

Earnings Release 3q09

The third quarter of the year is characterized by the August switch incollections with the introduction of the tendencies and items of the spring-summer season fashions. This year the inspiration for the Renner collection was natural riches and “tropicality” of Brazil. In July, Lojas Renner launched three new brands: “A Collection”, its focus on the adult female who appreciates touches of glamour in her daily routine, Maternity Renner”, aimed specifically at mothersto- be and “Satinato”, Renner’s first exclusive footwear brand for women. The school winter vacation also falls during the third quarter while the period has only one commemorative date, - Fathers Day - without the same commercial impact of Christmas, Mothers Day or the Brazilian equivalent of Valentine’s Day, although still making a positive contribution to quarterly results.

Results From The Retailing Operation

Net Revenue

Net Revenue from Merchandise Sales was R\$ 486.7 million in 3Q09, against R\$ 449.0 million in 3Q08, a growth of 8.4%. Same Store Sales posted an increase of +1.3% over 3Q08. For the accumulated period from January to September, Net Revenue from Merchandise Sales reached R\$ 1,404.1 million, against R\$ 1,342.7 million in the same period for 2008, while on a Same Store Sales comparative basis, this item reported a slight decline of - 2.2% against 9M08.

This performance reflects the continuing improvement in sales already reported in the 2Q09, as well as some price adjustments and more adequate inventory in early 2009. However, low temperatures and long periods of rainfall in the South and the Southeast regions - where the majority of Lojas Renner’s stores are located, adversely impacted spring-summer collection sales, partly in the month of August and in September.

Gross Profit

Gross Profit from Merchandise Sales reached R\$ 223.8 million against R\$ 206.2 million in 3Q08. Gross Margin from Retailing Operations posted 46.0% in 3Q09, in line with the percentage of 45.9% of 3Q08. In 9M09, Gross Profit was R\$ 657.4 million and Gross Margin from Retailing Operations was 46.8% versus 47.1% in the previous year. This reduction is due to the fact that the margin for 9M09 is still contaminated by the negative impact of the depreciation of the Real against the US dollar, which impacted the mark-up on imported products in the winter collection.

Selling Expenses

Selling Expenses rose 15.1% from R\$ 114.3 million in 3Q08 to R\$ 131.6 million in 3Q09. In 9M09, these expenses amounted to R\$ 379.7 million, 9.6% higher than the R\$ 346.3 million recorded in 9M08. As a percentage of Net Revenue from Merchandise Sales, Selling Expenses increased from 25.5% to 27.0% in 3Q09 and in 9M09 from 25.8% to 27.0%. Average store expenses posted a slight increase of 1.6% in 3Q09, from R\$ 1,121.0 thousand to R\$ 1,139.0 thousand and a reduction of 3.2% in 9M09 from R\$ 3,395.2 thousand to R\$ 3,287.3 thousand.

These variations relate to the fixed expenses, that impacted stores opened more recently where the sales performance has been adversely impacted by the less favorable macroeconomic environment since September 2008. During this period, the Company rolled out a further 13 units which experienced greater difficulty in diluting fixed expenses: these stores carry the same fixed costs as a mature store, while operating at lower levels of productivity.

General and Administrative Expenses

General and Administrative Expenses fell 3.4%, amounting to R\$ 46.8 million in 3Q09, against R\$ 48.5 million registered in the same period for 2008. In 9M09, these expenses were R\$ 136.1 million, against R\$ 131.5 million in 9M08. As a percentage of Net Revenue from Merchandise Sales, this item fell from 10.8% to 9.6% in 3Q09 and from 9.8% to 9.7% in 9M09. In 3Q09, average store expenses fell 14.7%, from R\$ 475.1 thousand to R\$ 405.5 thousand and by 8.5% in 9M09, from R\$ 1,288.7 thousand in 9M08 to R\$ 1,178.6 thousand in 9M09. These reductions are a reflection of ongoing efforts by Management to reduce corporate costs.

Results from Financial Services were R\$ 27.4 million in 3Q09, 2.3% higher than for the same period in 2008. The lower percentage share of revenues from the 0+8 interest bearing plan as well as reduced recoveries of past due receivables in the period, was offset by better performance from Personal Loan

operations. In 9M09 results were R\$ 70.9 million, with a growth of 15.6% over the R\$ 61.3 million reported in 9M08.

In 3Q09 Lojas Renner granted R\$ 24.9 million in personal loans and the total loan portfolio including interest charges totaled R\$ 87.6 million, (R\$ 64.0 million when adjusted to present value). For the accumulated period to the end of September, the Company granted R\$ 69.7 million in personal loans. These operations represent an average ticket of approximately R\$ 561.00 (principal) and an average term of 8.3 months.

Credit Losses, Net of Recoveries, on sales with the Renner Card, represented 4.7% of Net Revenue from Merchandise Sales for 3Q09, in line with the 4.8% reported in 3Q08. In 9M09, provisions and losses were 4.7%, very similar to the levels reported during the course of 2008.

With respect to Personal Loans, the provisions for losses on credits are constituted on the basis of the risk classification of the operations similar to the classification criteria for credit operations laid down by the Central Bank of Brazil and in line with the same policy adopted by the financial institutions. Provisions are based on a classification of risk stipulated by the Central Bank. At the highest level of risk, this considers the entire amount including the portion still not due, and not merely the amount overdue (Dragging Method, where customer debt with different installments of different contracts, distributed across the portfolio is transferred to a worst case overdue classification, consolidated and accrued). The percentage provisioned gradually increases as payment delay increases with the outstanding amount in excess of 180 days being 100% accrued.

Expenses with provisions and losses on Personal Loans, net of recoveries, reported in 3Q09, were R\$ 5.6 million, against R\$ 5.1 million in 3Q08, the increase reflecting the higher volume of credit granted in the period. In the first nine months of the year, provisions and losses diminished from R\$ 17.5 million to R\$ 16.9 million. The fruit of Management's efforts to improve credit approval methods and the collection of personal loan products.

Results from the Financial Services item is made up of the following lines:

Revenues: this item reports revenues arising from the collection of delayed credit payments associated to the retailing operation (in up to five installments and partially with respect to sale of merchandise under the 0+8 installment plans), as well as revenues generated from the intermediation of credit sales under the 0+8 installments with interest plan and from Personal Loans net of taxes and cost of finance (funding). Revenues from Capitalization Bonds (annuities) and from Insurance Policies are also recognized here.

Credit Losses, Net of Recoveries: this item records the provision for losses on credits associated with the retailing operation (in up to five installments and partially with respect to sale of merchandise under the 0+8 installment plan) as well as additional losses arising from the intermediation of credit sales under the 0+8 installments with interest plan. In both cases, losses registered in this way are deducted from recoveries of losses written off in previous periods. Losses generated from the intermediation of Personal Loans are also booked to this item.

Operating Expenses: this item records expenses related to operations involving the financial services including all the costs incurred from this business, as well as all collection overheads associated to the Financial Services and Renner Card with respect to the 0+5 installment interest free and 0+8 installments with interest plans.

Renner Card

The Renner Card accounted for 60.6% of sales in 3Q09, against 63.6% in the same period a year earlier. The reduced participation of store card sales is mainly due to the significant number of store rollouts as from 2005 (54 new stores). This implies a larger number of new customers who initially choose to settle purchases using other forms of payment thus reducing the percentage of store card sales business. The average ticket for Renner Card sales rose 8.5% in 3Q09 to R\$ 116.96 against R\$ 107.84 in 3Q08. For the first nine months of the year, Renner Card business accounted for 60.6% of total sales against 63.6% in 9M08 while the average ticket reported a year-on-year increase of 7.2% from R\$109.51 to R\$ 117.40.

The 0+8 interest-bearing installment credit plan recorded a share of 13.0% of total sales in 3Q09, an improvement in relation to 2Q09, albeit below the 14.8% participation posted in 3Q08. This plan represented

11.5% in 9M09 against 14.9% in 9M08. The 0+5 installment plan registered a participation of 47.6% in 3Q09, against 48.8% in 3Q08, while the percentage was 49.1% in 9M09 against 48.7% for the same period in 2008.

In 3Q09, the Company issued 369.7 thousand new cards (1,099.4 thousand in 9M09), the total number of Lojas Renner store cards standing at 14.7 million units in September 2009.

EBITDA in 3Q09 reached R\$ 73.9 million, the EBITDA Margin on Net Revenue from Merchandise Sales recording 15.2% in the quarter against 14.8% in 3Q08 (13.4% if based on total Net Revenue against 13.0% in 3Q08). In 9M09, accumulated EBITDA amounted to R\$ 214.8 million against R\$ 209.1 million in 9M08 while the EBITDA Margin on Net Revenue from Merchandise Sales was 15.3 % against 15.6% in 9M08 (13.6% if calculated on total Net Revenue for the Company versus 13.8% in the previous year). These results for the accumulated period 2009 still reflect the negative impacts of the first quarter of the year – a more difficult one in comparative and operational terms given the less than favorable macroeconomic climate of the time.

In 3Q09, the Financial Result was negative at R\$ 4.2 million against a similarly negative result of R\$ 4.6 million in 3Q08. The Financial Result for the full nine month period was a negative R\$ 11.1 million against a negative R\$ 10.0 million in 9M08.

The improvement in the 3Q09 Financial Result is due to the larger volume of financial investments. In 9M09 the variations reflect higher costs of financing delinquent customers as from September 2008 and changes in the structure of this operation whereby income from the investment of resources arising from the loan are no longer discounted against the cost of customer financing but rather, incorporated into the financial revenues item shown in the first line of the above table.

Net Income

In the light of the foregoing factors, the Company reported a 3Q09 Net Income growth of 7.7% to R\$ 30.6 million, against R\$ 28.4 million registered in the same period in 2008. The Net Margin as a percentage of Net Revenue from Merchandise Sales was 6.3% in 3Q09 equal to the result in 3Q08 (5.5% when based on the Company's total Net Revenue against 5.6% in 3Q08). For the accumulated period, Net Income reached R\$ 89.3 million, 8.0% less than was recorded in 9M08. Net Margin for the first nine months of the year was .4% against 7.2 % in 9M08 (5.6% of based on total Net Revenue against 6.4% in 9M08).

Net Cash / (Debt)

In September 2009, Cash and Cash Equivalents amounted to R\$ 297.7 million, an increase of 53.1% compared with R\$ 194.4 million in June 2009. This improved cash position is related principally to the greater gross cash generation in 3Q09 and the larger share of purchases on credit from domestic suppliers with longer payment terms.

On September 30 2009, Total Loans and Financing stood at R\$ 154.2 million, made up of a line of R\$ 110 million with Banco Santander for financing delinquent customers and R\$ 44.2 million from Banco do Nordeste for underscoring the Company's expansion in the Northeast region of the country. These loans carry an average cost of 10.4% p.a. Total Loans and Financing presented a reduction of 6.1% over the outstanding amount for the same period in June 2009 of R\$ 164.2 million.

As a result, the Company closed September 2009 with a Net Cash position of R\$ 143.5 million versus R\$ 30.2 million in June 2009.

Courtesy : Lojas Renner

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