Y 2020 Earnings Call

Company Participants

- Alvaro Jorge Fontes de Azevedo, Chief Financial Officer & Investor Relations Officer
- Carla Sffair, Investor Relations
- Fabio Adegas Faccio, Chief Executive Officer & Interim Chief Information Officer
- Paula Picinini, Investor Relations and Internacionali Expansion Officer

Presentation

Operator

Good afternoon, everybody. Welcome to our conference -- video conference of the results of Lojas Renner. I would like to make a brief disclaimer here. This call is being recorded and translated simultaneously, and all the question must be asked on the chat. Questions from journalists, may be send to our press office at 11-3165-9586.

Before proceeding, let me mention that forward-looking statements that may be made during this video conference in relation to the company's business perspectives, operating and financial projections and targets, our beliefs and assumptions of our management based on information currently available.

Forward-looking statements are no guarantee of performance, involve risks, uncertainties as they relate to future events, and therefore, they depend on circumstances that may or may not occur. Investors should understand that general economic condition, industry conditions and other operating factors may affect the performance of the company, and may lead to results that differ materially from those expressed in these statements.

I would like to give the floor to Fabio Faccio, our CEO now.

Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Carla. Good afternoon, everybody. This is Fabio. I would like to thank you very much for your participation and your interest. Today with us we have Alvaro Azevedo, our CFO; and Paula Picinini, our Investor Relations Officer; Mr.Carla Sffair, our Investor Relations Manager, who is here to organize the questions that you will be sending out on the chat.

Before we start our questions, I would like to make a few remarks about the year that has ended, and also about how we prepare ourselves for the future.

Continuing with important projects and initiatives that will lead us even further. I will not again talk about the measures and the plan that we presented since the beginning of the pandemic and that you can see on Slide 2 and 3, as we have already talked about that in previous occasions.

I suggest we should go straight to Slide number 4. 2020, of course, was a challenging year and we had to leverage situations that we have never imagined, such as the temporary closing of all our stores between mid-march and the end of April, and most of them were closed or with restrictions until August. And in spite of that, September, October and afterwards, we had many automations because of temporary closures and restrictions to the opening hours and also together with the variation, the incidence of cases of the pandemic in the different regions of the country. Because of all that, we had a lower traffic in our shopping centers, in our shopping and during the whole year. And it was partially offset with a higher digitization and with a much better performance of our digital channels. All of that in the short run, show a lower predictability for the first month of 2021. Nevertheless, we are very sure about the opportunity that we have regardless of the economic scenario.

Everything that we did in 2020 was only possible because we started our journey of transformation way back in 2018. Therefore, we already had all the technological base, infrastructure and this was the reason why we were able to go very fast towards the full digital transformation and the acceleration of sales in the digital channels. In 2016, we worked for two years in the updating of our ERP projects at our retail system as well.

In 2018, we changed the version of our e-commerce platform and we launched our new app. In 2019, we finalized the integration of our inventories, concluded RFID in all stores, and we are able to have an integrated vision of our inventory, both on and offline. We started 2020 already with a proprietary system implemented internally as orchestration of inventories. And very quickly, we went to the omni offer with important improvements in our online operation.

We also, in 2020, launched the social sale with over 17,000 members and we digitize the direct interaction of stores with clients, I mean, the quarter. We launched the fashion delivery in which, by means of the data use we send preselected items to our clients, according to their previous consumption. At the same time, we launched important improvements of functionality and services in the app. We increased the assortment for the site. We advanced in logistics in order to meet the higher volume of e-commerce orders to accelerate deliveries and also to advance in the last mile as of the physical stores.

On schedule, in spite of all the difficulties, we continue to build our newest and most modern Omni Distribution Center, which we will be open in 2022. In the development of our ecosystem, the single-view of the client continues to advance. We already have our database organized, and we started to have personalized campaigns. And the most recent campaigns had 170% percent higher conversion with an average ticket 20% higher and a differentiated number of items per bag.

Currently, we already have 80% of our sales, with identified consumer ID, which allows us to know our clients better and more, we can enchant them by means of campaigns, collections, recommendations and special promotions. All that, following the new law of data protection that was enacted in August and we were already prepared for that.

In the use of data for the product life cycle, we also made strides. We're working with identification of fashion trends, quantifying our bet by means of data usage. We implemented POM to manage the shopping processing and accelerate product development, besides allowing a higher standardization of processes and also productivity assertively. All the items are produced domestically, are already developed and the purchase order carried out by means of this tool. And we continue to advance in integration with international suppliers.

We also reached 17% of our items distributed to the stores, by means of artificial intelligence, with no human intervention, where we saw growth in sales of 12%, a reduction, of 18% in inventory for these products. Likewise, our sales forecasts are all done based on algorithm and which considerably increased our addition between realized and planned, even in atypical year of pandemic and with no comparison basis.

With that, we are digitizing the core of our operations starting with the identification of a trend. We can quantify the initial bets and use data from previous collections, by means of attributes identified and tagged in the system, in order to meet the demands of the market more rapidly and more assertively. We continue to invest for recommendation of retail product based on artificial intelligence and also the pricing by means of data usage.

Regarding the omni offer, we already have four ways of concluding payments in the stores and which -- and just to give you an idea, 20% of sales in our traditional stores are finalized out of the traditional cash positions. We have the mobile, sale already available in all Renner stores in Brazil, where the employee, by means of specific devices, finalizing the purchase at anywhere in the selling area. We also have the self-checkout where the clients themselves can do everything alone and the digital payment of Pague Digital without through the Sparkphone of the client, by mean of the Renner app.

We also have the vintage digital, digital sale and the e-commerce products are sold in the brick-and-mortar store, that is to say, if the client does not find the item, we can offer the product to deliver at the client's home or in the click-and-collect. And more recently, after the reopening of the stores, we continue to have the click-and-collect or store pickup. And when we think about the new omni client and all the opportunities that we have, based on integration of on and offline channels.

We have two major fronts. The first one is a ship-from-store, where the purchases made in the online channel are delivered from a store and at the end of the year, 20% of online sales were serviced with the store inventory, which considers the lead-time considerably. And gives more penetration to our inventories. And another important transformation was the infinite aisle. In this initiative, we place at the disposal of our clients, the inventory of stores, the e-commerce clients. And this means that they will have more options and we expect higher sales, faster turnover, with opportunities to send the items by the e-commerce releasing space in the stores to receive new merchandise.

Many opportunities arise from the powerful combination of physical and online stores. This is valid for Renner. Alvaro do you comment that?

Alvaro Jorge Fontes de Azevedo {BIO 18094961 <GO>}

Sure.

Fabio Adegas Faccio {BIO 19664887 <GO>}

Camicado, Youcom and Ashua. And also, we have our financial arm that is also going through a huge transformation at Realize. We already have all the credit trust digitized since the facial biometrics, credit score, credit approval, issue of card, updates of limits, payments, negotiations and prepayment of installments and of invoices.

In 2020, we accelerated digitization of our cards with 20 million monthly visits and our app to solve financial matters. Our app also evolved quite a lot in service level, going from the 26th to the 8th position, in terms of functionality that facilitates the likes of price according to new statement. [ph] At the same time, new products and services are being tested or construction.

So before concluding, I would like to say that, our focus of investment both in OpEx as well as CapEx in 2021 will be completely focused on the digitization and continuous expansion of our brick-and-mortar stores, looking for drivers for growth in our retail brand and Realize. And also taking advantage of a higher synergy between and among the brands. This process will lead us to an increase in revenues and better data access, where we can identify new businesses, partnerships and investments that may supplement our fashion and lifestyle ecosystem, and enchanting our clients further.

All this will require investments estimated at BRL1.1 billion and an additional OpEx of the retail core. This will bring pressure on our margins initially in 2021, however, this will bring about a higher competitiveness and a better free cash flow generation, the medium and the long run, when gradually we will recover our operating margins and the levels of ROIC.

Now I would like to give the floor to Alvaro and then Paula, will continue with some remarks about how we will be making these investments over 2021 and the outlook. Alvaro?

Alvaro Jorge Fontes de Azevedo {BIO 18094961 <GO>}

Thank you Fabio. Good afternoon. And thank you for participating in our call in a video conference. I would like to talk about the results of 2020. My suggestion is to go to Slide number 6 about the highlights of the quarter and of the year where I can give higher details. In the year.

We had a gradual and consistent improvement since the second quarter. We went from 73% less in the second quarter to a level of minus 14.5% in the third quarter, and we reached a positive top-line and breakeven on same-store sales in the fourth quarter of

2020. This performance could have been better if it were not for the limitations of opening hours and the closure of stores in the Sao Paulo state, where we were closed for four days close to Christmas and also close to the end of the year.

And one of the main centers of the company had over 100 closed for seven days, not to mention, important regions such as Minas Gerais, Santa Catarina and Parana that had restrictions regarding opening hours, together with the incidence of more pandemic cases which hindered us.

On Slide number 7. We had BRL6.5 billion net revenues same-store sales still negative, very much impacted by the beginning of the pandemic, mainly in the physical stores. Our e-commerce had a gradual consistent growth that allowed us to offset the effects of the lower traffic in stores.

Digital sales represented 12.3% in consolidated revenue for the year highlighting Youcom over 9%; Camicado almost 26% penetration. Digital channels had a growth of a 126% in the year. Sales went up three digits in almost all months in spite of the high basis of growth that we had already delivered in 2018 and '19.

Regarding gross margin, Slide 8, we had impacts related to the epidemic. And this led us to a margin in 2020 51.9%, 4.4 percentage points lower than '19. But in spite of that, very healthy considering the scenario, such as the sales, the gross margin improved over the year. And we were able to went from 12 percentage point to 7 percentage points. And now in the fourth quarter of '20, we reached only 4.2 percentage point reduction. This performance represents not only the markdowns for the elimination of inventories, but also the exchange rate impact on imported items and promotional activities in December, trying to anticipate Christmas purchases to avoid agglomerations close to Christmas.

Regarding operating expenses on Slide 9, we had an important evolution in 2020. The effect of physical stores closed and the restoration, of course. This did not allow us to have the operating leverage that we had talked about in October in the quarter. In spite of the perspective of higher balance between sales and expenses.

The net revenue lower-than-expected combined with more promotional activity and temporary closing of the store did not allow for the expected dilutions. So expenses were BRL168.2 million, representing 29.7% of sales. During this period, G&A was 7.1%, slightly lower than the percentage of the fourth quarter of '19. But selling expenses represented 22.3% of the revenue, 3.1 percentage point higher than in the previous year. Thus in the year, operating expenses dropped 4.7%, representing 39.2% of merchandise sales, a percentage of 6.9 percentage points higher than 2019.

Now going to Slide number 10, financial products in the fourth quarter of '20. Beside the recovery of origination of new credit, the highlight of delinquency totally under control, which allowed us to have the results from products being positive, with a contribution of BRL59.6 million in the quarter.

For the full-year, there were challenges in the third quarter because of the drop in revenue, because of the closed stores and the exemptions and facilities, given to our clients for payment of their bills. And in spite of that, the reopening of the physical stores allowed us to resume growth, in our credit portfolios, mainly Menu Cart and the result of financial products, BRL81.9 million in 2020.

Thus, now on Slide 11. Our adjusted -- total adjusted EBITDA BRL1.2 billion for the year. EBITDA margin was 17.9%, a very healthy level for the reality that we are living. In the fourth quarter of '20 specifically, we had the positive cash generation and EBITDA margin less than 1.1%.

And on Slide 12. Net income of the period was BRL1.1 billion in 2020, in the fourth quarter BRL354 million.

To finalize, I would like to highlight on Slide number 13, our financial condition. Net debt of BRL713 million, equivalent to 2.6x the adjusted EBITDA for 12 months. Additionally, as you can see in the miniature of the Board meeting held yesterday, we had the authorization to issue non-convertible the ventures in one single series amounted to BRL1 billion for four years. And the funds obtained will be for reinforcements of working capital and to maintain the minimum cash for strategically for the company.

And now, I would like to give the floor to Paula to talk about the outlook.

Paula Picinini {BIO 19739367 <GO>}

Thank you, Azevedo. Good afternoon everybody. Continuing what Azevedo was saying, I would like to go back to a few points that were mentioned by Fabio at the beginning.

And that you can see as of Slide 14. And this is where we show that according to our capital budget that we presented yesterday, we will be investing BRL1.1 billion for the opening of stores and also for the acceleration of the development of our ecosystem for fashion and lifestyle. Working with focus on three pillars: digitization, innovation and sustainability.

Undoubtedly 2020 was very challenging, but it also allowed us to advance in products and initiatives that are very important for the business. When we think about 2021, regardless of the economic scenario and the hell [ph] scenario, we believe that we have good opportunities to continue growing our sales, even if we compared to a more normal year such as 2019.

When we think about the brick-and-mortar stores, we will continue to expand our chain and we will be increasing the operations, consolidating our brands. And we believe that we have room to continue gaining market share in a market that went through a huge transformation after the pandemic. We will continue to increase productivity in stores that are maturing. And since 2019, we have 60 units open, more than 60 units that were open and that start to contribute.

In online, we have a new level of operation, of undoubtedly with a much bigger way to than we had in the past. We have reached 12% of total sales in 2020. And we believe that we can further increase that based of the shift from store and the infinite aisle.

For on and offline, we are going to benefit from a higher number of clients in the base that was formed in 2020 and also from the omni offer, because clients have started to buy online. Now, they can also reap the benefits of omnichannel. We know that the client starts to have a better assortment, more option, more facility, more speed in delivery, and it's very packable, when they want to exchange some kind of product.

So, there are many opportunities that we identify. As of the moment, we have all the brick-and-mortar stores back to normal and online at this level. In the macro area, there will be some oscillation in terms of stores still. But we believe that, consumers in general, they have a very good condition in terms of savings after the social isolation and lower expenses. And also, households' indebtedness seems to be lower and the consumers are less leveraged.

So, all that should help us in this year, giving us a good sales perspective, in spite of all the challenges that we still see. Now at the beginning of the year, regarding the gross margin and already comparing to '19, we should go back to historical levels. But they should be slightly lower than we had in 2019, because they are pressures on the part of the exchange rate on imported items. And there is inflationary pressure on raw materials for instance and international freight that we know are more expensive.

Now talking about the operating expenses. We will continue to be focused on the expenses and modernization of stores and the transformation of the online channel. In this journey, we will be making investments that are necessary in order to tap into the opportunity that we had to postpone from (inaudible) and to further accelerate the digitization initiatives and integration of channels and the omni offer that supported the operations in '20.

To format our ecosystem and to advance in digitization, we need to invest in our operating structure as well. And that is already being created besides the investment in areas that ARE already consolidated such as product, operations and digital businesses. In the second quarter of '20 -- second half, we started initiatives to reorganize and create new teams, based on sharing of responsibilities and new structures that we are developing to make all this happen.

I think I should mention that the additional investment in OpEx that Fabio mentioned includes a new configuration of the IT team that currently has 700 IT professionals working. We created under this area, an agility area that we will be standardizing and disseminating the more agile methods of the company. We hired a data officer and we created one area. And currently, it already has 40 professionals, engineers, scientists and others that will integrate and read the data generated from the retail brand and the Realize. And to give more speed to the process of development and focus on opportunities that we identify in our ecosystem interacting with the brand.

We created a strategy and new business department formed by new executives that came on board in order to look for investments, for partnerships and execution of strategic plans that we have been building together with a specialized consultancy company. We hired an executive for Realize, which will allow us to give more focus in the digitization of this financial arm in logistics.

We increased our team to meet the omni demand and manage last mile. And that becomes more and more important, when as our online operations increase in Camicado, Youcom, Ashua and Realize. We also reinforced our teams and we will continue to accelerate digitization and having omni everywhere, but respecting each one or specialization of each one. And in the construction of the ecosystem, we will also increase our investments in marketing and digital media that will drive our online sales. But at the same time, they will allow us to integrate the different businesses of the ecosystem with data management, the better knowledge of the client and having more and more personalized campaigns.

With all that, we understand 2021 will be a year of higher expenses in relation to revenue. And this will not allow us to have the operating leverage and expansion of EBITDA margin that we saw in the last few years. But we believe that this is an extremely important point for us to maintain the core of our business and advancing digitization.

SG&A over net revenue should go back to the same level of '19. And we will invest 5% to 7% additional to build this ecosystem and continue all these structures that I mentioned. This point is very important because it has to do with the initiatives that are essential to guarantee our competitive within our business and to allow higher integration of retail with financial products. We know that we will have to live with lower levels of profitability and returns in 2021. But on the other hand, as of 2022, we will be recovering our margins gradually. And at the same time, we will have a higher free cash flow generation, as we advance in the two channels and the integration, by means of this ecosystem.

These are the most important remarks that I wanted to make. And I hope I have helped you regarding the perspective for 2021, and I believe, that may become a good takeover to start the questions. Thank you.

Questions And Answers

Operator

(Question And Answer)

A - Carla Sffair {BIO 20051296 <GO>}

Thank you, Paula. We already have a few questions here. And the first one has to do with e-commerce from BTG Pactual Banco. What about the expectations regarding the investment for the advancement of digital channels? And what about the life time value of the new consumers in the platform? I believe Fabio maybe could talk about that. And at the end Paula wants to make an additional remark in terms of performance then.

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you very much, Guanais. We have different scenarios in each one of the markets. The fashion market in 2021 has been -- we work in another area, which is interior design decoration. And in this other market, we were able to bring on board many new clients and the increase in our client base, and we implemented many improvements in Camicado. Camicado had a big improvement in the last 1.5 year. And we invested quite a lot in our team. And we are reaping the fruit. And we are increasing the client base with a lower acquisition cost.

When we look at the fashion market, we have been seen many new clients coming, but I would say that we have a higher pressure in fashion because of the acquisition cost. But our investments of 2021, mainly the end of 2021 and from '20 to '21, will bring about improvement in the last time -- value by means of relationship programs and the use of data and more individual or individualized offer based on data. And we already see a much better performance as well as content and benefit and relationship programs. So many of our investments in CapEx and OpEx they are channeled to the increase in productivity for all our brands. And this is one of the major improvements that we see from the coming years. And we are making a very good investment in order to get there. Paula, would you like to add something?

A - Paula Picinini {BIO 19739367 <GO>}

I believe that in the fourth quarter, we have already shown part of this model that has to do with the higher investment in marketing. And when we talk about the ecosystem and the new online growth and talking about online and offline at the same time, I believe that this is a new reality that we will have in 2021. We will continue to invest in that. As the base continues to consolidate and as the base increases the investments go down. So this is something that we did already in the fourth quarter.

A - Carla Sffair {BIO 20051296 <GO>}

Still about the same subject. Helena Villares from Ita BBA. She said that now that e-commerce already represents about 10% of sales and sales are more normal, how do we see the profitability of this channel? And I would like to mention the question from Joseph Giordano from JP Morgan because it has to do with this question. How can we differentiate the value proposal in the online world, and what are the main initiatives that we have in order to convert traditional clients into digital clients?

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Helena and Joseph, thank you very much for your questions. And I believe that the increase in online participation, of course, we were working towards that, and we believe it would happen. And it's one of the big accelerators. Because of the pandemic we accelerated from three to five years what was expected. And when the online channel will continue to grow and will continue to grow quite a lot in the next few years, then it has many opportunities in terms of profitability. First, because our operation is an omni operation. We have a lot of synergy in our operations, which brings about productivity gains.

A - Carla Sffair {BIO 20051296 <GO>}

Fabio got disconnected. So could you please stand by? Could you stand by, please? Okay. I think we are back. I think we are back now.

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

I would like to go back a little bit. I would say that our model is a more complete model. The omni model allows us to have a higher profitability in both channels because of the energy of these operations or the synergy between the operations. Can you hear me? So what happens is that we have a different metrix, cost metrix. And one of the examples is the ship from store. When you leave a participation from 10% to 12% in one single year, we scaled it quite quickly and we were able to be very successful. And we have most of the product being delivered in one or two days at a lower cost, but it could be even lower because -- and much lower because we started in a system that is still not mature, because we just started it this year. And it scaled very quickly

And one, we have a productivity gain and efficiency gain and in terms of new models as well. And we'll still reap the fruits from all that. And with all the synergy that we have among the channels and the use of the brick-and-mortar stores, that was very limited. And the store pickup, which is very important for us was very much affected because of the limitations that we had this year. I would say that the online will continue to grow, but we will be gaining more efficiency at the same time and our operating margins will be coming. I said this before and Paula as well. And it could be faster, but we understand that we have major investments that are necessary in OpEx and in CapEx to be made in 2021, which means this recovery will be more gradual. But it will be even stronger in the coming years.

And I believe that one of the big differences that we have is the omni experience because we are able to give a lead time much faster to our clients with the proximity of our stores and with the penetration that we have, the diversity of the products and the proximity that we have, the clients and the relationship that they have with our brand. If you only have physical stores, nobody has the same penetration that we have. And the projects that we were implementing in the past, some companies are just starting to do that. So we started first and we're already implementing new initiatives.

A - Carla Sffair {BIO 20051296 <GO>}

Thank you, Fabio. Richard Cathcart from Bradesco BBI. Alvaro, he said that you talked about the drop in gross margin because of lockdowns. And in the release, we also said that the situation was more balanced and with a better quality. So he would like to know about the effect of markdowns. And I would like to ask to Paula to answer about the promotional environment in the first quarter. And how do we see this for the remainder of the year? And with that we also entered part of another question that was asked by Joseph about the same Alvaro?

A - Alvaro Jorge Fontes de Azevedo {BIO 18094961 <GO>}

Richard, thank you very much for your question. The inventory was very well adjusted at the end of the year, so that in 2021, we can start with quality. And with the quantity that will cover the needs that we expect for the remainder of the year. What happened was that since the second quarter, we have been progressively adjusting our inventory position by means of markdowns and promotions. And with that, so much so that I mentioned the adjustment of the margin over each one of the quarters, we have been adjusting our inventory over time. So when we go to December and still with the effect of the promotions in December, we understand that we have been able to adjust our inventory in terms of quality and in terms of size. So this is the reason why I made that statement.

A - Paula Picinini {BIO 19739367 <GO>}

Talking about the promotional environment, what we see is that we are changing the collection now. It's only natural to see the market being more promotional than it was at the end of the year. But we understand this is just a transition. We -- the new collection is coming to the stores. It is being very well received, and I would like to remind you that we have some projects of last year and that we held the inventories. And we are going to be very competitive now, and we have good opportunities. And margin will be more focused on offenders affecting the market, in general, such as the exchange rate. And it's not because of a more promotional environment or lack of competitiveness. The gross margin for 2021 will be recovering to historical levels, maybe not exactly the same levels as 2019 because that was an outstanding year, and we did have the problem with the exchange rate or inflation, but a very healthy one that we expect for the year and also for the first quarter of the next.

A - Carla Sffair {BIO 20051296 <GO>}

Bob Ford from Bank of America Merrill Lynch. About credit. How do we see this part of the business for this beginning of the year and also for the remainder of the year normalization of consumer credit from now on? And what are we doing to guarantee the relevance and the engagement of our business to reach a higher competitiveness and with new entrants in the market? So Fabio, could you please talk from the strategic viewpoint about the financial part and then Paula, I think, could talk about the performance for the quarter and for the year.

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Bob, thank you very much for the question. From the credit viewpoint, we had a concern since the beginning, a concern with a higher delinquency. So we made the necessary provisions in order not to be hit by that. And regarding revenues, our revenues were affected in retail. And as a consequence, revenue from the financial products come from that. But I think it was rather smooth sailing regarding delinquency, regular delinquency, and it was even slightly better than what we expected. And also regarding revenues, we believe that the performance will be even higher than our initial estimates.

On the other hand, we have pressure on our margin and this tends to continue in the medium and the long run. This has already started to happen in the last few years and this will continue, but on the other hand, we have many opportunities, many new products and services that can drive the result of Realize, more than offsetting all that, but also driving the other businesses and the partners and our ecosystem.

So I would say that things are -- at the beginning of 2021, we believe for retail, we will be facing a situation even more challenging than 2020 but over the year, starting to improve. And from then on, I believe there will be a good opportunity for growth. Paula, would you like to take the floor?

A - Paula Picinini {BIO 19739367 <GO>}

Yes. An important point, when you think about financial products for 2029, is to remember that the same digitization and investment that we're doing in the retail operation also happens in Realize. So the major highlights is delinquency under control. We have a very good quality in our portfolio. So no concern about that. Recomposition of the portfolio happens naturally as people continue use the co-branded card and buy at the stores. However, the spread will be smaller because some interest rates were adjusted in the last few months and we do not believe they will go back to previous levels and all the expenses with the investment that we are making, the digitization of the business. Because of all that, we do not expect a very strong result or as strong as we saw in more normally years. But as Fabio said, and the highlight when you think about the operation itself is the launch of our digital account and the implementation of PIX in Realize, that should be finished in the first months of 2021. So, we had the process of digitization and also bringing a new attraction to Realize.

A - Carla Sffair {BIO 20051296 <GO>}

Very good. Irma Sgarz from Goldman Sachs. And one of the questions is about the Youcom result. She would like to understand the drivers. Did it have to do with different channels? Or what were the factors? So maybe Alvaro, you could talk about the performance -- or the recent performance of Youcom. And Fabio, if you wish to talk about the strategic side of Youcom afterwards.

A - Alvaro Jorge Fontes de Azevedo {BIO 18094961 <GO>}

Irma, thank you very much for your question. Yes, we have been doing quite a lot of work in Youcom in many different areas. We are starting a work of --commerce. And also, we are working in the optimization of processes, the internal processes of Youcom in order to make it more efficient and, therefore, more profitable. So there is a whole process of optimization and making the business more efficient. This is a process that started at the beginning of 2020, and we are starting to reap the fruit of that and improving the profitability of the business itself in a more effective fashion.

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

I would say, well Alvaro explained perfectly. And I think it has to do with the short run. Alvaro talked about the initiatives that we have put in place in a more general fashion. And the short run, we see a higher return of younger population to shopping malls and this helps Youcom as well.

A - Carla Sffair {BIO 20051296 <GO>}

Maria Lauermann from harding Loevner. And I will try to combine these questions with others that are coming from other analysts. It has to do with the pandemic and the impact of the pandemic on our future projections. And what about the combination of the online efforts allowing for a higher market participation than we imagined before? And along the same lines, I have Vergueiro from XP. What would be a penetration -- a more sustainable penetration of digital from now on considering a gradual recovery in the physical stores? Fabio.

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

We have been talking about online and all the digital channels, and the trend is an upward trend increasing the participation first generated by the closure of the physical stores and the fact that people could not go to a store and be there physically. And this was the only option that people had, so they had to buy online. So this was a big driver. But this is not going to die, because when you have the stores open again and after the coronavirus vaccine people, but this is not going to die because people experimented with online and they liked it. And they like the benefit, the functionalities, and the services that are offered. And that it is just not necessary to lose one to the -- or have one to the detriment of the other. You can have both. And I believe that this is what will continue. Even with a return of people to stores and stores being open, I think digital operations, online operations will continue to grow because there is a lot of convenience in this integration between online and off-line. So people are not going to abandon that Quite the opposite with the reopening of the stores in all cities, let's say, 100% in Brazil the increase in the online participation will continue. It does make a lot sense. People use it. And of course, if people use it, it increases participation. At what level it will -- where it will stabilize? It's very difficult to say, because there could be a very slight reduction when you have all the stores open going back to normal, but we believe that the curve is an upward curve. And whether it's going to be 20, 25, I don't know, but it will be higher than we have today.

And in home and decoration, it already is. And in more durable goods, it already is in terms of participation overall sales. And in fashion it will be higher than it is today. I'm not saying that it's going to be twice what we have today, but it's going to be higher. Then we are investing in that because it makes sense to our clients, which means that it makes sense to us.

A - Carla Sffair {BIO 20051296 <GO>}

Expansion of physical stores. HSBC, Felipe, and Maria had asked another question along the same lines. Due to a tough scenario that we see still at the beginning of the year, and that will continue until full vaccination of the population, how are we thinking about store expansion? And when will it go back to normal? Maybe Paula could talk about that.

A - Paula Picinini {BIO 19739367 <GO>}

About the expansion plan, with the amount that we mentioned, we have almost BRL200 million, BRL300 million between remodeling and the opening of stores and the plan is to continue to open stores at a pace very similar to what we have been doing, differently from other markets in Brazil. The fashion market is very fragmented. So we have the opportunity to continue to grow our chain. At the same time e-commerce also continues to accelerate at a different pace. And the idea is to have from 20 to 30 stores of Renner, 5 to 10 Camicado, 5 to 10 Youcom and maybe 5 Ashua being opened by the end of the year. Of course, depending on some situations. This could be the top of the range or the lower part of the range. But we see a good perspective. The environment is favorable.

We have all the right conditions to make the investment and recover what we have postponed in '20 and accelerating in 2021. So our target of 520 for Renner is feasible even with a very big growth of e-commerce, such as Fabio said.

A - Carla Sffair {BIO 20051296 <GO>}

Paulo, could you please talk about the questions that I have put together here. These are questions related to the OpEx levels that we have for this year, Paula. Could you clarify the 5 to 7 additional OpEx that we have over the core? Gustavo Oliveira from UBS. And also from Richard from Bradesco BBI. He wants to better understand that 5% to 7% over the core expense, that is to say, similar to '19. Or is it over the revenue? So could you please clarify?

And I would like to link this to a question asked by Tobias from Citibank. Which are the initiatives related to this additional OpEx? We already talked about the structuring projects before the pandemic. And do we have this on our map? Of course, the pandemic accelerated everything, but I would like to know if something has changed or are you bringing forward these expenditures? And this would be the reason why you have this additional OpEx, and maybe Paula could talk about the qualitative part of the strategy of that.

A - Paula Picinini {BIO 19739367 <GO>}

Yes, of course. And then I will ask Fabio to give you a broader view. I think this is very important. When we think about the SG&A of the whole operation and such as it exist in 2019. We believe that the percentage of SG&A over the net revenue should be at the same level that we have in '19. And on this base we should have additional expenses represented you from 5% to 7%, and that will be very much focused on new projects and the structures that we created. And they are permanent, but they are not comparable to what we had in 2019 or even the beginning of '20. So we did a very important job in terms of building the structure and now giving speed and traction.

When you talk about the single-view of the client, we are talking about organizing all that. The databases, and now we have a structure to read the information and to use the information for the benefit of the ecosystem. So maybe Fabio could give some additional details, but it's important to understand that we created new structures. We are using more specialized teams. We are reinforcing our teams. All this in order to do things better, better than we have always done and building the ecosystem to give more value to the ecosystem and also Realize as our credit driver. Fabio?

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Paula, I think that you said it all. I was in doubt whether you were asking about 5% over revenue. No, it's over expenses. This is one estimate. This is the increase in expenses over the expenses that we would have normally. It has to do with the building of our future and the building of our ecosystem. It has to do with new growth drivers and productivity gains, expenses that will be diluted through our sales. We have efficiency gains. But first when we look at 2021 with some initiatives that generate some results in 2021 some of the initiatives that Paula mentioned, we will be having results already in '21. However, they will continue. And in 2021 we are starting some of these initiatives.

So you have an initial push so to say. And in a year when we have the first quarter and the second quarter, maybe that will be more challenging. But these are expenses that in our opinion are necessary so that we may have other driver's higher growth and, certainly, they will be diluted afterwards.

A - Carla Sffair {BIO 20051296 <GO>}

Tobias asks about two questions -- two points. I think, Fabio, you should answer it. We start to make investments in new businesses. This is in the release. So what is our frame of mind about that? And about market share and the closing of stores and the competitive scenario, could you give us some color on that?

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Carlo. Thank you, Tobias. About our business, as we said, we have a new area for new businesses and strategy. This is a new team focused on the development of partnerships and the alignment of strategies among and between the different brands in our system and also possibilities of investments or maybe M&A that we might deem necessary and if this does make sense as far as our clients are concerned. So this is a team that is focused on that in new growth structures, and we believe that we have new opportunities in our bowl or and also it is our obligation to take advantage of all the opportunities to the benefit of our company and our stakeholders and our clients.

And the second part I think was about market, right, Carla.

A - Carla Sffair {BIO 20051296 <GO>}

Yes. Gain of share and closures on the part of competitors.

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Well, we have the market indices. And in all the indices that we see that we continue to gain market share based on all the indices available. Of course, maybe one or other competitor can be gaining share as well and doing a good job. But in the total market we are gaining market share. And when we look at the size of the competitors, what we see is a bigger fragility in some of the smaller stores.

And the closing and the opening of stores continues. Many stores are being closed, but some others are being opened and we see generation of new businesses. Net-net there are more stores being closed than opened. So by itself this brings to us a bigger market share. But even the competitors that are open, they -- I believe that we have the capacity from the operating -- on the operating side and the financial side, and also with more updated collections and our speed and the adaptation of our product, all that allows us to gain share of -- and we're bringing this market gain, where we are gaining share in the market.

A - Carla Sffair {BIO 20051296 <GO>}

Expenses, Alvaro could you please answer? Andrew Ruben from Morgan Stanley. He says that over '20 we had some savings regarding labor and rental, G&A. How much of that is structural? Do you believe that some of these gains will remain and offset a little bit the expenses with digital? And maybe you could add something about your expectation for 2021 regarding this.

A - Alvaro Jorge Fontes de Azevedo {BIO 18094961 <GO>}

Thank you, Andrew for the question. Opportunities and expenses in 2020, okay, many of them were associated to specific things. Be it because of labor, be it because of occupancy negotiations, specific negotiations with some entrepreneurs. And this was very much associated to the pandemic. And as we go back to normal the situation goes back to normal. What we see is that these benefits start to gradually come to an end. Salaries, for instance, this is a theme that has already happened and the same regarding our rent. With the return of traffic to the shopping centers, to the stores, the benefits obtained are no longer achieved or at least at the same level.

So this has to do with individual negotiations with each entrepreneur. So you can see that this is not going to remain at the same proportion. And in the fourth quarter, you can already see the return of these expenses to a higher level and more comparable with periods before the crisis. However, other items can be maintained more regularly. Maybe it will no longer be necessary to have so many travel expenses because of the pandemic because video conferencing has been proven as a very good team -- a very good tool for communication and other locomotion benefits will be incorporated. But this will be at a lower scale for the size vis-a-vis the benefits.

And of course, the whole process of investment that we make today in terms of technological leverage there are investments associated to an improvement in our operating efficiency. So as these investments are delivered, in general, the operating cost should be improved. And of course, this will help offset what could be generated by these additional investments. And that will happen over time. Now, specifically about the pandemic, this should be lower.

A - Carla Sffair {BIO 20051296 <GO>}

I have a question about the performance of Camicado and what are the reasons for this performance and the demand for interior design, interior decoration and home items. May be Fabio could answer. And what is your expectation for 2021 for this business? Maybe Alvaro talk about that.

A - Alvaro Jorge Fontes de Azevedo {BIO 18094961 <GO>}

Thank you for the question. Camicado has a very positive outlook. And the performance of this business has been showing to be good, but on the other hand, this is a business that also has or suffers some impact of the exchange rate because we have imported items and also because of the inflation linked to the production and the production costs. So there is a major endeavor in terms of managing Camicado and the business of Camicado in general in order to increase the efficiency of Camicado and in terms of the distribution of the product and also regarding price mix and margin, all these things together in order to make Camicado profitable. And we are also advancing a lot in terms of marketplace in this business, looking for new sellers so that we may onboard them on this platform, increasing the array of products to be offered and also who increasing profitability in the business with a more digital participation in the context and making the business more profitable not only now in 2020, but also thinking about the next year.

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

I think Alvaro has already touched upon the important point. And at Camicado, we have achieved very good improvement both in the management and the commercial side of the operation. And now in 2020 -- or in 2020, we had results. And looking ahead, marketplace should continue to make strides. And there is a very big opportunity in the online for this kind of product and we will continue to expand the physical stores combined with online, combined with the marketplace increasing the offer for our clients in our ecosystem of lifestyle and fashion, offering everything that the client needs for the home.

And Camicado is no different from the other businesses. The investments are bigger. And digitization, omni offer for the next year. We will be doing the same as we're doing in Youcom and Renner, the use of artificial intelligence for the distribution of products. And we are starting to pilot that at Camicado as well. And the opportunities that are favorable for this business in '21 and thinking more in the medium and the long run, there will be an impact of course such as we expect for Renner.

A - Carla Sffair {BIO 20051296 <GO>}

Eleven Financial Eric Huang is the person that asked the question. And there is another thing that we have not talked about, which is the supply chain. And what about health and supply international chain? So Fabio, could you please talk about that? A question by Joseph Giordano.

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Well, of course the chain suffered such as was the case of everybody else because of the pandemic both internationally and domestically and our chain more specifically suffered less than other partners. And for reasons that we have already referred to we worked in partnership with them and the adaptation production and product development and orders being placed according to demand. We generated a higher efficiency on our inventories for us and for them, triangulating financing or by means of incentives or with anchor companies, serving the clients of our client.

In the segment some suffered more than others, but considering this segment, we achieved a very good competitive advantage vis-?-vis some competitors. But when we look at the exchange rate pressure and also part of the input, we believe that there will continue to be a pressure on gross margin. We could go back to more historical levels of gross margin faster. But I believe that part of this pressure be it -- because of imports or so because of the exchange rate, this will have to be more gradual.

A - Carla Sffair {BIO 20051296 <GO>}

In order do not to exceed our time any further, we have already answered many questions. And those who have not been answered could you please send them to our investor relations area. But I believe that overall, we have been able to answer most of the questions. And one last point comes from Oliveira Leland, I hope I have pronounced it correctly. He would like to know about our CapEx for 2021 and what -- how does it relate to the free cash flow in the long run. So maybe Paula could start and Fabio if you have something to add.

A - Paula Picinini {BIO 19739367 <GO>}

Well in the CapEx that we have mentioned and the proposal for a capital increase of BRL1.1 billion as I said before, BRL300 million for the stores and for the expansion and remodeling and BRL300 million and some for Logistics and BRL300 million and some for IT and systems. And when we talk about logistics and systems and IT, we have this whole ecosystem and omni-channel. We have the building of our new DC. This is a DC that is totally automated. It's much bigger than the ones that we have. And maybe Fabio would like to add. And it's going to serve our omni offer and will give us a faster speed and productivity.

And we have many investments that I was telling you about based on the data team and the use of data, everything that we referred to before, we have a higher investment than historically and it comes to a higher level than the one that we had about 6% to 7% of our revenues. However, it's very important because this is the one that will guarantee the future free cash flow generation and increasing as we create a higher sales volume and all the ecosystem and the projects and all these initiatives mature. So it's only natural. It's the generation of free cash flow.

A - Carla Sffair {BIO 20051296 <GO>}

Could you stand by because Paula has been disconnected? Please stand by until Paula gets reconnected. Paula? Paula, you may continue. We are having an oscillation in their network.

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Paula, you're back. You were close to the end of your answer.

A - Paula Picinini {BIO 19739367 <GO>}

We apologize for the internet problem. But basically, what is important is the fact that this is a period of higher investment. They are relevant, but they're going to guarantee our competitiveness for the future. And it is very clear to us that the higher free cash flow generation will bring about the maturing of the projects and the initiatives that we have in place. So our expenses are higher as a proportion of the net revenue. But as of 2022, it will go back to around 6% of our revenue or something like that. So this is rather consistent with our investment plan and our perspective for Q2 free cash flow generation.

A - Alvaro Jorge Fontes de Azevedo {BIO 18094961 <GO>}

I would like to add something. And from '22 onwards, we already have an expectation of future cash flow with a higher efficiency and with a CapEx more adjusted and positive free cash flow.

A - Carla Sffair {BIO 20051296 <GO>}

Thank you very much. Now I would like to give the floor to Fabio for his closing remarks.

A - Fabio Adegas Faccio {BIO 19664887 <GO>}

Okay. So we understand that the beginning of this year has been quite challenging and it continues to be challenging. However, we believe that the future outlook is very promising. And today we have a company that is better structured with more tools and with a lot of opportunities for investment. So we continue to believe in our future, in the expansion of our business. And continue to believe in the improvement of our company, gaining market share and tapping into opportunities. And even with the improvement of the market itself in the future, we continue to invest to improve the operating efficiency of our business.

And I would like to thank you all for being with us. And at the same time I would like to invite you to participate in our Shareholders' Meeting on April 15. As you all know, our company has is a cooperation and with many investors, so it's essential for us to have your presence and for those of you who cannot come, of course you can have a distance ballot, a distance vote. And it's very important to have you all participating in our Shareholders' Meeting on April 15. Thank you very much for being with us today. And as Carla said, we may answer your questions through our phone. Thank you.

A - Carla Sffair {BIO 20051296 <GO>}

Thank you.