Earnings Release - 3Q16

AREZZO &CO

AREZZO

SCHUTZ

ALEXANDRE BIRMAN

ANACAPRI

FIEVER

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AREZZO | SCHUTZ | ALEXANDRE BIRMAN | ANACAPRI | FIEVER


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

Arezzo&Co network posted sell-out growth of 9.8% and the company recorded an increase of 10.1% in Net Revenue and 12.5% in EBITDA, against 3Q15.

HIGHLIGHTS

• Net revenue in 3Q16 reached R$346.9 million, a 10.1% increase against 3Q15;

• In 3Q16, the Company’s gross profit totaled R$152.2 million, with gross margin up by 43.9%, and growth of 14.4% against 3Q15;

• EBITDA for 3Q16 totaled R$55.9 million, with a margin of 16.1% and a 12.5% increase against 3Q15;

• In the quarter, net income was R$35.4 million with a margin of 10.2%;

• Arezzo&Co ended 3Q16 with a growth of 6.4% in same-stores sales, including owned stores, franchises and web-commerce channels.

Closing price of ARZZ3 in 11.02.16:

R$28.90

Market Cap in 11.02.16:

R$ 2,567.4 milhões

Earnings conference call:

Friday, November 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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Summary of Results	3Q15	3Q16	Δ 15 x 16	9M15	9M16	Δ 15 x 16
Net Revenues	315,068	346,941	10.1%	836,760	900,240	7.6%
Gross Profit	133,015	152,200	14.4%	349,470	396,060	13.3%
Grosss Margin	42.2%	43.9%	1.7 p.p.	41.8%	44.0%	2.2 p.p.
EBITDA[1]	49,698	55,896	12.5%	120,788	123,226	2.0%
EBITDA Margin[1]	15.8%	16.1%	0.3 p.p.	14.4%	13.7%	-0.7 p.p.
Net Income	36,082	35,440	-1.8%	86,163	80,332	-6.8%
Net Margin	11.5%	10.2%	-1.3 p.p.	10.3%	8.9%	-1.4 p.p.

Operating Indicators	3Q15	3Q16	Δ 15 x 16	9M15	9M16	Δ 15 x 16
# of pairs sold ('000)	2,926	3,231	10.4%	7,533	8,088	7.4%
# of handbags sold ('000)	247	284	15.1%	660	752	13.9%
# of employees	2,124	2,206	3.9%	2,124	2,206	3.9%
# of stores*	525	544	19	525	544	19
Owned Stores	51	47	-4	51	47	-4
Franchises	474	497	23	474	497	23
Outsourcing (as % of total production)	91.0%	89.5%	-1.5 p.p	91.1%	89.6%	-1.5 p.p
SSS² Sell-in (franchises)	-8.1%	2.1%	10.2 p.p	-6.2%	1.0%	7.2 p.p
SSS² Sell-out (owned stores + franchises)	-7.2%	5.6%	12.8 p.p	-2.2%	1.4%	3.6 p.p
SSS² Sell-out (owned stores + franchises + web commerce	-6.8%	6.4%	13.2 p.p	-1.3%	1.9%	3.2 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	3Q15	Part%	3Q16	Part%	Δ (%) 15 x 16	9M15	Part%	9M16	Part%	Δ (%) 15 x 16
Total Gross Revenue	**403,696**		**426,460**		**5.6%**	**1,067,635**		**1,134,537**		**6.3%**
Exports market	**38,202**	**9.5%**	**36,392**	**8.5%**	**(4.7%)**	**85,507**	**8.0%**	**114,307**	**10.1%**	**33.7%**
Domestic market	**365,494**	**90.5%**	**390,068**	**91.5%**	**6.7%**	**982,127**	**92.0%**	**1,020,230**	**89.9%**	**3.9%**
By brand										
Arezzo	*203,431*	*55.7%*	*220,131*	*56.4%*	*8.2%*	*548,958*	*55.9%*	*585,024*	*57.3%*	*6.6%*
Schutz	*133,547*	*36.5%*	*130,138*	*33.4%*	*(2.6%)*	*358,982*	*36.6%*	*342,756*	*33.6%*	*(4.5%)*
Anacapri	*26,796*	*7.3%*	*33,411*	*8.6%*	*24.7%*	*67,720*	*6.9%*	*79,601*	*7.8%*	*17.5%*
Others¹	*1,720*	*0.5%*	*6,388*	*1.6%*	*271.4%*	*6,467*	*0.7%*	*12,849*	*1.3%*	*98.7%*
By channel										
Franchises	*175,481*	*48.0%*	*182,108*	*46.7%*	*3.8%*	*476,790*	*48.5%*	*491,035*	*48.1%*	*3.0%*
Multibrand	*102,513*	*28.0%*	*107,102*	*27.5%*	*4.5%*	*257,184*	*26.2%*	*242,830*	*23.8%*	*(5.6%)*
Owned Stores	*67,922*	*18.6%*	*71,313*	*18.3%*	*5.0%*	*200,506*	*20.4%*	*206,939*	*20.3%*	*3.2%*
Web Commerce	*19,340*	*5.3%*	*28,678*	*7.4%*	*48.3%*	*44,998*	*4.6%*	*77,473*	*7.6%*	*72.2%*
Others²	*238*	*0.1%*	*867*	*0.2%*	*264.3%*	*2,649*	*0.3%*	*1,953*	*0.2%*	*(26.3%)*

(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

Following the Company's calendar of collections, the third quarter marks the transition from the winter to the summer collections. In July, the mono-brand stores ended the sale of winter products in a very healthy way, with an increase in the percentage of sales at full price, less leftovers and, therefore, an increase in the chain's average mark-up. The summer collection preview permitted a reading of the sale behavior and quick and assertive responses in the replenishment orders within the collection, thus contributing to increase sales.

The Arezzo brand reached gross revenues of R$ 220.1 million in 3Q16, a growth of 8.2%, representing 56.4% of domestic sales. Due to the success recorded in winter, the summer campaign once again featured the main Brazilian model of international prominence, which, together with a strong marketing plan, resulted in an impact in the target audience 30% higher than in the last campaign. Additionally, in line with the company's strategy of providing an increasingly differentiated purchasing experience, the brand held the Persona Me campaign, causing an excellent perception in consumers. It should be noted that the high frequency of supplying new collections in the stores – counting on seven summer collections – enables a stronger reaction within the season, based on sell-out reading. This increases the assertiveness of products and boosts the gross margin of mono-brand stores through a higher average mark-up and fewer surpluses at the end of the collections. An important milestone in this quarter was the achievement of 5.9% of the brand sales in the Web Commerce channel, which is completing one year. Moreover, the brand's instagram account has reached the mark of 3 million followers.

The Schutz brand reached gross revenue of R$ 130.1 million or 33.4% of sales in the domestic market. Among the numerous marketing actions that strengthen the innovative and trend-setting brand positioning, noteworthy are the following: Schutz Step Up and Schutz Light On, focused on strengthening the tennis shoes category, and Schutz Trip F.I.S., launch event of the new website. The new Schutz Web platform, named F.I.S. (Fashion Info & Shop), represents another important step in the company's Omni project, by making the website a reference in fashion and trends content, increasing even more consumers' engagement and leveraging the sales channel. The brand's pilot operations in the USA continues to be an important project; with the second owned store, in Los Angeles, completing its second quarter and the wholesale operations preseting healthy growth levels.

The Anacapri brand posted sales of R$ 33.4 million in 3Q16, an increase of 24.7% on the same period of the previous year. The good result is a consequence of a more assertive mix in the summer collection, alongside the consolidation of the brand's positioning and boosted by greater marketing investments.

Alexandre Birman, through a continuous focus on boosting its international branding, saw its sales grow 22.6% against 3Q15. The brand has strengthened its positioning through initiatives aimed at consumers, partnering with key US department stores and obtaining major celebrity endorsements. In the opening ceremony of the Olympics, for instance, an internationally renowned model wore a sandal by the brand.

The Fiever brand continues increasing its performance, tripling its revenue against 2T16. An important event in the quarter was the launch of its online store, which in the first year of the brand reaches consumers throughout the nation.

Channels

Mono-brand – Franchises, Owned Stores and Web Commerce

Reflecting the company’s strategy of strengthening the mono-brand stores, the Arezzo&Co stores chain (owned stores + franchises + web commerce) showed growth of 9.8% in sell-out sales in 3Q16 against 3Q15, particularly due to increased same-store sales, and the launch of the Arezzo brand online store in August 2015. Mono-brand same-store sales showed an increase was 6.4% in 3Q16. The stores sales area posted a 4.5% increase against the same quarter of 2015, excluding outlets.

The Company’s revenue from mono-brand stores in the domestic market, consisting of sell-in for franchises and sell-out for owned stores and web commerce, showed growth of 7.4% in 3Q16 against 3Q15, mainly due to a 48.3% increase in the web commerce channel. The mono-brand stores accounted for 72.3% of sales in the domestic market in 3Q16.

The franchise channel showed an increase of 3.8% in sell-in for the quarter, with 46.7% of domestic sales in 3Q16, boosted by the opening of 23 franchises in the last 12 months, 5 of them for the Arezzo brand, 7 for Schutz, 11 for Anacapri, adding a total of 1,791 m² to the channel sales area, excluding outlets.

Sell-in sales, i.e., those made by Arezzo&Co to its franchisees, posted growth in same franchises (SSS – franchises) of 2.1% in 3Q16 against 3Q15. This growth is below the SSS sell-out for the quarter, which is consistent with the Company’s strategy of keeping a healthy level of inventories with franchises and achieving better gross margins in the chain, with a higher average mark-up and less leftovers at the end of the collections.

The sell-out channels on their own, revenue grew 14.6% in 3Q16. Although there were fewer owned stores in the domestic market, the channel had a positive performance, growing 5.0% against 3Q15. Additionally, the Web Commerce channel, boosted by the launch of the Arezzo online store – which is completing one year – and the increase in Anacapri sales, contributed to the increase in sell-out.

The company ended 3Q16 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.

Multi-brands

In 3Q16, sales in the multibrand channel were up by 4.5% against 3Q15, resuming growth. The channel’s good performance reflects the combination of the Company’s effort to constantly increase the service level, a collection with the proper mix of products and signs of recovery in confidence among storeowners. Noteworthy is the growth recorded by Anacapri, which captured new customers in the period and increased sales by over 30% in the channel. Additionally, Fiever has also increased its penetration among multi-brand customers.

As from 3Q15, the group’s four brands are distributed through 2,091 stores in 3Q16, 7.6% fewer than in 3Q15, and can be found in 1,200 cities.

History of Stores	3T15	4T15	1T16	2T16	3T16
Sales area [1,3]- Total (m²)	**36,053**	**37,342**	**37,296**	**37,653**	**37,687**
Sales area - franchises (m²)	29,649	31,087	31,033	31,131	31,410
Sales area - owned stores² (m²)	6,404	6,255	6,264	6,522	6,278
Total number of domestic stores	**519**	**537**	**536**	**537**	**537**
# of franchises	**469**	**489**	**488**	**489**	**492**
Arezzo	360	367	366	365	365
Schutz	48	52	52	52	55
Anacapri	61	70	70	72	72
# of owned stores	**50**	**48**	**48**	**48**	**45**
Arezzo	16	15	15	15	15
Schutz	28	26	26	26	23
Alexandre Birman	2	2	2	2	2
Anacapri	4	4	4	4	4
Fiever	–	1	1	1	1
Total number of international stores	**6**	**6**	**7**	**7**	**7**
# of franchises	5	5	5	5	5
# of owned stores	1	1	2	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's sales in the foreign market posted a 4.7% decrease against the same period of the previous year due to the currency appreciation and a calendar effect of orders from international customers. Disregarding the foreign exchange effect, total exports sales for all channels - USA pilot operation, export of owned brands to the rest of the world and private label – would have been positive by 4.1%.

Key financial indicators	3Q15	3Q16	Δ (%) 15 x 16	9M15	9M16	Δ (%) 15 x 16
Net revenues	315,068	346,941	10.1%	836,760	900,240	7.6%
COGS	(182,053)	(194,741)	7.0%	(487,290)	(504,180)	3.5%
Gross profit	133,015	152,200	14.4%	349,470	396,060	13.3%
Gross margin	*42.2%*	*43.9%*	*1.7 p.p*	*41.8%*	*44.0%*	*2.2 p.p*
SG&A	(89,437)	(102,804)	14.9%	(246,708)	(292,115)	18.4%
% of net revenues	*28.4%*	*29.6%*	*1.2 p.p*	*29.5%*	*32.4%*	*2.9 p.p*
Selling expenses	(63,817)	(75,208)	17.8%	(170,591)	(209,528)	22.8%
Owned stores and web commerce	(27,155)	(30,625)	12.8%	(75,221)	(89,437)	18.9%
Selling, logistics and supply	(36,663)	(44,583)	21.6%	(95,371)	(120,091)	25.9%
General and administrative expenses	(20,808)	(19,570)	(5.9%)	(57,366)	(61,476)	7.2%
Other operating revenues (expenses)	1,309	(1,526)	n/a	(724)	(1,830)	152.7%
Depreciation and amortization	(6,121)	(6,500)	6.2%	(18,026)	(19,282)	7.0%
EBITDA	49,699	55,896	12.5%	120,789	123,226	2.0%
EBITDA margin	*15.8%*	*16.1%*	*0.3 p.p*	*14.4%*	*13.7%*	*(0.7 p.p)*
Net income	36,082	35,440	(1.8%)	86,163	80,332	(6.8%)
Net margin	*11.5%*	*10.2%*	*(1.3 p.p)*	*10.3%*	*8.9%*	*(1.4 p.p)*
Working capital[1] - as % of revenues	30.3%	29.1%	(1.2 p.p)	30.3%	29.1%	(1.2 p.p)
Invested capital[2] - as % of revenues	44.4%	45.3%	0.9 p.p	44.4%	45.3%	0.9 p.p
Total debt	126,928	95,785	(24.5%)	126,928	95,785	(24.5%)
Net debt[3]	(66,558)	(125,806)	89.0%	(66,558)	(125,806)	89.0%
Net debt/EBITDA LTM	-0.4x	-0.7x	-	-0.4x	-0.7x	-

(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

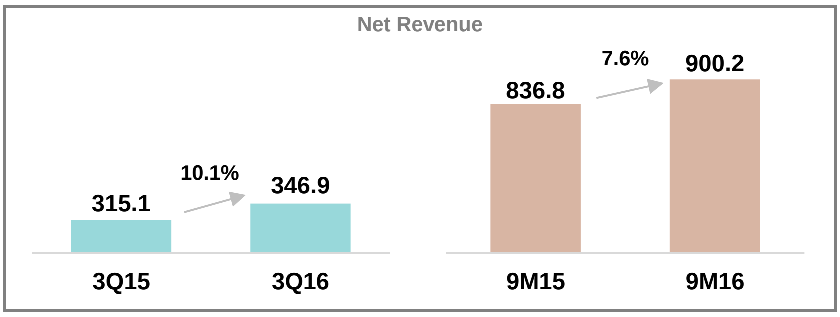
The company's net revenue grew to R$ 346.9 million in this quarter, up 10.1% against 3Q15. Among the primary factors driving this growth, worthy of mention are:

i) expansion of 48.3% in the web commerce channel, which now accounts for 7.4% of domestic market against 5.3% in 3Q15, highlighting the Arezzo brand, whose online store is completing one year;

ii) 5.0% sales growth in physical owned stores;

iii) 4.5% increase in the multi-brand channel, which resumed growth after 3 quarters of fall, particularly for Anacapri and Fiever;

iv) a 4.7% fall in sales in the foreign market due to the appreciated exchange rate.



Gross Profit

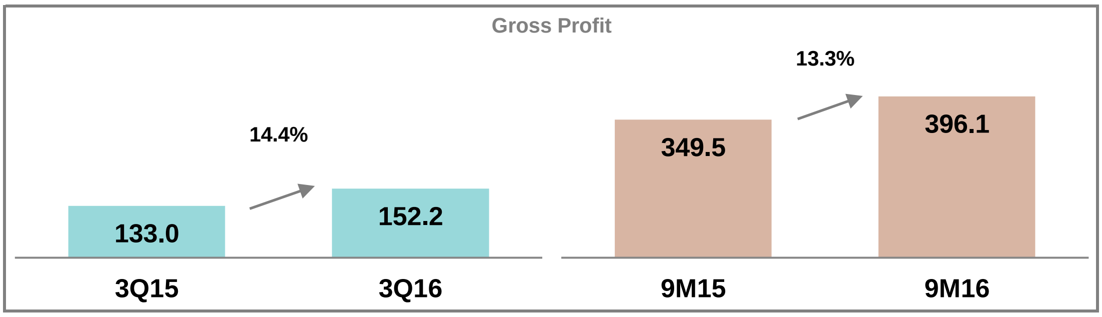
Gross profit totaled R$ 152.2 million in 3Q16, a 14.4% increase against 3Q15, with gross margin up by 170 bps to 43.9% no 3Q16. The main factors were:

i) a 48.3% growth in the web commerce channel, whose gross margin is higher than the average, accounting for 7.4% of sales versus 5.3% no 3Q15;

ii) a positive 200bps impact in the gross margin due to ICMS tax benefits from the start-up of the new distribution center;

iii) decrease in the export margin due to the exchange rate.

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



Operating Expenses

The company works hard to adjust the level of expenses to the growth in sales. However, this quarter expenses were under pressure for four main reasons, as follows: (i) losses in renegotiations with delinquent debtors; (ii) the continuation of phase two of the pilot operation in the USA; (iii) expenses with the new distribution center; (iv) increase in payroll taxes.

Selling Expenses

Selling expenses grew by 17.8% in 3Q16 against 3Q15, reaching R$ 75.2 million for the quarter. It should be noted that selling expenses include costs of owned stores and web commerce, which amounted to R$ 30.6 million for the quarter, 12.8% more than in 3Q15, as well as sales, logistics and supply costs, which accounted for R$ 44.6 million and rose by 21.6% against the same period of the previous year.

Expenses for owned stores and web commerce were below the 14.6% increase in revenues from these channels, despite the impact of the R$1.5 million increase in payroll taxes.

Incremental expenses affected sales, logistics and supplies due to (i) losses in renegotiation with debtors in arrears of R$ 3.4 million; (ii) the pilot operation in the USA, in the amount of 1.9 million, particularly due to the opening of the store in California; e (iii) expenses for the new distribution center of R$ 1.3 million. Excluding these impacts, the total would be R$ 38.0 million, a 3.8% growth, below the increase in the company's revenue.

General and Administrative Expenses

In 3Q16, general and administrative expenses totaled R$ 19.6 million, a fall of 5.9% against 3Q15, evidencing the company's effort to keep its expenses under control.

EBITDA and EBITDA margin

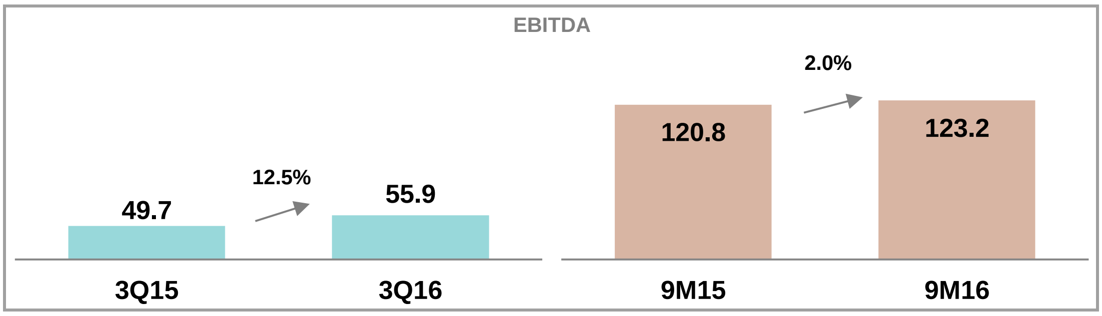
The company's EBITDA totaled R$ 55.9 million in 3Q16, with a margin of 16.1% and growth of 12.5% as compared to the results posted in 3Q15. Among the main reasons, the highlights were:

i) 10.1% growth in net revenue against the same period of the previous year;

ii) a 170bps increase in gross margin, closing 3Q16 at 43.9%;

iii) higher incremental operating expenses for initiatives reaching maturity, such as the pilot operation in the USA, and the new distribution center;

In line with the impact shown in the previous quarters, excluding the pilot operation in the USA, the company's consolidated EBITDA margin would've been 150bps higher.

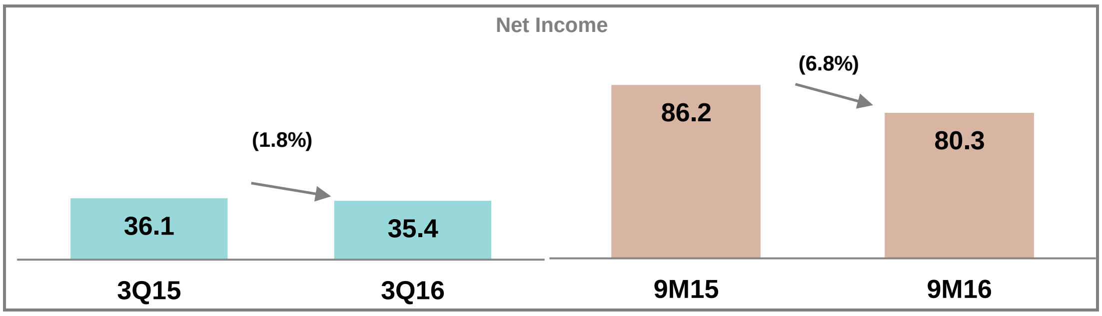


EBITDA Reconciliation	3Q15	3Q16	9M15	9M16
Net income	36,082	35,440	86,163	80,332
(-) Income tax and social contribution	(17,463)	(17,329)	(36,643)	(30,130)
(-) Financial results	9,968	3,373	20,044	6,518
(-) Depreciation and amortization	(6,121)	(6,500)	(18,026)	(19,282)
(=) EBITDA	49,699	55,896	120,788	123,226

Net income and net margin

The company's EBITDA margin of 16.1% in 3Q16 converted into a net margin of 10.2%, reflecting a lower financial result in 3Q16 against 3Q15, attributable to an exchange variation less favorable than in the same period of the previous year.

Net income for 3Q16 amounted to R$ 35.4 million. Excluding currency fluctuations, the company's net income would have increased 14,5% against 3Q15.



Operating cash flow

Arezzo&Co generated R$ 26.0 million cash from operations in 3Q16 and R$ 56.0 million year-to-date, with levels higher than in 3Q15, mainly due to lower consumption of working capital in the period. It should be noted that these changes do not represent changes in the company's sales policies, but reflect seasonal effects and the company's efforts to manage working capital more effectively.

Operating Cash Flow	3Q15	3Q16	Δ 15 x 16 (R$)	Δ 15 x 16 (%)	9M15	9M16	Δ 15 x 16 (R$)	Δ 15 x 16 (%)
Income before income tax and social contribution	**53,545**	**52,769**	**(776)**	**(1.4%)**	**122,806**	**110,462**	**(12,344)**	**(10.1%)**
Depreciation and amortization	**6,121**	**6,500**	**379**	**6.2%**	**18,026**	**19,282**	**1,256**	**7.0%**
Others	**1,169**	**(880)**	**(2,049)**	**n/a**	**(17)**	**(22,555)**	**(22,538)**	**n/a**
Decrease (increase) in assets / liabilities	**(46,494)**	**(21,674)**	**24,820**	**(53.4%)**	**(74,957)**	**(31,950)**	**43,007**	**(57.4%)**
Trade accounts receivables	(50,216)	(50,634)	(418)	0.8%	(63,630)	(53,991)	9,639	(15.1%)
Inventories	(5,839)	3,741	9,580	n/a	(25,442)	(17,917)	7,525	(29.6%)
Suppliers	15,857	21,930	6,073	38.3%	31,428	38,169	6,741	21.4%
Change in other noncurrent and current assets and liabilities	(6,296)	3,289	9,585	n/a	(17,313)	1,789	19,102	n/a
Payment of income tax and social contribution	**(9,733)**	**(10,672)**	**(939)**	**9.6%**	**(23,861)**	**(19,209)**	**4,652**	**(19.5%)**
Net cash flow generated by operational activities	**4,608**	**26,043**	**21,435**	**465.2%**	**41,997**	**56,030**	**14,033**	**33.4%**

Investments - CAPEX

The company makes investments of three types:

i) Investment in expansion or refurbishment of owned stores;
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 3Q16 was R$ 5.3 million mainly due to the purchase and renewal of software licenses and investments in logistics.

Summary of investments	3Q15	3Q16	Δ 15 x 16 (%)	9M15	9M16	Δ 15 x 16 (%)
Total CAPEX	**4,680**	**5,343**	**14.2%**	**20,763**	**20,783**	**0.1%**
Stores - expansion and refurbishing	1,158	856	(26.0%)	3,197	5,801	81.4%
Corporate	3,241	3,174	(2.1%)	14,820	8,336	(43.8%)
Other	281	1,313	366.5%	2,746	6,646	142.0%

Cash position and indebtedness

The company ended 3Q16 with R$ 221.6 in cash. The debt policy remains conservative, with the following primary characteristics:

• Total indebtedness of R$ 95.8 million in 3Q16 against R$ 97.5 million in 2Q16;
• Long term indebtedness of 30.7% of total debt in 3Q16, compared to 32.7% no 1Q16;
• Weighted average cost of the company's total debt in 3Q16 remained at low levels.

Cash position and Indebtedness	3Q15	2Q16	3Q16
Cash	**193,486**	**223,764**	**221,591**
Total debt	**126,928**	**97,535**	**95,785**
Short term	98,422	65,642	66,424
% total debt	77.5%	67.3%	69.3%
Long-term	28,506	31,893	29,361
% total debt	22.5%	32.7%	30.7%
Net debt	**(66,558)**	**(126,229)**	**(125,806)**

ROIC (Return on Invested Capital)

Return on invested capital (ROIC) in 3Q16 was 19.4%. Despite the growth in NOPAT, ROIC was pressed by a higher average level of capital employed. However, the balance of capital employed grew only 1%, showing stability in the last 12 months, as a result of an investment level close to depreciation and actions to control working capital.

Income from operations	3Q14	3Q15	3Q16	Δ 15 x 16 (%)
EBIT (LTM)[1]	151,794	145,373	142,470	(2.0%)
+ IR and CS (LTM)[2]	(50,070)	(46,200)	(38,381)	(16.9%)
NOPAT	**101,724**	**99,173**	**104,089**	**5.0%**
Working Capital[3]	302,987	341,839	344,943	0.9%
Permanent assets	156,237	168,276	162,540	(3.4%)
Other long-term assets	8,107	23,276	31,450	35.1%
Invested capital[4]	**467,331**	**533,391**	**538,933**	**1.0%**
Average invested capital[5]		**500,361**	**536,162**	**7.2%**
ROIC[6]		**19.8%**	**19.4%**	

(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	3Q15	2Q16	3Q16
Current assets	**683,153**	**679,511**	**719,074**
Cash and cash equivalents	4,788	9,607	7,155
Financial Investments	188,698	214,157	214,436
Trade accounts receivables	325,702	283,260	334,858
Inventory	121,038	128,365	124,019
Taxes recoverable	16,608	24,263	21,468
Other credits	26,319	19,859	17,138
Non-current assets	**199,972**	**202,326**	**203,994**
Long-term receivables	31,696	36,759	41,454
Financial Investments	90	836	0
Trade accounts receivables	13,807	13,569	13,896
Deferred income and social contribution	8,420	7,254	10,004
Other credits	9,379	15,100	17,554
Investments	0	0	1,177
Property, plant and equipment	77,227	74,682	72,741
Intangible assets	91,049	90,885	88,622
Total Assets	**883,125**	**881,837**	**923,068**

Liabilities	3Q15	2Q16	3Q16
Current liabilities	**246,250**	**212,566**	**230,221**
Loans and financing	98,422	65,642	66,424
Suppliers	101,743	81,120	103,050
Other liabilities	46,085	65,804	60,747
Non-current liabilities	**36,059**	**39,998**	**37,887**
Loans and financing	28,506	31,893	29,361
Related parties	5,579	1,143	1,208
Other liabilities	1,974	6,962	7,318
Equity	**600,816**	**629,273**	**654,960**
Capital	261,247	309,058	310,008
Capital reserve	250,120	37,659	38,371
Income reserves	34,159	261,249	261,249
Additional proposed dividend	-5,831	-1,692	-1,850
Profit	61,121	22,999	47,182
Total liabilities and shareholders' equity	**883,125**	**881,837**	**923,068**

Cash Flow - IFRS

Income statement - IFRS	3Q15	3Q16	Var.%	9M15	9M16	Var.%
Net operating revenue	**315,068**	**346,941**	**10.1%**	**836,760**	**900,240**	**7.6%**
Cost of goods sold	(182,053)	(194,741)	7.0%	(487,290)	(504,180)	3.5%
Gross profit	**133,015**	**152,200**	**14.4%**	**349,470**	**396,060**	**13.3%**
Operating income (expenses):	**(89,438)**	**(102,804)**	**14.9%**	**(246,708)**	**(292,116)**	**18.4%**
Selling	(68,039)	(80,003)	17.6%	(182,932)	(223,320)	22.1%
Administrative and general expenses	(22,708)	(21,275)	-6.3%	(63,052)	(66,966)	6.2%
Other operating income net	1,309	(1,526)	n/a	(724)	(1,830)	152.8%
Income before financial result	**43,577**	**49,396**	**13.4%**	**102,762**	**103,944**	**1.2%**
Financial income	9,968	3,373	-66.2%	20,044	6,518	-67.5%
Income before income taxes	**53,545**	**52,769**	**-1.4%**	**122,806**	**110,462**	**-10.1%**
Income tax and social contribution	(17,463)	(17,329)	-0.8%	(36,643)	(30,130)	-17.8%
Current	(18,513)	(20,079)	8.5%	(40,939)	(33,849)	-17.3%
Deferred	1,050	2,750	161.9%	4,296	3,719	-13.4%
Net income for period	**36,082**	**35,440**	**-1.8%**	**86,163**	**80,332**	**-6.8%**

Cash Flow - IFRS

Statement of cash flow	3Q15	3Q16	9M15	9M16
Operating activities				
Income before income tax and social contribution	53,545	52,769	122,806	110,462
Adjustments to reconcile net income with cash from operational activities	**7,290**	**5,620**	**18,009**	**(3,273)**
Depreciation and amortization	6,121	6,500	18,026	19,282
Income from financial investments	(5,313)	(6,804)	(14,192)	(21,722)
Interest and exchange rate	1,715	6,203	5,759	(5,427)
Other	4,767	(279)	8,416	4,594
Decrease (increase) in assets				
Trade accounts receivables	(50,216)	(50,634)	(63,630)	(53,991)
Inventory	(5,839)	3,741	(25,442)	(17,917)
Recoverable taxes	(6,678)	2,188	1,339	(5,820)
Variation other current assets	(1,575)	3,405	(12,814)	6,813
Judicial deposits	(360)	(1,971)	(970)	(4,412)
Decrease (increase) in liabilities				
Suppliers	15,857	21,930	31,428	38,169
Labor liabilities	3,518	6,045	4,727	10,744
Fiscal and social liabilities	3,625	(4,029)	(4,604)	(5,459)
Variation in other liabilities	(4,826)	(2,349)	(4,991)	(77)
Payment of income tax and social contribution	(9,733)	(10,672)	(23,861)	(19,209)
Net cash flow from operating activities	**4,608**	**26,043**	**41,997**	**56,030**
Investing activities				
Sale of fixed and intangible assets	849	2,745	2,720	2,745
Acquisitions of fixed and intangible assets	(4,680)	(5,342)	(20,763)	(20,783)
Financial Investments	(182,137)	(228,192)	(526,391)	(560,956)
Redemption of financial investments	170,019	231,652	541,378	579,577
Net cash used in investing activities	**(15,949)**	**863**	**(3,056)**	**583**
Financing activities with third parties				
Increase in loans[1]	26,041	22,485	60,492	46,248
Payments of loans[1]	(5,515)	(30,858)	(43,623)	(63,818)
Payments of Interest on loans	(757)	(140)	(2,166)	(1,321)
Net cash used in financing activities with third parties	**19,769**	**(8,513)**	**14,703**	**(18,891)**
Financing activities with shareholders				
Interest on equity	-	(21,893)	(15,553)	(21,893)
Distribution of profits	(9,489)	1	(44,837)	(18,704)
Receivables (payables) with shareholders	313	67	470	(183)
Share Issuance	1,050	950	1,050	1,931
Net cash used in financing activities	**(8,126)**	**(20,875)**	**(58,870)**	**(38,849)**
Increase (decrease) in cash and cash equivalents	**302**	**(2,482)**	**(5,226)**	**(1,127)**
Cash and cash equivalents				
Foreign exchange effect on cash and cash equivalents	(539)	30	(816)	(540)
Cash and cash equivalents - Initial balance	5,025	9,607	10,831	8,822
Cash and cash equivalents - Closing balance	4,788	7,155	4,788	7,155
Increase (decrease) in cash and cash equivalents	**302**	**(2,482)**	**(5,227)**	**(1,127)**

[1]The Company's management reclassified the accounts Increase in Loans countering Payment of Loans in the Financing section of the Cash Flow Statements for the period ended in September 30, 2015, which are presented here for comparative purposes. The adjustment cancel each other and thus had no effects in the Third Parties or any other totals of the Cash Flow Statement.

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