

# Cia.Hering

 Hering   D Z A R M

## 2Q19 Earnings Results

### Conference Call

August 2nd, 2019 – 11:00 am (BrT) / 10:00 am (NY)

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Conference audio will be broadcast on the internet,  
with the slide show available at: [ciahering.com.br/ir](http://ciahering.com.br/ir)

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# 2Q19 RESULTS

- Financial Performance
- Outlook
- Q&A

## DISCLAIMER

This presentation contains forward-looking statements regarding the prospects of the business, estimates for operating and financial results, and those regarding Cia. Hering's growth prospects. These are merely projections and, as such, are based exclusively on the expectations of Cia. Hering management concerning the future of the business and its continued access to capital to fund the Company's business Plan. Such forward-looking statements depend, substantially, on changes in market conditions, government regulations, competitive pressures, the performance of the Brazilian economy and the industry, among other factors and risks disclosed in Cia. Hering's filed disclosure documents and are, therefore, subject to change without prior notice.

# FINANCIAL PERFORMANCE

## GROSS REVENUES BREAKDOWN PER CHANNEL

R\$ MILLION

	2Q19	2Q18	Var.
<b>Cia.Hering</b>	<b>422.2</b>	<b>420.4</b>	<b>0.4%</b>
Multibrand	186.5	186.1	0.2%
Franchise	129.3	131.4	-1.6%
Owned Store	80.2	75.7	5.8%
Webstore	15.1	11.0	36.6%
Other <sup>1</sup>	1.5	1.7	-12.4%
Foreign Market	9.7	14.5	-33.0%

## GROSS REVENUES BREAKDOWN BY BRAND

R\$ MILLION

	2Q19	2Q18	Var.
<b>Cia.Hering</b>	<b>422.2</b>	<b>420.4</b>	<b>0.4%</b>
 Hering	312.0	297.7	4.8%
 Hering Kids	53.4	54.0	-1.1%
 D Z A R M	21.3	26.0	-18.3%
D Z A R M	19.7	19.8	-0.8%
Other <sup>1</sup>	6.1	8.3	-26.2%
Foreign Market	9.7	14.5	-33.0%

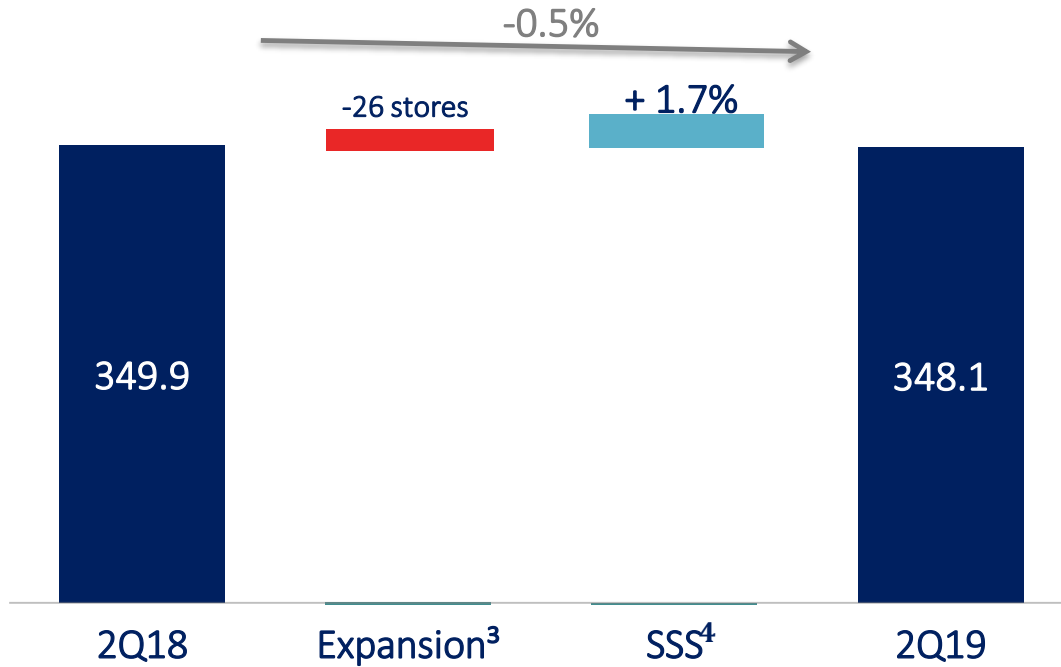
The Company's gross revenue totaled R\$ 422.2 million in 2Q19, 0.4% higher than the previous year, with a franchise channel decline offset by own stores and webstore positive performance.

<sup>1</sup> Considers the sale of second line items and leftovers.

# HERING NETWORK<sup>1</sup>

## GROSS SALES

SELL-OUT<sup>2</sup>, R\$ MILLION



Total sales in the Hering network (sell-out) **decreased by 0.5%** compared to 2Q18, influenced by the sales area reduction (-5.9%), explained by the closing of 26 stores in the last 12 months. It is worth mentioning that revenues per m<sup>2</sup> increased 5.5%. The stores operated by the Company stands out, with an expansion of 3.2%, despite the sales area reduction, influenced by the closure of 7 stores in the last 12 months.

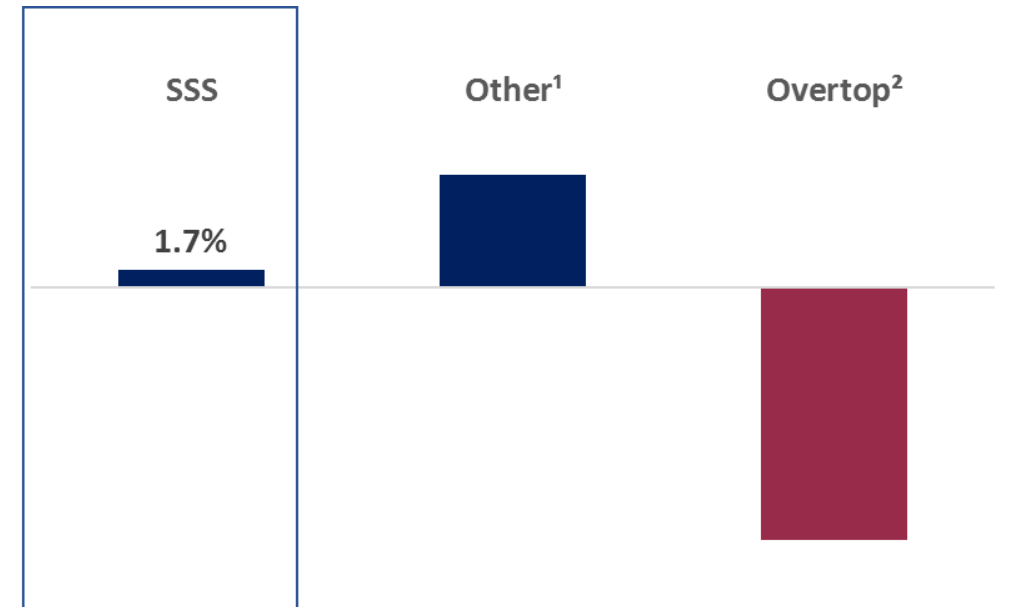
<sup>1</sup> Given the consolidation of Hering and Hering Kids brands, which from 2Q19 started to be managed within the same business unit, the data were unified.

<sup>2</sup> The values refer to the revenue of the stores for the final customer (sell-out concept). Does not consider outlet and webstore.

<sup>3</sup> Movement of the stores (own and franchises) in the last 12 months.

<sup>4</sup> Considers sales via webstore.

## SAME STORE SALES – 2Q19



High temperatures impacted sell-out sales in cold regions, which account for about 80% of sales. This decrease is explained by the lower overtops sales, despite the SSS growth in other categories at the same levels observed in the previous quarter.

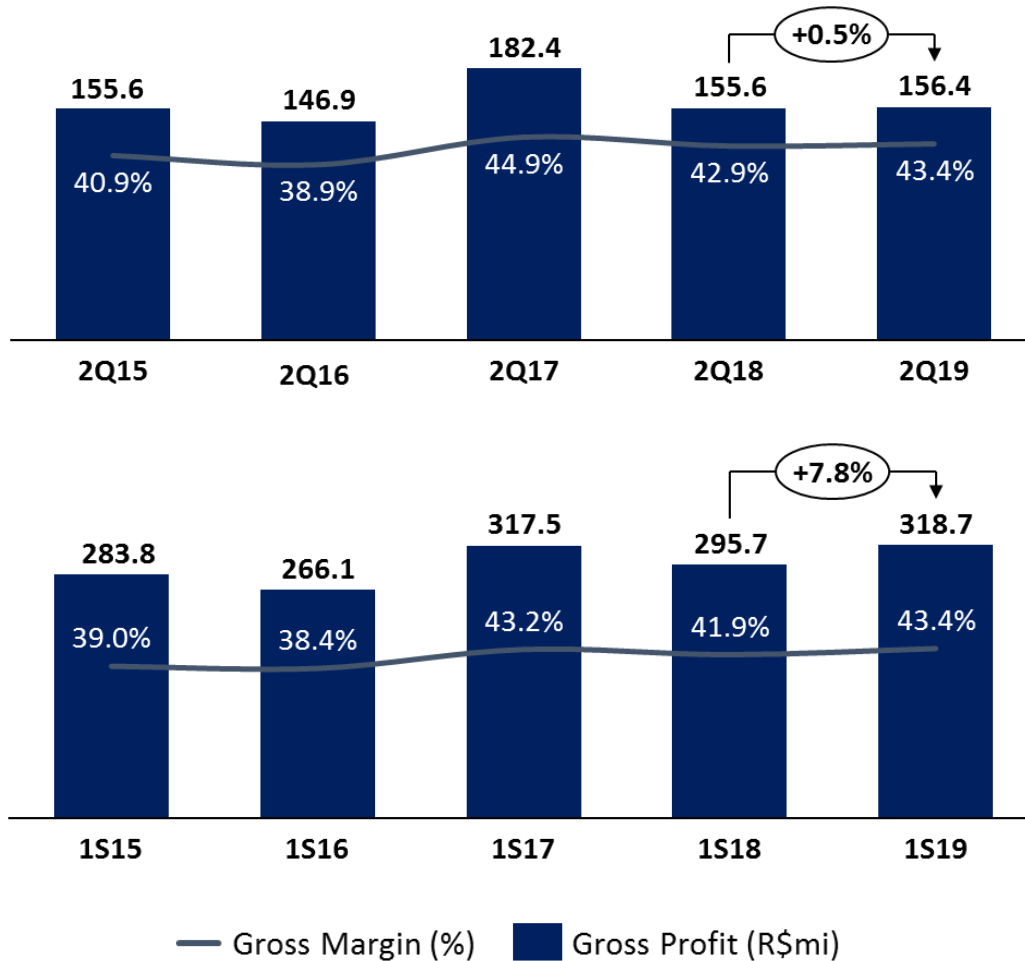
<sup>1</sup> Other: pants, t-shirts and accessories.

<sup>2</sup> Overtop: category composed by of knitting, coats and jackets.

# FINANCIAL PERFORMANCE

## GROSS PROFIT AND GROSS MARGIN

R\$ MILLION



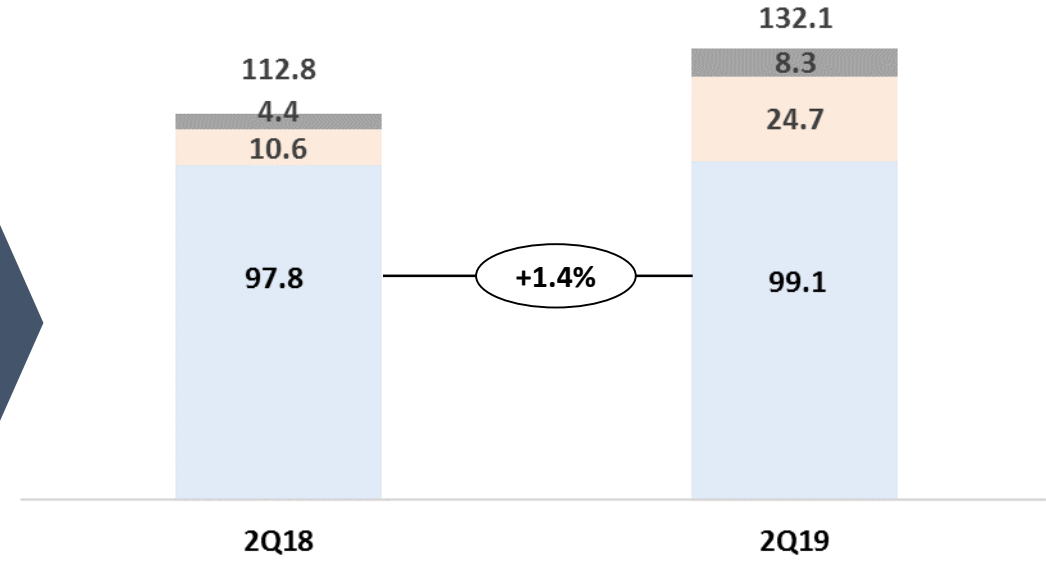
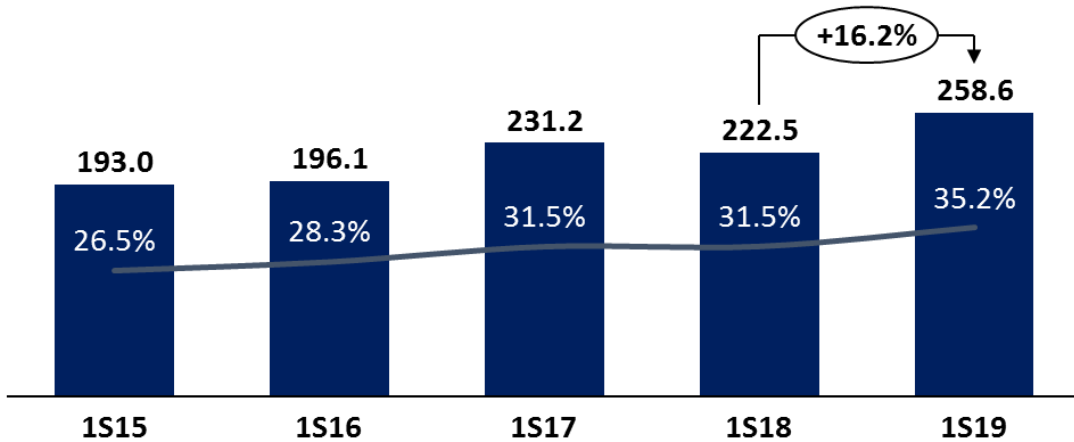
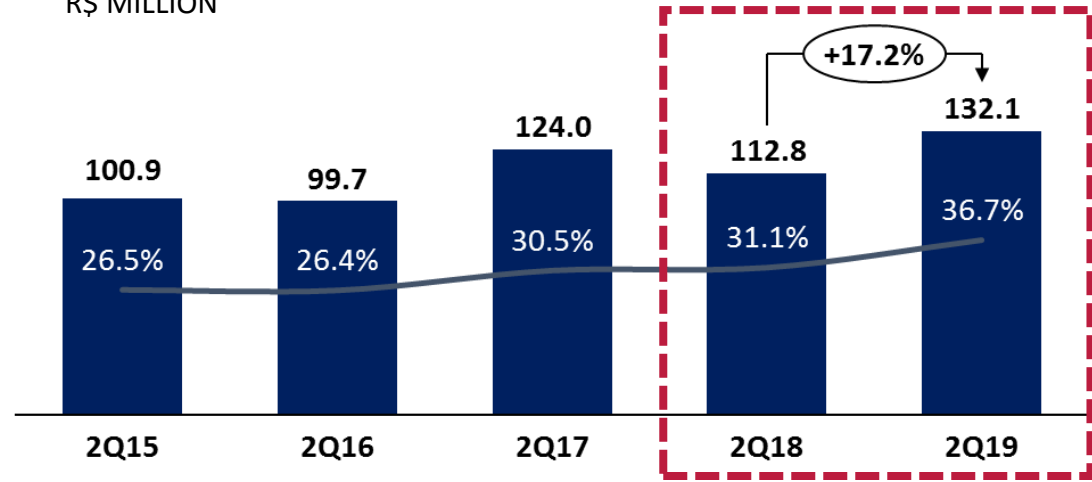
The Company's gross profit reached R\$ 156.4 million in 2Q19, a 0.5% increase compared to 2Q18, explained by lower sales volume, especially in the franchise and multibrand channels, as previously mentioned.

Year-to-date gross profit totaled R\$ 318.7 million, 7.8% higher over the same period last year.

# FINANCIAL PERFORMANCE

## OPERATIONG EXPENSES

R\$ MILLION



Marketing Severance Other Operational Expenses

In 2Q19, operating expenses reached R\$ 132.1 million, impacted by:

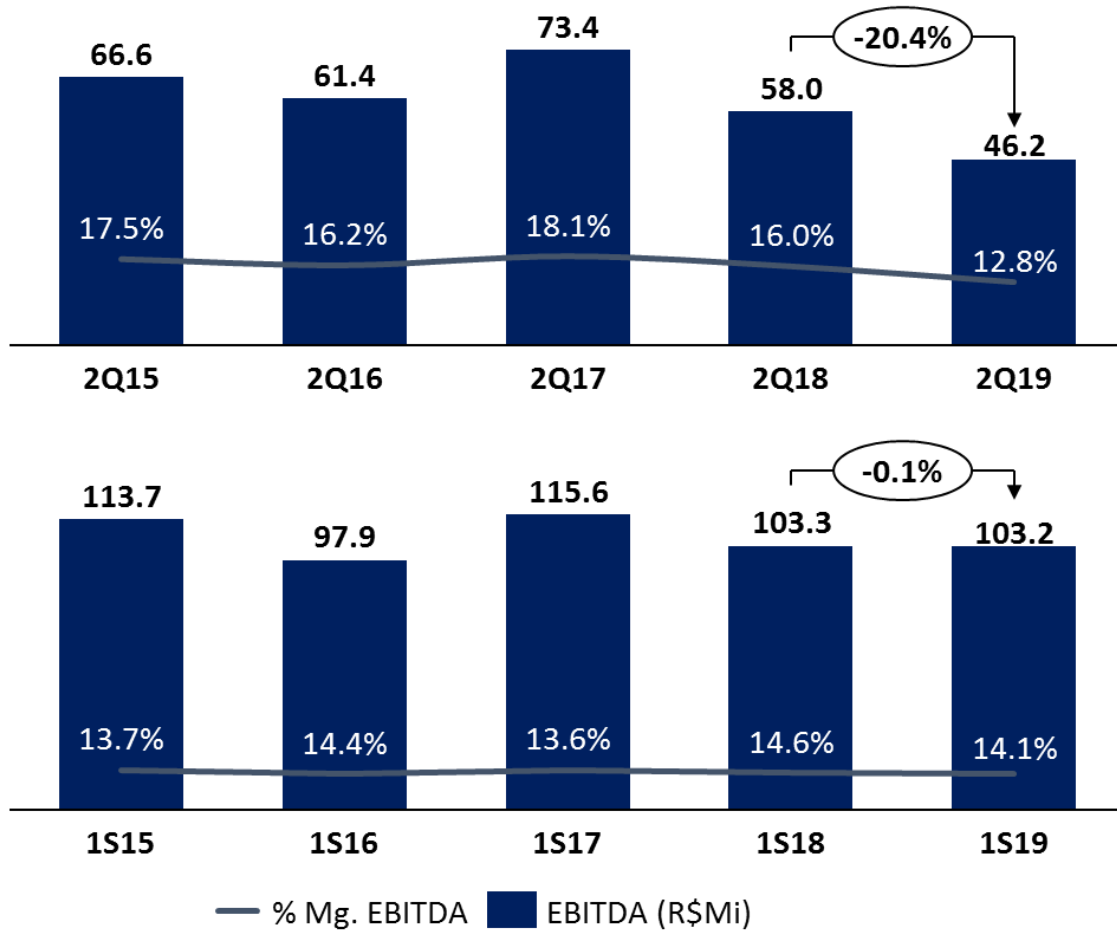
- (i) R\$ 14.1 million growth (+134% vs. 2Q18) in marketing investments totaling R\$ 24.7 million, focused on brands' strengthening;
- (ii) A R\$ 3.9 million increase (+88% vs 2Q18) related to labor severance, totaling R\$ 8.3 million, from the organizational restructuring and the closure of the Encano unit in Santa Catarina state.

Excluding the effects of marketing and labor severance, expenses grew 1.4%.

# FINANCIAL PERFORMANCE

## EBITDA AND EBITDA MARGIN

R\$ MILLION



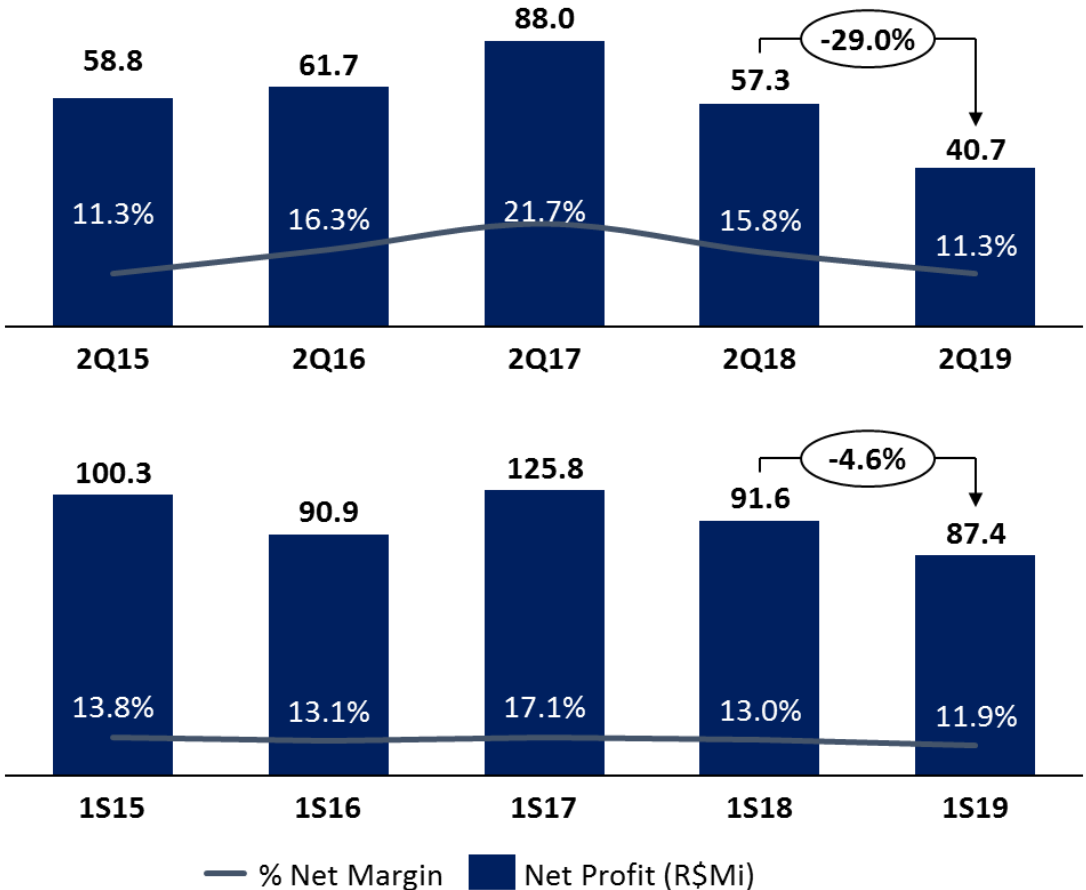
EBITDA reached R\$ 46.2 million, a 20.4% fall in 2Q19, while the EBITDA margin reached 12.8%, a 320 bp decrease, mainly due to an increase in the operating expenses. Excluding the impact of IFRS16, EBITDA would total R\$ 39.1 million, a 32.6% decrease, reaching 10.9% in EBITDA margin with a 510 bp decline.

Year-to-date EBITDA totaled R\$ 103.2 million, a decrease of 0.1% from the same period last year.

# FINANCIAL PERFORMANCE

## NET INCOME AND NET MARGIN

R\$ MILLION



Net income for the quarter totaled R\$ 40.7 million, a decrease of 29.0% when compared to 2Q18, as a result of operating income decline.

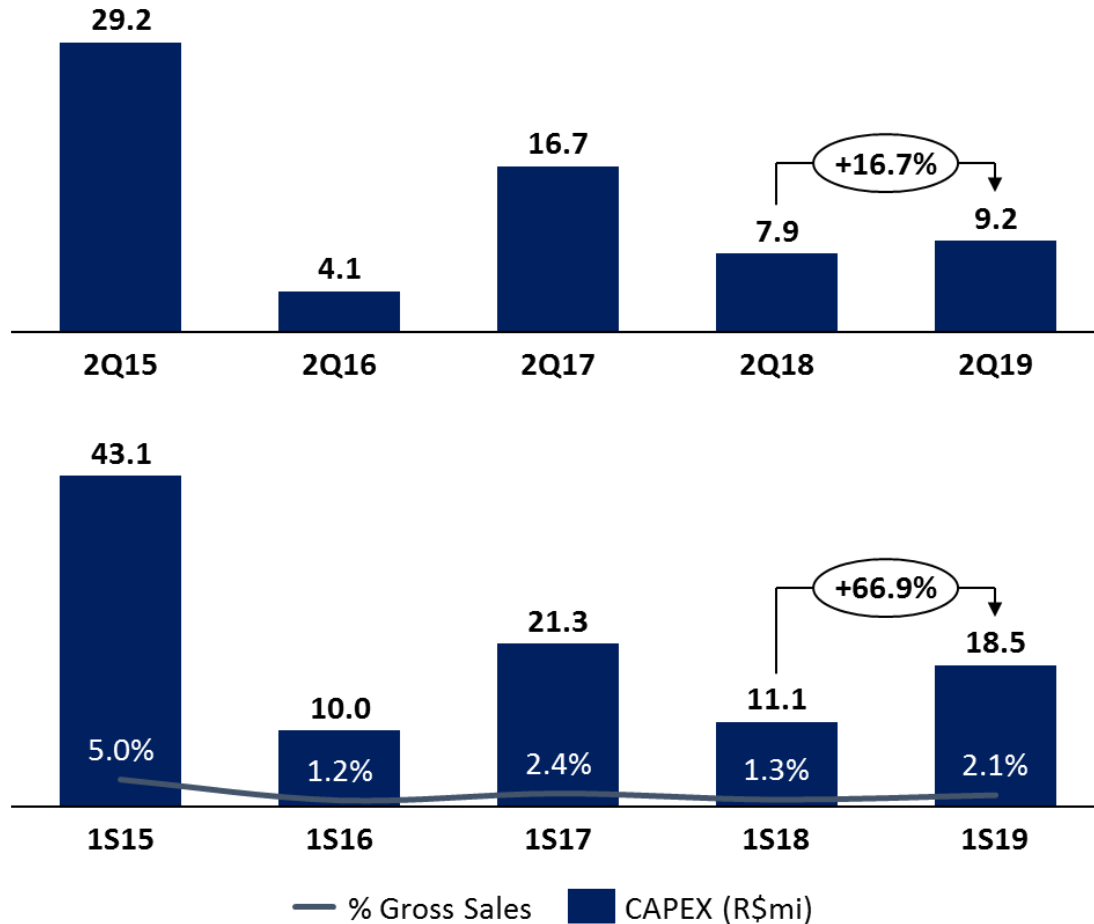
Year-to-date net income totaled R\$ 87.4 million, a decrease of 4.6% over the same period last year.



# FINANCIAL PERFORMANCE

## CAPEX

R\$ MILLION



We continue to invest in different fronts and initiatives that support the company's new growth cycle. Investments in the quarter totaled **R\$ 9.2 million** and were mainly allocated to:

- (i) developments in the B2B sales portal and other IT systems;
- (ii) developments in the industrial plants and automation of logistics processes and;
- (iii) new points acquisition and expansion of store remodeling.

# FINANCIAL PERFORMANCE

## CASH FLOWS

R\$ MILLION

Cash Flow - Consolidated (R\$ thousand)	2Q19	2Q18	VAR. 2Q19   2Q18	1S19	1S18	VAR. 1S19   1S18
<b>EBITDA</b>	<b>46,153</b>	<b>58,013</b>	<b>(11,860)</b>	<b>103,187</b>	<b>103,812</b>	<b>(625)</b>
No cash items	6,087	4,114	1,973	13,056	7,336	5,720
Lease Effect	(7,025)	-	(7,025)	(13,885)	-	(13,885)
AVP (Adjustment to Present Value) - Clients and Suppliers	3,505	6,874	(3,369)	8,521	13,200	(4,679)
Current Income tax and Social Contribution	-	(255)	255	228	186	42
<b>Working Capital Capex</b>	<b>(20,163)</b>	<b>7,030</b>	<b>(27,193)</b>	<b>(1,242)</b>	<b>47,614</b>	<b>(48,856)</b>
Accounts receivable from clients	(2,588)	(2,311)	(277)	39,709	55,208	(15,499)
Inventories	(29,901)	12,453	(42,354)	(68,243)	(5,415)	(62,828)
Accounts payable to suppliers	14,044	19,320	(5,276)	36,362	41,774	(5,412)
Taxes payable	2,696	(4,872)	7,568	(8,265)	(15,025)	6,760
Franchisee Financing - Refurbishment plan	622	477	145	(42)	3,400	(3,442)
Others	(5,036)	(18,037)	13,001	(763)	(32,328)	31,565
<b>CapEx</b>	<b>(9,215)</b>	<b>(7,896)</b>	<b>(1,319)</b>	<b>(18,489)</b>	<b>(11,079)</b>	<b>(7,410)</b>
<b>Free Cash Flow</b>	<b>19,342</b>	<b>67,880</b>	<b>(48,538)</b>	<b>91,376</b>	<b>160,569</b>	<b>(69,193)</b>

In 2Q19, Cia. Hering generated R\$ 19.3 million in free cash, R\$ 48.5 million lower than in 2Q18, as a result of greater investment in working capital, notably in inventories of finished products. The cash conversion cycle reduced in 10 days explained by actions to lengthen the deadlines with suppliers.

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# OUTLOOK

- Despite the downward in economic activity coupled with a consumer confidence decline in this quarter, we remain optimistic about 2019;
- Focus on sustainable sales recovery, executing our strategic priorities, balancing operation and maintaining network health;
- Conviction to increase the desire to consume our brands through increased marketing investments, product development and focus on customer relationship;
- Pursue productivity gains by optimizing our manufacturing plants and strengthening the distribution network;
- Consistent sales growth resumption, along with gross margin maintenance, working capital optimization and high operating leverage are important drivers for improving the Company's results and generating shareholder value.

# Cia.Hering

## INVESTOR RELATIONS

Fabio Hering – CEO

Rafael Bossolani – CFO and DRI

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