

Q1 2020 Earnings Call

Company Participants

- Fabio Adegas Faccio, Chief Executive Officer & Interim Chief Information Officer
- Laurence Beltrao Gomes, Chief Financial Officer & Investor Relations Officer
- Paula Picinini, Investor Relations and Business Director

Presentation

Paula Picinini {BIO 19739367 <GO>}

Good afternoon. We would like to start processing the webcast. But before we start talking here with Fabio and Laurence, I would like to make a disclaimer. This webcast is being recorded and simultaneously translated and the slides are available at our Investor Relations website on the webcast platform and also on the MZiQ platform. (Operator Instructions) Questions from journalists will be addressed to our press office and the phone number is by 5511-3165-9586.

Before proceeding, we would like to clarify that forward-looking statements that might be made during this call in relation to the company's business outlook, operating financial projections and targets, our beliefs and assumptions of our company's management as well as information currently available to the company.

Forward-looking statements are not a guarantee of performance. They got risks, uncertainties and assumptions. They refer to future events, and therefore, they depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future results and lead to results that differ materially from those expressed in such forward-looking statements.

Now we would like to start our webcast and I will give the floor to Fabio, our CEO; and Laurence, our CFO. Fabio?

Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Paula. Good afternoon. First I would like to thank you very much for your interest, the interest of all of you who are participating in our conference. With us we have Laurence Gomes, Paula Picinini. Paula has already addressed you. And as we are doing a lot of video conferences today, we chose to transform our teleconference into a video event. Therefore, Paula, our Investor Relations Officers, will be moderating the questions that we will be receiving by chat, and we will find out whether she's going to be a very good TV anchor or a TV broadcaster, so you can evaluate her in your overall evaluation of the call. But we are going to test as we model if it will be easier for us to interact with you this way.

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But before giving the floor to Laurence, I would like to talk about the last few months and how we are preparing ourselves for the next few quarters.

As we described in our initial message in the release and also we summarized on Slide #2 and #3, ever since the beginning of the crisis, we defined our purpose of action based on four pillars and we divided our operating actions into four phases as well. We took many measures for the protection and the safety of our teams, our clients, our partners, decided to maintain the jobs and preservation of the financial health of our company and also the good operation of our business, at the same time, as we support hospitals and communities that are more vulnerable.

Over these -- over 60 days, we looked as we show on Slide #3, four very important phases. Since the beginning of the deepening of the crisis, we defined the four pillars and the four phases and we have been using them as our guidelines. The first month happened at the end of March, beginning of April, and it had to do with the safety of all, totally focused on safety. And the second adding to the actions of the first one we call the safety of everybody goes from the beginning to the end. That is to say, for me, it's all the places. So adding to the first one and focus on the organization of business and the return of the online level in the first phase, it was safety. And then the second one, re-planning for the new normal of the physical operations, and then going back to one or returning to normal levels. So this happened over April.

And the third phase started on April 24, when we started to gradually open stores very carefully. And only some of our brick-and-mortar stores. And at the same time we -- each has creating our sales and digital channels and also the acquisition of new clients. And the fourth phase is the moment with the reopening Paula Picinni.

Paula Picinini {BIO 19739367 <GO>}

Well, there are so many messages coming in. I thought maybe you could stop, I believe that some people are watching and some are not.

Fabio Adegas Faccio {BIO 19664887 <GO>}

Okay. I apologize. We had a technical problem and they are informed me that there was some problem with the broadcast. It seems that I think I will have to start from the beginning again, because I believe that maybe most of you have not been able to hear. So there was a technical problem.

So once again, good afternoon, everybody. First of all, I would like to thank you very much for the interest of all of you who are with us. Laurence and Paula are with us today. And I'm going to summarize a little bit. We chose to have this new format, the video format, because we are doing quite a lot of video conferences because of the current situation and we believe that this is a better tool. So Paula will be moderating the questions that we are receiving by chat. And we are -- Paulo, beside me, IR, she is our anchor today. And before giving the floor to Laurence, I would like to say a few words about the last few months and last few days.

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And as we said in our release and as we summarized on Slides #2, #3 of the presentation, since the beginning of the deepening of the current crisis, we defined our objective and point of action based on four pillars and we also divided since the beginning these pillars into four phases. We took many measures for the protection and the safety of our teams, our clients, our partners besides maintaining the jobs in the company and the preservation of the financial health and the good operation of our business.

And at the same time, we are supporting hospitals and communities which are vulnerable. And over all these days over 60 days, as you can see on Slide 3, we have four important phases. The first one at the end of March and beginning of April focused on the safety of all. The second, having actions of reorganization of the businesses and going back to the previous levels of the online operations. And the third, gradually operating in a careful manner some of our brick-and-mortar stores, and at the same time, driving significantly our online sale. The first one was at the beginning of March until April 7 more or less in the safety mode. The second goes from April 8 to 24. We were planning in the new normal of our physical operations, and at the same time accelerating online going to a normal level because we had reduced it first. And the third as of April 24 with the gradual reopening in safety mode there the gradual opening and safe one and with many new points only opening where we have the very high degree of safety and then accelerating our online sales as well. And the acquisition of new clients, which is at a very good level.

And the fourth is when we see a total reopening of our stores depending on the situation and where we will be coming back to our total strength and exploring our omni model. Although difficult -- these days have been very difficult, we have to prepare ourselves to have new standards, new behaviors at the new normal, and that is different impact because we must not try to repeat what we did before. We had to adapt all of operations and all our products and services to this moment and continue to gain market share. This doesn't change. And for this reason, in spite of all CapEx reductions, we did not wait -- continue to invest in digitalization our strategy that were very well defined and that we had confidence in they remain but they are being further accelerated. We are accelerating all the initiatives in this sense.

And the challenges of this current moment have already generated many opportunities for us to accelerate solutions that will facilitate the omni experience to our clients more. And more and as you can see on Slide #4 and by means of our ecosystem, that activated partnerships and our teams and we exchange experiences and we brought forward many initiatives that will bring benefit to our businesses besides having maintained our plans and RFID and DC plans as scheduled that will be speeded up for our omni offer.

Among these initiatives, I would like to highlight a shift from store, which we started in March and Renner as a test, and gradually gained more and more relevance. And it should be rolled out around the end of this year, and it is based on artificial intelligence the system identify the location of the consumer and resorts to the inventories of nearby stores in order to reduce the delivery times. And we are already operating with inventory of over 50 stores of the Renner brand over 30 in the new conference and starting with the Camicado stores in the main cities of the country. And our expectation is in the next two to three weeks, we roll this out to over 180 million Renner stores and also extending this to Youcom and all the others.

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Besides we have other events such as the my shopping bag project that was launched at the beginning of May, and it is in place at the beginning of May. And any person, whatsoever, you for instance, any person, whatsoever, may enroll in the marketing platform where you may advertise by means of links in your own social networks, and you are remunerated for your sales. And this was a project that we had planned for the end of 2021. But in one week, we developed it and we put in place since the beginning of May and other initiatives that I would like to highlight. For instance, the WhatsApp sale and the drive through service. And sales by WhatsApp was scheduled for 2021, and we started to test it in April with the inventory of one store in Porto Alegre, and it's already been rolled out. So we have already increased the number of stores in Porto Alegre using a bigger inventory and higher availability for our clients. And we have started to roll out for Sao Paulo and we'll announce for the next few days. And after March, rolling this out for other locations. And this modality was developed in little more than one week and it is focused on consumers that feel more comfortable when they talk with a person when they choose the product. So it is a hybrid of digital presence. So many, many clients love that, and deliveries are usually made on the first day and in few hour, depending on the time. It could be postponed to the next day, but usually the same day. And almost 30% of the clients are getting contact at the store have sent their purchases with -- tickets that were higher than the other digital channels.

And to give even more ability of safety to our clients during the social distancing era, we offer the drive through model as well in order to pick up their purchases made on the internet and the news is already available in over 120 Renner stores and they come and they take it and already present in over 2 -- in 21 states and federal district. And they plan buy on e-commerce and they choose the unit where they want to pick up, and they can even establish a schedule. And it was already 100% of our stores.

And now, in some locations, we can also decide the store pickup have been brought to modality and the recent improvement improved -- include new functionalities on the website or app, such as specific menu we project in our pieces like lounge wear, entitled social isolation and the improvement of our virtual dressing move to guarantee a higher precision in the measurement of the pieces that our clients to use. And we see that the conversion rate is higher than a private do not use the system and besides as the restrictions to movement of people are reduced, we plan to increase the network of lockers in public places. We already have 41 units contracted and intends to get to 600 by the end of the year all over the country. And besides Renner, Camicado, Youcom, Ashua, we also have our financial institution, Realize, very well digitalized already. And we brought forward improvement that made it possible to have improvements in the payment of payment groups and invoices and the activation of partner networks as well as last week.

And lastly, before I give the floor to Laurence, on Slide #5, we stress that our main initiatives of digitalization had their roadmap even maintained or very much accelerated. And in this context, we continue to improve the clients experience, be more certain with more personalized and efficient communication. And we also maintained our plans to increase the description of items by means of artificial, intelligence, and we continue with all the initiatives of the second phase in the implementation of RFID. We have already implemented it at stores. And we have a second phase of tools that we can use by means

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of this technology and an important step for the omni integration and this allows us to use the inventories of the stores for online sale with a very high degree of security and using our inventories more broadly. And also our clients can buy and they can pay in a more streamlined system without any lines in -- and also with the removal -- digital removal of alarms. And in order for everything to happen, we continue to invest in the restructuring of our technology and data team that are scattered throughout the different business areas.

Regarding the initiatives, we continue to reinforce our technology and data resources and we accelerated the strategic definitions for the renewal of our private portfolio and a higher offer of solutions that may impact positively the lives of our clients. And in the context of fashion that is more and more responsible, we will be maintaining our plans in order to provide with our commitment with sustainability for 2021 with initiatives for the efficient, eco-efficient management of operations, responsible suppliers, sustainable products and services and engagement of our stakeholders about the thing. You may be sure that we are very well prepared to go through this period and continue to be a company that more and more tries to exceed the expectations of all the stakeholders and our realizations.

Now, I would like to give the floor to Laurence, who will be talking about the results that you had access to yesterday.

Laurence Beltrao Gomes {BIO 15361799 <GO>}

Thank you, Fabio, good afternoon everybody. And now I would like to talk about our performance in the first quarter of 2021. The quarter started in a very positive fashion with growing sales, very good inventories. And we -- the fall/winter collection was very good. However, the aggravation of COVID-19 and the temporary closing of our stores ultimately impacted our performance in an important fashion. I would say. And between January and the beginning of March, we had a good evolution, but the effect of the pandemic at the end of the quarter ended up impacting our sales that dropped by 6.1% in net revenue and same-store sales reached minus 10.7%.

Regarding the gross margin, it was 55.4% in the first quarter of '20, and with stability and this reflects the good commercial management also the good quality of our inventories. In relation to our operating expenses, the total was BRL 662.7 million in the first quarter of '20 due to the relevant fixed expense structure, and this is structural, that is to say in retail. So it was not possible for us to have dilution or have a quicker adjustment of these expenses to what will be coming in the second quarter. So SG&A over net revenue went from 36.9% to 42.7%. This way, the retail EBITDA in the first quarter '20 had a reduction of 58.7%, and the margin -- EBITDA -- retail EBITDA margin was 5.8% vis--vis 13.2% in the same quarter last year. In financial product in Realize, due to the adverse scenario, we had a major reduction in the results of the quarter, mainly because of provisions made for NPL BRL 21 million impacted by this higher level of provisions that we made in March. And this level of provision is based on the expected loss model, statistical model, way to define the volume of provisions adopted, considering the performance financial conditions, and inflow of receipts and prospective information for the next 12 months. So given this scenario and also given the potential impact that we estimated in the main economic

variables such as employment level and income level, this position reflects our best estimate regarding losses up to the moment when we may have a more clear view of the future.

Because of all that and as a result of all that there was an increase in the total coverage ratios over the portfolio from 12% to 17%. And that the total adjusted EBITDA was lower by 65% reaching aBRL 110.9 million in the first quarter of 2020. And the margin -- the total EBITDA margin was 7.2%, vis-a-vis 19.2% in the third quarter of '19.

And lastly, I'd like to say a few words about our net income, which was BRL 10.4 million in the first quarter of this year, impacted besides the provisions that I referred to, provisions for losses that affected the financial results also expenses with depreciation, referring to investments in expansion.

And it is important to say that over this period of -- the 60-day period, we had to make a major endeavor in terms of adapting our operations and adjusting expenses and investments, reinforcing our cash position as well at approximately BRL 2 billion, increasing our liquidity which gives us the necessary comfort and the certainty that we will be overcoming this crisis in a healthy and consistent manner.

So these were the remarks that we wanted to make and now we are available to answer your questions.

Questions And Answers

A - Paula Picinini {BIO 19739367 <GO>}

(Question And Answer)

Laurence, we have 700 participants and you already have quite a lot of questions here. It's a record I think this is a record. I think it has to do with the moment and everybody is very much interested to know more about the company but then I can read to you that twice, and I think Laurence could answer. In relation to the coverage ratio for the portfolio in the third quarter, is this the new normal for the year? Or could we expect an acceleration?

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

We we've made our projection when there was a lot of uncertainty. So the expected loss model is a statistical model and we aggravated all the levels for the next 12 months and we had a very conservative attitude in this regard because we want to be able to prepare ourselves and it is our characteristic to be very conservative, we have always been very conservative in our consumer finance activities. And what happens is that there could be a higher coverage ratio because of the low renewal of the portfolio due to lower sales.

And so due to the number of stores that we will be able to reopen and this will probably cause an aging of the portfolio for some time and this could require some higher coverage level, but we believe that -- I believe that the intensity will be lower. And as I said

before, we have considered even a more serious situation in all the items and if we have a more benign scenario than the projection that we made, so it is possible that we might have around the end of the year a reversal of position.

But it is too early to say anything about that, and we are tracking this on a daily basis. And also we have carried out many actions in our accounts receivable and we have debottlenecked many channels. We created new channels for that, even outside Renner and it was very important because, almost 60% of account receivables are carried out at the stores, and today, we have about 18%, 19% lower and because of that, we had a major participation and penetration of digital panel in our payment system. And we continue with this focus, we continue with this action, not only in terms of debottlenecking channels, but also creating new channels to receive our content inviting and teaching our clients to use the channels in order to improve the flow. So this is our view right now.

A - Paula Picinini {BIO 19739367 <GO>}

Very good. Thank you very much. So we'll go next. Regarding your gross margin, do you believe that the trend in the second quarter will be to see more markdowns? And what about the standard of consumers in the online channels?

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

It's great to see you, Paula, as a TV anchor, but we really miss the voice of our clients and our analysts, et cetera, and so we -- maybe we could think about seeing our participants next time. We had a very lean inventory when the prices hit, and it was a very new inventory. So we had the best possible position, in volume, in quantity, and this is something very important for this moment.

Well, it's very important for retailer at any point in time, but especially for this moment. So we were selling very well in January and February until around March 12. From March 12 on the scenario changed dramatically. And between -- up to the 18th of March, we had to close our stores such as many of retailers did even before the decree was enacted and for safety reasons and maybe for this quarter, the sales were low because we were closed for more days than many of the retailers because we did this in a preemptive fashion. But on the other hand, we became better prepared. We had a phase 1, 2, 3 and 4 and we became better prepared as we decelerated online on Page 1 in March.

So sales online went down a little bit. But as of April and maybe now in May, we have the gradual recovery of the stores or reopening of the stores. And we're in the states that have more units open. These are the South and the Midwest states where we have a bigger market share. So at this moment, we decided to be more careful at the beginning for safety reasons and even giving 1 step back in order to give 5 steps ahead or forward.

And you can see the figure that we stated because more days than the others, but what we saw was a very good acceleration in the stores that have reopened with all the safety measures in place and better than that we have been seeing in some other countries and also a bigger slice of the market share. This is exactly where we have more stores. So the

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Southeast is an extremely important market for us as well as for other place. But among all place, we have a more relevant participation in the South and in the Midwest.

So you asked me about margins. So going back we had a very lean inventory when the crisis hit and we are accelerating faster than our initiatives in terms of our online operations much higher than our original plan and our original estimates. And in the stores that have already reopened, we are performing better than expected, and it was a very lean inventory.

So if you add all these things you can see that, we have a good condition for margin. Nevertheless, what happened is that we see a very aggressive market. We see other players or competitors that have very high inventories or not so good cash position, which is only natural in this circumstances, and this makes the environment more aggressive. And this hits our margins a little bit more than we would have in a normal situation.

So we should see a slight drop in margin although we're very well prepared in terms of inventory since the zero moment.

A - Paula Picinini {BIO 19739367 <GO>}

Thank you very much, Fabio. Both for Bank of America 4 questions. One has already been answered about provision. This was Laurence's first answer. But as BRL1.4 billion tax asset, what is the expectation for changes in this amount? And what is the period for the monetization of this credit? For Laurence and Fabio. More information about Mother's Day, about e-commerce after this date, about Mother's Day. And the other one is to Laurence, how we should think about the current rate of cash burn considering the efforts that we made to reduce expenses and to pre salary. So these are the first -- the third -- 3 questions.

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

Fabio, I think I can start about the exclusion of the fiscal fees from the SEMS-based calculation. It was BRL1,357 billion part of this amount. It's made up of monetary restatement and our expectation is to -- well, of course, we have all the procedures, and we have the ratification by Brazilian IRS, as we said, but we believe we will be able to post this in the second quarter 2020 and this does derail this restatement based on the (inaudible) interest rates, our expectation is that they will be using this by the end of 2021 or maybe even the beginning of 2021 or '22, I'm sorry. We may finalize the settlement, meaning with the taxes from our sales in December of the fourth quarter. This is what we expect.

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

Bob, thank you for the question, and you're asking about Mother's Day and beyond. In March at the beginning or at the end of March, beginning of the more aggressive plan regarding central isolation, we saw a more relevant drop because of the closing of all stores and also deceleration of the online operations and because we have to implement many security metrics. And at the beginning of the crisis, we lowered our investments in marketing performance, et cetera, only to meet the needs of our consumers and what

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they wanted. And on purpose, we did not sell. We could have sold more but we wanted to give many steps ahead, many steps forward, so preparing our operation in a different fashion with all the security measures. They've well prepared so that then we could drive on in digital, and this is what we started to do as of April 8 on this.

So over April, we have been increasing the sales in digital and increasing our client portfolio and taking our advantage in these lines because we were able to operate with a very high security for -- and safety for our teams. And in May, the growth was very relevant. And some of these initiatives had already been implemented and they have been growing consistently.

And this is very interesting because our sales, our digital sales are growing depending on the days and the weeks. In many cases we have 3 digits or high 2 digits and even 3 digit growth. And so that we have been opening stores and they have been increasing sales in the brick-and-mortar stores and digital also increasing at the same time. So very good sales in the digital channels and much higher than any expectations that we had.

But of course, we brought forward many initiatives that were supposed to be put in place in months ahead, and so we had not even considered them, and this was an extra job done by our team. Our team is very engaged and they were able to deliver with record time and record budget. And as far as Mother's Day is concerned, we -- well, we don't have a relevant number of stores open. Maybe Laurence or Paula can help me there.

But we have about 20%, 21% of our stores adding all our brands and for Mother's Day specifically. I think it was 13% or 13% to 15%. And gradually, we are increasing sales since April 8 on. So growing since the beginning of April, but in a more relevant fashion after this date. And of course you don't recover most of what you have. We have -- we still have 79%, 80% of the brick-and-mortar stores closed if you consider all stores of all brands. But certainly, it was better than the beginning of May, March and April. And Mother's Day, yes, there was a very high demand for products, and we are rushing because there are many items that we are rushing to have higher availability of, and the use of the stores' inventory has been increasing our availability of products.

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

Thank you, Bob for the question. And I would like to take the opportunity to talk about the adjustments that we ended up implementing end-to-end in the company in all segments of the company. And the adoption of provisional measure 936 brought an important measure, with the suspension of contract and the reduction in opening hours and salaries and a major negotiation regarding rents, which is an important line in our expense structure and an overall review of the company or revisiting, so to say, if our structure, and this also caused a reduction in our investment plan.

But we preserved and we gave priority to the main project, the structuring project that were already very much in line with all these challenges that we are facing today. So the structuring projects and the current scenario, all this makes us even more sure of the right direction of our structuring project. So going back to your question in a current scenario

of low sales, in the scenario of stores with a very low number of stores open, our cash burn is BRL115 million per month.

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

Just to add, we talked a lot about margin in April and sales scenarios. But under this aspect, most of the initiatives of expense reduction that Laurence mentioned, many of them were adopted in March and they had repercussion in April and May and Laurence mentioned many of them. But the impact, the bigger impact, was in April and May.

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

Yes, Fabio, thank you very much for adding this, too. And MP 936 was adopted in mid-April, for instance, and we ended up adopting it. So this -- we will have more visibility and more impact in the expense -- on the expenses of the second quarter.

A - Paula Picinini {BIO 19739367 <GO>}

Gustavo Oliveira, 5 questions, 2 about the investments already made in e-commerce, what we have already accelerated. So, these have been entered about gross margin and inventories as well. So Gustavo now would like to know, the following. Now that we have some stores open and e-commerce back to normal, what is the percentage of sales over what we have estimated? they're about at 40%, 50% of what had been budgeted, very much in line with the market information that we have about this.

And another question, I think this is to Laurence. It is about the Renner Card maturities. Have they been normalized? And lastly, you made many investments in social responsibility. And are they helping you in your supply chain and now more specifically about the supplier network?

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

Well quite a lot of questions. I will try to answer the question about sales. And then Laurence can add and then the last one, I think both of us could talk about the social actions and the support to suppliers. Said before, I think these are many questions. (Technical Difficulty) Digital channels. And at first, we had to reformulate all our scripts and our social networks and call centers and checkbook. There was a very big evolution in WhatsApp that grew quite a lot and this was very efficient. And we carried out many actions, opening channels outside Renner with agreements and with large supermarket chains and nationwide chains. And also, we adopted more flexible renegotiations and with exceptions of interest up to May 31st for past due payments. And we created a line, and we have held with an interest rate 65% lower, a much lower interest rate, in order to make these negotiations more flexible.

And when the stores were reopened the store team together with Realize and the Realize team that had, they were very skilled in terms of negotiating with the different levels. And what I can say Gustavo, is that account receivables are better than our projections but not yet back to normal. So a major volume of that was paid at the stores. And now, we see a big penetration in, and increasing penetration of payments in the web card 3 million clients and the number of access is over 20 million. And this gives us the certainty of the

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importance of going digital in all financial products and in the relationship of our products, financial products as well.

I think the third question had to do with social actions and our partners. I would like to start and then Laurence can give very good examples of support that we are giving, and I'm going to say a few words about our social actions. We focused our 4 pillars in spite of the loss of revenue in a moment such as that. The first day, we gathered all the executives of the company and some experts and we debated all the actions that we have been describing to you.

And we said, well, okay, but besides that we have an important role, a social role to be played and this it's in our belief. And it has to do with all our stakeholders. So who is important? Who is in the front line? Who is making a difference in this current situation? So, we chose hospitals. In our opinion, the hospitals and the physicians and the nurses are really the people who were in the front line and helping the population and we chose to help the more vulnerable hospitals and communities.

So we still have a brand of our institute that was earmarked for other quarters, then we shifted this to this cause. And with donation intension in individual protection equipment and other items in hospitals Santa Catalina, we donated suits; Sao Paulo; for the health fund of Rio de Janeiro as well. And we got in contact with them, and we gave support in terms of this labor for the purchase of supplies. And the most important thing was to buy individual protection equipment, and we thought about earmarking part of money to these assets.

But we did the math in the best possible condition. And with the support and partnership with some suppliers, we would be able to get 250,000 items. So we had a brainstorm here, a brainstorm recession. And we said, "Well, we cannot invest so much right now because we have a loss of revenue right now," and we didn't know how long this was going to last in the moment of very high uncertainty. But we said, "Well, we have to do something and everything that we do has to be more than giving cash. "That is to say, labor, partnership and activate solidarity network with other companies and other segments in order to do more with less. So that this could have an even higher positive impact.

So our team have -- you know that we have a very good designer team. Our lead time for production is one of the best in the whole world. We have lead time of production for fashion items production. That reached in 20 days in some records, 12, 10 days from the development, manufacture and distribution to the stores, we have some cases that go from 10 to 20, 25 cases. So we have record of 10 days. But then people said, "Well, this is an unprecedented moment. We have to do something." And our designer team developed a prototype of masks. And also sustainability team got involved with the agencies, the health agencies, to have the approval of these prototypes. And in the textile chain, many of the clients were not able to work at the first moment so they could not work because of the pandemic. And they could produce this kind of product.

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So, they changed the production, and in order to make these items and thus generate and maintain this chain active. So besides our product that were produced afterwards that is to see all the activities were considered as essential, and it continues. And it had another income source because they were able to produce these items and with very affordable prices in some cases. And this allowed them to keep the growth. And as we were able to activate our partners, and we had zero cost in the development. And the authorization came, the ratification came quickly, and we got a partnership in raw materials. We bought some of the raw materials.

But the same amount came as a donation from the supplier and said they donated. So with the amount that we would be able to acquire BRL250,000 we made BRL1,300,000 units. So we increased extensively the number of pieces and we maintained part of our chain. We conducted with remuneration. So this is what we believe in, in relation such as this. And more than that, we also had a record lead time of 10 days, many are 15, from development to production and we created a product that we had never made that is to say from scratch, counting from the ratification earmark of saved to the earmark of the saved lot to the hospitals. That is to say development, production, transportation and delivery to hospitals 5 days.

And 2, we're using the ratification in our own process. It took us 3 days. You asked us about suppliers and this has everything to do with suppliers. And there are other things that Laurence is going to refer to that are very important. But our model is much more efficient if we're making all of these products, the IPE, individual protective equipment. How long are we going? Is it going to take us to make a T-shirt or a dress in a fashion company such as the one that we have? This mitigates the risk, because we are much more certain, because of your flexibility, because of the right moment at the right time, very close to the moment that the demand comes. And this really makes us inventories leaner and they become more effective. This is much more sustainable the faster and the more efficient we have. This is one of the bold benchmarks, but you can see that this can be better. And this is a very good example in a social action.

We can see that our business model can be much better than we thought. And this brings a flexibility or an assertiveness and the very good power. So this is much more sustainable because we have our commitments regarding less impacting use of material, reduction in the use of water and energy. And all this is very important for us. But even more sustainable is to produce whatever can be produced using better models, better raw materials, better efficiency but not producing what doesn't have to be produced.

And this is very powerful and the speed of the model. And the use of data that we are driving more and more gives us -- and gives us this high degree of sustainability from the viewpoint of the chain. I think, Laurence could add. I know I'm talking too much. Laurence?

A - Paula Picinini {BIO 19739367 <GO>}

Okay, Laurence. You take it from here.

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

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Fabio, I think we should remember that since 2012 we have a development program for our suppliers, with annual themes, and we get closer to the chain and we try to help the chain to develop in Brazil. And all that done by Henry Costa in our purchasing department. And when the crisis became deeper and there was -- that they got in the international system lack of liquidity, a shortage of liquidity for everybody.

We extended the lines for suppliers that deliver their product to our distribution centers and we have a payment terms. So we brought this forward. And also for products that are -- have not been delivered yet, we have agreements with commercial banks as we make available credit line for these suppliers. And these lines have been closed at first, so we rushed to reinforce our guarantees because Renner ends up being a collateral so the credit risk of Renner. So very quickly we have been able to protect these lines.

And we not only extended these lines but between these 2 lines we had about 180 suppliers that were impacted or that benefited from that. And besides, with the same intention with our purchasing department and negotiation the procurement department and flexibilization on a case by case basis on a very individual basis and analyzing each one of the cases separately, we decided to help this chain to access the official MDS credit line. So we produced manuals for -- and tutorials for our suppliers to be able to ask, and we opened up webinars with professionals and the MDS technicians. And also, we made manuals for our suppliers so that they could learn to adopt MP 936.

So I would say that in a nutshell this has to do with our certainty that this change is totally important for us, and it is consistent with everything that we have been doing since 2012 and we strengthened our relationship with them and we also build a legacy with the supplier chain in Brazil. And Fabio, if you allow me it's important to say that we continue to tighten, and the line that the MDS has not yet reached the end customer and Renner and other companies are fighting so that the MDS funds may reach companies such as Renner and others so that they may transfer these funds and this avoid having to resort to commercial banks.

So this is a major challenge that we have. We have to do more of that and other retailers as well. In order to facilitate or disseminate this liquidity that exists from commercial banks and also from the MDS line that have not yet reached the end.

A - Paula Picinini {BIO 19739367 <GO>}

I have a challenge here because we are receiving too many questions, I'm going to try to filter this and ask a question to each one. Tobias Stingelin from Citibank. What about the changes you have already identified in consumer behavior in the reopened stores? And Joseph asks, if there is a difference regarding the procedures that we have and the dressing rooms and the fitting rooms. And I think, if you answer these 2 questions, so other questions will be answered because we have a repetition of questions.

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

Thank you for the question, Marcel and Tobias, and with the fact is that we changed the operation very radically. The operation of the stores that are open is different from the

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pre-pandemic. So you have the -- for instance, if you have outside the store you have many people that want to come into the stores. So we have a maximum number of people allowed inside the store. So, we have -- when we get close to the limit, then we limit the entry of these people. And outside the stores you also have all the lines on the floor that mark the necessary distance between the customers.

And all over the stores we have signs telling about what has to be done. And the store has lots of time during the day when we have the hygiene procedures on the store or all the pieces and everybody wears masks and we take the temperature of our whole team before they start working. And any suspicion, the slightest suspicion, the person is totally isolated. And since the beginning of the crisis we have been doing this.

So there are many measures that are different from what we did in the past. And the fitting rooms as you said yourself, they are closed because we have to follow the good practices. And stores have been opened for a longer time and there is a recommendation on the part of many health authorities saying that the fitting rooms should be closed. And this could lead to a very or a much higher exchange of items or returns, but conversions are very good.

We are selling very well higher than what we thought before looking at other countries and other segments in spite of this controlled traffic. If we just open the store and let everybody in, of course, the sales would be much higher. But we have to adopt all the safety measures. And in spite of all these measures that are very cautious, very strict, the result is better than the curve that we had estimated in the stores that are already open. About the change of habits.

For consumption habits, some people say, well, people are going to just buy the basic items. And some people say exactly the opposite that people will go towards luxury items. And in fashion, you have the plans and you have counterplans, and Renner has all this done. And we see some people buy more colorful items even in winter, which is not so normal, but we see this in the next few seasons. I believe this will happen again because people want to be happy. They want to have bright colors. But there are people buying more basic items.

Yes, we have both situations, but there is no drastic change in our pyramid. We keep our pyramid, and we have cut by all items in the pyramid. And we have trends, important trends, and this has always happened, and we are adapting ourselves in the trend towards comfort higher than before and higher participation of tops and bottoms. So you can see some -- the waist up here. And maybe Laurence is wearing pajama pants or Paula, that and so you can never tell. No, I'm sorry. I'm just kidding. But we repeat some items that is to say see more the top than the bottoms. So there is a slight increase of tops vis-à-vis bottoms. So this has to do with comfort as well.

A - Paula Picinini {BIO 19739367 <GO>}

Okay. Thiago just asks about the co-branded cards, changes and adjustment in client limits, credit limits.

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

Yes, we have made adjustments client limits, credit limits, mainly the medium and the high-risk clients. We also made adjustments in our approval rate and we reduced these brackets. And we gained a spread of thousand yes of gained participation vis-a-vis one last.

We see a much higher participation of cards mainly in our e-commerce, but also had a relevant increase vis-a-vis on us. (inaudible) which measures we are adopting to prevent an increase in delinquency in the short-term, the medium brand.

We have already talked about the flexibilization and the new addition of channels for accounts receivable. We are evolving quite a lot and this was something that gave us the certainty that we were on the right direction, on the right path, using artificial intelligence in our channels. We increased the number of channels and we upgraded our digital channels. I think this is the most important thing. Our communication changes a lot and also a more flexible stand with empathy and trying to convey understanding.

And I believe that this will help us be closer to our clients. And instead of talking about credit recovery, we should talk about client recovery, customer recovery, I think this is an important point right now. Mercado Novo (inaudible) rent renegotiations postponements, besides changes in long-term contracts. In fact we are negotiating case-by-case In March, April and May, we have already carried out very good negotiations on both sides.

Right now, we're trying to be very consistent, and I don't want to pronounce as well. We try to renegotiate with very good terms in a win-win situation. And we have 3 lines that are very important. We have the occupancy, a smaller one which is the promotion fund, which right now goes to zero in shopping centers because this is a life of market gain promotion, so all the shopping centers have agreed with that. And for all retailers it went practically to zero everywhere. That's another relevant in the condominium or administration expenses that are paid by the tenants.

And in some well, normally, the rent is higher, but it depends on a case by case. So this is a very relevant expense as well. In general, it came down relatively and in the same way that happened to March, to us in March and but mainly April and May because the operating cost of the shopping center drops significantly, and this already brings down the occupancy cost for everybody. And most of them gave a discount, or they made a postponement.

And in terms of the revenue of shopping centers from the lease line or rent line which is usually the biggest line, mainly in these months on average, we have been able to have a percentage over the sales in the cases where we have sales. We are paying percentage over the sales or pay a fixed amount with a very fair discount and that reflects more or less what would be a percentage of our sales in most of the cases.

And of course, we do not have anything signed for the following months that we thought about carryout negotiations. But shopping centers have the same degree of uncertainty. And of course, it has to be more gradual. So as things develop, they tend to replicate for

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the next few months. And as sales go up gradually, also we have discount that reflects that and this is automatically adjusted. It is as if we had been able to bring the cost which is a major line for us to a cost related to sales and almost variable, we expect, so to say. Laurence, would you like to add something?

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

No. It's perfect.

A - Paula Picinini {BIO 19739367 <GO>}

Irma Sgarz from Goldman Sachs. I'm going to read 2 questions. How we are rethinking the imported and domestic items, vis-a-vis the current exchange rate. And about competition online, whether they are different from off-line competitors. And what is your difference vis-a-vis the competitors, online competitor?

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

Irma, thank you very much. It's very good to hear from you through voice such as everybody else. And with relation to the mix, domestic and imported items mix, vis-a-vis the exchange rate and your online competitors, well, the mix of online of domestic and imported, we have always had a very relevant participation of domestic items.

Imported items we use for some cases. And which are these cases? These cases are when you don't have the same product that can compete either in quality or competitive price and the right scale. Because sometimes you do have the items, but you do not have the necessary scale. So if we do not have a similar cost with the same product benefit ratio for our clients and with the same scaling possibility, or some cases in which you do not halt the items here. Sometimes you have production for very small stores, but not for stores like ours. So in these occasions we use important items.

And it is important to mention that the purchases that had already been negotiated and hedged, we always work with hedge. And I'm going -- think this explains -- hedged at 4.08, 4.07 or 4.08 right Laurence?

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

Yes.

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

And the new negotiations, we always hedge because our business is not to speculate about the exchange rate. Our business is to develop good products and to sell these products when we negotiate with our partners about these products.

It's very important for our teams to know exactly how much this is going to cost to see if it is consistent with our selling price. So we do not place our bets on the dollars. So we never say with our partners how much this is going to cost. And most probably, with the current exchange rate, this tends to bring the participation of important items a little bit

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down thereby increasing domestic items, especially the first data that I explained when we analyze the cost benefit ratio. Because the domestic producers tend to become more and more competitive, and the foreign producers lose competitiveness because of the exchange rates. But I repeat, sometimes you do not find the items with the necessary price or the necessary quality or necessary scale here domestically. And in these cases, we import. Not only us, but other players as well. And the price ends up being competitive because everybody has to buy this item in international markets.

And this should be to a slight decrease in the share of imported items. It is usually from 30% to 35%, and I would say that it would go from around 25%, but it will depend on the future situation regarding the exchange rate.

And the second question has to do with competition in digital. I would say that, our competitors are everybody. Until a while ago, not everybody was digital or online. And after the aggravation of the current situation, everybody had to go to digital. And those who didn't go to digital, I don't know how they're going to do. But you end up having a higher number of competitors because you have those who are purely digital and you have the others who became digital for need or because they needed to. So we have a wider range of competitors and we offer a very big difference.

Because the company existed in order to supply the needs of people and Renner exists to exceed their expectations. And we have to be present in all their shopping experience because constantly only in the digital world and the physical world everybody lives in the digital and the physical world. So people research and they search for products digitally and physically. And very often people use both channels. They start digitally or they go to the store and they use store pickup.

So you can see that the shopping experience is omni experience and omni consumer. It's not omni channel, it's omni totally everything is omni and this becomes stronger and stronger. And we believe that this end-to-end experience, shopping experience is a very big competitive advantage, mainly in fashion because this is when people really need to touch and to see the item. So the importance of having this connection between and among the ways of payment and contact points, and in our business it is even more important. So a player that is only digital or only physical.

In our opinion, has a very big gap so to say, and this is one of our strengths. And I believe that, with many initiatives that we're putting in place right now and many that were scheduled for a few months ahead, and we accelerated. And Laurence said that our north is the same, our strategy is correct. This has not changed. And the current situation has only reinforced our certainty that it has -- it is perfect.

The only thing is that we are accelerating it with our team. Well, it is more necessary than ever. So it is urgent to accelerate it, and it has been accelerated, and we continue to accelerate, and we have a very competent team. Our team is very engaged, and it makes a whole lot of difference to make this lead. And we are being very agile and very fast in this transformation delivery. Things that were scheduled for the next year, in fact, a lot will need to be done.

And certainly in, again, gradual recovery, this further strengthens us, such as happened already in other times with higher participation or relevant participation in the market because we bring this competitive advantage because clients are enchanted that we use this work and changing enchantment 4.0. And all of these experiences bring to our clients a drive in these enchantments, and everything improves. So you have a better inventory and you have a lower shrinkage, and this should make us even stronger.

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A - Paula Picinini {BIO 19739367 <GO>}

I'm going to ask the last question from Thiago Macruz from Itau. (Technical Difficulty) deterioration of delinquency, do you think it could be related to some technical problems? Or do you think this is a factory event?

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

What we are doing I think Laurence has already talked about all the initiatives regarding facilitating payments. But how much of the delinquency could be caused by technical problems?

I think it's a little bit too early to try to measure this. There is a learning curve and this digital conversion is going on and it was an unexpected event. And the habit of paying at the stores is a consumer behavior, and based on an experience that was convenient to our customers. So, this change was very deep and very sudden. And we adapted the channels and how much is due to financial reasons or macro reasons or technological reasons. I think it's a little bit too early for us to say anything about it. We have to wait and see.

A - Paula Picinini {BIO 19739367 <GO>}

Very well. Thank you very much for your participation. Then I would like to turn the floor over to Laurence and Fabio.

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

I would like to say that I am wearing Youcom pants. So thank you very much for your attention. Thank you very much for participating, for being with us, and we see you the next quarter.

A - Paula Picinini {BIO 19739367 <GO>}

Laurence?

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

I am wearing (inaudible) vest and a Youcom pants. So it's more comfortable. So we are all dressed very comfortably. And I would like to share with you that this moment, as I said before, has been accelerating some initiatives that were already urgent, and this only confirms our strategy. And of course, this helps us a lot. Of course, the moment is very difficult. However, this has been helping us a lot because this is bringing on board a very relevant number of clients to Omni.

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And many of you already know this. We have already referred to that. And there are clients because of the high convenience that we gave at this enchantment that we give our clients, so it is much better for our model bench, omni off-line and omni off-line -- or only offline or omni off-line. And of course, the moment is very difficult for everybody. But we see an acceleration of things that would maybe take years to happen and they will happen much sooner that is to say weeks or months. And probably, we will have a very much better scenario. And stay well, stay safe.

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