GRUPO TECHNOS ANNOUNCES 2Q19 RESULTS

Rio de Janeiro, August 13, 2019 – Grupo Technos (B3: TECN3) announces its 2Q19 results. The following financial and operational information is presented on a consolidated basis, in compliance with current legislation, unless otherwise indicated.

DATE

08/13/2019

CLOSING PRICE

R$2.63/share

MARKET CAP

R$206.5 million

CONFERENCE CALL

08/14/2019 10:00 a.m. Brasília

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2Q19 HIGHLIGHTS

- Continuation of increases in net revenue, representing a 7.7% increase compared to 2Q18;
- Growth balance among all channels and categories, highlighting the Fashion category;
- Extraordinary non-recurring adjustment in inventories regarding assumptions of estimated losses due to obsolescence, in the amount of R$37.2 million, mostly impacting gross profit;
- SG&A stability net of extraordinary effects, notwithstanding sales growth;
- Continuation of good working capital management, notwithstanding sales growth;
- Net debt of R$31.6 million, representing a R$22.5 million decrease compared to 2Q18.

R$ million	2Q18	2Q19	%	2018	2019	%
Gross revenue	82.0	90.3	10.2%	149.2	166.1	11.4%
Net revenue	70.1	75.5	7.7%	125.2	138.5	10.6%
Gross profit	37.2	1.3	-96.5%	61.6	27.7	-55.0%
Gross margin	*53.0%*	*1.7%*	*-51.3p.p.*	*49.2%*	*20.0%*	*-29.2p.p.*
Net income	7.5	-36.5	-588.0%	-7.5	-46.5	516.5%
Net margin	*10.7%*	*-48.4%*	*-59.0p.p.*	*-6.0%*	*-33.5%*	*-27.5p.p.*
Adjusted EBITDA	8.0	-37.0	-563.4%	-0.8	-39.1	5,013.5%
Adjusted EBITDA margin	*11.4%*	*-49.0%*	*-60.4p.p.*	*-0.6%*	*-28.2%*	*-27.6p.p.*
Number of watches (000s)	528	622	17.6%	1,002	1,151	14.9%
Average price (R$/product)	152	143	-6.4%	146	141	-3.1%

Adjusted EBITDA *– Represents CVM EBITDA (net income plus depreciation and amortization, financial expenses, financial income, current and deferred taxes), adjusted for the realization of deferred tax assets generated by the goodwill premium from the buyout of our controlled company TASA, present value adjustment on sales and sales taxes, non-operational contingency provisions, nonrecurring results, recovery of escrow of liabilities generated before the acquisition of Dumont Saab, and stock option plan.*

In the second quarter of 2019, we implemented important changes in the governance and leadership of Grupo Technos. In May, we reconfigured our Board of Directors by appointing three new directors and creating three committees: the culture committee, the finance committee and the channels and products committee to strengthen our governance. Also in May, we announced, through a material fact, the return of Joaquim Ribeiro as CEO of Grupo Technos. Joaquim served as the Company's CEO from 2008 to 2014, a period of great growth and profitability for the company. Joaquim returns to accelerate our operational turnaround after a significant reduction in our debt.

In 2Q19, our net revenue increased by 7.7%, highlighting the 17.6% increase in the number of watches sold. The revenue and sales volume of our main brands and channels continue to grow compared to 2018, highlighting the specialized channel and the fashion segment. We recovered our market share, especially through large accounts and specialized stores, which is our main sales channel. We attribute this good performance to the continuity of the factors highlighted in the first quarter, such as the increase in average sales and frequency of purchases by customers, in addition to the improvement in our customer service level.

As to gross profit, we recorded a material inventory provision, which negatively affected our result and deserves further detailing.

Upon the changes in the Company's Board of Directors and leadership, we conducted a broad review of our operation, including a detailed analysis of our working capital. In accounts receivable, we sold a portion of the portfolio of receivables that was already provisioned for and had low chances of recovery, generating a positive impact for the Company, in the amount of R$4.1 million, including the monetization of the portfolio and the tax benefit. We also conducted an in-depth review of our inventories and found that a significant portion of our obsolete products and components demands re-working that is not justified due to the high complexity and costs to recover them, as a result of a significant number of SKUs and low depth. Accordingly, we recognized in the 2Q19 result a provision of R$32.3 million that affects our cost of product and gross margin. Additionally, we also established allowances of R$4.2 million, for the tax contingency related to this inventory, and R$0.7 million, for the marketing materials identified as obsolete. It is important to reinforce that this is an accounting and operational impact aimed at adjusting the assumptions of estimated losses in inventories due to obsolescence, and it is not related to any cash disbursement.

Considering the impact of the extraordinary provision for inventories, our gross profit totaled R$1.3 million and gross margin was 1.7%. Excluding the effect of the allowance for inventories mentioned above, gross profit decreased by 9.5% and gross margin decreased by 8.4p.p. compared to the previous year. The decrease in gross margin in 2Q19 and in 1Q19 was due to the average appreciation of the U.S. dollar compared to the same periods in 2018 and the decrease in price ranges of some brands to meet the bracket with the highest demand in the market. We already implemented important measures to recover gross margin and we expect to reap positive results in the next quarters due to the long lead time of products.

Expenses were also affected by the extraordinary and non-recurring effects of the change in management and personnel termination expenses. Excluding these effects, our SG&A remained virtually stable compared to 2Q18, notwithstanding the increase in sales and sales volume. In addition to the extraordinary items and impact of the sales increase, we hired two external consulting companies, one focused on the business turnaround and the other focused on operational efficiency gain based on the zero-based budgeting method. We believe that the work of these consulting companies, together with our internal team, will be important to improve the Company's growth and profitability.

In 2Q19, our Adjusted EBITDA was significantly affected by the extraordinary effects mentioned above, totaling a negative amount of R$37.0 million. Excluding these effects, Adjusted EBITDA totaled R$2.0 million, representing a R$4.6 million decrease compared to 2Q18. In summary, our sales growth accelerated, our gross margin decreased and our expenses remained stable.

Our working capital totaled R$187.3 million, representing a 14.3% decrease, or 49 fewer days. In accounts receivable, we maintained a cautious management of customer payment terms and consistency in customer assiduity, notwithstanding our sales growth. In inventories, we had the effects of extraordinary provision and chose to work with a larger inventory coverage, reducing the potential impact of loss of sales due to product shortage. In accounts payable, we continued with actions to extend the payment terms granted to domestic and foreign suppliers.

In 2Q19, our net debt totaled R$31.6 million, representing a decrease of R$22.5 million, or 38.2%, compared to 2Q18 and an increase of R$14.1 million compared to 1Q19. The seasonal effect of a quarter that historically has lower sales, but not lower recurring expenses, and our strategy to increase inventory coverage, resulted in a cash consumption that was expected for the quarter.

In 2Q19, we implemented important changes in the Company's governance and leadership to accelerate our performance after four years of difficult results in sales and profit. The broad review of our operations and the required adjustments in 2Q19 are important steps in the company's transformation process. We also implemented a detailed turnaround plan focused in our culture, competitiveness and efficiency. We identify clear opportunities to strengthen our competencies to better satisfy our employees, customers and shareholders. We believe in the health and potential of our core business and we are confident that we will soon show even more robust and encouraging results.

Together with the reconfiguration of the Board of Directors and the change in the leadership of Grupo Technos in 2Q19, we conducted a broad review of our operation, including detailed analysis of our working capital. These changes in leadership and review of working capital generated extraordinary effects in 2Q19 that negatively affected our results.

In accounts receivable, we sold the portfolio identified as having a very low recovery potential due to an average aging of 3.6 years of overdue accounts and that was already provisioned for losses. This transaction does not provide for recourse rights and generated a positive impact of R$0.3 million in our Adjusted EBITDA, in addition to the cash tax benefit of R$3.8 million from the recovery of taxes on the original sale made to customers.

In inventories, we conducted an in-depth review of all our warehouses and inventory systems at our factory, technical assistance and retail area. After a detailed analysis, we decided to adjust our estimates of losses in inventories due to obsolescence, turnaround or aging, in view of the current profitability of our collections and the complexity and cost of the recovery process of a portion of our products. We understand that a significant portion of our inventories of more than 4.1 year of aging do not justifies investment due to the large number of SKUs and low depth. There are more than 14,000 SKUs of finished products and more than 120,000 SKUs of different components of products of virtually all the Company's brands, including brands that were discontinued in the last few years. The complexity of the process to make them sellable again is not justifiable in view of their return and sales potential. Accordingly, in 2Q19, we recorded an allowance of R$32.3 million, which affects our cost and gross margin. In addition to this allowance for inventories, we also established allowances of R$4.2 million, for the tax contingency related to these inventories, and R$0.7 million, for the marketing materials identified as obsolete. In order to mitigate the future risks of new extraordinary allowances, we will reinforce our inventory systems, controls and inventory management, including new investments to reorganize our industrial flow and quality inspection in Brazil and China.

We also had other extraordinary and non-recurring impacts on our business, such as the changes in management and personnel termination expenses in 2Q19 and non-recurring gains in 2Q18, which affected the variation in SG&A in 2Q19 by R$3.5 million. Accordingly, we set forth in the table below a reconciliation of our result, excluding the effects mentioned above in accounts receivable, inventories and expenses:

R$ million	2Q18	2Q19	%	2018	2019	%
Gross revenue	82.0	90.3	10.2%	149.2	166.1	11.4%
Net revenue	70.1	75.5	7.7%	125.2	138.5	10.6%
Gross profit	37.2	33.6	-9.5%	61.6	60.1	-2.5%
Gross margin	*53.0%*	*44.5%*	*-8.4p.p.*	*49.2%*	*43.4%*	*-5.9p.p.*
Net income	6.1	-3.8	-161.8%	-8.9	-13.7	53.2%
Net margin	*8.7%*	*-5.0%*	*-13.7p.p.*	*-7.1%*	*-9.9%*	*-2.7p.p.*
Adjusted EBITDA	6.6	2.0	-70.0%	-2.2	-0.1	-94.7%
Adjusted EBITDA margin	*9.4%*	*2.6%*	*-6.8p.p.*	*-1.7%*	*-0.1%*	*1.6p.p.*
Number of watches (000s)	528	622	17.6%	1,002	1,151	14.9%
Average price (R$/product)	152	143	-6.4%	146	141	-3.1%

Gross revenue reached R$90.3 million in 2Q19, representing an increase of 10.2% compared to 2Q18. The table below sets forth the breakdown of our gross revenue:

R$ million	2Q18	2Q19	Var %	Var R$	2018	2019	Var %	Var R$
Product Sales	80.5	88.6	10.1%	8.1	146.2	162.7	11.3%	16.6
Technical Assistance	1.5	1.7	14.9%	0.2	3.0	3.4	13.0%	0.4
Gross Revenue	**82.0**	**90.3**	**10.2%**	**8.4**	**149.2**	**166.1**	**11.4%**	**16.9**

PRODUCT SALES

Overview

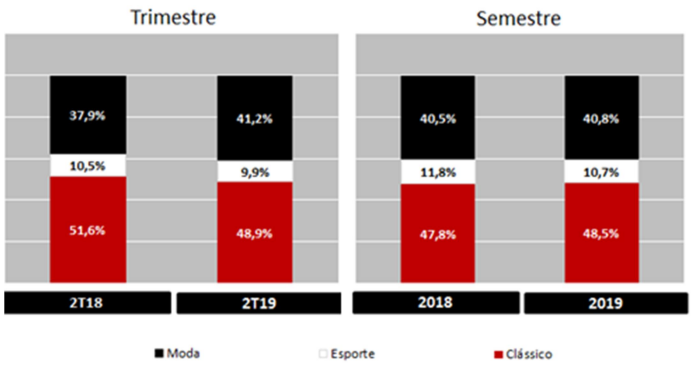
Gross revenue increased from R$80.5 million in 2Q18 to R$88.6 million in 2Q19, representing an increase of 10.1%. We attribute this sequence of growth to the reestablishment of a closer relationship with our customers which increased average sales and frequency of purchases by customers, in addition to the improvement in operational indicators regarding our services.

The sales performance reflects the 17.6% increase in the number of watches sold in the period, which totaled 622 thousand units in 2Q19, and a decrease in average price.

R$ million	2Q18	2Q19	Var %	Var R$	2018	2019	Var %	Var R$
Classic	41.5	43.3	4.4%	1.8	69.8	79.0	13.2%	9.2
Sports	8.5	8.8	4.0%	0.3	17.2	17.4	1.3%	0.2
Fashion	30.5	36.5	19.6%	6.0	59.2	66.3	12.1%	7.2
Total	**80.5**	**88.6**	**10.1%**	**8.2**	**146.1**	**162.7**	**11.3%**	**16.6**

In the analysis per category, sales increased in all segments, highlighting the Fashion category, which increased by 19.6% in value.

Share of Gross Revenue in Sales of Products – per Category



Analysis per Distribution Channel

R$ million	2Q18	2Q19	Var %	Var R$	2018	2019	Var %	Var R$
Specialized Stores	58.5	64.1	9.7%	5.7	103.1	116.6	13.1%	13.5
Department Stores and Others	22.0	24.5	11.3%	2.5	43.0	46.1	7.2%	3.1
Total	**80.5**	**88.6**	**10.1%**	**8.2**	**146.1**	**162.7**	**11.3%**	**16.6**

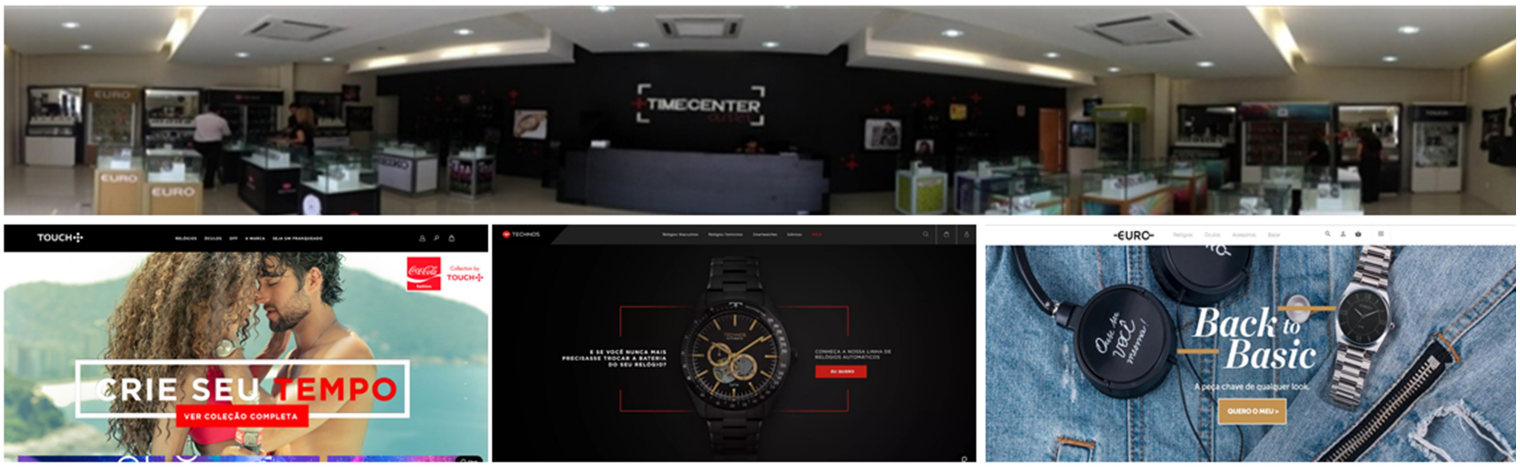
The analysis of sales of watches per distribution channel shows growth in all channels, highlighting department stores and others, recording an 11.3% increase in the quarter. We also note that the sequential recovery in the specialized stores channel––which is the Company's main sales channel––is key for turnaround consistency in the business top line.

RETAIL AND FRANCHISES

In retail, we run our own operations through websites and outlets. Our e-commerce operation has six e-commerce websites, five of which are dedicated to the brands Technos, Fossil, Euro, Touch and Condor, and one, Timecenter, is dedicated to online sales of all our brands. The main goal of our online activity is brand building and brand communication in the virtual environment, as a large number of customers perform online searches before completing their purchases in physical stores, as well as the engagement and allurement of consumers in relation to the category and our brands.

We also maintain 14 outlets in the main malls of this segment across Brazil. These points of sales are part of our inventory management strategy and represent a sales channel for low turnover products outside our traditional sales channels, and have had good results. Moreover, they reinforce the category in the places where consumers are largely present.

In the franchise channel, we are present through the Touch and Euro brands. At the end of June 2019, we had 56 exclusive points of sale, with Touch representing 40 and Euro 16. Our franchise policy continues to focus on the improvement of management quality and profitability of our franchisees.



NET REVENUE

In 2Q19, net revenue totaled R$75.5 million, representing an increase of 7.7% compared to 2Q18. The increase in 2Q19 reinforces the sequence of sales recovery and, in 1H19, net revenue increased by 10.6% compared to the previous year.

Present value adjustment on gross revenue totaled R$1.9 million in 2Q19, representing an increase of 20.5%. This is a noncash adjustment, as the portion deducted from gross revenue at the time of sale returns to the Company and is credited to financial income at the time of receipt.

R$ million	2Q18	2Q19	Var %	Var R$	2018	2019	Var %	Var R$
Gross Revenue	82.0	90.3	10.2%	8.4	149.2	166.1	11.4%	16.9
Present Value Adjustment on Sales	(1.6)	(1.9)	20.5%	(0.3)	(2.9)	(3.5)	21.5%	(0.6)
Sales Taxes	(10.5)	(13.2)	25.4%	(2.7)	(21.4)	(24.6)	14.5%	(3.1)
Present Value Adjustment on Taxes	0.2	0.3	34.9%	0.1	0.4	0.5	21.2%	0.1
Net Revenue	**70.1**	**75.5**	**7.7%**	**5.4**	**125.2**	**138.5**	**10.6%**	**13.3**

GROSS PROFIT

Excluding the effect of the inventory provision, gross profit decreased by 9.5%, and gross margin decreased by 8.4p.p., primarily due to the impact of the average U.S. dollar exchange rate on inventories compared to 2Q18 and the decrease in price ranges of some brands to meet the bracket with the highest demand in the market.

During 2Q19, our product pricing was more balanced, without losing touch with consumers' needs; however, these effects will primarily affect the second half of 2019 due to the long lead time of our inventories.

In 2Q19, we conducted an in-depth review of all our warehouses and inventory systems at our plant, technical assistance and retail area. We understand that the investments required to rework a significant portion of our inventories impaired due to obsolescence, turnaround or aging is not justifiable, due to the large number of SKUs and low depth. Accordingly, we decided to establish an allowance of R$32.3 million to adjust our estimated losses in inventories due to obsolescence, in view of the current profitability of our collections and the complexity and cost of the recovery process of a portion of our products, which affects our cost and gross margin.

It is important to reinforce that this is an accounting and operational impact that is not related to any cash disbursement. Considering these effects, our gross profit totaled R$1.3 million and our gross margin was 1.7% in 2Q19.

SALES AND ADMINISTRATIVE EXPENSES

In 2Q19, SG&A increased by 12.3%, or R$4.1 million, compared to 2Q18.

Administrative expenses increased by 33.8%, or R$2.8 million, primarily affected by the changes in senior management and consulting services related to the zero-based budgeting method, focused on the review of our expenses and pursuit of higher operational efficiency. We believe we achieved significant progress in reducing our expenses in the last years and we rely on this consulting company to become more efficient in the management of our expenses.

Sales expenses increased by 5.3%, or R$1.3 million in 2Q19 compared to 2Q18. Sales expenses were affected by the increase in (i) sales in the period and the resulting increase in variable expenses, such as freight and compensation; and (ii) expenses with consulting services, which have helped us on the business front, focused on the profitability of our channels and sales growth.

Excluding the extraordinary effects in 2Q19, our SG&A remained virtually stable compared to 2Q18, notwithstanding the growth in sales and sales volume. As a percentage of net revenue, SG&A decreased by 3.2 p.p., from 49.5% in 2Q18 to 46.3% in 2Q19.

We continue to focus on the control and reduction of SG&A to recover the profitability of our business.

OTHER OPERATING RESULTS, NET

Excluding the extraordinary effects in 2Q19, other operating results, net totaled an expense of R$1.6 million in 2Q19, compared to R$0.8 million in 2Q18.

Including the extraordinary effects, other operating results, net totaled an expense of R$15.5 million, compared to R$0.8 million in 2Q18. The main impacts on other operating results, net refer to the establishment of tax contingency allowances due to the adjustment of estimated losses in inventories due to obsolescence, in accordance with the in-depth review of all our warehouses and inventory systems at our plant, technical assistance and retail area.

EBITDA AND ADJUSTED EBITDA

Excluding the extraordinary effects, Adjusted EBITDA totaled R$2.0 million in 2Q19, representing a decrease of R$4.6 million compared to 2Q18. In summary, we recorded sales growth, our gross margin decreased and our expenses remained stable.

Including the extraordinary effects, Adjusted EBITDA totaled a negative amount of R$37.0 million in 2Q19 and negative margin of 49.0% on net revenue, representing a decrease of R$45.0 million compared to 2Q18.

R$ million	2Q18	2Q19	2018	2019
(=) Net income	**7.5**	**(36.5)**	**(7.5)**	**(46.5)**
(+) Depreciation and Amortization	(3.2)	(3.0)	(6.3)	(6.0)
(+/-) Financial result	3.8	(0.6)	1.8	(1.8)
(+) Current taxes	0.0	0.0	0.0	0.0
(+/-) Deferred taxes	0.6	15.7	1.0	14.0
(=) EBITDA (CVM 527/12)	**6.4**	**(48.6)**	**(4.0)**	**(52.6)**
(+/-) Provision for contingencies	(0.3)	(9.5)	(0.3)	(9.7)
(+) Other non-cash expenses *	(0.4)	(0.4)	(0.8)	(0.8)
(+) Impact of present value adjustment on operational result	(1.0)	(1.6)	(2.1)	(3.0)
(=) Adjusted EBITDA	**8.0**	**(37.0)**	**(0.8)**	**(39.1)**

NET FINANCIAL RESULT

Net financial result totaled an expense of R$0.6 million in 2Q19, representing a decrease of R$4.4 million compared to an income of R$3.8 million in 2Q18. This result is primarily due to the direct and indirect effects of the exchange rate variation in the period, including appreciations and depreciations, which also affected the result from derivative transactions.

Considering that almost all payments to suppliers of raw material are made in foreign currency, we enter into derivative financial instruments to reduce the potential exchange rate risk. We enter into these derivative instruments exclusively to hedge the contracted and estimated amount of purchases from foreign suppliers in the 12 subsequent months; as well as the loans denominated in foreign currency.

NET INCOME

Net loss totaled R$3.8 million, excluding the extraordinary inventory provision due to the sales growth, reduced gross margin, non-recurring expenses and negative foreign exchange rate impact in 2Q19. Including the extraordinary effects, net loss totaled R$36.5 million.

CASH FLOWS

R$ Million	2Q18	2Q19	2018	2019
Net income before income tax and social contributions	**6,9**	**(52,3)**	**(8,5)**	**(60,5)**
(+/-) Non-cash adjustments	21,7	32,4	28,7	38,5
(+/-) Operational activities	(15,5)	10,2	10,4	20,3
(+/-) Investment activities	(4,3)	(1,7)	(8,1)	(6,4)
(+/-) Financial activities	11,5	(7,6)	9,9	(33,8)
(=) Increase (decrease) in cash	**20,3**	**(18,8)**	**32,3**	**(41,9)**
(+) Cash and cash equivalents at the beginning of the period	26,8	46,8	14,8	69,9
(=) Cash and cash equivalents at the end of the period	**47,1**	**28,0**	**47,1**	**28,0**

NON-CASH ADJUSTMENTS

In 2Q19, non-cash adjustments totaled R$32.4 million, primarily affected by the review of working capital. Moreover, we were affected by currency depreciation and exchange rate variation, which affects the provision for payment of interest on loans. This impact is offset by our exchange rate swap, which is recorded in operational activities.

OPERATIONAL ACTIVITIES

In 2Q19, net cash from operational activities totaled R$10.2 million. In 2Q19, the main changes were: (i) a decrease of R$16.1 million in accounts receivable; (ii) an increase of R$15.7 million in inventories; and (iii) an increase of R$11.6 million in suppliers.

INVESTMENT ACTIVITIES

Net cash utilized by our investment activities was primarily affected by investments in property and equipment and intangible assets, which totaled R$1.7 million.

FINANCIAL ACTIVITIES

Net cash generated by or utilized in our financial activities results primarily from the repayment of loans. In 2Q19, we amortized one more installment of principal with our partner banks, in the amount of R$5.0 million.

CASH RESULT

The activities resulted in a cash decrease of R$18.8 million at the end of 2Q19 that, added to the initial amount of R$46.8 million, led to a final cash balance of R$28.0 million at June 30, 2019. At the end of 2Q18, the Company's final cash balance totaled R$47.1 million.

WORKING CAPITAL

R$ Million	2Q18	Days	2Q19	Days
(+) Accounts receivable	142.6	163	138.1	158
(+) Inventories	133.8	274	115.9	245
(-) Accounts payable	57.9	127	66.7	141
(=) Working Capital	**218.5**	**311**	**187.3**	**262**

In 2Q19, the Company's working capital totaled R$187.3 million, accounting for 262 days. In 2Q18, working capital totaled R$218.5 million, representing a decrease of R$31.2 million, or 14.3%. Excluding the impact of inventories, we had a balance of R$219.7 million, in line with 2Q18.

In accounts receivable, we have been constantly improving client assiduity, kept the average recovery balance and cautiously managed sales terms granted to clients. The term of accounts receivable decreased from 163 days in 2Q18 to 158 days in 2Q19, representing a decrease of 5 days, or 3.1%.

In 2Q19, inventories totaled R$115.9 million, representing 29 fewer days of working capital, primarily due to the extraordinary inventory provision. Excluding this effect, we had more days of inventory compared to 2Q18 as a result of our strategy to work with an increased coverage, reducing the potential impact of loss of sales due to product shortage.

We continued working on extending the term of our accounts payable with domestic and foreign suppliers. Accordingly, the average term of our accounts payable increased from 127 days to 141 days, almost fully offsetting the increase in inventories in the period.

NET CASH

In 2Q19, Grupo Technos had net debt of R$31.6 million, representing a decrease of R$22.5 million compared to 2Q18 and an increase of R$14.1 million compared to 1Q19.

R$ million	2Q18	1Q19	2Q19
Gross debt	(101.2)	(71.9)	(67.4)
(-) Cash[1]	47.1	54.4	35.8
(=) (Debt)/Net cash	**(54.1)**	**(17.5)**	**(31.6)**

[1] We take into account cash plus restricted cash in the calculation of net debt.

We have been working with an increased net cash at this time of economic uncertainty and resumed sales recovery. In 2Q19, we recorded an expected increase in net debt compared to 1Q19 due to sales growth in the period, which affects the generation of future cash as a result of the sales life cycle and our strategy to increase inventory coverage, mitigating the risk of loss of sales due to product shortage at stores.

R$ thousand

QUARTER

	Consolidated	
	2Q18	2Q19
Net revenue	70,117	75,536
Cost of goods sold	(32,965)	(74,244)
Gross profit	**37,153**	**1,292**
Sales expenses	(25,163)	(25,780)
Impairment trade receivable	0	(727)
Administrative expenses	(8,159)	(10,917)
Others, net	(842)	(15,480)
Operational profit	**2,989**	**(51,612)**
Financial result, net	3,945	(645)
Financial income	24,137	5,518
Financial expenses	(20,192)	(6,163)
Income before income tax and social contribution	**6,934**	**(52,257)**
Income tax and social contribution	551	15,733
Current	0	0
Deferred	551	15,733
Net income	**7,485**	**(36,524)**

SEMESTER

	Consolidated	
	2018	2019
Net revenue	125,218	138,509
Cost of goods sold	(63,578)	(110,781)
Gross profit	**61,640**	**27,728**
Sales expenses	(53,617)	(50,227)
Impairment trade receivable	0	(1,353)
Administrative expenses	(17,317)	(19,324)
Others, net	(1,409)	(15,505)
Operational profit	**(10.703)**	**(58,681)**
Financial result, net	2,167	(1,793)
Financial income	31.448	16,549
Financial expenses	(29.281)	(18,342)
Income before income tax and social contribution	**(8,536)**	**(60,474)**
Income tax and social contribution	1,001	14,019
Current	0	0
Deferred	1,001	14,019
Net income	**(7,535)**	**(46,455)**

R$ thousand

	Consolidated	
	June 30, 2018	June 30, 2019
Assets		
Current assets		
Cash and cash equivalents	47,110	27,974
Restricted cash	0	7,778
Accounts receivable	142,636	138,135
Inventories	133,757	115,877
Recoverable taxes		5,286
Derivative financial instruments	9,390	7,473
Other assets	10,844	4,961
Assets held for sale	267	15,627
	364,444	**323,111**
Non-current assets		
Related deposits	24,047	4,255
Advances to suppliers	5,437	4,625
Recoverable taxes	29,052	67,320
Judicial deposits	7,285	5,203
Other assets	26,468	284
	92,289	**81,687**
Investments		
Intangible	262,185	263,255
Property and equipment	36,403	39,285
	298,588	**302,540**
Total assets	**755,321**	**707,338**

	Consolidated	
	June 30, 2018	June 30, 2019
Liabilities		
Current liabilities		
Borrowings	65,428	28,663
Accounts payable	57,916	66,725
Income tax and social contributions payable	4,166	2,024
Deferred income tax and social contributions	435	441
Amount payable for the acquisition of non-controlling interest	1,103	1,103
Salaries and social charges payable	9,205	7,932
Dividends payable	1,289	1,375
Derivative financial instruments	213	1,616
Lease payment	0	3,517
Other payables	4,428	7,059
	144,183	**120,455**
Non-current liabilities		
Borrowings	50,408	42,417
Income tax and social contributions payable (Note 14)	1,951	1,908
Deferred income tax and social contribution	47,249	18,368
Provision for contingencies	28,299	55,746
Amount payable for the acquisition of equity interest	25,931	4,555
Payables - assignment of credit right	0	32,561
Lease payments	0	2,997
Other payables	76	8,271
	153,914	**166,823**
Total liabilities	**298,097**	**287,278**
Equity		
Capital stock	130,583	130,583
Treasury shares	(11,208)	(11,208)
Share issuance expenses	(10,870)	(10,870)
Capital reserves	202,245	203,833
Profit reserves	168,130	168,309
Carrying value adjustment	(14,121)	(14,132)
Retained earnings (accumulated losses)	(7,535)	(46,455)
Other comprehensive income	0	0
Total equity	**457,224**	**420,060**
Total equity and liabilities	**755,321**	**707,338**

R$ thousand QUARTER

	Consolidated	
	2Q18	2Q19
Income before income tax and social contribution	**6,934**	**(52,257)**
Adjustments for items that do not affect cash flow		
Amortization and depreciation	3,201	3.035
Allowance for recoverable value of inventory	239	32.349
Allowance for recoverable value of accounts receivable	1,042	(18.742)
Allowance for contingencies (reversal)	2,275	14.813
Results from disposal of permanent assets	185	35
Impairment of permanent assets	(1)	(1)
Interest on loans	13,959	355
Other interest	365	225
Stock option premium	423	432
Others	(16)	(78)
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	10,800	16.105
Decrease (increase) in inventories	(12,961)	(15.735)
Decrease (increase) in tax recoverable	(508)	(2.033)
Decrease (increase) in other assets	(22,318)	1.923
Increase (decrease) in suppliers and accounts payable	14,653	11.626
Increase (decrease) in salaries and social charges payable	596	755
Increase (decrease) in taxes, rates and social contributions payable	(4,852)	(1.474)
Interest paid	(867)	(937)
Net cash (applied in) generated by operational activities	**13,149**	**(9.604)**
Cash flow from investment activities		
Related deposits rescue	272	18.771
Acquisition of equity interest	(528)	(20.819)
Purchases of fixed assets	(2,862)	852
Amount received from the sale of fixed assets	744	715
Purchases of intangible assets	(1,969)	(1.171)
Net cash (applied in) generated by investment activities	**(4,343)**	**(1.652)**
Cash flow from financial activities		
Borrowings	31,592	0
Payment of borrowings	(19,962)	(6.085)
Lease contracted	0	(416)
Lease paid	0	(1.091)
Dividends paid to Company shareholders	(87)	(1)
Net cash applied in financial activities	**11,543**	**(7,593)**
Increase (decrease) in cash and cash equivalents	20,349	(18,849)
Cash and cash equivalents at beginning of period	26,761	46,823
Cash and cash equivalents at end of period	**47,110**	**27,974**

R$ thousand SEMESTER

	Consolidated	
	2018	2019
Income before income tax and social contribution	**(8,536)**	**(60,474)**
Adjustments for items that do not affect cash flow		
Amortization and depreciation	6,363	6.045
Allowance for recoverable value of inventory	851	32.554
Allowance for recoverable value of accounts receivable	1,331	(18.116)
Allowance for contingencies (reversal)	2,906	15.353
Results from disposal of permanent assets	283	38
Impairment of permanent assets	(3)	(3)
Interest on loans	15,381	1.282
Other interest	740	890
Stock option premium	846	827
Others	(24)	(359)
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	43,730	38.660
Decrease (increase) in inventories	(29,016)	(33.326)
Decrease (increase) in tax recoverable	(5,221)	1.036
Decrease (increase) in other assets	(21,176)	6.490
Increase (decrease) in suppliers and accounts payable	26,611	13.453
Increase (decrease) in salaries and social charges payable	1,662	976
Increase (decrease) in taxes, rates and social contributions payable	(4,637)	(4.929)
Interest paid	(1,576)	(2.059)
Net cash (applied in) generated by operational activities	**30,515**	**(1.662)**
Cash flow from investment activities		
Increase (decrease) in marketable securities	525	20.471
Acquisition of equity interest	(1,155)	(22.506)
Purchases of fixed assets	(6,111)	(2.423)
Amount received from the sale of fixed assets	1,606	787
Purchase of intangible assets	(2,998)	(2.757)
Net cash (applied in) generated by investment activities	**(8,133)**	**(6.428**
Cash flow from financial activities		
Borrowings	31,592	0
Payment of borrowings	(21,606)	(31.981)
Lease paid	0	(1.815)
Dividends paid to Company shareholders	(87)	(1)
Net cash applied in financial activities	**9,899**	**(33.797)**
Increase (decrease) in cash and cash equivalents	32,281	(41.887)
Cash and cash equivalents at beginning of period	14,829	69.861
Cash and cash equivalents at end of period	**47,110**	**27.974**