Operator:

Good morning, ladies and gentlemen. Thanks for waiting. Welcome to Guararapes Riachuelo's fourth quarter 2015 earnings conference call.

This call is being simultaneously broadcast on the Internet. It may be accessed at www.riachuelo.com.br/ri. The Company's presentation is also available for download at the same website.

Please be advised that all participants' lines will be in the listen-only mode during the Company's presentation. Then, there will be a question-and-answer session and instructions will be given at that time.

If you would like to ask a question during this conference call, simply press star then the number “0” on your telephone keypad.

Before we get started, please be advised that any forward-looking statements that may be made during this conference call regarding Guararapes Riachuelo’s business outlook, projections and operating and financial goals are based upon current expectations and assumptions of the Company’s Board, as well as on currently available information. Forward-looking statements are not guarantee of performance and involve risks, uncertainties and assumptions. Such statements relate to future events and therefore depend on circumstances that may or may not occur.

Investors should understand that macroeconomic and industry conditions and other operating factors could affect Guararapes Riachuelo’s future results and cause them to differ materially from those stated in such forward-looking statements.

Now I would like to turn the conference call over to Mr. Flavio Rocha, CEO. Please Mr. Rocha, you may go ahead.

Flavio Rocha:

Good morning all of you. First of all I would like to thank you for your interest and participation at this conference call, which aims to present our fourth quarter and full year 2015 results, a year that challenged both retail business environment and corporate environment (mainly the former). These challenges brought us huge opportunities for improvements at this pivotal moment of Riachuelo Guararapes's project, which now culminates with its final conversion stage of the remaining 50% of our Company, i.e., those most strategic goods, namely fashion goods, to a full pull-based approach to retail replenishment, using daily consumer-level demand (SKU). This will be possible with the opening of our new logistics center as early as late March.

As regards external challenges, press provides us with daily information about them. The day before yesterday we had the news about nearly 100,000 Brazilian stores shutting down. 2015 was the first year of negative revolution, according to IBGE, a significant 4.5 percent drop. Such a negative figure has not been seen since 2003.

As regards internal challenges, it was a year for restructuring our commercial department, changing our inventory management, in order, as I said, for a definite turnaround that will take place between March and late June, with the gradual migration from the existing Guarulhos' logistics center to the new logistics center, which was the most important investment of 2015 and, to a greater extent, of 2016.

Despite the challenges that I mentioned here, 4Q2015 clearly showed the turning of a trend that had been reflecting a deteriorating business environment. Of all indicators, we can see a quite evident improvement in the productivity gains, e.g., a 26 percent gain in the number of employees per sales area over the last two years that virtually kept pieces per square meter stable.

We managed to move forward on another promising front: the cash-to-cash cycle time. It was reduced from 212 days to 145 days, coupled with an increase in the supplier cycle time. In addition, today is a critical day because it is the day our new collection is launched. I think achievements are noticeable with regard to these goods. We had the opportunity to test our new collection using a new collection design methodology in some of our stores, obtaining extremely encouraging results.

I would like to take the chance to also emphasize that, in my opinion, the strategy to concentrate the outflow of accumulated remainders of inventory in 2015 was right. Although this required a greater promotional effort, we entered 2016 with a fully disposed inventory, to make way for new, fresh goods, giving more visibility to the collection hitting the stores today.

This promotional sacrifice that we expected to extend until December or early January, was to a greater extent absorbed in 3Q. This was the worst moment, and if we divide the 4Q into months, you will see that the profit margin was finally sacrificed in October and November, before starting to be recovered in December.

Of course January is a typical sales month and there also was a residual sacrifice of profit margin. I think that now, after our new collection is launched, with fresh items of inventory, the profit margin situation will change.

With regard to our expansion, we are maintaining our guidance, of course, subject to any developments in the scenario, of 15 stores and increased number of renovations. Our new model, which puts goods in the spotlight, gives our stores a more minimalist style and features the new Riachuelo brand, has proven its investment efficiency.

Our investment committees have been gaining competitiveness, and the renovation projects got a best position in the investment ranking. Brazilian Real for renovation works is more attractive than was in the past. This increased the number of approved renovation projects. So we expect to make at least 15 major renovations this year, due to the gain in competitiveness from renovation projects, as I said.

Finally, before turning the call over to Tulio, I would like to talk about the satisfactory evolution of our e-commerce project. The schedule provides for a rollout in soft openings, for employees and workers, to be conducted in a test environment, in November, in preparation for the final rollout as early as the beginning of next year.

We will have opportunities, after Tulio's presentation, to give more details on these and other points. Here with us is Newton, our Vice-President. I once again thank you all for your attention and attendance.

Tulio Queiroz:

Thanks, Flavio. Good morning all of you. Moving on to the material available at our website, the slide number three gives us an overview of consolidated net revenue from goods. Revenue from goods totaled BRL 1.377 billion in 4Q15, an increase of 4.3%. Full-year net revenue totaled BRL 4.068 billion, an increase of 8.5%.

At the bottom of the slide, we can see the same-store sales growth. Over the fourth quarter we had a contraction of 3.1%, and a full-year 0.5 percent decrease in same-store sales.

Here, on the positive side, our footwear segment shows a good performance, even under the pressure caused by the movement discussed at the other conference calls, all the adjustment that we talked about in relation to our collection. Women's group was the most affected group.

In relation to geographic regions, the positive side refers to the Northeast region, whose growth still shows to be more neutral, and, on the negative side, the Midwest region, showing a greater decline.

The slide number four shows the figures for the Company's average ticket price, which totaled BRL 175 over the 4Q15, a growth of 5.8%. The year's growth was similar: 5.2%, totaling BRL 161.

It is worth noting that the year's average price decreased 5.8% and the quarter's average price remained flat, almost at the same level. At the bottom of the slide, we can see our total card base, closing the year with 26.8 million units, an increase of 7% in the card base, of which 4.7 million are flagged cards.

The next slide, number five, shows Riachuelo's sales breakdown. Over the 4Q15, Riachuelo's card accounted for 44.1% of sales, the same exact figure as the one reported for 4Q14, the only difference being the share of interest-bearing sales, which was slightly higher, of 8.6%, as compared to the same period last year (8.1%).

At the bottom of the slide, the same figures are maintained for the whole year. Therefore, Riachuelo's card accounted for 45.3 percent for 2015, which, in this case, corresponds to an increase, as compared to 2014's 44.1 percent. Interest-bearing sales, from the point of view of the whole year, became very similar, of 8.3% against 8.4%.

The next slide, number six, shows Riachuelo's card operation loss ratio, highlighted on the blue line, and personal loan operation loss ratio, highlighted on the green line. We can notice that Riachuelo's card operation loss ratio ended the year at 8.2%, while personal loan operation had a loss ratio of 15.6%.

As already discussed in recent conference calls, delinquency levels have actually risen in recent quarters, but in accordance with the expectations of the Company.

At the bottom of the slide, we can see reserves, all above the minimum required by the Central Bank. It is worth noting that our PDA balance for the whole portfolio with up to 180 days is 10 percent, and 114 percent above the minimum required by the Central Bank, and 95 percent overdue ratio for payments overdue for over 90 days.

It is worth noting that the Company still expects a slight increase in defaults over the 1Q, so the overdue ratio is at 10 percent in relation to payments overdue for over 180 days.

The next slide, number seven, shows the fourth quarter's financial operations performance. The EBITDA from financial operations amounted to BRL 41 million, compared to 4Q14's BRL 72 million. This decrease in EBITDA is chiefly due to two factors: the first has already been discussed in recent conference calls. Since mid-June, the Company has revised its credit granting volumes and began to lower the volume of credit granted.

This makes financial revenues start to grow proportionally less, particularly the revenue from personal loans. You can see that it grew only 9.8 percent over the quarter, as compared to a year's growth of 61 percent.

In contrast, the loss ratio continued to rise and, as a result, the actual loss and positioning index continued to rise accordingly. A significant growth in the fourth quarter, totaling BRL 191 million in the period, generating this margin contraction. There has already been an expansion of the EBITDA's and margin's growth throughout the 1H, a more flat movement in terms of EBITDA over the 3Q and now this reversal due to these two factors.

The full-year EBITDA income from financial operations amounted to BRL 301 million, an increase of 8.3 percent, as compared to the BRL 278 million reported in 2014.

On the next slide, about the sales area, we can see that the Company ended the year with 605,000 m² of operational sales area, a total of 285 stores at the end of the quarter. Over the 4Q only, the Company opened 11 stores and in 2015, a total of 28 stores were opened.

As also discussed here, the store opening pace has held a little, since June, the CAPEX level; our store opening pace started with 43 stores in 2013; 45 stores in 2014, and 28 stores at the end of the year, and as Flavio said, the guidance for 2016 are 15 stores.

The next slide, number nine, shows the figures for the operation of our mall, the Midway Mall. Net income from rental activities grew 9.6 percent, while EBITDA grew 27 percent over the quarter, totaling BRL 17.9 million. For the year, the Mall's EBITDA amounted to BRL 56 million, an increase of 16.8 percent, as compared to that of 2014.

EBITDA growth at a level higher than that of revenue is due to some expenses specific to the closure of some operations in 2014, i.e., non-recurring expenses. That's why EBITDA growth is greater than the revenue growth.

At the bottom of the slide, we can see the number of the Company's owned stores, i.e., stores operated by the Company at its own properties. These stores are 46 in total, of which eight stores are located in malls and 38 on the streets.

On the next slide number ten, the consolidated figures of the group are now commented. Consolidated net revenue totaled BRL 1.761 billion, an increase of 10.9 percent. The full-year consolidated net revenue totaled BRL 5.507 billion, a 16.5-percent growth. It is worth notice that the consolidated net revenue represents the Riachuelo's, Midway Mall's and Midway Financeira's revenues combined.

The next slide, number 11, gives us an overview of the consolidated gross profit. The green line refers to the consolidated gross margin and the light blue line refers to the gross margin of goods. I think the 4Q's reduced margin is the highlight here: it dropped from 54.9 percent to 49.9 percent.

We have discussed about margin reduction with you over the recent quarters. The Company decided to reduce inventory levels, adjust its operations, and for that purpose, it has worked hard in terms of price over the months. As Flavio also said here, the Company was quite audatious in terms of price during October and November, but began to preserve margins, operating at another margin level since December.

Therefore, the quarter's consolidated gross profit totaled BRL 1.2 billion, an increase of 5.9%. Gross profit for the full year of 2015 was BRL 3.326 billion, an increase of 14.5%.

The next slide, number 12, gives us an overview of our operating expenses. The 4Q operating expenses of the Group totaled BRL 586 million, a decline of 0.5 percent, as compared to that of 4Q14. The year's operating expenses totaled BRL 2.79 billion, a 14 percent growth.

With respect to net revenue for the year, operating expenses accounted for 37.8 percent of net revenue, almost one point less than the 38.6 percent reported for 2014. And reduction was even greater over the quarter, corresponding to 33 percent of net revenue, compared to 37 percent over 4Q14.

At the bottom of the slide, we can see the square meter calculation, a sharp reduction of 10 percent in 4Q15, and a year's increase well below inflation for the second consecutive year, of only 2.7 percent.

Here, as also discussed throughout the year, we have been working hard in terms of stores' sales and productivity, which means that we have been working with internal benchmarks, observing the processes elected as the most productive, analyzing them and, if elected as the most productive processes, duplicating them at other stores.

This effort began in 2014 and was intensified in 2015, and the Company's intent is to maintain the current productivity levels throughout 2016.

On the next slide, number 13, we see the indicator for each area I referred to earlier. The square meter sales area was divided by the number of employees; So we ended 2015 with 44 m² per employee, corresponding to a growth, a productivity gain of 26.6 percent, as compared to that of late 2013. It is worth remembering that the number of pieces is pretty much the same.

On the next slide, number 14, our adjusted EBITDA figures are shown. The 4Q adjusted EBITDA totaled BRL 296.8 million, a decline of 8.1 percent, as compared to that of 4Q14. The full-year adjusted EBITDA for 2015 was BRL 762.9 million, a decline of 14.2 percent, as compared to that of 2014. I think this EBITDA reduction results from all the elements discussed throughout the year.

We had had a very difficult same-store performance, mainly since the second quarter, caused by all this margin reduction effect due to the intent of reducing inventory levels and adjust the Company's operations. In addition to that, there was an improvement on the positive side, a major productivity gain that relieved operating expenses, even in a year of very high inflation.

And financial operations contributing to the EBITDA until the 1H. Then a more flat EBITDA in the 3Q/4Q, because of a reduction in the volume of portfolios due to rising delinquency events. Basically, these were the main impacts in relation to the operating performance of the Group.

I would like to add just one more comment. In the 4Q there was a non-recurring effect on the "other operating income" line: an amount of BRL 28 million, arising out of a final and non-appealable court decision on the payment of PIS and COFINS levied on the Manaus' revenue from sales, is included in this revenue. The Company therefore decided, as the court decision on such amount is final and non-appealable, to allocate the amount of BRL 28 million in the said 4Q.

The slide 15 shows the 4Q consolidated net income of the Group, totaling BRL 158 million, a reduction of 17 percent, compared to the BRL 191 million reported in 4Q14. The full-year net income totaled BRL 350 million compared to the BRL 480 million reported last year.

The next slide, number 16, shows an overview of the Group's cash-to-cash cycle time. As Flavio said earlier, all the efforts made by the Group, mainly since mid-June, aimed to balance the cash-to-cash cycle time vis-à-vis a very challenging external environment and an operating pressure due to inventory levels.

The Company worked hard in terms of inventory, revised its purchasing portfolios, worked very hard on the deadline for payment to suppliers, negotiating them with domestic and international suppliers. We also reviewed our credit granting volumes, and the cash outflow for their investment levels.

All these elements combined certainly improved a lot the Group's cash generation and cash-to-cash cycle time. There was, specifically, an improvement of 31 percent in the period, ending the year in 145 days.

Inventories had a reduction of 18 percent in days, from 165 days in 2014 to 135 days at the end of 2015. It is worth remembering that the inventory levels are quite similar to those of 2013.

"Customers" is virtually unchanged. This is a kind of operation that does not change much; as for "suppliers", there was a very significant improvement, from 155 days at the end of 2014 to 91 days at the end of 2015.

The next slide, number 17, gives an overview of the Group's net debt position. As could not be otherwise, the level of debt in relation to EBITDA fell quite strongly, from 1.6x last quarter to 1.2x at the end of the year, in the 4Q.

When we look at this net debt of BRL 933 million, most of it – BRL 560 million – refers to financing from BNDES, BRL 168 million for operation of multiple agents and controllers, and BRL 148 million in relation to Midway's treasury bills. Other debts relate to short-term operations, mainly 4131 operations, with our main partner banks.

The next slide, number 18, gives an overview of the Group's CAPEX, which totaled BRL 483 million in 2015. Of course, most of this amount was allocated to new stores, BRL 190 million, and another quite significant amount of BRL 178 million earmarked for the investment in our new logistics center.

The next slide, number 19, gives us an overview of our number of employees. The Company ended 2015 with 38,551 employees, a reduction of 4.1 percent, as compared to the 40,195 in December 2014.

The green bar refers to Riachuelo, which had a 3.3 percent growth in 2015, noting that we opened 28 stores in 2015. On a base that in 2014 had a drop of 0.7 percent, even with the opening of 45 stores. This reflects all the productivity gains we talked earlier.

The blue bar refers to the operation of Guararapes, whose size was adjusted to meet the Group's needs. Next, a reduction of 15.6 percent in the staff.

Now we finish our comments and our team is available to answer any questions you may have. Thank you.

Ruben Couto, Itaú BBA:

Good morning all of you. Thanks for the question. First of all, expenses on sales, according to our interpretation, was the big highlight of earnings. Can you give more details on what has been changed, if this item has more room for gains, and what we can expect to happen in 2016.

And based on those changes, for which we believe a bit of outside consulting was required, we ask if there is room for any change in other areas of the company, like the one we saw relating to sales expenses. If it is possible to let us know a few more details, maybe a review of the logistics strategy, always considering expenses, it would be great. Thank you.

Tulio Queiroz:

This operating expense effort is actually quite focused on productivity gains. The work done, which had actually begun in 2014, was not supported by any external consulting advice. They were in the 1H14, focusing on the search for means to identify internal benchmarks, within the Group itself. In practice, all you do is to sort all stores according to similar characteristics, i.e., into clusters for each type of position.

To find the type of position and job role inside the store, stores are analyzed and compared in a specific and suitable manner so that the said position can be analyzed. Then, clusters are naturally analyzed, and within each cluster there is always a productivity benchmark.

The first question to rise is: why does a particular store, fitting exactly into the same operating characteristics for a particular role, have a far greater productivity than others? In fact, we start analyzing this benchmark, understanding what kind of process, what kind of function it performs that is different from that of the others, which generates this productivity gain.

Once assessed and validated, a discussion group was formed and this process becomes a benchmark and it is standardized for the other businesses and stores of the Group. So, this enables us to do a knowledge-generating work and this knowledge starts to be discussed in a much more broad, corporate-wide manner, because sometimes there is a very good manner to operate a particular store, but a manager of another store, from another region, does not necessarily have this knowledge.

I would say this is a work in which allows us to disseminate this knowledge, and it starts to generate a higher level of productivity. This work has been done since 2014. As I said, this entire knowledge-generating process, the discussions arisen of it and its replication make this work have no end.

Of course, major steps have been taken, but it's an ongoing work. Discussions are a matter of course, and there will always be means for us to seek additional productivity gains.

In relation to other areas of the Company — and all areas certainly begin to run under the same logic —, the head office, for example, has already been adjusted under this same reasoning, since 2016: focused on productivity, everything is possible to do quantitatively. If not, also looking at what actually needs to be done, a very significant simplification effort towards what really needs to be made and what does not add value, add cost not value.

But this is another discussion. I would also say that the DCs may contribute, perhaps not in 2016, but looking a little more ahead, to a reduction in operating expenses, because of the location where the Company will operate, have and possess the biggest operating expense on logistics in the industry; it represents more than 5 percent of its net revenue, as the entire part of picking is still done manually, by means of SKU. This causes logistics to be costly.

I have no doubt that after the investments in the new DC, we will also achieve higher levels of productivity.

Ruben Couto:

That's great. I would like to change the topic and talk a little about consumer finance. I understood that the coverage ratio is higher because you expect a worse scenario throughout 2016, but can you share with us what level of loss you are expecting for in relation to both Riachuelo's card and personal loan portfolio for 2016?

Still about the personal loan portfolio, which size should we expect for the portfolio this year? We saw there was a slowdown over the last quarter, but in terms of size, portfolio's monthly generation and quality, average term, I would please ask you to give more details on what expectations you have from now on about the portfolio. Thank you.

Tulio Queiroz:

Perfect. First, I will talk about the personal loan portfolio and loss level expectation. If we take a look at the personal loan portfolio's figures for the last two years, we see that it has been growing sharply. In 2013, our portfolio was undersized in relation to the Group.

At a certain point, a decision must be made on whether to work in terms of product, and of course, this is always based on a level of risk, or to stop working in terms of product. There was a work towards reviewing the volume by portfolio, indeed, and its growth was significant. However, we also know that the spread of this operation is very wide.

We took the increase in the level of loss into consideration indeed, because the amount of revenue is more than considered. But, of course, from June onwards, even because of all the macroeconomic scenario we have read about in recent months, and even in the early 2015, the Company decided, not only in terms of personal loan, but also in terms of the operation as a whole, to review the volume of credit granted.

Of course that the personal loan was one of the key actions, as it poses the highest risk. I would say that the volume of personal loans granted has dropped by half since then, which caused a reduction in the revenue growth that we could see as early as 4Q2015, as compared to its recent quarter-over-quarter growth.

Our intent for 2016 as a whole, not only in terms of personal loan, but in terms of all the other elements, is the pursuit for quality. It is not a pursuit for volume, but a pursuit for quality in loan operations.

Of course that the 2014 and 2015's growth in the volume of all operations will still cause default rate levels to increase over the 1H16. We are considering the personal loan segment, which is around 17-18%, and Riachuelo's card, 8-9%.

Ruben Couto:

Perfect. Perfectly clear, thank you.

Felipe Cassimiro, Brasil Plural:

Good morning all of you. Good morning, thanks for taking my question. My question refers to the gross margin level. You made it clear that the inventory level is not optimal but appropriate, and the Company's inventory level is now far more adequate. My question is: What expectations should we have in relation to the 1Q gross margin level from now on? Should we expect for a recovery as early as 1Q or a more gradual recovery over 1H? That's my question. Thank you!

Tulio Queiroz:

Felipe, thanks for your question. Regarding the gross margin, as you properly put it, we worked hard throughout 2015. Of course, the goal of the group is to return to pre-2015 levels , as it was an unusual year in this matter due to the very high volume of inventory, which had to be put back to a proper level.

I agree with you: a not optimal but appropriate inventory level. Not optimal yet. The Company, with all its processes and the whole concept that it has been building, based on the fast fashion concepts, certainly seeks a major essence for the inventory level. That's why we are working towards achieving an optimal inventory level as well as returning to the margin levels.

In fact, margin is primarily dependent on the 1Q. I would say it's still early, because January and February are sales months. As Flavio put it earlier, our new collection hits the stores today. So now it is time for us to expect a new moment for the square meter sales, a new moment for gross margin.

But perhaps not fully stated for this 1Q, due to the characteristics of January and part of February. I would say that 2Q will be a good reference for margin performance within these new collection development concepts, not a full fast fashion concept, but collection development.

Of course there is a full fast fashion concept in the completion of the DC project, which should be ready and working in the second half, and all of its interconnections with the factory.

Felipe Cassimiro:

Ok. Thank you.

Richard Cathcart, HSBC:

Good morning all of you. I have only two quick questions. Can you give us an idea of the growth in the stores that were renovated, as you highlighted this event as a key strategy for the coming year. My second question is just a little complement to Ruben's question about the productivity gain. I understood what you explained, but can you give us an idea of what exactly changed in the 4Q that could cause such a significant change in momentum. Thank you.

Tulio Queiroz:

With regard to store renovations, which are part of your first question, as Flavio said, we are working today with more successful store formats, a monochromatic facade, much more business-friendly and fashion. So we have noticed the growth of around 10 percent, or even higher, after renovation works.

Of course there are extremely successful cases, but I prefer not to disclose them to avoid creating expectations that may not be met. But we have had a great performance after renovation works. That's why it makes all the sense for us to resume the renovation level, especially because we always have to seek optimization between store growth and number of renovations, otherwise our textile facilities start getting very outdated.

In relation to our productivity effort, as I put it earlier, the process involves ongoing and regular steps that enable productivity to be improved little by little. One of the elements that contributed a lot, particularly in the 4Q, was a standard staff level much more accurately defined for the stores, according to holidays like Christmas, Black Friday, etc.

When mechanisms for calculation by job role or position are available, given the increase in the number of pieces caused by a promotional date, or a date like Christmas, an extra staff can be built in a much more assertive manner, eliminating a number of excessive errors made in the past, as there used to be no such monitoring or full control of productivity by job role. So that was one of the elements that, I would say, made the difference in 4Q2015.

Richard Cathcart:

Ok. Thank you.

Wagner Salaverry, Quantitas:

Good morning. I would like to know if you feel comfortable with the current Company's leverage level? I ask this question to also have an idea of whether the current DC, which will no longer be used, may be sold in order to cause a little reduction in the Company's leverage level.

Tulio Queiroz:

I think anyone who is familiar with the Group knows that we have a history of a very low leverage level. Over the last two years, our leverage level has risen, due chiefly to the elements related to a very strong investment, particularly to the opening of stores at a pace of over 40 stores per year. Increased financial operations, with a strong increase in the amount of credit granted, and on top of that, a worsening of the cash-to-cash cycle time.

So in the course of 2015, we just concentrated our efforts on all these elements towards a reduction in this leverage level. As a result, we reduced EBITDA from 1.6 percent to 1.2 percent.

Although it is clear that this 1.2 is a very comfortable leverage level, we know that historically we have always worked with figures lower than that. So, in fact, much more than concentrating our efforts on real estate, we have to focus on improving our cash-to-cash cycle time, while allowing the Company to increasingly generate cash, as such actions result in a more qualitative growth.

But specifically in relation to the DCs, the Group is yet to decide what to do with the current Guarulhos' DC, whose operation will cease in this second half. It will play a very important role during production, as we will work with two DCs. This transition will be made gradually. I would say we have the entire year of 2016 to discuss with the Board and obtain its decision on whether to sell or lease the DC, in short, on what to do about this operation.

Wagner Salaverry:

Just taking the chance for one more question: this extension you obtained in the deadline for payment to suppliers, can you give us more details about that, so that we can understand how this improvement was obtained? Was this resulted from some specific negotiation? Is this expected to remain throughout 2016?

And finally, just one more question: Despite this harsh macroeconomic scenario, with an increasing unemployment rate and drop in income, can you feel consumers more interested in promotional products, are they more price-sensitive, or haven't you felt this yet?

Tulio Queiroz:

Regarding suppliers, crisis scenarios have some positive points. Difficult times often force paradigm shifts, which help us to achieve some goals that once were unachievable. So, we managed to break the taboo of seeking longer payment terms from international suppliers. What once was an almost impossible task, has now become possible in the face of more difficult times. The same was true with local suppliers.

So we made an effort on all fronts, and this certainly is an important achievement that has come to stay. This achievement, with no shadow of a doubt, became a huge contribution to 2016 cash generation figures.

As for the macroeconomic scenario in the face of greater difficult times to consumer, in terms of income and employment, all fronts, high inflation, etc., the matter of price always comes into play. But actually I think that 2015 itself was a clear example of this. Our work is focused on price, but even so, it is difficult to work price when a new collection is yet to be organized.

I would say our business consists, by definition, in offering fashion at an affordable price. But when your collection is ready and structured, making perfect sense to the sales area, 10 percent, more or less, will not be the decisive factor for customers to purchase. The decisive factor for customers to purchase is a value-added good, which is in harmony with the stores, with a collection building context and with a well coordinated sales area, for which they are willing to pay 10%, 15% more. This is what makes much more difference than a possible price reduction coupled with a non-organized collection.

Therefore, I would say that one advantage of our industry is that it is very fragmented. So even in times of crisis is perfectly possible to win market share. It depends on us, on the quality of the collection, on how this collection hits the store and remains at the store, on our ability to respond to what is selling well. Anyway, we are in command.

Wagner Salaverry:

Ok. Thank you.

Pedro Fagundes, Goldman Sachs:

Thank you for the opportunity. Just a follow-up on the last question: You mentioned that it is useless to focus on price with a collection yet to be organized. In this regard, did you have to adapt to the current scenario any initiative originally created for the next collection? I mean, in relation to the mix, or even price, or something else that has been shown to require any adaptation to become more suitable to this new demand.

And there's another question I will ask next.

Tulio Queiroz:

What was developed in 2015, and will now be present at the stores, is a new collection-building methodology. We work with an external consultancy firm to help us with this. There is a whole collection-building know-how based on pre-defined processes and on how you want to display the collection at the stores. Much more than sorting the collection according to lifestyle, this entails to see which percentage of elements within the collection are risky, and which percentage of basic wear would be appropriate, etc.

Moreover, another very important point is how the color palettes and collection coordination are displayed at the stores. It is important that each store environment, each component speak the same language. So every color palette must make sense, prints must speak the same language and be based on a predefined color palette, and so must the new replenished goods; sales area's identity must match that of the collection, etc.

Just as difficult as it is to create a cool and harmonious collection, it is equally difficult to keep it throughout its life cycle at the store. From the very moment the stock of the stores begins to be replenished and bestsellers are sold, how replenishment is done, how the harmonious and coordinated display of the items is guaranteed...

All of these collection-building elements have been thoroughly worked in 2015 and will reflect on this new collection that hits our stores today.

Pedro Fagundes:

I got it. That's great. The second question is about expenses on stores. Significant part of your store base is inside malls. According to your analysis, how is rental negotiation behaving in the face of this scenario? In recent months, have you felt any change in the scenario that had been predicted for the beginning of last year? And do you see any upside that allows for an increase in productivity for 2016?

Tulio Queiroz:

In late 2014 and early 2015, this matter was thoroughly discussed with our mall partners. In fact, before that, in mid-2010, 2013, 2014, minimum rental rates rose very sharply. What had once been variable in most of the contracts became virtually fixed because minimum rates were too high.

So there were a number of negotiations on this matter throughout 2015 and some of them were favorable. Of course, you have to negotiate partnerships on all fronts. On a case-by-case, mall-by-mall basis. Some malls make all the sense, but others not so much. In short, we cannot generalize, but this certainly is a discussion that has gained force since 2014.

My answer to whether we'll get something for 2016 is that we established goals towards this achievement. Whether we will meet them or not, that's another question, this is about a case-by-case negotiation process, which involves several steps.

Pedro Fagundes:

Perfect. That's great. Thank you.

Guilherme Mazzilli, Kinea:

Good afternoon. My question is about sales. What measures are you taking in relation to inventory adjustment, store renovation, new collection now hitting the stores? I would like to know your opinion about sales situation so far. How is it? Did same-store sales have any improvement over these first two months? And what do you have in mind for this year with respect to this variable? Thank you.

Tulio Queiroz:

Thanks for your question. In relation to what we have already seen, it is too early. Because what we have seen since January so far, mid-February, were just our annual clearance sales of the previous season's collection. The new collection hits stores today. So it's too early for us to say what we have seen of the performance.

But I can share with you that we are quite optimistic about our collection performance. Of course we know we have a huge macroeconomic challenge ahead: consumers' income, employment, etc. We know all of these problems, just like you. This is not an easy scenario at all, so we will not count on the tailwind.

In contrast, we have been doing a very structured internal work, and we do hope that sales per square meter will improve thanks to everything we have built so far. As our industry is very fragmented, it allows for growth when our collection shows a better performance, even in an unfavorable macro environment, because competitors' market share, or even smaller retailers' market share, is naturally won.

Flavio has just given an example: he talked about the news of the shutdown of 100,000 stores. Just try to imagine the market size based on this information. So I would say that growth and the pace of growth expected for 2016 will depend on the performance of our work. Because we know that we should not count on the macro environment. On the contrary, it will hamper our growth as much as it can. But we believe it is still possible to have a good performance, because there are a lot of fronts being worked on.

The collection-building matter we talked about, a new DC that brings 100 percent of the mix using SKU. Now, let's wait for our performance before trying to guess figures.

Guilherme Mazzilli:

Ok. Thank you.

Operator:

Thank you. Question and answer session is over. Now I would like to turn the conference call over to Mr. Tulio Queiroz for final considerations.

Tulio Queiroz:

I would like to once again thank you for your participation, and say that our entire team now present will be available on our investor relations contact number. Thank you. Everyone have a good day.

Operator:

Thank you. Ladies and gentlemen, this concludes the Guararapes Riachuelo's Earnings Conference Call. You may now disconnect. Have a good afternoon.