Operator:

Thank you for waiting. Welcome to Guararapes Riachuelo teleconference in which Q4 results will be presented.

This teleconference is being broadcast over the Internet; the address is www.riachuelo.com.br/ir. The presentation will also be available there. Participants will be in a listen-only mode during the company's presentation and then we will have a Q&A. Further instructions will be given then. If you need any assistance during the conference, please press star 0.

Before we proceed, we would like to state that statements that may be made during the conference call related to the company's perspectives, operational and financial projections are based on the company's believes, as well as information available to the company. Future considerations are not performance guarantees and they involve risks, uncertainties and premises related to future events and therefore depend on circumstances that may or may not occur.

Investors should understand that overall economic conditions, industry conditions, other operational factors may lead to results different from those that are expressed in these future considerations.

I would like to turn over to Mr. Oswaldo Nunes, Riachuelo's CEO. You have before Mr. Nunez.

Mr. Oswaldo Nunes: Good morning everyone, welcome.

First off, let me remind you that as of June of last year the company has been making important adjustments in the operation, we are replenishing our stocks, our inventory in stores, and the get execution of this plan enabled us to have sales improvements in several stores as of Q3, and that was more prominent in the fourth quarter.

We are focused on promoting the core business of the company so that we are consistent in our execution of our basic pillars.

Let me now talk about the Q4 results. As to sales, same-store-sales were based on quality, retail, apparel raising or growing at higher digits based on our summer collection. Our ticket also increased, the average ticket for the company that was driven by the higher individual ticket item, as well as the increase of the average price, confirming the fact that the collection was well-received by the public. This is a very healthy combination, by the way.

As to inventory, as we stated in our press release, most of volume increases are caused by imports for our fall and winter collection, as well as brought material for Guararapes. Shipments were advanced given the Chinese New Year to make sure that 100% of the new collection is actually at every store as of April, when we expect smaller temperatures.

As to margins, the good news is that in December we recovered the growth margin in apparel industry back to the levels we had in December 2018. We stopped that decline in 2019. Let me remind you that that recovery happened throughout the second semester given the changes we made in our operations as of July.

Let me go back to inventory for a minute. We believe that we must improve this indicator and we have to be consistent at that so that we have efficient sales and productivity gains that are sustainable. The opportunities have been mapped out, so our management team is developing solutions to address that issue.

Let me take a look further down the road. In early 2019, we defined our strategic agenda for the next four years; digital transformation is one of the most important pillars. We believe the company should become more and more digital given changes in consumer behavior, online services at every channel doing it in a wholesome fashion, and in order to do so we must be even more connected.

But when we look at 2019, first we believed we had to have a very good e-commerce website in place, that's basic, that's why for the second year in a row we gained efficiencies and more productivity in our platform. There was a 45% improvement in our conversion rate, and that has been constant ever since. So that's why e-commerce has become more and more important in the company sales, gaining share in our business.

Also in 2019, we have created a mobile website; the experience has been improved, we relaunched our new app in December and things are looking good. The number of active customers and sales have been growing rapidly.

So these are three basic initiatives were important throughout the year to increase the number of interactions we had with our consumers through a digital platform.

As of September of last year, 100% of stores are being used for collection of products that have been purchased online. So this is our omnichannel strategy. In order to improve consumer experience, we are operating with the mobile PDV (or POS); every worker can be cashier or a teller. We'll be having these mobile POSs in 100% of our stores.

Our e-store allows physical stores to sell through the website, broken SKUs, and this has been implemented in 20 stores so customers can have website access when they are at a physical store to 100% of all our SKUs. By years' end, this means will be 100% of the stores.

Sales are small, but we believe they can pick up. At the end of this semester, we are going to make 100% of the stores to invoice and deliver products through e-commerce. That means 100% of company's inventory will be available to supply e-commerce consumers, and we can be faster, or productivity, in proving better experience. This is going to be a pilot project and then it will roll out gradually.

As to radiofrequency (RFID), as of Q4 we are testing three possible solutions to strike the best cost-benefit ratio, this is going to be applied to the entire value chain so that we can test and implement other products and services. We have plans to start scaling up this year, as early as 2020.

The first results of pilots indicate that we are more accurate in inventory control, that can give us better quality in replenishing our product portfolio, and as a consequence, a better experience and more sales. There is yet another benefit: It's faster when cashiers have that mobile POS.

As to the mobile check out, we are testing pilots. We have to move along with the RFID. This is very important to provide good experience in self-checkout. We must synchronize these two types of projects. RFID is very important to optimize the entire inventory of our physical stores. That's why it's extremely important for our e-commerce journey.

As to the marketplace now, just like we stated before, throughout the year, we better understood the opportunities and possible synergy with the business. Retail will evolve to a product/service platform with third parties, but we also know we have to face challenges to have good partners or in finding good partners, companies that have some relation with our DNA. Data, logistics, customer service also pose challenges; we are still considering possibilities. As soon as we have new information that will be made available to all of you.

Let me move on to talk about customers or consumers in general. Consumer is at the core of our digital agenda so that we can learn more about consumers, find out what they want, what they need. We must have the necessary conditions to have a single view of consumers. This is a structural project started also in 2019. We must learn more about the consumer and then use that knowledge to conceive strategies and offer something new, offer more value, in a nutshell.

Another structural project involves automation of the product journey all the way from the research step to improve processes to identify trends reducing the lead time to introduce new collections, more quality in defining and building new products and better manage of knowledge we have in the company.

Once this project is concluded, it will also apply more intelligence in the assortment, purchase, distribution steps to define quantities of every SKUs. Given our integration with the industry, we'll be better aligned to operate based on customer inputs. So this is our sales management ecosystem in a way.

Let me talk about investments. In 2019, almost 50% of investments is for innovation and IT. We performed technological updates to maintain the stability of our infrastructure supporting the entire operation and also to get us started in those structural projects, omni journeys, customer journey and product journeys, just like I stated before.

Investments in 2020 will be greater than what we invested in 2019, we are more confident in our retail operation. Throughout last year, we managed to stabilize our retail operation, now we can get back on track and start our renovation projects and start opening new stores throughout 2020.

We had a material fact announced recently; our partnership with Carter's. Brazilians are very familiar with the company, this partnership has existed for 5 years, results are very promising. Strategically speaking, the brand is supplementary to our positioning, to our individual brands for children from 0 to 24 years of age, and it expands our product portfolio, we offer more price ranges to offer customers with different profiles offering more added-value.

So they decided launching their own brand, so the interests converged, and we took over the entire operation that will include operating physical stores and e-commerce as well. We will be doing it seamlessly offering online purchase and customers can collect their products at every Riachuelo store and Riachuelo card will be accepted.

This licensing agreement is ten years long, can be renewed free of charge, we believe it's going to be a long-term partnership. We will be opening at least 60 stores in that timeframe; we believe we will be able to open even more stores within that timeframe.

With regards to the new Casa Riachuelo format, the value proposition of this new business was embraced in Morumbi, we will be opening four new stores throughout the first semester still in a pilot phase to expand our product and category portfolio to offer a more complete solution to our customers.

In late 2019, the company implemented its long-term incentive program by issuing stocks involving fifty executives, both at the C-suite level and senior management levels to reinforce our leadership, our alignment and the commitment with value generation in the long run.

In last December, the company signed a sale agreement of a plot of land where we had as a DC in Guarulhos, so we released some capital in that asset that was not generating value to the business any longer. So this contract has some exceptions and it's subjected to a confidentiality clause.

Let me now talk about the importance of people, a very important pillar in our strategic agenda. We believe that good people in right places is what makes things happen. I'd like to thank the commitment of all our 38,000 employees; they made a difference in our results of 2019, especially in the fourth quarter.

We have recently learned that we improved by five points in our commitment index and we are and that high-performance range; that makes us very proud, indeed.

Our strategic agenda includes challenges to make that value chain as transparent and responsible as possible, we believe that the fact that the company is more sustainable does not mean it's less competitive, so we are very demanding in terms of performance and competitiveness. And of course, maintaining the brand connected to consumers because consumers want to know more and more what's behind the brand and how it gets profits.

Let me talk about the outlook for the economy. We are confident for the first semester and for the entire year, the GDP projections, consumption projections are growing gradually, better employment, better jobs, higher average income, that makes people more confident. Low interest rates, families will be able to consume more. However, we believe the company will be benefiting from the internal improvements of its own operations.

And in conclusion, I would like to say once again that it's clear to us it's key to maintain our positioning, our value proposition strategies, especially when it comes down to execution. This is what gives us consistency in the long run.

We do believe there is no such thing as a silver bullet. We are perfecting our management system, both in the short-term as well as longer-term initiatives, such as digital transformation. We have to have a more robust management system supported by good indicators, having more discipline and focus to optimize collection, sales at every level of the company.

And now, onto a hot topic: The impact of the coronavirus in businesses around the world. As to the fall and winter collection produced in China, that was shipped before the coronavirus, and when we look at purchases for the end of the year, it's too soon to measure impacts. However, we are sourcing elsewhere if the projection chain in China takes longer to get back on track.

Of course, for some important categories we can resort to our own production at Guararapes.

I'd like to turn over to Newton to talk about our financial operation. Thank you.

Mr. Newton Rocha: Thank you, Oswaldo. Good morning. Before we wait from the license of Central Bank to operate as a multiple bank, let me give you some highlights of what we are doing in that the digital transformation journey.

Let me remind you that not having the license so far hasn't jeopardized our work overall.

We've conducted several surveys, we've analyzed data, we've been working hard to learn more about our consumers, knowing more about the year pains, their desires so that we can provide products and services that are more appropriate. When we think about the bank's strategy, of course, we will be fishing from our own fishing bowl that is made of 32.4 million customers, out of those, 9.5 million are active consumers. We believe there are huge opportunities to work with these consumers before we start fishing in open waters. But before we do that, we must invest heavily both in technology and people.

In technology, several systems are now being implemented, others are being updated or strengthened. The goal is to provide an excellent and unforgettable experience with security and speed.

We are reinforcing the technology teams, customer experience, data, information security, credit, collection, marketing, customer service and other areas. We started 2019 with 570 people, and this year we will be ending the year with about 600 people; 50% of those working in technology.

In November 2019, we opened our new offices, 4000 m², twice as big as the old one. It's modern, it's practical, the workplace is better, more interactive and we more productive. In our Contact Center we have new systems based on IA to provide more services to more customers, improving services not increasing headcount. We have about 2200 customer service professionals in our Contact Center.

I worked card app has more than 5.4 million downloads. We are developing a new app that will be introduced with way more features, checking account, payment accounts and it will be offered to our base; that app will be our main contact point digitally.

Another important issue is the consumer journey at a Riachuelo store. That synergy is a powerful asset that can improve engagement, recurrence and, as a consequence, loyalty. Security and ease of use will come along in this process.

Concluding our highlights, despite all these investments and expenses we are incurring to put the bank operation, we will keep on delivering results meeting every financial target. Putting the CEO of a major bank couple of months: “We do not have a license to lose money, however, we should not sacrifice our long-term strategy to meet short-term results.”

Our major challenge is to attack on both fronts; present and the future, something that motivates us on a daily basis, and we are confident we will be successful because we have a very well-oiled machine that is more and more engaged in this project.

I'll turn over to Tulio to the results presentation. Thank you.

Mr. Tulio Queiroz: Thank you, Newton. Thank you, Oswaldo. Let me show you the results. I will try to be as brief as possible so that we can start our Q&A. Before I start, we have Marcelo Oscar, the company's Controller, and Fernando Rocha, Investor Relations Director.

Let me show you the presentation on slide 3. This is the R$1.19 billion in Q4 with an 11.2% growth. Same-store criteria in this consolidated net revenue from products that was 9.8$, maintaining that growing trend we have been communicating to all of you.

The highlight is the *moda casa*, children and women's lines providing quality behind that same-store-sales growth.

Another highlight is the uptake of the northeastern Brazil, they are again showing good performance in Q4, something that hadn't happened in recent years. So we are very optimistic of that recovery. Q3 it started, now in Q4 results are more positive.

On to slide 4, this is the company's average ticket or cards, 1.6% growth amounting to R$137 for the quarter, 2.8% growth for the year at R$132. Same store growth was based on flow and conversion, a combination of the two, just like Oswaldo explained before.

At the bottom of the slide, you have the total card base, 32.4 million units, 7 million are cobranded cards, today the company has 9.5 million active consumers aligned with what Newton showed us.

On to slide 5 now, this is the financial operation performance. The yellow curve is related to the loss levels from personal loan and the blue curve that's for loss levels for Riachuelo card. Just like we said before, the loss level is at about 25%, this happened in recent quarters, no wonder the company took precautionary measures, that has been reducing the concession levels, the approval rates, bringing that curve to a more quality range.

We even reduced revenue from this operation to rip the harvest later down the road, which is to reduce the loss levels. We believe we should maintain the same level for Q1 and Q2, it's about 25%. We don't expect major changes.

As to the loss level curves for the Riachuelo card, we expect some stability there too. That will be about 7.4%, maybe 7.1%.

At the bottom of the slide, we see numbers related to provisioning. Our provision level was up to 180 days of 7.6%, that number may go up a little bit, go to 8% in Q1, we are 7.7% above the required level from Central Bank. As to the provision for more than 90 days, we see good stability, 93%, just like we saw in the other quarters.

On slide 6, financial operation performance mounting R$170.8 million in this quarter, a 14.4% growth when compared to R$149.3 million reported in Q4 2018. This is the result of important aspects. On the top line positive side, I'd like to point out the interest rates and financial performance assistance, insurance, and the good performance of our own card.

As to pressure in the top line, just like I said in the previous slide, less credit, little over 6% drop from revenue from this product. When you calculate everything, losses, discounts and collection expenses, the number is an improvement 8%. That is in line with the nonrecurring effect of Q4 2018, 10.7% also in alignment with the top line growth.

The pressure here in profitability, just like Newton said, was investments to create the bank. I said investment, but most of it these are Opex. Let me give you just an example; we more than doubled expenses with technology, and of course, we strengthened every business area hiring professionals from banks.

On the positive side, a R$35 million revenue as to the incentive bonus when we have cobranded credit cards. Those R$35 million is a recurring effect, throughout last year we saw smaller volumes of this effect but given the good operation performance and the growth of our own card and spending numbers, this number has become more and more significant. We ended the quarter with R$170 million and R$466 million for the year.

On to slide 7 now, this is the consolidated gross profit for the group amounting to R$1,495 billion in Q4, a 5.4% growth. Let me point out the orange curve, that's the gross margin for products moving from 54.8% and now it's at 53%. Of course, we had pressure from gross margin for products given all the adjustments we made throughout the operation, just like Oswaldo said, the current inventory level at years' end is a very health inventory level. That pressure may dwindle throughout the year back to instability.

Let me point out that these 53% of gross margin when you exclude the cell phone and more mix in perfumes and *moda casa* higher stake, that 53% margin would go up to 58.2%. In the accrued for the year, the gross margin for products amounted to over 50%. Mobile, perfumes and *moda casa* that number would be 55.9%.

On to operating expenses on slide 8, let me focus on the numbers on your right, excluding the effect of the IFRS 16. Opex grew 17.9% amounting to R$898 million. Let me point out that there was a concentration of the provisioning for the company premiums, variable pay, especially in Q4 given the operational design we adopted in 2019. That is to say, we had a very challenging first semester with a lot of pressure in our profitability and at the time the probability of paying variable pay was very small. By improving operations, especially in Q4, we had to provision premiums. That's why we saw that pressure.

When you exclude that pressure, especially in Q4, expenses would be 10.6%, in alignment with the year numbers, as you can see on the bottom right with a 10.4% growth.

On top of that, just like we mentioned in our financial operation disclosure, all tech-related investment is not only for creating the bank, but also for the entire retail world, so these are important fronts requiring substantial amount of investments.

On to the next slide now, slide number 9, we have the consolidated EBITDA numbers. I will be talking about the right column. Excluding the IFRS 16, we amounted to R$572 million. When exclude nonrecurring events, R$494 million in Q4, 5.3% increase. By including the premium effective, EBITDA growth would be 17% in Q4 in comparable basis, excluding nonrecurring events.

On the bottom right, you have the numbers for the year EBITDA, R$987 million, a 9.8% drop when compared to last year numbers. We have many variables, an uptake in Q4 in our operations especially driven by the good top line performance, good retail performance. Undoubtedly, it becomes an important operational leverage, and especially more challenging performances in the first semester.

Slide 10, you have the consolidated net income. Excluding nonrecurring, R$363 million, a 32.4% increase. Bottom right, you can see that by excluding nonrecurring effects, net profit amounted to R$526 million, again, a 5.7% increase when compared to R$498 million of 2018.

On slide 11, we have the financial cycle numbers. Slight improvement from 166 to 163 days. What is positive here, just like we said before in Q3, suppliers played an important role, especially those in the apparel, a 9.4% moving on to 135 days, that improved slightly our financial cycle. Just like we stated in our release, the company does not see any opportunities to change or to make inventory and consumers more efficient.

On slide number 12, net debt amounted to R$1,256 billion at years' end, 1.2 times our EBITDA. This is a very appropriate leverage number. When we look at the uptake in retail, better than our initial expectations, once retail performs well and our top line performs well cash generation will follow suit, especially when you improve inventory levels and suppliers, just like I said a while ago.

Slide 13 shows us fixed investments for the company, R$379 million. Riachuelo and Midway highlights are the technology investments. Out of the R$351 million, 168 million are for technology for both Riachuelo and Midway.

These are our initial comments. The entire team is now available to answer any questions you may have.

Question-and-Answer Session

Thiago Macruz, from Itaú BBA asks the first question. You may now proceed, sir.

Mr. Thiago Macruz: Good morning. Actually, this is Emerson. I have three questions. The first one is about top line. With a different sales mix, more perfume, house, appliances, can you break down what the apparel contribution was? That was based on traffic and conversion, it's more evident in conversion. Why do you think traffic improved?

My next question is about gross margin and you said it was because of the mix. Without it, it would be 58%. What was the margin in the fourth quarter? And looking at 2020, you said that you expect a more stable gross margin. Do you believe it will happen despite that mix?

And my third question is about e-commerce. What strategies are you planning to implement to improve sales conversion, and when do you expect to implement the RFID project?

Mr. Tulio Queiroz: Hi, Emerson, thank you for your questions. Let me try to answer them in the same order you asked them.

Let me talk about same-store-sales first, I will be showing you a few figures about apparel. The highlight in the same-store-sales performance in Q4 was the good performance of the core categories. When you look at women's fashion, same-store was about 9%, in line with the 9.8 for the entire company.

This Q4 was almost a two-digit same-store-sales based on apparel, that gives us a lot of confidence to expect that consistency. And it's only natural because every initiative we announced in previous calls they are all based on apparel.

When we talk about rethinking new collections to have more basic items, reducing the assortment respecting regional characteristics based analysis on effects and then reacting to whatever is performing well or not, in a way, every initiative was based on the apparel. So it's no wonder results were there; the major driver in the same-stores sales growth.

In terms of perfumes and mobile products, it's the second year in operation for perfumes, and cell phones was the third year of operation last year, the performance was excellent for the entire year of 2019. This is what we mean when we say consistency. There is no point in performing well in new categories if your core business is not performing just as well.

As to conversion in traffic, that's your second question I guess, it's interesting because throughout the month of December, everything we heard from the store people, we had some mixed feelings; we heard different inputs depending on the player, and it has to do with the better performance operationally.

Gradually consumers came back to Riachuelo, they realized the collection is balanced, it's harmonious, that generates more traffic to our stores and, of course, conversion has improved. This has been very clear when we talk to store managers, and we do that on a regular basis.

On to the margin question and the mix, there were pressures throughout the year, not only from cell phones and perfumes, but because of the adjustments we made. Even when you exclude the cell phones and perfume effects, the gross margin from Q4 moves from 53% and goes to 58.2%. That does not necessarily change the curve design. In Q4 2018, it was 59.2%, it is a higher level, but the same overall design because of all the adjustments we made in the operation.

For the year, I said the 50.5% margin removing cell phones, home and perfume was 55.9%. When you exclude the same effects from those numbers of 2018, it would be 58.1%. The design is the same year on year, but the margin level is very relevant because of these categories.

As to the performance moving forward, the question is what will be the growth of the home division. We are running a pilot project in four units, we have been discussing the format, the mix and the pricing. There are some uncertainties regarding this category, but what I'm trying to say is that the entire core business given the adjustments we made, we worked on them for the entire year of 2019, and to a certain extent that impacted margins, that pressure’s been cleared out and we can detect that now in the first quarter.

And now answering your last question, the e-commerce performance, we are doing to improve conversion – and then I will be talking about the RFID –, it's a very new operation, it’s a little less than three years we've been doing this, and there are many challenges, especially in terms of user-friendliness. We introduced that in Black Friday, so there’s several challenges. Data, filters helps to navigate more easily. Of course, conversion risk can improve, and numbers are on the rise.

It's a new operation and we see improvements on a regular basis, that's proved that we are heading in the right direction.

As to the RFID, just like Oswaldo said in his opening remarks, we are running a pilot with three solutions, there are pros and cons for all of them, costs included, but we are going to start rolling out as of the second semester. But the track of digital transformation to make inventories available to every channel, RFID is a huge sidekick in that effort, not only to control inventory, reduce losses and all that, but it's a key tool for our digital transformation effort.

Mr. Thiago Macruz: That was very clear, thank you.

That concludes the Q&A session. Mr. Tulio Queiroz, CFO, you have the floor.

Mr. Tulio Queiroz: Thank you once again for taking part of this conference call. The entire team is available to answer any questions you may have. Thank you once again, have a good day.

Operator: Thank you. This concludes Guararapes Riachuelo. Teleconference is now concluded. Thank you for using Chorus Call.