Earnings Release - 2Q16

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AREZZO | SCHUTZ | ALEXANDRE BIRMAN | ANACAPRI | FIEVER


Belo Horizonte, August 3rd, 2016. Arezzo&Co (BM&FBOVESPA: ARZZ3), Brazil's women's footwear, handbags and accessories industry leader, reports its earnings for the 2nd 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 (2Q15) unless otherwise stated.

Closing price of ARZZ3 in 08.02.16:

R$27.91

Market Cap in 08.02.16:

R$ 2,479.4 milhões

Earnings conference call:

Tuesday, August 4th, 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

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 posted a 7.5% sell-out sales growth in 2Q16 and an increase of 3.9% in gross revenues, totaling R$377.8 million, with an EBITDA of R$41.0 million

HIGHLIGHTS

• Net revenue for 2Q16 was R$295.8 million, up by 3.6% against 2Q15;

• In 2Q16, the Company's gross profit stood at R$132.1 million, with a gross margin of 44.7% and growth of 9.6% over 2Q15;

• EBITDA for 2Q16 totaled R$41.0 million with a margin of 13.9%;

• Net income for the quarter was R$30.2 million, with a margin of 10.2%;

• Arezzo&Co recorded an expansion of 6.7% in sales area, excluding outlets, with the last twelve months.

Summary of Results	2Q15	2Q16	Δ 15 x 16	1H15	1H16	Δ 15 x 16
Net Revenues	285,450	295,752	3.6%	521,692	553,299	6.1%
Gross Profit	120,555	132,141	9.6%	216,455	243,860	12.7%
Grosss Margin	42.2%	44.7%	2.5 p.p.	41.5%	44.1%	2.6 p.p.
EBITDA1	42,979	40,987	(4.6%)	71,090	67,330	(5.3%)
EBITDA Margin1	15.1%	13.9%	(1.2 p.p)	13.6%	12.2%	(1.4 p.p)
Net Income	31,938	30,213	(5.4%)	50,081	44,892	(10.4%)
Net Margin	11.2%	10.2%	(1.0 p.p)	9.6%	8.1%	(1.5 p.p)

Operating Indicators	2Q15	2Q16	Δ 15 x 16	1H15	1H16	Δ 15 x 16
# of pairs sold ('000)	2,380	2,501	5.1%	4,607	4,857	5.4%
# of handbags sold ('000)	227	272	20.0%	413	468	13.1%
# of employees	2,193	2,208	0.7%	2,193	2,208	0.7%
# of stores*	517	544	27	517	544	27
Owned Stores	52	50	(2)	52	50	(2)
Franchises	465	494	29	465	494	29
Outsourcing (as % of total production)	91.3%	89.9%	(1.4 p.p)	91.2%	89.6%	(1.6 p.p)
SSS² Sell-in (franchises)	(6.0%)	1.9%	7.9 p.p	(5.0%)	0.3%	5.3 p.p
SSS² Sell-out (owned stores + franchises)	0.6%	2.5%	1.9 p.p	0.6%	(0.6%)	(1.2 p.p)
SSS² Sell-out (owned stores + franchises + web comı	1.4%	2.6%	1.2 p.p	1.8%	(0.4%)	(2.2 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	2Q15	Part%	2Q16	Part%	Δ (%) 15 x 16	1H15	Part%	1H16	Part%	Δ (%) 15 x 16
Total Gross Revenue	**363,495**		**377,841**		**3.9%**	**663,939**		**708,077**		**6.6%**
Exports market	**30,546**	**8.4%**	**42,739**	**11.3%**	**39.9%**	**47,306**	**7.1%**	**77,915**	**11.0%**	**64.7%**
Domestic market	**332,949**	**91.6%**	**335,102**	**88.7%**	**0.6%**	**616,633**	**92.9%**	**630,162**	**89.0%**	**2.2%**
By brand										
Arezzo	*179,079*	*53.8%*	*189,242*	*56.5%*	*5.7%*	*345,527*	*56.0%*	*364,893*	*57.9%*	*5.6%*
Schutz	*126,046*	*37.9%*	*118,367*	*35.3%*	*(6.1%)*	*225,435*	*36.6%*	*212,618*	*33.7%*	*(5.7%)*
Anacapri	*25,039*	*7.5%*	*23,613*	*7.0%*	*(5.7%)*	*40,924*	*6.6%*	*46,190*	*7.3%*	*12.9%*
Others[1]	*2,785*	*0.8%*	*3,880*	*1.2%*	*39.3%*	*4,747*	*0.8%*	*6,461*	*1.0%*	*36.1%*
By channel										
Franchises	*155,292*	*46.6%*	*159,496*	*47.6%*	*2.7%*	*301,309*	*48.9%*	*308,927*	*49.0%*	*2.5%*
Multibrand	*88,614*	*26.6%*	*75,153*	*22.4%*	*(15.2%)*	*154,671*	*25.1%*	*135,728*	*21.5%*	*(12.2%)*
Owned Stores	*74,531*	*22.4%*	*75,703*	*22.6%*	*1.6%*	*132,584*	*21.5%*	*135,626*	*21.5%*	*2.3%*
Web Commerce	*13,169*	*4.0%*	*24,308*	*7.3%*	*84.6%*	*25,658*	*4.2%*	*48,795*	*7.7%*	*90.2%*
Others[2]	*1,343*	*0.4%*	*442*	*0.1%*	*(67.1%)*	*2,411*	*0.4%*	*1,086*	*0.2%*	*(55.0%)*

(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 the company's calendar of collections, the second quarter is when the winter collection sells most. Two of the key sell-out dates of the first half year fall in this period: Mother's Day, in May, and Lovers' Day (Dia dos Namorados) in June. The brands performed well on the commemorative dates, following a good figure at of the winter collection on its launch at the end of the first quarter. At the end of the quarter the company sells off the winter collection, and at the same time starts preparing for the summer collection, with the launch of the Cruise Collection by the Arezzo brand and Resort by Schutz, giving a foretaste of the trends that will appear in the stores during the season. In addition, at the start of the promotion period in the second half of June, undiscounted products sold took a larger share, and the winter collection came to an end with less surplus than in the previous year, boosting the network's average mark-up.

The Arezzo brand posted R$189.2 million in gross revenue in 2Q16, a growth of 5.7% against 2Q15, representing 56.5% of domestic sales. The brand launched a special campaign for Mother's Day, creatively produced and strategically placed, which was so successful that it achieved a volume of engagement 4.3 times greater than the past average, resulting in a healthy increase in sales for the quarter. It should be remembered that the brand continues its frequent supply of new collections to the stores, with six winter collections, so that it can react more quickly during the season to variations in sell-out. This creates attention-grabbing products and increases the gross margin in the mono-brand stores through a higher average mark-up, with less surplus at the end of the collections. It is also worth noting the performance of the Arezzo web commerce channel, giving it a 5.5% share of the brand's domestic sales, against 3.7% in 1Q16. The quarter also saw the opening of the brand's new flagship store in the Iguatemi São Paulo shopping mall, with a larger area and new architectural design, offering consumers a new sort of shopping experience.

The Schutz brand accounted for 35.3% of the company's domestic sales, with R$118.4 million in gross revenue in 2Q16, 6.1% lower than in 2Q15. In the foreign market, brand sales were 27.6% higher in 2Q16 than in 2Q15. According to the strategy for increasing its brand's share, the handbags category continues to be given pride of place, and its share grew by 196 bps during the quarter, reaching 24.1% of sell-out in the physical stores. The Schutz web commerce accounted for 10,7% of the brands sales in 2Q16, up by 90 bps against 2Q15. Marketing highlights include Schutz Vibes, Schutz Trip and Schutz ID, all aimed at reinforcing the image and achieving greater penetration for the other categories. In the USA, the brand once more showed strong growth in 2Q16. A permanent flagship store was opened in Beverly Hills in April, as part of phase two of the pilot-project. This reinforced brand awareness, brought Schutz products to the notice of opinion makers, and improved revenues for the operation.

The Anacapri brand posted revenue of R$23.6 million in 2Q16, 5.7% less than in 2Q15. The brand expanded its market penetration, and by the end of the first half its share of the company's domestic sales had grown to 7.3%. Added to this, 5.3% of the brand's sales were through the online store, 190 bps above the same quarter of the previous year. The second quarter was mainly impacted by a delivery calendar effect, closing the first half with an increase of 12.9% over the same period last year.

Alexandre Birman continues to focus on boosting its international branding, with the result that sales doubled between 2Q15 and 2Q16. The brand has strengthened its positioning through initiatives aimed at consumers, partnering key US department stores, and as a result has obtained some major celebrity endorsements.

The Fiever brand continued to grow steadily, both in its stores and on the newly opened Francal multibrand channel, which sold products to more than 140 stores.

Channels

Monobrand – Franchises, Owned Stores and Web Commerce

The Arezzo&Co stores chain (owned stores + franchises + web commerce) showed growth of 7.5% in sell-out sales in 2Q16 against 2Q15, reflecting the company's strategy of strengthening the mono-brand stores, and due mainly to increased same-store sales, an increase in area – through store openings and enlargements – and the launch of the Arezzo brand online store in August 2015. Same-store sales in the mono-brand stores were up by 2.6% in 2Q16, reversing the trend seen in the last three quarters. The store sales areas, excluding outlets, were 6.2% larger than in the same quarter of 2015.

The company's revenue from mono-brand stores, consisting of sell-in for franchise and sell-out for owned stores and web commerce, showed growth of 6.8% in 2Q16 against 2Q15, thanks mainly to an 84.6% increase in the web commerce channel. The mono-brand stores accounted for 77.4% of sales in the domestic market in 2Q16.

The franchise channel showed an increase of 2.7% in sell-in for the quarter, with 47.6% of domestic sales, thanks to the opening of 29 franchises in the last 12 months, nine of them for the Arezzo brand, four for Schutz and 16 for Anacapri, and the enlargement of 11 Arezzo brand franchises in the same period, adding a total of 2,146 m² to the channel sales area, excluding outlets.

Sell-in sales – by Arezzo&Co to its franchisees (SSS – franchises) - rose by 1.9% in 2Q16 as against 2Q15, in line with the company's strategy of keeping a healthy level of stocks with franchisees and of achieving better gross margins in the network, with a higher average mark-up and less surplus at the end of the collections. The result was an SSS sell-in only slightly below the SSS sell-out for the quarter (56 bps).

Taking the sell-out channels on their own, revenue grew by 14% in 2Q16. Although there were fewer owned stores in the domestic market, revenue was boosted by sales from the online stores, with the launch in 2015 of Arezzo and Anacapri, which are still at a stage of rapid growth, and by the performance of the owned stores.

The company ended 2Q16 with 537 mono-brand stores in Brazil and seven overseas. The numbers in Brazil are 380 for Arezzo, 78 for Schutz, 76 for Anacapri, two for Alexandre Birman and one for the Fiever brand.

Multibrands

In 2Q16, sales in the multibrand channel were down by 15.2% against 2Q15. The channel's performance chiefly reflects the challenging sell-out scenario, which began in 3Q15 and continued until the start of 2Q16, reducing confidence among storekeepers and thus cutting orders. The company continues to focus its efforts on the capture of new customers, growth in the share of wallet among existing customers, and higher cross-selling between brands and categories, so as to counter the channel market environment for 2016.

The quarter's major milestone for the channel was the introduction of the Fiever brand on Francal in June. 10 thousand pairs were sold, exceeding expectations. In 2Q16, the group's four brands were being distributed through 2,136 stores, 4.1% fewer than in 2Q15, and they can be found in 1,202 cities.

History of Stores	2Q15	3Q15	4Q15	1Q16	2Q16
Sales area [1,3] - Total (m²)	**35,235**	**36,053**	**37,342**	**37,296**	**37,582**
Sales area - franchises (m²)	28,744	29,649	31,087	31,033	31,060
Sales area - owned stores² (m²)	6,491	6,404	6,255	6,264	6,522
Total number of domestic stores	**511**	**519**	**537**	**536**	**537**
# of franchises	**460**	**469**	**489**	**488**	**489**
Arezzo	356	360	367	366	365
Schutz	48	48	52	52	52
Anacapri	56	61	70	70	72
# of owned stores	**51**	**50**	**48**	**48**	**48**
Arezzo	17	16	15	15	15
Schutz	28	28	26	26	26
Alexandre Birman	2	2	2	2	2
Anacapri	4	4	4	4	4
Fiever	0	0	1	1	1
Total number of international stores	**6**	**6**	**6**	**7**	**7**
# of franchises	5	5	5	5	5
# of owned stores	1	1	1	2	2

(1) Includes areas in square meters of international stores
(2) Includes 7 outlet-type stores with a total area of 1,952 m²
(3) Includes areas in square meters of stores expansion

Exports

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

In the USA, the Schutz and A. Birman brands in the multibrand channels (department stores, third party online stores and smaller multibrand stores) and the owned stores (both physical and online) provided strong growth for the group. Together, they represented 53.1% of international sales in 2Q16, up from 43.6% in 2Q15. Exports of own brands to the rest of the world and private label sales accounted for 46.9% and were 16.4% higher than in the same period of 2015.

Key financial indicators	2Q15	2Q16	Δ (%) 15 x 16	1H15	1H16	Δ (%) 15 x 16
Net revenues	285,450	295,752	3.6%	521,692	553,299	6.1%
COGS	(164,895)	(163,611)	(0.8%)	(305,237)	(309,439)	1.4%
Gross profit	120,555	132,141	9.6%	216,455	243,860	12.7%
Gross margin	*42.2%*	*44.7%*	*2.5 p.p*	*41.5%*	*44.1%*	*2.6 p.p*
SG&A	(83,697)	(97,664)	16.7%	(157,270)	(189,311)	20.4%
% of net revenues	*29.3%*	*33.0%*	*3.7 p.p*	*30.1%*	*34.2%*	*4.1 p.p*
Selling expenses	(55,710)	(69,102)	24.0%	(106,774)	(134,320)	25.8%
Owned stores and web commerce	(25,108)	(29,951)	19.3%	(48,066)	(58,812)	22.4%
Selling, logistics and supply	(30,602)	(39,151)	27.9%	(58,708)	(75,508)	28.6%
General and administrative expenses	(20,646)	(22,070)	6.9%	(36,558)	(41,906)	14.6%
Other operating revenues (expenses)	(1,220)	18	n/a	(2,033)	(304)	(85.0%)
Depreciation and amortization	(6,121)	(6,510)	6.4%	(11,905)	(12,782)	7.4%
EBITDA	42,979	40,987	(4.6%)	71,090	67,330	(5.3%)
EBITDA margin	*15.1%*	*13.9%*	*(1.2 p.p)*	*13.6%*	*12.2%*	*(1.4 p.p)*
Net income	31,938	30,213	(5.4%)	50,081	44,892	(10.4%)
Net margin	*11.2%*	*10.2%*	*(1.0 p.p)*	*9.6%*	*8.1%*	*(1.5 p.p)*
Working capital[1] - as % of revenues	29.0%	28.4%	(0.6 p.p)	29.0%	28.4%	(0.6 p.p)
Invested capital[2] - as % of revenues	43.1%	44.3%	1.2 p.p	43.1%	44.3%	1.2 p.p
Total debt	98,387	97,535	(0.9%)	98,387	97,535	(0.9%)
Net debt[3]	(77,924)	(126,229)	62.0%	(77,924)	(126,229)	62.0%
Net debt/EBITDA LTM	-0.5x	-0.8x	-	-0.5x	-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 Revenue

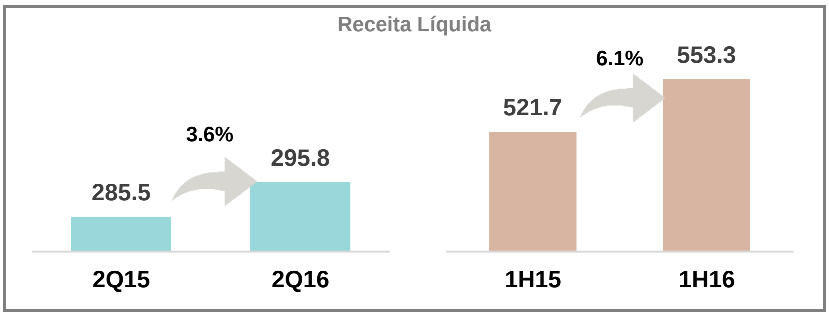
The company's net revenue grew to R$295.8 million this quarter, up 3.6% against 2Q15. Among the primary factors worthy of mention are:

i) an increase of 39.9% in exports, resulting from major gains in average price and volume, principally in the Schutz brand;

ii) expansion of 84.6% in the web commerce channel, with its share of domestic sales increasing to 7.3% against 4% in 2Q15: Arezzo and Anacapri performed particularly well;

iii) sales growth in the physical mono-brand stores (franchises plus owned stores) of 2.5%; and

iv) Influenced by the sell-out performance, a fall in sales in the multibrand channel of 15.2% in the quarter.



Gross profit

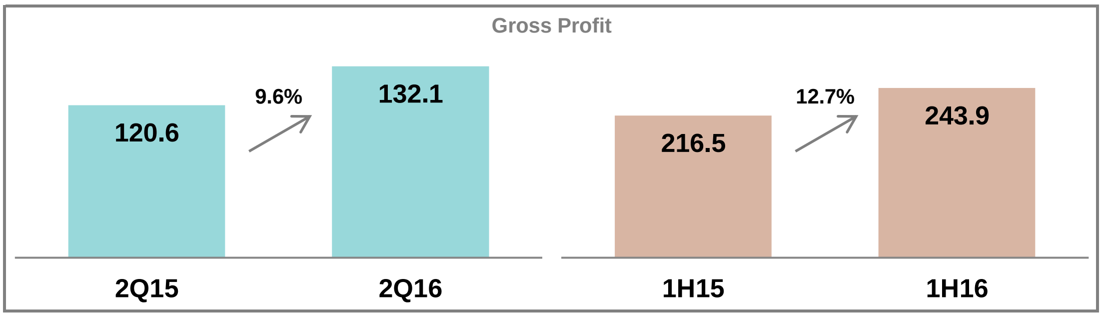
Gross profit totaled R$132.1 million in 2Q16, 9.6% more than in 2Q15, with gross margin up by 250 bps to 44.7% in 2Q16. This achievement was due mainly to:

i) a significant 84.6% growth in the web commerce channels, which increased their share of the company's domestic sales to 7.3%;

ii) strong growth in the export channel, with better margins, over the last twelve months;

iii) an improvement of 135 bps in the gross margin, due to ICMS tax benefits from the opening of the new distribution center, which will be fully operational in 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 allowed in owned stores, web commerce and export channels.



Operating expenses

The company is working hard to adjust the level of expenses to the growth in turnover. However, this quarter expenses in general were under pressure for four main reasons, as follows: (i) the continuation of phase two of the pilot operation in the USA; (ii) the Arezzo brand online store coming on stream; (iii) the implementation phase of the new distribution center; and (iv) the reimposition of payroll taxes.

Selling expenses

Selling expenses grew by 24% in 2Q16 against 2Q15, reaching R$69.1 million for the quarter. It should be noted that selling expenses include the costs of owned stores and web commerce, which amounted to R$30 million for the quarter, 19.3% more than in 2Q15, as well as sales, logistics and supply costs, which account for the balance of R$39.2 million and rose by 27.9% against the same period of the previous year.

Expenses for owned stores and web commerce were impacted by the reimposition of payroll taxes, amounting to R$1.5 million, and by R$1.2 million in software, people and logistics costs with the Arezzo brand online platform coming on stream: in 2Q15 it was still under development. Excluding this effect, the increase in expenses for owned stores and web commerce was lower than the 14% increase in turnover in these channels.

Incremental expenses affected sales, supplies and logistics due to (i) the pilot operation in the USA, which cost R$3.7 million in 2Q16, (ii) a total of R$1 million for online operations, with the addition of the Arezzo brand, (iii) R$0.8 million in provisions for losses, (iv) the ongoing implementation of the new distribution center, costing R$0.5 million, and (v) R$0.2 million in expenses for the new Fiever brand operations. Excluding these impacts, the total would be R$32.9 million, representing growth of 7.5%, which is in line with inflation for the period.

General and administrative expenses

In 2Q16, general and administrative expenses totaled R$22.1 million, against R$20.6 million in 2Q15, a rise of 6.9%. Excluding the increase from phase two of tests for the pilot operation in the USA, which amounted to R$2.4 million, general and administrative expenses fell by 5.0%.

EBITDA and EBITDA margin

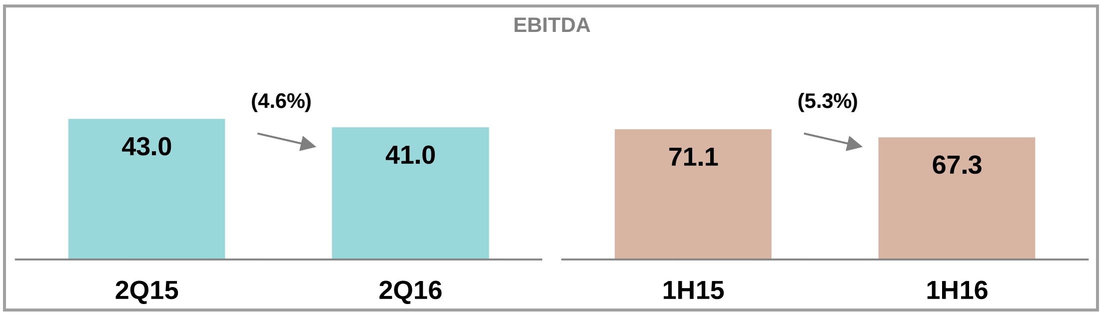
The company's EBITDA totaled R$41 million in 2Q16, with a margin of 13.9%, 4.6% lower than in 2Q15. Among the main reasons, the highlights were:

i) higher incremental operating expenses for initiatives reaching maturity, such as the pilot operation in the USA, and the online platforms, developed in 2015 for the Arezzo and Anacapri brands, coming on stream;

ii) a 245 bps increase in gross margin, which stood at 44.7% at the end of 2Q16;

iii) growth of 3.6% in net revenue against 2Q15.

Excluding the pilot operation in the USA, the company's consolidated EBITDA margin would have grown by 179 bps, which is in line with previous quarters.

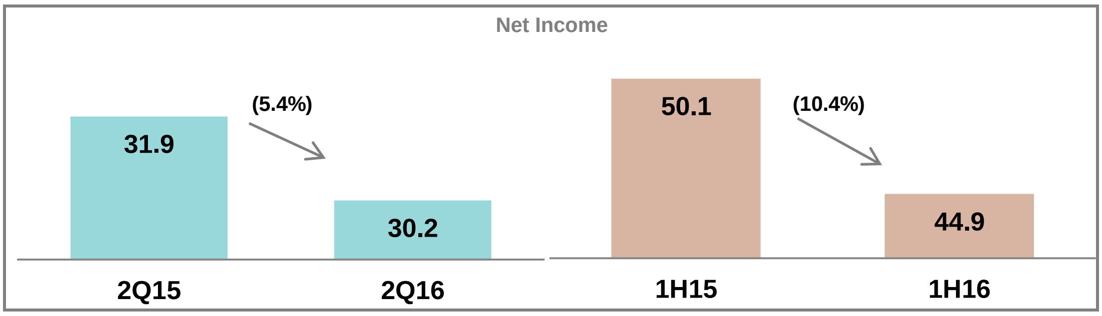


EBITDA Reconciliation	2Q15	2Q16	1H15	1H16
Net income	31,938	30,213	50,081	44,892
(-) Income tax and social contribution	(6,973)	(4,006)	(19,180)	(12,801)
(-) Financial results	2,053	(258)	10,076	3,145
(-) Depreciation and amortization	(6,121)	(6,510)	(11,905)	(12,782)
(=) EBITDA	42,979	40,987	71,090	67,330

Net income and net margin

The company's EBITDA margin of 13.9% in 2Q16 converted into a net margin of 10.2%, reflecting worse financial results for the 2Q16 versus 2Q15, due mainly to the devaluation of the US dollar.

Net income for 2Q16 amounted to R$30.2 million. Excluding currency fluctuations, the company's net income would be R$35 million in 2Q16, 8.1% more than in 2Q15.



Operating Cash Flow

Arezzo&Co generated R$5.8 million in cash from operations in 2Q16, below the level for 2Q15, affected mainly by a drop in EBIT and by prepayments of receivables (suppliers). It should be noted that these changes do not represent changes in the company's selling policies, but reflect seasonal effects.

Operating Cash Flow	2Q15	2Q16	Δ 15 x 16 (R$)	Δ 15 x 16 (%)	1H15	1H16	Δ 15 x 16 (R$)	Δ 15 x 16 (%)
Income before income tax and social contribution	**38,911**	**34,219**	**(4,692)**	**(12.1%)**	**69,261**	**57,693**	**(11,568)**	**(16.7%)**
Depreciation and amortization	**6,121**	**6,510**	**389**	**6.4%**	**11,905**	**12,782**	**877**	**7.4%**
Others	**(5,335)**	**(8,618)**	**(3,283)**	**61.5%**	**(1,186)**	**(21,675)**	**(20,489)**	**1,727.6%**
Decrease (increase) in assets / liabilities	**(15,386)**	**(17,757)**	**(2,371)**	**15.4%**	**(28,463)**	**(10,276)**	**18,187**	**(63.9%)**
Trade accounts receivables	5,511	8,887	3,376	61.3%	(13,414)	(3,357)	10,057	(75.0%)
Inventories	3,583	(6,134)	(9,717)	n/a	(19,603)	(21,658)	(2,055)	10.5%
Suppliers	(18,559)	(29,528)	(10,969)	59.1%	15,571	16,239	668	4.3%
Change in other noncurrent and current assets and liabilities	(5,921)	9,018	14,939	n/a	(11,017)	(1,500)	9,517	(86.4%)
Payment of income tax and social contribution	**(11,109)**	**(8,537)**	**2,572**	**(23.2%)**	**(14,128)**	**(8,537)**	**5,591**	**(39.6%)**
Net cash flow generated by operational activities	**13,202**	**5,817**	**(7,385)**	**(55.9%)**	**37,389**	**29,987**	**(7,402)**	**(19.8%)**

Investments - CAPEX

The company's investments are of three types:

i) Investment in expansion or refurbishment of owned sales outlets;
ii) Corporate investments, including IT, facilities, showrooms and offices; and
iii) Other investments, chiefly related to the modernization of its industrial operations.

Total Capex in 2Q16 was R$7.5 million, consisting mainly of investments in enlarging and refurbishing stores, and of work on the new Schutz brand store which opened in Los Angeles. The lower CAPEX in 1H16, compared with the same period of the previous year, reflects the conclusion of the implementation of the new ERP and of the investment in the company's online platforms.

Summary of investments	2Q15	2Q16	Δ 15 x 16 (%)	1H15	1H16	Δ 15 x 16 (%)
Total CAPEX	**5,790**	**7,537**	**30.2%**	**16,083**	**15,441**	**(4.0%)**
Stores - expansion and refurbishing	1,572	762	(51.5%)	2,039	4,944	142.5%
Corporate	4,083	3,289	(19.4%)	11,579	5,162	(55.4%)
Other	135	3,486	2,477.5%	2,465	5,334	116.4%

Cash position and indebtedness

The company ended 2Q16 with R$223.8 million in net cash. The debt policy remains conservative, with the following primary characteristics:

- Total indebtedness of R$97.5 million in 2Q16 against R$114.3 million in 1Q16;
- Long term indebtedness of 32.7% of total debt in 2Q16, compared to 30.2% in 1Q16;
- Weighted average cost of the company's total debt in 2Q16 remained at low levels.

Cash position and Indebtedness	2Q15	1Q16	2Q16
Cash	**176,311**	**249,158**	**223,764**
Total debt	**98,387**	**114,349**	**97,535**
Short term	67,946	79,799	65,642
% total debt	69.1%	69.8%	67.3%
Long-term	30,441	34,550	31,893
% total debt	30.9%	30.2%	32.7%
Net debt	**(77,924)**	**(134,809)**	**(126,229)**

ROIC (Return on Invested Capital)

Return on invested capital (ROIC) in 2Q16 was 19.2%, affected by a higher average level of capital employed, and a slight fall in NOPAT for the quarter.

Income from operations	2Q14	2Q15	2Q16	Δ 15 x 16 (%)
EBIT (LTM)[1]	147,610	152,715	136,651	(10.5%)
+ IR and CS (LTM)[2]	(48,099)	(49,736)	(38,515)	(22.6%)
NOPAT	**99,511**	**102,979**	**98,136**	**(4.7%)**
Working Capital[3]	299,906	321,277	327,433	1.9%
Permanent assets	147,452	167,257	165,567	(1.0%)
Other long-term assets	8,182	9,597	29,505	207.4%
Invested capital[4]	**455,540**	**498,131**	**522,505**	**4.9%**
Average invested capital[5]		**476,836**	**510,318**	**7.0%**
ROIC[6]		**21.6%**	**19.2%**	

(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	2Q15	1Q16	2Q16
Current assets	**628,169**	**707,625**	**679,511**
Cash and cash equivalents	5,025	3,210	9,607
Financial Investments	171,286	245,948	214,157
Trade accounts receivables	291,327	293,052	283,260
Inventory	117,496	122,611	128,365
Taxes recoverable	19,725	22,164	24,263
Other credits	23,310	20,640	19,859
Non-current assets	**184,224**	**199,942**	**202,326**
Long-term receivables	16,967	34,624	36,759
Financial Investments	71	942	836
Trade accounts receivables	0	13,422	13,569
Deferred income and social contribution	7,370	6,987	7,254
Other credits	9,526	13,273	15,100
Property, plant and equipment	74,982	72,500	74,682
Intangible assets	92,275	92,818	90,885
Total Assets	**812,393**	**907,567**	**881,837**

Liabilities	2Q15	1Q16	2Q16
Current liabilities	**198,527**	**229,483**	**212,566**
Loans and financing	67,946	79,799	65,642
Suppliers	85,886	110,648	81,120
Other liabilities	44,695	39,036	65,804
Non-current liabilities	**37,499**	**42,217**	**39,998**
Loans and financing	30,441	34,550	31,893
Related parties	1,107	1,267	1,143
Other liabilities	5,951	6,400	6,962
Equity	**576,367**	**635,867**	**629,273**
Capital	260,197	261,247	309,058
Capital reserve	33,154	36,578	37,659
Income reserves	250,120	308,079	261,249
Additional proposed dividend	-1,632	-3,420	-1,692
Adjustments to equity valuation	0	18,704	0
Profit	34,528	14,679	22,999
Total liabilities and shareholders' equity	**812,393**	**907,567**	**881,837**

Cash Flow - IFRS

Income statement - IFRS	2Q15	2Q16	Var.%	1H15	1H16	Var.%
Net operating revenue	**285,450**	**295,752**	**3.6%**	**521,692**	**553,299**	**6.1%**
Cost of goods sold	(164,895)	(163,611)	-0.8%	(305,237)	(309,439)	1.4%
Gross profit	**120,555**	**132,141**	**9.6%**	**216,455**	**243,860**	**12.7%**
Operating income (expenses):	**(83,697)**	**(97,664)**	**16.7%**	**(157,270)**	**(189,312)**	**20.4%**
Selling	(59,927)	(73,657)	22.9%	(114,893)	(143,317)	24.7%
Administrative and general expenses	(22,550)	(24,025)	6.5%	(40,344)	(45,691)	13.3%
Other operating income net	(1,220)	18	-101.5%	(2,033)	(304)	-85.0%
Income before financial result	**36,858**	**34,477**	**-6.5%**	**59,185**	**54,548**	**-7.8%**
Financial income	2,053	(258)	-112.6%	10,076	3,145	-68.8%
Income before income taxes	**38,911**	**34,219**	**-12.1%**	**69,261**	**57,693**	**-16.7%**
Income tax and social contribution	(6,973)	(4,006)	-42.5%	(19,180)	(12,801)	-33.3%
Current	(8,189)	(4,273)	-47.8%	(22,426)	(13,770)	-38.6%
Deferred	1,216	267	-78.0%	3,246	969	-70.1%
Net income for period	**31,938**	**30,213**	**-5.4%**	**50,081**	**44,892**	**-10.4%**

Cash Flow - IFRS

Statement of cash flow	2Q15	2Q16	1H15	1H16
Operating activities				
Income before income tax and social contribution	38,911	34,219	69,261	57,693
Adjustments to reconcile net income with cash from operational activities	**786**	**(2,108)**	**10,719**	**(8,893)**
Depreciation and amortization	6,121	6,510	11,905	12,782
Income from financial investments	(3,496)	(7,501)	(8,879)	(14,918)
Interest and exchange rate	(4,032)	(3,984)	4,044	(11,630)
Other	2,193	2,867	3,649	4,873
Decrease (increase) in assets				
Trade accounts receivables	5,511	8,887	(13,414)	(3,357)
Inventory	3,583	(6,134)	(19,603)	(21,658)
Recoverable taxes	5,439	(4,362)	8,017	(8,008)
Variation other current assets	(7,050)	2,356	(11,239)	3,408
Judicial deposits	(299)	(2,354)	(610)	(2,441)
Decrease (increase) in liabilities				
Suppliers	(18,559)	(29,528)	15,571	16,239
Labor liabilities	4,423	3,727	1,209	4,699
Fiscal and social liabilities	(7,818)	6,646	(8,229)	(1,430)
Variation in other liabilities	(616)	3,005	(165)	2,272
Payment of income tax and social contribution	(11,109)	(8,537)	(14,128)	(8,537)
Net cash flow from operating activities	**13,202**	**5,817**	**37,389**	**29,987**
Investing activities				
Sale of fixed and intangible assets	1,871	-	1,871	-
Acquisitions of fixed and intangible assets	(5,791)	(7,537)	(16,083)	(15,441)
Financial Investments	(227,767)	(154,901)	(344,254)	(332,764)
Redemption of financial investments	262,574	192,236	371,359	347,925
Net cash used in investing activities	**30,887**	**29,798**	**12,893**	**(280)**
Financing activities with third parties				
Captation	15,904	8,726	34,451	23,763
Payments of loans	(11,010)	(19,247)	(38,108)	(32,960)
Payments of Interest on loans	(613)	(561)	(1,410)	(1,181)
Net cash used in financing activities with third parties	**4,281**	**(11,082)**	**(5,067)**	**(10,378)**
Financing activities with shareholders				
Interest on equity	(15,553)	-	(15,553)	-
Distribution of profits	(35,348)	(18,705)	(35,348)	(18,705)
Receivables (payables) with shareholders	(45)	(124)	157	(250)
Share Issuance	-	981	-	981
Share issuance transaction costs	-	-	-	-
Net cash used in financing activities	**(50,946)**	**(17,848)**	**(50,744)**	**(17,974)**
Increase (decrease) in cash and cash equivalents	**(2,576)**	**6,685**	**(5,529)**	**1,355**
Cash and cash equivalents				
Foreign exchange effect on cash and cash equivalents	65	(288)	(277)	(570)
Cash and cash equivalents - Initial balance	7,536	3,210	10,831	8,822
Cash and cash equivalents - Closing balance	5,025	9,607	5,025	9,607
Increase (decrease) in cash and cash equivalents	**(2,576)**	**6,685**	**(5,529)**	**1,355**

Importante Notice

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