Guilherme Assis, Brasil Plural:

Good morning, everyone. I have two questions. Flavio, I would like to understand the same-store sales and the drop in December. What was the base of comparison so that we can understand, because 2012 in Christmas, as you said before, you had that campaign where you were more aggressive tax-free and this year not.

Do you have the number for same-store sales for December last year, so that we could try to understand and make a comparison for the numbers of this last year? Maybe the numbers of the previous year have been inflated because of that campaign.

And also I would like to understand how things are going after Christmas. What can you tell us about January, if we can expect same-store sales to recover in the beginning of the year?

Another question is concerning operating expenses. As you mentioned in the call, the expenses of course was impacted by the opening of new stores, that is clear, but we also saw that there was a significant increase in SG&A, and my question is: is this something isolated, or should we expect this level to grow from now ahead, or if we can expect a comeback to a R$80-R$90 million level, which is what we had in the previous quarter in terms of SG&A?

Flávio Rocha:

Thank you, Guilherme, for your brilliant report, actually. As I said, December was an outlier, out of the curve, not just for us. We hear competitors talking the same. There was a combination of factors that decreased our numbers for December. And the main driver was the Black Friday phenomenon. It was really, really surprising. It has really established as an important date, and people anticipated their expenses in November.

And there was a swap of wallet share in the different segments, and that would include e-commerce and electronics, and so on. But the main driver for the slowdown in December, in other words, people anticipated their expenses in November.

In terms of internal drivers, I think the first one was the financing policy, which was more conservative, and a right decision not to spend on a tax-free final plan. That was the very, as I understand it, quite appealing plan, but we could not repeat that.

But then, in 2013 we had a very good success in terms of image with Daslu collection which is comparable to the Fashin Five event. In terms of volume, Daslu was 2.5x to 3x higher. than Fashin Five, which, again was also fantastic in terms of image but just 1/3 of volume an revenues that Daslu collection added to December result..

The fact that in October and November we had a 11.5% and a 14.3% growth, respectively, where we had projected a 10% growth. I would say that this also reflects people anticipating their expenses, and that of course drained our stocks and the numbers for December. That would be the third driver. But the good news is we have recovered the normal, as we consider normal levels, and it was something isolated for that past December.

Our expectations for this quarter and for the year are very optimistic, much similar to what happened in 2013 as a whole than what happened in December, without a doubt

Guilherme Assis:

If I can make a follow-up, still talking about Black Friday. Black Friday also helped you guys in November, did it not?

Flávio Rocha:

Even though we did not have a communication plan specifically for Black Friday, we had for the last two or three days a very strong increase in sales. You are right. We did not have any special offer, we had no TV ads, no communication specifically related to that, but we of course rode that wave of enthusiasm that was spread in the market and, of course, we benefitted from it as well.

Guilherme Assis:

So, you had increase in sales, but you did not promote the Black Friday event, right?

Flávio Rocha:

Exactly, yes. For 2014 our marketing department will be working to decide if it is a convenient effort to do or not. The truth of the matter is that it is an important day.

Tulio Queiroz:

And concerning SG&A, just to complement Flavio's answer, when we compare same-store sales, November base for 2012 and December 2012 were very similar, the same level. In October it was a little below, but in November and December it was exactly the same. The difference in performance from October and November to December 2013 did not have to do with the base of comparison.

Concerning SG&A, as you mentioned, there are some pressures. It is easy to understand the pressure in stores, especially in the 4Q when we opened many new stores, of course, sales pressures, because we opened and then we do not have the working revenue.

Guilherme Assis:

And in terms of administrative expenses, how did they grow?

Tulio Queiroz:

The behavior of those expenses happened in terms of steps. We need to fit the size of the step with the pace of our growth. By 2009 we opened five to nine stores a year, then we moved up to 18 stores a year, then we are at a level of over 40 new stores a year. That of course pressures internal areas and we need to review some areas. This year, for example, we reinforced with substantial investments all the IT area, and that of course impacted administrative expenses.

This will not only be present in 2013, but also in 2014 and also through 2015. I am talking about four years of strong investments in IT, and I am talking about all of the internal structure of the Company, which has been changed. We also have investments in engineering, and of course concerning expansion, it is one of the most pressured areas of course in the past few years.

And another important element for the 4Q was the award plan for the executives. So, I would say most of the pressure from G&A stems from those three drivers.

Guilherme Assis:

So, from what you said we should be reaching a new level in terms of SG&A, with investments have been made to support the expansion. So, the new IT team that will support all these investment will be there, will remain, right? And when you talk about compensation, I am assuming this will go on? Is that it?

Tulio Queiroz:

Yes. Of course the variable remuneration part will depend on metrics for the year 2014, so we need to wait. But this seems to be close to what we had in 2013, we have a better picture throughout the year. But you are right, we are creating new structures and they need to be supported.

Guilherme Assis:

OK. Thank you.

Victor Pascoal, Itaú BBA:

Good morning, everyone. Congratulations on the results. My first question would be based in what Flávio said earlier, you closed the year with 40% of physical volume stocked by push-pull and a lead time in Fortaleza and Natal, of six days; very impressive. We see improvement happening in same-store sales, gross margin, inventory. My question is, how do you think that the speed of capture of these improvements will continue into 2014? If you expect these improvements being faster or slower than in 2013.

And if you could perhaps give us a breakdown of same-store sales of stores that have already benefitted from the push-and-pull plan.

Flávio Rocha:

Well, Victor, that 40% is flat in all stores. Of course we have different mixes, so 40% in average; might be 45 here, 40 there. But that hard example is the flat for all stores.

We are doing this change by group of products, and we have maybe 800 group of products.. We started the basic items, even though the impact was lower because the predictability of the basic items is higher, but at this year we implement as well.

What we need to do now is to focus on the fashion items. With our know-how or learning curve that we covered last year, and this is places us in a position to face the challenge, which is a more complex challenge, and we need to see fashionable products in more efficient way this year.

And the gains of course are higher, because the fashionable products we have lack of predictability but we have a higher return, and we know we need to be able to react more quickly this market demand. The six-day lead time is really to be celebrated. Not long ago I would like to remind you that factories had a three- to four-month period of turnover. So that figure is a pretty impressive, significant change in both numbers. That is an impressive gain, of course, it also implies a decline in inventories and a faster reaction to the market.

By the end of the year, I think we could be at 100% of the Company migrated to the SKUs, if I am going to be optimistic. If I am going to be pessimistic, I would say we would close the year at 70%. So, we are looking good and, of course, there is room for more efficiency in terms of inventory management. We see, of course, a different decline on what we call "old merchandise index" because we have a better and more efficient initial allocation, initial distribution and reset as the store sells, not a higher dose of life to spend all season inside the store, which always leads to errors.

So, in order for us to achieve 100% and to really acquire a competitive advantage comparing to the competition, that is what we have to do.

Victor Pascoal:

And concerning the factor in gross margin, there was some important improvement in the past two years. My question is: do you still see room in terms of gains for gross margin?

Tulio Queiroz:

Victor, gross margin for a Guararapes product as a whole has just started to show the results in the last two years. This was an effort to analyze the whole process and we are now focused on the areas that are performing well, and that of course includes the participation of the production of fashion products.

Today Guararapes works almost exclusively with fashion. Along with this we have also implemented a budget control for costs, so of course the whole structure is fit to the new reality. A factory setup was redesigned, the way we buy and purchase raw materials also changed, so all actions to extract more productivity from the industrial core of the group.

Of course leaving the factory 100% ready to react through the fast movers that we detect in our retail operation. So, that improvement in gross margin reflected all this behavior. When we started to do the math in terms of performance differences, when we compare third-party projects with imported products the difference was huge. Guararapes had the lowest margin by far; . Today the margin is significantly higher than the third-party products and we are getting very close to the margins obtained from imported products, which also leave us very excited and we see good things happening and we see a promise in migrating all our products to SKUs.

For 2014 I would say there is still possibilities to expand margins, coming from that core. Our objective is to neutralize the negative impact that will come from imported products. It is still early to predict the behavior of all of that, the impact of the foreign exchange rate, the next step in terms of productivity for Guararapes in this quarter.

But I would say that we can see there is in our budget work again, there is our effort to analyze what has happened now in the first two months. We can see good potential to keep on with this improvement and we will hopefully be able to continue to deliver those good gross margin.

Victor Pascoal:

Thank you. I understand when you talk about the gross margin for the year, I understand it depends on foreign exchange rates. But if we take the current foreign exchange rate, would you say the scenario is for maintenance or for an expansion of gross margins in retail?

Tulio Queiroz:

If we maintain the current scenario as the basis and if we continue to have what we are having now in the first two months, I would say we would be expanding our gross margin for products, yes. I would say it is just a little bit early for us to really commit to that. We need to wait for the closing of the 1Q so we can understand some peak trends in terms of costs. But I would say the Company is very happy to work with them in terms of industrial costs and that, of course, will reflect in the cost structure for the 1Q and then, of course, for the coming quarters. Of course there are other industrial investments on our radar, and without a doubt it will contribute to the process as a whole. For example, we are bringing new insurance, digital printing, and this will allow us to bring more raw material, basic products, and try to implement our design, and then we can explore the prints which are fast movers in the store, that would be made in house. That would be better sales per m^2, better margins, so there are a few new elements happening in 2014 that, combined, will help us boost and drive this process.

Victor Pascoal:

Thank you, Tulio.

José Giordano, JPMorgan:

Good morning. Congratulations. My question is in line with the new concept of store. Flávio talked about flagship on Oscar Freire. I would like to understand a little bit more what the behavior of that store is vis-à-vis the older models of Riachuelo store in terms of CAPEX per m^2. We do believe that that new store is a bit more sophisticated than the other one.

Tulio Queiroz:

That concept store is, without a doubt, as Flávio mentioned on his opening remarks, brought in, is bringing in several good moments and good surprises for the Group. When it was open, it truly really surprises us in terms of sales, we are not expecting that level of sales per m^2, as it shows. On top of the concept store, which, of course, reflects our strategy, all the other stores, the concept of visual merchandising, the concept of buy experience has changed, and we want to go further changes.

We know that there is a lot of value on the table. We have better products, more sophisticated products, more fashionable products, and that has lead us to start a new project in terms of visual merchandising. This will be happening in the end of the year, beginning of 2015. We are working with different equipment textile, equipment that add value to products. So, the focus will be on the products now. The Company now has a product which can be placed on a different level in terms of design and fashion value.

In terms of sales per m^2, if we are talking about the Oscar Freire store, the CAPEX per m^2, of course, is higher. The idea is that that store is a bit of a laboratory where we will be able to take away whatever works, to a different dimension, a different scale. So, the machinery used in Oscar Freire, when we are trying to negotiate with suppliers a different level of volumes, of course, those numbers will be different. The idea is not to press the CAPEX per m^2 in this way. Even this figure has stayed fairly controlled. We continue with an average level of around R$ 3,000 per m^2.

Occasionally, as in the case of the Oscar Freire store, as is the case, probably, of the Rio de Janeiro store, this average rises because they are much more conceptual stores. But whatever works with a compact store and is replicate to large scales, will enable us to work with competitive costs. And without a doubt when we look at it of how much that is affecting our maturing sales, how that is impacting our sales per m^2. It is difficult to quantify all of those impacts isolated, but I think that since 2007 we had very positive performances, as Flávio mentioned in the beginning of the call, our worst season was a 23% annual return, and our best was over 40%. When we look at the numbers, we have what we have better sales per m^2, then of course better gross margin. And all those gross margins that we conquered in the past few years have impacted even higher levels of return for those stores. When we start with a differentiated gross margin, the breath you have is much greater. This is the planned pace.

And we think that the Company in terms of gross margin have achieved an important level in 2013, we are coming close to 55%. We cannot forget that the main international players are at 60% gross margin, and without a doubt that is where we are going to get to in the long term. All of the efforts in terms of brand, in terms of integrating, operations, in terms of looking at the industry in adifferent point of view, adding value to products, investing on logistic centers, bringing talented team for the style area or product, targets a different gross margin, without forgetting to democratize fashion, always.

I would say that these concept stores will at that level. So I would not worry about this issue of CAPEX per m^2, since on scales and larger volumes, it will undoubtedly diluted.

José Giordano:

Thank you.

Richard Cathcart, Banco Espírito Santo:

Hi, good afternoon. I just wanted to ask about the use of third-party suppliers. Do you offset some of the impact of the weaker currency, or will you be using some more third-party suppliers here in Brazil?

And just a follow-on question about, are you seeing much pressure on costs from these third-party suppliers, perhaps some constraints and possibly higher labor cost structure? Thank you.

Tulio Queiroz:

Thank you. The other cost pressure coming from foreign exchange rates and from cotton in production is still really present throughout 2014.In 2013, raw material was of course an important cost. We cannot forget that the textile business is a labor-intensive business, so whenever we have cost pressure in terms of labor, that was the case in the past few years, we feel immediately in terms of cost pressure. And for the last two years, of course, the Company started in terms of raw material to look for alternatives for imported raw materials, and then we had, of course, once again the foreign exchange rate pressuring our numbers.

At the same time, we had an increase in cotton prices, so I would say we had cost pressure from imported components, raw materials and labor. How do we get out of the cost pressure? There is only one way to do that: making more sales per m^2, having a more attractive product, and specially reducing the level of markdown and trying to capture their margin. That is what we did. We had that cost pressure coming from third parties as well, when we look at local suppliers they all suffered that same type of pressure.

So, the way out of that is to have, again, a product at a higher value-added, be able to identify fast movers quickly, and being able to deliver to the stores efficiently, thus reducing markdown and capturing more margin. That is the way out we found, so this year we expect similar pressures coming in, concerning, again, labor and raw material. Solution, again, is the same as last year. I would say there is an opportunity at our own factories to plan in terms of productivity.

Richard Cathcart:

Thank you.

Operator:

The Q&A session is now over. I would like to give the floor back to Mr. Tulio Queiroz for his final remarks. Please, Mr. Queiroz, have the floor.

Tulio Queiroz:

I would just like to thank you all for participating, and we are all available through our emails for doubts and comments. Thank you, and have a nice day.

Operator:

Thank you. The conference call for the results concerning the 4Q13 and 2013 is now over. Please, disconnect your lines, and have a nice day. Thank you.