Operator:

Ladies and gentlemen, good morning and thank you for standing by. Welcome to Guararapes-Riachuelo's conference call to discuss results concerning the 4Q14 and also the year 2014.

This conference call is being broadcast simultaneously over the Internet and maybe accessed at www.riachuelo.com.br/ri. The presentation is also available for download at the same URL.

We would like to inform you that participants are connected in listen-only mode during the Company's presentation and afterwards we will start the Q&A session, when further instructions will be provided. Should anybody need assistance during the call, please request the assistance of an operator by pressing *0.

Before proceeding, I would like to mention that forward-looking statements made during the conference call concerning the Company's business outlook and also financial and operational forecast are based on the Company's beliefs and assumptions and also on information currently available for the Company's management. Forward-looking statements are no guarantee of performance because they involve risks, uncertainties and assumptions as they refer to future events, and therefore depend on circumstances which may or may not materialize.

Investors and analysts should have in mind that macroeconomic conditions, industry conditions and other operating factors can also affect the Company's future results, and lead numbers to differ materially from those expressed in these forward-looking statements.

I would like now to turn the floor over to Mr. Flávio Rocha, CEO. Please Mr. Rocha you have the floor.

Flávio Rocha:

Good morning, everyone. I would like to first of all thank you all for participating in this call for your interest and this conference call where we will analyze the Company's results for the year 2014, more specifically, the results concerning the last quarter of the year.

Here with us, we have Newton Rocha, our Vice President; and also Tulio Queiroz, our CFO; Marcelo Oscar who is in charge of the IR division of the Company.

2014 was a year characterized by low growth of GDP and a series of economic problems, loss of competitiveness across several industries, but in our understanding of our business and our reality requires us to look at two different countries in terms of performance and in terms of behavior, distinct countries under the same name.

What I am trying to refer to here is that for the past decade we had effects which worsened in the past year, which was the loss of competitiveness. This impacts Brazil differently, the areas of production and retail industry and consumption. Without a doubt, we had different effects on those two different fronts. The industry, manufacturing, suffers that impact more intensively, that loss of competitiveness, because it is part of a global competitive scenario.

In terms of retail, I know things are changing, also because of globalization, e-commerce is introducing many changes, but retail still is part of a scenario where competition is basically local, regional, and that makes it more palatable, if you will, to deal with impact, because it happens horizontally across all players in the market.

Because of that phenomenon, if you will, we had a decade, which we can call the retail decade, starting at 2004 through 2014, because it was when we moved from 2013 to 2014 when we saw that change in retail.

Retail was usually growing below the GDP and it started growing up above GDP, and throughout those 10 years where GDP grew 40%, retail grew 120%, thus taking up a vacuum, an empty space that existed, and, of course, helped democratize and include low income brackets of the population in the credit scenario.

And even within the retail, we have two different universes. We have the low income retail, where we have a low productivity, we have what we call the mom and pop stores, informal outlets, and a more recent phenomenon, which is what we call the high productivity retail and we have benefited from that.

Riachuelo grew something close to a 1,000% whereas retail on average grew 140%, as I just said. So we have gained significant market share and we believe this is just the start of that process. A recent study conducted by our business intelligence division said that we have hardly touched 2% of market share.

So, despite all of the challenges of this bad move if you will, all those record lows in terms of confidence on the part of the consumer, we still believe that this is the time for a Company like ours, looking ahead in the long term, has great opportunities, and that is why we have maintained an investment plan which is considerably active, not so much aggressive, but active.

We opened last year 45 new stores, which accounts for 65,000 square meters in terms of GLA and over 80,000 square meters in terms of GLA, constructed area all under the Riachuelo format configuration. And just as we saw this phenomenon taking place, for example, during the European crisis, where fashion retailers had a great opportunity and they actually reached that opportunity and gained market share.

We believe that likewise in Brazil, you can only be pessimistic if you are looking in the short-term, which is not, by far, our case. We do believe in a gain in market share for the more competitive retailers, those who have scale, scale has grown as an important factor in terms of competition, and, in our case, the belief that we have in our distinguished model, our integrated model that we adopted, and which we have managed to successfully implement here in Brazil.

And just as to understand that was in a reality, we need to look at two different countries, to understand Riachuelo, we need to look at two different companies. We have two different worlds, if you will, with different behaviors, different rationale, different strategies and different growth basis. We have the fashion world and the basic items world.

The fashion world is the one where speed and lead time are essential. We need to quickly identify trends, we need to have speed to correct our path during the season and this has proven to be or to have been rather a right choice in terms of business architecture. We are in total synergy between the production area and the retail area.

The other world, in our case which accounts for 45% of the business, is what we called the basic items world. Those items which are not the result of a trend, which are long lasting items, where the motto is availability. The secret of success in the basic items scenario is to have a mix of products, which cover different colors, different sizes available at every store, every day, and that is a huge challenge.

And, of course, we have different behaviors. This store-on-store result of 1% which is no reason to celebrate, of course, but we do have reasons to celebrate when we look at the performance at the most challenging side and the most complex side, and I am talking about the 55% of our fashion universe where we grew 14% store-on-store.

That shows that we were right in defining our collection. That side of our business is in close relation with our production side and has managed to bring in new life, a new breath of fresh air to our stores. If we were a Company focused only on fashion, just as we did in 2013, we would have had by far the best performance across all indicators, including the store-on-store indicator.

What happened to sort of bringing a lackluster performance on the most difficult side of our business? I am talking about the 45% of the basic items side of our business, the ones that we call never out of stock. Paradoxically, that is what gave us a very strong performance in 2013 and actually also in the 1Q14.

We had a very good growth store-on-store, but what changed in that side of the business? At the end of 2013, Guararapes started to focus on the fashion world to try and benefit from the lead time that we have today, 10 days between the manufacturing plant and our distribution centers, that is gold, and we are not reaping out the benefits of that when we focused only on basic items.

So that is a period, I am talking about where we migrated operations to Shanghai. So when we had a 10 day lead time, we moved to Shanghai with a six-month lead time. That transition led us to suffer in the 2Q14. That is when we lost a sequence of good results leading in store-on-store and that got worse in the 3Q and 4Q.

The result is that, that 45% of our business, what I am talking about again, the basic items, presented a negative performance store-on-store. That is exactly the part of the Company where we could have had a better contribution to the business in terms of store-on-store, but we had losses, because there was a rupture in our strategy.

When we identified this rupture, we identified system problems in managing those 7000 SKUs, those 300 basic models times five, times six colors, times four sizes and they need to be present always at the distribution center, so that the push and pull of our SKUs may remain stable across our stores. We already have the resources in place in our DCs in terms of replenishment of stock.

But what is the good side, the upside of the story? It would be a problem if we had reverse roles. In 2014, we had repeated the same goals for 2013 with the emergence of these new operations, and if we had guided wrong on the fashion side, that would be a source of concern, but the good news is that in terms of fashion, in terms of brand perception, the growth of the brand, especially in big urban centers, our collections are being well received.

That will contribute to strengthen our 55% concentrated on the fashion world and the remaining 45%, as it has been announced by our commercial area, is already showing signs of strength.

We have turned the page in terms of distribution, we already have in our stores, it is a beautiful rainbow when it comes to colors and a wonderful mix of different basic product and its already starting to contribute at a two-digit level to the business, exactly in the area where we saw a decrease in growth, in store-on-store.

Concerning expansions, the plans for the coming years is to keep at the same pace, in other words, 40 new stores, and that accounts for about, in terms of investments in stores, something between R$360 million to R$380 million, plus R$140 million for the Guarulhos DC and next year another R$60 million for the DC in the city of Natal. Those two DCs represent the main investments of the Company after the physical expansion in terms of stores.

And what concerns the financial operations, we have a lot to celebrate, of course, we are going through a moment where caution is required, headlines and the news signal a return of unemployment, but here our numbers in terms of default are totally under control and are being closely monitored. But still 2014 marked the consolidation of the operational by very strong asset of the Company, which is the conversion of its private label card conversion, largest base in the hands a retailer, so that was converted in the big new aspiration of the middle class, which is the branded cards.

We reached this year 3,6 million cards, coming from a base of 25 million PL cards and the cards issued this year put us in a position where we are the third largest issuer of branded cards in Brazil.

So, we consider that 2014 was the year where we really took off in terms of getting the systems right, getting our call centers operating at full speed and a financial operation significantly contributes to a broad view of the Company. So the idea is to transform the Company's length into synergy rather than in conflicts.

So we have industry and retail contributing to creating synergy, and the fact that we have financial operations under the same umbrella as the retail also contributes to growing synergy within the Company's business.

One of the main drivers for our good results, which translated as the best bottom line in the industry, it profits above R$480 million was a strict control of expenses, and that gain is important when you have an expansion program of this size that we have. And we did manage to maintain expenses below inflation for this year at about 3.5% in terms of growth per square meter — again, I am talking about operating expenses.

In terms of our collections, this year we introduced something new, which was the creation of two catalogs in two different ad campaigns for what we call the hot and the cold store. That collection has just hit the stores in February and we already have the first feedbacks from that initiative, and those feedbacks are quite positive. We have good numbers in terms of sales.

Throughout last year, we kept our strategy in line with our mission of giving access to fashion, of making dreams come true in terms of fashion, bringing a high fashion to the reality of the Brazilian consumer.

We closed the year with a very successful partnership, our first international partnership with the Versace brand. We had an event to close the year, to close the São Paulo Fashion Week, and we broke a paradigm, we surprised everyone present and created a lot of media buzz.

The Fashion Week usually shows collections for the coming season, the São Paulo Fashion Week is not different, but the closing event, when we launched our Versace for Riachuelo collection, and we had the Creative Director of the brand, Donatella Versace here with us, it was a very nice fashion show, it was highly praised by the media.

And at the end of the show, a 40 meter long curtain dropped and we could see 40 of our associates displaying the whole collection, which had just been displayed. That is what I call democratizing fashion, making it instantly available for people. And there, of course, also translated as successful sales and more than that, showed that we have achieved a position where we are fashion authorities as well, which helped us consolidate the brand as a very valuable and desirable one.

The year 2014 also brought different awards for the Company. I would like to highlight just a few. An award that was very moving to us in particular, which was granted by ANEFAC, the National Association of Finance Executives, which annually grants a transparency trophy, and we were awarded a transparency trophy for 2014. That made us all very happy, that is the recognition of our effort in terms of governance, accountability which is fundamental for us. The other award we received, which also with an honor, was granted by the Great Places to Work Institution and we were included among those companies.

So that is what I had to say at first. Before turning the floor over to our colleagues, once again, thank you for your attention and now as I said, give the floor over to Tulio Queiroz, our CFO.

Tulio Queiroz:

Thank you, Flávio. Good morning everyone. I will briefly go over the presentation. It can also be followed through our website. We are now on slide number three, where we have net revenue from products, a total R$1,310 billion in the quarter, a growth of 12.5% in the year. Net revenue totaled R$3,748 billion, a growth of 13.8%.

The same store indicators, as mentioned by Flávio, growth in the quarter was at 1%, ending the year at 1.4%. Of course, once again emphasizing the difference of performance between fashion and basic item, as it was mentioned by Flávio, also as a highlight, a good performance of the Northern and Southern region, as opposed to the Mid-West and South Eastern. So, the positive highlight of the year, including the 4Q, is the Northern region of Brazil, along with Southern region of Brazil.

Moving on to slide number four, we have an overview of the average ticket for the Company in the quarter. Average ticket totaled R$165 in the 4Q, 4.5% up from the previous period, and in the year 5.7% totaling R$153. At the bottom part of the slide, you see an overview of the total cards where we closed the year at 25 million cards, a growth of 8.7%, R$3.7 million referred to co-branded cards.

On the next slide, slide number five, we see the sales breakdown for the Riachuelo Card in the 4Q, nice to emphasize the growth in terms of the Riachuelo card, when compared to the 4Q13. Though we have been losing money with our card, but that trend is starting to reverse in the year.

The Riachuelo card close the year at 44.1% when compared to 44.3% in 2013, but most importantly, there is a change in trends in terms of relevant losses that we had in the past years. We are now seeing an evolution to the Riachuelo card. Interest sales 8.1% when compared to 9% in the 4Q13.

On the next slide, number six, we talked about our operational performance front, cartão Riachuelo and personal loans, that is on the top part of the slide. The green line shows the loss for personal loans and the blue line shows the loss in card operations.

That level of losses is under control. We are closing at a level of 6.5%, which is below the historic average of the Company, which is around 7%. When we analyze the recent collections, the recent indicators, we can foresee stability for that level of losses. Of course we know there are series of yellow sings in terms of macroeconomic indicators, but, for the time being, we can see stability going forward in terms of losses.

In the bottom part of the slide, we see indicators referring provisionings. So the Company closed the year with 6.6% in terms of provision or maturities up to 180 days, the coverage ratio overdue more than 90 days, we are at 103%, 18% above the minimum required by the Central Bank.

On the next slide, slide number seven, we have the numbers concerning the Company's financial performance. The Company's EBITDA totaled R$72 million in the 4Q, a growth of 39.8%, and R$277.9 million in the year, a growth of 63.9%.

The strong growth presented, both throughout the year and in the quarter, was due to the same reasons we have been discussing for the past quarters and this conference call. In other words, a change in the way we treated the financial performance. We saw that our card was losing share when compared to competitors, so in 2014 we focused our attention on that operation, focusing on a more commercial DNA, but maintaining our credit policies.

Default levels were stable. So we had higher revenue, better margins and a stable default that led to an improvement in our EBITDA and our margins, in this year 31.3% in terms of EBITDA, one concerning when compared to the consolidated EBITDA.

On slide number eight, we talk about our sales area. The Company closed the year with 556 million square meters in operations, totaling 257 stores. It is worth mentioning that on the left part of the slide, we have a breakdown per age, we have a relevant participation of areas which are maturing, which is driven by the opening of new stores and that generates a favorable growth potential going forward.

On the next slide, slide number nine, you can see our real estate operations. On the top part of the slide, we have the macro numbers concerning shopping malls. EBITDA for the mall totaled R$14.1 million in the 4Q14, a drop of 4.4% in the year.

EBITDA was stable at R$48.5 million and that reduction in the quarter was due to some expenses, some defaults and also a change in the mix. We had to change the mix to make it more attractive and that impacts the EBITDA, but that is something isolated in the quarter and should not happen again in the coming quarters.

On the bottom part of the slide, we have an overview of stores, especially owned stores of the Company. Of the Group, 46 stores are operated in owned real estate, eight of them are in malls, and 38 are street stores.

On the next slide, slide number 10, we show our consolidated numbers. We start with the net revenue consolidated at R$1,589 billion in the quarter, 15.6% up from the 3Q13. In the year, it totaled R$4,728 billion, a growth of 16.2%.

It is worth mentioning that consolidated net revenue is the sum of the product net revenue, and mall revenue, and the financial operations revenues.

On the next slide, slide number 11. We have numbers concerning consolidated gross profit. Gross profit totaled R$963 million in the 4Q, a growth of 17.9%, and in the year it totaled R$2,904 million, a growth of 20.1%.

When we analyze the blue line, which refers to the product gross profit, there was a slowdown in the 4Q because of all the commercial difficulties we faced, as it was mentioned by Flávio, and in the year the margin was flat.

So, once again, it was a year where imported products had the pressure of foreign exchange components, of course, third party companies also suffered, suppliers suffered the same pressures, but still our margins performed well. It was an evolution of the Guararapes margin which helped the scenario where we have a flat margin for product.

The consolidated gross margin, which is the green line, there we can see an expansion, which is the sum of the product of gross margin, including the financial operations. Since the financial operation had better margins, especially of a lower level of discounts and the negotiation of old debts, we can see that the margin grew significantly, above 59.4% in 2013 went up to 61.4% in 2014.

On the next slide, slide number 12, we have the operating expenses. Operating expenses totaled R$589 million in the 4Q, a growth of 26.4% and totaled R$1,823 billion in the year, a growth of 21.3%.

At the bottom part of the slide, we have an overlook of the operating expenses per square meter. In the quarter, a growth of 10%, and in the year, a growth of 4.7%. If we exclude the effect of the provisioning for premiums, which was more intense in the 4Q, our operating expenses in the 4Q would be per square meter 5% and in the year 3.2%.

It is worth mentioning, once again, the added effort on the part of the Company throughout 2014, in terms of controlling operating expenses, those efforts have intensified and we are still looking at opportunities to consolidate that work throughout 2015 as well. So we can keep this EBITDA margin at a good level, even considering the base of new openings.

On slide number 13, we have an overview of the consolidated EBITDA for the Group. On the bottom part, we see an exclusion of the effect coming from interest on owned capital, which the Company started to adopt in the 3Q13. That is a model where you can better compare the operating performance.

The adjusted EBITDA, excluding the effect of interest on owned capital, we can see that EBITDA was practically flat in the quarter, totaling R$329 million. In the year, it totaled R$913 million, a growth of 13.9%.

That EBITDA result is the sum total of the performance sales in same stores, which is challenging at 1.4% growth in the year, a scenario of gross margin for product which was flat, a strict control over expenses and a growth in the financial operations. So it is the sum total of several elements that leads to that adjusted EBITDA number.

On the next slide, slide number 14, we have numbers concerning the Company's consolidated net income totaling R$191 million in the quarter, a drop of 8%, in the year-to-date, net income totaled R$480 million, a growth of 14.2%. On the green line, the net margin, even when compared to the product and net revenue, was flat in 2014 when compared to 2013.

On the next slide, slide number 15, we have the indebtedness of the Company, which totaled R$594 million at the end of 2014, amounting to 0.7% of EBITDA. At the end of 2013, net debt was R$295 million or 0.4% of EBITDA.

In this case, an increase in the indebtedness level was due to strong investments. The Company is increasing its store basis. We talked about 45 new stores being opened and on top of that, our investments associated to the financial operation, the growth of the card operations and also the growth in inventory.

On the next slide, slide number 16, we have an overview of the CAPEX for 2014. In the group, the total was R$358 million fixed assets, most of it, Riachuelo, of course, especially concerning the opening of new stores.

Moving on to slide number 17, we have an overview of our headcounts. The Company closed 2014 with 40,195 associates, employees, when compared to 40,351 in 2013. Once again, there was a reduction of 2% in the number of employees in the industrial side and a growth in 0.7% for Riachuelo.

Important to emphasize the growth of employees for Riachuelo, which shows the results of our cost control — even with 45 extra stores, our growth was not that high in terms of employees.

Those are my initial remarks. We are now available for questions or comments you may have. Thank you.

Joseph Giordano, JPMorgan:

Good morning Flávio, good morning Tulio. First of all, thank you for the same-store explanation. I would like to have more color please, what caused that rupture that you mentioned? I understand there was a system problem, was it a disconnect between this demand on the store and what you are buying in China?

Also, looking at the inventory levels, we see an increase which is considerable in the 4Q, I would like to understand what is left of the inventories. Thank you.

Tulio Queiroz:

Thank you, Joseph. Concerning the same-store sales performance, I think Flávio made it clear that there is a difference between basic items and what we call mobile fashion. I think it all started with the change in the management of basics, starting the end of 2013, in the beginning of 2014, we opened up more space, more room at Guararapes to benefit on the shorter lead time in the fashion side of the business and we started because of that, bringing the basic items from abroad.

To do that we need to adjust logistics, adjust systems and adjust planning and that is exactly when we had a law in that management, a rupture. So, all the coverage levels for lead time need to be corrected, both within the system and also in terms of management and that is where we had a problem.

There was a lack of availability for basic items, especially in the 4Q. In terms of inventory levels, we were concerned about that, our inventory grew 38% year-on-year, and, of course, there was also a reflex of the Company's need for working capital, but it is also due to that mismatch I just mentioned.

When we need to respond to items which are performing well in the stores we will be able equalize all that. One of the essences of the fast fashion concept is to be able to generate more value per square meter. In other words, to bring in more margin and consequently your inventory levels drop, so we need to be more responsive to those demands and not work so much on forecast.

So that level of inventory was a consequence of that mismatch and we are already working on it. We have adjusted that already in the first two months of the year.

Joseph Giordano, Analyst

So in the 1Q, you have an inventory level which is a bit higher and you are giving a guidance of relatively flat gross margin. I would like to understand what kind of markdown are you thinking about or are you going have a lower markdown in the 1Q?

Tulio Queiroz:

OK. Just to make something more clear and this has to do with your question concerning the markdown for the 1Q. That increase in inventory levels, as you can observe, most of it had to do with ongoing imports for exactly to those basic items where we had difficulties in the planning stage back in the 4Q.

If something good can be said about that is that we are talking about inventories which are less perishable. When we talk about basic items, they have inventories of a better quality, if you will.

So, even for the first two months of the year, our margin has not suffered, and now, again, we are working on it. Even with difficulties, even with the pressures coming from inflation and from exchange rates, we are still working with a flat gross margin for products for 2014.

So, a good part of our inventory is that non-perishables, so again, if we can extract something good out of a bad piece of news that is what I would have to say. But now back on your second question, the level of markdown for January and February was exactly the same as we had in the previous years. We did not have to bleed our margins to make our inventories slow.

Joseph Giordano:

One more question. What can you tell us about the competitive environment? Do you have any idea on the same store performance of other players? What have you seen in the market in terms of competition? What are you doing differently, on top of working your model side of the business, better than the competition apparently?

Tulio Queiroz:

In terms of competition, I think whenever we have macroeconomic difficulties as we are having now, we need to work on our business plan, and, at the same time, we have good opportunities to gain share from those players which are less capitalized. And that is where we are basing our decisions in terms of investments.

I believe there is great opportunity in terms of shopping malls. Our market is still quite fragmented, so the main players in the industry have an opportunity continue to consolidate. And the most professional players, the best equipped players are now being able to offer more to the consumer.

Our objective is quite clear, it is to become the first player in the fast fashion area in Brazil, and that is why we are making all those investments and dedicating so much managerial time and efforts to do that. We need to be able to identify fast movers, slow movers and be able to respond within the same season.

On top of that, we have increasingly offered a more complete solution to the consumer, a broader mix to the consumer. When we talk about more specialized boutique stores, they have increasingly more difficulty in terms of offering availability and diversity, ehen you look at broader mixes. So I think that is1 our main distinguishing factor. We need to become a real fast fashion player and that is what we are aiming at.

Joseph Giordano:

OK. Thank you.

Wagner Salaverry, Quantitas:

Good morning, everyone. Tulio, a question. Have you noticed a change in sales geographically speaking? When you talk about the breakdown between older and newer store, is there a significant sales performance between newer and older stores? Also, if you have noticed a change in sales performance when comparing the Southern part of the country with the Northern part of the country?

Tulio Queiroz:

Good morning. What we did noticed in the 1Q, looking specifically at January and February, a change in sales performance as a whole. We have a higher flow in the store and higher efficiency in turning that flow into sales, converting that flow into sales. The performance among regions was very similar to that observed in 2014. In other words, an emphasis in the southern region of the country, with an excellent performance, and also the northern region with very good performance.

I think, we see a little more difficulty especially the Midwest. The North Eastern, which has difficulties up to the 3Q14 showed better results as early as the 4Q14, and has kept that good performance in the beginning of the 2015.

In what concerns, much more mature and newer stores, I would say the curve remains the same. Of course, when we have a same store performance which is better, the curve, as a whole, moves upwards, and the young stores benefit from that. I think for the 1Q that is what we have to say.

Wagner Salaverry:

OK. Thank you.

Operator:

Thank you. The Q&A session is now over. And I would like to turn the floor over to Mr. Tulio Queiroz for his final remarks.

Tulio Queiroz:

Once again, thank you all for participating in this conference call. The team is available to comments any questions. Thank you and have a good afternoon.

Operator:

Thank you. The conference call to discuss Guararapes Riachuelo's results is now over. You may disconnect your lines now.