Operator:

Good morning, ladies and gentlemen, and thank you for holding. Welcome to the Guararapes Riachuelo conference call to discuss the results referring to the 4Q16. This conference call is being broadcast simultaneously through the Internet and can be accessed at the address www.riachuelo.com.br/ri and the Engage-X platform. The presentation is also available for download at the same site.

We'd like to inform you that participants will be in listen-only mode during the conference call. Ensuing this we'll go on to the question and answer session when further instructions will be given.

Should any of you require assistance during the conference call, please request the help of the operator by pressing *0. Before proceeding we'd like to clarify that forward-looking statements that will be made during the conference call referring to the business outlook of the company, prospects and operating and financial goals are based on the management, the needs and assumptions of the Guararapes Riachuelo management, as well as information currently available to the company.

These forward-looking statements are not guarantee and performances and involve risks, uncertainties and assumptions. They refer to future events and therefore may depend on circumstances that may not materialize.

Investors should understand that general economic conditions, industry conditions and other operating factors could affect the Company's future results and thus lead to results that differ materially from those expressed in the forward-looking statements.

I'd now like to give the floor to Mr. Flávio Rocha, the Company's CEO. You may proceed, sir.

Flávio Rocha:

Good morning to all of you. I'd like to thank you for your interest and of course for participating in this conference call where we're going to present and discuss the results for the 4Q16 as well as the results for the full year of 2016.

I have here with me Tulio Queiroz, our Company's CFO; Milton, our president; and I will give the floor to Tulio Queiroz who will speak to you in greater detail.

I'd like to highlight that this is a very important quarter because of a process that has extended for six years, beginning in 2012, at the very beginning of the year. And from the logistics viewpoint we consider this process concluded.

The first stage was to take advantage of our business architecture, our builder with a strong synergy that we have between the textile industry and our retail market, and this new strategy. The first stage began in March of 2012, when the first set of basic products began to migrate towards a completely new logic and high frequency replenishment.

Once again, a daily replenishment, which means that our logic was much greater in volume and it went beyond the lifespan of each of the items, and each of the products gradually are supplied with an extremely high frequency of replenishment.

This project began with a more basic apparel, which is very important for our business, almost 50%. Not because of greater opportunities that were found there, but the contrary, they were simply more predictable, but because it was simpler in terms of the complexity that this process involved in the system, and throughout the change, since the beginning of the thread, to the end of the process, and we left for last the higher complexity process, which is fashion information.

Therefore this process has motivated us to obtain significant results immediately we could see the change and the first group of products, once again the change began in March 2013. And strategically we were able to foresee the growth of our stores, which led to a leadership in the sector during four or five consecutive quarters, with very strong execution among same stores, and of course an impact on our margin.

And during this period, in which we change the basic project as part of the supply chain, this allowed us to have greater granularity in the stores in terms of logistics during this period, where the change and the first group of basic products until the last group which was at the end of 2013, we had a drop of 30% in the markdown of this product compared to the other product that had still not migrated to this fashion of 30% increase in margin during the period.

Since the beginning of 2012 until mid-2013, 50% drop in our inventory simultaneously with a 30% until the increase.

Of course this was very stimulating, and we thought that there were great opportunities when we got to the most strategic part of our business, which is called the fashion line. We were lacking tools, our logistics department was deploying huge efforts in terms of the manual picking. We have 340,000 items every day that they have to select, and at that point we still did not have the full information of logistics as a tool.

In those two years we made our main investments, the situation of the real estate was complicated. It forced us to change our address to begin at zero once again.

And I'd say that this process extended for an additional year compared to what we had forecast, which did not enable us to immediately proceed to the second year and this year extended until mid 2016. In September 2016 we had state of the art of our logistics that came into operation for fashion.

We have the distribution center in Guarulhos, which was our largest investment for the year of 2016, enabling us to change towards the completely new logistics models, and the more strategic part of our business. And we will now have a grade premium from this, because there are the more unpredictable products, all of those have little backgrounds, that have good margins and lower risk, and where we will be able to supply the stores with the lowest spend possible, and have a daily replenishment in the colors, and sizes and products, at all the stages of this product.

And a change in system as complex as this one, to give you an idea our system that present daily has to generate 40,000 inventory targets, and this is very difficult to do evidently so, this has become a highly puzzled system that goes through a 40 million little boxes which represents a great variety of our company multiplied by the numbers of sizes, of colors and stores, to check what has happened, which are the fluctuations in each of these targets, and creating the picking list for the trucks that are leaving our distribution center to supply the stores.

And I think that in terms of numbers, this has translated into very motivating figures, the EBITDA margin and others, which Tulio will present to you with a greater accuracy. Despite the extremely challenging scenario of 2015, as everybody knows, was perhaps the worst year in retail history. It broke the record of the second worst year, which was 2008 – 6.8 p.p. in terms of a drop in retail sales during this period.

And luckily, this apparel segment was a leader in this drop, we got to two digits in terms of items that are part of shoe wear, paper and apparel. But this new tool has enabled us a gain in market share, and while we're awaiting the trend of recovery, which apparently will take place this year, 2017 will be the year of recovery. At the beginning of the year until the end of the year we should undergo this recovery. So, we're doing our homework in the meantime, increasing our market gains, increasing our efficiency and with a leadership in terms of its growth in same stores, and beginning this process that has already been forecast.

The idea was to have a significant drop in market downs, in residues in stores, what we clearly foresee as an increase in terms of variety. We had a base and the inventory can remain the same in these stores, but the metric has increased and we have gains in terms of variety.

And once again the increase in volume is proportional to the surface, which represents a variety, our palette of colors, our number of sizes and different looks, and all of this has a direct impact on the efficiency per m², increase in the GSA, and the time in which the customer remains in the stores as well.

These are the remarks I wanted to share with you to highlight the importance of this very long and painful change process in our business architecture to be able to fully take advantage of the fact that we are an integrated company. It goes all the way from the thread to the service rendering after the sales. And with this I'd like to give the floor to Tulio, who will show you the details of our presentation.

Tulio Queiroz:

Thank you, Flávio. Good morning to all of you. We will now go on through the presentation that you have on our website, on slide number 3, we have the consolidated net revenue for products in total of R$1.412 billion during this 4Q, with a growth of 3.3%. For the entire year, the consolidated net revenue got to R$4.256 billion with a growth of 4.6%.

In the lower part of the slide you can observe the same growth rate according to the same-store sales. As Flávio has already explained, this refers to several factors that refer to fast fashion, and that has contributed to the increase of 0.7 in the same-store sales.

I think the positive highlights here were the children and women departments, and on the opposite side you see that we had more difficulties when we speak about home fashion. When thinking about the different regions in the country we have a more positive performance in the southeastern region, but with greater difficulties in the northeast, as has happened in prior quarters.

During the year the same-store sales performance was -0.5% compared to the performance in 2015.

On slide number four we have the average ticket and the total cards for Riachuelo. We had R$889, with a growth of 7.8% in the quarter, and for the year a growth of 8.6%, that is to say, R$175. This positive trend was anchored on tickets and flows.

At the bottom of the slide, you will observe the figures that refer to our total cards that totaled 28.2 million units at the end of the 4Q16, with a growth of 5.2% in the total card base for the company.

We go on to slide number five, where we have the sales breakdown for the Riachuelo card. In 4Q16, the Riachuelo card's market share was rigorously the same as in 4Q15, that is, 44.1%. We have an interest there in sale with a flat reduction, which is due to the rollout and the operation in mobile telephony in which we do not have interest.

Here, it is important to mention the slight reduction in the share of interest-bearing sales, which came to 8.2% of the total.

In the lower part of the slide, you can see the portrait, once again, of the private label share remaining at 45.2% and the participation of sales bearing interest, once again, with an impact due to the rollout in the 2H.

In the following slide 6, we see the financial operation performance of Riachuelo with our defaults or unpaid credit. In blue, the most important line, the allowance for debt for the Riachuelo cards.

You can see that the trends that we have discussed with you in prior quarters is becoming too materialized, we ended the year at 8.3% and for the coming months what we are forecasting is the continuity of this downturn trend in green, that refers to personal loans, a similar performance with the reduction vis-à-vis a figure presented in the 3Q.

I draw your attention to the 19.1% and for the next six months our forecast is, once again, for a drop in this indicator. At the lower part of the slide, we see the figures referring to the allowance for debt after 180 days, 7.9% very much in line with what we expected and 110% above the minimum rate required by the Central Bank.

Following on slide seven, we show you the figures that refer to the EBITDA from financial operations. It totaled R$146.7 million, with a substantial growth of 15% during the quarter, totaling R$300 million for the year, with a growth of 29.7% vis-à-vis at 2015 figures.

The performance of financial operations as a whole, and this is something that we have been discussing with you throughout the year, since the 1H, in June 2015, we decreased that volume and, as a consequence, as a bad point onwards, we went through 4Q in which there was pressure in the EBITDA margin for this operation – what we had a more stable level with natural volume for our portfolio, the margins appeared once again.

Evidently, this also led to a gradual improvement in the credits of which was somewhat higher in the 4Q. And the positive effect in the 4Q is due to an increase of 12.7%, accompanying the sales performance somewhat above; a significant reduction in our allowance and the recovery of credit accounted for during this period.

We go on to slide eight of the presentation and this is our sales area panorama for the end of 2016. We ended with 291 stores and 615,000 m² of operation, 47% is still under that period of maturation, which means that it has significant potential to capture market share in those very young areas.

Following slide nine, we speak about the growth of real estate, we refer to midway mall at the top of the slide with R$18 million, very much aligned with the figure referring to the 4Q15 and the growth of 5.5%, totaling R$59.7 million.

The EBITDA margin for this semester was impacted, specifically in 2016 due to expenses referring to contractual fine.

At the lower power of the slide, we show you our own stores – we have 46 stores and our own real estate in a universe of 291 units.

On slide ten, our net revenue for the group, and we know speak about this in a consolidated form, the consolidated net revenue refers to Riachuelo products along with midway malls and financial operation. We totaled R$1.851 billion during the quarter, with the growth of 5.1% for the year, the growth was R$5.421 billion, with the growth of 7.5%.

On slide eleven, the figures refer to the consolidated growth topic for the Company, perhaps it is one of the most important slides of this presentation, we show you a significant recovery of gross margin for product in the light blue line. In the 1Q, we closed the quarter with R$52.9 million, which is a growth of 3.0 p.p. vis-à-vis the same period last year.

For the year, the behavior was quite flat, but it shows you what is significantly important as mentioned by Flávio, the change in our trajectory and the performance of the growth margin of products. In the 3Q, we had a sign and in the 4Q, this became more intense.

On slide 12, the figures that refer to the gross operating expenses for the 4Q without the IMS as effect was R$640 million, a growth of 10.3%. We came from a rather contracted base in that tier quarter because of productivity gains and for the year, an increase of 7.6%, totaling R$2,118 billion.

What is important to mention here is that the methodology developed and applied since 2014 is still undergoing maturation, all of the stores are applying this methodology. They continue to apply our productivity concepts generating continuous productivity gains during the semester; beginning in 2016, all of this was intensified in terms of productivity gains in the group's support areas. This is something that begins in 2016 and will reflect throughout 2017.

We go on to slide number 13 showing you the graph for figures that refer to our productivity gains in the last few years. We begin at a level of 34.9 m² per employee, reaching 49.6 m² per employee at the end of 2016. This is a productivity gain improvement of 42%.

Following slide 14, our figures that refer to adjusted and consolidated EBITDA for the group, the totaled EBITDA was R$382.3 million in the 4Q, with a growth of 28.8%, once again, vis-à-vis R$209.6 million in the 4Q15, for the year, R$223.4 million, with a drop of 5.2%, once again, compared to 2015.

And the highlight for the quarter is the positive combination and the importance of the gross margins of products of 3.4%, the level of operating expenses fully under control, and the significant improvement in our default rates, at the least the beginning of a trend to an improvements besides the recovery of tax credits that were accounted for this period.

Following slide 15, the figures that refer to consolidated net income for the group, totaling R$252 million for the 4Q, a growth of 59.1%, while for the entire year, the total was R$317.6 million, a drop of 9.3% vis-à-vis a R$351 million recorded in 2015.

On slide 16, we show you the Company's financial cycle. At the left top of the slide, a consolidated financial cycle that reached a basis of 157, practically stable compared to the 4Q15 and a significant improvement in terms of 2Q14, with a peak of change in the last quarter.

What it is important to underscore here is the continuous improvement in our inventory levels. We have that constant search of the Company, especially as part of our strategy and passion.

And in the lower part of the slide, we observe an increase in the number of client base, going from 102 to 109 and a reduction in the service provider, going from 91 days to 78. The main cause of this movement among clients and service providers is the rollout of our mobile operation, pressuring our operational financial results with a very good EBITDA.

Following slide 17, the figures that refer to the growth in indebtedness totaling R$1.6 billion at the end of the fiscal year compared to R$1.4 billion at the end of the 3Q. It is important to share with you the improvement that appears in the terms of our trends throughout the year, we ended up with a leverage rate of 1.4 times our EBITDA, which is, too, quite conservative. And along with this, a process of lengthening our debt profile which had begun with debt in mid-2015.

Following on slide 18, our CAPEX, investments and fixed assets of the Company, this year was year in which the Company preserved cash, which is something we have doing since mid-2015. And the CAPEX figures therefore our IEOC, we have begun making less investment, totaling R$178 million in 2016 – R$103 million in Riachuelo and we have that focus on new stores and also the DC in Guarulhos.

Following on slide 19, the figures that refer to our hedge account in the group, the trend this year was very similar to what we have observed in prior periods – the Company ended with 37,101 employees, that is to say 3.8% below the 38,551 that we had in 2015.
And the pro-forma of this indicator at Guararapes and Riachuelo are quite similar. Riachuelo with a contraction of 5.2%, even though it is opening up new stores and Guararapes with the drop of about 3%.

These are our initial comments and our team is now available for any questions or doubts. Thank you very much.

Wagner Salaverry, Quantitas:

Good morning. Congratulations on your results. My question to you is the falling in prior periods – the Company had good indicators in some areas and not so good ones in others. In 2016 results, especially in the 4Q, what we observed is a series of good indicators for all the levels we analyzed.

By looking at 2017, I would like to know that if you are confident that this year you will continue to have a more consistent performance in gross margin, same-store sales and in your financial margins; if you believe your results will become ever more consistent with the gradual improvement at all levels, or if the 4Q simply had better indicators that will not be repeat in 2017.

The second question refers to the old DC that you have deactivated. If you are thinking of selling those assets to reduce your leveraging and to contribute towards your equity or net worth.

Guararapes:

Regarding your first question, I would say that yourself mentioned the keyword here. In all of our recent discussion, which is consistent and coherency, as Flávio mentioned during his opening remarks, we came from a period of key changes in our strategic model and business model as a company.

In that quest to create a proof fast fashion players in the Brazilian market, we have changed our logic, our industrial design for this. We have altered our logistic conception and we have enhanced our collection, products and much more. The entire organization has been redesigned to comply with this goal.

The 4Q is a very important quarter because it has pointed towards important signs of positive steps going forward. That is to say we, even with the very difficult and turbulent macroeconomic scenario, were delivering positive results, significant margin extension, resuming the past reference of the Company, that is to say the figures we had in 2013, 2014, but beyond all of that, a synergy among areas and a very clear direction of which will be our future steps.

I can say therefore that consistency is the word of order as of this moment onwards. We know that there are many opportunities before us and processes in some different funds. This will tend further enhance the perception of the products, of our collection and the value proceed by customers in terms of our products and the availability of products.

There are still some steps towards this improvement in the future, but more than ever now what the Company is seeking is consistency in results as these in the near future were quite constable with the margin levels obtained during the semester and all of the other elements that have been developed through prior quarters.

I now go on here on second question that refers to the older Guarulhos DC that has been closed down. Of course the Company is holding and turning on discussion how to deal with it, which is our own. It does have a very specific for the operation. Both who have been there know that this a new format which makes it very difficult to lease or to sell.

Because of this we are still discussing which will be the best solution if we will lease and subsequently sell it, or any combination of these elements, but we have already hired a person specialized in this issue to help us, to that we can make the best decision and obtain the best value of this real estate.

Wagner Salaverry:

Thank you very much and congratulations for your results.

Richard Cathcart, Bradesco:

Good morning to all of you. I have two questions, if you allow me. I would like to gain a better understanding of your growth, margin improvement and which were the underlined factors for this improvement, a reduction in mark down, a better collection structure or have you just been very successful in this collection in the 4Q?

The second question, you have almost a third of the sales of Riachuelo from Guararapes' products. I would like to know if you can increase this share during the coming months or coming years. Thank you.

Flávio Rocha:

Good morning, Richard, and thank you for the question. The improvement in our margin, I think that the main component is the same one that we saw in the sound results that we had in 2013. If you go to a store and of course we are still undergoing a transition, there are stores that clearly are part of a new strategy. This is simples to perceive when you at the geometric format of the store inventory.

We have lower volumes of the product. The same store was 40.000 pieces in the old model, and the new model, you will see that the supply is with a volume based on the expectation of each of the articles in fashion, based on their life expand.

When you change to the high frequency replenishment model the store has a cycle of replenishment and this replenishment cycle is up to five to six days for Brazilian average and will tend towards decreasing as well. So you will see that with the same inventory, we have more alternatives for the customers, many more operations and the immediate impact is lower.

We do not form this residue as all of the pieces are being supplied in the same volumes. If we have too many left overs we have to go on to mark down. This has been having an impact on our margin. I think that we can obtain better results that serve for third, fourth or fifth identical SKU that was sent initially, and item that had had below average performance, will become objects of mark down.

Additionally, they will not decrease the store variety and because if you have all of these SKUs, you are using pressure centimeters on your hangers. I have no doubt what so ever that this is a main sector that has been having an impact on our margin, that frequency replenishment, the decrease of that initial volume sent and sending new products as they are being sold.

Once again, this is a very stringent logistic change that allows us a competitor edge, something that we are building and there is very difficult to replicate in the traditional retail market. We are not seeking only the push and pull jargon that we use in the retail market, this simply means selling approximately half of what you expect to sell and to be able to replenish your merchandise.

We are referring about a push in the entire chain in terms of loan material at the beginning of the plant level. Throughout the lifespan of a product during a season, that meter of fabric can become several different products, with different colors, with different sizes and for different stores.

So we have become ever more flexible, with incredible variability and we now have a very dynamic fashion market. Richard, too also add to this response and going on to the second question, the idea of the share of the Guararapes products. There has been a resumption of the Guararapes products in the 4Q and I would like to remind you, without going too way back, that Guararapes represented a minimum of 50% of sales to Riachuelo, but in the past the situation was very different.

We had basic products for men and with the development of the strategy, of course, we began to change everything. At present, the Guararapes production is a production made to sell whatever is lacking, that is to say fashionable items are producer of plans, of course, the main driver of our production planning and consequently the Guararapes share is sales is precisely the potential that we have of extracting sales and margin from a shorter time.

This was generating more assertive and more attractive sales as a whole, so the main driver of the Guararapes share follows this line. And also, we have the shareof imported products, but what we are doing is exploring a shorter lead time. Another front that has proved to be very promising in the last few years is the partnership with Paraguay, which is still a very small operation. This is a way of obtaining shortly time with a production in countries where the lead time tends to be very short.

Richard Cathcart:

Thank you very much for your answer.

Operator:

Thank. The question and answer session end here. I will now give the floor to Mr. Flávio Rocha, CEO, for his closing remarks.

Flávio Rocha:

I would like to thank all of you for the time that you have devoted to discussing our results and say that as a team we are at your entire disposal to clarify any doubts regarding our earning results. It has been a pleasure to take part in the conference call. Thank you very much.

Operator:

Thank you. The earnings result conference call for Guararapes Riachuelo ends here. You can now disconnect. Have a good day.