

2Q13 Earnings Release

**AREZZO**  
**&CO**

AREZZO

**SCHUTZ**

Alexandre Birman

**ANACAPRI**

## Earnings Release - 2Q13

**AREZZO**



**SCHUTZ**



Alexandre Birman



**ANACAPRI**



Belo Horizonte, July 31, 2013. Arezzo&Co (BM&FBOVSPA: ARZZ3), Brazil's women's footwear, handbags and accessories industry leader, is reporting its earnings for the 2nd quarter of 2013. Unless otherwise indicated, data are based on consolidated numbers in thousands of Brazilian reais and are compiled in accordance with International Financial Reporting Standards (IFRS). All comparisons relate to the same period in 2012 (2Q12) unless otherwise stated.

**ARZZ3 share price on 07.30.13:**

R\$ 36.50

**Market value on 07.30.13:**

R\$ 3,233.4 million

**Earnings conference call:**

Thursday, August 1st, 2013

11:00AM (Brasília Time)

**Connection phone numbers:**

Participants calling from Brazil:

+ 55 (11) 4003-9004

Participants calling from other countries:

+ 1-866-866-2673

Password: Arezzo&Co

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

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CFO and Investor Relations Officer

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Arezzo&Co records 19.1% growth in net revenues in 2Q13, with R\$40.5 million EBITDA

### HIGHLIGHTS

- Net revenues reached R\$237.6 million in 2Q13, 19.1% higher than in 2Q12;
- Gross profit was R\$106.1 million in 2Q13, a growth of 17.9% compared to 2Q12;
- EBITDA amounted to R\$40.5 million in 2Q13, an increase of 16.9% over 2Q12, with a margin of 17.0%;
- Net profit for 2Q13 was R\$29.1 million, a 12.8% increase when compared to 2Q12;
- In this quarter, Arezzo&Co opened 17 stores and expanded 4 stores to add 1,337m<sup>2</sup> of sales area.

| Summary of Results         | 2Q12    | 2Q13    | Growth ou spread (%) | 1H12    | 1H13    | Growth ou spread (%) |
|----------------------------|---------|---------|----------------------|---------|---------|----------------------|
| <b>Net Revenues</b>        | 199,468 | 237,639 | 19.1%                | 360,829 | 438,678 | 21.6%                |
| <b>Gross Profit</b>        | 89,935  | 106,058 | 17.9%                | 157,108 | 195,491 | 24.4%                |
| <i>Gross Margin</i>        | 45.1%   | 44.6%   | -0.5 p.p.            | 43.5%   | 44.6%   | 1.1 p.p.             |
| <b>EBITDA <sup>1</sup></b> | 34,634  | 40,478  | 16.9%                | 49,302  | 69,114  | 40.2%                |
| <i>Ebitda Margin</i>       | 17.4%   | 17.0%   | -0.4 p.p.            | 13.7%   | 15.8%   | 2.1 p.p.             |
| <b>Net Income</b>          | 25,763  | 29,057  | 12.8%                | 36,615  | 48,423  | 32.2%                |
| <i>Net Margin</i>          | 12.9%   | 12.2%   | -0.7 p.p.            | 10.1%   | 11.0%   | 0.9 p.p.             |

| Operating Indicators   | 2Q12  | 2Q13  | Growth ou spread (%) | 1H12  | 1H13  | Growth ou spread (%) |
|--|-------|-------|----------------------|-------|-------|----------------------|
| <b># of pairs sold ('000)</b>                                | 1,907 | 2,297 | 20.5%                | 3,620 | 4,407 | 21.7%                |
| <b># of handbags sold ('000)</b>                             | 125   | 128   | 2.4%                 | 230   | 269   | 17.0%                |
| <b># of employees</b>  | 2,041 | 2,014 | -1.3%                | 2,041 | 2,014 | -1.3%                |
| <b># of stores *</b>   | 359   | 417   | 58                   | 359   | 417   | 58                   |
| <i>Owned Stores</i>  | 50    | 56    | 6                    | 50    | 56    | 6                    |
| <i>Franchises</i>  | 309   | 361   | 52                   | 309   | 361   | 52                   |
| <b>Outsourcing (as % os total production)</b>                | 85.3% | 89.8% | 4.5 p.p.             | 85.7% | 89.9% | 4.2 p.p.             |
| <b>SSS <sup>2</sup> Sell-in (franchises)</b>                 | 14.5% | 5.5%  | -9.0 p.p.            | 10.4% | 6.7%  | -3.7 p.p.            |
| <b>SSS <sup>2</sup> Sell-out (owned stores + franchises)</b> | n/a   | 1.2%  | n/a                  | n/a   | 3.7%  | n/a                  |

\* Including international stores

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

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

| Gross Revenue                    | 2Q12 Part%     |              | 2Q13 Part%     |              | Growth%      | 1H12 Part%     |              | 1H13 Part%     |              | Growth%      |
|----------------------------------|----------------|--------------|----------------|--------------|--------------|----------------|--------------|----------------|--------------|--------------|
| <b>Total Gross Revenue</b>       | <b>258,725</b> |              | <b>305,456</b> |              | <b>18.1%</b> | <b>467,555</b> |              | <b>562,907</b> |              | <b>20.4%</b> |
| <b>Exports market</b>            | <b>9,697</b>   | <b>3.7%</b>  | <b>11,574</b>  | <b>3.8%</b>  | <b>19.4%</b> | <b>17,242</b>  | <b>3.7%</b>  | <b>27,489</b>  | <b>4.9%</b>  | <b>59.4%</b> |
| <b>Domestic Market</b>           | <b>249,028</b> | <b>96.3%</b> | <b>293,882</b> | <b>96.2%</b> | <b>18.0%</b> | <b>450,313</b> | <b>96.3%</b> | <b>535,418</b> | <b>95.1%</b> | <b>18.9%</b> |
| <b><u>By brand</u></b>           |                |              |                |              |              |                |              |                |              |              |
| <i>Arezzo</i>                    | 155,333        | 62.4%        | 171,547        | 58.4%        | 10.4%        | 285,559        | 63.4%        | 322,266        | 60.2%        | 12.9%        |
| <i>Schutz</i>                    | 81,927         | 32.9%        | 110,601        | 37.6%        | 35.0%        | 144,993        | 32.2%        | 189,577        | 35.4%        | 30.7%        |
| <i>Other brands</i> <sup>1</sup> | 11,768         | 4.7%         | 11,734         | 4.0%         | -0.3%        | 19,761         | 4.4%         | 23,575         | 4.4%         | 19.3%        |
| <b><u>By channel</u></b>         |                |              |                |              |              |                |              |                |              |              |
| <i>Franchises</i>                | 111,792        | 44.9%        | 134,491        | 45.8%        | 20.3%        | 209,345        | 46.5%        | 251,395        | 47.0%        | 20.1%        |
| <i>Multibrand retail stores</i>  | 74,030         | 29.7%        | 87,608         | 29.8%        | 18.3%        | 129,755        | 28.8%        | 147,575        | 27.6%        | 13.7%        |
| <i>Owned Stores</i> <sup>2</sup> | 60,216         | 24.2%        | 69,839         | 23.8%        | 16.0%        | 104,690        | 23.2%        | 131,251        | 24.5%        | 25.4%        |
| <i>Others</i> <sup>3</sup>       | 2,990          | 1.2%         | 1,944          | 0.7%         | -35.0%       | 6,523          | 1.4%         | 5,197          | 1.0%         | -20.3%       |

(1) Includes only domestic markets for Anacapri and Alexandre Birman brands.

(2) Owned Stores: including Web Commerce sales channel.

(3) Includes domestic market revenues that are not specific for distribution channels.

## Brands

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

Following the Company's collection calendar, the second quarter concentrates most of the sales for the winter collection. This period features two of the year's top sales dates: Mother's Day in May and Valentine's Day in June.

The Arezzo brand recorded gross revenues of R\$171.5 million in 2Q13, a 10.4% increase compared to 2Q12, accounting for 58.4% of total domestic sales. Continuing with the GTM Arezzo project, the sell-in dynamic was renewed with better distribution of collections over the season and delivery frequency for products geared to their life cycles. The aim of the new sell-in calendar is to speed up processes to incorporate trends and sell-out information, thus ensuring a constant supply of novelties in the stores, assertiveness in collections and shorter lead-time for the supply chain.

The Schutz brand grew by 35.0% in 2Q13 over 2Q12, with gross revenues of R\$110.6 million, or 37.6% of domestic market sales. Due to the brand's strategy to become a reference also for high quality handbags in Brazil, the handbags' share of revenue in owned stores increased from 5% in 2Q12 to 9% in 2Q13. This performance was the result of better segmentation of the brand's products for consumers, focusing on products with higher perceived value and more attractive cost-benefit ratios.

The Anacapri brand continued to grow in the quarter. Following its strategy of finding an architectural model that enhances its identity and style, a store with the new layout was opened at Eldorado Mall in São Paulo, an important step in the brand expansion. First results were positive, and the store is highly replicable with 29m<sup>2</sup> sales area and its modern and practical design heightens the brand's visibility.

The Alexandre Birman continues to boost its international presence. Due to its unique style and design, in 2Q13 the brand became the only Brazilian brand to have a representative on the Council of Fashion Designers of America, whose members include the fashion world's top names.

## Channels

### Mono-brands – Franchises and Owned Stores

With the opening of 17 stores in 2Q13, the period ended with 417 mono-brand stores in Brazil and overseas. Of those in Brazil, 341 were Arezzo brand stores, 56 Schutz, 9 Anacapri and 2 Alexandre Birman.

The growth in revenues from mono-brand stores, which comprise franchises and owned stores, was 18.8% in 2Q13 against 2Q12, mainly due to a 21.1% increase in sales area in the last twelve months. The Franchise channel grew 20.3% in the quarter and accounted for 45.8% of domestic sales in 2Q13, driven by the opening of 52 franchises in the last twelve months, of which 29 under the Arezzo brand and 23 under Schutz brand. In addition, 10 Arezzo branded franchise stores were expanded in the last 12 months, thus adding 208.1 m<sup>2</sup> to the channel's sales area. Mono-brand stores accounted for 69.5% of domestic sales in 2Q13.

Sell-in sales, i.e. those made by Arezzo&Co to its franchisees, increased by 5.5% in the same Franchises (SSS - Franchises) in 2Q13 against 2Q12, due to higher volume sales of shoes and bags.

The total owned store sales area was up by 14.4% in the quarter against the same period of last year, partly due to net openings of 5 stores and expansion of 3 owned stores in the last 12 months, increasing the sales area in 115.7m<sup>2</sup>.

Same-stores sales for sell-out (Owned Stores + Franchises) showed an increase of 1.2% in 2Q13 when compared to 2Q12. Note that the *sneakers* line launched in 2Q12 had a big impact, thus affecting the comparison base since they accounted for 7.6% of the chain's sales of pairs during that period. Additionally, many of the Schutz stores analyzed by the indicator were opened in the last 15 months and due to the "novelty effect" related to a strong communication strategy and store openings events, 2Q13 was negatively impacted.

| History - Franchises and Owned Stores <sup>1</sup>       | 2Q12          | 3Q12          | 4Q12          | 1Q13          | 2Q13          |
|--|---------------|---------------|---------------|---------------|---------------|
| <b>Sales area<sup>1,3</sup> - Total (m<sup>2</sup>)</b>  | <b>23,112</b> | <b>24,531</b> | <b>26,543</b> | <b>26,659</b> | <b>27,996</b> |
| Sales area - franchises (m <sup>2</sup> )                | 18,005        | 19,125        | 20,646        | 20,731        | 22,154        |
| Sales area - Owned stores <sup>2</sup> (m <sup>2</sup> ) | 5,107         | 5,406         | 5,897         | 5,928         | 5,842         |
| <b>Total number of domestic stores</b>                   | <b>351</b>    | <b>368</b>    | <b>390</b>    | <b>391</b>    | <b>408</b>    |
| <b># of franchises</b>                                   | <b>301</b>    | <b>316</b>    | <b>334</b>    | <b>335</b>    | <b>353</b>    |
| Arezzo   | 295           | 300           | 311           | 312           | 324           |
| Schutz   | 6             | 16            | 23            | 23            | 29            |
| <b># of owned stores</b>                                 | <b>50</b>     | <b>52</b>     | <b>56</b>     | <b>56</b>     | <b>55</b>     |
| Arezzo   | 19            | 19            | 19            | 19            | 17            |
| Schutz   | 22            | 24            | 27            | 27            | 27            |
| Alexandre Birman   | 1             | 2             | 2             | 2             | 2             |
| Anacapri   | 8             | 7             | 8             | 8             | 9             |
| <b>Total number of international stores</b>              | <b>8</b>      | <b>9</b>      | <b>9</b>      | <b>9</b>      | <b>9</b>      |
| <b># of franchises</b>                                   | <b>8</b>      | <b>8</b>      | <b>8</b>      | <b>8</b>      | <b>8</b>      |
| <b># of owned stores</b>                                 | <b>0</b>      | <b>1</b>      | <b>1</b>      | <b>1</b>      | <b>1</b>      |

1. Includes areas in square meters of 9 international stores

2. Includes 5 outlet-type stores with a total area of 1,227 m<sup>2</sup>

3. Includes areas in square meters of stores expansion

### Multi-brand

The multibrand channel's revenues increased 18.3% in 2Q13 over the same period of the previous year due to the increased focus on the channel for the Arezzo brand and to the higher concentration of deliveries for the winter collection for the Schutz brand.

Because of more extensive capillarity throughout Brazil, the group's 4 brands started to be distributed through 2,425 stores, which was 9.0% more than in 2Q12, with presence in 1,161 cities.

| Key financial indicators                               | 2Q12      | 2Q13      | Growth or spread% | 1H12      | 1H13      | Growth or spread% |
|--|-----------|-----------|-------------------|-----------|-----------|-------------------|
| <b>Net revenues</b>                                    | 199,468   | 237,639   | 19.1%             | 360,829   | 438,678   | 21.6%             |
| <b>COGS</b>  | (109,533) | (131,581) | 20.1%             | (203,721) | (243,187) | 19.4%             |
| <b>Gross profit</b>                                    | 89,935    | 106,058   | 17.9%             | 157,108   | 195,491   | 24.4%             |
| <i>Gross margin</i>                                    | 45.1%     | 44.6%     | -0.5 p.p.         | 43.5%     | 44.6%     | 1.1 p.p.          |
| <b>SG&amp;A</b>  | (57,050)  | (67,965)  | 19.1%             | (110,972) | (131,347) | 18.4%             |
| <i>% of Revenues</i>                                   | 28.6%     | 28.6%     | 0.0 p.p.          | 30.8%     | 29.9%     | -0.9 p.p.         |
| <b>Selling expenses</b>                                | (40,895)  | (48,582)  | 18.8%             | (75,152)  | (92,445)  | 23.0%             |
| Owned stores   | (18,543)  | (22,020)  | 18.8%             | (34,042)  | (44,357)  | 30.3%             |
| Selling, logistics and supply                          | (22,352)  | (26,562)  | 18.8%             | (41,110)  | (48,088)  | 17.0%             |
| <b>General and administrative expenses</b>             | (14,209)  | (17,891)  | 25.9%             | (25,808)  | (35,220)  | 36.5%             |
| <b>Other operating revenues (expenses)<sup>1</sup></b> | (197)     | 893       | n/a               | (6,846)   | 1,288     | n/a               |
| <b>Depreciation and amortization</b>                   | (1,749)   | (2,385)   | 36.4%             | (3,166)   | (4,970)   | 57.0%             |
| <b>Ebitda</b>  | 34,634    | 40,478    | 16.9%             | 49,302    | 69,114    | 40.2%             |
| <i>Ebitda margin</i>                                   | 17.4%     | 17.0%     | -0.4 p.p.         | 13.7%     | 15.8%     | 2.1 p.p.          |
| <b>Net income</b>                                      | 25,763    | 29,057    | 12.8%             | 36,615    | 48,423    | 32.2%             |
| <i>Net margin</i>                                      | 12.9%     | 12.2%     | -0.7 p.p.         | 10.1%     | 11.0%     | 0.9 p.p.          |
| <b>Working capital<sup>2</sup> - as % of revenues</b>  | 21.8%     | 26.1%     | 4.3 p.p.          | 21.8%     | 26.1%     | 4.3 p.p.          |
| <b>Invested capital<sup>3</sup> - as % of revenues</b> | 29.4%     | 33.9%     | 4.5 p.p.          | 29.4%     | 33.9%     | 4.5 p.p.          |
| <b>Total debt</b>                                      | 51,117    | 107,862   | 111.0%            | 51,117    | 107,862   | 111.0%            |
| Net debt <sup>4</sup>                                  | (154,702) | (106,549) | n/a               | (154,702) | (106,549) | n/a               |
| Net debt/EBITDA LTM                                    | -1.3 X    | -0.7 X    | n/a               | -1.3 X    | -0.7 X    | n/a               |

1 - Includes non-recurring expense in 1Q12 in Other Operating Revenues and Expenses: Arezzo&Co terminated its contract with Star Export Assessoria e Exportação Ltda. ("Star"), which had been providing technical support and advice services for procurement and inspection of independent factories and workshops contracted to make products. As part of the termination, a payment of R\$ 8 million was made and Star signed a five-year non-compete agreement. On the same date, a contract was signed with another company that has the same technical capability, providing the same type of services on special commercial terms to reduce costs while maintaining the same quality of services.

2 - Working Capital: current assets minus cash, cash equivalents and marketable securities less current liabilities minus loans and financing and dividends payable.

3 - Invested capital: working capital plus fixed assets and other long-term assets less income tax and deferred social contribution.

4 - Net debt is equal to total interest-bearing debt position at the end of a period less cash and cash equivalents and short-term financial investments.

## Net revenue

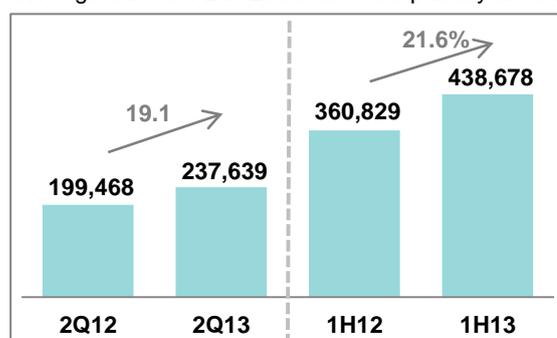
The Company's net revenue totaled R\$237.6 million in the quarter, a 19.1% growth over 2Q12. Some of the primary factors leading to this growth are:

i) 21.1% expansion in sales area in 2Q13. Owned stores area increased by 14.4% and franchises area by 23.0%;

ii) Same-stores sales sell-in grew by 5.5% and sell-out increased 1.2%;

iii) All channels recorded growth, with the 18.3% increase achieved by the multi-brand channel being worthy of note;

iv) Despite altering the channel mix, net revenues were positively impacted in the amount of R\$3.4 million due to a temporary reduction of the ICMS tax rate in the quarter.

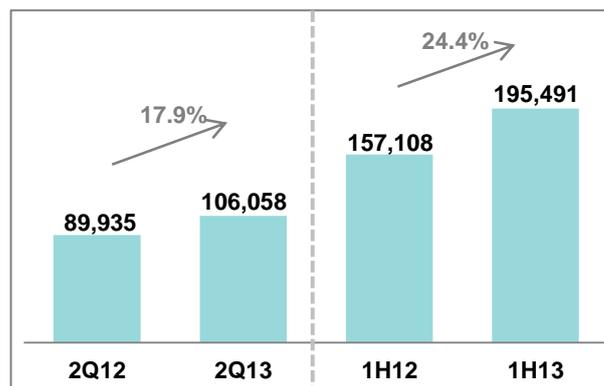


## Gross profit

Gross profit in 2Q13 increased by 17.9% against 2Q12, totaling R\$106.1 million with a gross margin of 44.6%. The increase in gross profit in 2Q13 particularly reflected the 19.1% growth in revenue.

Gross margin in 2Q13 was 0.5 percentage point less than in the same period of the previous year, reflecting the lower share of Owned Stores (the channel with the highest margin) in the sales channel mix.

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



## SG&A

### Selling expenses

Arezzo's Selling Expenses may be divided into two primary groups:

- i) Owned Store expenses:
  - include only owned-store (sell out) expenses
- ii) Selling, Logistics and Supply expenses:
  - include sell-in and sell-out operating expenses

In 2Q13, selling expenses increased 188% against 2Q12, reaching R\$48.6 million against R\$40.9 million in the same period of previous year. Selling, logistics and supplies expenses totaled R\$26.6 million in the period and increased 18.8% against the same quarter of the previous year. Part of this increase relates to R\$1.0 million in expenses for consulting services for the GTM Arezzo project, totaling R\$2.2 million in 2Q13, and also continued investments related to higher volume sales of the Schutz brand's operation in the United States.

Owned store expenses totaled R\$22.0 million, an increase of 18.8% against 2Q12. This growth was partly due to higher marketing expenses to promote stores and strengthen brands. This increase was also due to additional expenses in the amount of R\$900 thousand related to the growth of the web commerce channel's traffic and revenue.

### General and Administrative Expenses

In 2Q13, general and administrative expenses amounted to R\$17.9 million against R\$14.2 million in the same quarter of the previous year, showing an increase of 25.3%. Part of the increase was related to expenses incurred in producing more samples to offer novelties in stores more frequently. Additionally, in line with data reported in the previous quarters, due to the organization of the new headquarter and inclusion of the samples team under the R&D department, there was a reallocation of R\$1.4 million in sample production expenses from Costs to General and Administrative Expenses in comparison with 2Q12.

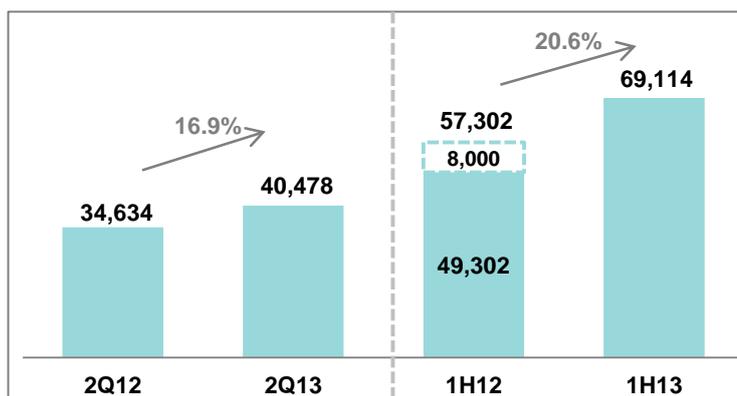
### Other operating revenues (expenses)

In 2Q13, the Company presented R\$893 thousand in other operating revenue compared with an expense of R\$197 in 2012. The variation was mainly due to charges related to the greater number of franchises opening during the period amounting to R\$1.2 million.

## EBITDA and EBITDA margin

The Company's EBITDA grew 16.9% in 2Q13 compared to 2Q12, totaling R\$40.5 million. EBITDA margin in 2Q13 was 17.0% against 17.4% in 2Q12. The primary factors leading to EBITDA growth this quarter were:

- i) Increase in net revenue by 19.1%;
- ii) Increase in gross profit by 17.9%;
- iii) Steady operating expenses at 28.6% of revenue.



Excluding the non-recurring effect in 1Q12, EBITDA for 1H13 would have grown 20.6% in relation to 1H12.

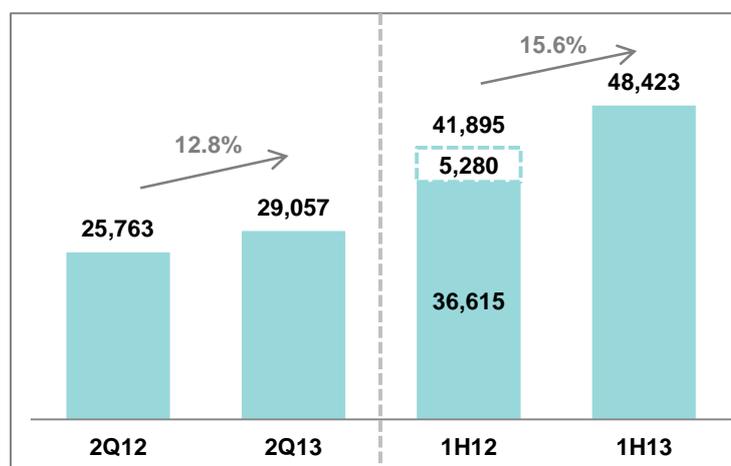
| EBITDA Reconciliation                  | 2Q12          | 2Q13          | 1H12          | 1H13          |
|--|---------------|---------------|---------------|---------------|
| <b>Net income</b>                      | 25,763        | 29,057        | 36,615        | 48,423        |
| (-) Income tax and social contribution | (7,932)       | (9,702)       | (12,716)      | (18,427)      |
| (-) Financial results                  | 810           | 666           | 3,195         | 2,706         |
| (-) Depreciation and amortization      | (1,749)       | (2,385)       | (3,166)       | (4,970)       |
| <b>(=) EBITDA</b>                      | <b>34,634</b> | <b>40,478</b> | <b>49,302</b> | <b>69,114</b> |

## Net income and net margin (%)

The Company maintained a good EBITDA 17.0% margin in 2Q13 to net income 12.2% margin in 2Q13 ratio, reflecting reduced use of capital in property, plant and equipment, and therefore low depreciation.

Net profit in 2Q13 totaled R\$29.1 million against R\$25.8 million in 2Q12, showing an increase of 12.8% over the same quarter of the previous year.

Due to higher capex over the last 12 months, depreciation increased 36.4% in 2Q13 against 2Q12. Income tax and social contribution increased over 2Q12 reflecting higher operating income and higher income and social contribution tax rates in the period.



Excluding the non-recurring effect in 1Q12, net profit in 1H13 would have grown 15.6% compared with the same period of the previous year.

## Operating Cash Flow

Arezzo&Co generated R\$12.4 million operating cash in 2Q13, due mainly to higher operating profit and higher need of working capital in the period as a result of a relative anticipation of the Company's cash cycle.

| Operating Cash Flow  | 2Q12            | 2Q13            | Var. (%)      | 1H12            | 1H13            | Var. (%)      |
|--|-----------------|-----------------|---------------|-----------------|-----------------|---------------|
| <b>Income before income tax and social contribution</b>    | <b>33,695</b>   | <b>38,759</b>   | <b>15.0%</b>  | <b>49,331</b>   | <b>66,850</b>   | <b>35.5%</b>  |
| <b>Depreciation and amortization</b>                       | <b>1,749</b>    | <b>2,385</b>    | <b>36.4%</b>  | <b>3,166</b>    | <b>4,970</b>    | <b>57.0%</b>  |
| <b>Other</b>   | <b>(1,518)</b>  | <b>4,754</b>    | <b>n/a</b>    | <b>(5,647)</b>  | <b>3,936</b>    | <b>n/a</b>    |
| <b>Decrease (increase) in current assets / liabilities</b> | <b>15,616</b>   | <b>(19,522)</b> | <b>n/a</b>    | <b>24,891</b>   | <b>(11,285)</b> | <b>n/a</b>    |
| Trade accounts receivables                                 | 22,801          | 11,471          | -49.7%        | 28,795          | 9,097           | -68.4%        |
| Inventories  | (108)           | (2,716)         | 2414.8%       | (8,687)         | (14,190)        | 63.3%         |
| Suppliers  | (12,798)        | (25,464)        | 99.0%         | 6,042           | 8,049           | 33.2%         |
| Change in other noncurrent assets and liabilities          | 5,721           | (2,813)         | n/a           | (1,259)         | (14,241)        | 1031.1%       |
| <b>Payment of income tax and social contribution</b>       | <b>(11,652)</b> | <b>(13,935)</b> | <b>19.6%</b>  | <b>(11,652)</b> | <b>(17,598)</b> | <b>51.0%</b>  |
| <b>Net cash flow generated by operational activities</b>   | <b>37,890</b>   | <b>12,441</b>   | <b>-67.2%</b> | <b>60,089</b>   | <b>46,873</b>   | <b>-22.0%</b> |

## Investments - Capex

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

Total CAPEX in 2Q13 decreased 38.2% compared to 2Q12, primarily due to less investment in owned stores. In 2Q13, the Company opened a new Anacapri store, refurbished 4 stores and expanded the Schutz store at Ibirapuera Mall.

| Summary of investments              | 2Q12          | 2Q13         | Var. (%)      | 1H12          | 1H13          | Var. (%)      |
|-------------------------------------|---------------|--------------|---------------|---------------|---------------|---------------|
| <b>Total capex</b>                  | <b>14,462</b> | <b>8,942</b> | <b>-38.2%</b> | <b>31,799</b> | <b>20,169</b> | <b>-36.6%</b> |
| Stores - expansion and refurbishing | 7,415         | 4,151        | -44.0%        | 20,993        | 6,539         | -68.9%        |
| Corporate                           | 6,775         | 3,974        | -41.3%        | 10,328        | 12,006        | 16.2%         |
| Other                               | 272           | 817          | 200.4%        | 478           | 1,624         | 239.7%        |

## Cash position and Indebtedness

The Company ended 2Q13 with R\$106.5 million net cash. Indebtedness policy remained conservative, with the following primary characteristics:

- Total indebtedness of R\$107.9 million in 2Q13 against R\$51.1 million in 2Q12;
- Long-term indebtedness was 43.7% of total debt in 2Q13, against 50.0% in 2Q12;
- The Company's weighted average cost of total debt in 2Q13 remained at low levels.

| Cash position and Indebtedness                             | 2Q12             | 1Q13             | 2Q13             |
|--|------------------|------------------|------------------|
| <b>Cash and cash equivalents and financial investments</b> | <b>205,819</b>   | <b>213,306</b>   | <b>214,411</b>   |
| <b>Total debt</b>  | 51,117           | 87,880           | 107,862          |
| Short term   | 25,548           | 41,226           | 60,763           |
| <i>% total debt</i>  | 50.0%            | 46.9%            | 56.3%            |
| Long-term  | 25,569           | 46,654           | 47,099           |
| <i>% total debt</i>  | 50.0%            | 53.1%            | 43.7%            |
| <b>Net debt</b>  | <b>(154,702)</b> | <b>(125,426)</b> | <b>(106,549)</b> |

## ROIC (Return on Invested Capital)

In line with the Company's strategic direction, levels of investment in Capital Employed in 2Q13 were higher than those in the previous year, especially due to the opening of owned stores in 2012. Return on Invested Capital (ROIC) was 32.7% in 2Q13.

| Income from operations                       | 2Q11           | 2Q12           | 2Q13           | Growth (%)   |
|--|----------------|----------------|----------------|--------------|
| EBIT (LTM)                                   | 100,857        | 112,623        | 146,213        | 29.8%        |
| + IR and CS (LTM)                            | (26,889)       | (33,656)       | (42,341)       | 25.8%        |
| <b>NOPAT</b>                                 | <b>73,968</b>  | <b>78,967</b>  | <b>103,872</b> | <b>31.5%</b> |
| Working Capital <sup>1</sup>                 | 130,740        | 163,354        | 244,670        | 49.8%        |
| Permanent assets                             | 41,332         | 89,372         | 121,773        | 36.3%        |
| Other long-term assets <sup>2</sup>          | 8,353          | 7,430          | 8,632          | 16.2%        |
| <b>Invested capital</b>                      | <b>180,425</b> | <b>260,156</b> | <b>375,075</b> | <b>44.2%</b> |
| <b>Average invested capital <sup>3</sup></b> |                | <b>220,291</b> | <b>317,616</b> | <b>44.2%</b> |
| <b>ROIC <sup>4</sup></b>                     |                | <b>35.8%</b>   | <b>32.7%</b>   |              |

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

2 - Less deferred income tax and social contribution.

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

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

## Balance sheet

| Assets  | 2Q12           | 1Q13           | 2Q13           |
|---|----------------|----------------|----------------|
| <b>Current assets</b>                             | <b>441,382</b> | <b>539,360</b> | <b>537,059</b> |
| Cash and cash equivalents                         | 4,799          | 8,427          | 7,515          |
| Financial Investments                             | 201,020        | 204,879        | 206,896        |
| Trade accounts receivables                        | 150,687        | 211,251        | 200,229        |
| Inventory   | 65,718         | 87,481         | 89,821         |
| Taxes recoverable                                 | 7,393          | 15,797         | 18,460         |
| Other credits                                     | 11,765         | 11,525         | 14,138         |
| <b>Non-current assets</b>                         | <b>105,507</b> | <b>132,558</b> | <b>137,303</b> |
| Long-term receivables                             | 16,135         | 15,657         | 15,530         |
| Financial Investments                             | 98             | 178            | 21             |
| Taxes recoverable                                 | 360            | 377            | 377            |
| Deferred income and social contribution           | 8,705          | 8,007          | 6,898          |
| Other credits                                     | 6,972          | 7,095          | 8,234          |
| Property, plant and equipment                     | 47,693         | 63,338         | 65,014         |
| Intangible assets                                 | 41,679         | 53,563         | 56,759         |
| <b>Total Assets</b>                               | <b>546,889</b> | <b>671,918</b> | <b>674,362</b> |
| <b>Liabilities</b>                                | <b>2Q12</b>    | <b>1Q13</b>    | <b>2Q13</b>    |
| <b>Current liabilities</b>                        | <b>107,458</b> | <b>146,211</b> | <b>148,087</b> |
| Loans and financing                               | 25,548         | 41,226         | 60,763         |
| Suppliers   | 43,328         | 69,021         | 43,556         |
| Dividends and interest on equity capital payable  | 9,701          | 0              | 9,346          |
| Other liabilities                                 | 28,881         | 35,964         | 34,422         |
| <b>Non-current liabilities</b>                    | <b>29,984</b>  | <b>52,102</b>  | <b>54,386</b>  |
| Loans and financing                               | 25,569         | 46,654         | 47,099         |
| Related parties                                   | 975            | 969            | 978            |
| Other liabilities                                 | 3,440          | 4,479          | 6,309          |
| <b>Equity</b>                                     | <b>409,447</b> | <b>473,605</b> | <b>471,889</b> |
| Capital   | 105,917        | 106,857        | 156,000        |
| Capital reserve                                   | 172,830        | 173,838        | 125,190        |
| Income reserves                                   | 105,407        | 173,544        | 153,162        |
| Profit  | 25,293         | 19,366         | 37,537         |
| <b>Total liabilities and shareholders' equity</b> | <b>546,889</b> | <b>671,918</b> | <b>674,362</b> |

## Income statement (IFRS)

| Income statement - IFRS               | 2Q12            | 2Q13            | Var. %       | 1H12             | 1H13             | Var. %       |
|---------------------------------------|-----------------|-----------------|--------------|------------------|------------------|--------------|
| <b>Net operating revenue</b>          | <b>199,468</b>  | <b>237,639</b>  | <b>19.1%</b> | <b>360,829</b>   | <b>438,678</b>   | <b>21.6%</b> |
| Cost of goods sold                    | (109,533)       | (131,581)       | 20.1%        | (203,721)        | (243,187)        | 19.4%        |
| <b>Gross profit</b>                   | <b>89,935</b>   | <b>106,058</b>  | <b>17.9%</b> | <b>157,108</b>   | <b>195,491</b>   | <b>24.4%</b> |
| <b>Operating income (expenses):</b>   | <b>(57,050)</b> | <b>(67,965)</b> | <b>19.1%</b> | <b>(110,972)</b> | <b>(131,347)</b> | <b>18.4%</b> |
| Selling                               | (41,811)        | (49,709)        | 18.9%        | (76,818)         | (95,008)         | 23.7%        |
| Administrative and general expenses   | (15,042)        | (19,149)        | 27.3%        | (27,308)         | (37,627)         | 37.8%        |
| Other operating income net            | (197)           | 893             | n/a          | (6,846)          | 1,288            | n/a          |
| <b>Income before financial result</b> | <b>32,885</b>   | <b>38,093</b>   | <b>15.8%</b> | <b>46,136</b>    | <b>64,144</b>    | <b>39.0%</b> |
| Financial income                      | 810             | 666             | -17.8%       | 3,195            | 2,706            | -15.3%       |
| <b>Income before income taxes</b>     | <b>33,695</b>   | <b>38,759</b>   | <b>15.0%</b> | <b>49,331</b>    | <b>66,850</b>    | <b>35.5%</b> |
| Income tax and social contribution    | (7,932)         | (9,702)         | 22.3%        | (12,716)         | (18,427)         | 44.9%        |
| Current                               | (6,164)         | (8,593)         | 39.4%        | (11,409)         | (19,061)         | 67.1%        |
| Deferred                              | (1,768)         | (1,109)         | -37.3%       | (1,307)          | 634              | -148.5%      |
| <b>Net income for period</b>          | <b>25,763</b>   | <b>29,057</b>   | <b>12.8%</b> | <b>36,615</b>    | <b>48,423</b>    | <b>32.2%</b> |

## Cash Flow - IFRS

| Statement of cash flow   | 2Q12            | 2Q13            | 1H12            | 1H13            |
|--|-----------------|-----------------|-----------------|-----------------|
| <b>Operating activities</b>  |                 |                 |                 |                 |
| Income before income tax and social contribution                                 | 33,695          | 38,759          | 49,331          | 66,850          |
| <b>Adjustments to reconcile net income with cash from operational activities</b> | <b>231</b>      | <b>7,139</b>    | <b>(2,481)</b>  | <b>8,906</b>    |
| Depreciation and amortization  | 1,749           | 2,385           | 3,166           | 4,970           |
| Income from financial investments  | (2,743)         | (2,896)         | (6,604)         | (6,165)         |
| Interest and exchange rate   | 1,336           | 5,057           | 814             | 5,067           |
| Other  | (111)           | 2,593           | 143             | 5,034           |
| <b>Decrease (increase) in assets</b>   |                 |                 |                 |                 |
| Customer receivables   | 22,801          | 11,471          | 28,795          | 9,097           |
| Inventory  | (108)           | (2,716)         | (8,687)         | (14,190)        |
| Recoverable taxes  | 2,331           | (2,663)         | 2,796           | (4,179)         |
| Variation other current assets   | (1,378)         | (3,394)         | (65)            | (3,223)         |
| Judicial deposits  | (123)           | (359)           | (641)           | 545             |
| <b>Decrease (increase) in liabilities</b>  |                 |                 |                 |                 |
| Suppliers  | (12,798)        | (25,464)        | 6,042           | 8,049           |
| Labor liabilities  | 4,100           | 4,338           | 1,269           | (181)           |
| Fiscal and social liabilities  | 1,268           | (2,467)         | (4,347)         | (8,771)         |
| Variation in other liabilities   | (477)           | 1,732           | (271)           | 1,568           |
| <b>Payment of income tax and social contribution</b>                             | <b>(11,652)</b> | <b>(13,935)</b> | <b>(11,652)</b> | <b>(17,598)</b> |
| <b>Net cash flow from operating activities</b>                                   | <b>37,890</b>   | <b>12,441</b>   | <b>60,089</b>   | <b>46,873</b>   |
| <b>Investing activities</b>  |                 |                 |                 |                 |
| Acquisitions of fixed and intangible assets                                      | (14,462)        | (8,942)         | (31,799)        | (20,169)        |
| Financial Investments  | (107,781)       | (86,316)        | (177,201)       | (168,455)       |
| Redemption of financial investments  | 70,022          | 87,352          | 140,793         | 158,358         |
| Increased Investments  | -               | -               | -               | -               |
| <b>Net cash used in investing activities</b>                                     | <b>(52,221)</b> | <b>(7,906)</b>  | <b>(68,207)</b> | <b>(30,266)</b> |
| <b>Financing activities with third parties</b>                                   |                 |                 |                 |                 |
| Funding  | 26,175          | 23,127          | 26,175          | 25,207          |
| Payments of loans  | (7,238)         | (8,201)         | (14,531)        | (16,495)        |
| <b>Net cash used in financing activities - third parties</b>                     | <b>18,937</b>   | <b>14,926</b>   | <b>11,644</b>   | <b>8,712</b>    |
| <b>Financing activities with shareholders</b>                                    |                 |                 |                 |                 |
| Interest on equity capital   | -               | -               | -               | (8,945)         |
| Distribution of profits  | (6,116)         | (20,382)        | (14,325)        | (20,382)        |
| Receivables (payables) with shareholders   | 96              | 9               | 70              | 5               |
| Share Issuance   | -               | -               | -               | -               |
| Share issuance transaction costs   | -               | -               | -               | -               |
| <b>Net cash used in financing activities</b>                                     | <b>(6,020)</b>  | <b>(20,373)</b> | <b>(14,255)</b> | <b>(29,322)</b> |
| <b>Increase (decrease) in cash and cash equivalents</b>                          | <b>(1,414)</b>  | <b>(912)</b>    | <b>(10,729)</b> | <b>(4,003)</b>  |
| <b>Cash and cash equivalents</b>   |                 |                 |                 |                 |
| Cash and cash equivalents - Initial balance                                      | 6,213           | 8,427           | 15,528          | 11,518          |
| Cash and cash equivalents - Closing balance                                      | 4,799           | 7,515           | 4,799           | 7,515           |
| <b>Increase (decrease) in cash and cash equivalents</b>                          | <b>(1,414)</b>  | <b>(912)</b>    | <b>(10,729)</b> | <b>(4,003)</b>  |

## Important Notice

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