Operational Segment – Retailing

CONTEXT

The purpose of this document is to highlight the key operational and financial data with respect to the Retailing segment. However, it should not be seen as a totally comprehensive document and may be updated where necessary without prior notice.

Renner has as its proposition to deliver the best omni experience in fashion with the different styles to the middle/upper income segment, enchanting its customers with quality products and services at competitive prices, always innovating in a sustainable way. Renner develops and sells quality apparel, footwear and underwear under its own labels representing the lifestyle concept. Renner is the leading ecosystem brand, representing an average of more than 90% of the consolidated revenue.

Camicado, acquired in 2011**,** is a store network with more than 35 years of specialization in the Home & Decor market. The company offers a wide selection of products for decoration, domestic utensils, small electrical household appliances, organization, bed, bath, and tableware. In addition, Camicado is a specialist in gift lists.

Youcom is a fashion brand with a lifestyle inspired by urban youth, offering an omnichannel experience for its customers. The brand continues to grow, fulfilling its proposition to enchant and connect people to a youth lifestyle with fashion.

Ashua is a plus size fashion brand inspiring female empowerment and celebrating diversity, offering modern collections, prioritizing comfortable cuts and style for each woman through the omnichannel experience.

The Company also has **Uello**, an indigenous digital logtech focused on solutions for urban deliveries and **Repassa,** an online resale platform for apparel, footwear and accessories.

REVENUE

The operating revenue in the Income Statement for the Fiscal Year consists of two categories:

Merchandise sales: sales made through the physical stores and the digital channels of Renner, Camicado, Youcom and Ashua, at sight, in cash or debit card, at term, with third party cards or the Renner card, and through finance provided by the indirectly controlled Realize CFI, via the physical stores or via e-commerce. Revenue is recognized in the result when the merchandise is delivered to the customer.

Services: commission revenue from Renner, Camicado and Repassa marketplace sales, revenue from logistical services provided by Uello and the revenues from financial intermediation through Realize CFI.

These same revenues are also shown in segregated form in two Operational Segments (earnings release):

Retailing: sale of articles of apparel, fragrances, cosmetics, watches and home & decor, urban deliveries and logistical management solutions encompassing operations at Renner, Camicado, Youcom, Repassa, Ashua, Uello as well as operations in Uruguay and Argentina.

Financial Products: mainly purchase finance for natural persons within and outside our ecosystem through the intermediary of the Private label (on-us) and Co-branded (On e off-us) cards in addition to personal loans, insurance and assistance products.

Segmento Operacional - Varejo

REVENUE (continued)

Important factors for modeling this line are as follows:

- Growth of sales area in m²
- Penetration of proprietary cards (Renner Card and Meu Cartão) in sales
- Improvement in store productivity (SSS – Same Store Sales)
- Store maturity curve (on average up to ~50% in 2 years, ~75% in 4 years and 100% in 5 years)
- Growth and penetration of the digital channels
- Inflationary pressures in the apparel and footwear segment and other macroeconomic indicators
- Growth in the apparel and footwear market
- Variation in market share – The Company is a leader in the segment with about a 10% share according to Euromonitor data (https://www.euromonitor.com/)

Track record:

CAGR 2013 – 2023 = 12%

Digital GMV

GMV is a non-accounting metric and incorporates digital channel sales both, 1P (mainly) and also 3P.

COST, GROSS PROFIT AND MARGIN

The costs of merchandise sold incorporate the costs of acquisition for resale in the case of domestic (~65-70%) and international suppliers (~30-35%). Thus the Company does not have its own production capacity, the control of raw materials, general manufacturing expenditures and other inputs being undertaken and managed by the suppliers themselves.

The main assumptions for modeling are as follows:

- Inflation, FX rate
- Supplier costs (raw material, labor and freight)
- Inventory management
- Competitive pressures
- Promotions and discounts

Track record for Gross Profit: CAGR 2013 – 2023 = 12%

Track record for Gross Margin: 2013 = 52.7% / 2023 = 54.5%

Operational Segment - Retailing

OPERATING EXPENSES

Are classified largely as expenses with sales and general and administrative expenses, covering mainly:

- Labor
- Occupation (rentals with variable components)
- Freight (sales: freight related to last mile delivery for the end customer; administrative: freight related to store fulfillment)
- Utilities and services (electric power, water, etc.)
- Publicity and advertising
- Third party services (consultancy fees)

Approximately 20% of the operational expenses are of a variable nature based on sales volume, while the remainder are fixed.

Important factors for modeling this line are:

- Inflation in the apparel and footwear segment as well as other macro-economic indicators
- Sales volume
- Rollout of new stores

OTHER OPERATIONAL RESULTS

Covers mainly expenses related to the profit-sharing program (PPR) and extemporaneous tax credits and debits.

The recognition of the PPR is contingent on meeting operational and financial targets. The historic average from 2013 to 2023 was about 1.0% of the Retailing Net Revenue (ROL). Provisioning is made quarterly, 4Q being the quarter when the highest provisioning is set aside.

However, the booking of tax-related expenses and revenues is contingent on external and internal factors and is of a non-recurring nature involving court rulings and jurisprudential decisions, etc. Hence the modeling of this line is of difficult mensuration.

DEPRECIATION AND AMORTIZATION

These items cover the depreciation of fixed assets, amortization of intangible assets and rights-of-use depreciations. From the business point of view, such expenses as shown in the Earnings Release, are not classified in the Operation from Retailing SG&A and consequently have no impact on the Retailing Adjusted EBITDA.

The leasing agreements which adhere to the respective accounting standard are booked to the rights-of-use line in the balance sheet. In general terms, the entire fixed component of a rental agreement is registered in Rights-of-Use and is incorporated in the result in accordance with its depreciation - differently from Occupancy Expenses, mentioned above, and incorporated in the results against payment and encompassing the variable components of the rental agreement such as for example the additional rental payable against store performance.

FINANCIAL RESULT

Basically, incorporates revenues from financial investments, interest on loans, financing and debentures, interest from leasing, FX variation and monetary assets and liabilities, among others. Modeling depends on the average balance sheet outstandings, interest rates and maturities.

Operational Segment - Retailing

EFFECTIVE INCOME TAX AND SOCIAL CONTRIBUTION RATE

Reflects the sum of the expenses and/or revenues related to the booking of the current ITSC and deferred in the period calculated on the pre-ITSC Operational Result plus the permanent adjustments to the calculation base as for example:

- Interest on equity
- Investment grants
- Incentive for technological innovation (Law 11.196/2005 – "*Lei do Bem*")
- Among others

PHYSICAL STORES – OPERATION AND EXPANSION

The process of store openings adheres to assumptions relating to population size of the target municipality, qualified demand, per capita income, competition , logistical structure, among other aspects.

Currently, the size of the stores consists of a total area of about 2.500m² and a sales area of 1,700m².

Average CAPEX involved for the opening of a new store:

Brand	Recent Average
Renner	~R$ 12 million
Youcom	~R$ 2 milllion
Camicado	~R$ 3 million
Ashua	~R$ 1.2 million

Operational Segment – Financial Services

ACCOUNTING STANDARDS

All accounting and financial information published by Lojas Renner S.A., including the Financial Statements and other documentation related to operating performance, such as quarterly earnings releases, video conference presentations, etc are prepared according to international accounting standards (International Financial Reporting Standards – IFRS).

Nevertheless, Realize CFI's Individual Financial Statements are prepared pursuant to the accounting practices applicable to financial institutions, as established by the Central Bank of Brazil ("BACEN-GAAP"), and are disclosed bi-annually to the market. As from the moment these statements are consolidated with those of its controlling company, Lojas Renner S.A., certain accounting adjustments are executed to reflect International Standards (IFRS).

Below is a Fiscal Year Income Statement reconciliation matrix in both BACEN and IFRS formats:

FROM: BRAZIL CENTRAL BANK RULE	TO: IFRS RULE
Revenue from Financial Intermediation	
Revenue related to credit operations	Net operating revenue – Financial products and services
	Financial Revenue
	Reversals (Losses) in credits, net
Result with Derivative Financial Instruments	Cost of sales – Financial products and services
Result of Operations with Securities	Cost of sales – Financial products and services
Expenses related to financial intermediation	
Funding expenses	Cost of sales – Financial products and services
	Financial expenses
Expenses related to Loans and Transfers	Cost of sales – Financial products and services
Allowance for expected losses associated to credit risk	
Allowance for doubtful accounts – Credit operations	Reversals (Losses) in credits, net
Allowance for doubtful accounts – Obligations receivable	Reversals (Losses) in credits, net
Gross result from intermediation	
Other Operating Revenues	Cost of sales – Financial product and services
	Financial expenses
	Other operating results
	Net operating revenue – Financial products and services
	Financial revenues
Income from Banking Commissions and Fees	Net operating revenue – Financial products and services
Expenses with contingencies	Other operating results
Personnel Expenses	Administrative and general
	Other operating results
Other administrative expenses	Cost of sales – Financial products and services
	Financial Expenses
	Other operating results
Expenses with Taxes and Contributions	Cost of sales – Financial products and services
	Financial expenses
	Other operating results
	Net operating revenue – Financial products and services
Revenue from Services	Financial expenses
	Net operating revenue – Financial products and services
Other operating expenses	Financial expenses
	Other operating results
	Net operating revenue – Financial products and services
Taxable Profit	
Current income tax and social contribution	Current IRPJ and CSLL
Deferred income tax and social contribution	Deferred IRPJ and CSLL

Operational Segment- Financial Services

CONTEXT

The operational segment of financial services is executed by Realize Crédito, Financiamento e Investimento S.A. ("Realize CFI") with the objective of providing financial solutions connected to the operational segment of retailing. Among the financial services are those involving the Cartão Renner (private label) and Meu Cartão (Co-Branded), as well as the *Saque Rápido* (personal loan modality) and the insurance portfolio.

FINANCIAL PRODUCTS

Cartão Renner ("Private Label"): offers preferential conditions for installment finance to the customers when making purchases at Renner, Camicado, Youcom and Ashua stores.

Additional information:

- On-us purchases only
- Product exempt from annual fee
- Subject to default charges (penalty fee, interest and late payment fee)
- Company own the credit risk

Meu Cartão ("Co-branded"): credit card which offers preferential installment payment conditions for financing customer purchases at Renner, Camicado, Youcom and Ashua stores. The card can also be used at other third-party commercial establishments, respecting the conditions laid down by the establishments themselves.

Additional information:

- Product subject to an annual fee
- Product subject to an emergency credit assessment charge
- Product subject to default charges (penalty fee, interest and late payment fee)
- On-us (approximately 20%of the transactions) and off-us (approximately 80% of the transactions) purchases
- International card
- Company's credit risk

Saque Rápido: personal loan modality in cash available to card holding customers.
Insurance: other financial services related to *saque-seguro, bolsa-segura* and *compra-segura* products.

CREDIT PORTFOLIO AND DELINQUENCY

The credit portfolio is made up of all the receivables transacted in the financial products already mentioned above, comprising current operations as well as overdues up to 360 days. Any receivable more than 360 days overdue is written down from the Assets to Credit Losses in the Result.

As to the formation of the overdues portfolio (NPL formation), this reflects the variation of the portfolio over a given period discounting write-offs (WO) over this same period, and can be found in the Explanatory Note under Accounts Receivable – Movement of estimated losses on credits.

LOSSES ON CREDIT

- The losses on credits are made up of estimated losses, write-off of credits (WO) and recovery of credits written off.
- The estimated losses on credit are calculated according to IFRS 9, based on the evaluation of the behavior of the entire credit portfolio, taking into consideration the probability and exposure to delinquency for each overdue bracket. These brackets consider the "dragging" of both the installments which are still current as well as those which have already fallen due, to the worse level of delay in their respective bracket for each customer/contract and then allocated according to stages of risk. More information in the Explanatory Notes with respect to Accounts Receivable.

Operational Segment – Financial Services

REVENUE FROM CREDIT OPERATIONS, NET OF FUNDING COSTS

Below are the main sources of card revenues. Full information can be found in https://www.realizesolucoesfinanceiras.com.br/ in the menu Fees and Tariffs.

Service	Cartão Renner (Private Label)	Meu Cartão (Co-branded)
Annual fee	-	✓
Issue of a replacement card	-	✓
Use of service channels for cash withdrawals	✓	✓
Emergency credit assessment	-	✓
Delayed interest, penalty fee and late payment fee	✓	✓
Installment interest invoice	-	✓
Interest on purchases financed in more than 5 installments	✓	✓
Bank interchange fee (MDR)	-	✓

Revenues are also composed of the following reducing accounts:

- discounts granted are transactions originating from the renegotiation of payment booklets/delayed invoices
- taxes related to the revenues

Composition of funding cost:

- financial income originating from Interbank Liquidity Investments, classified in Realize CFI's assets
- financial charges arising from funding operations:

Customer credit operations are financed by the following lines:

Explanatory Note Liabilities | Financing – Financial Services Operations: comprising Interbank and Bank Deposit Certificates.

Liabilities | Obligation with Card Administrator: amount related to the portion of Meu Cartão expenditures in third party establishments (off-us).

Net Equity: use of Realize CFI's proprietary capital do capital to finance part of active credit operations, respecting the Basel Index.

The portion of on-us transactions which are current form part of the working capital management of the Company

Additional information:

- The breakdown of revenues by nature, on average, is represented by interest (~70% of the total) and services (~30% of the total)
- As a rule, interest income is recognized up to 59 days overdue. After this period, recognition ceases until the loan is settled. When the overdue loan is settled, the interest, hitherto suspended, is recognized.

OPERATIONAL EXPENSES

Represented by the Expenses with Financial Services line in the explanatory note for "Other Operating Results" and largely made up of

- Banking correspondent
- Data processing
- Collection
- Personnel Expenses
- Technical and third party services

Of these Operational Expenses, between 50-60% are variable expenses, mainly linked to the transactional volume in the cards, on-us and off-us.