



# AREZZO & CO

3Q2019 EARNINGS  
CONFERENCE CALL

AREZZO    SCHUTZ    ANACAPRI

ALEXANDRE  
BIRMAN    FIEVER    ALME



# Important Disclaimer

Information contained in this document may include forward-looking statements and reflect Management's current view and estimates of the evolution of the macroeconomic environment, industry conditions, Company's performance and financial results. Any statements, expectations, capabilities, plans and assumptions contained in this document, which do not describe historical facts, such as information about declaration of dividend payment, future direction of operations, implementation of relevant operating and financial strategies, investment program and factors or trends affecting the financial condition, liquidity or results of operations, are forward-looking statements, as set forth in the "U.S. Private Securities Litigation Reform Act of 1995", and involve several risks and uncertainties. There is no guarantee that these results will occur. Forward-looking statements are based on several factors and expectations, including economic and market conditions, industry competitiveness and operational factors. Any changes in such expectations and factors may cause actual results to differ from current expectations.

# 3Q19 Highlights

## Net Revenue

Net Revenue in 3Q19 reached R\$ 440.9 million, a 7.4% increase against 3Q18;

## Web Commerce

The web commerce channel grew 27.6% compared to 3Q18, representing 11.9% of the company's domestic revenues.

## Omnichannel

Relevant increase in omnichannel initiatives penetration in the stores;

## Gross Profit

In 3Q19, Gross Profit totaled R\$ 200.7 million (gross margin of 45.5%) a 5.3% increase;

## EBITDA

EBITDA for 3Q19 totaled R\$ 73.1 million (EBITDA margin of 16.6%) a 3.3% increase against 3Q18;

## Net Income

In 3Q19, Net Income totaled R\$ 41.1 million (net margin of 10.8%) a 2,3% increase;

## SSS sell-out

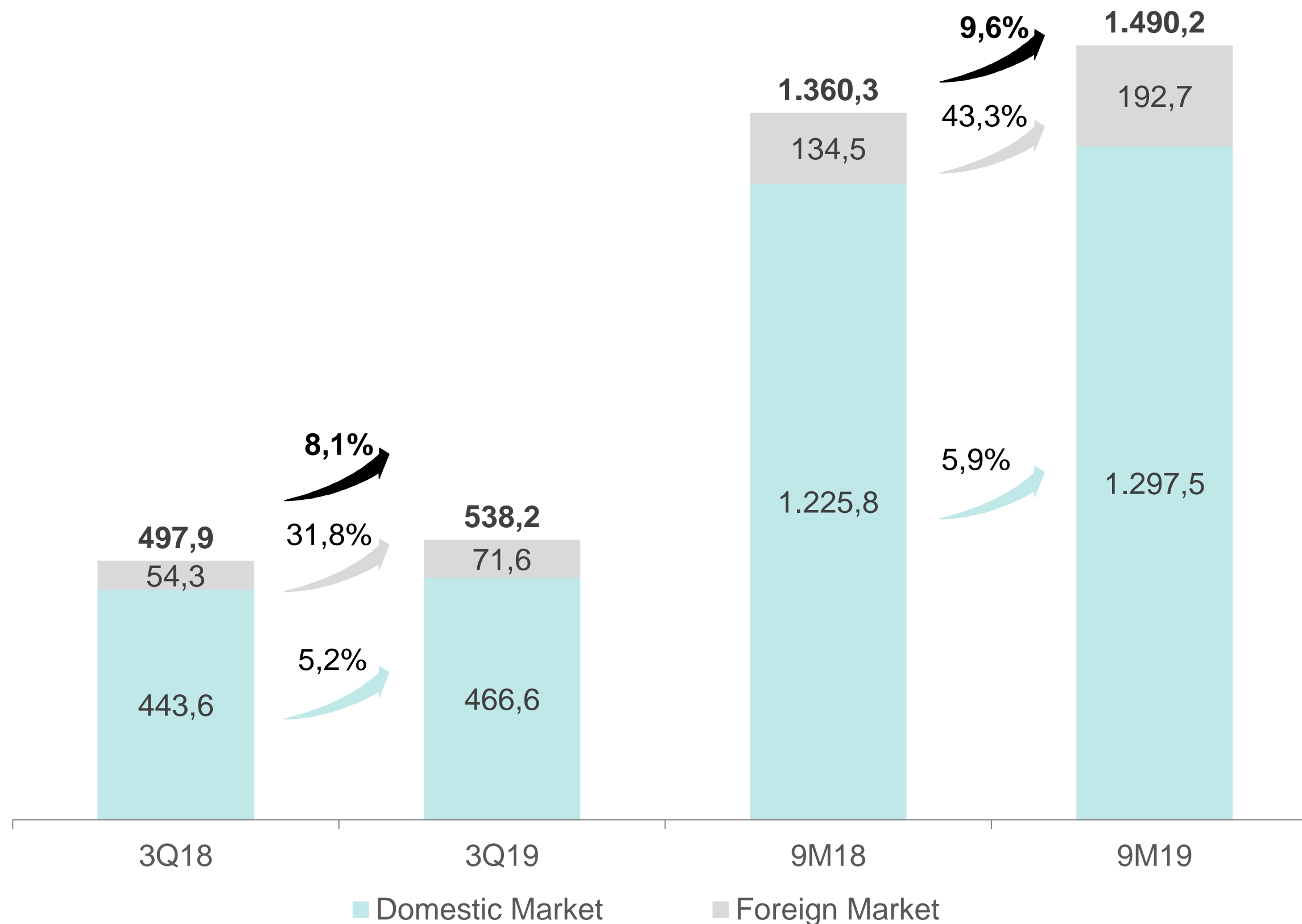
Same-Store-Sales sell out growth of 1,1% in the quarter;

## Store Area

Arezzo&Co opened 19 stores (net) in the quarter and 66 stores in the last twelve months.

# Company Growth

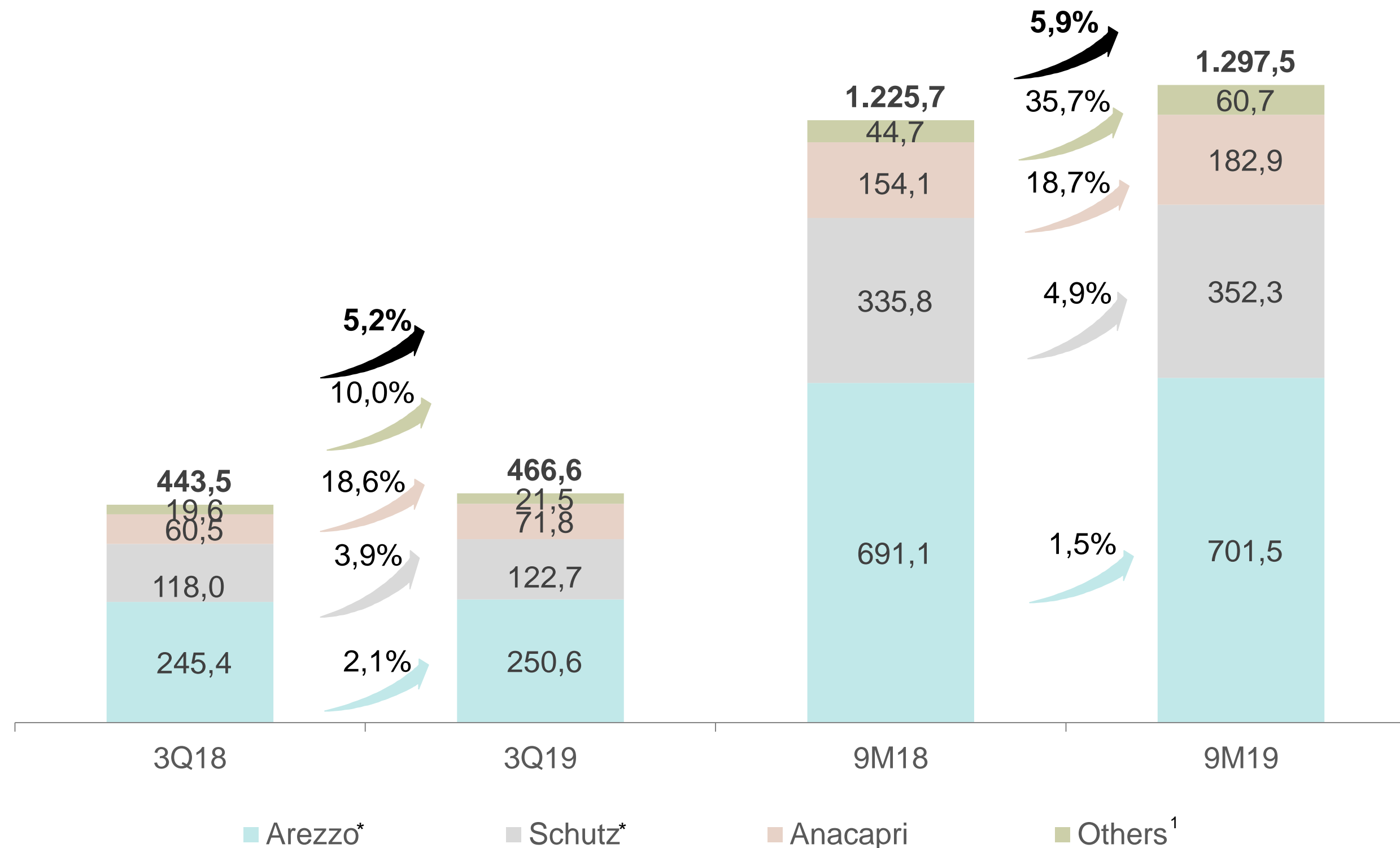
Gross Revenue / Domestic and Foreign Market (R\$ Million)



The Company reached a **gross revenue of R\$ 538.2 million** in the 3Q19, a **8.1% growth** compared to the 3Q18, with highlight to the **US Operation with growth of 66.8%** in reais and **65.4%** in dollar, representing **10.1%** of **total revenue**.

# Gross Revenue by Brand | Domestic Market

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



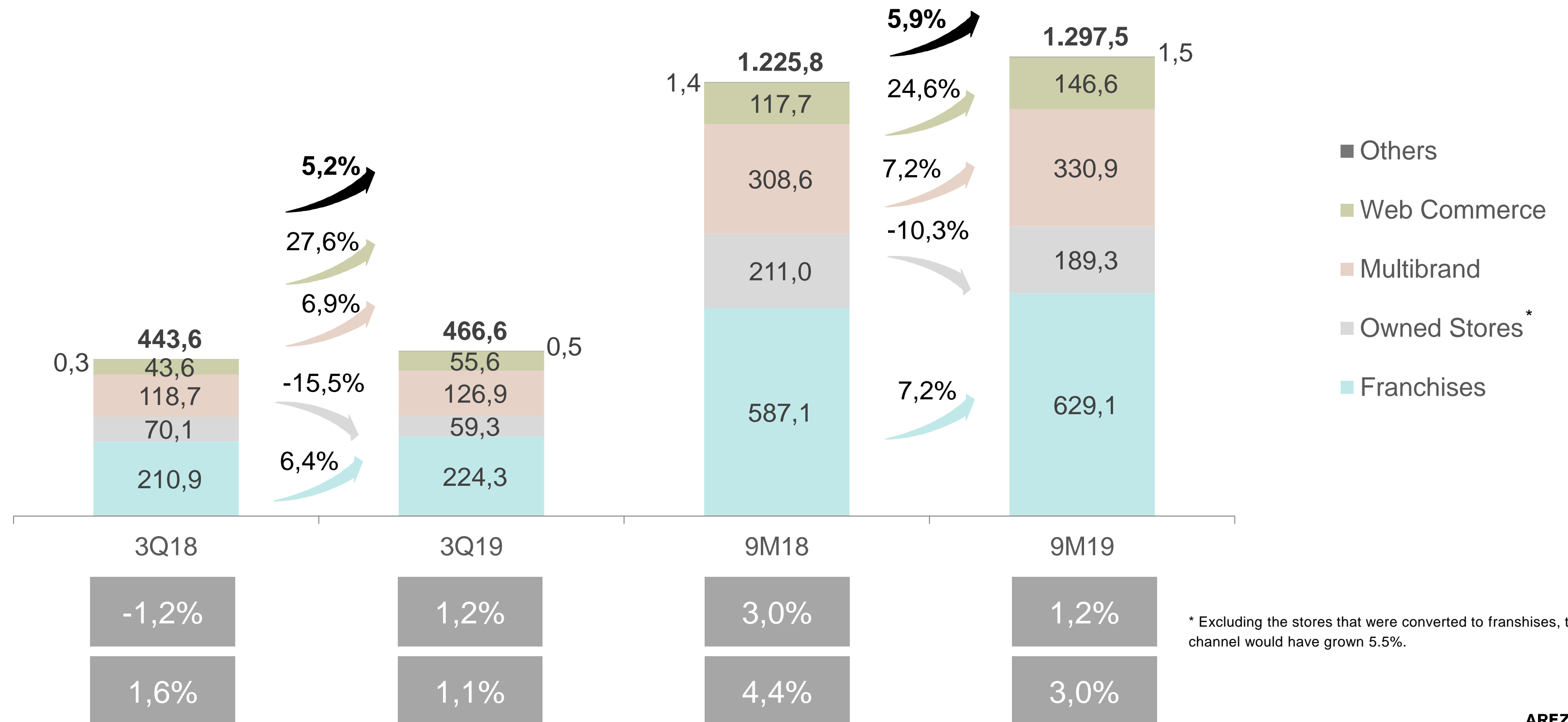
In 3Q19, the highlight goes to **Anacapri**, brand, which recorded gross revenue of **R\$ 71.8 million**, increase of **18.6%**, and the continued positive performance of the **Schutz** brand presented in the previous quarter.

1. Others: increase of 10.0% in 3Q19 (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 3.4% and Schutz 6.6%

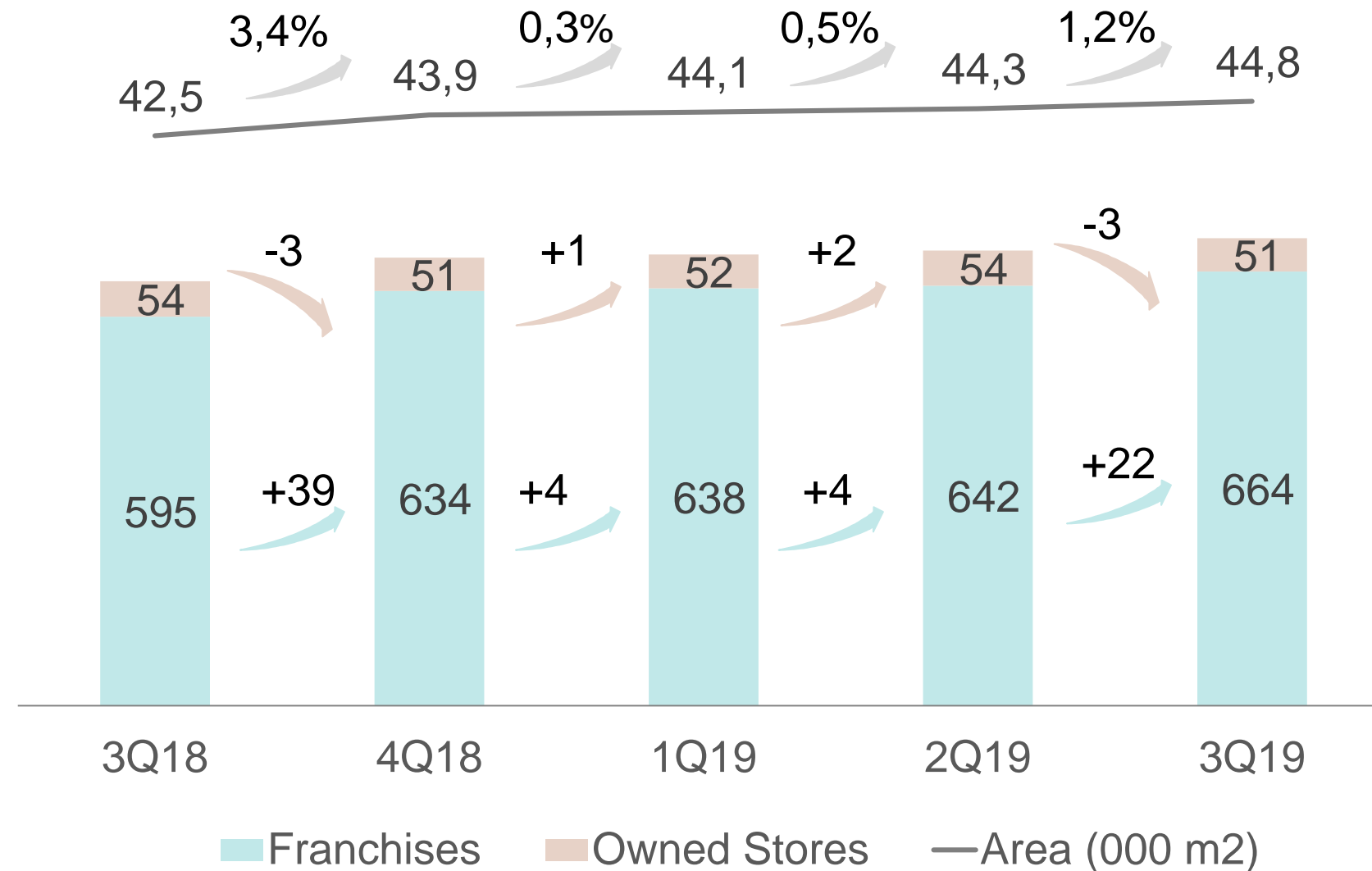
# Gross Revenue by Channel | Domestic Market

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



# Distribution Channel Expansion

## Owned stores and franchises expansion<sup>1</sup>



Arezzo&Co's **opened 19 net stores** and ended the quarter with 715 stores, 700 in Brazil and 15 abroad. **5.5% sales area increase** over the last 12 months and 66 net opened stores.

1. Includes seven outlet type stores with a total area of 2,217 m<sup>2</sup> and stores overseas.  
 2. Includes Alexandre Birman and Schutz stores, 2 in New York, 2 in Miami, 1 in Los Angeles, 1 in Las Vegas, 1 in New Jersey, and 1 in San Francisco and 1 in Dallas.

## Number of stores – domestic market 3Q19

AREZZO	Franchises	419
	Owned store	10
	Multibrands	1.210

SCHUTZ	Franchises	73
	Owned store	17
	Multibrands	1.086

ANACAPRI	Franchises	165
	Owned store	3
	Multibrands	1.628

ALEXANDRE BIRMAN	Owned store	4
	Multibrands	27

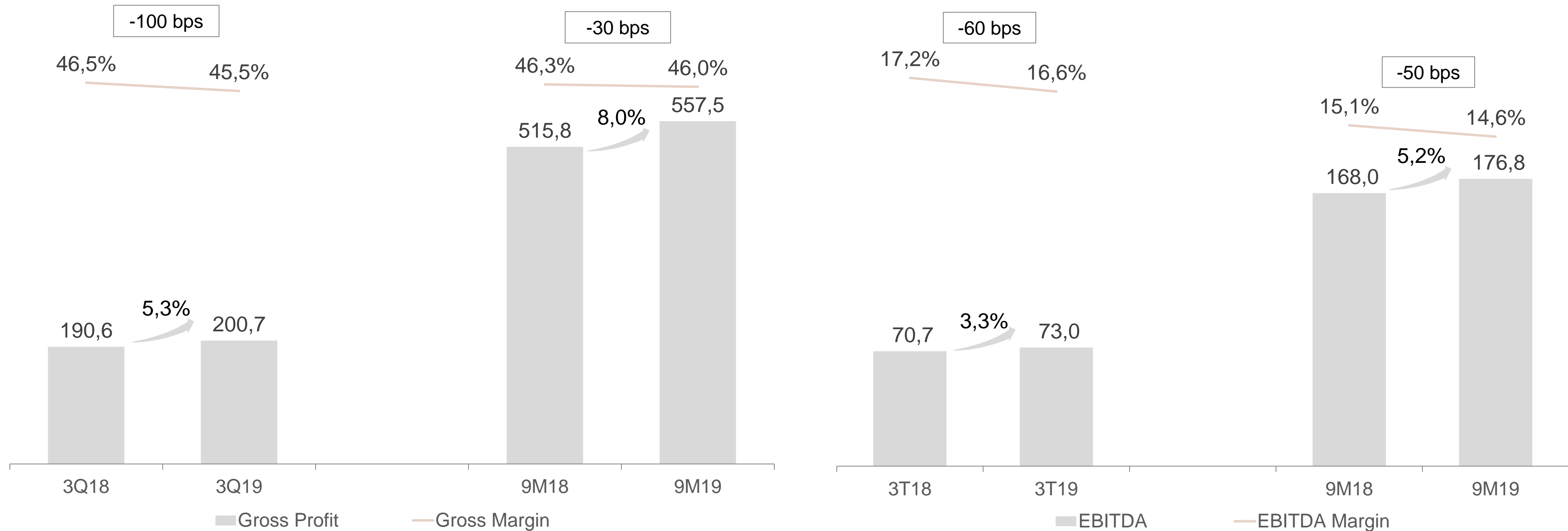
FIEVER	Owned store	4
	Multibrands	441

ALME	Franchises	1
	Owned store	3
	Multibrands	302

# Gross Profit and EBITDA Pro forma

Gross Profit (R\$ Million)

EBITDA (R\$ Million)

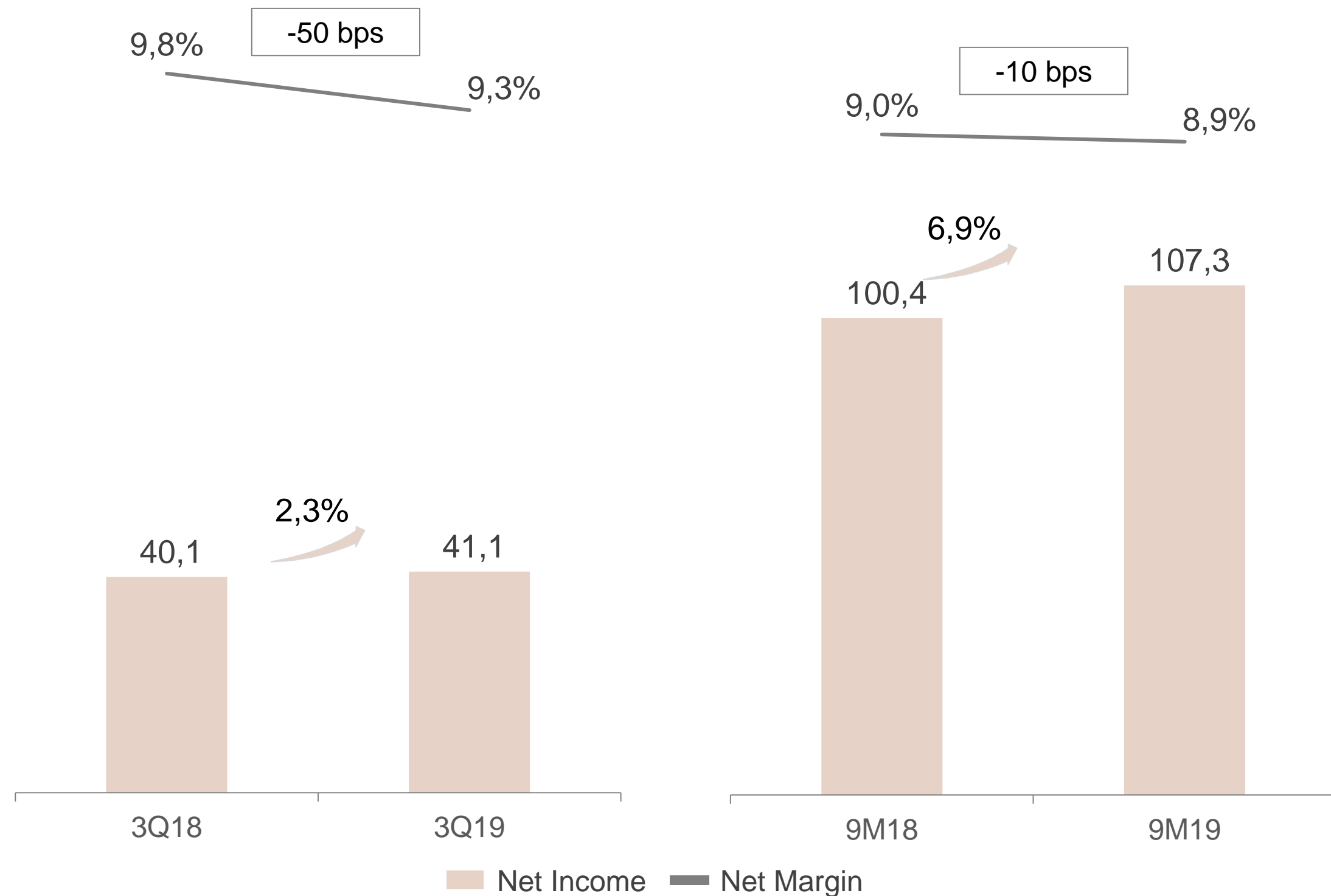


- Gross Profit for 3Q19 totaled R\$ 200.7 million, a 5.3% increase against 3Q18, with gross margin of 45.5% in 3Q19.
- EBITDA grew by 3,3% in 3Q19 to R\$ 73.0 million (EBITDA margin of 16.6%).
- Excluding the US Operation, the Company's consolidated EBITDA margin would increase 500 bps in the quarter. The Brazilian operation margin increased 210 bps.



# Net Income Pro forma

Net Income (R\$ million)



The Company posted a net margin of 9.3% in 3Q19 and a net income of R\$ 41.1 million, 2.3% higher against 3Q18.

Net income was impacted by the following factors:

positively due to (i) lower exchange variation associated with lower debt balance in USD and negatively due to (ii) impact on effective income tax rate and (iii) lower financial income; lower volume of investments in the period and the fall in the SELIC rate in the last 12 months.

# Operating Cash Flow

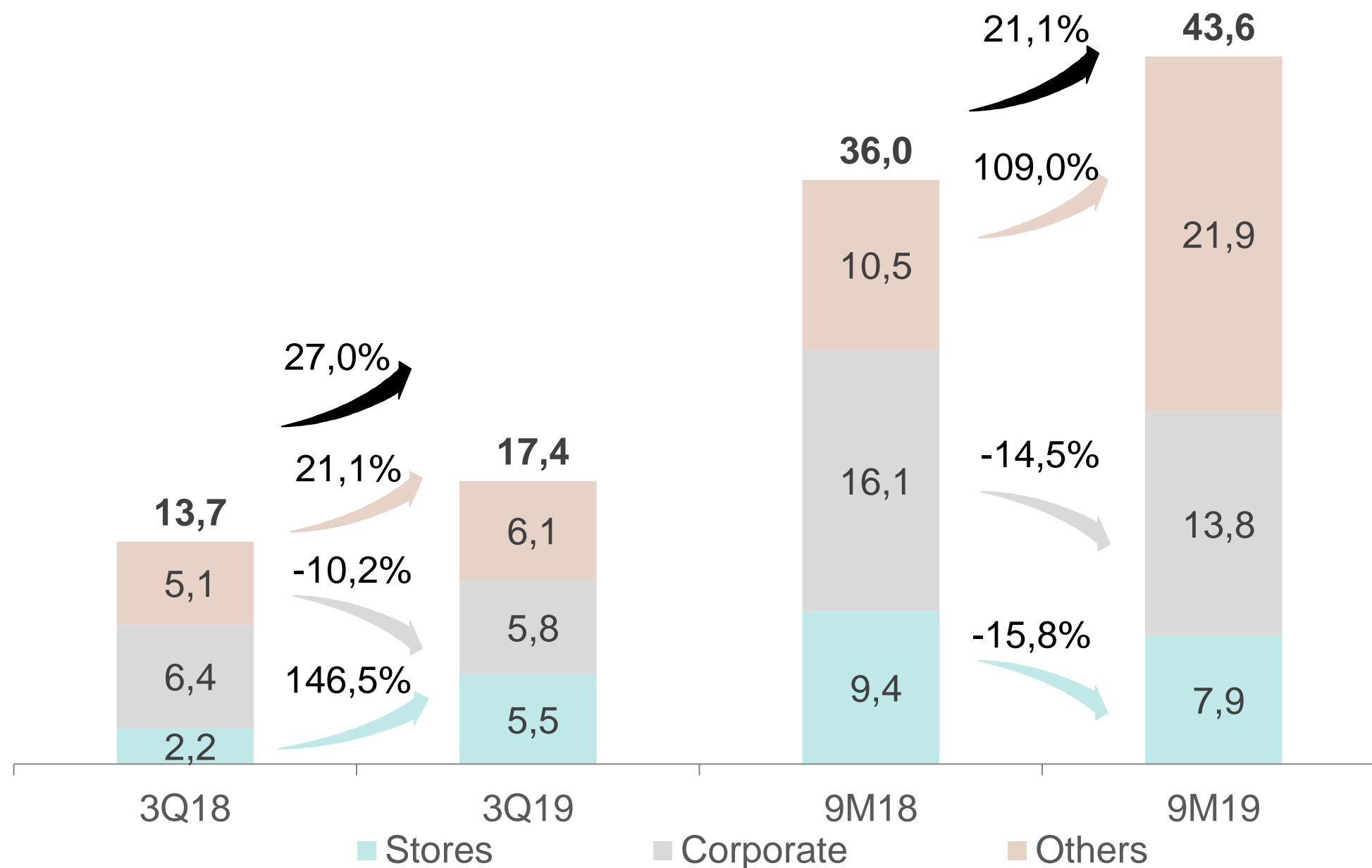
Operating Cash Flow (R\$ Thousand)

Operating Cash Flow	3Q19	3Q18	9M19	9M18
<b>Profits before income tax and social contribution</b>	<b>57.373</b>	<b>53.762</b>	<b>133.531</b>	<b>122.206</b>
<b>Depreciation and amortization</b>	<b>22.288</b>	<b>10.667</b>	<b>60.051</b>	<b>27.880</b>
<b>Others</b>	<b>8.903</b>	<b>(1.011)</b>	<b>15.154</b>	<b>10.788</b>
<b>Decrease (increase) in assets / liabilities</b>	<b>(22.067)</b>	<b>(28.596)</b>	<b>(36.722)</b>	<b>(64.066)</b>
Trade accounts receivables	(42.433)	(51.604)	(31.691)	(50.007)
Inventories	(18.693)	(5.883)	(32.623)	(34.924)
Suppliers	37.404	20.193	42.712	23.129
Change in other noncurrent and current assets and liabilities	1.655	8.698	(15.120)	(2.264)
<b>Payment of income tax and social contribution</b>	<b>(7.170)</b>	<b>(7.855)</b>	<b>(28.584)</b>	<b>(13.996)</b>
<b>Net cash flow generated by operational activities</b>	<b>59.327</b>	<b>26.967</b>	<b>143.430</b>	<b>82.812</b>

Arezzo&Co generated operating cash of R\$ 59.3 million in 3Q19, amount higher than 3Q18, due more depreciation and amortization (IFRS-16 effects) as well as a higher volume of accounts receivable and lower inventory volume compared to 3Q18. Working capital as % of revenues decreased from 26,7% in 3Q18 to 25,7% in 3Q19 (IFRS-16).

# Investments (CAPEX) and Indebtedness

CAPEX (R\$ Million)



Indebtedness (R\$ Million)

Cash position and Indebtedness	3Q19	2Q19	3Q18
<b>Cash</b>	<b>275.344</b>	<b>257.135</b>	<b>283.745</b>
<b>Total debt</b>	<b>189.092</b>	<b>175.957</b>	<b>172.421</b>
Short-term	183.678	153.533	161.180
% total debt	97,1%	87,3%	93,5%
Long-term	5.414	22.424	11.241
% total debt	2,9%	12,7%	6,5%
<b>Net cash</b>	<b>86.252</b>	<b>81.178</b>	<b>111.324</b>

In 3Q19, Arezzo&Co invested R\$ 17.4 million in CAPEX, including:

- **Brazil:** (i) launch of Alme brand Flagship Store at Iguatemi Mall in São Paulo, (ii) expansion of the Web-Commerce distribution center and, (iii) refurbished and change of place of Alexandre Birman brand store at Iguatemi Mall.
- **United States:** (i) opening of Alexandre Birman brand store at North Park Center in Dallas, (ii) softwares and IT investments and, (iii) residual values from the brand new headquarters/showroom and the launch of the Short Hills and San Francisco stores.

# ROIC (Return on Invested Capital)

Income from operations	3Q19	3Q19 Pro forma	3Q18	3Q17	Δ 19 x 18 Reported	Δ 19 x 18 Pro forma
EBIT (LTM)	198.182	197.833	184.643	176.535	7,3%	7,1%
+ IR e CS (LTM)	(35.598)	(35.598)	(8.247)	(52.742)	331,6%	331,6%
<b>NOPAT</b>	<b>162.584</b>	<b>162.235</b>	<b>176.396</b>	<b>123.793</b>	<b>(7,8%)</b>	<b>(8,0%)</b>
Working Capital <sup>1</sup>	399.559	439.071	393.950	314.394	1,4%	11,5%
Permanet assets	383.202	166.344	156.666	151.562	144,6%	6,2%
Other long-term assets <sup>2</sup>	37.149	37.149	35.180	32.025	5,6%	5,6%
<b>Invested capital</b>	<b>819.910</b>	<b>642.564</b>	<b>585.796</b>	<b>497.981</b>	<b>40,0%</b>	<b>9,7%</b>
<b>Average invested capital<sup>3</sup></b>	<b>702.853</b>	<b>614.180</b>	<b>541.889</b>		<b>29,7%</b>	<b>13,3%</b>
<b>ROIC<sup>4</sup></b>	<b>23,1%</b>	<b>26,4%</b>	<b>32,6%</b>			

Return on invested capital (ROIC) reached 26.4% compared to 32.6% in 3Q18. The pro forma NOPAT remained in line with the previous year, which in turn had a low LTM IR / CSLL basis in 3Q18, due to an injunction obtained in 4Q17, exempting the company from the payment of income and social contribution taxes (IR and CSLL - 34%) on as ICMS tax benefit retroactive to 2017, which remained valid.

The slight increase in pro-forma working capital is due to higher inventory volumes, reflecting the consolidated sales growth and the increased relevance of the dropship program and prompt delivery items in the US operation, both aiming at greater assertiveness at the point of sale and agility of replacement.

(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.



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# 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](mailto:ri@arezzoco.com.br)

[www.arezzoco.com.br](http://www.arezzoco.com.br)