myself had and that I asked our procurement area and we were very comfortable there. And as there is a big disaster, climate disaster next year [ph] you have an extremely hot -- warm weather in the next two, three months. Winter starts on June 21st. So we have quite long time before winter comes. So I don't see any problem.

A - Jose Gallo {BIO 1822764 <GO>}

I would like to add something. In June due to the update of ERP that we'll end the quarter with an inventory level that will be higher than normal okay due to this implementation, so that we may have a bigger coverage during the transition.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

So this was my next question. This inventory increase, so at the end of June, it will be slightly higher and then it will go back to normal?

A - Jose Gallo {BIO 1822764 <GO>}

These are impractical. For two weeks, our DC will be closed in order to carry out all these adjustments. So we will have to carry more inventory to get support through the stores.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Very clear. Thank you, Laurence and Gallo.

Operator

Tobias Stingelin from Credit Suisse. You may proceed.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you. Good afternoon. Gallo, regarding suppliers, you said that you have some problems because of the import substitution that generates a bigger demand locally. And in the second quarter, will it still be a problem?

A - Jose Gallo {BIO 1822764 <GO>}

If April -- well April its warmer, we expect to have additional problems with suppliers and so that we can go back to normal. We already have a full plan for the second quarter with no problem whatsoever. So this was a one-off situation very abnormal because our suppliers did not prepare themselves to face this situation as I said before. Some of our suppliers, as they were no longer receiving orders mainly from the small and medium-sized retailers, they chose to reduce production and the situation was exactly the opposite because they started to receive a flood of orders -- additional orders. So they have to adjust to that. And we're watching this very closely and we are much closer to them and things are really going back to normal already.

Q - Tobias Stingelin {BIO 18290133 <GO>}

You talked at the beginning that problems have been solved in the north, but not in the south and the southeast that it would still take 60 days to 90 days to solve. So what was done in the Northeast that was not done in the South?

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

No, I think, there was a misunderstanding there. In order to address the brands, this will take us 60 days. What we -- what we referred to was the issue of climate, the issue of the weather because we are suffering more in the southeast and the south than in the northeast because the south and the southeast should be cooler now and it's because we're having higher sales in the north and the northeast than in the south and the southeast.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Regarding imports, you said that you were more efficient and you're saying that you're [ph] imported in January, so we want to operate with shorter lead times. Does that -- what happened that was not under your control? So any problem in the port could cause this?

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

Again, well, we placed our bet on the punctual reflection like 30 days before in November, December. And we said, well, I'd like to give this a little bit more time because of these delays in the port. So I'd say that we were a little bit too daring in this regard in our assumptions.

Operator

Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Good afternoon. Thank you. One quick question. Regarding the co-branded cards that we see a deceleration at a rate because of the base probably, this is a project that usually brings about a higher positioning levels. So what is your experience regarding this product? I see that it is growing, whether you're still comfortable with the level of delinquency and the quality of the credit for this product?

And could you talk about the adjustments that you have been carrying out, in terms of the more rigid in credit assignments and -- so could you describe the experience that you had so far and that you had to carry out to change the course of this product and what about the growth rate for this product for the next coming quarters?

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

Irma, thanks you for the question. This is Laurence. The growth rate of co-branded continues in line. Our target is 25% of the portfolio -- 20%, 25% of the actual portfolio, private label migrating to the best client, the co-branded. So we are already reaching a normal level in the growth rate of this portfolio and that this portfolio had been growing last year by 67%, we have the maturation of the losses and so they follows.

So the losses still related to last year, to the growth in the portfolio and thus we are reducing the growth over the portfolio, so you can see that the loss appears more, but it is stable, it is under control and we've highlighted and we believe that the importance of the product which gives a contribution to increase loyalty on the part of our clients and maintaining our client as the cardholders. So it's important, but continues to be a very important product in our financial product portfolio.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you. When considering the deceleration of the growth rate that you referred to, could you describe the level of delinquency that you expect for this product?

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

We expect it to stabilize at this level, maybe a little bit higher on an annual basis compared to 2015, maybe slightly higher than 2015. And compared to the other products, this product is different. The dynamics of this product is different from the other products. So the delinquency rate is higher because of revolving credit, but also on the other hand it gives us more profitability that offsets the higher risk.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you.

Operator

We have some clients from the platform. I'm going to read the questions. And the first one is as follows. Have you mapped opportunities coming from the shutdown of stores and reduction in the square meters of competitors? Will you be using or tapping into this opportunity to open new stores besides the ones that you have already estimated in your budget for 2016?

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

The answer is yes, we are mapping and we are tracking this. We continue with the objective of 25 new stores for Renner. And what happens is that very often in order to tap into this opportunity, one or other could be postponed for the following years, but in the last instance, I think it wasn't too [ph] bad if we opened 26 instead of 25 or 27 instead of 25, if the opportunity is very good.

Operator

Another question, how many Youcom and Camicado stores do you intend to open in 2016?

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

15, Camicado; Youcom, 20.

Operator

Last question, do you have plans to post G&A?

A - Jose Gallo {BIO 1822764 <GO>}

This morning in this room, we had a management meeting in which we analyzed all the expenses and everything that we can do regarding simplifying our structures; simplifying our processes, renegotiating contract, projects that might not be priority any longer. So, this requires a major endeavor, because if you had 20%, 22% increase in revenue to close to 19% increase in expenses. So, this is an ongoing concern in our mind, you can be sure of that, that we are very, very careful with that.

Thank you all very much for participating in this call. And we continue to be available to you, or our Investor Relations people in order to clarify any further questions that you might have. Thank you very much. See you next time.

A - Laurence Beltrao Gomes {BIO 15361799 <GO>}

This is Laurence. There is something I would like to add regarding Sao Paulo. We have 20 people in this room, Sao Paulo, we have all our top executives and why are they here? They are here to listen to what the market wishes to learn, what the market wants from Renner and also to listen to our answers and we have a commitment on the part of everybody in this room, because we have to be accountable for whatever we are saying during this conference call. So I'm just telling you this because, we take this issue of our call very seriously. Thank you very much.

Operator

Lojas Renner's conference call is closed. We thank you for participating and wish you all a good afternoon.