



A Global Apparel Brand Focused on Profitability and Deleveraging

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Investment Thesis

We base our constructive investment thesis for C&A on these factors: i) a significant gross margin improvement, particularly in apparel, through IPO-driven initiatives; ii) a strengthened value proposition with the repurchase of financial-service rights, prudently leveraging private label offerings to boost retail sales; iii) a focus on profitability and deleveraging, optimizing store productivity, working capital and capex instead of aggressive growth; and iv) a positive short-term performance outlook. However, given the company's current leverage level and a high interest rate scenario, we prefer to stay on the sidelines until this leverage is at a healthier level.

Valuation

We are initiating coverage of C&A with a **market perform** rating and a YE24 target price of BRL 10/share, calculated using a discounted cash flow (DCF) analysis in which we assumed a weighted average cost of capital (WACC) of 13.3% (in BRL) and a long-term growth rate of 3.5% (also in BRL). This implies 22% upside potential relative to the current price. Our target equity value of BRL 3.0 billion incorporates the NPV of tax incentives and loss carryforwards, excluding tax credits. We recognize the impact of the credit portfolio's recomposition on the over-90-days coverage ratio (which has improved from ~80% at YE22 to ~97% at YE23) and the impact of the financial service business's natural maturation curve on short-term profitability, but the lack of valuation collateral in this story (P/E multiples for 2024 and 2025) raises concerns.

Momentum

In an uncertain and demanding macroeconomic landscape, the company has showcased resilient SSS performance relative to its peers. Furthermore, historical peaks in its retail gross margin after the IPO can be attributed to i) the implementation of a push/pull initiative in 40% of the company's product assortment; ii) the dynamic pricing model; and iii) product mix. Considering C&A's robust stock performance (up 258% YTD and 42% in one month), we believe that this momentum has been mostly priced in.

Risks

We identify a few risks to this thesis: i) the financial arm could derail; ii) the deleveraging process could take longer than we expect; iii) fiscal reform and incentive discussions; and iv) intensified online and offline competition.

Estimates and Valuation

Years	2019a	2020a	2021a	2022a	2023e	2024e	2025e
Net revenues (BRL m)	5,285	4,085	5,123	6,184	6,540	7,102	7,524
EBITDA (BRL m)	1,535	361	647	910	949	1,153	1,298
Net income (BRL m)	972	-166	329	1	-100	53	143
EV/EBITDA					5.7	4.8	4.2
P/E					n.m.	72.0	20.3

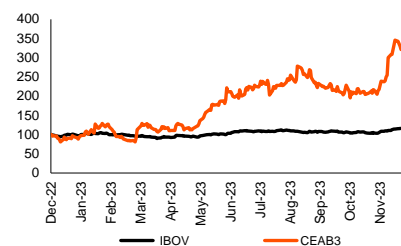
Source: Itaú BBA

Ticker (local)	CEAB3
Target Price (YE24)	BRL 10.0

Stock Data

Current price	BRL	8,19
Upside (YE24)	%	22,1
52 Week high/low	BRL	8,63/1,88
Shares outstanding	th	308.245
Market capitalization	BRL m	2.525
3-mth avg daily vol.	BRL m	25
Performance (%)	1m	12m
Absolute	42,4	244,1
Vs. Ibovespa	-3.3	220,1

Company x Ibovespa



Source: Itaú BBA

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IF ALL YOU HAVE IS 5 MINUTES

- C&A entered the Brazilian market in 1976 and is currently the third-largest publicly listed apparel retailer in the country.
- Analyzing the pillars of the thesis led us to conclude the following: i) There are over 90 potential new stores that could be opened, and we expect them to be opened in malls. At the same time, C&A's store overlap with other players is high (77%) and is likely to increase going forward; ii) C&A's outdated supply chain had a negative impact on the company's gross margin until the IPO, but now apparel gross margins have been expanding YoY after years of significant investments to implement a push/pull initiative for "A" category products – we think C&A will continue to expand its apparel gross margin in 2024 (up 30 bps YoY) as the company implements its push/pull initiative for its "B" category products; iii) C&A's digital operation has the highest share in sales (19%) vs. its peers, with the WhatsApp direct channel being a highlight in the company ecosystem, as it has healthy gross and contribution margins; and iv) C&A has strengthened its value proposition with the repurchase of the rights to offer financial products. We have a positive view of the company's decision to focus only on its private-label solution, as the private label carries less credit risk, in the sense that it is easier and faster to adjust credit limits if necessary, and at the same time is a lever to boost retail sales in a difficult macroeconomic scenario.
- Comparing C&A's current position with its position in 2019 as well as with the current situations of other players, we conclude the following: i) C&A has delivered high-quality growth in retail sales per store so far in 2023. However, it still presents a significant productivity gap (49%) that needs to be improved – C&A's private label portfolio growth can help reduce this productivity gap; ii) gross margin is the most significantly improved line in the income statement since 2019, with an expansion of 3.7 pp when comparing 9M23 with 9M19. Compared with its competitors, C&A was able to achieve the largest expansion in retail gross margin vs. the pre-pandemic period, although it does not operate with the highest margin – lower financial services revenue for C&A plays a significant part in explaining the difference between its consolidated gross margin and that of the competitors; iii) C&A was the only apparel player to post a YoY EBITDA margin gain in 9M23 (up 3.2 pp YoY), driven by the retail division (up 5.5 pp YoY) and partially hurt by the maturation of the new financial services division that currently operates at a negative EBITDA margin; and iv) the company's expansion has been primarily financed through debt. In 2022, after the 5.5-pp increase in Brazilian interest rates, the financial result notably contributed to the company's reported losses. Despite the company's positive operational momentum in recent quarters, we anticipate only gradual deleveraging, keeping the bottom line under considerable pressure until at least 2025.
- Of the risks we see for this thesis, we are most concerned about a deleveraging process that could take longer than we expect.
- We are initiating coverage of C&A with a **market perform** rating and a YE24 target price of BRL 10/share, implying 22% upside potential relative to the current price. We recognize the impact of the credit portfolio's recomposition on the over-90-days coverage ratio (from ~80% in YE22 to ~97% in YE23) and the impact of the financial services business's natural maturation curve on short-term profitability, but the lack of valuation collateral in this story (P/E multiples for 2024 and 2025) raises concerns. Considering C&A's robust stock performance (up 258% YTD and 42% in one month), we believe that this momentum has been mostly priced in.

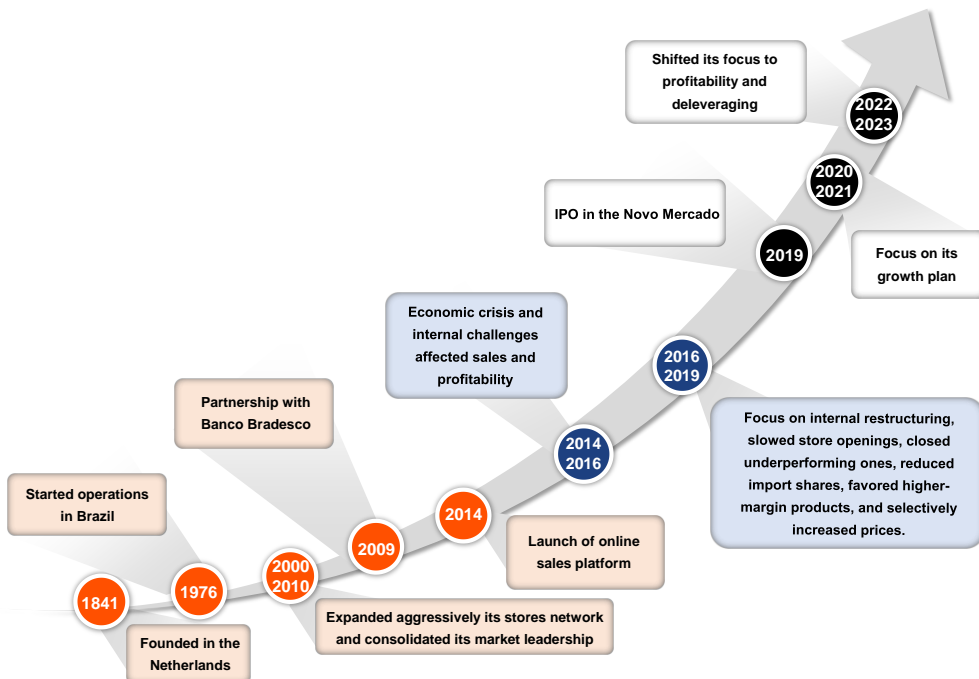
COMPANY OVERVIEW

SECTION 1

A Brief Recap of C&A's History

C&A was founded in 1841 by the Dutch brothers Clemens and August Brenninkmeijer. Their initials form the brand's name. Today, C&A is among the largest retail chains in the world. C&A has a presence in 18 European countries, Mexico and Brazil, with approximately 1,800 stores. In Brazil, C&A entered the market in 1976, opening its first store in São Paulo and pioneering the "fast fashion" concept. Between 2000 and 2010 the company aggressively expanded its store network and consolidated its market leadership. In 2009, it entered into a partnership with Banco Bradesco S.A. for financial products and service operations. Between 2009 and 2014, C&A continued its expansion by opening 110 new stores, benefiting from a favorable economy. In 2014, C&A launched its online sales platform. From 2014 to 2016, an economic crisis and internal challenges affected the company's sales and profitability. Between 2016 and 2019, the company focused on internal restructuring, closed underperforming locations, slowed store openings, favored higher-margin products, and reduced its import shares. The company introduced the C&A&VC relationship and loyalty program in 2018, and in 2019 the company went public (IPO). In 2020 and 2021, C&A focused on its growth plan and defined its key drivers: its expansion plan, its digital channel, its supply chain, and its credit offerings. In 2021, it repurchased the right to offer financial services and products previously operated by Bradesco, enabling the launch of the company's own digital credit solution, C&A Pay. In 2022 and 2023, the company shifted its focus to profitability and deleveraging, prioritizing higher gross margins, improved store productivity, expense and cost efficiency, working capital enhancement, and adequate investment.

C&A's Nearly Five Decades in Brazil, at a Glance

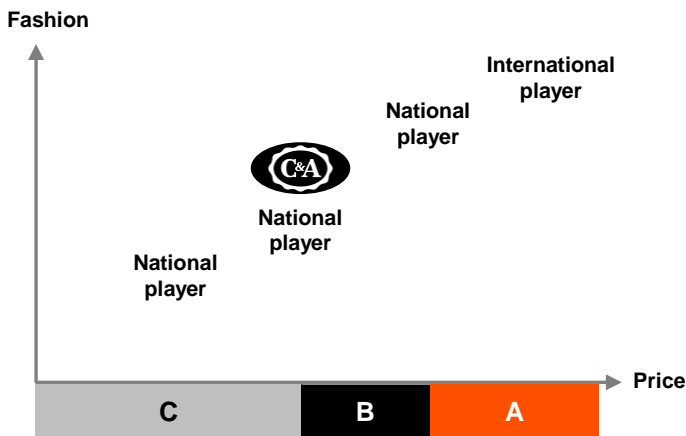


Source: Company, Itaú BBA

C&A Is the Third-Largest Publicly Listed Apparel Retailer in Brazil

The company is expected to reach BRL 6.5 billion in net revenues in 2023, accounting for roughly a 5% market share in apparel and footwear. Considering only listed companies, it ranks behind only Lojas Renner and Guararapes, which have market shares of roughly 10% and 6%, respectively. C&A's primary focus is affordable fashion clothing, with a BRL 80 average ticket, which constituted roughly 81% of its total sales in 9M23. C&A also offers "fashiontronics" such as smartphones, tablets and watches, along with beauty products, which contributed 13% of its total sales in 9M23. The remaining revenue is derived from financial services. The target audience predominantly comprises women aged 25 to 44, and C&A's brand positioning centers on B and C+ consumers.

C&A's Positioning Centers on B and C+ Consumers, to Whom the Company Aims to Deliver Fashionable Clothes at Reasonable Prices



Source: Company, Itaú BBA

C&A currently owns 334 stores spanning 27 states, and is primarily concentrated in the Southeast, a trend similar to its main competitors. Additionally, it operates three distribution centers, including one in São Paulo, one in Rio de Janeiro, and another in Santa Catarina. C&A's retail stores are predominantly situated within malls; these account for approximately 86% of the store network. These stores have an average size of 1,850 square meters, and most of them feature a new format layout. In this new format, products are categorized into three key groups, whose placement within the store changes based on their sales performance. New products (Novelty) are classified as C. If sales are good, they move to B (Known) and ultimately to A (Recognized).

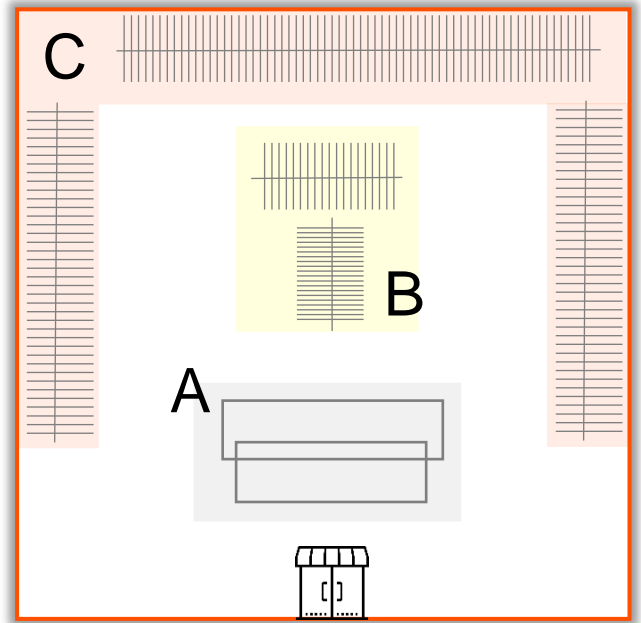
C&A Stores Are Concentrated in the State of São Paulo

New Store Format Layout Has Yielded Better Productivity



Southeast	174
Northeast	34
South	24
Midwest	77
North	25
Total	334

Source: Company, Itaú BBA.



Source: Company, Itaú BBA.

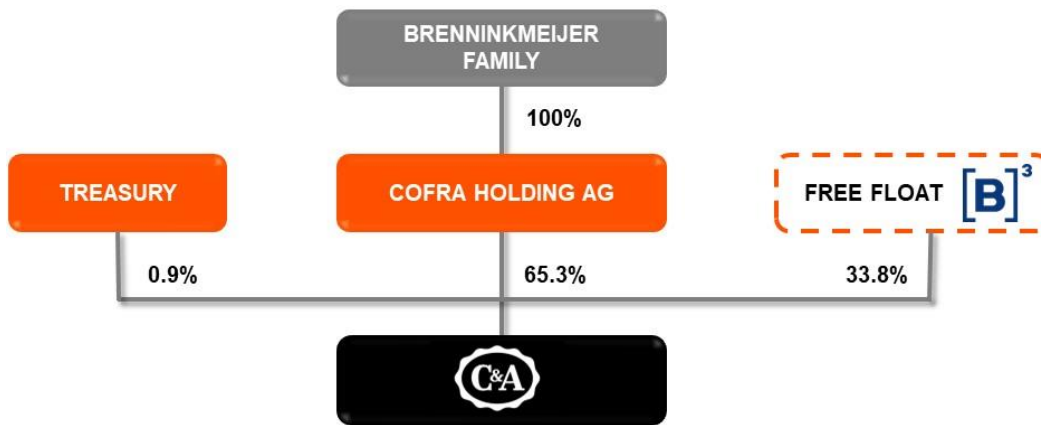
New products, referred to as “C” (Novelty) products, are prominently displayed or highlighted on the walls. Depending on their reception, they either remain in this category or move to the “B” (Known) category, with a shelf life of eight weeks. “B” products are presented in another area of clothes racks grouped with similar product types. The company typically launches stronger campaigns to further boost their acceptance, giving them a shelf life of 8-13 weeks. “A” (Recognized) products, with evidently successful performance, are placed on tables for easy access.

Since the implementation of this new layout in 2017, converted stores have reported a sales increase of approximately 6% within the first 12 months. Currently, 254 of the company’s stores are using the new format, out of a total of 334 stores. It is anticipated that more stores will adopt this layout in the coming years as the company refurbishes the older ones. The cost of refurbishment ranges between BRL 600 and BRL 700 per square meter, and capex for a new store averages around BRL 8 million.

A Family-Owned Company Led by a Team Experienced in the Apparel Industry

Since the company’s IPO in 2019, C&A’s shareholding structure has been held predominantly by the controlling group, which includes the Brenninkmeijer family and its investment vehicle (Cofra). Each member of management possesses over two decades of experience, with more than a decade of that experience specifically in the apparel industry.

C&A – Shareholder Structure



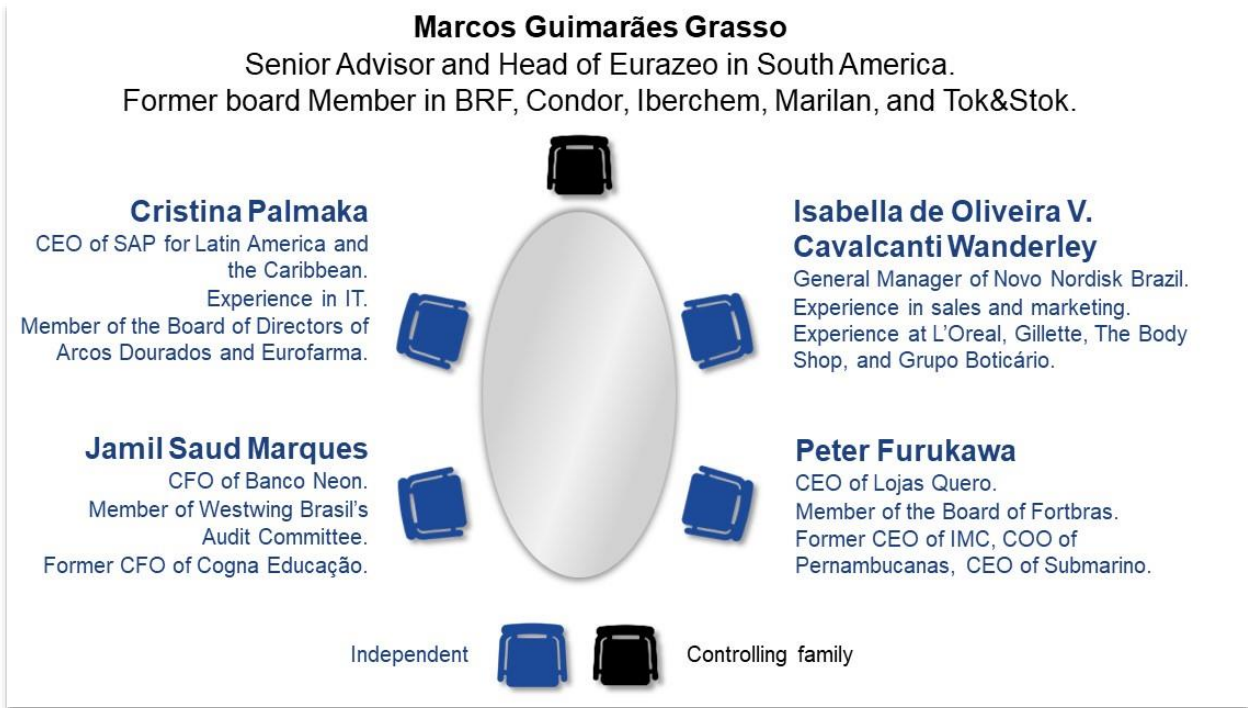
Source: Company, Itaú BBA

C&A – Management Team

Experienced Leadership Team	Job Title	Years of Experience	Years at C&A	Previous Experience
Paulo Correa Junior	CEO	+20	19	xerox, McKinsey & Company
Laurence Beltrão Gomes	CFO and IRO	+20	0	ABN-AMRO, SLC Agrícola, WEG, RENNER
Francislei Donatti	Commercial Vice President	29	29	C&A
Fernando Brossi	Operations and Fin. Services Vice President	+20	14	citibank, ibi
Maria Borghesi	People, Culture and ESG Vice President	+20	0	dafiti, TOK&STOK, Garrefour

Source: Company, Itaú BBA

C&A – Board of Directors

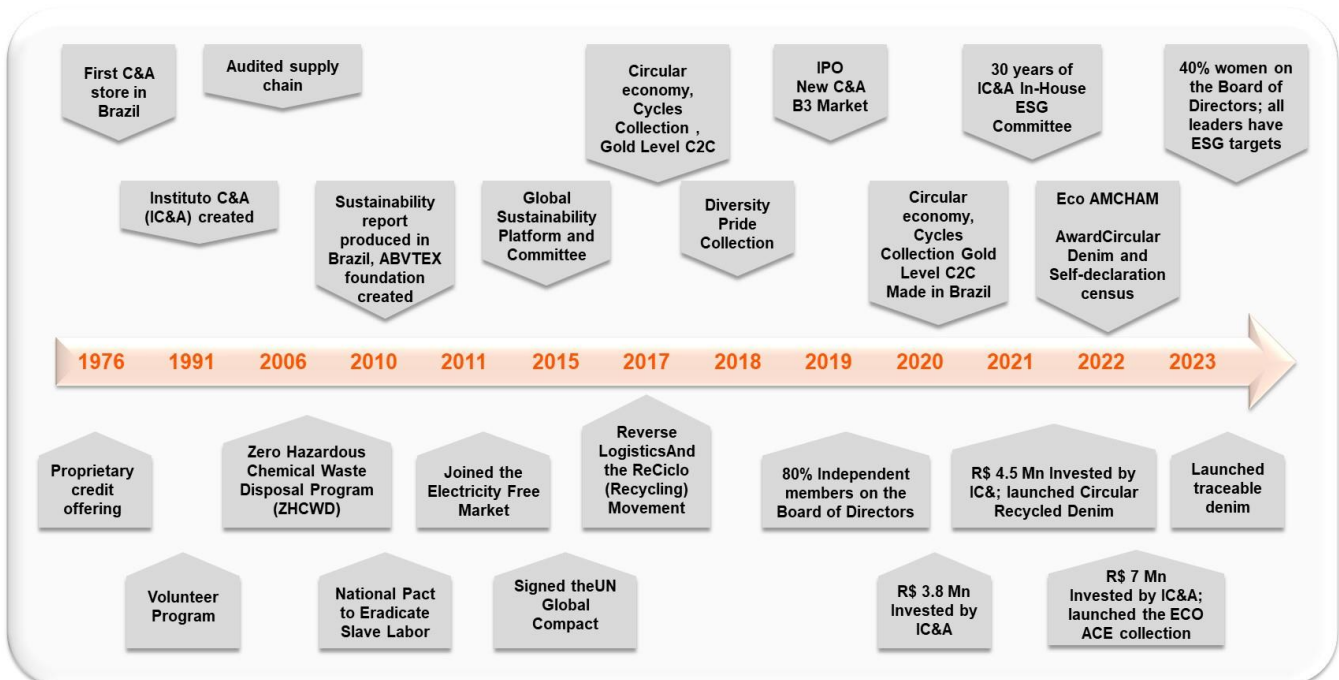


Source: Company, Itaú BBA

ESG at C&A: A Long History of Commitment

The company has been committed to ESG initiatives for decades, and is constantly being recognized for this. In 2022, among the ESG awards the company received, we would highlight the MIT Innovative Workplaces Award, which recognized C&A as one of the 20 most innovative companies in Brazil; it was the only fashion retailer on the list.

ESG at C&A: A Long History of Commitment

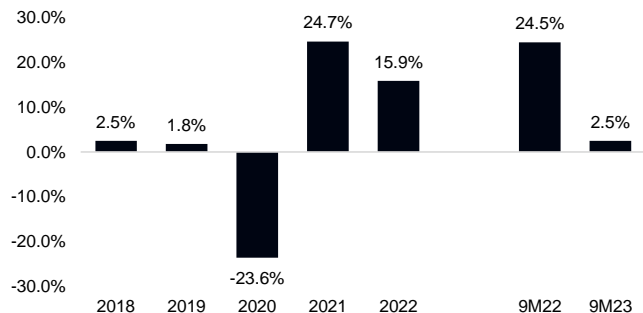


Source: Company, Itaú BBA

C&A'S FIGURES AT A GLANCE

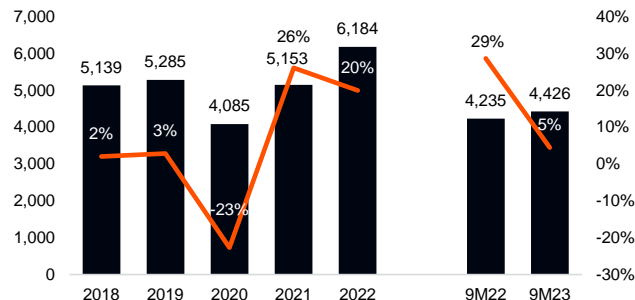
SECTION 2

SSS (%)



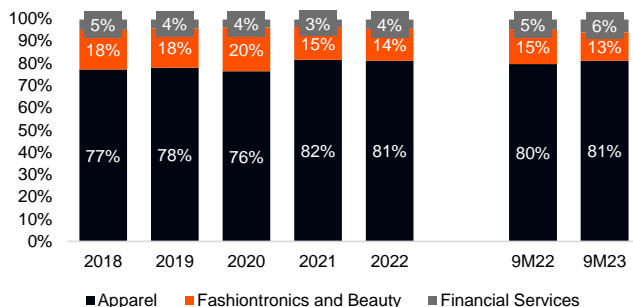
Source: Company, Itaú BBA

Net Revenues (BRL in Millions) and YoY Growth (%)



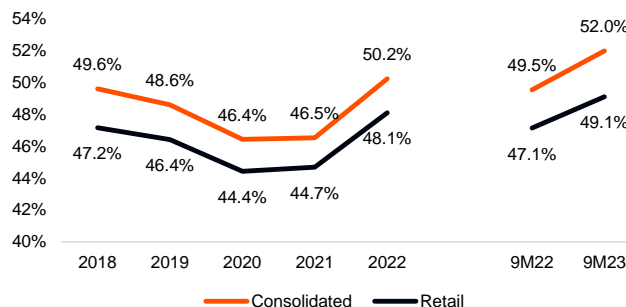
Source: Company, Itaú BBA

Net Revenue Breakdown (%)



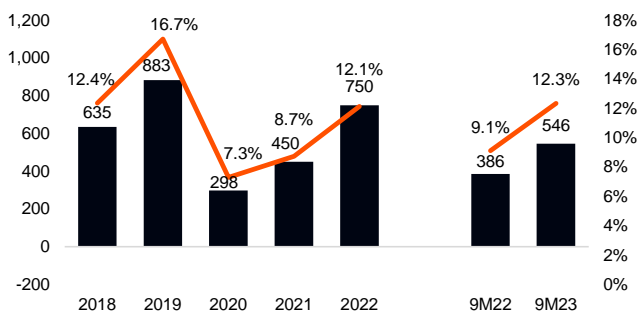
Source: Company, Itaú BBA

Gross Margin (%)



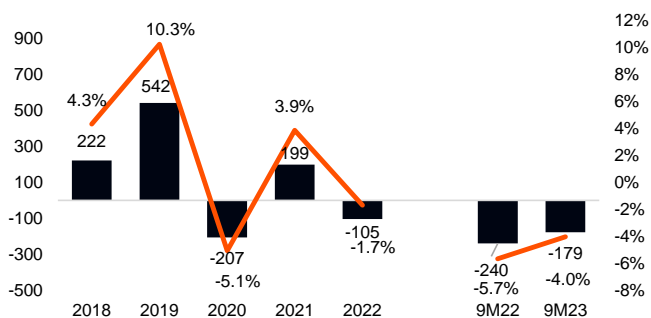
Source: Company, Itaú BBA

Adj. EBITDA (BRL in Millions) and Adj. EBITDA Margin (%)



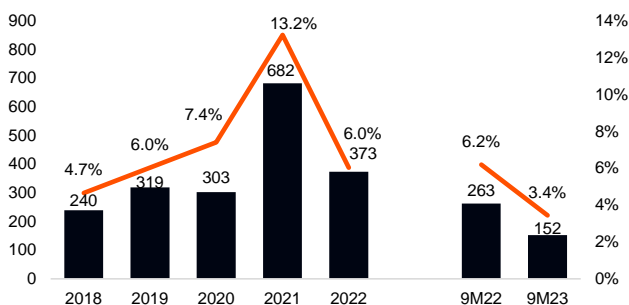
Source: Company, Itaú BBA. Note: Numbers are post IFRS 16.

Adj. Net Income (BRL in Millions) and Adj. Net Margin (%)



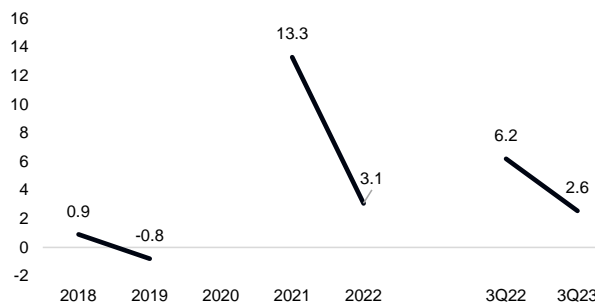
Source: Company, Itaú BBA. Note: Numbers are post IFRS 16.

Capex – Absolute (BRL in Million) & Proportion of Net Revenues



Source: Company, Itaú BBA

Leverage (Net Debt/Adj. EBITDA)



Source: Company, Itaú BBA. Note: net debt number considers financial debt, Bradescard Partnership payables, cash and equivalents. Receivables discounted not included. Adjusted EBITDA is ex-IFRS 16. 2020 Adjusted EBITDA (ex-IFRS 16) was negative.





ANALYZING THE PILLARS OF THE THESIS

SECTION 3

1) Store Openings

There are over 90 potential new stores that could be opened... In 2016, during the economic crisis in Brazil, C&A closed 20 stores and ended the period with 279 stores. Between the beginning of 2017 and the end of 2019, when the company went public, the company opened only 8 net stores, while Renner opened 67 stores (in Brazil) and Riachuelo opened 30. One of the growth pillars presented in the IPO was store openings. At that time, the company had identified approximately 150 locations for new stores and set a pace of 25 store openings over a six-year period. However, in 2020, the pandemic began and, not surprisingly, the company opened fewer stores than originally planned. In 2021, the company returned to the initial plan and opened 26 stores (gross), but in 2022, it slowed down its expansion again, opening only 17 stores. This occurred because the expansion plan was being financed with debt, and in 2022 interest rates had already risen significantly compared with the previous year. Nonetheless, since it went public, C&A has had the most net store openings in the apparel segment, in both absolute and percentage terms, relative to 2019 levels. In 2023, with interest rates remaining high, the company has decided to hold back on investments, resulting in expected gross openings of only four stores. Although the declining-interest-rate-cycle has begun, we do not anticipate a significant increase in store openings for the coming year. It is essential to note that the company has also consistently revised its store portfolio, closing some retail locations that did not perform as well as expected. That said, we do not rule out further closures in the coming quarters, but from a net-store-opening perspective, we expect a positive balance for 2024. Considering the number of stores opened between the end of 2019 and the present, and taking into account the number of retail locations the company had identified at the time of its IPO, we believe that there are still approximately 93 stores that could be opened in the coming years.

C&A Led in Store Openings Relative to a Pre-Pandemic Store Base

Number of stores (eop)	2016	2017	2018	2019	2020	2021	2022	3Q23	Delta 2019 - 3Q23	Delta 2019 - 3Q23 / 2019 base
 C&A	279	276	279	287	295	319	332	334	47	16%
 RENNER	300	325	344	367	373	392	408	410	43	12%
 RCHLO	291	302	312	321	324	328	333	332	11	3%
 marisa	398	388	371	354	345	344	334	245	-109	-31%

Source: Companies, Itaú BBA. Note: Renner numbers consider only the Renner banner and located in Brazil, and Riachuelo numbers consider only the Riachuelo banner.

... and we expect them to be opened in malls. Analyzing the company's expansion plan for the last few years, we conclude that store openings have been concentrated in shopping malls, leading the company to have 86% of its stores located in malls, a percentage similar to competitors like Renner and Riachuelo. We expect the company to continue focusing its store openings in shopping malls, particularly in cities with up to 500,000 inhabitants. Comparing with the number of mall-based stores that Renner has, it is evident that C&A still has plenty of room for growth, as the malls are not yet fully saturated with its brand.

C&A Could Expand Its Store Base in Malls by Another 27%, Given Renner's Base...

	C&A	RENNER	RCHLO	marisa
Shopping Mall	287	365	285	148
Street	47	45	47	97
Total	334	410	332	245

Source: Companies, Itaú BBA. Note: Renner numbers consider only the Renner banner and Riachuelo numbers consider only the Riachuelo banner.

...Leading Us to Conclude That C&A's Penetration in Shopping Malls Is Far From a Peak

	C&A	RENNER	RCHLO	marisa
Shopping Mall	86%	89%	86%	60%
Street	14%	11%	14%	40%
Total	100%	100%	100%	100%

Source: Companies, Itaú BBA. Note: Renner numbers consider only the Renner banner and Riachuelo numbers consider only the Riachuelo banner.

As for the distribution of stores by region in Brazil, measured by the proportion of each player's store base, the distribution is relatively similar among the players, with the only noticeable difference being C&A's slightly higher concentration of stores in the Northeast compared with the others.

The Southeast Remains C&A's Primary Region...

	C&A	RENNER	RCHLO	marisa
Southeast	174	197	156	120
South	34	100	47	35
North	24	22	24	24
Northeast	77	58	73	44
Midwest	25	33	32	22
Total	334	410	332	245

Source: companies, Itaú BBA. Note: Renner numbers consider only the Renner banner, and Riachuelo numbers consider only the Riachuelo banner.

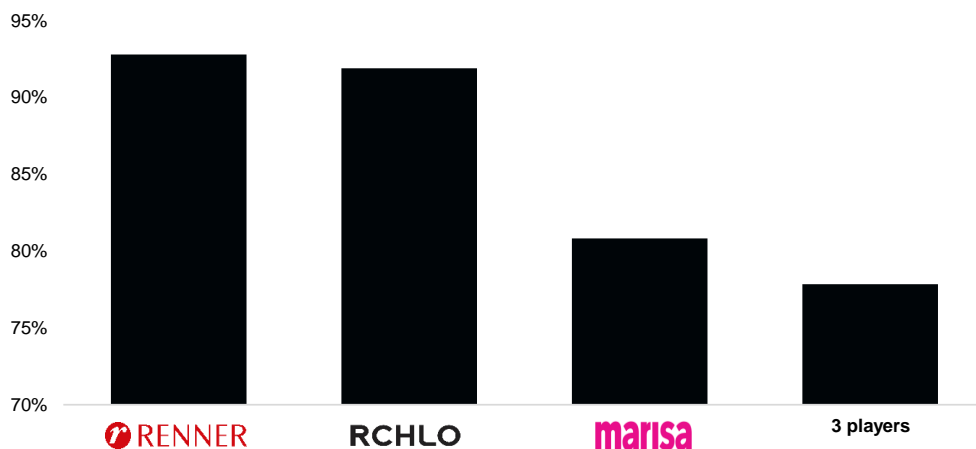
...and That of Its Main Competitors

	C&A	RENNER	RCHLO	marisa
Southeast	52%	48%	47%	49%
South	10%	24%	14%	14%
North	7%	5%	7%	10%
Northeast	23%	14%	22%	18%
Midwest	7%	8%	10%	9%
Total	100%	100%	100%	100%

Source: companies, Itaú BBA. Note: Renner numbers consider only the Renner banner, and Riachuelo numbers consider only the Riachuelo banner.

C&A's stores overlap with other players is high and likely to increase going forward... When analyzing the overlap of stores between the players, we find that 93% of C&A's stores are in the same cities as Renner's stores. The next largest overlaps are with Guararapes (92%) and Marisa (81%). Lastly, 77% of C&A's stores are located in cities where the other three players also have a presence. We expect these percentages to increase going forward as the company opens stores.

77% of C&A's Stores Are Located in Cities Where the Other Three Main Competitors Also Have a Presence



Source: companies, Itaú BBA. Note: Renner numbers consider only Renner banner and Riachuelo numbers consider only Riachuelo banner.

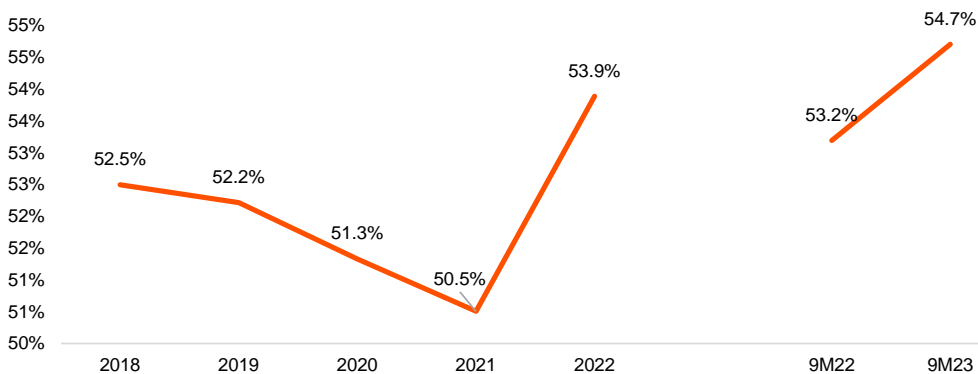
2) Supply Chain

C&A's outdated supply chain had a negative effect on the company's gross margin until the IPO... Prior to its IPO, C&A used to send everything it received from suppliers directly to its stores, in all sizes and colors, regardless of which was selling more in each unit – a model known in retail as “push.” This strategy has drawbacks: on the one hand, stores often run out of the best-selling products, leading to missed sales opportunities; on the other hand, the remaining inventory has to be marked down, affecting gross margin.

... but now apparel gross margin have been expanding YoY after years of significant investments to implement a push/pull initiative for “A” category products. After the IPO, the company invested in three sorters. With the new infrastructure, it makes collections of products available in stores by SKU, through a push/pull initiative, which is optimized supply-chain management at the most detailed level; this approach can yield efficiency gains in price markdowns and prevent lost sales due to item shortages in stores. This push/pull supply-model initiative started to be implemented in 2021 for “A” category products, which represent about ~40% of the company's assortment. The initiative is expected to be fully implemented by the end of 2023, but we have already observed a significant improvement in the gross margin for the apparel segment, leading us to anticipate a YoY gross margin gain of 110 bps for the apparel segment in 2023.

... and we think C&A will continue to expand its apparel gross margin in 2024 as the company implements a push/pull initiative for its “B” category products. We understand that the company still has the potential to implement this initiative in 2024 for “B” products, which are more affected by fashion trends than “A” products, and such a move could bring the push/pull initiative up to an 80% penetration of C&A's assortment. In this way, we believe, the company could capture further gross margin gains in the coming years. On the other hand, as this fully extended implementation would require investments – and the company has recently been more cautious about making new investments – we incorporated in our estimates a gross margin gain related to the rollout of push/pull to only half of the “B” products assortment, which should not require significant investments, and implicitly assuming a 60% push/pull initiative penetration of C&A's assortment by the end of 2024, paving the way for a 30-bp YoY gross margin gain for the apparel segment in 2024. Lastly, we understand that the push/pull initiative will probably not be implemented for 100% of the assortment, given that “C” products represent launches of the newest and most trendy fashion products, which have low replacement in stores.

The Gross Margin for C&A's Apparel Category Has Never Been Higher



Source: Company, Itaú BBA

3) Digitalization

C&A's digital operation has the highest share in sales vs. its peers... The company launched its online operation in 2014, but the business line did not gain significant momentum until the onset of the pandemic in 2020. By 9M23, digital sales accounted for 19% of its total merchandise sales, a significant increase from the 2.5% reported in 2019 and a higher proportion than was achieved in this period by other players, including Renner (15%) and Marisa (~7%).

... with the WhatsApp direct channel being a highlight within the company ecosystem... Over the past few years, the company has placed a strong emphasis on digitalization, leading to several notable achievements: i) WhatsApp Direct Sales – available in all stores; ii) Click & Collect – offered in over 300 stores; iii) Minha C&A – over 30,000 registered consultants; iv) Ship From Store – over 60 active hub stores across the country; and v) Galeria C&A – C&A's marketplace, featuring around 250 sellers. Additionally, C&A's relationship program, known as C&A&VC, has grown significantly in recent years, expanding from approximately 9 million customers in 2019 to approximately 28 million as of 3Q23.

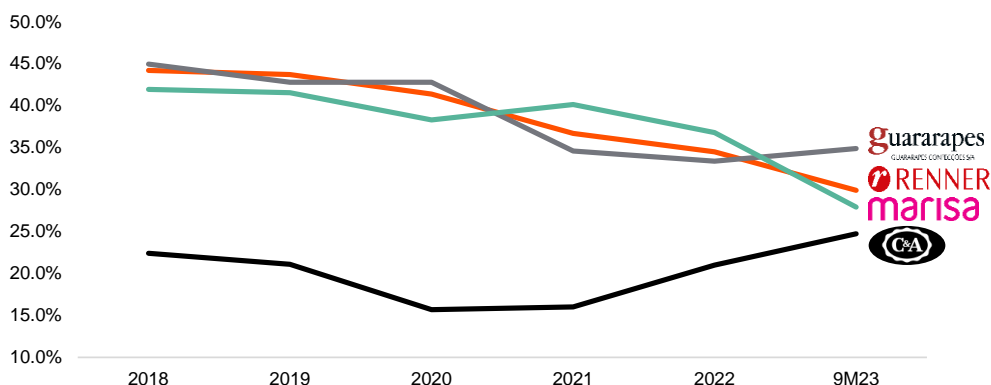
... as it has healthy gross and contribution margins. We highlight the company's efforts to make the digital channel's direct contribution positive. When considering pure online sales, the gross margin tends to be lower than for purchases made in physical stores, because the e-commerce channel plays a vital role in inventory clearance. To enhance the margin in this channel, the company reevaluated its shipping policies and reduced marketing investments. Another crucial factor is WhatsApp direct sales, where customers respond to a marketing push and a store consultant contacts them to assist. Currently, more than 50% of omnichannel sales are through the WhatsApp direct channel, which boasts a gross margin similar to that of in-store purchases. Furthermore, when customers choose to pick up their orders in stores, the contribution margin aligns closely with that of in-store purchases.

4) Credit Offering

C&A's consumer credit system comprises: i) private label credit cards, C&A Pay, and co-branded credit cards in partnership with Banco Bradesco, enabling the financing of apparel, fashiontronics, and beauty products; ii) insurance products; and iii) personal loans through the credit card.

C&A's competitive position was weakened by the fact that it did not have a proprietary private label... Credit offerings were provided through physical stores, where customers could obtain the C&A Card, take out personal loans or insurance products, make bill payments, and access customer service, all operated through an exclusive partnership with the Bradesco Group; the arrangement's structure was a 50%/50% JV where the whole credit operation per se (approval rates, collections, delinquency management, capital allocation, etc.) was carried out by the bank. On the positive side, C&A was able to take advantage of Bradesco's infrastructure (know-how, back office, etc.) and carried no credit risk. However – and very importantly – under the terms of the agreement, C&A did not have much control. Bradesco, based on its own assessment, decided whether or not to approve a customer for credit. C&A did not have, for instance, the right to offer credit to a recurring customer who might have been rejected by Bradesco. We believe that this exclusive partnership did not help C&A's competitive position during economic downturns when Bradesco decided to reduce its credit approval rates, as happened in 2015 and 2016. Back in 2018, credit sales (with or without interest) amounted to only 22% of C&A's sales, compared with over 40% for its main apparel peers.

C&A's Financial Services Penetration in Retail Sales at the Time of the IPO Was Roughly Half That of the Main Players, but This Gap Is Expected to Narrow Over Time



Source: Companies, Itaú BBA. Note: numbers consider private label and co-branded penetration.

... but with the repurchase of the rights to offer financial products, we believe that C&A has strengthened its value proposition... In July 2021, the company hired an experienced team to head financial services, and in November 2021, C&A repurchased the right to offer financial services and products previously operated by Bradesco, enabling the launch of the company's own solution, C&A Pay, in December. C&A Pay is a digital private-label card that can only be used to purchase C&A products, in both its physical stores and e-commerce channels, offering its customers interest-free financing for up to five installments (approximately two-thirds of C&A Pay transactions) or financing with charges for eight installments, as well as insurance. Additionally, it integrates with C&A&VC, the company's loyalty program, so customers who join C&A Pay can fully enjoy the program's benefits.

We have a positive view regarding the company's decision to focus only on its private label solution at this time... From December 2021 until April 2023, the C&A Pay private label and the co-branded C&A Bradesco credit product coexisted. The active customer base at the end of this period was preserved to ensure continuity of service for customers. C&A also has plans to eventually offer its own co-branded product – a potential risk we see for the story, but given the challenging macro scenario, the company decided to continue its partnership with Bradesco for this specific product. In April 2023, a new commercial contract was signed with Bradesco, with remuneration based on issuance of new cards.

... as the private label business allows for easier and faster adjustment of credit limits, when necessary, and at the same time is a lever to boost retail sales in a difficult macroeconomic scenario. In 3Q23, C&A Pay accounted for 22% of sales, with 4.2 million cards issued. C&A Pay's credit portfolio currently stands at BRL 725 million, and we estimate that it could reach BRL 930 million by the end of 2023. We believe that the acceleration of the private-label portfolio has been playing a pivotal role in the company's retail sales performance, as C&A lately has been an outperformer in terms of SSS. The company's NPL rate (over 90 days) is at 23%, in line with that of the private-label industry, which typically runs around 25%, and C&A has an over-90-days coverage ratio of 96% (vs. ~80% in YE22). Currently, the company's cash funds C&A Pay. We anticipate that when the credit portfolio has a track record, the company may go to the market for funding. Finally, C&A Pay and the co-branded Bradesco card represent 26% of sales today, and we believe that this penetration could reach ~30% in the long term as C&A Pay gains prominence.

ASSESSING C&A'S CURRENT POSITION

SECTION 4

In this section, we will evaluate C&A's evolution by comparing its current position with its positions in the pre-pandemic year of 2019 and at the time of its IPO, as well as with the current situations of other players.

1) Store Productivity

C&A delivered high-quality growth in retail sales per store this year... When we analyze retail net revenue per store, we observe that in 2022 C&A had already surpassed its pre-pandemic level, an achievement attained by all its peers. Looking at this metric relative to previous-year performance, we note that the company has delivered sound performance relative to its peers. While C&A may not have recorded the highest year-over-year growth, we consider its growth to be high-quality, in that it was achieved without compromising the gross margin (a topic we will discuss below). On the other hand, we note that C&A's performance was softer than in the respective periods of 2019, and below cumulative inflation since 2019. We believe that this is mainly due to fashiontronics having lower sales per store and the fact that many stores were opened in the meantime and are maturing.





C&A – Retail Sales (BRL in Millions) Per Store: High-Quality Growth This Year

Net Revenues Retail/store (BRL million)	2016	2017	2018	2019	2020	2021	2022	3Q19	3Q22	3Q23	y/y	vs. 3Q19	9M19	9M22	9M23	y/y	vs. 9M19
 C&A	16.6	17.5	17.6	17.7	13.3	15.6	17.8	4.2	4.0	4.4	8%	4%	11.9	12.2	12.5	2%	5%
 RENNER	17.6	18.3	19.2	19.9	15.2	20.9	24.4	4.8	5.6	5.5	-1%	15%	13.9	17.2	16.6	-4%	20%
 RCHLO	14.6	15.8	16.3	16.8	13.3	16.5	17.9	4.0	4.0	4.4	11%	10%	11.2	12.2	12.5	3%	11%
 marisa	5.6	5.7	5.8	6.4	4.8	5.9	6.7	1.6	1.5	1.1	-29%	-32%	4.4	4.5	4.8	6%	9%

Source: companies, Itaú BBA. Note: Renner numbers consider only the Renner banner, and Riachuelo numbers consider only the Riachuelo banner.

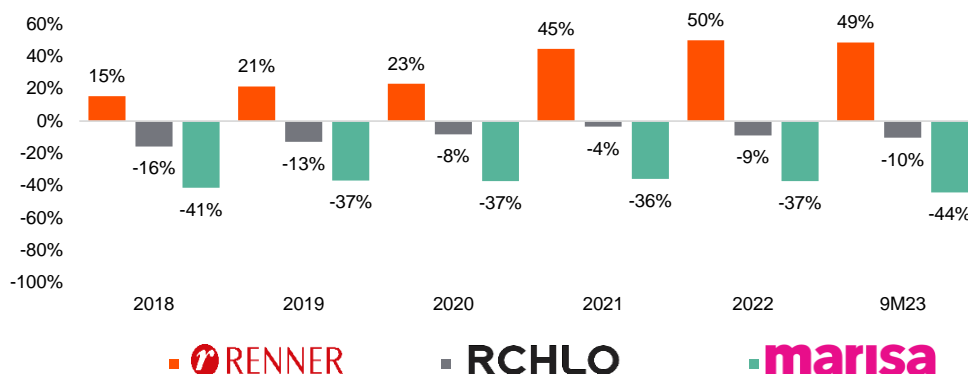
... however, it still presents a significant productivity gap that needs to be improved... When we conduct the same analysis but consider square footage instead, our conclusions are unchanged. However, something new does catch our attention: the productivity gap between C&A and Renner more than doubled after the pandemic. In 2019, Renner's stores sold 21% more per square meter than C&A's, and this lead widened to almost 50% in the first nine months of 2023.

Retail Sales Per Square Meter (BRL in 000s)

Net Revenues Retail (BRL thousand) / sqm (eop)	2016	2017	2018	2019	2020	2021	2022	3Q19	3Q22	3Q23	y/y	vs. 3Q19	9M19	9M22	9M23	y/y	vs. 9M19
 C&A	8,840	9,310	9,315	9,318	7,042	8,339	9,620	2,222	2,176	2,361	8%	6%	6,302	6,591	6,765	3%	7%
 RENNER	9,827	10,055	10,749	11,304	8,664	12,068	14,429	2,681	3,290	3,349	2%	25%	7,763	10,090	10,056	0%	30%
 RCHLO	6,910	7,479	7,843	8,109	6,455	8,046	8,762	1,949	1,939	2,137	10%	10%	5,496	5,977	6,063	1%	10%
 marisa	5,354	5,501	5,466	5,882	4,417	5,347	6,035	1,432	1,363	926	-32%	-35%	4,024	4,107	3,772	-8%	-6%

Source: companies, Itaú BBA. Note: Renner numbers consider only the Renner banner and Riachuelo numbers consider only the Riachuelo banner.

Productivity Gaps Between C&A and Main Competitors



Source: companies, Itaú BBA. Note: Renner numbers consider only the Renner banner and Riachuelo numbers consider only the Riachuelo banner.

C&A's private label portfolio growth can help reduce this productivity gap. Lately, it seems that the credit-concession dynamics have reversed. While Renner and Guararapes have adopted restrictive policies, C&A has taken the opposite approach, registering strong growth in its private label portfolio, as exhibited in the table below. This is likely contributing to the difference in SSS performance between C&A and Renner. Going forward, we could see the gap in productivity (retail sales per square meter) between C&A and Renner narrowing as C&A continues to expand its portfolio while Renner and others step on the brakes.

Private Label Growth Is a Possible Driver of C&A's Recent Outperformance in Retail

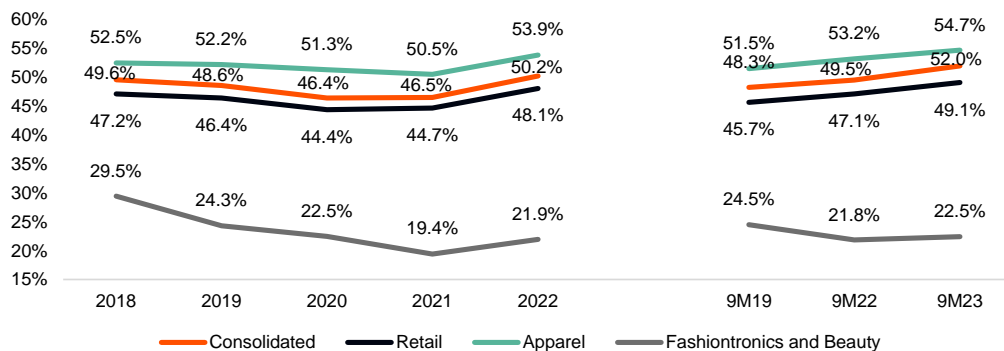
	3Q22	4Q22	1Q23	2Q23	3Q23
C&A					
SSS	0.0%	1.0%	1.3%	-2.2%	9.1%
SSS Apparel	0.9%	1.3%	4.3%	0.7%	12.5%
SSS Fashiontronics and Beauty	-5.2%	-1.3%	-11.7%	-17.9%	-10.8%
Credit portfolio QoQ growth	-1.3%	2.5%	1.1%	3.2%	-4.6%
Private Label QoQ growth	18.6%	46.2%	1.0%	23.6%	3.2%
Co-Branded QoQ growth	-3.6%	-3.7%	1.2%	-1.2%	-6.7%
Private Label and Co-Branded Penetration % Retail Sales	22.0%	22.0%	23.0%	24.0%	26.3%
Private Label and Co-Branded Retail Sales YoY growth	51.7%	32.9%	18.1%	7.7%	30.5%
Other Payment Methods Sales YoY growth	-5.1%	-3.5%	-1.1%	-3.8%	3.2%
Renner					
SSS	7.9%	-2.5%	0.8%	-6.8%	0.6%
Credit portfolio QoQ growth	2.8%	12.5%	-2.8%	0.4%	-6.2%
Private Label QoQ growth	-11.5%	9.6%	-15.9%	-4.2%	-11.0%
Co-Branded QoQ growth	5.9%	13.0%	-0.4%	1.1%	-5.5%
Private Label and Co-Branded Penetration % Retail Sales	34.3%	34.3%	30.1%	30.6%	29.0%
Private Label and Co-Branded Retail Sales YoY growth	4.7%	-6.7%	-11.7%	-18.4%	-14.9%
Other Payment Methods Sales YoY growth	12.7%	3.1%	9.0%	0.4%	8.9%
Guararapes					
SSS	-3.9%	-3.1%	0.7%	-3.8%	9.7%
Credit portfolio QoQ growth	1.6%	5.6%	-3.7%	-0.9%	-3.3%
Private Label and Co-Branded QoQ growth	2.5%	6.4%	-4.1%	0.0%	-3.2%
Personal Loan QoQ growth	-3.3%	1.2%	-1.0%	-6.6%	-4.3%
Private Label and Co-Branded Penetration % Retail Sales	38.3%	33.4%	34.3%	35.7%	34.7%
Private Label and Co-Branded Retail Sales YoY growth	7.5%	-3.9%	-6.8%	-10.4%	1.0%
Other Payment Methods Sales YoY growth	-4.7%	1.4%	8.9%	2.3%	17.9%
Marisa					
SSS	-4.9%	1.1%	2.4%	-16.4%	-36.2%
Credit portfolio QoQ growth	-3.1%	-16.0%	-13.1%	-8.3%	-46.6%
Private Label QoQ growth	-4.7%	-14.6%	-14.6%	-5.3%	-41.8%
Personal Loan QoQ growth	2.5%	-20.8%	-7.7%	-18.2%	-65.1%
Private Label and Co-Branded Penetration % Retail Sales	36.6%	35.6%	32.5%	26.6%	22.4%
Private Label and Co-Branded Retail Sales YoY growth	-12.1%	-9.7%	-15.2%	-45.3%	-69.2%
Other Payment Methods Sales YoY growth	2.9%	5.3%	11.8%	-7.0%	-38.3%

Source: companies, Itaú BBA. Note: SSS figures above consider all the brands/banners within each company's umbrella.

2) Gross Margin Expansion

Gross margin is the most significantly improved line on the income statement since 2019, with an expansion of 3.7 pp when comparing 9M23 with 9M19. This improvement is primarily attributable to the apparel category, which saw a gross-margin gain of 3.2 pp in the same period. We understand that the primary drivers of this gain were: i) the implementation of the push/pull initiative for “A” category products; ii) the dynamic pricing model; and iii) product assortment.

The Apparel Category Has Been the Main Driver of C&A's Consolidated Gross Margin Gain



Source: Company, Itaú BBA

Apparel category's gross margin will likely continue to expand as the company advances the adoption of push/pull to its “B” products... We incorporated in our estimates a gross margin gain related to the rollout of push/pull to half of “B” products assortment (which should not require significant investments to do it), implicitly assuming a 60% push/pull initiative penetration of C&A's assortment by the end of 2024, paving the way for a 30-bp YoY gross margin gain for the apparel segment in 2024.

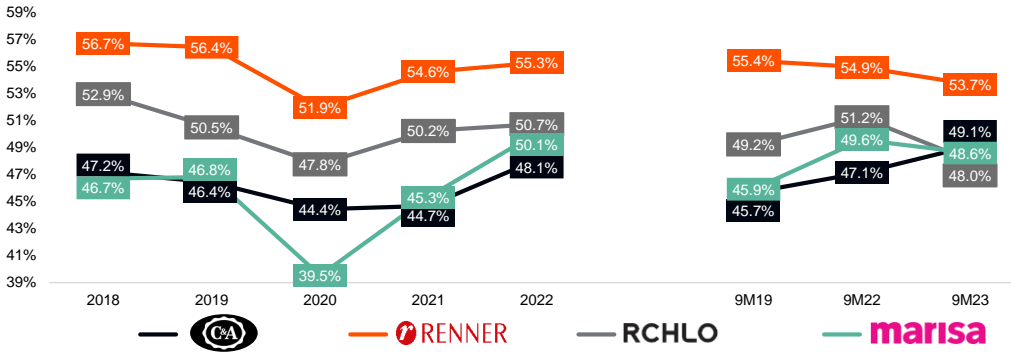
... but for Fashiontronics and Beauty, we prefer to assume a stable margin from now on, with the Beauty margin offsetting the Fashiontronics margin... On a different note, when we examine the Fashiontronics and Beauty category, we observe that its gross margin is currently 2.0 pp below its 2019 level and that it has lost 2.6 pp of share of retail sales. However, it is important to segment our comments for its two subcategories:

- Fashiontronics.** Mobile phones generate most of the revenue in this segment. The performance of the mobile phone product category is characterized by peaks and valleys, and is typically positively correlated with the launch of new technologies like 3G and 4G. After the recent launch of 5G technology in Brazil, however, higher demand for mobile phones has not materialized. This can be attributed to the economic situation of Brazilian consumers, whose disposable income is currently under pressure from high indebtedness and high interest rates. Competition in this product category, with consumers commonly comparing prices online, also plays a significant role. Given these factors, particularly the competitive pressure, we do not expect C&A's gross margins in this segment to return to historical levels (~24%).
- Beauty.** C&A started selling beauty products at the end of 2019 and enabled e-commerce sales in 2020. In 2021, the company began installing kiosks with beauty products within its stores. In 2022, the company introduced its own line of products, such as hand creams, and in 2023, it started selling a makeup line. Currently, 277 stores feature these kiosks, out of a total of 334 stores. Our hypothesis is that the Beauty subcategory will gain prominence in the product mix over Fashiontronics, potentially leading to a gradual improvement in the gross margins of both Fashiontronics and Beauty, as the Beauty subcategory currently boasts a higher gross margin than Fashiontronics. But for now, we prefer to assume a stable gross margin in the coming years for Fashiontronics and Beauty.

All in, we expect Apparel to gain share over Fashiontronics and Beauty over time, with the former currently representing 81% of retail revenue and the latter 13%. For 2023 we expect a YoY retail gross margin gain of 160 bps, to 49.7%, and for 2024 a YoY gain of 70 bps, to 50.4%.

Compared with its competitors, C&A was able to achieve the greatest expansion in retail gross margin vs. pre-pandemic period, although it does not operate with the highest margin... Comparing C&A's retail gross margins with those of other competitors, we note that C&A registered the highest gross margin expansion relative to 2019 levels, with an increase of 3.4 pp, followed by Marisa, with an increase of 2.7 pp. Meanwhile, both the Renner and Riachuelo brands are posting gross margins that are below their respective 2019 levels: Renner's is 1.8 pp lower, and Riachuelo's 1.2 pp lower. However, it's worth noting that Renner still has the highest retail gross margin: 53.7% as of 9M23, 4.6 pp higher than C&A's for the same period. We understand that this difference is partially explained by a product-mix issue, as C&A's clothing category operates with a gross margin of 54.7%, while C&A's Fashiontronics and Beauty category has a gross margin of 22.5% and generates 13% of retail revenue.

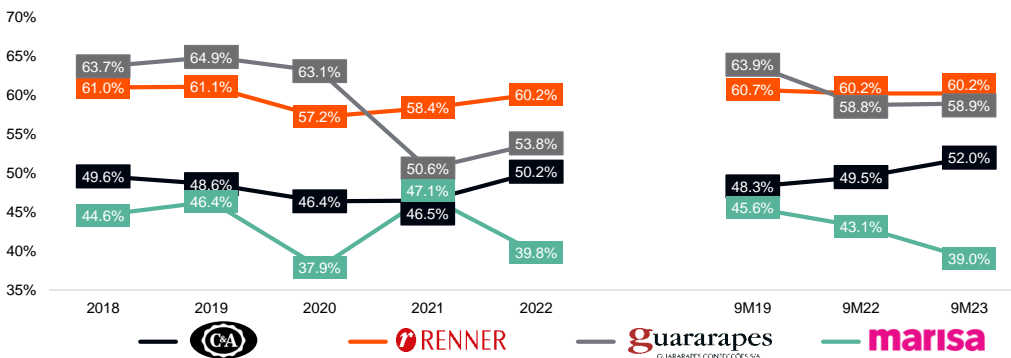
C&A's Retail Gross Margin Is Catching Up to Those of Its Competitors...



Source: Company, Itaú BBA. Note: Renner numbers consider only the Renner banner, and Riachuelo numbers consider only the Riachuelo banner.

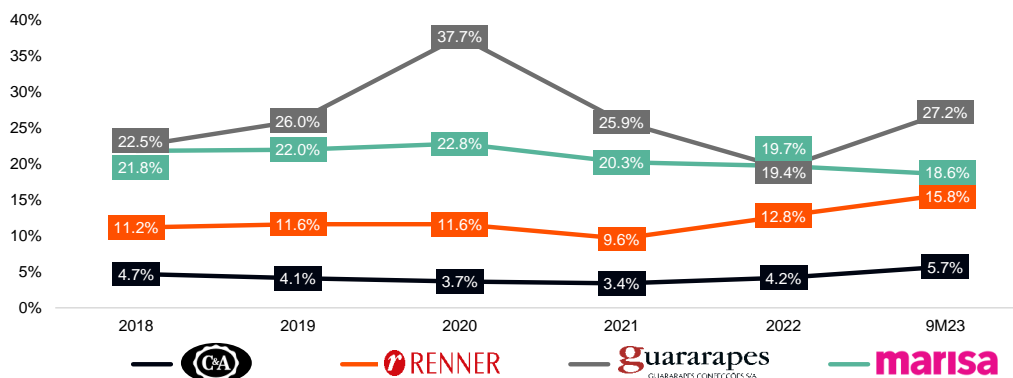
... and lower financial services revenue for C&A contributes in explaining the difference in consolidated gross margin. When we compare consolidated gross margins, which consider all brands within a given company's retail operation and their financial services divisions, we understand that C&A's underperformance in this metric is partially explained by its lower proportion of financial services revenue in total net revenue. Another factor is each company's credit portfolio mix.

... but C&A's Consolidated Gross Margin Is Still Much Lower Than Its Competitors', Mainly Due to Financial Services' Lower Revenue Share



Source: Companies, Itaú BBA

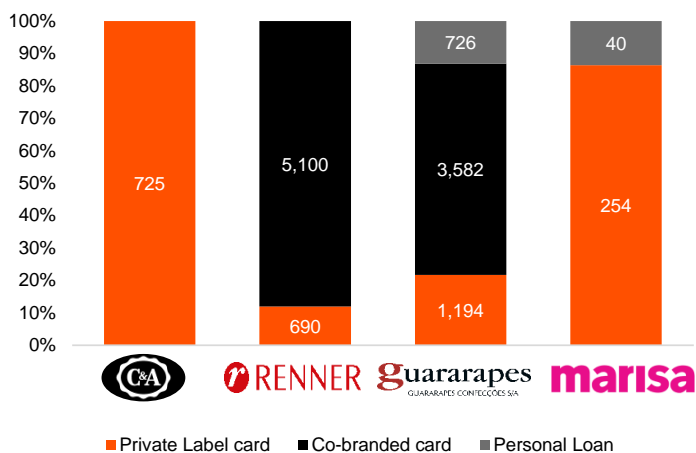
Financial Services Revenues as a Proportion of Consolidated Net Sales



Source: Companies, Itaú BBA

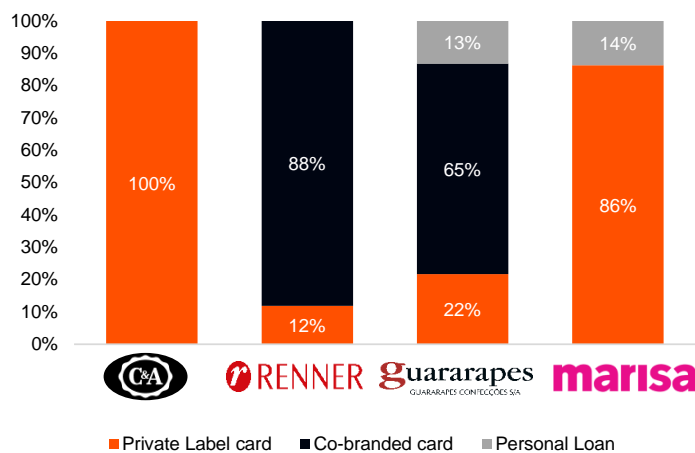
Co-branded products constitute the majority of Renner’s and Guararapes’ credit portfolios, with their respective products contributing the majority of the financial revenue in their financial services divisions. In C&A’s case, most of the financial revenue comes from C&A Pay (private label). C&A’s revenue from co-branded products derives from the co-branded portfolio associated with the JV of the previous agreement that is on Bradesco’s balance sheet.

Credit Portfolio Composition (BRL in Millions)



Source: companies, Itaú BBA. Note: We estimate that 25% of Guararapes credit portfolio is private label.

Credit Portfolio Composition (%)

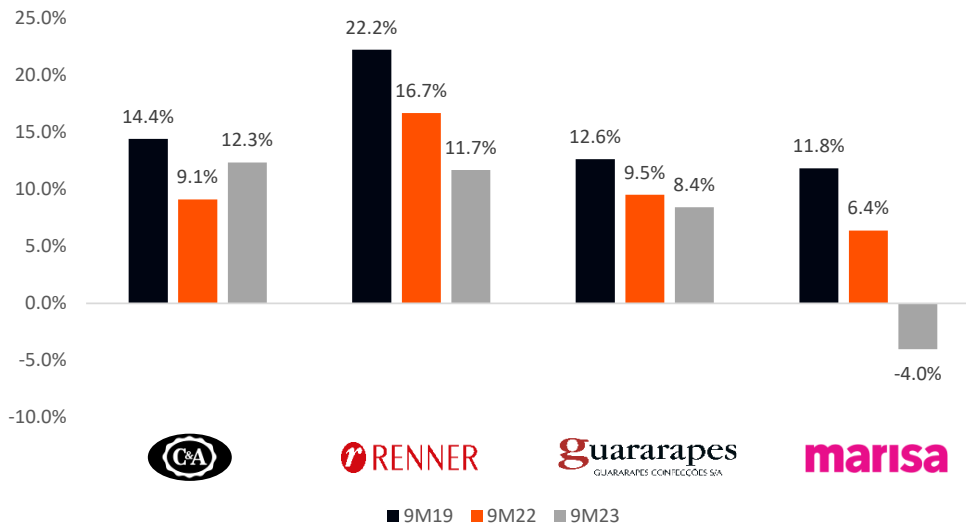


Source: companies, Itaú BBA. Note: We estimate that 25% of Guararapes credit portfolio is private label.

3) EBITDA Margin Expansion

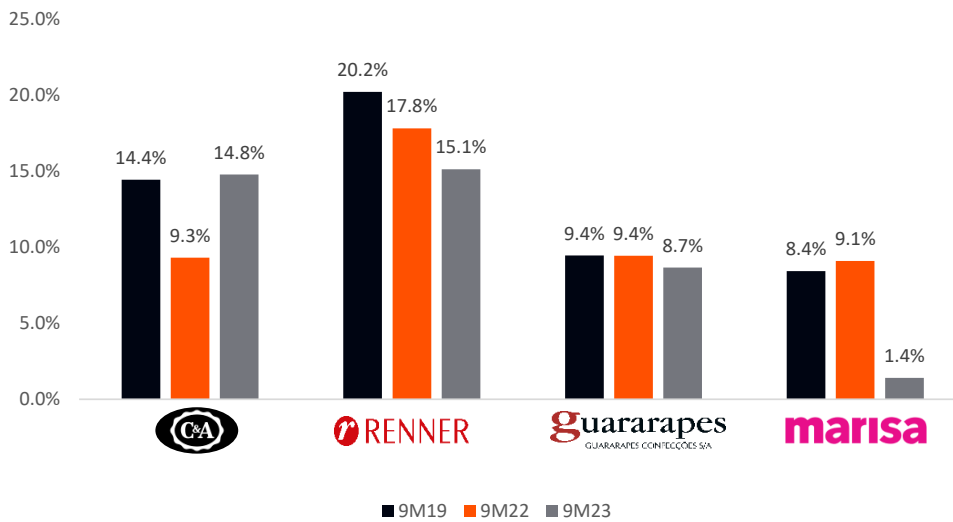
C&A’s consolidated EBITDA margin (post-IFRS 16) increased by 3.2 pp YoY in 9M23, to 12.3%, whereas its competitors posted margin declines in the same period. Considering only the retail division, the EBITDA margin expansion was 5.5 pp YoY, to 14.8%, 40 bps above the 9M19 level.

C&A Was the Only Apparel Player to Post a YoY EBITDA Margin Gain in 9M23...



Source: Source: companies, Itaú BBA

...With the Retail EBITDA Margin (Post-IFRS 16) Expanding by 5.5 pp YoY



Source: Itaú BBA, companies.

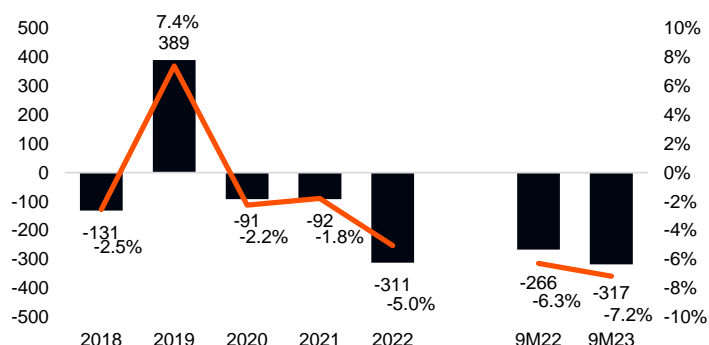
However, it's important to separate our comments on the retail and financial services divisions, which have distinct dynamics:

- Retail.** The two main expense categories are personnel and occupancy, but the most significant optimization was in the marketing expenses line. In 2019, marketing consumed 2.1% of the company's net revenue. This rate jumped to 4.5% in 2020 and 4.1% in 2021 when the pandemic necessitated substantial investments to boost digital sales. In 2022, however, C&A decided to start focusing on the WhatsApp sales channel and to leverage its CRM and C&A&VC loyalty program, and in 9M23, this expense category amounted to only 1.6% of net revenue. Going forward, we anticipate its operational expenses to gradually decrease as the company improves store productivity, paving the way for its retail EBITDA margin (post IFRS 16) to reach 17.8% in 2024, up 60 bps YoY.
- Financial Services.** The primary factor behind the company's negative EBITDA in recent quarters is bad debt provisions, given the accelerated growth of its private label portfolio. Looking ahead, we expect sales-related expenses, especially those associated with promoters who work in the stores selling cards, to be gradually diluted over time. We anticipate that this financial division will report positive annual EBITDA from 2025 onward, and its EBITDA margin could reach 10% in the long term; while this is a lower profitability level than other players have achieved in the past, we flag that our estimates do not account for a launch of C&A's own co-branded card, a product that is more profitable than private label cards.

4) Financial Results and Leverage

Approximately 90% of the proceeds from C&A's IPO were used to settle debt owed to the controlling entity. Consequently, the company's expansion has been primarily financed through debt. Its financial results did not contribute a significant proportion of net revenue in 2020 and 2021 due to low interest rates, although its leverage was high during that period. In 2022, however, after the 5.5-pp increase in Brazilian interest rates, the financial result notably contributed to the company's reported losses. Despite the company's positive operational momentum in the last quarters of 2023, we anticipate only gradual deleveraging, keeping the bottom line under considerable pressure until at least 2025. With the exception of Renner, C&A's peers are currently not in a significantly different situation. Finally, it's worth noting that while we do see C&A having non-negligible leverage levels, we do not anticipate the company being at risk of breaching its debt covenants – mainly because the accounting method used to calculate its leverage for covenant purposes differs from our approach, and according to that accounting method, C&A has a leverage ratio of 1x (compared with the covenant level of 3x).

Financial Results – Absolute (BRL in Millions) and as a Proportion of Net Revenues



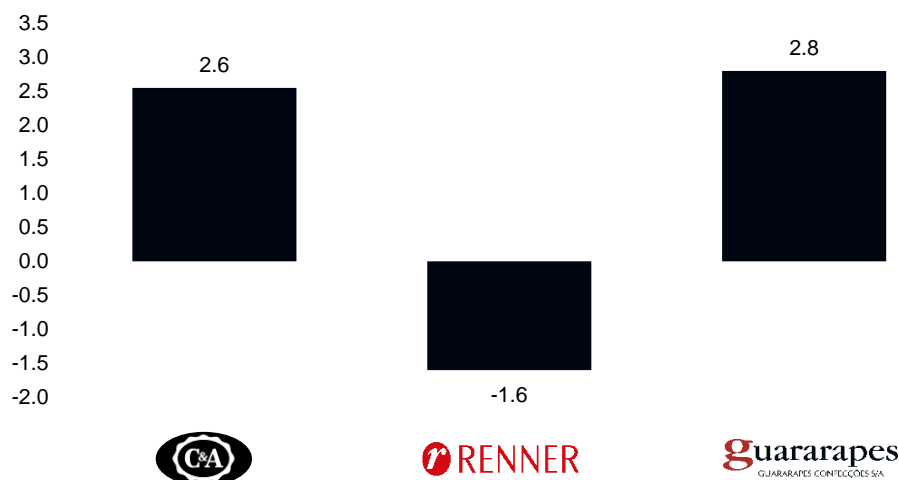
Source: Company, Itaú BBA

Leverage (Net Debt/EBITDA)



Source: Company, Itaú BBA. Note: net debt number considers financial debt, Bradescard Partnership payables, cash and equivalents. Receivables discounted not included. Adjusted EBITDA is ex-IFRS 16. 2020 Adjusted EBITDA (ex-IFRS16) was negative.

Net Debt/Adjusted EBITDA 3Q23, LTM



Source: Companies, Itaú BBA. Note: (1) We excluded Marisa from this analysis since it has negative adjusted EBITDA LTM. (2) C&A's net debt number considers Bradescard Partnership payables. (3) Net debt and adjusted EBITDA are ex-IFRS 16 and do not consider receivables discounted.

5) Working Capital Improvement

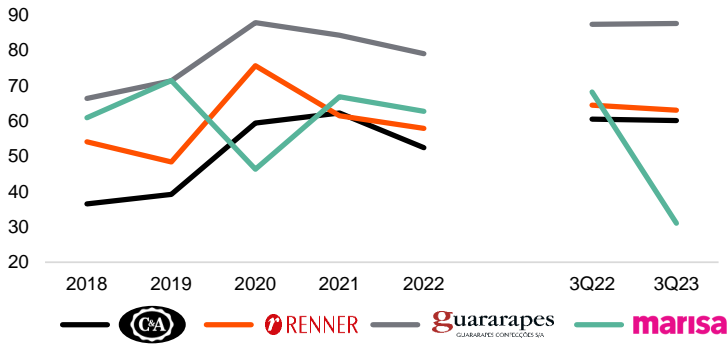
In 2018, working capital amounted to 4.5% of C&A's net revenue and resulted in a consumption of BRL 233 million. In 2019, these figures decreased to 0.8% and BRL 42 million, respectively. In 2022, however, we saw a shift in the opposite direction, with working capital generating BRL 73 million of the company's cash generation and amounting to 1.2% of net revenue. To understand these changes, we will break them down into their three main components.

- **Accounts payable.** In 2022, the company made a significant effort to extend its payment terms with suppliers, eventually successfully increasing them by an average of 10 days – a sustainable and likely recurring gain. It's essential to note that these negotiations were carried out with all of the company's suppliers. Looking ahead, we don't anticipate the company making a similar effort again, so we assume that the 2022 level of 86 days will be the sustainable standard.
- **Accounts receivable.** On the positive side, C&A has implemented a minimum installment policy, which has improved this account. On the negative side, we believe that the growth of C&A Pay over time is likely to extend the accounts receivable period.
- **Inventory.** Historically, the company operated at inventory levels below those of its competitors. The challenge was that its stores often experienced stock-outs. To address this issue, the company is now operating with inventory levels above those of the pre-pandemic period but still below those of its main peers.

The combined trends of these three components point to working capital likely having a cash consumption mainly due to accounts receivable.

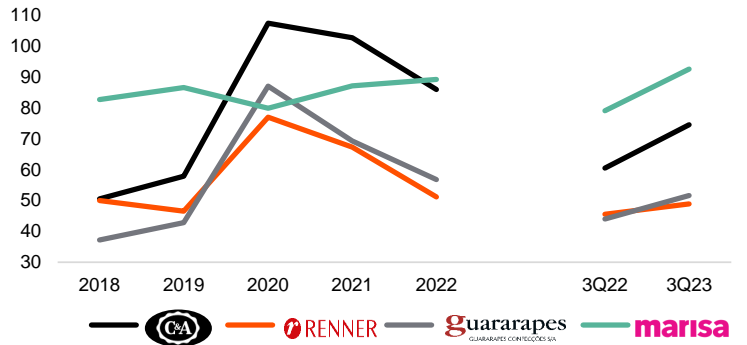
When comparing C&A's inventory days and supplier days with those of its competitors, we observe that C&A historically operates with fewer inventory days and more supplier days, which is favorable for its working capital and cash conversion cycle. And here we would like to highlight an important dynamic: the company, by adopting a low inventory policy, makes it possible to react quickly, that is, if it makes a mistake in a collection launch, it is able to correct the problem during the season. Furthermore, as it operates with a low inventory level, C&A is usually "open to buy" at all times, which means committing to purchase a certain volume of pieces from suppliers. The security and predictability that C&A can provide to the suppliers, combined with decades-long relationships, translates into better payment conditions for C&A. At times when other retailers are overstocked, this combination of inventory management and order guarantees with suppliers becomes an important competitive differentiator as it affects the company's working capital.

Days of Inventory as a Percentage of Retail Net Revenues



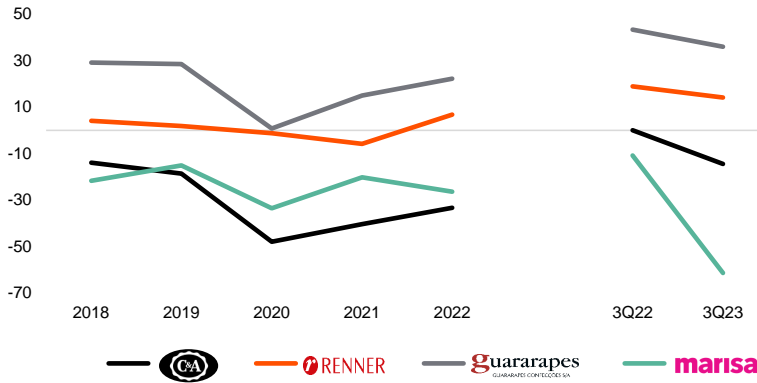
Source: companies, Itaú BBA. Note: Marisa is currently undergoing a restructuring, which affected 3Q23 numbers.

Days of Suppliers as a Percentage of Retail Net Revenues



Source: companies, Itaú BBA. Note: Marisa is currently undergoing a restructuring, which affected 3Q23 numbers.

Spread Between Inventory Days and Supplier Days as a Percentage of Retail Net Revenues

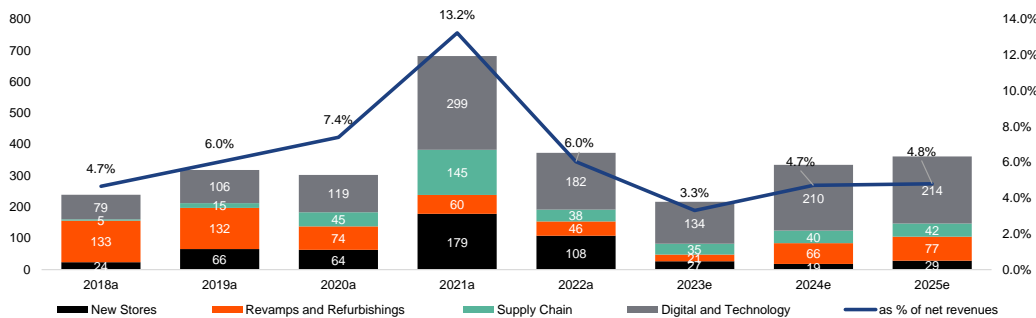


Source: Companies, Itaú BBA. Note: Marisa is currently undergoing a restructuring, which affected 3Q23 numbers.

6) Capex Rationalization

The company made significant investments after its IPO, in line with its growth plan, with 2021 being the most notable year for investment. But as we noted in the store expansion section, the company adopted a more conservative approach from that point forward, mindful of its leverage. For 2023 we anticipate that capex will be lower than it was in 2022 – around BRL 217 million, or 3.3% of consolidated net revenue, and around BRL 335 million for 2024, or 4.7% of net revenue, much of it directed toward enhancing the digital experience, such as implementing RFID in stores that do not yet have this technology. Currently, 274 out of 334 stores are equipped with RFID. Investments will also be made in the company’s app, expansion of the push/pull initiative, and store maintenance and refurbishing.

Capex Breakdown – Absolute (BRL in Millions) and Proportion of Net Revenues



Source: Company, Itaú BBA

POTENTIAL RISKS

SECTION 5

1) Financial Arm Could Derail

The company operated in partnership with Banco Bradesco in financial services for over 10 years, before deciding to go independent at a time when interest rates began to rise, along with household debt levels and credit delinquency. On the one hand, we are comfortable with the company's focus on the private label portfolio in order to boost sales in the retail channel, which carries less credit risk in the sense that it is easier and faster to adjust credit limits if necessary. On the other hand, it is a less profitable product and the company does not yet have a credit-granting track record, so the evolution of NPLs in this private label portfolio should be monitored. In the current economic scenario, we have a favorable view of the company's sole focus on the private label product. If the company decided to launch a co-branded card and/or personal loans, we believe that it would be incurring much higher credit risk without currently having the expertise to operate these products.

2) Deleveraging Process Could Take Longer Than We Expect

We estimate that the company's net debt/EBITDA (calculated on an ex-IFRS 16 basis) will end 2023 at 2.4x, before falling to 1.8x in 2024 and to 1.3x in 2025, considering the payable related to the partnership with Bradesco, which will be paid in 2025. As a result, net profit will still be under pressure until 2025, which implies a lack of valuation-multiple collateral for this story when compared with other listed players. Furthermore, it is important to remember that we expect top-line growth in 2024 and 2025, driven mainly by an increase in store productivity and not store openings. If this productivity falls below our conservative expectations, the company's deleveraging process may take longer. Besides that, keep in mind the breakeven of the C&A pay operation, which we expect to still present a negative annual EBITDA margin in 2024, becoming positive in 2025; the success in granting credit will be a significant factor in the breakeven of the operation. Lastly, a slower pace of interest rate cuts than we expect could also delay the company's deleveraging process.

3) Fiscal Reform and Incentives Discussions

Through Santa Catarina, the company imports mostly winter products, constituting approximately 20% of its inventory. The C&A branch in Blumenau benefits from a tax incentive granted by the State of Santa Catarina. This differentiated treatment, with no expiration date, includes: deferral of ICMS on imported goods for resale, partial deferral on subsequent internal operations after importation, presumed credit on subsequent operations following the import of goods for resale, and the exemption from providing a guarantee for deferred ICMS on importation, provided there is an early payment of ICMS due on subsequent sales. In 2022, this benefit amounted to approximately BRL 12 million (or about BRL 5 million considering the reduced income tax rate). On the flip side, the company has an accumulated fiscal loss of BRL 443 million, which would be consumed more rapidly if the ICMS benefit were lost. Meanwhile, note that the ongoing tax reform, if approved, could have an impact on the economics, affecting C&A and its competitors alike.

4) Online and Offline Competition

Competition is always a concern, but it's crucial to note that the Brazilian market for apparel and footwear is highly fragmented, with the top 3 players representing approximately 20% of market share. In developed countries like Portugal, Spain, and the U.S., this percentage is usually higher, at ~30%. Concerning offline competition, C&A seems to be riding a positive wave in its retail division: it is the only one expanding its credit portfolio (focused on private label), while other players are moving in the opposite direction. Additionally, competitors face their respective challenges, such as Marisa undergoing operational restructuring, Renner migrating its inventory to a new distribution center in São Paulo, and Guararapes heavily promoting to boost retail sales, affecting its gross margin. Examining the online competition landscape, the participation of major national and international players in the Remessa Conforme program is encouraging. This has led to a reduction in price differentials between national and international players focused on cross-border operations. Furthermore, there's a possibility of the government implementing an import tax rate for items up to USD 50 of between 20% to 28% according to media sources. If this import tax rate is indeed implemented, it should further level the competitive playing field between national and internationally significant cross-border players, which would be positive for C&A.

VALUATION SUMMARY

SECTION 6

We are initiating coverage of C&A with a **market perform** rating and a YE24 target price of BRL 10/share, calculated using a discounted cash flow (DCF) analysis in which we assumed a weighted average cost of capital (WACC) of 13.3% (in BRL) and a long-term growth rate of 3.5% (also in BRL). This implies 22% upside potential relative to the current price.

Premises Supporting Our Estimates

- In terms of revenue breakdown by division, we anticipate a gradual increase in the financial services' share of total revenue, reaching 5.4% in 2023, and 6.5% in 2024. Within the retail division, the representation of apparel is expected to increase from 1.5 pp in 2023 to 2.0 pp in 2024. Within the Fashiontronics and Beauty division, we expect beauty to gain share over time.
- For 2023, we project revenue of BRL 6.5 billion, driven by two net store openings and a 4.6% same-store sales (SSS) increase. In 2024, we estimate BRL 7.1 billion, fueled by two net store openings and 7.3% SSS growth.
- Regarding the consolidated gross margin, we foresee YoY expansion of 220 bps in 2023, to 52.4%, and an additional 120 bps in 2024, to 53.6%. This projected expansion is mainly due to improved apparel margins, which we see rising to 55.0% in 2023 (up 110 bps YoY) and 55.3% in 2024 (up 30 bps YoY) as a result of increased penetration of the push/pull initiative.
- We estimate consolidated adjusted EBITDA margins (post-IFRS 16) of 14.1% in 2023 and 15.9% in 2024. For the retail division, we project a 4.2-pp expansion of the adjusted EBITDA margin in 2023, to 17.2%, and a 60-bp increase in 2024, to 17.8%, driven by operating leverage stemming from increased store productivity. Conversely, we expect the financial services division to operate with negative (albeit improving) margins in both 2023 and 2024, and we project a 1.0x proportion between net provisions and NPL creation (over 90 days). Meanwhile, we expect an increase in C&A Pay's penetration in retail sales, from ~22% in 2023 to ~27% in 2024, and a consequent increase in the credit portfolio, from BRL 930 million at YE23 to BRL 1.3 billion at YE24. Besides that, lower interest rates (Selic) are also likely to affect financial revenues.
- In nominal terms, projected consolidated adjusted EBITDA (post-IFRS 16) is BRL 924 million for 2023 and BRL 1.1 billion for 2024. Segmented between retail and financial services, the estimated amounts are BRL 1.1 billion and negative BRL 137 million, respectively, in 2023, and BRL 1.2 billion and negative BRL 59 million in 2024.
- We expect the financial result as a percentage of consolidated net revenue to decrease from 6.3% in 2023 to 5.7% in 2024. Consequently, we estimate an adjusted loss of BRL 98 million for 2023 and an adjusted profit of BRL 35 million for 2024.

Our target equity value (BRL 3.0 billion) includes the NPV of C&A's tax incentives and the NPV of the loss carryforward intended to lower the effective tax rate in the coming years. However, we did not consider the NPV of tax credits.

We recognize the impact of financial services' natural maturation curve on short-term profitability, but the lack of valuation collateral in this story (P/E multiples for 2024 and 2025) raises concerns. Considering C&A's robust stock performance (up 258% YTD and 42% in one month), we believe that this momentum has been mostly priced in.

Model Output

C&A - R\$ Million							
OPERATING DATA	2019A	2020A	2021A	2022A	2023E	2024E	2025E
Number of Stores	287	295	319	332	334	336	339
Net new stores	8	8	24	13	2	2	3
Same Store Sales	1.8%	-23.6%	24.7%	15.9%	4.6%	7.3%	5.1%
Apparel	2.2%	-25.7%	32.7%	16.1%	7.4%	9.2%	5.5%
F&B	-0.2%	-14.4%	-6.3%	14.4%	-11.8%	-5.7%	2.0%
RESULTS	2019A	2020A	2021A	2022A	2023E	2024E	2025E
Net Revenues	5,285	4,085	5,153	6,184	6,540	7,102	7,564
Retail	5,069	3,936	4,978	5,926	6,186	6,644	6,994
Apparel	4,126	3,121	4,204	5,021	5,386	5,885	6,218
F&B	926	802	757	883	777	734	750
Financial Services	216	149	175	257	354	458	570
Gross Profit	2,568	1,897	2,397	3,106	3,425	3,807	4,102
Retail	2,353	1,748	2,224	2,850	3,073	3,351	3,534
Apparel	2,154	1,602	2,123	2,706	2,961	3,253	3,436
F&B	225	180	147	194	174	164	168
Financial Services	215	148	173	256	353	456	568
Operating Expenses	(1,033)	(1,536)	(1,750)	(2,196)	(2,476)	(2,654)	(2,776)
SG&A Expenses	(1,752)	(1,615)	(1,959)	(2,301)	(2,252)	(2,420)	(2,538)
PDD	-	-	(0)	(64)	(260)	(267)	(273)
Other Operational Expenses	718	79	209	169	36	33	35
EBITDA	1,535	361	647	910	949	1,153	1,326
Retail	-	-	-	930	1,086	1,212	1,290
Financial Services	-	-	-	(20)	(137)	(59)	36
Adj. EBITDA	883	298	450	750	924	1,126	1,298
Retail	-	-	-	770	1,061	1,185	1,261
Financial Services	-	-	-	(20)	(137)	(59)	36
Depreciation	(502)	(525)	(555)	(642)	(706)	(711)	(736)
EBIT	1,033	(164)	93	268	243	442	590
Net Financial Result	389	(91)	(92)	(311)	(414)	(404)	(409)
EBT	1,422	(256)	1	(43)	(171)	38	181
Income Tax & Contributions	(450)	89	328	44	71	15	(38)
Net Income	972	(166)	329	1	(100)	53	143
Adj. Net Income	542	(207)	199	(105)	(98)	35	124
BALANCE SHEET	2019A	2020A	2021A	2022A	2023E	2024E	2025E
TOTAL ASSETS	6,037	7,310	8,673	9,630	9,085	9,407	9,102
Current	3,000	3,520	3,929	4,753	4,547	4,870	4,509
Cash & Cash Equivalents	447	1,509	1,050	1,674	1,269	1,257	709
Short-Term Investments	-	-	-	9	-	-	-
Trade Accounts Receivable	1,151	1,064	1,145	1,278	1,366	1,711	1,866
Inventories	545	641	849	852	855	919	967
Recoverable Taxes	834	283	849	899	990	917	901
Derivatives	1	0	2	1	3	3	3
Related Parties	0	0	1	0	0	0	0
Other Accounts Receivable	22	23	33	39	64	64	64
Non-current	3,038	3,790	4,743	4,876	4,537	4,537	4,592
Judicial Deposits	102	82	62	61	58	58	58
Recoverable Taxes	521	1,157	840	937	682	632	621
Deferred Taxes	-	71	379	423	538	538	538
Related Parties	-	-	0	0	0	0	0
Other Assets	2	3	10	3	0	0	0
Investments	-	-	-	-	-	-	-
Property and Equipment	717	667	836	866	759	737	734
Right of use	1,508	1,514	1,640	1,565	1,522	1,593	1,664
Intangible	187	295	976	1,021	977	977	977
TOTAL LIABILITIES + EQUITY	6,037	7,310	8,673	9,630	9,085	9,407	9,102
Current Liabilities	1,751	2,252	2,415	3,680	2,855	3,607	3,126
Loans, Financing and Debentures	-	391	121	746	508	508	508
Financing Lease	358	391	472	513	493	520	546
Suppliers	804	924	1,024	1,009	1,101	1,183	1,245
"Risco Sacado"	-	235	376	386	355	382	402
Bradescard Partnership	-	-	-	469	-	602	-
Taxes Payable	219	107	176	248	57	57	57
Labor Liabilities	129	136	155	199	207	223	235
Related Parties	70	35	59	44	77	77	77
Dividends	145	0	0	-	-	-	-
Derivatives	4	7	2	2	0	0	0
Other Liabilities	23	27	29	64	56	56	56
Non-current Liabilities	1,546	2,403	3,263	2,950	3,303	2,834	2,903
Loans, Financing and Debentures	-	821	1,254	1,405	1,215	1,215	1,215
Financing Lease	1,230	1,264	1,342	1,276	1,278	1,349	1,418
Suppliers	-	25	20	13	11	11	11
Bradescard Partnership	-	-	415	-	540	-	-
Related Parties	-	-	-	-	-	-	-
Taxes Payable	1	25	16	16	10	10	10
Labor Liabilities	4	4	6	7	12	12	12
Deferred Taxes	46	-	-	-	-	-	-
Provisions for tax, civil, and labor risks	234	230	170	183	183	183	183
Other Liabilities	33	34	40	50	53	53	53
Shareholder's Equity	2,740	2,655	2,995	3,000	2,927	2,967	3,074

Source: Itaú BBA

MARGINS	2019A	2020A	2021A	2022A	2023E	2024E	2025E
Gross Margin	48.6%	46.4%	46.5%	50.2%	52.4%	53.6%	54.2%
Retail	46.4%	44.4%	44.7%	48.1%	49.7%	50.4%	50.5%
Apparel	52.2%	51.3%	50.5%	53.9%	55.0%	55.3%	55.3%
F&B	24.3%	22.5%	19.4%	21.9%	22.4%	22.4%	22.4%
SG&A as % of Net Revenues	-33.1%	-39.5%	-38.0%	-37.2%	-34.4%	-34.1%	-33.6%
EBITDA margin	29.0%	8.8%	12.6%	14.7%	14.5%	16.2%	17.5%
Adj. EBITDA margin	16.7%	7.3%	8.7%	12.1%	14.1%	15.9%	17.2%
Retail	-	-	-	13.0%	17.2%	17.8%	18.0%
Financial Services	-	-	-	-7.8%	-38.8%	-12.8%	6.4%
EBIT margin	19.5%	-4.0%	1.8%	4.3%	3.7%	6.2%	7.8%
EBT Margin	26.9%	-6.3%	0.0%	-0.7%	-2.6%	0.5%	2.4%
Net Margin	18.4%	-4.1%	6.4%	0.0%	-1.5%	0.7%	1.9%
Adj. Net Margin	10.3%	-5.1%	3.9%	-1.7%	-1.5%	0.5%	1.6%

GROWTH MOMENTUM	2019A	2020A	2021A	2022A	2023E	2024E	2025E
Net Revenues	2.8%	-22.7%	26.1%	20.0%	5.8%	8.6%	6.5%
Retail	3.5%	-22.3%	26.5%	19.0%	4.4%	7.4%	5.3%
Apparel	4.0%	-24.4%	34.7%	19.4%	7.3%	9.3%	5.6%
F&B	1.1%	-13.4%	-5.6%	16.8%	-12.0%	-5.6%	2.2%
Financial Services	-10.3%	-31.0%	17.2%	47.1%	37.6%	29.4%	24.4%
Gross Profit	0.7%	-26.1%	26.4%	29.6%	10.3%	11.1%	7.8%
Retail	1.9%	-25.7%	27.2%	28.1%	7.8%	9.0%	5.5%
Apparel	3.5%	-25.6%	32.5%	27.4%	9.4%	9.9%	5.6%
F&B	-16.5%	-20.0%	-18.4%	31.9%	-10.3%	-5.6%	2.2%
Financial Services	-10.2%	-31.1%	16.7%	47.9%	37.8%	29.4%	24.4%
Operating Expenses	-52.9%	48.7%	13.9%	25.5%	12.8%	7.2%	4.6%
SG&A Expenses	-19.7%	-7.8%	21.3%	17.5%	-2.1%	7.5%	4.9%
PDD	-	-	-	-	304.5%	2.7%	2.3%
Other Operational Expenses	n.m	-89.0%	164.3%	-19.2%	-78.7%	-7.7%	5.3%
EBITDA	173.4%	-76.5%	79.5%	40.6%	4.3%	21.5%	15.0%
Retail	-	-	-	-	16.8%	11.5%	6.4%
Financial Services	-	-	-	-	n.m	n.m	n.m
Adj. EBITDA	39.1%	-66.2%	50.9%	66.5%	23.2%	21.9%	15.2%
Retail	-	-	-	-	37.8%	11.6%	6.5%
Financial Services	-	-	-	-	n.m	n.m	n.m
EBIT	n.m	n.m	n.m	n.m	n.m	n.m	378.6%
Net Income	459.8%	n.m	n.m	-99.7%	n.m	n.m	170.4%
Adj. Net Income	143.9%	n.m	n.m	n.m	n.m	n.m	254.3%

MULTIPLES	2019A	2020A	2021A	2022A	2023E	2024E	2025E
Share Price (hist avg / closing)	\$8.2	\$8.2	\$8.2	\$8.2	\$8.2	\$8.2	\$8.2
Market Cap (R\$m)	2,525	2,525	2,525	2,525	2,525	2,525	2,525
Net Debt	1,210	1,357	2,554	2,727	2,764	2,936	2,978
EV	3,735	3,881	5,078	5,251	5,289	5,461	5,502
EV/EBITDA	4.2	13.0	11.3	7.0	5.7	4.8	4.2
P/E	4.7	n.m	12.7	n.m	n.m	72.0	20.3

RETURNS	2019A	2020A	2021A	2022A	2023E	2024E	2025E
EBIT (1-t)	252	(150)	(69)	71	144	274	371
Invested Capital	1,668	1,372	2,250	2,423	2,293	2,557	2,663
Working Capital	764	410	438	536	557	843	952
PP&E	905	962	1,812	1,887	1,736	1,715	1,711
ROC (EBIT)	15.1%	-10.9%	-3.1%	2.9%	6.3%	10.7%	13.9%
ROE	35.5%	-6.3%	11.0%	0.0%	-3.4%	1.8%	4.6%

DEBT SITUATION	2019A	2020A	2021A	2022A	2023E	2024E	2025E
Total Debt	70	1,211	1,790	2,620	2,263	2,325	1,723
Lease Liabilities	1,588	1,655	1,814	1,789	1,771	1,868	1,964
Cash	447	1,509	1,050	1,683	1,269	1,257	709
NET DEBT (incl. Financial lease)	1,210	1,357	2,554	2,727	2,764	2,936	2,978
Net Debt/EBITDA (x)	1.4</						

Valuation Comparables

Company	Country	Market cap (Local FX - mn)	P/E			EV/EBITDA		
			2023e	2024e	2025e	2023e	2024e	2025e
<u>Brazilian Apparel Retailers</u>								
C&A	Brazil	2,525	n.m	72.0	20.3	4.8	4.2	3.9
Lojas Renner	Brazil	15,460	15.8	13.2	10.4	9.1	7.4	5.7
Guararapes	Brazil	3,150	17.1	6.6	4.5	5.5	4.3	3.5
Arezzo	Brazil	6,382	16.0	11.7	8.9	8.7	7.3	6.1
Grupo Soma	Brazil	4,881	12.8	10.1	7.8	7.0	5.7	4.6
Track and Field	Brazil	2,212	18.3	14.4	11.9	13.3	10.2	8.2
<u>Average (ex-C&A)</u>			<u>16.0</u>	<u>11.2</u>	<u>8.7</u>	<u>8.7</u>	<u>7.0</u>	<u>5.6</u>
<u>Fast Fashion Retailers</u>								
Inditex	Spain	119,586	28.5	22.7	21.0	12.8	11.2	10.3
H&M	Sweden	286,303	28.9	19.2	16.9	8.6	7.2	6.7
Fast Retailing	Japan	11,812,362	43.2	37.0	33.7	18.1	16.9	15.2
<u>Average</u>			<u>33.5</u>	<u>26.3</u>	<u>23.9</u>	<u>13.2</u>	<u>11.8</u>	<u>10.8</u>
<u>Department Stores</u>								
Macy's	USA	4,791	4.2	5.9	6.4	2.6	3.0	3.0
Woolworths	Australia	42,572	24.9	23.0	21.6	8.2	7.6	7.5
Nordstrom	USA	2,651	9.6	8.1	8.3	4.4	4.0	3.9
Dillard's	USA	6,046	8.1	9.9	12.9	4.6	5.6	7.8
<u>Average</u>			<u>11.7</u>	<u>11.7</u>	<u>12.3</u>	<u>4.9</u>	<u>5.1</u>	<u>5.6</u>
<u>Budget Stores</u>								
TJX	USA	100,941	28.4	23.6	21.6	17.2	14.8	13.6
Mr. Price	South Africa	41,992	12.1	12.9	11.3	5.9	6.0	5.6
<u>Average</u>			<u>20.3</u>	<u>18.2</u>	<u>16.4</u>	<u>11.5</u>	<u>10.4</u>	<u>9.6</u>
<u>Specialty Stores</u>								
Abercrombie	USA	3,892	n.m	13.5	13.4	13.0	5.5	5.0
Gap	USA	7,728	n.m	19.6	17.9	14.1	7.7	6.6
Amercian Eagle	USA	3,878	21.9	14.6	13.3	9.1	7.1	7.5
<u>Average</u>			<u>21.9</u>	<u>15.9</u>	<u>14.9</u>	<u>12.1</u>	<u>6.8</u>	<u>6.4</u>

Source: Bloomberg, Itaú BBA. Data as of December 04.

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Ratings: Definitions, Dispersion and Banking Relations

Ratings ⁽¹⁾	Definition ⁽²⁾	Coverage ⁽³⁾	Banking Relation ⁽⁴⁾
Outperform	The analyst expects the stock to perform better than market average.	56%	62%
Market Perform	The analyst expects the stock to perform in line with market average.	36%	40%
Underperform	The analyst expects the stock to perform below market average.	8%	8%

- The ratings employed in this document (Outperform, Market Perform, and Underperform) basically correspond to Purchase, Hold, and Sell, respectively.
- The ratings represent the analyst's assessment of the medium-term share price performance relative to the market average. These ratings may be reviewed by the analyst based on new developments or simply due to variations in share prices (such changes may occur at any time). Companies are grouped into sectors, based on similar characteristics. Sectors: (i) Banks and Financial Services; (ii) Consumer Goods & Retail + Food & Beverage (iii) Healthcare + Education; (iv) Steel & Mining + Pulp & Paper; (v) Oil, Gas & Petrochemicals + Agribusiness; (vi) Real Estate & Construction; (vii) Telecommunications, Media and Technology; (viii) Transportation, Capital Goods and Logistics; (ix) Public Utility Services; and (x) Strategy.
- Percentage of companies covered by Itaú Unibanco S.A. in this rating category.
- Percentage of companies included in this rating category that were provided services by Itaú Unibanco S.A. or any of its affiliated companies.

Third-Party Disclosures

Companies Mentioned	Ticker	Recent Price	Disclosure Items							
			1	2	3	4	5	6	7	
C&A Modas Ltda	CEAB3	8.19								

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