3Q15 Earnings Release

AREZZO &CO

AREZZO

SCHUTZ

ALEXANDRE BIRMAN

ANACAPRI

Earnings Release - 3Q15

AREZZO SCHUTZ ALEXANDRE BIRMAN ANACAPRI


Belo Horizonte, November 5th, 2015. Arezzo&Co (BM&FBOVESPA: ARZZ3), Brazil's women's footwear, handbags and accessories industry leader, reports its earnings for the 3rd quarter of 2015. 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 2014 (3Q14) unless otherwise stated.

ARZZ3 share price on 11.04.15:

R$ 21.50

Market value on 11.04.15:

R$ 1,907.8 million

Earnings conference call:

Friday, November 6th, 2015

11:00AM (Brasília Time)

Connection phone numbers:

Participants calling from São Paulo: +55 11 3193-1001
Participants calling from Brazil and other countries: +55 11 2820-4001
Participants calling from the USA: 1 888 700-0802
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 profit growth of 6.5% in 3Q15, with net profit growth of 7.4%, totaling R$36.1 million

HIGHLIGHTS

- In 3Q15, gross revenue was R$403.7 million, up by 6.5% against 3Q14;
- In 3Q15, the Company's gross profit reached R$133.0 million, an increase of 6.5% over 3Q14;
- EBITDA for 3Q15 totaled R$49.7 million, with a margin of 15.8%;
- Net income for 3Q15 increased by 7.4% against 3Q14, totaling R$36.1 million, with a net margin of 11.5%;
- During the quarter, Arezzo&Co's opened eight stores and expanded another four, with growth of 9.7% in the sales area over the last 12 months.

Summary of Results	3Q14	3Q15	Growth or spread%	9M14	9M15	Growth or spread%
Net Revenues	296,099	315,068	6.4%	763,272	836,760	9.6%
Gross Profit	124,900	133,015	6.5%	329,869	349,470	5.9%
Grosss Margin	42.2%	42.2%	0.0 p.p.	43.2%	41.8%	-1.4 p.p.
EBITDA[1]	51,427	49,698	-3.4%	120,997	120,788	-0.2%
Ebitda Margin	17.4%	15.8%	-1.6 p.p.	15.9%	14.4%	-1.5 p.p.
Net Income	33,601	36,082	7.4%	82,667	86,163	4.2%
Net Margin	11.3%	11.5%	0.2 p.p.	10.8%	10.3%	-0.5 p.p.

Operating Indicators	3Q14	3Q15	Growth or spread%	9M14	9M15	Growth or spread%
# of pairs sold ('000)	2,979	2,926	-1.8%	7,556	7,533	-0.3%
# of handbags sold ('000)	233	247	6.0%	556	660	18.7%
# of employees	2,065	2,124	2.9%	2,065	2,124	2.9%
# of stores*	479	525	46	479	525	46
Owned Stores	52	51	-1	52	51	-1
Franchises	427	474	47	427	474	47
Outsourcing (as % of total production)	91.0%	91.0%	0.0 p.p	90.4%	91.1%	0.7 p.p
SSS[2] Sell-in (franchises)	-0.4%	-8.1%	-7.7 p.p	2.7%	-6.2%	-8.9 p.p
SSS[2] Sell-out (owned stores + franchises)	8.0%	-7.2%	-15.2 p.p	6.1%	-2.2%	-8.3 p.p
SSS[2] Sell-out (owned stores + web + franchises)	10.4%	-6.8%	-17.2 p.p	7.5%	-1.3%	-8.8 p.p

*Includes stores outside Brazil

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	3Q14	Part%	3Q15	Part%	Growth%	9M14	Part%	9M15	Part%	Growth%
Total Gross Revenue	**378,991**		**403,696**		**6.5%**	**982,354**		**1,067,635**		**8.7%**
Exports market	**24,532**	**6.5%**	**38,202**	**9.5%**	**55.7%**	**50,751**	**5.2%**	**85,508**	**8.0%**	**68.5%**
Domestic market	**354,459**	**93.5%**	**365,494**	**90.5%**	**3.1%**	**931,603**	**94.8%**	**982,127**	**92.0%**	**5.4%**
By brand										
Arezzo	*210,594*	*59.4%*	*203,431*	*55.7%*	*-3.4%*	*550,175*	*59.1%*	*548,958*	*55.9%*	*-0.2%*
Schutz	*119,309*	*33.7%*	*133,547*	*36.5%*	*11.9%*	*324,745*	*34.9%*	*358,982*	*36.6%*	*10.5%*
Anacapri	*22,451*	*6.3%*	*26,796*	*7.3%*	*19.4%*	*50,770*	*5.4%*	*67,720*	*6.9%*	*33.4%*
Other brands¹	*2,105*	*0.6%*	*1,720*	*0.5%*	*-18.3%*	*5,913*	*0.6%*	*6,467*	*0.6%*	*9.4%*
By channel										
Franchises	*180,943*	*51.0%*	*175,481*	*48.0%*	*-3.0%*	*477,945*	*51.3%*	*476,790*	*48.5%*	*-0.2%*
Multibrand	*96,847*	*27.3%*	*102,513*	*28.0%*	*5.9%*	*236,074*	*25.3%*	*257,184*	*26.2%*	*8.9%*
Owned Stores²	*75,407*	*21.3%*	*87,262*	*23.9%*	*15.7%*	*214,255*	*23.0%*	*245,504*	*25.0%*	*14.6%*
Others³	*1,262*	*0.4%*	*238*	*0.1%*	*-81.1%*	*3,329*	*0.4%*	*2,649*	*0.3%*	*-20.4%*

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

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

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

Brands

Arezzo&Co's platform consists of four important brands: Arezzo, Schutz, Anacapri and Alexandre Birman, distributed across a network of owned stores, franchises, multibrand stores and webcommerce, with a presence in every Brazilian state. The products are also sold internationally through a variety of channels; owned stores, franchises, multibrand stores and department stores.

In line with the Company's calendar of collections, the third quarter marks the transition from winter to summer collections. In the month of July, the monobrand stores ended the sales of winter stocks in healthy position, with an improvement in the average mark-up of the collection. At the same time they started showing previews of the summer collection. In August there is the changeover in the season, an important milestone in the Company's business cycle. The Company makes every effort to engage the store staff, disseminating its brands' strategy and improving its execution. As examples, a large national sales convention was held at the beginning of August. The new trends and marketing actions were presented, and motivational campaigns were held to incentivize the entire sales force. In addition, training was given in September through a videoconference system, focusing on increasing sales conversion, with more than 4,000 people taking part, and which resulted in better indicators at the end of the quarter.

The Arezzo brand achieved gross revenue of R$203.4 million in 3Q15, accounting for 55.7% of total domestic sales. For this summer collection, the Arezzo brand campaign starred one of Brazil's current top actresses. With a strong communication and marketing plan, the campaign received good coverage in the country's main communication vehicles, and more than 320 thousand mentions online. Apart from the campaign, there were a number of visual merchandising actions, with uniforms to the sales team and store ambiance, which produced significant impact for the brand. A further item on the brand's agenda during the quarter was the launch of the Viva La Vida event, inspired by artist Frida Kahlo, with an excellent coordination involving product, ambiance, relationship with consumers and opinion makers, and the specialized press. In addition, the brand opened two stores in its new architectural model, as well as expanded and refurbished six other stores, resulting in an increase in productivity. A significant milestone was the launch of the online store after 12 months in development and alignment with the franchise network, with a highly attractive look and functions that also boost sales in the physical stores. Acceptance by consumers has been excellent.

The Schutz brand posted growth of 11.9% in 3Q15, over 3Q14, with gross revenue of R$133.5 million, or 36.5% of domestic sales. For the lauch of the summer collection, main opinion makers and customers received personalized invites to an event in the brand's flagship store in São Paulo, with special actions involving products, gifts and store ambiance. The strategy of increasingly customized products gave solid resuts: the event Schutz My Name brought the customization wave to shoes, and the handbags category presented growth of 26.2% in volume during the quarter. Besides, the action My Perfect Pump leveraged sales of scarpins through innovations in displays and strong marketing of this model, a Schutz woman icon.

Brands

The Anacapri brand grew by 19.4% during the quarter, leveraged by the continued rollout of the brand on the franchise channel, with five stores being opened, increasing the total to 61 franchises. For its new summer collection, the brand partnered with lady ambassadors to pass on the brand message, also involving 400 regional opinion makers. The brand invested steadily in an online presence on key fashion and culture websites in Brazil, and the webcommerce channel accounted for 4.6% of sales in the quarter.

During the quarter the Alexandre Birman brand launched its Resort 2016 collection, marking the start of summer with products made from intricately detailed handmade fabrics with strong, feminine silhouettes. Special mention to the brand' the success, its Clarita model, worn by international actresses and models. In addition, one year after its opening, the new brand factory met its production targets, ensuring a supply of products to allow growth of 60.6% in gross billings for the brand during the quarter, with strong performance from exports.

Channels

Mono-brands – Franchises and Owned Stores

According to the Company's strategy to strengthen mono-brand stores, the sell-out sales of the Arezzo&Co network (Owned Stores + Webcommerce + Franchises) decreased by 0.9% in 3Q15 against 3Q14, mainly due to a decrease of 6.8% in same-store sales (SSS – sell-out) in the quarter, partly offset by the 9.7% growth in the sales area. As regards the SSS sell-out indicator for the quarter, it is worth mentioning:

• As to the winter collection, a greater percentage of products were sold at full price compared to the preceding year, improving the network's gross margin and reducing the number of products available for the sales in July, and negatively impacting the indicator in the month;
• The quarter saw a decrease in traffic in the stores, measured by the number of tickets, especially in the first fortnight of September. This was partly offset by one of the Company's strategic pillars of having the right product at the right time at the right price, with greater replenishment of best sellers, and by a higher conversion rate, thanks to the Company's quick reaction in reinforcing sales techniques in the network.

Growth in revenue from mono-brand stores, which comprise franchises sell-in and owned stores sell-out, was 2.5% in 3Q15 against 3Q14, mainly due to the 10.5% increase in sales area in the last 12 months, excluding outlets, and also due to growth of 26.2% in volume from Schutz brand handbags, thanks to the strategy of developing the category in the brand. Mono-brand stores accounted for 71.9% of domestic sales in 3Q15.

The franchise channel showed a decrease of 3.0% in sell-in for the quarter, accounting for 48.0% of domestic sales in 3Q15. The result was affected by a decrease in SSS sell-in, partly compensated by the opening of 48 franchises in the last 12 months, of which 16 are Arezzo, 5 with the Schutz brand and 27 with the Anacapri brand. Moreover, ten Arezzo franchises were expanded in the last 12 months, adding 285.6 m^2 to the sales channel.

Sell-in sales, i.e. those made by Arezzo&Co to its franchisees, recorded a decrease in the same franchises (SSS – franchises) of 8.1% in 3Q15 compared to 3Q14, reflecting the reduction in SSS sell-out and due mainly to the Company's strategy for increasing the gross margin of the network, with a higher average mark-up and a smaller surplus at the end of the collections because of the increasing attractiveness of the products in the stores, resulting in an SSS sell-in lower than the SSS sell-out this quarter.

Considering only the Owned Stores channel on its own, there was growth of 15.7% in revenues in 3Q15 in comparison with, 3Q14, due to a 0.8% increase in sales area, excluding outlets, due to the transfer of stores to the franchise channel in the period, resulting in increased productivity for the channel. It was also boosted by sales in the webcommerce channel.

With eight stores opened, the Company ended the quarter with 519 mono-brand stores in Brazil and six abroad. In Brazil there were 376 stores under the Arezzo brand, 76 for Schutz, 65 for Anacapri and two for Alexandre Birman.

Channels

History of Stores	3Q14	4Q14	1Q15	2Q15	3Q15
Sales area [1,3] - Total (m²)	**32,859**	**35,641**	**35,735**	**35,235**	**36,053**
Sales area - franchises (m²)	26,472	28,466	28,337	28,744	29,649
Sales area - Owned stores 2 (m²)	6,387	7,175	7,398	6,491	6,404
Total number of domestic stores	**472**	**508**	**508**	**511**	**519**
# of franchises	**421**	**455**	**455**	**460**	**469**
Arezzo	344	359	356	356	360
Schutz	43	46	46	48	48
Anacapri	34	50	53	56	61
# of owned stores	**51**	**53**	**53**	**51**	**50**
Arezzo	17	19	19	17	16
Schutz	26	27	28	28	28
Alexandre Birman	2	2	2	2	2
Anacapri	6	5	4	4	4
Total number of international stores	**7**	**8**	**6**	**6**	**6**
# of franchises	6	7	5	5	5
# of owned stores	1	1	1	1	1

1. Includes areas in square meters of international stores
2. Includes 8 outlet-type stores with a total area of 2,199 m²
3.Includes areas in square meters of stores expansion

Multibrands

In 3Q15, revenue from the Multibrand channel grew 5.9%, reaping the benefits of the company's strategy of unifying the management of all brands in the channel started twelve months ago, as well as the continued interest shown by store owners in products and brands with a track record of greater assertiveness at the point of sale. The Company believes in the strategic importance of the channel, and is working to attract new customers, increase the share of wallet from existing customers, and encourage cross-selling among the brands.

The group's four brands are now distributed through 2,262 stores, up 3.9% over 3Q14, with a presence in 1,233 cities.

Key financial indicators	3Q14	3Q15	Growth or spread%	9M14	9M15	Growth or spread%
Net revenues	296,099	315,068	6.4%	763,272	836,760	9.6%
COGS	(171,199)	(182,053)	6.3%	(433,403)	(487,290)	12.4%
Gross profit	124,900	133,015	6.5%	329,869	349,470	5.9%
Gross margin	*42.2%*	*42.2%*	*0.0 p.p.*	*43.2%*	*41.8%*	*-1.4 p.p.*
SG&A	(76,766)	(89,438)	16.5%	(218,471)	(246,708)	12.9%
% of net revenues	*25.9%*	*28.4%*	*2.5 p.p*	*28.6%*	*29.5%*	*0.9 p.p*
Selling expenses	(55,418)	(63,818)	15.2%	(153,243)	(170,592)	11.3%
Owned stores	(22,074)	(27,155)	23.0%	(66,936)	(75,221)	12.4%
Selling, logistics and supply	(33,344)	(36,663)	10.0%	(86,307)	(95,371)	10.5%
General and administrative expenses	(18,033)	(20,808)	15.4%	(53,012)	(57,366)	8.2%
Other operating revenues (expenses)2	(22)	1,309	n/a	(2,617)	(724)	-72.3%
Depreciation and amortization	(3,293)	(6,121)	85.9%	(9,599)	(18,026)	87.8%
EBITDA	51,427	49,698	-3.4%	120,997	120,788	-0.2%
EBITDA margin	*17.4%*	*15.8%*	*-1.6 p.p.*	*15.9%*	*14.4%*	*-1.5 p.p.*
Net income	33,601	36,082	7.4%	82,667	86,163	4.2%
Net margin	*11.3%*	*11.5%*	*0.2 p.p.*	*10.8%*	*10.3%*	*-0.5 p.p.*
Working capital[1] - as % of revenues	29.7%	30.3%	0.6 p.p	29.7%	30.3%	0.6 p.p
Invested capital[2] - as % of revenues	42.4%	44.4%	2.0 p.p.	42.4%	44.4%	2.0 p.p.
Total debt	86,473	126,928	46.8%	86,473	126,928	46.8%
Net debt[3]	(89,383)	(66,558)	-25.5%	(89,383)	(66,558)	-25.5%
Net debt/EBITDA LTM	-0.5x	-0.4x	n/a	-0.5x	-0.4x	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 revenues

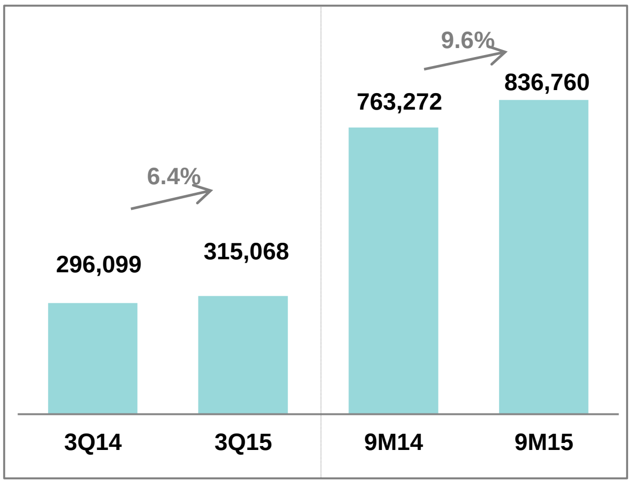
The Company's net revenue totaled R$315.1 million in the quarter, a growth of 6.4% over 3Q14. Some of the primary factors leading to this growth are:

i) Expansion of 10.5% in sales area compared to 3Q14, excluding outlets, with particular reference to the growth of 12% increase in the Franchises area;

ii) Decrease of 6.8% in the same store sales sell-out indicator and of 8.1% in sell-in;

iii) The Multibrand channel grew 5.9% in the quarter, maintaining the growth trend shown in the last 12 months;

iv) In the quarter export channel increased 55.7%.

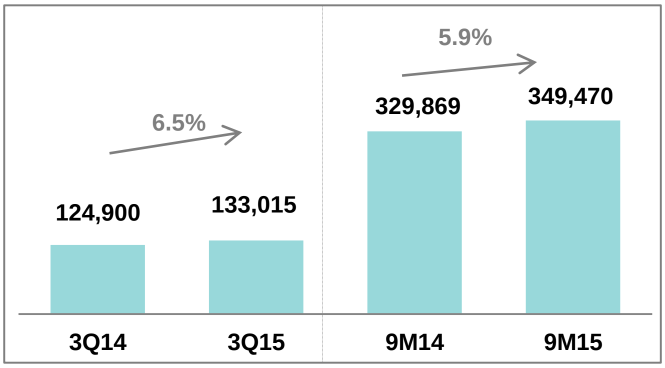


Gross profit

Gross profit totaled R$133.0 million in 3Q15, an increase of 6.5% in comparison with 3Q14, with a gross margin of 42.2%, in line with the previous year's.

This growth in gross profit in 3Q15 particularly reflected the 6.4% growth in net revenue.

The Company pursues a strategy of maintaining channel margins stable. The greatest variations are seen in the Owned Stores channel.



In this quarter, unlike 3Q14, agency representation expenses were included in costs of goods sold instead of in commercial expenses with sales, logistics and supplies, with a negative impact of 80 bps on gross margin comparison between the periods. Excluding this effect, gross profit would be R$135.6 million, with a gross margin of 43.0%.

Operating Expenses

The Company is strongly focused on adjusting the level of expenses to its growth. In the last 12 months, there was a continued deceleration of recurring expenses. Excluding expenses related to foreign exchange variation in the United States operation in the quarter and a provision referred to a recoverability evaluation of accounts receivable, expenses as a percentage of revenues, excluding depreciation and amortization, would be in line with what was presented in 3Q14.

Selling expenses

The Company’s selling expenses can be divided into two primary groups:

i) Owned Stores Expenses:
- Include only owned stores (sell-out) expenses.

ii) Sales, Logistics and Supply Expenses:
- Include sell-in and sell-out operating expenses.

In 3Q15 selling expenses increased by 15.2% compared to 3Q14, reaching R$63.8 million against R$55.4 million in the same quarter of the previous year. Selling, logistics and supply expenses totaled R$36.7 million in the period, up by 10.0% against the same quarter of the previous year, primarily due to exchange rate variation of R$2.3 million in expenses with the US operation against the same quarter of the previous year, and a provision of R$2.0 million referring to a recoverability evaluation of accounts receivable.

Owned stores expenses totaled R$27.2 million in 3Q15, up by 23% in comparison with 3Q14, but higher than the 15.7% growth in sell-out in owned stores during the same period, due to R$900 thousand in additional transport and storage expenses, resulting primarily from the growth in the webcommerce channel, with the inclusion of the Arezzo and Anacapri brands and R$ 500 thousand due to the devolution of a commercial location following the strategy to optimize the owned stores channel.

General and Administrative Expenses

In 3Q15, general and administrative expenses totaled R$20.8 million, against R$18.0 million in the same quarter of the previous year, growth of 15.4% due mainly to the cost of the Company’s new ERP, such as software licenses and costs of staff previously allocated to the implementation project, amounting to R$1.4 million, plus currency variations of R$600 thousand in the US operation expenses when compared to the same quarter of the previous year.

Other Revenues (Expenses)

In 3Q15, the Company showed a balance of R$1.3 million for other operating revenues, compared with R$22.0 thousand in 3Q14.

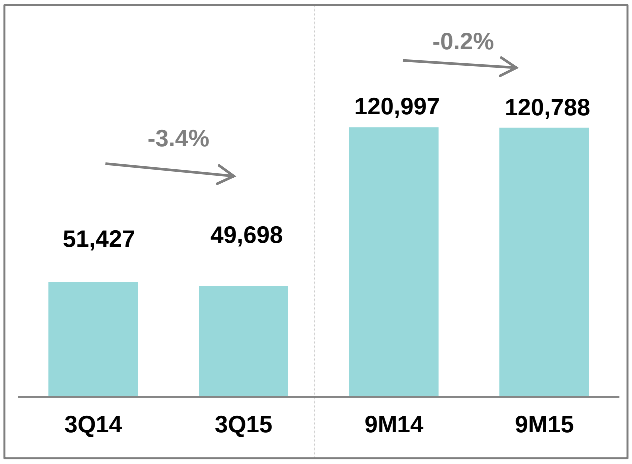
EBITDA and EBITDA margin

The Company's EBITDA decreased 3.4% in 3Q15 over 3Q14, totaling R$49.7 million in comparison with R$51.4 million in the same period of the previous year, with an EBITDA margin of 15.8% The primary factors leading to the growth in EBITDA in the quarter were:

i) Increase of 6.4% in net revenue;

ii) Growth of 6.5% in gross profit;

iii) Operating expenses as a percentage of revenues at 26.4%, excluding depreciation and amortization, or an increase of 160 bps against 3Q14.



Excluding expenses related to the Company's new ERP in the amount of R$1.4 million and expenses related to a provision of R$2.0 million, EBITDA in the quarter would be R$53.1 million, growth of 3.2% compared to the same period of the previous year.

EBITDA Reconciliation	3Q14	3Q15	9M14	9M15
Net income	33,601	36,082	82,667	86,163
(-) Income tax and social contribution	(18,214)	(17,463)	(39,178)	(36,643)
(-) Financial results	3,681	9,968	10,447	20,044
(-) Depreciation and amortization	(3,293)	(6,121)	(9,599)	(18,026)
(=) EBITDA	51,427	49,698	120,997	120,788

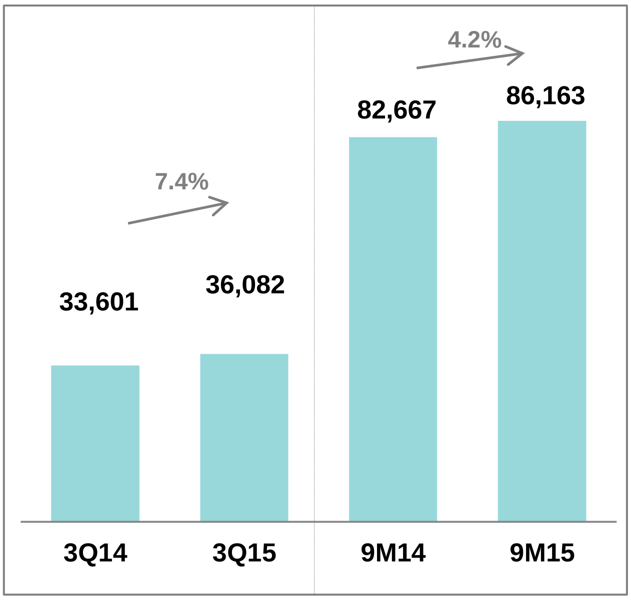
Net Income and net margin (%)

The Company presented EBITDA with an 15.8% margin in 3Q15 converted to a net margin of 11.5% for the quarter. This result reflects the higher allocation of capital to fixed assets during the last three years, due to the increase in the number of owned stores and higher investment in IT.

With the implementation of the Company's new ERP completed, there was an increase of 85.9% in depreciation for the quarter.

Currency variations added R$7.7 million to the financial income.

Net income was R$36.1 million in 3Q15, 7.4% higher than in 3Q14, with a net margin of 11.5%, 20 bps higher than in the same quarter of the previous year.



Operating cash flow

Arezzo&Co generated R$4.6 million in operating cash in 3Q15, due mainly to the higher operating profit for the period and impacted by an increase in working capital. The growth of 55.7% in the export channel, which traditionally has longer maturities, required more working capital to be employed. Also, given the economic context, accounts receivable was impacted by specific negotiations regarding maturity extensions based on analysis and additional credit constitution.

Operating Cash Flow	3Q14	3Q15	Change in R$	Change in R$	9M14	9M15	Change in %	Change in %
Income before income tax and social contribution	**51,815**	**53,545**	**1,730**	**3.3%**	**121,845**	**122,806**	**961**	**0.8%**
Depreciation and amortization	**3,293**	**6,121**	**2,828**	**85.9%**	**9,599**	**18,026**	**8,427**	**87.8%**
Other	**1,249**	**1,169**	**(80)**	**-6.4%**	**(181)**	**(17)**	**164**	**-90.6%**
Decrease (increase) in current assets / liabilities	**(9,957)**	**(46,494)**	**(36,537)**	**366.9%**	**(21,610)**	**(74,957)**	**(53,347)**	**246.9%**
Trade accounts receivables	(45,337)	(50,216)	(4,879)	10.8%	(33,645)	(63,630)	(29,985)	89.1%
Inventories	4,666	(5,839)	(10,505)	n/a	(31,269)	(25,442)	5,827	-18.6%
Suppliers	28,843	15,857	(12,986)	-45.0%	51,113	31,428	(19,685)	-38.5%
Change in other noncurrent and current assets and liabilities	1,871	(6,296)	(8,167)	n/a	(7,809)	(17,313)	(9,504)	121.7%
Payment of income tax and social contribution	**(12,538)**	**(9,733)**	**2,805**	**-22.4%**	**(33,080)**	**(23,861)**	**9,219**	**-27.9%**
Net cash flow generated by operational activities	**33,862**	**4,608**	**(29,254)**	**-86.4%**	**76,573**	**41,997**	**(34,576)**	**-45.2%**

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 3Q15 was R$4.7 million, primarily due to corporate investments in IT, mostly related to the strategy for the company's Omni Channel. Capex in 3Q15, in comparison with the same period of the previous year, reflects the implementation of the new ERP and the Company's guidelines for reducing investments in 2015.

Summary of investments	3Q14	3Q15	Change. (%)	9M14	9M15	Change. (%)
Total capex	**12,325**	**4,680**	**-62.0%**	**36,497**	**20,763**	**-43.1%**
Stores - expansion and refurbi:	1,347	1,158	-14.0%	7,063	3,197	-54.7%
Corporate	8,877	3,241	-63.5%	24,991	14,820	-40.7%
Other	2,101	281	-86.7%	4,443	2,746	-38.2%

Cash position and indebtedness

The Company ended 3Q15 with R$66.6 million in net cash. Indebtedness policy remained conservative, with the following primary characteristics:

• Total debt of R$126.9 million in 3Q15 against R$86.5 million in 3Q14, an increase of R$40.5 million, of which R$42.5 million are Advances on Exchange Contracts due to the growth of the Exports channel;
• Long-term indebtedness was 22.5% of total debt in 3Q15, against 29.2% in 3Q14;
• The weighted average cost of the Company's total debt in 3Q15 remained at lower levels.

Cash position and Indebtedness	3Q14	2Q15	3Q15
Cash	**175,856**	**176,311**	**193,486**
Total debt	**86,473**	**98,387**	**126,928**
Short term	61,249	67,946	98,422
% total debt	70.8%	69.1%	77.5%
Long-term	25,224	30,441	28,506
% total debt	29.2%	30.9%	22.5%
Net debt	**(89,383)**	**(77,924)**	**(66,558)**

ROIC (Return on Invested Capital)

In line with the Company's strategic direction until 2014, invested capital exceeded those of previous years, especially on account of the opening of owned stores that has occurred since 2010. Return on Capital Invested (ROIC) was 19.8% in 3Q15, affected primarily by the concentration of investments in infrastructure over recent years, such as the investments in implementing the Company's new ERP, which will only bear fruit in the medium to long term.

Income from operations	3Q13	3Q14	3Q15	Growth (%)
EBIT (LTM)1	149,549	151,794	148,158	-2.4%
+ IR and CS (LTM)2	(44,881)	(50,070)	(48,985)	-2.2%
NOPAT	**104,668**	**101,724**	**99,173**	**-2.5%**
Working Capital3	262,017	302,987	341,839	12.8%
Permanent assets	128,935	156,237	168,276	7.7%
Other long-term assets4	8,429	8,107	23,276	187.1%
Invested capital	**399,381**	**467,331**	**533,391**	**14.1%**
Average invested capital5		**433,356**	**500,361**	**15.5%**
ROIC6		**23.5%**	**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	3Q14	2Q15	3Q15
Current assets	**611,196**	**628,169**	**683,153**
Cash and cash equivalents	6,579	5,025	4,788
Financial Investments	169,277	171,286	188,698
Trade accounts receivables	281,055	291,327	325,702
Inventory	115,835	117,496	121,038
Taxes recoverable	20,346	19,725	16,608
Other credits	18,104	23,310	26,319
Non-current assets	**172,174**	**184,224**	**199,972**
Long-term receivables	15,937	16,967	31,696
Financial Investments	30	71	90
Trade accounts receivables	0	0	13,807
Deferred income and social contribution	7,830	7,370	8,420
Other credits	8,077	9,526	9,379
Property, plant and equipment	73,524	74,982	77,227
Intangible assets	82,713	92,275	91,049
Total Assets	**783,370**	**812,393**	**883,125**

Liabilities	3Q14	2Q15	3Q15
Current liabilities	**193,602**	**198,527**	**246,250**
Loans and financing	61,249	67,946	98,422
Suppliers	85,972	85,886	101,743
Other liabilities	46,381	44,695	46,085
Non-current liabilities	**32,420**	**37,499**	**36,059**
Loans and financing	25,224	30,441	28,506
Related parties	879	1,107	1,420
Other liabilities	6,317	5,951	6,133
Equity	**557,348**	**576,367**	**600,816**
Capital	220,086	260,197	261,247
Capital reserve	69,727	33,154	34,159
Income reserves	208,174	250,120	250,120
Adjustments to equity valuation	0	-1,632	-5,831
Profit	59,361	34,528	61,121
Total liabilities and shareholders' equity	**783,370**	**812,393**	**883,125**

Income statement (IFRS)

Income statement - IFRS	3Q14	3Q15	Growth %	9M14	9M15	Growth %
Net operating revenue	**296,099**	**315,068**	**6.4%**	**763,272**	**836,760**	**9.6%**
Cost of goods sold	(171,199)	(182,053)	6.3%	(433,403)	(487,290)	12.4%
Gross profit	**124,900**	**133,015**	**6.5%**	**329,869**	**349,470**	**5.9%**
Operating income (expenses):	**(76,766)**	**(89,438)**	**16.5%**	**(218,471)**	**(246,708)**	**12.9%**
Selling	(57,137)	(68,039)	19.1%	(158,368)	(182,932)	15.5%
Administrative and general expenses	(19,607)	(22,708)	15.8%	(57,486)	(63,052)	9.7%
Other operating income net	(22)	1,309	n/a	(2,617)	(724)	-72.3%
Income before financial result	**48,134**	**43,577**	**-9.5%**	**111,398**	**102,762**	**-7.8%**
Financial income	3,681	9,968	170.8%	10,447	20,044	91.9%
Income before income taxes	**51,815**	**53,545**	**3.3%**	**121,845**	**122,806**	**0.8%**
Income tax and social contribution	(18,214)	(17,463)	-4.1%	(39,178)	(36,643)	-6.5%
Current	(19,350)	(18,513)	-4.3%	(41,494)	(40,939)	-1.3%
Deferred	1,136	1,050	-7.6%	2,316	4,296	85.5%
Net income for period	**33,601**	**36,082**	**7.4%**	**82,667**	**86,163**	**4.2%**

Income statement (IFRS)

Statement of cash flow	3Q14	3Q15	9M14	9M15
Operating activities				
Income before income tax and social contribution	51,815	53,545	121,845	122,806
Adjustments to reconcile net income with cash from operational activities	**4,542**	**7,290**	**9,418**	**18,009**
Depreciation and amortization	3,293	6,121	9,599	18,026
Income from financial investments	(3,641)	(5,313)	(8,836)	(14,192)
Interest and exchange rate	4,122	1,715	2,369	5,759
Other	768	4,767	6,286	8,416
Decrease (increase) in assets				
Trade accounts receivables	(45,337)	(50,216)	(33,645)	(63,630)
Inventory	4,666	(5,839)	(31,269)	(25,442)
Recoverable taxes	(176)	(6,678)	(1,158)	1,339
Variation other current assets	(951)	(1,575)	(799)	(12,814)
Judicial deposits	(459)	(360)	(195)	(970)
Decrease (increase) in liabilities				
Suppliers	28,843	15,857	51,113	31,428
Labor liabilities	4,766	3,518	6,401	4,727
Fiscal and social liabilities	(2,344)	3,625	(9,313)	(4,604)
Variation in other liabilities	1,035	(4,826)	(2,745)	(4,991)
Payment of income tax and social contribution	(12,538)	(9,733)	(33,080)	(23,861)
Net cash flow from operating activities	**33,862**	**4,608**	**76,573**	**41,997**
Investing activities				
Disposal of fixed and intangible assets	4	849	4,671	2,720
Acquisitions of fixed and intangible assets	(12,325)	(4,680)	(36,497)	(20,763)
Financial Investments	(118,186)	(182,137)	(295,908)	(526,391)
Redemption of financial investments	99,186	170,019	307,365	541,378
Net cash used in investing activities	**(31,321)**	**(15,949)**	**(20,369)**	**(3,056)**
Financing activities with third parties				
Funding	14,940	280,527	30,800	314,978
Payments of loans	(12,551)	(260,001)	(43,470)	(298,109)
Payments of Interest on loans	(891)	(757)	(1,644)	(2,167)
Net cash used in financing activities - third parties	**1,498**	**19,769**	**(14,314)**	**14,702**
Financing activities with shareholders				
Interest on equity capital	-	-	(18,038)	(15,553)
Distribution of profits	(11,071)	(9,489)	(31,965)	(44,837)
Receivables (payables) with shareholders	154	313	6	470
Share Issuance	900	1,050	900	1,050
Net cash used in financing activities	**(10,017)**	**(8,126)**	**(49,097)**	**(58,870)**
Foreign exchange effect on cash and cash equivalents	**-**	**(539)**	**-**	**(816)**
Increase (decrease) in cash and cash equivalents	**(5,978)**	**(237)**	**(7,207)**	**(6,043)**
Cash and cash equivalents				
Cash and cash equivalents - Initial balance	12,557	5,025	13,786	10,831
Cash and cash equivalents - Closing balance	6,579	4,788	6,579	4,788
Increase (decrease) in cash and cash equivalents	**(5,978)**	**(237)**	**(7,207)**	**(6,043)**

Important Notice

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