Earnings Release - 2Q17

AREZZO
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AREZZO

SCHUTZ

ALEXANDRE
BIRMAN

ANACAPRI

FIEVER

Earnings Release 2Q17

AREZZO SCHUTZ ALEXANDRE BIRMAN ANACAPRI FIEVER


Belo Horizonte, August 2nd, 2017. Arezzo&Co (BM&FBOVESPA: ARZZ3), leader in the women's footwear, handbags and accessories industry in Brazil, reports its earnings for the 2nd quarter of 2017. The Company's information, except when otherwise indicated, is based on consolidated figures in thousands of Brazilian Reais, and compiled in accordance with the International Financial Reporting Standards (IFRS). All comparisons refer to the same period in 2016 (2Q16), except when otherwise indicated.

Closing price of ARZZ3 in 08.01.17:

R$ 36.55

Market Cap in 08.01.17:

R$ 3.28 billions

Earnings conference call:

Thursday, August 3rd, 2017
12h00 (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 recorded a 11.2% increase in net revenue, a 22.8% increase in EBITDA and a 30.0% increase in net income against 2Q16.

HIGHLIGHTS

- Net revenue in 2Q17 reached R$328.9 million, a 11.2% increase against 2Q16;

- In 2Q17, the Company's gross profit totaled R$154.3 million, with a gross margin of 46.9%, and a 16.8% increase against 2Q16;

- EBITDA for 2Q17 totaled R$50.3 million, with a margin of 15.3% and a 22.8% increase against 2Q16;

- In 2Q17, net income was R$39.3 million, with a 11.9% margin and growth of 30.0%;

- During the quarter, Arezzo&Co's opened five stores, with growth of 3.3% in the sales area over the last 12 months.

Summary of Results	2Q16	2Q17	Δ 17 x 16	1S16	1S17	Δ 17 x 16
Net Revenues	295.752	328.903	11,2%	553.299	626.080	13,2%
Gross Profit	132.141	154.331	16,8%	243.860	284.395	16,6%
Grosss Margin	44,7%	46,9%	2,2 p.p.	44,1%	45,4%	1,3 p.p.
EBITDA[1]	40.987	50.314	22,8%	67.330	86.347	28,2%
EBITDA Margin[1]	13,9%	15,3%	1,4 p.p.	12,2%	13,8%	1,6 p.p.
Net Income	30.213	39.269	30,0%	44.892	61.444	36,9%
Net Margin	10,2%	11,9%	1,7 p.p.	8,1%	9,8%	1,7 p.p.

Operating Indicators	2Q16	2Q17	Δ 17 x 16	1S16	1S17	Δ 17 x 16
# of pairs sold ('000)	2.501	2.506	0,2%	4.857	5.065	4,3%
# of handbags sold ('000)	272	279	2,4%	468	546	16,7%
# of employees	2.208	2.337	5,8%	2.208	2.337	5,8%
# of stores*	544	567	23	544	567	23
Owned Stores	50	49	-1	50	49	-1
Franchises	494	518	24	494	518	24
Outsourcing (as % of total production)	89,9%	90,3%	0,4 p.p	89,6%	89,8%	0,2 p.p
SSS² Sell-in (franchises)	1,9%	-0,8%	-2,7 p.p	0,3%	6,2%	5,9 p.p
SSS² Sell-out (owned stores + franchises)	2,5%	5,3%	2,8 p.p	-0,6%	4,1%	4,7 p.p
SSS² Sell-out (owned stores + franchises + web commerce)	2,6%	6,8%	4,2 p.p	-0,4%	4,9%	5,3 p.p

* Includes 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. As of 4Q16, the Company started to report the SSS sell-in net of discounts. 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	2Q16	Part%	2Q17	Part%	Δ (%) 17 x 16	1S16	Part%	1S17	Part%	Δ (%) 17 x 16
Total Gross Revenue	**377.841**		**407.301**		**7,8%**	**708.078**		**775.698**		**9,5%**
Foreign market	**42.739**	**11,3%**	**47.037**	**11,5%**	**10,1%**	**77.915**	**11,0%**	**74.726**	**9,6%**	**(4,1%)**
Domestic market	**335.102**	**88,7%**	**360.264**	**88,5%**	**7,5%**	**630.162**	**89,0%**	**700.972**	**90,4%**	**11,2%**
By brand										
Arezzo	*189.242*	*56,5%*	*199.806*	*55,5%*	*5,6%*	*364.893*	*57,9%*	*399.182*	*56,9%*	*9,4%*
Schutz	*118.367*	*35,3%*	*119.738*	*33,2%*	*1,2%*	*212.618*	*33,7%*	*218.064*	*31,1%*	*2,6%*
Anacapri	*23.613*	*7,0%*	*31.862*	*8,8%*	*34,9%*	*46.190*	*7,3%*	*65.622*	*9,4%*	*42,1%*
Others[1]	*3.880*	*1,2%*	*8.858*	*2,5%*	*128,3%*	*6.461*	*1,0%*	*18.104*	*2,6%*	*180,2%*
By channel										
Franchises	*159.496*	*47,6%*	*162.859*	*45,2%*	*2,1%*	*308.927*	*49,0%*	*336.105*	*47,9%*	*8,8%*
Multibrand	*75.153*	*22,4%*	*87.635*	*24,3%*	*16,6%*	*135.728*	*21,5%*	*165.573*	*23,6%*	*22,0%*
Owned Stores	*75.703*	*22,6%*	*76.693*	*21,3%*	*1,3%*	*135.626*	*21,5%*	*139.301*	*19,9%*	*2,7%*
Web Commerce	*24.308*	*7,3%*	*32.471*	*9,0%*	*33,6%*	*48.795*	*7,7%*	*57.778*	*8,2%*	*18,4%*
Others[2]	*442*	*0,1%*	*606*	*0,2%*	*37,1%*	*1.086*	*0,2%*	*2.215*	*0,3%*	*104,0%*

(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

Following the Company's collection calendar, the second quarter of the year accounts for the greater part of the winter collection's sales. This period is marked by two of the first half-year's main sell-out dates: Mother's Day in May and Valentine's Day in June. The brands posted a good performance on the quarter's commemorative dates, continuing the positive result turned in by the winter collection when it was launch at the end of the first quarter. In June, at the same time as the winter collection sales and promotions, the Company began making preparations for its summer collection with the launch of the Cruise Collection by the Arezzo brand and of the Resort Collection by the Schutz brand, giving an initial indication as to what the trends will be in the stores next season. In addition, at the start of the promotion period, which only got underway in the second half of June, there was an increase in the percentage of products sold without discount, ending the winter collection with a low level of surplus in relation to the previous year, which therefore had a positive impact on the chain's mark-up.

The Arezzo brand posted gross revenue of R$199.8 million in 2Q17, a 5.6% increase against 2Q16, and accounting for 55.5% of domestic sales. At the start of the quarter, the Arezzo brand carried out a major action in terms of the customization called "PERSONA ME", which had the presence of illustrators who customized bags and shoes in stores, according to the customers preferences. With this event we had an average of 40% conversion into sales, thus giving, continuity to the strong growth of the handbags category.

For Mother's Day, the brand ran a highly successful campaign that achieved a high level of engagement among the social networks with stunning videos produced by major fashion influencers and celebrities, which generated a healthy increase in the chain's sales and 17 million hits on online media. The campaign also featured a special collection for the date, with a catalog starring the model Gisele Bundchen and an exclusive customizable totes on which the children could draw or make tributes to their mothers.

Revenue from the brand's franchises (“sell-in”) remain at a healthy level, demonstrating the evolution of the Company's business model, with a higher frequency of collections and an increasingly assertive product mix, which improve the chain's performance and reliability. The Arezzo brand's web-commerce continued to consolidate its position as an important channel for the brand and accounted for 7.4% of the quarter's sales, by comparison with the 5.5% figure registered in 2Q16. In addition, it is worth highlighting the performance of handbags, which posted a 40 bps increase in their share of the brand's revenue to a figure of 19.8%.

In June we had Valentine's Day, which was attended by the presenter and ambassador of the brand Isabella Fiorentino, as well as customization actions for products and bags in stores. In the second half of the month, the brand entered a period of promotion and sales; customers were accessed on a weekly basis, by means of the Valorizza program, with a weekly communication aimed at a group of 300 thousand customers, in accordance with their profile and purchasing history. June also saw the appearance of the Cruise Collection, which marks the transition from the winter season to the summer one. Arezzo held a special event for digital influencers and leading fashion vehicles which generated a high level of engagement with more than 150 publications among media vehicles.

At the end of August, the Arezzo brand stores will see the launch of a collection of shoes, handbags and accessories licensed with the characters Mickey Mouse and Minnie Mouse, continuing the partnership established with Disney at the start of this year. The collection was well accepted by our franchisees and multi-brands during the quarter's sell-in events and could generate significant results in terms of media and sell-out, thus repeating the success of the Schutz Villains collection.

The **Schutz** brand accounted for 33.2% of the Company's revenue on the internal market, coming out to a total of R$119.7 million in 2Q17, which was an 1.2% increase against 2Q16. In line with the strategy of increasing its share of the brand's sales, the handbags category remains one of the highlights and increased its representativeness by 239 bps in the quarter, accounting for 26.5% of the brick and mortar stores' sell out. Schutz's web commerce channel posted a 15.5% growth in 2Q17 and already represents 12.2% of the brand's sales in the domestic market, increasing its percentage by 150 bps in relation to 2Q16. The Multi-brand channel, which accounts for 36.8% of sales on the domestic market, continues to consolidate its recovery path, with a growth in sales in relation to 2Q16. On the foreign market, the brand's revenue rose 12.2% in Reais in 2Q17 by comparison with 2Q16.

Among the brand's main marketing actions, the following standout: (i) Schutz Trip Coachella, which was designed to strengthen the brand's lifestyle concept both in Brazil as well as in the USA, by taking digital influencers to represent the brand at the festival of the same name and (ii) the launch in the stores of the Villains collection, which was developed in partnership with Disney and inspired by villainous characters, reinforcing the brand's positioning as an innovative, sexy and exclusive brand. The collection was well received by consumers, in addition to generating a significant amount of spontaneous media. In the US, the brand's pilot project continues to make progress, with a 10.8% increase in sales in Reais terms and a 21.1% increase in dollar terms against 2Q16, with highlight going to the wholesale channel, which has played a key role in achieving brand awareness, as we expand our presence in the country's major department stores.

The **Anacapri** brand posted revenue of R$31.8 million in 2Q17, which translates into a significant 34.9% increase over 2Q16. The brand expanded its penetration in the market, ending the semester with an 8.8% share of the company's revenue on the domestic market, by comparison with the 7.0% figure observed in 2Q16. The franchise channel also registered marked growth against the same period last year, as a result of the increase in same-store-sales and the opening of 4 stores in the quarter, on account of an assertive positioning in flats and an increased percentage of automatic restocking items in the product mix (in excess of 35%). In addition, the brand continues to broaden its domestic penetration and the multi-brand channel has already grown to the point where it exceeds 40% of the consolidated revenue for 2017. Moreover, 7.2% of the brand's sales were made by means of web-commerce, which is 190 bps higher than in 2Q16.

In addition, the brand has strengthened its investment in online and offline marketing, which continues to exhibit high rates of return. Globo TV network actress Isis Valverde was kept as the face of the brand and for the first time a communications agency was used in the development of the Mother's Day campaign. With an entertaining and different concept, the action covered different types of mothers: dog's mother, cat's mother. Little boy's/girl's mother, plant's mother and "almost there" mother. The Valentine's Day campaign also achieved significant identification with customers and generated a lot of positive comments. Another of the quarter's milestones was the inauguration of Anacapri's flagship store, Espaço Descomplica [Make it simple Space], on Rua Oscar Freire in the city of São Paulo. The store's environment includes a modern design by means of a multifunctional space that matches the brand's slogan "Descomplica". The aim is also to provide customers with a unique shopping experience using technology as an ally. In addition to this, the store also includes a training center and showroom dedicated to the brand's franchise channel, which continues to exhibit a marked expansion trajectory.

The **Alexandre Birman** brand, by means of its continuing focus on strengthening its international branding, showed a 78.5% growth in its domestic sales by comparison with 2Q16, and a 10.8% growth on the foreign market in dollar terms. In 2Q16, the brand launched its e-commerce platform in Brazil, as well as opening its new showroom in the US, which is located on Madison Avenue in the city of New York, thereby reinforcing its positioning with the major international luxury department stores, coupled with a well-structured marketing plan, CRM system and the spontaneous use of products by celebrities.

The performance of the **Fiever** brand continues to improve, having quadrupled its sales in 2Q17 against 2Q16. We continued with the process of expanding the brand in 2Q17 with the inauguration of two new stores, a flagship store at the Iguatemi JK Shopping mall and another one at the Morumbi Shopping mall. These stores, in addition to strengthening brand awareness, bring opinion-makers closer to the products and the brand, which maintains its more casual, urban positioning. In addition, the multi-brand channel already has a total of 248 customers and now accounts for 50% of the brand's revenues.

Channels

Monobrand – Franchises, Owned Stores and Web Commerce

In line with the Company's strategy of strengthening the mono-brand stores, the Arezzo & Co store chain (owned stores + franchises + web commerce) posted a 10.4% increase in sell-out sales in 2Q17 by comparison with 2Q16, largely due to the substantial growth of the online channel and the net opening of 24 franchises over the course of the last 12 months, in addition to the 6.8% increase in same-stores-sales in 2Q17. The stores' sales area showed a 3.3% increase over 2Q16, with the addition of 4 Arezzo brand stores, 9 Schutz brand stores and 11 Anacapri brand stores, adding up to a total of 1,276 m², excluding outlets.

The Company's revenue from the mono-brand stores, represented by sell-in of franchises and sell-out of owned stores and web commerce, booked a 4.8% growth in 2Q17 against 2Q16, mainly due to the 33.6% growth in web-commerce. The mono-brand stores accounted for 75.5% of the turnover on the domestic market in 2Q17.

The franchise channel had a 45.2% share of domestic sales in 2Q17 and exhibited a -0.8% SSS sell-in, which is less than the 6.2% SSS sell-out, reflecting a less favorable calendar effect than in the 1Q17 in terms of concentration of orders, coupled with the Company's strategy of maintaining a healthy inventory level among franchisees, capturing an increase in gross margin in the chain.

History of Stores	2Q16	3Q16	4Q16	1Q17	2Q17
Sales area [1,3]- Total (m²)	**37.653**	**37.687**	**38.828**	**38.623**	**38.930**
Sales area - franchises (m²)	31.131	31.410	32.440	32.374	32.660
Sales area - owned stores² (m²)	6.522	6.278	6.387	6.249	6.270
Total number of domestic stores	**537**	**537**	**558**	**555**	**560**
# of franchises	**489**	**492**	**510**	**509**	**513**
Arezzo	365	365	369	368	369
Schutz	52	55	61	61	61
Anacapri	72	72	80	80	83
# of owned stores	**48**	**45**	**48**	**46**	**47**
Arezzo	15	15	15	15	14
Schutz	26	23	23	22	22
Alexandre Birman	2	2	3	3	3
Anacapri	4	4	4	4	4
Fiever	1	1	3	2	4
Total number of international stores	**7**	**7**	**7**	**7**	**7**
# of franchises	5	5	5	5	5
# of owned stores	2	2	2	2	2

(1) Include area in square meters of the seven stores abroad
(2) Includes eight outlet stores with a total area of 1,809 m²
(3) Includes areas in square meters of stores that were expanded

Multi-brands

In 2Q17, the turnover of the Multi-brands channel showed a 16.6% growth compared with 2Q16, consolidating the channel trajectory of recovery. The sound performance reflects the combination of the Company's efforts to improve the service level, of a collection with a more assertive product mix, the acquisition of new customers and a greater cross-sell, both between brands as well as of handbags.

It is worth highlighting Anacapri's growth, gaining new customers during the period and posting a sales increase of more than 32.8% in the channel in the quarter, in addition to Arezzo's, which registered a 24.7% growth over 2Q16.

The group's five brands were distributed through 2,188 stores in 2Q17, a 2.4% increase against 2Q16, and can be found in 1,220 cities.

Foreign Market

The Company's sales on the foreign market, which includes the pilot operation in the US and exports to the rest of the world, was 10.1% higher than in 2Q16, representing 11.5% of total revenue.

The group posted growth in the US through the Schutz and A. Birman brands in the multi-brand channels (department stores, third-party online stores and smaller-scale multi-brand stores) and owned stores (both brick and mortar and online), both in dollar terms as well as in Reais, with sales in the US accounting for 49.1% of foreign sales in 2Q17.

Meanwhile, owned store and private label exports to the rest of the world booked a 19.3% growth in Reais in 2Q17 by comparison with the same period in 2016.

Key financial indicators	2Q16	2Q17	Δ (%) 17 x 16	1S16	1S17	Δ (%) 17 x 16
Net revenues	295.752	328.903	11,2%	553.299	626.080	13,2%
COGS	(163.611)	(174.572)	6,7%	(309.439)	(341.685)	10,4%
Gross profit	132.141	154.331	16,8%	243.860	284.395	16,6%
Gross margin	*44,7%*	*46,9%*	*2,2 p.p*	*44,1%*	*45,4%*	*1,3 p.p*
SG&A	(97.664)	(110.754)	13,4%	(189.311)	(211.460)	11,7%
% of net revenues	*(33,0%)*	*(33,7%)*	*(0,7 p.p)*	*(34,2%)*	*(33,8%)*	*0,4 p.p*
Selling expenses	(69.102)	(76.662)	10,9%	(134.320)	(146.906)	9,4%
Owned stores and web commerce	(29.951)	(30.576)	2,1%	(58.812)	(60.257)	2,5%
Selling, logistics and supply	(39.151)	(46.086)	17,7%	(75.508)	(86.649)	14,8%
General and administrative expenses	(22.070)	(26.890)	21,8%	(41.906)	(50.607)	20,8%
Other operating revenues (expenses)	18	(465)	n/a	(304)	(535)	75,8%
Depreciation and amortization	(6.510)	(6.737)	3,5%	(12.782)	(13.412)	4,9%
EBITDA	40.987	50.314	22,8%	67.330	86.347	28,2%
EBITDA margin	*13,9%*	*15,3%*	*1,4 p.p*	*12,2%*	*13,8%*	*1,6 p.p*
Net income	30.213	39.269	30,0%	44.892	61.444	36,9%
Net margin	*10,2%*	*11,9%*	*1,7 p.p*	*8,1%*	*9,8%*	*1,7 p.p*
Working capital[1] - as % of revenues	28,4%	23,4%	(5,0 p.p)	28,4%	23,4%	(5,0 p.p)
Invested capital[2] - as % of revenues	44,3%	38,7%	(5,6 p.p)	44,3%	38,7%	(5,6 p.p)
Total debt	97.535	110.847	13,6%	97.535	110.847	13,6%
Net debt[3]	(126.229)	(199.268)	57,9%	(126.229)	(199.268)	57,9%
Net debt/EBITDA LTM	-0,8x	-1,0x	-	-0,8x	-1,0x	-

(1) Working Capital: current assets minus cash, cash equivalents and financial investments less from 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 contributions.
(3) Net debt is equal to total interest bearing debt position at the end of a period less cash, cash equivalents and short-term financial investments.

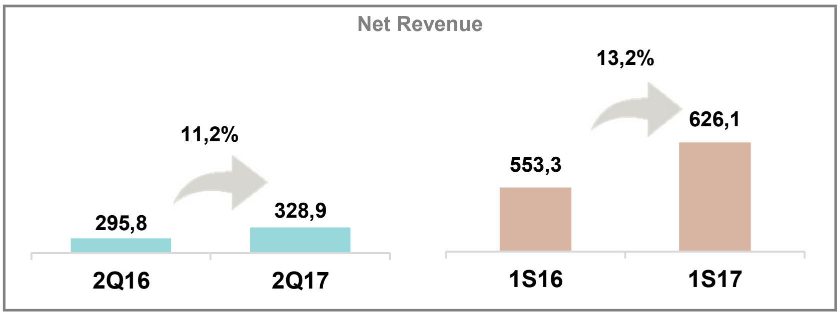
Net Revenue

The company's net revenue in this quarter totaled R$328.9 million, up by 11.2% against 2Q16. Among the primary factors driving this growth, worthy of mention are:

i) a 35.7% growth in the web commerce channel, which represents a 7.5% share of net sales on the domestic market versus the 6.2% figure observed in 2Q16, with highlight going to the Arezzo and Anacapri brands;

ii) revenue on the foreign market was 24.7% higher than in 2Q16;

iii) 20.3% growth in the Multi-Brands channel, with highlight going to the Arezzo, Anacapri, Schutz and Fiever brands.



Gross Profit

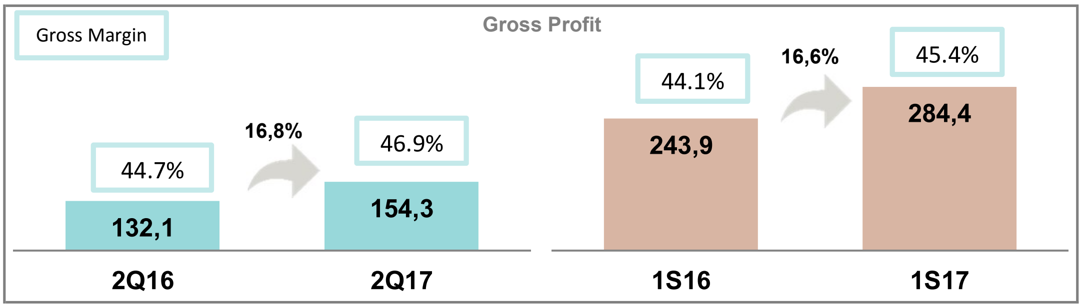
Gross profit for 2Q17 totaled R$154.3 million, a 16.8% increase against 2Q16, with gross margin up by 220 bps, reaching 46.9% in 2Q17. Among the main factors, highlight goes to the following:

i) positive impact of 90 bps on gross margin as a result of the fiscal incentive related to the new distribution center in Espírito Santo, which started operating in March 2016;

(ii) positive 50bps impact on the export channel in relation to 2Q16, coupled with the more favorable sales mix, which contained a lower volume of private label products, which have lower margins;

(iii) positive effect of the mix of channels in the domestic market, with an 80bps impact due to the higher percentage share of web commerce, which accounted for 9.0% of the Company's gross revenues on the domestic market, by comparison with the 7.3% posted in 2Q16.

It is worth mentioning that the Company’s strategy is to maintain stability of gross margin per channel, with some variation in the owned stores, web commerce and export channels.



Operating Expenses

The Company is making a major effort to control its expense levels and to adjust them to the evolution of sales. In 2Q17, expenses were influenced by two main factors: (i) the provision for profit sharing payment ("PPR"), due to the good results posted in the period and (ii) adequacy of the provision for doubtful debts and losses with clients

Selling Expenses

In 2Q17, there was a 10.9% increase in selling expenses against 2Q16, totaling R$76.6 million in the quarter. It should be stressed that selling expenses includes the owned stores and web commerce channel, which added up to a total of R$30.5 million, a 2.1% increase against 2Q16, even with the 33.6% growth in web-commerce, reinforcing the channel's positive contribution also to margins.

Sales, Logistics and Supplies expenses were up by 17.7% in the quarter, an increase of R $ 6.9 million over 2Q16, being affected by incremental expenses with (i) the provision R$2.2 million for PPR and (ii) the adequacy of the provision for doubtful debts and losses, which totaled R$2.2 million. Excluding these impacts, the increase in expenses would be 6.5% (R$2.5 million), which is less than the 7.3% growth in the sales of the Sell-in channels (Multi-brands, Franchises and Exports).

General and Administrative Expenses

In 2Q17, general and administrative expenses totaled R$21.8 million, an increase of R$ 4.9 million over 2Q16 and in addition there were incremental expenses for (i) the provision for PPR payment of R$2.1 million and (ii) expenses related to the company's strategic projects of R$2.1 million. Excluding these impacts, general and administrative expenses would have increased in line with inflation.

EBITDA and EBITDA margin

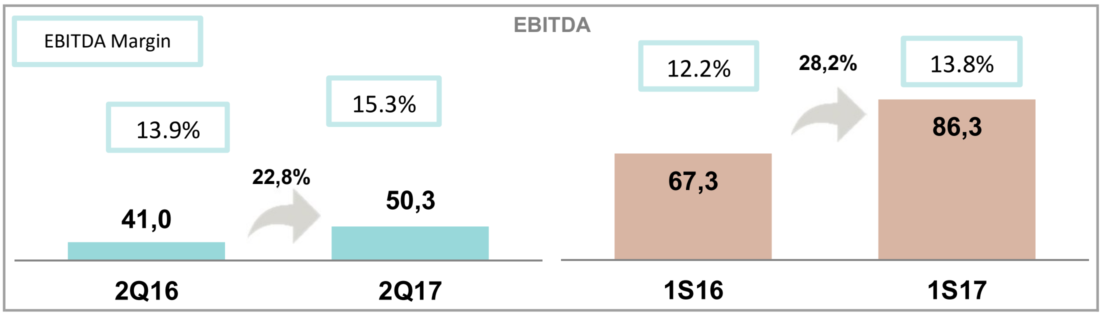
The company's EBITDA totaled R$50.3 million in 2Q17, which represents a margin of 15.3% and a growth of 22.8% against the results reported in 2Q16. Among the main reasons, the highlights were as follows:

i) 11.2% growth in net revenue against the same period of the previous year;

ii) 220 bps increase in gross margin, ending 2Q17 at 46.9%;

iii) increase in incremental operating expenses in connection with new initiatives and maturing projects;

In line with the impact seen in the previous quarters, excluding the pilot operation in the US, the Company's consolidated EBITDA margin would have been 200 bps higher in 2Q17

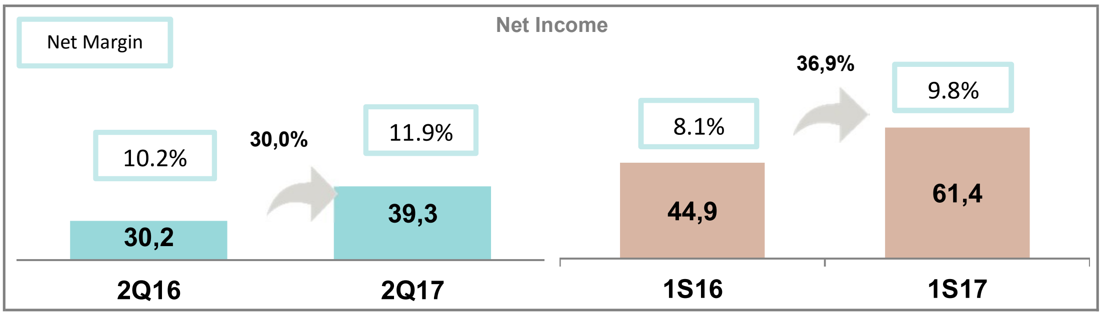


EBITDA Reconciliation	2Q16	2Q17	1S16	1S17
Net income	30.213	39.269	44.892	61.444
(-) Income tax and social contribution	(4.006)	(9.227)	(12.801)	(21.489)
(-) Financial results	(258)	4.919	3.145	9.998
(-) Depreciation and amortization	(6.510)	(6.737)	(12.782)	(13.412)
(=) EBITDA	40.987	50.314	67.330	86.347

Net income and Net margin

The company's EBITDA margin of 15.3% in 2Q17 converted into a net margin of 11.9%.

Net income for 2Q17 totaled R$39.3 million, a growth of 30.0% against the results reported in 2Q16.



Operating Cash Flow

Arezzo&Co generated R$40.8 million cash flow from operations in 2Q17, which was greater than the figure observed in 2Q16, as a result of the Company's focus on managing its working capital more efficiently, with a significant improvement in accounts receivable and inventories, as well as a 41.7% increase in pre-tax profits.

Operating Cash Flow	2Q16	2Q17	Δ 17 x 16 (R$)	Δ 17 x 16 (%)	1S16	1S17	Δ 17 x 16 (R$)	Δ 17 x 16 (%)
Income before income tax and social contribution	**34.219**	**48.497**	**14.278**	**41,7%**	**57.693**	**82.934**	**25.241**	**43,8%**
Depreciações e amortizações	**6.510**	**6.737**	**227**	**3,5%**	**12.782**	**13.412**	**630**	**4,9%**
Others	**(8.618)**	**1.509**	**10.127**	**n/a**	**(21.675)**	**(1.346)**	**20.329**	**n/a**
Decrease (increase) in assets / liabilities	**(17.757)**	**(1.541)**	**16.216**	**(91,3%)**	**(10.276)**	**14.605**	**24.881**	**n/a**
Trade accounts receivables	8.887	21.450	12.563	141,4%	(3.357)	19.511	22.868	n/a
Inventories	(6.134)	(5.462)	672	(11,0%)	(21.658)	(14.808)	6.850	(31,6%)
Suppliers	(29.528)	(23.682)	5.846	(19,8%)	16.239	22.905	6.666	41,0%
Change in other noncurrent and current assets and liabilities	9.018	6.153	(2.865)	(31,8%)	(1.500)	(13.003)	(11.503)	766,9%
Payment of income tax and social contribution	**(8.537)**	**(14.421)**	**(5.884)**	**68,9%**	**(8.537)**	**(14.871)**	**(6.334)**	**74,2%**
Net cash flow generated by operational activities	**5.817**	**40.781**	**34.964**	**601,1%**	**29.987**	**94.734**	**64.747**	**215,9%**

Investments - CAPEX

The Company makes investments of three types:

i) Investments in expansion or refurbishment of owned sales stores;
ii) Corporate investments that include IT, facilities, showrooms and offices; and
iii) Other investments, which are mostly related to the modernization of the industrial operations.

In 2Q17, Arezzo & Co invested R$5.6 million in capex, with highlight going to the opening of two Fiever owned stores, one Anacapri flagship store at Oscar Freire Street in São Paulo, the opening of the new showroom for the Schutz and Alexandre Birman brands in New York, and the acquisition of some software licenses.

Summary of investments	2Q16	2Q17	Δ 17 x 16 (%)	1S16	1S17	Δ 17 x 16 (%)
Total CAPEX	**7.536**	**5.606**	**(25,6%)**	**15.440**	**8.861**	**(42,6%)**
Stores - expansion and refurbishing	762	1.976	159,4%	4.944	3.157	(36,1%)
Corporate	3.289	2.265	(31,1%)	5.162	3.944	(23,6%)
Other	3.486	1.365	(60,8%)	5.334	1.759	(67,0%)

Cash Position and Indebtedness

The Company ended 2Q17 with R$310.1 million in cash. The debt policy remains conservative, with the following primary characteristics:

• Total indebtedness of R$110.8 million in 2Q17 against R$97.1 million in 2Q16;

• Long term indebtedness of 20.3% of total debt in 2Q17, compared to 32.7% in 2Q16;

• The weighted average cost of the company’s total debt in 2Q17 remained at low levels.

Cash position and Indebtedness	2Q16	1Q17	2Q17
Cash	**223.764**	**292.697**	**310.115**
Total debt	**97.535**	**97.191**	**110.847**
Short term	65.642	72.385	88.311
% total debt	67,3%	74,5%	79,7%
Long-term	31.893	24.806	22.536
% total debt	32,7%	25,5%	20,3%
Net debt	**(126.229)**	**(195.506)**	**(199.268)**

ROIC (Return on Invested Capital)

Once again the return on invested capital (ROIC) posted growth, reaching 23.7% in the 2Q17.
Among the factors behind this improvement are:

• 22.5% growth in NOPAT against 2Q16;

• Actions taken to improve working capital, with a focus on reducing inventories and accounts receivable;

• Reduction of fixed assets as a result of the lower percentage of owned stores in the Company's mix.

Income from operations	2Q15	2Q16	2Q17	Δ 17 x 16 (%)
EBIT (UDM)	152.715	136.651	169.713	24,2%
+ IR e CS (UDM)	(49.736)	(38.515)	(49.539)	28,6%
NOPAT	**102.979**	**98.136**	**120.174**	**22,5%**
Working Capital[1]	321.277	327.433	307.097	(6,2%)
Fixed assets	167.257	165.567	156.998	(5,2%)
Other long-term assets[2]	9.597	29.505	29.173	(1,1%)
Invested capital	**498.131**	**522.505**	**493.268**	**(5,6%)**
Average invested capital[3]		**510.318**	**507.887**	**(0,5%)**
ROIC[4]		**19,2%**	**23,7%**	

(1) Working Capital: current assets minus cash, cash equivalents and financial investments less current liabilities minus loans and financing and dividends payable.
(2) Less deferred income tax and social contribution.
(3) Average invested capital in the period and same period previous year.
(4) ROIC: NOPAT for the last 12 months divided by average invested capital.

Balance sheet

Assets	2Q16	1Q17	2Q17
Current assets	**679.511**	**769.656**	**767.569**
Cash and cash equivalents	9.607	8.674	7.695
Financial Investments	214.157	284.023	302.420
Trade accounts receivables	283.260	317.967	293.872
Inventory	128.365	119.069	123.048
Taxes recoverable	24.263	21.388	20.858
Other credits	19.859	18.535	19.676
Non-current assets	**202.326**	**199.613**	**200.220**
Long-term receivables	36.759	41.957	43.222
Financial Investments	836	-	-
Trade accounts receivables	13.569	8.792	8.432
Deferred income and social contribution	7.254	13.682	14.049
Other credits	15.100	19.483	20.741
Investments	0	2.405	2.406
Property, plant and equipment	74.682	70.712	71.549
Intangible assets	90.885	84.539	83.043
Total Assets	**881.837**	**969.269**	**967.789**

Liabilities	2Q16	1Q17	2Q17
Current liabilities	**212.566**	**241.510**	**256.977**
Loans and financing	65.642	72.385	88.311
Suppliers	81.120	113.032	89.346
Other liabilities	65.804	56.093	79.320
Non-current liabilities	**39.998**	**34.101**	**32.160**
Loans and financing	31.893	24.806	22.536
Related parties	1.143	1.180	1.232
Other liabilities	6.962	8.115	8.392
Equity	**629.273**	**693.658**	**678.652**
Capital	309.058	310.008	330.375
Capital reserve	37.659	40.695	41.758
Income reserves	261.249	269.024	269.024
Equity Valuation Adjustments	-1.692	-1.219	-2.410
Profit	22.999	22.175	39.905
Additional proposed dividend	-	52.975	-
Total liabilities and shareholders' equity	**881.837**	**969.269**	**967.789**

Income statement - IFRS

Income statement - IFRS	2Q16	2Q17	Var.%	1S16	1S17	Var.%
Net operating revenue	**295.752**	**328.903**	**11,2%**	**553.299**	**626.080**	**13,2%**
Cost of goods sold	(163.611)	(174.572)	6,7%	(309.439)	(341.685)	10,4%
Gross profit	**132.141**	**154.331**	**16,8%**	**243.860**	**284.395**	**16,6%**
Operating income (expenses):	**(97.664)**	**(110.754)**	**13,4%**	**(189.312)**	**(211.460)**	**11,7%**
Selling	(73.657)	(81.639)	10,8%	(143.317)	(156.592)	9,3%
Administrative and general expenses	(24.025)	(29.032)	20,8%	(45.691)	(54.715)	19,8%
Other operating income net	18	(83)	-561,1%	(304)	(153)	-49,7%
Income before financial result	**34.477**	**43.577**	**26,4%**	**54.548**	**72.935**	**33,7%**
Financial income	(258)	4.919	-2006,6%	3.145	9.998	217,9%
Income before income taxes	**34.219**	**48.496**	**41,7%**	**57.693**	**82.933**	**43,7%**
Income tax and social contribution	(4.006)	(9.227)	130,3%	(12.801)	(21.489)	67,9%
Current	(4.273)	(9.594)	124,5%	(13.770)	(27.133)	97,0%
Deferred	267	367	37,5%	969	5.644	482,5%
Net income for period	**30.213**	**39.269**	**30,0%**	**44.892**	**61.444**	**36,9%**

Cash Flow - IFRS

Cash Flow - IFRS	2Q16	2Q17	1S16	1S17
Operating activities				
Income before income tax and social contribution	34.219	48.497	57.693	82.934
Adjustments to reconcile net income with cash from operational activities	**(2.108)**	**8.246**	**(8.893)**	**12.066**
Depreciation and amortization	6.510	6.737	12.782	13.412
Income from financial investments	(7.501)	(6.888)	(14.918)	(14.866)
Interest and exchange rate	(3.984)	2.540	(11.630)	2.241
Other	2.867	5.857	4.873	11.279
Decrease (increase) in assets				
Trade accounts receivables	8.887	21.450	(3.357)	19.511
Inventory	(6.134)	(5.462)	(21.658)	(14.808)
Recoverable taxes	(4.362)	(3.686)	(8.008)	(8.498)
Variation other current assets	2.356	(1.669)	3.408	(4.270)
Judicial deposits	(2.354)	(1.618)	(2.441)	(2.554)
Decrease (increase) in liabilities				
Suppliers	(29.528)	(23.682)	16.239	22.905
Labor liabilities	3.727	9.199	4.699	3.508
Fiscal and social liabilities	6.646	2.301	(1.430)	(3.057)
Variation in other liabilities	3.005	1.626	2.272	1.868
Payment of income tax and social contribution	(8.537)	(14.421)	(8.537)	(14.871)
Net cash flow from operating activities	**5.817**	**40.781**	**29.987**	**94.734**
Investing activities				
Sale of fixed and intangible assets	-	6	-	37
Acquisitions of fixed and intangible assets	(7.537)	(5.606)	(15.441)	(8.860)
Financial Investments	(154.901)	(253.452)	(332.764)	(484.530)
Redemption of financial investments	192.236	239.513	347.925	431.664
Net cash used in investing activities	**29.798**	**(19.539)**	**(280)**	**(61.689)**
Financing activities with third parties				
Increase in loans[1]	8.726	32.777	23.763	39.107
Payments of loans[1]	(19.247)	(22.292)	(32.960)	(36.293)
Payments of Interest on loans	(561)	(301)	(1.181)	(647)
Net cash used in financing activities with third parties	**(11.082)**	**10.184**	**(10.378)**	**2.167**
Financing activities with shareholders				
Interest on equity	-	-	-	-
Distribution of profits	(18.705)	(52.975)	(18.705)	(52.975)
Receivables (payables) with shareholders	(124)	52	(250)	18
Share Issuance	981	20.367	981	20.367
Net cash used in financing activities	**(17.848)**	**(32.556)**	**(17.974)**	**(32.590)**
Increase (decrease) in cash and cash equivalents	**6.685**	**(1.130)**	**1.355**	**2.622**
Cash and cash equivalents				
Foreign exchange effect on cash and cash equivalents	(288)	151	(570)	53
Cash and cash equivalents - Initial balance	3.210	8.674	8.822	9.607
Cash and cash equivalents - Closing balance	9.607	7.695	9.607	9.607
Increase (decrease) in cash and cash equivalents	**6.685**	**(1.130)**	**1.355**	**(53)**

Important Notice

Information contained herein may include forward-looking statements and reflects management's current view and estimates concerning the evolution of the macro-economic environment, industry conditions, company performance, and financial results. Any statements, expectations, capabilities, plans and assumptions contained in this document that do not describe historical facts, such as statements regarding declaration or payment of dividends, the future course of operations, the implementation of material operational and financial strategies, the investment program, and the factors or trends affecting financial condition, liquidity or results from operations, are deemed forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995 and involve a number of risks and uncertainties. There is no guarantee that these results will actually materialize. Statements are based on many assumptions and factors, including economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.

Arezzo&Co's consolidated financial information presented herein complies with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), based on audited financial data. Non-financial and other operating information has not been audited by independent auditors.