ARREZZO – 1Q20 EARNINGS CALL

Alexandre: I'm very thankful to have you all here today for this very important meeting. Our agenda will comprise my opening, then we will show you our summary for the actions in the last two months, how we have organized ourselves to manage this very sudden situation, the acceleration for sales, which is going to sustain us and keep us relevant for the future, especially the result we had for Mother's Day and how we are reestablishing our business to the new normal and then our CFO Rafael Suchete will present our financial results.

If you allow me a few minutes, I'd like to talk a little bit about a very personal view about what is going on, what we're living. This is a very challenging moment, but we do need to celebrate our accomplishments, so I'd like to congratulate Aline Penna, Rafael Suchete and our RI team for the important awards, once again, achieved through the RI magazine, so I'd like to congratulate all investors and everyone who voted for our company for these awards that I will mention at the end of the presentation.

It is certain that the Covid-19 pandemic has been generating huge impact to our society. The way we live will never be the same. However, I do think that this is a moment for huge learning and a good opportunity for us to evolve in a very comprehensive way, be it professionally, corporately and especially in the way we live as a society.

From the few things that I consider unanimous, this situation has changed the lives of everyone. Everything happens very quickly, we lost holidays, weekends, we've missed a lot of those situations and it seems that time is going by faster now, but my personal view, my personal philosophy is fight what you can fight and control what you can control.

So, within this concept, we're not going to fight against the virus situation, we're not going to fight against the agencies who were deciding on opening and reopening or not reopening anything, but we will control what is inside Arezzo&Co, our strategy, our people, our suppliers, our customers with a focus on what we can control and what we've been able to achieve and overcome.

I also believe that one of the challenges has to be embraced and used as strength instead of going against it. So now there are two articles that have inspired us greatly, which is to have our founder so close to us, my father Anderson, and in the Brazil Journal article he says that some of the topics that have been more relevant for us, which is "respect the crisis, but focus on your business". This is what I was talking about, "adapt, adapt, adapt," so you will see how our company was able to adapt in such a short time and this has been paramount for our business and also allow yourself to take steps back. So, in some advancements that we had on our track, this is part of the business and we had to readapt.

And the other article I mentioned were consultancies that have been offering very interesting studies. The Bain & Company, from March 16, which were the priorities for CEOs at that moment. That was very relevant for me and I apologize for going back to English: “the wait-and-see approach is just a nonstarter”. So, a call to action has never been so important.

And now, going back to our presentation to talk about the bases or the strengths for Arezzo&Co, in addition to its cash flow and business model, what is actually sustaining our business is our culture, a company that, for you who know us, we have great passion, we don't run away from a fight and in a few years the Company will be 50 years old, this is a company in Brazil that didn't start getting ready for a crisis 2 months ago, it's a company that was literally forged in the crisis, in a crisis.

And I would also like to talk about our principles, from our ten principles, four that have been used on a daily basis here is our flexibility, to always be flexible, be willing and ready to change continuously and this was written in 1992 and it still seems very relevant and useful for today.

Transparency. Whatever is not transparent shouldn't be done so, in terms of transparency, we had several calls with you, with our suppliers, we’re always transparent.

Involvement. Don't always find problems. Blaming third parties will not solve anything, so take risks. And when in doubt act and this is all permitted by tons of passion.

And more specifically about the actions that Arezzo&Co has taken in the last two months. As you can see, it's a very extensive timeline and there are several actions and, as I just mentioned, I was honored to count on theory from our founder, our greatest shareholder, and although today he's not in any executive role or even on the board, but he's my father.

So, I got a call from him on Friday, on March 6, I think. It seems years ago but he told me that he was very impressed with a possibility of a pandemic. It hadn't been installed as we see now, but a crisis that might affect the business overall and he suggested for us to get ready even though the crisis had not been installed.

On March 9, we implemented a crisis committee. Anderson was a part of this as one of our executive directors. And from then on we designed some actions and our main focus has always been… this is what I'm going to talk about, protect our people, align our stakeholders, take care of the society where we are involved, protect our cash flow and create different sales fronts. And this is the timeline that you can see with several actions that have been implemented in these last two months, within these pillars I just mentioned.

So, we were able to divide, to break down these actions in four stages and I will lay them out for you. First was from the wake-up call to actually getting ready to operate a company the size of ours using home office, having plants and stores temporarily closed, having to handle our day-to-day operations in a different way, great learning, and this all evolving very quickly.

From then on, our focus has been Mother's Day, which is the most important date for the first quarter for us in our business. Then we started, on May 11th, we started getting ready for the new business models that we will also present to you and now we are in the implementation phase for this model.

Now moving on with our presentation, a big focus of management, looking at our stakeholders so the actions listed here are just some among a number of actions that were taken these past months. So just recently we had an engagement survey with our franchisees and we have over 90% of them are very confident about Arezzo&Co and proof of that is that all the cities that are now able to open, allowed to open, our stores were open on the first day of that.

So franchisees were able to reinvest themselves and adhere because they know about the continuity of our market and they know that Arezzo&Co is the company that is the partner and that was all based on alignment, it was about almost 20 conference calls throughout these months. We had the opportunity of counting on guests that really helped us out and gave us a very rich experience, such as Artur Grynbaum, our board member Luiza Helena Trajano, Carlos Ferreirinha, a number of people throughout these 20 weeks that assisted in contributing to our business.

I'd like to specially highlight, it was before Mother's Day where we, in addition to counting on our founder, my father, my grandmother, who is now 94 and her words of incentive were amazing.

Obviously to support the company close focus on our cash flow, using credit lines and an amount that's very high considering the flow of business BRL 450 million, with attractive rates linked to the CDI, with good spreads with the banks, given the solidness of our financial history. So, we'll talk about that, which is the lung that we have for future growth and will not be necessary to get through this moment.

Very strong actions to reconnect our clients with our consumers, our brands. The big pillars today of our business are in fact the desire that the brands awaken. We always present as the basis of our company our brands and the way we connected to clients and the communication strategy was in fact very strong.

Our people are the base of everything, and we were able to set up that team. We had four cases of coronavirus in a huge universe of 2,500 people. We spearheaded a movement so that all footwear plants stopped producing from the onset and in the city of Campo Bom, the city where I'm located right now, our headquarters have been operating since April 22nd. Together with suppliers, we were able to avoid that the virus got here, and Eduardo Leite has also been brilliant. You've probably been following that relating to coronavirus in the Rio Grande do Sul region.

In addition to that, we're trying to involve our brands through donations, starting with the foundation of our business, footwear, and also investing with our suppliers to produce safety masks. A number were donated and here, in Campo Bom, we launched the “Fome Zero”, “Zero Hunger” program, so therefore we have been able to maintain the social balance in the cities that honor us and I'm an honorary citizen there.

And then to second step, on April 22nd, on Wednesday, we opened and we had a very interesting goal involving the entire company in the campaign where everybody for mothers to achieve 70% at least of the sales from the period of 23 of April to May 10th through many initiatives that I will mention here and also having the basis of that is the exponential growth.

So here, through some data, through the period of April 23rd to May 10th, which was, we believe, this Mother's Day period BRL 35 million sold through our e-commerce. We see a number of cases of companies that are growing at high percentage rates, but we do believe that the important things are the absolute figures. So, when you have a projection for the next months in our e-commerce, you can have an expectation of a goal for this year of half a billion BRLs. So, in fact these are very high percentages on an absolute base and consequently we have very strong results.

For the period between April and May we achieved BRL 95 million in two months, meaning that in two months almost 50% of the realized throughout the entire 2019. We believe that the average of 47 million a month can be seen as a new baseline and our record in sales was on the 27th of April, where in one single day we sold BRL 5.5 million, four times our record, which was Black Friday in 2019. In e-commerce we learn that when you have a record on one day, you can ask yourself: how can I make that same day every single day? So that's the idea of achieving levels of revenues for the future.

Now about channel integration, which is very important during this new moment. We know that the brick-and-mortar stores will still be very important. In fact, they are points of contact. We believe that the signs, what stands out in brick-and-mortar stores in shopping malls or streets is the marketing. So, the way they operate and generate revenue will change a lot. And later on we'll talk about an initiative that we have with the Arezzo store at the Iguatemi Shopping Mall, in the city of Porto Alegre, that will give us a business case of the recovery in the pandemic, I'm absolutely sure about that.

We've begun our digital transformation in February 2018, so it's been over two years now. We see a number of companies that have been implementing actions overnight, but I believe that the foundation of everything is very important, so that we have sustainable implementations that will in fact generate revenue.

So channel integration and the ability of our stores will be through store shipping, the store selling their products through our web DCs, so when you have that new initiatives in transforming your salespeople through apps or digital remote salespeople, you'll have very strong sales levels, and you can see a number of stores that are pretty much 100% adherent to those actions in channels.

Here are some highlights of some stores that even closed have surprising results. I'm absolutely sure that many challenged the resilience of the franchise model during this moment. We believe that the franchisees ability in being a local player and really understands the reality of their own city, knows how to implement relationship initiatives not only personally, but also close to them, to those consumers in those cities, and we believe that when that's well done the chance of recovering faster than in our own stores that have, I'd say, a colder relationship with consumers, is much higher.

And you can see the results here, so the franchisees that have been with us for 20 and 30 years with 40% in big cities like Ribeirão Preto and in Ariquemes, in the state of Rondonia, 73%. And you see open stores in this period where you see that the Midwest has the highest resilience in Brazil and maintaining these very high levels of sales during the pandemic.

So those were the results that were demonstrated, very strong data and challenging and with these digital tools connected to a motivational engagement initiative, the results were excellent.

Obviously, we had to adapt our branding, so there was a campaign, as you can see on the screen, that was ready for the Arezzo brand for Mother's Day with a star player, the Gil family, with all their different generations, amazing pictures. However, these products couldn't reach the stores, so we had to create a new campaign that made more sense for this moment. We created the #ArezzoMothersAlwaysPresent and from then on, we started to communicate in a more engaging manner, bringing content and information. entertainment for our customers.

Well and for a stage that began on May 11, right after Mother's Day. So pretty much two months had gone by after the pandemic, we continued to bring back our major strengths to understand the core business, to redesign how the Company would adapt to this new normal focusing on sales, on growth and therefore, consequently, we've reaped very positive results that reflect on cash generation.

A Company whose baseline was always cash generation. The first time we did our EBITDA was 10, 12 years ago and so cash flow was always very important. Financial solidity is the basis so companies could be strong and we created this phrase that even in a romantic way mirrors what we want to date for the future of our business model: “shoes come from the hands of cobblers direct to women's feet”.

Many of you know our structure, which is 100% verticalized in the state of Rio Grande do Sul, which includes product creation. You have to remember the entire collection that we have to be technical development becoming a sample and all of that very fast, even overnight to become a product, 100% developed in the Vale dos Sinos region and Campo Bom regions, with its suppliers and raw material producers.

So, our time to market is very fast, we set ourselves apart on that. We had a number of visitors from many different countries, the U.S. and Italy to visit our facilities and what we offer is really amazing.

And recently we inaugurated in the same center a plant for the Alexander Birman brand and that will be focused on production, which we’d like to share with you at first hand, for the e-commerce. It's going to sell part of the new test models, will be sold and delivered from the plants straight to consumers, direct to consumers.

That's our dream, that's our big vision and, as I mentioned, the importance of brick-and-mortar stores that act in a different way and they add on considering your 700 points of sale mono-brand and many others in multi-brand that will remain very important during this moment.

So, this phase that began on May 11, as I mentioned, we believe that when we talk about omni, omnipresence, we talk about companies that are direct-to-customer. Arezzo&Co's capacity goes beyond that because it's a direct to customer from design. So, our verticalization, product development and execution give us a unique capacity to connect consumers' desires and transform that into product through analytics and consequently deliver it to their hands.

So, we're strengthening our framework here in Campo Bom, in all senses, from making a more suitable layout, investing in a lot of technology, so we will in fact have a business that we believe in.

Considering that we were able to implement the new launch cycle, it's worth noting that in 2000 Arezzo was the first brand in Brazil, one of the first, to have a fast fashion calendar instead of the traditional 4 collections per year to 12 per year and you know that we are constantly evolving our business model.

We had an important milestone in 2012, when we created the times collection, that's approximately 20% of our sales. Fast replenishments back then, delivering in 3 weeks and we thought that was very fast and we've adjusted our number of collections. And now, given the new situation, we're going to launch collections every 15 days.

All sales will be digital. We had already started, at the end of last year, our so-called e-showroom, where we have an exceptional connection and it was only used by franchisees. In cycle one, of Summer 2020, we launched our multi-brand and we had over 400 customers buying in a period of three days.

So, we already started to open what we call the order portfolio for that. We're in the first cycle. It's small, close to what it used to be, BRL 15 million sold. So, every first day of the month and 15th, we will launch new collections that will be in stores in 30 days.

So, imagine that the first cycle of the launch was already sold, will be delivered at the end of June. On June 1st it'll be the second cycle and so on. So, a very fast way to react and we were able to make the supply suitable according to the moment. And when you think of footwear in general, what consumers want and with the trends of sneakers and the flats, that's a reality.
So, based on that we were able to make our assortment more suitable and this will gradually grow. To do that we had some important work to maintain our main

suppliers, where we were selecting the ones that were exclusive for Arezzo&Co and today, they really add on to our product mix.

So we truly believe in this type of business model and it's worth highlighting that, given the fact that we have developed from all the different parts of the shoe, the leather, the soles, in our hands the product engineering that consequently leads to our cost, so you probably remember that we don't have a cost system based on the price of purchase and establishing a markup for each product. Instead of that we have a model that, based on the product of the cost developed, there's a markup of 3.83.

And if we could have more intelligence, be smarter in raw material, negotiating the cost of raw material and developing a process faster, we can lower product cost and consequently, by maintaining that markup, we can have better prices for consumers.

So based on that principle, in collection one of Summer 2020, we were able to lower our price by 20%, and I believe that consumers will be much more sensitive during these times, in order to maintain our volume without changing the quality of the product or the markup.

I'd also like to take this opportunity to mention our gross margins. If you take our business product end consumers, there's a markup of approximately 3.83 times. So that means we have initial gross margin of 68%. So this gross margin is now a huge buffer to support us with discounts for the winter collection, as well as a support to our franchisees, which is extremely important right now and now Suchete is going to talk a little bit more about that.

So, reestablishing this new supply cycle every 15 days, we are very confident that this is going to be a huge advantage for us. Also, we want to maintain our production in the state of Rio Grande do Sul. We started having greater investments in the city of São Paulo. You know that we were born in Belo Horizonte, we came to the South in 1995 and basically, until 2010, we had been operating from the state of Rio Grande do Sul.

Once we went public, we started investing more in the São Paulo region. But right now, we believe that strengthening our Rio Grande do Sul operations, so that we can have greater integration between the areas will be important.

So, all research, R&D area and our hubs will force commercial and planning to be transferred to Rio Grande do Sul. In addition, it is the core of our digital, which is now the great backbone for our company, and it is here in Rio Grande do Sul.

So, we can reduce the cost of operation, which we believe is essential right now. And as I mentioned in the beginning from the article, something that is very obvious, right now it's important for us to minimize or no investment. So, within this very important premise, we have reducing basically to zero the structures for the brands we called the Start&Co are the emerging brands, Fiever.

However we do believe in the space and the room in the markets that we have for them to maintain them strong in the market, but in order to reduce cost, we migrated the structures of these brands for the same armor brands for, like, Anacapri and Schutz. And within this concept and using the principle I mentioned to take a few steps back, from Anderson, we are remodeling our operations in the markets.

We had a very huge process to reduce our brick-and-mortar structure and a large part of our corporate team to make it leaner in order to merge the brands Alexandre Birman and Schutz with multitasking people, leading to lower costs for our companies. So we knew that we were on an investment path for the stores and that's why I'm here telling you old news, but if you look at the most recent articles, it's notorious the closing of our stores or recovery or bankruptcy processes from American Bank.

So, we had to close stores in the first quarter of our portfolio in the U.S., two on Madison Avenue and two in Miami. Schutz from the Aventura Mall and Alexandre Birman at the Bal Harbour Mall and the Schutz store in Beverly Hills. We always mention this, it’s a very important flagship store for the Hollywood universe and it's also a submission point for the West Coast. So, we closed some of these stores and we have our showroom and our showroom which will impact our accounting operations, but right now we need to take steps back and redesign our growth plan. This is important. And we want to quickly recover our profitability levels, so the forecast for the semester in the Brazil operation, excluding the effects, it is going to come closer to break even.

From now on, we are implementing this new stage, with the restructuring I just mentioned, with layers for our Company, trying to have more multitasking people. I am going back to the origins of this business, which is from a cobbler… now, from the cobbler to the Chief Operating Officer, I'm going to be handling all of it.

So right now we are focusing our omni strategy with strong results, with a fast acceleration of e-commerce, with the brick-and-mortar stores and especially the Porto Alegre shopping mall, but we need to divide these big problems into smaller problem, so we need to tackle those that are easier to solve right now, so we can have, actually, a cornerstone to take other steps.

So now this open store in here, in Porto Alegre, close to us, is going to be a recovering. Yesterday, we had almost 60% of the sales done in 2019. And our target, based on several investments, we will be readapt, readjust the mix of products, redesigning the teams, investment in new technologies, to come close to what we achieved last year.

In addition, we will invest greatly in our platform. We will launch in the next month our unique app where you will be able to buy all brands from Arezzo&Co very integratedly. We are already testing this app and this new website, and we are sure that consumers who buy Schutz today, they also buy Alexandre Birman, Arezzo, so we want to integrate this experience and minimize costs for the websites, so this new platform will be used in the next few months, so that we can also boost the sales for other brands as well.

We will scale the digital salesperson. We already have people who are not salespeople, for example, all employees use digital tools. They consume BRL 2 million in less than three weeks, so we are going to scale because we know that we can have thousands of salespeople becoming local sellers for our business.

In addition, we will also invest in websites for the specific brands can be reselling platforms for peer-to-peer sales. So, this is going to be a very important piece of the strategy right now. And we will also continue our investments in the inorganic growth.

I will now hand over to Rafael Suchete and he will continue with our financial presentation.

Rafael: Good morning everyone. Thank you for being on this call with us. First of all, I'd like to thank the team, the Arezzo&Co contributors, our suppliers, customers. I'd like to congratulate you all, we've been working together to overcome this very challenging moment.

Now going here to the income slide, in the first quarter we were able to reach the same level as last year, when the gross revenue with BRL 455 million, very significant, especially when we look at the sell-in and sell-out table, especially sell-out. We had been on a growth trajectory from January to February, projecting something close to what we saw in the fourth quarter 2019, but with the closing of the stores, as of the 14^{th}, we started to see the impacts on revenue and we ended up closing the first quarter with a little bit of a decrease. This was compensated from the web-commerce channel, with good performance in the first quarter.

In terms of sell-in, it's a more expressive drop here and I would like to highlight the care that the Company had from the very beginning with the multi-brand channels, where we stopped sending products to absorb the inventory, already projecting that these stores would not be able to sell all of these products because of the lockdown.

If you look at our impact here, it's more concentrated in the sell-in for the Arezzo brand and this is mainly due to the impact of Mother's on the Arezzo brand. This is actually a reference brand for Mother's sales during the May period, where we normally use the second quarter of March to send product, so that the products would be arriving in stores in April and we ended up not being able to send these products to our store owners, so you can see that there was a bigger drop in terms of sell-in, also in terms of our privately owned brands comparing to the previous year, where stores had better performances and with a retraction of 4.8%.

Also in terms of revenue, it's important to highlight here that Vans contributed with 49.8 million in the second semester of 2019, so we are on the right path, the brand is already achieving its revenue results from its first day of billing and we are very happy with the results.

In our next slide on the left, we're talking about gross margin with a 20-plus base bps, compared to the first quarter, and also offset by the drop in revenue for the own brands, with a smaller margin for e-commerce and this is what we saw on one side, we saw actually a drop on the other, with a margin very close to what we had the previous year. On the right side, you can see our EBITDA of 64.3 million first quarter, with a growth of 17.8% compared to 19.

Also highlighting the main effects here, we had a tax credit recovery which was very important. This was originated from PIS and Cofins and ICM exclusion and one of our subsidiaries, the lawsuit has already been ruled, which also contributed to this effect.

We also see an effect from our American, our U.S. operations, with lower results compared to the 19 base, but once again, especially in terms of expenses, you can see that our stores, in other words, we had more stores in the same period, additional for transportation and people and we didn't have that last year in the same period. So, the revenue effect is mainly during this period, during the lockdown that we had in the U.S. as well.

In terms of EBITDA, It's worth highlighting that in the first semester we had some expense effects from the Vans operations, which is all the cost of transiting, when transporting a product, fusion of the stores and all the implementation cost for systems, hiring people and the transition overall. These are not going to be recurring costs, so it will not impact future revenue.

Now going to our cash flow, I think it's worth discussing here, which is based on what Alexandre already said, which is to adapt, prioritize and optimize, to adapt ourselves to the new reality, trying to optimize everything we can. So huge focus on cost reduction and valuing adapting projects, what is going to be worth doing in the short-term, what's going to structure our new business model for the future based on what we believe and based on the transformation we believe in and what we believe is necessary to our business, to drive our resources in an effort for that.

Another relevant point, which is preserving cash flow. From the first moment, the Company has already signs that we were aware of the impact, the potential impacts from Covid and, in mid-March, we already assessed that we would be able to use the market to capture revenue before the closing down of the market, so we took very important steps in our levels, we hadn’t done that before, but with the objective to have an insurance, to be solid when facing these challenges, As you can see in our DFs, we had a positive cash flow for the period with BRL 3 million, but now for April and May we have been using, we have been consuming our cash flow to pay our suppliers, we are committed to our customers and suppliers, they are all receiving payments on the appropriate dates and this type of consumption of the cash flow is reaching our end, so we reached our peak without huge impact, we're talking about BRL 70, 80 million in terms of what we had in the first quarter, in the closing of the first quarter, so we see that, in terms of recovery, with some challenges still, but we won't have huge consumption of cash flow with this type of impact that we have seen thus far and this is very much supported by the e-commerce revenue, which will provide cash flow to cover our monthly expenses.

I think these are the points I had to mention, I will now open up for us to start our Q&A with Alexandre and with you, please feel free to ask your questions.

Alexandre: Congratulations, Rafael, and everyone who's here. Aline. This is a very interactive and cool way to do the call.

Aline: So, our first question is from Robert Ford, from Merrill Lynch. He is asking what are the conflicts that we might see in terms of the omni-channel with our franchisees and with the multi-brand channel. And what will be the new normal for these omnichannels once stores start reopening?

Alexandre: Thank you, Bob. This is Alexandre. You can now see, I don't have to say it’s me, because you can see me. For the multibrand, I can say that the multibrand channel, although it's extremely important for our business, it is complementary to our strategy. And it's very localized mainly in small towns, small neighborhoods throughout Brazil. So, it's hard to believe, but the multibrand channel is faster, is going faster than the franchises because of the location of these stores. It's more than 50% of the open stores and we already be able to sell in, and we are changing collections for the multibrand channel.

In terms of the omnichannel, we believe that this is very much spread out. In terms of the franchisees, this is very important for us. So, this is something that needs to be considered. And when we started our e-commerce operations, there were different realities for the different brands, starting by the brand with the highest digital sales percentage, the Schutz brand is now able to achieve 75% of its revenue at this time between the brick-and-mortar open stores and those operating through store shipping and e-commerce. So, it's a very digital brand, the Schutz brand.

In 2011, we started the e-commerce operations much earlier than the franchisees, so when the franchisees started in this network, they already had digital commerce. For the Anacapri brand, we are still designing how to be aligned. Our first step, in terms of testing for April and May, was to create a fund where we are paying 5% of e-commerce sales to the franchisee with a store in a radius of up to 20 kilometers from that online sale point. So, this is surely helping out to our cash flow for May. And with that, we were able to have the whole network very much aligned, especially with the increase in e-commerce sales in May.

All sales through store shipping… our store shipping is going to be the great omnichannel. If you have omni and many strategies, there's many initiatives, but few actually provide the density of revenue and store shipping is one of those. So, the franchisee is the one who's actually going to make up their revenue. That's their revenue. And the app is going to be the big management channel for their local franchisees.

On the other end of the spectrum is the sale that is physically done in the brick-and-mortar store, and the franchisee does not have that model, that specific style or the specific size. In the last 2 months, we have increased commissions for franchisees. We're talking about 20% now and we are looking at the impact that this 20% will have of providing great profitability because they will not have to employ capital. They will only have to pay commission and the operational expenses for the store. We are also making decisions along those lines. That's it. Aline?

Aline: My next question from Bob is how much sale, the growth from e-commerce, how much of that would be sales that might have been through brick-and-mortar stores? So, what percentage would be incremental sales and what is actually recurring e-commerce sales that would not otherwise happen in the brick-and-mortar stores?

Alexandre: Bob, this is a difficult question to answer. I can give you some data that will provide you the answer. Most of the sale starts with 2 types of customers. First, an active customer from our bases and customers that we recovered from that bases. Or in other words, a customer who had not bought anything from any of our stores in the past 12 months. The percentage of 20% of sale has been for new customers or new customers that had not otherwise been registered in our databases before.

And the other point of your question, which is something very important to think about, with stores reopening, what will actually be the real market for e-commerce? Our understanding is this: e-commerce is in constant development. Every day, we are employing new tools, improving deliveries we have a lot to improve in terms of delivery, we have a final project to understand how we can deliver on the same day in São Paulo, even with the inventory, with stocks coming from Espírito Santo.

So, my answer is we believe that this level of BRL 50 million per month is independent from stores reopening or not. And for 2021, we have some new initiatives such as the 1P platform and new brands for our basis, which is going to be a lot greater than it is now for 2021. We have started our planning for that future period. So, it's going to be complementary, an add-on sale on top of the existing customers. They're going to have greater sales by the customers and using the store as a point of contact.

Aline: The next question is from Victor Saragiotto from Crédit Suisse. So, Alexandre, it seems like you're thinking your business model given the conditions imposed by the pandemic, but also an essential… will play an even more essential role in the next quarters. So how do you see the role of brick-and-mortar stores in this new model? About same-store sales, could we suppose that you would invest more and more in logistics, since its efficient delivery and shipping is better for conversion? And is it the company that's responsible for inventory in stores?

Alexandre: Victor, thank you for your questions. So, the role of brick-and-mortar. We believe that, yes, there was already a trend to switch where they had to have much more conversion, connection, sorry, than in the digital store, and that's a reality. Today, we see that it used to be a trend. And on another note, it was a trend and now it's becoming an absolute reality because of this moment. We believe that the relationship of the salesperson with consumers in brick-and-mortar stores and that the strength of brand awareness that is created when a person actually has that contact, that experience with a brick-and-mortar store cannot be replaced. It will still be very important.

However, the way you allocate physical inventory in stores and how you operate that, that would change in a very radical way. So, we were already rehearsing, I'd say, about the sale. It wasn't an idea that was created during the pandemic. We already had that idea in our heads because our business has a number of variables.

So, there's a style in 3 different colors and having that in 10 different sizes, the number of SKUs, that means you're going to have to have at least 30 pairs. So, it's 1 for each size, right? We already knew you can't go to a store and have just a couple of items. That's not seductive. It doesn't make a customer engage with the store if you do that. So, if you have that, then 1 pair of each of that entire mix, then your inventory is too high. So, depending on store, when you have that store experience, where a consumer can get her product at home without having the franchisee stock up on the product was the issue.

And just so you know, in the first cycle, in the first summer cycle, we sold approximately 100,000 pairs to franchisees in all brands. So, 8000 pairs for samples. So, we had to make some changes to our industrial process, and now we will invest in logistics. So, it's about the speed of the customer going to a store, having the experience, picking a product, buy it and not taking it home, getting it at home. To get them into that, that's essential.

So how will we be able to have that agility? And our main focus will be in the city of São Paulo, southeast and down south. We can't believe that we'll have efficiency over a night all over Brazil, especially given the size of the country. But we believe we'll have a good experience for the customer and then decide how we'll have regionalized distribution. Still not in the pipeline for 2020, but we believe it's the path about how we can listen to other structures that have already been established as a partnership, so that we can deliver within the deadline or turnaround time of a maximum of 2 days, that we believe, after you buy at the store.

Aline: Next question from Victor is about inventory risk. So, some are more fashionable and others with seasonal trends. So how have you been working to reduce that impact? And how will you combine that with a higher markdown or having to write off inventory?

Alexandre: Let me try to separate things in the question. Write-off. It'd be something specific from the winter collection cycle. That's something we have never done before. We're always able to spread out that inventory in the chain throughout the months. Our gross margin, the plant cost to consumers, it's much higher. It's very high, it's 3x that. And then the markdowns established to the beginning of August, we have a gross margin in the channel that's still very healthy.

But going back to the future, there's 2 ways to improve your inventory risk. The first one is through more predictability. So today, how do you do that? Through data, through analytics. So, each model can understand the sales curve, the demand expected for that period that you expect it to be in the store. So, it's more essential. And now we'll be investing in that in June, in facilities, renovation. The merchandising area that was in São Paulo will be moved, except for the people that will coordinate the sell out for the franchises. That will all move to Rio Grande do Sul, and we'll be investing a lot in data so that we can improve predictability.

The second is taking fast action so each product, with less product, more fragmented, so to speak, consequently, you'll have less concentrated risk. And then based on the sales reaction, I can produce much faster in a customized way and deliver that to consumers. So, our current industrial capability in terms of speed is really surprising. We've been able to turn around product. This is separate data. You can't really take this into account, but we were able to… last week, we saw just a hands-on example.

So, stores are reopening and will reopen in June, in the first week of June in São Paulo. We had a product called The Home Collection that we developed later for Arezzo, and we had a high acceptance in e-commerce. And we believe that's very important for customers, this mini collection, to arise interest. We were able to produce that in 5 days, 10 different styles to be delivered tomorrow in stores, for the stores that will open next week. So, the fact that we're able to produce fast will help a lot to mitigate inventory. We'll have a lighter chain in all centers because we want to produce faster. So, when you have predictability with fast action, you can mitigate the risk. And depending on if you're dependent on suppliers that are not truly connected to your business for imports, then you wouldn't be so fast. But I'm sure that our full-price sales, which is our goal, will grow a lot.

Aline: Next question from Ruben Couto, from Santander. He says that you said that the e-commerce channel had a lower margin, gross margin throughout May, given more discounts, promotional discounts? Is that just a specific one-off effect? Or should we expect the channel having a lower margin, given the current competitive scenario?

Alexandre: Ok, let me split that into two. To be able to sell the best way possible all the inventory created, given the temporary suspension of store operation, I'd like to say, imagine a locomotive train that was at 300 kilometers per hour. And right behind it, you have 750 cars, the stores and then the plants. And then you step on the brakes. And in one week, all these cars are going to run into the locomotive. So obviously, we were able to work on production. We didn't cancel many products.

However, in order to maintain our suppliers, we did keep products in production because we know that the demand for those products naturally won't even happen given that its late production. So, until August, we expect to maintain gross margin that we had in March, 50-some-percent. But there will be sometimes where we'll have a higher supply dropping to not under 45%. And we know that the volume, the sales volume and high growth, when you look at gross profit, the growth offsets the margin reduction. And therefore, fixed expenses are offsetted, leading to the positive bottom line.

So, in April, that was the first full income statement at that level. So, we sold BRL 48 million in April with a contribution margin higher than 25% for e-commerce in the bottom line. So, we believe that that's going to be a very important business for this current scenario. When you look at August, where with most of the sales from the new collection, not most, but over 50% in higher growth of our products, the trend is that that margin will gradually increase.

But we don't expect to operate any longer with the margins from 2019, approximately 65% of e-commerce. Because when we pay commissions to franchisees for the sales in the infinite shelf, we have that margin. That margin comes from your price. And then we created the fund for franchisee assistance. I don't know how long that's going to last. I think we might have to keep it for a couple of more months. That affects the margin. So even though the initial gross margin will grow, the absolute gross margin, when you consider the level of commissioning that we're going to have to have for the chain, that gross margin will be approximately 55%. That's what we expect for our base.

Aline: Ok, Alexandre, I'm going to have 2 questions from Helena from Itaú and Irma Sgarz. They're asking about multibrand. And the other question is about if there were store closures, we'd be interested in buying our franchisee stores? Or in fact, that if those stores do close, if our web channel would be able to capture those sales?

Alexandre: Ok, Aline, if I forget any of the 3 questions, let me know later. So, I can give first comments about first question. So, managing the health of our value chain is essential for our business. We have to care for that, for something to be coherent overall. The foundation of coherence is what we've been doing, we're using and handling that financial relationship with our franchisees and suppliers. So, coherence and transparency.

So, based on what we had determined, which was to postpone our royalties, approximately 1/3 of the accounts payable that franchisees have towards us, we had a high level of payments, giving us a healthy business, generating results. Most of them had a lot of accounts receivable and credit cards. When they were able to reduce their fixed cost or operating costs, they had to pay the product that was provided by us. So, payments are satisfactory.

In May, we had good cash. End of May, the royalties postponed come due. We believe that that is going to be paid. But amidst 700 and some franchisees, we believe there may be around 5% to 10% that would have issues in paying that. And now we're going to talk about how we're managing the franchisees and what we expect. We're very confident in relation to that, to our franchisees for the moment and, for the future, it'd be establishing new aspects. So, the cost of stores, cost of people and less inventory will be essential for the future.

Rafael: Yes, perfect, Alexandre. As you mentioned, transparency and closeness, being close to our suppliers since everything started. We gained a lot of synergy. Our team from the start, not only franchisees, but also suppliers, we encourage them to use the new benefits, laying off teams and decreasing working hours of retail teams, things that were approved by the government. So, laying off the entire team for franchisees approximately that happened, and the shopping malls have been good partners as well. So, our team has done excellent work in that sense, supporting and generating occupation costs just with the maintenance expenses. So, the franchisees were able to lower their costs and make it leaner. So that makes it easier for a comeback later. We're very close, working closely with those partners for their financial help.

As Alexandre mentioned, our franchisees have accounts receivable in credit cards that will come due in the future. So, they're starting to receive, and they've received in this period, and they were able to pay the Arezzo&Co group with very satisfactory payments. In the multibrand area channel is where we have a lower connection, but everything's been satisfactory on that side, not much different than the franchisees. So we believe that the market will have a comeback, and there will be healthy businesses that will come back when everything does at different levels, obviously, and we will have to adjust things to new levels, that's another important point.

Alexandre: It's also worth mentioning that we are provisioning for the third quarter after we see the leftovers in inventory supporting franchisees and we might see that in our balance sheet as a write-off from accounts receivables. So, our mantra is to preserve the value chain and balance out the interest. It's not just a situation in which the franchisee can take advantage of the moment or a situation in which we can just act as the strongest in the chain and leave our franchisees vulnerable.

So, throughout these second and third quarters, we'll see what's going on and monitoring our web commerce prices, and that will generate significant value. So, something even exponential for this moment. So, it will be more cash, our cash will be more than enough for that. And we are focusing on the long term, and therefore, that's why it's so important to support our franchisees being very coherent and transparent.

There was also another question about buyback, buying back the franchises?

Aline: Yes.

Alexandre: No, we are not interested in turning franchisees' stores into our own stores, we did quite the opposite for the last years. Some franchisees were interested in some of our stores, and we transferred those. We may establish, in some cases, we're learning new ways how to franchise. So be it given working capital, we want to reduce that a lot for some franchisees or how they recover the asset.

So, we're studying ways in which franchisees could become a licensee. We could be the owner of the assets, of the real estate, and that franchisee can operate the store receiving a percentage to cover that. We believe that we're very flexible in the franchising model. We always talked about that. In 2015, we already talked about that. Franchising is a live being, it has to change constantly. So, we're going to find the best ways possible in order to remain very healthy.

Aline: Next question is from Olivia, from JP Morgan. She's asking how do we see the process to open stores again in Brazil? Approximately 25% of our stores are open. But her concern is that as they open again, they increase expenses, right? They start paying rent again. They have to pay employees. So how do we see that process and our positioning in relation to that?

Alexandre: It's a great question, Olivia. Thank you. About the process, good news is that Arezzo&Co and all our brands, when cities decide to open, our stores are ready to open. So, the first thing we need to mention is the local strength of our employees to keep our business, our operations going. I had a pleasure to, the day before yesterday, to visit the Iguatemi store in Porto Alegre, and I mentioned that we are using that as a pilot store. And I'm going to take all executives from the company to this mall to visit the store. But you are absolutely right in terms of while everyone is in lockdown, there aren't certain costs, but once you start opening, these expenses return. So, we will support the franchisees, we will support our people to adapt the volume of their sales to the number of people they have working.

Shopping malls is a huge discussion here. And during this call, I received messages from Artur, and he knows a lot about franchises. And there's a very strong movement towards the shopping malls. Here, everything was very coherent. But from now on, we need to understand how they're going to work. But there's no sense in having a fixed rent, it has to be a percentage on revenue. This is going to be paramount for stores to have their insured financial sustainability. And we need to monitor very closely and in terms of the franchising mapping was very efficient, and we need to understand the operations from the franchisee. We will need to understand their operations, but franchisees without profitability just cannot operate for very long. It's a snowball. And we will have to pay for it at the end, nonetheless. So as of August, we need to see positive results.

Aline: Next question. And here I'm combining some questions about the U.S. So, talking about the changes in the recent operations, we mentioned a few in the U.S., but what will be the new potential for the U.S. due to these difficulties from the department stores? And if we see the change in the mix of channels and the FX issue, how are we getting ready for that? And how can we protect ourselves from the FX effects?

Alexandre: Well, thank you for that comment, for that point. It's absolutely important to discuss this for our business. Before I answer these questions, I'd like to talk a little bit about our strategic mindset right now. So, in these last 2 months, it was important to focus on the core of our business, as you saw, in terms of digital operations, revenue, and we employed great energy into that. Sustainability for the value chain, I'm going to talk about check, which is a very constant process, redefining our business model in terms of collections, sample sale concept, the size of our structure to adapt to the size of revenue.

The U.S., we weren't able to prioritize everything. So, the first initiative was let's stop expense, let's cut costs, expenses. So, it wasn't a strategic move, but we it was a remedy. So, we had to stop the bleeding in terms of expenses. There was a huge reduction in the number of people, closed stores. I thought that these closings would have great impact in the short-term for us in terms of cash flow, but ok. We established a new team and had as our captain, Caligaris, with a 12-

person team with all the areas needed, marketing, merchandising, all the essential areas with fewer people, strengthening the web channel, even with the distribution that is not exactly the way we operate here, we closed some of the third-party distribution. But still, we had growth in the online sales. So, to cut costs, maintain the online channel with some growth. And I'm saying Schutz is going to have over BRL 600,000, which is around US$ 100,000, we were able to get that. But now reestablishing a new model is what we need to do.

To answer your question, this is what we are going to start working on. Right now, we believe that by the end of June, we will have a better clarity in terms of what the new normal is. Tomorrow, we have a call with Nordstrom, Neiman Marcus will be a challenge for us, with Saks Fifth Avenue, Bergdorf Goodman. And so tomorrow we need to understand what their projections are and how they actually understand the potential volumes, stocks, inventories and how they will use our time to market speeds to be able to grow with us. But I already talked a few times with the Nordstrom head, one of our main partners, and they know of our potential in terms of speed and they want to grow with us. But we need to understand what this volume is. We don't have those answers right now.

What we are going to do that has much to do with our strategy, during this time that we've been in operations, we have interesting price when we convert U.S. dollars to BRL. It's a much higher cost in the product in BRL and Brazil. But in this white space, when we talk about Schutz in around USD 180, we're talking about almost 80% to offset the high expenses that we had and still was not enough. It was still lower than on the expenses. So, as we were able to reduce expenses, these effects will now start showing their effect in the second semester.

We will follow up the evolution to bring the price much closer to what it's sold in U.S. dollars, with the FX rate of BRL 5 per USD, so we're still conservative, but this is what we are working with. And we're going to bring it to a markup of around 3.83% for the point of sales plus tax. So, when we put all of these numbers together and translate it into price, Schutz is going to be operating at around USD 100. This will bring us huge competitive advantage. So we will reach a new level, and we want to grow revenue, not in the short term because we had a lot of inventory there when they start reopening and because these were department stores, but we believe that we are already tracing the route for 2021. So, we'll be at a very competitive level. It's going to be different.

We're talking about a Clarita, which has around a BRL 200, that was sold over there at $590 and it's now going to be sold at USD 390. So, we believe that there's a huge market potential because these are very traditional brands and everyone is going through a very delicate, a very sensitive situation here. We are restructuring our product operations. So, in the medium to long term, we are still very confident with the U.S. operations, but we are confident that these decisions we took were inevitable.

Aline: Alexandre, the next question is from Tobias. He's saying that it is clear that we don't know what we're talking about. We don't know what is going to happen with the channels. We're talking about just-in-time. We don't know what's going to sell more or less. So, the fact that in Campo Bom, to be able to adjust for a market we actually don't know the size of yet, will we have to buy everything online? What about the stores?

Alexandre: Hi, Tobias, thanks for your question. It is always a pleasure interacting with you. Actually, we believe that just-in-time is going to be a huge differential for Arezzo&Co. We are in a region where the products will arrive in São Paulo in 2 days, and we have a huge, a tremendous capacity to produce and deliver. We believe that when this is connected to digital, what we said before, which is delivering products from the cobbler's hands to the feet of the customers, we believe that many of you have used this concept before and you understand what we are doing, receiving products in 72 hours. We're going to put that into practice. This is going to be very hands on, and this is going to be essential for those who have the tax and fiscal benefits to be able to work with that. We will implement several tests in July to understand how that's going to work. But we believe in it.

In terms of São Paulo, the leadership of our brands and our stores are very important hubs. All of our brands, Fiever, Alme, Schutz, Anacapri, Arezzo and VANS have their flagship stores on Oscar Freire Street, and we have a marketing team and our brand leadership teams that are very much connected to everything that's going on and providing very quick information to them and I am there every week. And now we have a huge concentration in the U.S. to work with that to grow our market share for Arezzo&Co.

Aline: I have 3 more questions. The first one is in which marketplaces did we start? In the beginning of the crisis, we announced that we were going to enter some marketplaces. So, what is still there to be done? And which brands contributed positively for the sales that were shown in e-commerce results? And the other question that has to do with the new growth channel. How is the digital online salesperson going to work?

Alexandre: Ok. So, it was only the Anacapri brand at Zattini, belonging to Magalu. This was the test that we did, and the results are very low. Out of the potential growth that we had; we were able to see those figures. So, it didn't come close. It is not our path with the test that we did. Our path is our own operations.

We don't want our product in third-party stores. We will become the big online player. We are going to greatly invest in people and technology to reinforce our e-commerce areas in every sense possible. Monday, we will start doubling our own capacity online. We don't believe in outsourcing. We believe that good e-commerce needs to be proprietary as many other steps, technology, logistics. So, we will invest greatly in that. We did that test, but I don't believe that is the way to go for us. Can you repeat the other question?

Aline: About the digital salesperson.

Alexandre: So, we tested that, and we saw very impressive figures, very impressive number. One person from Arezzo&Co, a manager, who sold in 3 weeks BRL 200,000, this is the sales for 1 good store. And this was her influence and on her social media platforms, on Instagram, friends and family channels. So, we had almost 350 people from Arezzo&Co selling during this period in addition to the salespeople.

So, this was very quick with control systems that were very homemade when we need to scale that for 5,000, 10,000 people. But that is absolutely our focus. It is a priority, and our intention is to start the summer collection with this new initiative ready to go not only for those that are micro influencers, but large influencers, big influencers who can also be resellers to sell our products. This is something we believe in and now we have learned how to structure it, to scale it.

And something else we are studying. When we talk about results for the second quarter, we will already have data of the e-commerce franchisee operations. So we will place our franchisees to go, for example, to Porto Alegre, and if they move, they're going to be reconnected to the local e-commerce and they will have access to the stocks in that city, and all service will be done through that franchisee. So, we have several digital initiatives. We have a very strong team led by Maurício, who in the last few months has contributed greatly to our company. So, with a capacity and the strength to say that. Any other question, Aline?

Aline: Another question is the market consolidation movement. So how do we see a competitive environment if we believe that we are able to gain market share? And how do we see the M&A movement, because we are looking at some opportunities already?

Alexandre: Good question to close out. About market share, we still don't have a lot of data. We're going to close out the month of May with the strategy, right Aline? But our feeling is that is going to be a huge gain in market share. If you look at the brick-and-mortar stores and online stores from April and May, we're talking about sell-out revenue around BRL 200 million, maybe a bit more, or BRL 2.4 billion for the year.

So, we believe that this is due to a very high market share in that period and we are reviewing the other players, because there are 2 types of players in our business. You have factory brand that are not connected to the customer, have no relationship with the customer; or there are stores, some even franchises, but then don't have the same relationship. So, the sales capacity for these 2 types of players, we estimate, that are not very high with customers when you compare revenue to last year.

In terms of M&A, it is still very early to talk about that. We still have a lot of things to do in-house. So, the focus is a big revolution in our model to bring positive results as soon as possible with a very strong sales movement. However, our cash flow is still very strong, is very robust. Our new debt is BRL 450 million. We are nowhere near that. Much less, we know that our gross cash flow was around BRL 250 million in the previous period.

And according to Rafael Sachete, with this cash flow, even with the challenges we face, franchisee support, etc., we'll be low in the next few months. So, the revenue for credit cards, BRL 48 million, with a gross margin, we'll be able to pay for our SG&A. So, for this cash, we have 2 paths. We either pay back our loans or we're going to use this as a phase for the growth. But it's still very early to talk about this. We need to go back to normal first. And we estimate that in the next 2 to 3 months, these conversations will arise again. But our focus right now is in-house, but we are very much prepared financially to face the future.

Aline: All right. So, we have no more questions now. Alexandre, you can close out.

Alexandre: Great. So, the questions were great. I'd like to thank everyone for your interest and dedication. I'd like to apologize because I know the conference call was much longer than it usually is. It was a different kind of interaction. I hope that even though it was very long, I hope that we were able to hold on to your attention. So, this example is an example of the good things that exist, the good things that happen. I know it's hard to see that in a pandemic, but there's a lot of examples that we could get out of this and be more dynamic. Now we can have the video. So, I believe that the interactions that we've had with our investors throughout these months show us that the previous paradigms about conferences and so on will be broken. And just to give you some examples of the things that we will be able to achieve and do better and act with more efficiency, caring more for our society and our environment.

Everybody knows me as an optimist. I'm relentless in work. My passion and dedication is very strong to our business. I have to say that I was born and raised in this business, and we have a very strong team. We had many tough decisions throughout the months, long days of work, but we really want to embrace the new normal and all these adversities so that this can fuel our evolution and, consequently, our learning.

So, I'd truly like to thank our team and everybody that has contributed to our company through many years, and our Board of Directors with all their support and how the governments really supports our business. And especially our founder, my father, Anderson Birman. Thank you for taking part in this video earnings call.

Aline: Thank you. Our conference call for the quarter is now over. Thank you.