Q2 2011 Earnings Call

Company Participants

- Adalberto Pereira dos Santos, CFO, IRO

Other Participants

- Andrea Teixeira, Analyst
- Carlos Albano, Analyst
- Guillermo Aziz, Analyst
- Gustavo Oliveira, Analyst
- Marcel Moraes, Analyst
- Tobias Stingelin, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for waiting. Welcome to the Second Quarter 2011 earnings conference call. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements 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 depend on circumstance that may or may not occur in the future.

Investors should understand that general economic conditions, industrial 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. I would now like to turn the conference over to Mr. Adalberto Pereira dos Santos, CFO and IR Officer. Mr. Adalberto, you may proceed.

Adalberto Pereira dos Santos {BIO 16803045 <GO>}

Good afternoon. And thank you very much. We are all here together to present the earnings of the Second Quarter of 2011. I have with me, Luciano Gallo -- Jose Gallo[ph] and Paula Picinini, our IR manager.

I would like to start by apologizing, first of all, because of the delay of the beginning of our conference call because of our international communications. And second, because of the delay in our disclosure. As you know, Renner has been one of the first companies to disclose its results. But during this period, the combination of some factors, like the issuing of debentures and the closing of the Camicado operation generated a delay.

In the first case, first of all, the debentures. We have to reprocess all the reports of the Company, which is a very bureaucratic and meticulous process.

And as -- in the Camicado case, as it is a non-listed company, before talking about the consolidation of the figures, we had to do a lot of work to bring things up to the standards of the IFRS and starting from scratch. But now with these phases overcome, quite certainly, in the next disclosures, we will once again be traditionally punctual.

Now back to our earnings, we may say that the Second Quarter of 2011 was very positive for our operations, both Renner and Camicado, with good performances in the usual commercial dates, like Mother's Day and Valentine's. And also favored by a good macroeconomic center scenario. In Renner, the sales were influenced by a good exception of the fall and winter collections and low temperatures, particularly in May and June.

Starting our presentation on slide three, we have the growth of consolidated net revenue from merchandise sales. Sales of Renner in the Second Quarter, in Camicado, totaled to BRL749.7 million, with a growth of 19% over the sales of BRL630 million of Renner in the Second Quarter. All these results refer to Renner and Camicado for 2011. But we were not able to present the Camicado pro forma for 2010.

In the first six months' earnings, sales totaled BRL1.3 million, with a growth of 18.4%. Same store sales, just to Renner, were 9.8% in the quarter, compared to 7.4% in the Second Quarter 2010 and 10.4% in the total of the period between January and June, as compared to 10.5% in last year's same quarter.

On slide four, on the left, we see a map with the distribution and the distribution centers of Renner and Camicado. On the right-hand chart, we have a total area of 303,000 square meters, corresponding to 172 stores of combined operations. Of this total, we have 144 Renner stores, shops and 28 Camicados, an area of 288.8 thousand square meters and 14.3 thousand square meters respectively for Renner and Camicado.

On slide five, we have the gross margin from consolidated operations, 53.9% in the Second Quarter of 2011, the same level presented by the Renner operation in 2010, which shows us the first sign of the low dilution brought about by the integration of the Camicado operation. It is worthwhile mentioning that the gross margin of the Renner operation, alone, had a positive growth of three percentage points -- 0.3percentage points.

This improvement, in a scenario impacted by inflation of the price of raw cotton, is associated with the greater subsertiveness[ph] of collections, alterations in the product engineering, without sacrificing the quality, a great volume of imported items and also a colder winter in the south and southeast of the country.

In the first six months, the consolidated gross margin was 53.5%, practically the same level reached in the First Quarter of 2010, when we had 53.6% -- the first semester of 2010.

On slide six, we have the selling expenses, which increased 24.5% in the Second Quarter of 2011. As a percentage of that, revenues expenses accounted for 24.7% of the sales, compared to 23.6% in the Second Quarter of 2010. The expenses -- selling expenses, grew 23.2%, representing 27.8% compared to 26.7% of the net revenue in the first semester of 2010. These increases are related to the previous operating expenses of the nine stores opened in the Second Quarter of 2011 and also the slight impact brought by the consolidation of Camicado.

On page seven, we have a general administrative expenses, which increased 20.9% over the Second Quarter of 2010, quite in line with the percentage of the net sales observed the former year, 8%. In this semester, the percentage was 8.8%, 0.3percentage points above the former year and this increase is related to greater expenses incurred in the First Quarter, thanks to more aggressive expansion plans of the Renner operations.

On slide eight, we show you a breakdown with the financial service results, BRL32.1 million, a growth of 30% over the BRL24.7 million in the Second Quarter of 2010. And the six months' results reached BRL70.6 million, a growth of 38.3%. The improvement percentages are based on the good results achieved throughout the period, particularly the good performance of the interest-bearing plan of zero plus eight installments and gains stemming from Fediki[ph] of BRL3.7 million and better levels regarding net losses from the operations.

Slide nine, we have the EBITDA, the consolidated EBITDA and the consolidated EBITDA margins. We have BRL179.7 million generated in the Second Quarter of 2011, a growth of 17.8% over the same period of 2010. The EBITDA margin was 24%, slightly below the 24.2% in the Second Quarter of 2010. This effect correlated to the integration of the new Camicado operation. Since we only consider the Lojas -- if we only consider the Lojas Renner, this margin would have gone up 0.7percentage points in the quarter, reaching 24.9%.

In the six months, EBITDA totaled BRL264.8 million, with a growth of 17.4%, a consolidated margin of 20.9% compared to 21.1% in the first semester. Here, if we consider just the Renner operations, this margin would have expanded in 0.3percentage points over the first semester of 2010.

Slide 10, we have the net financial results presented in the upper table, where we see in the Second Quarter of '11, we had a net financial revenue of BRL1.4 million, below the results that we had in the same period last year because of a lower cash level, as we show you below. On the 30th of June of the current year, cash and cash equivalents were BRL242.2 million. And when we discount a debt of BRL50.7 million, this gives us a net cash position of BRL191.5 million at the end of June.

The significant reduction of these amounts is due to three factors. The pay-out of more dividends, BRL90 million, the payment of part of the Camicado acquisition, BRL140 million. And a higher level of CapEx, BRL281 million -- which -- and all together -- BRL51 million. And all together, it's BRL281 million, which the entire allocation of BRL281 million, when compared to last year.

On slide 11, we have the net income of combined operations, which grew 24.8%, a total of BRL113.5 million, a margin of 15.1% compared to 14.4% in the Second Quarter of 2010. In this semester, net income reached BRL161.1 million, an increase of 26%. And consolidated net margins, 12.7% compared to 11.9% last year.

On this slide, I would like to show you this chart on the right, with an ROIC of combined operation, which was 10.5% in the Second Quarter compared to 9.8% in the previous year. In the semester, the ROIC was 15.1%, 0.9percentage points higher than the figures of the first semester 2010.

Slide 12, we have the Company's balance sheet. Here the relative participation of inventories remains stable vis-a-vis the former year. It's also important to mention the greater volume of imports in transit, which has to do with the strategy of gradually increasing imported items in the collections. Also in assets, I highlight the growth of the intangible items, a total of BRL235.9 million at the end of the period, reflecting the booking of the Camicado operation goodwill. In the liabilities, I would like to mention the financing of financial service operations. In the non-current group, which is BRL342 million, referring to higher quotas of FIDHC, the F-I-D-H-C.

On slide 13, we have information about the Company's investments, which totaled BRL64.3 million in the quarter, of which BRL42 million refer to the opening and preparation of new stores. In this semester, total investments totaled BRL88.3 million.

Now slide 14, on the left, I would like to present the 10 stores that were opened, particularly the first Blue Steel pilot opened in San Paulo. In the second part of the year, we plan to open another 21 Renner stores, another two Blue Steel and another three Camicado. On the right hand side, there is a list with the following, or the next inaugurations.

On slide 15, we have the cards that have been issued. A record of 17.9 million. And also the growth of the average ticket of our private card, which increased 12.6%, totaling BRL155.47. In the semester, the average ticket was BRL143.2, equal to the 11.7%.

In slide 16, the chart to the left shows the growth of the total average ticket of Renner, which in the First Quarter of 2011 had a growth of 7.7%, reaching 11 -- BRL112.31. The six months, the total was an increase of 8.4%, with an average ticket of BRL103.74. On the right, the payment forms for the Renner Card, with total sales, which in the Second Quarter were 55.2% of the sales, compared to 57.8% in the former year. For the semester, the custom winner[ph] accounted for 54.7% of the sales compared to 57% in the first semester of 2010.

And now, I would like to say a few words about the first semester, which was challenging to us all. Notwithstanding the fair winds of the economy, it was a period where the comparators of sales in the former year were quite heavy. A period where the inflation of cotton was felt more in the cost of products and the Company also had a more SG&A structure -- heavier structure and the integration of Camicado signed -- with some -- or signaled some degree of dilution.

However, we still have a -- the same stores are still growing and the gross margin is more than last year, guaranteeing a low level of dilution and integration of the new operations and expanding the net operating margin for the quarter and semester.

The Company also received some important recognition from the market, being considered the 11th most valuable brand in Brazil by the Interbrand Brasil. In June, we were honored by the Agais Distado[ph] as the fourth place and the ranking Estado Economatica of 2010. In July, we received the prize of IR Magazine Brazil award in the category of Best Corporate Governance.

And now, with the greater challenge, since we now compete in the category of large caps, not mid-cap. And last week, we received from the East Juadinaro[ph] Magazine the award of the Best Retail Organization. So all these factors combined make us confident that we are on the right path.

The Company is well aware of the effects that the international crisis might bring and affects the domestic market. But it remains confident that the country will react adequately. And we also are confident in our own internal capacity of growing and delivering results in a more challenging scenario. So the expansion plan of expansion, both in Renner and Camicado, will be maintained and also other investments, to improve logistics and systems infrastructure. So this is what I had to say and we will now go on to our Q&A session. Thank you.

Questions And Answers

Operator

So now we'll have our Q&A session. We would like to ask you to ask the questions in Portuguese first and then we will open for questions in English. (Operator Instructions) Guillermo Aziz from Raymond James is our first questioner.

Q - Guillermo Aziz

Good afternoon. My question has to do with the provision for loan losses. What are you doing about this after the Second Quarter? I think the results were good. So are you feeling any pressure here? And are you changing anything regarding your credit policy, regarding any pressures? And also another question, which has to do with your expansion plan, let's say, would there be any impact of the world crisis on Brazil? Would this affect your plan, your expansion plan, downwards? And would this make a change in your plans?

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

Good morning, Guillermo. Regarding the loan loss reserves, we are told -- in a comfortable position. This -- the losses are among their lowest in the series. If you change our analysis, analysis on the portfolio, which is also very interesting. Since 2009, it has dropped. In 2009, we had 6.6%. In 2010, to 4.7% and now, 3.9%. This is on the portfolio.

On our -- on the curve, we can see a more prospective view. We have the first payment default indicated, which considers the new entrants into the portfolio. And this gives you a very good idea of how things are doing. And the market in general because they have the new loans and this has not deteriorated. Quite to the contrary, it continues to improve.

And this, vis-a-vis the new entrants, regarding those still -- already in the portfolio, you -- is -- those delinquencies in the fifth month past due and also the curve, which we have, is the lowest in the four years. So you have the seasonality in the year, this continues. But there is nothing more than that. And the third. And most of the fourth, quarter, I think with the delinquency levels, will continue as they are. And perhaps even drop a little bit in the portfolio as a whole.

So I think that we are comfortable here. Regarding the expansion plan, I think that we don't think that any disaster will be coming now. Some contamination will occur, of course. And those sectors, which have more to do with the fund markets, like commodities, will be affected. But we believe that our business is -- has a lot to do with the domestic market and has a lower ticket. So if it is affected, it will be one of the last to be affected. So only a really bad crisis or very -- more serious crisis will affect us.

Our cash situation is good. We always were focused on keeping the margins. And if necessary, we'll adjust things to face a lower level of demand. We will adjust things, if need be. And we will continue to do this and continue to grow. Our company is agile and flexible, particularly to able to adjust to the economic cycle.

Q - Guillermo Aziz

Thank you, very much, Adalberto.

Operator

Our next question, Marcel Moraes from Credit Suisse.

Q - Marcel Moraes {BIO 6696122 <GO>}

Good afternoon. My first question has to do with the sales performance in the Third Quarter. Was there a slowdown? The cold obviously had an effect on the Second Quarter and will this slow down? And then the second question, your expenses line in -- not only SG&A. But also with the dilution of the Camicado, it seems that contrary to the first semester, you managed to improve a better expense dilution in the Second Quarter. So what was different between the first and Second Quarter to explain this? Or am I wrong?

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

Regarding the sales of the second and Third Quarters, Marcel, in fact the Second Quarter did not start off well. April was a difficult month and it improved a little bit in March, as from Mother's Day -- May, sorry. And in June, sales were good.

Now, it's no good, the cold coming along, if you're not prepared for it. So the winter comes and you have to be prepared everywhere. You have different kinds of cold. The cold in the south is one thing and the northeast, it's another and the Amazon, it's another. So you have to be very agile, very skillful to be able to read the different markets and be able to serve them adequately and be able to improve your margins.

The Second Quarter -- Third Quarter, starting off, similar to the second. July has slowed down and this is relatively normal because you always have a change of the collection. But if your Second Quarter is very good, you're well-stocked for the winter and in July you have a low winter stock. If this winter continues, you have no more stock left. And so you have no stock to sell. Your spring clothes are in and you don't have a demand.

So generally July is a little bit difficult. But even so, we have had positive same-store sales and now in August, it's not fantastic. But it's okay. And we think that we will not have any negative surprises. So we cannot interpret exactly what it will be, whether it's less sales because of the macro environment or less because of the collections but one thing or the other.

And your last question had to do with what? Expenses in general. Yes. We did have a very good result regarding expenses. We were -- we thought we would have a good year. We have always followed the same percentage for it -- for full year. So this has been an interesting result. The second and Third Quarters, I've been looking at some reports, in terms of dilution, I think we have to be more conservative.

We opened 10 stores the first and Second Quarters. We should open another 23 in the second -- in the third and fourth. And, this brings heavier pre-operating expenses to the Company. So, I think it is still a target to have a percentage for the whole company, because we had a good result in the Second Quarter. That doesn't mean that we were victorious. It is still a challenge. Now, in the Second Quarter, to understand the reason for this dilution, nine stores were opened. Most of these expenses dropped to the First Quarter.

One has the impression that the second semester would not be so hard since in the Second Quarter there were nine. In the First Quarter, you had more impression of SG&A, not only because of the opening of the stores. But an adjustment which was carried out for our logistics structure. And, headquarters of the Company and so on. And, this is over and done with.

Now, there's a greater pressure because of a larger number of stores, with a pre-operating of a store today, expenses is between BRL400,000 and BRL500,000 per month. And, you have this impact in one month before the opening of the store. And, it's very easy, BRL500,000 times 10 is BRL500 million, times 23, its BRL1.5 million, impacting without revenue. So, in fact, in the second -- third and Fourth Quarter, we will still feel the pressure of the SG&A expenses.

Operator

Our next question comes from Gustavo Oliveira from UBS.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good afternoon. Our first question is about Camicado. Can you give us an idea of when their results will become more positive, generating EBITDA? Or, if this integration -- is it quick, how is it doing? And, also, you talked about expansion plan of Camicado. What should we expect for this year and for next year?

And, my second question is credit card operations. We have had a stabilization, it seems, of sales with the card, about 55%. And, I remember, Adalberto, that in the First Quarter or the Fourth Quarter of last year, you made some comments by saying that there was still a lot of upside in this operation. And, that, if it were managed differently, you could increase the contribution of credit card sales. So, I'd like to understand how you are dealing with this at the moment?

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

Well, let's start by Camicado and the expansion. The investment program in Camicado is continuing. We will open these new stores. It will not be a linear curve. We should open four stores now. We acquired Camicado with 27. We opened one, 28, we'll open another three.

The balance is not a linear division. Next year, we will be moderate, between five and 10 stores. We're still define that exactly to have a better performance in this integration. The integration has already started. Several parts of back office have already been brought to Renner, accounting and financials.

In September, the startup of the operations of our card will go there. We are quite optimistic regarding integration and such. And, in a conservative way, we think by the end of the year, to perhaps before, this integration will be concluded. And the operation we modeled to our way of doing things.

So, once again, we confirm the expansion. A gradual curve this year and next year. And integration -- okay, results this year in the second semester, it should generate positive numbers. After the non-recurrent items returned, EBITDA should be 7% or 8%. If you take just the second semester, this should happen, as I have said. It's already positive and the dilution will be less.

With a card, we still have some internal activities to revitalize our card. Although, the banner is a very important initiative to capture these clients who want a portfolio banner, even so, there's been a loss of participation of the two cards, the banner and the private. And. So, we have to increase that. We are working very hard on our own banner. We are analyzing the intrinsic characteristics of our product security, perhaps working with a chip. And trying to simplify the activity in the store. Sometimes, the client does not have the card with them. And he'll have to go to the office and he, sometimes, takes 20 minutes. Now, he can just pay with his own tax number.

And, regarding the products, the configuration of the products and the pricing of the product and the disclosure of information about the product, we think it is a very important product. It brings about loyalty and gives the client a lot of information. It's important to strengthen the client base. So, there's no way -- they will not let it die. So, we continue to work on it and as well as with the other card. Thank you, very much.

Operator

Our next question comes from Mr. Carlos Albano from Citibank.

Q - Carlos Albano {BIO 3757334 <GO>}

Good afternoon. Regarding credit for financial services, there was a slight deterioration of the indicators. In the First Quarter, the custom winner was 2.5%[ph]. The net revenue of sale and merchandise in the Second Quarter was 3%. And now the portfolio of losses of the portfolio versus the total were 5.5% in the First Quarter. And, now, it's gone up to 6.5%. So, I'd just like to know if there's any seasonal factor here. Why this happened, or in spite of the number, of the deterioration being marginal, if this happened because of something to do with --

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

It's seasonal. The First Quarter 2010, here I'm working about the indicator on the portfolio, because I think this is the most interesting thing. If you take the First Quarter 2010, we had 3.6% of losses on the card. If you take the First Quarter of 2011, we had 2.2%. If you want to go back a little bit further to 2009, First Quarter of 2009, 3.4%, 2010, 3.6%. And 2011 2.2%.

So, I have this spreadsheet, I can send it to you, with all the quarters in four years. And, in all these quarters, you have the seasonal effect. You cannot compare the first to the second because it goes up. But, when you compare the first to the first, it has been dropping for four years. It is seasonal.

Q - Carlos Albano {BIO 3757334 <GO>}

So, this number you're talking about, what is it? Is it the loss of the custom winner?

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

On the average card of the period. I can send you the spreadsheet, if you're interested.

Q - Carlos Albano {BIO 3757334 <GO>}

Thank you.

Operator

Our next question comes from Mrs. Andrea Teixeira from JPMorgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Thank you. Good afternoon. Congratulations on your earnings. Going back to delinquency, Adalberto, sorry to insist. But I was interested and your lead indicator in the model. If you -- what kind of promise[ph] -- are you not considering any kind of acceleration like happened in 2008, are we not going back to those levels which happened in 2008?

And, the other question related to this is that I know you have carried out a more flexible credit policy, in spite -- well, the level of acceptance or credit of loans is high. But, you are also having an improvement of the quality of delinquency, which is fine. But, from now on, will you maintain this position? Well, the level of current acceptance considers it current levels. And, another question, whether the plan of opening a bank is now postponed because of the non-necessity of financing since there's long term financing now?

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

Well, Andrea, yes. Conditions are -- I have here the indication of our chart here of approval of the credit score which, shows that approvals are made automatically by the system. Considering June, we went from 81% in 2009 to 2004, 84% in 2010 and now in 2011, 85.9%. So, this is an improvement of the process system. An updating of the credit, improvement of the charging, collection, processes.

So, this does not have a personal intention of the Company. This is just because of the process improvement. And, it is through our credit score processes are automated. We can interfere. But this will not be necessary.

Your question with the growth of delinquency, the curves which we have -- which a prospective, regarding the portfolio, do not give us reason to think about a deterioration or scenario like 2008. We are very confident that in the third and Fourth Quarters, we will have very good delinquency levels. This based on the portfolio, which I already have in house. I just spoke a few moments ago about this, the question regarding the new approvals that are coming very solid and healthy. And, also, the performance of the portfolio that we already have in house. So, there is no deterioration on the horizon.

Your question about the bank. In fact, the Fediki as a result of this has been a little above what we expected. We are reprocessing the numbers of the bank project. It's on hold at the moment. We are waiting and doing this reanalysis. And we might discontinue the project. It would depend on how we configure the Fediki for the question of loans as well. But, today, it is already an operation which, in principle, would justify this discontinuation. We are analyzing this. It's a question of financial results.

Another point is the question of make it more peaceful or not. Or, we can work with an intermediary scenario. We can use the Fediki and use the self-regulation of the -- or see if it is regulated by the central bank. Taking into account the BIS[ph] ratio. And using all the parameters of the central bank. This might be the best thing to do, not to have all the duties that you have -- that we have now. But have the security that a financial institution needs.

Q - Carlos Albano {BIO 3757334 <GO>}

Thank you.

Operator

Our next question comes from Mr. Tobias Stingelin from Santander.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Good afternoon. My first question, Adalberto, could you explain the ticket and how it's grown regarding traffic price in the First Quarter? I think there's a little confusion. You had to review this calculation. And then you didn't talk much about that. So, could you tell us about how this grew in the Second Quarter, just so we could follow this?

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

So, first question. Well, in my presentation, I don't know if you've got it there, where we talk about the ticket, the average ticket, you have the average ticket of the Company on slide 15. And, then, you have the growth on the Second Quarter of 12.6%. This information always generated some confusion because as the card penetration decreased, you changed the makeup.

And, as the participation of zero plus eight decreased or increased, vis-a-vie the zero plus five, as it was more valuable, it pushed the other one up. You have that on slide 16. You have the opening of the -- the breakdown of the average ticket of the Company. You have 7.7% of increase of the total ticket.

So, 2.1% here is the calculation. Now, it's a direct calculation, I don't have to infer anything. And, it's very interesting because it was the same gain of traffic which we had in the First Quarter. So, it was 2% in the First Quarter and 2% now as well. We will disclose this information now, like this every quarter.

Q - Tobias Stingelin {BIO 1557190 <GO>}

So, it's minus 2%, right? The difference was negative in traffic.

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

No, positive. We had 2% price, which is the average ticket, 7.7% price, which is increase of the average ticket, plus 2% of traffic, to make this analysis easier.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Another question. You probably raised the price of the First Quarter because of the cotton. With the cotton price dropping now, can you feel this now, the impact of this? Is it a positive impact on your margin or not, because you're purchases are long term.

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

No, not yet. We should start to feel something like this in the Fourth Quarter of the GDP regarding important products. Because, we buy one year ahead on the national product. So, there has been an effective drop and will have a combined effect of the drop of the cotton and the dollar. So, this will bring this effect in and be felt in the Fourth Quarter.

Q - Tobias Stingelin {BIO 1557190 <GO>}

So, your pricing policy is not going to change or would you reduce the prices or not?

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

Well, this is a very tricky question because, you're always tempted to go for a higher margin. But you also have to be aware about your market share and your traffic. So, this question of price always has to be done with an eye on the market. You cannot price your margin to gain market or vice-versa. There's always very fine tuning.

Q - Tobias Stingelin {BIO 1557190 <GO>}

And, last question. Your tax rate at the fiscal adjustment of the Camicado and, then, also, you had something else. Could you give me an estimate of an idea of how this changed so we could model the tax line?

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

What you see there on the tax line, which is 26%, 27% is the prepaying of interest on our own capital. In previous years, what did we do? We paid in the first three quarters of the year, we regularly followed or paid or income tax.

In the last quarter, we do the recognition of the payment of interest on our own capital. So, 33% the First Quarters. And the last two dropped to 23%. Now, you will not have this. We are recognizing seems every quarter. So, instead of taking 33%, we'll have 26 for the first, 26% for the second. And in the third and the fourth.

The effect of this -- because the total recovery done was 4[ph] million. This gives you a fiscal benefit of 1.3[ph]. So, this is a non-recurrent and a little bit recurrent as well. Because, we always have initiatives, what might be in the (inaudible) and the Camicado is BRL6.8 million. Which, has to do with a third tax. This is very, very technical. On accrued losses in the past, as they would not have any more losses, this won't occur again. Basically, we have a rate of 7%,

Q - Tobias Stingelin {BIO 1557190 <GO>}

But it's not that you have a large inventory?

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

No, no more. This has been recognized today. Camicado has all been recognized now.

Q - Tobias Stingelin {BIO 1557190 <GO>}

Thank you.

Operator

(Operator Instructions) And, our question from Mr. Marcel Moraes from Credit Suisse.

Q - Unidentified Participant

Yes, this is Ricardo speaking. I have a question about the headcount, which dropped from 12,120 to a little less. So, why, in spite of the opening of new stores, why has this happened?

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

Well, Ricardo, this has to do, basically, with the process and replacement. In spite of our turnover being one of the those[ph] to the market, today we have a turnover of 40%. The average in the market in 75%. If you do not do this replacement -- well, you'll have a lot of turnover at the end of the month. This is what happened.

Operator

So, we'd like now to close our question and answer session. And I would like to ask Mr. Adalberto to take the floor.

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

I would like to thank everybody for your attention and for having participated. And, thank the analysts for their reports. And, we are at your disposal. And, whenever you need to speak to us. Thank you, very much. And I hope we'll see you at the next quarter with excellent results, as well.

Operator

Lojas Renner webcast is concluded. Thank you, very much and have a good day.