# Earnings Release - 4Q13 and 2013

AREZZO&CO

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SCHUTZ

Alexandre Birman

ANACAPRI

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Belo Horizonte, March 19, 2014. Arezzo&Co (BM&FBOVESPA: ARZZ3), Brazil's women's footwear, handbags and accessories industry leader, is reporting its earnings for the 4th quarter and full year of 2013. Unless otherwise indicated, data are based on consolidated numbers in thousands of Brazilian reais and are compiled in accordance with International Financial Reporting Standards (IFRS). All comparisons relate to the same period in 2012 (4Q12 and 2012) unless otherwise stated.

**ARZZ3 share price on 03.18.14:**

R$ 25.50

**Market value on 03.18.14:**

R$ 2,260.2 million

**Earnings conference call:**

Thursday, March 20th, 2014

11:00AM (Brasília Time)

**Connection phone numbers:**

Participants calling from São Paulo:
11 3301-3000
Participants calling from Brazil and other countries: +55 11 4003-9004
Participants calling from USA:
+1-866-866-2673
Access code: Arezzo&Co

Presentation of slides and connection via webcast (via internet) will be available 30 minutes before at: www.arezzoco.com.br

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## Arezzo&Co records growth of 11.9% in net revenue in 2013, with net income of R$110.6 million

## HIGHLIGHTS

• In 2013, net revenue reached R$963.0 million, an increase of 11.9%. Net revenue for 4Q13 reached R$257.6 million, 1.9% higher than in 4Q12;

• Gross margin was 44.2% in 2013, an expansion of 50 bps against 2012. The Company's gross margin in 4Q13 reached 44.3%, in line with the margin for 4Q12;

• EBITDA amounted to R$159.5 million in 2013, a growth of 17.5% for the year. Excluding the non-recurring effect for 1Q12, EBITDA would have grown by 10.9%. EBITDA for 4Q13 amounted to R$ 43.6 million, a reduction of 0.5% compared to 4Q12, with a margin of 16.9%;

• Net income reached R$110.6 million in 2013, representing a growth of 14.1%. Net income for 4Q13 was R$32.7 million, a growth of 3.4% when comparing with 4Q12;

• In this quarter, Arezzo&Co opened 29 stores and expanded 4 stores, fulfilling its commitment to open 59 stores in 2013, growing 20.0% in sales area over the last 12 months.

## Message from the Management

Arezzo&Co remains focused on consolidating its leadership in the footwear, handbags and accessories market all over Brazil. In 2013, the Company posted growth across all brands and channels despite the challenging macroeconomic environment.

The Company's Investor Relations policy reflects its strategy of being transparent and dynamic. Management attended 11 investor conferences in Brazil, the US and Europe, and has welcomed hundreds of investors in its stores, showrooms and offices in the course of the year. October saw the 3rd Arezzo&Co Day, an event that brought together about 100 investors at our headquarters in Campo Bom (RS), in order to provide a more comprehensive view of the business model, as well as deepen knowledge of Arezzo&Co's main strategic guidelines and competitive advantages.

A great joint effort made by the entire team enabled the Company to gain market share and reach annual sales of over 10 million pairs despite a more challenging growth scenario than previously estimated in early 2013. Highlighting certain issues, such as the strategic disqualification of some multibrand stores in order to maintain and strengthen our network of mono-brand stores, in addition to a high comparison base in 2012 due to strong revenues from a single item (sneakers), the results posted reflect the Company's strategy of attaining sustainable long-term growth by increasing consumer desire for its brands, team commitment and business model consolidation. Net revenues were up by 11.9% as a result of higher gross margins, particularly in the franchise channel, where revenues were up by 13.8%, accounting for 49.8% of the company's sales.

In order to maintain profit margins, despite a different growth rate, the Company showed strong ability to adjust its expenses, recording EBITDA margin in line with the previous year. Additionally, the Company continues to invest in projects that will ensure future growth, such as the rollout of the franchise channel for the Anacapri brand, the investment in e-commerce as a new platform, the strengthening of the mix of Schutz brand handbags, and the most challenging of our projects the pilot operation in the United States. Excluding only the US pilot project, the 2013 EBITDA margin would have been 17.9% against 17.4% in 2012, an increase of 50 bps, reflecting the business's operational leverage.

The network store expansion targets were successfully reached, showing great discipline in execution and focus on sustainability. In 2013, 59 new stores were opened, 12 were expanded and 9 stores were refurbished, with 17.0% growth in sales area excluding outlets.

In 2013, Arezzo, the group's main brand, developed a new supply methodology and altered the distribution of collections per season and delivery frequency of product to match their life cycles. An important milestone was the new service model for franchisees, internally called the 'E-showroom', which enables access to more products in a shorter time by shortening purchasing process lead time and speeding the brand's availability in the stores, which can therefore show the right product at the right time and right price. In addition, franchisees may follow a suggested product mix that fits each store's profile. The new structure provides better sellout feedback, more frequent bestsellers in stores and more assertiveness in collections.

Another milestone for the Arezzo brand, following its historical assumption of periodically renewing store layouts and offering a shopping experience constantly geared to female consumers, was the new architectural design to display 50% more products in the same area. The brand ended 2013 with 25 stores based on the new model and aims to continue refurbishing stores on the new pattern at the same pace.

The Schutz brand diversified its product categories and channels even more and increased presence in consumers' mind. The handbags category adopted a new strategy regarding sourcing, collection structure and segmentation by distribution channel in order to meet end-customer needs. It showed strong growth and accounted for 11% of the brand's sales revenue in 2013. The e-commerce channel accounted for 6% of the brand's sales revenues with R$ 23.4 million and a 137% increase on 2012. The brand reached 1.2 million Facebook followers and was recognized as the most active fashion brand on Instagram, with over 500,000 followers currently. The brand is preparing to expand the potential of the online sales channel by enhancing its technology platform.

## Message from the Management

The Schutz brand is continues to develop its pilot operation in the United States. It should be noted that the project is currently at laboratory phase, where key data collection is proving to be a learning experience for possible growth in the US market. Moreover, this is an investment that enables reverse marketing, thus strengthening its branding in Brazil too, as well as anticipating feedback from consumers, which provides product data that may be used to develop collections for the Brazilian market.

The Anacapri brand is a good example of our pipeline of long-term initiatives. Since its inception as a totally greenfield project five years ago, the brand has matured its value proposition, mapped its target consumers and structured its sourcing, culminating with its new store layout in 2013 as a whole new project that is both extremely efficient and capable of generating enhanced shopping experiences. The brand started its rollout in the franchise channel in the closing months of the year and posted strong sales in the period. Arezzo&Co's know-how in managing a multi-channel business model is also applicable to the Anacapri brand, which opened 15 new franchises in 2013 and surpassed our initial guidance estimates.

The Alexandre Birman brand has increasingly earned recognition worldwide for design and exclusivity. In 2013, the brand opened its New York showroom and consolidated its international distribution in over 30 countries while attending several international fairs and events, especially the 1st Press Day held in Paris during the Fashion Week, which provided strong branding effect.

In order to boost integration through the value chain, the Company is deploying its new ERP system. Internally called Project 2154, the system will allow more integration across the Company's data and processes, and therefore speedier decision making processes, improving planning and management of routines and results. We have an experienced team working on this project, whose planning started in mid-2013 and is expected to go live in January 2015.

All the group's brands ran consistent communication and marketing plans, comprising a set of well-planned initiatives and carried out to build very close relations with our consumers. Our brands enjoy constant online presence and stand out among leading brands in the fashion industry for their communication and engagement with customers on social networks. We recorded more than 200 views on specific channels on cable TV, with an impact on over 3.2 million people in 2013. In addition, we ran 100 inserts in printed media on 180 pages in the main specialized fashion titles in 2013, with more than 1,300 views in fashion editorials. Another important pillar is the relationship with opinion makers, such as actresses and celebrities, who endorse our brands. In particular, Interbrand chose the Arezzo brand as one of the 25 most valuable brands in Brazil in 2013, showing ability to generate identification, differentiation and value for consumers.

The Company sees the talents of its people as the central pillar of its strategy, and therefore launched new programs to attract and retain talents. The third trainee program proved a success with more than 5,000 applicants. In 2013, the Company launched the internal Talent Program for its employees who wish to grow with us. Reaffirming our culture of "thinking like the owner" at Arezzo&Co, the Company extended its stock option program to align interests of management and shareholders. Finally, training sessions for teams totaled approximately 128,000 hours to ensure continuous development for all our people, preparing them for new challenges in the coming year.

For Arezzo&Co, meeting one target merely lays the basis for the next. So let's keep up the motivation and confidence in relation to prospects for 2014.

**The Management**

| Summary of Results | 4Q12 | 4Q13 | Growth or spread% | 2012 | 2013 | Growth or spread% |
|---|---|---|---|---|---|---|
| **Net Revenues** | 252,851 | 257,601 | 1.9% | 860,335 | 962,950 | 11.9% |
| **Gross Profit** | 111,648 | 114,159 | 2.2% | 375,805 | 425,729 | 13.3% |
| ***Grosss Margin*** | 44.2% | 44.3% | 0.1 p.p. | 43.7% | 44.2% | 0.5 p.p. |
| **EBITDA** [1] | 43,805 | 43,590 | -0.5% | 135,763 | 159,460 | 17.5% |
| ***Ebitda Margin*** | 17.3% | 16.9% | -0.4 p.p. | 15.8% | 16.6% | 0.8 p.p. |
| **Net Income** | 31,673 | 32,745 | 3.4% | 96,874 | 110,555 | 14.1% |
| ***Net Margin*** | 12.5% | 12.7% | 0.2 p.p. | 11.3% | 11.5% | 0.2 p.p. |

| Operating Indicators | 4Q12 | 4Q13 | Growth or spread% | 2012 | 2013 | Growth or spread% |
|---|---|---|---|---|---|---|
| **# of pairs sold ('000)** | 2,710 | 2,796 | 3.2% | 8,980 | 10,008 | 11.4% |
| **# of handbags sold ('000)** | 189 | 190 | 0.5% | 552 | 642 | 16.3% |
| **# of employees** | 2,058 | 2,007 | -2.5% | 2,058 | 2,007 | -2.5% |
| **# of stores *** | 399 | 458 | 59 | 399 | 458 | 59 |
| ***Owned Stores*** | 57 | 55 | -2 | 57 | 55 | -2 |
| ***Franchises*** | 342 | 403 | 61 | 342 | 403 | 61 |
| **Outsorcing (as % os total production)** | 92.2% | 92.5% | 0.3 p.p | 88.5% | 91.1% | 2.6 p.p |
| **SSS** [2] **Sell-in (franchises)** | 13.1% | -3.7% | -16.8 p.p | 12.2% | 2.0% | -10.2 p.p |
| **SSS** [2] **Sell-out (owned stores + franchises)** | n/a | 2.5% | n/a | n/a | 1.1% | n/a |

*Including international stores

1- EBITDA = Earnings before interest, income tax and social contribution on net income, depreciation and amortization. EBITDA is not a measure used in accounting practices adopted in Brazil (BR GAAP), does not represent cash flow for the periods presented and should not be considered as an alternative to net income, as an indicator of operating performance, or as an alternative to cash flow as an indicator of liquidity. EBITDA does not have a standardized meaning and Arezzo&Co's EBITDA definition may not be comparable to adjusted EBITDA of other companies. While EBITDA does not provide, in accordance with the accounting practices adopted in Brazil, a measure of operating cash flows, management uses it to measure operating performance. Additionally, The company believes that certain investors and financial analysts use EBITDA as an indicator of operating performance for a company and/ or its cash flow.

2- SSS (Same-store sales): Stores are included in comparable stores' sales as of the 13th month of operation. Variations in comparable stores' sales in the two periods are based on sales, net of returns, for owned stores, and on gross sales for franchises in operation during both periods under comparison. If a store is included in the calculation of comparable stores' sales for only a portion of one of the periods under comparison, this store will be included in the calculation of the corresponding portion of the other period. When square meters are added to or deducted from a store included in comparable stores' sales, with an impact of over 15% on the sales area, the store is excluded from comparable stores' sales. When a store operation is discontinued, this store's sales are excluded from the calculation of comparable stores' sales for the periods under comparison. As from this period, if a franchisee opens a warehouse, its sales will be included in comparable stores' sales if its franchises operate during both periods under comparison. The so-called "SSS of Franchises – Sell In" refers to comparison of Arezzo&Co's sales with those of each Franchised Store in operation for more than 12 months, serving as a more accurate indicator for monitoring the Group's revenue. On the other hand, "SSS – Sell Out" is based on the point of sales' performance, which, in the case of Arezzo&Co, is a better indicator of Owned Stores' sales behavior and Franchises' sell out sales. The franchise sell-out figures represent the best estimate calculated on the basis of information provided by third parties.

| Gross Revenue | 4Q12 | Part% | 4Q13 | Part% | Growth % | 2012 | Part% | 2013 | Part% | Growth % |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Gross Revenue** | **327,063** | | **331,380** | | **1.3%** | **1,108,743** | | **1,232,085** | | **11.1%** |
| **Exports market** | **9,212** | **2.8%** | **15,934** | **4.8%** | **73.0%** | **39,131** | **3.5%** | **61,666** | **5.0%** | **57.6%** |
| **Domestic market** | **317,851** | **97.2%** | **315,446** | **95.2%** | **-0.8%** | **1,069,612** | **96.5%** | **1,170,419** | **95.0%** | **9.4%** |
| **By brand** | | | | | | | | | | |
| *Arezzo* | *189,575* | *59.6%* | *192,678* | *61.1%* | *1.6%* | *663,256* | *62.0%* | *716,614* | *61.2%* | *8.0%* |
| *Schutz* | *112,193* | *35.3%* | *106,409* | *33.7%* | *-5.2%* | *356,510* | *33.3%* | *402,496* | *34.4%* | *12.9%* |
| *Anacapri* | *10,470* | *3.3%* | *14,031* | *4.4%* | *34.0%* | *32,203* | *3.0%* | *41,316* | *3.5%* | *28.3%* |
| *Other brands[1]* | *5,613* | *1.8%* | *2,328* | *0.8%* | *-58.5%* | *17,643* | *1.7%* | *9,993* | *0.9%* | *-43.4%* |
| **By channel** | | | | | | | | | | |
| *Franchises* | *151,903* | *47.8%* | *164,129* | *52.0%* | *8.0%* | *512,383* | *47.9%* | *583,110* | *49.8%* | *13.8%* |
| *Multibrand* | *72,877* | *22.9%* | *58,180* | *18.4%* | *-20.2%* | *285,816* | *26.7%* | *288,566* | *24.7%* | *1.0%* |
| *Owned Stores* | *88,308* | *27.8%* | *91,741* | *29.1%* | *3.9%* | *255,977* | *23.9%* | *291,368* | *24.9%* | *13.8%* |
| *Others[3]* | *4,763* | *1.5%* | *1,396* | *0.5%* | *-70.7%* | *15,436* | *1.5%* | *7,375* | *0.6%* | *-52.2%* |

(1) Includes only domestic markets for Anacapri, Alexandre Birman and other revenues non brand specific.
(2) Owned Stores: including Web Commerce sales channel.
(3) Includes domestic market revenues that are not specific for distribution channels.

## Brands

The Arezzo&Co platform includes 4 major brands: Arezzo, Schutz, Anacapri and Alexandre Birman, which are distributed through a network of owned stores, franchises, multibrand stores and Web Commerce, present in all Brazilian states. Products are also sold internationally through various channels: Owned Stores, Franchises, Multibrand Stores and Department Stores.

The second half of 2013 accounted for approximately 55% of sales for the year. In August, store windows begin displaying the Summer collection, while the last week in October sees Hot Summer Week, a clearance sale period of approximately 10 days that marks the transition from the Summer collection to the High Summer collection, which is focused primarily on the sales during the holiday season, a key moment for sales in the store network.

The Arezzo brand achieved R$192.7 million in gross revenues in 4Q13 representing a growth of 1.6% against 4Q12, and accounting for 61.1% of total domestic sales. During 2013 the brand developed a new supply methodology, with better distribution of the collections during the seasons and product delivery frequency in line with life cycles, with initially positive results in the form of high product turnover. Also during the year the brand rolled out its new architectural project designed to offer a better purchasing experience, in addition to an increase of 50% in the volume of products on show in the sales area. At year-end, the brand had 25 new stores in line with this model, resulting in higher productivity at the refurbished stores.

The Schutz brand showed a reduction of 5.2% in 4Q13 in comparison with 4Q12, posting gross revenue of R$106.4 million, or 33.7% of domestic market sales, primarily on account of the strategic move to disqualify some multibrand stores. Since the roll-out of the brand in 3Q11, 56 mono-brand stores have been opened and 8 stores expanded, ending the year 2013 with 67 stores. The web commerce channel posted strong growth of 136.8% for the year, with revenues reaching R$23.4 million. The handbags category was the highlight, growing by 79.8% in the year, reflecting the strategy of increasing its share in the brand. The operation in the United States, which include the store at 655 Madison in New York, continues to strengthen branding by raising perception among domestic and international target audiences. It is worth pointing out that the United States operation is a project that is still in the pilot phase.

Anacapri recorded growth of 34.0% in comparison with 4Q12, leveraged primarily by the increase in the number of mono-brand stores and growth in the Multibrand channel. During the year, after launching its new store architectural model, enhancing its identity and style, the brand began the roll-out process in the franchise channel, ending 2013 with 15 stores in this channel. The early results have been positive, with strong sales during the holiday period, and the Company reafirms it´s guidance for opening 25 franchises in 2014.

The Alexandre Birman brand grew 42.7% in 2013. The brand continues to strengthen its international presence through product development and by holding international events with opinion makers. In 4Q13, the brand held its market week in New York, an event that further consolidated its positioning on the US market as the only Brazilian brand among the international designers, enabling it to get closer to its target audience.

## Channels

### Mono-brands – Franchises and Owned Stores

Having opened 29 stores, the company ended 4Q13 with 449 mono-brand stores in Brazil and 9 overseas; of those stores in Brazil, 357 were Arezzo brand stores, 67 Schutz, 23 Anacapri and 2 Alexandre Birman.

Growth in revenues from mono-brand stores, which comprise franchises sell-in and owned stores sell-out, was 6.5% in 4Q13 over 4Q12, mainly due to the 17.0% increase in sales area in the last twelve months, excluding outlets. The Franchise channel grew 8.0% in the quarter, accounting for 52.0% of domestic sales in 4Q13, driven by the opening of 61 franchises in the last 12 months, of which 29 under the Arezzo brand, 17 Schutz and 15 Anacapri. In addition, 11 Arezzo brand franchise stores were expanded in the last 12 months, thus adding 363.7 m² to the channel's sales area. Mono-brand stores accounted for 81.1% of domestic sales in 4Q13.

Sell-in sales, i.e. those made by Arezzo&Co to its franchisees, recorded a reduction in the same franchises (SSS – Franchises) of 3.7% in 4Q13 when compared to 4Q12. Due to the constant focus on sell out, sales to franchisees aim to balance sales potential with healthy inventory levels in the network. In this sense, whole year SSS sell-in is aligned with the SSS sell out performance of the franchise channel. In addition, SSS sell-in was impacted by the accelerated opening of Schutz brand franchises in the last 12 months (bigger inventory on their first order).

Owned stores sales area was up by 11.7% in the quarter against the same period of last year, particularly affected by the opening of a 990m² outlet and the expansion of 3 owned stores in the last 12 months, adding 134.9 m² to the channel's sales area. The sell-out sales of the Arezzo&Co network grew 14.3% in the period against 4Q12, while same stores sell out sales (owned stores + franchises) grew 2.5% in the quarter. With regard to the 4Q13 SSS sell out, it is worth mentioning that:

i) The SSS sell-out was positive in every month of the quarter;

ii) In 4Q12, sneakers accounted for 3.7% of the shoes sold to the network, reducing the impact of the basis of comparison with previous quarters;

iii) Many of the Schutz stores analyzed by the indicator were opened in the last 15 months, and due to the "novelty effect" of strong communication strategies and the opening of stores, 4Q13 was adversely affected by 50 bps;

iv) The SSS sell-out indicator does not include on-line sales. If included in the base, on-line sales would cause a positive impact of 80 bps; and

v) SSS sell-out registered superior performance in the franchise channel. In 2013, when the franchise channel is analyzed on its own, the SSS sell-out of 2.2% was in line with the SSS sell-in of 2.0%.

## Channels

| History of Stores | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 | 4Q13 |
|---|---|---|---|---|---|---|---|---|
| **Sales area [1,3] - Total (m²)** | **22,084** | **23,112** | **24,531** | **26,543** | **26,659** | **27,996** | **28,999** | **31,848** |
| Sales area - franchises (m²) | 17,330 | 18,005 | 19,125 | 20,646 | 20,731 | 22,154 | 23,174 | 25,262 |
| Sales area - Owned stores[2] (m²) | 4,754 | 5,107 | 5,406 | 5,897 | 5,928 | 5,842 | 5,825 | 6,586 |
| **Total number of domestic stores** | **338** | **351** | **368** | **390** | **391** | **408** | **420** | **449** |
| **# of franchises** | **292** | **301** | **316** | **334** | **335** | **353** | **365** | **395** |
| Arezzo | 290 | 295 | 300 | 311 | 312 | 324 | 328 | 340 |
| Schutz | 2 | 6 | 16 | 23 | 23 | 29 | 35 | 40 |
| Anacapri | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 15 |
| **# of owned stores** | **46** | **50** | **52** | **56** | **56** | **55** | **55** | **54** |
| Arezzo | 18 | 19 | 19 | 19 | 19 | 17 | 16 | 17 |
| Schutz | 19 | 22 | 24 | 27 | 27 | 27 | 27 | 27 |
| Alexandre Birman | 1 | 1 | 2 | 2 | 2 | 2 | 2 | 2 |
| Anacapri | 8 | 8 | 7 | 8 | 8 | 9 | 10 | 8 |
| **Total number of international stores** | **7** | **8** | **9** | **9** | **9** | **9** | **9** | **9** |
| **# of franchises** | 7 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| **# of owned stores** | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 1 |

1. Includes areas in square meters of 9 international stores
2. Includes 6 outlet-type stores with a total area of 2,217 m²
3. Includes areas in square meters of stores expansion

### Multi-brand

The multibrand channel's revenues in 4Q13 showed a reduction of 20.2%, primarily due to the impact of the growth in Schutz mono-brand stores. Due to the roll-out in mono-brand stores, the Schutz brand, which accounted for 63.2% of the gross revenues of the multibrand channel in 4Q13, continued the process initiated in the previous quarter of disqualifying some multibrand stores for the purpose of preserving its branding, thus impacting the channel's growth. The expansion of Schutz in mono-brand stores, where greater control of the buying experience affords final customers greater satisfaction, aims to increase the perception of the brand and the value it generates. The company continues to believe in the strategic importance of the multibrand channel, and is working to capture new customers, increase the share of wallet with existing customers and increase cross selling. In 2014, primarily due to the small store base during the first six months, the channel may post revenues only slightly above those of 2013.

Because of more extensive capillarity throughout Brazil, the group's 4 brands began to be distributed through 2,451 stores, a growth of 4.3% over 4Q12, with a presence in 1,201 cities.

| Key financial indicators | 4Q12 | 4Q13 | Growth or spread% | 2012 | 2013 | Growth or spread% |
|---|---|---|---|---|---|---|
| **Net revenues** | 252,851 | 257,601 | 1.9% | 860,335 | 962,950 | 11.9% |
| **COGS** | (141,203) | (143,442) | 1.6% | (484,530) | (537,221) | 10.9% |
| **Gross profit** | 111,648 | 114,159 | 2.2% | 375,805 | 425,729 | 13.3% |
| *Gross margin* | *44.2%* | *44.3%* | *0.1 p.p.* | *43.7%* | *44.2%* | *0.5 p.p.* |
| ***SG&A*** | (70,192) | (73,762) | 5.1% | (247,600) | (277,239) | 12.0% |
| *% of Revenues* | *27.8%* | *28.6%* | *0.8 p.p* | *28.8%* | *28.8%* | *0.0 p.p* |
| **Selling expenses** | (50,670) | (54,405) | 7.4% | (174,453) | (198,556) | 13.8% |
| Owned stores | (25,845) | (25,493) | -1.4% | (79,979) | (90,851) | 13.6% |
| Selling, logistics and supply | (24,825) | (28,912) | 16.5% | (94,474) | (107,705) | 14.0% |
| **General and administrative expenses** | (19,730) | (16,524) | -16.2% | (60,841) | (68,724) | 13.0% |
| **Other operating revenues (expenses)**[1] | 2,557 | 360 | -85.9% | (4,748) | 1,011 | n/a |
| **Depreciation and amortization** | (2,349) | (3,193) | 35.9% | (7,558) | (10,970) | 45.1% |
| **Ebitda** [1] | 43,805 | 43,590 | -0.5% | 135,763 | 159,460 | 17.5% |
| *Ebitda margin* | *17.3%* | *16.9%* | *-0.4 p.p.* | *15.8%* | *16.6%* | *0.8 p.p.* |
| **Net income** | 31,673 | 32,745 | 3.4% | 96,874 | 110,555 | 14.1% |
| *Net margin* | *12.5%* | *12.7%* | *0.2 p.p.* | *11.3%* | *11.5%* | *0.2 p.p.* |
| **Working capital** [2] **- as % of revenues** | 27.4% | 30.2% | 2.8 p.p | 27.4% | 30.2% | 2.8 p.p |
| **Invested capital** [3] **- as % of revenues** | 35.6% | 41.0% | 5.4 p.p. | 35.6% | 41.0% | 5.4 p.p. |
| **Total debt** | 94,084 | 98,418 | 4.6% | 94,084 | 98,418 | 4.6% |
| Net debt [4] | (108,070) | (87,273) | -19.2% | (108,070) | (87,273) | -19.2% |
| Net debt/EBITDA LTM | -0.8x | -0.5x | n/a | -0.8x | -0.5x | n/a |

1 - Includes non-recurring expense in 1Q12 in Other Operating Revenues and Expenses: Arezzo&Co terminated its contract with Star Export Assessoria e Exportação Ltda. ("Star"), which had been providing technical support and advice services for procurement and inspection of independent factories and workshops contracted to make products. As part of the termination, a payment of R$ 8 million was made and Star signed a five-year non-compete agreement. On the same date, a contract was signed with another company that has the same technical capability, providing the same type of services on special commercial terms to reduce costs while maintaining the same quality of services.
2 - Working Capital: current assets minus cash, cash equivalents and marketable securities less current liabilities minus loans and financing and dividends payable.
3 - Invested capital: working capital plus fixed assets and other long-term assets less income tax and deferred social contribution.
4 - Net debt is equal to total interest-bearing debt position at the end of a period less cash and cash equivalents and short-term financial investments.

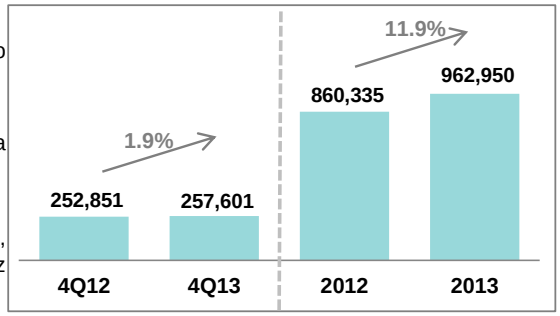
## Net revenue

The Company's net revenues totaled R$257.6 million in the quarter, a growth of 1.9% over 4Q12. Some of the primary factors leading to this growth are:

i) Excluding outlets, expansion of 17.0% in sales area compared to 4Q12, the highlight being a growth of 22.4% in the Franchise area;

ii) Reduction of 3.7% in the same store sales sell-in indicator, and a growth of 2.5% in sell-out;

iii) The multibrand channel declined by 20.2% against 4Q12, primarily due to the impact caused by strong growth of Schutz brand franchises;




iv) In spite of the change in the channel mix, net revenue was positively impacted in R$2.9 million, due to a temporary reduction of the ICMS tax rate in the quarter.

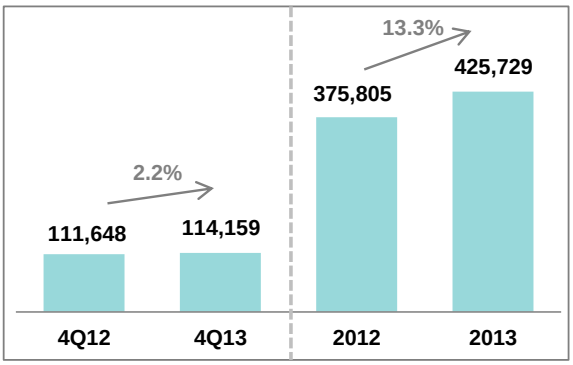
## Gross profit

Gross profit in 4Q13 grew 2.2% in comparison with 4Q12, totaling R$114.2 million, with a gross margin of 44.3%.

The growth in gross profit in 4Q13 particularly reflected the 1.9% growth in net revenues.

In 2013, gross profit was R$425.7 million, a growth of 13.3% over 2012, while gross margin was 44.2%, up by 50 bps over the previous year.

The Company pursues a strategy of maintaining stable margins per channel, and the owned stores channel is subject to more variation.




## SG&A

Arezzo&Co management is putting a lot of effort into adjusting the level of expenses to the Company's growth. In the second half of 2013, and particularly in 4Q13, there was a sharp deceleration in expenses, maintaining the margins in 2013 in line with those registered in 2012.

**Selling expenses**

The Company's selling expenses may be divided into two primary groups:

i) Owned store expenses:
• include only owned store (sell-out) expenses.

ii) Selling, Logistics and Supply expenses:
• include sell-in and sell-out operating expenses.

In 4Q13, selling expenses increased by 7.4% against 4Q12, reaching R$54.4 million in the quarter against R$50.7 million in the same period of the previous year. Selling, logistics and supply expenses totaled R$28.9 million in the period, increasing by 16.5% against the same quarter of the previous year, due to higher investment of R$1.1 million in the United States operation, in addition to non-recurring expenses in the amount of R$2.5 million with marketing and processes consulting to provide higher operational efficiency.

Owned store expenses totaled R$25.5 million in 4Q13, a reduction of 1.4% in comparison with 4Q12, and below the growth of 3.9% in owned store sell-out in the same period, primarily due to the reduction in store personnel expenses during the previous quarter and the reduction in marketing expenses on account of the lower volume of inaugurations of owned stores in 4Q13 against 4Q12.

**General and Administrative Expenses**

In 4Q13, general and administrative expenses amounted to R$16.5 million against R$19.7 million in the same quarter of the previous year, a reduction of 16.2% due primarily to strong management control that reduced general and administrative expenses, proving the Company's ability to react quickly to a lower growth scenario. In addition, there were lower profit sharing provisions, amounting to R$1.3 million.

**Other operating revenues (expenses)**

In 4Q13, the Company recorded revenues of R$360 thousand in "Other Operating Expenses", compared to revenues of R$2.6 million in 2012, due primarily to R$1.4 million in expenses with stock options.

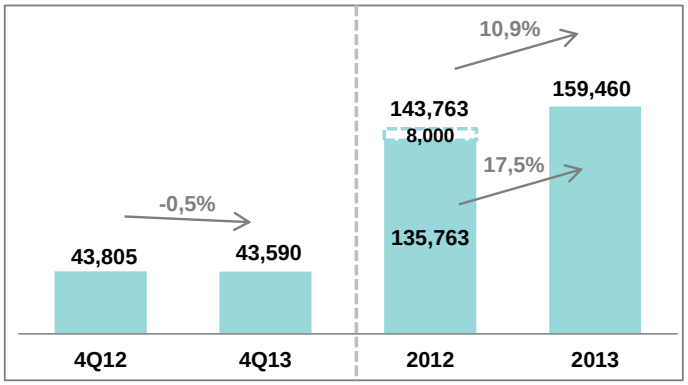
## EBITDA and EBITDA margin

The Company's EBITDA declined by 0.5% in 4Q13 against 4Q12, totaling R$43.6 million. EBITDA margin in 4Q13 was 16.9% against 17.3% in 4Q12. The primary factors leading to the EBITDA figure in the quarter were:

i) Increase of 1.9% in net revenue;

ii) Increase of 2.2% in gross profit;

iii) Increase in operating expenses as a percentage of revenue to 28.6%, in comparison with 27.8% in 4Q12.




In 2013, EBITDA grew 17.5%. Excluding the non-recurring effect in 1Q12, EBITDA for 2013 would have grown by 10.9% in relation to 2012. Excluding the United States operation, the EBITDA margin for 2013 would have been 17.9% in comparison with 17.4% in 2012, an increase of 50 bps and evidence of margins expansion in the business.

The history of Arezzo&Co has always been organic development through pilot projects intended for growth in terms of both brands and channels. In the United States, the Company is analyzing the attractiveness of the Schutz brand value proposition, considering the price-fashion-product triad, while seeking to evaluate the existence of a future opportunity for offering products in that market with quality and speed.

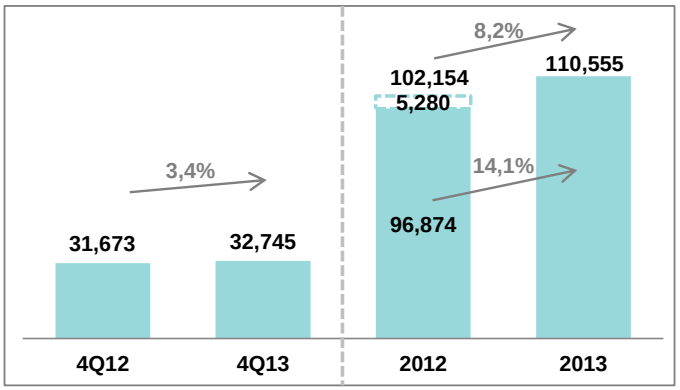
| EBITDA Reconciliation | 4Q12 | 4Q13 | 2012 | 2013 |
|---|---|---|---|---|
| **Net income** | 31,673 | 32,745 | 96,874 | 110,555 |
| (-) Income tax and social contribution | (10,211) | (10,892) | (36,630) | (45,562) |
| (-) Financial results | 428 | 3,240 | 5,299 | 7,627 |
| (-) Depreciation and amortization | (2,349) | (3,193) | (7,558) | (10,970) |
| **(=) EBITDA** | 43,805 | 43,590 | 135,763 | 159,460 |

## Net income and net margin (%)

The Company's EBITDA margin was 16.9% in 4Q13 compared to net income margin of 12.7% margin in the quarter, reflecting higher allocation of capital to fixed assets during 2012, as a result of more owned stores.

Due to higher fixed assets in 4Q13, compared to 4Q12, depreciation increased by 35.9% in the period. Income and social contribution tax rates are in line with the same period of 2012.

Net income for 4Q13 amounted to R$32.7 million against R$31.7 million in 4Q12, an increase of 3.4% over the same quarter of the previous year.




Net income increased by 14.1% in 2013 over 2012. Excluding the non-recurrent effect in 1Q12, net income for 2013 would have grown 8.2% over the previous year.

## Operating Cash Flow

Arezzo&Co generated R$14.1 million in operating cash in 4Q13, primarily due to higher operating profit and a greater need for working capital in the period. There were no changes in the policy on terms and payments, but the concentration of revenues at the end of the period required higher working capital.

| Operating Cash Flow | 4Q12 | 4Q13 | Growth % | 2012 | 2013 | Growth % |
|---|---|---|---|---|---|---|
| **Income before income tax and social contribution** | **41,884** | **43,637** | **4.2%** | **133,504** | **156,117** | **16.9%** |
| **Depreciation and amortization** | **2,349** | **3,193** | **35.9%** | **7,558** | **10,970** | **45.1%** |
| **Other** | **(1,716)** | **8,250** | **n/a** | **(8,395)** | **8,304** | **n/a** |
| **Decrease (increase) in current assets / liabilities** | **(31,806)** | **(18,192)** | **-42.8%** | **(43,737)** | **(57,351)** | **31.1%** |
| Trade accounts receivables | (7,545) | (6,273) | -16.9% | (29,316) | (38,426) | 31.1% |
| Inventories | 6,822 | 14,472 | 112.1% | (19,206) | (9,313) | -51.5% |
| Suppliers | (29,658) | (31,256) | 5.4% | (1,779) | (648) | -63.6% |
| Change in other noncurrent and current assets and liabilities | (1,425) | 4,865 | n/a | 6,564 | (8,964) | n/a |
| **Payment of income tax and social contribution** | **(15,890)** | **(22,801)** | **43.5%** | **(37,708)** | **(46,306)** | **22.8%** |
| **Net cash flow generated by operational activities** | **(5,179)** | **14,087** | **n/a** | **51,222** | **71,734** | **40.0%** |

## Investments - Capex

The Company's investments can be broken down into 3 types: 1) investment in expansion or refurbishment of owned points of sale; 2) corporate investments, including IT, facilities, showrooms and offices; and 3) other investments, which are primarily related to modernization of its industrial operations.

Total Capex in 4Q13 increased by 42.8% compared to 4Q12, primarily due to higher investment in IT arising from the implementation of a new transaction system to provide growth sustainability and efficiency gains. In 4Q13, the Company opened a new 990m² outlet store in Novo Hamburgo, exhibiting products of all four brands, and a new Schutz brand store in Rio de Janeiro, in addition to having expanded the Arezzo store in the Morumbi Shopping Mall, which has become the brand's largest store with 174 m² and enables a greater variety of products to be exhibited.

| Summary of investments | 4Q12 | 4Q13 | Growth % | 2012 | 2013 | Growth % |
|---|---|---|---|---|---|---|
| **Total capex** | **9,168** | **13,097** | **42.8%** | **57,446** | **43,752** | **-23.8%** |
| Stores - expansion and refurbishing | 6,050 | 5,603 | -7.4% | 37,349 | 15,765 | -57.8% |
| Corporate | 2,690 | 7,041 | 161.7% | 18,417 | 25,244 | 37.1% |
| Other | 428 | 453 | 5.8% | 1,680 | 2,743 | 63.3% |

## Cash position and Indebtedness

The Company ended 4Q13 with R$87.3 million in net cash. Indebtedness policy remained conservative, with the following primary characteristics:

- Total indebtedness of R$98.4 million in 4Q13, against R$94.1 million in 4Q12;
- Long-term indebtedness was 39.2% of total debt in 4Q13, against 54.5% in 4Q12;
- The weighted average cost of the Company's total debt in 4Q13 remained at lower levels.

| Cash position and Indebtedness | 4Q12 | 3Q13 | 4Q13 |
|---|---|---|---|
| **Cash** | **202,154** | **199,780** | **185,691** |
| **Total debt** | 94,084 | 109,042 | 98,418 |
| Short term | 42,843 | 66,930 | 59,835 |
| *% total debt* | 45.5% | 61.4% | 60.8% |
| Long-term | 51,241 | 42,112 | 38,583 |
| *% total debt* | 54.5% | 38.6% | 39.2% |
| **Net debt** | **(108,070)** | **(90,738)** | **(87,273)** |

## ROIC (Return on Invested Capital)

In line with the Company's strategic direction, levels of investment in Capital Employed in 2013 exceeded those of the previous year, especially due to the opening of owned stores during 2012. Return on Invested Capital (ROIC) was 26.1% in 2013, and was affected by the higher working capital requirements as already mentioned, and the concentration of investments in infrastructure which will only bear fruit in the medium and long terms.

| Income from operations | 2011 | 2012 | 2013 | Growth % |
|---|---|---|---|---|
| EBIT (LTM) | 113,671 | 128,205 | 148,490 | 15.8% |
| + IR and CS (LTM) | (33,839) | (36,630) | (45,562) | 24.4% |
| **NOPAT** | **79,832** | **91,575** | **102,928** | **12.4%** |
| Working Capital [1] | 191,719 | 235,778 | 290,975 | 23.4% |
| Permanent assets | 61,434 | 108,912 | 135,657 | 24.6% |
| Other long-term assets [2] | 6,805 | 7,853 | 9,602 | 22.3% |
| **Invested capital** | **259,957** | **352,543** | **436,234** | **23.7%** |
| **Average invested capital [3]** | | **306,251** | **394,389** | **28.8%** |
| **ROIC [4]** | | **29.9%** | **26.1%** | |

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.

## Major awards received in 2013

| Organizer | Award | Category |
|---|---|---|
| Exame Magazine | The Best and Biggest (Arezzo&Co) | Textiles |
| Interbrand | Brazil's Most Valuable Brands (Arezzo brand and Schutz brand) | All Sectors |
| Bittencourt Group | TOP 1 Brazilian Franchising (Arezzo&Co) | The 25 Biggest and Best Franchise Network |
| Social Index | Most Social Brands (Schutz brand) | Top 10 in engagement on social networks |
| O Globo Newspaper | Making a Difference (Alexandre Birman) | Fashion |
| GQ Magazine | Man of the year (Alexandre Birman) | Entrepreneurship |

## Balance sheet

| Assets | 4Q12 | 3Q13 | 4Q13 |
|---|---|---|---|
| **Current assets** | **513,562** | **574,288** | **553,093** |
| Cash and cash equivalents | 11,518 | 10,748 | 13,786 |
| Financial Investments | 190,636 | 189,032 | 171,905 |
| Trade accounts receivables | 208,756 | 241,476 | 247,498 |
| Inventory | 76,133 | 99,819 | 85,108 |
| Taxes recoverable | 14,280 | 17,469 | 19,188 |
| Other credits | 12,239 | 15,744 | 15,608 |
| **Non-current assets** | **123,029** | **144,964** | **150,773** |
| Long-term receivables | 14,117 | 16,029 | 15,116 |
| Financial Investments | 20 | 22 | 23 |
| Taxes recoverable | 377 | 0 | 0 |
| Deferred income and social contribution | 6,264 | 7,600 | 5,514 |
| Other credits | 7,456 | 8,407 | 9,579 |
| Property, plant and equipment | 61,090 | 67,683 | 68,543 |
| Intangible assets | 47,822 | 61,252 | 67,114 |
| **Total Assets** | **636,591** | **719,252** | **703,866** |

| Liabilities | 4Q12 | 3Q13 | 4Q13 |
|---|---|---|---|
| **Current liabilities** | **127,418** | **179,422** | **143,860** |
| Loans and financing | 42,843 | 66,930 | 59,835 |
| Suppliers | 35,507 | 66,115 | 34,859 |
| Dividends and interest on equity capital payable | 8,945 | 0 | 7,598 |
| Other liabilities | 40,123 | 46,377 | 41,568 |
| **Non-current liabilities** | **55,274** | **49,111** | **45,464** |
| Loans and financing | 51,241 | 42,112 | 38,583 |
| Related parties | 973 | 801 | 873 |
| Other liabilities | 3,060 | 6,198 | 6,008 |
| **Equity** | **453,899** | **490,719** | **514,542** |
| Capital | 106,857 | 157,186 | 157,186 |
| Capital reserve | 173,498 | 126,781 | 128,288 |
| Income reserves | 153,162 | 206,752 | 208,174 |
| Additional proposed dividend | 20,382 | 0 | 20,894 |
| **Total liabilities and shareholders' equity** | **636,591** | **719,252** | **703,866** |

## Income statement (IFRS)

| Income statement - IFRS | 4Q12 | 4Q13 | Growth % | 2012 | 2013 | Growth % |
|---|---|---|---|---|---|---|
| **Net operating revenue** | **252,851** | **257,601** | **1.9%** | **860,335** | **962,950** | **11.9%** |
| Cost of goods sold | (141,203) | (143,442) | 1.6% | (484,530) | (537,221) | 10.9% |
| **Gross profit** | **111,648** | **114,159** | **2.2%** | **375,805** | **425,729** | **13.3%** |
| **Operating income (expenses):** | **(70,192)** | **(73,762)** | **5.1%** | **(247,600)** | **(277,239)** | **12.0%** |
| Selling | (51,994) | (56,227) | 8.1% | (178,526) | (204,438) | 14.5% |
| Administrative and general expenses | (20,755) | (17,895) | -13.8% | (64,326) | (73,812) | 14.7% |
| Other operating income net | 2,557 | 360 | -85.9% | (4,748) | 1,011 | n/a |
| **Income before financial result** | **41,456** | **40,397** | **-2.6%** | **128,205** | **148,490** | **15.8%** |
| Financial income | 428 | 3,240 | 657.0% | 5,299 | 7,627 | 43.9% |
| **Income before income taxes** | **41,884** | **43,637** | **4.2%** | **133,504** | **156,117** | **16.9%** |
| Income tax and social contribution | (10,211) | (10,892) | 6.7% | (36,630) | (45,562) | 24.4% |
| Current | (7,083) | (8,806) | 24.3% | (32,882) | (44,812) | 36.3% |
| Deferred | (3,128) | (2,086) | -33.3% | (3,748) | (750) | n/a |
| **Net income for period** | **31,673** | **32,745** | **3.4%** | **96,874** | **110,555** | **14.1%** |

## Cash Flow - IFRS

| Statement of cash flow | 4Q12 | 4Q13 | 2012 | 2013 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Income before income tax and social contribution | 41,884 | 43,637 | 133,504 | 156,117 |
| **Adjustments to reconcile net income with cash from operational activities** | **633** | **11,443** | **(837)** | **19,274** |
| Depreciation and amortization | 2,349 | 3,193 | 7,558 | 10,970 |
| Income from financial investments | (2,201) | (3,275) | (11,732) | (13,168) |
| Interest and exchange rate | 263 | 6,444 | 767 | 9,671 |
| Other | 222 | 5,081 | 2,570 | 11,801 |
| **Decrease (increase) in assets** | | | | |
| Customer receivables | (7,545) | (6,273) | (29,316) | (38,426) |
| Inventory | 6,822 | 14,472 | (19,206) | (9,313) |
| Recoverable taxes | (10,326) | (1,719) | (4,109) | (4,531) |
| Variation other current assets | 387 | (869) | (652) | (5,749) |
| Judicial deposits | 13 | (167) | (1,016) | 257 |
| **Decrease (increase) in liabilities** | | | | |
| Suppliers | (29,658) | (31,256) | (1,779) | (648) |
| Labor liabilities | (2,669) | (5,257) | 3,256 | (1,840) |
| Fiscal and social liabilities | 12,152 | 10,362 | 8,350 | (2,803) |
| Variation in other liabilities | (982) | 2,515 | 735 | 5,702 |
| **Payment of income tax and social contribution** | (15,890) | (22,801) | (37,708) | (46,306) |
| **Net cash flow from operating activities** | **(5,179)** | **14,087** | **51,222** | **71,734** |
| **Investing activities** | | | | |
| Acquisitions of fixed and intangible assets | (9,168) | (13,100) | (57,446) | (43,756) |
| Financial Investments | (117,476) | (96,052) | (361,338) | (344,794) |
| Redemption of financial investments | 96,352 | 116,453 | 340,520 | 376,690 |
| Increased Investments | - | - | - | - |
| **Net cash used in investing activities** | **(30,292)** | **7,301** | **(78,264)** | **(11,860)** |
| **Financing activities with third parties** | | | | |
| Funding | 46,172 | 6,735 | 83,844 | 36,645 |
| Payments of loans | (7,192) | (23,362) | (27,822) | (40,350) |
| Payments of Interest on loans | (359) | (441) | (1,365) | (1,632) |
| **Net cash used in financing activities - third parties** | **38,621** | **(17,068)** | **54,657** | **(5,337)** |
| **Financing activities with shareholders** | | | | |
| Interest on equity capital | (8,210) | (1,356) | (19,532) | (19,647) |
| Distribution of profits | 8,212 | 2 | (13,101) | (33,708) |
| Receivables (payables) with shareholders | (7) | 72 | 68 | (100) |
| Share Issuance | - | - | 940 | 1,186 |
| Share issuance transaction costs | - | - | - | - |
| **Net cash used in financing activities** | **(5)** | **(1,282)** | **(31,625)** | **(52,269)** |
| **Increase (decrease) in cash and cash equivalents** | **3,145** | **3,038** | **(4,010)** | **2,268** |
| **Cash and cash equivalents** | | | | |
| Cash and cash equivalents - Initial balance | 8,373 | 10,748 | 15,528 | 11,518 |
| Cash and cash equivalents - Closing balance | 11,518 | 13,786 | 11,518 | 13,786 |
| **Increase (decrease) in cash and cash equivalents** | **3,145** | **3,038** | **(4,010)** | **2,268** |

## Aviso importante

Information contained herein may include forward-looking statements and reflects management's current view and estimates concerning the evolution of the macro-economic environment, industry conditions, company performance, and financial results. Any statements, expectations, capabilities, plans and assumptions contained in this document that do not describe historical facts, such as statements regarding declaration or payment of dividends, the future course of operations, the implementation of material operational and financial strategies, the investment program, and the factors or trends affecting financial condition, liquidity or results from operations, are deemed forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995 and involve a number of risks and uncertainties. There is no guarantee that these results will actually materialize. Statements are based on many assumptions and factors, including economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations. Arezzo&Co's consolidated financial information presented herein complies with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), based on audited financial data. Non-financial and other operating information has not been audited by independent auditors.