Adalberto Pereira dos Santos

Good afternoon, and thank you very much. We are all here together to present the earnings of the 2Q11. I have with me Luciano Agliardi, José Galló and Paula Picinini, our IR Manager. I would like to start by apologizing, first of all, because of the delay of the beginning of our conference call because of our international communication, and second because of the delay in our disclosure.

As you know, Renner has always been one of the first companies to disclose its results, but during this period the combination of some factors like the issuing of debentures and the closing of the Camicado operation generated a delay. In the first case, first of all, the debentures, we had to reprocess all the reports of the company, which is a very bureaucratic and meticulous process and, in the Camicado case, as it is a non-listed company, before talking about the consolidation of the figures, we had to do a lot of work to bring things up to the standards of the IFRS and starting from scratch. But now with these phases overcome, quite certainly in the next disclosures, we will want to be traditionally punctual.

Now, back to our earnings. We may say that the 2Q11 was very positive for our operations, both Renner and Camicado, with good performances in the usual commercial dates like Mother's Day and Valentine's and also favored by a good macroeconomic scenario. In Renner, the sales were influenced by a good exception of the fall and winter collections and low temperatures, particularly in May and June.

Starting our presentation on slide 3, we have the growth of consolidated net revenue from merchandise sales. Sales of Renner in the 2Q and Camicado totaled R$749.7 million, with a growth of 19% over the sales of R$630 million of Renner in the 2Q.
All these results are referred to Renner and Camicado for 2011, but we were not able to present the Camicado pro forma for 2010. In the first six months earnings, sales totaled R$1.3 million with a growth of 18.4%. Same-store sales, just Renner, were 9.8% in the quarter compared to 7.4% in the 2Q10 and 10.4% of the total of the period between January and June, as compared to 10.5% in last year's same quarter.

On slide 4 on the left, we see a map with a distribution and the distribution centers of Renner and Camicado. On the right-hand chart, we have a total area of 303 thousand square meters corresponding to 172 stores of combined operations. Of this total, we have 144 Renner shops and 28 Camicado, an area of 288.8 thousand square meters and 14.3 thousand square meters respectively for Renner and Camicado.

On slide 5, we have the gross margin from consolidated operations, 53.9% in the 2Q11, the same level presented by the Renner operation in 2010, which shows us the first sign of the low dilution brought about by the integration of the Camicado operation. It is worthwhile mentioning that the gross margin of the Renner operation alone had a positive growth of 0.3 percentage points.

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

In the first six months, the consolidated gross margin was 53.5%, practically the same level reached in the 1S10 when we had 53.6%.

On slide 6, we have the selling expenses, which increased 24.5% in the 2Q11. As a percentage of net revenues, expenses accounted for 24.7% of the sales, compared to 23.6% in the 2Q10. The selling expenses grew 23.2% representing 27.8% compared to 26.7% of the net revenue in the 1S10. These increases are related to the pre-operating expenses of the nine stores opened in the 2Q11, and also the slight impact brought by the consolidation of Camicado.

On page 7, we have the general and administrative expenses, which increased to 20.9% over the 2Q10, quite in line with the percentage over net sales observed in the former year, 8%. In this semester, this percentage was 8.8%, 0.3 percentage points above the former year and this increase is related to greater expenses incurred in the 1Q, thanks to more aggressive expansion plans of the Renner operations.

On slide 8, we show you a breakdown with the financial service results, R$32.1 million, a growth of 30% over the R$24.7 million in the 2Q10. In the six months, results reached R$70.6 million, a growth of 38.3%. The improvements presented are based on the good results achieved throughout these periods, particularly the good performance of the interest-bearing plan of 0+8 installments and gains stemming from FIDC of R$3.7 million and better levels regarding net losses from the operations.

Slide 9, we have the EBITDA, consolidated EBITDA and the consolidated EBITDA margin. We have R$179.7 million generated in the 2Q11, a growth of 17.8% over the same period of 2010. The EBITDA margin was 24%, slightly below the 24.2% presented in the 2Q10. This effect correlated to the integration of the new Camicado operation, since if we only consider the Lojas Renner, this margin would have gone up 0.7 percentage points in the quarter, reaching 24.9%.

In the six months, EBITDA totaled R$264.8 million with a growth of 17.4%, a consolidated margin of 20.9% compared to 21.1% in the first semester. Here, if we consider just the Renner operation, this margin would have expanded in 0.3 percentage points over the 1S10.

Slide 10, we have the net financial result presented in the upper table where we see in the 2Q11, we had a net financial revenue of R$1.4 million, below the result that we had in the same period last year, because of a lower cash level as we show you below.

On the 30th of June of the current year, cash and cash equivalents were R$242.2 million and when we discount a debt of R$50.7 million, this gives us a net cash position of R$191.5 million at the end of June. The significant reduction of these amounts is due to three factors; the payout of more dividends, R$90 million; the payment of part of the Camicado acquisition, R$140 million; and a higher level of CAPEX, R$51 million and altogether is R$281 million, which means higher allocations of R$281 million when compared to last year.

On slide 11, we have the net income of combined operations, which grew 24.8%, a total of R$113.5 million, a margin of 15.1% compared to 14.4% in the 2Q10. In this semester, net income reached R$161.1 million, an increase of 26% and consolidated net margins 12.7% compared to 11.9% last year.

On this slide, I would like to show you the chart on the right with an ROIC of combined operation, which was 10.5% in the 2Q compared to 9.8% of the previous year. In the semester, the ROIC was 15.1%, 0.9 percentage points higher than the figures of the 1S10.

Slide 12, we have the company's balance sheet. Here, the relative participation of inventories remains stable vis-à-vis the former year. It is also important to mention the greater volume of imports in transit, which has to do with the strategy of gradually increasing imported items in the collections.

Also in assets, I highlight the growth of the intangible item, a total of R$235.9 million at the end of the period, reflecting the booking of the Camicado operation goodwill.

In the liabilities, I would like to mention the financial service operations in the non-current group, which is R$342 million referring to higher quotas of the FIDC.

On slide 13, we have information about the company's investment, which totaled R$64.3 million in the quarter, of which R$42 million referred to the opening and preparation of new stores. In this semester, total investments totaled R$88.3 million.

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

On slide 15, we have the cards that have been issued, a record of 17.9 million, and also the growth of the average ticket of our private card, which increased 12.6% totaling R$155.47. In the semester, the average ticket was R$143.32, a growth of 11.7%.

In slide 16, the charts to the left show the growth of the total average ticket of Renner, which in the 1Q11 had a growth of 7.7% reaching R$112.31. In the six months, the total was an increase of 8.4% with an average ticket of R$103.74.

On the right, the payment forms of the Renner card with total sales, which in the 2Q were 55.2% of the sales compared to 57.8% in the former year. For the semester, Cartão Renner accounted for 54.7% of the sales compared to 57% in the 1S10.

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

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

The company also received some important recognition from the market being considered the 11th most valuable brand in Brazil by the Interbrand Brasil. In June, we were honored by the Agência Estado as the fourth place in the ranking Estado/Economatica of 2010. In July, we received the prize of IR Magazine Brazil Award in the category of Best Corporate Governance, and now, with a greater challenge, since we now compete in the category of large-caps, not mid-caps. And last week we received from the Isto É Dinheiro Magazine the award of the Best Retail Organization.

So, all these factors combined make us confident that we are on the right path. The company is well aware of the effects that the international crisis might bring and affect the domestic market, but it remains confident that the country will react adequately and we also are confident in our own internal capacity of growing and delivering results in a more challenging scenario. So, the expansion plan, both of Renner and Camicado, will be maintained and also other investments to improve logistics and systems infrastructure.

So this is what I had to say, and we will now go on to our Q&A session. Thank you.

Guilherme Assis, Raymond James:

Good afternoon. My question has to do with the provision for loan losses. What are you doing about this after the 2Q? I think the results were good. So, are you feeling any pressure here? And, are you changing anything regarding your credit policy, regarding any pressures? Also, another question, which has to do with your expansion plan, let's say, would there be any impact of the world crisis in Brazil? Would this affect your plan, your expansion plan downwards and would this make you change your plans?

Adalberto Pereira dos Santos:

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

On the curves, we could see a more prospective view. We have the first payment default indicator, which considers the new entrance into the portfolio and this gives you a very good idea of how things are doing and the market in general because they are the new loans and this has not deteriorated quite to the contrary. It continues to improve, and this vis-à-vis the new entrance.

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

Regarding the expansion plan, we do not think that any disaster will be coming along. Some contamination will occur, of course, and those sectors, which have more to do with the foreign markets, like commodities, will be affected, but we believe that our business has a lot to do with the domestic market and has a low ticket. So, if it is affected, it will be one of the last to be affected. So, only a really bad crisis or very much more serious crisis will affect us.

Our cash situation is good. We always work focused on keeping the margin and if necessary we will adjust things to face a lower level of demand. We will adjust things if need be and we will continue to do this and continue to grow. Our company is agile and flexible particularly to be able to adjust to the economic cycles.

Guilherme Assis:

Thank you very much, Adalberto.

Marcel Moraes, Credit Suisse:

Good afternoon. My first question has to do with the sales performance in the third quarter. Was there really a slowdown? The cold obviously had an effect on the 2Q and will it slow down? And then the second question, your expenses line in not only SG&A, but also with the dilution of the Camicado, it seems that contrary to the 1S, you managed to improve a better expense dilution in the 2Q. So what was different between the 1Q and 2Q to explain this, or am I wrong?

Adalberto Pereira dos Santos:

Regarding the sales of the 2Q and 3Q, Marcel, in fact the 2Q did not start off well. April was a difficult month and it improved a little bit in March as for Mother's Day – May, sorry, and in June sales were good. Now, it is still good the cold coming along if you are not prepared for it. So, the winter comes and you have to be prepared everywhere. You have different kinds of cold. The cold in the south is one thing and the northeast is another and the Amazon is another. So you have to be very agile, very skillful to be able to read your different markets and be able to serve them adequately and be able to improve your margins.

The 3Q is starting off similar to the 2Q. July has slowed down and this is relatively normal, because you always have a change of the collection. But if your 2Q is very good, you are well-stocked for the winter, and in July, you have a little winter stock. If this winter continues, you will have no more stock left, so you have no stock to sell. Your spring clothes are in and you do not have a demand.

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

And your last question had to do with what?

Marcel Moraes:

Expenses, in general.

Adalberto Pereira dos Santos:

Yes. We did have a very good result regarding expenses. We thought we would have a good year. We have always followed the same percentage for a full year. So, this has been an interesting result. The 2Q and 3Q, I have been looking at some reports, in terms of dilution, I think we have to be more conservative.

We opened 10 stores in the 1Q and 2Q. We should open another 23 in the 3Q and 4Q. And this brings heavier pre-operating expenses to the company. So, I think it is still a target to have a percentage of it for the whole company, because we had a good result in the 2Q that does not mean that we are victorious, it is still a challenge.

Now, in the 2Q, to understand the reason for this dilution, nine stores were opened. Most of these expenses dropped in the 1Q. Why? One has the impression that the 2S would not be so hard since in the 2Q there were nine, in the 1Q you had more pressure of SG&A not only because of the opening of the store, but an adjustment which was carried out for our logistics structure and headquarters of the company and so on and this is over and done with.

Now, there is a greater pressure because of the larger number of stores. For the pre-operating of a store today, expenses are between R$400 thousand and R$500 thousand per month. And you have this impact in one month before the opening of the store and it is very easy, 500 thousand times 10 is 500 million times 23 is R$1.5 million impacting you without revenue. So in fact, in the 3Q and 4Q we will still feel the pressure of the SG&A expenses.

Gustavo Oliveira, UBS:

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

And my second question is credit card operations. We have had a stabilization it seems of sales with the card about 55%. And I remember, Adalberto, that in the 1Q or the 4Q of last year, you made some comments saying that there was still a lot of upside on this operation and that if it were managed differently, you could increase the contribution of credit card sales. So I would like to understand how you are dealing with this at the moment?

Adalberto Pereira dos Santos:

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

The balance is not a linear division. Next year, we will be moderate between 5 and 10 stores. We are still to define that exactly to have a better performance in this integration. The integration has already started, several parts of back office have already been brought to Renner, accounting and financials.

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

So, once again, we confirm the expansion, a gradual curve this year and next year and integration, OK. Results in this year, the 2S, it should generate positive numbers after the non-recurrent items are returned. EBITDA should be 7% or 8%. If you take just the 2S, this should happen, as I have said. It is already positive and the dilution will be less.

With the card, we still have some internal activities to revitalize our card. Although, the banner is a very important initiative to capture these clients who want a portfolio banner. So, there is been a lot of participation of the two cards, the banner and the private. And so, we have to increase that. We are working very hard on our own banner.

We are analyzing the intrinsic characteristics of our product securities, perhaps working with a chip and trying to simplify the activity in the store. Sometimes, the client does not have the card with him and he will have to go to the office and he sometimes takes 20 minutes, now he can just pay with his own tax number.

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

Gustavo Oliveira:

Thank you very much.

Carlos Albano, Citibank:

Good afternoon. Regarding credit from financial services, there was a slight deterioration of the indicators. In the 1Q, the Cartão Renner was 2.5, the net revenue of sale of merchandise. In the 2Q it was 3 and now the portfolio of – losses of the portfolio versus the total were 5.5 in the 1Q, and now it is gone up to 6.5. So I would just like to know if there is any seasonal effect here. Why this happened or in spite of the number of the deterioration being marginal, if this happened because of something to do with the first question, it is seasonal?

Adalberto Pereira dos Santos:

The 1Q 2010, here I am working about the indicator on the portfolio because I think this is the most interesting thing. If you take the 1Q 2010, we had 3.6 of loss in the card. If you take the 1Q11, we had 2.2. If you want to go back a little bit further to 2009, 1Q of 2009, 3.4; 2010, 3.6; and 2011, 2.2.

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

Carlos Albano:

So this number you are talking about, what is it? Is the loss of the Cartão Renner Renner on the average card of the period?

Adalberto Pereira dos Santos:

I can send you the spreadsheet if you are interested.

Carlos Albano:

Thank you.

Andreia Teixeira, JP Morgan:

Thank you. Good afternoon. Congratulations on your earnings. Going back to delinquency, Adalberto, sorry to insist, but I was interested on your lead indicators in the model. If you – what kind of premise – are you not considering any kind of acceleration, like it happened in 2008? Are we not going back to those levels that happened in 2008?

And the other question related to this is that I know you have carried out a more flexible credit policy in spite – well, the level of acceptance of credit of loans is high, but you were also having an improvement of the quality of delinquency, which is fine. But from now on, will you maintain this position where the level of card acceptance considers at current levels?

And another question is whether the plan of opening the bank is now postponed because of the FIDC and the non-necessity of financing since there is long-term financing now?

Adalberto Pereira dos Santos:

Well, Andrea, yes, conditions are better. I have here the indication of our chart here of approval of the credit score, which shows that approvals are made automatically by the system. Considering June, we went from 81% in 2009 to 2004; 84% in 2010; and now in 2011 85.9%. So this is an improvement of the process system, an updating of the credit, improvement of the charging, collection processes, so this does not have a personal intention or of the company. This is just because of the process improvement and it is – so our credit score processes are automated. We can interfere, but this has not been necessary.

Your question with the growth of delinquency, the curves which we have, a perspective regarding the portfolio do not give us reason to think about a deterioration of scenario like 2008. We are very confident that in the 3Q and 4Q, we will have very good delinquency levels, this based on the portfolio which I already have in-house. I just spoke a few moments ago about this, the question regarding the new approvals that are coming very solid and healthy and also the performance of the portfolio that we already have in-house. So there is no deterioration on the horizon.

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

Another point is the question of – but this make things more peaceful or not, or we can work with an intermediary scenario. We could use the FIDC and use the self-regulation of the – or see if it is regulated by the central bank, taking into account the BIS ratio and/or using all the parameters of the central bank. This might be the best thing to do, not to have all the duties that you have – that we have now, but to have the security that a financial institution needs.

Andreia Teixeira:

Thank you.

Tobias Stingelin, Santander:

Good afternoon. My first question, Adalberto, could you explain the ticket and how it is grown regarding traffic price in the 1Q? I think there is a little confusion, you had to review this calculation and then you did not talk much about that. So could you tell us about how this grew in the 2Q just so we could follow the first question?

Adalberto Pereira dos Santos:

Well, in my presentation, I do not know if you have got it there, where we talked about the ticket, the average ticket. You have the average ticket of the company on slide 15 and then you have the growth in the 2Q of 12.6%. This information always generated some confusion because as the card penetration decreased, you change the makeup and as the participation of 0+8 decreased or increased vis-à-vis the 0+5. As it was more valuable, it pushed the other one up. You have that on slide 16. You have the breakdown of the average ticket of the company, you have 7.7% of increase of the total ticket.

So, 2.1% here is the calculation, now it is a direct calculation. I do not have to infer anything and it is very interesting, because it was the same gain of traffic which we had in the 1Q, so 2% in the 1Q and 2% now as well. We will disclose this information now, like this, every quarter.

Tobias Stingelin:

So, it is minus 2%, right, the difference was negative in traffic?

Adalberto Pereira dos Santos:

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

Tobias Stingelin:

Another question, you probably raised the price of the 1Q because of the cotton. With the cotton price dropping now, can you feel this now, the impact of this, is it a positive impact on your margin or not because your purchases are long term?

Adalberto Pereira dos Santos:

No, not yet. We should start to feel something like this in the 4Q of the GDP regarding imported products because we buy one year ahead, so – or on the national product. So there has been an effective drop. And we will have a combined effect of the drop of the cotton and the USD. So, this will bring this effect and be felt in the 4Q.

Tobias Stingelin:

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

Adalberto Pereira dos Santos:

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

Tobias Stingelin:

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

Adalberto Pereira dos Santos:

What you see there on the tax line, which is 26%, 27% is the prepaying of interest on our own capital. In previous years, what did we do? We paid in the first three quarters of the year. We regularly followed or paid our income tax. In the last quarter, we do the recognition of the payment of interest on our own capital. So, 33%, 33%, 33% in the 1Q and the last two dropped to 23%.

Now, you will not have this. We are recognizing things every quarter. So instead of taking 33%, we will have 26% in the 1Q, 26% in the 2Q and in the 3Q and the 4Q.

The effect of this is low because of total recovery done was R$4 million. This gives you a fiscal benefit of R$1.3 million. So this is non-recurrent and a little bit recurrent as well because we will always have initiatives, which might be in the Lei do Bem and the Camicado is R$6.8 million, which has to do with deferred tax. This is very, very technical on accrued losses in the past. As they will not have any more losses, this will not occur again, basically set, but we have a rate of 7%.

Tobias Stingelin:

But it is not that you have a large inventory.

Adalberto Pereira dos Santos:

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

Tobias Stingelin:

Thank you.

Marcel Moraes, Credit Suisse:

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

Adalberto Pereira dos Santos:

Well, Ricardo, this has to do basically with the process and replacement in spite of our turnover being one of the lowest in the market. Today, we have a turnover of 40%, the average of the market is 70%, 75%. If you do not do this replacement well, you will have a lot of turnover at the end of the month and this is what happened.

Operator

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

Adalberto Pereira dos Santos

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

Operator

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