# Earnings Release - 1Q16

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AREZZO SCHUTZ ALEXANDRE BIRMAN ANACAPRI FIEVER


Belo Horizonte, May 4th, 2016. Arezzo&Co (BM&FBOVESPA: ARZZ3), Brazil's women's footwear, handbags and accessories industry leader, reports its earnings for the 1st quarter of 2016. 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 2015 (1Q15) unless otherwise stated.

**Closing price of ARZZ3 in 05.03.16:**

R$ 24.51

**Market Cap in 05.03.16:**

R$ 2,173.6 million

**Earnings conference call:**

Tuesday, May 5th, 2016
11h00 am (Brasília time)

**Connection phone numbers:**

Participants calling from Brazil and other countries:
+55 11 2820-4001
Participants calling from USA:
+1 786-924-6977
Access code: Arezzo&Co

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

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Arezzo&Co posts a 9.9% sales growth in 1Q16, totaling R$330.2 million, with EBITDA of R$26.3 million

## HIGHLIGHTS

- Net revenue for 1Q16 was R$257.5 million, up by 9.0% against 1Q15;
- In 1Q16, the Company's gross profit stood at R$111.7 million, with a gross margin of 43.4% and growth of 16.5% over 1Q15;
- EBITDA for 1Q16 totaled R$26.3 million with a margin of 10.2% and reduction of 6.3%;
- Net income for the quarter was R$14.7 million, with a margin of 5.7%;
- In 1Q16, Arezzo&Co recorded an expansion of 6.6% in sales area, excluding outlets

| Summary of Results | 1Q15 | 1Q16 | Δ 15 x 16 |
|---|---|---|---|
| **Net Revenues** | 236,242 | 257,547 | 9.0% |
| **Gross Profit** | 95,900 | 111,719 | 16.5% |
| ***Grosss Margin*** | 40.6% | 43.4% | 2.8 p.p. |
| **EBITDA[1]** | 28,111 | 26,343 | (6.3%) |
| ***EBITDA Margin [1]*** | 11.9% | 10.2% | (1.7 p.p) |
| **Net Income** | 18,143 | 14,679 | (19.1%) |
| ***Net Margin*** | 7.7% | 5.7% | (2.0 p.p) |

| Operating Indicators | 1Q15 | 1Q16 | Δ 15 x 16 |
|---|---|---|---|
| **# of pairs sold ('000)** | 2,226 | 2,356 | 5.8% |
| **# of handbags sold ('000)** | 187 | 196 | 4.8% |
| **# of employees** | 2,192 | 2,200 | 0.4% |
| **# of stores*** | 514 | 543 | 29 |
| ***Owned Stores*** | 54 | 50 | (4) |
| ***Franchises*** | 460 | 493 | 33 |
| **Outsourcing (as % of total production)** | 91.1% | 89.3% | (1.8 p.p) |
| **SSS² Sell-in (franchises)** | (4.0%) | (1.4%) | 2.6 p.p |
| **SSS² Sell-out (owned stores + franchises)** | 0.6% | (4.3%) | (4.9 p.p) |
| **SSS² Sell-out (owned stores + franchises + web commerce)** | 2.2% | (3.7%) | (5.9 p.p) |

* Include international stores

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

(2) SSS (Same-store sales): Stores are included in comparable stores' sales as of the 13th month of operation. Variations in comparable stores' sales in the two periods are based on sales, net of returns, for owned stores, and on gross sales for franchises in operation during both periods under comparison. If a store is included in the calculation of comparable stores' sales for only a portion of one of the periods under comparison, this store will be included in the calculation of the corresponding portion of the other period. When square meters are added to or deducted from a store included in comparable stores' sales, with an impact of over 15% on the sales area, the store is excluded from comparable stores' sales. When a store operation is discontinued, this store's sales are excluded from the calculation of comparable stores' sales for the periods under comparison. As from this period, if a franchisee opens a warehouse, its sales will be included in comparable stores' sales if its franchises operate during both periods under comparison. The so-called "SSS of Franchises – Sell In" refers to comparison of Arezzo&Co's sales with those of each Franchised Store in operation for more than 12 months, serving as a more accurate indicator for monitoring the Group's revenue. On the other hand, "SSS – Sell Out" is based on the point of sales' performance, which, in the case of Arezzo&Co, is a better indicator of Owned Stores' sales behavior and Franchises' sell out sales. The franchise sell-out figures represent the best estimate calculated on the basis of information provided by third parties. Starting in 1Q14, the Company begins to also report SSS sell-out including web commerce.

| Gross Revenue | 1Q15 | Part% | 1Q16 | Part% | Δ (%) 15 x 16 |
|---|---|---|---|---|---|
| **Total Gross Revenue** | **300,444** | | **330,236** | | **9.9%** |
| **Exports market** | **16,760** | **5.6%** | **35,176** | **10.7%** | **109.9%** |
| **Domestic market** | **283,684** | **94.4%** | **295,060** | **89.3%** | **4.0%** |
| **By brand** | | | | | |
| *Arezzo* | *166,448* | *58.7%* | *175,651* | *59.5%* | *5.5%* |
| *Schutz* | *99,389* | *35.0%* | *94,251* | *31.9%* | *(5.2%)* |
| *Anacapri* | *15,885* | *5.6%* | *22,577* | *7.7%* | *42.1%* |
| *Others¹* | *1,962* | *0.7%* | *2,581* | *0.9%* | *31.5%* |
| **By channel** | | | | | |
| *Franchises* | *146,017* | *51.5%* | *149,431* | *50.6%* | *2.3%* |
| *Multibrand* | *66,057* | *23.3%* | *60,575* | *20.5%* | *(8.3%)* |
| *Owned Stores* | *58,053* | *20.5%* | *59,923* | *20.3%* | *3.2%* |
| *Web Commerce* | *12,489* | *4.4%* | *24,487* | *8.3%* | *96.1%* |
| *Others²* | *1,068* | *0.4%* | *644* | *0.2%* | *(39.7%)* |

(1) Includes only domestic markets for Alexandre Birman and Fiever brands and other revenues.
(2) Includes domestic market revenues that are not specific for distribution channels.

## Brands

In line with the Company's retail calendar, the first quarter of the year sees a transition from the summer collection to the winter collection. The promotions period, lasting from January until Carnival, showed good performance, with a bigger share for products sold without a discount. The Company ended the summer collection with lower level of inventory than in previous years, thus positively impacting the average mark-up of the chain. Another feature of the promotional period was the presentation of the pre-fall collection in the stores, including products from the winter collection to follow, which was launched in March and was well received by consumers. Collection changeovers are a high point in the Arezzo&Co business model. A number of steps were taken to bring novelty to the shopping experience, including new uniforms for the salesgirls and different visual merchandising materials, plus the most important factor, a wide mix of products. All the stores were rearranged and the sales team was given thorough training in key fashion trends at a sales convention at the start of the collection. In addition, the Company implemented a full communication and marketing plan, including new campaigns with international models, focusing each brand on its target audience, allied with a structured media and press relations plan and a series of in-store events, this resulted in a promising start to the collection in the chain.

The Arezzo brand brought in R$175.7 million in gross revenue in 1Q16, growth of 5.5% against 1Q15, accounting for 59.5% of domestic sales. In line with its strategy of always having the right product at the right time and at the right price, the brand brought forward the arrival of the pre-fall collection in the stores, and this, together with speedy replenishment of continuables, sustained the sell-out at a level similar to 4Q15, even with a low level of stocks during the period. It should be remembered that the brand continues its highly frequent supply of new collections in the stores, with six winter collections, so that it can react more quickly during the season to an interpretation of sell-out, boosting assertiveness of the products and increases the gross margin in the mono-brand stores through a higher average mark-up and less surplus at the end of the collections. Additionally, a highlight in this 1Q16 was the brand's new marketing campaign starring the most notorious model, both nationally and internationally, which together with the new media and marketing strategy focused on online vehicles, directly impacted the web commerce sales performance, reaching 5,4% of the internal market sales turnover.

The Schutz brand accounted for 31.9% of the Company's domestic sales, with R$94.3 million in gross revenue in 1Q16, down by 5.2% against 1Q15. Including external market, brand growth 4.5% in 1Q16 over 1Q15. According to the strategy for increasing the brand's share, the handbags category continues to be given pride of place, and its share grew by 314 bps, reaching 21.6% of sell out in the physical stores, an increase of 22.5% in the quarter. The strategy of maturing the web commerce channel once again brought resilient results, representing 14.2% of the brand's domestic sales. In the USA, the brand once more grew strongly in 1Q16. It should be remembered that a pop-up store was opened in Los Angeles in March, focusing on creating awareness and preparing the market for a permanent store, which opened on April 21st.

The Anacapri brand posted revenue of R$22.6 million in 1Q16, up by 42.1% against 1Q15. The brand continues to increase its market penetration, and ended the quarter with 70 franchise stores, allying communication and marketing events with a focus on the “uncomplicated” brand concept through its offer of flat shoes. Additionally, more than 7.0% of the brand’s sales were made through the online store, which opened in 1Q15.

The Alexandre Birman brand continues to focus on reinforcing its international branding, and it achieved strong growth in the quarter compared with 1Q15. The brand has been strengthening its positioning through more assertive collections, product initiatives - as an example, the Clarita model, a national and international shoe reference of the brand, which has benefitted from the frequent and spontaneous use by celebrities and opinion makers - and marketing specifically directed at its target audience, with greater visibility in the main international department stores.

## Channels

## Mono-brands – Franchises and Owned Stores

Following the Company’s strategy of reinforcing the mono-brand store, the Arezzo&Co chain of stores (owned stores + franchises + web commerce) posted growth of 2.1% in sell-out sales in 1Q16 in comparison with 1Q15, due mainly to an increase in area, through store openings and expansions, and to the launch of the online store for the Arezzo and Anacapri brands last year. Same-store sales decreased 3.7% in 1Q16, with performance similar to 4Q15, but with much healthier levels of stock than in the previous quarter.

The Company’s revenue from mono-brand stores, consisting of sell-in from franchise and sell-out by owned stores and web commerce, showed growth of 8.0% in 1Q16 against 1Q15, thanks to a 96.1% increase in the web commerce channel, and to growth of 3.2% and 2.3% in the owned stores and franchise channels, respectively. The mono-brand stores accounted for 79.3% of domestic sales in 1Q16. Analysis of the SSS sell-out, including only the physical stores, should take into account that the figure of -4.3% was negatively impacted in 130 bps by the calendar effect related to timing of Easter in March, while in 2015 the holiday was in April.

The franchise channel, accounted for 50.6% of domestic sales in 1Q16, and showed SSS sell-in of -1.4%, a figure greater than the SSS sell-out, a reflection of less sell-in volume in 4Q15. In addition, the channel’s performance was boosted by the net opening of 33 franchises in the last 12 months, 10 of them for the Arezzo brand, six for Schutz and 17 for Anacapri. Furthermore, eight Arezzo brand franchises were expanded during the same period, adding 216.9 m² to the channel sales area.

Taking just the owned stores channel and web commerce into account, revenue grew by 19.7% in 1Q16, thanks mainly to online sales, with the Schutz brand store reaching maturity and the Arezzo and Anacapri brand stores being launched last year.

The Company ended 1Q16 with 536 mono-brand stores in Brazil and seven abroad. The numbers in Brazil are 381 for Arezzo, 78 for Schutz, 74 for Anacapri, two for Alexandre Birman and one for the Fiever brand.

## Multibrand

In 1Q16, the Multibrand channel showed a drop of 8.3% in sales. The performance of the channel mainly reflects a deterioration in sell-out, which began in 3Q15 and affected the confidence of the retailers and, consequently, the level of orders. The Company continues to focus its efforts on capturing new customers, growing the share of wallet among existing customers, and increasing cross-selling between brands and categories in order to sidestep the macro environment for the channel in 2016.

In 1Q16, the four group brands were being distributed through 2,114 stores, a 0.2% drop against 1Q16, and they are for sale in 1,230 cities.

## Exports

The Company divides its exports strategy into three main channels: i) pilot operation in the USA; ii) export of owned brands to the rest of the world; and iii) private label.

The group showed strong growth in the USA, through the Schutz and A. Birman brands in wholesale and retail channels (physical and online), and in 1Q16 they accounted for 58.3% of international sales. Exports of owned brands to the rest of the world represented 29.4%. Exports consolidated growth in the quarter was 109.9% against 1Q15.

| History of Stores | 1Q15 | 2Q15 | 3Q15 | 4Q15 | 1Q16 |
|---|---|---|---|---|---|
| **Sales area [1,3] - Total (m²)** | **35,735** | **35,235** | **36,053** | **37,342** | **37,296** |
| Sales area - franchises (m²) | 28,337 | 28,744 | 29,649 | 31,087 | 31,033 |
| Sales area - owned stores² (m²) | 7,398 | 6,491 | 6,404 | 6,255 | 6,264 |
| **Total number of domestic stores** | **508** | **511** | **519** | **537** | **536** |
| **# of franchises** | **455** | **460** | **469** | **489** | **488** |
| Arezzo | 356 | 356 | 360 | 367 | 366 |
| Schutz | 46 | 48 | 48 | 52 | 52 |
| Anacapri | 53 | 56 | 61 | 70 | 70 |
| **# of owned stores** | **53** | **51** | **50** | **48** | **48** |
| Arezzo | 19 | 17 | 16 | 15 | 15 |
| Schutz | 28 | 28 | 28 | 26 | 26 |
| Alexandre Birman | 2 | 2 | 2 | 2 | 2 |
| Anacapri | 4 | 4 | 4 | 4 | 4 |
| Fiever | 0 | 0 | 0 | 1 | 1 |
| **Total number of international stores** | **6** | **6** | **6** | **6** | **7** |
| **# of franchises** | 5 | 5 | 5 | 5 | 5 |
| **# of owned stores** | 1 | 1 | 1 | 1 | 2 |

(1) Includes areas in square meters of international stores
(2) Includes 7 outlet-type stores with a total area of 2.090 m²
(3) Includes areas in square meters of stores expansion

| Key financial indicators | 1Q15 | 1Q16 | Δ (%) 15 x 16 |
|---|---|---|---|
| **Net revenues** | 236,242 | 257,547 | 9.0% |
| **COGS** | (140,342) | (145,828) | 3.9% |
| **Gross profit** | 95,900 | 111,719 | 16.5% |
| *Gross margin* | *40.6%* | *43.4%* | *2.8 p.p* |
| ***SG&A*** | (73,573) | (91,647) | 24.6% |
| *% of net revenues* | *31.1%* | *35.6%* | *4.5 p.p* |
| **Selling expenses** | (51,064) | (65,218) | 27.7% |
| Owned stores and web commerce | (22,958) | (28,861) | 25.7% |
| Selling, logistics and supply | (28,106) | (36,357) | 29.4% |
| **General and administrative expenses** | (15,912) | (19,836) | 24.7% |
| **Other operating revenues (expenses)** | (813) | (322) | (60.4%) |
| **Depreciation and amortization** | (5,784) | (6,272) | 8.4% |
| **EBITDA** | 28,111 | 26,343 | (6.3%) |
| *EBITDA margin* | *11.9%* | *10.2%* | *(1.7 p.p)* |
| **Net income** | 18,143 | 14,679 | (19.1%) |
| *Net margin* | *7.7%* | *5.7%* | *(2.0 p.p)* |
| **Working capital[1] - as % of revenues** | 28.1% | 27.0% | (1.1 p.p) |
| **Invested capital[2] - as % of revenues** | 42.0% | 43.1% | 1.1 p.p |
| **Total debt** | 98,138 | 114,349 | 16.5% |
| Net debt[3] | (112,011) | (134,809) | 20.4% |
| Net debt/EBITDA LTM | -0.7x | -0.8x | - |

(1) Working Capital: current assets minus cash, cash equivalents and marketable securities less current liabilities minus loans and financing and dividends payable.
(2) Invested capital: working capital plus fixed assets and other long-term assets less income tax and deferred social contribution.
(3) 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 Revenues

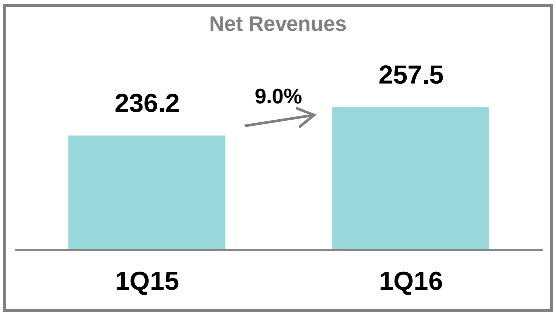
The Company's net revenue grew to R$257.5 million this quarter, up by 9.0% against 1Q15. This growth is attributable to the following factors in particular:

i) Rise of 109.9% in exports thanks to major gains in pricing and volume in the four main brands, and growth in the pilot operation;

ii) Expansion of 96.1% in the web commerce channel, giving it an 8.3% share of sales in the domestic market vs. 4.6% in 1Q15. Highlighting for Arezzo and Anacapri brands;

iii) Sales growth in the physical mono-brand stores (franchises plus owned stores) of 2.6%;

iv) Influenced by the sell-out performance, sales in the multibrand channel were down by 8.3% in the quarter.



## Gross Profit

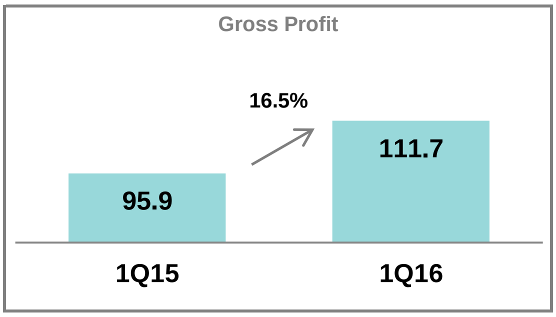
Gross profit in 1Q16 totaled R$111.7 million, up by 16.5% against 1Q15, with a gross margin expansion of 280 bps, reaching 43.4% in 1Q16, primarily as a result of:

i) A significant 19.7% increase of both owned stores and web commerce channels, reaching 28.6% in representativeness in the Company's total sales;

ii) Strong growth in the exports channel, with better margins, over the last twelve months;

iii) A positive impact of 25 bps in the gross margin as a result of fiscal benefits in ICMS taxes through the operationalization of the new distribution center, which will start to have its full impact on the second half of 2016.

It should be remembered that the Company's strategy is to keep the gross margin for each channel stable, with some variations in owned stores, web commerce and exports.




## Operating expenses

The Company is making a major effort to keep expenses in line with changes in sales. However, this quarter expenses in general were under pressure for four main reasons, as follows: (i) beginning of 2nd step in the USA pilot operation; (ii) go-live in 2015 of Arezzo and Anacapri brand online stores; (iii) beginning of the implementation of the new distribution center; and (iv) the costs associated with the new Company ERP.

**Selling Expenses**

Selling expenses grew by 27.7% in 1Q16, totaling R$65.2 million for the quarter. It should be noted that selling expenses include the expenses of owned stores and web commerce, which amounted to R$28.9 million for the quarter, up by 25.7% against 1Q15, as well as sales, logistics and supply expenses, which accounted for the balance of R$36.4 million and rose by 29.4% against the same period of the previous year.

The rise in expenses for owned stores and web commerce is accounted for by the cost of bringing the Arezzo and Anacapri online platforms on stream, which in 1Q15 were still being developed. Excluding this effect, the rise in expenses of owned stores and web commerce is in line with the 19.7% sales growth in these channels.

The selling, logistics and supplies expenses were impacted by the incremental outlays of R$4.3 million regarding the USA pilot-operation, the expenditures related to the partial implementation of the new distribution center that amounted R$0.6 million, and the additional expenses of R$0.5 million associated with the recently launched online operations for both Arezzo and Anacapri brands. If excluded these impacts, the Company would post a R$31.0 million figure, a 10.1% growth, which would be in line with Arezzo&Co's sales growth.

**General and Administrative Expenses**

In 1Q16, general and administrative expenses totaled R$19.8 million against R$15.9 million in 1Q15, up by 24.7%. Excluding the increase for the 2nd phase of the USA pilot operation of R$ 1.3 million, and the impact of incremental expenses of R$0.9 million for the new Company ERP, general and administrative expenses grew 10.8%, in line with inflation for the period.

## EBITDA and EBITDA margin

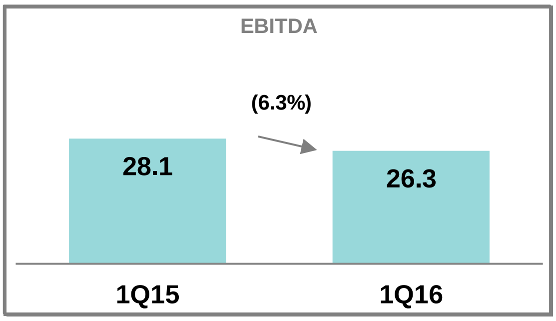
The Company's EBITDA stood at R$26.3 million in 1Q16, with an EBITDA margin of 10.2%, down by 6.3% in comparison with the same period of the previous year. The key reasons for this were:

i) higher incremental operating expenses related to maturing initiatives such as the pilot operation in the USA, the implementation of the new distribution center, and the incremental expenses of operationalization of platforms developed in 2015 for the Arezzo and Anacapri brand;

ii) growth of 280 bps in the gross margin, closing 1Q16 at 43.4%

iii) growth of 9.0% in net revenues over 1Q15;

In line with its impact in previous quarters, the pilot operation in the USA reduced the Company's consolidated EBITDA by 174 bps.

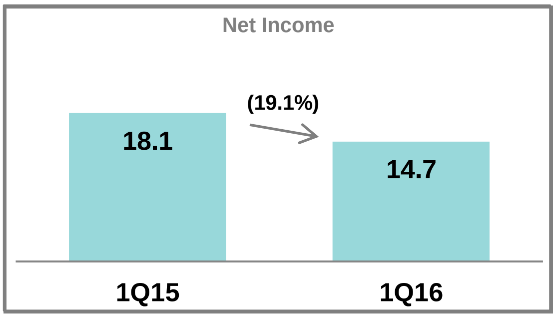



| EBITDA Reconciliation | 1Q15 | 1Q16 |
|---|---|---|
| **Net income** | 18,143 | 14,679 |
| (-) Income tax and social contribution | (12,207) | (8,795) |
| (-) Financial results | 8,023 | 3,403 |
| (-) Depreciation and amortization | (5,784) | (6,272) |
| **(=) EBITDA** | 28,111 | 26,343 |

## Net income and net margin

The Company showed conversion of 10.2% EBITDA margin into a net margin of 5.7% in 1Q16, reflecting the lower level of financial income for the quarter, since in 1Q15 the appreciation of the US dollar created currency gains from export sales, the reverse of the situation in 1Q16.

Net income for 1Q16 amounted to R$14.7 million. Excluding the exchange rate, the Company net income would have increased 5.9%, amounting R$15.8 million in 1Q16.



## Operating cash generation

Arezzo&Co generated R$24.2 million of operational cash in 1Q16, the same level presented in 1Q15. The improving of working capital variation was mainly responsible for the presented performance.

| Operating Cash Flow | 1Q15 | 1Q16 | Δ 15 x 16 (R$) | Δ 15 x 16 (%) |
|---|---|---|---|---|
| **Income before income tax and social contribution** | **30,350** | **23,474** | **(6,876)** | **(22.7%)** |
| **Depreciation and amortization** | **5,784** | **6,272** | **488** | **8.4%** |
| **Other** | **4,149** | **(13,057)** | **(17,206)** | **n/a** |
| **Decrease (increase) in assets / liabilities** | **(13,077)** | **7,481** | **20,558** | **n/a** |
| Trade accounts receivables | (18,925) | (12,244) | 6,681 | (35.3%) |
| Inventories | (23,186) | (15,524) | 7,662 | (33.0%) |
| Suppliers | 34,130 | 45,767 | 11,637 | 34.1% |
| Change in other noncurrent and current assets and liabilities | (5,096) | (10,518) | (5,422) | 106.4% |
| **Payment of income tax and social contribution** | **(3,019)** | **-** | **3,019** | **n/a** |
| **Net cash flow generated by operational activities** | **24,187** | **24,170** | **(17)** | **(0.1%)** |

## Investments - CAPEX

The Company's investments are of three types:

i) Investment in expansion or refurbishment of its points of sales;
ii) Corporate investments, including IT, premises, showrooms and offices; and
iii) Other investments, chiefly related to the modernization of the manufacturing operation.

Total CAPEX for 1Q16 was R$7.9 million, consisting mainly of the expenses of expanding the new flagship stores of the Arezzo brand. The decline in CAPEX in 1Q16, in comparison with the same period of the previous year, reflects the completion of implementation of the Company's new ERP.

| Summary of investments | 1Q15 | 1Q16 | Δ 15 x 16 (%) |
|---|---|---|---|
| **Total CAPEX** | **10,292** | **7,904** | **(23.2%)** |
| Stores - expansion and refurbishing | 468 | 4,183 | 794.3% |
| Corporate | 7,496 | 1,873 | (75.0%) |
| Other | 2,328 | 1,848 | (20.6%) |

## Cash position and indebtedness

The Company ended 1Q16 with R$134.8 million in net cash. Its indebtedness policy remains conservative, with the following primary characteristics:

• Total indebtedness of R$114.3 million in 1Q16 against R$98.1 million in 1Q15;
• Long term indebtedness of 30.2% of total debt in 1Q16, compared to 33.0% in 1Q15;
• The weighted average cost of the Company's total debt in 1Q16 remains at a reduced level.

| Cash position and Indebtedness | 1Q15 | 4Q15 | 1Q16 |
|---|---|---|---|
| **Cash** | **210,149** | **225,762** | **249,158** |
| **Total debt** | **98,138** | **123,153** | **114,349** |
| Short term | 65,718 | 85,336 | 79,799 |
| *% total debt* | 67.0% | 69.3% | 69.8% |
| Long-term | 32,420 | 37,817 | 34,550 |
| *% total debt* | 33.0% | 30.7% | 30.2% |
| **Net debt** | **(112,011)** | **(102,609)** | **(134,809)** |

## ROIC (Return On Invested Capital)

The return on invested capital (ROIC) was 19.8% in 1Q16. Pressured by a higher level in invested capital, as well a slight reduction in NOPAT of the quarter.

| Income from operations | 1Q14 | 1Q15 | 1Q16 | Δ 15 x 16 (%) |
|---|---|---|---|---|
| EBIT (LTM)[1] | 146,519 | 155,041 | 139,032 | (10.3%) |
| + IR and CS (LTM)[2] | (46,401) | (54,163) | (41,482) | (23.4%) |
| **NOPAT** | **100,118** | **100,878** | **97,550** | **(3.3%)** |
| Working Capital[3] | 272,718 | 302,429 | 308,783 | 2.1% |
| Permanent assets | 139,892 | 170,350 | 165,318 | (3.0%) |
| Other long-term assets | 8,451 | 9,788 | 27,637 | 182.4% |
| **Invested capital[4]** | **421,061** | **482,567** | **501,738** | **4.0%** |
| **Average invested capital[5]** | | **451,814** | **492,153** | **8.9%** |
| **ROIC[6]** | | **22.3%** | **19.8%** | |

(1) Does not include a non-cash, non-recurring impact of R$8.7 million due to the implementation of the new ERP in 4Q14.
(2) An impact of R$2.8 million has been made to reflect the above-mentioned effect on EBIT for the last 12 months.
(3) Working Capital: current assets minus cash, cash equivalents and financial investments less current liabilities minus loans and financing and dividends payable.
(4) Less deferred income tax and social contribution.
(5) Average invested capital in the period and same period previous year.
(6) ROIC: NOPAT for the last 12 months divided by average invested capital.

## Balance sheet

| Assets | 1Q15 | 4Q15 | 1Q16 |
|---|---|---|---|
| **Current assets** | **668,561** | **658,203** | **707,625** |
| Cash and cash equivalents | 7,536 | 8,822 | 3,210 |
| Financial Investments | 202,613 | 216,940 | 245,948 |
| Trade accounts receivables | 296,838 | 280,528 | 293,052 |
| Inventory | 121,079 | 106,951 | 122,611 |
| Taxes recoverable | 25,164 | 21,222 | 22,164 |
| Other credits | 15,331 | 23,740 | 20,640 |
| **Non-current assets** | **186,292** | **195,745** | **199,942** |
| Long-term receivables | 15,942 | 31,423 | 34,624 |
| Financial Investments | 55 | 919 | 942 |
| Trade accounts receivables | 0 | 14,217 | 13,422 |
| Deferred income and social contribution | 6,154 | 6,285 | 6,987 |
| Other credits | 9,733 | 10,002 | 13,273 |
| Property, plant and equipment | 76,665 | 73,593 | 72,500 |
| Intangible assets | 93,685 | 90,729 | 92,818 |
| **Total Assets** | **854,853** | **853,948** | **907,567** |

| Liabilities | 1Q15 | 4Q15 | 1Q16 |
|---|---|---|---|
| **Current liabilities** | **221,701** | **190,772** | **229,483** |
| Loans and financing | 65,718 | 85,336 | 79,799 |
| Suppliers | 104,445 | 64,881 | 110,648 |
| Other liabilities | 51,538 | 40,555 | 39,036 |
| **Non-current liabilities** | **39,521** | **45,271** | **42,217** |
| Loans and financing | 32,420 | 37,817 | 34,550 |
| Related parties | 1,152 | 1,393 | 1,267 |
| Other liabilities | 5,949 | 6,061 | 6,400 |
| **Equity** | **593,631** | **617,905** | **635,867** |
| Capital | 260,197 | 261,247 | 261,247 |
| Capital reserve | 31,943 | 35,377 | 36,578 |
| Income reserves | 250,120 | 308,079 | 308,079 |
| Additional proposed dividend | -2,120 | -5,502 | -3,420 |
| Adjustments to equity valuation | 35,348 | 18,704 | 18,704 |
| Profit | 18,143 | 0 | 14,679 |
| **Total liabilities and shareholders' equity** | **854,853** | **853,948** | **907,567** |

## Income statement (IFRS)

| Income statement - IFRS | 1Q15 | 1Q16 | Δ % |
|---|---|---|---|
| **Net operating revenue** | **236,242** | **257,547** | **9.0%** |
| Cost of goods sold | (140,342) | (145,828) | 3.9% |
| **Gross profit** | **95,900** | **111,719** | **16.5%** |
| **Operating income (expenses):** | **(73,573)** | **(91,648)** | **24.6%** |
| Selling | (54,966) | (69,660) | 26.7% |
| Administrative and general expenses | (17,794) | (21,666) | 21.8% |
| Other operating income net | (813) | (322) | -60.4% |
| **Income before financial result** | **22,327** | **20,071** | **-10.1%** |
| Financial income | 8,023 | 3,403 | -57.6% |
| **Income before income taxes** | **30,350** | **23,474** | **-22.7%** |
| Income tax and social contribution | (12,207) | (8,795) | -28.0% |
| Current | (14,237) | (9,497) | -33.3% |
| Deferred | 2,030 | 702 | -65.4% |
| **Net income for period** | **18,143** | **14,679** | **-19.1%** |

## Cash Flow - IFRS

| Statement of cash flow | 1Q15 | 1Q16 |
|---|---|---|
| **Operating activities** | | |
| Income before income tax and social contribution | 30,350 | 23,474 |
| **Adjustments to reconcile net income with cash from operational activities** | **9,933** | **(6,785)** |
| Depreciation and amortization | 5,784 | 6,272 |
| Income from financial investments | (5,383) | (7,417) |
| Interest and exchange rate | 8,076 | (7,646) |
| Other | 1,456 | 2,006 |
| **Decrease (increase) in assets** | | |
| Trade accounts receivables | (18,925) | (12,244) |
| Inventory | (23,186) | (15,524) |
| Recoverable taxes | 2,578 | (3,646) |
| Variation other current assets | (4,189) | 1,052 |
| Judicial deposits | (311) | (87) |
| **Decrease (increase) in liabilities** | | |
| Suppliers | 34,130 | 45,767 |
| Labor liabilities | (3,214) | 972 |
| Fiscal and social liabilities | (411) | (8,076) |
| Variation in other liabilities | 451 | (733) |
| **Payment of income tax and social contribution** | (3,019) | - |
| **Net cash flow from operating activities** | **24,187** | **24,170** |
| **Investing activities** | | |
| Acquisitions of fixed and intangible assets | (10,292) | (7,904) |
| Financial Investments | (116,487) | (177,863) |
| Redemption of financial investments | 108,785 | 155,689 |
| **Net cash used in investing activities** | **(17,994)** | **(30,078)** |
| **Financing activities with third parties** | | |
| Captation | 18,547 | 15,037 |
| Payments of loans | (27,098) | (13,713) |
| Payments of Interest on loans | (797) | (620) |
| **Caixa líquido utilizado pelas atividades de financiamento com terceiros** | **(9,348)** | **704** |
| **Financing activities with shareholders** | | |
| Receivables (payables) with shareholders | 202 | (126) |
| **Net cash used in financing activities** | **202** | **(126)** |
| **Increase (decrease) in cash and cash equivalents** | **(2,953)** | **(5,330)** |
| **Cash and cash equivalents** | | |
| Foreign exchange effect on cash and cash equivalents | (342) | (282) |
| Cash and cash equivalents - Initial balance | 10,831 | 8,822 |
| Cash and cash equivalents - Closing balance | 7,536 | 3,210 |
| Increase (decrease) in cash and cash equivalents | **(2,953)** | **(5,330)** |

## Importante Notice

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