

# AQUARIUS CAPITAL

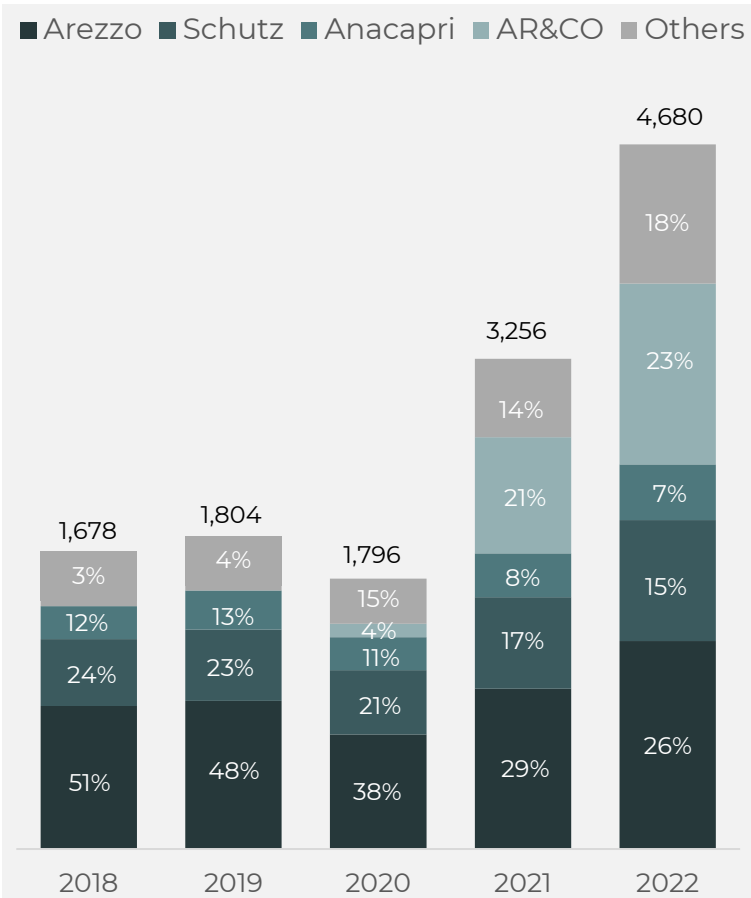
AREZZO  
& CO

*Constellation Challenge 2023*

# Arezzo&Co in a Nutshell

## A house of brands

Gross revenue per brand in Brazil (BRL mn)



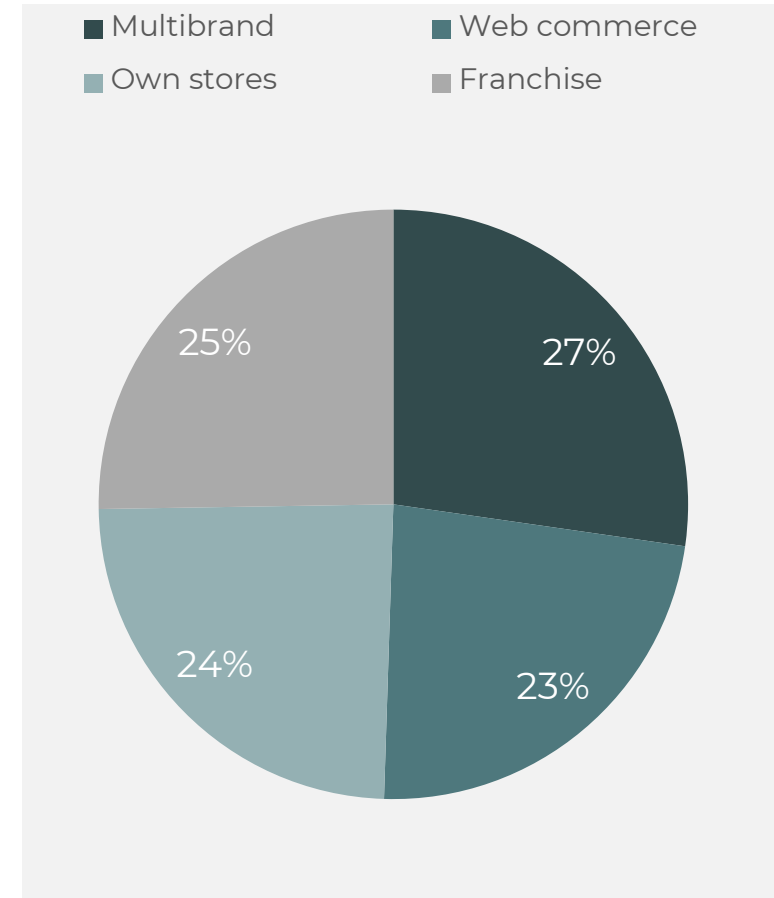
## With strong operational indicators

Gross revenue breakdown per region (%)



## Diversified in channels

Gross revenue breakdown per channel (%)

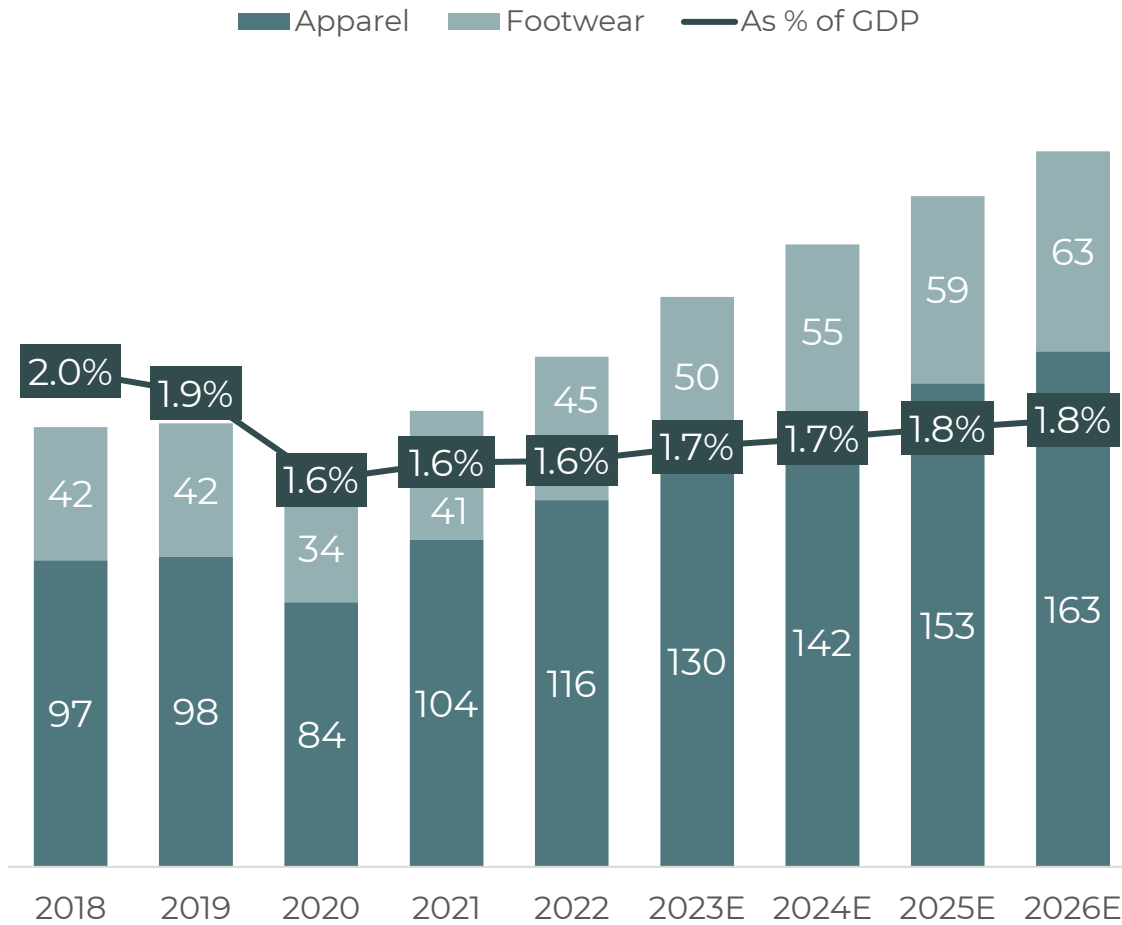


# In a **steady** industry, **consolidation** is the way to go

A market without real growth where players compete for share

And the A/B classes as the best target to focus

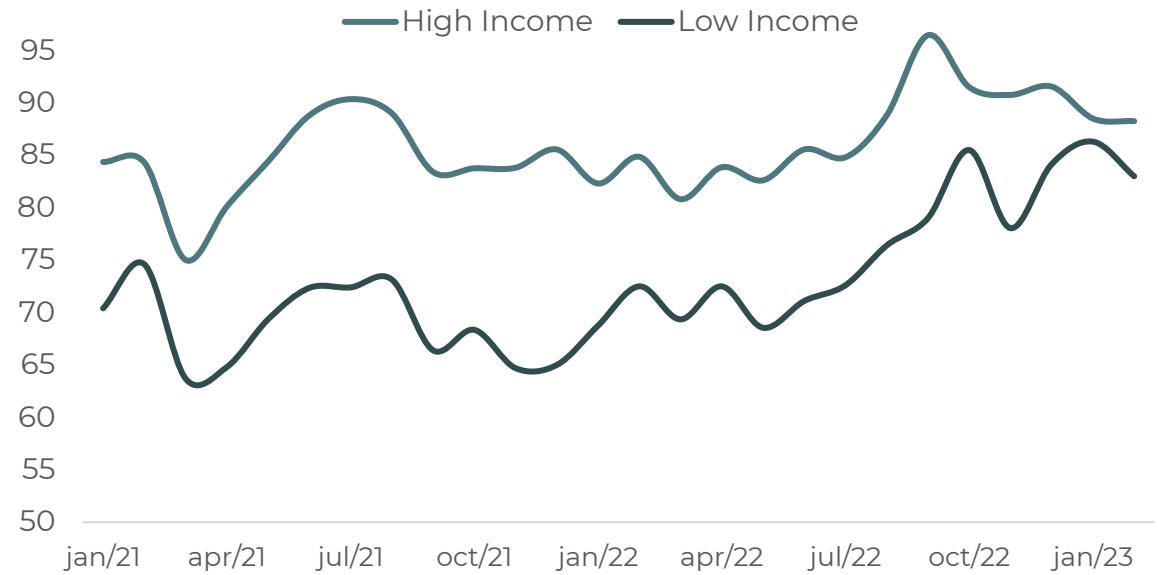
Apparel and Footwear sales (BRL mn)



As it represents less of the entire budget, A/B classes are **less price-sensitive**

VAR higher income **18.77**      VAR lower income **40.77**

Consumer confidence index for higher and lower incomes



Sources: IBGE, Euromonitor, FGV IBRE

AR&CO AREZZO

CURRENT PRICE

**BRL 62.5**

**BUY!**

TARGET PRICE

**BRL 83.3**

**33%** UPSIDE

**23%** IRR  
23-27

UNBRAND®

Oticina  
RESERVA

Baw

DIRTYMAN

PIER

my SHOES



# INVESTMENT THESIS



First-class business



Unique positioning



Room for expansion



Baw

INK

AREZZO

SCHUTZ

ANACAPRI

ALEXANDRE  
BIRMAN

PIER

ME

ZZ A  
ZZO

CAROL BASSI

ZZ'MALI

TROC

mySHOE

VANS  
"OFF THE WALL"

# INVESTMENT THESIS



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# An **authentic history** for the books

Arezzo&Co has an extended legacy in footwear industry

Its founder gave birth to a whole new successful enterprise

## 1972

First facility  
founded in Belo  
Horizonte

## 1995

Focus on retail,  
outsourcing  
manufacture, R&D  
and marketing



— × —



*Shift in operation*

*Holistic view of the value chain*

**Anderson Birman**  
*Co-founder and former CEO*



In the early 1990s, Anderson revolutionized and created today's business model.

Verticalized model

1

Asset light operation

2

**First-class business**

Unique positioning

Room for expansion

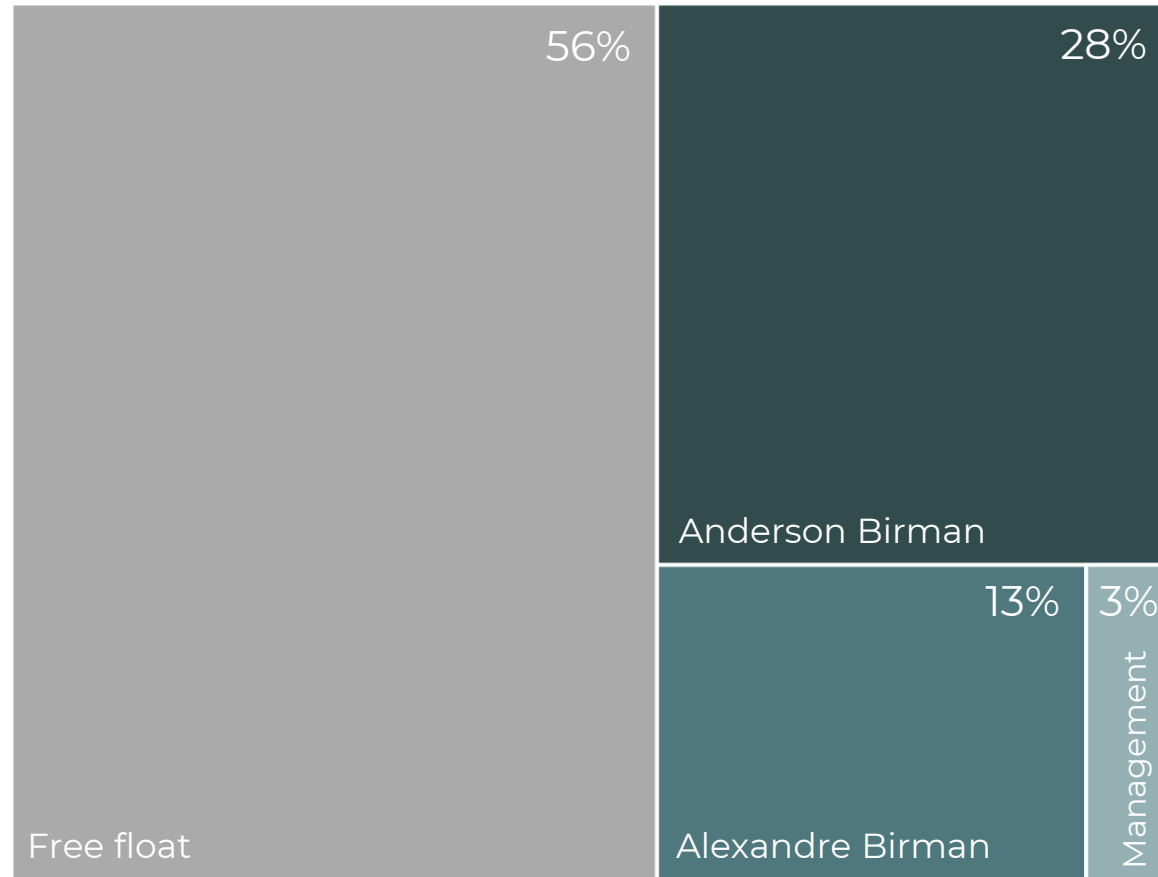
Valuation

# Owner operator: It runs through the veins

The duo remains very relevant and active

The genuine passion was passed from father to son

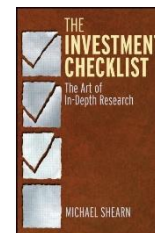
Ownership Structure %



Alexandre Birman  
CEO and CCO



More than 25 years of experience in the footwear industry. The founder of Schutz and Alexandre Birman.



*“(Owner-operators) These are ideal managers to partner with.”*  
– Investment Checklist

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# Perpetuating the **culture**

Average time of Arezzo's directors is 12 years

And field research pointed out to this long term culture



**Rafael Sachete – 18 years**

*CFO and Corporate Vice President*



**Mauricio Bastos – 10 years**

*Chief Digital Officer*



**Luciana Wodzick – 26 years**

*Core Brands Executive Director*



**Marco Vidal – 7 years**

*Expansion, HR and Sustainability Director*

## Conversations with **33** employees

“We have a **long track record** of directors and employees...

which shows **commitment**, contributing to our **deep-rooted** long term culture.”



**Gilmar de Oliveira**

*26 years in the company*

# Perpetuating the **culture**

Average time of Arezzo's directors is 12 years

And field research pointed out to this long term culture

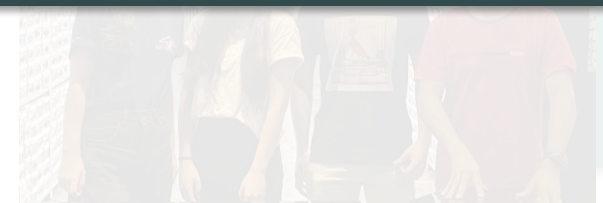
Conversations with 33 employees

# But how does a **high quality team** translate into a **first-class business model?**



Marco Vidal – 7 years

*Expansion, HR and Sustainability Director*



Simone de Oliveira  
*26 years in the company*

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Unique positioning

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# Asset light in manufacture

Outsourcing production of majority of brands

Maintaining stable margins despite seasonality

Production Mix (%)

*Outsourcing*

**83%**  
of production

AREZZO ANACAPRI  
VANS SCHUTZ  
"OFF THE WALL" Reserva

More stable margins

Mass production

More standardized products

*Insourcing*

**17%**  
of production

ALEXANDRE BIRMAN ALME  
SCHUTZ FEVER  
Reserva

Volatile margins due to seasonality

More exclusive products

Greater quality control

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Unique positioning

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# We prefer to **see** it up **close**

To better understand and verify the strategy

Production Mix (%)



We experienced in real life the manufacturing process



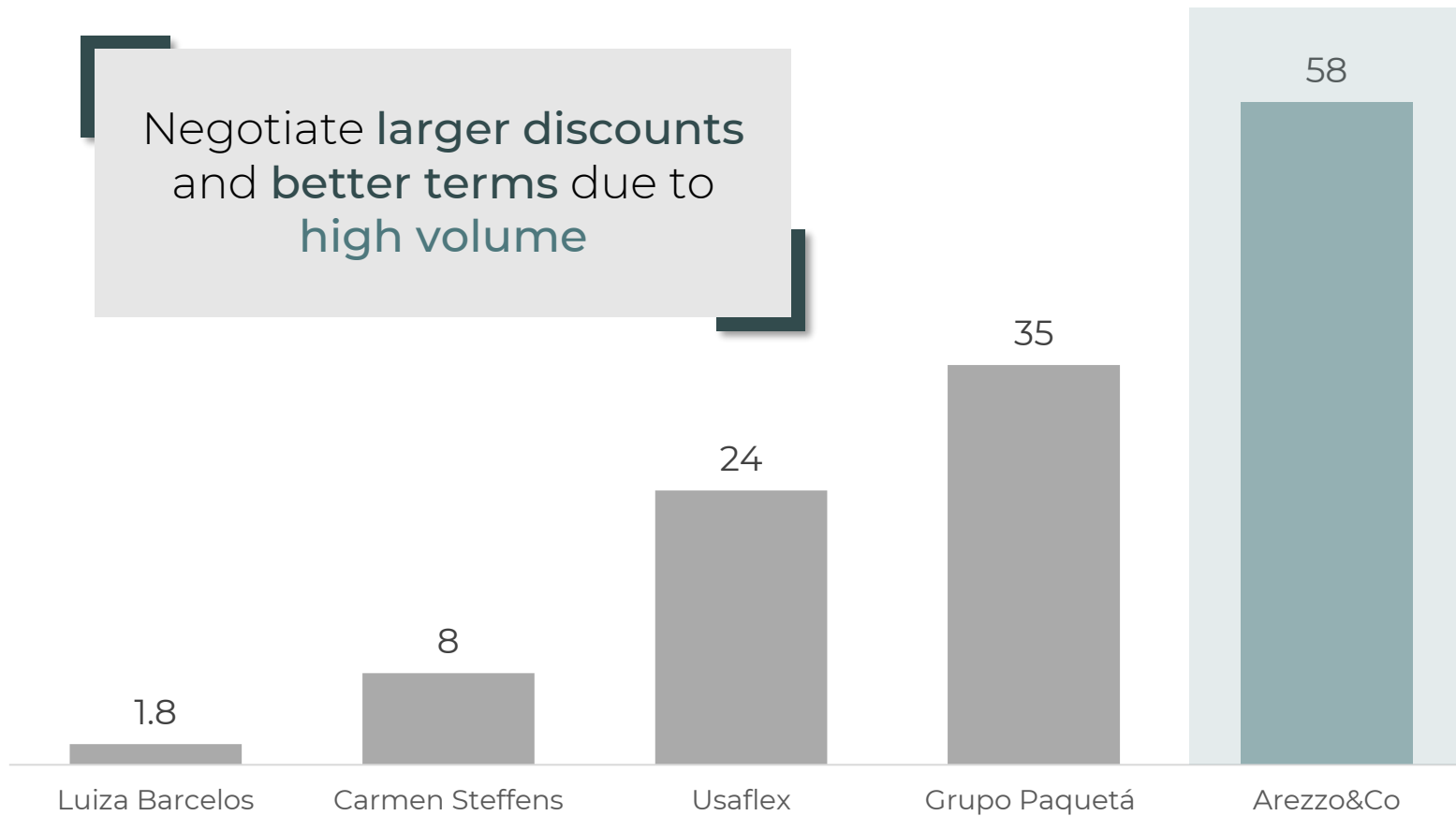
ALEXANDRE BIRMAN

**Alexandre Birman Facility**  
*Tour guided by João*

# Clear-cut edge due to scale

Exclusive positioning over all Brazilian footwear players

Number of pairs sold/produced per day (ths)



Negotiate larger discounts and better terms due to high volume

## EXCLUSIVE POSITIONING



First-class business

Unique positioning

Room for expansion

Valuation

# Size matters in supply relations

Low switching costs given large base of suppliers

Arezzo&Co number of suppliers and manufacturers

Tier 1 Manufacturers 114

Tier 2 Raw material 89

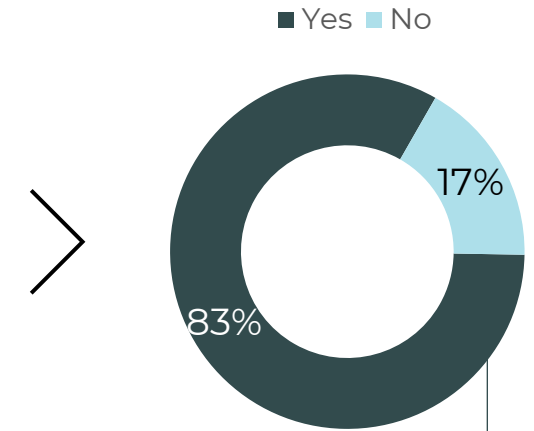


We called **62** suppliers and manufacturers to check the company's leverage

Conversations point out to negotiation importance

Field research with suppliers

"Are the *price* and *payment terms* negotiable depending on *size*?"



ARTCL INDUSTRIA DE CALÇADOS LTDA

"For example, we usually provide a **5%** discount if the order is large enough as **10,000** items."

# Know-how in sales management

Diverse channels that complement each other adding value

Strategy and # of each channel

SALES CHANNEL	Own Stores	Franchises	Multibrands
	185	817	7,953

Visibility and brand identity

Low capex, fast capillarity, local expertise

Fill in the gaps left out by franchises

MAIN STRATEGY

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Unique positioning

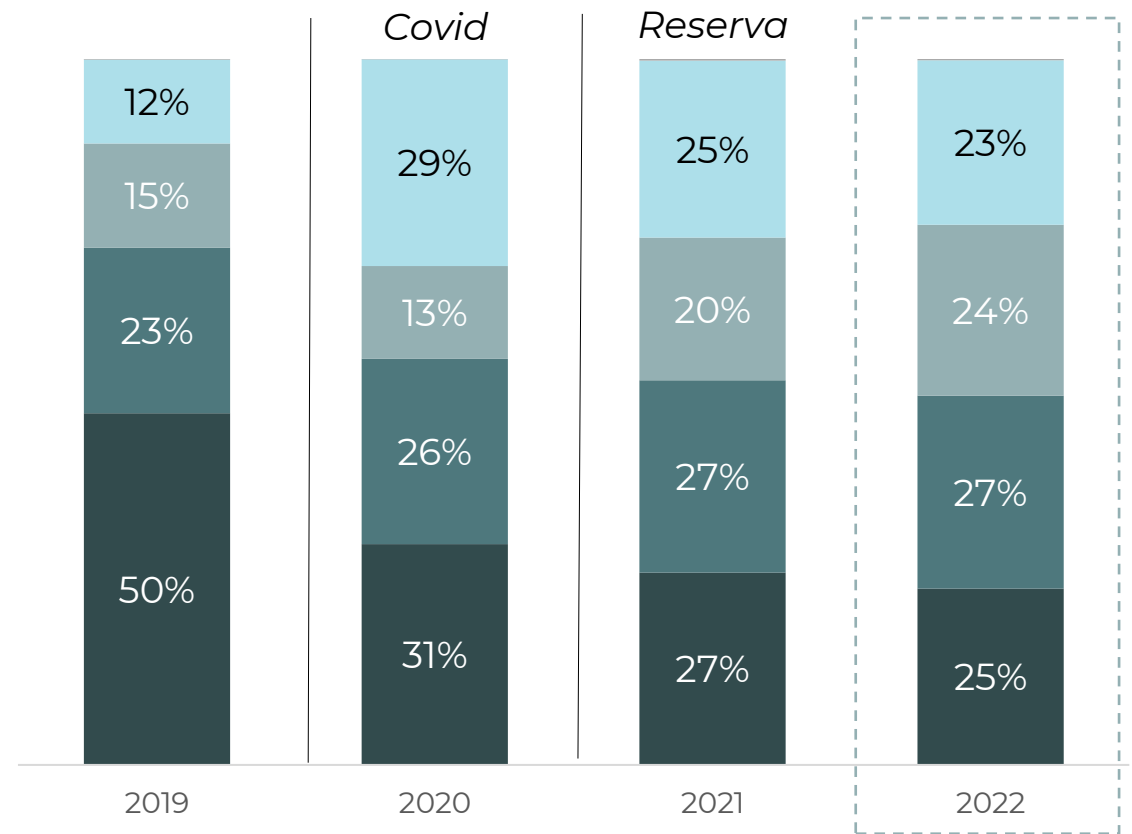
Room for expansion

Valuation

## A clear path towards diversification

Revenue per Sales Channel (%)

■ Franchises ■ Multibrands ■ Own Stores ■ Web Commerce ■ Others



# Sell-Out: **Visibility** and **profitability**

Flagship stores for legacy brands to spread awareness

But Reserva has a lot of own stores due to higher NPV

Strategy and # of each channel



Visibility and brand identity

Low capex, fast capillarity, local expertise

Fill in the gaps left out by franchises

First-class business

Unique positioning

Legacy Brands  
42

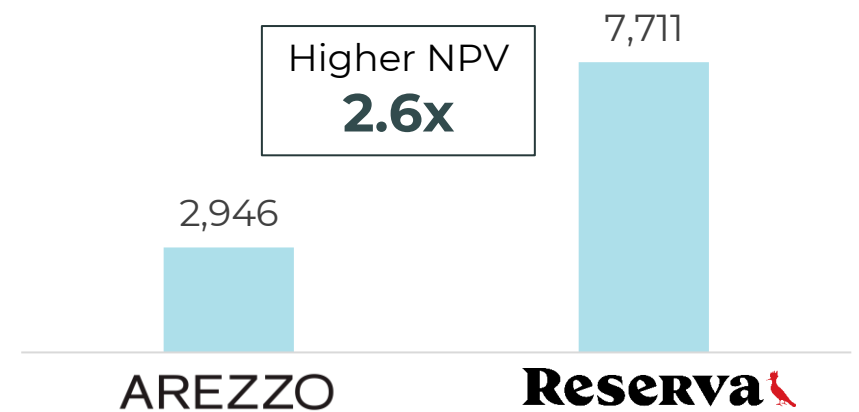
## Flagship stores

- Test new products
- Brand awareness
- Communication



NPV own store Arezzo and Reserva (BRL ths)

AR&CO  
104



\*Others: 39

Room for expansion

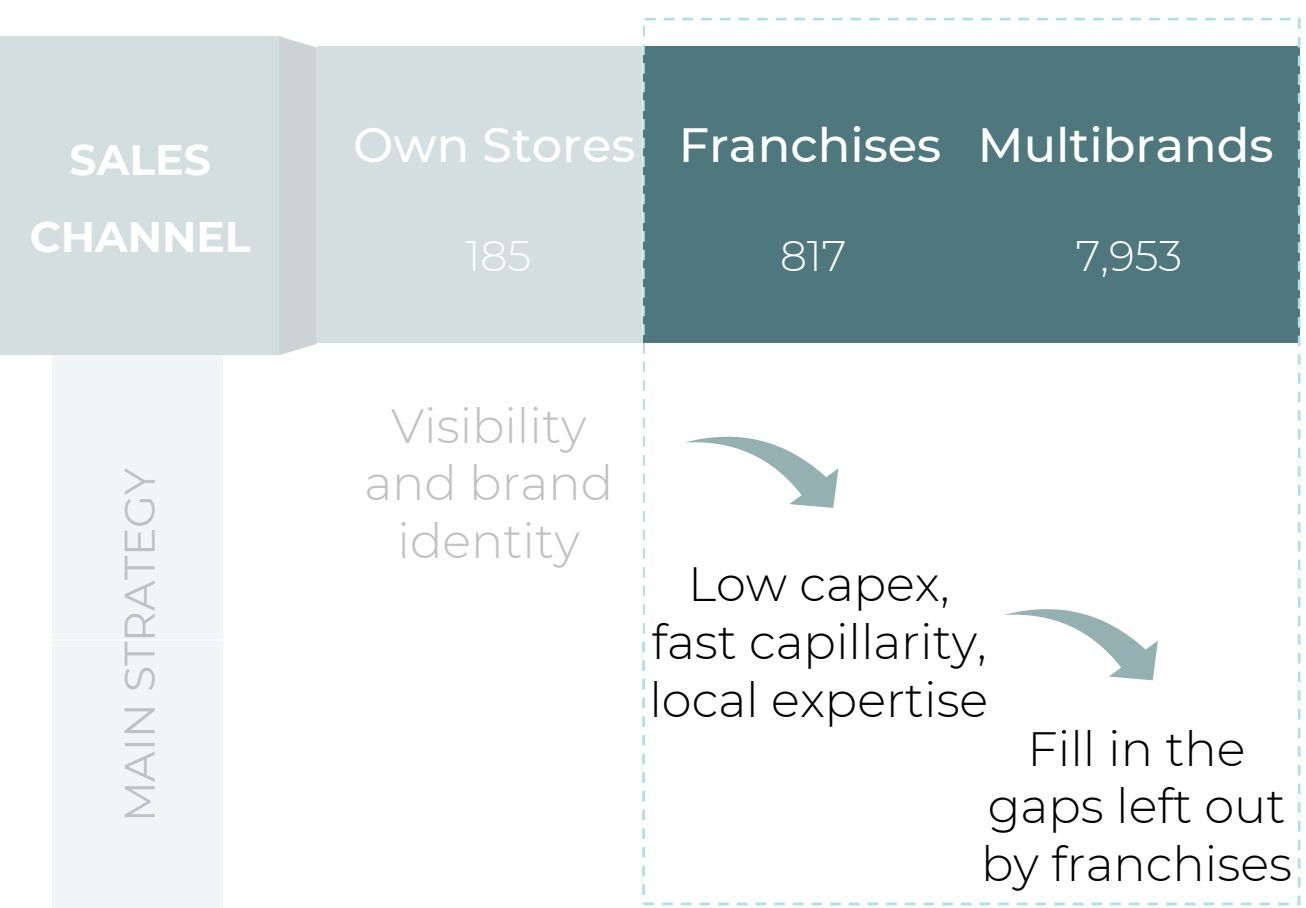
Valuation



# Sell-In: A **win-win** relationship

Expand fast without intensive capital, reinforcing asset light

Strategy and # of each channel



First-class business

Unique positioning

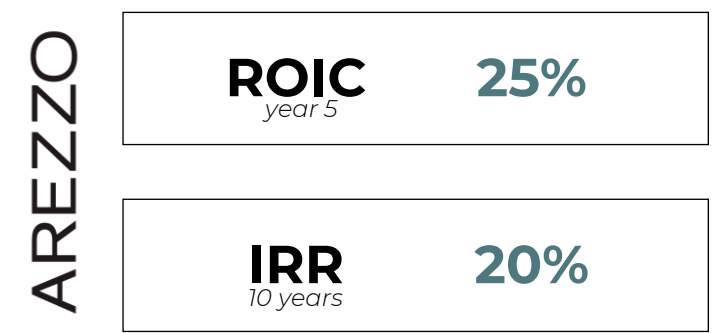
Room for expansion

Valuation

The risk is repassed but the return pays off



**But... Great returns for the franchisee!**



# Mastering the women's footwear market

We gathered the numbers of all main peers...

which highlights the company's national supremacy

Track all stores and assess brand presence across the country

```

from selenium.common.exceptions import NoSuchElementException
from selenium.webdriver.support.wait import WebDriverWait
from selenium.webdriver.support import expected_conditions as EC
from selenium.webdriver.common.keys import Keys

options = webdriver.ChromeOptions()
#prefs = {"profile.managed_default_content_settings.images": 2}
options.add_experimental_option('excludeSwitches', ['enable-logging'])

s = Service(r'C:\Users\isamatuoka\Documents\Progr\chromedriver_mac64\chromedriver')
driver = webdriver.Chrome(service=s, options = options)

nomeplanilha = "corello.csv"

with open(nomeplanilha, 'w') as file:
    file.write("nome;endereco;cidade\n")

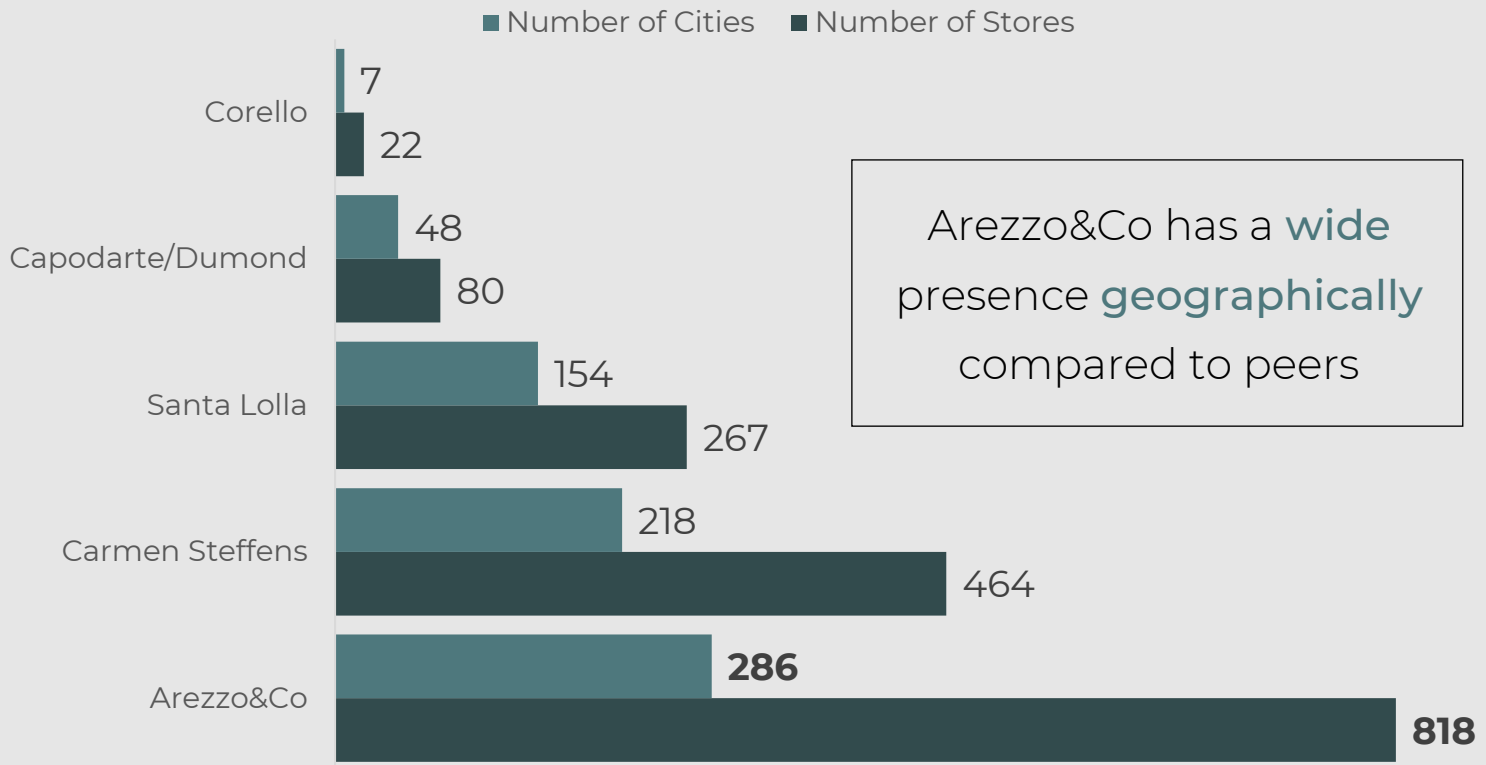
url = "https://corello.zendesk.com/hc/pt-br/articles/1500002871202-Lojas-F%C3%ADsicas"
driver.get(url)
time.sleep(3)

lojas = driver.find_elements(By.XPATH, '//*[@id="main-content"]/section/div/div/p[1]')
num_lojas = len(lojas)

for l in lojas:

```

Arezzo&Co and peers geographically



Arezzo&Co has a wide presence geographically compared to peers

First-class business

Unique positioning

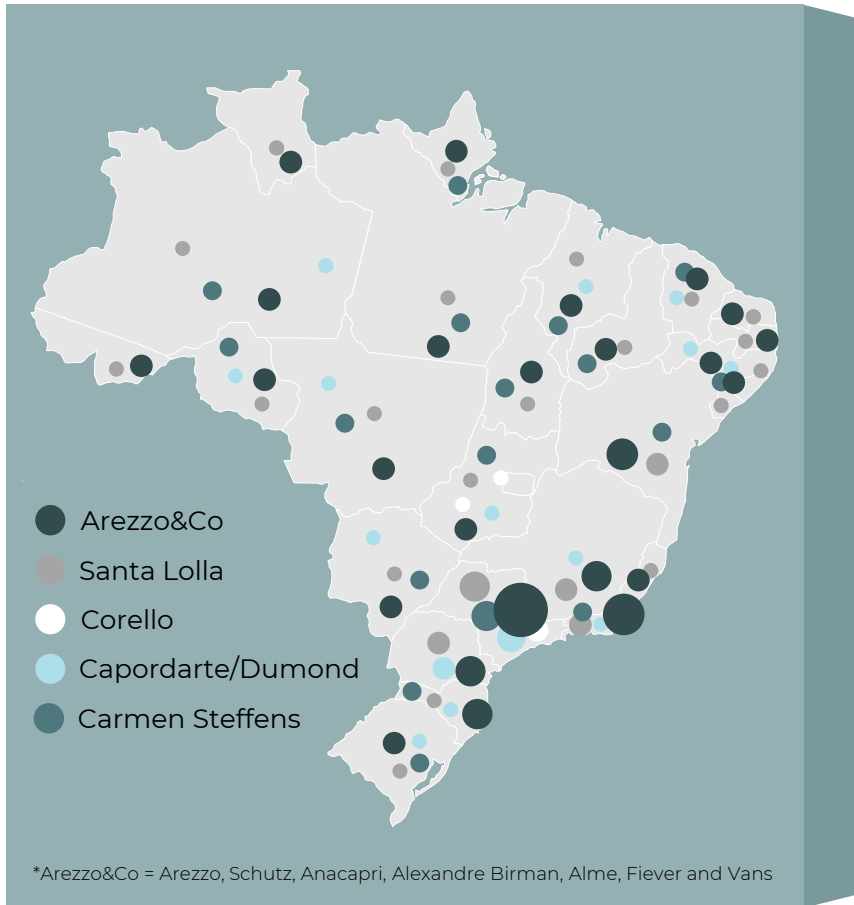
Room for expansion

Valuation

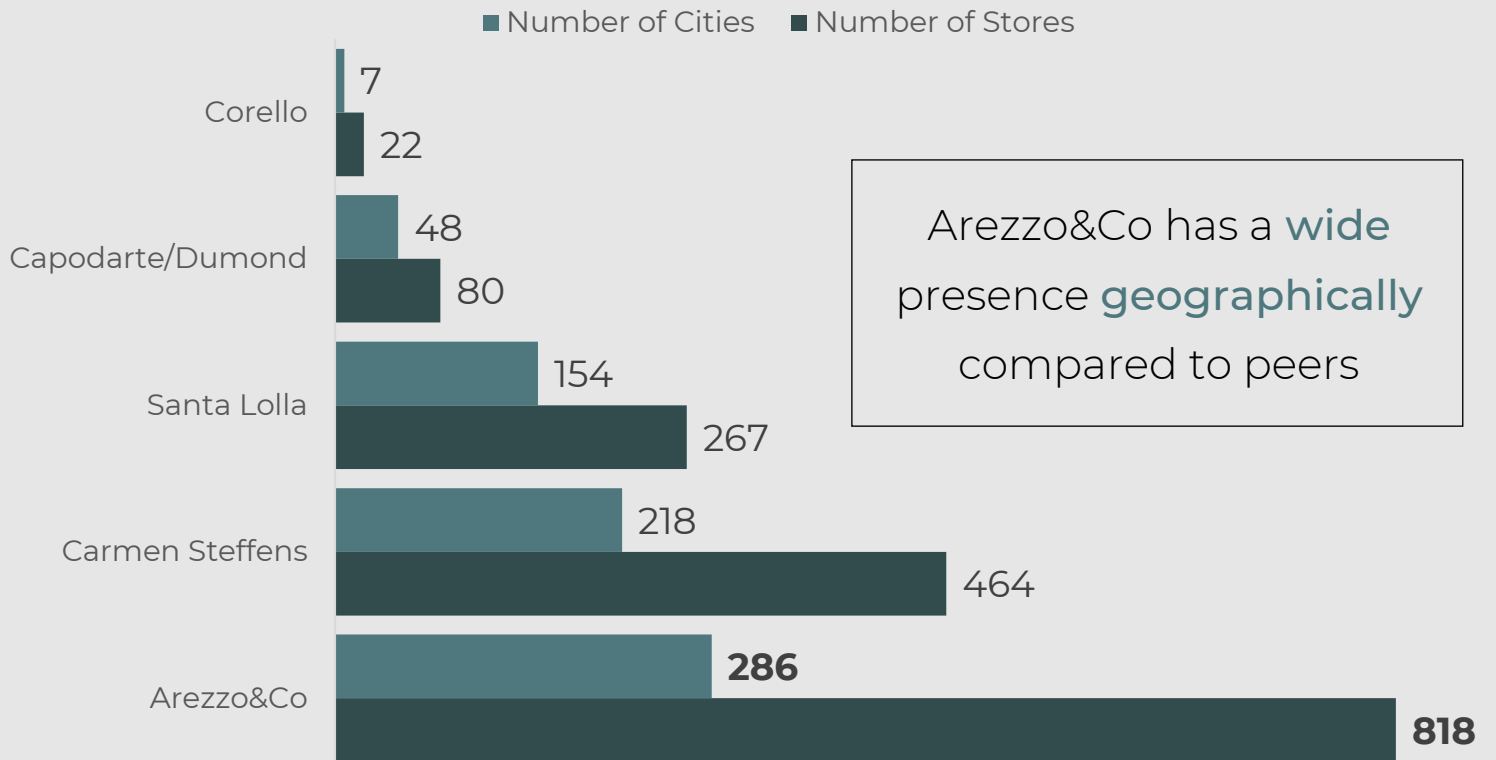
# Mastering the women's footwear market

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Arezzo&Co and peers geographically



First-class business

Unique positioning

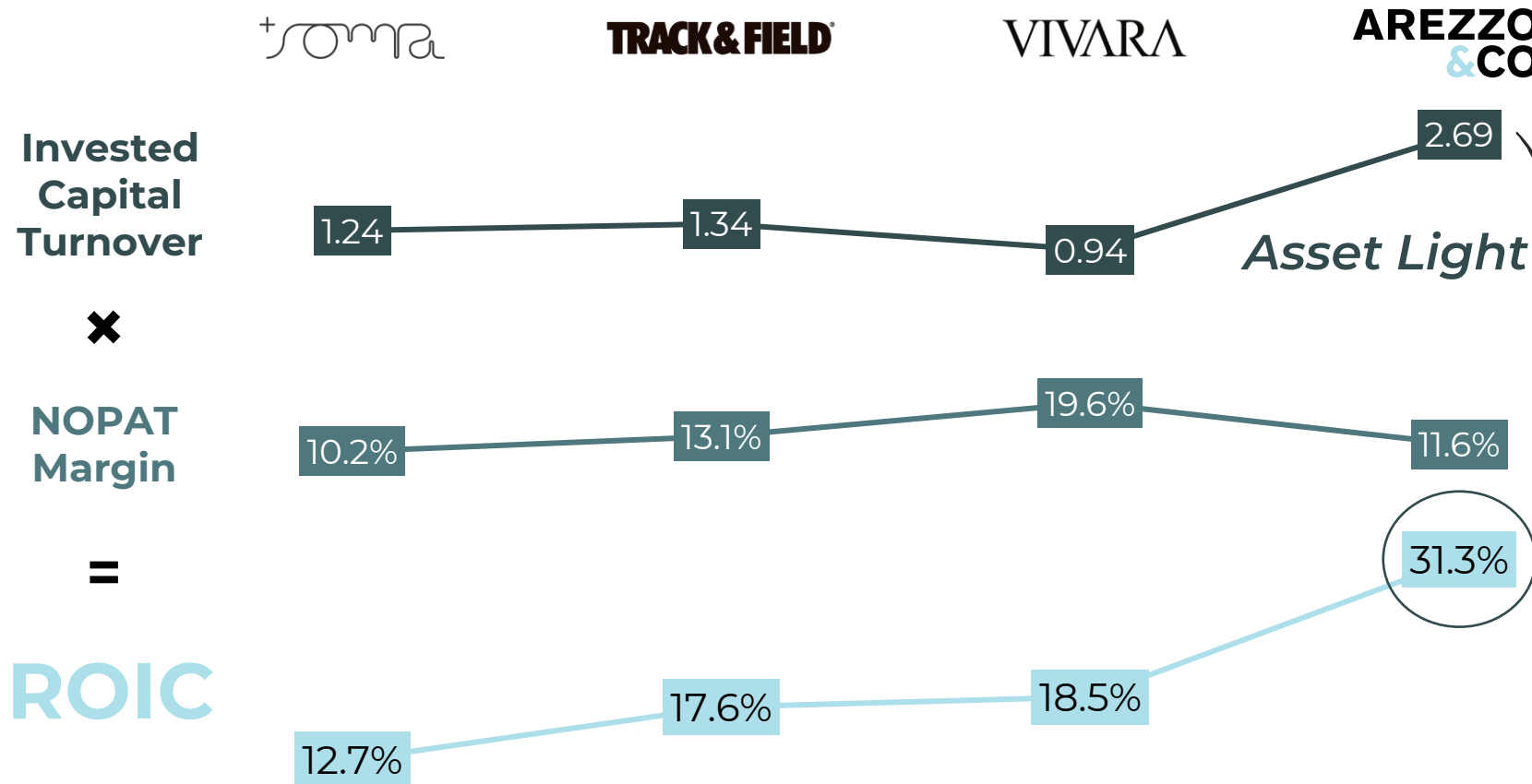
Room for expansion

Valuation

# Scale + Asset Light = Higher returns

Higher ROIC as a result of its scale plus asset light model, which enables Arezzo to concentrate efforts on brand construction

ROIC Dupont Analysis 2022 (ex. Goodwill)



Focus on:

- Brand management
- Development of products

First-class business

Unique positioning

Room for expansion

Valuation

# INVESTMENT THESIS



First-class business



Unique positioning



Room for expansion



Baw

INK

AREZZO

SCHUTZ

ANACAPRI

ALEXANDRE  
BIRMAN

PIER

ME

ZZ A  
ZZO

CAROL BASSI

ZZ'MALI

TROC



MY SHOE

VANS  
"OFF THE WALL"

# We committed to comprehend **consumer behavior**

Consumers were asked about the two factors influencing purchase

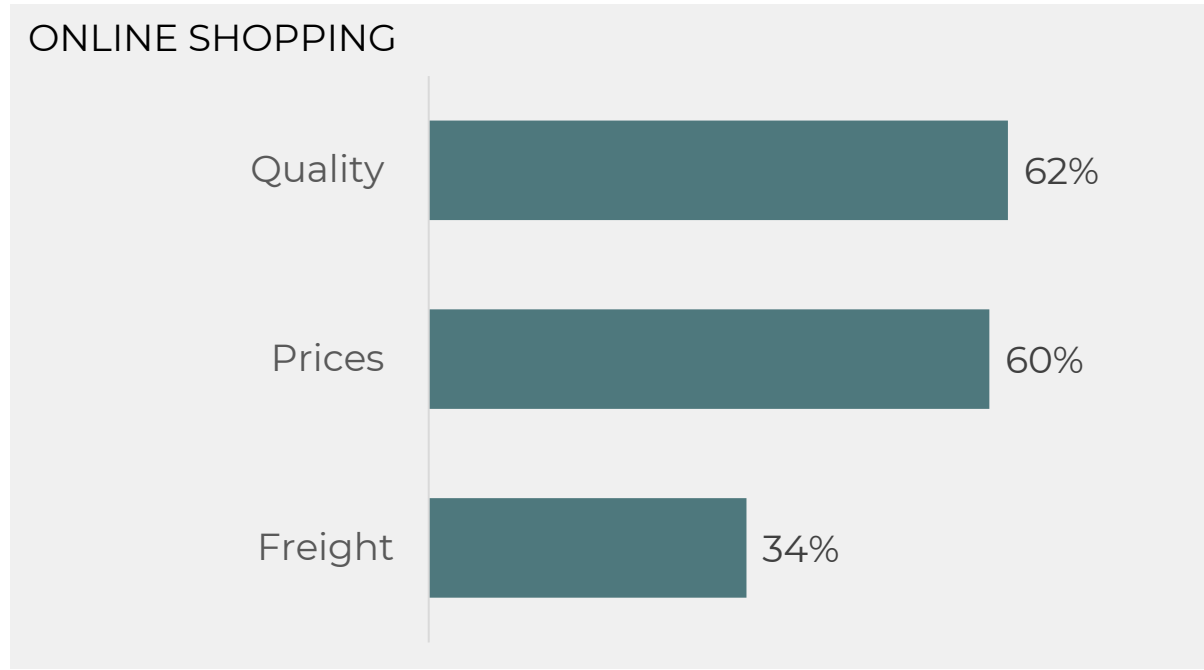
**652**  
ANSWERS

**A/B**  
SOCIAL CLASS

**15**  
STATES



“What are the 2 factors that influence the most your purchase decision?”



First-class business

**Unique positioning**

Room for expansion

Valuation

# First, we analyzed **prices** and **freight**

Deep comprehension of the dynamic of prices and freight

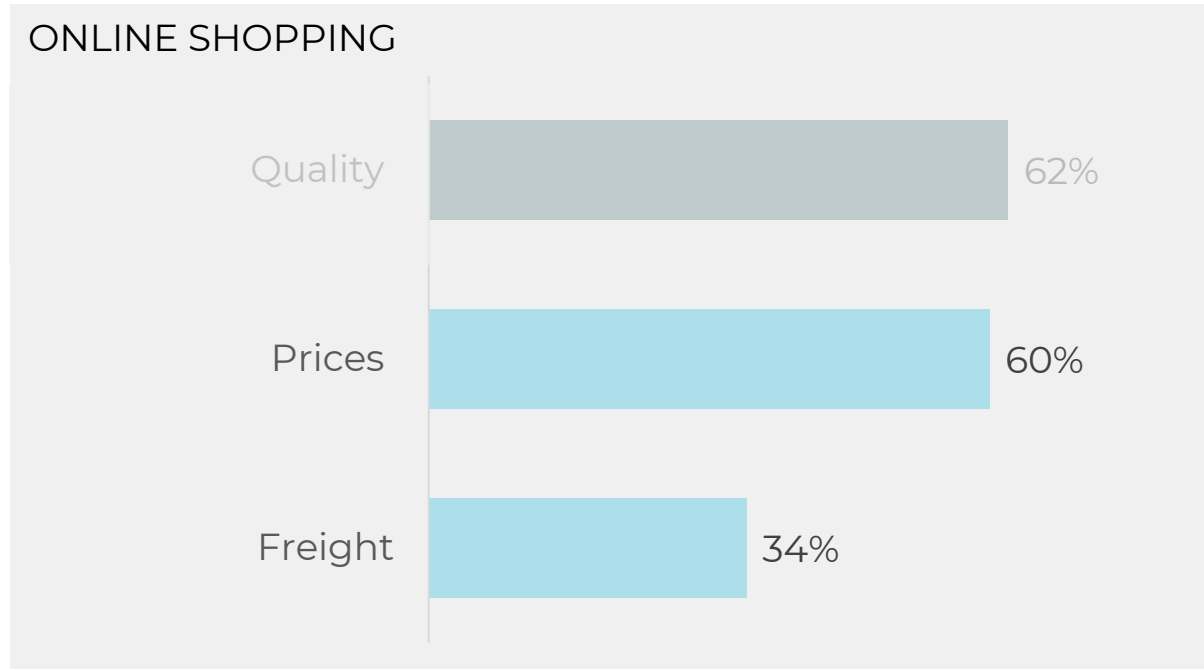
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First-class business

**Unique positioning**

Room for expansion

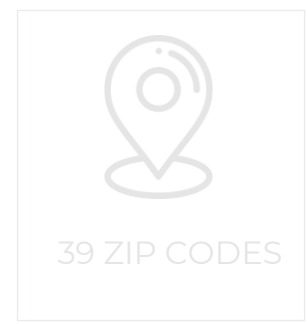
Valuation

# There is **no** substantial **disparity** in price

The prices when compared to peers are really similar

No significant difference in freight and transit time

Traditional		Young modern	
<b>AREZZO</b>	R\$ 240	<b>SCHUTZ</b>	R\$ 410
SANTA LOLLA	R\$ 200	<b>BOTTERO</b>	R\$ 380
CORELLO	R\$ 220	<i>Luiza Barcelos</i>	R\$ 400
LUZ DA LUA	R\$ 212		



	Transit Time (days)	Freight Price (BRL)
Anacapri	4	14
Arezzo	6	14
Capodarte	5	18
Corello	5	23
Dumond	5	17
Santa Lolla	4	11
Schutz	6	16
<b>Average</b>	<b>5</b>	<b>16</b>

Similar **price point** to different niches of the high income market



# Neither in freight

The prices when compared to peers are really similar

Traditional		Young modern	
<b>AREZZO</b>	R\$ 240	<b>SCHUTZ</b>	R\$ 410
SANTA LOLLA	R\$ 200	<b>BOTTERO</b>	R\$ 380
CORELLO	R\$ 220	<i>Luiza Barcelos</i>	R\$ 400
LUZ DA LUA	R\$ 212		

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Santa Lolla	4	11
Schutz	6	16
<b>Average</b>	<b>5</b>	<b>16</b>

# We also analyzed **store experience**

Then we took a deep look into consumer experience

**652**  
ANSWERS

**A/B**  
SOCIAL CLASS

**15**  
STATES



“What are the 2 factors that influence the most your purchase decision?”



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**Unique positioning**

Room for expansion

Valuation

# Franchises reinforce **consumer perception**

Robust alignment among franchises and Arezzo&Co was verified

## EQUAL EXPERIENCE IN FRANCHISES AND OWN STORES



- ◆ AVERAGE 22 VISITS/YEAR PER STORE
- ◆ RECURRING TRAINING PROGRAMS
- ◆ 3 SALES CONVENTIONS PER YEAR
- ◆ BACK OFFICE INTEGRATION

5 FRANCHISES INTERVIEWED

“We receive an **ongoing support** from Arezzo&Co, there is a strong alignment.”

- Livia Zago, Schutz and Anacapri franchisee

# Omni experience as the new real

The company converts its active clients into omni clients integrating online and physical sales



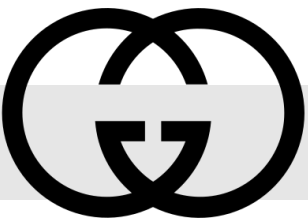
**25**  
Sales managers interviewed

**100%**  
Confirmed constant use of tools

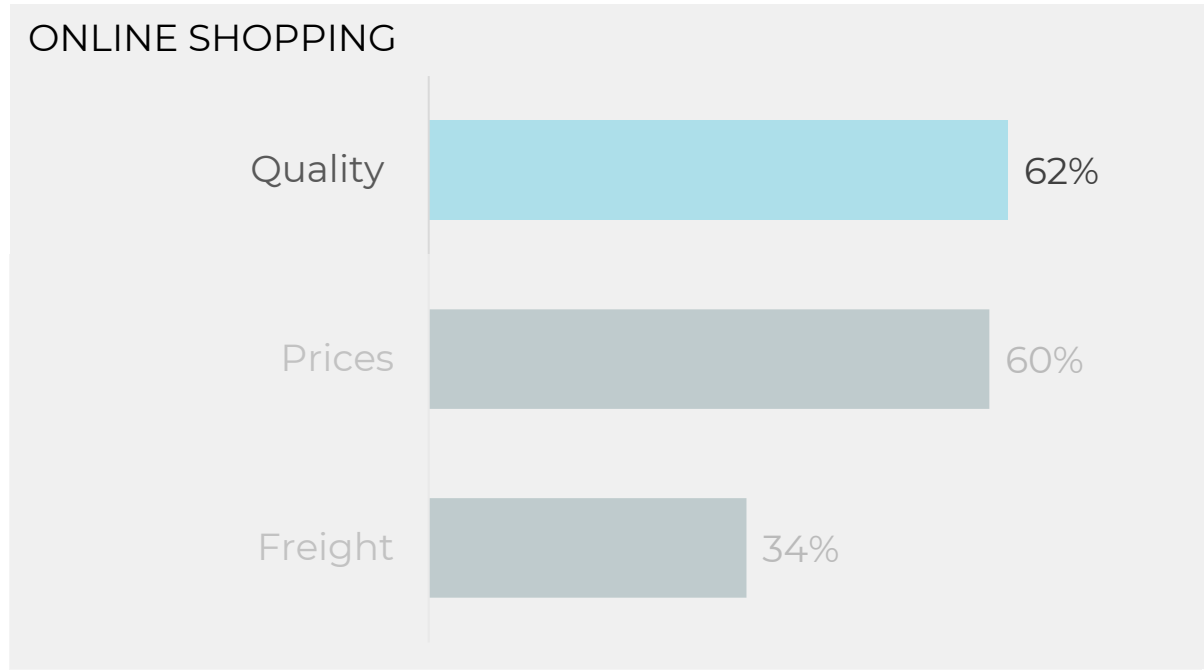
“We see the digital tools as **powerful mechanisms** to **retain clients** and leverage the potential of recurring revenue.”  
- Sales Manager at Arezzo, Iguatemi Campinas

# But what is Arezzo&Co triumph card? **Quality!**

Quality of products and perception of the brand as the main fortress



“Quality is remembered long after price is forgotten.” - Aldo Gucci



First-class business

**Unique positioning**

Room for expansion

Valuation

# We flew to **Campo Bom (RS)** to see it for ourselves



Arezzo&Co's unique source of inspiration sets it apart



**1 SOURCE OF INSPIRATION**

**2 TRIPS TO EUROPE  
100,000 PRODUCTS COLLECTION**

**2 MOOD & PRODUCTS SELECTION**

**3 ENGINEERING OF PRODUCTS**

**4 PROTOTYPE FACTORY**

**5 SELL IN & SELL OUT FEEDBACK**

**"The collection is a source of inspiration, as fashion is circular."**  
- Gilmar de Oliveira (Museum coordinator)

First-class business

**Unique positioning**

Room for expansion

Valuation

# We flew to **Campo Bom (RS)** to see it for ourselves



Including Alexandre Birman's deep engagement



- 1 SOURCE OF INSPIRATION
- 2 MOOD & PRODUCTS SELECTION
- 3 ENGINEERING OF PRODUCTS
- 4 PROTOTYPE FACTORY
- 5 SELL IN & SELL OUT FEEDBACK

**ALEXANDRE BIRMAN  
ACTIVE PARTICIPATION**

**“Alexandre is really active** in the R&D process of the brands.”  
- Julia Biason (R&D Manager at Arezzo)

First-class business

**Unique positioning**

Room for expansion

Valuation

# We flew to **Campo Bom (RS)** to see it for ourselves



Strong commitment to create desirable and well-fitting products



1 SOURCE OF INSPIRATION

2 MOOD & PRODUCTS SELECTION

3 **ENGINEERING OF PRODUCTS** | "CALCE TEST" WELL-FITTING & BEAUTIFUL

4 **PROTOTYPE FACTORY** | IN HOUSE TESTING & ADJUSTMENT TECHNICAL ARCHIVE TO OUTSOURCE

5 SELL IN & SELL OUT FEEDBACK

"We want beautiful and **well-fit products.**"  
- Thiago (Product Engineer at Arezzo)

HIGH QUALITY

DESIRABILITY

First-class business

Unique positioning

Room for expansion

Valuation



# The result: Fastest **lead time**

A winning lead time contributes to constant innovation and keeping up with tendencies

## LEAD TIME

**AREZZO & CO** 40 DAYS VS

180 DAYS  
**CCC**

80 DAYS  
*+roma*

+18/21  
LAUNCHES PER YEAR

VS

### AVERAGE PEERS

4/8  
LAUNCHES PER YEAR

"We want beautiful and **well-fit products**."  
- Thiago (Product Engineer at Arezzo)

HIGH QUALITY

DESIRABILITY

First-class business

**Unique positioning**

Room for expansion

Valuation

# Marketing as a far-reaching edge

Investing in marketing elevates brand awareness



  
x 13

MARKETING EXPENSES AS A BARRIER TO ENTRY

Access to notorious celebrities proves its dominance

Web scraping code

```

maxpost = 1000 # MUDAR
i = 322 # MUDAR
while i <= maxpost:

    start = time.time()
    url = df.iloc[i,0]
    driver.request_interceptor = interceptor

    driver.get(url)
    #driver = requests.get(url, headers = hd)
    time.sleep(1.5)

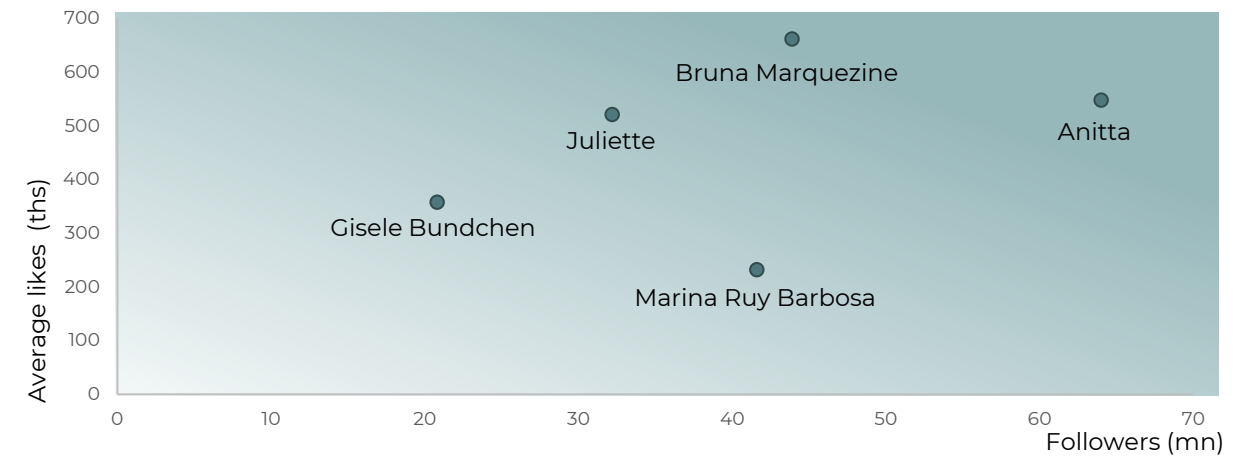
    last_height = driver.execute_script("return document.body.scrollHeight") - 900
    last_height = str(last_height)
    driver.execute_script("window.scrollTo(0, " + last_height + ")")

    data = WebDriverWait(driver,10).until(EC.presence_of_element_located((By.TAG_NAME, "time")))
    #descricao = WebDriverWait(driver,10).until(EC.presence_of_element_located((By.XPATH, "//*[@div/div/d
    try:
        comentarios = WebDriverWait(driver,10).until(EC.presence_of_all_elements_located((By.CLASS_NAME,
    except:
        comentarios = []

    try:
    
```



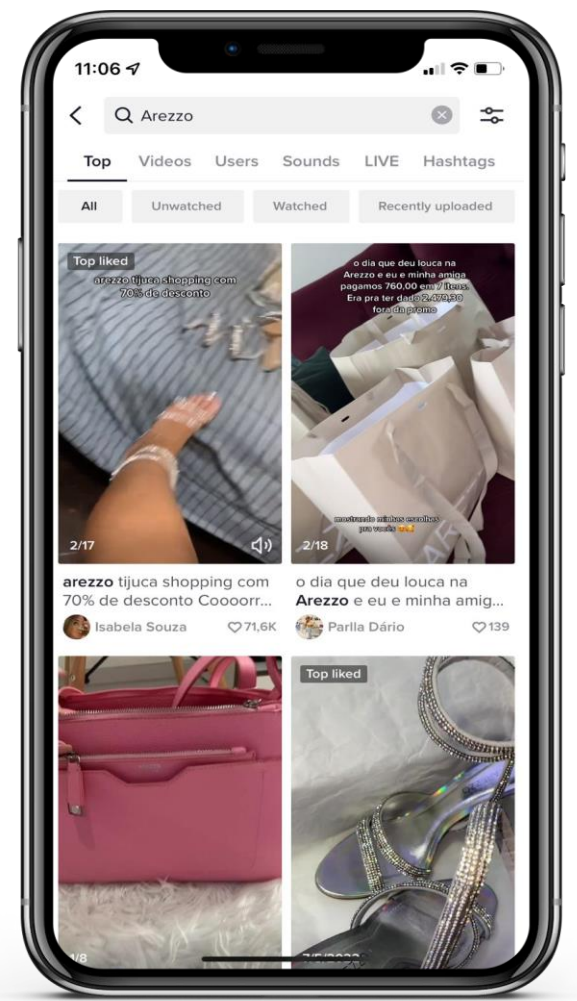
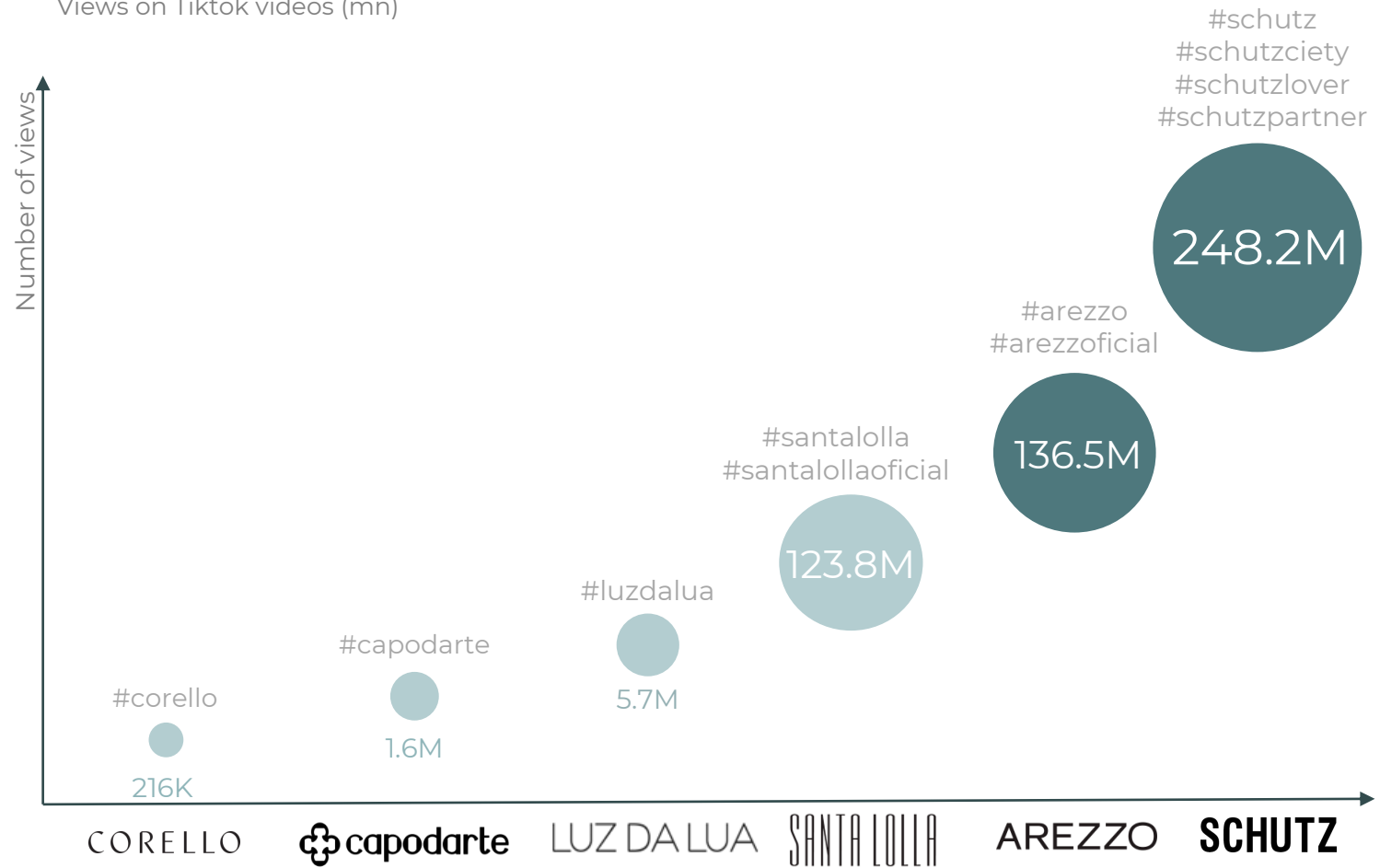
Influencers engagement on instagram followers and average Arezzo posts' likes



# Network effect leads to **free marketing**

Consumer engagement is converted into easy brand promotion

Views on Tiktok videos (mn)



CORELLO

capodarte

LUZDALUA

SANTA LOLLA

AREZZO

SCHUTZ

First-class business

Unique positioning

Room for expansion

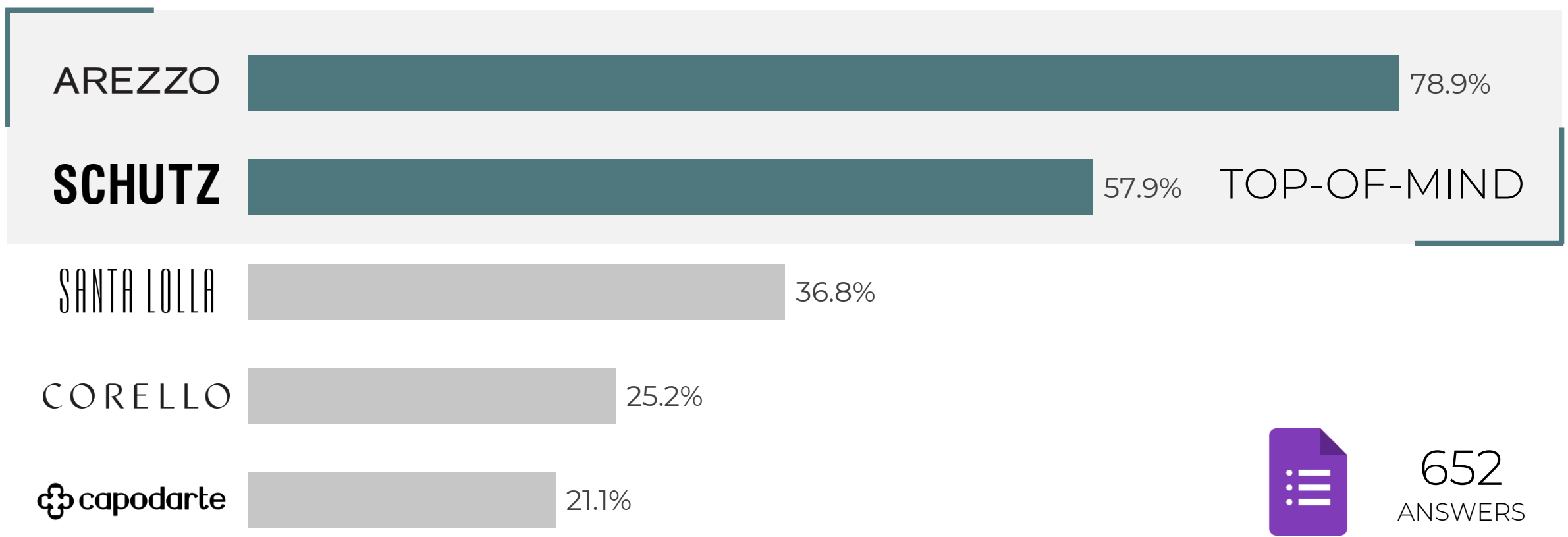
Valuation

Source: Proprietary research

# Arezzo&Co brands as **top-of-mind**

The result of outstanding R&D and Marketing, both as a synonym of quality

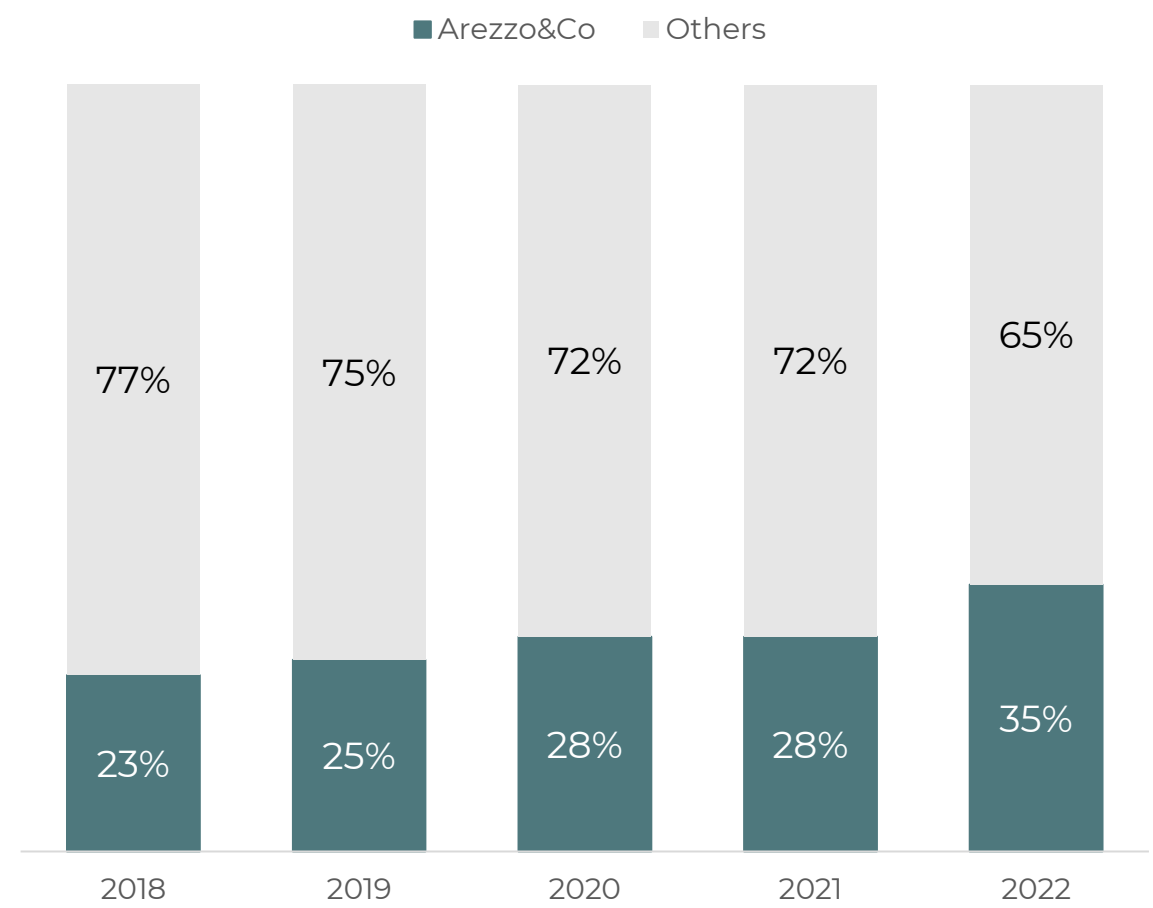
Consumers' top of mind brands (%)



# The outcome is **barrier to entry**

Unique positioning translates into rising share

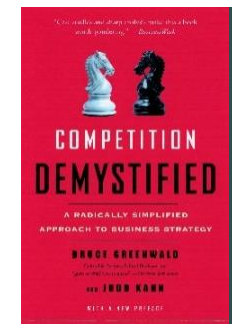
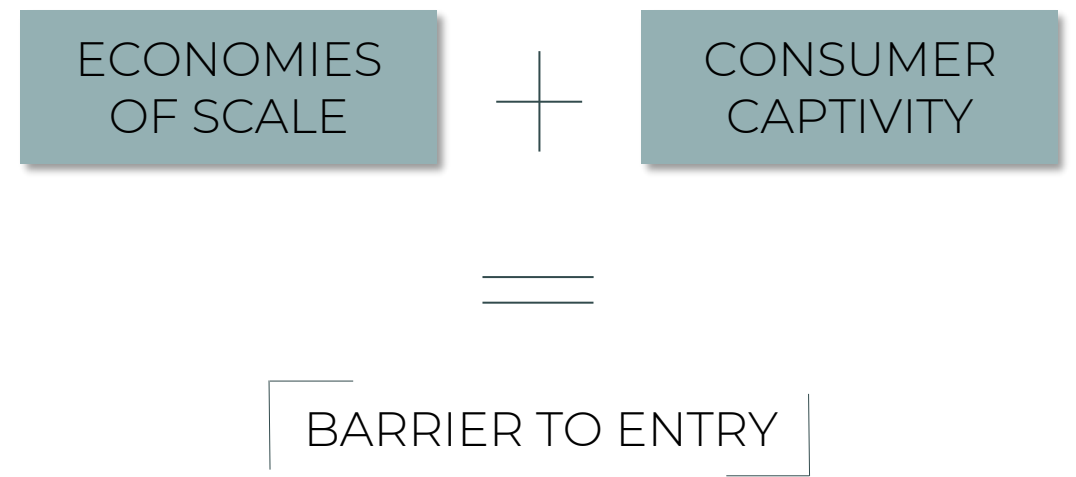
Women Footwear A/B Market Share (%)



First-class business

**Unique positioning**

Arezzo&Co positions itself as a dominant player



“In fact, the **truly durable competitive advantages** arise from the interaction of supply-and-demand advantages, from the **linkage of economies of scale with customer captivity.**”  
 – *Competition Demystified*

Room for expansion

Valuation

Sources: Competition Demystified, Team elaboration, Euromonitor

# INVESTMENT THESIS



First-class business



Unique positioning



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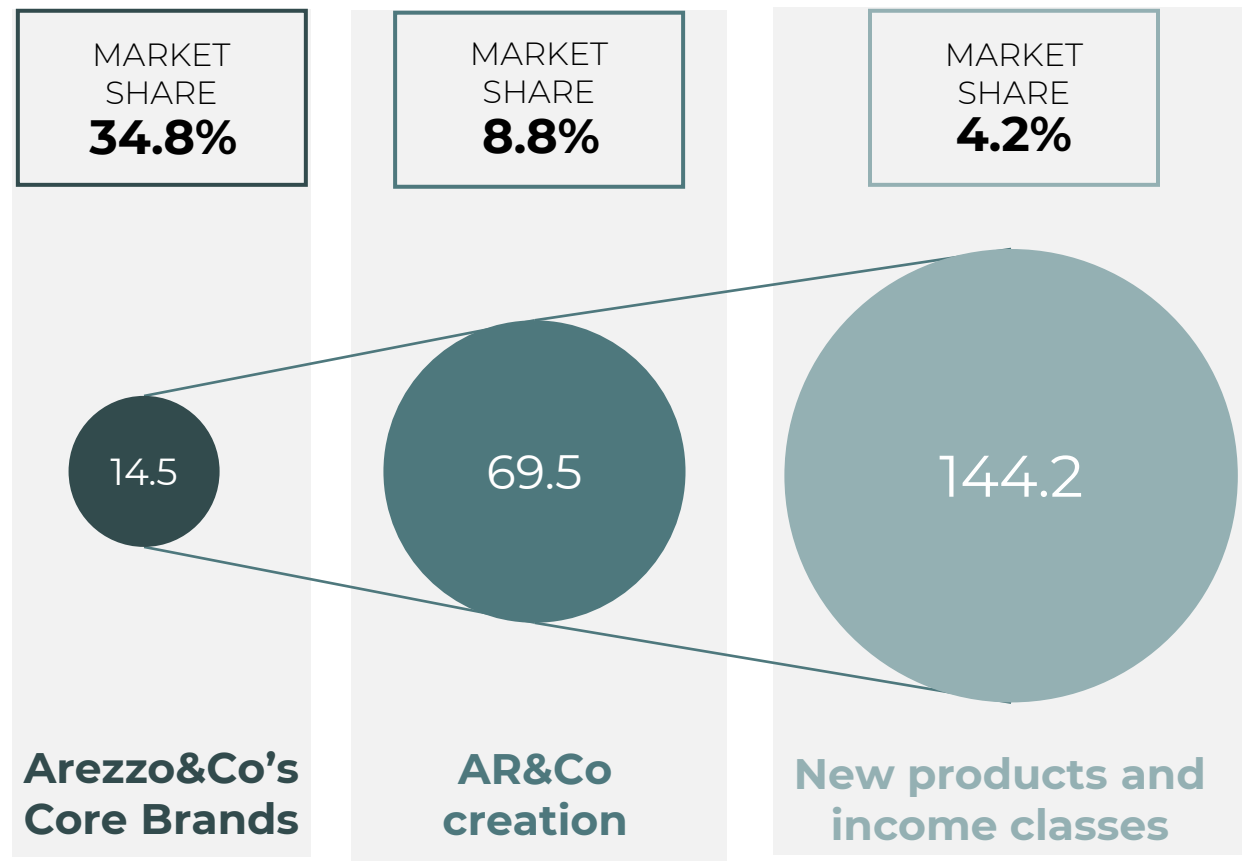
VANS  
"OFF THE WALL"

# Arezzo&Co has a great **room for expansion**

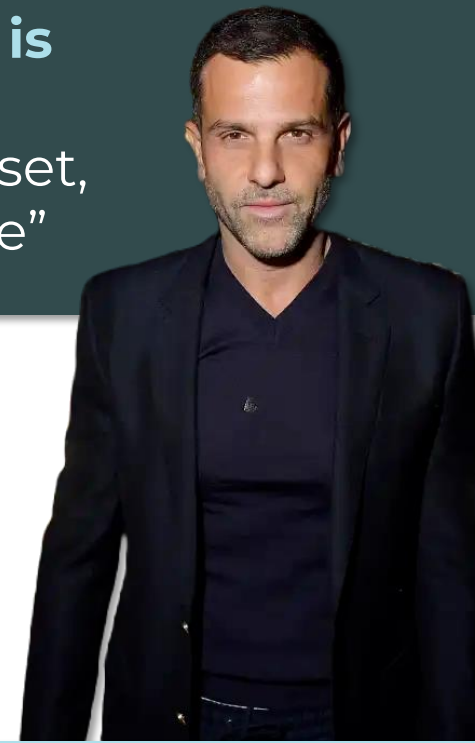
Arezzo&Co is increasing its addressable market...

by broadening reach in fashion sector

Total Addressable Market Evolution (BRL bn)



**“Our addressable market is the closet.** Think about everything there is in a closet, its where Arezzo&Co will be”



**Alexandre Birman, Arezzo&Co's CEO**

First-class business

Unique positioning

**Room for expansion**

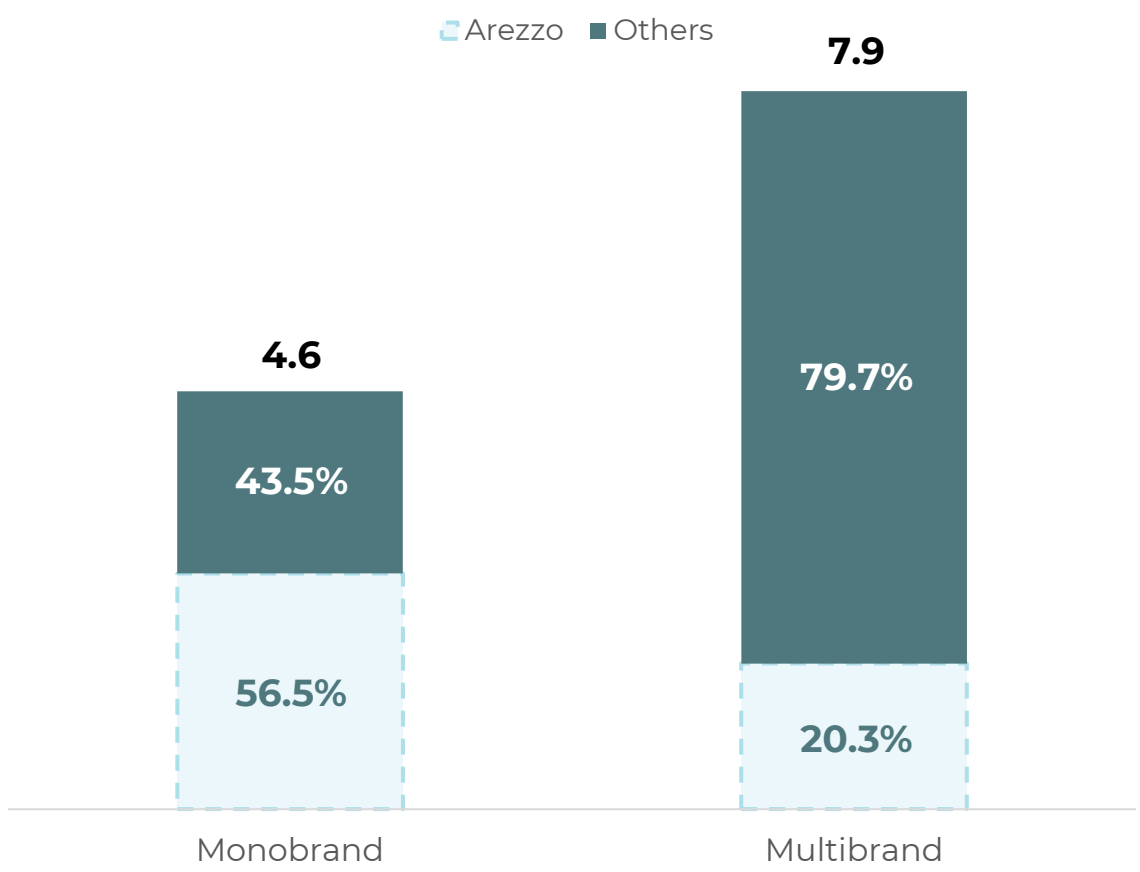
Valuation

Sources: Euromonitor, Company releases, Brazil Journal

# Multibrands: Still a lot to grow

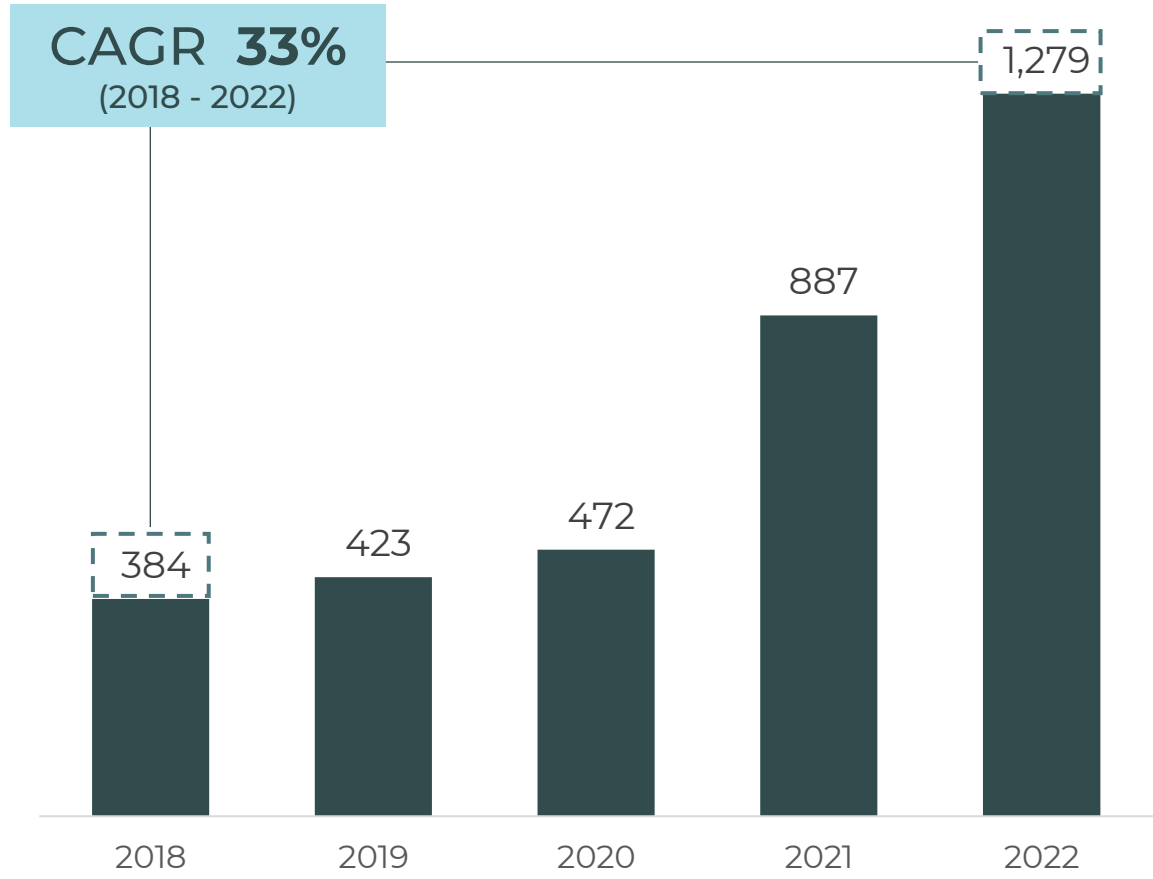
Arezzo&Co still has a low market share on this channel...

Women's footwear Arezzo&Co share (%) and total sales (BRL bn)



despite the recent growth

Multibrand revenue (BRL mn)



First-class business

Unique positioning

Room for expansion

Valuation

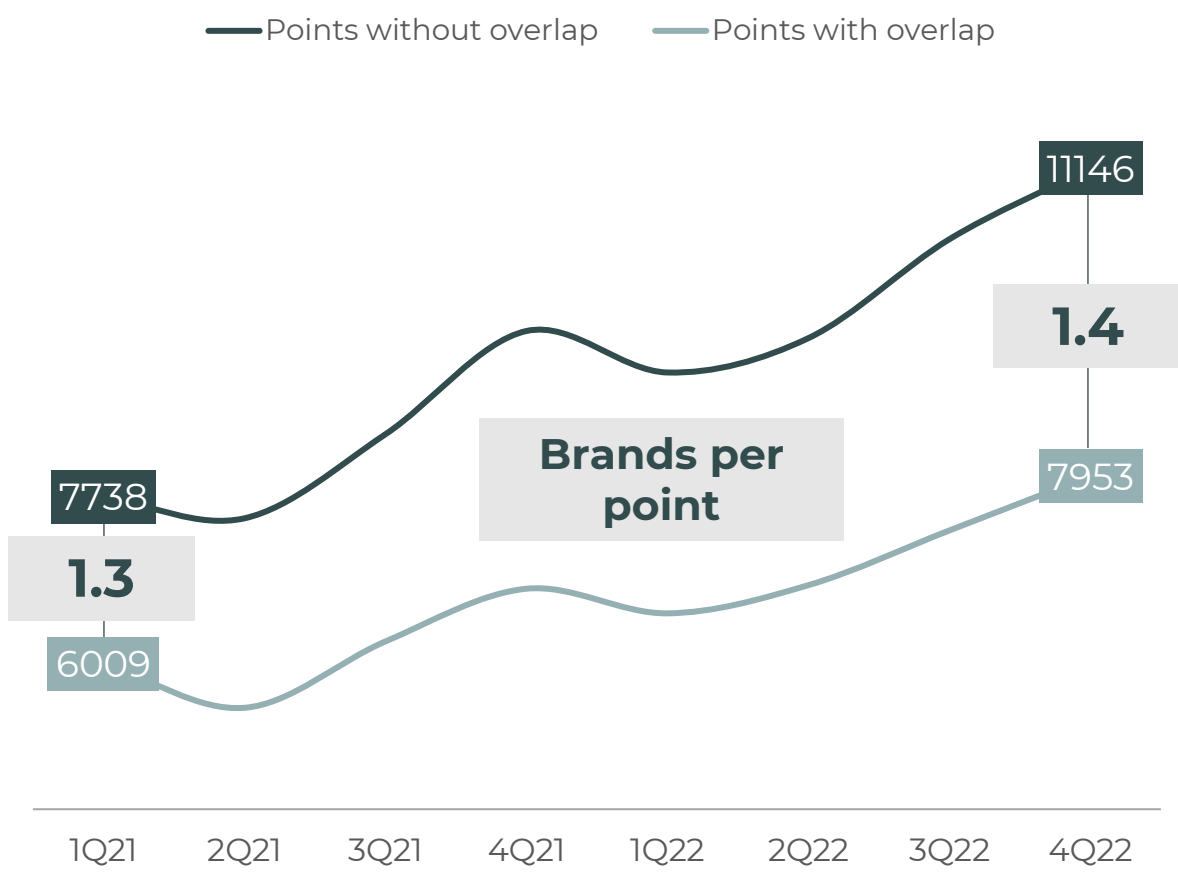
Source: Company releases



# Cross-selling its brands

A strong growth in sales points and cross-selling

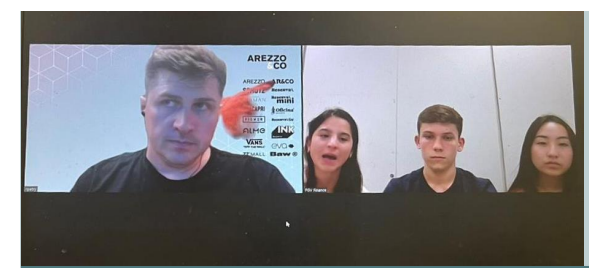
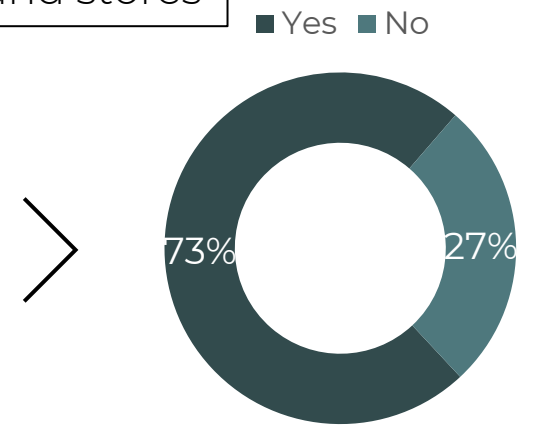
Arezzo&Co's revenue per point (BRL ths) and points of sale



We conducted on-site research to gain insights

We talked to **15** multibrand stores

“Do you want to **increase** Arezzo&Co share of wallet?”



“There’s a possibility of increasing sales by **30-40%** in some stores.”

**Rodrigo Petry, Multibrands Director at Arezzo&Co**

First-class business

Unique positioning

Room for expansion

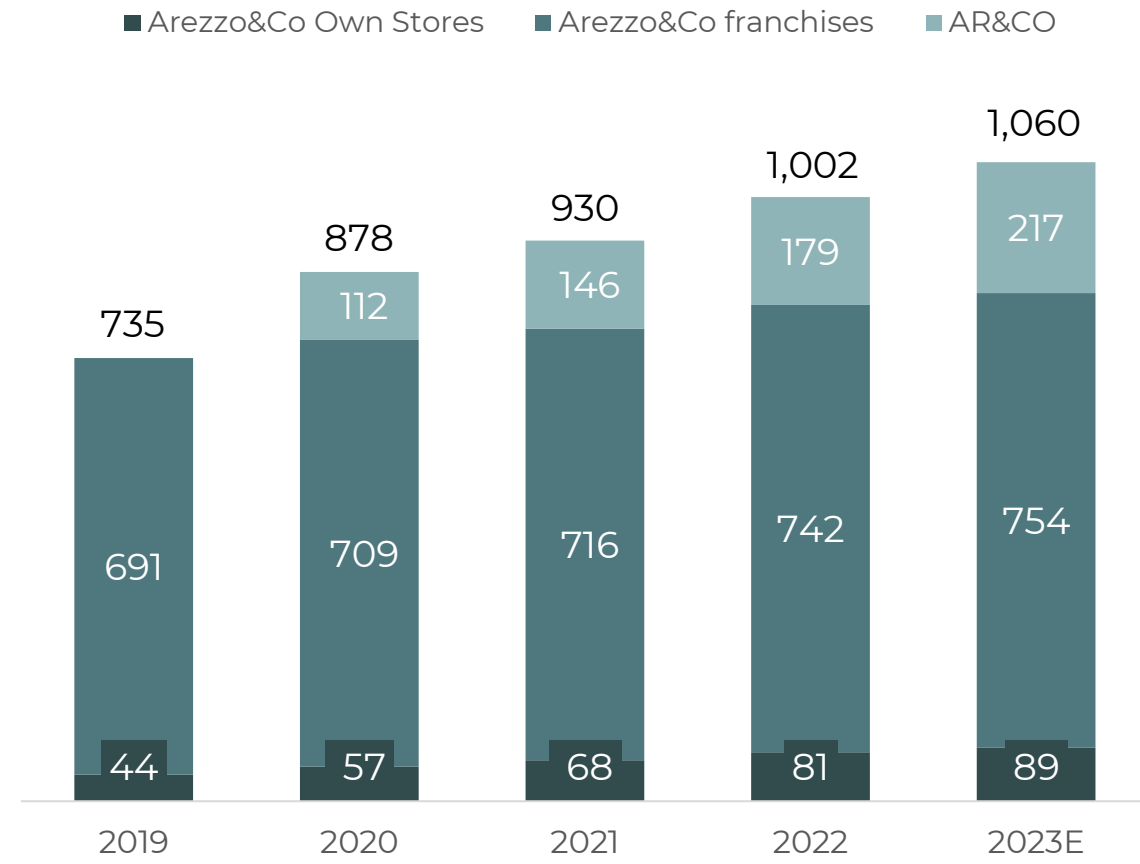
Valuation

Sources: Company releases, Proprietary research

# Arezzo&Co's B&M stores are **still growing**

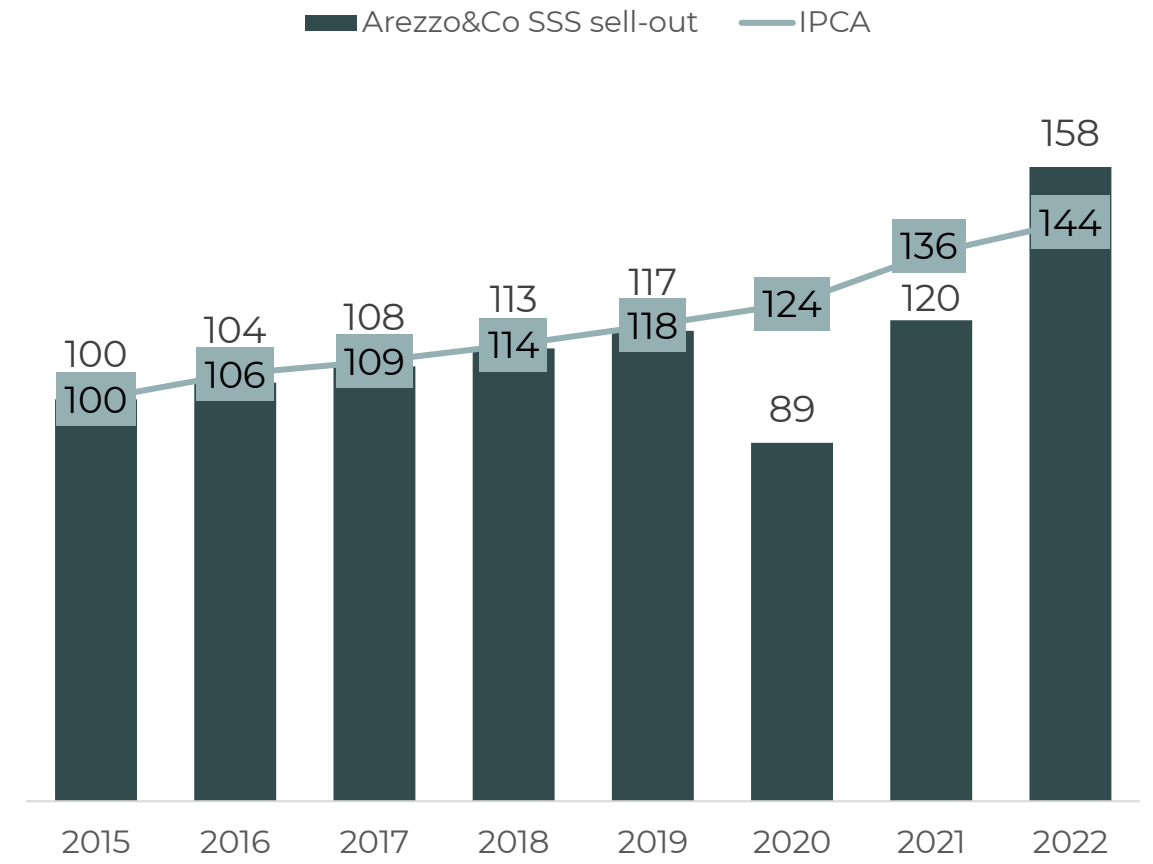
The company is opening new stores

Arezzo&Co B&M stores (#)



While SSS grows with inflation

Arezzo&Co SSS and IPCA, from 100 base



First-class business

Unique positioning

**Room for expansion**

Valuation

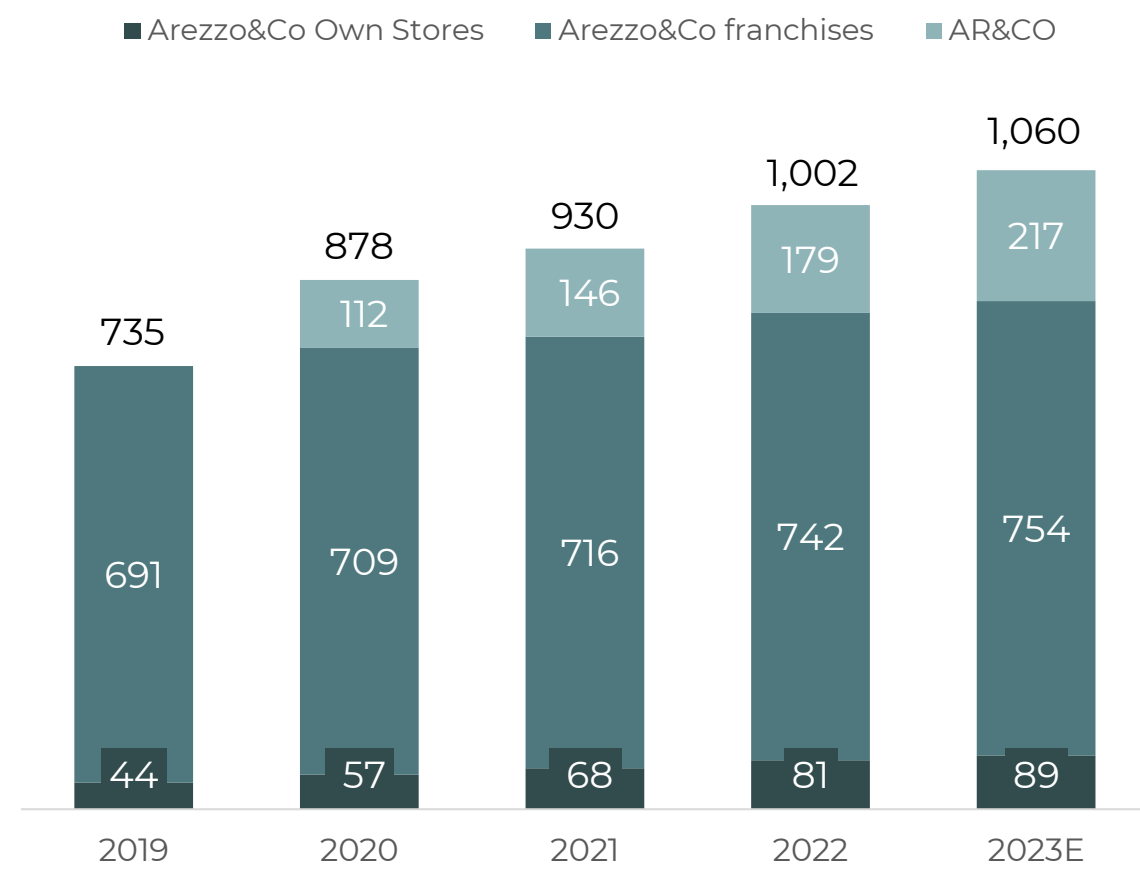
Source: Company releases

# Arezzo&Co's B&M stores are **still growing**

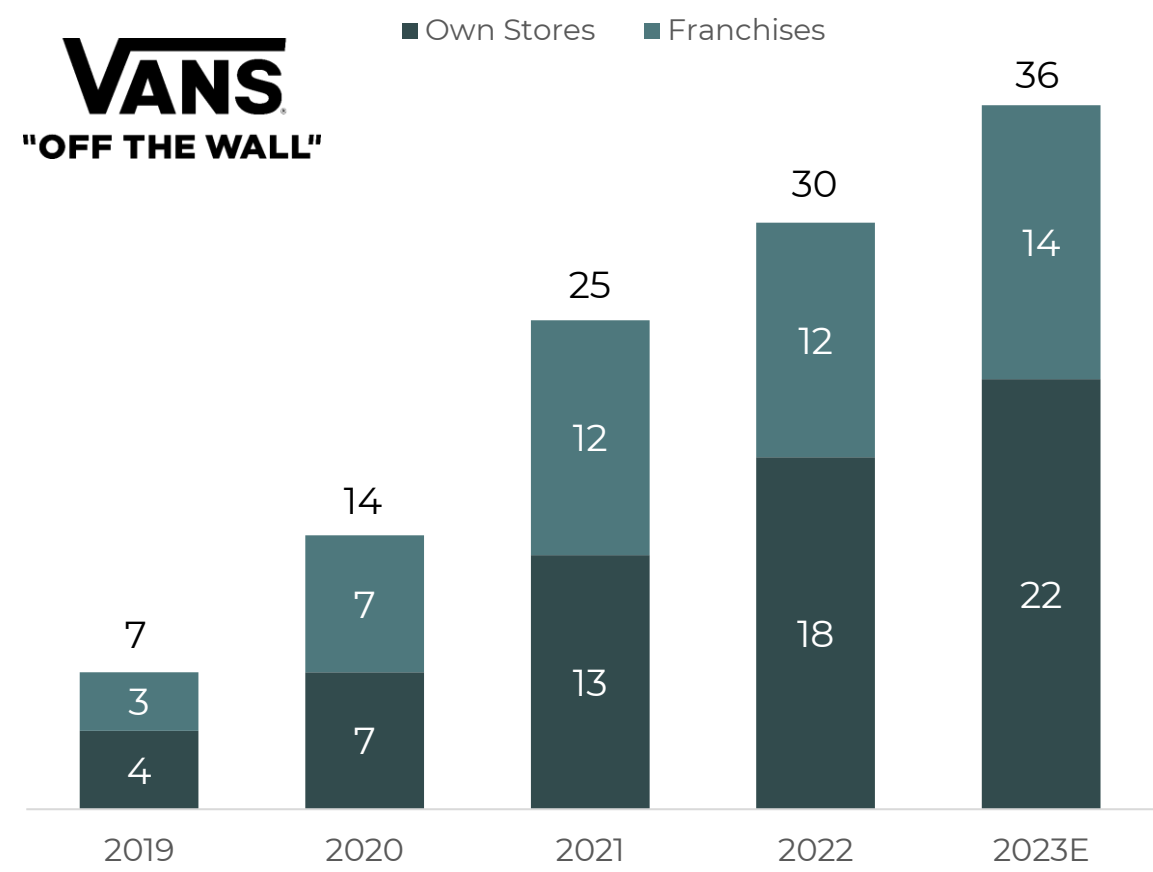
The company is opening new stores

Where is this growth coming from?

Arezzo&Co B&M stores (#)



VANS B&M stores (#)



First-class business

Unique positioning

**Room for expansion**

Valuation

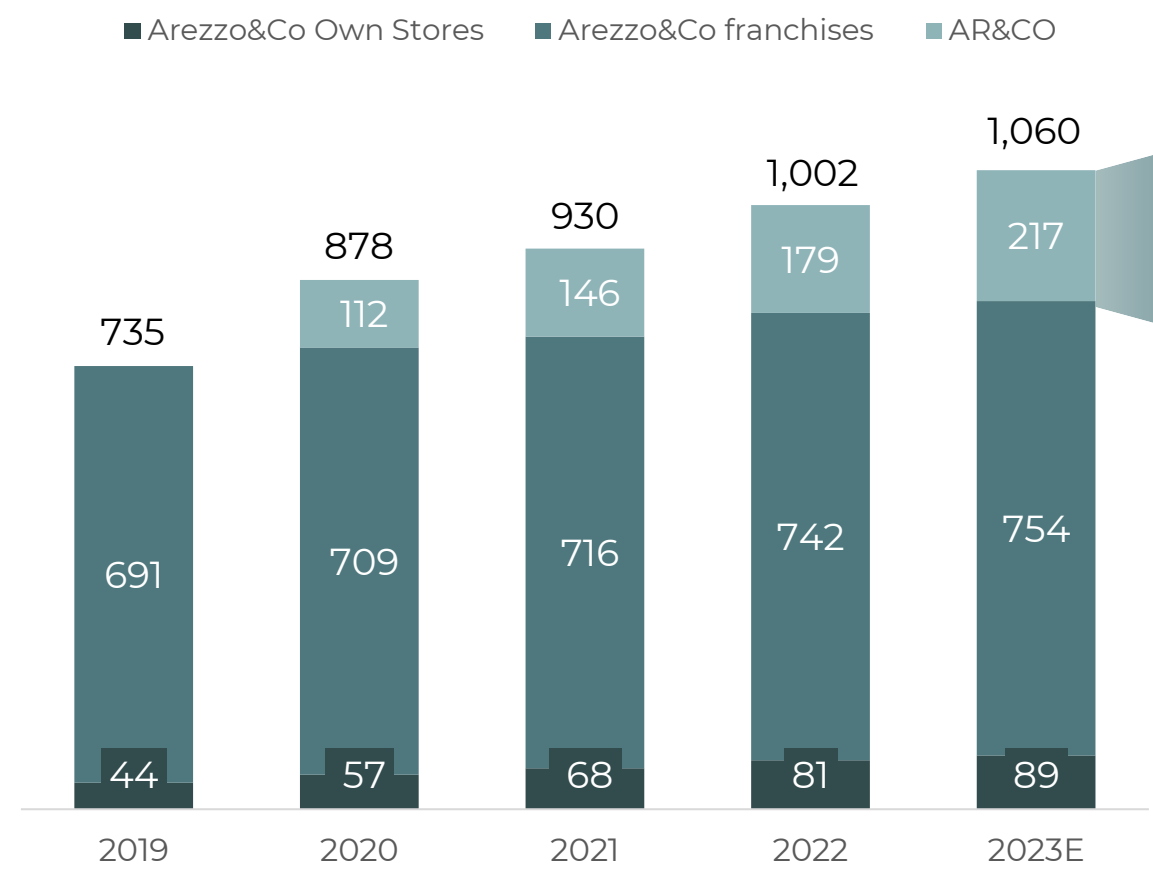
Source: Company releases

# Arezzo&Co's B&M stores are **still growing**

The company is opening new stores

But can it continue?

Arezzo&Co B&M stores (#)



VANS B&M stores (#)



AR&Co stands for most of this growth. Can it **continue** in the **future**?

**We think it can!**

First-class business

Unique positioning

**Room for expansion**

Valuation

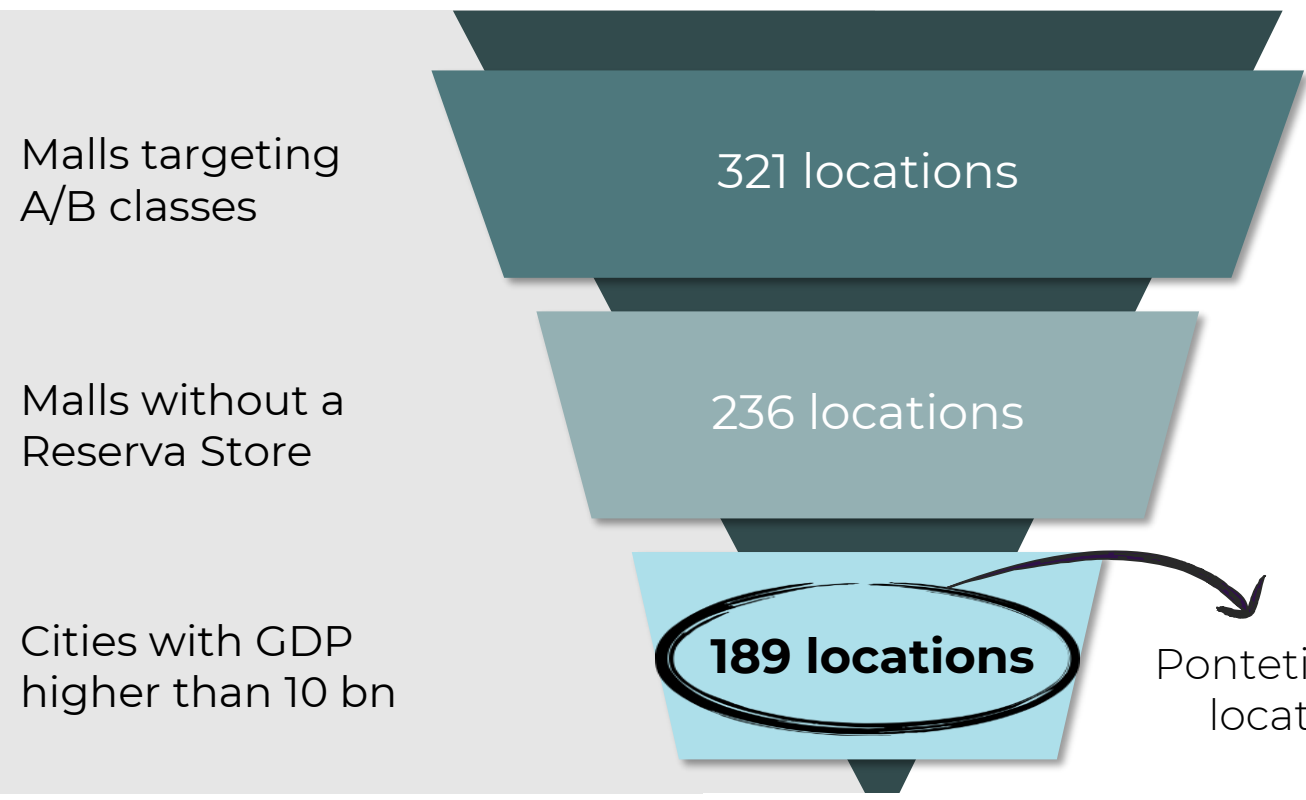
Source: Company releases

# We see a long path for Reserva to thrive

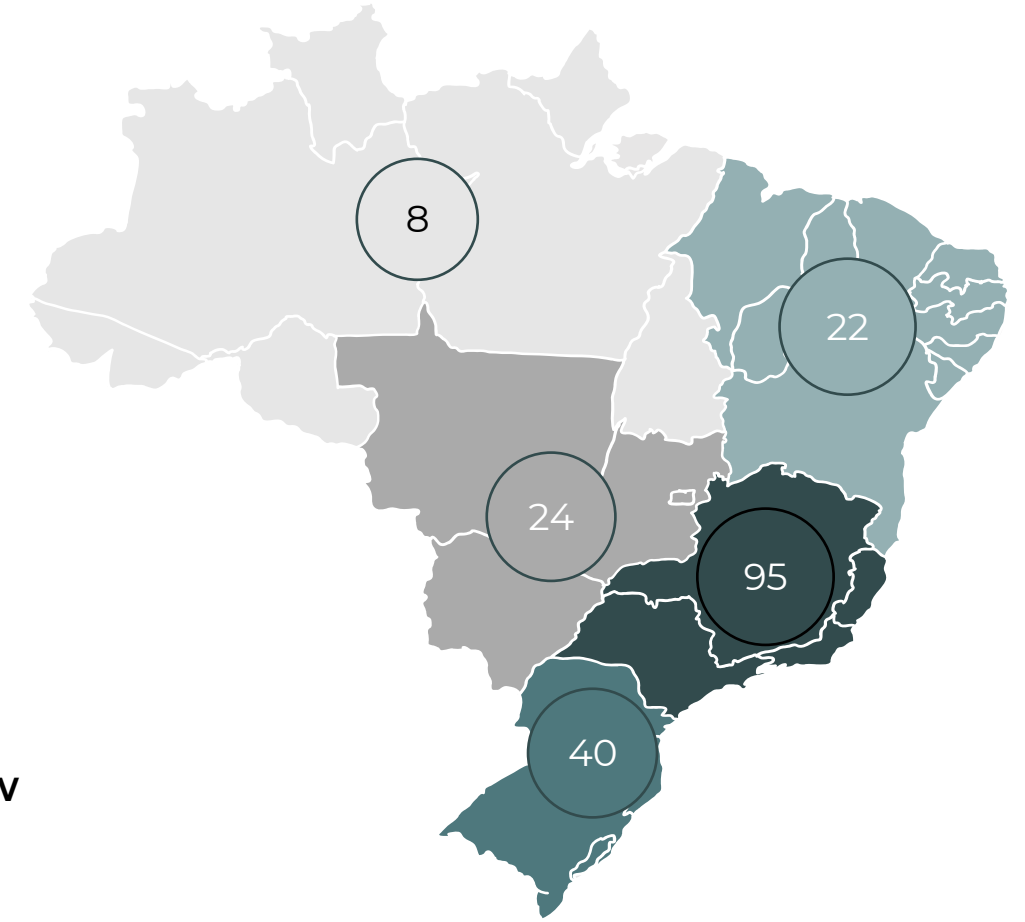
Reserva can penetrate new malls...

strengthening its geographic footprint

**+90%** of actual stores are in Malls



Potential locations per region



Pontetial **new** locations

First-class business      Unique positioning      Room for expansion      Valuation

Sources: Abrasce, IBGE, Team elaboration

# House of brands: Following an **inorganic avenue**

The company embraces M&A strategy...

successfully integrating them

M&A and Licensings



## Preserve identity and essence



**Keep brand founders**

“The brands **creation teams are independent**, but all report to Alexandre before launching.”  
 - Júlia Biason, R&D Manager at Arezzo

First-class business

Unique positioning

Room for expansion

Valuation

# AR&Co: Creating an apparel environment

Arezzo&Co uses its knowledge to create synergies...



“Our culture is from sell-out, Arezzo sell-in. Ours is from clients, Arezzo industry. These differences can create value”

**Rony Meisler, AR&Co's CEO**

by creating a platform for apparel brands

**Reserva core**

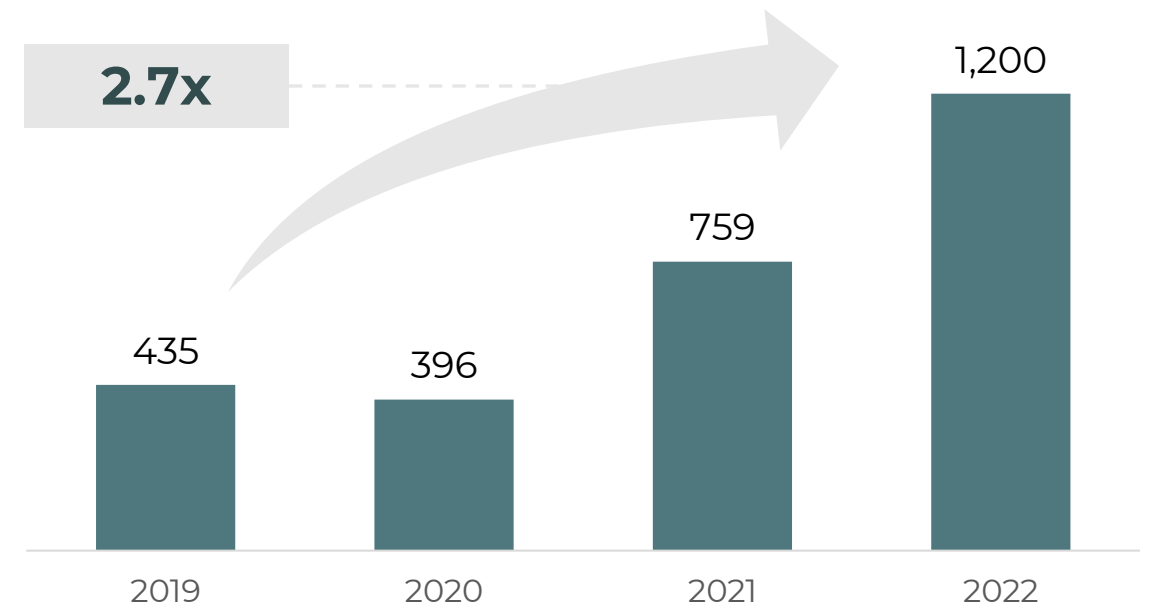


**AR&CO**



what increases acquired companies' revenue and value

AR&Co revenue (BRL mn)



Incremental NPV that Reserva generated for Arezzo&Co

**527 mn**  
In 2020

First-class business

Unique positioning


Room for expansion

Valuation


# VANS: Licensing at its best

Arezzo&Co applied its expertise to enhance VANS' operations

VANS stores and points of sale



VANS used **local sourcing** expertise to reduce lead-time



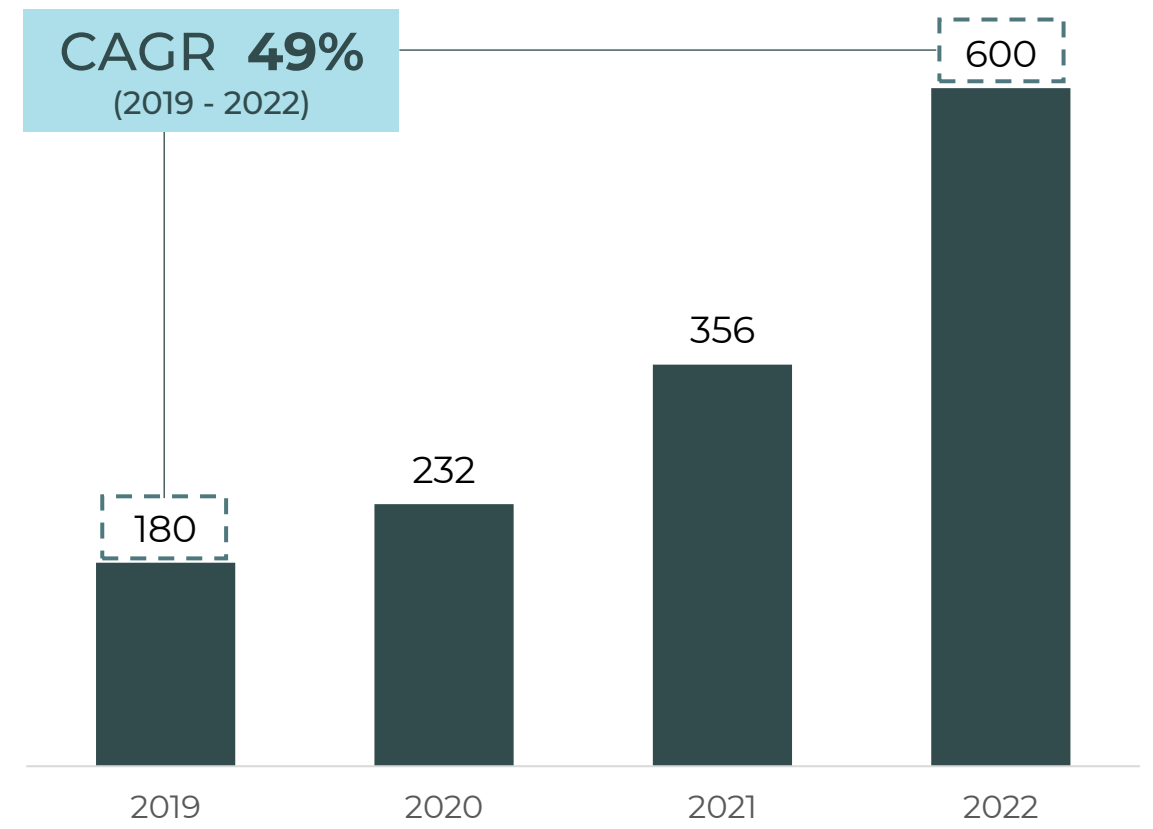
Arezzo&Co **sales channels** to boost VANS



**Marketing know-how** to promote the brand

which resulted in an outstanding growth

VANS revenue (BRL mn)



First-class business

Unique positioning

Room for expansion

Valuation

Sources: Company releases, Brazil Journal

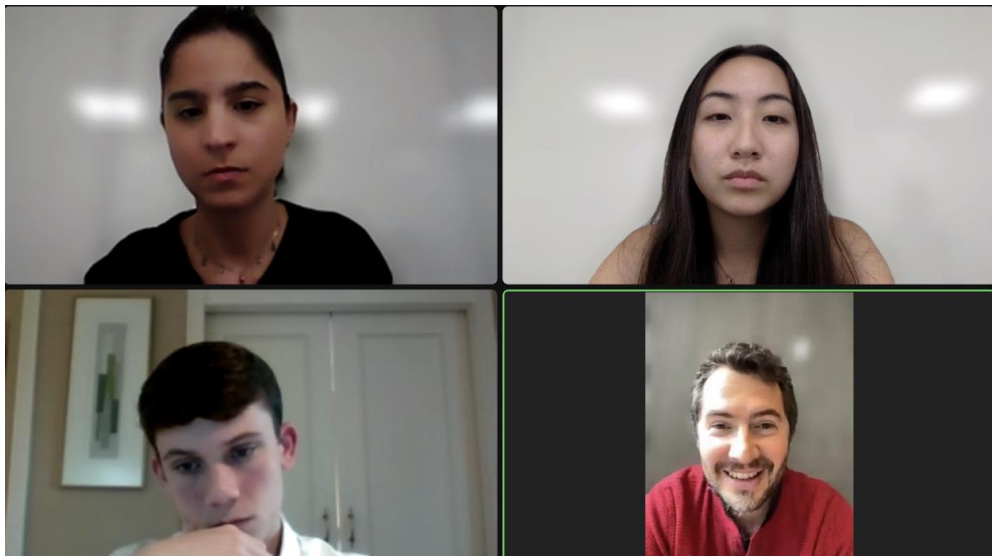


# US operation: **The big dream**

We took a step back to comprehend the past of US entry

The company made some mistakes in this journey

We talked to Fernando Caligaris to understand the progress



**Fernando Caligaris, Former CEO of ARZZ International**

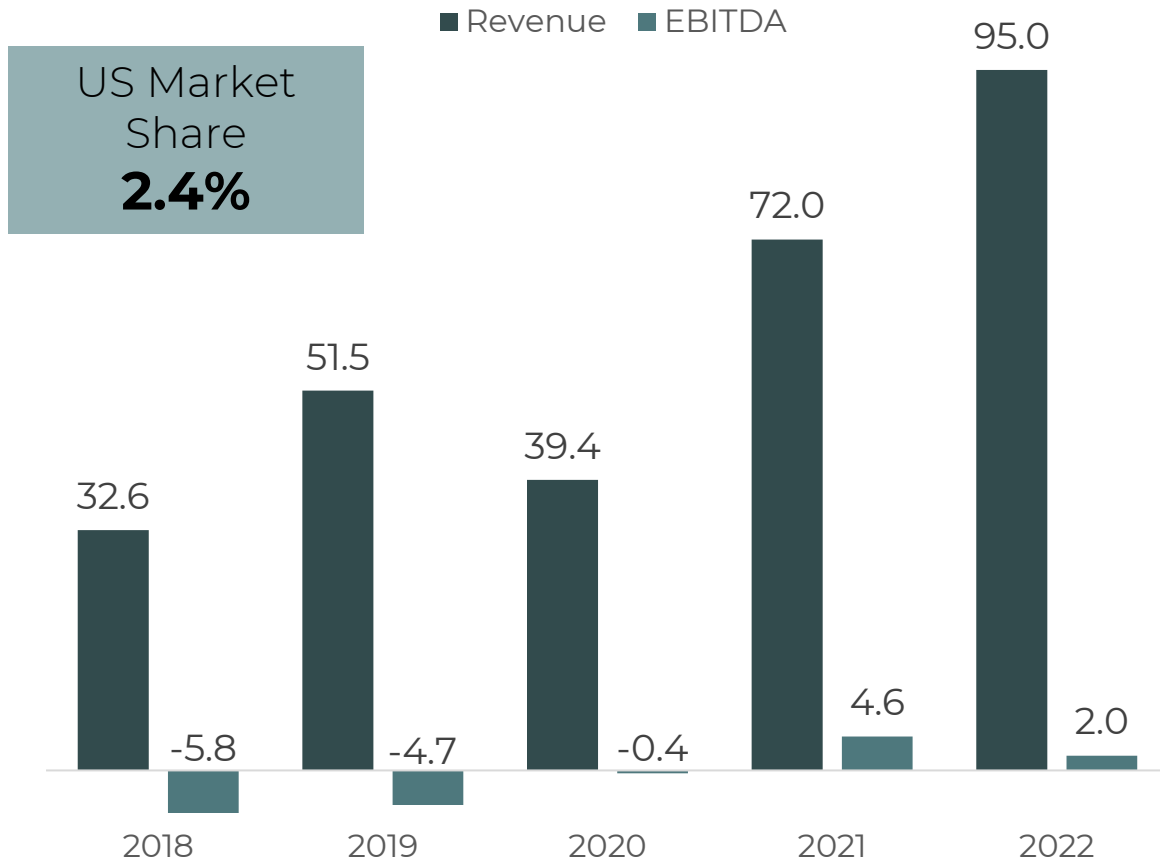
	<b>Before</b>	<b>Now</b>
<b>Pricing Strategy</b>	<i>Wrong price point</i>	<i>Proper price point</i>
<b>Sales Channel</b>	<i>B&amp;M Stores</i>	<i>Digital Priority</i>
<b>Team Location</b>	<i>USA Based</i>	<i>Brazil Based</i>

# All set to leverage **emerging brands**

US revenues are rising, with improving margins

And we see the company doing M&As to scale up

US Revenue and EBITDA (USD mn)



What are the best brands to scale?

- Fresh-launched** brands
- Established **star product**
- Similar** target **customer**

◆ How is Arezzo&Co putting this into practice?

**'Made in Italy': Arezzo&Co buys Paris Texas brand**

Brazil Journal

**PARIS TEXAS**

First-class business

Unique positioning

Room for expansion

Valuation

# Ready to take on **opportunities!**

Arezzo&Co has an ocean of inorganic opportunities to explore

## Apparel and Footwear

## Fitness

## International

M&A

MR.CAT

MIXED

SHOULDER

LIVE!

**TRACK & FIELD**

**Dass**  
IMPLEMENTING SPORTSWEAR BRANDS

**AMINA MUADDI**

MACH & MACH

D'ACCORI

JENNIFER CHAMANDI  
LONDON

PĪFERI



NAKED WOLFE

Licensing

**Timberland** 

**THE NORTH FACE** 

  
**LACOSTE**

  
**POLO**  
RALPH LAUREN

  
**adidas**

First-class business

Unique positioning

Room for expansion

Valuation

AR&CO AREZZO

# ESG ANALYSIS

UNBRAND®

Oticina  
RESERVA

DIRTYMAN

TROO

Baw

PIER



MY SHOES

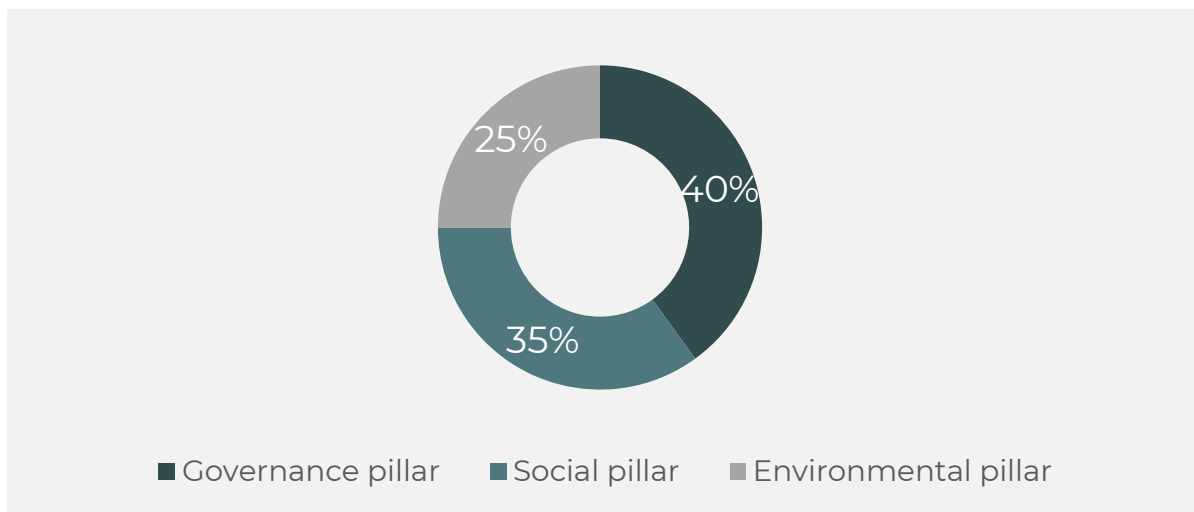
INK

ME

# Walking through a strong **ESG agenda**

Arezzo&Co is ahead of comparable peers in ESG practices

ESG scores' weights (%)

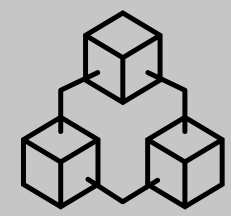


**4.3**  
 Weighted score  
 Fashion retail adjusted score = 3.8  
 5 companies analyzed

Despite of fast fashion exposure, the company is advancing

**ALME TROC**

100% SUSTAINABLE BRAND  
 SUPPORTING CIRCULAR ECONOMY



LEATHER TRACEABILITY:  
 BLOCKCHAIN TECHNOLOGY



NATIONAL PRODUCTION  
 91% CERTIFIED BY ABVTEX

AR&CO AREZZO

# FINANCIALS & VALUATION

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RESERVA

DIRIMIAN

TRCO

Baw

PIER



MY SHOES

INK

ME

# Expansion of B&M stores

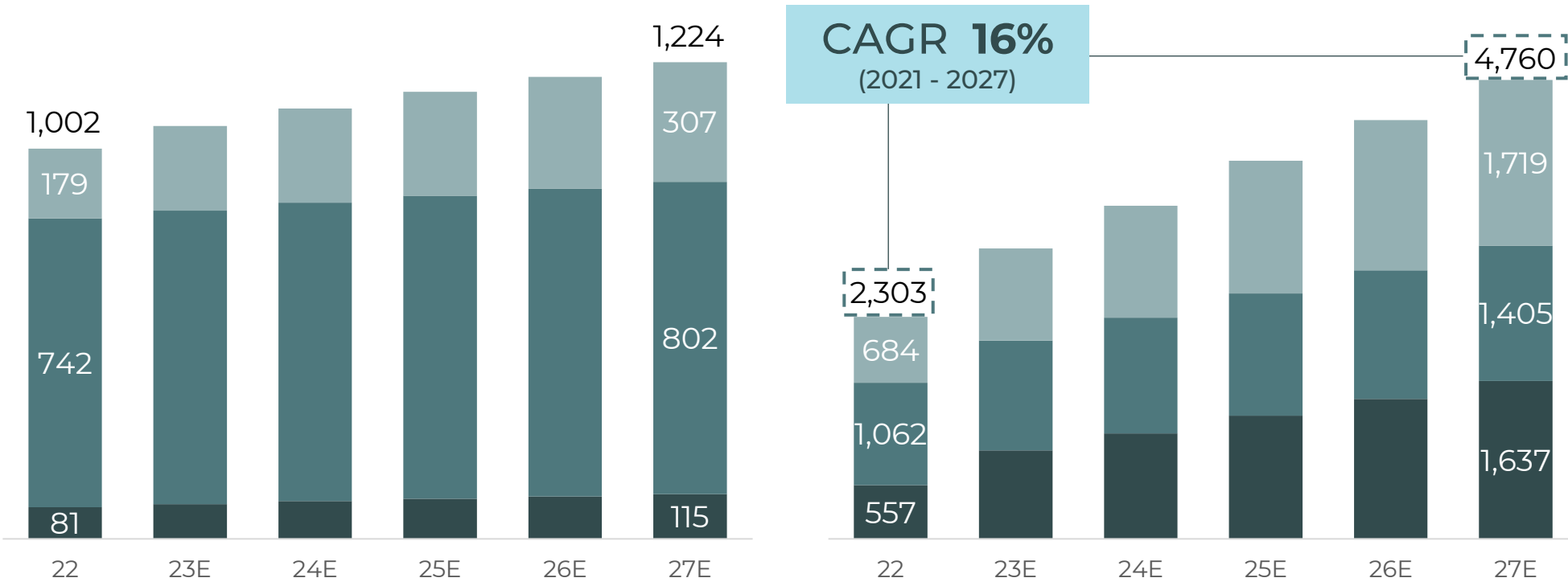
We see AR&Co, VANS and Anacapri stores opening leading to a strong revenue growth

Arezzo&Co stores (#)

■ Arezzo&Co Own Stores ■ Arezzo&Co Franchises ■ AR&CO

Arezzo&Co Brick and Mortar stores revenue (BRL mn)

■ Arezzo&Co Own Stores ■ Arezzo&Co Franchises ■ AR&CO



**CAGR 16%**  
(2021 - 2027)

◆ Key Assumptions

**4** years maturation

**75%** of old stores sales/m<sup>2</sup>

**SSS** in line with IPCA

First-class model

Unique positioning

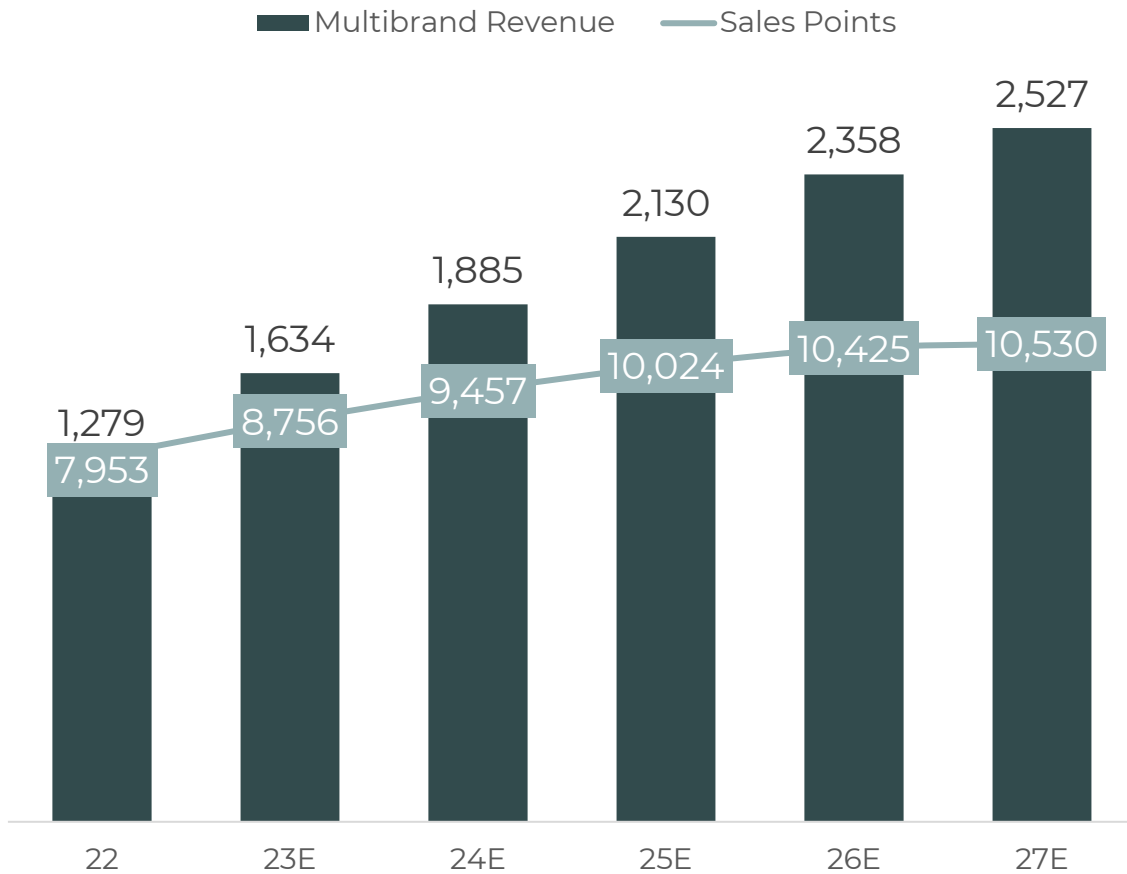
Room for expansion

Valuation

# Multibrands are growing and **web** maintaining share

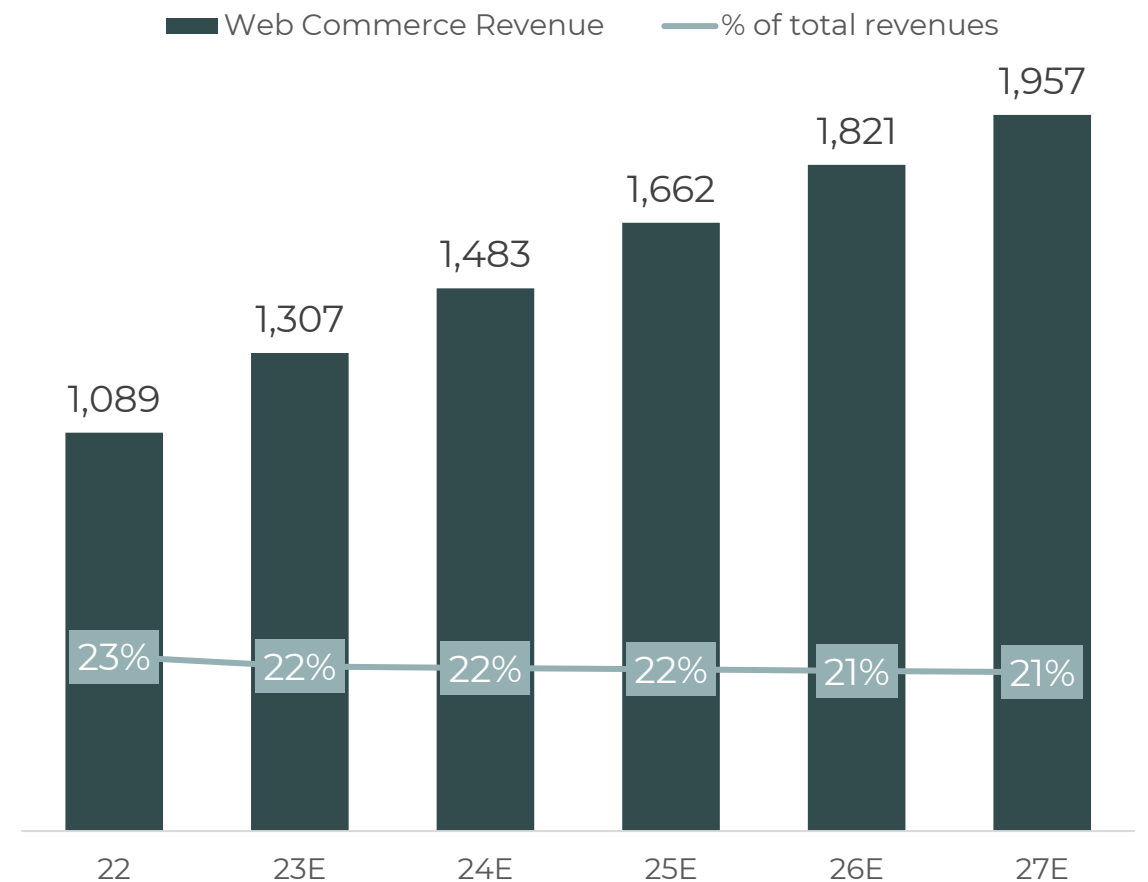
Sales points and cross-sell will drive multibrand growth

Multibrand revenue (BRL mn) and points of sale (#)



While online will grow in line with other segments

Web Commerce revenue (BRL mn)



First-class model

Unique positioning

Room for expansion

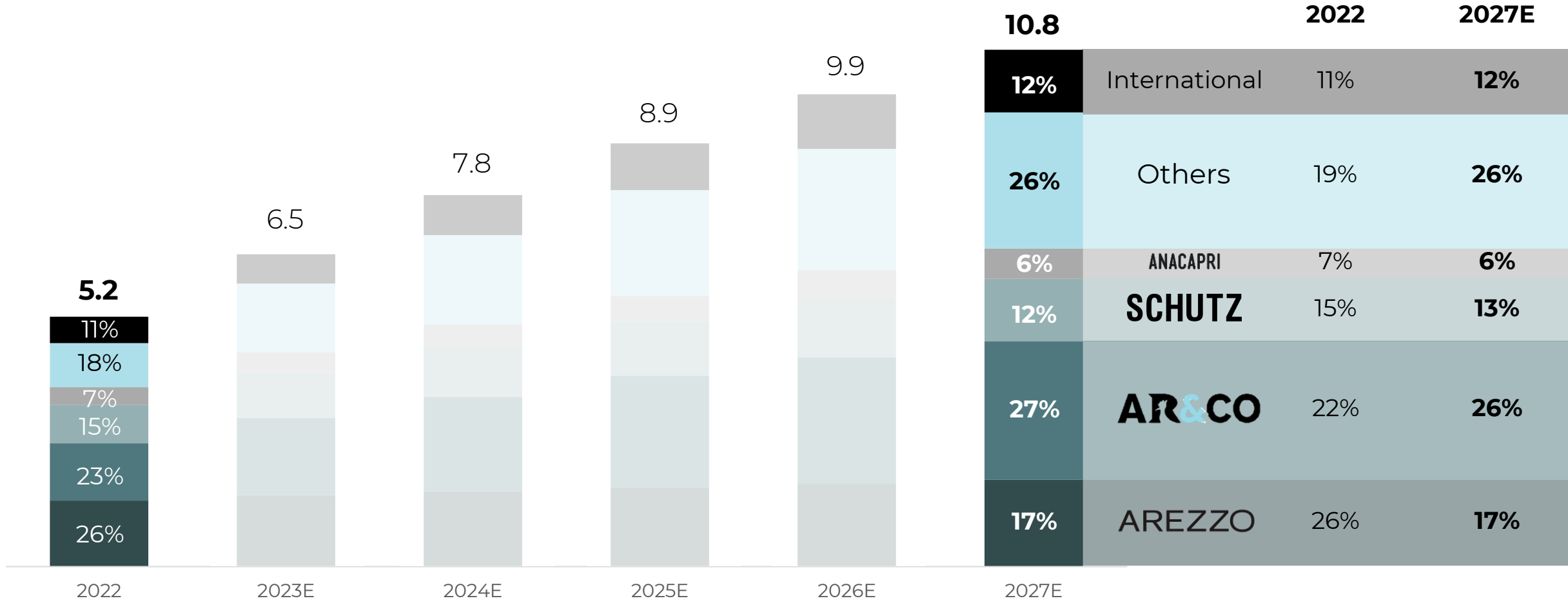
**Valuation**



# How will **Arezzo&Co** look like in **2027**?

Arezzo&Co consolidating itself as a house of brands, with less participation of legacy brands

Arezzo&Co Gross revenue (BRL bn)



First-class model

Unique positioning

Room for expansion

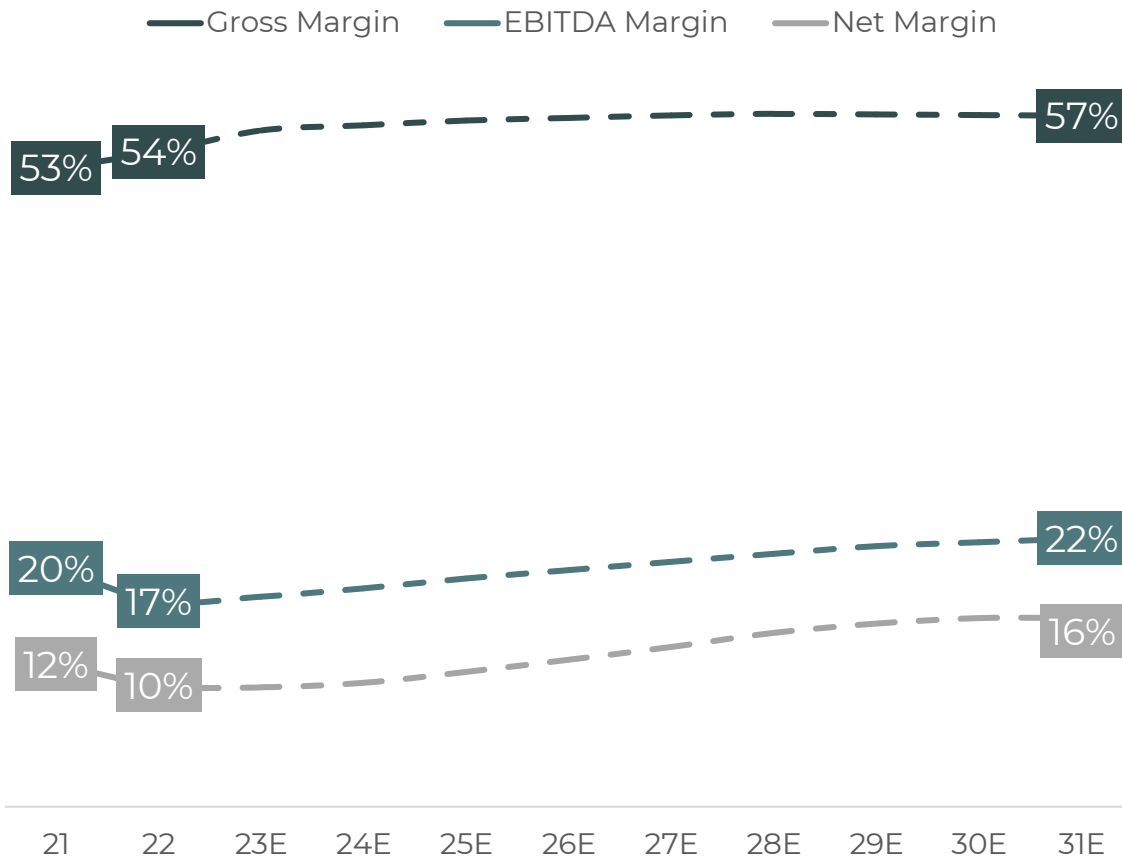
Valuation

Source: Team elaboration

# We projected margins **lightly** increasing

Margins are growing as the company change its channels mix

Gross, EBITDA and Net margins (%)



And dilutes costs



Higher share of own stores



G&A expenses dilution



Discretionary marketing expenses reduction



US operations increasing efficiency

First-class model

Unique positioning

Room for expansion

**Valuation**

# Resulting in an upside of **33%** from DCF valuation

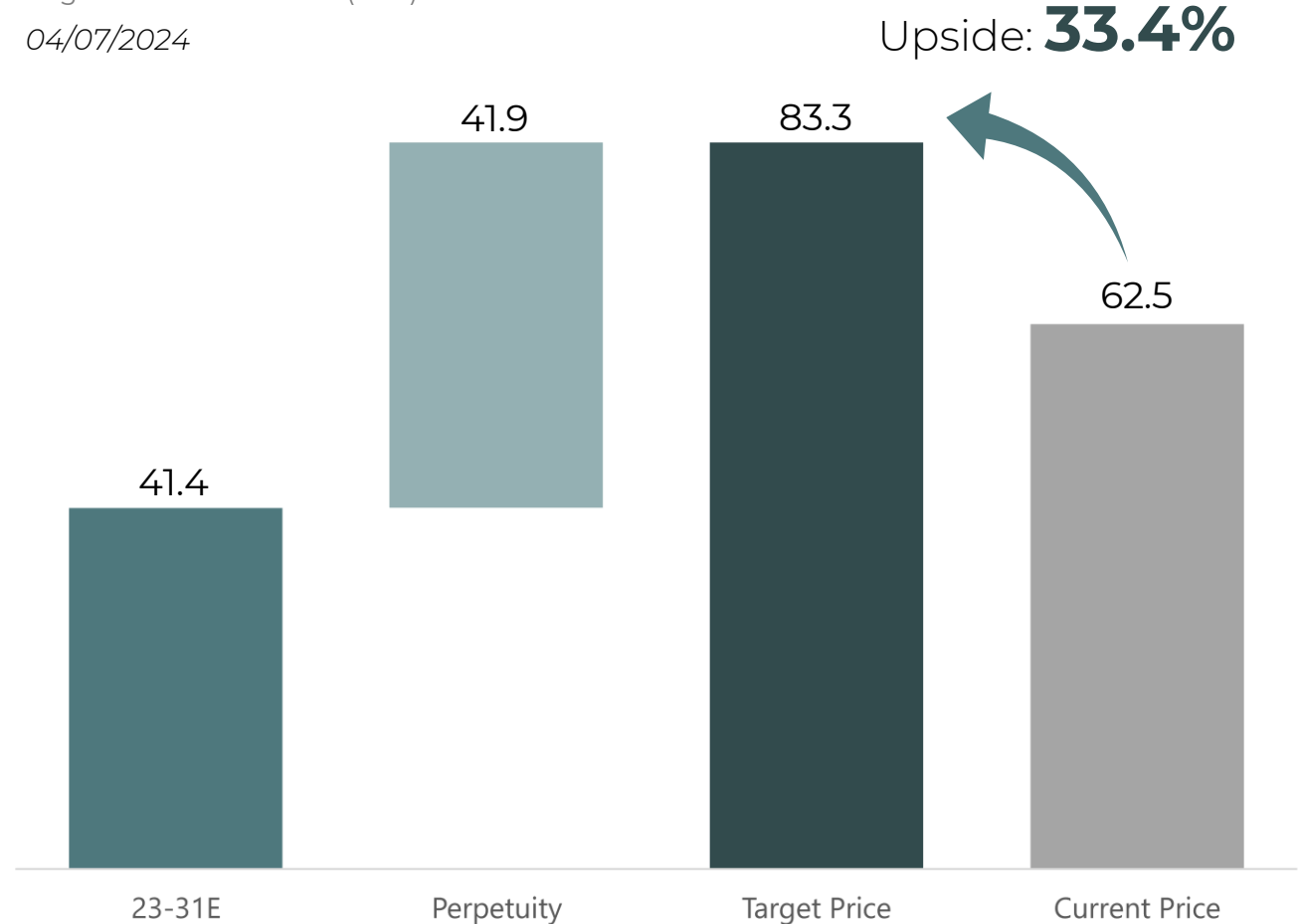
Even sensitizing Ke and g, our projections arrived at a consistent upside

<b>Cost of Equity (Ke)</b>	<b>14.5%</b>
Risk free	3.5%
Equity risk premium	8.7%
Beta	1.01
Inflation differential	2%

Perpetuity (g) = **4%**

	<b>3,0%</b>	<b>3,5%</b>	<b>4,0%</b>	<b>4,5%</b>	<b>5,0%</b>
<b>12,5%</b>	58%	63%	69%	76%	83%
<b>13,5%</b>	41%	45%	49%	54%	60%
<b>14,5%</b>	27%	30%	33%	37%	41%
<b>15,5%</b>	15%	18%	20%	23%	26%
<b>16,5%</b>	5%	7%	9%	12%	14%

Target Price Breakdown (BRL)  
04/07/2024



First-class model

Unique positioning

Room for expansion

**Valuation**

# Substantial **returns** in all scenarios

We found solid returns in our IRR and in all stressed cases

EXIT YEAR **2027**  
EXIT P/E MULTIPLE **13x**

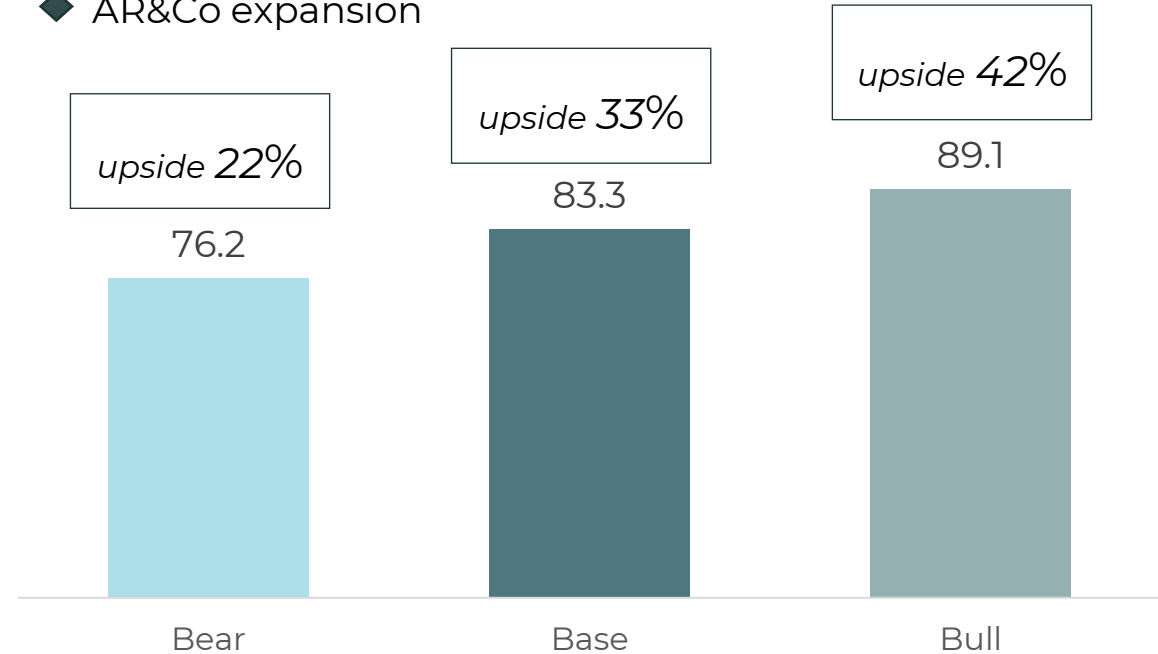
IRR  
**23%**

	2023	2024	2025	2026	2027
11x	-13%	6%	14%	18%	19%
12x	-6%	11%	17%	20%	21%
13x	2%	15%	20%	22%	23%
14x	9%	19%	23%	24%	24%
15x	17%	23%	25%	26%	26%

Target Price 2027 (BRL)

## Scenario analysis

- ◆ SSS
- ◆ G&A expenses
- ◆ Store maturation
- ◆ AR&Co expansion



First-class model

Unique positioning

Room for expansion

**Valuation**

# M&A optionalities: Even **higher** returns

Arezzo&Co could keep up with the M&A agenda, as it has been for the past few years, leading to additional upside

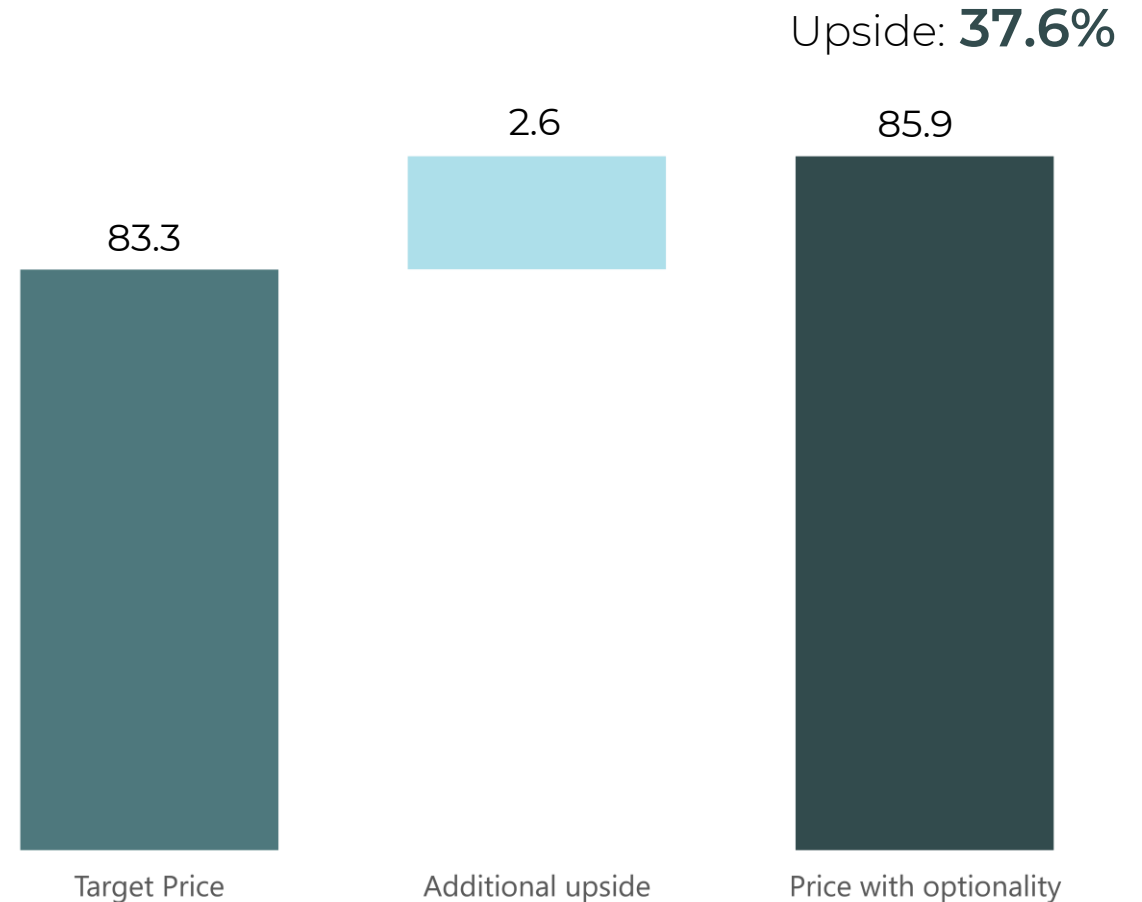
REVENUE	BRL 100 mn
TRANSACTION MULTIPLE	10x (EV/EBITDA)
AVERAGE TICKET	BRL 170 mn

IRR  
**26%**

*Number of acquisitions*

2024	2025	2026	2027
2	2	2	2

Target price 2027 (BRL)



First-class model

Unique positioning

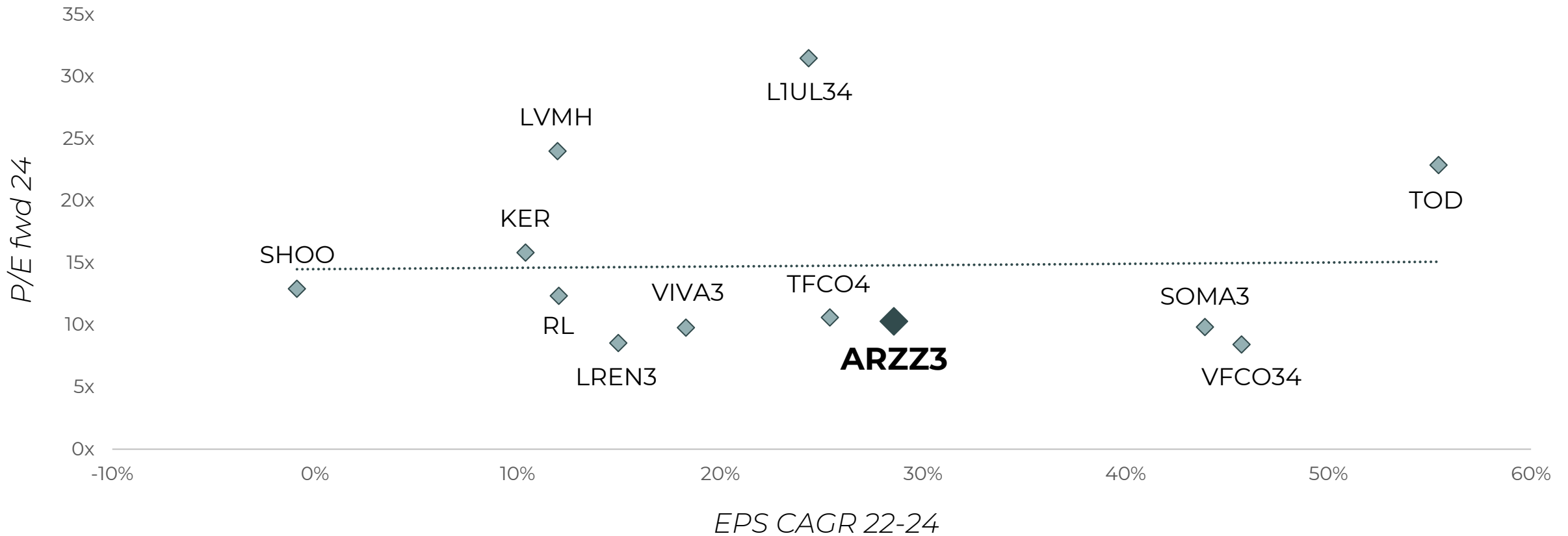
Room for expansion

**Valuation**

# Relative valuation: It's a **Buy!**

When we take a look at multiples, ARZZ3 is trading similarly to peers despite a solid potential, supporting our DCF analysis

P/E fwd 24 vs EPS CAGR 22-24 (%)



First-class model

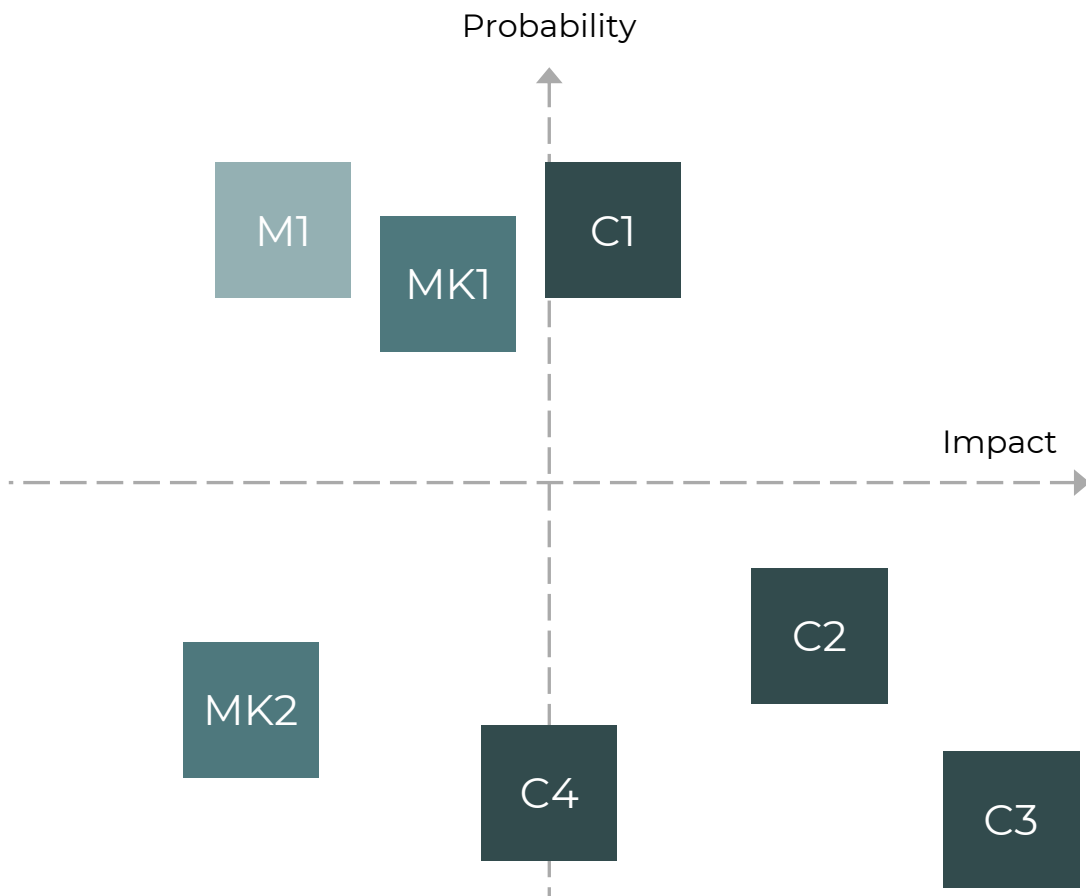
Unique positioning

Room for expansion

**Valuation**

# What are the **main risks** for our thesis?

Among our risks, we see M&As execution as a relevant company one, with fiscal benefits as the main market one



## Company Risks (C)

- C1: M&A integration
- C2: AR&Co expansion proving worse than expected
- C3: Alexandre Birman's succession fails
- C4: Deterioration of franchisee's relation

## Market Risks (MK)

- MK1: Change in fiscal benefits
- MK2: End of antidumping tariff

## Macro Risks (M)

- M1: Deterioration of consumption and inflation

# AR&CO AREZZO

## Yes! We would be a Arezzo&Co's partner!



First-class business



Unique positioning



Room for expansion







AREZZO  
& CO

# Q&A

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  3. Cross-selling multibrands
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  6. B&M AR&Co
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## 2. Unit economics

1. Franchises markup
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5. Arezzo POV franchise economics
6. Arezzo Own Store IS
7. Arezzo Own Store economics

## 8. Reserva Own Store IS

9. Reserva Own Store economics

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2. AR&Co projections
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6. Our openings x Guidance
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5. Hist P/E and price
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AR&CO AREZZO

# Appendix

## Industry

UNBRAND®

Oticina  
RESERVA

DIRTYMAN

TRUCK

Baw

PIER



MY SHOES

INK

ME

# Local sourcing

Where the production of footwear is concentrated

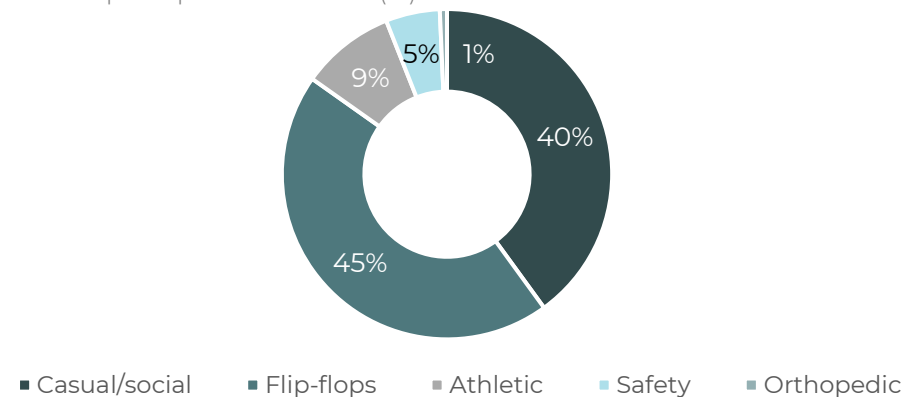


Footwear clusters (% of production)			
CE	RS	PB	MG
<b>24%</b>	<b>20.8%</b>	<b>18.4%</b>	<b>15.1%</b>

## Types of footwear

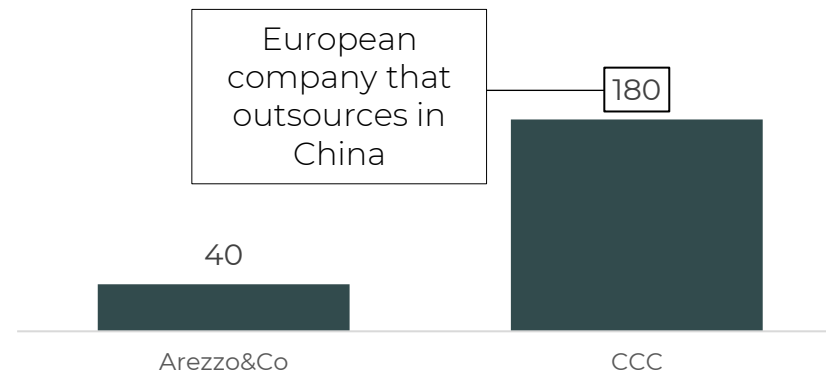
Casual/social and flip-flops are bigger markets

Distribution of pairs produced 2019 (%)



## Lead time

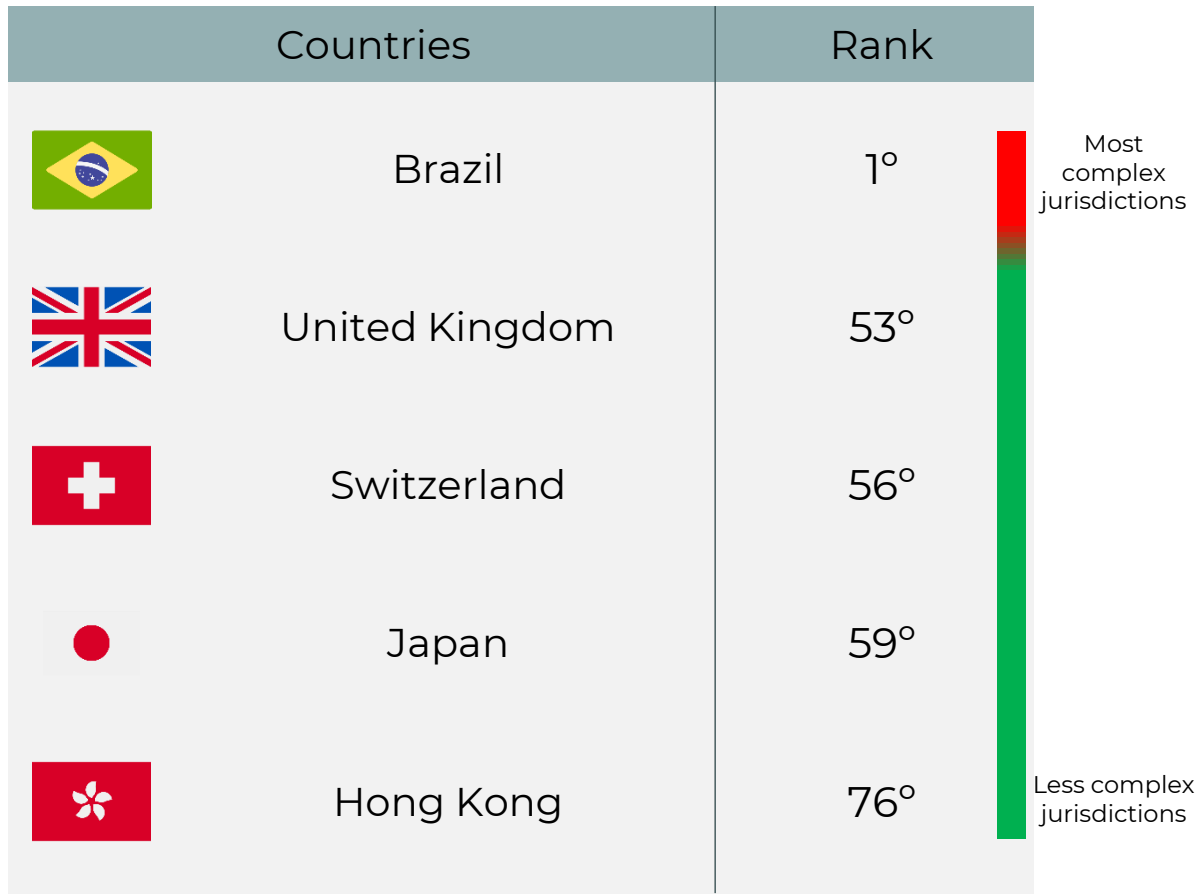
National production lowers lead time



# Why Brazil is the perfect place for consolidation?

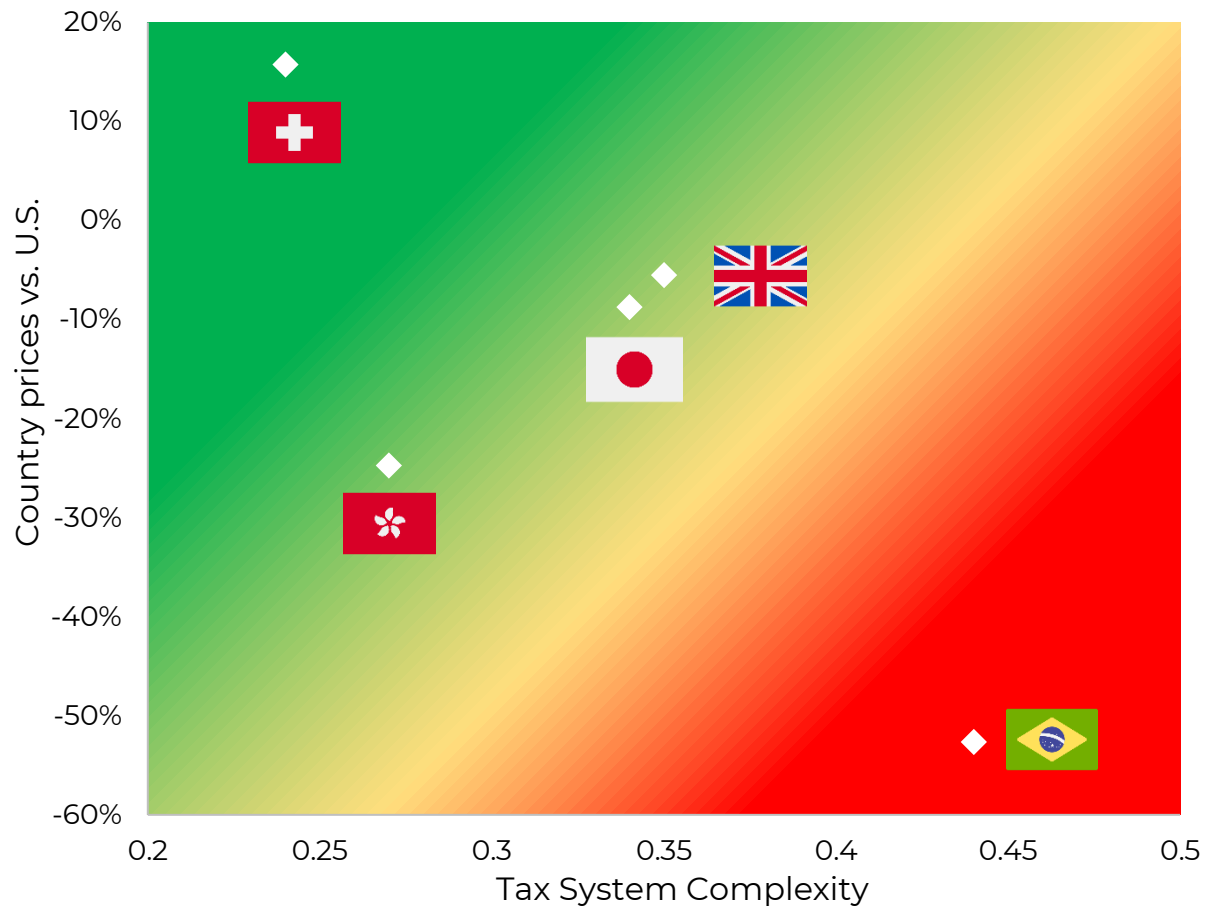
Brazil has the most complex jurisdiction to operate business...

Most complex countries to do business (Global Business Complexity Index 2021)



while the worst in tax complexity and purchase power parity

Tax System Complexity (X-Axis) and general prices in relation to U.S. (Y-Axis)

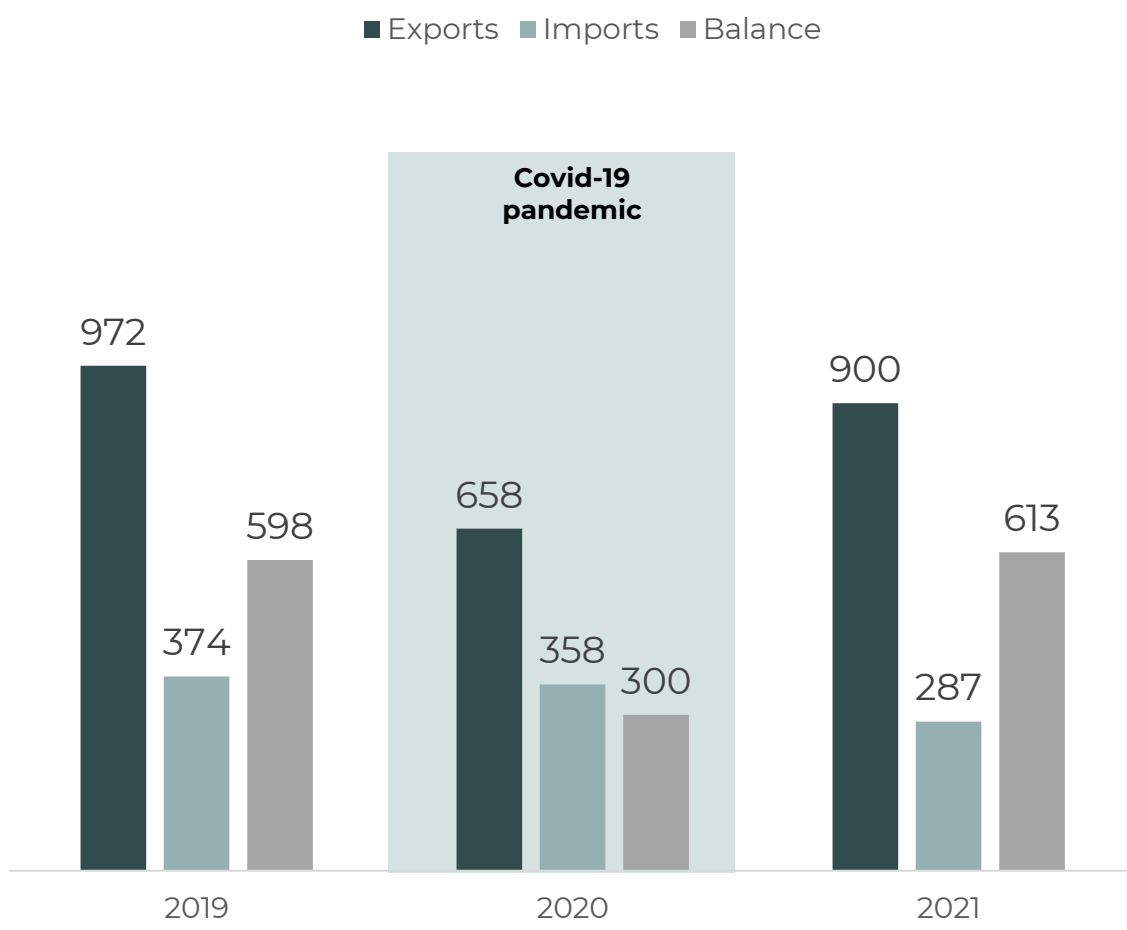


Sources: The Global Business Complexity Index, Tax Complexity Index, World Bank

# National footwear self-sufficient

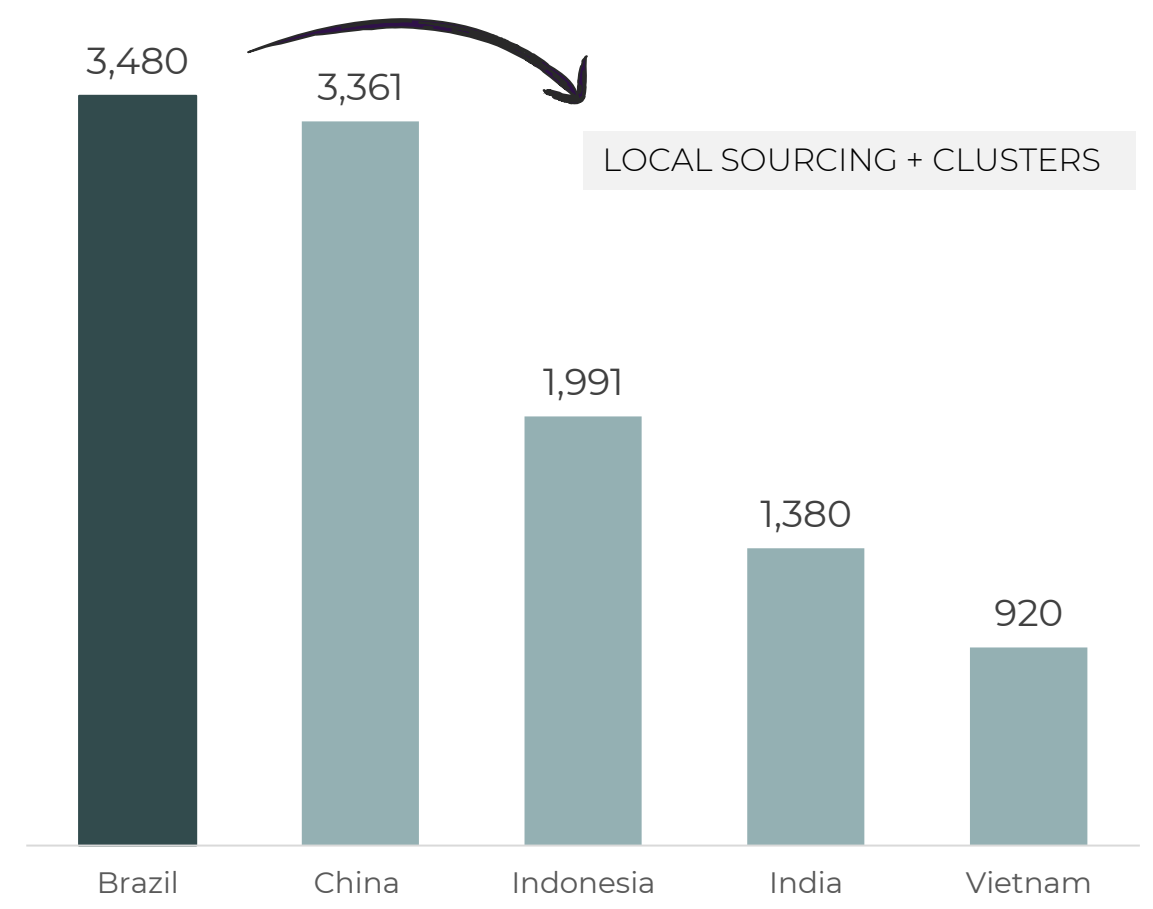
## Brazil can fulfill its national demand

Brazil's footwear production and consumption (mn number of pairs)



## Because of its high productivity

Footwear production productivity (number of shoes produced per employee/year)



Sources: IBGE, Abicalçados



AR&CO AREZZO

# Appendix

1st pillar thesis  
First-class business

UNBRAND®

Oticina  
RESERVA

DIRTYMAN

TRUCK

Baw

FIER



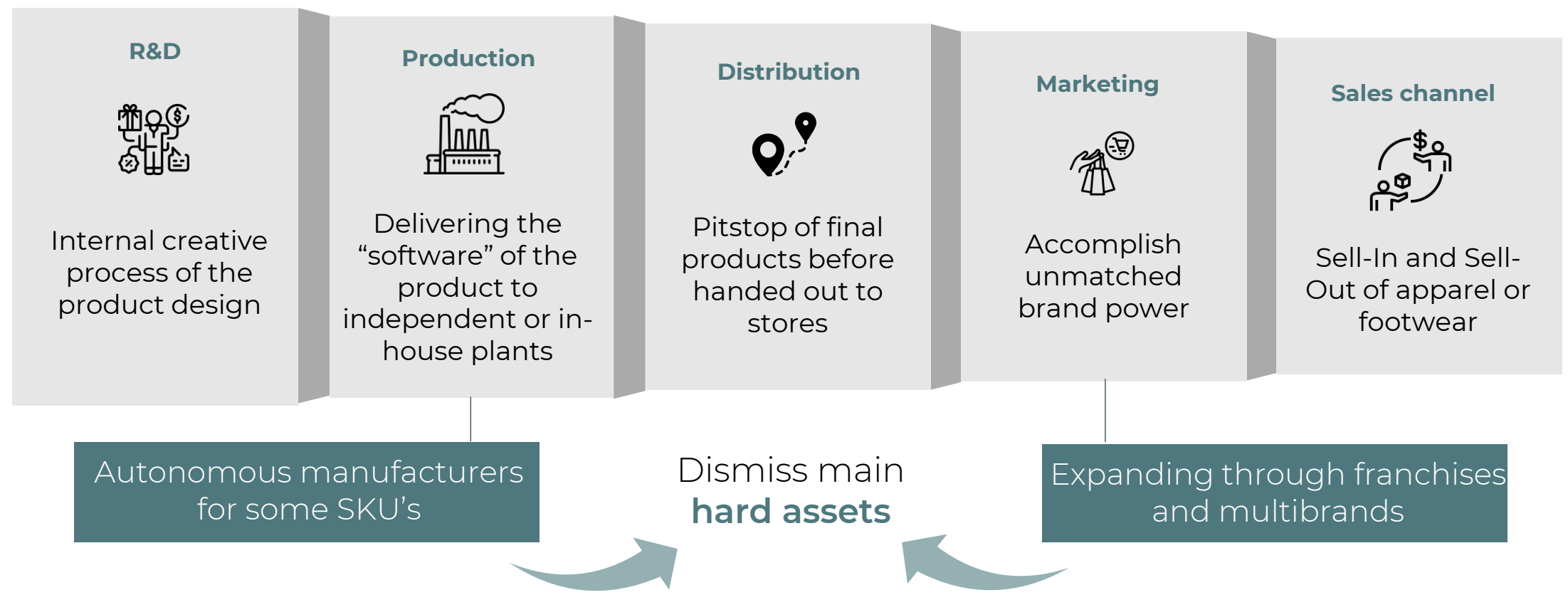
MY SHOES

INK

ME

# Value Chain

It does not require intensive capital to expand, the company is the owner of the brands and value generation



# The shift from Industry to Retail

10/03/2023: Trip to Campo Bom


We learned about Arezzo's history with Gilmar de Oliveira

**Industrial Business**




**Why did Arezzo decide to shift from industry to retail?**

**Retail Business**



Anderson visited factories in Asia



Realized that the company could not compete with them

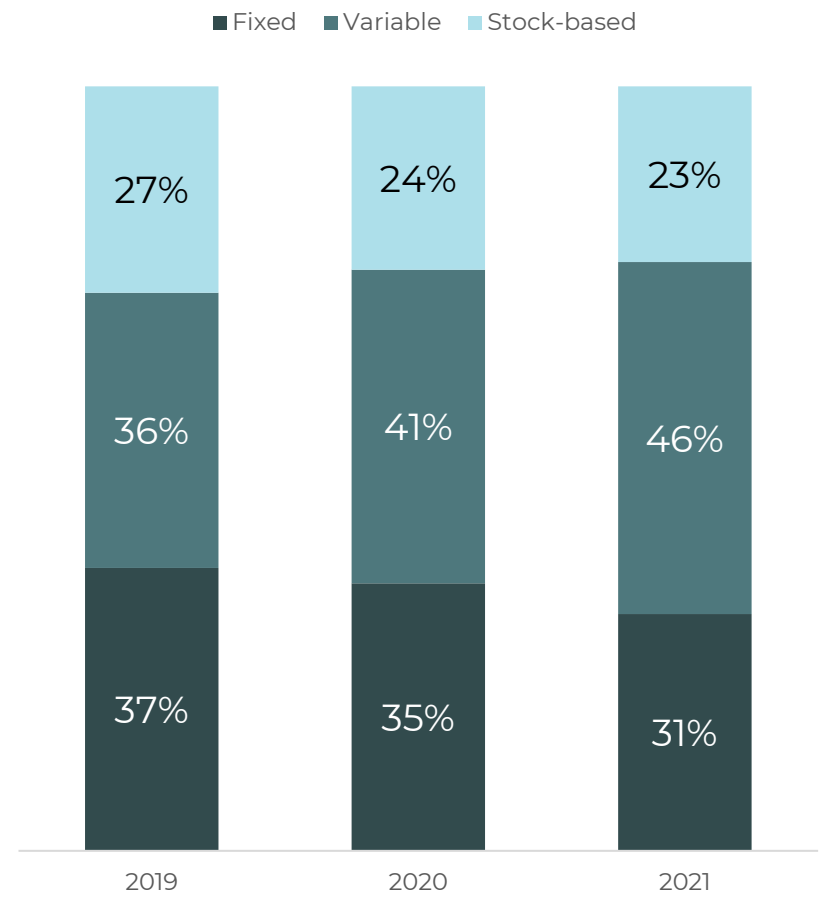


Asset Light

# Board and Executives

Management and directors have all incentives aligned

Executive Committee Compensation %



**Alessandro Carlucci**  
*Independent Chairman*

**Guilherme Affonso Ferreira**  
*Independent Board Member*

**Rony Meisler**  
*CEO AR&Co and Board Member*

**Rafael Sachete**  
*CFO and Corporate Vice President*

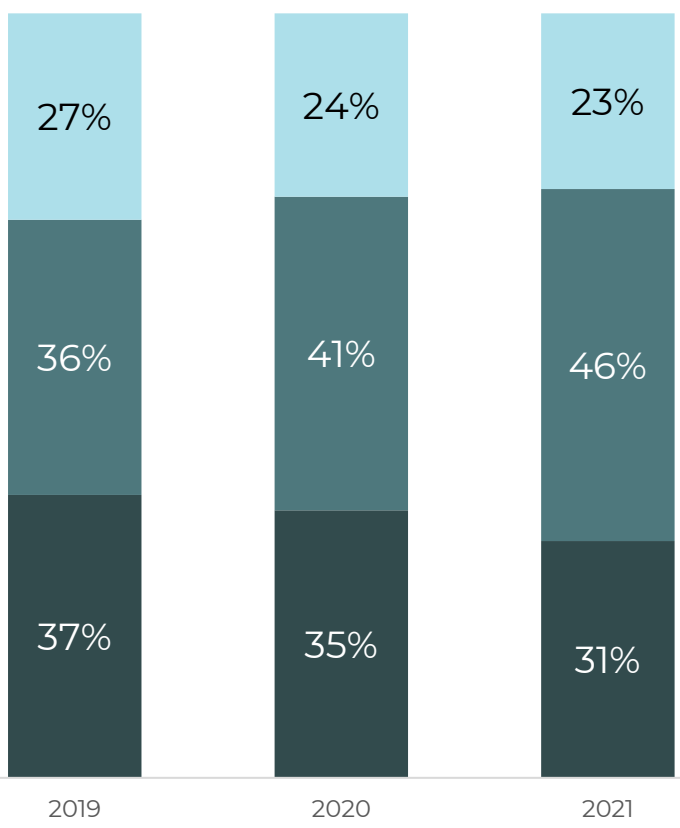
Source: Company releases

# Board of Directors

Management and directors have all incentives aligned

Executive Committee Compensation %

■ Fixed ■ Variable ■ Stock-based



**Juliana Buchaim**  
*Independent Board Member*

**Guilherme Affonso Ferreira**  
*Independent Board Member*

**Renata Vichi**  
*Independent Board Member*

**José Ernesto Bolonha**  
*CFO and Corporate Vice President*

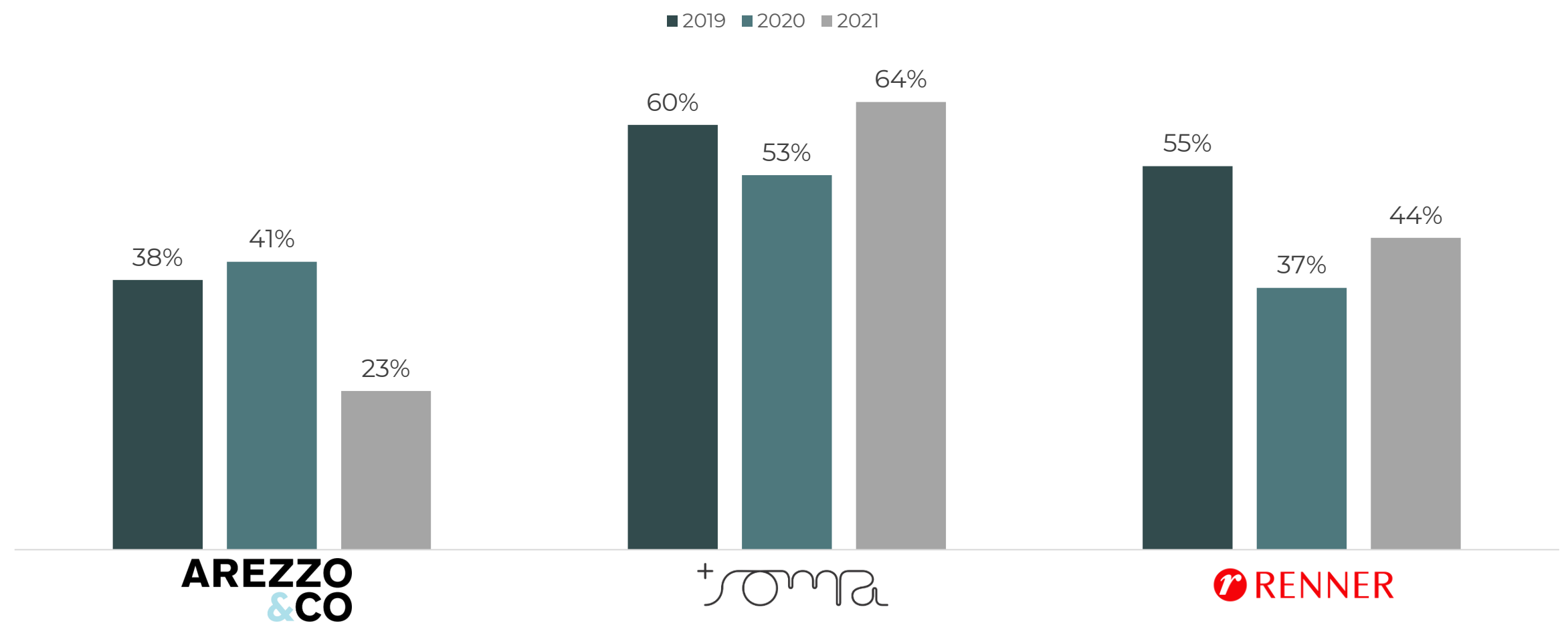
4 of 7 directors are independent

Source: Company releases

# Employees turnover

Arezzo&Co has lower turnover when compared to peers

Turnover index (%)



# Culture

In our trip to Campo Bom we had the opportunity to check how is the environment of the company

## Conversations with 33 employees







Words that describe Arezzo&Co's culture



# Types of manufacture

The features of each type of manufacture

	Independent Facilities	Own Facilities
<b>Minimum amount per design to produce</b>		
<b>Adaptability to new tendencies</b>	<i>Medium</i>	<i>High</i>
<b>Production of limited collections</b>		
<b>Efficiency in diluting fixed costs</b>	<i>High</i>	<i>Low</i>

## Independent = Specialized factories



Manufacturers that produce one specific type of item – mass production

## Own = Non specialized factories

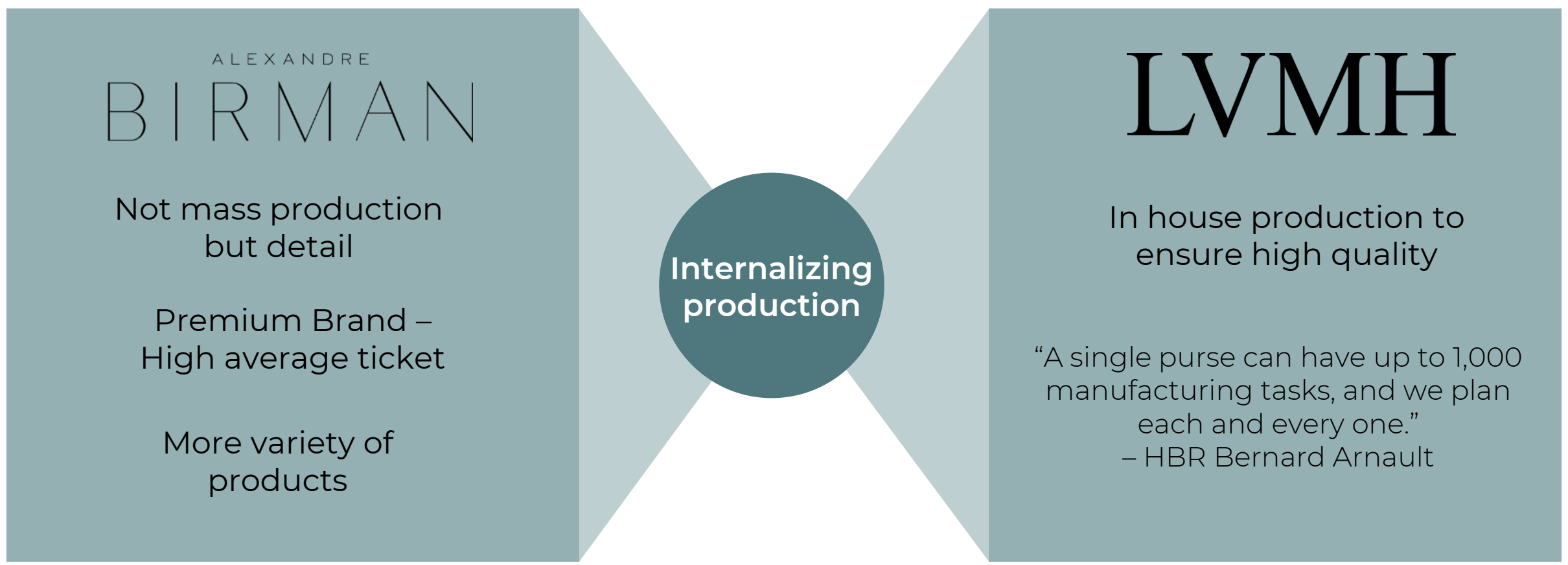


Factories that do not focus on one specific type, more flexible



# Alexandre Birman vs LVMH


Strategy that works well for more high-end brands, as with LVMH the biggest luxury company



# Asset Light: Outsourcing

Arezzo&Co's collection cycle requires large productions in September and October, and almost no production in December and January

**Capacity utilization**



High operation **only in some months** of the year

Factories do not dilute fixed costs **evenly** throughout the year

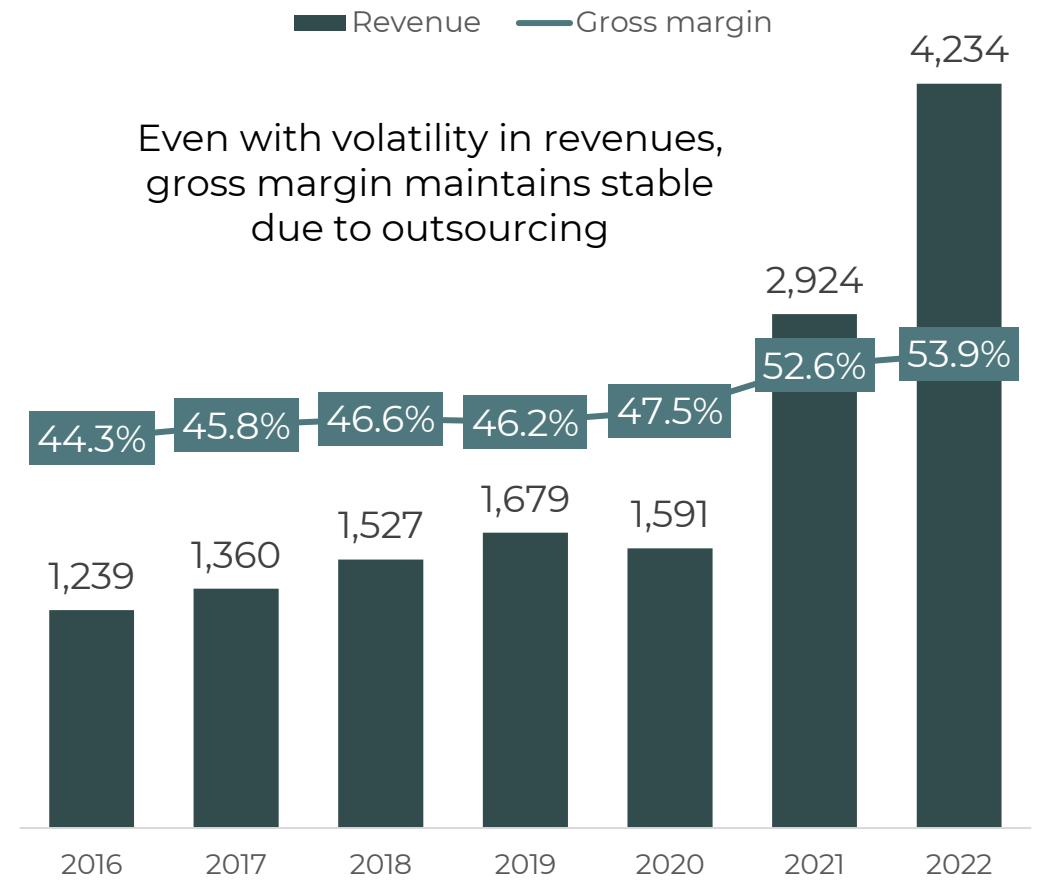
**Dilution of fixed costs**



**Stable margins for Arezzo**



Outsourcing leads to less volatile **gross margins**



# Asset Light: Multibrands

The strategy in multibrands consists on penetrating small cities where franchises and own stores can not reach

## Where does Arezzo penetrate through multibrands?



Reach smaller cities: Commercially and financially **unfeasible** to build a monobrand store



In places where it does not have a monobrand store, so it does not **cannibalize**

Markup from Arezzo's  
point of view:  
1.85

Markup of  
multibrands:  
2.0

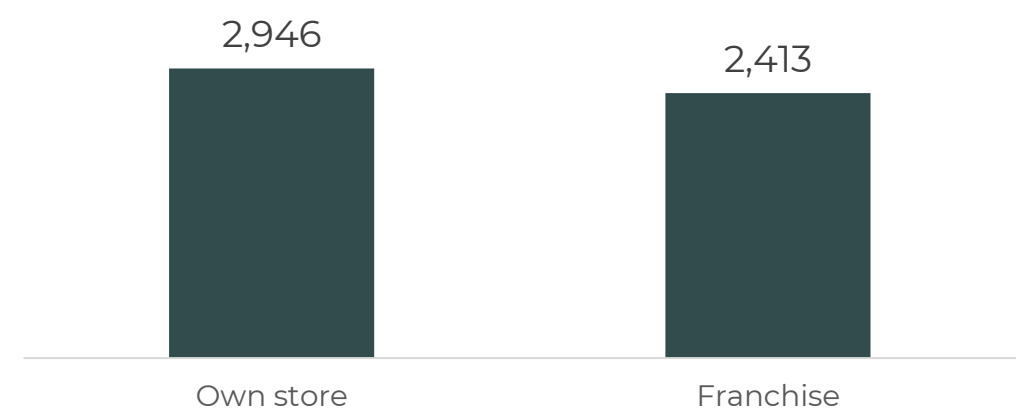
# Asset Light: Franchises

The company grows its operation faster and for some brands, the NPV is similar

## Why grow by franchise model?

- 1 Appropriate from franchisee's local **know-how**
- 2 No need for **intensive capital** disbursement
- 3 Share **risk** with franchise
- 4 Franchises benefit from a more efficient **tax regime** (Simples Nacional)

NPV of Arezzo store from company's point of view (BRL ths)



Similar NPV of own store and franchises

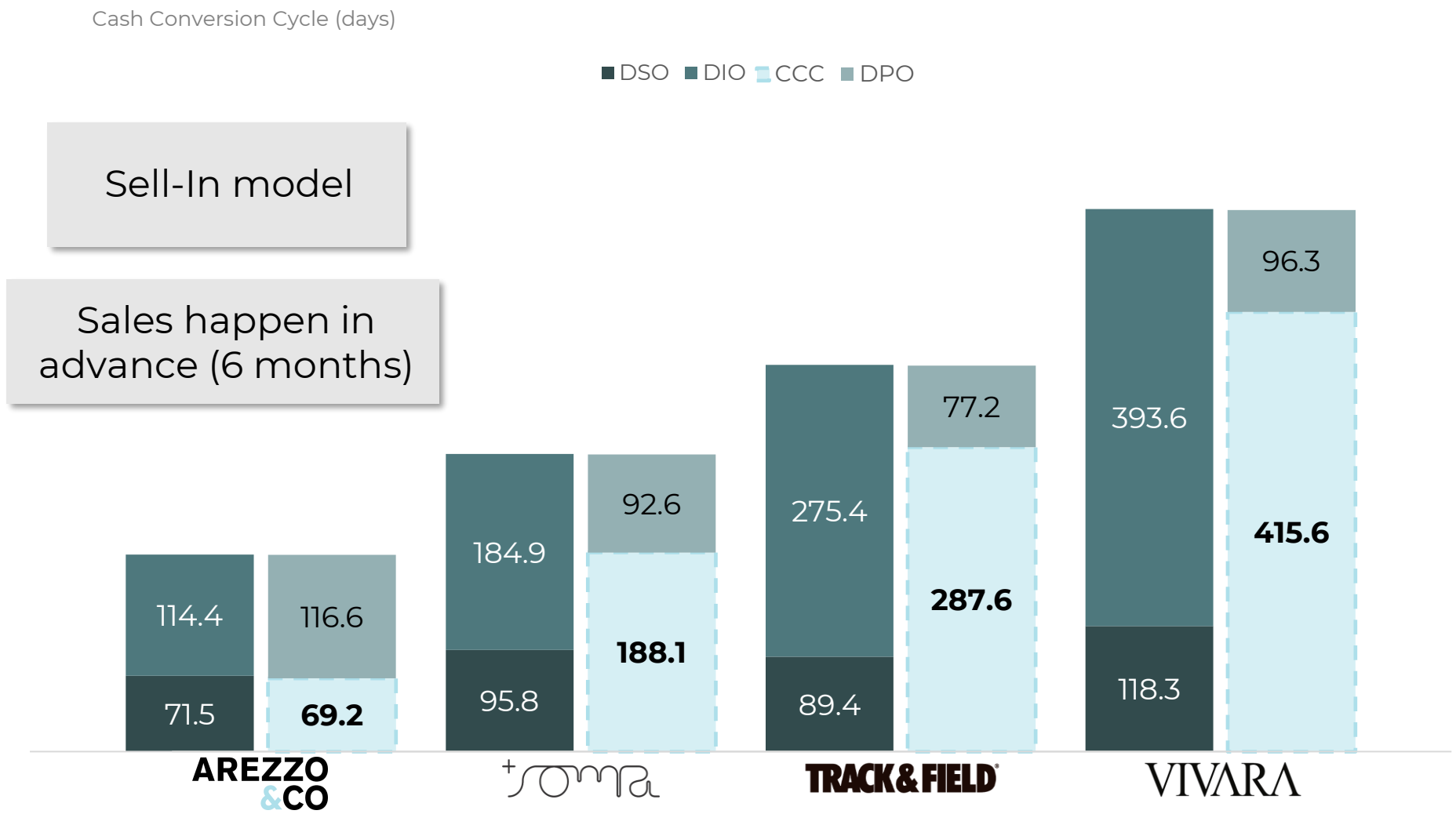
The company **does not monetize** from Arezzo (brand) own stores

Gain **capillarity** and expand **faster** through franchise model

# Cash Conversion Cycle - DSO

Arezzo&Co outshines in working capital due to Sell In dynamics, a market easier to deal with and high bargaining power

- Predictability in Sell In
- Less complex market
- Bargaining power



Source: Companies releases

# Cash Conversion Cycle - DIO

Arezzo&Co outshines in working capital due to Sell In dynamics, a market easier to deal with and high bargaining power

Cash Conversion Cycle (days)

■ DSO ■ DIO ■ CCC ■ DPO

Predictability in Sell In

Less complex market

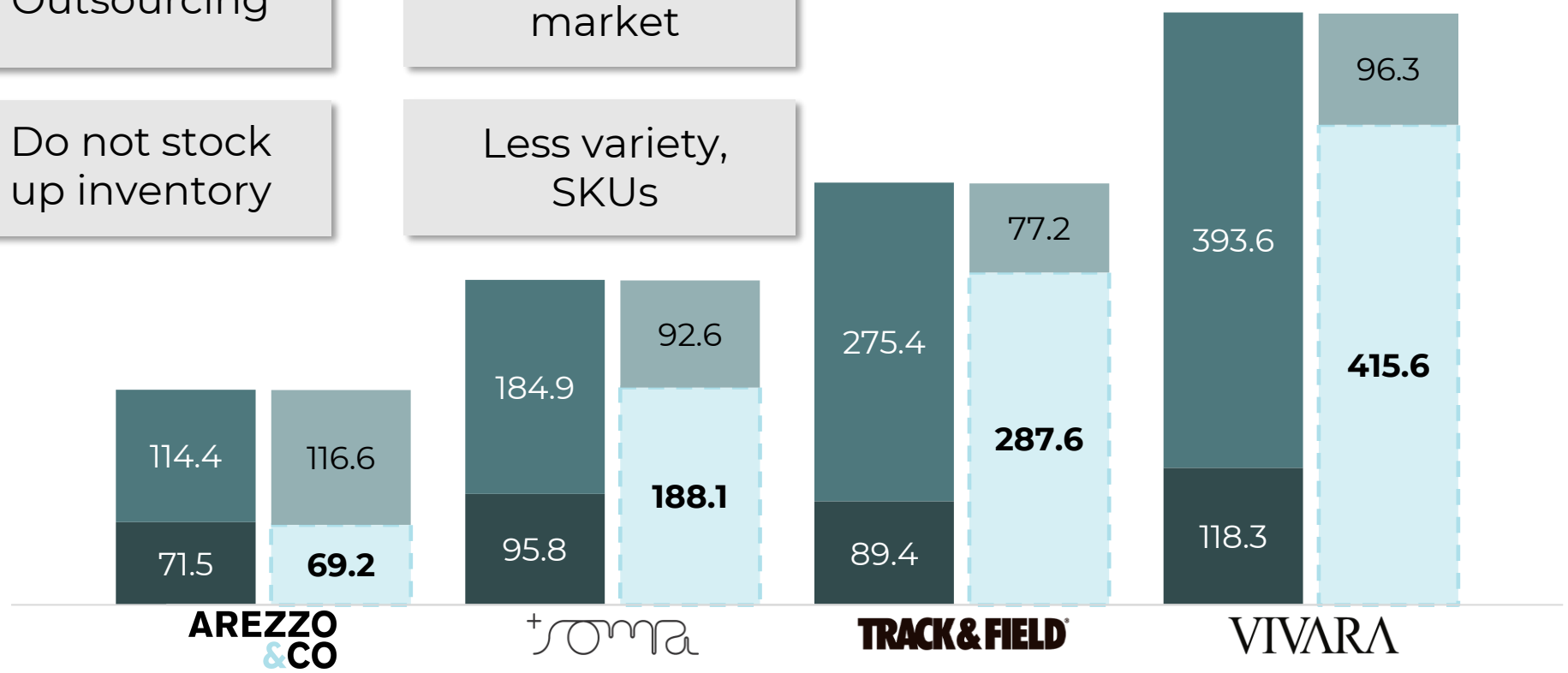
Bargaining power

Outsourcing

Simple market

Do not stock up inventory

Less variety, SKUs

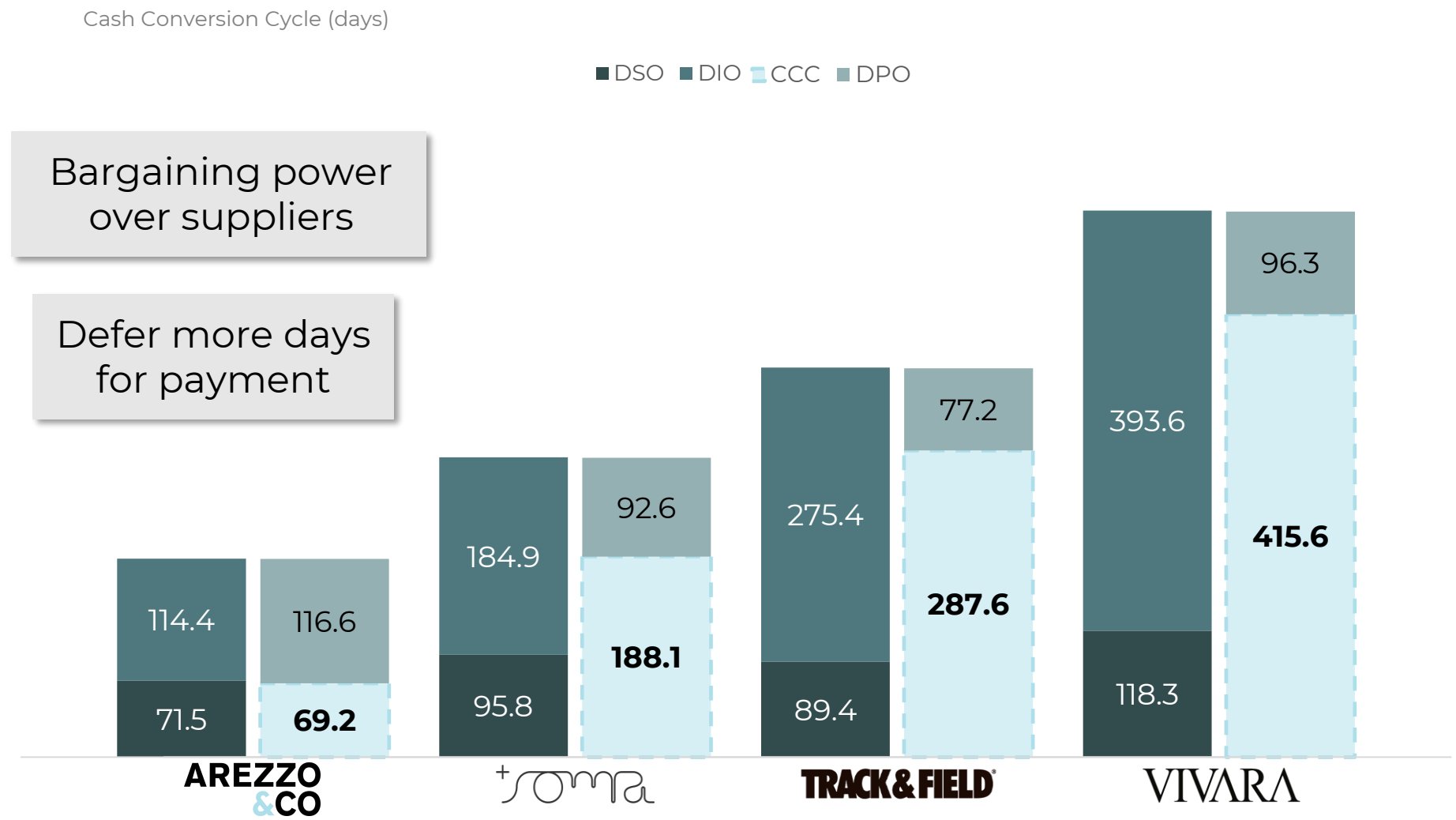


Source: Companies releases

# Cash Conversion Cycle - DPO

Arezzo&Co outshines in working capital due to Sell In dynamics, a market easier to deal with and high bargaining power

- Predictability in Sell In
- Less complex market
- Bargaining power**

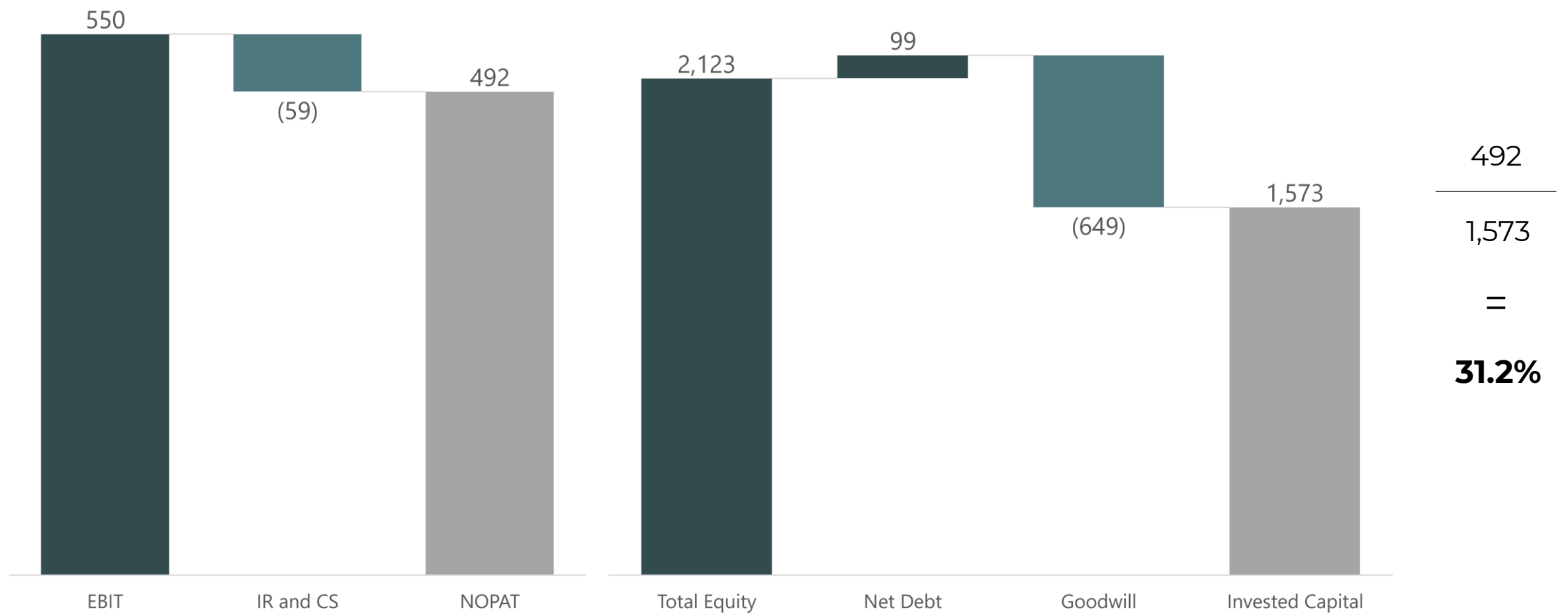


Source: Companies releases

# ROIC calculus (ex. Goodwill)

For other peers, we calculated ROIC in the same way

NOPAT and Average Invested Capital calculus (BRL mn)



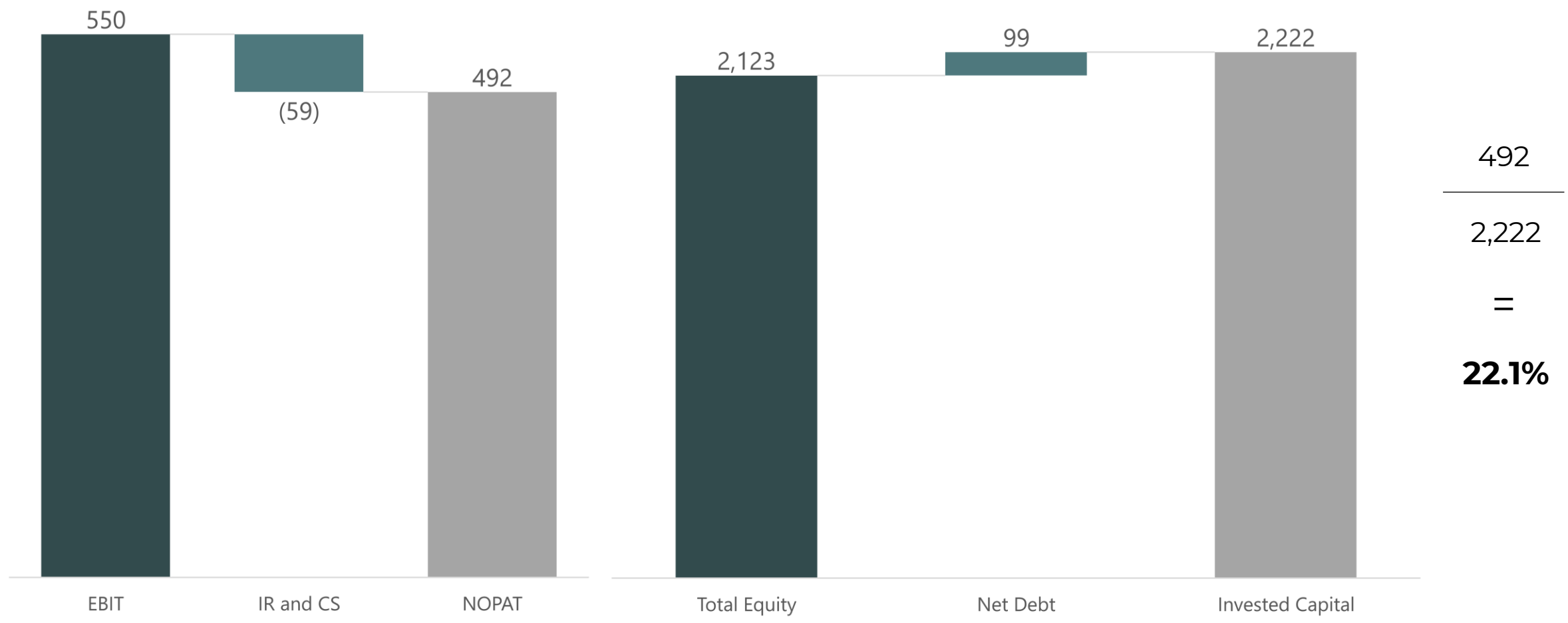
Source: Company releases, Team elaboration



# ROIC calculus non-adjusted

ROIC calculated including goodwill

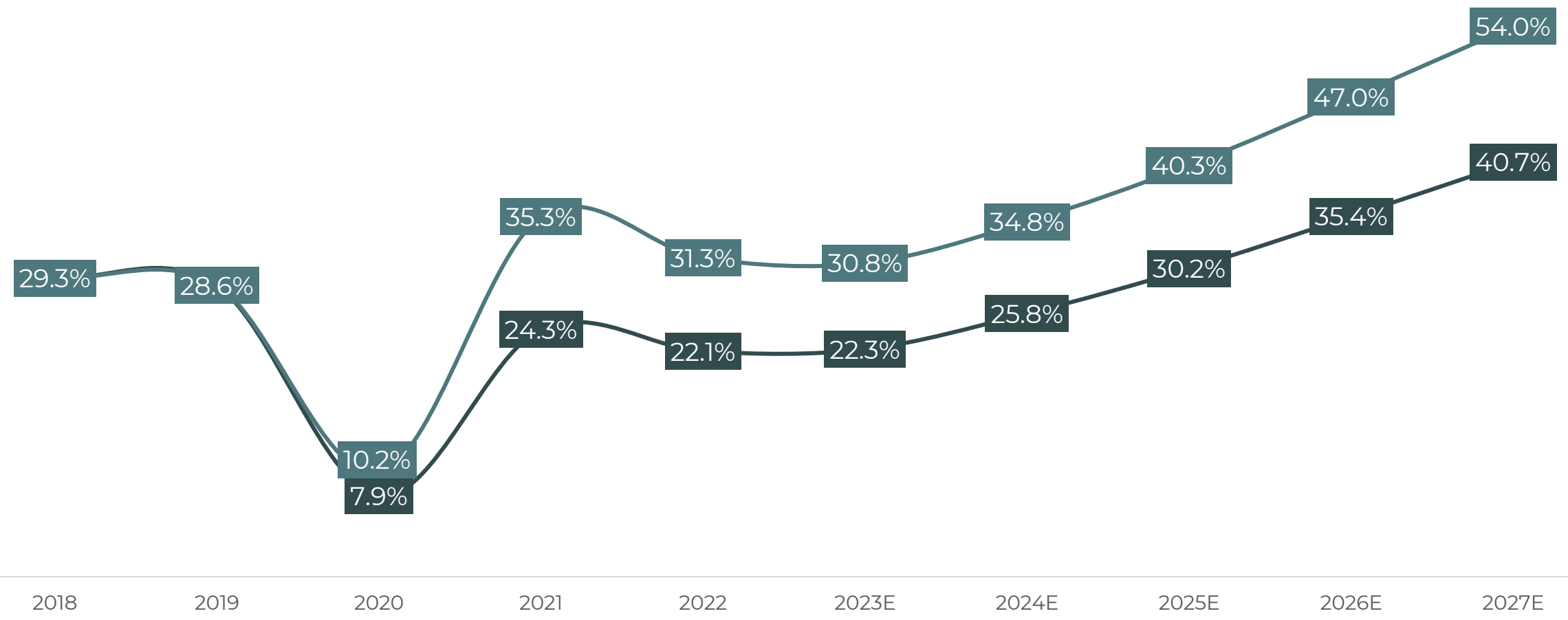
NOPAT and Average Invested Capital calculus (BRL mn)



Source: Company releases

# ROIC historical and projection

— ROIC — ROIC (ex. Goodwill)



Sources: Company releases, Team elaboration

AR&CO AREZZO

# Appendix

2nd pillar thesis  
Unique positioning

UNBRAND®

Oticina  
RESERVA

DIRTYMAN

TRUCK

Baw

PIER



MY SHOES

INK

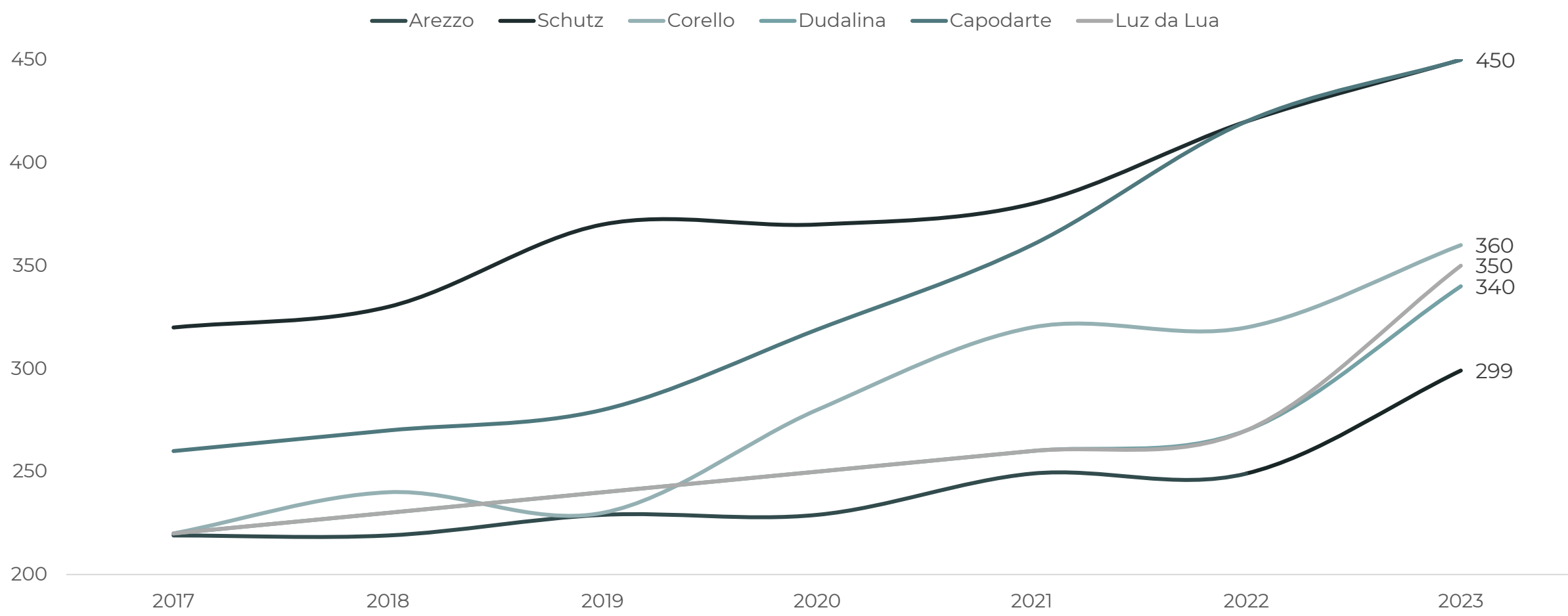
ME

# Historical prices analysis

Wayback Machine application of prices



Historical Prices - Black Scarpin (BRL)



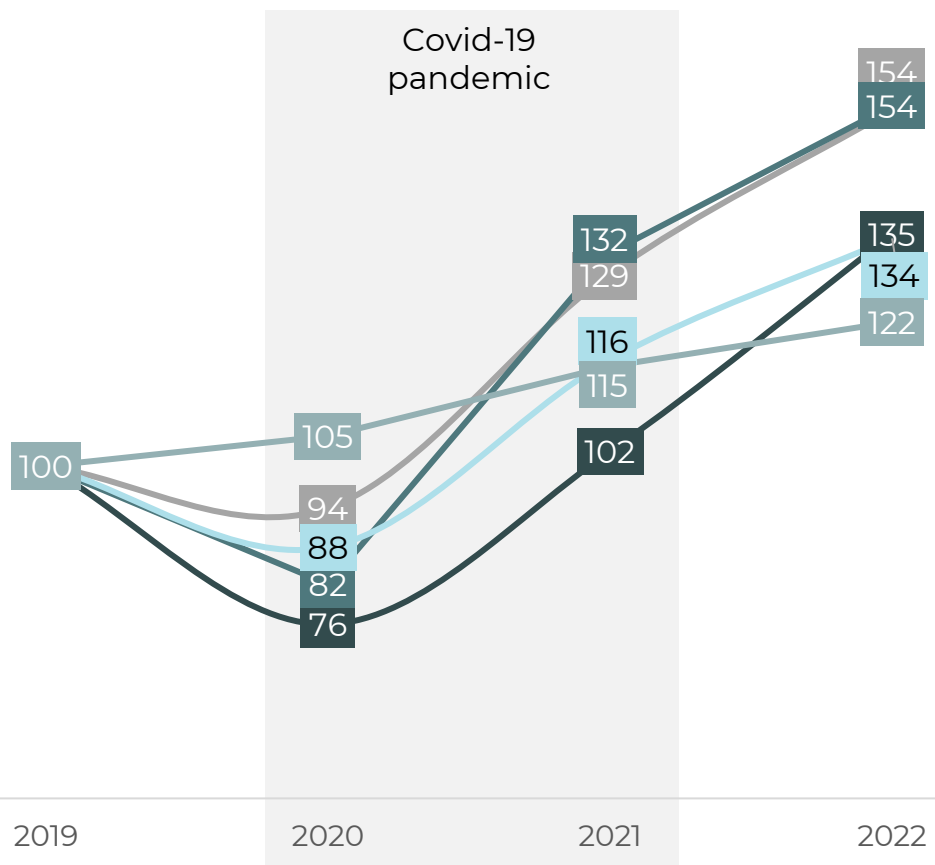
Sources: Wayback Machine

# SSS and EBITDA margin comparisons

Arezzo&Co and peers grew SSS more than inflation

Acumulated Same Store Sales, from 100 base

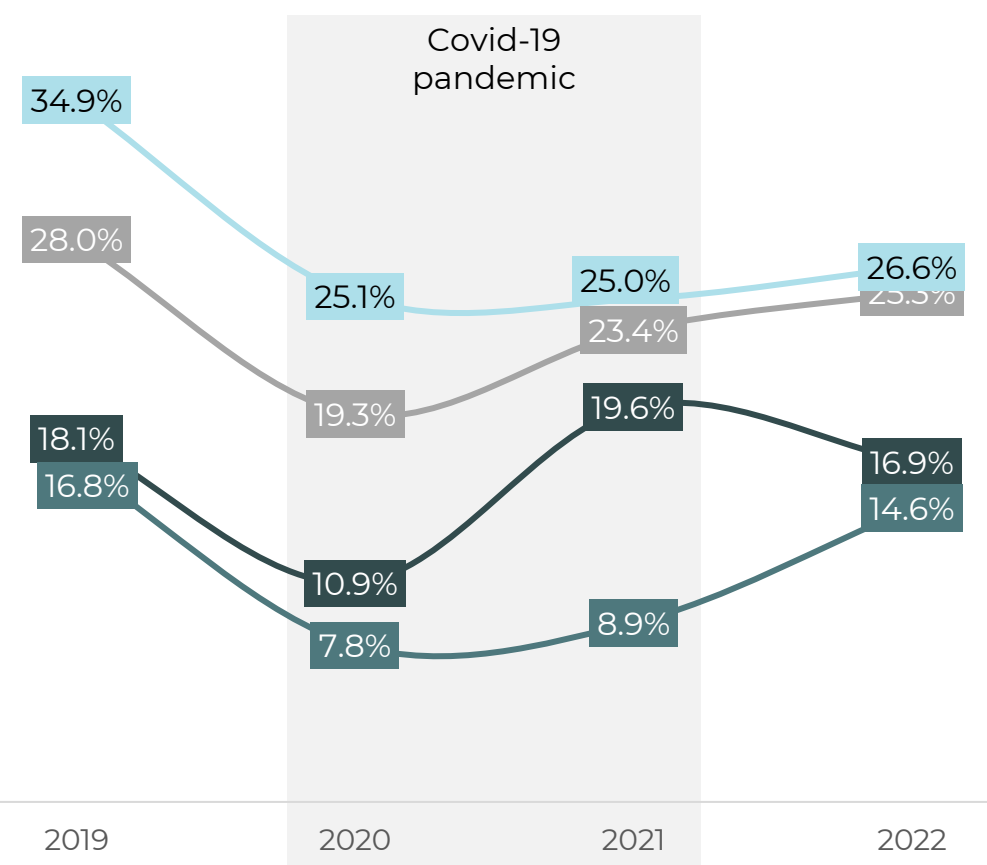
— Arezzo&Co — Soma — Track and Field — Vivara — IPCA



Margins are ahead of SOMA and behind other peers

EBITDA margin (%)

— Arezzo&Co — SOMA — Track and Field — Vivara



Sources: Companies releases, IBGE

## Reserva: Stores experience

Checking the service in Reserva stores

*We visited 30 stores*



- ◆ *Premium store experience: well-trained personnel*
- ◆ *Omnichannel: integration with digital tools*
- ◆ *Well-positioned stores in premium locations*
- ◆ *Constant launches and innovation*

# One stop shop solution: ZZ' MALL

Arezzo&Co's marketplace is positioned to capture cross-sell opportunities of the brands

## ZZ' MALL



12 M Website visits (2022) + 117% vs 2021

### ONE STOP SHOP SOLUTION

“Marina Ruy Barbosa has a natural talent for fashion; her aesthetic look, strategic vision and her personality of always challenging himself will certainly put ZZ Mall in constant **innovation and growth**” – CEO Alexandre Birman

## ZZ Pay

Cash back on all orders to be used on following purchases

SHIPPING FREQUENCY

45% greater among ZZPAY users

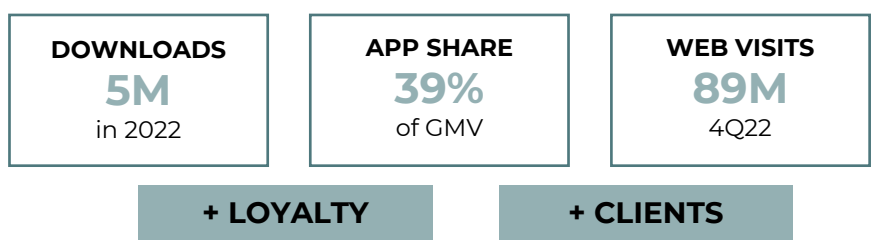
Consumer fidelization Enhance brand awareness Cross-sell opportunities



# Omni as the new real

Arezzo is expanding its omni tools to attract more clients

**29%** of Arezzo&Co customers shop on the online channel



**10** NEW WEBSITES  
**2** NEW APPS

**E-COMMERCE + APP**

AREZZO SCHUTZ

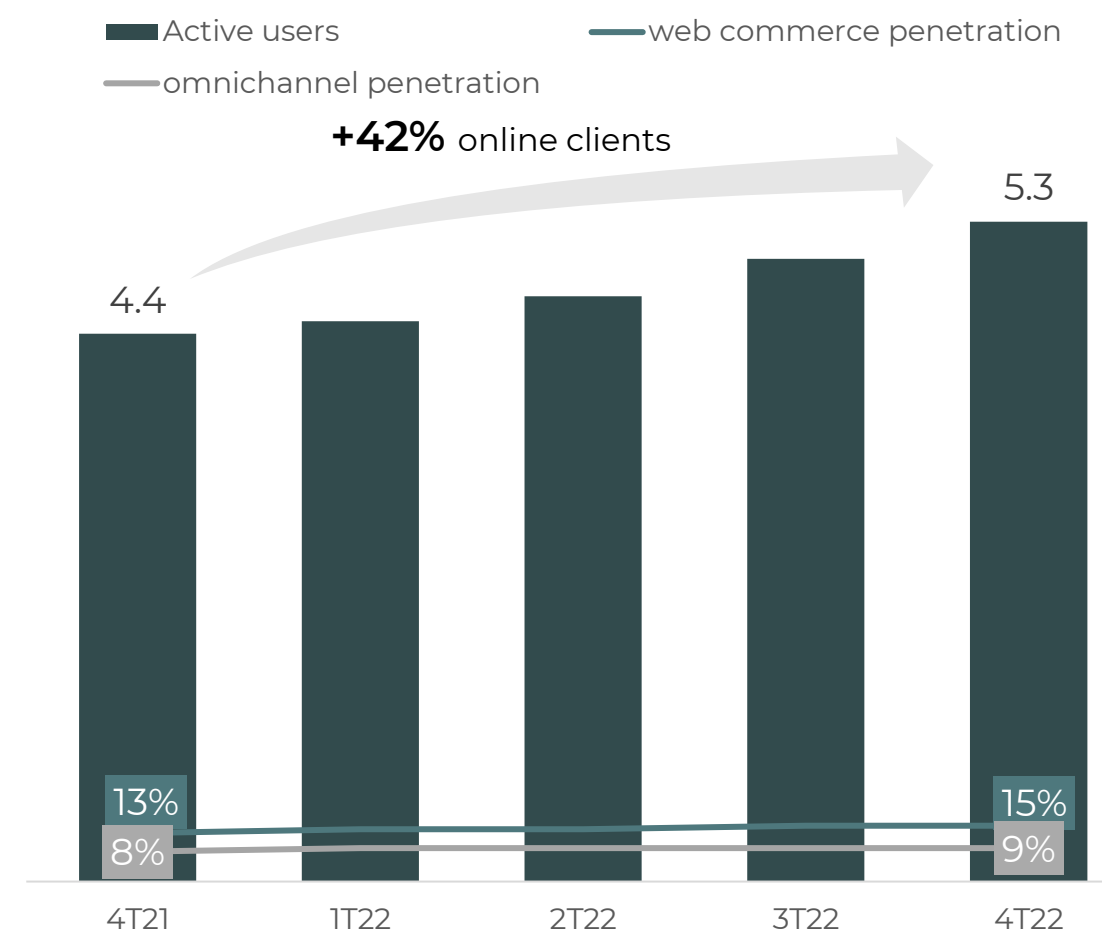
**E-COMMERCE**

BIRMAN MUSHOES CAROL BASSI VANS OFF THE WALL



## The omni base is increasing

Active online consumers (mn) web commerce penetration (&) and omni penetration(%)

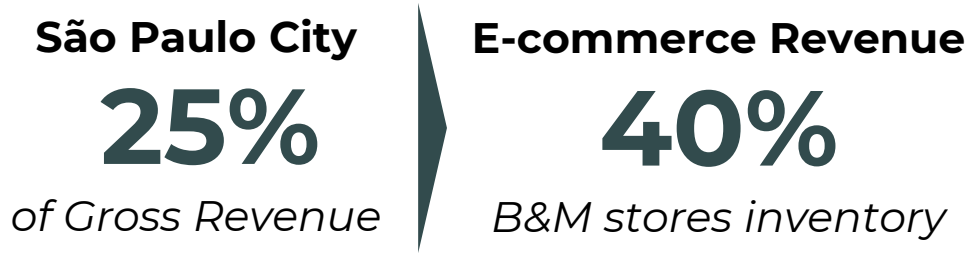


Source: Company releases



# Omnichannel: B&M stores as distribution centers

Since the Covid-19 pandemic, the integration between physical stores and e-commerce became fundamental



AS OF 2020

Integration between the physical and online

## STORES AS DISTRIBUTION CENTERS



SPEED DELIVERIES

TAP INTO MORE INVENTORY

REDUCE COSTS

# How does Arezzo&Co guarantee quality control of supplies?

Joint purchases to guarantee better prices and quality

Concentration of production close to Campo Bom

## SOURCING: JOINT PURCHASES

NATIONAL PRODUCTION OF LEATHER



PURCHASE OF RAW MATERIAL IN LARGE SCALE



STRONG DILIGENCE OF MATERIALS

## OUTSOURCING: SCALES GAIN



Vale dos Sinos, RS

**Source a large quantity of SKUs** at competitive prices and a short period of time

**90%**

of footwear, handbags and accessories made in Vale dos Sinos

# We flew to Campo Bom (RS) to see it for ourselves



Steps in R&D process



- 1 SOURCE OF INSPIRATION | 2 TRIPS TO EUROPE  
100,000 PRODUCTS COLLECTION
- 2 MOOD & PRODUCTS SELECTION | ALEXANDRE BIRMAN  
ACTIVE PARTICIPATION
- 3 ENGINEERING OF PRODUCTS | "CALCE TEST"  
WELL FIT AND BEAUTIFUL
- 4 PROTOTYPE FACTORY | IN HOUSE TESTING & ADJUSTMENT  
TECHNICAL ARCHIVE TO OUTSOURCE
- 5 SELL IN & SELL OUT FEEDBACK | DATA COLLECTION  
DESIGN OF NEW LAUNCHES

"The collection is a source of innovation, as fashion is circular"  
- Gilmar Oliveira (Museum coordinator)

HIGH QUALITY

DESIRABILITY

## Campo Bom: Extensive collection of products

Since the company has an extended legacy, they reunite a lot samples from past launches, and no other peer has that



*They gather samples of shoes and purses from many years ago*

### Circular fashion:

- ◆ Leverage from the collection to predict tendencies
- ◆ Replicate the technique of production of shoes (luxury benchmarks)
- ◆ Always launching new products and getting inspiration

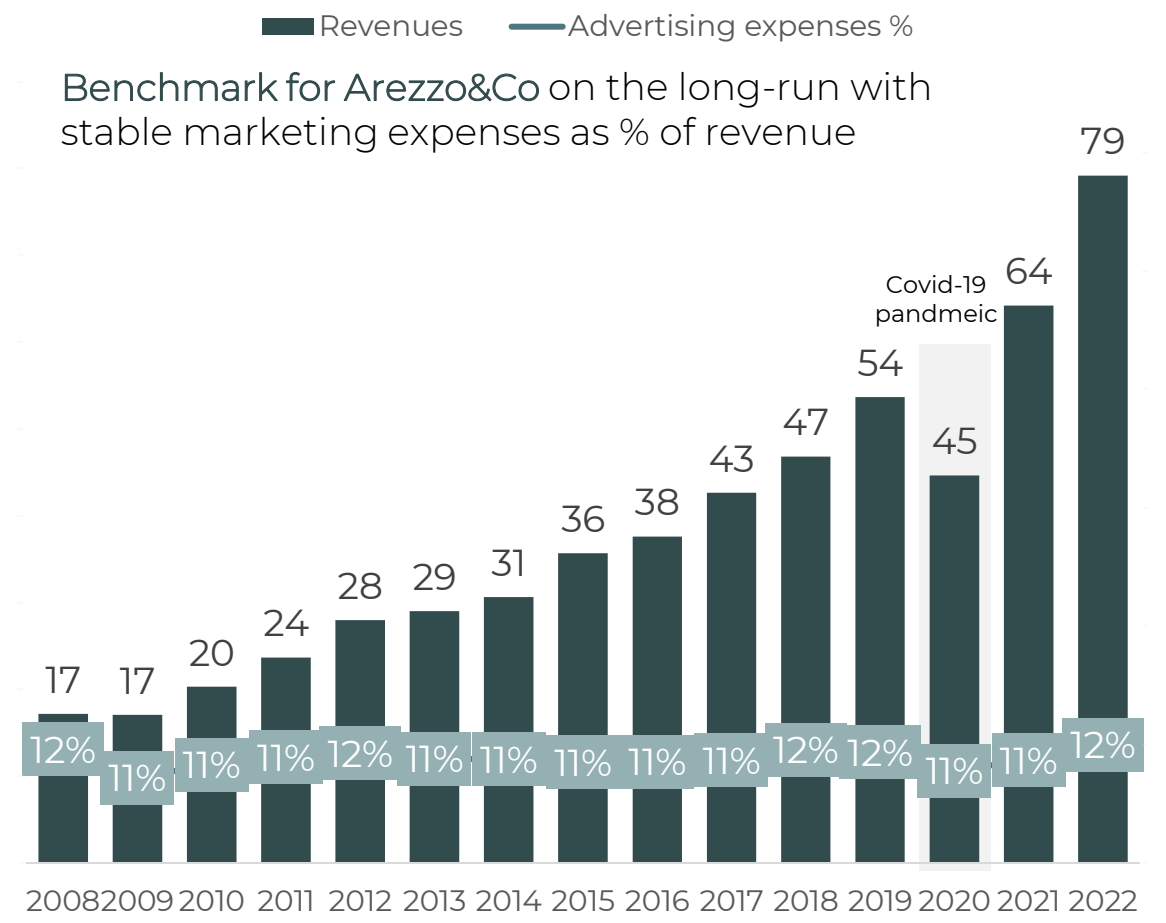
# LVMH marketing

In the fashion industry, high desirability is key and the scalable businesses benefit from maintaining stable marketing expenses



**“Growth is a function of high desire.** Customers must want the product. That sounds simple, I am sure, but to get advertising right is very, very difficult—**it’s difficult to get advertising to represent the true brand.**”  
– Bernard Arnaut

LVMH revenue (bn) ad marketing expenses as % of revenue



Sources: Company releases, Forbes

# Solid marketing communication on social media

Each brand has an integrated and expressive strategy

## STRONG PRESENCE ON SOCIAL MEDIA

OVER **18 MILLION** FOLLOWERS ON INSTAGRAM

## POWERFUL DIGITAL COMMUNICATION

**CUSTOMIZED CONTENT** FOR DIFFERENT CLIENTS

## FOCUS ON CONSUMER EXPERIENCE

LEADER OF FASHION AND **CONSUMER BEHAVIOR**

## INFLUENCERS ENDORSEMENT

STRONG **INFLUENCERS AND CELEBRITIES' ENDORSEMENT**

Its scale and brand equity enable access to popular people

Access to influencers and celebrities with high engagement online

Name	Followers	Average likes
Gisele Bundchen	20.8M	358.3K
Marina Ruy Barbosa	41.6M	232K
Juliette	32.2M	521K
Bruna Marquezine	43.9M	662K
Anitta	64M	548K

Strong engagement on its own social media platforms compared to its peers

	FOLLOWERS	AVERAGE LIKES
<b>AREZZO</b>	6.1M	1.7K
<b>SCHUTZ</b>	4.8M	3k
<b>AVERAGE PEERS</b>	1.1M	552

# Cannibalization and brand positioning

Each brand positions itself in a different way, therefore we believe the cannibalization is not impactful

## AREZZO

Traditional women

Casual and more basic shoes

More broad target consumers

Average ticket:  
**BRL 240**

## SCHUTZ

Contemporary young women

Cheeky and stylish shoes

Targets a youthful and bold audience

Average ticket:  
**BRL 410**

## ANACAPRI

Practical and simplistic women

Comfort and flat shoes

Targets a youngest niche

Average ticket:  
**BRL 140**

ALEXANDRE  
**BIRMAN**

Luxurious and sophisticated women

Exclusive handmade shoes

Targets high-end classes

Average ticket:  
**BRL 1,500**

Minimum overlap due to different types of consumers

# Barrier to entry as a result of consumer captivity and scale

Arezzo&Co has a true competitive advantage with increasing market share and high ROIC in a segment with barriers to entry

## ECONOMIES OF SCALE

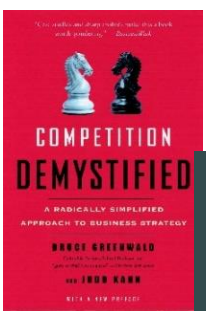
- ◆ Scale in production
- ◆ Scale in distribution
- ◆ Scale in marketing



## CONSUMER CAPTIVITY

- ◆ Brands as top of mind
- ◆ Free marketing on social media
- ◆ Strong R&D and winner lead time

## BARRIER TO ENTRY



“In fact, the **truly durable competitive advantages** arise from the interaction of supply-and-demand advantages, from the **linkage of economies of scale with customer captivity.**”  
 – *Competition Demystified*



AR&CO AREZZO

# Appendix

3rd pillar thesis

Room for expansion

UNBRAND®

Oticina  
RESERVA

DIRTYMAN

TRUCK

Baw

PIER



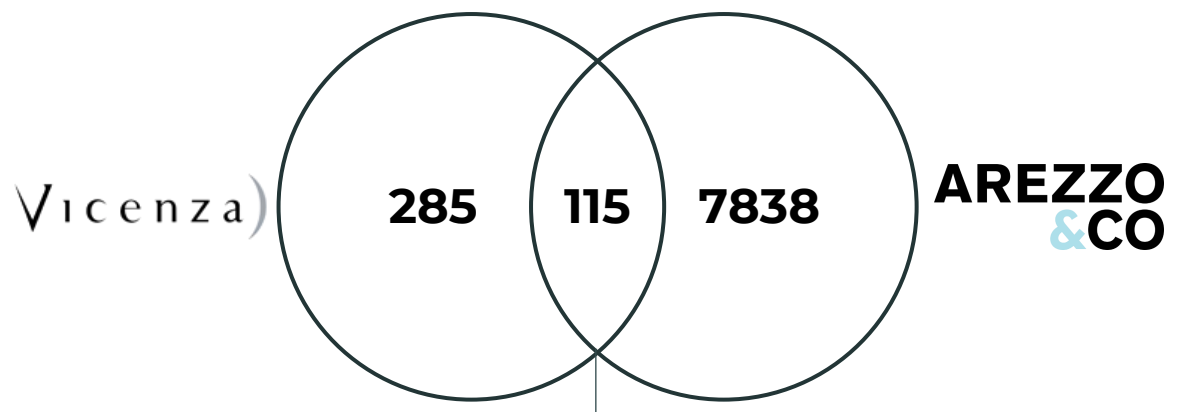
MY SHOES

INK

ME

# Cross-sell opportunities

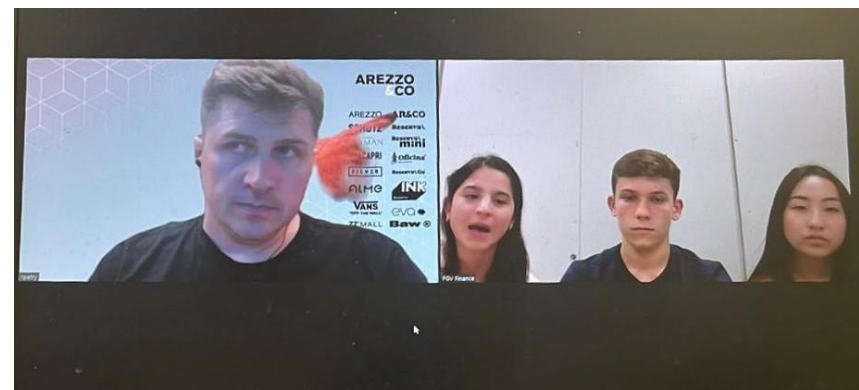
*Multibrands*



Integration between Vicenza and Arezzo&Co could take Vicenza to at least 1,000 of them

Rodrigo Petry told us about huge opportunities with multibrands

“Cross-sell potential of stores varies a lot. Today 50% of Schutz customers do not buy Arezzo - **Schutz and Arezzo** cross-sell.”



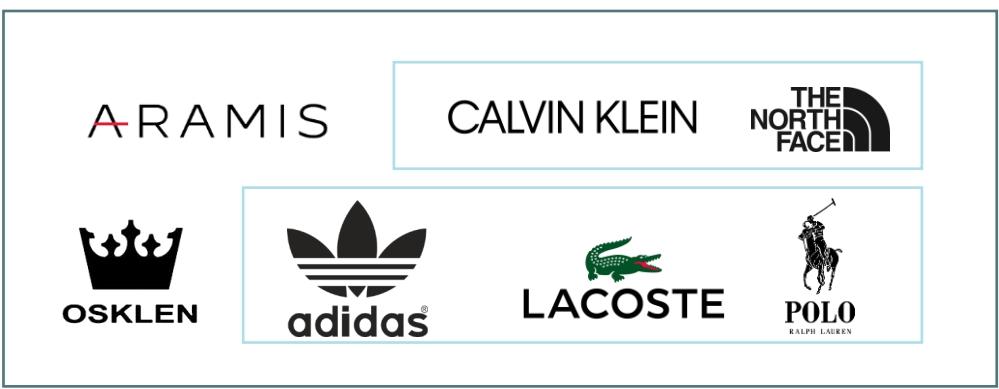
# Reserva: Strong brand equity

Reserva is exploring a pulverized market with high potential

A market niche **poorly explored** in Brazil

- ◇ Pulverized market
- ◇ International brands
- ◇ Lack of identification with brands

Men apparel brands



□ International brands

Source: Company releases

# Reserva

National brand **>** Strong brand equity

*High quality products*  
*Great consumer experience*



“During the pandemic, people stopped to travel abroad and Reserva gained strengthened awareness.” – Rony Meisler

## Case Study: Osklen

Osklen had a different strategy and positioning compared to Reserva



- ▶ Low synergy with Alpargatas, with no expertise in male apparel and street footwear
- ▶ Just a few collections launched during the year, with the attention focused on its main product (Riva shoes)

### MONEYTIMES

**Alpargatas (ALPA4) completes the sale of 60% of the Osklen brand**

- Alpargatas decided to sell **60%** of Osklen to focus on other operations of the business in 2022

# Reserva acquisition NPV calculus

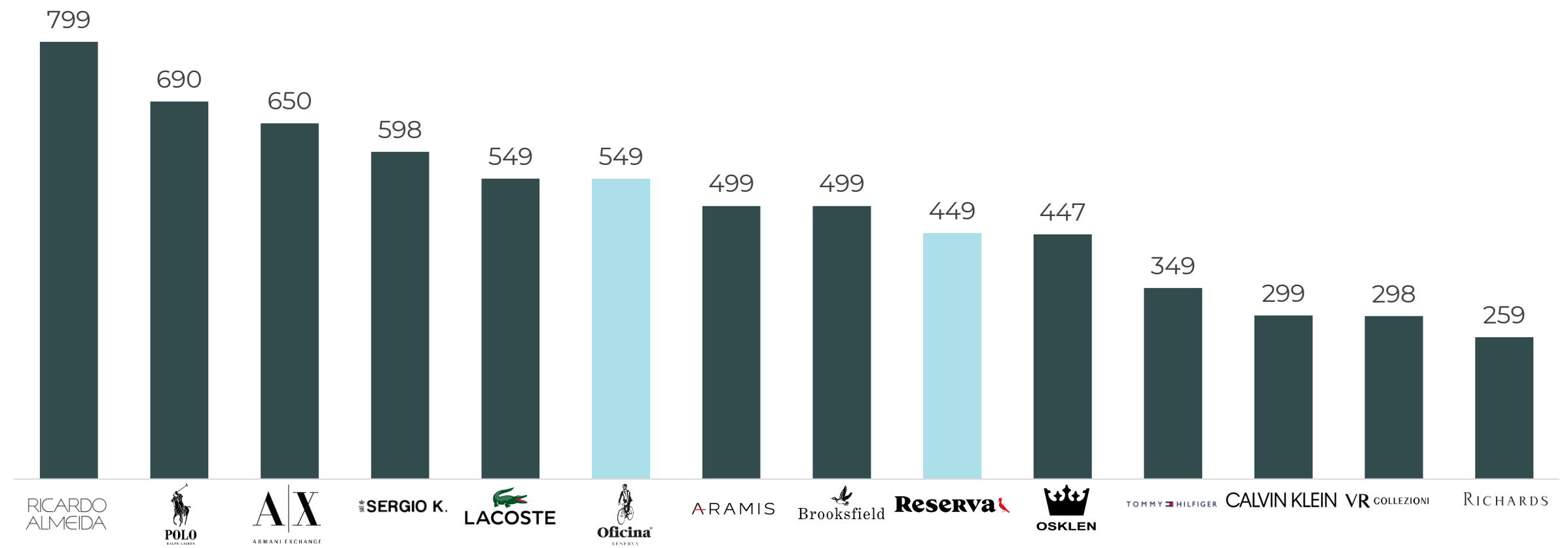
We discounted all cash flows back to 2020, the year of the acquisition

Year	Unit	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031 Perpetuity	
<b>Gross Revenue</b>	<b>[BRL mn]</b>	<b>396</b>	<b>771</b>	<b>1,200</b>	<b>1,633</b>	<b>1,950</b>	<b>2,252</b>	<b>2,535</b>	<b>2,735</b>	<b>2,862</b>	<b>2,978</b>	<b>3,086</b>	<b>3,185</b>	
YoY Growth	[%]	-9%	94%	56%	36%	19%	15%	13%	8%	5%	4%	4%	3%	
<b>Net Revenue</b>	<b>[BRL mn]</b>		<b>617</b>	<b>960</b>	<b>1307</b>	<b>1560</b>	<b>1802</b>	<b>2028</b>	<b>2188</b>	<b>2290</b>	<b>2382</b>	<b>2469</b>	<b>2548</b>	
EBITDA Margin	[%]		18.1%	18.1%	17.5%	18.5%	18.8%	19.5%	20.2%	20.9%	21.5%	21.8%	22.1%	
EBITDA	[BRL mn]		112	174	229	289	339	396	442	478	512	538	564	
FCO/EBITDA	[%]		60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	
FCO	[BRL mn]		67	104	137	173	203	237	265	287	307	323	338	
Rent as % of revenues	[%]		3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	
CAPEX as % of revenues	[%]		1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	
<b>FCF</b>	<b>[BRL mn]</b>	<b>-715</b>	<b>42</b>	<b>66</b>	<b>85</b>	<b>111</b>	<b>131</b>	<b>156</b>	<b>178</b>	<b>195</b>	<b>212</b>	<b>224</b>	<b>236</b>	<b>2250</b>
PV	[BRL mn]	-715	40	54	61	69	71	74	74	71	67	62	57	543
<b>NPV</b>	<b>[BRL mn]</b>	<b>527</b>												
Acquisition Price	[BRL mn]	715												
WACC	[%]	15%												
g	[%]	4%												
<b>IRR</b>	<b>[%]</b>	<b>21%</b>												

# Men's apparel price comparison

We see that AR&Co brands are not the cheaper, neither the most expensive

Prices for polo pima shirts, as of 07/04/2023



Source: Companies sites

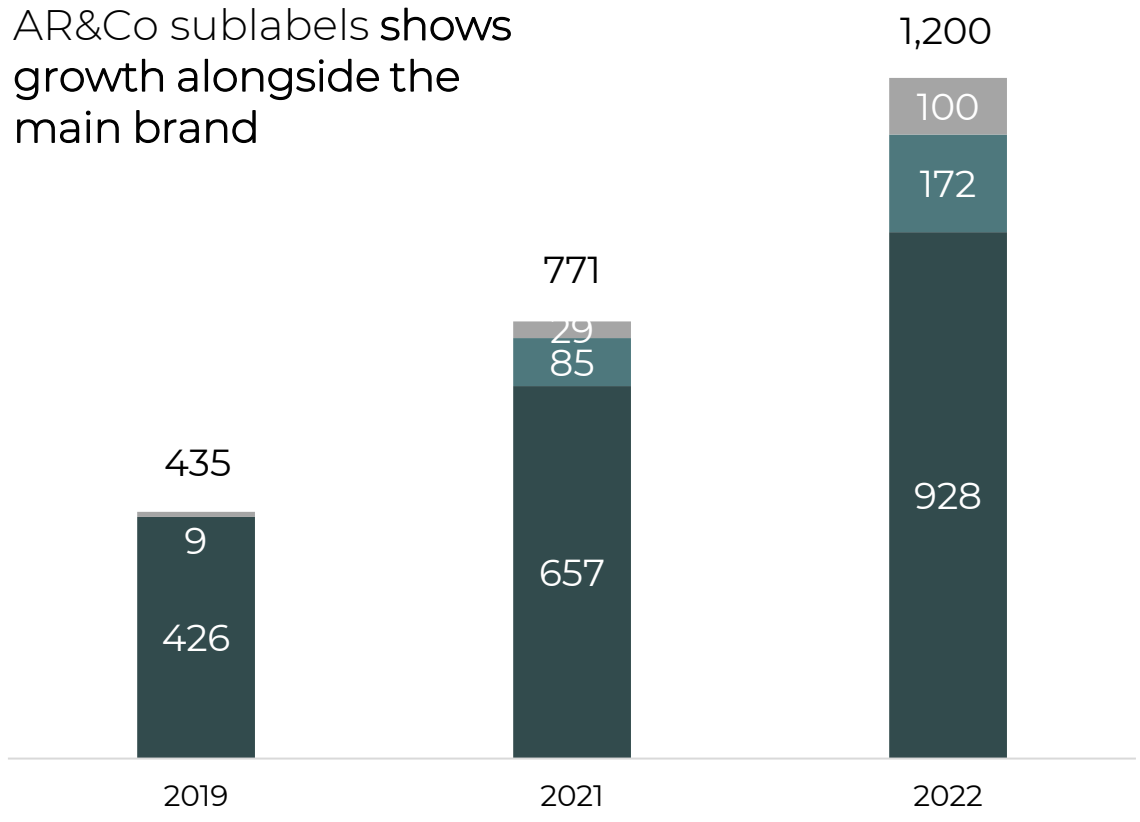
# Reserva sublabels

Reserva Go and Oficina showing substantial growth

AR&Co sublabels revenues (BRL mn)

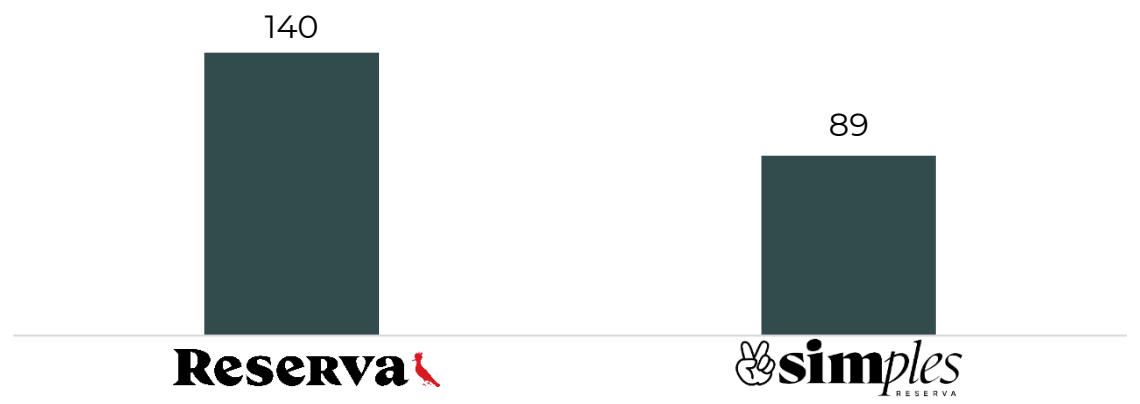


AR&Co sublabels shows growth alongside the main brand



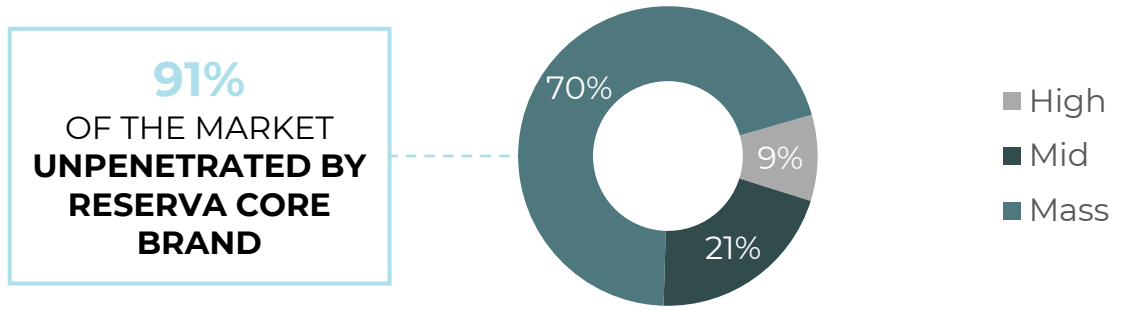
What brings us confidence to Simples, a cheaper brand

Basic t-shirt prices (BRL)



that serves an unexplored market

Participation of classes in Apparel and Footwear sales



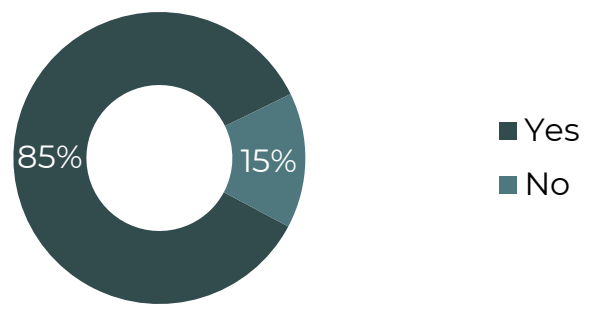
Source: Company releases, Euromonitor, Brazil Journal

# Schutz full-look

Schutz lifestyle expand the brand to full look

Interviews made in 2021 to Schutz Lovers

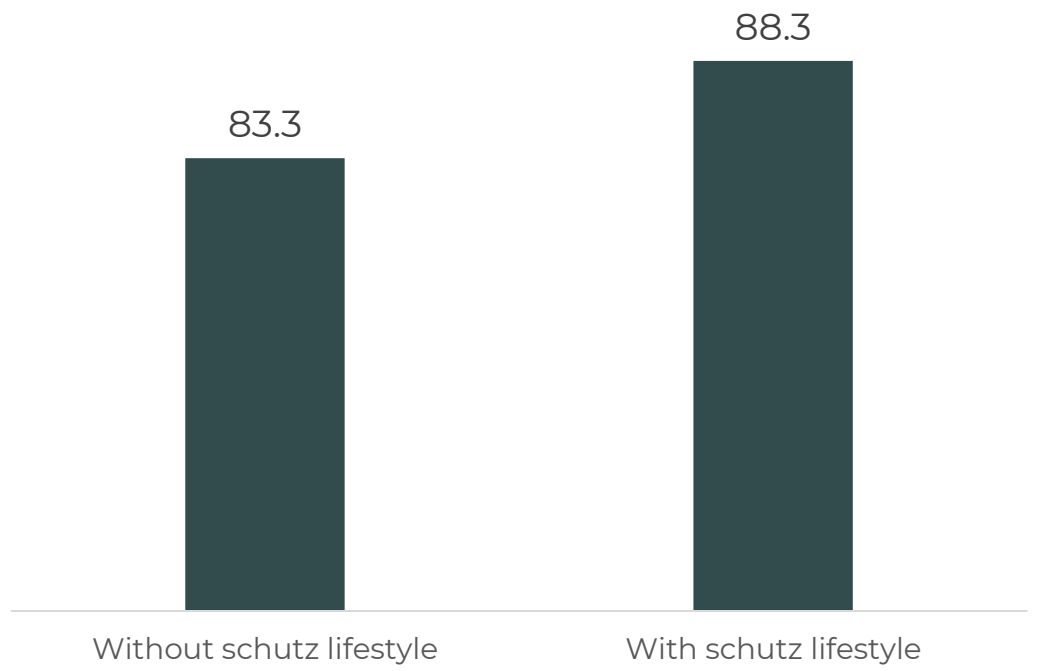
**85%**  
OF SCHUTZ CLIENTS  
ARE **INTERESTED IN  
SCHUTZ LIFESTYLE**



Apparel and Footwear will be sold through hybrid stores, increasing cross-sell

We used a top-down approach to project this optionality

		2023	2024	2025	2026	2027	2028	2029	2030	2031
TAM	[BRL mn]	19,855	20,671	21,477	22,337	23,230	24,159	25,126	26,131	27,176
Schutz Share	[%]	1%	1%	2%	2%	3%	3%	3%	3%	3%
Sell-Out	[BRL mn]	99	207	322	447	581	725	754	784	815

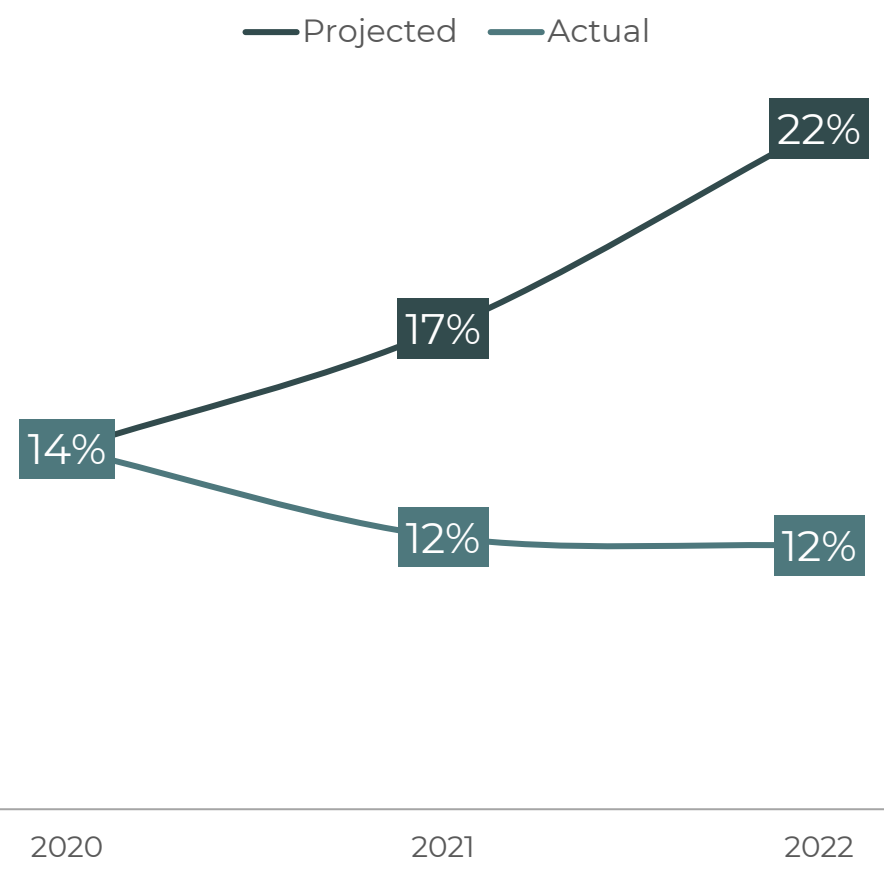




# Hering: SOMA is struggling to deliver results

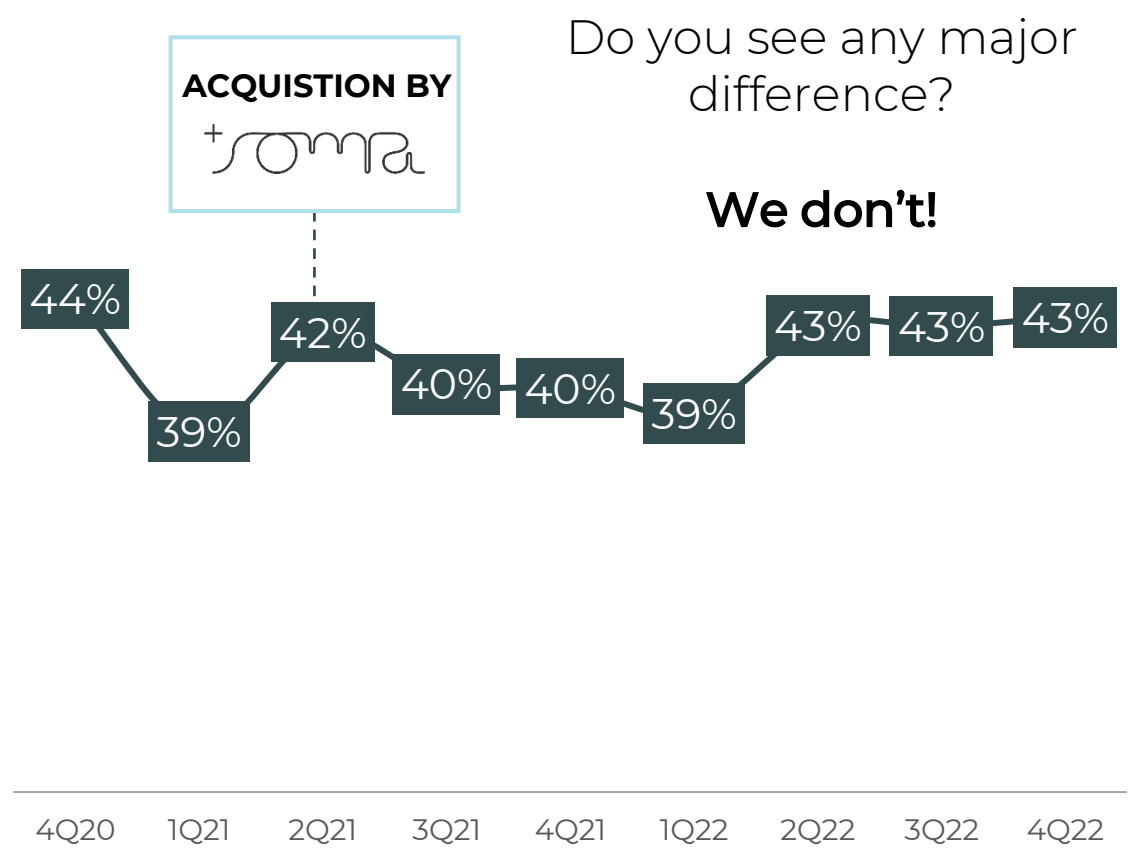
SOMA missed its main projected synergies in revenues...

Web commerce penetration in the Hering's revenues (%)



and cost efficiency

Hering gross margin (%)



# Paris Texas

How will the acquisition create value for Arezzo&Co?

Close relationship with Tuscany factories

- Quality
- Diverse raw materials
- Machinery expertise

Appropriate from these different features and apply to national brands

Made-in-Italy

The heart of luxury footwear



**PARIS TEXAS**

Carol Bassi

# CAROL BASSI



## *What have they achieved?*

- ◆ 2 new stores (Belo Horizonte and Rio de Janeiro)
- ◆ E-commerce operation
- ◆ Boost in sales in 2022

## *What do we see in the future?*

- ◆ The brand could reach BRL 300-400 mn (not a BRL 1 bn brand)
- ◆ Optionality of 10 stores in the long run
- ◆ Exclusivity of the brand and product

# Sunset and HG

Control of development of products

## *Incorporation of some facilities*

But they will remain Asset Light, it will not change abruptly the mix of manufacture



João Francisco, the founder of Sunset and HG, will remain in charge of the companies' operations and 70% of the value will be paid in stocks.

HG



Factory purses, development of brands (R&D model)

Purses represent 17% of revenue of shoe brands

Sunset



Improve international operations and local sourcing

“consolidating the production chain is a way of guaranteeing the quality of our supply at a time when we are accelerating our growth.”  
-Alexandre Birman

# M&A: Alignment and integration

◆ How is Arezzo succeeding in acquisitions?

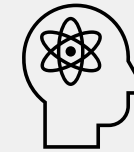
Synergies between the founders and Alexandre Birman



Keep brand founders to align interests



Integrate knowledge of founders with different backgrounds



# What's next for Arezzo&Co international M&A agenda?

We believe that Arezzo&Co has strong potential to leverage European brands in the US

- ◆ WELL ESTABLISHED BRAND
- ◆ FRESHLY LAUNCHED: 6-8 YEARS FROM LAUNCH
- ◆ WELL-ESTABLISHED START PRODUCT
- ◆ HIGHLIGHT TO EUROPEAN BRANDS

EXAMPLE: **PARIS TEXAS**

## What's next?

MACH & MACH

**AMINA MUADDI**

D'ACCORI

JENNIFER CHAMANDI  
LONDON

**PĪFERI**



NAKED WOLFE



“We are studying and evaluating **new acquisitions**, including factories. Always targeting small deals, but with great potential, brands that are the object of desire.”  
– Alexandre Birman

# M&As: Just an optionality!

We are **not inputting** the M&As optionalities in our scenarios

*We based our assumptions on past acquisitions*

Company	Year	Multiple	Revenue (mn)	EBITDA
Paris Texas	2023	11x	72	33
Vicenza	2023	9x	80	20
Carol Bassi	2021	6x	110	32
Baw Clothing	2021	-	80	-

REVENUE BRL 100 mn

TRANSACTION MULTIPLE 10x (EV/EBITDA)

AVERAGE TICKET BRL 170 mn

## Number of acquisitions

2024	2025	2026	2027
2	2	2	2

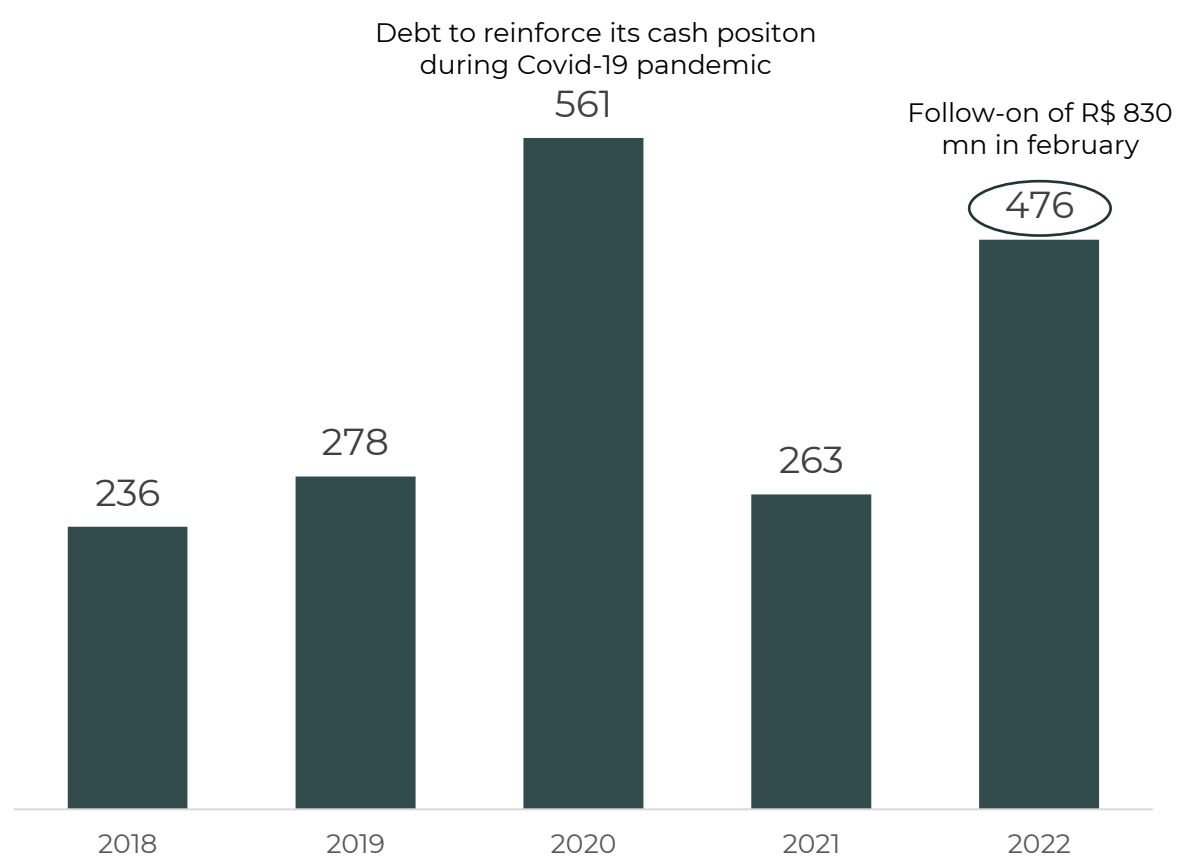
*"1 or 2 acquisitions per year with well-established targets." -Alexandre Birman*

Sources: Company releases, Team elaboration

The company has a strong cash generation

Cash and cash equivalents (BRL mn)

*Arezzo has enough cash to make new acquisitions*



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# Appendix

## ESG

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# Environmental analysis: Supply chain and circular economy

Arezzo&Co is tackling environmental issues through the entire chain: from suppliers to consumers

## RESPONSIBILITY - SUPPLIERS



## NEXT STEPS...



**LEATHER TRACEABILITY** WITH BLOCKCHAIN TECHNOLOGY TO GUARANTEE THE MATERIALS ARE NOT TRACED TO **DEFORESTATION**

## REVERSE LOGISTICS POINTS

**AR&CO 12**

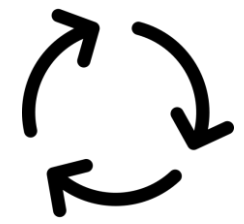
**AREZZO & CO 8**

## TROC

SECOND-HAND PLATFORM



EXCHANGE OLD PIECES OF CLOTHES FOR **DISCOUNTS** OR **BUY FOR LESS**



**Reserva**

# Social Responsibility: 1P 5P

AR&Co is engaged in promoting a strong initiative to minimize starviness in Brazil

For every piece of clothing sold at Reserva Mini, **5 meals are donated**



90,423,050

meals donated since 2016



52 million people are at some stage of food insecurity, that is, 1 in 4 Brazilians . Of these, 7 million are starving.

# ESG Index Analysis

Criteria	Category	Weight	Arezzo&Co
Resources Efficiency	Environmental	25%	3
Emission Reduction Policy	Environmental	25%	3
Environmental Supply Chain Management	Environmental	25%	3
Product Impact Minimization	Environmental	25%	2
Product innovation	Environmental	25%	4
Sustainable Resources	Environmental	25%	4
Waste Reduction Total	Environmental	25%	3
Working conditions	Social	35%	4
Gender diversity	Social	35%	4
Race diversity	Social	35%	5
Employees remuneration	Social	35%	4
Safety in workplace	Social	35%	4
Human rights monitoring	Social	35%	5
Education and trainee initiatives	Social	35%	5
Consumer relationship	Social	35%	5
Child and forced labor	Social	35%	4
Alignment of interest between shareholders and executives	Governance	40%	5
Anti-corruption measures	Governance	40%	5
Board Independence and composition	Governance	40%	4
Shareholders' rights	Governance	40%	5
Financial Policies	Governance	40%	5
Investor relations	Governance	40%	5
Transparent Accounting methods	Governance	40%	5
<b>Total score</b>			<b>4.34</b>

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# Appendix

## Risks

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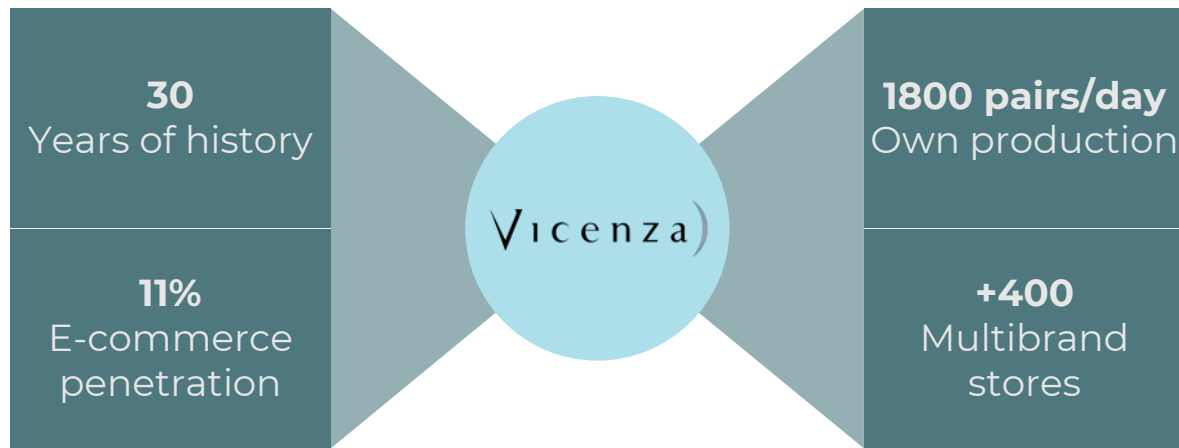
# PMI Playbook: Mitigating integration risk

Arezzo&Co consolidated its knowledge in a playbook to prepare for new acquisitions

and is already implementing it through Vicenza acquisition...

## CLASSIFICATION OF THE ACQUISITION TYPE AND ITS SPECIFIC DYNAMICS

Tipos de Integração		PLAY BOOK
As aquisições realizadas pela Arezzo&Co estão organizadas atualmente em 6 tipos. Sendo que, cada um do tipos, demandará um grau de autonomia, de centralização ou "estandardização" e velocidade.		
EXEMPLOS ILUSTRATIVOS		
PLATAFORMA DE MARCAS	Aquisição de empresa ou conjunto de empresas que permite a construção de outros modelos de negócio com ampliação de portfólio	Reserva
MARCA COM MERCHANT	Aquisição de marca, mas todo conhecimento do fundador / "criador"	Baw® CAROL, BASSI
MARCA COM LICENCIAMENTO	Concessão de uso de determinada marca, com direito de comercialização	VANS
MARCA	Aquisição apenas da marca, ativo intangível	ITJ/INDEF
SERVIÇOS	Aquisição de negócios para suporte da cadeia de valor da Arezzo&Co. Tem papel transversal na cadeia	TROC SUNSET
ATIVOS PRODUTIVOS	Aquisição de fábricas e outros ativos para o grupo	HG Malu Calçados
Novos tipos de integração podem ser incorporados para suportar à estratégia da AREZZO&CO		



## INTEGRATING AND CREATING SYNERGIES WHILE KEEPING THE BRAND IDENTITY AND CULTURE

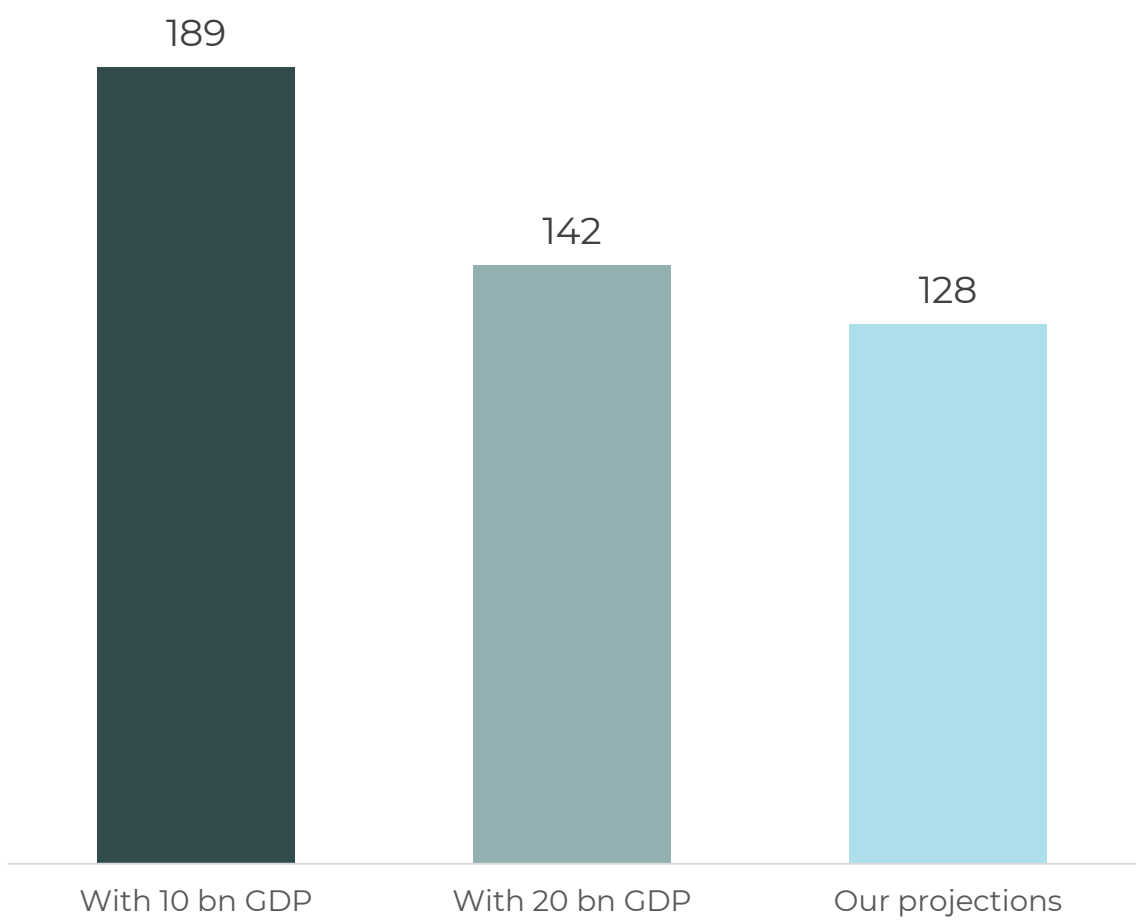
Premissas de Integração		PLAY BOOK
Algumas Premissas de Negócio são comuns para todas as aquisições, independente do momento da empresa adquirida.		
DIMENSÕES	PREMISSAS	
Serviços Compartilhados	<ul style="list-style-type: none"> <li>Integrar o CSC (Financeiro, Fiscal, Contábil, Adm. Pessoal, Semnt e Compras não produtivas), Expansão, Real Estate e RI) bem como implementar o ERP nas aquisições respeitando os SLAs e avaliar adaptações para a Plataforma.</li> </ul>	
Corporativo	<ul style="list-style-type: none"> <li>Ter visibilidade e controle financeiro da empresa (ex: controle do caixa e dos resultados)</li> <li>Alinhar e coordenar as iniciativas e projeto de TI à Estratégia de Tecnologia de Informação da Arezzo&amp;Co</li> <li>Realizar a integração dos dados da empresa incorporada e seguir políticas de segurança da informação da Arezzo&amp;Co</li> <li>Ajustar estratégia de integração para capturar ágio e outras oportunidades tributárias e fiscais nas integrações</li> <li>Centralizar áreas jurídicas/auditoria, Sustentabilidade e Relações Institucionais</li> <li>Alinhar o direcionamento das políticas de Recursos Humanos</li> </ul>	
Operações	<ul style="list-style-type: none"> <li>Liderar o esforço coordenado para obter sinergias, quando aplicável, e alinhar métricas e KPIs</li> </ul>	
Cultura & Liderança	<ul style="list-style-type: none"> <li>Inserir a empresa adquirida no modelo de governança de gestão de resultados e orçamento (Ns) Arezzo&amp;Co</li> <li>Adequar as práticas e costumes da organização à cultura de compliance da Arezzo&amp;Co</li> </ul>	
Marca	<ul style="list-style-type: none"> <li>Manter a identidade e a marca das empresas adquiridas, no caso do modelo de aquisição "Plataforma", "Marca com Merchant", "Marca com Licenciamento" e "Marca"</li> </ul>	



# How does AR&Co expansion risk impact our thesis?

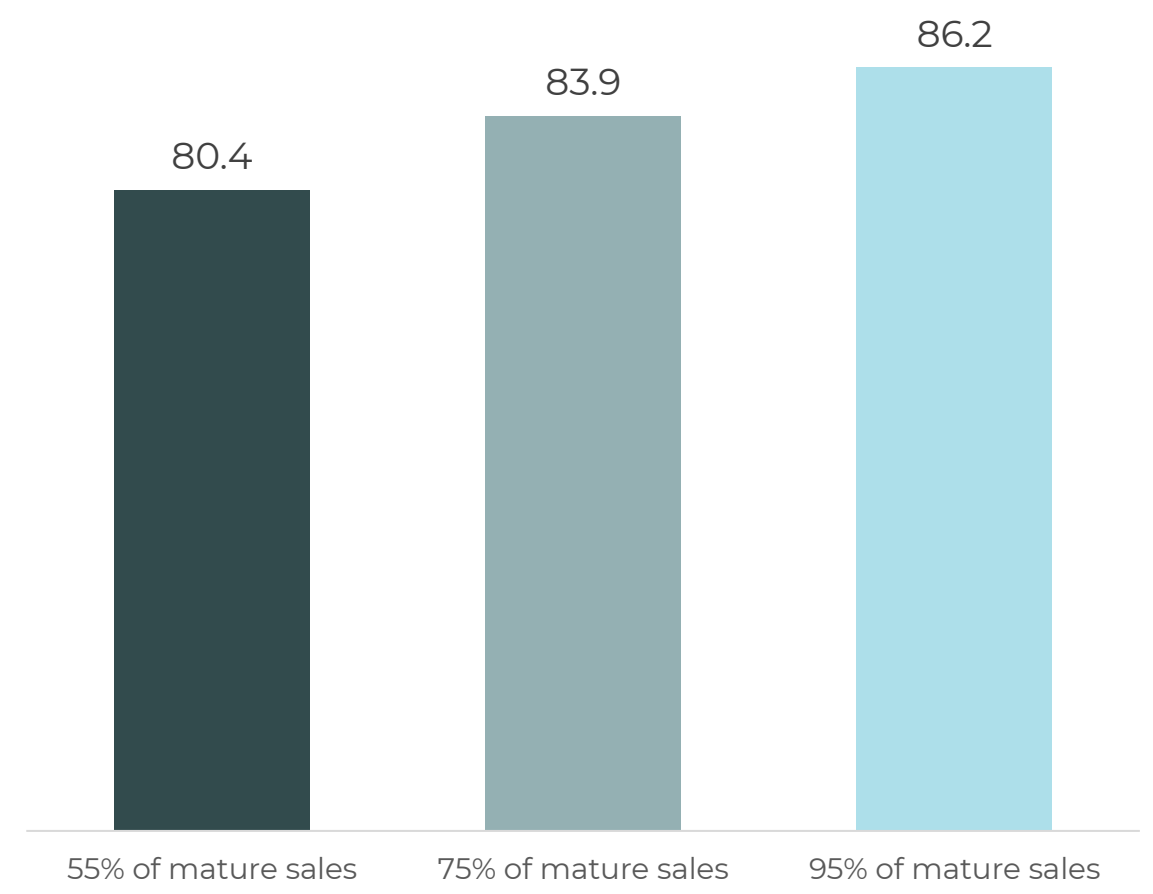
Our projections are feasible even sensitizing minimum GDP

Potential new locations projections



A lower percentage of mature stores can drive our price down

Target price sensitizing % of mature sales



Sources: ABRASCE, Team elaboration, Company releases

# Towards 2154: Birman's succession

How will the company get to 2154?

*In the 90s:*



of companies **did not** survive due to succession

Anderson realized the **risk of decline**

**Long standing** topic for Arezzo

His replacement sets a doubt about Arezzo's future

Who could take over after Birman?



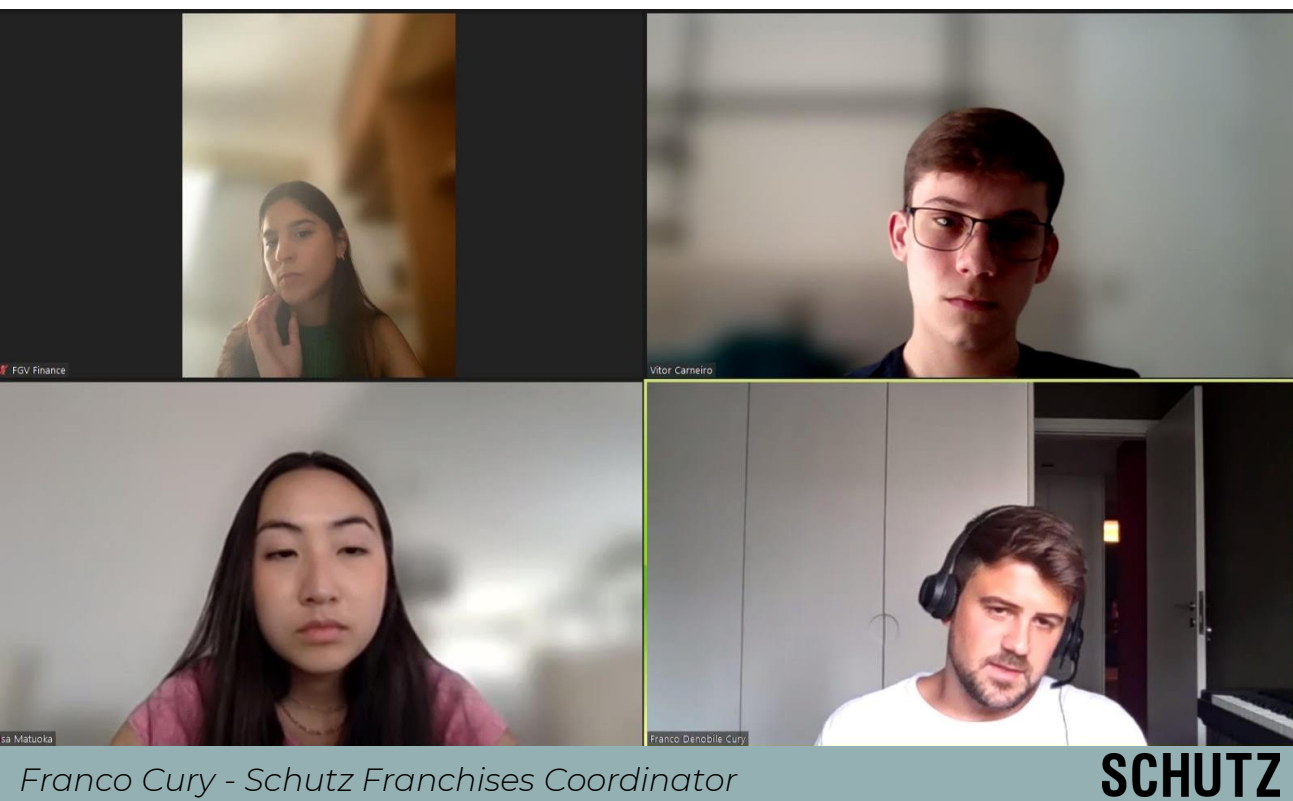
The founders of each brand create a strong ground for the future, specially Rafaela Furlanetto.

*"I'm a young person, but we already thought about it in advance."*  
- Alexandre Birman



# Deterioration of franchisee's relations

We talked to Franco Cury to better understand the relationship with the franchisees



- ◇ 100% IT INTEGRATION
- ◇ ONGOING SUPPORT – 1 COORDINATOR FOR EVERY 6 FRANCHISES
- ◇ AVERAGE 22 VITIS/YEAR
- ◇ TRAINING AND SALES CONFERENCE

“The information has to be the same for all franchises, consultants provide support to all franchisees, fix inventory discrepancies. Talk frequency with consultants is high, same day, same time.”

*Franco Cury - Schutz Franchises Coordinator*

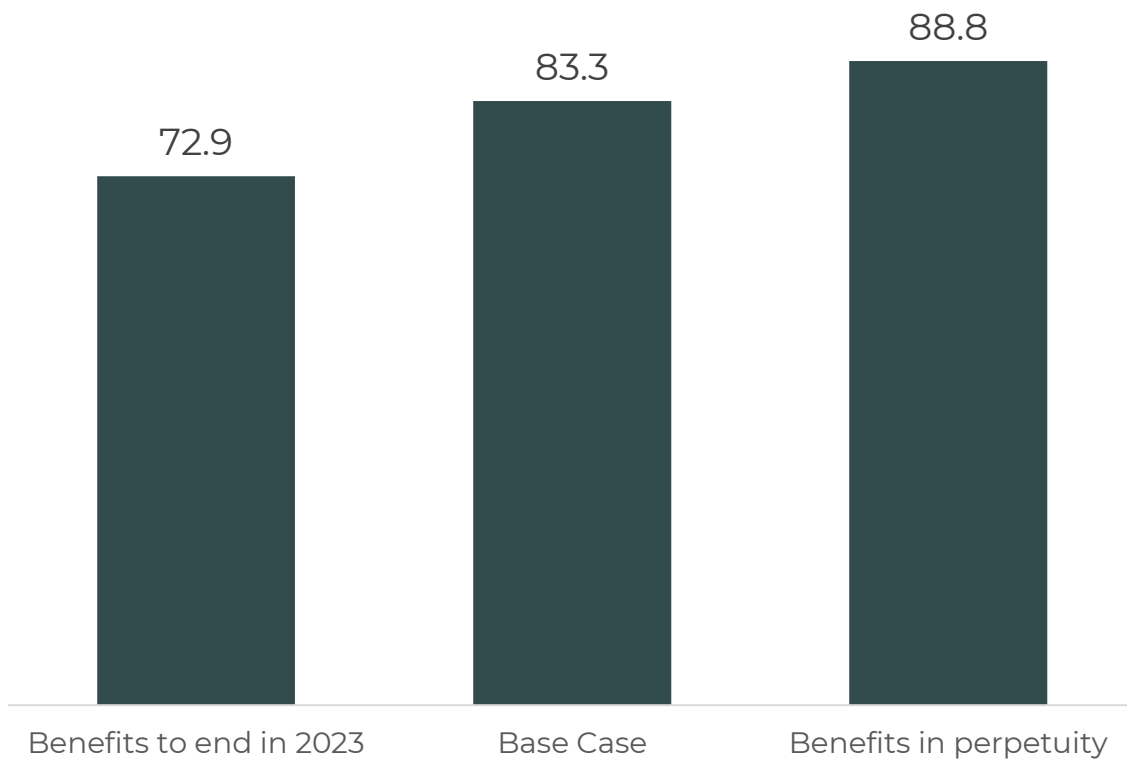
**SCHUTZ**



# Why we project medium impact from fiscal benefits?

Between our risks, we see M&As execution as a relevant company one, with fiscal benefits as the main market one

Our price target already inputs an end of the fiscal benefits in perpetuity, so it is more of an upside if it continues



Source: Team elaboration

## Company Risks (C)

- C1: M&A integration
- C2: AR&Co expansion proving worse than expected
- C3: Alexandre Birman's succession fails
- C4: Deterioration of franchisee's relation

## Market Risks (MK)

- MK1: Change in fiscal benefits**
- MK2: End of anti-dumping tariff

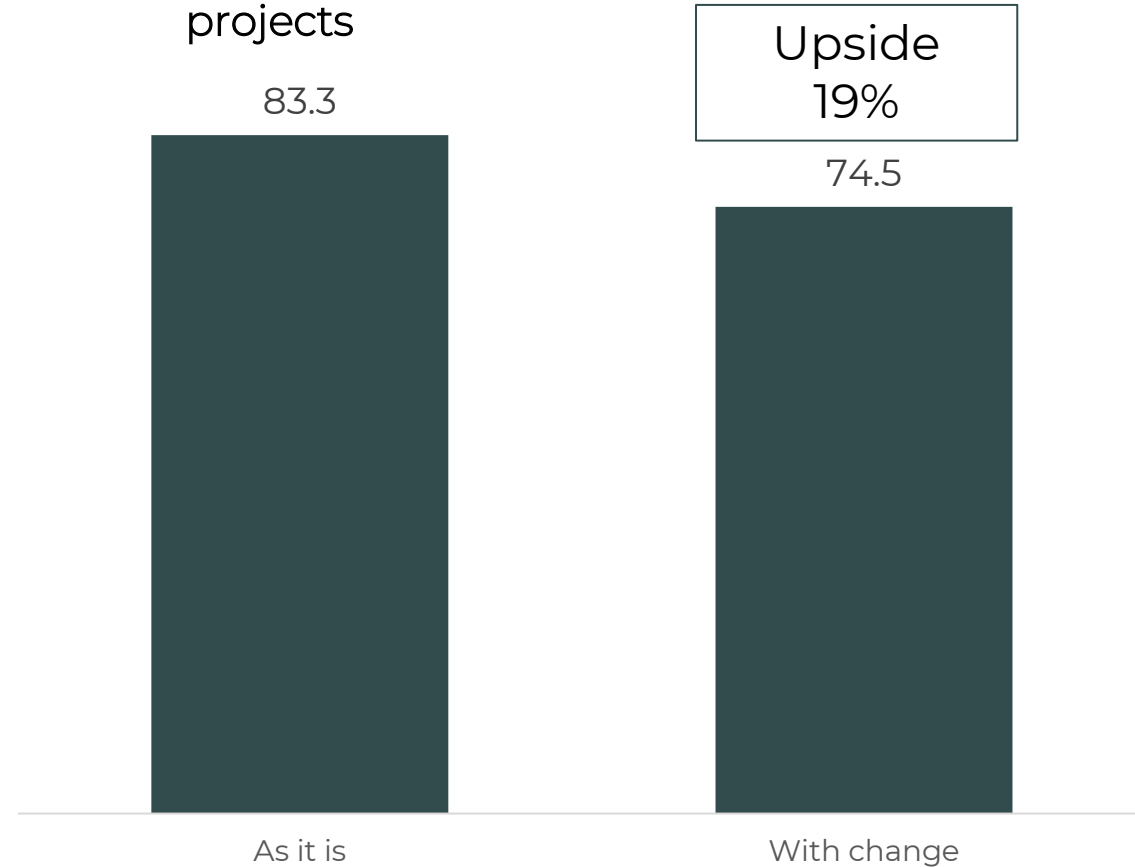
## Macro Risks (M)

- M1: Deterioration of consumption and inflation

# Why we project medium impact from fiscal benefits?

Between our risks, we see M&As execution as a relevant company one, with fiscal benefits as the main market one

We sensitized our target price by the tax reform projects



## Company Risks (C)

- C1: M&A integration
- C2: AR&Co expansion proving worse than expected
- C3: Alexandre Birman's succession fails
- C4: Deterioration of franchisee's relation

## Market Risks (MK)

- MK1: Change in fiscal benefits**
- MK2: End of anti-dumping tariff

## Macro Risks (M)

- M1: Deterioration of consumption and inflation

# What if fiscal benefits start counting for taxable income?

We used 2022 as an example of the impact of this change, supposing it happens to IoC and Subsidies to investments

How it is today		How it would be	
EBT	473	EBT	473
Tax rate	34%	Fiscal Benefits	110
Total tax	161	Taxable earnings	583
Fiscal benefits	110	Tax Rate	34%
<b>Effective tax</b>	<b>51</b>	Total tax	198
<b>Effective tax rate</b>	<b>10.7%</b>	Fiscal benefits	110
<b>Net income</b>	<b>422</b>	<b>Effective tax</b>	<b>88</b>
		<b>Effective tax rate</b>	<b>18.6%</b>
		<b>Net income</b>	<b>385</b>

# Antidumping

Despite low share, Brazilian production is protected by a tariff

Antidumping

**USD 10.22** in tariff per pair imported from China

**Measure that surcharges Chinese footwear is renewed for another five years**

Exclusivo

“It would be much **more difficult** if we had to compete without the Chinese product trade defense tool.”

- Abicalçados President

**Obs:** There is a tariff applied to all footwear imported of **30%**

China relies on **subsidies**, forbidden by WTO, to boost their competitiveness

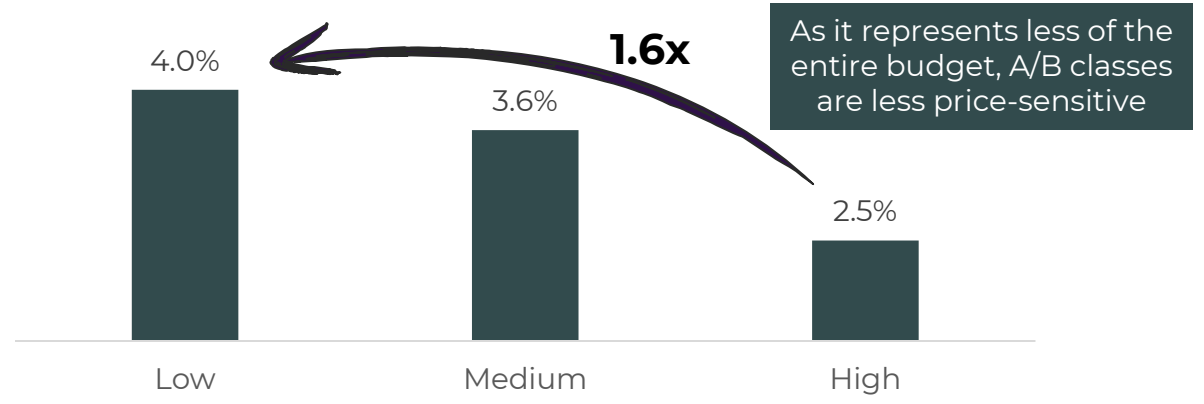
Global footwear market share 2022 (%)

China	50.7%
India	13.3%
Vietnam	7.7%
Indonesia	4.1%
<b>Brazil</b>	<b>3.9%</b>
Others	20.3%

# Why we see low impact from macro risk?

Arezzo&Co's consumers are more resilient

Participation of Apparel and Footwear in personal expenses, by class (%)

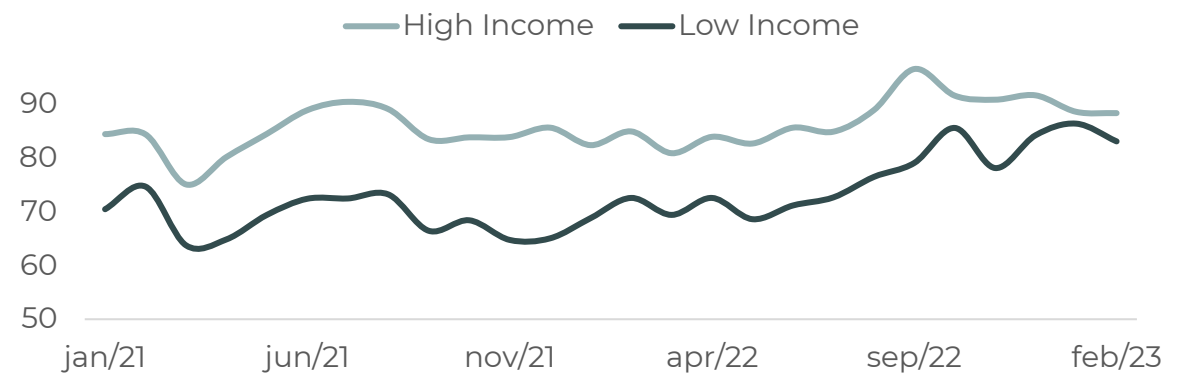


A/B classes confidence is less affected by macro factors, increasing predictability

VAR higher income **18.77**

VAR lower income **40.77**

Consumer confidence index for higher and lower incomes



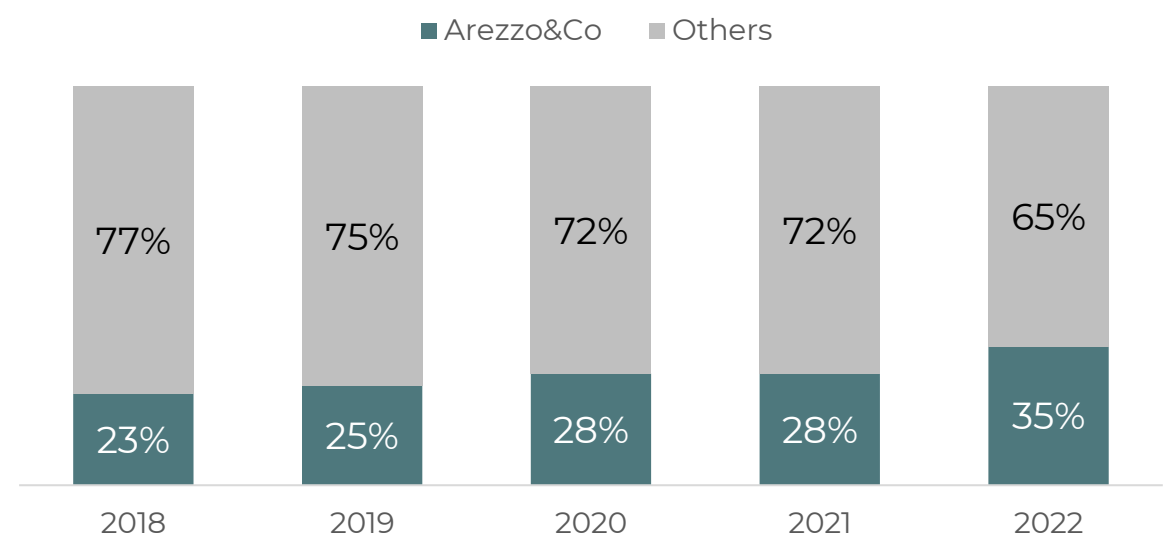
Smaller companies leave share, while bigger ones take it

Amaro goes into extrajudicial recovery with a debt of R\$ 245 million

Justice authorizes Paquetá to sell chain of stores

Restoque negotiates debt conversion

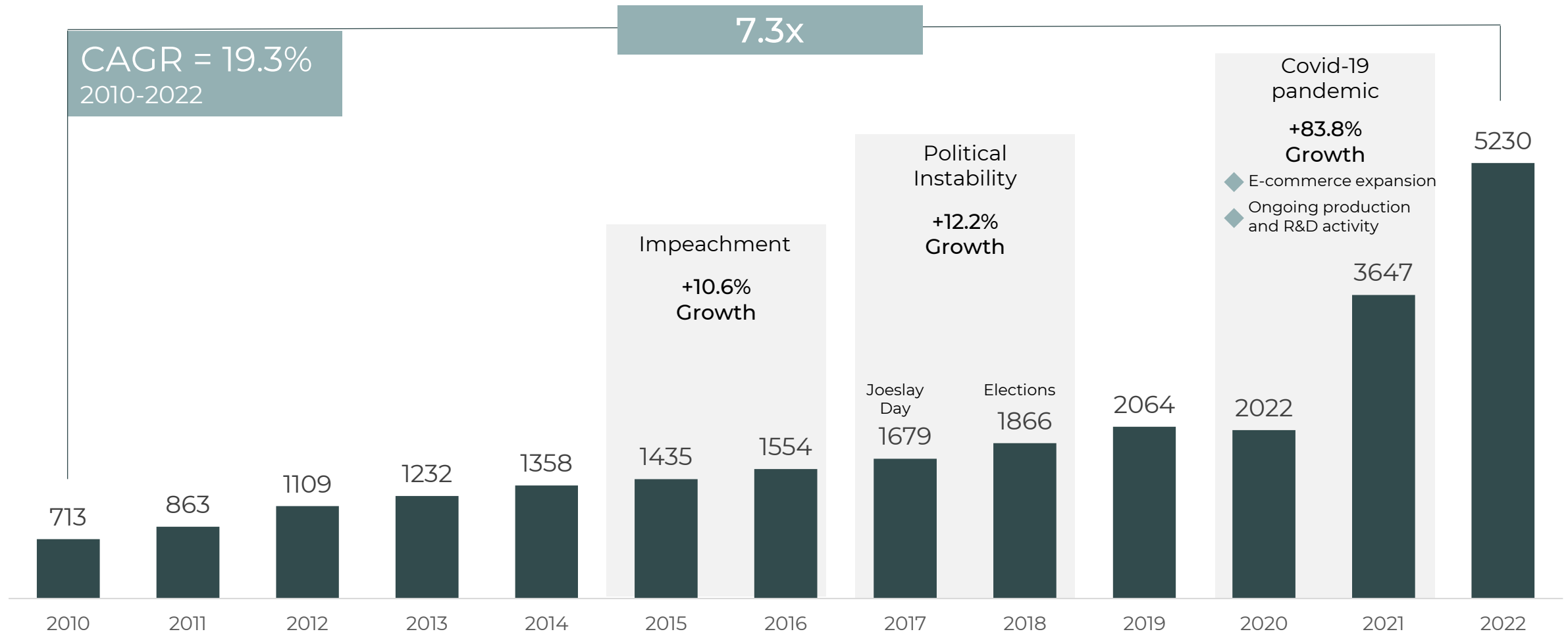
Interest rates and low economic activity impact weaker companies



# How did Arezzo&Co behave during recessions and crisis?

Arezzo&Co has delivered performance and resilience through several economic cycles

Gross revenue (BRL mn)



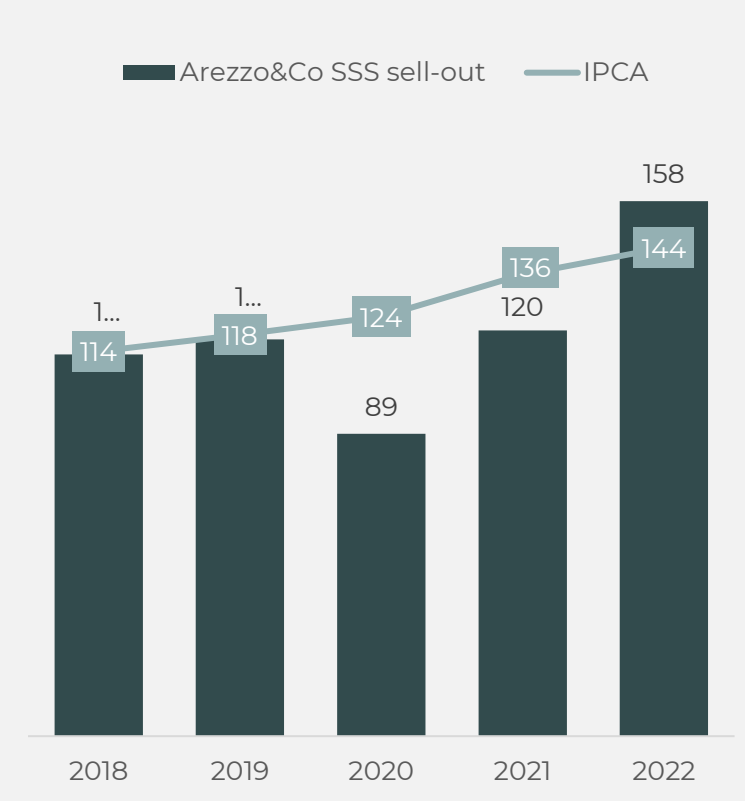
Source: Company releases

# What would change our recommendation?

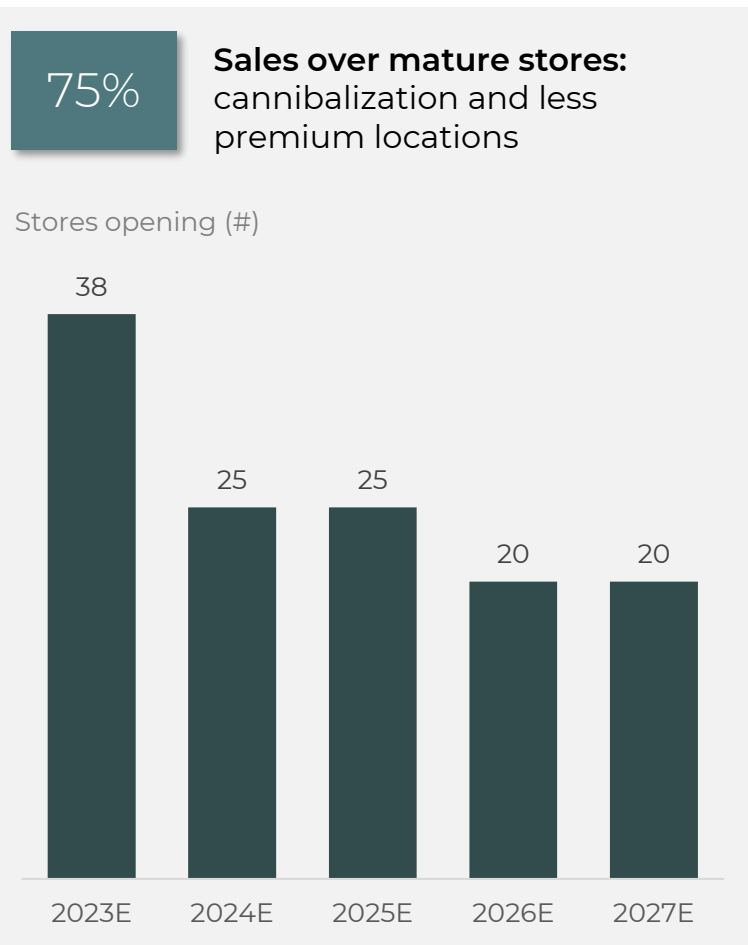
## Future SSS not in line with past results

Arezzo&Co SSS and IPCA, from 100 base)

If the SSS decreases, as a result of a weaker economic activity post-2022



## If we overestimated AR&Co expansion



## Different path on M&A strategy

- ◆ **M&A Strategy:** different targets (ex: turn-around companies)
- ◆ **M&A Integration:** unsuccessful integration of future M&As

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# Appendix

Unit economics

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# Franchises markup calculus

We used sell-out data to estimate past years franchises markup

Effective Markup Calculus	Unit	1Q19	2Q19	3Q19	4Q19	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	Average
Total Sell-out	[BRL ths]	511	621	581	896	464	625	710	1,200	771	1,000	959	1,400	
Sell-in franchises	[BRL ths]	208	197	224	270	178	145	227	337	253	257	318	342	
Sell-out Own Stores	[BRL ths]	61	69	59	77	81	118	164	296	191	269	272	401	
Sell-out Web Commerce	[BRL ths]	41	50	56	68	159	175	206	276	223	238	278	350	
Effective Markup	[x]	2.0	2.6	2.1	2.8	1.3	2.3	1.5	1.9	1.4	1.9	1.3	1.9	<b>1.9</b>

# Franchises 4-wall Income Statement

Year	Unit	0	1	2	3	4	5	6	7	8	9	10
<b>Income Statement</b>												
<b>Revenue</b>	[BRL ths]		<b>2,176</b>	<b>2,589</b>	<b>3,026</b>	<b>3,497</b>	<b>3,637</b>	<b>3,783</b>	<b>3,934</b>	<b>4,091</b>	<b>4,255</b>	<b>4,255</b>
Area	[BRL ths]		65	65	65	65	65	65	65	65	65	65
Revenue Arezzo per m2	[BRL ths]		18	21	25	28	29	31	32	33	34	34
COGS	[BRL ths]		(1,146)	(1,363)	(1,593)	(1,841)	(1,915)	(1,992)	(2,071)	(2,154)	(2,240)	(2,240)
<b>Gross Profit</b>	[BRL ths]		<b>1,030</b>	<b>1,226</b>	<b>1,433</b>	<b>1,656</b>	<b>1,722</b>	<b>1,791</b>	<b>1,863</b>	<b>1,937</b>	<b>2,015</b>	<b>2,015</b>
Gross Margin	[%]		47%	47%	47%	47%	47%	47%	47%	47%	47%	47%
Operating Expenses	[BRL ths]		(676)	(725)	(770)	(818)	(850)	(883)	(917)	(953)	(991)	(992)
Sales People	[BRL ths]		(432)	(473)	(509)	(548)	(569)	(592)	(616)	(641)	(666)	(666)
Fixed	[BRL ths]		(319)	(337)	(351)	(365)	(380)	(395)	(411)	(427)	(444)	(444)
Variable	[BRL ths]		(114)	(135)	(158)	(183)	(190)	(197)	(205)	(214)	(222)	(222)
Depreciation	[BRL ths]		(39)	(39)	(39)	(40)	(40)	(41)	(42)	(43)	(44)	(45)
Expenses store occupancy	[BRL ths]		(205)	(214)	(222)	(231)	(240)	(250)	(260)	(270)	(281)	(281)
<b>Operating Profit</b>	[BRL ths]		<b>354</b>	<b>501</b>	<b>663</b>	<b>838</b>	<b>872</b>	<b>908</b>	<b>945</b>	<b>984</b>	<b>1,024</b>	<b>1,023</b>
Taxes	[BRL ths]		(224)	(283)	(345)	(413)	(433)	(454)	(475)	(498)	(521)	(521)
Effective Tax Rate (% of revenues)	[%]		10%	11%	11%	12%	12%	12%	12%	12%	12%	12%
<b>Net Profit</b>	[BRL ths]		<b>130</b>	<b>218</b>	<b>317</b>	<b>425</b>	<b>440</b>	<b>455</b>	<b>470</b>	<b>486</b>	<b>503</b>	<b>502</b>
<b>Net Margin</b>	[%]		<b>6%</b>	<b>8%</b>	<b>10%</b>	<b>12%</b>	<b>12%</b>	<b>12%</b>	<b>12%</b>	<b>12%</b>	<b>12%</b>	<b>12%</b>
<b>EBITDA Margin</b>	[%]		<b>8%</b>	<b>10%</b>	<b>12%</b>	<b>13%</b>	<b>13%</b>	<b>13%</b>	<b>13%</b>	<b>13%</b>	<b>13%</b>	<b>13%</b>

# Franchises unit economics calculus

Year	Unit	0	1	2	3	4	5	6	7	8	9	10
<b>NOPAT</b>	[BRL ths]		<b>130</b>	<b>218</b>	<b>317</b>	<b>425</b>	<b>440</b>	<b>455</b>	<b>470</b>	<b>486</b>	<b>503</b>	<b>502</b>
D&A	[BRL ths]		39	39	39	40	40	41	42	43	44	45
Change in WK	[BRL ths]		(399)	(108)	(114)	(123)	(37)	(38)	(40)	(41)	(43)	0
Maintenance CAPEX	[BRL ths]		(39)	(41)	(44)	(46)	(47)	(49)	(51)	(53)	(55)	(58)
FCF	[BRL ths]	(770)	(269)	108	198	296	396	408	421	435	448	489
	[BRL ths]	(770)	(251)	87	140	182	211	189	170	152	137	130
<b>NPV</b>	<b>[BRL ths]</b>	<b>376</b>										
Invested Capital	[BRL ths]	770	1,208	1,358	1,516	1,685	1,768	1,856	1,946	2,041	2,139	2,196
<b>ROIC</b>	[%]		<b>11%</b>	<b>16%</b>	<b>21%</b>	<b>25%</b>	<b>25%</b>	<b>24%</b>	<b>24%</b>	<b>24%</b>	<b>24%</b>	<b>23%</b>
FCF + Invested Capital	[BRL ths]	770	1,039	932	733	437	41	(367)	(788)	(1,223)	(1,671)	(2,160)
<b>Payback</b>	<b>[#]</b>	<b>5</b>	1.0	1.0	1.0	1.0	1.0	(7.9)	3.1	2.6	2.4	2.3
<b>LT IRR</b>	<b>[%]</b>	<b>20%</b>										

# Arezzo franchises in Arezzo POV Income Statement

Year	Unit	0	1	2	3	4	5	6	7	8	9	10
Gross Revenues	[BRL ths]		1,146	1,363	1,593	1,841	1,915	1,992	2,071	2,154	2,240	2,240
Franchise fee	[BRL ths]		50									
<b>Net Revenues</b>			<b>956</b>	<b>1,090</b>	<b>1,274</b>	<b>1,472</b>	<b>1,531</b>	<b>1,592</b>	<b>1,656</b>	<b>1,722</b>	<b>1,791</b>	<b>1,791</b>
COGS	[BRL ths]		(594)	(677)	(792)	(915)	(952)	(990)	(1,029)	(1,070)	(1,113)	(1,113)
Gross profit	[BRL ths]		362	412	482	557	579	602	626	652	678	678
Gross Margin	[%]		38%	38%	38%	38%	38%	38%	38%	38%	38%	38%
V,L,S expenses	[BRL ths]		(100)	(119)	(139)	(161)	(167)	(174)	(181)	(188)	(196)	(196)
Operating Profit	[BRL ths]		262	293	343	396	412	428	446	463	482	482
Operating Margin	[%]		23%	22%	22%	22%	22%	22%	22%	22%	22%	22%
Taxes	[BRL ths]		(8)	(10)	(21)	(32)	(38)	(43)	(43)	(42)	(87)	(87)
<b>Net Profit</b>	<b>[BRL ths]</b>		<b>253</b>	<b>283</b>	<b>322</b>	<b>364</b>	<b>374</b>	<b>385</b>	<b>402</b>	<b>421</b>	<b>395</b>	<b>395</b>
<b>Net Margin</b>	<b>[%]</b>		<b>22%</b>	<b>21%</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>	<b>19%</b>	<b>19%</b>	<b>20%</b>	<b>18%</b>	<b>18%</b>

# Arezzo franchises in Arezzo POV economics calculus

Year	Unit	0	1	2	3	4	5	6	7	8	9	10	Perpetuity
<b>NOPAT</b>	[BRL ths]		253	283	321	364	374	385	402	421	395	395	
Delta WK	[BRL ths]		(201)	(38)	(40)	(43)	(13)	(13)	(14)	(14)	(15)	0	
FCF	[BRL ths]		53	245	281	321	361	372	389	407	379	395	
IRR													
Invested Capital	[BRL ths]		201	238	279	322	335	348	362	377	392	392	
ROIC	[%]		126%	119%	115%	113%	112%	111%	111%	112%	101%	101%	
<b>NPV</b>	<b>[BRL ths]</b>	<b>2,413.7</b>	49	199	198	197	192	172	157	143	116	105	886.6

# Arezzo Own Store Income Statement

Year	Unit	1	2	3	4	5	6	7	8	9	10
Gross Revenues	[BRL ths]	2,176	2,589	3,026	3,497	3,637	3,783	3,934	4,091	4,255	4,255
Taxes on Revenue	[BRL ths]	(437)	(519)	(607)	(702)	(730)	(759)	(789)	(821)	(854)	(854)
<b>Net Revenue</b>	<b>[BRL ths]</b>	<b>1,740</b>	<b>2,070</b>	<b>2,419</b>	<b>2,796</b>	<b>2,907</b>	<b>3,024</b>	<b>3,145</b>	<b>3,270</b>	<b>3,401</b>	<b>3,401</b>
COGS	[BRL ths]	(712)	(847)	(990)	(1,144)	(1,189)	(1,237)	(1,286)	(1,338)	(1,391)	(1,391)
Gross Profit	[BRL ths]	1,028	1,223	1,430	1,652	1,718	1,787	1,858	1,933	2,010	2,010
Gross Margin	[%]	59%	59%	59%	59%	59%	59%	59%	59%	59%	59%
Operating Expenses	[BRL ths]	(721)	(802)	(887)	(979)	(1,017)	(1,057)	(1,098)	(1,141)	(1,186)	(1,187)
Sales People Compensation	[BRL ths]	(438)	(473)	(509)	(548)	(569)	(592)	(616)	(641)	(666)	(666)
Fixed	[BRL ths]	(324)	(338)	(351)	(365)	(380)	(395)	(411)	(427)	(444)	(444)
Variable	[BRL ths]	(114)	(135)	(158)	(183)	(190)	(197)	(205)	(214)	(222)	(222)
Occupation Expenses	[BRL ths]	(144)	(171)	(200)	(231)	(240)	(250)	(260)	(270)	(281)	(281)
Logistics Expenses	[BRL ths]	(100)	(119)	(139)	(161)	(167)	(174)	(181)	(188)	(196)	(196)
D&A Expenses	[BRL ths]	(39)	(39)	(39)	(40)	(40)	(41)	(42)	(42)	(43)	(44)
Operating Profit	[BRL ths]	307	421	542	673	701	730	760	791	824	823
Taxes	[BRL ths]	(10)	(15)	(33)	(54)	(65)	(74)	(74)	(72)	(149)	(149)
Tax Rate	[%]	3.2%	3.6%	6.6%	8.7%	10.2%	11.2%	10.7%	10.0%	22.1%	22.1%
<b>Net Profit</b>	<b>[%]</b>	<b>298</b>	<b>406</b>	<b>509</b>	<b>619</b>	<b>636</b>	<b>656</b>	<b>687</b>	<b>719</b>	<b>674</b>	<b>674</b>
<b>Net Margin</b>	<b>[%]</b>	<b>17.1%</b>	<b>19.6%</b>	<b>21.0%</b>	<b>22.1%</b>	<b>21.9%</b>	<b>21.7%</b>	<b>21.8%</b>	<b>22.0%</b>	<b>19.8%</b>	<b>19.8%</b>
<b>EBITDA Margin</b>	<b>[%]</b>	<b>19.9%</b>	<b>22.2%</b>	<b>24.0%</b>	<b>25.5%</b>	<b>25.5%</b>	<b>25.5%</b>	<b>25.5%</b>	<b>25.5%</b>	<b>25.5%</b>	<b>25.5%</b>

# Arezzo Own Store economics calculus

Year	Unit	0	1	2	3	4	5	6	7	8	9	10	Perpetuity
<b>NOPAT</b>	[BRL ths]		<b>297.1</b>	<b>405.7</b>	<b>506.6</b>	<b>614.1</b>	<b>629.6</b>	<b>648.0</b>	<b>678.8</b>	<b>711.9</b>	<b>641.5</b>	<b>640.6</b>	
D&A	[BRL ths]		39.0	39.0	39.2	39.6	40.1	40.8	41.5	42.4	43.4	44.5	
Change in WK	[BRL ths]		(289.9)	(87.3)	(92.4)	(99.5)	(29.6)	(30.7)	(32.0)	(33.3)	(34.6)	0.0	
Maintenance CAPEX	[BRL ths]		(39.0)	(41.3)	(43.0)	(44.7)	(46.5)	(48.3)	(50.3)	(52.3)	(54.4)	(56.6)	
FCF	[BRL ths]		7.2	316.1	410.4	509.5	593.6	609.7	638.1	668.8	595.9	628.5	
			0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5	
PV		(770.0)	6.7	256.3	289.4	312.4	316.5	282.7	257.2	234.4	181.6	166.6	1,412.4
<b>NPV</b>	<b>[BRL ths]</b>	<b>2,946.4</b>											
Invested Capital		720.0	1,049	1,178	1,313	1,457	1,533	1,612	1,695	1,780	1,869	1,926	
<b>ROIC</b>	<b>[%]</b>		<b>28%</b>	<b>34%</b>	<b>39%</b>	<b>42%</b>	<b>41%</b>	<b>40%</b>	<b>40%</b>	<b>40%</b>	<b>34%</b>	<b>33%</b>	
FCF + Invested Capital	[BRL ths]	770.0	763	447	36	(473)	(1,067)	(1,677)	(2,315)	(2,983)	(3,579)	(4,208)	
<b>Payback</b>		<b>3.0</b>	1	1	1	(12)	3	3	2	2	2	2	
<b>LT IRR</b>	<b>[%]</b>	<b>41%</b>											

# Reserva Own Store Income Statement

Year	Unit	1	2	3	4	5	6	7	8	9	10
Gross revenues	[BRL ths]	3,721	4,428	5,176	5,981	6,220	6,469	6,728	6,997	7,277	7,568
Taxes on revenues	[BRL ths]	(747)	(888)	(1,038)	(1,200)	(1,248)	(1,298)	(1,350)	(1,404)	(1,460)	(1,518)
Net Revenues	[BRL ths]	2,975	3,540	4,137	4,781	4,972	5,171	5,378	5,593	5,817	6,049
COGS	[BRL ths]	(988)	(1,175)	(1,374)	(1,587)	(1,651)	(1,717)	(1,785)	(1,857)	(1,931)	(2,008)
Gross Profit	[BRL ths]	1,987	2,364	2,764	3,194	3,321	3,454	3,592	3,736	3,886	4,041
Gross Margin	[%]	67%	67%	67%	67%	67%	67%	67%	67%	67%	67%
Operating Expenses	[BRL ths]	(1,351)	(1,458)	(1,568)	(1,686)	(1,751)	(1,818)	(1,887)	(1,959)	(2,034)	(2,113)
Sales People Compensation	[BRL ths]	(749)	(809)	(870)	(936)	(974)	(1,013)	(1,053)	(1,095)	(1,139)	(1,185)
Fixed	[BRL ths]	(555)	(578)	(600)	(624)	(649)	(675)	(702)	(730)	(760)	(790)
Variable	[BRL ths]	(194)	(231)	(270)	(312)	(325)	(338)	(351)	(365)	(380)	(395)
Store Occupation	[BRL ths]	(351)	(365)	(379)	(395)	(410)	(427)	(444)	(462)	(480)	(499)
Logistics	[BRL ths]	(171)	(204)	(238)	(275)	(286)	(298)	(309)	(322)	(335)	(348)
D&A	[BRL ths]	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)
EBIT	[BRL ths]	636	906	1,195	1,507	1,571	1,637	1,705	1,777	1,851	1,928
<b>Ebit Margin</b>	<b>[%]</b>	<b>21.4%</b>	<b>25.6%</b>	<b>28.9%</b>	<b>31.5%</b>	<b>31.6%</b>	<b>31.7%</b>	<b>31.7%</b>	<b>31.8%</b>	<b>31.8%</b>	<b>31.9%</b>
Taxes	[BRL ths]	(20)	(31)	(74)	(121)	(145)	(165)	(165)	(162)	(335)	(349)
Tax Rate	[%]	3.1%	3.5%	6.2%	8.0%	9.2%	10.1%	9.7%	9.1%	18.1%	18.1%
<b>Net Profit</b>	<b>[BRL ths]</b>	<b>616</b>	<b>875</b>	<b>1,122</b>	<b>1,386</b>	<b>1,426</b>	<b>1,471</b>	<b>1,540</b>	<b>1,615</b>	<b>1,516</b>	<b>1,579</b>
<b>Net Margin</b>	<b>[%]</b>	<b>21%</b>	<b>25%</b>	<b>27%</b>	<b>29%</b>	<b>29%</b>	<b>28%</b>	<b>29%</b>	<b>29%</b>	<b>26%</b>	<b>26%</b>

Source: Team Elaboration



# Reserva Own Store economics calculus

Year	Unit	0	1	2	3	4	5	6	7	8	9	10	Perpetuity
<b>NOPAT</b>	[BRL ths]		616	875	1,121	1,386	1,425	1,471	1,540	1,615	1,516	1,579	
D&A	[BRL ths]		80	80	80	80	80	80	80	80	80	80	
Change in WK	[BRL ths]		(590)	(188)	(199)	(215)	(64)	(66)	(69)	(72)	(75)	(78)	
Maintenance CAPEX	[BRL ths]		(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	
FCF	[BRL ths]	(1,204)	26	686	922	1,171	1,362	1,405	1,472	1,543	1,441	1,501	13,649.2
PV of FCF	[BRL ths]	(1,204)	24	557	650	718	726	651	593	541	439	398	3,618.1
Invested Capital	[BRL ths]	1,204	1,874	2,143	2,422	2,717	2,861	3,007	3,157	3,309	3,463	3,621	
<b>ROIC</b>	<b>[%]</b>		<b>33%</b>	<b>41%</b>	<b>46%</b>	<b>51%</b>	<b>50%</b>	<b>49%</b>	<b>49%</b>	<b>49%</b>	<b>44%</b>	<b>44%</b>	
FCF + Invested Capital	[BRL ths]	1,204	1,178	492	(430)	(1,601)	(2,963)	(4,368)	(5,839)	(7,382)	(8,824)	(10,325)	

<b>Payback</b>	<b>[#]</b>	<b>2.5</b>
----------------	------------	------------

<b>NPV</b>	<b>[%]</b>	<b>7,711.7</b>
<b>LT IRR</b>	<b>[%]</b>	<b>57%</b>
<b>WACC</b>	<b>[%]</b>	<b>15%</b>
<b>g</b>	<b>[%]</b>	<b>4%</b>

Source: Team Elaboration

AR&CO AREZZO

# Appendix

## Financials

UNBRAND®

Oticina  
RESERVA

DIRTYMAN

TRUCK

Baw

FIER



MY SHOES

INK

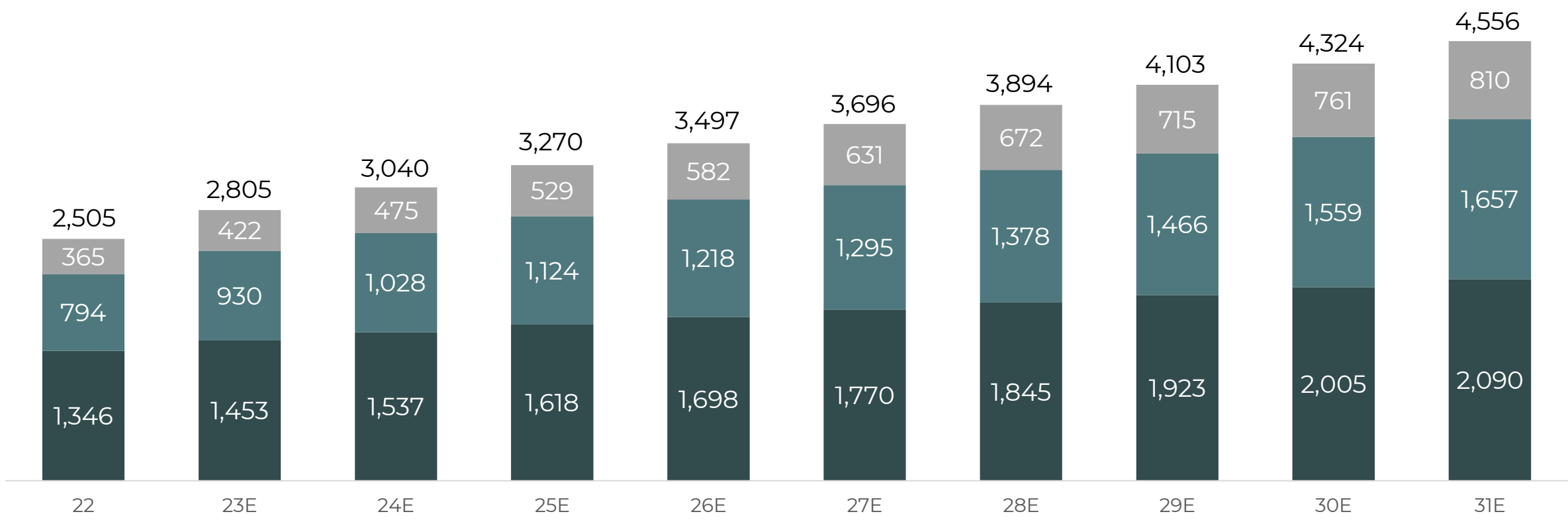
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# Legacy Brands revenue projection

We see the legacy brands still growing

Legacy brands revenue projection (BRL mn)

■ Arezzo ■ Schutz ■ Anacapri

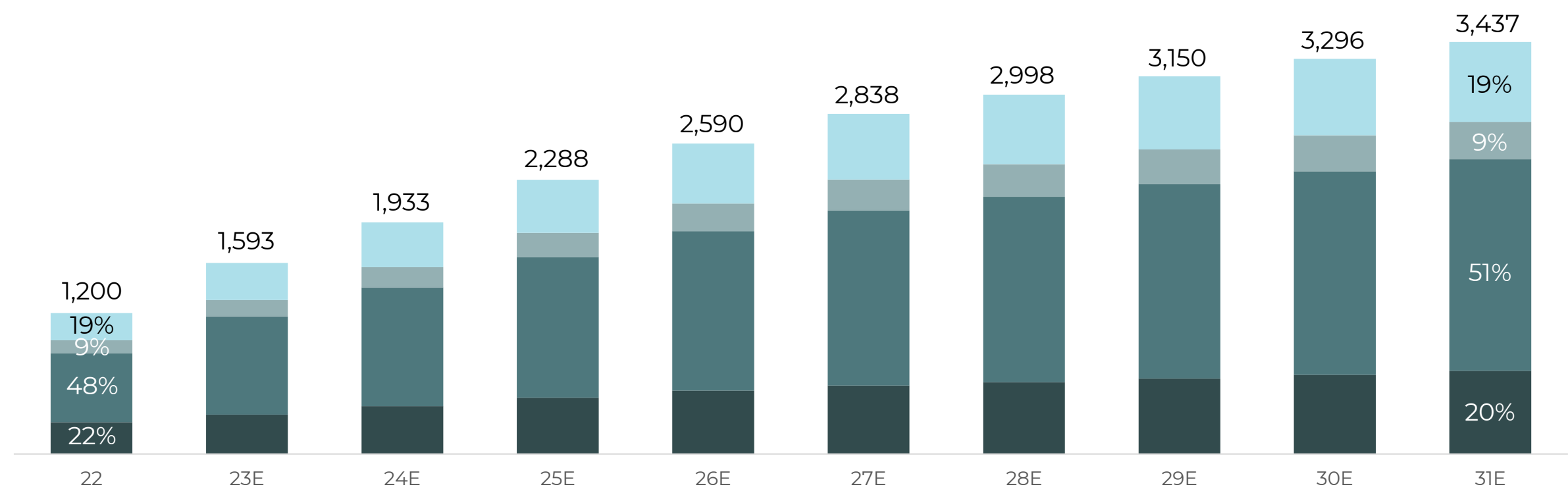


# AR&Co revenue projection

Growth in all channels for AR&Co

AR&Co revenue by channel (BRL mn)

■ Multibrand ■ Own Stores ■ Franchises ■ E-commerce



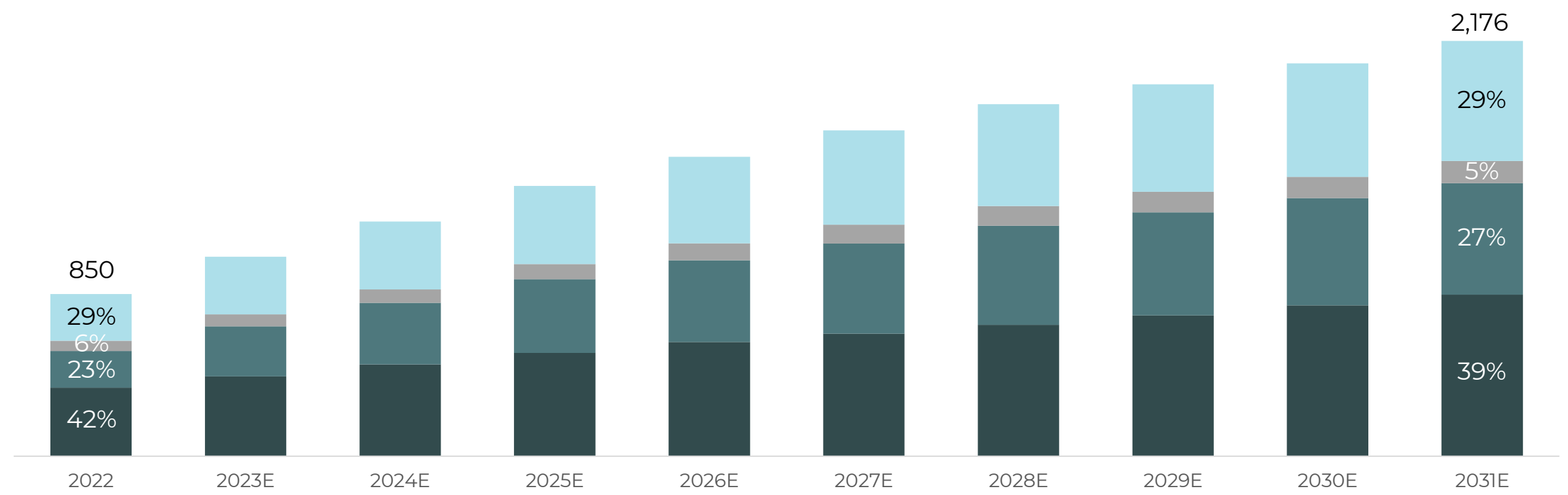
Source: Team elaboration

# VANS revenue projections

We see a strong growth potential for VANS

Vans revenue (BRL mn)

■ Multibrand ■ Own Stores ■ Franchises ■ Web-commerce

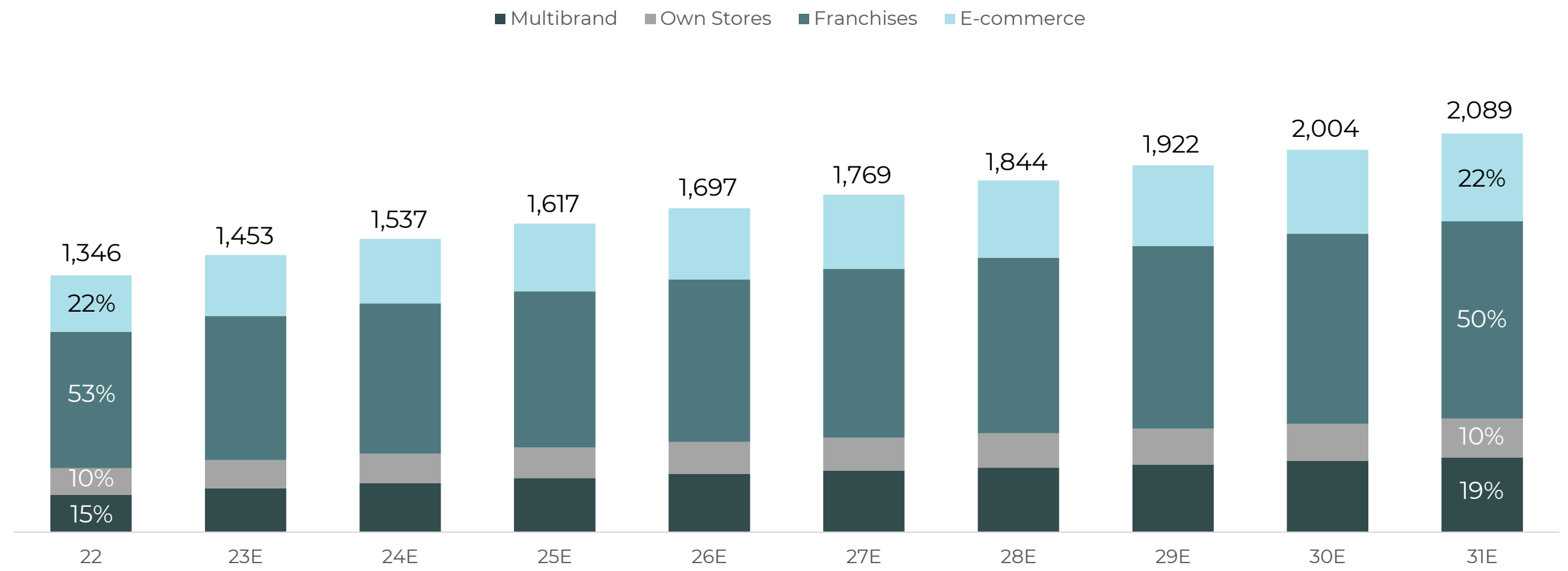


Source: Team elaboration

# Arezzo revenue projection

Multibrand channel will gain share as the cross-sell takes place

Arezzo revenue (BRL mn)



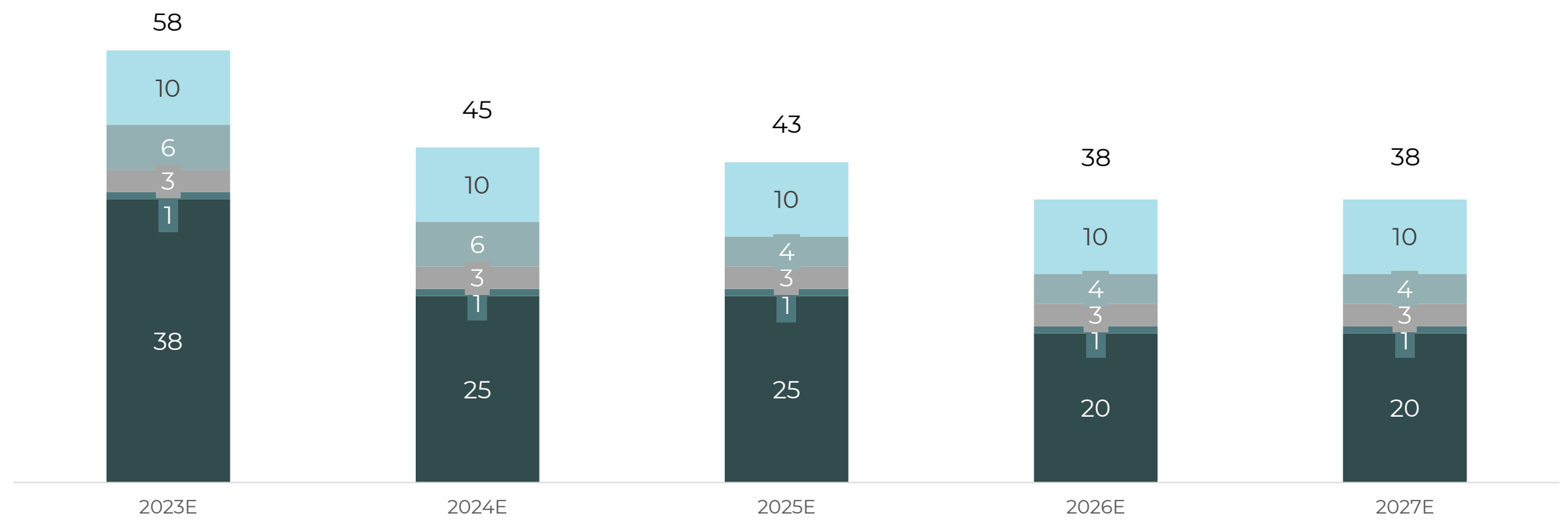
Source: Team elaboration

# Store openings by brand

We see AR&Co, VANS and Anacapri driving store growth

Store openings projections by year (#)

■ AR&Co ■ Alexandre Birman ■ Carol Bassi ■ VANS ■ Anacapri



Source: Team elaboration

# Can we trust the company's projections? **Yes!**

We saw Arezzo&Co delivering results in line with its projections

	2021		2022		2023	
	Guidance	Realized	Guidance	Realized	Guidance	Projections
<b>AREZZO &amp;CO</b>	55	16	50	50	24	20
<b>AR&amp;CO</b>	20	34	30	28	46	38


*We see the company growing in line with last year guidance, which makes us more comfortable with our estimates*



# How did we mature AR&CO's new stores?

We matured new stores as 75% of mature ones

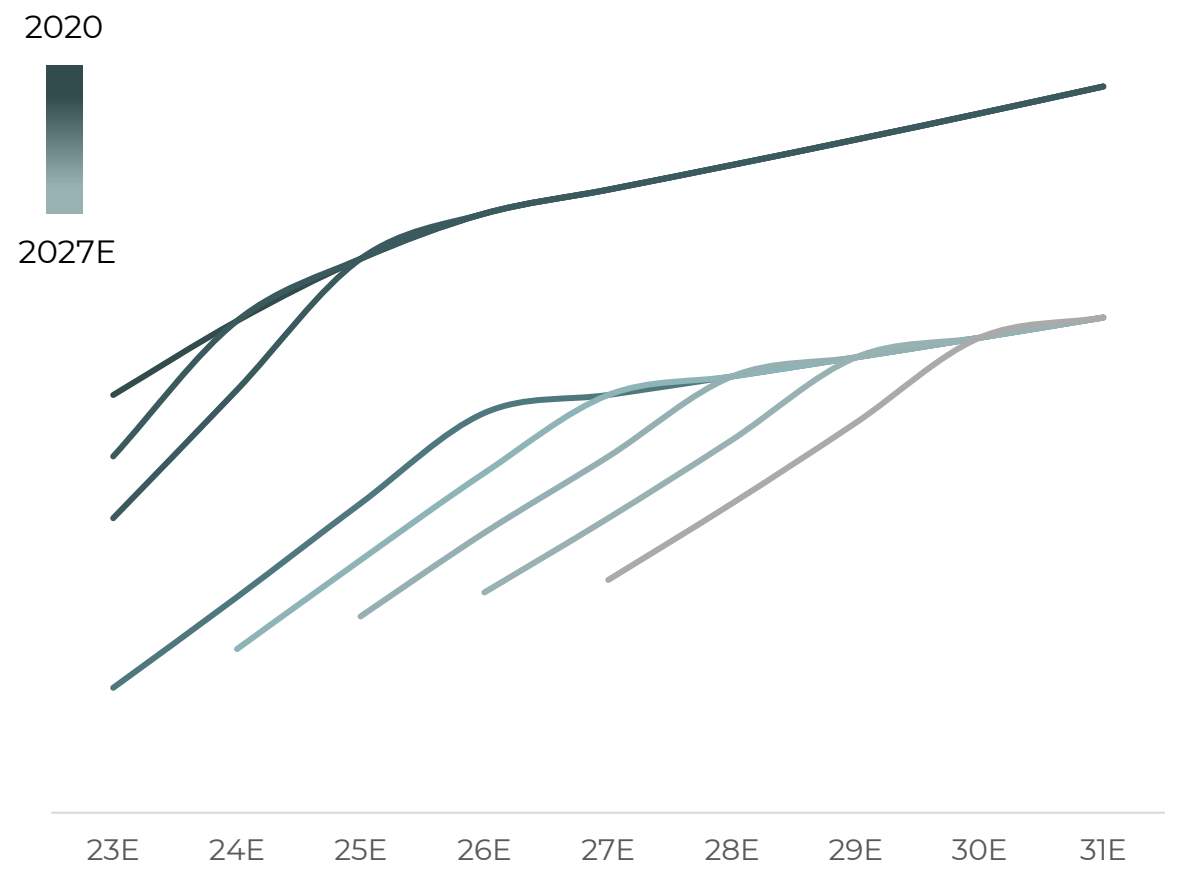
What is shown in our cohort analysis



Mature sales/m2 **X 100%**



Mature sales/m2 **X 75%**



# How did we mature AR&CO's new stores?

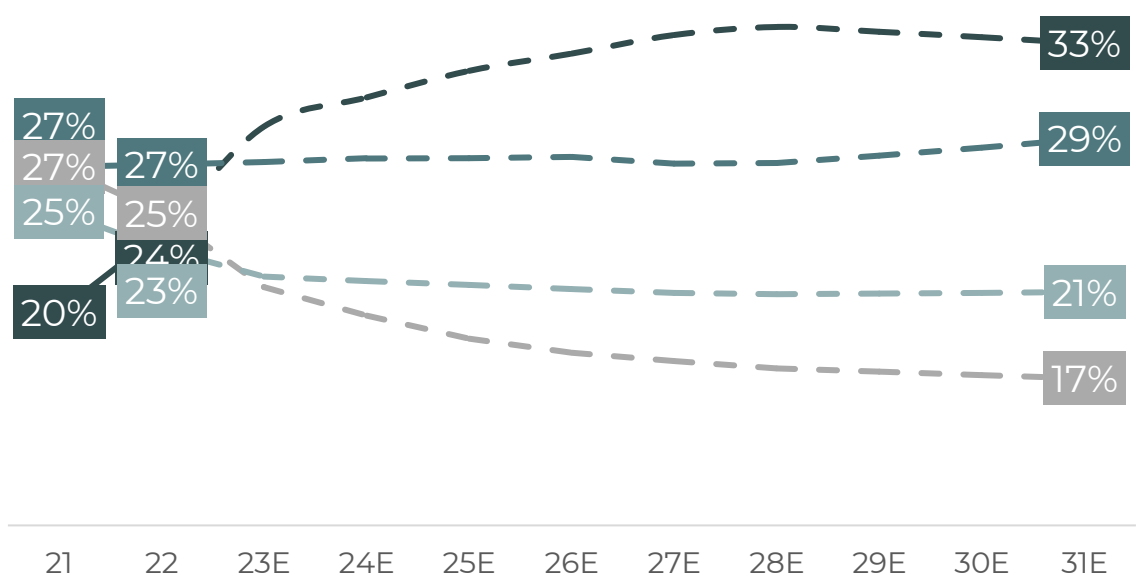
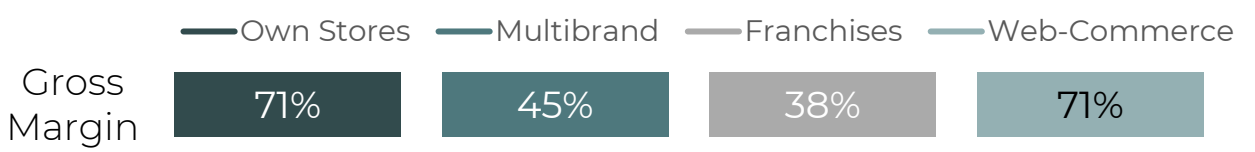
We used a 4-year maturation for new store, which will have 75% of mature sales

AR&CO Store Sales												
				2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>Revenues</b>		<b>358</b>	<b>576</b>	<b>807</b>	<b>956</b>	<b>1,109</b>	<b>1,249</b>	<b>1,371</b>	<b>1,449</b>	<b>1,522</b>	<b>1,591</b>	<b>1,655</b>
Revenue per m2 for mature stores		37	63	69	75	81	86	89	93	97	100	104
New store area	108											
As % of mature	75%											
Opening year	new m2											
Before 2020	8,085			556	606	655	694	722	751	781	812	844
2021	1,509			93	113	122	130	135	140	146	152	158
2022	1,725			95	116	140	148	154	160	167	173	180
2023	1,725			62	78	94	111	115	120	125	130	135
2024	1,078				42	52	62	72	75	78	81	84
2025	1,078					46	56	65	75	78	81	84
2026	1,078						49	58	68	78	81	84
2027	1,078							51	60	70	81	84





# Gross margin projections

We see margins growing as the company dilutes costs

Sales channels participation of revenues (%)



And change its channels mix

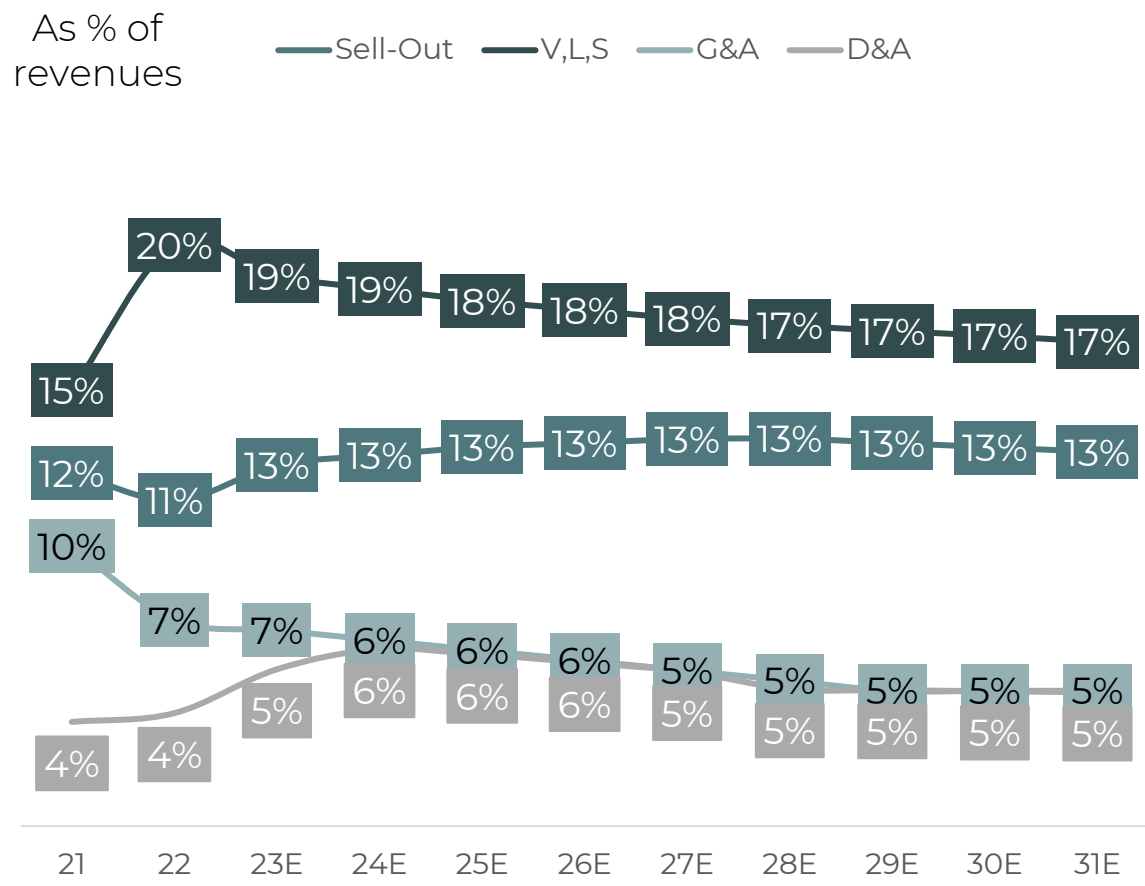
-  Higher share of own stores
-  G&A expenses dilution
-  Discretionary marketing expenses reduction
-  US operations increasing efficiency

Source: Team elaboration



# SG&A and D&A projections

We see margins growing as the company dilutes costs

Share of each expense as % of revenues



And change its channels mix

-  Higher share of own stores
-  G&A expenses dilution
-  Discretionary marketing expenses reduction
-  US operations increasing efficiency

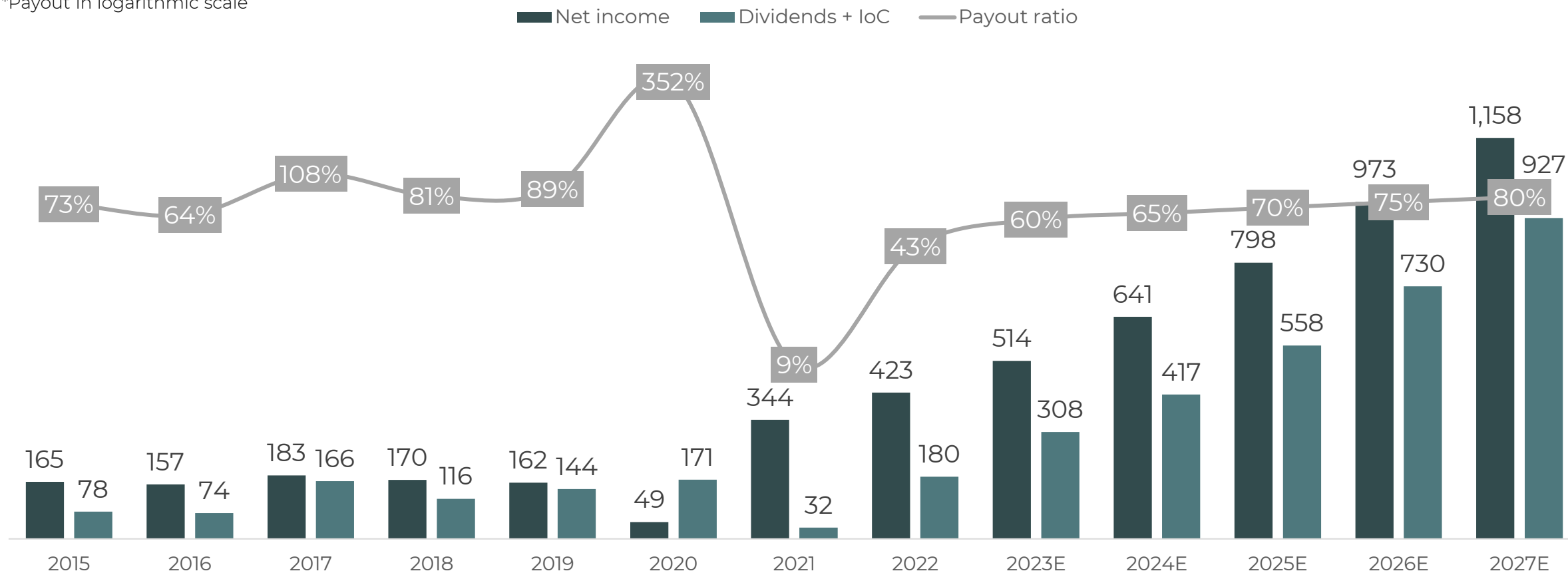
Source: Team elaboration

# Dividend payout projections

We see a company that historically distributes huge dividends

Net income and dividends (BRL mn) and Payout ratio (%)

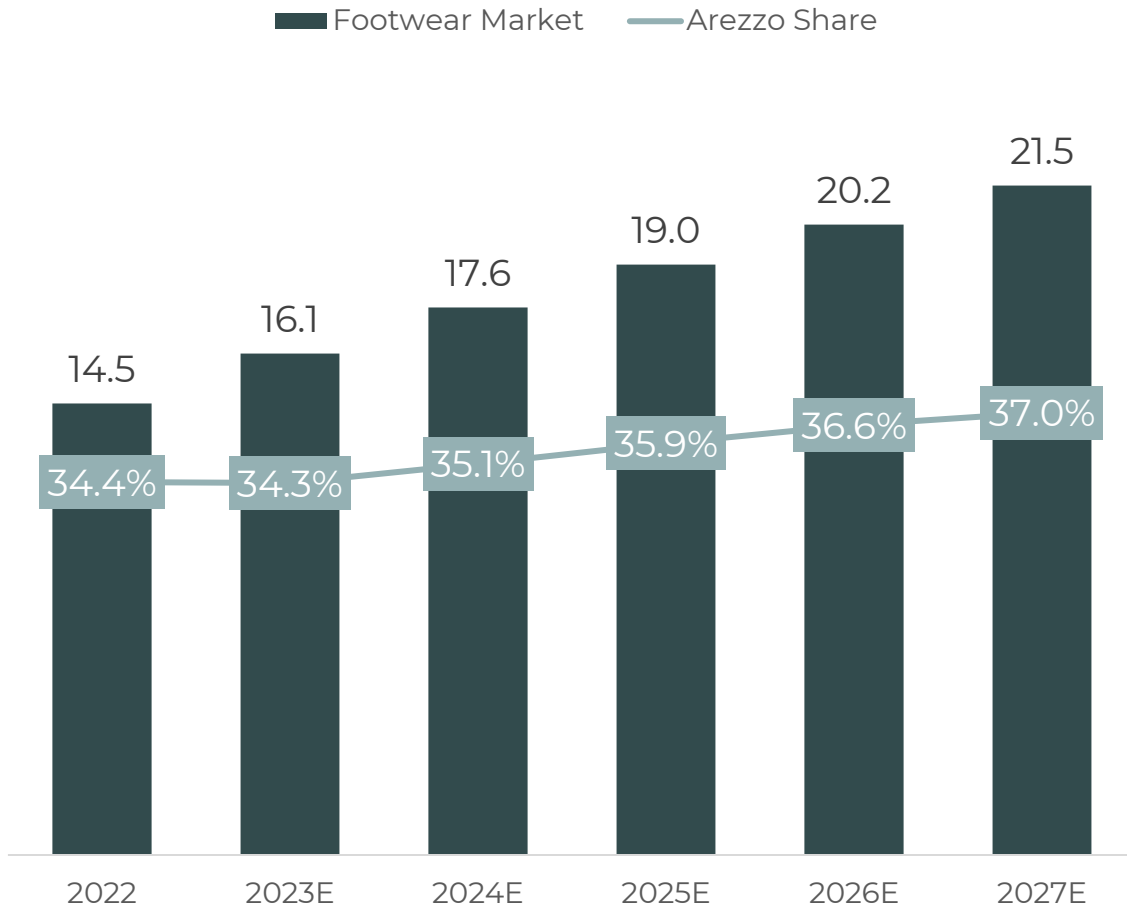
\*Payout in logarithmic scale



# Market share

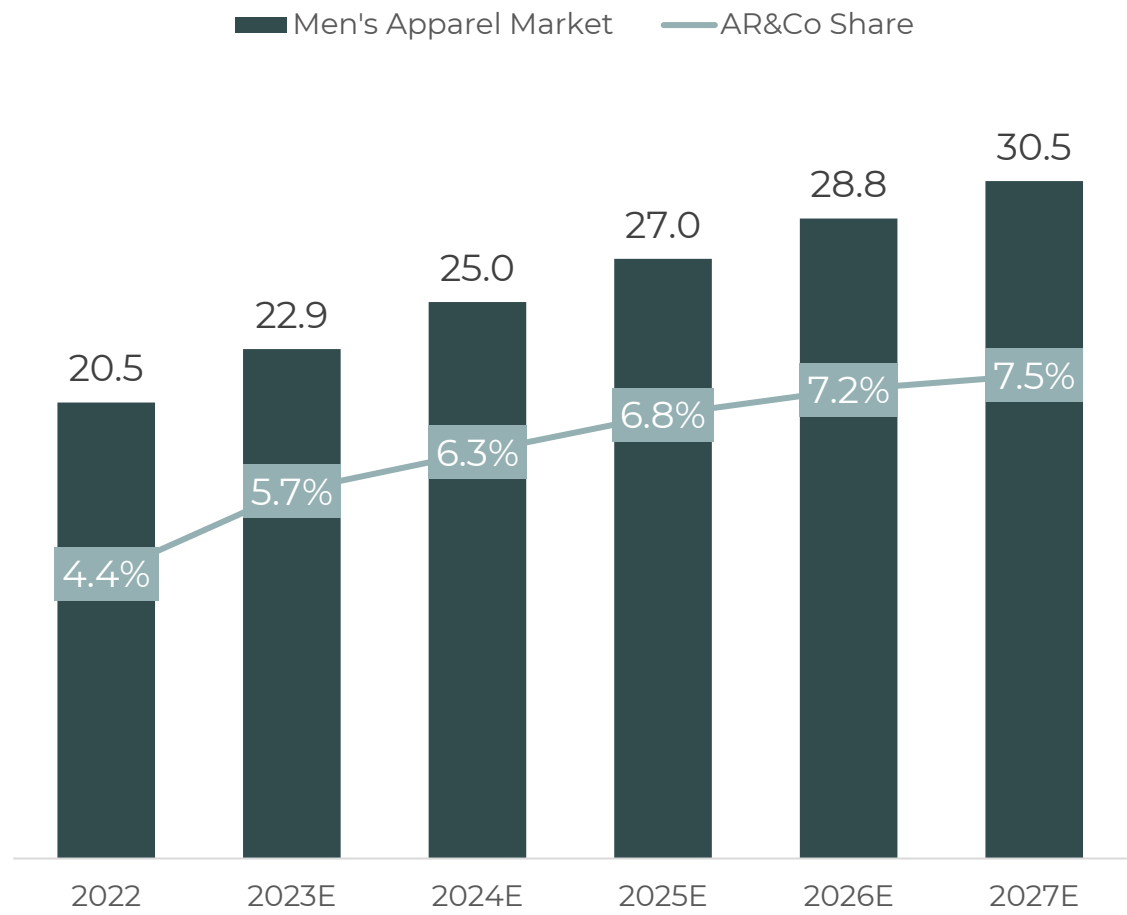
Arezzo&Co will lightly increase its share in footwear

Total Footwear A/B classes (BRL bn) and Arezzo&Co share (%)



While AR&Co will grow share in men's apparel

Total men's apparel A/B classes (BRL bn) and AR&Co share (%)

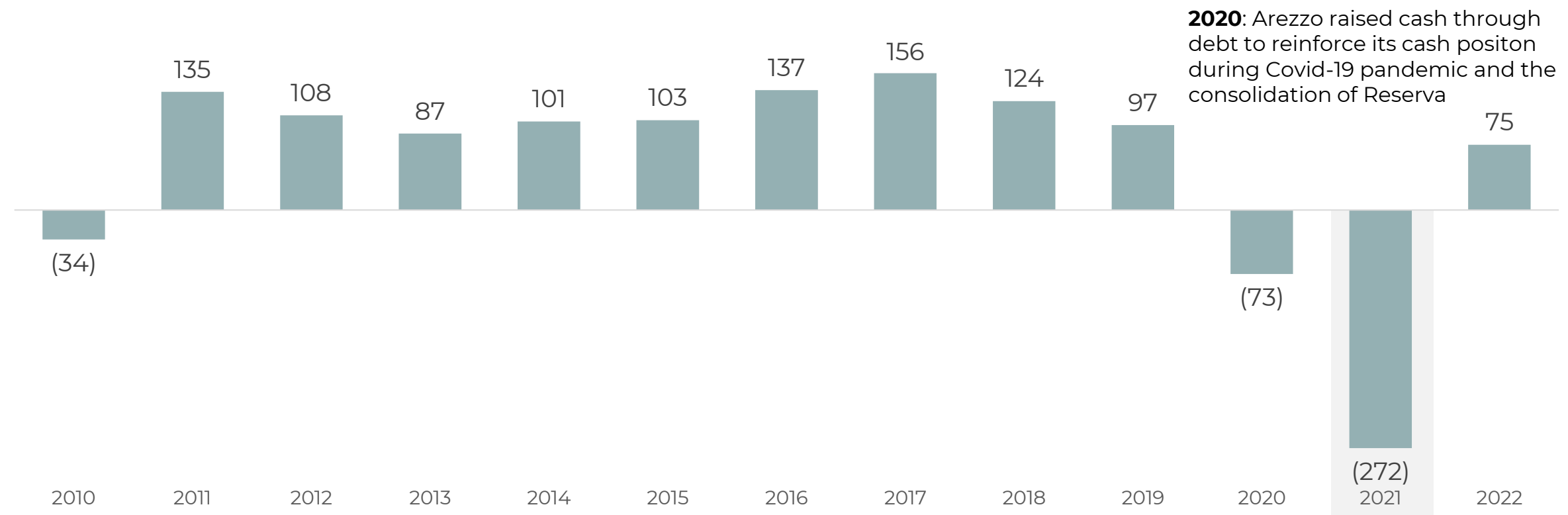


Sources: Euromonitor, Team elaboration

# Net Cash = Cash and cash equivalents – Total Debt

Historically, Arezzo is not leveraged

Net cash (BRL mn)



Net cash = Cash and cash equivalents – Total Debt

Increase of financial expenses as revenue increased



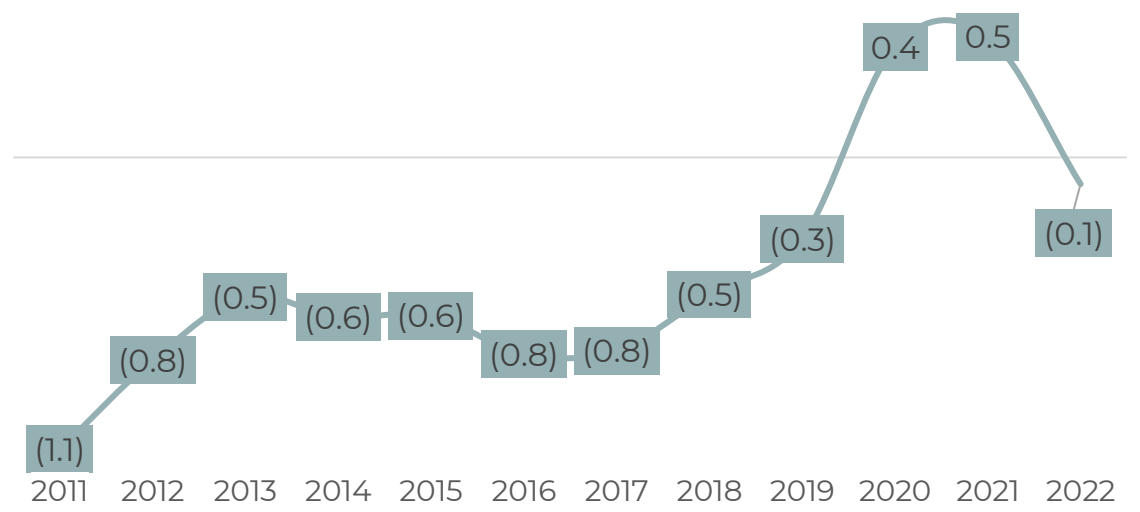
# Why not leverage itself to benefit from tax shield?

Reasons why not to change its capital structure



Arezzo&Co maintains low or negative Net debt/EBITDA

Net debt/EBITDA ratio



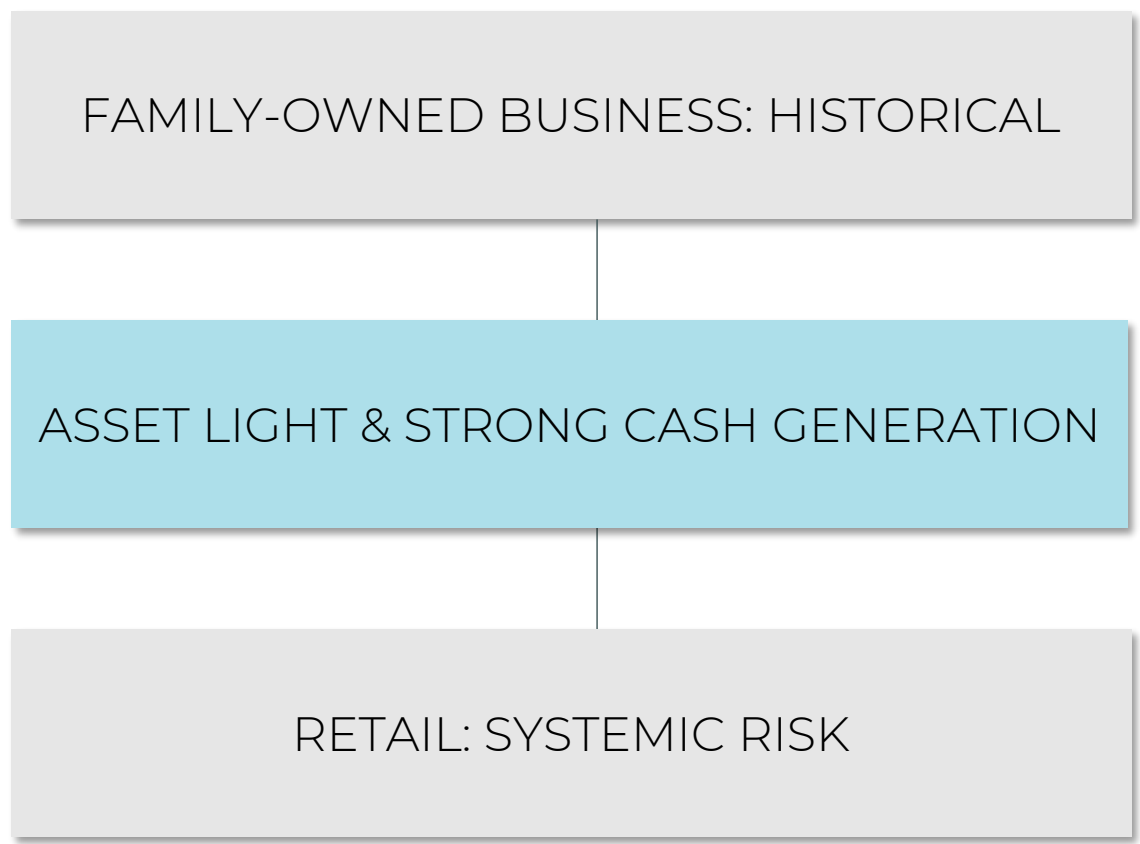
Family-Owned Business  
*41% ownership*  
**More adverse to leverage risk**





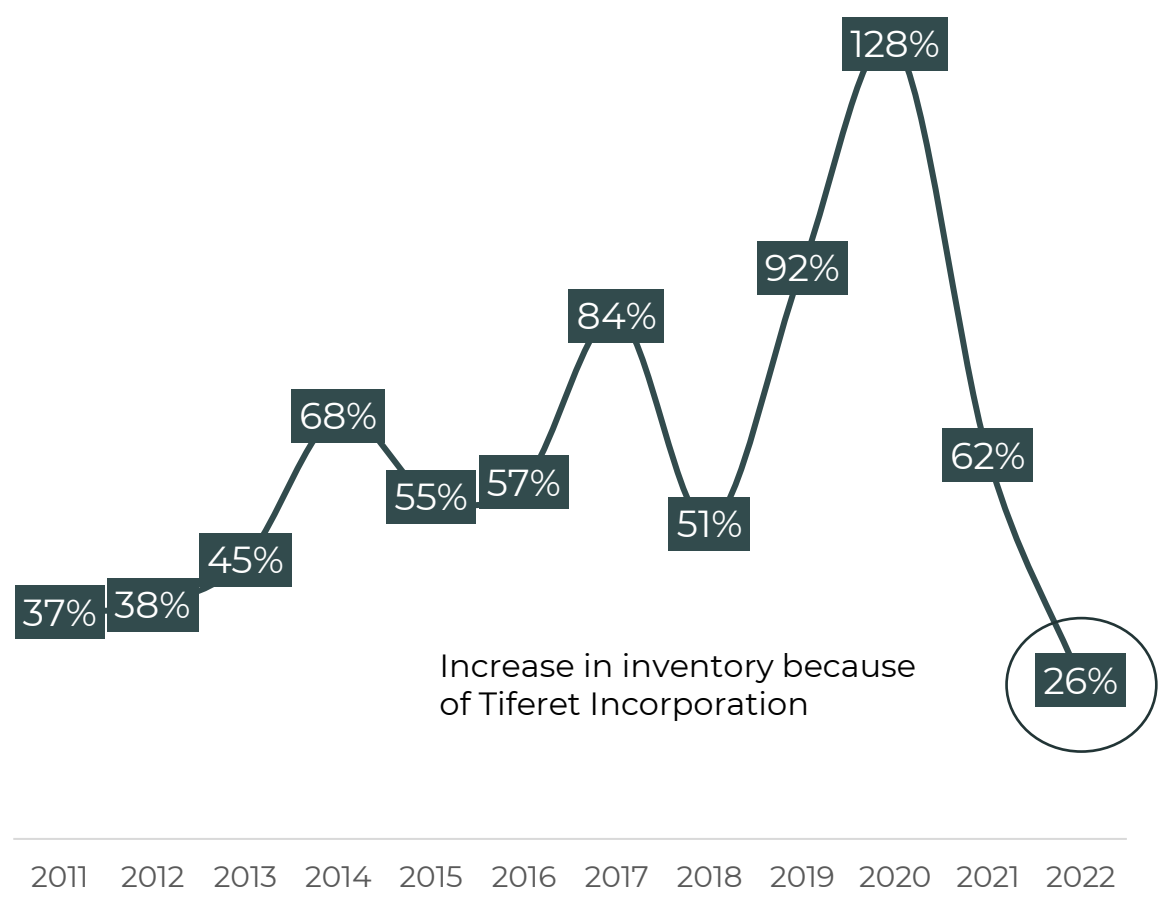
# Why not leverage itself to benefit from tax shield?

Reasons why not to change its capital structure



Strong conversion of EBITDA in cash from operations

Cash flow from operations/ Adjusted EBITDA (%)



Source: Company releases

# Why not leverage itself to benefit from tax shield?

Reasons why not to change its capital structure

Retailers are facing a hard time with high interest rates

FAMILY-OWNED BUSINESS: HISTORICAL

ASSET LIGHT & STRONG CASH GENERATION

RETAIL: SYSTEMIC RISK



**Justice authorizes Paquetá to sell chain of stores**



**Restoque negotiates debt conversion**



**Marisa shares close down 22.6% with pressure to renegotiate debts**

There are almost BRL 900 million in gross debt and around BRL 600 million in net debt today, sources say.



**Amaro files for extrajudicial recovery, with debts totaling R\$ 244.5 million**

Plan involves payments only from unsecured creditors, those who do not have a real right of guarantee, and adherence of 41.63% of them

# Gross Revenue

	Unit	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>Gross Revenues</b>														
<b>Gross Revenues</b>	[BRL mn]	<b>2.064</b>	<b>2.022</b>	<b>3.647</b>	<b>5.230</b>	<b>6.566</b>	<b>7.495</b>	<b>8.465</b>	<b>9.368</b>	<b>10.195</b>	<b>10.912</b>	<b>11.560</b>	<b>12.240</b>	<b>12.934</b>
<b>Brazil Gross Revenues</b>	[BRL mn]	<b>1.805</b>	<b>1.797</b>	<b>3.256</b>	<b>4.680</b>	5.952	6.820	7.707	8.513	9.231	9.825	10.333	10.856	11.393
YoY Growth	[%]	8%	0%	81%	44%	27%	15%	13%	10%	8%	6%	5%	5%	5%
Own Stores %	[%]	14%	13%	20%	24%	29%	31%	32%	33%	34%	34%	34%	33%	33%
Multibrand %	[%]	23%	26%	27%	27%	27%	28%	28%	28%	27%	27%	28%	28%	29%
Franchises %	[%]	50%	31%	27%	25%	21%	20%	19%	18%	18%	18%	17%	17%	17%
Web Commerce %	[%]	11%	30%	25%	23%	22%	22%	22%	21%	21%	21%	21%	21%	21%
Arezzo	[BRL mn]	987	761	1.065	1.346	1.453	1.537	1.618	1.698	1.770	1.845	1.923	2.005	2.090
AR&CO	[BRL mn]-	-	-	733	1.176	1.593	1.933	2.288	2.591	2.838	2.999	3.150	3.297	3.437
Schutz	[BRL mn]	477	428	607	794	930	1.028	1.124	1.218	1.295	1.378	1.466	1.559	1.657
Anacapri	[BRL mn]	258	218	292	365	422	474	527	580	629	669	712	758	806
VANS	[BRL mn]	5	4	462	850	1.046	1.230	1.417	1.569	1.707	1.845	1.949	2.060	2.177
Others		78	386	97	149	507	617	733	857	991	1.089	1.133	1.178	1.225
<b>International Market</b>	[BRL mn]	<b>259</b>	<b>225</b>	<b>391</b>	<b>550</b>	615	675	758	855	964	1.088	1.227	1.384	1.541
Average dollar		<b>4</b>	<b>5</b>	<b>5</b>	<b>5</b>	5	5	5	5	6	6	6	6	6
In US Dollars		66	44	73	107	117	129	142	156	172	189	208	228	251
YoY Growth	[%]	28%	-34%	66%	47%	10%	10%	10%	10%	10%	10%	10%	10%	10%

Sources: Company releases, Team elaboration

# Same Store Sales

	Unit	2023	2024	2025	2026	2027	2028	2029	2030	2031
Arezzo SSS	[%]	6%	4%	4%	4%	4%	4%	4%	4%	4%
Schutz SSS	[%]	6%	4%	4%	4%	4%	4%	4%	4%	4%
AR&CO SSS	[%]	10%	9%	8%	6%	4%	4%	4%	4%	4%
VANS SSS	[%]	6%	4%	4%	4%	4%	4%	4%	4%	4%
Anacapri SSS	[%]	6%	4%	4%	4%	4%	4%	4%	4%	4%

# Gross margin

Year	Unit	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>Consolidated Gross Margin</b>	[%]	46%	47%	46%	47%	53%	54%									
<b>Gross Margin estimate</b>	[%]		48%	48%	55%	56%	57%	56%	56%	57%	57%	57%	57%	57%	57%	57%
<b>Error</b>	[%]		2%	2%	8%	3%	3%									
<b>Average Error</b>							2%									
<b>Own Stores</b>	[%]		73%	73%	73%	73%	73%	71%	71%	71%	71%	71%	71%	71%	71%	71%
<b>Multibrand</b>	[%]		46%	46%	46%	46%	46%	44%	44%	44%	44%	44%	44%	44%	44%	44%
<b>Franchises</b>	[%]		38%	38%	38%	38%	38%	36%	36%	36%	36%	36%	36%	36%	36%	36%
<b>Web Commerce</b>	[%]		73%	73%	73%	73%	73%	71%	71%	71%	71%	71%	71%	71%	71%	71%

Sources: Company releases, Team elaboration

# G&A expenses

	Unit	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>G&amp;A Expenses</b>														
Expenses	[BRL mn]	(160)	(136)	(284)	(303)	(356)	(385)	(411)	(428)	(437)	(437)	(431)	(457)	(483)
YoY Growth	[%]	-	-15%	109%	6%	17%	8%	7%	4%	2%	0%	-1%	6%	6%
Revenues	[BRL mn]	2.064	2.022	3.647	5.230	6.566	7.495	8.465	9.368	10.195	10.912	11.560	12.240	12.934
YoY Growth	[%]	10,62%	-2,05%	80,42%	43,39%	25,55%	14,15%	12,94%	10,67%	8,83%	7,04%	5,94%	5,88%	5,67%
As % of revenues	[%]	-10%	-9%	-10%	-7%	-7%	-6%	-6%	-6%	-5%	-5%	-5%	-5%	-5%
													Step	0,35%
G&A growing with inflation	[BRL mn]					(321)	(340)	(354)	(368)	(382)	(398)	(414)	(430)	(447)

# Income Statement

Income Statement	Unit	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>Gross Profit</b>	<b>[BRL mn]</b>	<b>5,230</b>	<b>6,539</b>	<b>7,457</b>	<b>8,416</b>	<b>9,309</b>	<b>10,124</b>	<b>10,831</b>	<b>11,475</b>	<b>12,150</b>	<b>12,839</b>
Deductions	[BRL mn]	(996)	(1,312)	(1,496)	(1,688)	(1,868)	(2,031)	(2,173)	(2,302)	(2,438)	(2,576)
<b>Net Revenue</b>	<b>[BRL mn]</b>	<b>4,234</b>	<b>5,227</b>	<b>5,961</b>	<b>6,728</b>	<b>7,441</b>	<b>8,093</b>	<b>8,658</b>	<b>9,173</b>	<b>9,712</b>	<b>10,263</b>
COGS	[BRL mn]	(1,950)	(2,315)	(2,614)	(2,924)	(3,218)	(3,482)	(3,715)	(3,939)	(4,175)	(4,418)
<b>Gross Profit</b>	<b>[BRL mn]</b>	<b>2,284</b>	2,912	3,347	3,803	4,223	4,612	4,944	5,234	5,537	5,845
SG&A Expenses	[BRL mn]	(1,820)	(2,293)	(2,629)	(2,923)	(3,172)	(3,383)	(3,517)	(3,660)	(3,839)	(4,018)
1. Sales Expenses	[BRL mn]	(1,489)	(1,653)	(1,878)	(2,112)	(2,322)	(2,512)	(2,668)	(2,796)	(2,928)	(3,059)
2. General and Administrative	[BRL mn]	(330)	(356)	(385)	(411)	(428)	(437)	(437)	(431)	(457)	(483)
3. D&A expenses	[BRL mn]		(285)	(366)	(401)	(422)	(434)	(412)	(433)	(454)	(477)
Others Revenues and Expenses	[BRL mn]	86	–	–	–	–	–	–	–	–	–
<b>EBIT</b>	<b>[BRL mn]</b>	<b>105</b>	<b>619</b>	<b>764</b>	<b>948</b>	<b>1,143</b>	<b>1,342</b>	<b>1,554</b>	<b>1,710</b>	<b>1,844</b>	<b>1,985</b>
Financial Result	[BRL mn]	(19)	(89)	(100)	(98)	(86)	(67)	(51)	(43)	(40)	(46)
EBT	[BRL mn]	550	531	664	850	1,057	1,275	1,503	1,667	1,804	1,938
Income Taxes	[BRL mn]	(77)	(17)	(23)	(53)	(85)	(118)	(152)	(161)	(165)	(351)
<b>Net Income</b>	<b>[BRL mn]</b>	<b>473</b>	<b>514</b>	<b>641</b>	<b>797</b>	<b>972</b>	<b>1,157</b>	<b>1,351</b>	<b>1,506</b>	<b>1,640</b>	<b>1,587</b>

# Balance Sheet - Assets

Year	Unit	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>Total Assets</b>	<b>[BRL mn]</b>	<b>4,659</b>	<b>5,376</b>	<b>5,882</b>	<b>6,388</b>	<b>6,895</b>	<b>7,375</b>	<b>7,804</b>	<b>8,170</b>	<b>8,477</b>	<b>8,708</b>
<b>Current Assets</b>	<b>[BRL mn]</b>	<b>2,383</b>	<b>2,713</b>	<b>3,139</b>	<b>3,612</b>	<b>4,122</b>	<b>4,568</b>	<b>4,917</b>	<b>5,202</b>	<b>5,424</b>	<b>5,567</b>
Cash	[BRL mn]	29	467	569	758	991	1,190	1,331	1,426	1,452	1,396
Financial Investments	[BRL mn]	448									
Receivables	[BRL mn]	868	1,117	1,323	1,493	1,651	1,796	1,921	2,036	2,155	2,278
Inventories	[BRL mn]	772	761	860	961	1,058	1,145	1,221	1,295	1,373	1,453
Taxes to recover	[BRL mn]	201	286	294	295	306	310	308	302	293	281
Other current assets	[BRL mn]	66	82	93	105	116	126	135	143	152	160
<b>Non current Assets</b>	<b>[BRL mn]</b>	<b>2,276</b>	<b>2,663</b>	<b>2,743</b>	<b>2,776</b>	<b>2,773</b>	<b>2,808</b>	<b>2,887</b>	<b>2,968</b>	<b>3,053</b>	<b>3,140</b>
Other credits	[BRL mn]	198	198	198	198	198	198	198	198	198	198
Investments	[BRL mn]	3	3	3	3	3	3	3	3	3	3
Property, plant and equipment	[BRL mn]	290	443	553	636	668	702	737	773	812	853
Right of Use	[BRL mn]	401	478	525	548	583	624	668	713	759	805
Intangible	[BRL mn]	1,263	1,540	1,463	1,390	1,321	1,281	1,281	1,281	1,281	1,281



# Balance Sheet - Liabilities

Year	Unit	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>Liabilities and shareholders equity</b>	<b>[BRL mn]</b>	<b>4,659</b>	<b>5,376</b>	<b>5,882</b>	<b>6,388</b>	<b>6,895</b>	<b>7,375</b>	<b>7,804</b>	<b>8,170</b>	<b>8,477</b>	<b>8,708</b>
<b>Current Liabilities</b>	<b>[BRL mn]</b>	<b>1,635</b>	<b>2,150</b>	<b>2,385</b>	<b>2,629</b>	<b>2,858</b>	<b>3,066</b>	<b>3,248</b>	<b>3,419</b>	<b>3,598</b>	<b>3,782</b>
Suppliers	[BRL mn]	672	955	1,078	1,206	1,327	1,436	1,532	1,624	1,722	1,822
Loans and financing	[BRL mn]	392	402	402	402	402	402	402	402	402	402
Other liabilities	[BRL mn]	352	523	597	673	745	810	866	918	972	1,027
Social and Labor liabilities	[BRL mn]	162	200	228	258	285	310	332	351	372	393
Tax liabilities	[BRL mn]	57	70	80	91	100	109	117	124	131	138
<b>Non Current Liabilities</b>	<b>[BRL mn]</b>	<b>369</b>	<b>365</b>	<b>412</b>	<b>435</b>	<b>470</b>	<b>511</b>	<b>555</b>	<b>600</b>	<b>646</b>	<b>693</b>
Loans and financing	[BRL mn]	10									
Related Parties	[BRL mn]	–	–	–	–	–	–	–	–	–	–
Other liabilities	[BRL mn]	71									
Lease	[BRL mn]	285	362	409	432	466	508	552	596	642	689
Deferred tax	[BRL mn]	3	3	3	3	3	3	3	3	3	3
<b>Shareholders equity</b>	<b>[BRL mn]</b>	<b>2,655</b>	<b>2,860</b>	<b>3,084</b>	<b>3,324</b>	<b>3,567</b>	<b>3,798</b>	<b>4,001</b>	<b>4,151</b>	<b>4,233</b>	<b>4,233</b>
Equity	[BRL mn]	1,672	1,672	1,672	1,672	1,672	1,672	1,672	1,672	1,672	1,672
Capital and Income reserves	[BRL mn]	982	1,188	1,412	1,651	1,894	2,126	2,328	2,479	2,561	2,561
Minority shareholders	[BRL mn]	1	1	1	1	1	1	1	1	1	1

# Cash Flow Statement

Cash Flow Statement	Unit	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>Net Income</b>	<b>[BRL mn]</b>	<b>423</b>	<b>514</b>	<b>641</b>	<b>797</b>	<b>972</b>	<b>1,157</b>	<b>1,351</b>	<b>1,506</b>	<b>1,640</b>	<b>1,587</b>
Adjustments on Net Income	[BRL mn]	227	174	234	255	270	273	239	248	257	267
D&A	[BRL mn]	166	174	234	255	270	273	239	248	257	267
<b>Changes in Working Capital</b>	<b>[BRL mn]</b>	<b>(413)</b>	<b>214</b>	<b>(88)</b>	<b>(41)</b>	<b>(48)</b>	<b>(38)</b>	<b>(27)</b>	<b>(19)</b>	<b>(18)</b>	<b>(15)</b>
Customer Accounts Receivable	[BRL mn]	(59)	(249)	(206)	(170)	(158)	(145)	(125)	(114)	(120)	(122)
Inventories	[BRL mn]	(311)	11	(98)	(102)	(96)	(87)	(77)	(74)	(78)	(80)
Other current assets	[BRL mn]	(5)	(16)	(11)	(12)	(11)	(10)	(9)	(8)	(8)	(9)
Taxes to Recover	[BRL mn]	(20)	34	(8)	(1)	(11)	(5)	2	7	9	12
Judicial Deposits	[BRL mn]	(26)									
Suppliers	[BRL mn]	90	283	123	128	121	109	96	93	98	100
Labor Obligations	[BRL mn]	(33)	38	28	29	27	25	22	20	21	21
Tax and Social Obligations	[BRL mn]	(29)	13	10	10	10	9	8	7	7	7
Other current liabilities	[BRL mn]	(21)	99	73	77	71	65	57	51	54	55
<b>Cash Flow From Operations</b>	<b>[BRL mn]</b>	<b>138</b>	<b>902</b>	<b>786</b>	<b>1,012</b>	<b>1,195</b>	<b>1,392</b>	<b>1,564</b>	<b>1,736</b>	<b>1,880</b>	<b>1,839</b>
Acquisitions of Fixed Assets and Intangibles	[BRL mn]	(233)	(603)	(268)	(265)	(233)	(266)	(275)	(285)	(296)	(308)
<b>Cash Flow from Investments</b>	<b>[BRL mn]</b>	<b>(507)</b>	<b>(603)</b>	<b>(268)</b>	<b>(265)</b>	<b>(233)</b>	<b>(266)</b>	<b>(275)</b>	<b>(285)</b>	<b>(296)</b>	<b>(308)</b>
Interest on Equity	[BRL mn]	(103)	(179)	(242)	(325)	(424)	(539)	(668)	(788)	(906)	(923)
Profit Distribution	[BRL mn]	(76)	(129)	(175)	(234)	(306)	(388)	(481)	(568)	(653)	(665)
Rent (IFRS 16)	[BRL mn]	(105)	-	-	-	-	-	-	-	-	-
<b>Cash Flow From Financing</b>	<b>[BRL mn]</b>	<b>362</b>	<b>(308)</b>	<b>(417)</b>	<b>(558)</b>	<b>(729)</b>	<b>(926)</b>	<b>(1,148)</b>	<b>(1,356)</b>	<b>(1,558)</b>	<b>(1,587)</b>

Sources: Company releases, Team elaboration

# PP&E schedule

Year	Unit	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PP&E BOP	[BRL mn]	182	290	443	553	636	668	702	737	773	812
(-) Depreciation	[BRL mn]	(43)	(73)	(111)	(138)	(159)	(167)	(175)	(184)	(193)	(203)
As % of PP&E	[%]	(23.6%)	(25.0%)	(25.0%)	(25.0%)	(25.0%)	(25.0%)	(25.0%)	(25.0%)	(25.0%)	(25.0%)
As % of Net Revenue	[%]	(1.0%)	(1.4%)	(1.9%)	(2.1%)	(2.1%)	(2.1%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)
<b>(+) Capex</b>	<b>[BRL mn]</b>	<b>141</b>	<b>225</b>	<b>221</b>	<b>221</b>	<b>191</b>	<b>200</b>	<b>210</b>	<b>221</b>	<b>232</b>	<b>244</b>
As % of PP&E	[%]	77.5%	77.5%	50.0%	40.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
As % of Net Revenue	[%]	3.3%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
(+/-) Others	[BRL mn]	10	–	–	–	–	–	–	–	–	–
As % of PP&E	[%]	5.5%	–	–	–	–	–	–	–	–	–
As % of Net Revenue	[%]	0.2%	–	–	–	–	–	–	–	–	–
<b>PP&amp;E EOP</b>	<b>[BRL mn]</b>	<b>290</b>	<b>443</b>	<b>553</b>	<b>636</b>	<b>668</b>	<b>702</b>	<b>737</b>	<b>773</b>	<b>812</b>	<b>853</b>

# Right of use projections

Year	Unit	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Right of Use BOP	[BRL mn]	222	401	478	525	548	583	624	668	713	759
(-) Depreciation	[BRL mn]	(93)	(111)	(132)	(145)	(151)	(161)	(172)	(185)	(197)	(210)
As % of Right of Use	[%]	(29.8%)	(27.6%)	(27.6%)	(27.6%)	(27.6%)	(27.6%)	(27.6%)	(27.6%)	(27.6%)	(27.6%)
As % of Net Revenue	[%]	(2.2%)	(2.1%)	(2.2%)	(2.2%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)
(+) Capex	[BRL mn]	258	188	179	168	186	202	216	229	243	257
As % of Right of Use	[%]	116.5%	46.9%	37.4%	32.0%	33.9%	34.7%	34.7%	34.3%	34.1%	33.8%
As % of Net Revenue	[%]	6.1%	3.6%	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
(+/-) Others	[BRL mn]	14	–	–	–	–	–	–	–	–	–
As % of Right of Use	[%]	6.4%	–	–	–	–	–	–	–	–	–
As % of Net Revenue	[%]	0.3%	–	–	–	–	–	–	–	–	–
Right of Use EOP	[BRL mn]	401	478	525	548	583	624	668	713	759	805

# Financial result

Year	Unit	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>Financial Result</b>	<b>[BRL mn]</b>	<b>(49)</b>	<b>(89)</b>	<b>(100)</b>	<b>(98)</b>	<b>(86)</b>	<b>(67)</b>	<b>(51)</b>	<b>(43)</b>	<b>(40)</b>	<b>(46)</b>
<b>1.1 Financial Revenues</b>	<b>[BRL mn]</b>	<b>75</b>	<b>75</b>	<b>73</b>	<b>88</b>	<b>113</b>	<b>144</b>	<b>170</b>	<b>189</b>	<b>202</b>	<b>206</b>
1.1.1 - Total Interest	[BRL mn]	65.1	62.5	58.4	71.1	94.7	123.9	148.8	166.4	178.3	181.5
As % of Selic	[%]	109.4%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
1.1.2 - Other revenues	[BRL mn]	10.3	12.7	14.5	16.4	18.1	19.7	21.1	22.3	23.7	25.0
<b>1.2 Financial Expenses</b>	<b>[BRL mn]</b>	<b>(125)</b>	<b>(164)</b>	<b>(173)</b>	<b>(186)</b>	<b>(199)</b>	<b>(210)</b>	<b>(221)</b>	<b>(231)</b>	<b>(242)</b>	<b>(253)</b>
1.2.1 Bank expenses	[BRL mn]	(14.1)	(17.4)	(19.9)	(22.4)	(24.8)	(27.0)	(28.9)	(30.6)	(32.4)	(34.2)
1.2.2 Interest on debt	[BRL mn]	(38.8)	(58.0)	(55.3)	(55.3)	(55.3)	(55.3)	(55.3)	(55.3)	(55.3)	(55.3)
As % of Selic	[%]	77.3%	110.0%	110.0%	110.0%	110.0%	110.0%	110.0%	110.0%	110.0%	110.0%
1.2.3 Credit card fee	[BRL mn]	(36.6)	(42.3)	(48.3)	(54.5)	(60.2)	(65.5)	(70.1)	(74.2)	(78.6)	(83.1)
1.2.4 Notary public fees	[BRL mn]	(2.4)	(5.4)	(4.4)	(5.2)	(6.3)	(6.4)	(7.0)	(7.5)	(7.8)	(8.3)
1.2.4 Discounts	[BRL mn]	(2.0)	(2.4)	(2.8)	(3.1)	(3.5)	(3.8)	(4.0)	(4.3)	(4.5)	(4.8)
1.2.5 Interest on Lease	[BRL mn]	(23.6)	(29.2)	(32.0)	(33.4)	(35.5)	(38.1)	(40.7)	(43.5)	(46.3)	(49.1)
Leases Interest rate	[%]		6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%
1.2.6 Other expenses	[BRL mn]	(7.4)	(9.2)	(10.5)	(11.8)	(13.1)	(14.2)	(15.2)	(16.1)	(17.0)	(18.0)

# Income tax projections

Year	Unit	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
EBT (CVM View)	[BRL mn]	473	531	664	850	1,057	1,275	1,503	1,667	1,804	1,938
Base Income Tax	[BRL mn]	(161)	(180)	(226)	(289)	(360)	(434)	(511)	(567)	(614)	(659)
% of EBT	[%]	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%
<b>Adjustments</b>	<b>[BRL mn]</b>	<b>110</b>	<b>164</b>	<b>202</b>	<b>236</b>	<b>274</b>	<b>316</b>	<b>359</b>	<b>406</b>	<b>449</b>	<b>308</b>
(+) Subvention for investments	[BRL mn]	102	129	142	154	164	171	176	179	181	–
(+) Interest on Capital	[BRL mn]	52	35	61	82	110	144	183	227	268	308
(+/-) Others	[BRL mn]	(43)	–	–	–	–	–	–	–	–	–
Income Tax After adjustments	[BRL mn]	(50)	(17)	(23)	(53)	(85)	(118)	(152)	(161)	(165)	(351)
% of EBT	[%]	10.6%	3.1%	3.5%	6.2%	8.1%	9.3%	10.1%	9.7%	9.1%	18.1%
<b>Subvention for investments</b>	<b>[BRL mn]</b>	<b>302</b>	<b>378</b>	<b>416</b>	<b>453</b>	<b>482</b>	<b>504</b>	<b>518</b>	<b>526</b>	<b>532</b>	<b>–</b>
As % of Gross Revenue	[%]	5.8%	5.8%	5.6%	5.4%	5.2%	5.0%	4.8%	4.6%	4.4%	–

Source: Team elaboration

AR&CO AREZZO

# Appendix

## Valuation

UNBRAND®

Oticina  
RESERVA

Baw

DIRTYMAN

PIER

INK

ME

TROO



MY SHOES

# How did we get our Ke?

Risk Free US	<b>3.50%</b>	10y treasury bold
Beta	<b>1.01</b>	Damodaran Retail-Shoe (unlevered)
ERP (w/ CRP)	<b>8.7%</b>	ERP 5.5% and CRP 3.2%
Inflation differential	<b>2%</b>	
<b>Cost of Equity</b>	<b>14.5%</b>	

Source: Team elaboration, Damodaran



# FCFE calculus

BRL mn	2023	2024	2025	2026	2027	2028	2029	2030	2031
<b>Net Income</b>	<b>514</b>	<b>641</b>	<b>798</b>	<b>973</b>	<b>1,158</b>	<b>1,352</b>	<b>1,507</b>	<b>1,641</b>	<b>1,588</b>
(+) Depreciation and amortization	174	234	255	270	273	239	248	257	267
(-) Capex and investments	(603)	(268)	(265)	(233)	(266)	(275)	(285)	(296)	(308)
(+/-) Δ Working capital	214	(88)	(41)	(48)	(38)	(27)	(19)	(18)	(15)
(+/-) Δ Debt	-	-	-	-	-	-	-	-	-
(+/-) Δ Other BS items	-	-	-	-	-	-	-	-	-
<b>FCFE</b>	<b>299</b>	<b>519</b>	<b>747</b>	<b>962</b>	<b>1,125</b>	<b>1,289</b>	<b>1,451</b>	<b>1,584</b>	<b>1,531</b>

	2023	2024	2025	2026	2027	2028	2029	2030	2031		Upside/ Downside	
<b>FCFE (BRL mn)</b>	<b>299</b>	<b>519</b>	<b>747</b>	<b>962</b>	<b>1,125</b>	<b>1,289</b>	<b>1,451</b>	<b>1,584</b>	<b>1,531</b>	<b>Perpetuity</b>	<b>DCF</b>	
Ke										4.0%		
12.5%	274	423	541	619	643	655	655	635	546	6,653	11,645	69.2%
13.5%	272	416	528	599	617	623	617	593	505	5,512	10,283	49.4%
<b>14.5%</b>	<b>270</b>	<b>410</b>	<b>515</b>	<b>580</b>	<b>592</b>	<b>592</b>	<b>582</b>	<b>554</b>	<b>468</b>	<b>4,621</b>	<b>9,184</b>	<b>33.4%</b>
15.5%	269	404	503	561	568	563	549	518	434	3,911	8,280	20.3%
16.5%	267	398	491	543	545	536	518	485	402	3,338	7,524	9.3%

# Sensibility analysis: Variables stressed

We stressed the most sensitive variables of our model to build the scenarios

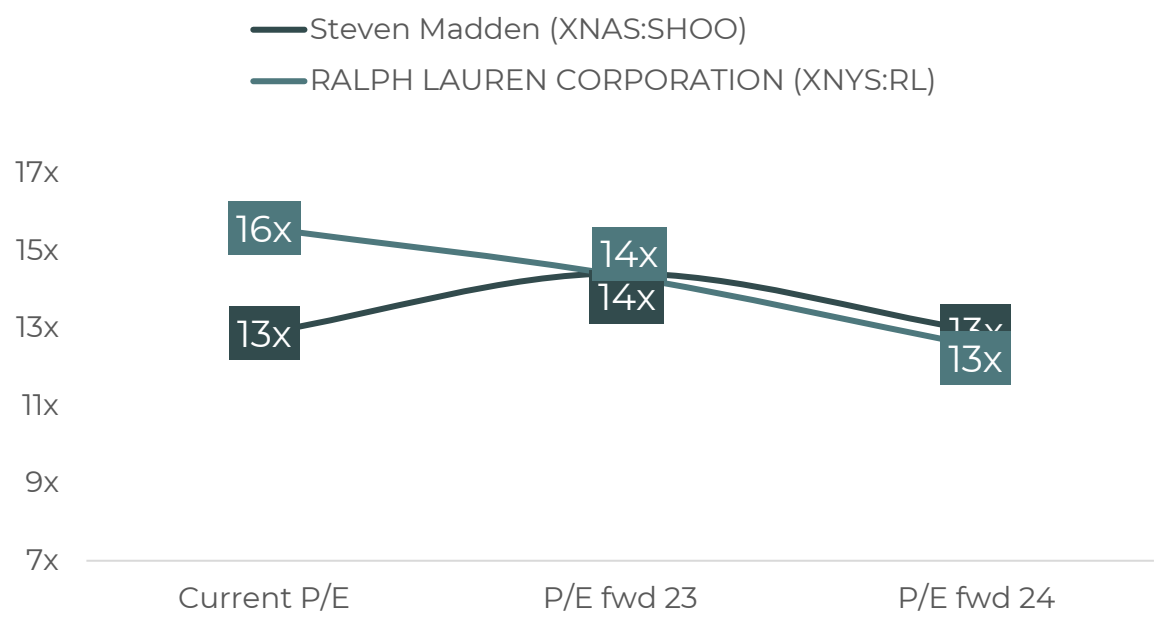
◇ G&A expenses		2023	2024	2025	2026	2027	2028	2029	2030	2031
	Bear Case	55%	55%	56%	56%	56%	56%	56%	56%	55%
	Base Case	56%	56%	57%	57%	57%	57%	57%	57%	56%
	Bull Case	57%	57%	58%	58%	58%	58%	58%	58%	57%
◇ Reserva SSS		2023	2024	2025	2026	2027	2028	2029	2030	2031
	Bear case	8%	7%	6%	4%	2%	2%	2%	2%	2%
	Base case	10%	9%	8%	6%	4%	4%	4%	4%	4%
	Bull case	11%	10%	9%	7%	5%	5%	5%	5%	5%
◇ Core brands SSS		2023	2024	2025	2026	2027	2028	2029	2030	2031
	Bear case	-7%	-7%	-7%	-6%	-6%	-6%	-5%	-5%	-5%
	Base case	-7%	-6%	-6%	-6%	-5%	-5%	-5%	-5%	-5%
	Bull case	-6%	-6%	-6%	-5%	-5%	-5%	-4%	-4%	-4%
◇ Stores maturation		1st year	2nd year	3rd year	4th year					
	Bear case	65%	75%	85%	100%					
	Base case	70%	80%	90%	100%					
	Bull case	75%	85%	95%	100%					
◇ Ar&Co sales per store		New stores								
	Bear case	70%								
	Base case	75%								
	Bull case	80%								

# Why 13x P/E for exit multiple?

We compared to consolidated peers in the USA

We used P/E Multiple instead of EV/EBITDA because of Arezzo&Co asset light operation and different tax rates

P/E Multiple



Sources: Capital IQ, Company releases

Similar historical development and brand positioning

## ◇ Women Footwear



**STEVE MADDEN**

Revenue (2022): USD 2.1 bn

Historical Avg P/E: 20.7x

## ◇ Men Apparel

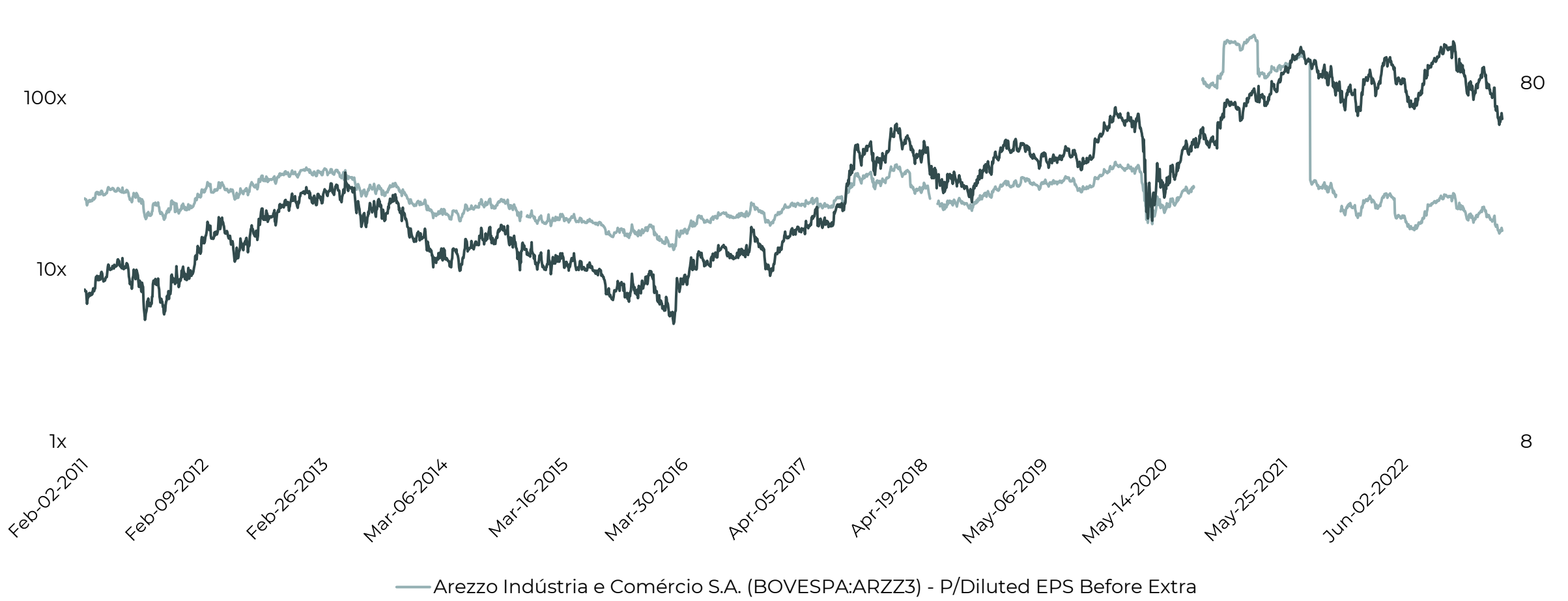


**RALPH LAUREN**

Revenue (2022): USD 6.4 bn

Historical Avg P/E: 23.3x

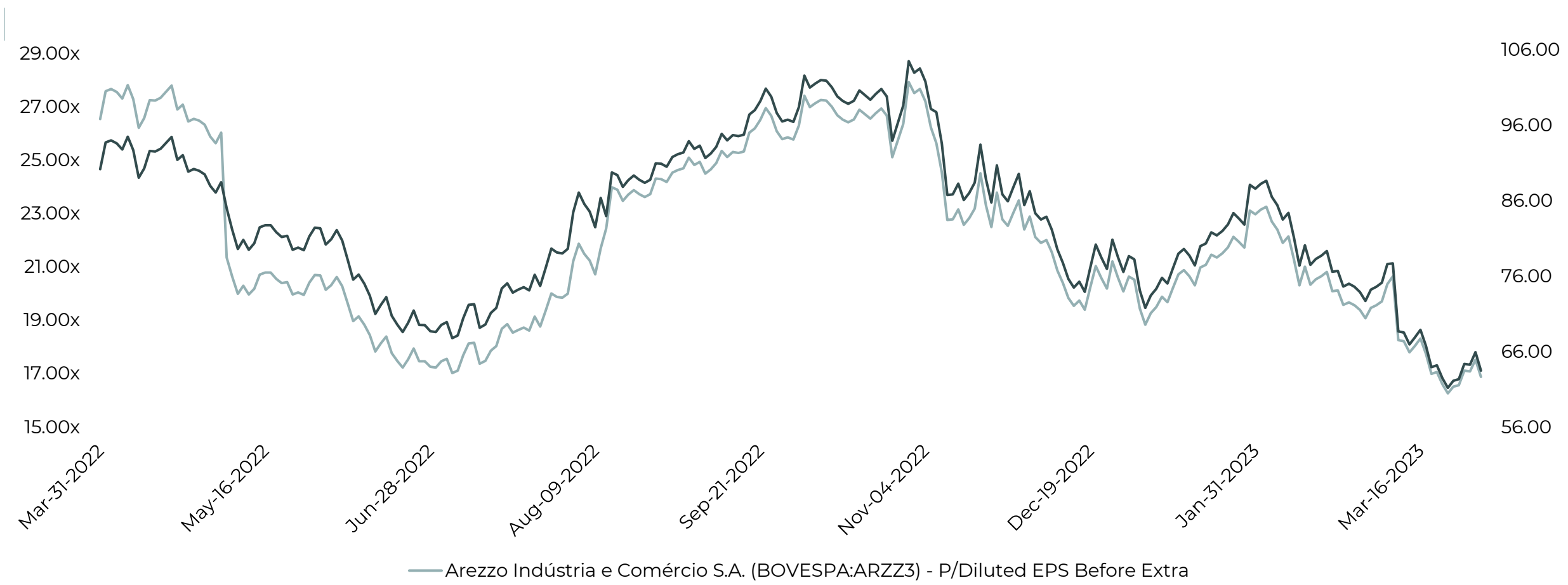
# Historical P/E and Price



**Average P/E: 37x**

**Average Price: 44.65**

# 1 year P/E and Price



**Average P/E: 22x**

**Average Price: 83.4**

# Multiples: Peers selection

Selected peers	P/E fwd 23	P/E fwd 24	EV/EBITDA fwd 23	EV/EBITDA fwd 24	Historical P/E	Historical Price	
<b>Brazilian Retailers</b>							
Arezzo&Co. (BVMF:ARZZ3)	13x	10x	8x	6x	37x	44.65	
Grupo de Moda SOMA (BVMF:SOMA3)	11x	8x	7x	6x	32x	11.06	House of Brands (Women apparel A/B classes)
TRACK & FIELD CO (BVMF:TFCO4)	13x	11x	9x	7x	39x	11.99	Fitness company A/B classes
Lojas Renner (BVMF:LREN3)	10x	9x	6x	5x	26x	10.20	Fashion retailer
Vivara Participações (BVMF:VIVA3)	11x	10x	11x	8x	22x	24.93	Jewelry company A/B classes
<b>Foreign Retailers</b>							
LVMH (XPAR:MC)	26x	24x	15x	14x	37x	142.17	Luxury House of Brands (benchmark)
Kering (XPAR:KER)	18x	16x	10x	9x	25x	182.39	Luxury House of Brands (benchmark)
Tod's SpA (XMIL:TOD)	33x	23x	8x	7x	35x	55.47	Italian leather footwear
Lululemon	55x	31x	19x	19x	49x	116.57	Canadian multinational retailer fitness
VF Corporation	10x	10x	11x	10x	20x	17.61	American apparel and footwear
Steven Madden (XNAS:SHOO)	14x	13x	10x	9x	21x	13.07	Consolidated Women footwear company
RALPH LAUREN (XNYS:RL)	14x	12x	9x	8x	23x	80.77	Consolidated Men apparel company
<b>Median</b>	<b>14x</b>	<b>11x</b>	<b>10x</b>	<b>8x</b>			
<b>Average</b>	19x	15x	10x	9x			
<b>Low</b>	10x	8x	6x	5x			
<b>High</b>	55x	31x	19x	19x			