Cia.Hering

HERING HERINGKIDS PUC DZARM

# 1Q20 EARNINGS RELEASE


# Cia. Hering
# (B3: HGTX3),
# one of the largest retail and apparel designer manufacturer in Brazil,
# announces the results of the 1st quarter of 2020 (1Q20)

First of all, we would like to express our solidarity with the ones affected by the COVID-19 pandemic and reinforce that our people, as well as their health and safety, are absolute priorities. For this, we thank this dedicated team, which in such challenging and unprecedented times, inspires us to continue reinventing ourselves. In addition to reaffirming our belief in the perpetuity of the business that, in 2020, celebrates 140 years of history.

# MESSAGE FROM MANAGEMENT

The first quarter of 2020 was marked by the evolution of the Coronavirus pandemic in Brazil, that resulted in measures of social isolation and caused the closure of our stores, factories, offices and the main distribution center in Goiás over March. These measures were followed by the deterioration of the macroeconomic environment, a crisis of reliance and a strong contraction in the clothing retail consumption. The conjuncture directly impacted the result of the quarter, which decreased by 26.1% in gross revenue, compared to the first quarter of 2019, reaching R$ 323.6 million and EBITDA of R$ 11.4 million with an EBITDA margin of 4.2%.

In response to these unprecedented scenario, we promptly start an action plan divided into the following fronts: i) taking care of people and creating a safe environment; ii) protect the Cash Flow and the Business; iii) extend support to partners to ensure the continuity of the business network; and iv) draw the “New Normal”. We created a Crisis and Opportunity Committee composed of Management and leaders from different areas, which meets daily to discuss hypotheses, scenarios and evaluate short and medium-term actions and results, as well

as adapt the organizational structure to ensure greater agility in the execution of the action plan.

As of March 16th, we adopted preventive measures such as strengthening hygiene and cleaning in the DC (distribution centers) and factories, adoption of home office, suspension of travel, meetings and events, as well as closing all our physical stores. In parallel, we opened an active and transparent channel with frequent events to stakeholders in order to keep them constantly updated on government, health and management recommendations.

In order to strengthen the Company's financial health, we implemented a timely liquidity management, strict control of expenses and suspension and prioritization of investments. We strengthened our cash position by raising R$ 200 million (R$ 120 million in March and R$ 80 million in April) in financial loans. In addition, we renegotiated contracts and terms, revised the collection calendar and reduced the volume of purchases of raw materials and finished products, we also suspended all non-essential activities. We reduced the salaries of Management, of all leadership and adhered to the emergency program for maintaining employment and income under the terms of Provisional Measure No. 936, reaching a 50% reduction in payroll in the months of April and May. It is important to note that the measures mentioned above will have an impact primarily in the second quarter.

In the current context, we have leveraged investments in our e-commerce operation with strong sales acceleration and new customer flow. The channel's performance has more than doubled since the physical stores closed. It is worth mentioning that at the end of last year, we consolidated as an Omnichannel environment, that connects 100% of the physical and online channels through a single journey. This effect translated into customers with twice the frequency of purchases and average spend three times higher than the exclusive consumer of the physical channel. We promote an intense agenda to improve the usability and service level of the website, with emphasis on initiatives that reduce the “friction” of the journey and guarantee the loyalty of this new digitalized customer, which represented a 60% increase in the total base. Additionally, we expanded our presence in the main marketplaces and delivery apps and tested third-party brands within our platform in order to complement the offer under the concept of "comfort and well-being" and "stay at home".

In response to the inactivity of traditional sales channels, we experimented and implemented new modalities and services such as “Social Selling” with payment of commission to franchised store sellers, multi-brand and Cia employees for sales on the website through a voucher distributed to their groups and communities (more than 2,000 new people in the sales force) and “Dark Kitchen” with operations in closed stores for delivery and drive-through sales. For all cases, we provide tools and technology to activate the offer to customers with digital catalog, integrated stock and payment link via Whatsapp. In addition, we expanded the leads in the Key Accounts channel (active during isolation) and piloted a basic essential shop-in-shop in one of the largest hypermarket chains in Brazil.

As of the beginning of April, the process of gradual reopening of stores began, following strict safety and hygiene standards recommended by the maximum health agencies. Currently, we have 203[1] stores opened, equivalent to 30%[2] of the total store base. In mid-April, we partially resumed our manufacturing activities and the main distribution center located in Goiás.

In order to ensure the health and continuity of our business chain, we guide our partners in the implementation of a contingency plan within their own business including support in the renegotiation of contracts and obligations, guidelines for the application of workload reduction and suspension of employment contracts work, and access to incentive credit lines. We also created our own incentive program for franchisees and multi-brand customers, that includes extension of terms and reduction of charges, in addition to the suspension of the entire order portfolio until the stores reopened.

In addition, the Company has made efforts to contribute to the country and society in combating the pandemic through social initiatives, including the manufacture and donation of clothes and aprons for hospital use, masks for social use and the launch of mini collections, with 100% of the profit reverted to the purchase of respirators.

Despite the challenging scenario, our conviction is that we are well positioned, with our strengthened value proposition and adapted operation model to mitigate risks and capture opportunities under the "New Normal". We reinforce the ambition to lead the journey of comfort through basic, becoming an epicenter of conversations about a new lifestyle and agent of cultural change through our main brand with synergistic concepts and delivery of products with quality, design, origin, technology, fair price (smart choice), digital experience with ease of purchase, long tail and new services in an environment more than Omni, from “Anywhere Commerce”, with new business formats and role reframing. All of this supported by a sustainable positioning to build a systemic and supportive response for the business, society and planet that values the local product and chain.

The current context encourages the emergence of new leaders with the clarity, courage and energy necessary to accelerate the transformation and to definitively implement in the Company and its teams a resilient model, strongly supported by data intelligence and agile in decision making. In this sense, we promote changes in the organizational structure, work methodology and strategic choices.

[1] Date: 05/27/2020
[2] Hering Chain, Outlets and Basic Shop.

Finally, we reevaluate our brand portfolio and positioning strategy in the children's market, which will also be strongly impacted by the post-pandemic scenario, and for this reason we decided to unify our efforts and we will continue with a unique brand to serve this segment. We understand that the current value proposition of the Hering Kids brand with occasional adjustments in the communication strategy and product assortment is sufficient to address this market and, in this way, we will discontinue the PUC brand from that moment on. In parallel, based on data and insights from new social habits and consumption trends, we are working on new brand projects and product lines to complement the portfolio.

## CONSOLIDATED HIGHLIGHTS

| R$ Thousand | 1Q20 | 1Q19 | VAR. 1Q20 \| 1Q19 |
|---|---|---|---|
| **Gross Revenue** | **323,645** | **437,858** | **-26.1%** |
| Domestic Market | 316,562 | 427,922 | -26.0% |
| Foreign Market | 7,083 | 9,936 | -28.7% |
| **Net Revenue** | **272,112** | **373,937** | **-27.2%** |
| **Gross Profit** | **109,359** | **162,375** | **-32.7%** |
| *Gross Margin* | *40.2%* | *43.4%* | -320 b.p. |
| **Net Income** | **5,043** | **46,685** | **-89.2%** |
| *Net Margin* | *1.9%* | *12.5%* | -1060 b.p. |
| **EBITDA** | **11,383** | **57,034** | **-80.0%** |
| *EBITDA Margin* | *4.2%* | *15.3%* | -1110 b.p. |
| **ROIC (a)** | **15.5%** | **23.3%** | **-780 b.p.** |
| **SSS[1]** | **-22.2%** | **11.5%** | **-3370 b.p.** |

(a) Last 12 months.

[1] Given the consolidation of Hering and Hering Kids brands, which from 2Q19 started to be managed within the same business unit, the data were unified.

Values in the above table include the effects of IFRS16.

## SALES PERFORMANCE

| Gross Revenue - R$ Thousand | 1Q20 | 1Q19 | VAR. 1Q20 \| 1Q19 |
|---|---|---|---|
| **Gross Revenue** | **323,645** | **437,858** | **-26.1%** |
| Domestic Market | 316,562 | 427,922 | -26.0% |
| Foreign Market | 7,083 | 9,936 | -28.7% |
| **Domestic Market Gross Revenue** | **316,562** | **427,922** | **-26.0%** |
| Hering | 276,808 | 380,822 | -27.3% |
| PUC | 14,878 | 22,468 | -33.8% |
| Dzarm | 20,008 | 18,214 | 9.8% |
| Others[1] | 4,868 | 6,418 | -24.2% |

| Domestic Market Share | 1Q20 | 1Q19 | VAR. 1Q20 \| 1Q19 |
|---|---|---|---|
| Multibrand | 140,650 | 184,202 | -23.6% |
| Franchise | 94,770 | 154,806 | -38.8% |
| Stores | 58,444 | 73,557 | -20.5% |
| Omnicommerce | 20,652 | 14,483 | 42.6% |
| Others[1] | 2,046 | 874 | 134.1% |
| **Total** | **316,562** | **427,922** | **-26.0%** |
| Multibrand | 44.4% | 43.0% | 140 b.p. |
| Frachise | 29.9% | 36.2% | -630 b.p. |
| Stores | 18.5% | 17.2% | 130 b.p. |
| Omnicommerce | 6.5% | 3.4% | 310 b.p. |
| Others[1] | 0.7% | 0.2% | 50 b.p. |
| **Total** | **100.0%** | **100.0%** | **-** |

[1] It considers the sale of second line items and leftovers.

According to the sectoral indicators, the Clothing and Sporting Goods segments were highly affected by the spread of the coronavirus throughout the month of March. In line with the market, Cia. Hering's gross revenue for the quarter reached R$ 323.6 million, 26.1% lower than 1Q19, largely due to the shutdown of operations in the second half of March, a period in which the largest portion of the quarter's revenue is concentrated. Besides, the revenues from the franchise and multi-brand channels were also impacted by the cancellation of part of the winter collection, which represents approximately 40% of the first quarter and would be billed over that period. The impact of the suspension of sales was also reflected in the decrease of 22.2% in SSS[3] in the period.

The performance of sales to the final consumer at the beginning of the year followed the trend presented at the end of 4Q19. With the entry of the new autumn collection in mid-February, sales began to show signs of recovery, however, starting in the second half of March, a gradual process of closing operations began, also impacting sell-in, that was paralyzed.

The **franchise chain** totaled R$ 94.8 million, down 38.8% vs. 1Q19, also due to the closing of stores, which reflected not only in the replenishment (sell-in) of the Autumn collection and regular items, but also in the initial supply of the Winter collection whose orders were canceled. Highlights the actions taken by the Company to guarantee support to franchisees, aiming at the preservation and sustainability of the network, with the correct supply of stock levels. As detailed in the section above, the measures range from operational support with the extension of payments and suspension of financial charges, joint negotiation of rents with shopping centers, to enabling digital sale with commissioning (Social Selling), among others.

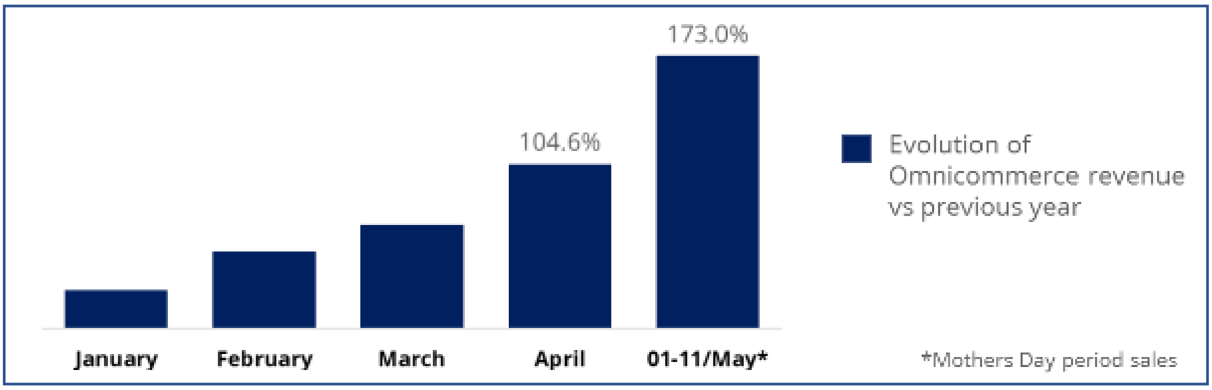
As in the other physical channels, the **multi-brand** was also impacted by the closing and reduction in the flow of the market, resulting in a drop-in productivity (sell-in) for customers. The channel totaled sales of R$ 140.7 million, a decrease of 23.6% vs. 1Q19. The decrease in channel revenue was also maximized by the lower number of active customers, following the strategy of rationalizing based on the segmentation of service levels, aiming to increase productivity and strengthen the relationship with more relevant customers. It is worth mentioning the expansion and performance of key-account customers, which has been gaining relevance within the channel. In 2020, we built a structure dedicated to new customers - with emphasis on specialized retail – reflecting the evolution of the transactional model for partnerships with customized assortment,

[3] SSS: considers the impact of closing physical stores from March 19th, 2020.

commercial actions, monitoring of sell-out performance, and segmentation of strategy and opportunity for each brand.

Sales of **stores operated by the Company** totaled R$ 58.4 million, down 20.5% vs. 1Q19, highly impacted by the total shutdown of the operation and the reflection of the restricted mobility of consumers on the streets and in the malls.

The sales via webstore grew by 42.6% yoy, totaling R$ 20.7 million in the quarter expanding its share of the Company's revenue. The **Omnicommerce channel** presented a gradual acceleration of sales each month, with emphasis on the period after the closing of physical stores. Developments in the digital platform ensured an improvement in the experience and navigation of the website, which became a greater organic flow of new users and recurring purchases. In addition to the platform evolution, the investment in performance media also contributed to the channel's performance in the quarter. It is important to note that physical store sales through the online channel only became more relevant from the beginning of April, in which we promote Autumn collection actions and launch the Winter collection, we strengthen the communication in digital media boosting the journey of comfort, we expended the pick-up/drive-thru and ship from modalities and with that we obtained a revenue growth of 104.6%[4] versus the same period on the previous year. This behavior persisted in the related period to Mother's Day[5], which reported revenue growth of 173%[4] vs. the same period in the previous year.




The **foreign market** decreased by 28.7% versus 1Q19, jeopardized by the cancellation of the shipping of the winter collection (sell-in) due to the closure of markets in Latin America. The challenging economic scenario, mainly in Uruguay and Paraguay, also contributed to the lower performance of the channel.

[4] April and May data have not been audited.
[5] Period from May 01st, 2020 to May 11th, 2020

We continue to promote investments in **our brands** in order to strengthen the growth levers and the desire to buy our products. In 1Q20 we built a communication strategy in line with our core business and focused on online media, strengthening the comfort journey narrative.

In the **Hering** brand, the quarter was marked by commercial activations focused on the brand's basic DNA. We renewed the entire modeling matrix of jeans, highlighting its comfort and practicability attribute, ideal for the current moment of social isolation. The carnival activations, "Meu Estilo Hering" ("My Hering Style") and the International Women's Day campaign – which had the income from the products reverted to the Bem Querer Mulher Institution, an organization that works to combat violence against women – also highlighted the quarter. It is also important to emphasize the collection "Amor Essencial" ("Essential Love"), which we launched an especial line of T-shirts highlighting the affective relationship in this moment of social distance.

In the children's brands, we had activations back to school and costumes for the carnival at the beginning of the year with **Hering Kids**, as well as Play Jeans campaign and the Mario Bros licensee. For **PUC**, we launched a collab in partnership with Triya (beachwear), whose collection brought pieces of clothing "tal mãe, tal filho" ("Like mother, like son") on vacation and summer mood.

The **Dzarm** brand, began the year with the "Energy" Collection and in the following month launched the carnival capsule #TaNaRua. Still in February, launched the Autumn preview with the "Expressions" collection. In addition, Dzarm continues to focus on branding to consolidate jeanswear as the brand's core.

## DISTRIBUTION CHAIN

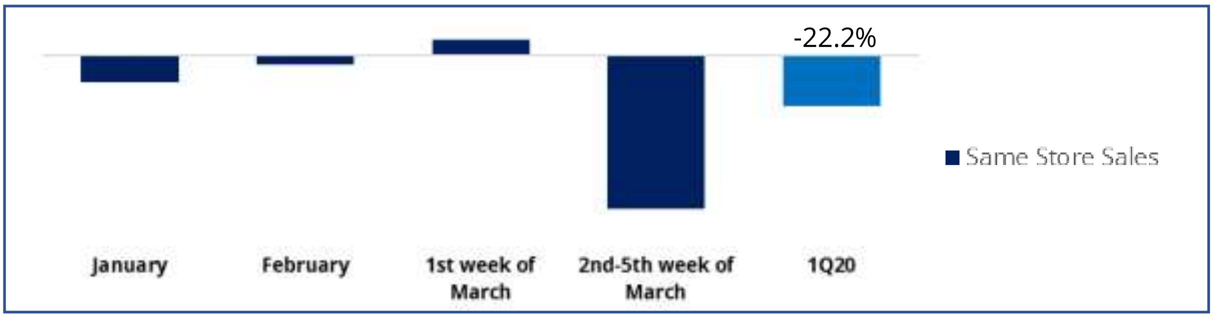
The Company ended the quarter with 736 stores, which 716 in Brazil and 20 in the foreign market. In the quarter 7 units were closed, of which 5 were Hering Store and 2 PUC, and 2 units of Light Franchise Model were opened. It should be noted that all store openings that were scheduled for the second half of March were postponed.

Given the macroeconomic scenario, the Company is aware of the opportunities and demands to enable the purchase/transfer of stores at promising points of sale. However, it is important to stress that the primary interest is to strengthen the current base of franchisees and the conversion of Qualified Retailers into Light Franchises, providing these entrepreneurs a retail model that reflects the strength of the Company's brands, with standardization of assortment and execution of POS (Point of Sale).

## HERING NETWORK PERFORMANCE[6]

Total sales of Hering chain (sell-out) in 1Q20, reached R$ 230.4 million, 23.2% lower than 1Q19, influenced by operation shutdown and the closure of stores. In the month of March, the number of check-outs dropped dramatically, which directly impacted the Same Store Sales base, that considers the comparable stores opened for at least 13 months, with a drop of 22.2% vs 1Q19.

It should be noted that inventory levels reduced 3.9% the number of pieces of clothing compared to the end of 1Q19, due to the dynamics and reduction of supply (sell-in), despite the reduction in sell-out, as mentioned above.




[6] Given the consolidation of the management of the Hering and Hering Kids brands, which as of 2Q19 will be managed within the same business unit, the data have been unified.

# ECONOMIC AND FINANCIAL PERFORMANCE

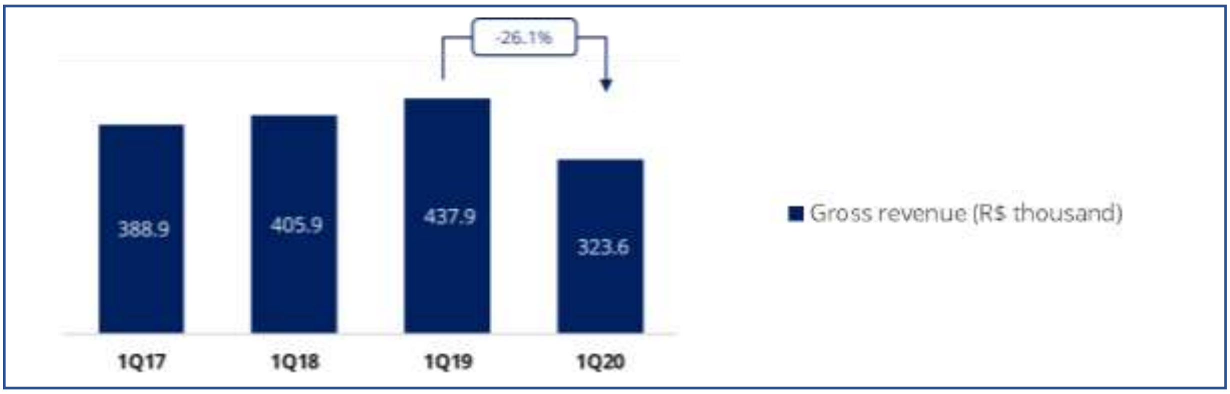
| R$ Thousand | 1Q20 | Part. (%) | 1Q19 | Part. (%) | VAR. 1Q20 \| 1Q19 |
|---|---|---|---|---|---|
| **Gross Revenue** | **323,645** | **118.9%** | **437,858** | **117.1%** | **-26.1%** |
| Sales Deduction | (51,533) | -18.9% | (63,921) | -17.1% | -19.4% |
| **Net Revenue** | **272,112** | **100.0%** | **373,937** | **100.0%** | **-27.2%** |
| Cost of Goods Sold | (161,621) | -59.4% | (213,001) | -57.0% | -24.1% |
| AVP (Adjustment to Present Value) | 3,854 | 1.4% | 5,212 | 1.4% | -26.1% |
| Subvention for Expenditure | 3,819 | 1.4% | 4,486 | 1.2% | -14.9% |
| Depreciation and Amortization | (8,805) | -3.2% | (8,259) | -2.2% | 6.6% |
| **Gross Profit** | **109,359** | **40.2%** | **162,375** | **43.4%** | **-32.7%** |
| Operating Expenses | (120,424) | -44.3% | (126,527) | -33.8% | -4.8% |
| Selling Expenses | (74,247) | -27.3% | (81,693) | -21.8% | -9.1% |
| Loss due to non-recoverability of assets | (8,939) | -3.3% | (2,949) | -0.8% | 203.1% |
| Administrative and General Exp. and Management Remuneration | (13,976) | -5.1% | (15,361) | -4.1% | -9.0% |
| Depreciation and Amortization | (13,643) | -5.0% | (12,927) | -3.5% | 5.5% |
| Profit Sharing | - | - | (4,700) | -1.3% | - |
| Other Operating Income (Expenses), net | (9,619) | -3.5% | (8,897) | -2.4% | 8.1% |
| **Operating Income Before Financial Results** | **(11,065)** | **-4.1%** | **35,848** | **9.6%** | **-130.9%** |
| Financial income | 24,196 | 8.9% | 16,484 | 4.4% | 46.8% |
| Financial expenses | (18,544) | -6.8% | (9,523) | -2.5% | 94.7% |
| Total Financial Income | 5,652 | 2.1% | 6,961 | 1.9% | -18.8% |
| **Operating Income Before Interest in Subsidiaries** | **(5,413)** | **-2.0%** | **42,809** | **11.4%** | **-112.6%** |
| Income and Social Contribution Taxes - Current | - | - | 228 | 0.1% | -100.0% |
| Income and Social Contribution Taxes - Deferred | 10,456 | 3.8% | 3,648 | 1.0% | 186.6% |
| **Net Income for the Period** | **5,043** | **1.9%** | **46,685** | **12.5%** | **-89.2%** |
| Controlling shareholders | 5,043 | 1.9% | 46,685 | 12.5% | -89.2% |
| Basic earnings per share - R$ | | | | | |
| Controlling shareholders | 0.0311 | | 0.2887 | | -89.2% |
| **EBITDA** | **11,383** | **4.2%** | **57,034** | **15.3%** | **-80.0%** |

Values in the above table include the effects of IFRS16.

## GROSS REVENUE

The Company's gross revenue reached R$ 323.6 million in the first quarter, a decrease of 26.1% compared to the same period of the previous year (1Q19). The result was negatively influenced by the shutdown of operations and the closure of physical stores, due to the pandemic, which impacted not only the sell-out, but also the sell-in channels of the multi-brand and franchises.

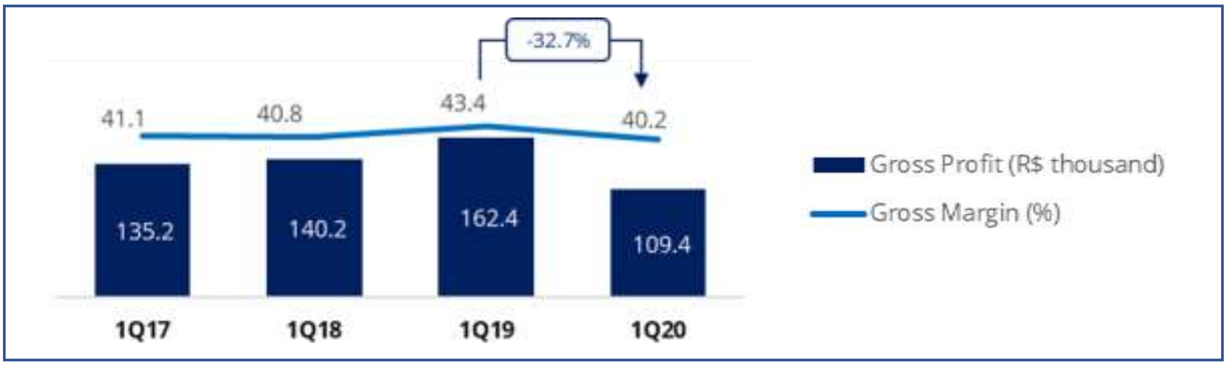
On the other hand, the Omnicommerce channel presented an increase of 42.6% compared to 1Q19, as a result of the increased flow on digital platforms, mainly due to the growth of new users and recurring purchases, as explained above.




## GROSS PROFIT AND GROSS MARGIN

The Company's gross profit reached R$ 109.4 million in 1Q20, a reduction of 32.7% compared to 1Q19, due to the decrease in the Company's sales volume.

The gross margin decreased 320 b.p., reaching 40.2% in 1Q20, as a result of the low dilution of fixed costs and a consequent decrease in factories operating leverage. Additionally, it stands out the reduction and cancellation of regular collections sales, which resulted in a greater share of balances in the mix of revenue.



## OPERATION EXPENSES

In 1Q20 the operating expenses decreased 4.8% compared to 1Q19, reaching the amount of R$ 120.4 million. It is worth mentioning the Company's strict management in controlling costs and expenses, to maintain the business sustainability, which was adopted after the closure of stores, as highlighted in the message from Management, whose effect will be taken place to a great extent over the second quarter.

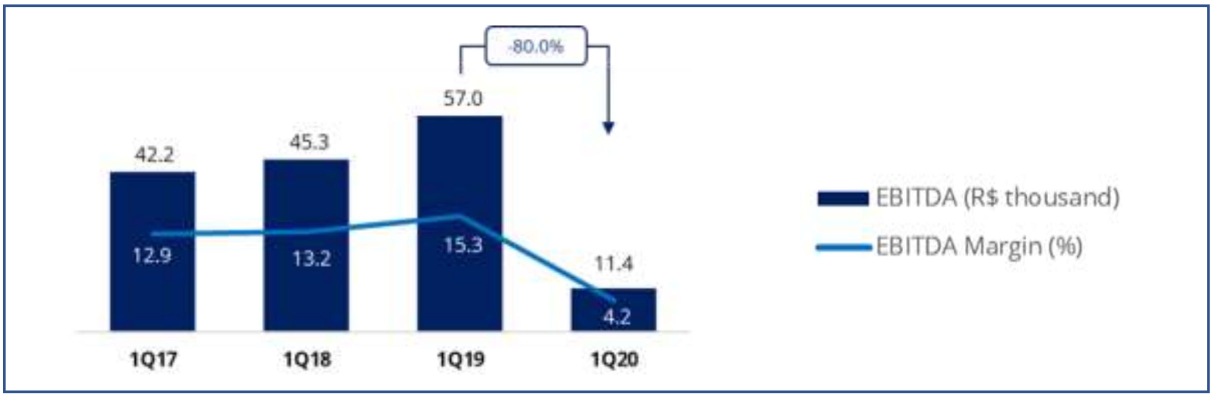
The sales expenses decreased by 9.1% mainly due to the lower bonus payment and commissions related to low sales performance and reduction in property rental expenses. Furthermore, there was an increase of 203.1% in the allowance for doubtful accounts related to the deterioration of the portfolio of overdue securities.

Additionally, there was an 9.0% reduction in general and administrative expenses, mainly due to the decrease in personnel expenses explained by the timing of signings partially compensated by other operating expenses increase related to indemnities from commercial representatives of the multi-brand channel. There was no provision for profit sharing in this quarter.

## EBITDA AND EBITDA MARGIN

Earnings before interest, taxes, depreciation, and amortization ('EBITDA') reached R$ 11.4 million, 80.0% lower compared to 1Q19, essentially due to the reduction in sales growth.

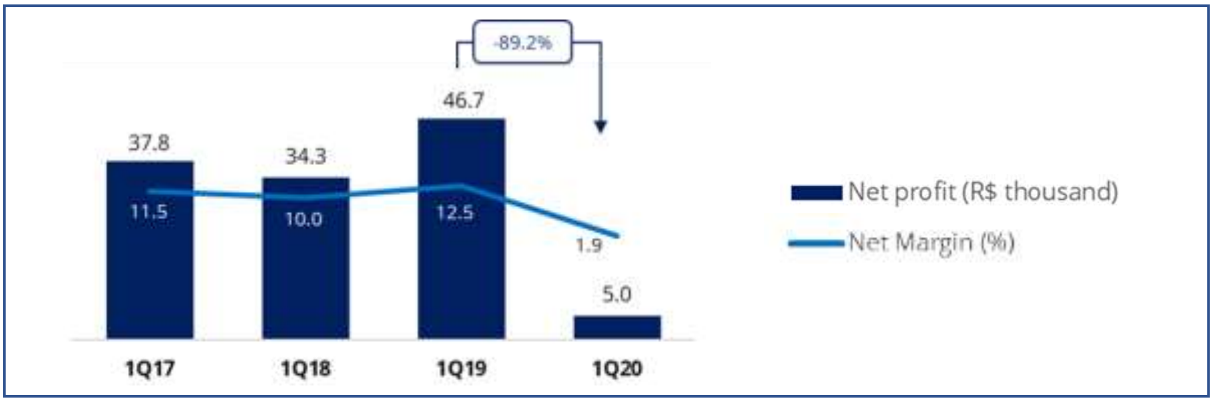
The EBITDA margin reached 4.2%, a reduction of 1110 b.p., compared to 1Q19, as a result of the operational deleveraging despite the reduction in expenses as mentioned above.



| Reconciliation of EBITDA - R$ thousand | 1Q20 | 1Q19 | VAR. 1Q20 \| 1Q19 |
|---|---|---|---|
| Net Income | 5,043 | 46,685 | -89.2% |
| (+) Income and Social Contribution Tax | (10,456) | (3,876) | 169.8% |
| (-) Net Financial Income | (5,652) | (6,961) | -18.8% |
| (+) Depreciation and Amortization | 22,448 | 21,186 | 6.0% |
| **(=) EBITDA** | **11,383** | **57,034** | **-80.0%** |
| EBITDA Margin | 4.2% | 15.3% | -1110 b.p. |

## NET INCOME AND NET MARGIN

Net income for the quarter totaled R$ 5.0 million, 89.2% lower than 1Q19. This reduction in net income is due to the decrease in operating results for the quarter, besides the drop in the financial results, impacted by the received and renegotiated interests.




## INVESTMENTS

Investments in the first quarter totaled R$ 4.9 million, 46.6% below to 1Q19, as a result of the investments reprioritization and measures taken to avoid deterioration in cash.

The main projects are directly related to sustaining and expanding the business, such as (i) technology and innovation with the development of CRM and Data-Driven integration, e-commerce platform among others IT systems; (ii) refurbishment and stores installations, and (iii) machinery acquisition for the industrial park evolution.

The resources allocation was distributed in the following order:

| Investments (R$ Thousands) | 1Q20 | 1Q19 | VAR. 1Q20 \| 1Q19 |
|---|---|---|---|
| Industrial Plant | 1,261 | 3,759 | -66.5% |
| IT | 1,809 | 3,210 | -43.6% |
| Stores | 1,492 | 2,059 | -27.5% |
| Others | 386 | 246 | 56.9% |
| Total | 4,948 | 9,274 | -46.6% |

## NET CASH

The Company ended the quarter with a net cash of R$ 365.2 million. In order to preserve the financial health for the sustainability and speed-up of the business, Management is daily monitoring the Company's cash. At the end of March, the Company raised a financial loan, in the total amount of R$ 120.1 million to strengthen its net cash position, ending 1Q20 with R$ 485.3 million in cash. Additionally, the Company raise R$ 80.0 million in April.

| Net cash (R$ Thousands) | 1Q20 | 1Q19 | 4Q19 |
|---|---|---|---|
| Cash and Cash Equivalents | 485,318 | 358,634 | 364,824 |
| Loans and financing - short term | (120,119) | - | - |
| **Net cash** | **365,199** | **358,634** | **364,824** |

## CASH FLOW

In 1Q20, Cia Hering generated R$ 26.0 million in free cash, R$46.1 million lower than in 1Q19, explained by the lower operating result (EBITDA). The investment in working capital was positive by R$ 10.7 million, notably by the accounts receivable reduction – due to lower revenues – and extension of terms with suppliers, which more than offset the increase in inventories. The classification “Others” includes the increase in recoverable taxes from tax credits and judicial deposits related to ICMS.

| Cash Flow - Consolidated (R$ thousand) | 1Q20 | 1Q19 | VAR. 1Q20 \| 1Q19 |
|---|---|---|---|
| **EBITDA** | **11,383** | **57,034** | **(45,651)** |
| No cash items | 12,238 | 5,933 | 6,305 |
| Lease Effect | (8,140) | (6,860) | (1,280) |
| AVP (Adjustment to Present Value) - Clients and Suppliers | 4,770 | 5,016 | (246) |
| Current Income tax and Social Contribution | - | 228 | (228) |
| **Working Capital Capex** | **10,659** | **19,957** | **(9,298)** |
| Accounts receivable from clients | 94,829 | 42,297 | 52,532 |
| Inventories | (71,346) | (37,306) | (34,040) |
| Accounts payable to suppliers | 35,984 | 22,318 | 13,666 |
| Taxes payable | (19,546) | (10,961) | (8,585) |
| Franchisee Financing - Refurbishment plan | (1,761) | (664) | (1,097) |
| Others | (27,501) | 4,273 | (31,774) |
| **CapEx** | **(4,948)** | **(9,274)** | **4,326** |
| **Free Cash Flow** | **25,962** | **72,034** | **(46,072)** |

## RETURN ON INVESTED CAPITAL

In 1Q20, Cia Hering's return on invested capital was 15.5%, 780 b.p. lower compared to 1Q19. The impact is due to the reduction in operating income, with the Invested Capital being in line with the previous quarter, with an emphasis on the reduction of 7.0% in working capital.

| Return on Invested Capital (ROIC) - R$ thousands | 1Q20 | 1Q19 | VAR. 1Q20 \| 1Q19 |
|---|---|---|---|
| EBITDA | 219,004 | 271,291 | -19.3% |
| (-) Depretiation and Amortization | (89,687) | (67,947) | 32.0% |
| (+) Amortization - Right of use properties [1] | 2,158 | 5,083 | -57.5% |
| (+) Financial Results - APV [2] | 15,908 | 18,753 | -15.2% |
| (+) IR&CS - Effective rate [3] | 12,355 | 12,837 | -3.8% |
| **Operating Income** | **159,738** | **240,018** | **-33.4%** |
| Fixed Assets | 461,311 | 422,285 | 9.2% |
| Accumulated amortization - Right of use properties | 54,677 | 49,729 | 9.9% |
| Working capital | 520,590 | 559,719 | -7.0% |
| **Average Invested Capital*** | **1,036,578** | **1,031,732** | **0.5%** |
| **ROIC** | **15.5%** | **23.3%** | **-780 b.p.** |

Notes to the financial statements: (1) Nr. 15; (2) Nr. 32; (3) Nr. 33.

(*) Last 4 quarters average

## SHAREHOLDERS REMUNERATION

In 1Q20, due to unprecedented impacts of the Covid-19 pandemic and the cash preservation, no earnings were deliberated.

## BUYBACK PROGRAM

The program that authorized the acquisition of up to R$ 1.5 million shares was executed and ended on March 16, 2020. At the Meeting of the Board of Directors held on the same day, the Board approved a new Buyback Program that authorizes the acquisition up to R$ 0.8 million shares, corresponding to 0.66% of the total free float shares, effective until March 16, 2021.

## SUBSEQUENT EVENT

The Company has been successful in its lawsuit, pending with the Federal courts of Santa Catarina, with respect to the exclusion of the state sales tax (ICMS) from the calculation base of the PIS and COFINS federal taxes. On the basis of a ruling of May 19, 2020, against which no further appeal can be lodged, the Company's right to a refund, via compensation, of the amounts recorded for the periods from December 2002 to March 2017 of the contribution to PIS, and from February 2004 to March 2017 of COFINS, duly corrected until May 31, 2020 in the total amount not yet audited of R$ 279,396 million. The amounts related to the competencies as of April 2017 already had their effects recognized in the Company's financial statements. For offsetting this fiscal advantage, this amount must still be subject to administrative request according to procedure established by the Federal Revenue Service of Brazil, after the return of the records at the origin federal court.

# OUTLOOK

The impacts of the pandemic scenario of COVID-19 on the economy and the Company's results were felt immediately mainly due to the restrictions on the functioning of our traditional channels and the insecure environment that took place in the country. The return to the "new normality" tends to be slow and gradual, but it must reserve long-term opportunities for companies that know how to protect their business in the next period and, at the same time, adapt their model and accelerate the transformation in the light of new social habits, behaviors, and consumption trends.

In April, sales volumes decrease approximately 85% compared to the previous year, while the online channel grew 105%. As already presented, the Company implemented strict expense control including contract renegotiations, purchase reviews and payroll reduction based on Provisional Measure 936. In addition, it redesigned its sourcing matrix, collection cycle and go-to-market, reducing working capital requirements and the cost of serving sales channels, and continues to act actively to minimize the impact of default and ensure sustaining the partners network with financing programs and debt installments of the customer chain.

The plan was redesigned to accelerate cultural and digital transformation, changes in the organizational structure and work methodology and new fronts of action. It is worth mentioning that the Company continues to be well positioned, with a strengthened cash flow to face up the "end-to-end" digitalization agenda and modernization of our technology park, as well as strategically taking advantage of market movements such as expanding its brand portfolio. and renewal of the store fleet.

The Company responds quickly to market changes and new consumer trends, translating such events through the development of new products, services and content, obtaining greater engagement from consumers and communities, generating complementary sources of revenue in the short term and designing new projects with effective generation of value in the long run.

Finally, the environment requires leaders and teams, resilience, courage and energy to defend the company's purpose, strengthen the value proposition and adapt the business model in an agile manner.  With maximum clarity and effort, day after day, the Company moves forward in this exercise of the "new normal" with good strategic choices and strong ambition to capture the opportunities that the future holds.

# BALANCE SHEET

| ASSETS - R$ thousand | 03/31/2020 | 12/31/2019 |
|---|---|---|
| **Current assets** | **1,305,608** | **1,213,615** |
| Cash and cash equivalents | 485,318 | 364,824 |
| Trade accounts receivable | 338,618 | 441,508 |
| Inventories | 394,196 | 322,824 |
| Recoverable taxes | 55,945 | 63,239 |
| Other accounts receivable | 20,674 | 17,348 |
| Derivative Financial Instruments | 5,200 | 1,419 |
| Prepaid expenses | 5,657 | 2,453 |
| **Noncurrent assets** | **609,399** | **598,158** |
| Long-term receivables | 156,819 | 130,771 |
| Interest-earning banc deposits | 5,105 | 5,064 |
| Notes accounts receivable | 32,176 | 28,391 |
| Accounts receivable | 9,998 | 10,876 |
| Recoverable taxes | 39,830 | 27,399 |
| Deferred income and social contribution taxes | 69,710 | 59,041 |
| Right of use | 70,903 | 75,903 |
| Property, plant and equipment | 291,033 | 298,511 |
| Intangible assets | 90,644 | 92,973 |
| **TOTAL ASSETS** | **1,915,007** | **1,811,773** |

| LIABILITIES AND SHREHOLDER'S EQUITY - R$ thousand | 03/31/2020 | 12/31/2019 |
|---|---|---|
| **Current liabilities** | **450,359** | **325,203** |
| Borrowing and financing | 120,119 | - |
| Trade payables | 222,992 | 187,008 |
| Payroll and related taxes | 34,145 | 36,337 |
| Taxes and social security contributions payable | 5,546 | 24,830 |
| Other provisions | 28,651 | 29,384 |
| Interest on equity and dividends payable | 798 | 807 |
| Other accounts payable | 10,339 | 17,135 |
| Leases | 25,089 | 26,779 |
| Other liabilities | 2,680 | 2,923 |
| **Noncurrent liabilities** | **59,848** | **60,173** |
| Provisions for contigencies | 13,855 | 12,708 |
| Employee benefits | 5,918 | 5,769 |
| Leases | 37,102 | 38,704 |
| Other liabilities | 2,973 | 2,992 |
| **Shareholder's equity** | **1,404,800** | **1,426,397** |
| Capital | 381,166 | 381,166 |
| Capital reserve | 42,854 | 41,480 |
| Treasury shares | (29,153) | (1,551) |
| Earnings reserve | 998,325 | 998,325 |
| Valuation adjustments to equity | 6,517 | 6,977 |
| Retained earnings | 5,091 | - |
| **TOTAL LIABILITIES AND SHAREHOLDER'S** | **1,915,007** | **1,811,773** |

# INCOME STATEMENT

| R$ Thousand | 1Q20 | 1Q19 | VAR. 1Q20 \| 1Q19 |
|---|---|---|---|
| **Revenues** | **323,645** | **437,858** | **-26.1%** |
| Domestic Market | 316,562 | 427,922 | -26.0% |
| Foreign Market | 7,083 | 9,936 | -28.7% |
| Sales Deduction | (51,533) | (63,921) | -19.4% |
| **Net Revenue** | **272,112** | **373,937** | **-27.2%** |
| Cost of Goods Sold | (162,753) | (211,562) | -23.1% |
| **Gross Profit** | **109,359** | **162,375** | **-32.7%** |
| Operating Expenses | (120,424) | (126,527) | -4.8% |
| Selling Expenses | (74,247) | (81,693) | -9.1% |
| Loss due to non-recoverability of assets | (8,939) | (2,949) | 203.1% |
| Management Remuneration | (2,418) | (2,364) | 2.3% |
| Administrative and General Expenses | (11,558) | (12,997) | -11.1% |
| Depreciation and Amortization | (22,448) | (21,186) | 6.0% |
| (-) Allocated to Cost | 8,805 | 8,259 | 6.6% |
| Profit Sharing | - | (4,700) | 100.0% |
| Other Operating income (expenses), net | (9,619) | (8,897) | 8.1% |
| **Operating income before financial result** | **(11,065)** | **35,848** | **-130.9%** |
| Financial income | 24,196 | 16,484 | 46.8% |
| Financial expenses | (18,544) | (9,523) | 94.7% |
| Total financial income | 5,652 | 6,961 | -18.8% |
| **Operating income before interest in** | **(5,413)** | **42,809** | **-112.6%** |
| Income and social contribution taxes - current | - | 228 | -100.0% |
| Income and social contribution taxes - deferred | 10,456 | 3,648 | 186.6% |
| **Net income for the period** | **5,043** | **46,685** | **-89.2%** |
| Controlling shareholders | 5,043 | 46,685 | -89.2% |
| Basic earnings per share - R$ | | | |
| **Controlling shareholders** | **0.0311** | **0.2887** | **-89.2%** |
| **EBITDA** | **11,383** | **57,034** | **-80.0%** |

# CASH FLOW

| R$ Thousand | 1Q20 | 1Q19 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Net income for the period | 5,043 | 46,685 |
| Deferred taxes | (10,456) | (3,648) |
| Unrealized exchange and monetary variation | 1,290 | 1,302 |
| Depreciation and amortization | 22,448 | 21,186 |
| Loss by reduction of recoverable amount f rom accounts receivable | 8,939 | 2,949 |
| Write-of f of f ixed assets | (4) | 369 |
| Stock option plan | 1,374 | 1,227 |
| (Reversal) net of formation of provision for adjustment to the realizable value of inventory | (26) | (518) |
| (Reversal) net of formation of provisions for contingencies | 1,806 | 1,817 |
| Employee Benef its | 149 | 89 |
| **Assets and liabilities variation** | | |
| Trade accounts receivable | 94,829 | 42,297 |
| Inventories | (71,346) | (37,306) |
| Recoverable taxes | (4,163) | (722) |
| Other accounts receivable | (14,096) | 5,224 |
| Accounts payable to suppliers | 35,984 | 22,318 |
| Accounts payable and provisions | (11,003) | (893) |
| IRPJ and CSLL | (129) | (56) |
| Tax obligations | (19,417) | (10,905) |
| Interest paid on loans and leasing | (1,171) | (1,302) |
| **Cash provided by operating activities** | **40,051** | **90,113** |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | (3,033) | (5,725) |
| Purchase of intangible | (1,915) | (2,489) |
| Purchase of rights use assets | - | (1,060) |
| **Cash used in investing activities** | **(4,948)** | **(9,274)** |
| **Cash flows from financing activities** | | |
| Interest-earning bank deposits | (41) | (57) |
| Interest on equity and dividends | (9) | (39,980) |
| Acquisition of treasury shares | (27,602) | - |
| Disposal of shares in treasury, by exercise of call option | - | 2,850 |
| Loans taken | 120,000 | - |
| Lease payments | (6,957) | (5,558) |
| **Cash used in financing activities** | **85,391** | **(42,745)** |
| **Increase (decrease) in cash and cash equivalents** | **120,494** | **38,094** |
| **Increase (decrease) in cash and cash equivalents** | **120,494** | **38,094** |
| **At beginning of period** | **364,824** | **320,540** |
| **At end of period** | **485,318** | **358,634** |

Cia.Hering

**CAPITAL MARKETS** 03/31/2020
**HGTX3**: R$ 14,88 per share
**Market cap:** R$ 2.4 billion

**CONFERENCE CALL**
05/29/2020 – 11pm (BRT) / 10am (NYC) / 2pm (GMT)
In Portuguese – simultaneous translation to English
**Brazil**: (+55) 11 3181-8565 or (+55) 11 4210-1803
**EUA:** (+1) 412 717-9627
**Toll-Free**: (+1) 844 204-8942
**Access Code**: Cia. Hering

**WEBCAST**

Webcast in English

Webcast in Portuguese

**INVESTOR RELATIONS**

Fabio Hering - CEO
Rafael Bossolani - CFO and IRO

Mariana Santo
Bianca Goyanna
Gabriela Oliveira
Melissa Dupas

**PRESS RELATIONS**

Ana Claudia Camara
anaclaudia.camara@approach.com.br
+55 (11) 3846-5787 / +55 (11) 96318-2165

**www.ciahering.com.br/ir**

**Tel.: +55 (11) 3371-4867/4805**

# 1Q20 EARNINGS RELEASE