BB INVESTIMENTOS

Lojas Renner

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Retail & Consumer Goods

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4Q14 Results: Spectacular sales growth

Lojas Renner 4Q14 results showed impressive sales (+25.0% YoY) and SSS (+17.3%) growth. If we consider 2014 in its entirety, Net Revenues expanded 19.4% YoY, while Apparel Market grew only 3.4% in Brazil, according to IBGE. Management believes that this important performance was driven by: (i) assertiveness in collections' development; (ii) improvement in products allocation and replacement; (iii) more agility in customer service, both in fitting rooms and cashiers and (iv) product's prices remained competitive. EBITDA Margin and Net Margin, on the other hand, were pressured by BRL 27.3mn of non-recurring tax expenses.

Retailing Operation. Net Revenues from Merchandise Sales rose by 25.3% YoY, to BRL 1.67 bn, in 4Q14, due to good management on sales, inventory and customer services. Gross Profit from Retailing Operation expanded 26.3% YoY, to BRL 1.07bn, and Gross Margin went up to 55.7% (+100 bps YoY), as a result of precise allocation of products in stores and good inventory management.

Operating Expenses grew 33.7% YoY, to BRL 638 mn, representing 38.2% of Net Revenues from Merchandise Sales (+250 bps YoY), due to: (i) increase of 45.6% YoY, to BRL 125mn, in G&A expenses, reflecting higher logistics costs (necessary to improve and speed up the distribution of products to the stores); (ii) rise of 73.0% YoY, to BRL 31mn, of the Profit Sharing Program and (iii) growth of 109.0%, to BRL 11.7mn, in Statutory Participations as a result of exceeding targets of the year.

Thus, Adjusted EBITDA from Retailing Operation rose by 20.8% in 4Q14 compared to 4Q13, to BRL 424mn. As a result, Adjusted EBITD Margin decreased 90 bps YoY, to 25.4%. It is important to mention that non-recurring revenues of BRL 25.0mn (reversal of a provision related to tax legal process) benefited the company's results in 4Q13 and non-recurring expenses of BRL 13.3mn (adherence to a tax installment program) impacted negatively the company's results in 4Q14. Excluding this effect, Adjusted EBITDA Margin from Retailing Operation would have been of 27.4% (+110 bps YoY).

Financial Products. Net Revenues from Financial Products increased 19.2% YoY in 4Q14, to BRL 139.9mn. Once again, the highlight was "Meu Cartão" credit card Co-branded operation, which grew 81.2% YoY, to BRL 35.1mn. The product is expanding above average because was relaunched in 2Q13 and is still maturing. Delinquency levels remained stable in 4Q14 compared to 4Q13: Renner Cards at 2.8% (-20 bps YoY); "Saque Rápido" (Quick Withdrawal) at 3.8% (-20 bps YoY) and Co-Branded at 3.8% (+60 bps YoY). Credit Losses rose by 23.0% YoY, to BRL 53.4mn. Operating Expenses from Financial Products expanded 31.3% YoY, to BRL 44.5mn, due to the postponement to 4Q14 of communication and marketing expenses incurred during the year. Thus, Financial Products Result had an increase of only 4.8% YoY, to BRL 42.1mn.

Consolidated Results. Total Adjusted EBITDA Margin decreased 140 bps in 4Q14 compared to 4Q13, impacted by higher expenses in Retailing Operation and weaker growth in Financial Products Result. Consolidated Net Income, in turn, rose only 1.2% YoY, to BRL 216mn. Consolidated Net Margin also had a bad performance: -310 bps YoY, to 13.1%, impacted by higher Financial Expenses, which rose by 57.4% YoY, to BRL 59.2mn (greater interest rates in the period and financial charges paid under the tax installment program). Indebtedness remained stable in 4Q14 compared to 4Q13 (0.29x versus 0.31x Net Debt/Total Adjusted EBITDA).

Cash flow. Cash position reached BRL 834mn in 4Q14 (+40.8% YoY). Net Cash generated from Operating Activities totaled BRL 320mn (+ BRL 128mn YoY). Net Cash used in Investing Activities was BRL 177mn (- BRL 9mn YoY). Net Cash generated from Financial Activities was BRL 65mn (in 4Q13 BRL 19mn were used).

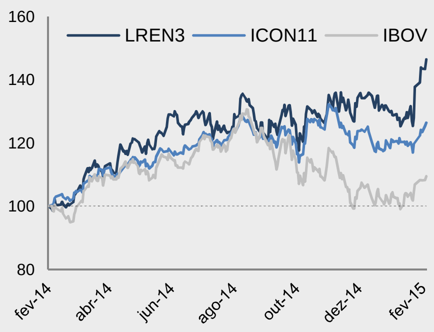
Lojas Renner (BRL million)	4Q13	4Q14	YoY	2013	2014	YoY
Net Revenues	**1,818**	**1,455**	**25.0%**	**4,371**	**5,217**	**19.4%**
Net Revenues Merchandise Sales	1,333	1,670	25.3%	3,914	4,643	18.6%
Net Revenues Financial Products	122	148	21.8%	457	574	25.6%
Gross Profit Merchandise Sales	**847**	**1,069**	**26.3%**	**2,503**	**3,051**	**21.9%**
Gross Margin Merchandise Sales	54.7%	55.7%	100 bps	52.7%	53.8%	110 bps
Adjusted Total EBITDA	**391**	**466**	**19.2%**	**837**	**1,053**	**25.8%**
Adjusted Total EBITDA Margin(%)	29.3%	27.9%	-140 bps	21.4%	22.7%	130 bps
Total Net Income	**216**	**219**	**1.2%**	**407**	**471**	**15.7%**
Adjusted Net Margin (%)	16.2%	13.1%	-310 bps	10.4%	10.2%	-20 bps

Source: Lojas Renner and BB Investimentos

LREN3	***Market perform***
Last Price 02/24/2015 (BRL)	83.50
Target Price 12/2015 (BRL)	87.30
Upside	4.5%
Market Cap (BRL million)	10,637
1 Month Change	18.4%
LTM Change	48.4%
YTD Change	9.2%
52w Low (BRL)	55.94
52w High (BRL)	83.50

Valuation	*BRL Million*
Firm Value 2015E	11,278
Net Debt 2015E	(265)
Equity Value 2015E	11,013
# Shares Outstanding	126
WACC	11.8%
Growth in Perpetuity *(g)*	4.0%

Multiples	**2015E**	**2016E**	**2017E**
EV/EBITDA	10.2	8.8	7.8
P/E	19.3	16.7	15.4
EPS (BRL)	4.52	5.23	5.83



Source: Bloomberg and BB Investimentos

Announced *versus* Estimated

Lojas Renner (BRL million)	2014 A	2014 E	A/E	YoY
Net Revenues	**5,217**	**5,065**	**3.0%**	**19.4%**
Net Revenues Merchandise Sales	4,643	4,512	2.9%	18.6%
Net Revenues Financial Products	574	552	4.0%	25.6%
Total Gross Profit	**3,051**	**2,941**	**3.7%**	**21.9%**
Gross Margin from Merchandise Sales	53.8%	53.3%	50 bps	110 bps
Total EBITDA	**1,015**	**962**	**5.5%**	**25.8%**
Total EBITDA Margin(%)	21.9%	21.3%	60 bps	130 bps
Total Net Income	**471**	**510**	**-7.6%**	**15.7%**
Adjusted Net Margin (%)	10.2%	11.3%	-110 bps	-20 bps

Source: Lojas Renner and BB Investimentos.

Announced versus Estimated. Lojas Renner's sales performance in 2014 was a positive surprise, it came 2.9% higher than we expected. Gross Margin and EBITDA Margin also came above our prospects. Net Margin, on the other hand, was 110 bps bellow our projections, due to higher than estimated Financial and non-recurring Tax Expenses. For now, we maintain our prospects to the company, as well as our target price at BRL 87.30 YE15 for LREN3, but we are changing our recommendation from Outperform to Market perform, since the stock has appreciated 45.2% over the last 12 months.

Outlook. During 2014, Lojas Renner has showed a great capacity to go through challenging scenarios. Even against a tough macroeconomic condition, the company had a robust growth both in sales and profitability. While Apparel Market's sales rose by 3.4% on average in 2014, Lojas Renner's sales grew spectacular 19.4%.

We believe that national macroeconomic situation should remain challenging in the short term, but the company seems to be prepared to face it. It's well-structured brands, assertiveness collections, good level of prices and nice customer services are important competitive differentials at times of reduced confidence. At the same time, mostly of its stores are located inside malls, which are less affected when the economy slows. The company's great ability to manage commercial strategies and operational efficiency are also highlights that will contribute to market share gains.

Thus, our prospects to the company remain positive. We expect that sales growth will remain accelerated and that financial services results will maintain a good performance (even with a potential deterioration in delinquency levels). However, we do not expect Operating Margins to increase during 2015, when the company should have additional costs related to the ramp up of its new distribution center in Santa Catarina. The exception is the Net Margin, which we believe will show a recovery, once there will be no more non-recurring Tax Expenses.

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