



## International Conference Call

**Arezzo&Co.**

**4Q19 Earnings Results**

**March 5, 2020**

**Operator:** Good morning ladies and gentlemen. Thank you for waiting and welcome to the Arezzo&Co. conference call where the results for 4Q 19 will be presented. All participants are connected as listeners only and later on there will be a Q&A session for which instructions will be given. This call will be translated into English and participants overseas will be able to ask questions. If you need help from an operator during the conference call press star zero.

We would like to remind all journalists and others from the press that this conference call is exclusively for professionals from the financial market and current and potential shareholders. Any questions must be submitted to our press relations, Carolina Muzzi, whose contact information is available on the company website at [www.arezzoco.com.br](http://www.arezzoco.com.br).

This conference call and the slides are being streamed on the web and can also be seen on the company website. In case any of you do not have a copy of the Arezzo&Co. press release published yesterday, Wednesday, March 4 you can get a copy from the company website. This conference call is being recorded and the recording will be available on the website after the call is over.

Before we proceed we would like to clarify that any statements made during this call regarding the company's business prospects as well as projections, operational and financial goals concerning its potential for growth are forecasts based on the expectations of the management for the future of Arezzo&Co. These expectations are highly dependent on domestic market conditions, on the general economic performance of Brazil and the international markets, and are therefore subject to change. Now I will hand over to Mr. Alexandre Birman. Mr. Birman you may begin.

**Mr. Alexandre Birman:** Good morning everyone. It is always a pleasure to interact with you. Thank you for taking part in our conference call for 4Q 19 results and 2019, which is always a great moment for us to interact and clarify any doubts. We would like to seek this opportunity to talk about our strategic planning. I have with me our CFO Rafael Sachete and our strategy director and investor relations Aline Penna.

2019 was a year when we delivered solid and consistent results, also paving new roads to grow in the future. Consequently we learned a lot and we had many achievements. As I mentioned we took a deep dive into our strategic planning through Da Vinci Project,



counting on a very important consulting firm that has been supporting us for years, as well as a lot of engagement from our team and board of directors.

Which made us even more optimistic about the future growth of our brands in Brazil. We had a very deep analysis through many data and found all the growth gaps that we have in such a big country as ours. We have also developed new strategic levers that without a doubt will guarantee our long-term growth.

It was a year in which we celebrated for the first time our first inorganic movement by obtaining the exclusive distribution of the VANS brand in Brazil and that makes us feel even more confident to pursue actions to expand our market through partnerships, licensing or even through traditional M&A.

Now about 4Q the month was highlighted in sales by the high-summer collection with two main dates: Black Friday and Christmas. About our brands, which is our main pillar and without a doubt I know that it is very clear to you when we see in the mall the strength of our brands. So we are a multi-brand and multi-channel company and that is a reality. Our brand strength is great because they complement each other, even though they are different. When you have our brands together and we have a very robust brands portfolio.

Now a few more words about Arezzo. It is strengthening its positioning based on sonority. There is a hashtag that we have been using a lot in all brand communication, which is #JuntasSomos – 'together we are' in English, with a very strong emotional appeal that goes much beyond the product.

Now about the categories, sneakers have been supporting brand growth a lot together with bags; and as well it was a process that we created a couple of years ago that is very present in the brand strategy, the 360 activations that include product, marketing, communication, point-of-sales material. So in 4Q I would like to highlight a partnership with Pantone, which is very important to maintain the Arezzo brand, which is almost a centennial brand, and still remains young.

Our strong channel is the franchise channel for Arezzo and now we have the Arezzo Light and now have almost 100 stores and we are very confident about that target. So opening 20 to 25 stores for the Arezzo brand in the light segment.

Now about the Schutz brand. It is worth noting that 2018 was a challenge for Schutz. We had some quarters where the brand did not perform as we wished; but now in 2019 it really showed its strength and resumed growth by strengthening the branding and being a brand that was very much focused on women that want that woman empowerment and strong part of it is online, almost 19% of the sales. So it is a digital brand and it is also showing its capacity to be a multi-category brand. Handbags already account for almost 20% per sales of the brand, and multibrand which is also a relevant channel for Schutz, with a growth of 25%.



Now about Anacapri the model is that it is easy-going. So the fact that it is flat and being very uncomplicated for women and in that category sneakers account for 42% of sales of the brand. We know that casual sneakers are very strong and also wear; so our company has been investing more and more in learning about that category to be the leader of the category - and we are.

So Anacapri growth is based on franchise, 35 stores last year and 20 in 4Q alone. So throughout 2011, 12, I remember that we used to explain the brand and the brand did not have quite the definition of growth. In 2013 we opened the first franchise in the Eldorado shopping mall, Marcela and Ricardo were our first franchisees, I would like to thank them and now in February 2020 we renewed that store with a new concept. It is absolutely incredible, so now we will really expedite the renewal, the renovation of the stores. So in less than five days three stores in Sao Paulo. So in addition to Eldorado, the Top Center store at Paulista Ave. and Bourbon shopping mall. The stores are beautiful, you should visit. So in 1Q we should have another 14 renovated stores and so there is a strong growth to maintain Anacapri's growth.

Shifting through the pyramid price, going to Alexandre Birman with an increase in brand awareness, not just in Brazil but all over the world, focusing in Brazil and the US. Same-store sales of 31%, already very high and gave us the confidence to open new stores in new places. So we opened in Brasilia and Curitiba in 4Q. We still believe in potential for some more good stores for Alexandre Birman in Brazil and a relevant growth in e-commerce, meaning 80% of growth and strong presence in the main Department stores around the world, such as Neiman Marcus, sax and so on.

So our brands that we call Start&Co., that means Fiever and Alme, Fiever is going through a very important moment to consolidate in urban brands, a brand that is gender less, meaning for men and women. So we can strengthen that characteristic of the brand. We have a personality, in addition to being an amazing DJ, DJ Alok, he really supported brand awareness, especially bringing men in. So from zero to 16% of sellout sales for Fiever last year. We also had a franchise pilot project opening up for a store in Frei Caneca mall.

Alme, a very recent brand in maturation stage. We work in a product that is even more focused on comfort. So a very lightweight product and very soft. The results were excellent. We opened some franchises that are very important for Alme in the Morumbi, Vila Olimpia and Ibirapuera malls, so that shows close our brand portfolio.

About revenues at this time I would really like to highlight and congratulate Mauricio, Pedro and our e-commerce team because in fact Arezzo&Co. is consolidating as the main e-commerce player in the segment that did operates in Brazil, so 51% growth in this quarter, already very high and equals 3.4% of our overall sales. That result is a lot based on sales and our team and an exclusive channel for online sales and the continuous improvement of user experience on our website, and obviously the confidence that you know that when



you are going to buy your product it will be at the right time, the right quality and great customer service post sale. So congratulations to our team as we have a very good relationship with our consumers.

And we have also increased our conversion rate. The KPI that we leveraged the growth was not just traffic; but an increase in the conversion rate. So we are very confident that even though we had excellent results we still have a lot to grow in the online universe and transform Arezzo&Co. into what we believe - and already going into our strategic planning - about our ambition based on the excellent results that I just talked about in the online work. Solid and consistent results.

Our ambition is to turn Arezzo&Co. into an oppression platform having verticalized management of P&D and supply chain, where the brands are more together in one single app with a loyalty program and one single shopping cart. Because now you have to go into each website; but then you will be able to do all the shopping together, currently they are separate and we want this experience that will change our consumers' purchasing experience adding content and service. And that will be the foundation so we can create a marketplace where our major differential we will be brand curatorship. That is the first point of the strategic planning that I would like to highlight. It is to transform Arezzo&Co., the ambition to transform the company into an online platform.

Now going into digitalization I would like to highlight a few aspects. Congratulations Cleber and the entire team in BI, because currently we have an empowerment in the front line with online data of many things that we can imagine: per consumer, per product, per turnover. So BI is a very important reality in Arezzo&Co.

About strategy and channel integration we ended the year with most of the stores offering all the features for different types of shipping pickup, store pickup, link sales and so on. In the past days an example that may be very specific to the city of Sao Paulo, which obviously is our biggest market: 40% of e-commerce sales were serviced by the Sao Paulo stores in these last couple of days. So I would just like to highlight that all the development of these tools to integrate these channels is done by our internal team. So we must congratulate them.

Now in terms of logistics we know that even though RFID is not new Arezzo&Co. really believes in that potential. Last year we invested a lot. We ended the year with all of our own Schutz stores, that means 17 stores, operating through RFID and in 1Q we will have a rollout to all franchises, meaning 72 stores, ending 1Q 20 100% running on RFID for Schutz and then we will roll out that platform for all our brands.

Now about inorganic growth. As I mentioned in the beginning we had our first movement. I would like to thank the entire VANS Brazil team that is now part of Arezzo&Co., the global team that entrusted this to our company. It is a partnership that is just beginning and we



will reap many fruits. They have amazing brands, it is a partnership that we are absolutely sure that will be long-lasting and very deep.

VANS results are very positive, or even above or greater than our business plan and I would like to highlight the integration that was very successful in less than two months. So with transfer of 450,000 pairs to create a new distribution center and completely integrated through SAP. And e-commerce that was operated externally now is 100% internalized without any ruptures and in February we already have a lot of growth compared to last year.

So that shows our capacity to have inorganic movements to achieve that opens us to new licensing in a partnership, and even considering a more classic M&A. And that is thanks to our maturity with very strong internal management including sourcing, product, expansion, logistics, franchising, being a multichannel, operating multi-branded and e-commerce.

Another important aspect that we have seen, and they especially would like to thank the chairman of our board of directors, Carlucci, supporting us in sustainability where we are taking important steps in understanding a lot of this process, launching specific product lines in each brand, a highlights to Arezzo. We are very proud of the products and the cover even, where the shoes are made through a partnership with Rhodia, 100% degradable, biodegradable material replacing polyester.

Throughout 2020 we are going to invest more and more and we want to certify Vale dos Sinos, the region here down South which is almost 70% of our sourcing, as the first region certified with a number of international seals and stems from the world, from all over the world.

About our international expansion focusing on our American operation, important pillar for our growth as shown in the results throughout 2019, a year which was very important for our learning and consolidation of our brands, growing a lot in department stores. We went from 48 to 75 stores, Schutz stores. We are present in 100% of the Bloomingdale's stores and that is very important. The strong growth of that called dropship, where the product is shown on e-commerce but is fulfilled by us, and that has increased our growth a lot and that account for 40% of sales in Nordstrom and Bloomingdale's, in addition to the online growth, three-digit growth. So currently our online channel is very robust, and in NRF we are presenting our online strategy, which is very simple in the way how it is operated; but with strong sales results.

About the brick-and-mortar stores the transformation from brick-and-mortar online in the US happens really fast. We have been learning from that transformation. I did a roadshow with the team in January and visited the cities of Miami, LA, San Francisco, Las Vegas and Dallas to understand the reality there, the shopping malls and the moment - and it is in a moment of transition.



So our idea is to open two stores, to pop up stores in the The Grove mall yesterday. Congratulations to our director in the US and it is an incredible store, really helping brand awareness. And the second one will be opened in Americana Mall in Glendale, CA.

So our objective is to continue to expand our operations in the US. 2019 we learned a lot and you can see that that was demonstrated in nonrecurring expenses; but it is part of the process for international growth. Now I would like to ask our CFO Rafael Sachete for his comments and he will address our results, thank you.

**Mr. Rafael Sachete:** thank you Alexandre, good morning. Now going to page 7 gross revenue was 573.7 million in 4Q 19, a 12% growth in the domestic market and 26.5% in the foreign market with highlights for the North American operation, which grew 52.8% in the quarter and already accounts for 10.1% of Arezzo&Co. total revenue.

On the right side of the page we show the gross revenue in the domestic market, which we can highlight Anacapri with 76.2 million revenue, 16.5% growth; and we continue to recover the Schutz brand with 13.2% growth achieving 121.9 million.

Now page 9. We can see the gross revenue per sales channel. We highlight the performance of franchise which grew 10.6% in the period, as well as the web commerce channel which grew 51.2%. We have to explain the drop of on stores channel due to the transfer of 10 stores to franchisees in the past 12 months, being five Schutz and five Arezzo stores. Disconsidering the transfers the channel would have grown 4.2% in the quarter.

In terms of sellout our stores network showed 8.5% growth in sales due especially to the strong growth of online and that opening of 64 model brand stores LTM in addition to sales in same stores that accounted for 5.7%.

On page 9 we can see the growth in the number of stores in sales floor. We closed the quarter with 752 stores, 737 in Brazil and 15 overseas, an increase of sales floor of 4.5% and 67 net openings LTM - of those 37 only and this last quarter.

Now on page 10 we show on the left side gross profit of the quarter, which achieved 218.2 million, 12% growth and margin of 46.7%. Among the factors responsible for reducing the gross margin we can highlight especially the lower representativity of on stores in the mix because of the transfer as mentioned before.

Still on this page on the right side we have the Ebitda performance, which achieved 85.1 million in the quarter, a 32.8% growth and the margin of 8.2%. It is worth mentioning that we still suffered the pressure on margin because of the operations in the US. Excluding operations in the US Ebitda margin would have been 331 bps higher.

It is important to highlight about Ebitda to understand better how the company sees the result in the management point of view. First we had a nonrecurring tax credits; but it was





important for our business in the quarter, especially because it is connected to our business management model focusing on cash generation and paying dividends. For the next 12 months it will be likely that we will have full conversion of that credit in cash to support our strategy, which is very important for our business model.

Also the way that we see our Ebitda in the management point of view the company sees its Ebitda looking mainly in a consolidated manner to mature brands, Arezzo, and Anacapri and Schutz, which account for in the quarter 95% of our revenues and more than that if we think about results.

If we look at Ebitda that includes revenue, costs, expenses to the brand like personnel, R&D, marketing, we had an important growth of leveraging in the brands of 50 bps. This makes is sure that we are generating value for our shareholders in the long-term.

After looking at the results of mature brands we have to look at the corporate expenses that include R&D, finance, logistics and other areas that support the company. We also separated our strategic investments, which include our digital transformation department with important investments, our new brands here including also Alexandre Birman, which is considered not mature yet; our strategy and the operations in the US.

With that we reach the final number that you can find on page 11 of our Ebitda. In addition to the tax credit we also achieved our goals which paid bonus with more relevance of acknowledging the expenses in the quarter of 19, 2019. Ebitda margin went from 15.2 in 4Q 18 to 18.2 in 4Q 19, so 68 bps of increase. If we discount the credits our Ebitda margin in Brazil would show a retraction of about 40 bps.

On page 12 we can see the net income of the quarter, 46% higher than 4Q 18, a positive impact because of the recovery of tax credits.

On page 13 we show the operating cash generation of the company in the quarter accounting for 61.5 million, 75% higher YoY.

On page 14 on the left side we have the Capex for the quarter which was 22 million with highlights to investments in digital transformation like BI and channel integration; investments in the pilot for RFID of Schutz and our distribution center in Cariacica in Espirito Santo to include VANS brand operations.

In the North American market we had residual amounts of opening Alexandre Birman store in Dallas and investments in system integration and e-commerce of the brands and also renovation of Schutz store at Madison Ave. in New York.

On the right side of the page we see indebtedness. We closed the quarter with net cash of 96.9 million and net cash/Ebitda relation of 0.3x.



Lastly on page 15 our ROIC for the period was 28.3% against 29.2 YoY. NOPAT was 179.6 million, 9.5% higher than 4Q 18. The indicator was impacted mainly due to an increase of working capital levels, which was caused by higher inventory of the US operation and the integration of VANS operations; and also the working capital was also impacted by higher amount of taxes to recover, as I said, which will be converted into cash generation still in 2020. Well, those were my comments and now I would like to open for Q&A, thank you very much.

### **Q&A Session**

**Operator:** ladies and gentlemen we will start our Q&A session. To ask a question please press star one and to remove your question from the list press star two.

Our first question is from Olivia Petronilho from J.P. Morgan bank.

**Ms. Olivia Petronilho:** hi Alexandre, Rafael, thank you for taking my question. I have

three questions actually, the first one looking to Brazil maybe it was a positive surprise in terms of growth and in Arezzo Day you said that there was a very strong trend in October and November and maybe December would be a little bit lower than we expected. How do you see this beginning of the year? We now have more than two thirds of the quarter gone; so what is the trend compared to what we saw in 4Q 19?

And about the US operations you mentioned the initiative doing 2019 opening stores, focusing on the type of distribution. I would like to understand what we still will see in terms of US investments this year to improve operations. So what should we expect in terms of investments?

And third about VANS. You said that the results are very good, above what was expected. I would like to understand what are the one-off costs of that operation. And what about profitability? How would that happen with the company? Thank you.

**Mr. Birman:** hi Olivia it is Alexandre, thank you for your question. It is a pleasure to talk to you. About your first question about sales in 1Q 20 and there we have Carnival and that impact our strategy. We always launched winter after Carnival and this year Carnival was a little bit earlier than last year and so we were able to work a lot on the winter collection, especially pre-fall, which we launched before. I am going to talk about the launching that will take place this week. And the results are similar to 4Q 19, attending to be close to the results we had at the end of last year - and this obviously excluding the VANS the fact, which is still not part of our same-store sales base.





Now I am going to talk about the US operation, which was your second question and the third specifically about VANS if there is anything else you want to know please do ask. Our strategy to invest in the US market is very important to diversify our geography. We know mature are our businesses in Brazil, we are investing highly in diversification. That is a keyword for 2020. So we are going to diversify our channels, our brands, our target audience in Brazil.

And last year what we chose to do was to diversify our pillars in terms of brands, target and geography. We decided to focus on geography and the US is the largest market in the world. It has a very high level of competitiveness; but there is not any large player that works in our sector, which shows the power that we have especially in department stores. Despite closing operations the large department stores are still strong like Nordstrom, Neiman Marcus, Saks, Bloomingdale's. So those stores have a very good operations with very solid growth. And also the online sales have been giving very good results especially for Schutz. Schutz is gaining brand awareness and it is the brand that consumers really do adhere to locally.

All those investments and learning do have higher expenses. So we have been investing carefully; but still more than what we have of gross profit. So for each period we want to improve this leverage; but there are some expenses that show in our DRE and we see them as nonrecurring and I think that it is part of our learning curve. So we still will have some expenses in 1Q; but throughout 2020 we believe that we will reach more maturity and stability in our operations in the US.

You asked about VANS. Could you please repeat it? Because you asked a lot of things. Could you repeat your question about VANS?

**Ms. Petronilho:** yes great. How do you see the results of VANS in this 1Q? I think that this question was more about if you expect any structural changes, what is going on with the integration, what time of cost will be linked to that process and if you are bringing production to Brazil, that kind of initiative. So how should we think the possibility of VANS going forward?

**Mr. Birman:** okay I understood thank you. We had several expenses in December, but some in January. So within the value that the brand will bring the investment have a higher return rates. So 3 to 5 million still will be in nonrecurring expenses that are part of the integration process. There is nothing more in terms of pre-requirements; some small details in operations, but the integration, the team is to be congratulated. It really flowed very smoothly and seamlessly and it was great.

So we took over VANS office and we included all their employees. We did the process of teambuilding, culture building. VANS is part of an important moment of our company. We did leadership meetings with all the managers and this Sunday we had a convention with the VANS team. So culture and people, which are so important in the integration process,



is being very well cared for. We did a meeting with people from VANS bringing a guru that we have for team building for the immersion. So in terms of people and logistics and systems everything is doing fine. So we hope that the brand continues to grow as it showed in the first months. It is incredible how people love the brand. We are opening stores, in 1Q we are going to open the first of VANS stores in a very important mall shopping's in Brazil like BH shopping, Barra shopping, very good partnership with Multiplan.

So we are talking about 10 to 15 stores this year. They are very large stores with excellent sales. So we are very confident and we also have the growth of our line. So the part of the sales that at Arezzo&Co. we call multi-branded, but in English it is close to wholesale in Brazil. The lead-time of this product sale is very much advanced. So the portfolio in 1Q was already fulfilled and now we are ending the sales for 2H.

About the migration of sourcing in Brazil it is a continuous and gradual process; but we are reviewing quality. We had a meeting, we have a meeting every Wednesday. It was very interesting to see the main products of VANS being made in Brazil. We have a partnership with two plants that are excellent, we brought in January the global sourcing executive of VANS to Campo Bom, he spent some time with us, two or three days with our team to understand our capacity and he was impressed. So it is not something that you do overnight; but definitely the growth of sourcing in Brazil will be at a very fast pace. This is what I had to talk about VANS.

**Ms. Petronilho:** perfect thank you.

**Operator:** our next question from Helena Vilares from Itau.

**Ms. Helena Vilares:** hi everyone good morning. I have two questions actually, the first one is about e-commerce. First of all I would like to understand if you remove the effect that was positive in the performance how would it be? So if we... Would it be similar to what you were delivering, 24, 25, 35% of growth?

The second about e-commerce. What about the franchisees? How do they see this? We have talked about this in the past but I think that now that it is stronger I would like to understand you have more of a track record on each channel and I would like to know how the franchisees are receiving that.

My second question is about multi-branded. We have seen that doing much better now and even you talked about the recovery of the channel. So for 2020 what would you expect from multi-branded? And about 4Q in addition to the improvement in Schutz, and it is very clear the improvement in 4Q, do you have any other structural changes or is that more about the macro effect? Thank you.



**Mr. Birman:** thank you Helena about your questions. Starting off with e-commerce the good news that I have is that Black Friday effect on our business is very low. It is about, it is really significant percentage of the total actual of 4Q. Just some figures, in the three days of Black Friday we grew 77% and in 4Q 51. So you can see that it is very similar if you consider the number of days in the quarter compared to the Black Friday. So it does not really make a difference. Different than other types of like home appliances for instance, that consumers really plan and wait for the Black Friday to buy. So for us it is not really relevant.

About your second point relating to e-commerce, the relationship with the franchisees is something that has been very transparent with them since we launched this in 2015. It is a very integrated process working together with our franchisees and the most important thing is that they really see an actual benefits and it, in e-commerce.

You might remember that when we launched our e-commerce for Arezzo there was always a rupture. We know that it is high, it was less than 1% and we would send the report to our franchisees on a weekly basis, data from customers, what they wanted to buy especially when they were a specific customers to that store. And without considering channel integration the franchisee had to access to use e-mail or send SMSs to invite them to the stores. Now that the channels are integrated our biggest growth is in store pickup and ship from store.

So franchisees actually increasing their revenues because the revenues are there is. So we are bringing in traffic to the store. We are increasing our product supply in e-commerce by using the franchisees' inventory, that is the thing. So it is very positive for franchisees and our pricing policy, which is always... It has been something very essential in our business which was defined by our founder, Anderson, that the price that is the sale price in the store it is already on the label, it comes from us. That price already comes on the label and so there is no fighting in between the channels.

And now about multi-brand starting off with 4Q was Schutz really resuming its growth and its relevance. Over 35% comes from multi-branded and that is very strong for Schutz; e-commerce is at 19, so still growing a lot and it was Schutz; but it is worth noting that Fiever and Alme have high growth in the multi-branded even though the revenues are low if you consider the whole of multi-brand and that helps when we do the cross selling. In 2020 from the multibrand channel we have VANS revenue.

So it is going to be a lot of growth in the channel and that shows our strength and the good thing is that we have been showing how we are using the customer matrix. So the multibrand shoe stores which already launched VANS it was a big advance at the Couromoda tradeshow. So it started very positive and it shows our strength in multi-brand. In 2020 in 1Q excluding the VANS effect we will have double-digit growth in the channel.

**Ms. Vilares:** thank you.



**Mr. Birman:** thank you Helena.

**Operator:** next question is from Irma Sgarz, Goldman Sachs.

**Ms. Irma Sgarz:** good morning, thank you for taking my question. My first question is about marketplace for the brands in e-commerce, the rollout of that initiative. The 80 is very interesting in having, in bringing another brand to add on to your product supply. I also believe that that could be a channel for you to have emerging brands that could even create more noise in Brazil so to speak and have future potential for future M&A. So that is why are would like to understand what are you thinking about the rollout and the future of your marketplace, that platform I mean.

And my second question is about your share. Actually the sneakers market share in the total for the company, how much does it already account for in some of the brands? Sorry, I know you already have a significant share in some of the brands; but I would like to hear the global figure for sneakers for Arezzo&Co. how do you feel? What do you feel about that? Is it a global trend where women are dropping dear high heels, going into this kind of casualization? How do you see that share going up in the company's total market share for sneakers?

**Mr. Birman:** good morning Irma, this is Alexandre speaking, thank you for your questions. Starting off about the brand platform we are very confident about that path. We have a team that really understands that business. We are bringing in people, we are onboarding people that already come from other companies that operate through this kind of online distribution and the marketplace is relevant. Our e-commerce Director has a lot of experience at Magazine Luiza retail store and is doing great work with a great team.

So the first step is having our existing brands, that is the first thing. So that should happen in a period from 6 to 9 months and we already have a lot of gains for our brands, that is the first step. In parallel to that we are studying a number of different ways to really streamline, because our biggest asset are 8.2 million customers that have one single axis, equals 5 million. So that is our biggest asset. If we consider our mandala strategy 8.2 million consumers imagined that that is women in classes A and B, meaning that we have 80% of the women in classes A B as our brand consumers and that really adds a lot of value for our business.

So we started off 2020 with the number of meetings. Yesterday we had a very long meeting about that here at the company, so we are studying a couple of different paths. I am going to give you some of the options: one of them would be a partnership with the player that already has a large marketplace but does not operate in the fashion segment for the A B class. So then we would go in with all our brands, with our curatorship work and concept and this company would add on with their technology and their knowledge in managing our marketplace.



The second one would be the opposite. We would have a greenfield development showing that not only using our brands, but also integrating channels we were questioned a lot if we were on the right path are not; but we are absolutely confident that what we developed internally is the best way. We have shown excellent results in our business, so it would be to develop an internal platform from scratch.

And the other one would be to acquire platform that operates marketplace but in a lesser scale. So there are different paths and how would we offer our brands? We believe that today it is very hard as an emerging brand to be able to distribute. So when you create an online business the main attribute that you have to have is traffic, and the new brands sale usually on Instagram. It is like something very sold from a garage. So we have 5 million of accesses per month. So we can give this brand an opportunity to more exposure and to generate revenues. So that is the path that we are very firm on. We have a team that has solid experience in this area, so throughout 2020 we will keep you posted on the evolution.

And sneakers still thinking about our view about sneakers I just came from a research trip that I do for 25 years and you have two extremes: on the one hand surprisingly in the high-luxury brands the platforms are coming back, so the wedges. So Schutz for example will work strongly on the wedges for summer.

In the casualwear it is really taken over by sneakers. So Arezzo&Co. saw the movement three, four years ago and if I show you the ramp up of the sneaker participation in our business it has gained a lot of share in the past years. The company total already accounts for 15% of our sales and we understand that this will reach more than 20% this year in 2020.

We have several projects internally on how to optimize if are streamlining even more our sneakers and although we are the largest casual sneakers providers in Brazil we still have a lot to evolve in the category and it has a different timing. Our cycle of 18 launchings per year is not the same for sneakers; it has to be more constant, the replenishment is even more important for sneakers.

It is different from the categories like flats. The affligers and the white sole our different segments and so we are learning a lot, investing heavily in creating merchandise that is exclusively for the sneakers of each brand. So we are really into sneakers right now; but on the other hand the heels and wedges are still growing strong. So I think that something we are going to grow on instead of decreasing on.

**Ms. Sgarz:** thank you.

**Mr. Birman:** thank you Irma.

**Operator:** in our next question is from Felipe Casemiro, HSBC.



**Mr. Felipe Casemiro:** good morning. I would like to explore the inventory that Raphael mentioned briefly at the end. The inventory turnover increased six days. What is the breakdown for VANS and US? I ask because I think that the trend inventory in VANS should probably be more in line with the turnover for the company and you also have lower sell in in Brazil, which also has an impact. So I would like to know a little bit more the details about the factors that impact company's inventory turnover and how do you see that going to the future.

**Mr. Sachete:** Felipe good morning, thank you for your question. About the inventory it is a good point. We had three days increase of revenue compared to year-over-year and in general three days 9% of the impact comes from VANS. During the transition we turned all the operations with data base of January 1. So when the inventory transfer both from one stores that are four that we took on as Arezzo stores as well, and the inventory that was concentrated on the web commerce and the inventory concentrated in wholesale or distribution for multi-brand they were all transferred at the first day of the year. So generated a significant number and it cost that impact.

There is a little bit of impact of US; but when we look back we see revenues growing a little bit different than what we see in Brazil. So we see that for the Cogs of the past days and that grew 40, 45%. So that makes we have more inventory to sell for the next three months greater than the gross.

I think that might be clear and about the strategy that we use for inventory if it follows the same standard of Arezzo&Co. we have a little bit more concentration of inventory in Arezzo&Co. because the cycle for sourcing is a little bit longer with more imports. So throughout the year we will face some growth of days of inventory first because of the business model of VANS; and second because we do not have base of revenue for the past 365 days. It is new and so it will have some impact; but it will not be important. It will be about 3 to 5 days.

**Mr. Casemiro:** perfect thank you very much.

**Operator:** our next question Ruben Couto, Santander.

**Mr. Ruben Couto:** good morning. First of all I would like to go back for the revenues of 4Q especially e-commerce. It is clear that it was not Black Friday; but there was some specific movement from Schutz for example or brands that had a recovery performance, especially in the e-commerce channel. And from what I understood from Alexandre's comments from now one we expect that this year will be strong as well for e-commerce. So this change of level, 4Q compared to the other nine months will that grow to that same level, not 50%; but at least 25 to 30% that was happening in the first months of the year?





And you can also give me an update about Arezzo Light format, how many stores, do you have anything new to share? Is it going according to expected? Is the mono-channel also working as expected? Can you explain a little bit more about that? Just to get an update.

**Mr. Birman:** hi Ruben thank you for your question, it is Alexandre here. The result that we had from e-commerce is not a wave that we are surfing on; but it is fruit of hard work that we started from the very beginning almost 10 years ago launching our first e-commerce for Schutz and bringing a good team. Our team is very solid. It is worth pointing out our founder of e-commerce is Mauricio Bastos and now he is the executive for digital transformation and e-commerce, very solid and a very robust under his leadership, very good pipeline. So it is the result of a long-term work with a lot of investments and learning and a very strong team that we are very proud of. So it is worth going to visit us at Rio Grande do Sul.

The result is highly based on the increase of conversion through greater intelligence of user experience and also adding some very interesting aspects that we did not have before, which the shipping, in which we can offer better value for money in shipping costs and time. So that is very interesting for our consumers.

So there are many initiatives, there is no one silver bullet. But I think it is sustainable and it will continue to grow even stronger considering the company total adding a new brand to our portfolio, which is VANS had which is the beginning of the new brands. The growth you can expect for 2020 especially in 1Q will be even higher considering new brands, compared to what we delivered in 4Q 19.

**Mr. Couto:** okay that is clear. What about Arezzo Light?

**Mr. Birman:** I am sorry, thank you. Thank you for the question, Arezzo Light. We presented a strategy to at our Investors Day of 2017. So we had two years of Arezzo Light and everything we say here we look at the long-term always. We never open stores just by opening them, and zero closings. So 100% of accuracy and the shape of the franchise that is different in terms of invested capital, service levels.

We have a group that we call Arezzo Light. The franchisees have very good synergy among them and the pace of opening stores as well structured. So we opened 51 stores in two years. For 2020 we expect this about 20 stores, which is our goal. So we will reach the 100 stores, which is the plan for Wave 1 of expansion of Arezzo Light within the target time of four years.

So we are doing well. Arezzo is part of the capillarity of Arezzo brand, so we are going to learn from that model to use in other brands. So it is part of the plan. It works well, especially the Internet shelf and inventory you offer for the consumer that is physically at the store, at the franchisee. We have the offer of our e-commerce and we can deliver it to



their homes paying a commission to the franchisees. So that is the greatest percentage of revenue from that channel.

**Mr. Couto:** okay thank you.

**Mr. Birman:** thank you very much.

**Operator:** if we do not have any further questions I would like to pass the floor to Mr. Alexandre for his closing comments.

**Mr. Birman:** I would like to thank everyone for participating in our call. This interaction is very important for our business. I would also like to thank our teams especially for one more year learning, achievements. 2019 is over 48th year of existence and I would like to thank our board of directors for the leadership to our strategy.

This past Sunday, March 1 was a very important day for our business. We had a sales convention with record audience: we had 7000 participants, of which 1300 were there in person. So it was a very strong work from our team, congratulations Nerito and his team.

You are great in sales. That was the reason of our convention to launch the winter collection and prepare our team with training on the mix of product, the collection, marketing strategy, new uniform, motivational initiatives. It is very important for our business launching the winter collection for all brands. I hope our team all the success and I would like to invite you to visit our stores and e-commerce. I am sure you will see novelties that you will love and will make women want to have another pair of shoes or another handbag. Congress relations and take 2020 on our way to 2154, thank you.

**Operator:** Arezzo&Co. call is over. Thank you for participating and have a great day, thank you.

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