

Lojas Renner S.A | 4Q25 Conference Call Transcription

Fabiana Oliver: 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. Welcome Fabiana. Thank you all for being here.

Thank you all for joining us. Our fourth-quarter results confirm that our business model continues to deliver profitability. The expansion in gross margin reflects our operational evolution and the investments we have made.

We are approaching pre-pandemic margin levels, with a sustainable margin profile and additional room for growth. Operating expenses grew at half the pace of sales. Although the quarter began with some challenges due to milder temperatures, Black Friday and Christmas performance was strong, supported by a lower promotional intensity compared to the previous year.

Our operational efficiency also highlighted opportunities to further improve sales performance during seasonal transitions. We made progress in structuring our cost reduction plan, which is a key initiative to prepare the company for the 2026–2030 period.

In 2025, sales performance was in line with our expectations. We grew at twice the pace of the sector and outperformed all comparable peers. As anticipated, the year showed an uneven pattern, with a stronger first half and a more moderate second half.

Margin expansion was driven by disciplined inventory management, with lower and fresher inventory levels, combined with productivity gains and operating leverage. At Realize, results were solid, supported by a prudent credit origination strategy. Youcom delivered strong growth, and Camicado recorded an excellent expansion in gross margin.

We increased ROIC, delivered robust cash generation, and achieved record net income both for the quarter and the full year, returning significant value to shareholders through interest on equity and share buybacks.

We ended 2025 encouraged by the progress achieved across the company.

Turning to the Renner brand, we continued to strengthen our positioning, evolving from a fashion retailer into a true fashion brand with greater authority, aligned with our “Ouse ser Você” positioning. We expanded collaborations and licensing initiatives, reinforced sustainability and Brazilian identity, and enhanced the use of artificial intelligence to improve personalization.

As a result, brand recognition increased significantly. Renner remains top of mind in the fashion category in Brazil and continues to lead engagement across social media platforms.

Regarding expansion, we accelerated store openings and remodeling. Refurbished stores continue to deliver a better customer experience and higher sales productivity. Growth has been fully omnichannel, spanning both physical stores and digital channels.

In digital, we continued to gain scale and efficiency, launching new initiatives that enhance personalization and conversion, including the virtual fitting room and expanded use of artificial intelligence in content production. Omnichannel tools such as the unified shopping bag further improve customer experience and conversion both online and in-store.

This omnichannel execution continues to drive productivity gains. Sales per square meter reached BRL 17,000 for the year, the highest in the sector and approximately 45% above direct competitors.

We see additional opportunities to enhance results through continued cost reduction initiatives and by optimizing sales during seasonal transitions, replacing marked-down sales with full-price sales of new products at a larger scale.

2025 also demonstrated that our strategy for the 2026–2030 cycle is both feasible and concrete. We advanced in line with our guidance across sales growth, expense dilution, profitability expansion, and store openings.

I will now turn the call over to Daniel for additional details on the quarter and full-year results.

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

In the fourth quarter, we delivered 4.3% retail sales growth and 5.1% growth in apparel, a competitive performance despite milder-than-usual temperatures in the first half of the quarter, which negatively impacted store traffic. In addition, macroeconomic factors continued to pressure consumers' purchasing power.

This performance reflects the strong acceptance of the High Summer collection, with highlights in athleisure and beachwear, as well as improvements in our reaction cycle and assortment allocation processes.

For full-year 2025, retail revenue increased 9.2%, while apparel grew 10.2%. The composition of this 9.2% revenue growth already reflects the pillars of our long-term growth ambition: pricing aligned with market inflation, a positive mix impact driven by improved inventory composition, above-market growth in the digital channel, and strong performance from our Youcom business unit.

Regarding expansion, in 2025 we opened 34 stores, including 14 Renner, 17 Youcom, and 3 Camicado, resulting in a 1.8% increase in selling area. Not all of this selling area expansion was converted into sales in 2025, as a significant portion of store openings occurred toward the end of the year.

We recorded an increase in our customer base and shopping frequency across stores, app, and website, which supported higher sales volumes. While customers purchased fewer items per transaction, they shopped more frequently and increased their average ticket in the digital channel. GMV grew 10%, reaching 14% of total sales.

This performance was driven by meaningful innovations that enhanced both customer experience and channel efficiency.

As a result, revenue per square meter, one of the company's key levers for omnichannel growth and productivity, increased by more than 7% year over year, reaching BRL 17,000 per square meter, the highest among comparable peers.

Turning to gross margin, we closed the fourth quarter with a retail gross margin of 56.5%, up 0.7 percentage points versus the fourth quarter of 2024.

Apparel gross margin reached 57.9%, representing an increase of 0.8 percentage points on a full-year basis. Overall, gross margin expanded 0.7 percentage points, reaching 56.1%, close to our historical record.

This performance was driven by a higher share of full-price items in sales, as well as the evolution of our replenishment model, which resulted in healthy markdown levels. Mix improvements combined with price adjustments in line with inflation also contributed to margin expansion in 2025.

At Youcom, gross margin declined 0.9 percentage points in the quarter, reflecting mix adjustments to renew inventories. These adjustments have already been completed, and Youcom remains on its growth trajectory. On a full-year basis, gross margin remained stable.

Camicado posted a 1.2 percentage point increase in gross margin versus the prior year, reflecting solid commercial execution and a higher share of private-label products under the Home Style brand. For the full year, Camicado's gross margin reached 56.5%, an increase of 1.7 percentage points year over year.

The company ended 2025 with a renewed inventory position and lower markdown levels, allowing us to start the year with refreshed assortments across both our app and physical stores.

Operating expenses grew 2%, the lowest growth rate of the year. Excluding profit-sharing expenses (PPR), operating expenses increased 3%.

As a result, we delivered expense dilution of 0.7 percentage points versus net retail revenue compared to the same quarter last year. Selling expenses increased approximately 3% year over year in the quarter, leading to a 0.4 percentage point reduction as a percentage of retail revenue.

G&A expenses grew 4% in the quarter, in line with inflation. Higher third-party service costs were offset by meaningful reductions in freight expenses.

For the full year, operating expenses increased 8%, resulting in expense dilution of 0.4 percentage points relative to net retail revenue, reinforcing our commitment to consistent operating leverage in 2025.

In 2025, expenses related to the profit-sharing program, which covers approximately 23,000 employees, excluding statutory officers, increased 16% and represented 12% of net income, a reduction of 0.6 percentage points compared to 2024.

The total amount provisioned for 2025 was calculated based on average achievement of 103% of corporate, individual, and strategic targets. Each business unit operates with specific triggers and goals.

Realize's quarterly results reflect the consistency of the risk management approach executed throughout the year, with cautious origination and strong portfolio risk management. It is important to highlight a non-recurring impact of BRL 115 million in 2025, which should be considered in projections for 2026, fully concentrated in the first half of the year.

Our Over-90 delinquency ratio, excluding the effects of regulation 4,966, closed at 13.8%, in line with the prior year, while short-term delinquency remains at low levels. This performance primarily reflects our disciplined credit underwriting model, which has allowed us to maintain a low-risk portfolio over the medium term. We do not expect changes to our credit policy, given the still-challenging delinquency environment in Brazil.

Regarding net income and profitability indicators, net income increased 13.4% in the quarter and 21.8% for the year, reaching a record BRL 1.5 billion, driven by stronger operating performance in both retail and financial services, despite lower financial results and higher income tax and social contribution expenses.

Earnings per share increased 27% year over year, also reaching a record level. ROIC, on a trailing twelve-month basis, increased 2.3 percentage points, reaching 14.7%.

The continuous expansion of ROIC has been supported by margin gains, higher asset turnover driven by inventory productivity, disciplined working capital management, and store expansion with incremental returns in new markets.

Cash generation for the year remained stable at BRL 1.4 billion. Despite higher CAPEX investments in 2025, we distributed BRL 1.8 billion to shareholders, including interest on equity and the full execution of the share buyback program. This distribution represented 100% of net income, made possible by the use of retained earnings from prior years.

Turning to our 2026 outlook, we expect revenue growth between 9% and 13%, in line with the guidance disclosed at our Investor Day. It is important to note that growth dynamics in 2026 will be the opposite of those observed in 2025, with stronger growth expected in the second half, reflecting a tougher comparison base in the first half of 2025, when we grew 15.6%, as Fabio mentioned earlier.

In the composition of 2026 revenue growth, we expect a higher contribution from expansion acceleration. In 2025, we accelerated expansion with 23 store openings, primarily concentrated in the fourth quarter. These stores will contribute to sales throughout 2026. Additionally, we expect to open 50 to 60 stores, which will meaningfully support year-end sales, as discussed at the Investor Day. We also expect digital channel growth to outpace physical stores.

Q&A

Joseph Giordano (J.P. Morgan)

Question: What are the main drivers of sales productivity per square meter, and how do the DC and technology capex support gross margin expansion?

Answer: Sales productivity per square meter has been driven by both digital growth and improved performance of physical stores, particularly refurbished units. The distribution center is a core element of an end-to-end model that increases assortment accuracy and reduces markdowns, supporting higher ticket and margins. Technology capex remains in line with the announced plan, focused on data, AI and customer experience.

Pedro Pinto (Bradesco)

Question: What are the main levers for expense efficiency in the 2026–2030 cycle and how have recently opened stores performed?

Answer: The company combines operating leverage with structured efficiency initiatives, supported by an external consultancy and spanning multiple cost lines. New stores have lower occupancy and labor costs, contributing positively to profitability despite smaller average size.

Bob Ford (Bank of America)

Question: How does the evolution of the supply chain and in-season production affect working capital, gross margin and demand outlook for 2026?

Answer: The model enables production closer to demand, higher inventory turnover and lower reliance on markdowns, generating gradual and recurring gains in margin and cash generation. For 2026, the company expects stronger growth in the second half, reflecting the comparison base and a potentially improving macro environment.

Vinicius Strano (UBS)

Question: How does the company assess its pricing positioning, brand perception and Realize's credit strategy?

Answer: Pricing remains competitive and broadly aligned with inflation, supported by efficiency gains and lower markdown intensity. Brand perception and NPS continue to improve. At Realize, a conservative origination strategy remains in place, prioritizing portfolio quality, with gradual recovery potential as macro conditions improve.

Eric Huang (Santander)

Question: How has full-price penetration evolved in digital sales and what is the impact of new international competitors in malls?

Answer: The omnichannel strategy ensures operational consistency between physical and digital channels without incremental cost pressure. The entry of new international players has increased mall traffic, with no material negative impact on the company's performance.

Danni Eiger (XP)

Question: Which initiatives support the company's return to above-sector performance over the medium term?

Answer: Performance improvement reflects a coordinated set of initiatives: strengthening of the DC, faster reaction in collections, higher product and allocation accuracy, brand positioning as a fashion authority and continuous enhancements in the customer journey. Gains are gradual and sustainable.

Rodrigo Gastin (Itaú BBA)

Question: How should investors interpret growth dynamics between semesters and what are the criteria for share buybacks?

Answer: Management reiterates that annual growth is not linear, with expected acceleration in the second half of 2026. Share buybacks consider reserve formation, cash generation, share price and governance limits, complementing capital distribution.

Irma Sgarz (Goldman Sachs)

Question: How does the company balance digital growth, profitability and marketing investments?

Answer: Digital growth has been accompanied by margin and efficiency gains, with reduced reliance on paid media. The strategy prioritizes profitability and a differentiated value proposition, supporting market share gains without excessive promotional activity.

Yan Cesquim (BTG Pactual)

Question: How is the assortment strategy, particularly entry-level products, positioned in a challenging consumption environment?

Answer: Entry-level products remain competitively priced and well positioned. Margin expansion has been driven mainly by fashion products and the mid-tier of the assortment, as well as improved execution in seasonal transitions.

João Soares (Citi)

Question: What are the main growth drivers for 2026 and the outlook for capital distribution?

Answer: Key drivers include comparison base effects, potential monetary easing and store maturation and expansion. The capital distribution policy is flexible and may exceed the indicated range, subject to cash generation and reserve availability.

Andrew Ruben (Morgan Stanley)

Question: Are there relevant differences in consumer behavior across regions and how are stores in smaller cities performing?

Answer: No abrupt changes in consumer behavior have been observed. Stores in mid-sized cities are performing in line with or above plan, benefiting from lower cannibalization and cost structures, reinforcing the expansion strategy.