Earnings Release - 2Q14

AREZZO &CO

AREZZO

SCHUTZ

ALEXANDRE BIRMAN

ANACAPRI

Earnings Release - 2Q14

AREZZO SCHUTZ ALEXANDRE BIRMAN ANACAPRI


Belo Horizonte, July 30, 2014. Arezzo&Co (BM&FBOVESPA: ARZZ3), Brazil's women's footwear, handbags and accessories industry leader, reports its earnings for the 2nd quarter of 2014. 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 2013 (2Q13) unless otherwise stated.

ARZZ3 share price on 07.29.14:

R$ 29.33

Market value on 07.29.14:

R$ 2,601.1 milhões

Earnings conference call:

Thursday, June 31st, 2014

11:00AM (Brasília Time)

Connection phone numbers:

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

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

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Arezzo&Co records gross revenue growth of 7.2% in 2Q14, and a net income increase of 8.9% amounting to R$31.6 million

HIGHLIGHTS

• In 2Q14, gross revenue was R$327.5 million, up by 7.2% against 2Q13;

• In 2Q14, gross profit was R$112.9 million, a growth of 6.5% in comparison with 2Q13;

• EBITDA for 2Q14 amounted to R$42.3 million, an increase of 4.5% against 2Q13, with a 16.7% margin;

• In 2Q14, net income reached R$31.6 million, with net margin of 12.5%, up by 8.9% over 2Q13;

• In this quarter, Arezzo&Co opened nine stores and expanded six stores, with 15.7% growth in sales area over the last 12 months.

Summary of Results	2Q13	2Q14	Growth or spread%	1H13	1H14	Growth or spread%
Net Revenues	237,639	253,748	6.8%	438,678	467,173	6.5%
Gross Profit	106,058	112,908	6.5%	195,491	204,969	4.8%
Grosss Margin	44.6%	44.5%	-0.1 p.p.	44.6%	43.9%	-0.7 p.p.
EBITDA [1]	40,478	42,281	4.5%	69,114	69,570	0.7%
Ebitda Margin	17.0%	16.7%	-0.3 p.p.	15.8%	14.9%	-0.9 p.p.
Net Income	29,057	31,633	8.9%	48,423	49,066	1.3%
Net Margin	12.2%	12.5%	0.3 p.p.	11.0%	10.5%	-0.5 p.p.

Operating Indicators	2Q13	2Q14	Growth or spread%	1H13	1H14	Growth or spread%
# of pairs sold ('000)[3]	2,297	2,519	9.6%	4,290	4,577	6.7%
# of handbags sold ('000)[3]	128	161	25.8%	264	323	22.3%
# of employees	2,014	2,135	6.0%	2,014	2,135	6.0%
# of stores *	417	468	51	417	468	51
Owned Stores	56	51	-5	56	51	-5
Franchises	361	417	56	361	417	56
Outsorcing (as % os total production)	89.8%	89.8%	0.0 p.p	89.9%	90.0%	0.1 p.p
SSS [2] Sell-in (franchises)	5.5%	1.1%	-4.4 p.p	6.7%	4.7%	-2.0 p.p
SSS [2] Sell-out (owned stores + franchises)	1.2%	6.7%	5.5 p.p	3.7%	5.1%	1.4 p.p
SSS [2] Sell-out (owned stores + web + franchises)	2.5%	7.7%	5.2 p.p	5.3%	5.9%	0.6 p.p

*Including international stores

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

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

3- The volume of pairs of shoes and handbags recorded in 1H13 totaled 4,290 thousand pairs and 264 thousand handbags.

Gross Revenue	2Q13	Part%	2Q14	Part%	Growth %	1H13	Part%	1H14	Part%	Growth %
Total Gross Revenue	**305,456**		**327,520**		**7.2%**	**562,907**		**603,363**		**7.2%**
Exports market	**11,574**	**3.8%**	**16,683**	**5.1%**	**44.1%**	**27,489**	**4.9%**	**26,219**	**4.3%**	**-4.6%**
Domestic market	**293,882**	**96.2%**	**310,837**	**94.9%**	**5.8%**	**535,418**	**95.1%**	**577,144**	**95.7%**	**7.8%**
By brand										
Arezzo	*171,547*	*58.4%*	*175,027*	*56.3%*	*2.0%*	*322,266*	*60.2%*	*339,581*	*58.8%*	*5.4%*
Schutz	*110,601*	*37.6%*	*117,188*	*37.7%*	*6.0%*	*189,577*	*35.4%*	*205,436*	*35.6%*	*8.4%*
Anacapri	*9,062*	*3.1%*	*16,525*	*5.3%*	*82.3%*	*17,002*	*3.2%*	*28,320*	*4.9%*	*66.6%*
Other brands¹	*2,672*	*0.9%*	*2,097*	*0.7%*	*-21.5%*	*6,573*	*1.2%*	*3,807*	*0.7%*	*-42.1%*
By channel										
Franchises	*134,491*	*45.8%*	*151,097*	*48.6%*	*12.3%*	*251,395*	*47.0%*	*297,002*	*51.5%*	*18.1%*
Multibrand	*87,608*	*29.8%*	*83,629*	*26.9%*	*-4.5%*	*147,575*	*27.6%*	*139,227*	*24.1%*	*-5.7%*
Owned Stores²	*69,839*	*23.8%*	*74,920*	*24.1%*	*7.3%*	*131,251*	*24.5%*	*138,848*	*24.1%*	*5.8%*
Others³	*1,944*	*0.6%*	*1,191*	*0.4%*	*-38.7%*	*5,197*	*0.9%*	*2,067*	*0.4%*	*-60.2%*

(1) Includes only domestic markets for Alexandre Birman and other revenues.

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

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

Brands

Arezzo&Co platform includes four major brands - Arezzo, Schutz, Anacapri and Alexandre Birman – that are distributed through Owned Stores, Franchises, Multibrand Channels and Web Commerce, being present in all Brazilian states. The Company's products are also sold on the international market through several channels: Owned Stores, Franchises, Multibrand Channels and Department Stores.

Following the Company's collection calendar, the second quarter concentrates most winter collection sales. This period is marked by two important sell-out dates: Mother's Day, in May, and Valentine's Day, in June. At the end of the quarter, the Company starts to prepare for the summer collection with the "Cruise Collection" for the Arezzo brand, and "Resort" for the Schutz brand, bringing preliminary information on fashion trends for the next season. Especially in 2014, the World Cup occurred in Brazil and thanks to a strong planning with actions to minimize the effects of lower number of days with open stores, the Company kept a healthy sales pace.

The Arezzo brand achieved gross revenue of R$175.0 million in 2Q14 representing a growth of 2.0% against 2Q13 and accounting for 56.3% of domestic sales. For Mother's Day, the brand carried out a creative campaign, engaging customers in the action "Arezzo and Moms: A Love Story", resulting in increased flow to stores and consumers' loyalty, with significant growth in sales for the period. Additionally, following an important initiative to expand and refurbish its stores, the brand also opened 10 stores under the new architectural model, including seven expansions and refurbishments, resulting in higher productivity in stores with the new layout. Also, the new supply model enhanced the availability of continuables in stores. Finally, the brand executed actions for the World Cup with air travel companies and hotels, resulting in good traffic to the stores.

The Schutz brand grew 6.0% in 2Q14 compared to 2Q13, posting gross revenue of R$117.2 million, or 37.7% of domestic market sales. The handbags category continued to stand out, with growth of 39.6% in the quarter. Also, the web commerce channel strategy produced sound results, with growth of 69.7% in the quarter. Additionally, the brand carried out several actions for Valentine's day and the World Cup, thus strengthening its branding and increasing sales.

The Anacapri brand recorded sound growth of 82.3% in the quarter, boosted by the roll out of the brand in the Franchise channel, with the opening of eight stores, totaling 26 franchises, in line with the target of 25 openings in 2014. The initial results were quite positive and reinforced the confidence in the brand's positioning and business model. As a test, the brand also opened a kiosk in Congonhas Airport, in São Paulo, with an innovative exposure of its products to its target audience and analyzing the feasibility of new channels.

Brands

In this quarter, besides presenting its new logotype, the Alexandre Birman brand opened its new store at Shopping Cidade Jardim, in São Paulo, an evolution of its architectural model, bringing femininity, serving an exclusive audience and reinforcing its positioning as the only Brazilian brand in women's shoes industry competing in the global luxury market.

Channels

Mono-brands – Franchises and Owned Stores

Following the Company's strategy to strengthen mono-brand stores, the sell-out of the Arezzo&Co network (Owned Stores + Web Commerce + Franchises) grew 17.2% in 2Q14 against 2Q13, particularly due to the 15.7% expansion in sales area, while same-stores sales (SSS – sell-out) grew 7.7% in the period. With regard to the SSS sell-out indicator, it is worth mentioning that:

(i) after the World Cup started, the indicator was adversely impacted by of 280 bps;

(ii) confirming the network's health and the consistency of the indicator, SSS was positive in all months of the quarter;

(iii) the SSS sell-out indicator also includes on-line sales. Excluding web commerce, SSS would total 6.7%.

Growth in revenue from mono-brand stores, which comprise franchises sell-in and owned stores sell-out, was 10.6% in 2Q14 over 2Q13, mainly due to the 12.7% increase in sales area in the last 12 months, excluding outlets openings, and also due to the strong 25.8% growth in volume of the handbags category in the period, as result of the focus on product development. Mono-brand stores accounted for 72.7% of domestic sales in 2Q14.

The Franchise channel grew 12.3% in sell-in in the quarter, accounting for 48.6% of domestic sales in 2Q14, driven by the opening of 58 franchises in the last 12 months, of which 18 under the Arezzo brand, 14 Schutz and 26 Anacapri. In addition, 14 Arezzo brand franchise stores were expanded in the last 12 months, thus adding 392.9 m² to the channel's sales area.

Sell-in sales, i.e. those made by Arezzo&Co to its franchisees, recorded expansion in the same franchises (SSS – franchises) of 1.1% in 2Q14 compared to 2Q13, particularly due to increase in the volume of shoes and handbags sold. It is worthwhile mentioning that year-to-date, SSS sell-in has reached 4.7%, in line with the SSS sell-out of 5.1% for the period, which shows the network's health.

The Owned Stores channel alone recorded a 7.3% growth in revenue in 2Q14 compared to 2Q13, despite the 14.0% reduction in sales area, excluding outlets. This was due to the transfer of stores to the Franchise channel in the period, resulting in an increasing channel productivity. In the past 12 months, two owned stores were expanded, adding 210.9 m² to the channel's sales area.

With the opening of nine stores, the Company closed the quarter with 461 mono-brand stores in Brazil and seven stores abroad. In Brazil, the Company has 359 Arezzo brand stores, 68 Schutz brand stores, 32 Anacapri brand stores, in addition to two Alexandre Birman stores.

Channels

History of Stores	2Q13	3Q13	4Q13	1Q14	2Q14
Sales area [1,3] - Total (m²)	**27,996**	**28,999**	**31,848**	**32,138**	**32,381**
Sales area - franchises (m²)	22,154	23,174	25,262	25,498	26,056
Sales area - Owned stores [2] (m²)	5,842	5,825	6,586	6,640	6,325
Total number of domestic stores	**408**	**420**	**449**	**452**	**461**
# of franchises	**353**	**365**	**395**	**399**	**411**
Arezzo	324	328	340	341	342
Schutz	29	35	40	41	43
Anacapri	0	2	15	17	26
# of owned stores	**55**	**55**	**54**	**53**	**50**
Arezzo	17	16	17	17	17
Schutz	27	27	27	27	25
Alexandre Birman	2	2	2	2	2
Anacapri	9	10	8	7	6
Total number of international stores	**9**	**9**	**9**	**9**	**7**
# of franchises	8	8	8	8	6
# of owned stores	1	1	1	1	1

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

Multi-brand

Due to the roll-out in mono-brand stores, the Schutz brand, which accounted for 63.0% of the gross revenue of the Multibrand channel in 2Q14, starting in 2013 a process of disqualification of some Multibrand channel stores for the purpose of preserving its branding, thus impacting the channel's growth due to the decrease in the base of stores. Thus, the Multibrand channel's revenue in 2Q14 showed a reduction of 4.5%, primarily due to the impact of the growth in Schutz mono-brand stores. The Company continues to believe in the strategic importance of the channel, and is working to attract new customers, increase the share of wallet with existing customers and increase cross selling among the brands. In 2014, particularly due to the decrease in the base of stores in the first half, revenue for the channel may be slightly greater than in 2013.

Due to the disqualification mentioned above, the group's four brands began to be distributed through 2,280 stores, down 6.0% over 2Q13, with a presence in 1,172 cities.

Key financial indicators	2Q13	2Q14	Growth or spread%	1H13	1H14	Cresc. ou spread (%)
Net revenues	237,639	253,748	6.8%	438,678	467,173	6.5%
COGS	(131,581)	(140,840)	7.0%	(243,187)	(262,204)	7.8%
Gross profit	106,058	112,908	6.5%	195,491	204,969	4.8%
Gross margin	*44.6%*	*44.5%*	*-0.1 p.p.*	*44.6%*	*43.9%*	*-0.7 p.p.*
SG&A	(67,965)	(73,724)	8.5%	(131,347)	(141,705)	7.9%
% of Revenues	*28.6%*	*29.1%*	*0.5 p.p*	*29.9%*	*30.3%*	*0.4 p.p*
Selling expenses	(48,582)	(51,903)	6.8%	(92,445)	(97,824)	5.8%
Owned stores	(22,020)	(22,291)	1.2%	(44,357)	(44,862)	1.1%
Selling, logistics and supply	(26,562)	(29,612)	11.5%	(48,088)	(52,962)	10.1%
General and administrative expense	(17,891)	(17,065)	-4.6%	(35,220)	(34,980)	-0.7%
Other operating revenues (expense	893	(1,659)	n/a	1,288	(2,595)	n/a
Depreciation and amortization	(2,385)	(3,097)	29.9%	(4,970)	(6,306)	26.9%
Ebitda	40,478	42,281	4.5%	69,114	69,570	0.7%
Ebitda margin	*17.0%*	*16.7%*	*-0.3 p.p.*	*15.8%*	*14.9%*	*-0.9 p.p.*
Net income	29,057	31,633	8.9%	48,423	49,066	1.3%
Net margin	*12.2%*	*12.5%*	*0.3 p.p.*	*11.0%*	*10.5%*	*-0.5 p.p.*
Working capital[1] - as % of revenues	26.1%	30.2%	4.1 p.p	26.1%	30.2%	4.1 p.p
Invested capital[2] - as % of revenues	33.9%	41.9%	8.0 p.p.	33.9%	41.9%	8.0 p.p.
Total debt	107,862	80,853	-25.0%	107,862	80,853	-25.0%
Net debt[3]	(106,549)	(78,343)	-26.5%	(106,549)	(78,343)	-26.5%
Net debt/EBITDA LTM	-0.7x	-0.5x	n/a	-0.7x	-0.5x	n/a

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 revenue

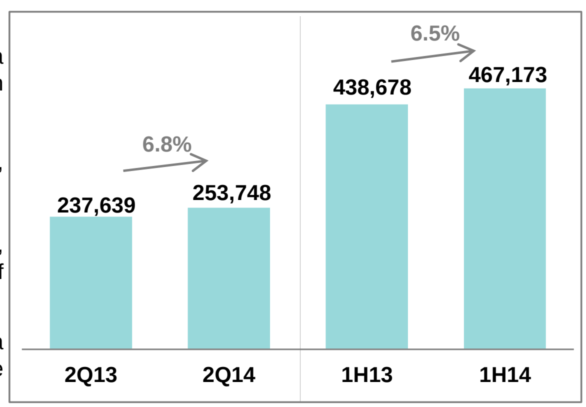
The Company's net revenue totaled R$253.7 million in the quarter, a growth of 6.8% over 2Q13. Some of the primary factors leading to this growth are:

i) Excluding outlets, expansion of 12.7% in sales area compared to 2Q13, the highlight being a growth of 17.6% in the Franchise area;

ii) Increase of 1.1% in the same store sales sell-in indicator, and a growth of 7.7% in sell-out;

iii) The Multibrand channel declined by 4.5% against 2Q13, primarily due to the impact caused by strong growth of Schutz brand franchises;

iv) The lower positive impact in net revenue due to a temporary reduction of the ICMS tax rate in the quarter in the amount of R$2.4 million compared to 2Q13.

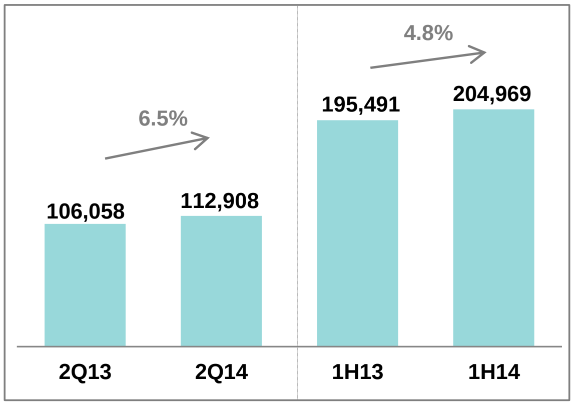


Gross Profit

Gross profit in 2Q14 grew 6.5% in comparison with 2Q13, totaling R$112.9 million, with a gross margin of 44.5%, virtually in line with the prior year.

The growth in gross profit in 2Q14 particularly reflected the 6.8% growth in net revenue.

The Company pursues a strategy of maintaining stable margins per channel, and the owned stores channel is subject to more variation. In 2Q14, the Franchise channel accounted for a greater share of sales, and the change in the mix of channels had a slight impact on the Company's consolidated margin.



SG&A

The Company is strongly focused on adjusting the level of expenses to the Company's growth. In the past 12 months, there was a sharp deceleration in expenses, which, in this quarter, excluding punctual expenses, were in line with as a percentage of revenues compared to 2Q13.

Selling expenses

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

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

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

In 2Q14, selling expenses increased by 6.8% against 2Q13, reaching R$51.9 million in the quarter against R$48.6 million in the same period of the previous year. Selling, logistics and supply expenses totaled R$29.6 million in the period, increasing by 11.5% against the same quarter of the previous year, particularly due to greater investments in marketing in the amount of R$1.4 million in order to promote the colections in the stores.

Owned store expenses totaled R$22.3 million in 2Q14, up 1.2% in comparison with 2Q13, and below the growth of 7.3% in owned store sell-out in the same period, primarily due to the reduction in store personnel expenses during the second half of 2013.

General and Administrative Expenses

In 2Q14, general and administrative expenses amounted to R$17.1 million against R$17.9 million in the same quarter of the previous year, a decrease by 4.6% primarily due to the sound controls implemented by Management.

Other Operating Revenues (Expenses)

In 2Q14, the Company recorded expenses of R$1.7 million in Other Operating Expenses, compared to revenue of R$0.9 million in 2Q13, particularly due to a punctual expense linked to the write-off of property and equipment of Arezzo's old store at Rua Oscar Freire in the amount of R$1.2 million as a result of its refurbishment, and an increase of R$0.8 million in the Company's stock options program.

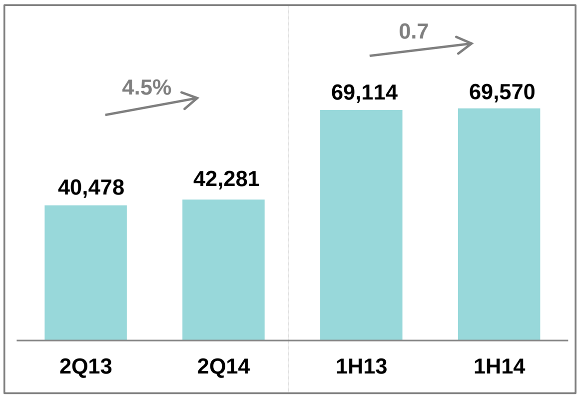
EBITDA and EBITDA margin

The Company's EBITDA increased by 4.5% in 2Q14 against 2Q13, totaling R$42.3 million, against R$40.5 million in the same period of the previous year, with an EBITDA margin of 16.7%. The primary factors leading to the EBITDA growth in the quarter were:

i) Increase of 6.8% in net revenue;

ii) Increase of 6.5% in gross profit;

iii) Operating expenses as a percentage of revenues at 29.1%, an increase of 50 bps against 2Q13.



It is worth mentioning that 2Q14 results were in line with the Company's estimates. Additionally, excluding the write-off of property and equipment in the amount of R$1.2 million, EBITDA for 2Q14 would be R$43.5 million, up by 6.9% against the same period of the previous year.

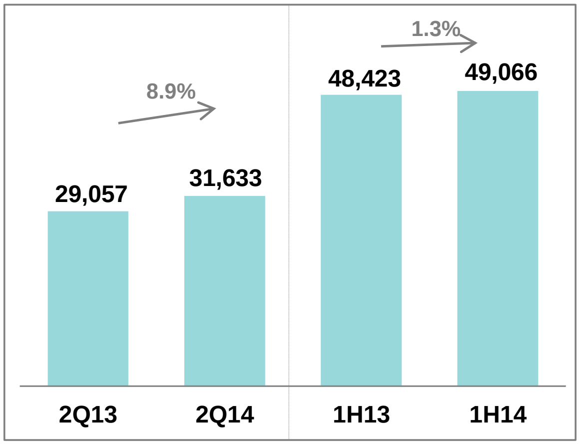
EBITDA Reconciliation	2Q13	2Q14	1H13	1H14
Net income	29,057	31,633	48,423	49,066
(-) Income tax and social contribution	(9,702)	(11,400)	(18,427)	(20,964)
(-) Financial results	666	3,849	2,706	6,766
(-) Depreciation and amortization	(2,385)	(3,097)	(4,970)	(6,306)
(=) EBITDA	40,478	42,281	69,114	69,569

Net income and net margin (%)

The Company's EBITDA margin was 16.7% in 2Q14 with a net income margin of 12.5% in the quarter, reflecting higher allocation of invested capital to fixed assets in the past two years, as a result of more owned stores and greater IT investments.

Due to higher fixed assets in 2Q14, compared to 2Q13, depreciation expenses increased by 29.9% in the period.

Net income for 2Q14 amounted to R$31.6 million, up by 8.9% against 2Q13, with net margin of 12.5%, an increasing of 30 bps over the net margin for the same period of the previous year.



Operating Cash Flow

Arezzo&Co generated R$8.8 million in operating cash in 2Q14, in line with the same period of the previous year, primarily due to higher operating profit in the period and greater need for working capital, which increased in the quarter as a result of higher inventories to assure the supply of the new Summer Collection, as well as to support the first inventory related to the opening of new stores to happen in 2H14, especially in the Anacapri brand. In addition, due to the increased share of continuables in the sales mix, it was necessary to build strategic inventories to replenish the stores more frequently.

Operating Cash Flow	2Q13	2Q14	Change in R$	Change in %	1H13	1H14	Change in R$	Change in %
Income before income tax and social contribution	**38,759**	**43,033**	**4,274**	**11.0%**	**66,850**	**70,030**	**3,180**	**4.8%**
Depreciações e amortizações	**2,385**	**3,097**	**712**	**29.9%**	**4,970**	**6,306**	**1,336**	**26.9%**
Other	**973**	**1,754**	**781**	**80.3%**	**(286)**	**(1,430)**	**(1,144)**	**400.0%**
Decrease (increase) in current assets / liabilities	**(19,522)**	**(20,855)**	**(1,333)**	**6.8%**	**(11,285)**	**(11,653)**	**(368)**	**3.3%**
Trade accounts receivables	11,471	9,189	(2,282)	-19.9%	9,097	11,692	2,595	28.5%
Inventories	(2,716)	(18,161)	(15,445)	568.7%	(14,190)	(35,935)	(21,745)	153.2%
Suppliers	(25,464)	(17,130)	8,334	-32.7%	8,049	22,270	14,221	176.7%
Change in other noncurrent and current assets and liabilities	(2,813)	5,247	8,060	n/a	(14,241)	(9,680)	4,561	-32.0%
Payment of income tax and social contribution	**(13,935)**	**(18,200)**	**(4,265)**	**30.6%**	**(17,598)**	**(20,542)**	**(2,944)**	**16.7%**
Net cash flow generated by operational activities	**8,660**	**8,829**	**169**	**2.0%**	**42,651**	**42,711**	**60**	**0.1%**

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 2Q14 totaled R$14.3 million, primarily due to corporate investments in IT arising from the implementation of a new transaction system to provide growth sustainability and efficiency gains. In the quarter, the Company opened its new Alexandre Birman brand store at Shopping Cidade Jardim, reinforcing its branding by promoting the brand to consumers who seek exclusiveness.

Summary of investments	2Q13	2Q14	Growth %	1H13	1H14	Growth %
Total capex	**8,942**	**14,312**	**60.1%**	**20,169**	**24,172**	**19.8%**
Stores - expansion and refurbishing	4,151	2,534	-39.0%	6,539	5,716	-12.6%
Corporate	3,974	10,028	152.3%	12,006	16,114	34.2%
Other	817	1,750	114.2%	1,624	2,342	44.2%

Cash position and Indebtedness

The Company ended 2Q14 with R$78.3 million in net cash. Indebtedness policy remained conservative, with the following primary characteristics:

- Total indebtedness of R$80.9 million in 2Q14, against R$107.9 million in 2Q13;
- Long-term indebtedness was 38.5% of total debt in 2Q14, against 43.7% in 2Q13;
- The weighted average cost of the Company's total debt in 2Q14 remained at lower levels.

Cash position and Indebtedness	2Q13	1Q14	2Q14
Cash	**214,411**	**207,553**	**159,196**
Total debt	107,862	96,652	80,853
Short term	60,763	59,680	49,753
% total debt	56.3%	61.7%	61.5%
Long-term	47,099	36,972	31,100
% total debt	43.7%	38.3%	38.5%
Net debt	**(106,549)**	**(110,901)**	**(78,343)**

ROIC (Return on Invested Capital)

In line with the Company's strategic direction, levels of investment in Invested Capital exceeded those of previous years, especially due to the opening of owned stores from 2010 on. Return on Invested Capital (ROIC) was 24.0% in 2Q14, and was affected by the higher working capital requirements as already mentioned, and the concentration of investments in infrastructure which will only bear fruit in the medium and long terms.

Income from operations	2Q12	2Q13	2Q14	Growth %
EBIT (LTM)	112,623	146,213	147,610	1.0%
+ IR and CS (LTM)	(33,656)	(42,341)	(48,099)	13.6%
NOPAT	**78,967**	**103,872**	**99,511**	**-4.2%**
Working Capital [1]	163,354	244,670	299,906	22.6%
Permanent assets	89,372	121,773	147,452	21.1%
Other long-term assets [2]	7,430	8,632	8,182	-5.2%
Invested capital	**260,156**	**375,075**	**455,540**	**21.5%**
Average invested capital [3]		**317,616**	**415,308**	**30.8%**
ROIC [4]		**32.7%**	**24.0%**	

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	2Q13	1Q14	2Q14
Current assets	**537,059**	**596,400**	**552,254**
Cash and cash equivalents	7,515	10,973	12,557
Financial Investments	206,896	196,580	146,639
Trade accounts receivables	200,229	244,997	235,814
Inventory	89,821	102,756	120,458
Taxes recoverable	18,460	24,775	20,170
Other credits	14,138	16,319	16,616
Non-current assets	**137,303**	**156,635**	**162,328**
Long-term receivables	15,530	16,743	14,876
Financial Investments	21	27	27
Taxes recoverable	377	0	0
Deferred income and social contribution	6,898	8,292	6,694
Other credits	8,234	8,424	8,155
Property, plant and equipment	65,014	69,435	72,123
Intangible assets	56,759	70,457	75,329
Total Assets	**674,362**	**753,035**	**714,582**

Liabilities	2Q13	1Q14	2Q14
Current liabilities	**148,087**	**175,809**	**142,906**
Loans and financing	60,763	59,680	49,753
Suppliers	43,556	74,259	57,129
Dividends and interest on equity capital payable	9,346	0	1
Other liabilities	34,422	41,870	36,023
Non-current liabilities	**54,386**	**43,996**	**38,629**
Loans and financing	47,099	36,972	31,100
Related parties	978	355	725
Other liabilities	6,309	6,669	6,804
Equity	**471,889**	**533,230**	**533,047**
Capital	156,000	219,186	219,186
Capital reserve	125,190	67,543	68,856
Income reserves	153,162	229,068	208,174
Additional proposed dividend	0	0	0
Profit	37,537	17,433	36,831
Total liabilities and shareholders' equity	**674,362**	**753,035**	**714,582**

Income statement (IFRS)

Income statement - IFRS	2Q13	2Q14	Growth %	1H13	1H14	Growth %
Net operating revenue	**237,639**	**253,748**	**6.8%**	**438,678**	**467,173**	**6.5%**
Cost of goods sold	(131,581)	(140,840)	7.0%	(243,187)	(262,204)	7.8%
Gross profit	**106,058**	**112,908**	**6.5%**	**195,491**	**204,969**	**4.8%**
Operating income (expenses):	**(67,965)**	**(73,724)**	**8.5%**	**(131,347)**	**(141,705)**	**7.9%**
Selling	(49,709)	(53,510)	7.6%	(95,008)	(101,231)	6.5%
Administrative and general expenses	(19,149)	(18,555)	-3.1%	(37,627)	(37,879)	0.7%
Other operating income net	893	(1,659)	n/a	1,288	(2,595)	n/a
Income before financial result	**38,093**	**39,184**	**2.9%**	**64,144**	**63,264**	**-1.4%**
Financial income	666	3,849	477.9%	2,706	6,766	150.0%
Income before income taxes	**38,759**	**43,033**	**11.0%**	**66,850**	**70,030**	**4.8%**
Income tax and social contribution	(9,702)	(11,400)	17.5%	(18,427)	(20,964)	13.8%
Current	(8,593)	(9,802)	14.1%	(19,061)	(22,144)	16.2%
Deferred	(1,109)	(1,598)	44.1%	634	1,180	86.1%
Net income for period	**29,057**	**31,633**	**8.9%**	**48,423**	**49,066**	**1.3%**

Cash Flow - IFRS

Statement of cash flow	2Q13	2Q14	1H13	1H14
Operating activities				
Income before income tax and social contribution	38,759	43,033	66,850	70,030
Adjustments to reconcile net income with cash from operational activities	**3,358**	**4,851**	**4,684**	**4,876**
Depreciation and amortization	2,385	3,097	4,970	6,306
Income from financial investments	(2,896)	(885)	(6,165)	(5,195)
Interest and exchange rate	5,057	(800)	5,067	(1,753)
Other	(1,188)	3,439	812	5,518
Decrease (increase) in assets				
Customer receivables	11,471	9,189	9,097	11,692
Inventory	(2,716)	(18,161)	(14,190)	(35,935)
Recoverable taxes	(2,663)	4,606	(4,179)	(982)
Variation other current assets	(3,394)	269	(3,223)	152
Judicial deposits	(359)	(298)	545	264
Decrease (increase) in liabilities				
Suppliers	(25,464)	(17,130)	8,049	22,270
Labor liabilities	4,338	4,135	(181)	1,635
Fiscal and social liabilities	(2,467)	(596)	(8,771)	(6,969)
Variation in other liabilities	1,732	(2,869)	1,568	(3,780)
Payment of income tax and social contribution	(13,935)	(18,200)	(17,598)	(20,542)
Net cash flow from operating activities	**8,660**	**8,829**	**42,651**	**42,711**
Investing activities				
Disposal of fixed and intangible assets	3,781	2,204	4,222	4,667
Acquisitions of fixed and intangible assets	(8,942)	(14,312)	(20,169)	(24,172)
Financial Investments	(86,316)	(93,137)	(168,455)	(177,722)
Redemption of financial investments	87,352	143,963	158,358	208,179
Increased Investments	-	-	-	-
Net cash used in investing activities	**(4,125)**	**38,718**	**(26,044)**	**10,952**
Financing activities with third parties				
Funding	23,127	5,569	25,207	15,860
Payments of loans	(7,762)	(20,201)	(15,715)	(30,919)
Payments of Interest on loans	(439)	(367)	(780)	(753)
Net cash used in financing activities - third parties	**14,926**	**(14,999)**	**8,712**	**(15,812)**
Financing activities with shareholders				
Interest on equity capital	-	(10,440)	(8,945)	(18,038)
Distribution of profits	(20,382)	(20,894)	(20,382)	(20,894)
Receivables (payables) with shareholders	9	370	5	(148)
Share Issuance	-	-	-	-
Share issuance transaction costs	-	-	-	-
Net cash used in financing activities	**(20,373)**	**(30,964)**	**(29,322)**	**(39,080)**
Increase (decrease) in cash and cash equivalents	**(912)**	**1,584**	**(4,003)**	**(1,229)**
Cash and cash equivalents				
Cash and cash equivalents - Initial balance	8,427	10,973	11,518	13,786
Cash and cash equivalents - Closing balance	7,515	12,557	7,515	12,557
Increase (decrease) in cash and cash equivalents	**(912)**	**1,584**	**(4,003)**	**(1,229)**

Important Notice

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