Y 2021 Earnings Call

Company Participants

- Carla Flores Sffair, Investor Relations Consultant
- Daniel Martins dos Santos, Chief Financial and Administrative Officer and Investor Relations Officer
- Fabio Adegas Faccio, Chief Executive Officer

Other Participants

- Joan Soares, Analyst
- Joseph Giordano, Analyst
- Ruben Couto, Analyst

Presentation

Carla Flores Sffair {BIO 20051296 <GO>}

Hello good afternoon, everyone. Let's begin the video conference for the fourth quarter and 2021. I have with me Fabio Faccio, CEO; and Daniel Santos, our CFO. Before handing the floor over to them, I'd like to mention of things. This video conference is being recorded and translated simultaneously. The presentation will be shown only in Portuguese. So we also have the file in English on our website. Any questions that come from journalists, they can be sent to our press relations at 11-3165-9586 and a brief disclaimer that all the statements made here during this video conference related to business perspectives or future projections are based on beliefs and assumptions -- based on information that is currently available. About the Q&A session, we will take your questions during the presentation you -- and that it will be answered during the Q&A session. (Operator Instructions). At the end of the presentation, I'll give you some more information about how that will work. So, before we begin the presentation, I would like to hand over to Fabio for a brief introduction.

Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Carla. Thank you, everyone. Thank you for participating in our video conference today. I'd like to take this opportunity to introduce Daniel Santos, he is our CFO and IR Director as well. Some have had the opportunity of meeting him and some others have not. So to look into the fourth quarter results in 2021, we're going to start with Daniel. He'll talk about the results and then we'll go on to Q&A.

Daniel Martins dos Santos {BIO 20749659 <GO>}

Thank you. Fabio. Thank you, Carla. Good afternoon everyone. Thank you for your presence. So let's start off talking about the performance of net revenues in retail, the important thing that we have to take into account is that in the fourth quarter of 2021, we have encouraging behavior and robust as we've seen 22% year-over-year, 23.9% compared to the fourth quarter '19. It's greater than the market, it then enables us to have consistent gains in market share. Ever since the reopening and recovering the operating hour since April, we've been growing approximately 20% month after month. And that growth trend, it's important to note that continues in 2022. In January started off a little slow. We had Omicron and flow, and speeding up in February that will continue in March. It signals a growth that's very positive. An important aspect in this is that we had positive growth in tickets and the reason is, as you and in pieces of apparel. So we believe that the changes come from mobility and flexibilization, giving us more flow in the stores and obviously we had more tickets, we had more items and we had a higher acceptance of our summer collection, not only in brick and mortar, but also in digital and the key measures that we have such as Black Friday and Christmas also had very good performance. And we cannot forget execution of operations, be it in brick and mortar or in digital stores. And all of that enabled us to achieve a growth of 23% and 12.8% over 2019.

And here on digital, GMV for digital, we had consistent growth even with the recovery of brick and mortar operations and a strong base of comparison for the year in the previous period, already had expressive growth. In the quarter, we had an increase of 38% over 2020 and 217% compared to 2019. So we achieved a share of digital of approximately 12% even in period of high relevance of brick and mortar stores, which is Christmas making the flow in brick and mortar stores much higher than before. And that performance as a result of higher availability of assortment in the virtual store, improvement in service level, especially in the last mile and Fabio will talk about the evolution of the last mile indicators in the presentation, improvement in usability for users, content and in digital sales. And Fabio will give us some examples, which are the levers of execution of our strategy and we'll hear more about that further into the presentation. In the year, the growth was 50% compared to 2020, (inaudible) versus 2019 and share was 13.5%. In the app, we had approximately 60% of the sales, absolute leadership in the number of monthly active users compared to domestic players, top of mind and fashion retail throughout the year and the most recalled fashion brand in Black Friday. So there is a trend in our continuity of that growth trend in 2022, and that corroborates the growth of the first quarter that I mentioned.

Gross margin, we had a gross margin in the fourth quarter that was healthy, even with all the inflationary pressure, we had a strong evolution, not only in the quarter, but also in the year and year-over-year and specifically in the fourth quarter when we compare that to 2019, we have a gap, but it's also important to note that the base for comparison of 2019 was a record base. It was a bit exceptional compared to the average of that period in 2019. So when we look at the future, we see that the difference will become -- will get back to normal and will be closer to 2019 as we move forward in 2022 and well balanced and good quality inventory, adequate assortment. And as I mentioned, in 2022, we will be closer to the average in 2019 and we will see the evolution during the half-year 2022. One thing that I would like to mention is the markdowns, which was a good lever in terms of improvement in our margins. We have the lowest level in markdowns in recent years.

And obviously, that's related to higher acceptance of our high summer collection, the model of replenishment that has been -- that was implemented two years ago and is bringing on efficiency year after year. Not to mention data use and product allocation and markdown engines, all the data technology that was implemented, enabling us to have the right inventory in the right place, enables us to avoid markdowns. So even working on quantity and even the depth of the discounts that we have in the markdown inventory.

An important chapter now, operating expenses. So there were many comments that we've seen in the morning of the many different investors, so it's worth talking about that now. In this, it's important to talk about the SG&A structure before OpEx and it eliminates rental expenses. So in 2021, even though we had an increase in nominal SG&A, we have an improvement in net revenues, especially because of the gain in scale. So the growth of revenue and also the gains in efficiency that we had, so it's worth noting that gain in efficiency in the digital channel. However, we have an SG&A that's higher compared to the pre-pandemic fees, so the 4, 6 points that you see in the chart from 2019 to 2021 and that bridge, that chart is trying to price the major components of that increase. So in the first block, the important aspect is the 0.5 percentage points increase is mainly related to inflation. So IGPM [ph] was 27%, IPC [ph] of 15% that highly effects and impacts these store costs. Some stores were inaugurated in 2020, 2021 whose productivity is still lower than usual and also related to the pandemic. We have a new distribution center that was already mentioned in the past, which will soon be inaugurated in 2022.

So the new DC brings on some expenses and during the ramp-up of that new distribution center, we have additional expenses that lead to incremental cost. And in the second block of 2.5 percentage points is the expenses -- are the expenses of the digital channel. This still higher than brick and mortar. So as we increase the share in that channel, it pressures the total SG&A, so, not only in freight, but also in performance marketing. And the third block are the additional expenses related to all the initiatives to build and gain efficiencies in our ecosystem. Our Omni ecosystem and digital new business, tribes of new content, team structures, reinforcement in IT, so when we put those last two blocks into content -- context, the important aspect is that, first of all, pandemic increased the share. So the plans before the pandemic was that we believe that the speed would be slower. We went from 4% to 13% in 2021 and that equation without being fully prepared for that growth led to pressure be it in freight and handling and expenses with digital marketing. At the same time, we've expedited our digitalization expenses, which is the third part of the chart and to work on that ecosystem and generate as much efficiency as we can and integrate that Omni world, which is off and on world.

Other important aspects that we have to bear in mind is that, when the new distribution center is 100% integrated and with the strategy that Pedro [ph] explained before, will give us efficiency gains and up to 3 percentage points in the digital margin. Data integration, prices, freight will also enable us to improve our efficiency in that digital channel equation. At the same time these efforts that will be done on that front will enable us to generate efficiency in digital marketing with higher retention and recurrence, and Fabio will talk more about that later on. And during 2022 and 2023, we will gain efficiency quarter-by-quarter, not only an operating efficiency, but also gains in scale that will enable us to achieve levels that are closer to the levels that we had in 2019.

Now about the quality of credit here and about real easy, another robust growth in this quarter and consistency in the quality of credit. In the quarter, the results were under the fourth quarter of 2020 and it's important to bear in mind that the base of comparison, I know that there is some questions about that, is that -- that base of the fourth quarter in 2020 isn't a good reference because when the pandemic started, there was a worsening of the portfolio, increases in past due and part of that was reverted in the fourth quarter. So that comparison base isn't a good one. We've been able to increase the new customers. We've been increasing that by more occupation of the ecosystem without affecting the quality of credit and the perspectives in 2022, we know that there is a more challenging credit environment now. But it's to continue the growth in the portfolio of the revenues with having a good balance in between the credit risk and we believe that we should be close to historical losses that we had. Always remembering that in 2020 and 2021 together, there are two years that we may have to analyze together because the part of the provisions in 2020 were reverted -- reversed in 2020. So the losses in 2021, do not actually reflect good reality.

About the total adjusted EBITDA, the annual EBITDA is almost 2 times above last year, when we exclude the non-recurrent effect of COVID that benefited (inaudible), the EBITDA was above (inaudible). So there was a loss in margin, but mostly because of the -- of the profit share program. The EBITDA grew 21.4% and the margin is stable compared year-over-year. I would like to clarify this point, first, our profit share program has -- what was budgeted according to what the actual. So extrapolation proportional to what goes above that. Historically, we had a performance very much aligned to the budget, and our margin of the share profit program never very much compared to revenue. The main metrics of this program that includes sales results and operating results like EBIT and sales, but operating results is a great indicator of doing or not doing this payment.

In 2020, we didn't pay the PPR because we didn't reach the operating results. So it was a pandemic, a year of pandemic and none of that was budgeted. In 2021, specifically the budget was concluded during the second year of COVID in which we still had stores closed and reduced time -- work time and this was from the learnings we had from 2020. So what happened is that, after the stores opened in April and more work hours, we had a recover -- a stronger recovery of sales above expectation, especially fourth quarter it was a positive surprise. We look specifically at -- was two-thirds of the total profit of the period and which is abnormal compared to the behavior of previous years. As a consequence, even in years with results more under pressure, we had a historical distribution of PPR and most of that is non-recurring. So two-thirds of the additional profit share is not recurring. And because of what happened and acknowledging that from now on, we still have a volatile economic environment. We decided to change the dynamics of PPR. We just -- we established a ceiling for the extrapolation. We changed the curve and we defined that ceiling to avoid the situation to happen again. And as I mentioned, the total that we achieved in 2021, one-third is recurring and the other two-thirds are not recurring.

Now I would like to pass the floor to Fabio to continue with the presentation.

Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Daniel. We also, in addition to the advances and the recovery compared to 2020 and the pandemic, the year is showing a recovery. We also have invested to guarantee our future. I would like to remind you the large transformation cycles we went through. We talked about the 7-year cycles that came from a family-owned company, becoming a corporation, a multinational company, our big data cycle and now the current transformation cycle like all the previous ones with digital transformation and transformation and ecosystem. And this is boosted by these changes in consumer habits that have been taking place and are even more sped up because of the pandemic. Even during the pandemic, our strategy was right, but we did have to speed up our plans. In 2019, we discussed together the board, the executives, what were the priorities for the next years. And in 2020 when the pandemic hit us, even in a landscape that pressured our expenses, our margins, our revenues, we were able to speed up our initiatives, which in some way what we imagined to happen in 4 years in digital penetration and consumer habits happened in 2. And likewise what we had to do in 4 years, we had to do in 2. So this mainly -- in 2021 and part of 2022, we will have pressure of these advancements in CapEx and OpEx and as Daniel also showed, it's what generates efficiencies and improvements to generate value and have a more sustainable digital penetration. So we've been already having results of these investments and gradually, these investments will be less significant and will generate more value. And in 2022, we will have a better recovery of our results compared to what we did in the past, especially in 2023, we expect that to be even more.

We did a lot of things in these past two years, especially in this past year and this shows great learning. We talk about 7-year cycles that we believe in that, but we did experience a few years -- in the past year alone, we were able to build initiatives at a very higher speed that they happened in previous cycles. And with this in mind, we also did our follow-on last year. So the plans of accelerating the ecosystem and what we were able to achieve regardless of the landscape that we were forecasting, we had the pandemic at the time and elections this year so, we weren't even thinking about war at that time. So the future is uncertain. We have a lot to do. So, at the time we decided to do our follow-on. And the first day when the resources came in, we have been investing deeply in our in-house, in organic initiatives and this slide is exactly what we used to use the resources as follow-on and expansion of our stores, building the new distribution center and also more offers and investing more in Realize.

So digital transformation in creating a retail ecosystem in our fintech in line to what we communicated. Some issues always come up about acquisitions and usually people ask that and relate these resources directly just to that and actually there are several uses. So we acquired Repasse and we're seeing opportunities of possible inorganic transactions. But only those that could leverage or help our transformation business that can add services and value to our customers and shareholders as well as some systems platforms and capabilities that we can work in our ecosystem, especially logistics, data, content, our in-house team that has been working hard to look for partnerships and opportunities and not everything is acquisition. We do a lot of partnerships and also possible acquisition. So last year, we met more than 140 startups in our ecosystem, 82% are connected to our team and our ecosystem through eight threads of open innovation. So we looked at 120 new opportunities, but our view is always the strategy of the ecosystem and we're going to look for initiatives that generate more value to the ecosystem and the journey that we traced, be that organic or inorganic.

So considering all these topics, we used about BRL1.3 billion between CapEx that OpEx that are for these initiatives and retail and real easy and also expanding stores, building the new distribution center and Repasse's purchase. And 2022, we probably invest a similar amount for CapEx and OpEx, our forecast including our CVC, which is our ex ventures, all of that together will amount to a similar amount of 2021. And we will also open a program to repurchase shares, also as a way to generate more value to our shareholders. So by the end of 2022, we have BRL3 billion of the BRL3.9 billion that we got in our IPO and estimated to use in 18 months of the IPO to use these resources and we might have other opportunities. Just to remind you, the structure of our ecosystem, so the journey is even more relevant for our customers to expand our base, increase recurrence.

And on the next slides, I'll give you some examples of what we did in the main fronts of our ecosystem. Looking at the omnichannel, we had significant improvement of our purchase. We also expanded the brick and mortar stores, online sales and now we are focused on improving services and productivity, reduce lead time and at Renner, we have 45% of the deliveries in the country in up to two days, one day or two, and the large cities like Rio de Janeiro and Sao Paulo, it's 70% to same-day or up to one day. We are also recovering with other stores operating and the flow is resuming with the relaxing of the lift of the restrictions and 15% of our customers that pick up their products at the store, also do additional purchases, leveraging the value of our ecosystem. And we migrated to a distribution center in the Big Sao Paulo area and this increased the delivery of Renner 45% in two days that goes to 70% in two days or even same day.

And this improvement of the lead time is to reduce costs and reduce lead time comes with the reduction of costs. So we had an 18% reduction of cost per shipment, which also makes the cost equation better. From the very beginning, we're working with inventory to reduce shipments per order, which in our model and one of the initiatives that we have greater sales with a better service level and enchantment for our customers. And as Daniel mentioned we already concluded the civil works through the third quarter of the new distribution center and now we're setting up the automation equipment and will soon operate the new distribution center, which will give us relevant gains in our operations as well.

And we remain focused in increasing our omni customer base. So we increased the number of channels available, WhatsApp has advanced in active communication with customers. I'd say it's our highest conversion in average ticket in the ecosystem and the sequential growth in sales that already grew 14 times year-over-year. And the social, so we call it our Renner favorites, used to be called Bage, increased 12 times over 2020. In store operation we inaugurated two units in the last quarter, 32 in the year by adding up all our businesses. In digitalization of stores and operations, 100% of our units are already working with RFID checkout. So it's not just inventory control in stores, but also the speed, flexibility and agility and checkout. As well as the new type of checkout that we are offer. In addition to actual checkout counters, we have mobile sales where the sales clerk finalizes the sale on their own smartphone, self checkout and digital pay that the customer can do that on the app, on their own phone.

So those three different modalities, mobile sales, self checkout and digital pay are available in 100% of the stores. Self checkout is still available in just a few stores, but now we will invest and grow the number of stores. The stores with all three modalities already have 43% of their sales going through those new modalities. Digital pay is also important that already accounts for 10% of the sales in some stores, giving us a lower acquisition cost, recurrence in our app and important service for our customers. So they can use the app and they use that to buy digitally, but also to have a benefit and convenience in the brick and mortar stores. So the Omni app as well. Our customer base is still growing 46% year-over-year, increasing the potential of the ecosystem and when we compared to 2019, 170% as well. When we look at marketplace, which is another initiatives, we increased the number of categories and assortment that doubles the assortment in digital. So we had 53,000 additional products, Renner within -- with the goal of 100 sellers at the end of 2021, we have over 190. In December, 5% of digital sales at Renner came from 3P from our sellers. So we're strongly focused on the creatorship of these partners, the categories, developing the platform and streamlining our processes. It's an initiative that adds on products for Renner, strengthening our ecosystem and proof of that is that Youcom and Camicado are sellers at Renner and they're among the top five sellers that shows the importance of this synergy in our brands.

Camicado and its marketplace already has 210 sellers, the goal was 200. We passed that a little. And also focusing on curating supplementary categories, generating flow, value for our customers and cross-selling in our products. Camicado already -- 3P already accounts for over 16% of the digital GMV in the year. In content and branding, we invested in content to have further interaction with our customers, weekly posts, style tips, series on YouTube to increase recurrence, engagement and loyalty. We went from quarterly live sessions to monthly and now weekly and some even daily. We were the first to have a 3D Live Shop in Latin America and the first one with fashion products on TikTok. So that has increased our partnership with influencers as well on activations. We have a network of over 1,400 influencers, micro influencers included and the results are very significant. We've highly increase the traffic coming from our digital network and posted content as well as increasing the engagement volume of our posts.

And about CRM, we increased our customer base. We have almost 18 million active customers, 25% higher than 2020. Our retention is 12 percentage points higher than 2020. So, we not only advanced in size, but also in retention and also identifying the customer base. We already have 88% of revenues identified -- identified customers. Customers are increasingly more integrated not only in the channels, but also in the businesses and we can see that customers that buy in our brands and our ecosystem brand have a spend that's 6-7 times higher than others. Our loyalty issue is about -- is information. We've contracted the platform. We're working on the benefits, testing the benefits and we'll probably launch our program, cross brand program in the second half of the year to leverage that customer participation even more. In the Realize point of view, we're talking about the extensive ecosystem, not only in Renner in capturing, but also other businesses, Camicado, Youcom and Ashua increasing our share and lowering our churn. So increasing the customer base and decreasing the churn. We had record TPV. The customer base increased 12% year-over-year.

Services revenue gained much more relevant and that is the trend continuing to gain relevance in that, which is even more sustainable in the model. We had new operations to fund our sellers, we advanced in the digital account that we launched in November and it's being tested in the customer group in a place in the country side of Sao Paulo and we should soon expand that -- to that as well to others. When we talk about adjacent services, we had the integration of Repassa, which already inaugurated two kiosks in shopping malls. We have one in one of our stores. We strengthened the teams. The Jundiai headquarters gives us more capacity for operations, increasing our inventory by 3 times and that will lead to more synergies in -- with Repassa and the ecosystem.

On the next slide, we can see some important advances in technology and data. We already have 12 tribes dedicated to the priority initiatives in the ecosystem. We improved the use of our replenishment model by using artificial intelligence for 43% of our sales and also the prediction models in pricing markdowns engines and so on, as Daniel mentioned.

In ESG, we continue in line to build a more sustainable and long lasting ecosystem. In addition to the collaboration measures that we have in the pandemic, we also finalized our public sustainability commitments for 2021 that were established in 2018. So 100% of our supply chain, domestic and international is socially and environmentally certified; and100% from renewable low impact sources, our goal was 75%, we achieved 100%; 31% of reduction of CO2 emissions related to the inventory that we had in 2017, the goal was 20%, we've achieved almost 31% and 81.3% of our apparel items have the Re seal of responsible fashion, meaning 99%. We are not rated our first circular store based on the circular economy concept and we are very proud of that, that's our (inaudible) shopping mall store. In addition, just, a reference of the thing -- things and actions that we have done, our company is present in the main portfolios and index is related to ESG. I'd just like to highlight two of them, the Dow Jones Sustainability Index based on the S&P Global ESG score, we have the highest score among all global retail companies. In addition, the ISC from B3 with the general rank, we're in second and first in general and first in retail. So in a nutshell, we've done a lot so far. We've invested a lot. We've concluded and completed a lot, but there's still a lot to come.

In many of our investment funds, we started off from scratch or even a lower level and we had important leaps in 2021 and we still have a relevant path to build -- two or three years. So digital assortment increased by 60% and we will expedite that even more. Here are some of the charts to give you the order of magnitude of the size of transformation. CRM and our customer base increased by $4.2 million and we should pretty much double from the starting point. Online service level of deliveries, we started from almost zero and D plus 2 on average in the country, but 60% -- we should achieve 70%, 80%. In omni, our customer base has been increasing. It was less than 6% of the omni customer base and now we're at 12% of customers using all channels. We continue to grow and regarding cost to attract digital customers, CAC over revenues has dropped 10% to 12% and it should drop approximately 40% in the upcoming years. I really see the services revenues has gained more relevance that should continue to increase as I mentioned before.

I'd like to ask Daniel to give us a vision about where we are advancing in 2022 and going forward.

Daniel Martins dos Santos {BIO 20749659 <GO>}

Thank you, Fabio. We can see all these pillars and levers that Fabio was mentioning, and -- but what does that actually mean for 2022. Let's give you some perspectives of our vision in relation to 2022. First of all, there are many uncertainties, the entire economic scenario that now is moving faster, but a bit uncertain. So we are ready and aware of the opportunities and the challenges. About growing our revenues, our expectation is that we will continue to grow our revenues above historical levels. We will move -- continue to move fast compared to historical levels. We know the macro challenges that we have ahead of us, but we still have opportunities to gain more market share. Historically, Renner has shown to be resilient in the most challenging economic moments in the past and we believe that we will continue to have that resilience now in 2022.

Our investments in the ecosystem and in technology and in data continue to help us to improve our value proposition even further and will help us to set us apart in the market. We know that there is still a gap in mobility. We know that the e-commerce will continue to grow and expanding our omni customer base as Fabio mentioned in the previous slide. And the first quarter is already a quarter that's showing that growth trend and it makes us feel happy with that growth compared to the last quarter. In gross margin, we will continue to look for sequential improvement. We still have uncertain scenarios, the exchange rate is a little more well behaved, but at the same time there are inflationary elements that affect us.

So even though, there is an uncertain environment, we will continue to try to offset the inflation with healthier markdowns, gains in efficiency and as the results of the gains in efficiency and data that we have, so we can evolve the gross margin in a positive way during the year, reaching -- getting -- or getting close to the levels in 2019. About SG&A expenses, we will continue to invest in our ecosystem. So all of these pillars and the levers that Fabio mentioned continue as very essential for our success and we will continue to invest and that means that we will still have SG&A above historical levels before the pandemic, but we will see in evolution quarter after quarter in terms of gains in efficiency and scale and especially in the digital business that's we have as our north for 2022.

We expect to continued the path till now. We will have important growth in our portfolio that will increase revenue. And default [ph] is closer to historical levels. We want to balance with controlled quality -- credit quality. All of that will allow us to achieve total EBITDA at -- a lot of you have that a pre EFS EBITDA. The absolute is very close to 2019. So that's the challenge that we have for 2022. And now, I would like to pass the floor back to Fabio.

Fabio Adegas Faccio {BIO 19664887 <GO>}

Thank you, Daniel. To reiterate, we have a relevant growth in market share and we always believe that the brands with more meaning, with better value propositions to enchant their customers, make even more difference in moments like this, like the ones that we've been through these past years. And we see in the past history of the indicator, compared to our growth, in moments of crisis, we've always gain market share and as we could see and it's happening again now. But when we also look at other aspects and we compare in comparable basis, market players, the data, the information is public. So we can also notice that Renner is the largest player in apparel, but it's not just that. We are the greatest player with a greater scale, the greatest size, but when we look at comparable basis, even under a larger base, we had higher growth compared to important players. So we grew more than some of the large players and we -- they put pressure in our margins, but EBITDA over net margin and the size of the ball there is the value is grow -- is larger, but also larger generating value and with more efficiency, even if we do have pressure at the moment. So we continue to have much better efficiency, aware and sure that this efficiency will get even better.

So even starting from right now where we have more pressure, we have been generating growth in a wider basis and our history shows that we can little by little bit be more and more efficient, and the initiatives we started are in that direction to continue to grow more, not been just the biggest, but what that generates more value, more scale and more efficiency. So we're very much aware of the opportunity, we have now and definitely -- the probably of this happening because of the team we have and because of the right investments that we made. So we're still committed to our purpose of consolidating more and more in our ecosystem, being a leader in this segment and focusing on our customers. And we expect to invest BRL1 billion in CapEx more or less the same amount as last year.

And our priorities are the omni journey, opening about 40 stores and continue to speed up our online operation, also looking at the logistics and technology platform, so that we can provide even better service and enchantment and generate more value. We are also going to invest in the time-to-market team to have a better chain and better products for our customers and investments and initiatives of Realize. So our focus is to seek to generate more value gaining in productivity and efficiency in our operations and so that we built that throughout 2020 and forward. And all that to boost enchantment of our customers and (technical difficulty) to our shareholders. 91% of our customers were happy. Historical record and shows that we're in the right direction. From that enchantment that we also generate value. We're very confident that this will grow in our company.

I would like to thank all of you and now pass the floor to Carla, so we can go to the Q&A session because we already talked too much.

Questions And Answers

A - Carla Flores Sffair {BIO 20051296 <GO>}

Thank you, Fabio starting with our Q&A. We're going to first start with those on audio. It's from Ruben Couto from Santander. And after that we will go to those who sent message. Ruben, can you please ask your question?

Q - Ruben Couto {BIO 20636571 <GO>}

Yes, good morning. Good afternoon, actually. Thank you for the presentation, it answered a lot, clarified a lot. I want to hear more about your comment?

A - Carla Flores Sffair {BIO 20051296 <GO>}

Ruben, can you hear us?

Q - Ruben Couto {BIO 20636571 <GO>}

Yes, I can. I'm going to send the question to Joseph Giordano in JPMorgan. Then we'll come back to you. Okay, Ruben, sorry, we can't hear you.

Q - Joseph Giordano {BIO 17751061 <GO>}

Hello, good morning. Can you hear me? Good afternoon. Good afternoon, Fabio.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Just a minute, please. The audience can hear the question, but we cannot. We are not hearing it here. So, we'll just get this technical issue, right. So I'm going to switch -- I'm going to start with the questions that were sent by message and then we're going to go to the people who are asking the question. I have two questions. So she wants to know the investments in the quarter and following, how do you see the growth of the first quarter of 2020 and it's from Irma Sgarz and how do you lead the digital through the year?

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

Thank you, Lena [ph]. As Daniel mentioned, I think the quarter is -- started January with a little drop, but February was good and March also. So we have a very positive expectation of sales for the quarter and for the year. We have important news with the lifting of restrictions because of the pandemic, and that also has to do with a better landscape of the pandemic and Sao Paulo, does it -- lifted the mandatory use of masks, put that like it as well that shows that, the situation is more under control and people are feeling safer with mobility and that affects our sales positively. Greater mobility so higher the consumption of the items we sell. We've been filling that every day. The more people feel confident, the more consumption increases. Another positive aspect is the acceptance of our new collection. We have Monday officially -- we're going to have a preview of this new collection, but we are already have them at our stores and online and the acceptance is very positive of the new collection, which probably will help us to continue to maintain good growth going forward.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Thank you, Fabio. A question from Elena. What do you think about the results for 2022? I think Daniel already mentioned this. Does it make sense similar result as 2019, if so, what about if we have a worsening of the NPL?

A - Daniel Martins dos Santos {BIO 20749659 <GO>}

Thank you. Elaina actually what is behind that strategy, we want to reach '20 -- the end of 2022 close to 2019. What's behind that is that we're going to continue to strengthen the partnerships with Camicado and (inaudible). And what we have in our ecosystem and how we use the app Renner to encourage the use of the card. So how we could capture more cards, people who already are in our ecosystem. We have some customers that are selected by the card, which is higher. And when we look at the launching of the loyalty program, the card will be an integrated part of this loyalty system, so that we make the capture easier and also be use of the cards easier in our ecosystem as to the result and credit risk, what I mentioned at the beginning, we will have an increase of revenue and we want good quality of credit so that we can keep the losses at the historical levels before the pandemic.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Thank you, Daniel. Now, I have some questions that we have in the chat. Danny Eiger from XP. The first question is how we see the evolution of the EBITDA margin in the quarter and if you expect the historical I think this was answered, but....

A - Daniel Martins dos Santos {BIO 20749659 <GO>}

Let me reiterate what we said. The idea is to have a positive evolution, especially in our quarter after quarter, boosted by scale and efficiency, deeply focused on digital. By the first quarter till the end of the year, the goal is at least recover the EBITDA margin before the CF, before the pandemic. At the levels of the historical margin, but what Fabio said that we showed several indicators and we follow several indicators that is throughout the year of 2023 and 2024 that we can have gains in scale in our ecosystem, so that we can get closer and closer to the historical base of 2019. In that period between those two, we want to streamline our EBITDA margin and speeded above market and also with the gain of scale and efficiency to reach that percentage of 2019.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Thank you, Daniel. The second question from Danny is about default and same as Elena. So we're going to open the the Q&A for those who are on audio, then try to show it with by computer. So the first question is from Ruben Couto.

Q - Ruben Couto {BIO 20636571 <GO>}

Can you hear me. now? Can you hear me? So I'm going to ask my question. Thank you for the attempt. I want to here about what Daniel commented about the ramp up of the new distribution center. Can you tell us a bit about the timeline? I think it starts activity in the second quarter. But how long until it reaches a level of usage that brings that benefit of 3 percentage points in the revenue that Daniel had mentioned at the beginning of the presentation and also confirm if these 3 percentage points are on the online revenue only? That's my question. Thank you.

A - Daniel Martins dos Santos {BIO 20749659 <GO>}

I can answer. Starting with the last part of your question, yes, it's just about over the digital revenue. The distribution center in our plans is to start in the second quarter and we have the ramp-up of the distribution center starting with part of the product portfolio and little by little, we're bringing the entire portfolio there. So, of course, distribution center this big with technology, we want to do a controlled ramp up, so we avoid surprises. But we do have to speed up as much as possible so that we can achieve these 3 percentage points that I mentioned throughout 2023. To reach, in addition to having the benefit of three3 percentage points, as I mentioned and all the strategy of how we improve the last mile and this strategy will be put into practice as of 2023 as well, so that's the expectations of what, when we're going to feel the benefits of our -- in our financial statements. And it also brings benefits to our brick and mortar stores. The benefits are not as important as the benefit of digital, but it also brings improvement of efficiency, service time and logistics dynamic to our brand.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Next question audio from Joseph Giordano from JP Morgan. You can ask your question Joseph.

Q - Joseph Giordano {BIO 17751061 <GO>}

Hi, good afternoon everyone and thank you for taking my question. Actually, I'd like to explore a couple of points. First of all, capital allocation. You mentioned that it will be more organic than actually M&A. So I'd like to understand if organic growth, if -- what I'm saying is that like maybe inorganic, would we see any relevant movements, big assets, that's the first point?

Second point that I'd like to explore is to separate the profit sharing and try to understand how much is in the operation, how much is in corporate and how much is in management? That's an important aspect as well because there is the role and we can change the rule when the game is already on. Especially at the end that could have very positive effect moving forward.

And lastly, I'd like to explore how you see the return of the stores? You showed a couple of a chair chart, but I'd like to understand the ROIC for new capital allocation. So openings in shopping malls should slow down in the upcoming years. I'd like to understand how that's behaving, especially stores in streets and smaller cities. Thank you.

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

Thank you, Joseph. I'm going to try to answer all three and Carla and Daniel can add to that if they wish. About capital allocation in acquisitions, I'd say that we have many inorganic initiatives and we've been using the capital in those initiatives that generate value. That doesn't mean that there isn't any opportunities for acquisition. We've been studying many things and nowadays, we don't have anything concrete. I don't see any big movements rate now, but obviously, we're always assessing if there are movements that could add value to our shareholders into the ecosystem, then we will definitely look into it. But today we do not have anything concrete on that end. There may be good opportunities in the future. We're not ruling that out, but there are many organic initiatives that we can have with the capital allocation as well.

About your second question about profit sharing, if I understood correctly, so you're asking about operation management and the in-corporate profit sharing is just the executives and admin. So it's not in that line and we are in the management for the proposal for 2021 is even lower than the first proposal of 20 before the pandemic, when we had the first proposal for '20, before the pandemic it was higher. And then with the pandemic, we lowered the proposal because of the pandemic and '21 was lower than the first proposal of '20. So profit sharing is comprised of the operations personnel and executives in operations personnel or staff. We didn't really change that because there was already a limiting factor. For the executives, we had an extrapolation curve, which was sharper in some areas and never happened before. And we have been studying for a while, any issues during volatile times. And after we saw that change, we decided to work with the ceiling and it's still an important model for the executives, but it does protect the company from major volatility that's already applied for this year.

Your third question, Joseph, about new stores. Right? We see the growing importance of new stores as the omni model. We've been seeing that especially in new places, when we open a new store in the new place, we increase digital sales by 20% in that place. So the store does play an important role in its actual sales, in digital sales and as a place that's close to our customers. So we can continue to decrease or lower our lead times and also increasing the potential of traffic in store, pickup in store trying to return in stores. So we have more convenience for customers and higher conversion. So our expansion plan continues. Did I cover everything? Please feel free, if you want to follow up

Q - Joseph Giordano {BIO 17751061 <GO>}

Yes, you did Fabio. I'd like to explore ROIC a little further. Have you seen marginal ROIC of that expansion. So in smaller places, I understand that there is the Omni side, so the ROIC preserves itself in time?

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

For each store, yes, exactly. We've had that model for a while now of smaller stores, smaller than average in middle size places and big cities. That give us a return, that's even higher to our average in some cases. This week we were analyzing our top 15 stores and performance and they're part of that model. So it doesn't dilute it. It -- actually we have positive perspectives in that sense.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Thank you, Joseph. Next question is from Joan Soares from Citi. You can unmute.

Q - Joan Soares

Hi everyone, good afternoon. I'd like to take this -- have a follow-up on that store question. I think it would be interesting to look at a longer horizon, Fabio. It seems like the brick and mortar stores, you're giving more importance, they have a strategic character for e-commerce. Would it be correct to say that a slowdown of openings in '23 and '24, can you talk about the longer-term horizon for the stores?

And the second aspect is about costs. We still see a relevant increase in the cost of cotton. So I'd like to explore two points, how do you see that and how are you prepared for that increase in cost? And how are you pricing? The pricing environment, what's the competition like, right, the market in general? Is it rational? Do you see any opportunities to increase market share to speed that up? How do you see the pricing environment based on that cost scenario? Thank you.

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

Well, let me know if I don't answer anything. So about the importance of stores, you're correct. They do play an increasingly more relevant role. There is the importance of being a showroom, being a point of sales, which is extremely important. A point of experience, a point of collection of shipping and returns. So, it's becoming increasingly more important. But the number of stores for upcoming years, I think we can maintain the levels that we expect for this year and even maybe speed that up a little based on what we're going to do this year. We have some projects of those stores in smaller towns and they are very important for us because there are markets where we were not present. So you don't have cannibalization. The marginal gain is even higher than in other cities and bigger cities. So to the previous question about ROIC depending on the place, we even have bigger opportunities than larger cities because of lower cost and not have been sales cannibalization and important productivity. So we have projects for the next three years to maintain that current level or even speed that up a little.

Your second question was, can you repeat your second question, please?

Q - Joan Soares

Yes, of course, about costs and price, we see a relevant increase in cotton.

A - Daniel Martins dos Santos {BIO 20749659 <GO>}

Yeah, that's correct. You asked about the cotton, right. So, we had inflationary pressure in raw material not only cotton, but all raw material, cost of shipping. So the inflationary pressure has been going on for a while now, already. In the beginning, it was harder for us than now, I'd say. In the beginning, we were in a country, especially Brazil, which has a mentality of non-inflation because we had a while of stability and then strong inflationary pressure coming in and the transfer of the inflation to products, in the beginning, was harder than it is now. Customers weren't accepting it in the beginning because they were used to price stability. Demand elasticity was more affected and what we currently see is that, yes, we still have inflationary pressure and we don't think it will give in time.

I think it will take a while for that, sometimes with different drivers because international shipping was dropping and now fuels up and then cotton and then oil. So -- and the exchange rate is dropping, so there are pros and cons everywhere, but there is still inflationary pressure. The difference is that now it's in everything, in the price of all kinds of products. So customers are aware that we are in an inflation environment and we've been able to transfer a higher amount of inflation to product prices and also gain productivity and at the same time grow more in number of items and that helps us to mitigate the pressure. I can't say how it will be going forward, but for the first quarter, we are very close. We've been able to navigate closely to the levels in 2019 based on growth margin. So we're able to mitigate that pressure in a more effective way than what we saw at the end of last year or during last -- all of last year.

A - Carla Flores Sffair {BIO 20051296 <GO>}

So we have some questions here on the chat. I'll ask them. We have two questions from Irma from Goldman Sachs. I'll read both, although they're very specific. So the first one is probably for Fabio in the second one for Daniel. The first one, with the inauguration of the new DC in 2022, how long do you think it will take for you to get to the delivery turnaround time for 48 hours from Renner to the level of Youcom or even higher? And the second, do you believe that the share of own cards could go back to historical levels or is there something more structural in that?

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

On the DC side, thank you for your questions Irma. The test that we did with Youcom because you mentioned Youcom, we brought in shipping from Youcom to a smaller DC cross dock DC [ph] that doesn't have automation that we have in Cabreuva. It's not an omni DC, we just try -- did that to test it. So -- and the distribution network, we were wondering if we were able to decrease lead time and improve the cost inflation. We were able to do that. Going to another DC in the same macro region with automation because that one doesn't have any and omni operations, gains in efficiency in handling and with the same logistics opportunities that will definitely improve the equation of the Group overall. Don't forget that we will operate all our brands from that. So it's Youcom, Ashua, Renner and we will be able to gain efficiency soon and we can also gain more synergies with Repasse as well.

A - Daniel Martins dos Santos {BIO 20749659 <GO>}

When we're at that level, we expect that by (inaudible) but of the 45% today to there we will gain experience months over month in reducing time and reducing cost.

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

Irma, thank you for your question. As to penetration of our own card, throughout 2020, we had impact on our customer base because of the pandemic and we had several gains in efficiency and several things we did to improve and go above the previous levels. But what I had answered before is that, when we integrate the card with our ecosystem, little by little, we recover that purchase base at the Renner -- with the Renner cards at Renner. We think that all those things, be it -- using my card and other brands like Ashua, Camicado or using the card as part of our omni that we will be able to recover the share that we lost in 2021.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Thank you, Fabio. My next question is from Robert Ford from Merrill Lynch. It's related to Camicado. The pressure margin and competitive environment at Camicado? And the second part is how is the cross-border competition not only at Camicado, but the overall business?

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

Thank you, Bob. Camicado has a different landscape than fashion. During the pandemic, it was less affected at some point for -- the fashion was more affected than home appliances and decoration. Now we're recovering more fashion and Camicado is also recovering gradually throughout the months. Camicado suffers a little bit more in gross margin also because it has a greater share of imported goods. So that pressure of international shipping, exchange rates, so it suffered more than our other retail stores and brands because of in gross margin. But we also see Camicado now for the following months with an evolution curve, not at the same level as the fashion brands, but it's still think it will be increasing throughout the year. About the cross-border competition, we have the Asian players, which we've been talking about and they are increasing their market share. We think that they are important competitors with good action in the market, but that is relevant in fashion as well.

What we have to remember that this fashion -- the markets -- the fashion market is very much spread out. It's a market that will always trying to be more spread out. The number of players will always be relevant and on the one hand we have important players in that market share and several lost their share. Sometimes we think about what we focus on one player that is growing, but with our value proposition, the number of players is slower -- is lower than it was before. So that's why we've been gaining market share, month over month. But we do have important players. We've been mentioning in some of our meetings that, they do show good competitiveness in some, like product development, speed to market, but especially price. And in price, a part sustained by their business model is something we can learn also. But the other part is of tax exemption that I don't know how long that will be sustained. And that really changes the equation, which is one of the great is competitive advantages of these players. So we will always have players in the market. And regardless of which ones are there, we can improve our company. We always have opportunity for that and that's also relevant.

A - Carla Flores Sffair {BIO 20051296 <GO>}

Thank you. Now we're almost at the end. We are already beyond our time, but I have a question from Richard from BBI. That has to do with the D plus 2 that you answer before. He is talking about the evolution of the D plus 2. So, how we see that evolution for same and next day for the following years and also linked to what we said, you said before and talk about the pilot of Aruja, how it will be installed?

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

Okay, so thank you for your question, Richard. When we talk about up to 2 plus, D plus 2, same day and next day are included. It's a metric that we use, which is our acceptable (inaudible) country average that we should deliver in two days. So it's the same proportion of up to two days growth, it's part of it being same day or next day delivery. So we have some stores operated on WhatsApp in hours and promising delivery in hours is not even the same day, it's hours after. So the metric that we use is the maximum, up to two days, but this initiatives are to increase same-day and next-day delivery as well.

As to the pilot of Aruja, and thank you for your question. We did a pilot in Aruja, managing the network, working at the Aruja region to see if we could manage that better what would be the results. And we saw very good results, both in positioning of the products, we're doing the same thing for Cabreuva, but much wider as the decisions of these investments in our logistics platform. It's a very positive results. So even the test with of Youcom with the pilot of Aruja add to each other. So they will be good for all of the companies of the group.

A - Carla Flores Sffair {BIO 20051296 <GO>}

This is the last question from Bruno from (inaudible). And we do have other questions, but since we're almost half an hour beyond our -- a lot of time, this is the last and we are here to answer any questions that we have. Bruno's question has to do with revisiting the store opening and how we see the landscape of store opening in the future?

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

Thank you for your question, Bruno. We used to say 5 to 10 years, so that was our plan. At the moment we're focusing more in the next three years. So for the next three years, we are sticking with our plan, we're revisiting the positioning, but we are sticking with our plan. We have projects for street stores in mid-size and smaller cities to open in also and in existing shopping malls with a smaller share of new stores. But sort of in terms of number of projects and the feasibility of these projects, for the next three years, we can maintain our expectation. What's going to happen in 5, 10 years, it's hard to say because it depends on the recovery of the economy. We think that it will happen, but I prefer to focus on the next three. Our expectation is positive going forward and it will depend on the macro landscape.

A - Carla Flores Sffair {BIO 20051296 <GO>}

So with this, we conclude our Q&A session. I would like to pass the floor to Fabio and then for their closing comments.

A - Daniel Martins dos Santos {BIO 20749659 <GO>}

First, thank you. It's my first since call. Thank you for your questions. And we're here to answer any questions you might have and anything that we weren't able to clarify during the call. Thank you.

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

Thank you. I would like to thank all of you and we know that we have the potential. We've been recovering for the past years and especially now with the pandemic after. How much is affected. We have been recovering well but we know that we have potential to recover even more. We're very confident with the investments that are putting pressure on us are going to generate value in the future. So we're very confident with our strategy, with the team's capabilities and to carry it out. And I would like to thank our investors, our team, our Board members for the trust and the support. We expect to see even better results in the future that will corroborate with that. Thank you very much. Bye.