



AREZZO & CO

2Q2019 EARNINGS
CONFERENCE CALL

AREZZO SCHUTZ ANACAPRI

ALEXANDRE
BIRMAN FIEVER ALME

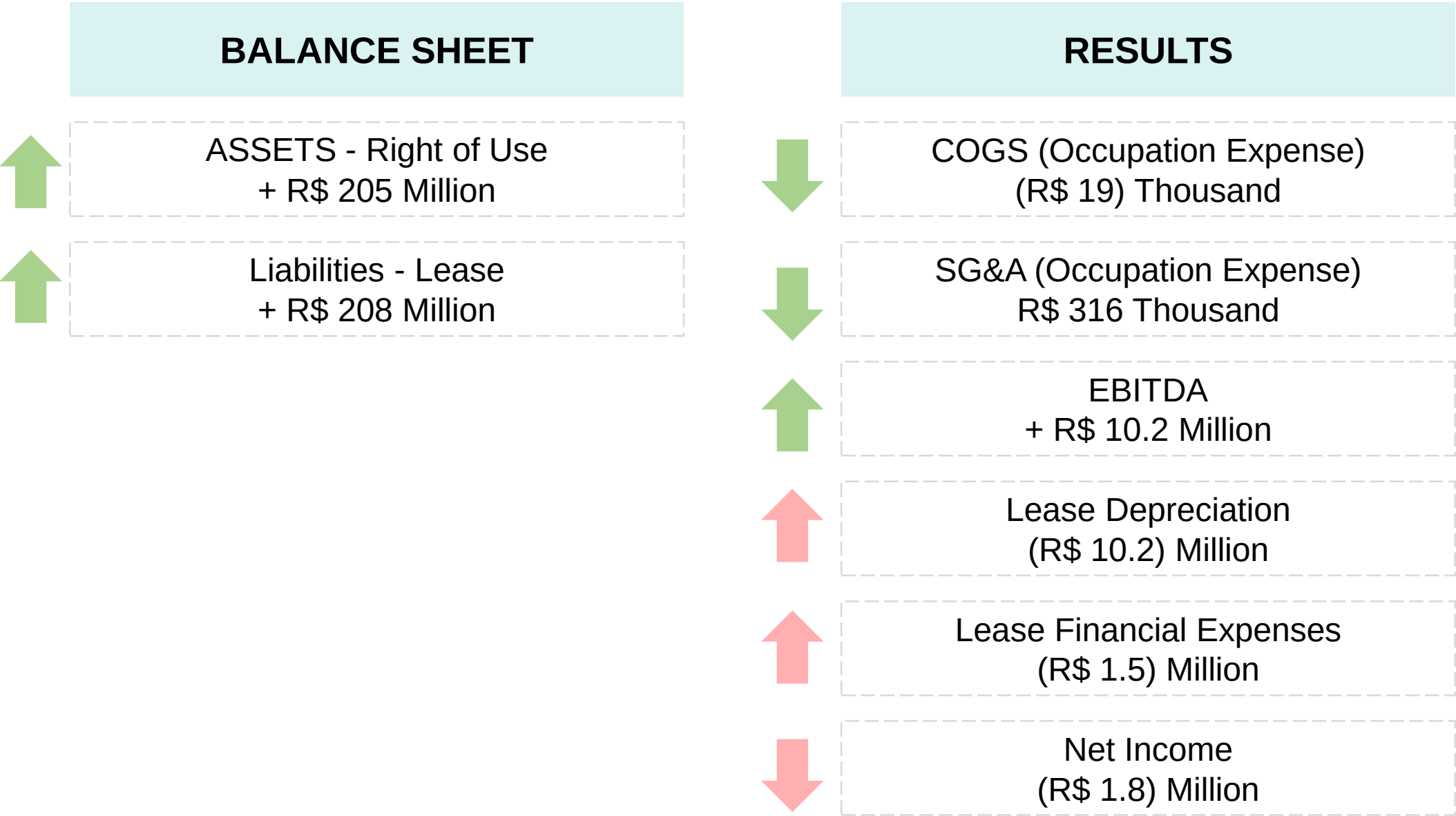
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Adoption of IFRS 16 Standard - Key Impacts

The adoption of the IFRS16 standard in January 2019 brought some changes in the way of accounting for the fixed portion of the rentals, qualified as leases. The future commitments of the leases are recognized as liabilities, as a counterpart for the right of use that is recognized as a fixed asset. As a result, rental expenses are replaced by interest on the lease liability and the depreciation of the right of use. Thus, when compared to model IAS 17 / CPC 06, IFRS 16 generates a positive effect on EBITDA, since rentals are reclassified from operating expenses to depreciation expenses and financial expenses.

For better understanding of the changes, a pro forma 2Q19 column was included throughout the earnings release, excluding the adoption of the rule, in the tables related to the main impacted accounts. The impacts of the application of this new standard are shown in notes 12 - Property, Plant and Equipment and 16 - Lease of ITR Notes for 2Q19.



2Q19 Highlights

Net Revenue

Net revenue in 2Q19 reached R\$ 393.5 million, a 5.3% increase against 2Q18;

Net Income

In 2Q19, Net Income totaled R\$ 42.4 million (net margin of 10.8%) a 27,9% increase against 2Q18;

Gross Profit

In 1Q19, Gross Profit totaled R\$ 184.3 million (gross margin of 46.8%), a 3.1% increase against 2Q18;

SSS

Same-Store-Sales sell-out growth of 4.1% in the quarter;

EBITDA

EBITDA for 2Q19 totaled R\$ 58.8 million (EBITDA margin of 14.9%), a 4.0% increase against 2Q18;

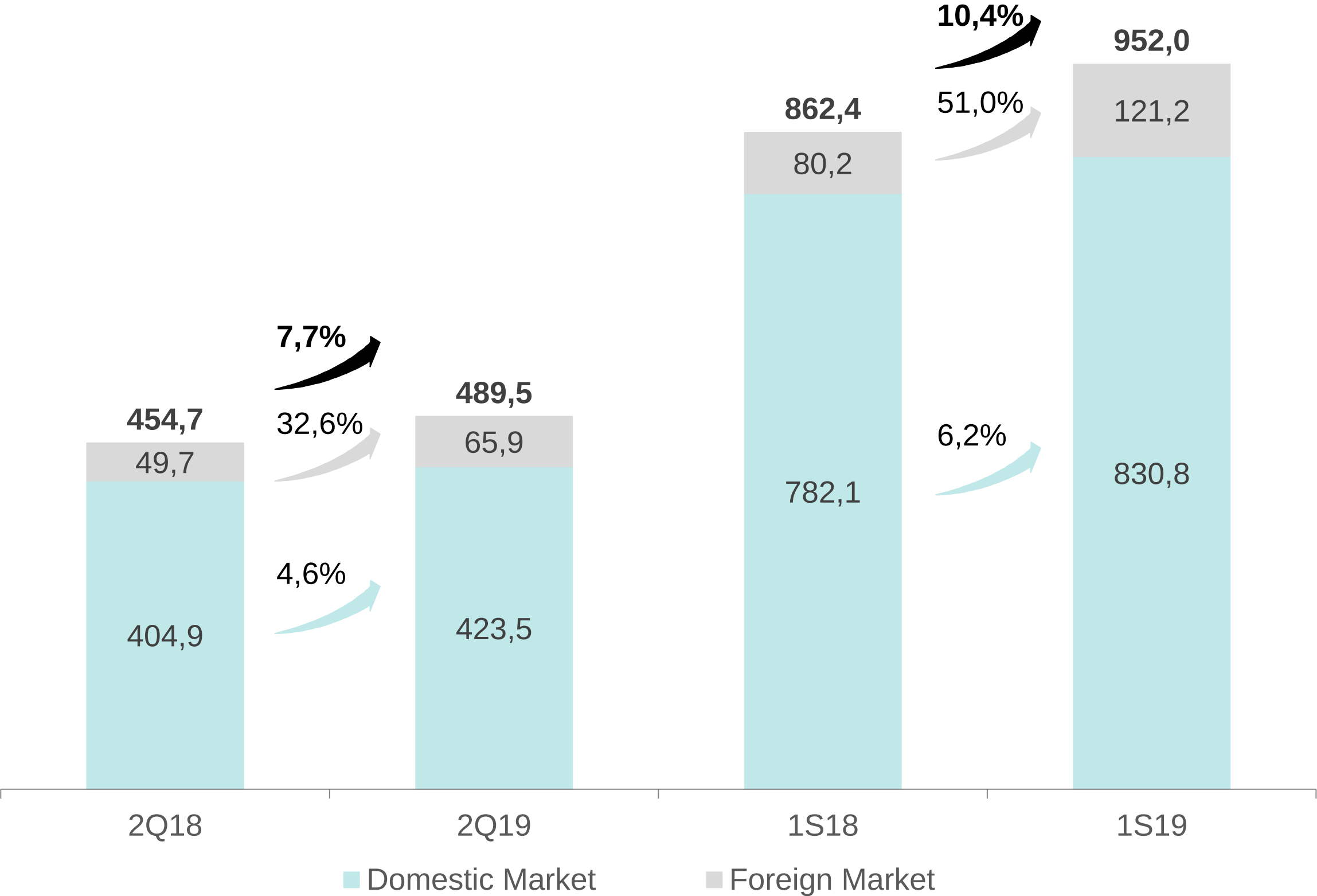
Store Area

Arezzo&Co opened 6 stores (net) in the quarter and ended 2Q19 with 5.4% in store area growth in the last twelve months.

*Results excluding the adoption of IFRS 16 / CPC 06 (R2)

Company Growth

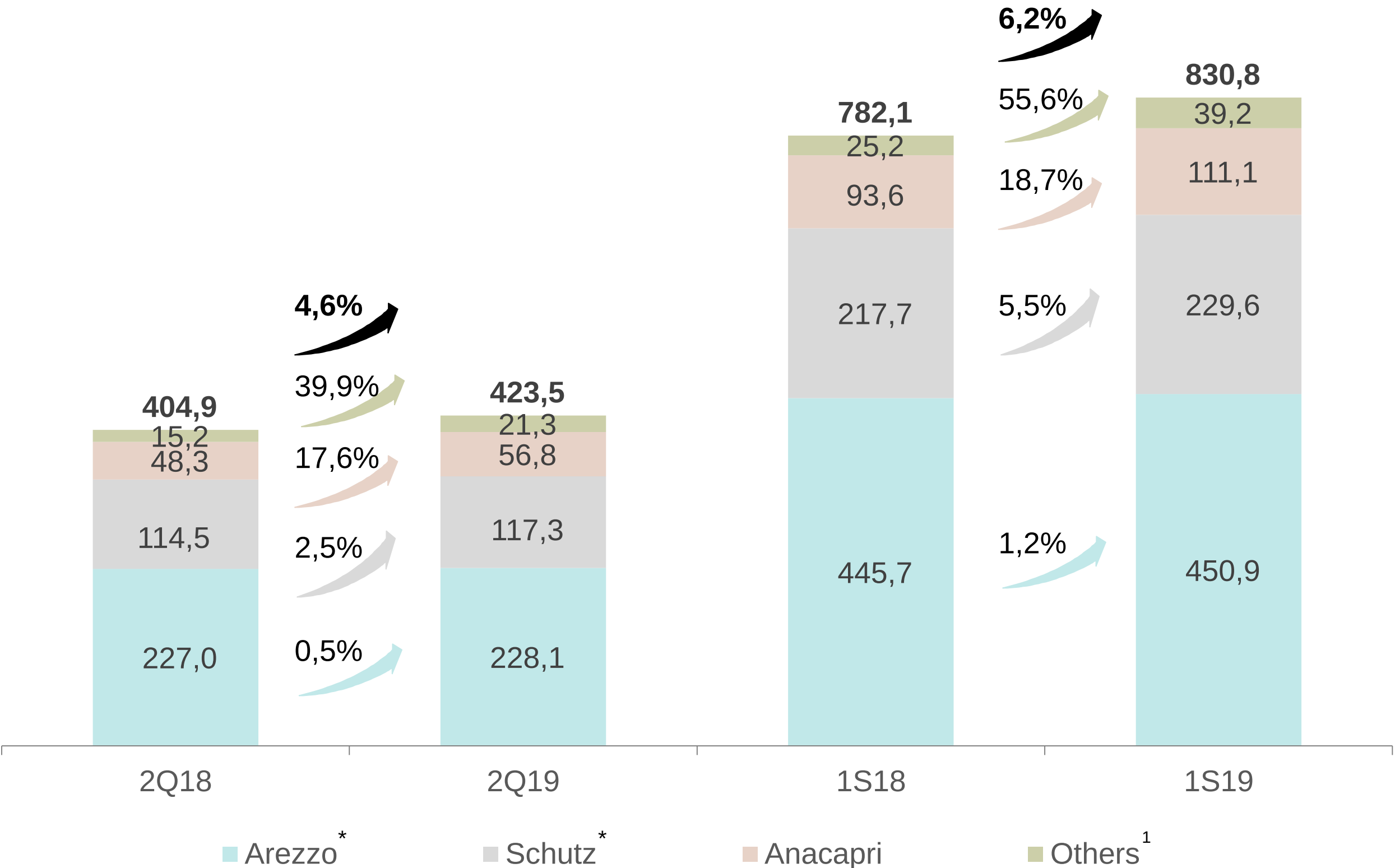
Gross Revenue / Domestic and Foreign Market (R\$ Million)



The Company reached a **gross revenue of R\$ 489.5 million** in the 2Q19, a 7.7% growth compared to the 2Q18, with highlight to the **US Operation with growth of 70.1% in reais** and **56.3% in dollar**, representing 10.0% of total revenue.

Gross Revenue by Brand | Domestic Market

Gross Revenue breakdown by brand / Domestic Market (R\$ Million)



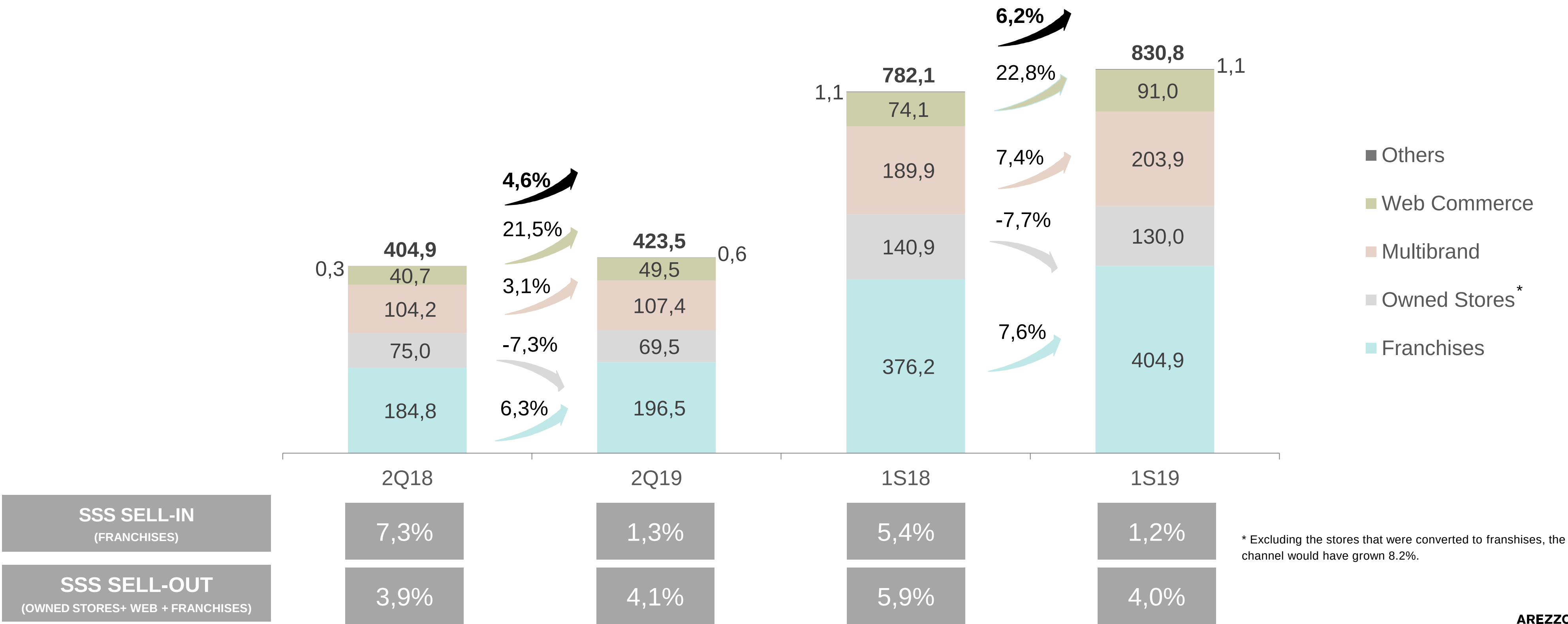
In 2Q19, the highlight goes to **Anacapri**, brand, which recorded gross revenue of R\$ 56.8 million, up 17.6%, and the continued positive performance of the **Schutz** brand presented in the previous quarter.

1. Others: increase of 39.9% in 2Q19 (includes only domestic markets for Alexandre Birman, Fiever and Alme brands and other revenues).

* Excluding the effect of the conversion of owned stores to franchises in the last twelve months, the Arezzo brand would have grown 1.5% and Schutz 5.8%

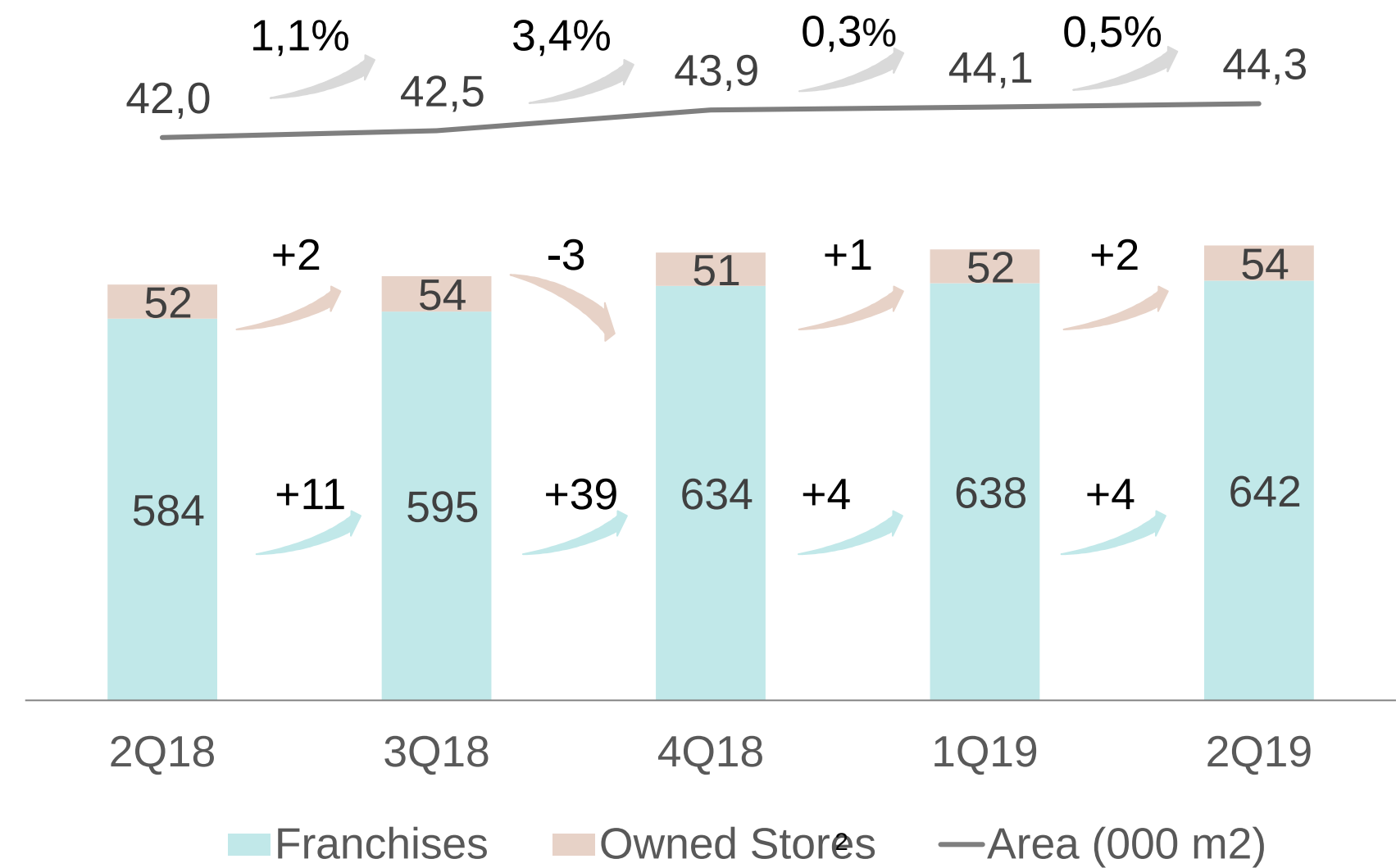
Gross Revenue by Channel | Domestic Market

Gross Revenue by Channel / Domestic Market (R\$ Million)



Distribution Channel Expansion

Owned stores and franchises expansion¹



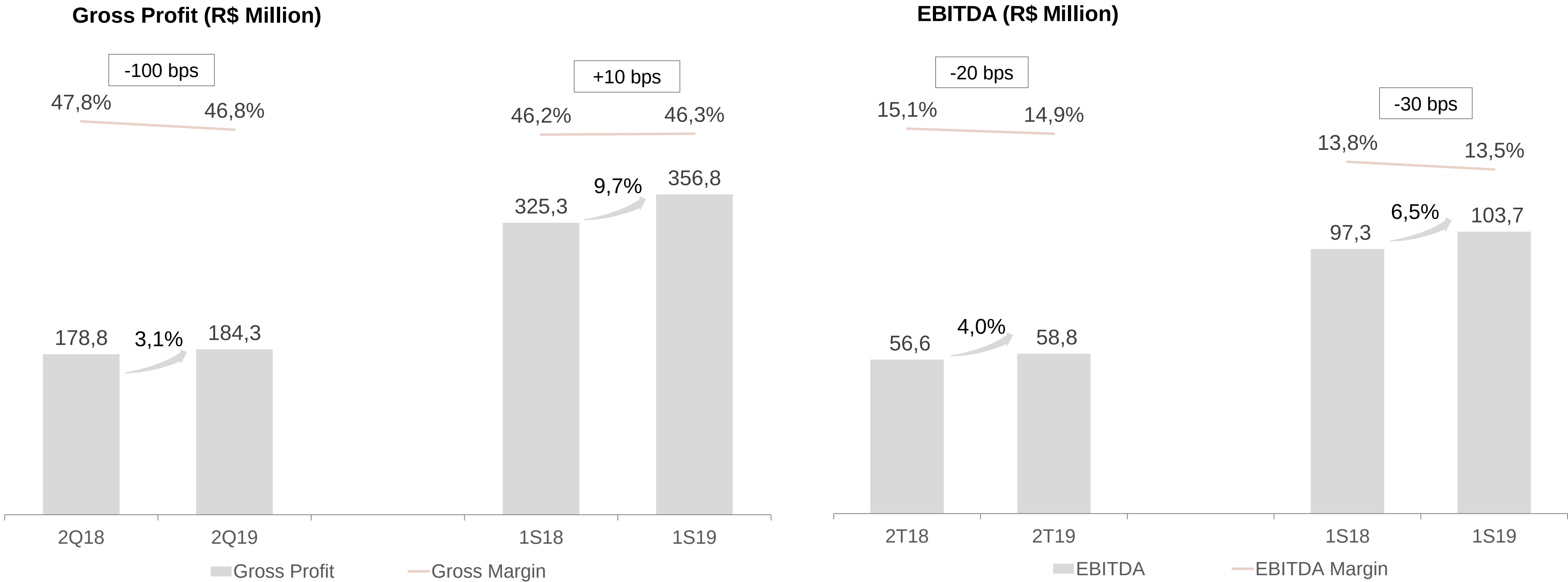
Arezzo&Co's **opened 5 net stores** and ended the quarter with 696 stores, 681 in Brazil and 15 abroad.
5.4% sales area increase over the last 12 months and 60 net opened stores.

1. Includes seven outlet type stores with a total area of 2,217 m² and stores overseas.
2. Includes Alexandre Birman and Schutz stores, 3 in New York, 2 in Miami, 1 in Los Angeles, 1 in Las Vegas, 1 in New Jersey, and 1 in San Francisco.

Number of stores – domestic market 2Q19

AREZZO	Franchises	406
	Owned stores	14
	Multibrands	1,219
SCHUTZ	Franchises	73
	Owned stores	17
	Multibrands	1,094
ANACAPRI	Franquias	157
	Owned stores	3
	Multibrands	1,569
ALEXANDRE BIRMAN	Owned stores	4
	Multibrands	26
FIEVER	Owned stores	5
	Multibrands	427
ALME	Owned stores	2
	Multibrands	292

Gross Profit and EBITDA Pro forma

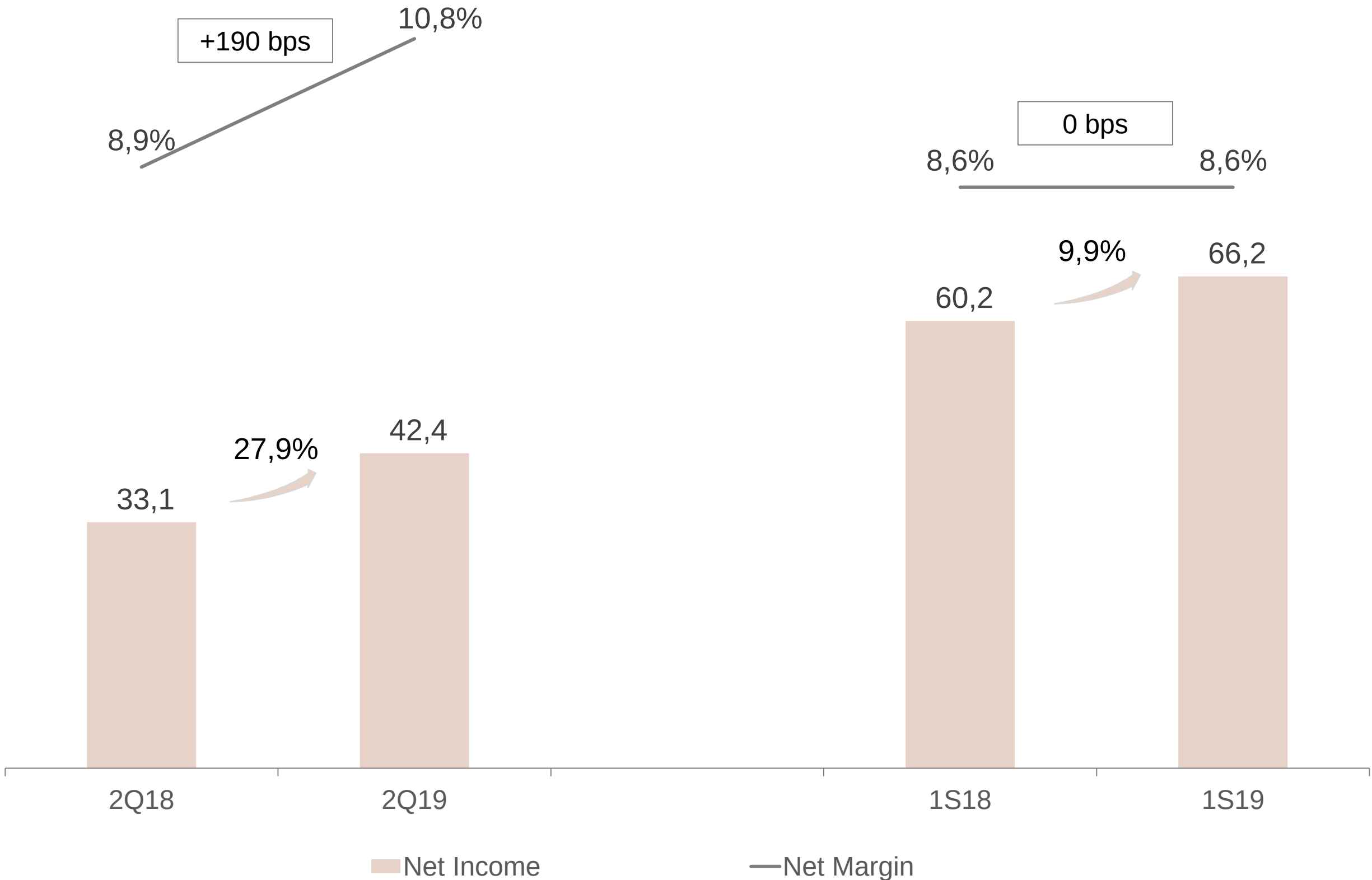


Gross Profit for 2Q19 totaled R\$ 184.3 million, a 3.1% increase against 2Q18, with gross margin of 46.8% in 2Q19. EBITDA grew by 4.0% in 2Q19 to R\$ 58.8 million (EBITDA margin of 14.9%). Excluding the US Operation, the Company's consolidated EBITDA margin would increase 485 bps in the quarter.

*Results before the adoption of IFRS 16 / CPC 06 (R2)

Net Income Pro forma

Net Income (R\$ million)



The Company posted a net margin of 10.8% in 2Q19 and a Net Income of R\$ 42.4 million, a 27.9% increase against 2Q18.

Net income was impacted by:

- (i) positively due to the improvement in financial results due to lower exchange variation associated with lower debt balance in USD,
- (ii) positive impact on the effective income tax rate and
- (iii) negatively due to the reduction in financial income; resulting from a lower average cash position in the period and the significant decrease in the SELIC rate in the last 12 months.

*Results before the adoption of IFRS 16 / CPC 06 (R2)

Operating Cash Flow

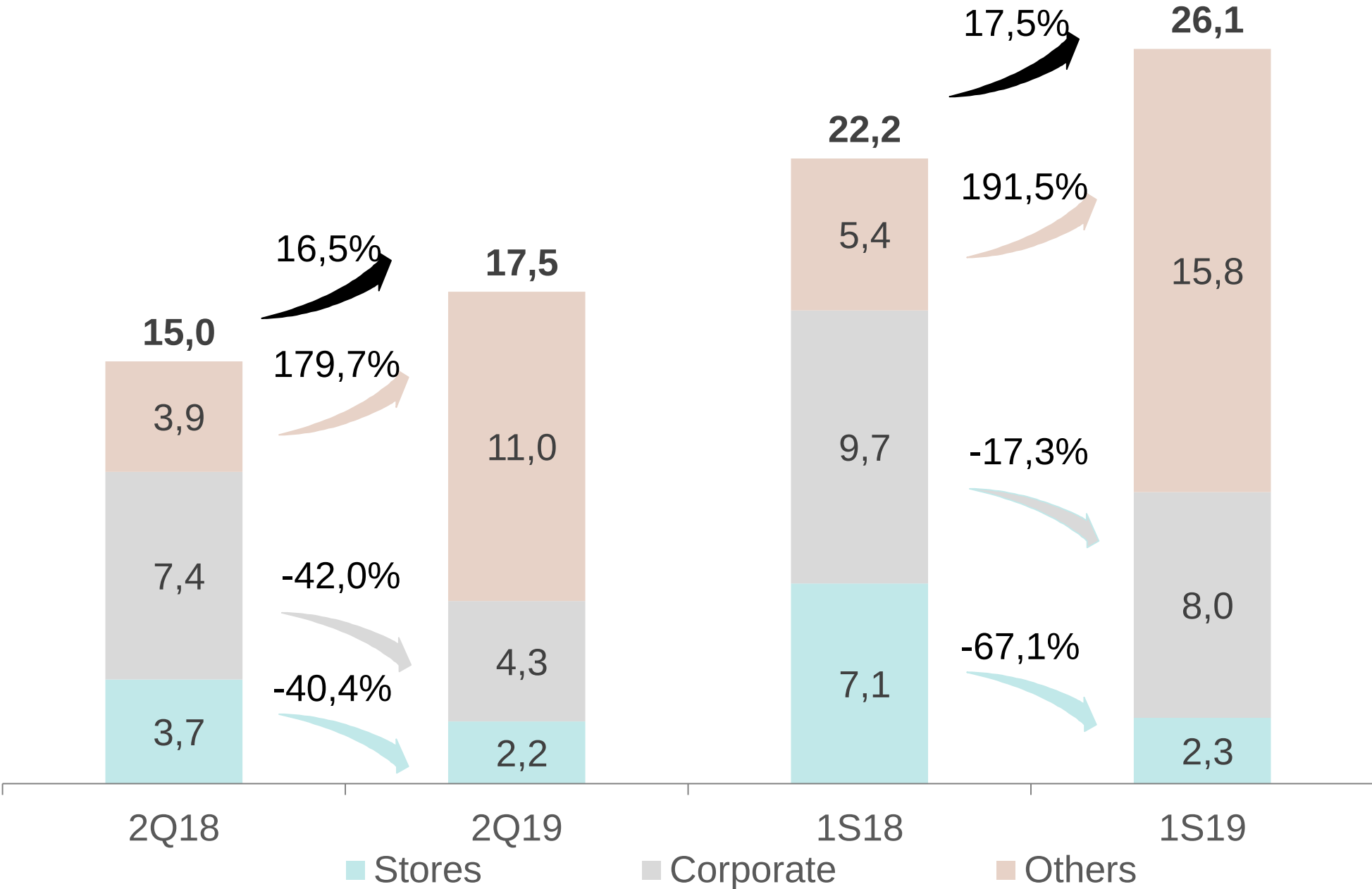
Operating Cash Flow (R\$ Thousand)

Operating Cash Flow	2Q19	2Q18	1S19	1S18
Profits before income tax and social contribution	44.718	34.883	76.158	68.444
Depreciation and amortization	19.868	8.788	37.763	17.213
Others	665	13.541	6.251	11.799
Decrease (increase) in assets / liabilities	(9.758)	(28.098)	(14.655)	(35.470)
Trade accounts receivables	23.388	9.804	10.742	1.597
Inventories	(1.064)	(14.689)	(13.930)	(29.041)
Suppliers	(36.638)	(25.485)	5.308	2.936
Change in other noncurrent and current assets and liabilities	4.556	2.272	(16.775)	(10.962)
Payment of income tax and social contribution	(14.309)	(2.751)	(21.414)	(6.141)
Net cash flow generated by operational activities	41.184	26.363	84.103	55.845

Arezzo&Co generated operating cash of R\$ 41.2 million in 2Q19, a 56% increase than in 2Q18, due to higher depreciation and amortization (IFRS-16 effects) as well as a higher volume of accounts receivable and lower inventory volume compared to 2Q18. Working capital as a percentage of revenue fell from 26.3% in 2Q18 to 24.4% in 2Q19 (IFRS-16).

Investments (CAPEX) and Indebtedness

CAPEX (R\$ Million)



Indebtedness (R\$ Million)

Cash position and Indebtedness	2Q19	1Q19	2Q18
Cash	257.135	299.755	283.172
Total debt	175.957	174.253	175.501
Short-term	153.533	81.827	162.002
% total debt	87,3%	47,0%	92,3%
Long-term	22.424	92.426	13.499
% total debt	12,7%	53,0%	7,7%
Net debt	(81.178)	(125.502)	(107.671)

In 2Q19, Arezzo&Co invested R\$ 26.1 million in CAPEX, including:

- Brazil:** (i) investments in the digital transformation, (ii) expansion of the webcommerce distribution center and (iii) investments in the new Alexandre Birman brand factory in Campo Bom.
- United States:** (i) new headquarters in the US with exclusive showroom for Schutz and Alexandre Birman brands, (ii) launch of Schutz store at Short Hills Mall in New Jersey and (iii) launch of Schutz Store at Westfield San Francisco Center in San Francisco.

ROIC (Return on Invested Capital)

Income from operations	2Q19	2Q19 Pro forma	2Q18	2Q17	Δ 19 x 18 Reported	Δ 19 x 18 Pro forma
EBIT (LTM)	196.988	196.735	180.797	169.714	9,0%	8,8%
+ IR e CS (LTM)	(31.596)	(31.594)	(15.181)	(49.539)	108,1%	108,1%
NOPAT	165.392	165.141	165.616	120.175	(0,1%)	(0,3%)
Working Capital ¹	388.969	425.398	378.688	307.097	2,7%	12,3%
Permanet assets	366.664	161.353	154.515	156.998	137,3%	4,4%
Other long-term assets ²	39.192	39.192	34.156	29.173	14,7%	14,7%
Invested capital	794.825	625.943	567.359	493.268	40,1%	10,3%
Average invested capital³	681.092	596.651	530.314		28,4%	12,5%
ROIC⁴	24,3%	27,7%	31,2%			

(1) Working Capital: current assets minus cash, cash equivalents and financial investments less current liabilities minus loans and financing and dividends payable.

(2) Less deferred income tax and social contribution.

(3) Average invested capital in the period and same period previous year.

(4) ROIC: NOPAT for the last 12 months divided by average invested capital.

Return on Investment Capital (ROIC) reached 27.7% against 31.2% in the 2Q18. Although NOPAT continued in line with the previous year, ROIC was impacted by the increase in working capital.

The increase in working capital is due to bigger stock expenses, reflecting the consolidated sales growth of the company, and increasing relevance of the dropship program and delivery items in the us operations, looking for greater agility and assertivity at the store.

Considering the effects of the adoption of IFRS16, ROIC would be 24.3%.



Contacts

CFO

Rafael Sachete

IR & Strategic Planning Director

Aline Penna

IR Coordinator

Victoria Machado

IR Analyst

Marcos Benetti

+55 11 2132 4300

ri@arezzoco.com.br

www.arezzoco.com.br