

Lojas Renner S.A | 2Q25 Conference Call Transcription

Carla Sffair: Good morning everyone, we shall start the Lojas Renner S.A. conference call. I have here with me Fabio Faccio, CEO, and Daniel Santos, CFO.

Before I hand over to them, I would like to inform that this videoconference is being recorded and translated simultaneously into English. The presentation will be presented in Portuguese, for those following us in English, it is available in the chat and on the IR website. Questions from journalists should be directed to our press office at (11) 3165-9586.

Before continuing, I would like to clarify that any statements regarding business prospects, operational and financial projections and goals are near forecast and assumptions based on currently available information and are not performance guarantees as they depend on circumstances that may or may not take place.

During the Q&A session, questions can be asked only by audio. With that, I hand the floor over to Fabio.

Fabio Faccio: Good morning, everyone. Thank you all for being here. We will share our results for the second quarter of 2025 and our outlook for the future.

In this quarter, the strategic initiatives we have been developing over the past few years once again benefited our results, leading to another quarter of strong performance in growth, profitability and value creation. In our retail operation, sales growth was 18.5% compared to the previous year. In apparel, our main category, growth was 20% with a gross margin of 58.4%, an increase of 0.9 percentage point.

We also had another quarter in which we diluted our expenses, with a reduction of 0.8 percentage point over net revenue, and we know we still have opportunities here.

Realize continued contributing to retail operations and strengthening itself as a customer loyalty tool. The actions we have already implemented over the past few quarters have reduced the over-90-day portfolio risk on a comparable basis, dropping 4.9 percentage points and boosting results, which grew 68% compared to the second quarter of 2024, already excluding the positive impacts of the new Central Bank regulation.

We also executed 70% of the share buyback program we announced in February, up to the current limit of reserves available at the moment. This action reaffirms our commitment to generating value for our shareholders.

The improvement in retail operations and in Realize's performance resulted in a 28% increase in net income and a 34.4% increase in earnings per share.

Our financial cycle decreased by 12 days, and we generated 333 million in free cash flow.

These results led to a two-percentage-point increase in the ROIC for the last twelve months. This performance reflects the gradual gains of our business model, as we have said over the past few quarters, which began in the third quarter of 2024 and continues to gain traction.

This progress has also contributed to our brand. We rose two positions in the Interbrand ranking, which assesses the strength, resilience, and innovation capacity of Brazilian brands. Today, we are the eleventh most valuable brand in Brazil.

I would also like to highlight important recognitions of our performance in sustainability, governance, and social responsibility, which make us very proud.

We ranked first in the sector in the FTSE4Good Index. And also, first place in fashion retail in the ESG Exam Award. In addition, we are also the second-best retailer in the world in Time magazine's ranking of the most sustainable companies. It is also worth noting that Lojas Renner is the only Brazilian company in this ranking, among the world's top 100 in any sector.

I would like to mention that we were the first retailer in the world to adopt the IFRS International Sustainability Standards – Climate S1/ S2, an important step in the company's strategy to be a benchmark in responsible fashion, enhancing our sustainability management through the measurement of business risks and opportunities.

We also completed the final stage for the full integration of our on- and offline operations. The transition of e-commerce from the Rio de Janeiro DC to the São Paulo DC has been completed. At this point, all products from the new collections are being 100% operated from the São Paulo DC. The Rio de Janeiro DC will maintain some secondary operations, such as regional supplier receiving, transit point for stores in Rio de Janeiro and Espírito Santo, and also as a provisional contingency plan for older digital items.

We continue to speed up and add flexibility to fashion execution, and we have also brought more accuracy to replenishment. This has contributed to the increase in our sales and gross margin.

We have advanced in technology and in creating an increasingly seamless in-store journey, while at the same time accelerating e-commerce and moving forward with our expansion plan into new cities. So far this year, we have already opened nine stores, and most of our openings will take place in the fourth quarter.

We are confident about store openings for the year. Our current expectation is to open 30 to 37 stores throughout the year, including 15 to 20 Renner stores, around 15 Youcom stores, and one to two Camicado stores.

Our other brands, in addition to Renner, are increasingly being leveraged by our business model. One example is Youcom, whose performance remains outstanding in growth and profitability. The flexibility of our platform allows it to meet the needs of our brands and of others that may become part of our company in the future. These initiatives have made our company more integrated and flexible to meet new consumer demands.

This greater competitiveness will allow us to sustain a long-lasting growth cycle, even on an already very high nominal base, with profitability and value creation, without the need for significant new investments in infrastructure. The performance in the first half makes us even more confident in the path we have chosen. And this is the beginning of capturing the benefits. Our priority here is to accelerate the gains from the investment to reach the full potential of this model.

I would like to thank you all once again for being here and I now invite Daniel to continue.

Daniel Santos: Thank you, Fabio. Good morning, everyone.

In this second quarter of 2025, we achieved 18.5% retail revenue growth and 20% in apparel. Sales were driven by higher transaction volumes of items, a result of the attractiveness of the collection and temperatures appropriate for the season, compared to the much warmer fall, the floods in Rio Grande do Sul, and also the stabilization period of the São Paulo DC in the same quarter of 2024.

Forty percent of our growth was due to increased volume. The other 60% came from a combination of markdown reduction, resulting from newer inventory, a mix with greater participation of winter products, and price adjustments.

We will continue to balance prices carefully through market monitoring and product performance, focusing on the positioning of our brands and also on our customers' perception. For the second half, we expect price adjustments close to inflation.

Our digital channel grew 21%, once again gaining share and with improved profitability.

We reached a record active customer base, with an increase in the share of new items in sales and greater expense efficiency.

Regarding the third quarter, we maintain the same expectations previously shared. Our 2024 comparison base is stronger. We grew 12% last year. And the second half, given the macroeconomic scenario, may bring greater challenges for household consumption.

Strong sales in the second quarter limited winter item inventory at the start of the third quarter, a period when winter clearance sales are usually held. This is positive for our business, as it means the collection was successful and also contributes to a more balanced inventory for the arrival of the new collection. Items from the new collection are arriving in stores and have been well received. We expect healthy sales growth, but not at the levels seen in the first quarters of the year.

In any case, we remain confident that our flexible, agile, and accurate business model will allow us to follow a competitive growth path with market share gains in any economic context.

As for gross margin, we continue to advance in gross margin, even with inflated costs, high interest rates, and exchange rate pressure.

We closed the second quarter with a healthy retail gross margin of 57.1%, 0.9 percentage point higher than in the second quarter of 2024. Apparel gross margin was 58.4%, also up 0.9 percentage point.

This performance was made possible by efficient inventory management, agility and flexibility in capturing trends to develop collections and gains in accuracy and speed in store replenishment.

As a result, there was a nine-day reduction in average inventory days and fewer markdowns during the period. Price adjustments and a better mix also contributed to that.

Our imported orders are hedged until December at below BRL 6.00, which, combined with pricing implementation and efficiency gains in inventory management, gives us confidence

in a positive gross margin for the second half, although not at the same magnitude as observed in the first half.

Regarding our expenses, operating expenses grew by 16%, compared to a 18% growth in retail net revenue, which allowed for 0.8 percentage point of operating leverage in the quarter. Selling expenses were diluted by 1.2 percentage points due to higher sales volumes, and general and administrative expenses were diluted by 0.2 percentage point, with a 16% growth. This growth reflected, in addition to inflation, the following factors:

First, the higher volume of items handled, which impacts freight, packaging, and personnel, a provision for the restricted stock plan above expectations, with an impact of R\$ 22 million, or 0.6 percentage point, resulting from a 61% appreciation in our shares versus a 26% decline in the second quarter of 2024, provisions for legal proceedings, mostly labor-related, above historical levels, which impacted R\$ 12 million, or 0.3 percentage point, in the period.

These expenses arise from a trend of increasing labor lawsuits against companies that has been occurring in the market, and we expect normalization in the coming quarters. We are reviewing our settlement policies and defense strategies in line with this new reality.

Provisions for restricted stock and legal proceedings together accounted for 10 percentage points of the 16% growth in G&A in the period.

Lastly, expenses from the employee profit-sharing program impacted 0.6 percentage point compared to the previous year, when provisions were lower, given that results in that period were below expectations.

Our expense levels are still not where we would like them to be, but we are certain that the investments already made will allow for sales growth to outpace expense growth. For Q3, we expect more limited leverage levels, given the timing of certain expenses. This is in line with our leverage expectations for the year.

Regarding Realize's results in the period, we delivered a quarter with important developments.

Net income of BRL 119 million reflects the improvement in the credit profile of the portfolio, as well as the effects of Resolution 4,966. Excluding the Resolution, net income was about BRL 59 million, still showing a growth of 68% versus the prior period.

Our robust and accurate credit-granting model, along with a healthy and low-risk portfolio, positions Realize positively for the current credit cycle in Brazil. Our over-90-day, Stage 3, excluding the Resolution, closed at 12.4%, down 4.9 percentage points from last year. Our short-term delinquency remains at low levels.

While a macroeconomic context of uncertainty persists, we will maintain a cautious credit offering, focused on less risky profiles, mainly through the Private Label, ensuring support for retail sales while maintaining portfolio quality.

Regarding the impacts of Resolution 4,966, I would like to recall some effects on Realize's results in the period:

First, the recognition of interest of up to 90 days benefited the revenue line and portfolio by BRL 70 million. This additional revenue already originates in arrears and requires a proportional loss provision. This negative effect of BRL 60 million in Q2, a higher amount than in the first quarter, was mainly due to the rollover of 90-day past due balances from Q1 to Q2, which requires higher provisioning. Therefore, the net effect was positive at BRL 10 million in Q225.

Regarding the postponement of write-offs to 540 days, the amount in Q2 2025 was a positive BRL 50 million, which will no longer occur from Q3 onwards.

Write-off seasonality has also changed. Previously, the larger write-offs of past-due sales from Q4 occurred mainly in Q1 and early quarters. Now, they occur six months later, meaning they will take place more in the third quarters. For this reason, Q3 will see less growth in results than Q2, in line with what we have already planned for the year.

It is important to avoid extrapolating the effects of Resolution 4,966 from the first half to the second half, as they will have little relevance going forward. We estimate the impact of Resolution 4,966 in the second half to be between BRL 10 million and BRL 15 million.

Our EBITDA grew 33%, reaching a margin of 24.4%, an increase of 2.6 percentage points due to improvements in retail and financial services. This comparison was impacted by non-recurring items in retail, such as tax credits that benefited Q2 2024, the effect of Resolutions 4,966, and also a portfolio sale that took place in the same quarter last year.

Net income increased 28%, reflecting our improved operational performance. Earnings per share, following the execution of 70% of the share buyback program, grew 34.4%.

Our ROIC, accumulated over twelve months, improved by 2 percentage points, reaching 14.1%.

I now turn the floor back to Carla.

Carla Sffair: We will now begin our Q&A session. To ask a question, please click the “raise hand” button. To optimize time and address as many participants as possible, we kindly ask that each analyst ask only one question at a time and, if necessary, rejoin the queue for additional questions.

And the first question comes from Danni Eiger, from XP. How are you, Danni?

Danni Eiger: Hi, Good morning. Thank you for picking my question. My question is related to the gross margin dynamic, which really caught my attention.

How were you able to deliver an improvement? I think there were several initiatives behind it, but I believe it would be good to understand how much of it is sustainable and can be extrapolated going forward? There's the mix factor you mentioned, but there are others that I believe could even be accelerated over the second half. So I think it would be interesting to understand a bit more about how to think about this gross margin evolution going forward. Thank you.

Fabio Faccio: Hi, Danni. Thank you for the question. Actually, I think gross margin is trending even a little better than we expected, partly due to sales, which came in slightly above expectations.

I think we had a year with more normalized temperatures. When we look at the Fall-Winter period, which includes part of Q2 and part of Q3, compared to the previous year, for example, last year we had opposite effects, that hurt Q2 and benefited Q3. This year, it benefited Q2, and overall, between Q2 and Q3, it's positive because you sell more Winter products, which have a higher average ticket. That benefits sales and selling in the Fall-Winter period before clearance also benefits margin. When we look at the six months across the quarters, this brings more sales and more margin as well. Because, as in last year, for example, when you sell a bit later, you're already in the markdown/clearance period, so margin was helped somewhat by this factor, which benefits overall margin.

I think when we look going forward, we had been talking a lot about a stable margin. And I think not only because of this factor, but also because of it, we are already seeing a margin slightly above what we had been projecting. Another important factor that helped margin is the improvement in our model, both in the accuracy of collections, being able to work with more accurate inventories, of higher quality, more attractive, and leaner. That also helps margin significantly.

It reduces markdowns. So, we had a significant markdown reduction. We also had a reduction in inventories. When we look at value, inventories grew a little, but in volume, they declined. When we look at inventory days, we had a nine-day reduction, an improvement in turnover, and inventory is much newer. So, all this is the result of the model, and the granularity of our distribution itself.

I think all these factors continue to help. Perhaps the factor of comparison between Q2 and Q3 is more specific to this moment, but the whole matter of collection accuracy, collection attractiveness, and better distribution, this continues. And that's why we even see an opportunity, even with such a high margin, to have a slight growth in our margin over the year as well.

Danni Eiger: Excellent, very clear, thank you. And congratulations on the results.

The next question comes from Vinícius Strano, from UBS. How are you, Vinícius?

Vinícius Strano: Good morning, Carla, Fábio, Daniel. Thank you for picking my question. You mentioned that end-customer demand is satisfactory. But if you could help us quantify a bit the base effect here when we look at comparisons for the third quarter? If I'm not mistaken, in Q2 the sales impact was between 500 and 600 bps coming solely from the base. So, if you could comment on how you think this evolves when we look toward Q3? Also help us quantify a bit the impact of the migration of e-commerce to the DC. How should we think about sales, margins, and inventory levels here in the second half, and also a bit about the long term? Thank you.

Fabio Faccio: Thank you, Vinícius. I think we continue to see satisfactory demand. I don't think there has been any change in the scenario compared to our expectations. Certainly, as you mentioned, there are different bases. Last year's second quarter was more impacted by warmer temperatures at the beginning of fall. So that certainly brought a weaker comparison base in Q2, those sales occurred in sequential periods. As Daniel mentioned in his remarks here, it brought a weaker base in Q2 and a stronger base in Q3. So, when we look at just the quarters, you have a more positive effect in Q2 and a slight pressure at the beginning of Q3. That's our expectation, because those sales happened, when you look at the entire period, earlier, at full price, which helps when you look at the whole picture: it

benefits total sales and total margin, because you sell more before the clearance and markdown period, and avoid selling during clearance, which is positive overall.

So I think there is a base effect, yes, but overall, I think demand is slightly stronger than we expected, when looking over a longer period. I think this stronger demand is not only due to the base or to more normalized weather this year, but much of it comes from what we have built as a model. Because when we talked about the 500 to 600 bps from a weaker base last year, we were talking about a scenario everyone faced. So, I think that scenario applied to everybody. And comparing it to a normality, for example, like a first quarter, we could imagine that, in relation to a first quarter, if we were to put it on the same basis, we have a sense of what a normal situation would be. So I'd say you have this effect of a weaker base in Q2, but also an effect of a stronger base in Q3, not to the same extent, but still similar.

For the year, we continue to see results very much in line with our expectations, slightly above, both in sales and in margin. The impact of the DC migration is positive. We completed the phase, as we had been announcing we would, now over the course of this semester. This allows us to reduce lead time, improve service levels, and have a greater assortment available. So, you reduce stockouts, increase availability, improve service level and lead time, this certainly has a positive impact on conversion and sales.

Vinícius Strano: Great. Thank you, Fábio.

Fabio Faccio: Thank you, Vinícius.

The next question comes from Luiz Guanais, from BTG. How are you, Guanais?

Luiz Guanais: All good, Carla. Good morning, Fábio. Good morning, Daniel. I have two questions here. First, if you could comment on the effect of ticket increase. You mentioned a 6% ticket increase in the quarter, and my question is whether there is additional room, both in mix and in price, for us to see an increase in this indicator. And then, a second question: One of the highlights of the quarter, and you have been mentioning this over the past few months, was the double-digit productivity increase in stores that you reported. I'd like to understand what could be the drivers here for us to think about further productivity increases going forward. Thank you.

Fabio Faccio: Thank you for the question, Guanais. I think the ticket increase this quarter has a few components. I think the smaller portion of the ticket, or price, increase comes from cost pass-through. There is a smaller portion that is cost pass-through, which is very much in line with inflation. It's important that this continues. I think we have seen room across the market, in all sectors, for a cost pass-through in line with inflation. So, this does not put pressure on margin. But part of the increase comes from mix. This mix is both - from products sold at full price and from a higher volume of winter items, which have higher tickets. And both the newer inventory brings products with higher tickets, and the reduction in markdowns, which continues to happen. Every quarter, we have seen a reduction in markdowns. Certainly, more normalized temperatures is something that helps, but I think it comes mostly from the model as a whole. If we look there, inventory grew, if I'm not mistaken, 4% in value, with a decrease in volume, alongside sales that grew significantly, and we expect growth ahead as well. We are working with higher sales and less inventory, hence the nine-day reduction in average inventory. This is very significant. By doing this, we bring in new inventory all the time. And by constantly bringing in new inventory, we continuously improve attractiveness, sales, and gross margin. That's why we believe this will continue going forward.

Certainly, what we don't have in other quarters is this part of the equation related to winter items, because then we start moving into collections with more normalized tickets, winter carries a bit more weight in that sense.

Regarding the productivity increase, we have also been working on this. I think the sales growth itself, the opportunity we have to increase sales, drives significant same-store sales growth, and this same-store sales growth naturally brings productivity gains. Online can also continue to grow more and more. I think this comes, as we've been saying, of course, we have an important expansion opportunity, which will increasingly happen starting in Q4. But the greater opportunity is still for continued productivity gains and same-store growth, driven by all the investments we have made, which also bring strong sales and strong margins. Daniel, would you like to add anything?

Daniel Santos: Adding here to the productivity theme, Guanais, when we look at our new replenishment model, the model of being able to replenish by SKU, really gives us the opportunity to improve productivity. You will have better replenishment accuracy in stores, a more personalized assortment. So, when we imagine our model gaining more traction, this is truly an opportunity we have the ambition to keep developing over the next few quarters.

Luiz Guanais: Excellent. Thank you, Daniel. Thank you, Fábio.

Fabio Faccio: Thank you, Guanais.

The next question comes from Vinicius Pretto, from Itaú BBA. How are you, Vinicius?

Vinicius Pretto: Good morning, Carla, Gastim here. Good morning, Fábio. Good morning, Daniel. I just wanted to understand a bit more about this dynamic you mentioned regarding the Q3 base. The way you explained it in Q2 helped us a lot on our side, the 500–600 bps and so on. We just wanted to get a bit more detail on this going forward. My perception here is that July was, in fact, one of the most challenging bases for you last year, when temperatures started to drop. So, anyway, I'd like to understand, when you look at all of July and early August, up to now, considering that last year there was also the Cross Border change. How satisfied are you so far with this Q3 dynamic? I think it helped a lot in Q2. If you could share something, I think it would help a lot. That's the first question.

The second one is about credit. We are already in August, and there was always this concern about the economy in the second half. Given what you have seen so far, how is the loan portfolio growth dynamic or the loan portfolio growth outlook for the second half? These are my two questions. Thank you.

Fabio Faccio: Thank you for the questions, Gastim. I think I'll start with the first question, and then Daniel will answer the second.

I'd say, to help with the reasoning, when we look at Q2, it is mostly full Fall-Winter. So last year's base was indeed low due to very warm Fall temperatures and also floods in May.

So, it was indeed a low base, an atypical situation. That's why we have this idea of 500 to 600 bps difference compared to a normalized quarter. When we look at Q3, it is harder to make that separation because it is not entirely a Fall-Winter collection. You have July there, as you mentioned, which is a stronger base, because since Q2 was weak last year, those sales rolled over into the clearance period in July, at the start of Q3. So, you have a stronger Q3 base due to a stronger clearance period.

But when you look at the consolidated period, this is positive this year, because you sold earlier, at full price, with a higher margin. Last year, you sold later, with already marked-down prices. So that's why we also believe there is an opportunity for slight margin growth, even on the stronger base we had in Q3.

But Q3 has several components. You have this clearance period from the outgoing collection, which, on the one hand, had sales pulled forward, so you may have slightly lower sales at the start of it, that's our expectation, but with a higher margin, which is positive. Then we have Father's Day, which we are entering now. We can't comment on that yet because we are still in the event. And then comes the transition to and arrival of the new collection, which is the most important part of the quarter itself. So it is hard to state exactly what Q3's dynamic will be, but certainly Q2 had this dynamic of a weaker base, that's why we gave that higher range. Q3 also has a stronger base, but I wouldn't say it's in the same proportion as one compared to the other. I'm not sure if that was clear. If not, I can continue. Otherwise, we'll move on to the credit part with Daniel.

Vinicius Pretto: Thank you, it's very clear.

Daniel Santos: Speaking about credit, Gastim, regarding the portfolio and Realize, I think the first point is to always remember the impact of Resolution 4,966. When we take the specific Q2 portfolio and exclude it, we see a relatively stable portfolio, but with the portion of the current portfolio increasing by 4–5%.

I think the important points to keep in mind here are, first, that we remain in a scenario that requires caution. We have been navigating Realize's originations carefully and selectively in terms of risk, and this will continue. Today, originations are much more focused on Private, and when we look, for example, at the number of users we have, we have even seen a slight growth in the Private portfolio.

This is the dynamic we expect going forward. We do not foresee growth in the total portfolio, but we do expect that the size of the Private portfolio could see slight growth as a result of this more selective, careful origination. We do not expect to change this approach during the year. We will continue to monitor how the market evolves over the second half, bearing in mind that Realize is, of course, an opportunity for when the economic environment improves. From the moment we perceive that market conditions are more positive, the possibility of working with risk profiles different from those we are currently operating with will undoubtedly become an opportunity not only for Realize itself but especially for retail, which is Realize's main purpose: to foster retail growth.

Vinicius Pretto: Good, Daniel. Great. Thank you very much for the answer.

Daniel Santos: Thank you, Gastim.

The next question comes from Pedro Pinto, from BBI. How are you, Pedro?

Pedro Pinto: I'm good, Carla, thank you. Good morning. Good morning, Fábio. Good morning, Daniel. I have two quick questions here. The first is on the expense front. Daniel himself, in the Open Remarks, said that the expense level may still not be at the optimal point you would like. So I'd like to know what your internal expectations are going forward, more structurally speaking, maybe looking back to 2019 as a reference for the company's own performance. Do you think at some point you can reach that order of magnitude in margin we have already seen in the company, considering expenses specifically?

And in this context, the second question is somehow related. The DC currently plays a central role in the strategy, and in the past few years we've talked a lot about it. This time, in

this quarter, we talked more about the transition regarding e-commerce, but I'd like to try to better quantify it. How is this ramp-up going? If we could have some KPIs, whether on the impact on inventory turnover, anything that helps us with inventory productivity, and especially the impact on expenses, if we could get some quantitative data to better make this evolution tangible. Thank you.

Daniel Santos: Pedro, thank you for the question. Well, when we look at expenses, Pedro, I think the first important point to remember is our commitment to achieving leverage quarter over quarter, and how we have been able to do this sequentially.

In expenses, we know we have an opportunity to be more efficient. So, if I had to set a benchmark, I'd say that within an evolution where our goal is to reach expense ratios similar to 2019, perhaps around 25% would come from efficiency gains. Efficiency from the new structures we have implemented, and the continuous work of always trying to gain productivity in our structures, whether administrative, in stores, or even in our DC operations. Another portion comes from the fact that the investments we have made allow us to have an installed capacity that enables growth without the need to increase expenses.

So that would be the largest part of this evolution. We are truly committed to continuing this progression. And it is directly connected to our new business model, which we have not yet reached the full potential of, and once we get close to that potential, we can have expense levels as a percentage of revenue very close to what we had in 2019.

Regarding KPIs, well, you mentioned the DC as a key player, but I'd say the real key player is the replenishment model, of which the DC is a major enabler. How do we see this evolution? On one hand, when we talk about inventory turnover, without a doubt it is an important indicator. We have observed improvements. The nine days that Fábio mentioned here as inventory gains are already an example of this. As for expenses, there's no doubt that within this evolution, when we talk about greater efficiency and also growth potential without increasing expenses, the DC is a major enabler. With the migration of digital operations now to the Rio de Janeiro facility, it already allows us to gain efficiency within digital operations. So, the replenishment model, of which the DC is part, is indeed a key player in this agenda I mentioned initially, of gradually evolving our expenses as a percentage of revenue, bringing us closer to the 2019 base.

Pedro Pinto: That's clear, Daniel. Thank you.

Daniel Santos: Thank you, Pedro.

The next question comes from Ruben Couto, from Santander. Hi, Ruben.

Ruben Couto: Hi, Carla. Good morning, Fábio, Daniel. How are you? I think we haven't talked about this replenishment model yet. Could you give us a bit more information on how stores in smaller cities and street stores have been performing? In comparison to the store base average, after all these benefits from the new replenishment capacity for SKUs, for example. I remember that specifically in these smaller stores there was even a greater benefit, which made it viable in some regions and brought some advantages that perhaps wouldn't happen in shopping mall stores. And how much of these improvements you've already noticed has made you more excited about accelerating expansion for this store profile going forward, in the coming years? Thank you.

Fabio Faccio: Thanks for the question, Ruben. Yes, we have already felt the benefits. I think, as we've been saying, it's a benefit that comes gradually, because there is a learning curve within the model itself, remembering that a year ago, we didn't have this model in operation. So, you gradually replenish the stores in a more granular way and generate learning: What type of product can you sell? In what quantities? This feeds back into the system's algorithms, and you keep improving more and more. That's why we understand that the gains are gradual, both in team and operations productivity and in the data that is populated as new history is built, improving every day. So yes, we have already felt the effects. I think, as Daniel mentioned, part of this improvement in inventory management comes from this. A good part comes from this. Part of the sales improvement comes from this. Part of the margin improvement comes from this. I wouldn't say that some stores aren't benefited; all stores benefit. What we say is that the smaller ones benefit even more because they have space constraints. So having a more granular and accurate assortment is even more important for them. But it works for all of them, it benefits all stores. They were already performing above average. The expansion model, which is most of what we have ahead for the Renner brand, was already performing, before all this investment, slightly above the average of same-cohort stores. Now it's performing a bit better. So that gives us even more confidence to truly continue our expansion plan.

In fact, as we've moved along throughout the year, if I'm not mistaken, at the beginning of the year we said our range for expansion this year in new stores would be between 25 and 37 stores. Now we are talking about 30 to 37, because as we get closer to the opening date, it's easier to be more accurate with the store number projection.

We give a range mainly because, for the Renner brand, construction work can be a few months earlier or later, and sometimes it rolls over into the next year. But the intention is to open between 33 and 37 stores in total this year.

For Renner, we are still within a range of 15 to 20. We will probably end up in that range, depending on construction progress, more toward the middle or upper part, or the lower part. But the stores will open regardless, whether this year or the next. And in the following years, the intention is to open even more, because the model is performing well, and now, even better. And Youcom also has benefits. As the construction work is shorter, we can already have greater accuracy. We should open around 15 stores. And Camicado, as well, between one and two stores this year. So, most of these stores will be opening between November and December, and will therefore be reflected mainly in the fourth quarter. So far, we have opened nine stores in total: Six Youcom, two Renner, and one Camicado. And we have a few more stores to open to reach that range we mentioned, most of them in November and December.

Ruben Couto: Perfectly clear. Thank you, Fábio.

The next question comes from Joseph Giordano, from J.P. Morgan. How are you, Joe?

Joseph Giordano: Hello. Good morning. Thank you for picking my question.

Joseph Giordano: I'd like to explore a little more the continued improvement in capital and debt. I think that's the first point. And what could still be improved going forward. So, I think there's just been the integration of e-commerce. So I'd like to understand the growth leverage potential in that channel? And the second point, which is a topic that's been much discussed lately, and with little visibility, I'd like to hear from you about what you've been hearing from various stakeholders regarding the change in the import tax rate. We saw this major change last year, and now we're starting to see discussions about reversing it and removing the import tax on packages up to USD 50. I'd like to understand what risks you see in that. And to wrap up my questions, I'd like to explore something we rarely talk about: the

Argentina and Uruguay operations. What do they represent in terms of opportunity? Argentina is stabilizing. Obviously, the macro environment is quite challenging. What do you see as the potential for expansion? Thank you.

Daniel Santos: I'll comment here on working capital, and then I'll pass the other two to Fábio. Alright, Joe? Thank you for the questions. Regarding working capital, Joe, we have a big opportunity in inventory. As I mentioned earlier, our new replenishment model, if we also think about the fashion execution model, with greater accuracy in what we're bringing in, along with more agility in our supplier chains, all of this gives us and allows us to work toward the ambition of making progress. Today, our inventory turnover is around three days, and we're aiming to reach something close to four times a year over the next two to three years. That's our mission. So, in terms of working capital, the major change would really be in inventory.

Fabio Faccio: On the import tax, it's worth noting, if I'm not mistaken, that we've been growing for eight consecutive quarters. The tax for cross-border operations came into effect more toward the end of last year. So we've invested heavily in evolving our business model, improving our competitiveness, and having increasingly better and more attractive products with more competitive prices. So I believe it's not just a matter of the tax. We see a much more competitive scenario for the company, in any context. In fact, it's worth remembering that all this competitiveness existed even when there wasn't a tax, and now there is, and we pay twice as much in taxes as cross-border platforms do. So I think the next step that the associations are pursuing is to move toward tax fairness, tax equality. Ideally, our rates should be reduced so that we would have the same taxes, or at least everyone should pay what companies established in the country pay. So I think the correct and ideal thing would be to reduce ours, or have everyone pay the same. But we are prepared for any scenario.

Oh, and you also asked about Argentina and Uruguay, right? Joe, sorry, I almost forgot. I think we talked more about Argentina earlier this year because there was a very strong movement of Argentine tourism to Brazil, even more than our operations in Argentina. That had an impact in the first quarter, which is why we ended up mentioning it. The operations in both Argentina and Uruguay have been doing well, just like in Brazil. And regarding your question about future potential: in Uruguay, we already have a fairly relevant operation for the size of the country, but there is potential for continued growth, just as we have in Brazil.

As for Argentina, yes, it's been performing well, and the country has been improving significantly. I believe we do have an important opportunity for expansion there, but we're waiting for a future moment to understand the country's next steps, to see geopolitical stabilization in the region before investing, because we still have so many stores to open in Brazil. So that would be for a later stage, also an opportunity to open in Argentina, which is a country that is doing well, and where our operations are also encouraging.

Joseph Giordano: Perfect. Thank you very much.

The next question is from João Soares, from Citi. Hi, João.

João Soares: Two questions here on my side, Fábio. First, I'd like to hear a bit about the product. You talk about competitive pricing and all. But when I think about it, and I have a bit of difficulty today, in terms of positioning, given that there have been price adjustments, not only yours, but the competition has also made significant adjustments. And now, anyway, I'd like to understand how you see this today. When we try to think about the Renner

product versus others. You mentioned the ticket, that the ticket went up 6%. If there's room to raise that price, given the product's differentiated quality. I'm not sure how the perception has been. How are you evaluating the consumers' perception?

And we often end up comparing the price with Zara. Anyway, I'd like to hear a bit about how you see this adjustment, this positioning of the Renner product. And how this could resonate in revenue, in average ticket, and tickets?

And then another quick question here about Realize: the provision came in a bit higher than I expected. I'm not sure, Daniel, if there's anything... Is the model capturing a bit more risk here? Is there any aspect related to the Private Label's origin? Anyway, I'd like to hear if there was any different dynamic here in the provision. Thank you.

Fabio Faccio: João, thank you for the questions. I'll take the first part here, and then I'll pass the Realize part over to Daniel. I think regarding competitiveness, if we look at our growth this quarter, for example, it came 40% from volume and 60% from price, but it's important to make it clear that these 60% from price are not a price adjustment. A smaller portion of that is a price adjustment. If we look at our prices over a two-or three-year period, they have grown well below inflation, especially since we have to remember that in the two previous years, we actually reduced prices. This year, they've been very much in line with inflation, so the portion of growth from price is very much in line with inflation.

And when we look at the competitive scenario, I think ours is actually the one growing the least. We have even seen competitors with more aggressive pricing. So, yes, we do see room to keep passing inflation costs on to prices. This has allowed us to keep our margin, but the main driver of the overall price increase is the mix. The assortment includes newer products being sold at full price, with a lower markdown volume. That's what pushes prices up more than any actual price adjustment, and it even enables a more competitive price for the new product for our customer, with higher margins for us due to the reduction in markdowns. This leads to a lower share of clearance sales and a higher share of collection sales, which is very positive for us.

Daniel Santos: Regarding Realize, João, thank you for the question. At first, there's been no change to our provisioning criteria; they remain the same. What I think is that we are still in a slightly complex period because of the effects of Law 4,966.

So I'll use a case that I think clearly illustrates this situation, which I mentioned in my opening remarks: when we look at the additional revenues generated, for example, for example, in the 60-90 in Q1, they were provisioned at a provisioning level for a short delay. When you get to the second quarter, that portion that starts to become slightly more overdue ends up generating a higher provision. So, I believe that's what, at some point, may have given the impression of a higher provisioning level. But when I exclude all the impacts from Law 4,966 and look at the provisioning level we had, it is in line with what we were expecting. There's no surprise. In fact, when we look at our portfolio indicators for over-90-day delinquency, whether short-term or longer-term portfolio, these indicators, year over year and also sequentially, have continued to show positive evolution.

So, I think it's more about this specific impact from Law 4,966, which in Q1 and Q2 was logically greater. From the second half of the year onward, as I mentioned, the impacts will be smaller, and then we'll start returning to a portfolio with a more regular quarter-on-quarter behavior.

João Soares: I tried to isolate the effect from Law 4,966 here, but maybe my number was a bit aggressive, but it's clear now, Daniel. Thank you.

Daniel Santos: Alright. Thank you, João.

The next question comes from Irma Sgarz, from Goldman Sachs. Good morning, Irma.

Irma Sgarz: Good morning. Thank you for picking my question. Most of them have already been asked, but I just wanted to go back to the Camicado for a moment. If you could comment a bit on its performance, which was a little weaker compared to apparel and apparel formats. And also on what you are seeing in terms of outlook for the second half of the year? Thank you.

Fabio Faccio: Thank you, Irma. Indeed, apparel is the segment that performed best and represents the largest share of our business. I believe it is much less impacted by the macro environment, with lower average tickets.

Camicado also performed well compared to the rest of the sector and grew more than the sector average. I think only the fashion and apparel sector has been performing better than the home and décor sector as a whole. If we look proportionally to the sector, I believe Camicado is also gaining market share and is already at a fairly high margin level. We also mentioned that the first quarter was not as comparable because we had stronger markdowns last year to clear older inventory. This year, we are already working with a much more developed private-label model, which has already led to a considerable gross margin gain. So, going forward, we believe Camicado is already at a very healthy gross margin level, but still with room, just like Renner and Youcom, for a slight gross margin improvement. Camicado, also, had not been opening stores; in fact, we closed some operations recently. Now, we have opened a new store model. Just like Renner has its most up-to-date model in Morumbi, which is not a test, as we have been working with Renner's new model for three years now, continuously evolving over this period, our most up-to-date model is in Morumbi Shopping.

For Camicado, our most up-to-date stores are in Vitória Shopping, in Espírito Santo, and in Galleria Shopping, in Campinas, this latter being a newly opened store. For Youcom, we also have a newer model in Barigüi Shopping, in Curitiba. So, all three brands already have important new models that have been adding to performance and productivity.

I wanted to highlight this point because these are tested models that have been delivering results. In addition to the investment expansion, we have for new stores, and with Camicado resuming store openings, we also have a significant investment line for renovations. When we look at Camicado, Youcom, and Renner together, we have around 65 remodels in the year, all of which lead to improved performance for the remodeled stores. So that is also an important source of productivity gains. But in terms of market performance, Camicado is doing well, too.

Irma Sgarz: Perfect. Thank you.

The next question comes from Andrew Ruben, from Morgan Stanley. How are you, Andrew?

Andrew Ruben: I'm doing well, thanks for the question. Maybe if you could just give some more detail on performance between your store types, whether there is one in the neighborhood that you see as higher versus lower socioeconomic demographics, also anything between maybe your street versus mall stores. I'm just trying to understand if there are any trend divergences you're seeing within the base. Thank you.

Fabio Faccio: Thank you for the question, Andrew. I would say that when we look across size formats, we have been seeing good performance in all size formats. I believe there is also leverage potential in smaller formats. The newer stores, which are opened in new cities, some of them with street locations due to being in smaller cities, have also been

performing well. I think we are pleased with everyone's performance. If we think about the segmentation by consumption profile, consumption potential, or purchasing power, all are also performing well. But, of course, the higher purchasing power consumer profiles continue to perform at higher levels, largely due to the macro environment. I also believe that with an improved environment, the other neighborhoods could also be further boosted.

Andrew Ruben: Thank you.

Fabio Faccio: Thank you, Andrew.

And our last question comes from Melissa Byun, from Bank of America. Hi, Melissa.

Melissa Byun: Hi, Fábio, Daniel, Carla. Most of my questions have been answered, but I did just want to follow up on the credit portfolio. What would make you feel more comfortable accelerating origination, and how would you incentivize credit adoption? And there have been a lot of moving parts over the last few years, and certainly more recently, what are your expectations for underlying profitability? What is the sustainable level of return that you see for this portfolio?

Daniel Santos: Thank you, Melissa, for the question. Well, I would say that we are waiting for a moment when the default rates in the overall economy, and even this dynamic of the beginning of interest rate cuts, give us more safety and confidence to accelerate or work with less restrictive risk profiles in originations than those we are operating with today. So, I would say we believe this could happen more in the first half of next year. That is our expectation.

Regarding Realize's profitability: first, we reaffirm that we do not believe it is possible to return to the profitability levels we had back in the pre-pandemic year of 2019. We have had changes in competitiveness, changes in regulatory rules, but now we continue to see Realize as a great instrument to foster retail. Credit granting remains important for the customer profile we serve at Renner.

We also see an important role for Realize in terms of working on relationship and engagement with our customers. And that is where we have a great opportunity, as we still have some activities and steps to complete to fully unlock this potential.

Regarding total profitability, we had a target we referred to as the percentage of participation in the company's total EBITDA, which in the past ranged between 20-25%. We believe that even in this new scenario, and by working on the potential I mentioned earlier, we can aim to operate between 10-15%, and that is part of our ambition.

Melissa Byun: Understood.

With that, I will close our Q&A session and hand it over to Fábio.

Fabio Faccio: Well, once again, I would like to thank everyone for being here and reinforce our confidence in our growth and value creation strategy, as well as in the performance of our teams and partners.

Thank you very much. We remain available for any questions about the company.