
AREZZO SCHUTZ ANACAPRI FIEVER ALME VANS "OFF THE WALL" ALEXANDRE BIRMAN

# 2Q20 EARNINGS RELEASE

São Paulo, August 13, 2020. Arezzo&Co (BM&FBOVESPA: ARZZ3), a leading company in the Brazilian industry of women's footwear, handbags and accessories, announces its results for the 2nd quarter of 2020.

## PRICE AND MARKET CAP

**08/13/2020**
R$55.50 and R$5.0 billion

## EARNINGS VIDEOCONFERENCE

**Friday, August 14, 2020**
**1:00 p.m. (Brazil) / 12:00 p.m. (New York)**

**Videoconference in Portuguese with Simultaneous Translation into English**

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## HIGHLIGHTS

- Adjusted Net Revenue reached R$175.9 million in 2Q20, equivalent to 44.7% of the 2Q19 figure;
- Record growth of 200.3% in web commerce (revenue of R$148.7 million), representing 71.8% of the Company's domestic revenues in the quarter;
- Adjusted EBITDA amounted to R$5.6 million in 2Q20 (EBITDA margin of 3.2%);
- SSS (Same-Store-Sales) sell-out was equivalent to 49.5% of the 2019 results, due to temporary store closures prompted by the COVID-19 pandemic;
- Cash position totaled R$565.6 million on June 30;

*Note: these are adjusted results, excluding the amount of R$77.7 million from one-offs, to be detailed ahead.*


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## Summary of Results and Operational Indicators (IFRS 16)

| Summary of Results | 2Q20 | 2Q19 | Δ (%) 20 x 19 | 1S20 | 1S19 | Δ (%) 20 x 19 |
|---|---|---|---|---|---|---|
| **Net Revenues (Adjusted)** | 175.990 | 393.546 | -55,3% | 551.461 | 770.709 | -28,4% |
| **Gross Profit (Adjusted)** | 91.311 | 184.331 | -50,5% | 263.683 | 356.807 | -26,1% |
| ***Gross Margin (Adjusted)*** | 51,9% | 46,8% | 5,1 p.p. | 47,8% | 46,3% | 1,5 p.p. |
| **EBITDA (Adjusted)** | 5.558 | 61.398 | -90,9% | 41.555 | 115.867 | -64,1% |
| ***EBITDA Margin (Adjusted)*** | 3,2% | 15,6% | -12,4 p.p. | 7,5% | 15,0% | -7,5 p.p. |
| **Net Income (Adjusted)** | (31.048) | 35.558 | -187,3% | (23.838) | 58.624 | -140,7% |
| ***Net Margin (Adjusted)*** | -17,6% | 9,0% | -26,6 p.p. | -4,3% | 7,6% | -11,9 p.p. |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Net Revenues** | 154.443 | 393.546 | -60,8% | 529.914 | 770.709 | -31,2% |
| **Gross Profit** | 80.160 | 184.331 | -56,5% | 252.532 | 356.807 | -29,2% |
| ***Gross Margin*** | 51,9% | 46,8% | 5,1 p.p. | 47,7% | 46,3% | 1,4 p.p. |
| **EBITDA** | (72.095) | 68.989 | -204,5% | (7.798) | 123.571 | -106,3% |
| ***EBITDA Margin*** | -46,7% | 17,5% | -64,2 p.p. | -1,5% | 16,0% | -17,5 p.p. |
| **Net Income** | (82.299) | 40.568 | -302,9% | (56.411) | 63.709 | -188,5% |
| ***Net Margin*** | -53,3% | 10,3% | -63,6 p.p. | -10,6% | 8,3% | -18,9 p.p. |

| Operating Indicators | 2Q20 | 2Q19 | Δ (%) 20 x 19 | 1S20 | 1S19 | Δ (%) 20 x 19 |
|---|---|---|---|---|---|---|
| **# of pairs sold ('000)** | 1.079 | 3.185 | -66,1% | 3.970 | 6.338 | -37,4% |
| **# of handbags sold ('000)** | 185 | 436 | -57,5% | 481 | 813 | -40,8% |
| **# of employees** | 2.029 | 2.515 | -19,3% | 2.029 | 2.515 | -19,3% |
| **# of stores*** | 741 | 696 | 45 | 741 | 696 | 45 |
| ***Owned Stores*** | 53 | 54 | -1 | 53 | 54 | -1 |
| ***Franchises*** | 688 | 642 | 46 | 688 | 642 | 46 |
| **Outsourcing (as % of total production)** | 90,9% | 90,3% | 0,6 p.p | 90,5% | 90,2% | 0,3 p.p |
| **SSS² Sell in (franchises)** | -90,7% | 1,3% | -92,0 p.p | -34,4% | 1,2% | -35,6 p.p |
| **SSS² Sell out (owned stores + franchises + web** | -50,5% | 4,1% | -54,6 p.p | -32,5% | 4,0% | -36,5 p.p |

Adjusted Results: Excluding R$77.7 million in 2Q20 related to one-offs (non-recurring elements), to be explained ahead. Also excluding one-off events and effects from extemporaneous credits in 1Q20 (R$28.3 million), 2Q19 (R$7.6 million) and 1Q19 (R$0.1 million).

* Including stores abroad

(1) On January 1, 2020, Arezzo&Co became Brazil's sole operator of the Vans brand in all of its distribution channels - franchises, owned stores and multi-brand.

(2) SSS (Same-Store-Sales): the stores are included in SSS as from the 13th month of operation.

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## One-off events

For a better understanding and comparability of results, 2Q20 figures are adjusted to exclude one-offs in Brazil and North America operations. Details on these events are described on page 5 of this document.

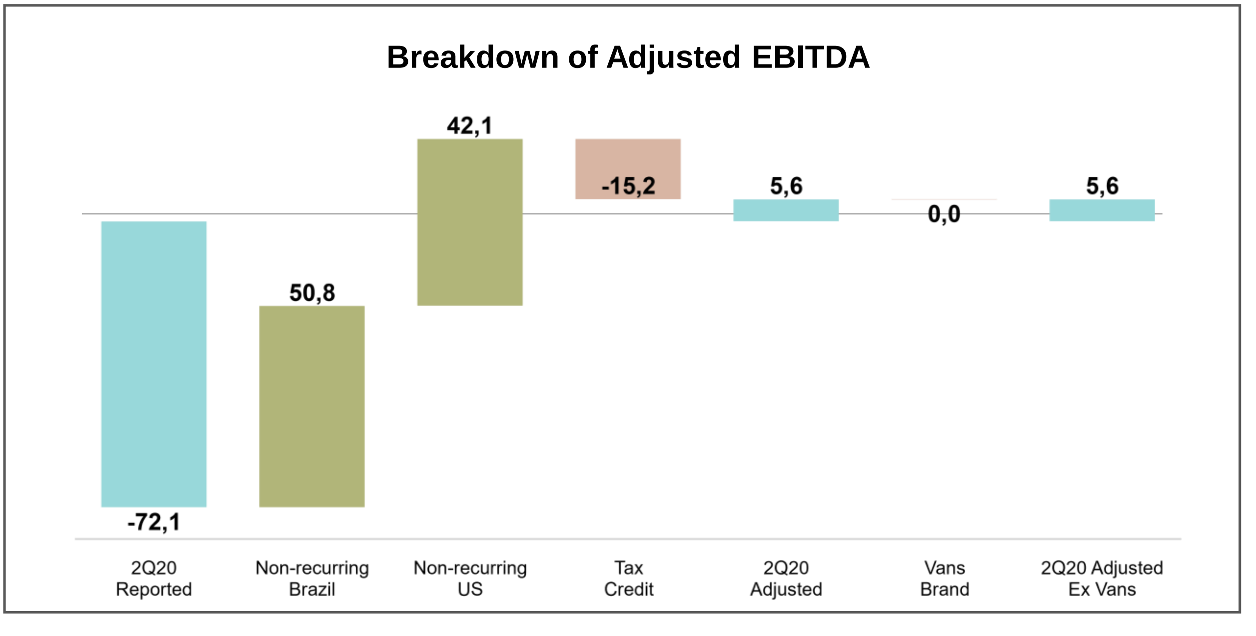
Note that 2Q19 results were also adjusted to exclude extemporaneous credits earned in fiscal year 2019, to create a better comparison base for analysis.

| Key financial indicators | 2Q20 | Nonrecurrent Adjustment | 2Q20 (Adjusted) | 2Q19 (Adjusted) | Δ (%) 20 x 19 Adj. |
|---|---|---|---|---|---|
| **Gross Revenues** | 228.849 | 4.671 | 233.520 | 489.482 | (52,3%) |
| **Net Revenues** | 154.443 | 21.547 | 175.990 | 393.546 | (55,3%) |
| **COGS** | (74.283) | (10.396) | (84.679) | (209.215) | (59,5%) |
| **Depreciation and amortization (cost)** | (817) | | (817) | (743) | 10,0% |
| **Gross Profit** | 80.160 | | 91.311 | 184.331 | (50,5%) |
| *Gross margin* | *51,9%* | | *51,9%* | *46,8%* | *5,1 p.p* |
| ***SG&A*** | (171.328) | 66.502 | (104.826) | (142.801) | (26,6%) |
| *% of net revenues* | *(110,9%)* | | *(59,6%)* | *(36,3%)* | *(23,3 p.p)* |
| **Selling expenses** | **(118.765)** | **56.797** | **(61.968)** | **(84.011)** | **(26,2%)** |
| Owned stores and web commerce | (31.401) | 4.879 | (26.522) | (29.009) | (8,6%) |
| Selling, logistics and supply | (87.364) | 51.917 | (35.447) | (55.002) | (35,6%) |
| **General and administrative expenses** | **(33.793)** | **9.011** | **(24.782)** | **(37.842)** | **(34,5%)** |
| **Other operating revenues (expenses)** | **(514)** | **694** | **180** | **(1.822)** | **(109,9%)** |
| **Depreciation and amortization (expenses)** | **(18.256)** | | **(18.256)** | **(19.125)** | **(4,5%)** |
| **EBITDA** | (72.095) | | 5.558 | 61.398 | (90,9%) |
| *EBITDA Margin* | *-46,7%* | | *3,2%* | *15,6%* | *(12,4 p.p)* |
| **Net Income** | (82.299) | | (31.048) | 35.558 | (187,3%) |
| *Net Margin* | *(53,3%)* | | *(17,6%)* | *9,0%* | *(26,6 p.p)* |

Adjusted Results: Exclude R$77.7 million in 2Q20 related to one-offs (non-recurring elements), to be explained ahead. Also exclude one-off events and effects from extemporaneous credits in 1Q20 (R$28.3 million), 2Q19 (R$7.6 million) and 1Q19 (R$0.1 million).

## Non-recurring items and impact on EBITDA

| Event | Amount (million) | Description | Cash Effect | Impact |
|---|---|---|---|---|
| Asset Write-off | (R$16,6) | Asset write-off: closure of 5 US stores (being one pop up) and the office in New York | | SG&A |
| Buy out (Rescission) | (R$14,8) | Expenses associated to the rescission of lease agreements due to the closure of 5 stores and the office in New York | ✓ | SG&A |
| Terminations (People) | (R$5,6) | Rescission related to adjustments to corporate structure | ✓ | SG&A |
| PDA | (R$3,8) | Provision for losses associated to the wholesale channel | | SG&A |
| Discounts | (R$1,3) | Provision for discounts in the wholesale channel | ✓ | Gross profit |
| **Total North-American Operations** | **(R$42.1)** | | | |
| Franchisees Aid Fund | (R$19,0) | Provision for future discounts in franchise and multi-brand channels on products billed in 1Q20 and put on sale in stores over the subsequent months (to be deducted from 3Q20 new billings) | | SG&A |
| Terminations | (R$12,4) | Rescission from adjustments to corporate structure | ✓ | SG&A |
| Returns | (R$6,6) | Returns in franchise and multi-brand channels (provision of R$4.9 million) | Partial | Gross profit |
| PDA | (R$6,1) | Provision for losses in franchise and multi-brand channels | | SG&A |
| Discounts | (R$3,7) | Discounts granted in the multi-brand channel in the quarter | ✓ | Gross Revenue |
| Assets Write-off | (R$3,0) | Provision for write-off of 8 owned stores, to be transferred to franchisees, or closed | | SG&A |
| Extemporaneous Tax Credits | R$15,2 | Extemporaneous tax credits (ICMS on PIS/COFINS) | | SG&A |
| **Total Brazilian Operations** | **(R$35.6)** | | | |
| **Total Arezzo&Co** | **(R$77.7)** | | | |



## Gross revenue breakdown by brand and channel

| Gross Revenue | 2Q20 | Part% | 2Q19 | Part% | Δ (%) 20 x 19 | 1S20 | Part% | 1S19 | Part% | Δ (%) 20 x 19 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Gross Revenue** | **228.849** | | **489.482** | | **(53,2%)** | **694.086** | | **952.012** | | **(27,1%)** |
| **Foreign Market** | **21.745** | **9,5%** | **65.946** | **13,5%** | **(67,0%)** | **85.251** | **12,3%** | **121.172** | **12,7%** | **(29,6%)** |
| *Exports* | *10* | *0,0%* | *17.315* | *26,3%* | *(99,9%)* | *9.653* | *11,3%* | *28.949* | *23,9%* | *(66,7%)* |
| *US Operation* | *21.733* | *99,9%* | *48.631* | *73,7%* | *(55,3%)* | *75.598* | *88,7%* | *92.223* | *76,1%* | *(18,0%)* |
| **Domestic Market** | **207.104** | **90,5%** | **423.536** | **86,5%** | **(51,1%)** | **608.835** | **87,7%** | **830.840** | **87,3%** | **(26,7%)** |
| **By Brand** | | | | | | | | | | |
| *Arezzo* | *81.042* | *39,1%* | *228.114* | *53,9%* | *(64,5%)* | *262.489* | *43,1%* | *450.920* | *54,3%* | *(41,8%)* |
| *Schutz[1]* | *58.689* | *28,3%* | *117.334* | *27,7%* | *(50,0%)* | *162.166* | *26,6%* | *229.613* | *27,6%* | *(29,4%)* |
| *Anacapri* | *22.741* | *11,0%* | *56.775* | *13,4%* | *(59,9%)* | *73.237* | *12,0%* | *111.137* | *13,4%* | *(34,1%)* |
| *Vans* | *33.855* | *16,3%* | - | - | *na* | *83.584* | *13,7%* | - | - | *na* |
| *Others[2]* | *10.777* | *5,2%* | *21.313* | *5,0%* | *(49,4%)* | *27.359* | *4,5%* | *39.170* | *4,7%* | *(30,2%)* |
| **By Channel** | | | | | | | | | | |
| *Franchises* | *6.691* | *3,2%* | *196.514* | *46,4%* | *(96,6%)* | *179.854* | *29,5%* | *404.850* | *48,7%* | *(55,6%)* |
| *Multibrand* | *37.683* | *18,2%* | *107.402* | *25,4%* | *(64,9%)* | *151.914* | *25,0%* | *203.902* | *24,5%* | *(25,5%)* |
| *Owned Stores* | *13.754* | *6,6%* | *69.461* | *16,4%* | *(80,2%)* | *64.077* | *10,5%* | *130.027* | *15,7%* | *(50,7%)* |
| *Web Commerce* | *148.730* | *71,8%* | *49.519* | *11,7%* | *200,3%* | *212.573* | *34,9%* | *91.004* | *11,0%* | *133,6%* |
| *Others[3]* | *246* | *0,1%* | *640* | *0,2%* | *(61,6%)* | *417* | *0,1%* | *1.057* | *0,1%* | *(60,5%)* |

| By Channel (ex-Vans) | 2Q20 | Part% | 2Q19 | Part% | Δ (%) 20 x 19 | 1S20 | Part% | 1S19 | Part% | Δ (%) 20 x 19 |
|---|---|---|---|---|---|---|---|---|---|---|
| **By Channel (ex-Vans)** | **173.249** | | **423.536** | | **(59,1%)** | **525.251** | | **830.840** | | **(36,8%)** |
| *Franchises* | *6.049* | *3,5%* | *196.514* | *46,4%* | *(96,9%)* | *177.769* | *33,8%* | *404.850* | *48,7%* | *(56,1%)* |
| *Multibrand* | *25.331* | *14,6%* | *107.402* | *25,4%* | *(76,4%)* | *103.894* | *19,8%* | *203.902* | *24,5%* | *(49,0%)* |
| *Owned Stores* | *11.284* | *6,5%* | *69.461* | *16,4%* | *(83,8%)* | *57.047* | *10,9%* | *130.027* | *15,7%* | *(56,1%)* |
| *Web Commerce* | *130.339* | *75,2%* | *49.519* | *11,7%* | *163,2%* | *186.125* | *35,4%* | *91.004* | *11,0%* | *104,5%* |
| *Others[3]* | *246* | *0,1%* | *640* | *0,2%* | *(61,6%)* | *417* | *0,1%* | *1.057* | *0,1%* | *(60,5%)* |

(1) Excludes revenue from international operations.
(2) Includes the brands A. Birman, Fiever and Alme in the domestic market only, and other non-specific revenue from the brands.
(3) Includes revenues in the domestic market that are not specific to the distribution channels.

## Message from Management

Dear Investors,

First and foremost, we hope you are staying safe during this unprecedented and uncertain scenario, which we have now learned to live in.

In regards to the results presented in this document, we would like to emphasize that Arezzo&Co ended the second quarter of this year with a sense of accomplishment, performing better than we anticipated at the beginning of the pandemic.

From April to June, we worked very closely to the market, and diligently communicated all of our initiatives. The following is an overview of major aspects for the quarter:

- We have a culture of employees who are passionate about what they do, which has translated into great dedication and a tangible difference in execution;
- We understand we cannot fully control the impacts of the pandemic on retail (including store reopenings and closures), but we are prepared for a variety of scenarios, and maintain focus on remote sales;
- We resumed factory production on April 23 as one of the very few fashion industry players able to launch new collections during the pandemic. We were able to appeal to our customers' desire for novelty;
- Non-default rates among franchisees and multi-brands are better than anticipated;
- Suppliers have demonstrated sound financial standing benefiting from the government's emergency aid programs and Arezzo&Co's ability to honor payments on time;
- We have seen outstanding results in the multi-brand channel, mostly in street stores located in small towns less affected by the pandemic;
- We were able to maintain the vast majority of our physical stores and franchisees, which currently have regular inventory levels;
- We have a scenario of very low interest rates, creating an attractive environment for franchising and expansion of smaller store models (like Anacapri and Arezzo Light), as well as Vans;
- We had to make difficult decisions, especially within US operations, making changes to the business in order to keep evolving;
- We contracted debt of R$450 million in mid-March, but we did not need to use these funds;
- We have cash available, and after months of deep uncertainty we are once again considering consolidation opportunities in Brazil's fashion industry.

For a better understanding of the quarter's milestones, we highlight 4 pillars of operation: (i) strong acceleration of the omnichannel development; (ii) operational changes; (iii) full support to innovation; (iv) restructuring of US operations; and (v) advances towards becoming a brand platform.

**Pillar #1: Strong acceleration of omnichannel development**

- Consolidation of tools for delivery from store, WhatsApp sales, infinite shelf space (endless aisle), coupon sales and social selling;
- Franchisee engagement and confidence in the process, with continued improvement in service levels;
- Stores still closed able to reach approximately 30-40% of last year's revenue;
- Web commerce revenue was three times higher than 2019, with significant growth rates despite the gradual reopening of physical stores;
- Logistics and distribution centers have adjusted well to serve end customers within the pre-established deadlines;
- Customer service ramp-up (more than 60 employees hired) to provide the best experience possible to end customers.

## Message from Management

**Pillar #2: Operational changes**

- Implementation of bi-weekly launches for greater success in franchisee and multi-brand purchases;
- Optimization of sell-in process to last only a week, 100% online, increasing productivity and reducing lead time. Franchisees and multi-brands then buy closer to demand time, therefore increasing success and assertiveness;
- Average collection prices down 10% to 20%, due to the mix effect (more flats, low-heel and comfortable shoes, which are inherently less expensive) and product re-engineering efforts with suppliers, without impacting gross margin;
- Transformation of store purpose as a place for salespeople to interact with and win over customers, expanding assortment through activation samples and Infinite Shelf Space delivery (web commerce);
- Transformation of salesperson's role, building a closer relationship with customers and working both online and offline;
- Essentially digital marketing and a more segmented communication with customers;
- Changes in the organizational structure to expedite processes and optimize decision-making;
- To achieve greater operating efficiency, the newer brands of the group, Fiever and Alme, were absorbed by the more mature brands in an attempt to benefit from their synergies and expertise;
- Management of the Schutz brand in Brazil and the US became integrated under one brand director, with clear benefits for the marketing and branding strategy.

**Pillar #3: Full support of innovation**

- 100% online launches for sell-in showrooms, with live streams to the franchisee and multi-brand network via YouTube - saving time, energy and money with strong engagement;
- Live Shopping – Live streams on YouTube and Instagram for simultaneous product sales directly to end consumers, bringing inspiring results that encouraged us to promote future editions;
- Launch of the Digital Store model for the Arezzo brand at Shopping Morumbi, in São Paulo, designed to guarantee social distancing, a computer area for salespeople (now "digital consultants") to sell remotely, sales enabled by QR code and no-touch payment;
- Replacement of our traditional resort collection with homewear/loungewear products for all brands. The highlights were Arezzo Home and Living Schutz, which had to be even replenished in the period. The homewear lines of all brands combined recorded sales of 15,000 pairs, with 50% collection turnover.

**Pillar #4: Restructuring of US operations**

- Final adjustments to the country's existing structure included the closure of 4 underperforming physical stores and overhead cuts in the offices, showrooms and corporate teams;
- Very positive scenario starting June, recording profit after a few years of cash burn;
- New positioning strategy for the Schutz brand to appeal to a larger addressable market ("contemporary"), to which we offer the best value for money in the market, despite associated competition;
- Strong adherence of department stores to the new proposed pricing, with a significant increase in sell-in sales to the largest wholesale clients.

## Message from Management

**Pillar #5: Advances towards becoming a brand platform**

- Soft opening on August 14 within the “1P” modality with all 7 brands of the group;
- In mid-September, partner brands will join the platform within the 3P modality (marketplace), which will enable sales of full outfits (by adding clothing and accessories), as well as categories such as home & decor, beauty, among others - therefore maximizing conversion and content creation;
- Possible activation of over 10 million customers registered in our CRM base to leverage traffic in the early months of operation;
- Addition of circular economy on the platform, since brands like Arezzo and Schutz are already among the top 10 best-selling brands on Brazilian second-hand sales platforms;
- Diverse content posted daily by expert professionals and journalists, guaranteeing recurring access.

**Highlights in JULY**

To keep the market informed on subsequent events to 2Q20, we highlight below the evolution of our results over the course of July.

Consolidated operations (including Vans):

- 101% of 2019 revenue achieved (R$ 172.2 million);
- Total SG&A of R$37.8 million, decreasing 20% from 2019;
- EBITDA of R$19.7 million, increasing 42% from 2Q19;
- Sell in total order portfolio of R$244 million, with billings equivalent to 70% of the levels recorded in 2019
- Open stores in Brazil with 50% of last year’s revenue (sell out);
- Closed stores in Brazil with 28% of last year’s revenue (sell out);
- Operating cash generation of R$34.3 million;

US operations:

- Increase of 41% in revenue compared to 2019 (in reais), with EBITDA breakeven

**Brand Performance**

The **Arezzo** brand posted revenue of R$81.0 million in the second quarter, a 64.5% decrease from 2Q19. Although most stores were closed during the brand’s most important sales period of the year (Mother's Day), Arezzo posted significant results, reaching 48% of revenue from the year-ago period - 32% of which in physical stores versus 2019 - and growing 273% in web commerce.

The brand also launched its first Digital Store at Shopping Morumbi, in São Paulo, with an innovative and technological concept that enables a customized shopping experience, combining the online and offline universes. The store includes dedicated areas for sneakers, product customization, and storage space for items sold through the omnichannel. The opening happened at a fully-digital event on the brand’s Instagram page, where Brazilian actress Monica Martelli took viewers on a tour of the store and was joined by influencers, who styled outfits with matching shoes and handbags. In the quarter, the brand also launched its first vulcanized sneakers, ZZ PLAY, a versatile and carefree design that hit the stores at attractive prices (R$129.0). It outperformed in sales since launch and required successive replenishment.

## Message from Management

The **Schutz** brand posted revenue of R$58.7 million in the second quarter (for Brazilian operations), a 50.0% decrease from 2Q19. Mother's Day accounted for 77% of the sales posted in the same period of 2019, with 245% growth in web commerce.

As a highlight in the period, once again positioned as a pioneering, trend-setting brand, Schutz was one of the first Brazilian fashion brands to have a “live shopping” event on its Instagram and YouTube pages. The event included a casual live introduction of the products through a show on how to wear the shoes and handbags with different outfits and styles. During the live stream, the sales team encouraged viewers to shop on the web commerce channels and physical stores (through the salesperson’s WhatsApp). The initiative had inspiring results, with outstanding revenue peaks (sell-out of R$1.0 million in a single day), including a 15% increase in traffic and 22% new customers on the brand’s website.

Furthermore, during the quarter the brand expanded its portfolio to loungewear, providing consumers with new options for times of social distancing, emphasizing the “Stay Home, Stay Fashion” experience.

The **Anacapri** brand posted revenue of R$22.7 million in the second quarter, a 59.9% decrease from 2Q19. In the quarter, the brand promoted various actions focusing on the current scenario, such as how to wear the brand’s shoes at home and adopt self-care and wellness practices. On Mother's Day, the brand achieved 50% of the 2019 sales and posted a 500% growth in web commerce.

The **Alexandre Birman** brand posted revenue of R$4.7 million in the second quarter, a 51.0% decrease from 2Q19. In the quarter, the brand continued to invest heavily in online communication, with live streams about various topics pertaining to its consumers’ lives. For Mother's Day, the brand launched a fully-online contest in which participants designed custom-made sandals for their mothers, and the best designs were chosen by popular vote on Instagram. The winners won the exact sandals designed by their children, making this important day even more special.

The newer brands, **Fiever** and **Alme** performed very well in the online channels, following the trend of the group’s more mature brands. Fiever stood out with strong results for its best-seller “BEAT,” accounting for 23% of the brand’s online sales. Alme launched the “Alme Ecoa” sneakers, made from eco-friendly raw material while keeping with the brand’s attributes of comfort.

**Vans** became the 7th brand of the group after licensing in 2019. In 2Q20, it posted revenue of R$33.9 million. As a highlight in the quarter, despite a challenging scenario, the brand opened two stores in the city of Belo Horizonte (state of Minas Gerais) - the first at BH Shopping and the second at Shopping Pátio Savassi, in line with its expansion plan for Brazil. Please note that half of the brand’s production is sourced domestically, and will continue to be expanded in the short term. Changing production is an important factor for efficiency gains and fast product replacement, in addition to mitigating the impacts of USD appreciation.

Another highlight of the period was the launch of a successful partnership between Vans and The Simpsons. The collection includes sneakers, clothing items and accessories inspired by the cartoon’s universe for men, women and children. Furthermore, during the pandemic Vans launched an initiative that was entirely developed in Brazil, offering free music and artistic content to consumers. Through the brand’s official Facebook page, Vans broadcast the “Vans Living Room Festival” to more than 1 million viewers in the country. The festival included over 6 hours of original content, focusing on performances/artists with a deep connection to the brand. The result was a very high engagement level before and after the event.

# Channels

## Monobrand – Franchises and Owned Stores

Reflecting the Company's strategy to strengthen monobrand stores, the Arezzo&Co POS network (Owned Stores + Franchises + web commerce) had a negative performance of 46.7% in sell-out sales in 2Q20 compared to 2Q19, due to the temporary closure of physical stores since March, with partial reopening at the end of the first half of June. Sales performance at the same stores was -50.5% in 2Q20, with the highest impact seen in April and May during the pandemic peak. **Arezzo&Co currently has 634 stores open (88.0% of the network), which recorded average revenues of 50.0% in July compared to 2019.** Furthermore, 42 stores in the network reopened after the pandemic peak only to close again when cases grew in their respective cities, emphasizing the importance of digital tools for remote sales.

As disclosed in previous notices, Arezzo&Co adopted measures regarding deadlines and supply in the franchise channel, interrupted billing during the period of temporary store closures, and postponed royalties payment. As a result, the Franchise channel saw a 96.6% decrease from 2019. **However, the third quarter is already seeing an important recovery in the channel, which has healthy inventories and actively participates in bi-weekly launches.**

## Multibrand

In 2Q20, revenues from the Multibrand channel decreased by 64.9% compared to 2Q19, mainly impacted by the sell-in interruption during the pandemic. As mentioned in previous notices, Arezzo&Co has also implemented contingency measures in the multibrand channel.

Despite the challenging scenario, Arezzo&Co noticed the channel's resilience due to its customer profile and store locations, mostly street stores in small towns, which are therefore less affected by the pandemic. In addition, the group's brands have a high level of shelf space in these clients, resulting in the prioritization of Arezzo&Co's brands during difficult times. The channel's increased resilience has already been perceived in June's sell-in, where the channel reached 70% of the 2019 revenue. The group's seven brands are distributed across 3,968 stores (51.4% more than 2Q19, in part explained by Vans previous customers) and present in 2,689 cities.

## Strong Acceleration of the Digital Transformation

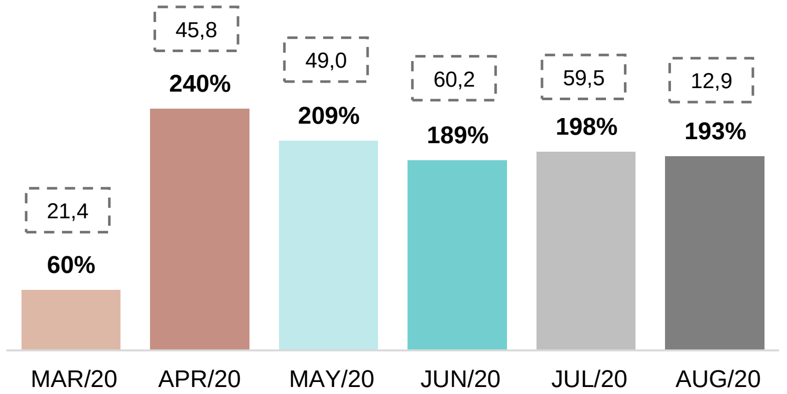
In 2018, Arezzo&Co started its Digital Transformation process, and one of the main action fronts was integrating the physical and online channels, with excellent progress in both the number of stores enabled with the technology and network engagement by owned stores and franchises.

As mentioned in our previous earnings release, the digital and remote sales tools were crucial for the survival of stores during the period they remained closed. In the quarter, stores managed to realize 22.1% of the 2019 revenue through these tools alone.

In addition to the excellent progress in channel integration, the web commerce channel followed the same trend as in the second half of March, posting strong results in the second quarter of 2020. With 200.3% growth (or 163.2% excluding Vans) and 3 times the volume sold in 2019, the channel accounted for 71.8% of sales in the period, enabling Arezzo&Co's revenue to outperform that of its peers in the footwear and handbag segment during this challenging time of closed stores.

*Amounts in R$ MM*

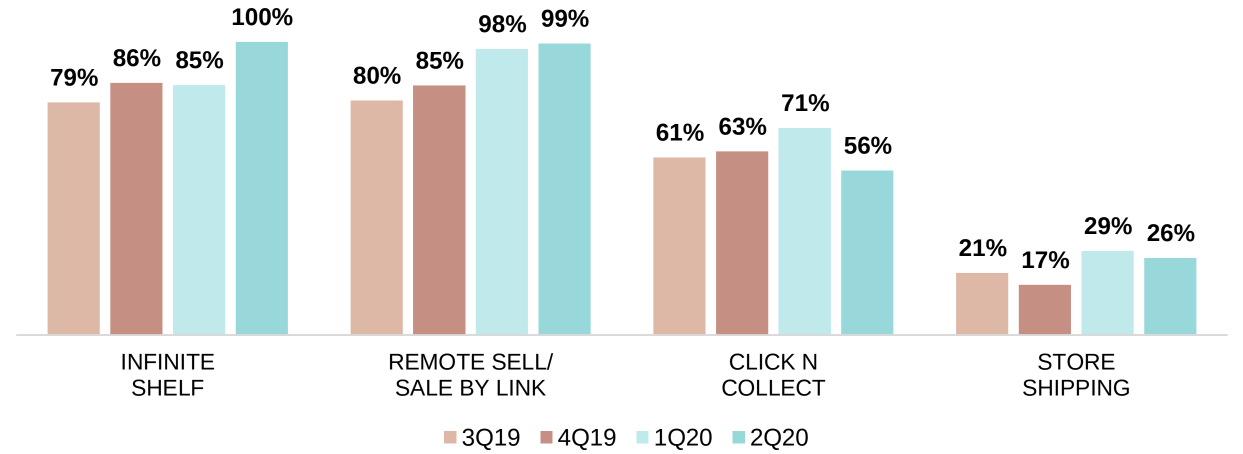
**Evolution of Web Commerce SSS and OMNI Initiatives**




- **+908%** growth in the "sale by link"/ remote sell modality in 2Q20;
- **440%** growth in the store shipping modality in 2Q20;
- **21.4%** new customers in web commerce;
- **69,000** customers reactivated, who had not shopped in over a year.

*SSS of the web commerce channel, including the Vans® brand.*
**Reference date: 08/09*

**Evolution of Technology-enabled Stores – OMNI Initiatives**




** Store shipping: number is growing, since stores are reopening and entering into partnerships with carrier companies.*

Seeking to improve and leverage the results of the omnichannel initiatives, Arezzo&Co is internally developing its Order Management System (OMS), which will enable an even faster and accurate reading of all inventories in the network, making it possible to ship products from different stores in the same order. The Company also launched its next-day delivery pilot in early August. The project consists in next-day delivery of web commerce orders by 3 p.m. Trials are currently taking place in the city of São Paulo, soon to be extended to other capitals in the country.

As discussed in the previous earnings release, in addition to the acceleration of all its digital fronts, Arezzo&Co continues to pursue the dream of transforming its business through the construction of an effectively digital fashion platform. The platform structure was developed and built in the last few months, and an ecosystem will be launched in mid - September, already including partners via marketplace. It will provide a distinguished experience and create bonds with consumers through a curatorship of the best products and brands in the Brazilian market. The platform's soft opening happened on August 11, with Arezzo&Co brands all together, with single shopping carts and shipping, including investments in marketing and streamlined downloads.

## International Market

In the United States, operating revenue dropped by 55.5% (in USD, the decrease was 66.9%). Similarly to Brazil, revenue in North American operations was severely impacted by the global COVID-19 pandemic, including the (temporary or permanent) closure of owned stores and department stores that resell products from our brands. Note that performance has already been improving, since June saw a decrease of 16.3% from 2019. **In July, the brands grew 41.3% in BRL compared to 2019.**

Despite the impacts from the pandemic, including the closure of our distribution center for approximately 25 days, the **web commerce** channel grew significantly by 50.9%, mainly due to the migration of consumption from physical to online channels. In the quarter, brands recorded a 48% increase in website traffic. In the ***owned stores*** channel, in line with the digital-centric strategy, four stores were closed permanently in the country and the remainder recently opened with reduced hours, playing an important role as distribution hubs for store shipping.

As mentioned in our last earnings call, in addition to an operating strategy that increasingly focuses on digital/online sales channels, the Company revisited its pricing policy and decided to adjust the brand's price positioning, entering into the "Contemporary Shoes" segment and resulting in an increase of over 60% in its addressable market in the United States. Department store perception of the change has been excellent, given that product quality will be maintained with more attractive prices, better adjusted to the current market scenario. This feedback was confirmed in the last sell-in to the Nordstrom department store, which performed better than expected - also outperforming the same period of 2019 (the order was nearly 3 times larger). The result of this sell-in will be noted in next quarter's figures. Still, the wholesale channel followed the consolidated result's trend and has also posted better performance in June and July.

The operation's recurring expenses after the restructuring process are detailed in the SG&A section, on page 15. Furthermore, **the operation has already reached EBITDA breakeven level in the months of June and July**, which should remain in the next few quarters.

Footwear exports to the rest of the world did not post revenue in the second quarter of 2020, due to the global effects of the COVID-19 pandemic, as it continued to significantly impact European and Latin American clients since February 2020.

## Monobrand Network

The Company ended the quarter with 741 stores - 730 in Brazil and 11 abroad - increasing sales area by 2.8%, with 45 net openings in Brazil and abroad in the last 12 months.

In 2Q20, Arezzo&Co posted net closures of 13 stores, including the closure of 4 stores in the United States (3 Schutz stores and 1 Alexandre Birman store). It also opened 2 Vans owned stores, both in the city of Belo Horizonte - one at BH Shopping and the other at Shopping Pátio Savassi.

| Store Information | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 |
|---|---|---|---|---|---|
| **Sales area[1,3] - Total (m²)** | **44.322** | **44.835** | **45.925** | **46.265** | **45.544** |
| Sales area - franchises (m²) | 37.768 | 38.739 | 39.752 | 39.794 | 39.302 |
| Sales area - owned stores² (m²) | 6.553 | 6.096 | 6.173 | 6.472 | 6.242 |
| **Total number of domestic stores** | **681** | **700** | **737** | **739** | **730** |
| **# of franchises** | **636** | **658** | **693** | **693** | **682** |
| Arezzo | 406 | 419 | 432 | 432 | 428 |
| Schutz | 73 | 73 | 72 | 70 | 68 |
| Anacapri | 157 | 165 | 185 | 184 | 179 |
| Fiever | – | – | 1 | 1 | 1 |
| Alme | – | 1 | 3 | 3 | 3 |
| Vans | – | – | – | 3 | 3 |
| **# of owned stores** | **45** | **42** | **44** | **46** | **48** |
| Arezzo | 14 | 10 | 10 | 9 | 9 |
| Schutz | 17 | 17 | 17 | 16 | 16 |
| Alexandre Birman | 4 | 4 | 6 | 6 | 6 |
| Anacapri | 3 | 3 | 3 | 3 | 3 |
| Fiever | 5 | 5 | 5 | 5 | 5 |
| Alme | 2 | 3 | 3 | 3 | 3 |
| Vans | – | – | – | 4 | 6 |
| **Total number of international stores** | **15** | **15** | **15** | **15** | **11** |
| # of franchises | 6 | 6 | 6 | 6 | 6 |
| # of owned stores[4] | 9 | 9 | 9 | 9 | 5 |

(1) Includes store area abroad
(2) Includes eleven outlet stores with total area of 2,450 square meters
(3) Includes expanded store area
(4) Includes 3 Schutz stores in (i) New York at Madison Avenue, (ii) Miami at Shopping Aventura, and (iii) Los Angeles at Beverly Drive. Also includes 2 Alexandre Birman stores in (i) New York at Madison Avenue, and (ii) Miami at Shopping Bal Harbour.

## Adjusted Gross Profit and Gross Margin

Gross profit amounted to R$80.2 million in 2Q20, with margin of 51.9% and growth of 510 bps compared to last year. The main factor contributing to the gross margin expansion was the higher share of web commerce (sell-out) in the revenue mix, which accounted for 71.8% of revenue. The quarter was marked by an increase of 200.3% in the online channel and an 85.4% decrease in sell-in channels combined.

## Adjusted Operating Expenses

During the most critical months of the pandemic, the Company took various contingency measures to prioritize cash preservation. Some of these measures were implemented in operating expenses, resulting in approximately 30.0% decrease compared to the same period of 2019.

Arezzo&Co intends to keep expenses lower than in the last few quarters, though continuing to follow its strategic plan. The plan's main pillars include ongoing market share growth, omnichannel operations, and consolidation in the Brazilian fashion market.

**Selling Expenses**

In 2Q20, selling expenses decreased by 26.2% compared to 2Q19, reaching R$61.9 million. Selling expenses include:

(i) expenses with Owned Stores and Web Commerce (sell-out channels), totaling R$26.5 million – an 8.6% decrease from 2Q19 – lower than the 200.3% growth in web commerce and in line with the lower share of the owned stores channel in the mix. This amount includes expenses related to Vans® Owned Stores operations.

(ii) Selling, Logistics and Supply expenses, which amounted to R$35.4 million in the period – down 35.6% from 2Q19.

Expenses decreased in the North American market at approximately R$12.0 million (63,6% reduction), with a higher impact on employees expenses, occupation costs of owned stores and offices, and marketing savings. The operation's selling, logistics and supply expenses totaled R$6.9 million in 2Q20.

The Brazilian operation had the highest savings on the following fronts: (i) transport, due to the suspension of sell-in sales in the period, (ii) lower expenses with sell-in events (showroom) in the franchise and multibrand channels, which are now 100% online via Youtube; and (iii) resizing of the brands' team, especially in commercial divisions. Excluding Vans, which was not included in last year's comparison base, expenses amounted to R$28.9 million, down 47.4% from 2Q19..

**General and Administrative Expenses**

In 2Q20, general and administrative expenses amounted to R$24.8 million, down 34.5% from 2Q19, primarily due to the reorganization of Brazilian and North American operations to reduce layers and positions, seeking greater efficiency and operational agility. These expenses were also impacted by a significant contraction in travel, at a lower ratio.

## Adjusted EBITDA and EBITDA margin

The Company posted Adjusted EBITDA of R$5.6 million in 2Q20, 90.9% lower than in 2019. Despite the adverse pandemic scenario, Arezzo&Co delivered positive Adjusted EBITDA in the period, mainly due to the resilient and profitable performance of the web commerce channel, which posted higher margins than other channels because it sells directly to end consumers. Also noteworthy is the positive impact from (i) the structural decrease in expenses in Brazil and North America (which should remain in the next few quarters), and (ii) breakeven of the Vans brand.

| | 2Q20 EBITDA Adj. | | | 2Q19 EBITDA Adj. | | |
|---|---|---|---|---|---|---|
| | &Co | Brazil | US | &Co | Brazil | US |
| Net Revenue | 176,0 | 158,9 | 17,1 | 393,5 | 354,6 | 38,9 |
| EBITDA | 5,6 | 5,9 | (0,3) | 61,4 | 68,2 | (6,8) |
| ***EBITDA Mg.*** | ***3,2%*** | ***3,7%*** | ***-*** | ***15,6%*** | ***19,2%*** | ***-*** |
| **US Impact** | | **55 bps** | | | **364 bps** | |

*Amounts in R$ MM // Amounts adjusted to IFRS 16 / CPC 06 (R2) adoption*

## Adjusted Net Result and Net Margin

Adjusted net result in the period was a loss of R$31 million, impacted by (i) the loss recorded in US operations (non-deductible for income tax purposes), (ii) the higher volume of financial expenses, due to the higher debt position, and (iii) higher volume of credit card fees, due to the increase in the number of online transactions in the web commerce.

## ROIC – Return on Invested Capital

Return on invested capital (ROIC) stood at 7.4%, compared to 24.3% in 2Q19, primarily due to the increase in working capital levels resulting from the higher inventory volume, driven by the following factors: (i) incorporation of Vans® inventories in the amount of R$33.3 million, and (ii) higher inventory volumes in Brazil and North America due to the COVID-19 pandemic. This increase is partially explained by the products kept in stock by the parent company (Arezzo&Co) to be sold in future collections without changing prices (re-label strategy). The franchise network has a healthy level of these products.

| Income from operations | 2Q20 | 2Q19 | 2Q18 | Δ 20 x 19 (%) |
|---|---|---|---|---|
| EBIT (LTM) | 90.144 | 196.988 | 180.797 | (54,2%) |
| + IR e CS (LTM) | (29.752) | (31.596) | (15.181) | (5,8%) |
| **NOPAT** | **60.392** | **165.392** | **165.616** | **(63,5%)** |
| Working Capital[1] | 426.779 | 388.969 | 378.688 | 9,7% |
| Accounts Receivable | 283.071 | 370.837 | 333.982 | (23,7%) |
| Inventory | 271.321 | 163.368 | 140.861 | 66,1% |
| Suppliers | 128.762 | 111.810 | 107.352 | 15,2% |
| Others | 312.431 | 205.642 | 157.625 | 51,9% |
| Permanet assets | 374.235 | 366.664 | 154.515 | 2,1% |
| Other long-term assets[2] | 37.645 | 39.192 | 34.156 | (3,9%) |
| **Invested capital** | **838.659** | **794.825** | **567.359** | **5,5%** |
| **Average invested capital[3]** | **816.742** | **681.092** | | **19,9%** |
| **ROIC[4]** | **7,4%** | **24,3%** | | |

(1) Working Capital: Current Assets less Cash, Cash Equivalents and Financial Investments, deducting Current Liabilities less Loans, Financing and Dividends payable.
(2) Deducting deferred Income Tax and Social Contribution.
(3) Average capital invested in the period and in the same period of last year.
(4) ROIC: LTM NOPAT divided by average capital invested.

## Investments - CAPEX

The Company invests in three fronts:

i) Expansion and remodeling of owned stores in Brazil;

ii) Corporate investments that include IT, facilities, showrooms and offices in Brazil; and

iii) Other expenditures, mainly related to North American operations and the industrial operation.

In 2Q20, Arezzo&Co invested R$7.4 million in CAPEX, notably:

- Investments in Digital Transformation, including: channel integration, launch of the fashion platform, Customer Service squad, software and IT infrastructure;
- Adjustments to the distribution center to meet the increase in web commerce demand.

| Summary of Investments | 2Q20 | 2Q19 | Δ 20 x 19 (%) | 1S20 | 1S19 | Δ 20 x 19 (%) |
|---|---|---|---|---|---|---|
| **Total CAPEX** | **7.361** | **17.486** | **(57,9%)** | **21.436** | **26.120** | **(17,9%)** |
| Stores - expansion and refurbishing | 955 | 2.209 | (56,8%) | 4.907 | 2.343 | 109,4% |
| Corporate | 5.831 | 4.280 | 36,2% | 13.717 | 8.024 | 70,9% |
| Other | 575 | 10.997 | (94,8%) | 2.812 | 15.753 | (82,1%) |

## Cash Position and Indebtedness

The Company ended 2Q20 with net debt of R$35.7 million. The highlights of the period were:

- Total indebtedness of R$601.3 million in 2Q20, compared to R$175.9 million in 2Q19;
- In the second half of March, the Company chose to contract preventive credit lines totaling R$394.1 million, to complement its cash position during the challenging scenario of the COVID-19 pandemic. In 2Q20, the Company contracted an additional R$50.0 million, totaling R$444.1 million;
- The average interest rate of these credits was below the CDI + 2% p.a., with average term of 18 months;
- Net Debt/EBITDA ratio of 0.2x, compared to -0.3x in 2Q19;
- Net cash position on Aug 1st: R$12.4 million.

| Cash position and Indebtedness | 2Q20 | 1Q20 | 2Q19 |
|---|---|---|---|
| **Cash** | **565.619** | **619.181** | **257.135** |
| **Total debt** | **601.347** | **615.959** | **175.957** |
| Short-term | 292.424 | 307.081 | 153.533 |
| *% total debt* | 48,6% | 49,9% | 87,3% |
| Long-term | 308.923 | 308.878 | 22.424 |
| *% total debt* | 51,4% | 50,1% | 12,7% |
| **Net debt** | **35.728** | **(3.222)** | **(81.178)** |
| **Net Debt/EBITDA** | **0,2x** | **0,0x** | **-0,3x** |

## Sustainability

In early July, Arezzo&Co published its second Annual Sustainability Report, for the first time in accordance with the Global Reporting Initiative (GRI) Core standards, which highlight topics such as the Company's supply chain management, environmental management and social activity. In the report, the Company explicitly addresses its commitments on ESG, for which it will adopt methodologies to consistently record and measure its socio-environmental practices. The main goals include having 100% of the production chain tracked and certified by 2024, neutralizing greenhouse gas emissions in our own operations in 2020, and replacing 30% of oil-based materials with renewable alternatives by 2024. Furthermore, Arezzo&Co is leading a movement to make Vale do Rio dos Sinos, in the state of Rio Grande do Sul, the first region in the world with 100% of footwear production coming from sustainable sources.

Sustainability is an increasingly important aspect of Arezzo&Co's strategy. The Company's main focus is to position itself among the top ten retail companies in Brazil with sustainability benchmarks, in line with the industry's global developments. The Company also aims to follow its leadership vocation in fashion to promote the industry's transformation.

Click here to access the Annual Sustainability Report 2019.

## Balance Sheet

| Assets | 2Q20 | 1Q20 | 2Q19 |
|---|---|---|---|
| **Current assets** | **1.276.801** | **1.416.747** | **877.448** |
| Cash and Banks | 12.965 | 7.597 | 7.842 |
| Financial Investments | 552.654 | 611.584 | 249.293 |
| Trade accounts receivables | 283.071 | 400.136 | 370.837 |
| Inventory | 271.321 | 253.412 | 163.368 |
| Taxes recoverable | 124.430 | 121.500 | 57.554 |
| Other credits | 32.360 | 22.518 | 28.554 |
| **Non-current assets** | **453.891** | **488.433** | **426.667** |
| Long-term receivables | 79.656 | 55.003 | 60.003 |
| Trade accounts receivables | 8.416 | 9.377 | 10.948 |
| Deferred income and social contribution | 42.011 | 16.356 | 20.811 |
| Other credits | 29.229 | 29.270 | 28.244 |
| Investments property | 3.484 | 3.074 | 3.314 |
| Property, plant and equipment | 293.326 | 354.778 | 299.640 |
| Intangible assets | 77.425 | 75.578 | 63.710 |
| **Total assets** | **1.730.692** | **1.905.180** | **1.304.115** |

| Liabilities | 2Q20 | 1Q20 | 2Q19 |
|---|---|---|---|
| **Current liabilities** | **576.827** | **628.035** | **420.301** |
| Loans and financing | 292.424 | 307.081 | 153.533 |
| Lease | 44.836 | 47.995 | 36.390 |
| Suppliers | 128.762 | 178.376 | 111.810 |
| Other liabilities | 110.805 | 94.583 | 118.568 |
| **Non-current liabilities** | **484.398** | **521.650** | **204.966** |
| Loans and financing | 308.923 | 308.878 | 22.424 |
| Related parties | 2.040 | 1.937 | 1.428 |
| Other liabilities | 10.000 | 9.607 | 9.715 |
| Lease | 163.435 | 201.228 | 171.399 |
| **Shareholder's Equity** | **669.467** | **755.495** | **678.848** |
| Capital | 352.715 | 352.715 | 352.715 |
| Capital reserve | 49.330 | 48.634 | 49.035 |
| Profit reserves | 122.118 | 122.118 | 90.033 |
| Tax incentive reserve | 213.880 | 213.880 | 136.443 |
| Other comprehensive income | -12.165 | -7.740 | 7.257 |
| Accumulated Profit | -56.411 | 25.888 | 43.365 |
| **Total liabilities and shareholders' equity** | **1.730.692** | **1.905.180** | **1.304.115** |

## Income Statement

| Income Statement - IFRS | 2Q20 | 2Q19 | Var. % | 1S20 | 1S19 | Var. % |
|---|---|---|---|---|---|---|
| **Net operating revenue** | **154.443** | **393.546** | **-60,8%** | **529.914** | **770.709** | **-31,2%** |
| Cost of goods sold | (74.283) | (209.215) | -64,5% | (277.382) | (413.902) | -33,0% |
| **Gross profit** | **80.160** | **184.331** | **-56,5%** | **252.532** | **356.807** | **-29,2%** |
| **Operating income (expenses):** | **(171.328)** | **(135.210)** | **26,7%** | **(299.682)** | **(270.999)** | **10,6%** |
| Selling | (132.379) | (97.908) | 35,2% | (249.502) | (194.008) | 28,6% |
| Administrative and general expenses | (38.435) | (48.717) | -21,1% | (77.793) | (89.833) | -13,4% |
| Other operating income, net | (514) | 11.415 | -104,5% | 27.613 | 12.842 | 115,0% |
| **Income before financial result** | **(91.168)** | **49.121** | **-285,6%** | **(47.150)** | **85.808** | **-154,9%** |
| Financial income | (9.075) | (4.403) | 106,1% | (9.847) | (9.650) | 2,0% |
| **Income before income taxes** | **(100.243)** | **44.718** | **-324,2%** | **(56.997)** | **76.158** | **-174,8%** |
| Income tax and social contribution | 17.944 | (4.150) | -532,4% | 586 | (12.449) | -104,7% |
| Current | (7.711) | (5.381) | 43,3% | (25.743) | (17.450) | 47,5% |
| Deferred | 25.655 | 1.231 | 1984,1% | 26.329 | 5.001 | 426,5% |
| **Net income for period** | **(82.299)** | **40.568** | **-302,9%** | **(56.411)** | **63.709** | **-188,5%** |

## Cash Flow

| Cash Flow | 2Q20 | 2Q19 | 1S20 | 1S19 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Income before income tax and social contribution | (82.299) | 40.568 | (56.411) | 63.709 |
| **Adjustments to reconcile net income with cash from operational activities** | **37.764** | **24.683** | **128.054** | **56.463** |
| Depreciation and amortization | 20.316 | 19.868 | 40.595 | 37.763 |
| Income from financial investments | (4.021) | (3.478) | (6.582) | (7.193) |
| Payments of Interest on loans | (3.949) | (190) | (5.367) | (1.007) |
| Interest and exchange rate | 8.852 | 207 | 57.233 | 6.208 |
| Income tax and social contribution | (17.943) | 4.150 | (585) | 12.449 |
| Other | 34.509 | 4.126 | 42.760 | 8.243 |
| **Decrease (increase) in assets** | | | | |
| Trade accounts receivables | 106.749 | 23.388 | 119.551 | 10.742 |
| Inventory | (19.578) | (1.064) | (96.873) | (13.930) |
| Recoverable taxes | (16.306) | (14.305) | (47.117) | (7.579) |
| Change in other current assets | (15.566) | 1.689 | (41.510) | (6.561) |
| Judicial deposits | (129) | 466 | (4.364) | (4.302) |
| **(Decrease) increase in liabilities** | | | | |
| Suppliers | (49.496) | (36.638) | (2.905) | 5.308 |
| Labor liabilities | (3.061) | 6.528 | (25.134) | (4.189) |
| Fiscal and social liabilities | 2.753 | 3.396 | 1.454 | (1.067) |
| Variation in other liabilities | 23.185 | 6.782 | 27.969 | 6.923 |
| **Payment of income tax and social contribution** | (1.118) | (14.309) | (14.000) | (21.414) |
| **Lease** | - | - | - | - |
| **Net cash flow from operating activities** | **(17.102)** | **41.184** | **(11.286)** | **84.103** |
| **Investing activities** | | | | |
| Sale of fixed and intangible assets | 656 | 987 | 338 | 987 |
| Acquisition of fixed and intangible assets | (7.361) | (17.486) | (21.436) | (26.120) |
| Financial Investments | (250.324) | (243.012) | (1.029.143) | (530.109) |
| Redemption of financial investments | 312.690 | 290.187 | 746.004 | 513.814 |
| **Net cash used in investing activities** | **55.661** | **30.676** | **(304.237)** | **(41.428)** |
| **Financing activities with third parties** | | | | |
| Increase in loans | 50.000 | 6.358 | 455.241 | 79.965 |
| Payments of loans | (69.951) | (2.227) | (86.979) | (15.677) |
| Instalment Lease | (13.343) | (10.410) | (28.813) | (23.369) |
| **Net cash used in financing activities with third parties** | **(33.294)** | **(6.279)** | **339.449** | **40.919** |
| **Financing activities with shareholders** | | | | |
| Interest on equity | - | (75.000) | (22.675) | (95.847) |
| Receivables (payables) with shareholders | 103 | (24) | 538 | (16) |
| Repurchase of shares | - | - | (2.632) | - |
| **Net cash used in financing activities** | **103** | **(63.382)** | **(24.769)** | **(84.221)** |
| **Increase (decrease) in cash and cash equivalents** | **5.368** | **2.199** | **(843)** | **(627)** |
| **Cash and cash equivalents** | | | | |
| Foreign exchange effect on cash and cash equivalents | - | (48) | - | (32) |
| Cash and cash equivalents - Initial balance | 7.597 | 5.691 | 13.808 | 8.501 |
| Cash and cash equivalents - Closing balance | 12.965 | 7.842 | 12.965 | 7.842 |
| **Increase (decrease) in cash and cash equivalents** | **5.368** | **2.199** | **(843)** | **(627)** |

## Disclaimer

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.

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