GRUPO TECHNOS ANNOUNCES 4Q20 RESULTS

Rio de Janeiro, March 18, 2021 - Grupo Technos (B3: TECN3) announces its 4Q20 results. The following financial and operational information is presented on a consolidated basis, in compliance with current legislation, unless otherwise indicated.

DATE

03/18/2021

CLOSING PRICE

R$ 1.60/share

MARKET CAP

R$ 125.6 million

CONFERENCE CALL

03/19/2021 10:00 a.m. Brasília

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4Q20 HIGHLIGHTS

- Net revenue increased by 12.7% in 4Q20, due to increased price and volume
- Gross profit increased by 19.5% in 4Q20, increasing gross margin by 2.8 p.p.
- SG&A decreased by 11.9% in 4Q20, due to actions to restructure and protect cash
- Adjusted EBITDA of R$24.7 million in 4Q20, representing a 74.7% increase
- Net debt of R$61.6 million in 4Q20
- Rollover of approximately 85% of debt, with new average term of 4.3 years.

R$ million	4Q19	4Q20	%	2019	2020	%
Gross revenue	124.8	135.2	8.4%	378.4	285.1	-24.6%
Net revenue	104.7	118.0	12.7%	316.2	244.6	-22.6%
Gross profit	49.2	58.7	19.5%	109.2	112.4	2.9%
Gross margin	*46.9%*	*49.8%*	*2.8p.p.*	*34.5%*	*46.0%*	*11.4p.p.*
SG&A	-40.6	-35.8	-11.9%	-147.3	-112.1	-23.9%
Net income	-73.6	2.9	-103.9%	-122.7	-28.2	-77.0%
Net margin	*-70.3%*	*2.4%*	*72.7p.p.*	*-38.8%*	*-11.5%*	*27.3p.p.*
Adjusted EBITDA	14.1	24.7	74.7%	15.2	6.0	-60.5%
Adjusted EBITDA margin	*13.5%*	*20.9%*	*7.4p.p.*	*4.8%*	*2.5%*	*-2.3p.p.*
Number of watches (000s)	748	770	2.8%	2,493	1,748	-29.9%
Average price (R$/product)	165	175	6.1%	149	162	8.4%

Adjusted EBITDA *– – Represents CVM EBITDA (net income plus depreciation and amortization, financial expenses, financial income, current and deferred taxes), adjusted for the present value adjustment on sales and sales taxes, non-operational contingency provisions, nonrecurring results, extraordinary, and stock option plan.*

In the fourth quarter of 2020, Management's commentary discusses again two important subjects of the Company's interest – 4Q20 Highlights and Remarks on the impacts of COVID-19:

1. 4Q20 Highlights

As already indicated in previous financial statements, the Company started 2020 with the objective of accelerating the implementation of its turnaround plan and improving its performance. However, as of March, the evolution of the "COVID-19" pandemic and the resulting social isolation measures, such as the closing of shopping malls and restrictions on retail activities, strongly sacrificed the sale of the Company's products and services. In order to offset the significant decrease in sales particularly in the first semester, the Company implemented a number of actions to protect its cash and accelerate its operational structure.

As a result of the successful implementation of actions to accelerate its restructuring and protect cash, in the second semester, the Company showed a significant recovery in performance, even during the pandemic. In the second semester of 2020, Gross Revenue increased by 4.0% and Gross Profit increased by 12.3%, with a 3.7p.p. increase in Gross Margin. It is noteworthy that the Company's adjusted EBITDA totaled R$34.8 million in the second semester, representing a 127.7% increase compared to the same period in the previous year – the best Adjusted EBITDA in the period in five years, since 2015.

Particularly, the positive result in the fourth quarter of 2020 was due to the sequential sales recovery, combined with the search for efficiency and profitability, which is seen in the recovery of gross margin and decreased expenses. In addition to the consolidation of its performance recovery in the quarter, the Company disclosed the rollover of its debt with its main creditors, adjusting its financial obligations to its short- and long-term capital requirements.

In the fourth quarter, Gross Revenue increased by 8.4% compared to the same period in the previous year. The sales recovery of the Company was slightly above the 5.2% recovery of the watch sector in the quarter, which increased prices and, to a lesser extent, volume. As to sales channels, sales in e-commerce and department stores continued to stand out, while sales in specialized stores stabilized after the reopening of stores and flexibilization of restrictions on circulation of people.

In the fourth quarter of 2020, the Company's Gross Profit and Gross Margin totaled R$58.7 million and 49.8%, respectively, compared to R$49.2 million and 46.9%, respectively, in the fourth quarter of 2019. The 19.5% increase in Gross Profit and 2.8 p.p. increase in Gross Margin is due to price increases in view of the increase in the exchange rate, the decrease in discounts and promotional sales, and the positive impact of the outsourcing of Technical Assistance services.

As a result of the efforts to protect short- and long-term cash that have been implemented, SG&A expenses decreased by 11.9% compared to the same period in 2019. This quarter, the Company had no temporary positive impact on its result regarding the decrease in working hours or suspension of employment contract, as recorded in SG&A in the second and third quarters. Accordingly, this reduction in expenses is due to the acceleration of the Company's restructuring plan, including the significant decrease in headcount, decreased marketing and advertisement expenses and the outsourcing of the Technical Assistance network.

The Company's adjusted EBITDA totaled R$24.7 million in the fourth quarter of 2020, representing an increase of 74.7%, compared to R$14.1 million in the same period in 2019. This is the result of sequential sales and gross margin recovery and, also, the actions to protect and restructure cash that have been implemented since the beginning of the pandemic.

The Company's working capital totaled R$196.1 million in the fourth quarter of 2020, representing an increase of R$2.1 million compared to the fourth quarter of 2019. This is the result of a combination of decreased accounts receivable and inventories, decreasing the balance of accounts payable. The above-mentioned changes in balances reflect the sales volatility in the last 12 months – particularly in the first semester of 2020, when sales were most strongly affected by the pandemic – and the interruption of new purchases of raw material as of March.

In the fourth quarter of 2020, net debt totaled R$61.6 million, very close to net debt reported in the prior quarters. This stability was only achieved due to the measures implemented since mid-March to protect cash and decrease cash outflow, when we began to feel the impacts of the pandemic. Net debt included R$76.6 million in cash and R$138.2 million in gross debt.

In line with the strategy to protect cash implemented as a result of the evolution of COVID-19, the Company disclosed, in the beginning of October, the rollover of approximately 85% of its financial debt with its main creditors. This negotiation allowed the Company to rollover approximately R$119.9 million, which now has an average payment term of 4.3 years. With this renegotiation, the Company harmonizes its debt structure with its short- and long-term cashflow requirements, protecting its financial and operational capabilities.

The positive result of the fourth quarter of 2020 is the direct result of the progressive recovery of sales and gross margin, as well as of the successful implementation of an aggressive action plan to protect cash and accelerate the operational restructuring. Although some measures mentioned have a temporal effect, most of the implemented actions have a structural profile and have already shown a significant positive effect in the Company's long-term financial and economic performance, notwithstanding all the challenges resulting from COVID-19.

2. Remarks on the impacts of COVID-19 and measures taken by the Company

The evolution of COVID-19 as of March affected the Company's workforce, as well as the supply and demand related to the commercialization of brands, products and services. In order to mitigate the effects of the pandemic, the Company implemented important actions to protect the health of its employees and the health of the company, especially focused on protecting cash in the short term and accelerating our long-term turnaround.

As to the impact on the workforce, the Company adopted teleworking, suspended or reduced working hours, isolated risk groups and reduced non-essential trips. These measures were maintained during the entire period of the pandemic, on a more aggressive manner as of March and during the second quarter, and were followed by gradual flexibilizations – as recommended by competent authorities – during the fourth quarter, always with the objective to protect the health of employees.

As to supply of products, the Company did not suffer restrictions on the supply of goods by its suppliers. Notwithstanding the delay of approximately one month in the reopening of factories after the Chinese New Year, in the beginning of 2020, most Asian suppliers of the Company quickly restored their operations. Moreover, the Company works with an inventory coverage that allows it to undergo any short-term ruptures in supply from international suppliers, with no material impact on supply to its customers.

As to demand, considering the downturn in economic activity in Brazil and abroad, as of March 2020, the new pandemic caused by the coronavirus affected the demand for the Company's products, the activities of its customers and the ability of these customers to meet the Company's payment terms and conditions. The Company has a highly scattered distribution network, with low concentration, totaling approximately 9,000 active customers across Brazil, including large department stores, specialized stores, wholesalers and e-commerce stores. Accordingly, given the fragmentation of the Company's distribution network, the impact mentioned above related to demand and default varies based on the profile and characteristics of each

reseller. It is worth mentioning that this effect was stronger in March and in the second quarter of 2020, and has been sequentially decreasing in view of the recovery of the economic activity in Brazil.

Another important impact perceived as of the worsening of the pandemic was the considerable increase in default, as well as the increase in requests by customers to postpone payments. The Company reinforced its collection team and has relied on the support of its commercial team in negotiations with customers to improve credit recovery rates. The beginning of the reopening of stores and recovery of the operating activity of customers also positively contributed to sequentially decrease default. The increase in default, as well as the future estimate of this impact, generated an additional provision for expected credit losses of R$2.9 million in the fourth quarter of 2020.

Moreover, another point of concern is the volatility of the exchange rate, as approximately 75% of the cost of the Company is denominated in foreign currency. The Company has a hedging policy that partially protects it from short-term fluctuations, but the exchange rate at a level that is too unfavorable for the *real* for an extended period may represent more hindrances for the Company's strategy to recover gross margin. The Company seeks to offset the appreciation of the US dollar through financial hedging, decreased manufacturing cost, better assortment management, decreased promotional sales and selective price increases.

In order to face the challenging scenario resulting from the COVID-19 pandemic, the Company created a crisis committee and adopted important actions to protect its health and cash in the short term and, at the same time, accelerate the implementation of its turnaround plan to improve its economic performance in the long term. In addition to the actions already mentioned above, it is worth mentioning:

- the use of technological tools to foster long distance sales;
- more aggressive activation of the commercial base of more than 9,000 customers of the Company, favoring sales to customers in areas and channels that were less affected by the pandemic;
- acceleration of own e-commerce operations, which still account for a small portion of the Company's sales, but improved since the beginning of the pandemic;
- 33% reduction in fixed headcount compared to the previous year.
- reduction in working hours for leadership positions and suspension of employment contracts for operational staff, both back to normal as of October 2020;
- reduction in expenses, elimination of non-essential investments and implementation of a zero-based budget to reduce the cost structure in the long term;
- reduction in the volumes of new purchases, optimizing in-house inventory, reprogramming future product releases and gradually recovering the resupply flow, considering the maintenance of a healthy sales mix and the return to an adequate coverage level;
- adjustment of the manufacturing plan, considering the temporary closing of production lines from March to September 2020, considering the suspension and gradual recovery of supply;
- streamlining of the portfolio of international brands, decreasing certain third-party brands with marginal sales and increasing investments in own brands that have greater profitability;
- product reengineering to reduce lead time and cost reduction in new purchases, partially offsetting the exchange rate pressure;
- selective price increases in all brands, seeking to balance competitiveness and profitability in view of the exchange rate pressure;

- negotiation of more extended payment terms with international suppliers for future purchases, based on the strategy of resumption of the Company's supply flow;
- conversion of a material portion of the structure of fixed costs into variable costs through the outsourcing of nine technical assistance branches and non-core services at the factory;
- reinforcement of credit analysis and collection activities to increase the conversion of cash and mitigate default risks;
- readjustment of the Company's liquidity structure and debt profile, which was successfully completed in October 2020, allowing the adjustment of the Company's debt profile to the short- and long-term prospects of its activities, protecting its financial and operational capabilities;
- implementation of an online training program, with 8,186 hours of training in 2020, compared to 5,568 hours in 2019, representing a 47% increase.

It is noteworthy that the sector's recovery in demand in the fourth quarter exceeded our expectations, creating challenges in supply due to the long lead time of the supply chain of the watch sector. However, the recent worsening in the health crisis in Brazil, as well as social isolation measures implemented in the first quarter of 2020, still show a significant uncertain and volatile macroeconomic scenario.

In 2021, the Company will seek to consolidate the gains linked to its operational restructuring and accelerate its digitalization process. Moreover, the Company continues to follow-up on the status of the COVID-19 pandemic in Brazil and worldwide. Additional measures may be implemented, as the scenario associated with the COVID-19 outbreak and its impacts on the Company's activities become clearer.

Gross revenue reached R$135.2 million in the fourth quarter of 2020, representing an increase of 8.4% compared to the fourth quarter of 2019. This growth results from the sequential sales recovery after the second quarter, the period that suffered the highest impact from the pandemic. The decrease in gross revenue from technical assistance was due to the outsourcing of most of the post-sales network of the Company.

The table below sets forth the breakdown of our gross revenue:

R$ Million	4Q19	4Q20	Var %	Var R$	2019	2020	Var %	Var R$
Product Sales	123.4	134.7	9.1%	11.2	372.1	282.8	-24.0%	-89.3
Technical Assistance	1.3	0.5	-58.7%	-0.8	6.3	2.3	-63.4%	-4.0
Gross Revenue	**124.8**	**135.2**	**8.4%**	**10.4**	**378.4**	**285.1**	**-24.6%**	**-93.3**

PRODUCT SALES

Overview

Gross revenue from product sales increased from R$123.4 million in the fourth quarter of 2019 to R$134.7 million in the fourth quarter of 2020, representing a 9.1% increase. In the fourth quarter of 2020, the number of watches sold totaled 770 thousand watches, representing a 2.8% increase compared to the fourth quarter of 2019.

Average price reached R$175 in the fourth quarter of 2020, representing a 6.1% increase compared to the same period in 2019. This increase in the average price reflects the Company's strategy to seek greater profitability through selective price increases, decreased discounts and promotional sales and better management of mix per sales channel.

R$ Million	4Q19	4Q20	Var %	Var R$	2019	2020	Var %	Var R$
Classic	57.8	63.5	10.0%	5.8	178.5	142.2	-20.3%	-36.3
Sport	18.7	17.4	-7.1%	-1.3	47.5	34.8	-26.7%	-12.7
Fashion	47.0	53.7	14.4%	6.8	146.1	105.8	-27.6%	-40.3
Total	**123.4**	**134.7**	**9.1%**	**11.2**	**372.1**	**282.8**	**-24.0%**	**-89.3**

Analysis per Distribution Channel

The analysis of sales of watches per distribution channel shows a 0.7% decrease compared to the previous year in specialized stores and a 38.6% increase in department stores and others, which also includes online sales customers.

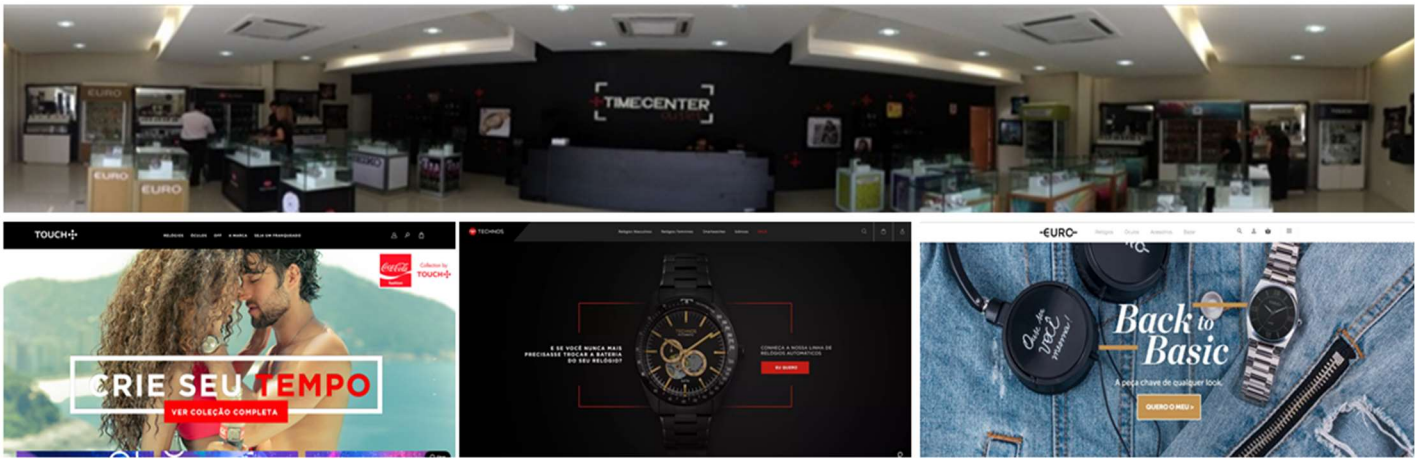
R$ Million	4Q19	4Q20	Var %	Var R$	2019	2020	Var %	Var R$
Specialized Stores	92.6	92.0	-0.7%	-0.7	268.7	191.5	-28.7%	-77.2
Department Stores and Others	30.8	42.7	38.6%	11.9	103.4	91.3	-11.7%	-12.1
Total	**123.4**	**134.7**	**9.1%**	**11.2**	**372.1**	**282.8**	**-24.0%**	**-89.3**

RETAIL AND FRANCHISES

In retail, the Company runs its own operations through websites and outlets. The company operates in e-commerce with five e-commerce websites, four of which are dedicated to the brands Technos, Fossil, Euro, Condor, and one, Timecenter, is dedicated to online sales of all brands. The main goal of this online activity is brand building and brand communication in the virtual environment, as a large number of customers performs 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.

The Company maintains 10 outlets in the main malls of this segment across Brazil. These points of sales are part of the inventory management strategy and represent a sales channel for low turnover products outside the traditional sales channels, and have had good sales results. Moreover, they reinforce the category in the places where consumers are largely present.

Franchises are present through Touch and Euro brands. At the end of December 2020, we had 31 exclusive points of sale, with Touch representing 20 and Euro 11.



NET REVENUE

In the fourth quarter of 2020, net revenue totaled R$118.0 million, representing a 12.7% increase compared to the same period in the previous year.

Present value adjustment on gross revenue totaled R$2.3 million in the fourth quarter of 2020, representing a 1.3% decrease due to the decrease in the average sales terms as well as in interest rate. This is a non-cash 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.

Notwithstanding the increased gross revenue, sales taxes decreased by 15.7% compared to the same period in the previous year. This effect is due to the increased enjoyment of the ICMS tax benefit, and results from the interruption in the flow of supply and, consequently, the unbalance between the sale of products and the purchase of raw material. This scenario tends to normalize, based on the recovery in supply flow.

R$ Million	4Q19	4Q20	Var %	Var R$	2019	2020	Var %	Var R$
Gross Revenue	124.8	135.2	8.4%	10.4	378.4	285.1	-24.6%	(93.3)
Present Value Adjustment on Sales	(2.3)	(2.3)	-1.3%	0.0	(7.5)	(4.1)	-45.6%	3.4
Sales Taxes	(18.1)	(15.2)	-15.7%	2.8	(55.7)	(37.0)	-33.7%	18.8
Present Value Adjustment on Taxes	0.3	0.3	-14.5%	(0.0)	1.1	0.5	-50.8%	(0.5)
Net Revenue	**104.7**	**118.0**	**12.7%**	**13.3**	**316.2**	**244.6**	**-22.7%**	**(71.6)**

GROSS PROFIT

In the fourth quarter of 2020, gross profit totaled R$58.7 million, compared to R$49.2 million in the same period of 2019. The higher Gross Profit in the fourth quarter of 2020 reflects the Company's strategy to recover profitability and efficiency, and is due to increased sales, increased product price and gross margin, and decreased post-sale cost in view of the outsourcing of network.

The Company's gross margin increased by 2.8p.p., from 46.9% in the fourth quarter of 2019 to 49.8% in the fourth quarter of 2020.

SALES AND ADMINISTRATIVE EXPENSES

The Company's SG&A decreased by 11.9%, or R$4.8 million, from R$40.6 million in the fourth quarter of 2019 to R$35.8 million in the fourth quarter of 2020. This decrease is due to efforts to protect cash and the anticipation of actions to increase efficiency gains mapped in the turnaround plan.

In the fourth quarter of 2020, sales expenses decreased by 17.8%, or R$5.4 million, compared to the same quarter in 2019. This decrease is primarily due to decreased headcount, review of investments made in marketing actions and trade, decreased expenses related to outsourced services and decreased travel.

In the fourth quarter of 2020, general and administrative expenses increased by R$0.6 million, or 5.5%, compared to the same quarter in 2019. Notwithstanding savings obtained with decreased headcount, G&A increased due to increased expenses with third-party services, higher expenses with legal advice regarding the settlement of legal proceedings and expenses with the debt restructuring.

In the quarter, no temporary positive impact on the Company's result occurred due to reduced working hours or termination of employment contracts, as recorded in SG&A in the second and third quarters of 2020. Accordingly, decreased sales and administrative expenses in the fourth quarter shows the positive impact of structural actions implemented during the year to accelerate turnaround and protect the Company's cash.

OTHER OPERATING RESULTS, NET

In the fourth quarter of 2020, other operating results, net totaled an expense of R$6.1 million, compared to an expense of R$ 75.2 million in the same period in the previous year. This variation is primarily due to the non-recurring and non-cash effect regarding the recognition of a provision for impairment losses in the amount of R$71.6 million in 2019. In 4Q20, the main impacts were R$2.6 million regarding the impairment of furniture used in discontinued franchise operations and impacts due to the closing of Technical Assistance branches and provision for contingencies.

EBITDA AND ADJUSTED EBITDA

Ebitda increased by R$10.5 million, or 74.7%, from R$14.1 million in the fourth quarter of 2019 to R$24.7 million in the fourth quarter of 2020. This is due to the gradual sales recovery, combined with the search for higher profitability, through recovery of gross margin and higher efficiency in expenses, due to the anticipation of structural measures mapped in the turnaround plan.

The adjustments made in Adjusted Ebitda in 4Q20 refer to taxes on the provision for obsolete inventory, in the amount of R$0.3 million, non-recurring expense regarding the impairment of furniture used in discontinued franchise operations, in the amount of R$2.6 million, and the impact of present value adjustment on Operational Result, in the amount of R$2.2 million.

R$ Million	4Q19	4Q20	2019	2020
(=) Net income	**(73.6)**	**2.9**	**(122.7)**	**(28.2)**
(+) Depreciation and Amortization	(3.1)	(2.6)	(12.2)	(11.0)
(+/-) Financial result	(0.3)	(6.2)	(5.2)	(24.3)
(+) Current taxes	0.0	(1.9)	0.0	(1.9)
(+/-) Deferred taxes	(6.7)	(6.0)	9.2	7.7
(=) EBITDA (CVM 527/12)	**(63.5)**	**19.5**	**(114.4)**	**1.4**
(+/-) Provision for contingencies[1]	(2.3)	(0.3)	(9.7)	1.6
(+) Other non-cash expenses[2]	(0.2)	0.0	(1.4)	0.0
(+) Other non-recurring expenses	(73.1)	(2.6)	(73.1)	(2.6)
(+) Impact of present value adjustment on operational result[3]	(2.0)	(2.2)	(5.0)	(3.5)
(+) Extraordinary impacts[4]	0.0	0.0	(40.4)	0.0
(=) Adjusted EBITDA	**14.1**	**24.7**	**15.2**	**6.0**

[1] Adjustment of tax on provision for obsolete inventory
[2] Adjustment of the value recorded in the result of the stock option plan with no cash effect
[3] Present value adjustment that results in a decrease in the Company's gross revenue (affecting CVM EBITDA) and an increase in the Company's financial income (not affecting CVM EBITDA), leading to a mismatch in connection with the CVM EBITDA view
[4] Extraordinary impacts such as assignment of credit rights, impairment and inventory provision

NET FINANCIAL RESULT

In the fourth quarter of 2020, net financial result totaled an expense of R$6.2 million, representing a decrease of R$5.8 million, compared to an expense of R$0.3 million in the fourth quarter of 2019. 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 payment of interest on loans and the debt restructuring negotiated in the quarter.

NET INCOME

In the fourth quarter of 2020, the Company's net income totaled R$2.9 million, representing an improvement of R$76.5 million compared to the fourth quarter of 2019. In the fourth quarter of 2019, as a result of the impairment test of the Company's tangible and intangible assets, a provision for impairment was recognized in the amount of R$71.6 million in 2019. Moreover, also in 2019, the Company recorded an extraordinary inventory provision in the amount of R$32.3 million, with a total impact of R$36.7 million due to related taxes. Without these effects, the Company's net income decreased by R$33.0 million compared to 2019, notwithstanding the sequential improvement in result due to the effects of the pandemic.

CASH FLOWS

R$ Million	4Q19	4Q20	2019	2020
Net income before income tax and social contribution	**(67.0)**	**10.7**	**(131.8)**	**(33.9)**
(+/-) Non-cash adjustments	97.3	35.2	145.2	78.1
(+/-) Operational activities	(25.9)	(25.2)	(8.2)	(31.2)
(+/-) Investment activities	(5.3)	2.5	(9.4)	0.4
(+/-) Financial activities	(23.8)	3.8	(11.5)	(2.2)
(=) Increase (decrease) in cash	**(24.7)**	**27.0**	**(15.8)**	**11.1**
(+) Cash and cash equivalents at the beginning of the period	78.8	38.3	69.9	54.1
(=) Cash and cash equivalents at the end of the period	**54.1**	**65.3**	**54.1**	**65.3**

NON-CASH ADJUSTMENTS

In the fourth quarter of 2020, non-cash adjustments totaled R$35.2 million, compared to R$97.3 million in the fourth quarter of 2019. In this line, the most important changes are: R$2.6 million in amortization and depreciation, R$ 20.1 million in the swap of the restructured debt, R$ 3.4 million in interest on loans and R$ 3.0 million in provisions for accounts receivable.

OPERATIONAL ACTIVITIES

In the fourth quarter of 2020, the Company used R$25.2 million in operational activities. In the fourth quarter of 2020, the main changes were: the generation of R$34.9 million in inventories, the use of R$45.3 million in accounts receivable due to sales recovery, and the use of R$8.6 million in suppliers and other accounts payable, as a result of the interruption in the flow of supply as of March 2020.

INVESTMENT ACTIVITIES

In the fourth quarter of 2020, net cash from investment activities totaled R$2.5 million, due to the sale of a portion of vehicles from the sales force, based on a strategy to outsource the fleet.

FINANCIAL ACTIVITIES

Net cash from financial activities totaled R$3.8 million, primarily due to the debt financial restructuring, which raised R$78.3 million, and amortization totaled R$107.7 million (excluding the exchange rate gain from debt swap transactions in non-cash adjustments, in the amount R$20.1 million). Through this negotiation, the Company was able to rollover approximately 85% of its financial debt, which now has an average term of 4.3 years. The second significant impact on financial activities was the decrease in restricted cash of R$35.6 million, due to the replacement of bank guarantees for negotiable instruments, in view of the sales recovery.

CASH RESULT

The activities resulted in a cash increase of R$27.0 million at the end of the fourth quarter of 2020 that, added to the initial amount of R$38.3 million, led to a final cash balance[1] of R$65.3 million at December 31, 2020. At the end of the fourth quarter of 2019, the Company's final cash balance totaled R$54.1 million.

WORKING CAPITAL				
R$ million	4Q19	Days	4Q20	Days
(+) Accounts receivable	154.8	175	133.5	196
(+) Inventories	122.6	219	77.0	210
(-) Accounts payable	83.4	143	14.3	39
(=) Working Capital	**194.0**	**251**	**196.1**	**367**

In the fourth quarter of 2020, the Company's working capital totaled R$196.1 million, accounting for 367 days. In the fourth quarter of 2019, working capital totaled R$194.0 million, representing an increase of R$2.1 million, or 1.1%. It is noteworthy that the method used to calculate days of working capital in the table above considers the sales basis and changes in the last 12 months. This method usually intends to clearly show improvements and deteriorations in the Company's management of working capital. However, in view of a scenario in which sales in the last 12 months show significant volatility as a result of the pandemic (failing to reflect the natural business seasonality) and the need to make decisions to suspend the flow of purchases from suppliers and inventory supply for a long time, these indicators must be carefully assessed, and the understanding of the scenario and the analysis of balances is required, as explained below.

In the fourth quarter of 2020, the Company's balance of Accounts Receivable totaled R$133.5 million, compared to R$154.8 million in the same period in the previous year. This decrease is due to the sales decrease in the last 12 months (particularly in the first and second quarters, which were significantly affected by restrictive measures on the circulation of people). It is noteworthy that the average term of accounts receivable decreased by 15 days in 4Q20.

In the fourth quarter of 2020, inventories totaled R$77.0 million, representing a R$45.6 million decrease compared to the fourth quarter of 2019. Decreased inventory is due to the actions to protect cash during the pandemic in 2020, including restrictions on purchases, as well as to the recovery of revenue at a pace that was above the Company's expectations in the fourth quarter of 2020. The Company recovered its supply flow as of the third quarter of 2020, seeking a gradual recovery and balance of inventory, considering the future sales projection.

In the fourth quarter of 2020, the Company's balance of Accounts Payable totaled R$14.3 million, compared to R$83.4 million in the same period in 2019, due to the freezing of new shipments and purchases as of March 2020. It is noteworthy that, since 2016, a factor that contributed to the extension of suppliers' payment terms was the use of agreements or letters of credit, which represent a payment guarantee to suppliers and allow the extension of payment terms in negotiations with the Company. With the renegotiation of agreements with its main creditors, completed in October 2020, the Company obtained new financings directly with their creditors and settled the outstanding letters of credit. Accordingly, as of October 2020, the Company is no longer impacted by letters of credit in accounts payable. In 4Q19, the outstanding balance of accounts payable guaranteed by letters of credit totaled R$47.9 million.

CASH BALANCE

In the fourth quarter of 2020, Grupo Technos had net debt of R$61.1 million, representing a decrease of R$4.6 million compared to the third quarter of 2020, and an increase of R$20.8 million compared to the fourth quarter of 2019.

The Company decreased its net debt by R$4.1 million compared to the previous quarter, due to the actions to protect cash and decrease cash outflow.

R$ million	4Q19	3Q20	4Q20
Gross debt	(101.3)	(150.8)	(138.2)
(-) Cash[1]	60.9	85.1	76.6
(=) (Debt)/Net Cash	**(40.3)**	**(65.7)**	**(61.6)**

[1] In the calculation of net debt, we considered cash plus restricted cash of R$11.3 million in 4Q20

On October 21, 2020, the Company informed that it completed discussions with its main financial creditors to renegotiate agreements, extending its debt profile until 2025, for an average payment term of 4.3 years. These negotiations were bilaterally conducted between the Company and each of its financial creditors and were completed during September and October.

In the debt rollover process, the Company raised R$0,6 million during the fourth quarter of 2020 to replace the letters of credit and payment of suppliers in order to protect its cash position during the COVID-19 pandemic. These changes impacted the accounts payable and net debt at the end of the fourth quarter of 2020. After the replacement of R$0.6 million in the fourth quarter, there is no other transaction guaranteed by letter of credit in the balance of accounts payable, and 100% of the balances refer to negotiations and terms directly granted by suppliers. For purposes of comparison, in the fourth quarter of 2019, the Company had an outstanding balance of letters of credit of R$47.9 million recorded in accounts payable.

INCOME STATEMENT

R$ thousand

QUARTER

	Consolidated	
	4Q19	4Q20
Net revenue	104,738	117,993
Cost of goods sold	(55,568)	(59,245)
Gross profit	**49,170**	**58,748**
Sales expenses	(28,598)	(21,881)
Provision for impairment of trade receivable	(1,648)	(2,974)
Administrative expenses	(10,363)	(10,937)
Others, net	(75,218)	(6,075)
Operational profit	**(66,657)**	**16,881**
Financial result, net	(322)	(6,156)
Financial income	9,010	1,464
Financial expenses	(9,332)	(7,620)
Income before income tax and social contribution	**(66,979)**	**10,725**
Income tax and social contribution	(6,650)	(7,873)
Deferred	0	(1,893)
Current	(6,650)	(5,980)
Net income	**(73,629)**	**2,852**

ACCUMULATED

	Consolidated	
	2019	2020
Net revenue	316,225	244,607
Cost of goods sold	(206,982)	(132,208)
Gross profit	**109,243**	**112,399**
Sales expenses	(103,839)	(63,578)
Provision for impairment of trade receivable	(3,828)	(14,704)
Administrative expenses	(39,589)	(33,850)
Others, net	(88,632)	(9,883)
Operational profit	**(126,645)**	**(9,616)**
Financial result, net	(5,183)	(24,308)
Financial income	40,336	54,628
Financial expenses	(45,519)	(78,936)
Income before income tax and social contribution	**(131,828)**	**(33,924)**
Income tax and social contribution	9,174	5,761
Deferred	9,174	(1,893)
Current	0	7,654
Net income	**(122,654)**	**(28,163)**

R$ thousand

	Consolidated	
	December 31, 2019	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	54,109	65,258
Restricted cash	6,828	11,313
Marketable securities	2,519	0
Accounts receivable	154,790	133,452
Inventories	122,615	76,979
Income tax and social contribution recoverable	5,834	10,880
Recoverable taxes	32,415	32,723
Derivative financial instruments	0	407
Other assets	11,863	11,473
Assets held for sale	1,767	3,380
	392,740	**345,865**
Non-current assets		
Related deposits	0	0
Derivative financial instruments	4,264	3,728
Advances to suppliers	4,250	3,500
Recoverable taxes	37,344	23,997
Judicial deposits	5,520	2,781
Other assets	540	0
	51,918	**34,006**
Investments		
Intangible	192,441	190,815
Property and equipment	38,992	28,129
	231,433	**218,944**
Total assets	**676,091**	**598,815**

	Consolidated	
	December 31, 2019	December 31, 2020
Liabilities		
Current liabilities		
Borrowings	35,555	4,468
Accounts payable	83,388	14,286
Income tax and social contributions payable	3,582	4,761
Deferred income tax and social contributions	923	1,450
Amount payable for the acquisition of non-controlling interest	1,103	1,103
Salaries and social charges payable	6,496	4,459
Dividends payable	1,375	1,371
Derivative financial instruments	911	0
Lease payment	3,390	2,186
Other payables	5,022	10,741
Provision for success fees	2,043	2,027
Payables - assignment of credit right	19,275	19,830
	163,063	**66,682**
Non-current liabilities		
Borrowings	66,397	133,732
Income tax and social contributions payable (Note 14)	1,852	1,696
Deferred income tax and social contributions	23,213	15,559
Provision for contingencies	54,638	53,938
Amount payable for the acquisition of equity interest	292	0
Derivative financial instruments	4,656	4,230
Payables - assignment of credit right	7,113	0
Lease payment	3,753	2,050
Other payables	1,151	0
Provision for success fees	5,478	4,633
	168,543	**215,838**
Total liabilities	**331,606**	**282,520**
Equity		
Capital stock	130,583	130,583
Treasury shares	(11,208)	(11,208)
Share issuance expenses	(10,870)	(10,870)
Capital reserves	204,432	204,432
Profit reserves	42,450	14,287
Carrying value adjustment	(14,107)	(14,134)
Additional proposed dividend	3,205	3,205
Loss in the period	0	0
Total equity	**344,485**	**316,295**
Total liabilities and equity	**676,091**	**598,815**

R$ thousand	QUARTER	
	Consolidated	
	4Q19	4Q20
Income before income tax and social contribution	**(66,979)**	**10,724**
Adjustments for items that do not affect cash flow		
Amortization and depreciation	3,135	2,632
Allowance for recoverable value of inventory	0	0
Allowance for recoverable value of accounts receivable	21,113	2,974
Write-off of accounts receivable for foreclosure of guarantees without generation of cash	(64)	1,524
Adjustment to market value in noncurrent assets available for sale	0	1,420
Allowance for contingencies (reversal)	797	400
Results from disposal of permanent assets	12	(454)
Impairment of permanent assets	(2)	2,638
Provision for impairment of goodwill	71,618	0
Interest on loans	(3,778)	3,376
Other interest expenses and foreign exchange variation	3,279	372
Derivative financial instruments	298	20,112
Stock option premium	200	0
Others	652	226
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	(44,448)	(45,311)
Decrease (increase) in inventories	20,773	34,890
Decrease (increase) in tax recoverable	6,275	1,925
Decrease (increase) in other assets	9,820	1,053
Increase (decrease) in suppliers and accounts payable	(14,688)	(8,566)
Increase (decrease) in salaries and social charges payable	(2,381)	(3,466)
Increase (decrease) in taxes, rates and social contributions payable	(56)	1,737
Interest paid	3,024	5,769
Income tax and social contribution paid	(4,220)	(12,898)
Others	0	(853)
Net cash (applied in) generated by operational activities	**4,380**	**20,713**
Cash flow from investment activities		
Redemption of escrow accounts	29	105
Acquisition of equity interest	(13)	(13)
Restricted cash	(2,818)	0
Purchases of fixed assets	(1,075)	(154)
Amount received from the sale of fixed assets	20	2,755
Purchases of intangible assets	(1,462)	(184)
Net cash (applied in) generated by investment activities	**(5,319)**	**2,509**
Cash flow from financial activities		
Deposits as collaterals – restricted cash	0	35,558
Borrowings	0	78,313
Payment of borrowings	(22,908)	(107,818)

Lease contracted	0	0
Lease paid	(891)	(2,298)
Dividends paid to non-controlling shareholders	(1)	(4)
Net cash applied in financial activities	**(23,800)**	**3,751**
Increase (decrease) in cash and cash equivalents	(24,739)	26,973
Cash and cash equivalents at beginning of period	78,848	38,285
Cash and cash equivalents at end of period	**54,109**	**65,258**

CASH FLOWS

R$ thousand	ACCUMULATED	Consolidated	
		2019	2020
Income before income tax and social contribution		**(131,828)**	**(33,924)**
Adjustments for items that do not affect cash flow			
Amortization and depreciation		12,254	11,087
Allowance for recoverable value of inventory		32,779	5,106
Allowance for recoverable value of accounts receivable		3,828	14,704
Write-off of accounts receivable for foreclosure of guarantees without generation of cash		(1,500)	0
Adjustment to market value in noncurrent assets available for sale		0	1,420
Allowance for contingencies (reversal)		14,245	(700)
Results from disposal of permanent assets		34	953
Impairment of permanent assets		(7)	2,634
Provision for impairment of goodwill		71,618	0
Interest on loans		5,956	6,889
Other interest expenses and foreign exchange variation		4,390	34,600
Derivative financial instruments		0	1,449
Stock option premium		1,426	0
Others		225	(38)
Changes in assets and liabilities			
Decrease (increase) in accounts receivable		1,561	3,601
Decrease (increase) in inventories		(40,289)	40,530
Decrease (increase) in tax recoverable		5,522	3,606
Decrease (increase) in other assets		10,731	3,390
Increase (decrease) in suppliers and accounts payable		21,894	(71,953)
Increase (decrease) in salaries and social charges payable		(460)	(2,037)
Increase (decrease) in taxes, rates and social contributions payable		(2,945)	4,897
Interest paid		0	0
Income tax and social contribution paid		(4,220)	(12,898)
Others		0	(853)
Net cash (applied in) generated by operational activities		**5,214**	**12,952**
Cash flow from investment activities			
Redemption of escrow accounts		20,577	642

Acquisition of equity interest	(22,529)	(538)
Restricted cash	1,014	0
Purchases of fixed assets	(4,279)	(1,440)
Amount received from the sale of fixed assets	1,056	3,379
Purchases of intangible assets	(5,263)	(1,665)
Net cash (applied in) generated by investment activities	**(9,424)**	**378**
Cash flow from financial activities		
Deposits as collaterals – restricted cash	0	(4,212)
Borrowings	50,261	209,594
Payment of borrowings	(57,998)	(202,333)
Lease contracted	0	0
Lease paid	(3,804)	(5,226)
Dividends paid to non-controlling shareholders	(1)	(4)
Net cash applied in financial activities	**(11,542)**	**(2,181)**
Increase (decrease) in cash and cash equivalents	(15,752)	11,149
Cash and cash equivalents at beginning of period	69,861	54,109
Cash and cash equivalents at end of period	**54,109**	**65,258**