

Q3 2019 Earnings Call

Company Participants

- Fabio Adegas Faccio, Chief Executive Officer
- Laurence Beltrao Gomes, Chief Financial Officer & Investor Relations Officer

Other Participants

- Irma Sgarz, Analyst
- Joseph Giordano, Analyst
- Richard Cathcart, Analyst
- Robert Ford, Analyst
- Ruben Couto, Analyst
- Tobias Stingelin, Analyst
- Unidentified Participant

Presentation

Operator

Ladies and gentlemen, good afternoon, and thank you for waiting. At the this time, we would like to welcome everyone to Lojas Renner's Third Quarter of 2019 Earnings Conference Call. We would like to inform you that today's live webcast, including the slide presentation may be accessed at Lojas Renner's website lojasrenner.com.br. Investor Relations section at the webcast platform and also at the MZiQ platform.

As a reminder questions will be taken by telephone and by the platform as well. This event is being recorded and all participants will be in listen-only mode during the company presentation. After the company's remarks are completed, there will be a question-and-answer session when further instructions will be given. (Operator Instructions) And we would like to recommend that questions coming from journalists be taken by our press office at the number, 55 (11) 3165-9586.

Before proceeding, I would like to mention that forward-looking statements that might be made during this call are based on the beliefs and assumptions of Lojas Renner's management and on information currently available to the Company. They involve risks, uncertainties and assumptions as they relate to future events, and therefore, they depend on circumstances that may or may not occur in the future.

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

Now, we would like to turn the floor over to Mr. Laurence Gomes, CFO and Investor Relations Officer. Mr. Gomes, you may proceed.

Laurence Beltrao Gomes {BIO 15361799 <GO>}

Good afternoon, everyone. We are here in order to talk about the results of the third quarter of 2019. And today with me we have Fabio Faccio, Paula Picinini Investor Relations. And with us also is Luciano Agliardi, Controller.

Before going to the main highlights, I would like to mention the Group's operating performance of the third quarter in which we continued to deliver consistent market share gains, and we also continue with a good pace of same-store sales, in which the combination of two years has an acceleration vis-a-vis the second quarter of 2019.

Regarding the gross margin, we have been able to keep stable levels vis-a-vis the third quarter of '18 and the level was the highest ever in the third quarter in spite of the FX contracted for imported products.

Regarding the total EBITDA margins, we had relevant impacts of non-comparable items in 2018 and which offset both the operating leverage that we delivered as well as the better results from financial products. And if we exclude all these items about which I will be talking about later on, our EBITDA margin would have grown and also would have reached its highest ever level for a third quarter. And the same would happen with the net margin.

Having said that, now I would like to go to the details of our performance of the main lines items. Consolidated net revenues increased by 13% and same-store sales 8.3%. Low temperatures in July favored the sale of heavier items and because of that, the stores were well prepared for the beginning of the new collection. Additionally, the good acceptance of the Spring Summer items and the added inventory mix allowed us to reach a very good sales performance in spite of milder temperatures in some regions.

And about the other businesses, Youcom continued to deliver good performance with a 24% increase in sales and 320 bps in the gross margin. Camicado on the other hand, we've had some delays in the arrival of imported items and also some stock outs due to the review of the process of commercial management and inventory management as well. Thus, total sales as well as the gross margin of this business were impacted and the corrections in the prices are already underway and we expect to see gradual improvements over the next few months.

About the consolidated gross margins of 3Q19, the correct commercial management together with the quality, the good mix and the size of our inventories both for Renner and Youcom offset the negative effect of the FX and allowed us to maintain 54.3%. And in year-to-date of these nine months, same-store sales reached 9.9%, a percentage which is much higher than the overall sector and the gross margin in its turn was 60 bps lower due to the FX impact, mainly in the first half of the year.

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In relation to operating expenses in the third quarter of 2019, our SG&A net of the effect of the IFRS 16, we saw an increase of 12.5% in the period, lower than the growth of the net revenue from merchandise sales, in spite of the many investments that are being made in structures and in new projects as well.

Net of the effects of the normalization of provisioning levels plus our profit sharing program of our workers and other operating results, together with the effect of the adoption of the IFRS 16, the retailing EBITDA would have grown 14.5%, with an increase of point percentage -- zero percentage points in the margin. Year-to-date we had an operating leverage of 70 bps in the SG&A over the return -- ROL [ph] which was offset by the effect of the IFRS 16 and the normalization of the Profit Sharing Program in 2019.

Now, talking about the result from financial products, we had a results of BRL103 million with an increase of 19% vis-a-vis the third quarter of '18, and we can see that revenue generation mainly in the Meu Cartao portfolio grew by 47% was the biggest driver of this result.

Regarding delinquency, even with a total growth of 28% in the portfolio, driven by the co-branded card Meu Cartao, we had a lower percentage of past dues and weight of the net loss over the portfolio advanced 50 bps due to the higher level of provisioning for the Private Label Card. And since April this portfolio started to have transactions posted as the Realize CFI of financial institution.

And with that, we have the unification of the portfolio, with the use of the drag method for the provision of losses for nonperforming loans, which brings all the outstanding balance of the client for that bracket, even if it's only a part that is past due over the total debt.

The total adjusted EBITDA was higher by 4%, reaching BRL360 million in the third quarter of 2019, with a drop of 160 bps in the margin. And if we exclude the effect of the non-comparable items that we have already mentioned, the total EBITDA margin would have evolved 50 bps, reflecting the operating leverage and the increasing the results from financial products.

Year-to-date, the margin was lower by 50 bps, mainly due to the normalization of the Profit Sharing Program by the IFRS. And net of these effect, it would have been stable practically. And net income of the quarter reached BRL189 million with an increase of 150 bps in the margin. And this reduction is explained by the non-comparable items together with the normalization of the income tax rate, which had been lower in the third quarter of 2018. If we were to exclude these effects, net income would have grown 24.6% with an increase of 100 bps in the margins.

Regarding the nine months, if we exclude the non-comparable items, net income would have grown 17.1% [ph], with an increase 30 bps in the margin. Thus the ROIC of the last 12 month, reached 21% in the third quarter of 2019 or 22.1% on a comparable basis.

And before opening for questions, I would like to make a brief comment about our new distribution center in Sao Paulo to be built in Cabreúva measuring about 150,000 square

meters. This venture will be built in a build-to-suit model and the total CapEx estimated for the company will be of about BRL600 million to be disbursed over three years.

The distribution center, which should be opened in 2022 will have the most advanced state-of-the-art technology and will be catering to the omnichannel operations.

So these were my initial remarks, and now we will be available to you if you wish to ask any questions. Thank you very much.

Questions And Answers

Operator

Thank you. And we will start the Q&A session now. (Operator Instructions) Our first question from Joseph Giordano from JPMorgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

Good afternoon, everybody, and thank you very much for the question. Laurence, you were talking about the new distribution center and I would like to understand the evolution of your whole omnichannel strategy for the company, because you mentioned that you can collect 30% of online operations with a very important cross sale, and I would like to know the evolution of that over the last six months.

I would like to understand how much is the contribution of this area to the overall bottom line of the company and I would like to know the evolution of the macroeconomic environment in your view? You will probably have a performance that are different from the remainder of this sector from the retailing sector or it this a pure market share increase and how do you see the evolution of the competitive environment in which your competitors are suffering a little bit?

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

Good afternoon, this is Fabio. Thank you for your question. I would like to start by your third question about omnichannel and give you some more color about some of our initiatives and some things that have already happened and some that are underway that we continue to have omni operation parts of that. A major part of our product from e-commerce but we already have some evolution in this regard because we already have three stores (inaudible) with click and collect with the items that are available at the stores. And so, in some cases, we have a few minutes or a few hours for the collection of the product.

And we are working in order to have 13 stores implemented. And over 2020, we want to have a 100% of those stores already implemented (inaudible) the stores own inventory. And regarding the digital operation of the stores, we are already selling the inventory of e-commerce and then we will be making this available for all of the inventory by means of new equipment and our employees and another part of this operation, business operation, we have four stores with pilots of such accounts with 20% of share our sales

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will be kind of equipment and we will close the year with 12 stores with self-checkout as the digital part, as we call it that is the payment by the clients at the stores by means of the smartphone by the Renner app. And so far, for the payment of the pilot and the cards they are already having a pilot in six stores and by geolocation in the app we should close the year with 30 already operating this way.

RFID helped us in -- for the implementation of omni in order for us to use the total (inaudible) and this has already been rolled out to 300 stores and we are -- we'll be ending 2019 with 100% of Renner stores would be apparel and footwear products this way. And another important thing about the RFID is that we had great gains in the stores where we implemented in terms of reduction of stock outs. And this is very important for us, in improvement in the services delivered to our clients as well.

And another important point of omni, we already have a low inventory in the stores and are using the inventory of the store itself. And I have already said that we are testing increased stores and it will be 30 by the end this year and we already have same delivery in (inaudible) and for Sao Paulo. Using the total inventory over the next year, we would be reducing the inventories for the other areas or locations as well.

We also -- our mobile service is the object of a lot of praise by our clients that we have been having records in terms of indicators of client service and clients saying that they are extremely satisfied and also lower levels of dissatisfaction since the implementation of that in terms of our mobile payment.

And regarding omni, in relation to your second question regarding the macro channel, we believe that -- well, what we see is that our growth is coming from growth of market share and we look at the market and there are many dates available by many different institutions and we can see based on all that that we are achieving growth, higher than the market. And other players may be are gaining as well, but we do not see a relevant (inaudible) market overall.

It has been improving slightly but this is not what justifies our own growth and this is -- we believe that in the medium run there should be an improvement in the market and we will be able to tap into this improvement as well. But we continue to work in order to improve everything internally so that we can increase more and more our market share.

Q - Joseph Giordano {BIO 17751061 <GO>}

Thank you, Fabio.

Operator

Ruben Couto from Santander.

Q - Ruben Couto {BIO 20636571 <GO>}

Good morning, everybody. Could you talk about the same-store sales and it was a timid growth and the personnel line in your SG&A continues to grow up. So, could you explain

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this and could you give us an update and really we want to know what to expect in the next few quarters. And in the second half, it went -- we talk about the PIS and COFINS taxes. How do you intend to use the credit that you have? Are you waiting for (inaudible) or some other ways to offset this. And do you have an estimate or an expectation regarding going back up -- down to '21 and not 2012 as it is today.

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

Ruben, here is Laurence and thank you for your questions. In terms of our personnel expenses, we have been communicating over the last few years, all the restructuring and the enforcement of the areas because of greater specialization of the businesses and we had specialization in (inaudible) and the specialization in the Sao area and the procurement area.

So all the areas of the company are being reported, restructured and this is the first year of a digital cycle. This is the first year of a cycle of investments and with the new reality and that needs other skills or the competencies and in relation to that, Renner always has it transferred to the long-run and we are bringing forward some investments that may be, could be maybe in the future. But in spite of that, we believe that our culture of austerity is always in place and we are always looking for opportunities and the older projects should pay for the new project, the new structure, that can tap into improvements that we made in the past.

So we had some dilution in this quarter. And we believe there will be a dilution of expenses over this year as well. And this is all I can say about the situation so far and we believe that we are very well prepared to face the next quarter, which is a very important quarter for retail, the most important one.

And I believe that we will reach the end of the year with expense dilution in part of -- in spite of all the investments that we're making even in OpEx. Regarding the process credits of (inaudible) and the PIS/COFINS taxes we are following the procedure, the legal procedure. And in case, we are successful with all the levels and up to the internal revenue. we are going to offset federal taxes over 18 months. And we believe that this is the way this will be used, that is to say offset federal taxes.

Q - Ruben Couto {BIO 20636571 <GO>}

Very clear. Thank you.

Operator

Very clear. Thank you.

Q - Unidentified Participant

Good afternoon, this is Eliana [ph]. And I would like to ask tow questions, the first one, Inventory levels. Based on the level that they were, I think your inventory levels are very low and how '18 could impact the next quarter?

And the second question has to do with financial products, we would like to better understand the growth of digital bank and what type of impact these banks will have and are having and what kind of competition do you have from them. And what about digital operations also in your financial operations.

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

Eliana, thank you for your participation, your questions. This is Laurence. And in relation to inventory levels, this has been a very big highlight, a very important highlight in the last few quarters into our inventory management. And we had a very good planning in our procurement activities, distribution, and in our collections. We had a very good results. We had a very good results going from one season to the other one collection to the other. And this is very important for gross margin levels that we have been delivering.

So we had a very good transition in this regard. And we believe that we are very well prepared to face the fourth quarter of 2019. I believe that may be this has been one of the best transitions ever made by our Company, and I believe one of the best levels of quality as well in our inventories in the company.

Regarding our financial products, we have not been seeing this kind of movements or the proliferation of new businesses through the channels that you have mentioned and we are not feeling an impact on our operations. We have a very strong brand and a very meaningful brand and we have a big traffic in our stores, almost 6 million active client and we are looking at everything that is going in the market and the regulation about the instant banking, for instance, instant payment and we are restructuring also these operations and we are preparing a study to reposition the Realize brand.

But our focus is continue to make our current products digital and also to find a way to have more agility in the development and the renewal of our products. So I believe we are on the right track and we are also waiting for important (inaudible) the evolution of this brand.

Q - Unidentified Participant

Very clear, thanks so much.

Operator

(inaudible) from UBS.

Q - Unidentified Participant

Thank you. You talk very quickly about RFID and you said that you already see an improvement, thus [ph] a reduction of (technical difficulty) in the stores, do you have a [Technical Issue] in terms of same-store, I guess between the [Technical Issue] we have RFID and the others can already see that if the sales are getting better, because it seems to me that there is a very material change in our operations because of RFID. So can you measure something with a certain degree of certainty.

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

This is Fabio. Gustavo, thank you for the question. In fact, we already have some gain from the implementation of RFID. We see that we have more accurate inventory levels. We are able to do this any time we want -- do it at any time, any moment in time, because in the previous system, we only had a few yearly inventory taking and we are still on Phase 1 regarding the gain from RFID and these gains are mainly from the accuracy of our inventory levels and our certainty -- increased certainty and to know exactly where each items is.

And when and also in the operation of our brick and mortar stores, because we can keep what we have in terms of the inventory in the back and what is already in the stores and in order to avoid any kind of shrinkage or stock-out, this drop practically. We don't want to talk about figures in this regard, but we already see a very big, positive impact in our stores that are more mature in the processes as well.

And this is the first impact and we can have many of the things coming such as our improvement of our efficiency our DCs and involvement in prevention of shrinkage and also an improvement in the client experience by means of the IoT tool. So first, it is the accuracy in our inventory and also a drop in stock-outs. We don't want to talk about the increase, but we already see a big improvement.

Q - Unidentified Participant

Very clear. And one last question about CapEx, you said BRL600 million for the new DC. How much has already been invested in 2019 of these 600,000 [ph].

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

This is Laurence. We start in 2019 with approximately BRL100 million of the total. So the total investments is BRL600 million over three years' time. In 2019 so far, we have already spent BRL509 million [ph].

Q - Unidentified Participant

And what about the fourth quarter for 2019, how much will you be spending?

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

Well, not much. It's not going to be relevant. In the fourth quarter this is not going to be relevant.

Q - Unidentified Participant

Thank you.

Operator

Tobias Stingelin from Citi.

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Q - Tobias Stingelin {BIO 18290133 <GO>}

You were recently very revolutionary in terms of technology. Could you talk about your DC and what would be the CapEx trend for the next three years? Regarding your financial operations, do you intend to reduce interest, are you going to reduce interest because of the same tax and lower interest rates and I would like to know the situation of Camicado. Can you give us an update please?

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

Well, the sample was not so good for the company. I think I can do a little bit of guesswork here, but if I understand correctly, you want to know about the DC -- the new DC and the new DC when it is started up, if you have a higher capacity, then everything that we have in logistics so far. So one of the big advantages was that it will be supporting the growth of the company also the location of the new DC will be better in order for us to act as a main market and it optimizes our operation.

And it's already has a technology that is compared and thought for the full integration of all our channels. So one of the biggest benefit that we do have is the increase speed in our service and the increased operational capacity. And I don't know whether I have answered your first question, because it was not clear.

Q - Tobias Stingelin {BIO 18290133 <GO>}

So, It is a very relevant investment. We will have a 150,000 square meters and I understand, this will be more than you already have overall. As investment is quite high and this is revolutionary, is it only for e-commerce?

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

No. It's for the whole company. It's going to be our main DC and the trend is towards more and more omni and when we talk about omni, it's not only from the viewpoint of the client but also from the viewpoint of company and the integration of the company. So this DC will be for online, offline. We can also stores and everything end to end. So it's going to support all of the operations of the company.

And I think you asked about CapEx for the next three years. We believe that we will be keeping our level of investments a little bit higher because of this digital cycle and the investment in the new DC. So it should be 8% to 9% of the overall net revenue.

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

This is Laurence. And you talked about -- you asked about the level of interest, rate. And what we see is a trend towards a reduction in spread in the long run and what we are doing in the process of re-invention so to say of the Realize products, we contemplate more competitive interest rates, but with new products, different products. And also with the reduction or another direction that we have or desire on our part is to further the reduce the interest rate component in our overall revenues and having more service income in Realize. And this is all based on this restructuring of our products and services that are delivered by Realize and that we have already talked about.

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And you asked the question about Camicado. I think it's your last question. What we informed you is that we made some -- we had some actions to optimize our inventories for Camicado and for internal reasons of our company and not because -- so the market is not easy, but there were some operating things that led us, right now, to have an inventory level that was not so good because we left a few items that could bring a very good margin to the Company and we wasted a good opportunity to sell more and to bring more margin. We have already addressed many actions in order to improve our efficiency in Camicado, and we expect gradually to recovery results over the next few months coming from Camicado.

Going back to the spreads. So far, nothing changes and the idea is actually we will be changing (inaudible) from new products. Well, this will follow the evolution of the portfolio. We are revitalizing our financial products, and these things are related.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Will this be next year?

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

I believe we will start seeing the change, or this evolution already in 2020.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you very much.

Q - Richard Cathcart {BIO 16457807 <GO>}

Richard Cathcart from Bradesco. Good afternoon. A quick question about same-store sales. Laurence, you said that the quarter started well, but I know that you have a more difficult comparison base, I would like to defend how we should analyze this dynamic because of this more difficult comparison basis?

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

Richard. Thank you for the questions. This is Laurence. I think the fourth quarter of 2019, yes, we started it quite well. Although we still have some milder temperatures in some regions. But the collection is very consistent, and it is being quite well accepted and we are preparing our operation and achieving important efficiency levels in terms of logistics and basic execution in the stores and the higher level of maturity of this technology that firstly in the stores with mobile sales, more information. And as this becomes more and more mature, we are able to extract more sales per square meter in these operations.

So I would say that we are very well prepared, and we are confident that we will have a good fourth quarter in 2019.

Q - Richard Cathcart {BIO 16457807 <GO>}

One last question. Gross margin in the fourth quarter, FX is more or less stable, right, in terms of hedge?

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

Yes. Practically stable. Well, I would say like this, I think we could see a very good performance of our gross margin in the fourth quarter, and we are seeking a stable margin and I believe that we have the right conditions to have this -- to deliver this.

Q - Richard Cathcart {BIO 16457807 <GO>}

Thank you.

Operator

Robert Ford, Bank of America.

Q - Robert Ford {BIO 1499021 <GO>}

Good afternoon. Thank you. Congratulations for the results. What about Ashua? What about the market?

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

Thank you for the questions. About Ashua, we started the brand online and it's a different market. We have already learned quite a lot online and how we could incent our customers more and more. We do a very good job there. We have already started to get brick-and-mortar stores and differently from the other brands. We started this online. We are already making some adjustments and go into new markets in order to better understand these consumers that have major needs in this area, so that we may have the best possible product to deliver to our clients. So we are now adapting our stores, making these integrations and understanding the operations.

Very recently, we opened two stores, one in Porto Alegre (inaudible). Yesterday, one in (inaudible) They were very well received by the clients, and we have been very happy with the results brought about by Ashua. And now, we are trying to bring the best proposal, the best product, the best service before we start opening many other stores very quickly. This is an important brand for the Group. It has a good potential, but we want to better understand it and we want to understand the size of this potential. But we will see some expansion over this year and then afterwards, we will be accelerating this further as it brings us good results.

Regarding other segments, we do understand that in the future, we could have operations in some other segments, but I think we already have quite a lot of initiatives in our hand for the short run. And we have all of these digital initiatives. We have Ashua, and we have Youcom growing. We have Camicado starting with our marketplace. We have really Realize, a lot for us to share with you very soon. And we also have Uruguay, Argentina and I believe right now, we have a handful. But later on, there will be some other segments, yes.

Q - Richard Cathcart {BIO 16457807 <GO>}

What about Argentina? How are things in Argentina?

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

In Argentina, in December, we will be opening three or four stores, and we will be starting markets and understanding the market that is going through some rough times right now. And the operating model in Argentina is different from Uruguay, so it's a very good test for our operations for our brand for the consumers, because the country is different. And we are doing a good job there. And I believe that in the future, we will be able to go to other markets.

But first, we have to understand Argentina in depth and deliver a very good job in Argentina. So for some time, we will say with three to four stores there, so that we may have a good operation and a good service level for our Argentinean clients, so that we may then think about how we can progress to other areas.

Q - Irma Sgarz {BIO 15190838 <GO>}

This is Irma Sgarz, Goldman Sachs. Good afternoon. About the -- question about financial services, Realize. How do you see the breach?

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

Irma, I apologize, but the sound is very bad here.

Q - Irma Sgarz {BIO 15190838 <GO>}

What do you see in terms of imports for the future?

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

Irma, this is Laurence. Thank you for the question. We already have some products such as personal loans. We have already charged a different rate based on the risk level and what we still see some opportunity to make it more personal is what it has to do with the new restructuring of -- revitalization of our product portfolio together with this more and more digital operation that the changes that are coming.

Everything is together. This is a whole, everything is together and they are all part of a context of a better service level, more personalization. This is also contemplated in the initiatives that we are already working on, and we expect to be able to share this with you in 2020.

In relation to the drop in the import rates, well, first of all, this is part of a broader process of opening up of our economy. Our economy is very close, and we need to open it in order to increase competitiveness and specifically in our segments, we import. Rate is not the biggest factor as the barrier to entry. It is one of the points. It is one of the items included in the competitive technique of imported goods. There are other issues involved. There are some structural issues such as the tax systems that we have, a very complex one as well as the infrastructure issue, all of this is -- well, they are all important bottlenecks, I would say and we already have an operation in China and more and more mature operation in that market. And we develop suppliers in Asia. And in a scenario such as this one, let's say, there is a drop in the rate, Renner has a flexible model and that will

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be preservative because we intend to preserve our competitiveness, of course, in the Brazilian market.

In order to have more imports from China or from Asia, but the process of importing and these bottlenecks, of course they are a problem, so it seems to me that in the short run, this is not going to change a lot. Well, I believe that the non-tax barriers or non-custom barriers are of course part of that. As I said before, I think all the projects that are -- we implemented all the initiatives that we have been implementing at Renner since 2012 when we started a strong cycle of investment and with all the renovation and the implementation of a new logistics platform and shared service center, and I think based on all of that, I think it's important to say that even in a more open environment, a more competitive environment with a higher level of competition in Brazil, I believe that everything that we are doing combined with our organic expansion, we believe it is possible to preserve a high level of competitiveness in Brazil.

And adding to what Laurence said, and when we see a high degree of opening in the economy, and I think it's very good for everybody involved because the costs will be lower and consumption will go up. And even if we produce goods here in Brazil, most of the raw materials comes from abroad. So the cost goes up, and this could be mitigated in the long run, so the change in -- or an increase in the opening of Brazil. If we have less barriers, either tax barriers or customs barriers, we optimize the Company overall. And it benefits all the players in the market and we are very motivated by that.

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you.

Operator

(Operator Instructions) The Q&A session has come to an end, and I would like to give the floor -- turn the floor over to the Renner officials in order for them to make their final remarks -- closing remarks.

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

Well, we started the first question talking about omni and there are more things happening and another thing besides omni, are other initiatives that have been bringing a great joy to us, RFID, for instance and some others and one recently that has been very successful is the use of artificial intelligence and algorithms in our processes and one of them is in the distribution of products, and we are already reaping very important results in part of our products for automated distribution with the use of intelligence -- artificial intelligence and algorithm and predictive models. And we have been achieving good results. And we believe that later on, we will have more and more benefits coming from these initiatives besides omni and RFID. These larger initiatives are very important, and we are increasing sales with inventory reduction. So this should improve our sales, improve our margins and optimize our inventories as well, and this is more sustainable and this eliminates waste.

Okay. So now, I would like to thank you very much for participating in our call and say that we will continue to be available, should you need any additional clarifications. Good afternoon and thank you very much.

Operator

The conference call is closed, and we thank you for your participation and wish you all a very good afternoon.

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