



GRUPOTECHNOS



Dumont

FOSSIL

A|X  
ARMANI EXCHANGE

DKNY

MICHAEL KORS



TORY BURCH  
SWISS MADE

TOUCH+

Condor

EURO

EMPORIO ARMANI

DIESEL

MARC JACOBS

mormaii

SKAGEN  
DENMARK

1) Summary

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# Leadership, Cash Generation and Growth Potential

## ✓ Leadership in Brazil

- Leader in Brazil with estimated 36% market share
- Best and most recognized watch brands focused on A, B and C classes
- 2018 sales of approximately 2,4 million watches

## ✓ Significant competitive advantages

- Top brands and outstanding distribution network
- Direct and long term relationship with retailers and suppliers
- Well-oiled internal product design capabilities
- Efficient and flexible manufacturing and supply chain structure
- Strong, stable and invested management team

## ✓ Industry leading margins and cash generation

- Strong cash flow generation
- Healthy margins despite macro challenges
- Asset light business model

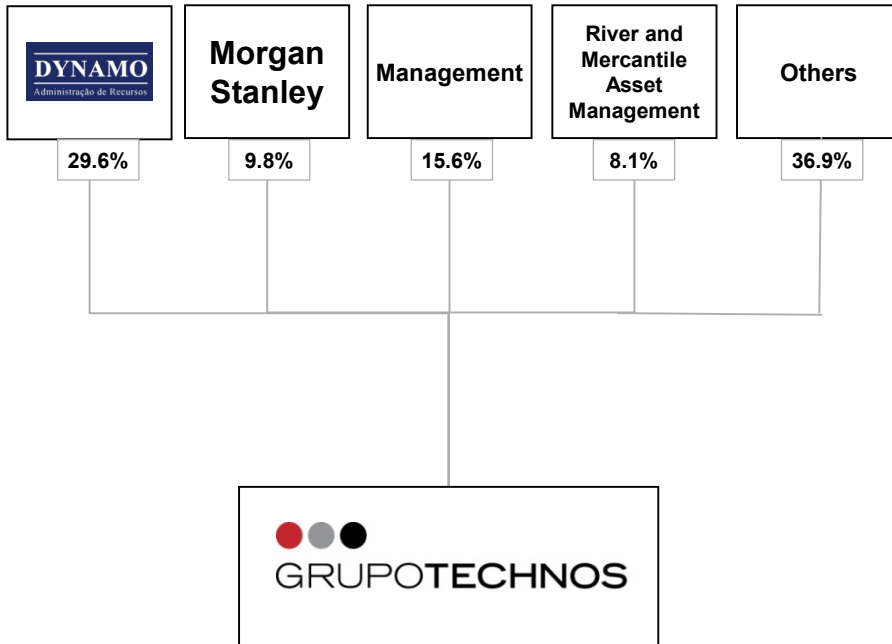
## ✓ Significant growth potential

- Smartwatch leadership in Brazilian market
- Growth in direct retailing, online and offline



# Corporate Structure and Executive Board

## Key Shareholders



## Management Team

### Joaquim Ribeiro

- Chief Executive Officer
- BA Economics
- Harvard University
- Previous experience: Shoptime, Time Warner

### Miguel Cafruni

- Chief Financial Officer
- Accounting
- FAPA University
- Previous experience: Morganite do Brasil, Hanna Cafruni and Touch

### Érica Pagano

- Chief Marketing Officer
- Pharmacy and Biochemistry degrees from USP
- Post Graduation in Marketing at ESPM and in Business at FGV
- Previous experience: L'Oréal. Natura. Boticário e Avon

### Maurício Loureiro

- Chief Operations Officer
- Co-founder of Manaus Plant
- President of the Industry Association of Amazonas
- Board Member of FUCAPI
- Board Member of UNINORTE/LAUREATE

### Fábio Marcelo

- Chief Comercial Officer
- Social Communication degrees at PUC - RS
- MBA Business Management - FGV
- Previous experience: Mormaii and Rip Curl

### Daniela Pires

- Chief Supply Chain Officer
- BA Economics
- UFRJ University
- Previous experience: B2W and IPEA - Institute for Applied Economic Research

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# Why Do People Buy Watches?

## Global consumption drivers



**Status symbol**



**Fashion accessory**



**Technological equipment**



**Purchase drivers changed from functional commodity to aspirational consumption, regardless of price, geography or brand**

## Global growth trends



**Emergence of smartwatches as a key product category**



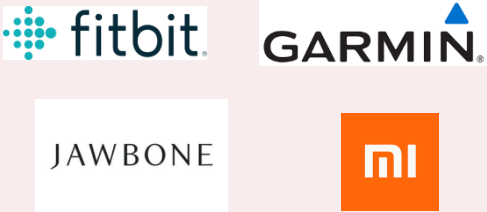


**Strong segmentation between global luxury companies and regional affordable watch players**



**Expansion in direct retail distribution, online and offline**

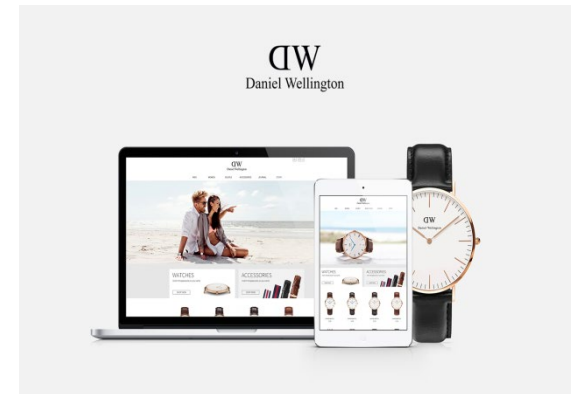
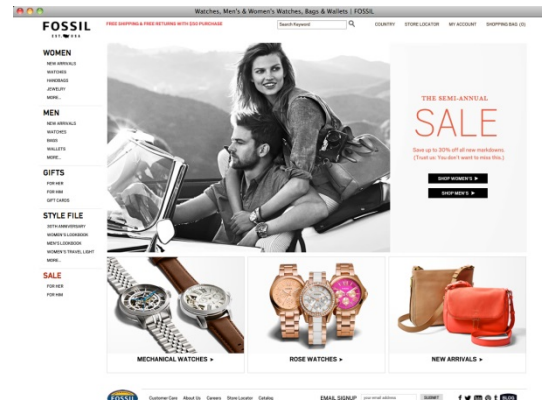
# New Product Trends: Smartwatches

- Smartwatch sales grew significantly in the last two years in Brazil, with 64 thousands of units sold in 2017 and 130 thousands in 2018.
- Smartwatch sales expected to grow at, approximately, 109% until 2020
- Our smartwatches released reached the Top 20 best-selling in 4Q18, and Top 5 within the price rang of R\$700-1399.
- There are three main brand players in the smartwatch segment: Fitness, High Tech and Watch Brands.

Fitness Brands	High Tech Brands	Watch Brands
<ul style="list-style-type: none"> <li>• Fitness monitoring devices with a strong focus on health</li> <li>• Fitness bands and full health monitors</li> <li>• Lower price, higher volumes</li> <li>• Price range: \$99 - \$299</li> </ul>	<ul style="list-style-type: none"> <li>• Full connectivity devices including third party apps</li> <li>• Full digital devices</li> <li>• Higher price, lower volumes</li> <li>• Price range: \$269 - \$1,249</li> </ul>	<ul style="list-style-type: none"> <li>• Incorporation of smart features in product lineup of existing brands</li> <li>• Hybrid and full digital devices</li> <li>• Mid price, emerging category</li> <li>• Price range: \$179 - \$399</li> </ul>
		

# New Distribution Trends: Direct Retailing

- In the last ten years, a typical watch wholesale model of distribution has given place to increased investments in direct retailing, both in luxury and affordable brand categories.
- As an example, both Swatch Group and Fossil invested heavily on the build out of hundreds of branded stores mostly in shopping malls in order to sell directly to consumers and to improve retail experience.
- More recently, online distribution has grown in importance both as a direct sales channel and a brand building platform, especially for brands targeting millennials with strong digital habits.
- Many new watch and accessory brands now focus on a digital-first strategy in order to launch products, communicate campaigns, and sell directly to consumers.

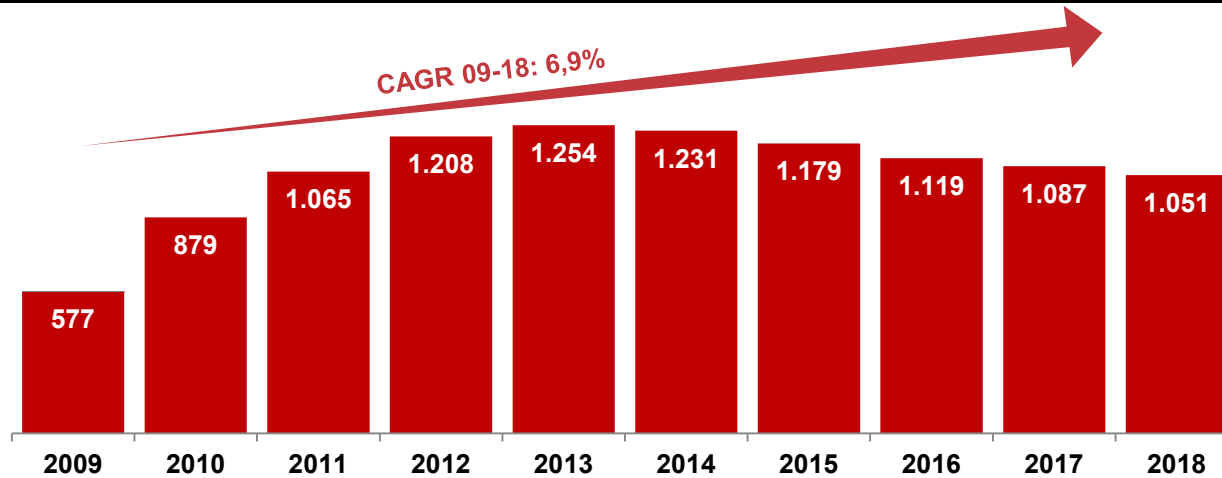








# Competitive Landscape In The Brazilian Market

Total watches sale in Brazil – Wholesale (R\$ million)

■ Local Producers



Competitor	Key brands	Ownership structure	2018 Estimated Average price	2018 Market share
 GRUPOTECHNOS	Technos, Mormaii, Mariner, Euro, Skagen, Timex, Allora, Touch, Dumont, Condor, Fossil, Armani, Diesel, DKNY, Michael Kors, Adidas, Marc Jacobs, Tory Burch	Professionally owned and operated	R\$ 152	36%
	Magnum, Champion, Cosmos, Bulova, Yankee Street, Sector, Just Cavalli, Philip Stein, Roberto Cavalli, Techno Marine, Hang Loose, Ana Hickman	Family owned and operated	R\$ 96	64%
	Seculus, Mondaine, Guess, Puma, Speedo, Nautica, D&G, Breil, Moschino, Calvin Klein, GC, Hugo Boss*, Tommy Hilfiger*, Lacoste*, Chilli Beans *	Family owned and operated	R\$ 112	
	Orient, X-Games, Lince, Storm, ODM	Family owned and operated	R\$ 126	

Source: SUFRAMA, Aliceweb, Technos

# Macroeconomic Conditions in Brazil

- The decline of the Brazilian watch sector in the last three years has been driven by the longest and most severe economic recession cycle in the history of the country.
- Brazil showed a long cycle of macroeconomic growth and stability until the end of 2013, when a new cycle of macroeconomic recession and instability started.
- Brazil's economic crisis has been accompanied by significant political instability related to anti-corruption measures, including a presidential impeachment.

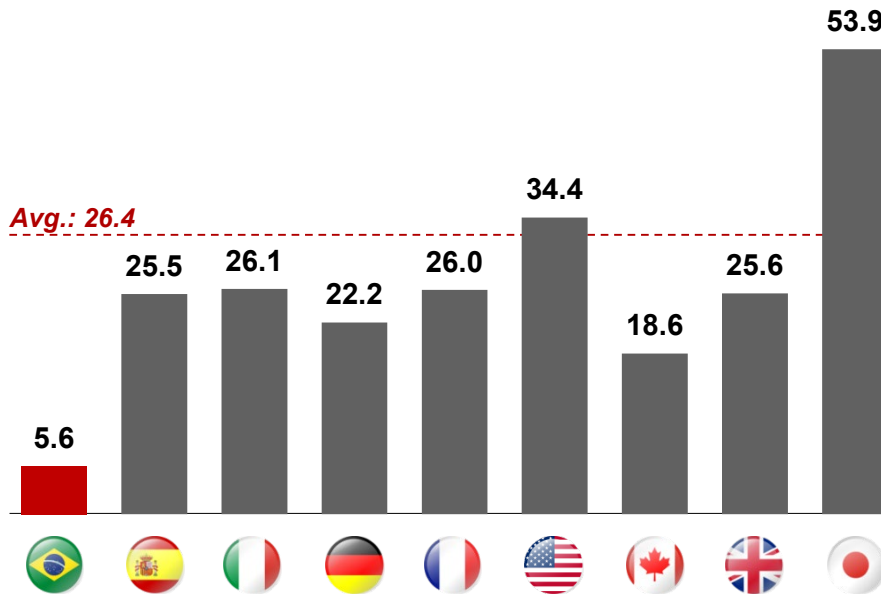
	Growth and Stability				Recession and Instability				
	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>GDP Growth</b>	7.5%	4.0%	1.9%	3.0%	0.5%	-3.8%	-3.5%	1.0%	1.1%
<b>Consumption</b>	6.2%	4.8%	3.5%	3.5%	2.3%	-3.9%	-4.1%	1.0%	1.2%
<b>Unemployment</b>	7.9%	6.7%	7.4%	7.1%	6.8%	8.5%	11.4%	12.0%	12.3%
<b>Inflation</b>	5.9%	6.5%	5.8%	5.9%	6.4%	10.7%	6.6%	3.0%	3.9%
<b>Exchange Rate (R\$/USD)</b>	\$1.76	\$1.67	\$1.95	\$2.16	\$2.35	\$3.33	\$3.49	\$3.19	\$3.65
<b>Interest Rate</b>	9.82%	11.67%	8.53%	8.19%	10.89%	13.63%	14.10%	9.84%	6.59%

# Watch Market Growth Opportunity

- Challenging macroeconomic conditions aside, Brazil’s watch market has significant opportunities to grow.
- Watch consumption per capita in Brazil is still well below developed markets.
- Also, market is still overwhelmingly composed of mass market watches, but should grow most in the middle-priced aspirational segment where Technos is best positioned.
- According to a research performed by Scoop &Co., watches are highly present in people’s lives. 85% of people use watches, and the most of them use daily.

## Worldwide annual watch consumption

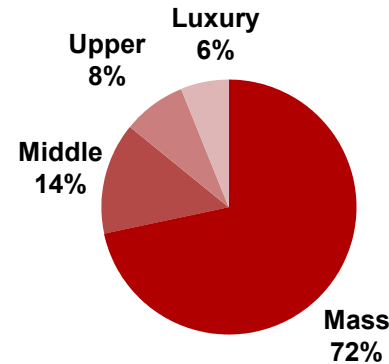
(US\$ spent/person)



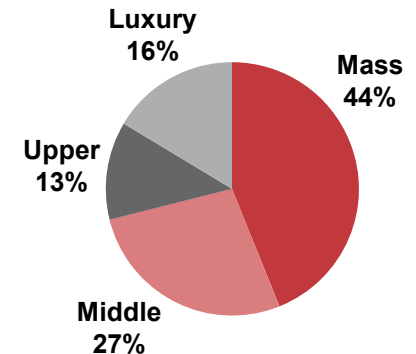
Source: Euromonitor International, 2015

## Watch market breakdown by price point

### Latin America



### Worldwide



Retails price:

**Mass:** < US\$ 50

**Middle** > US\$ 50 e < US\$ 299

**Upper:** > US\$ 300 e < US\$ 999

**Luxury:** > US\$ 1,000





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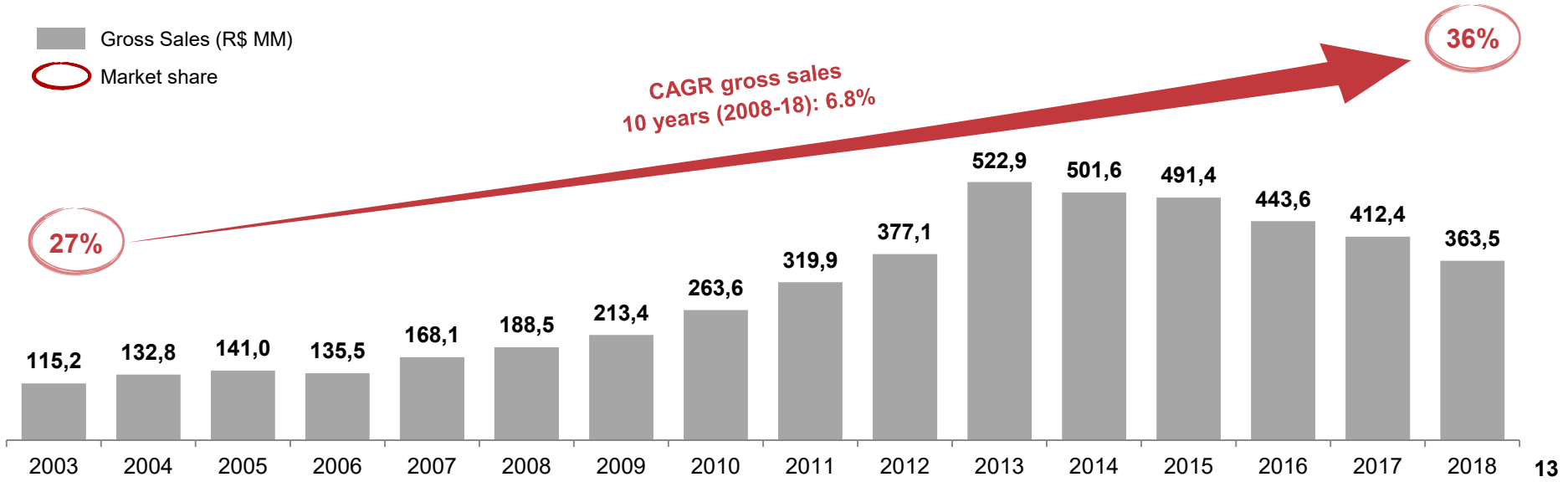
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# Company History

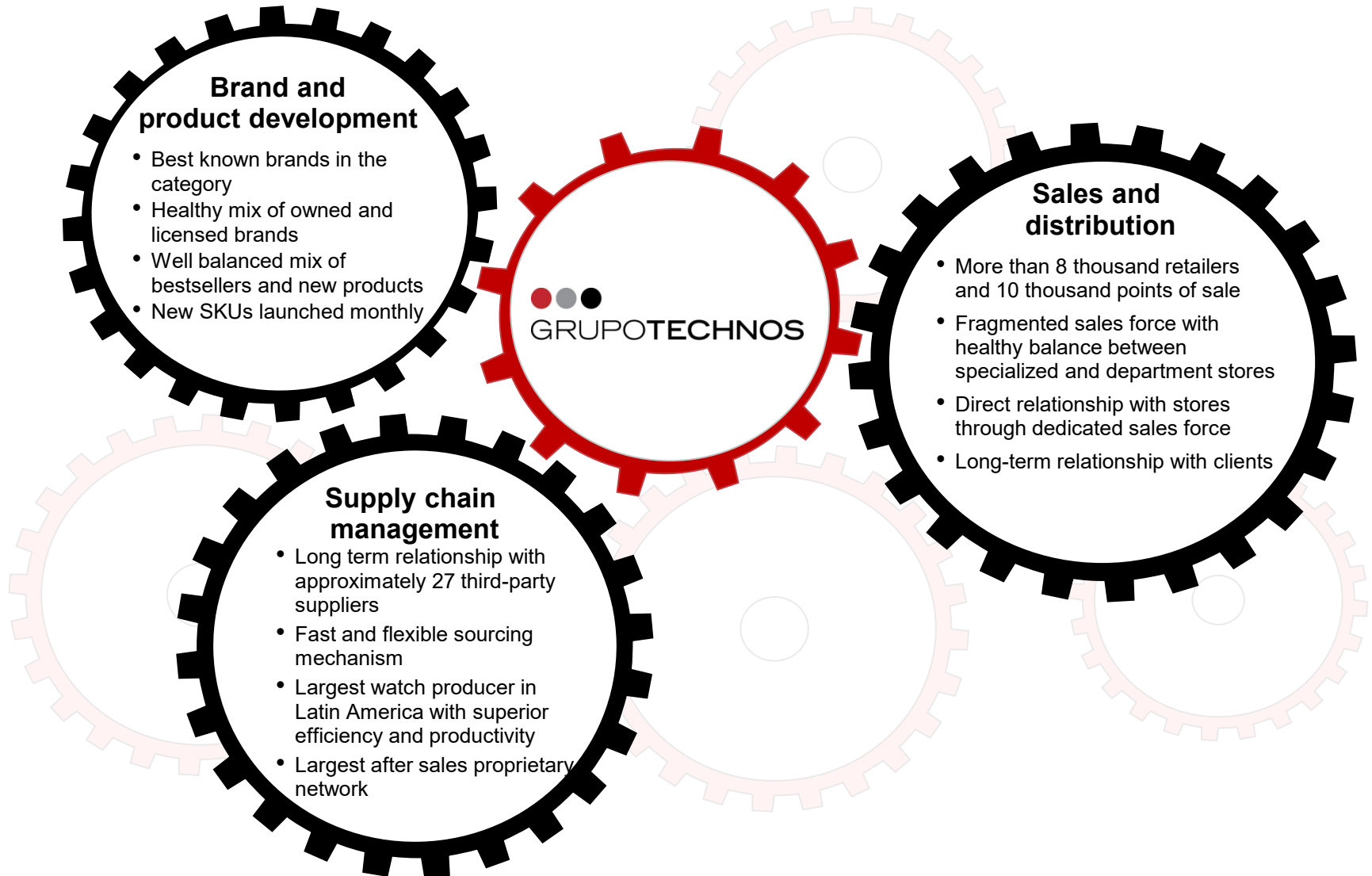
<p><b>1900:</b> Technos brand founded in Switzerland by the Gunzinger family</p> 	<p><b>1980s:</b> Technos launches Mariner Technos establishes its plant in Manaus</p> 	<p><b>2002:</b> Technos licenses both Mormaii and Seiko</p> 	<p><b>2009:</b> Euro added to the portfolio. <b>2010:</b> Mariner relaunched Opening office in China</p> 	<p><b>2013:</b> Grupo Dumont Saab acquisition</p> 	<p><b>2017:</b> Launch of the first full display smartwatch</p> 
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<p><b>1956:</b> Importadora Centauro founded in Brazil as exclusive Technos distributor</p>	<p><b>1990s:</b> Company buys Technos brand rights</p>	<p><b>2008:</b> Technos acquired by investment group (DLJ + Dynamo + Management)</p>	<p><b>2011:</b> Technos' IPO</p> 	<p><b>2012:</b> Launching of Allora, licensing of Timex and acquisition of Touch</p> 	<p><b>2015:</b> Launch of first generation of smartwatches</p>
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# Operational Business Model



# Brands Portfolio

	CLÁSSICO	MODA	ESPORTE
HIGH	SKAGEN EMPORIO ARMANI	DIESEL MARC JACOBS MICHAEL KORS DKNY A   X ARMANI EXCHANGE TORY BURCH kate spade NEW YORK FOSSIL	
MID	TECHNOS	-EURC-	
LOW	Dumont	Condor TOUCH	mormaii

# Distribution Network

## Top distribution network

- ✓ Direct relationship with more than 8 thousand active retailers representing more than 10 thousand points of sale
- ✓ Diversified and well balanced distribution network with no client representing more than 5.0% of sales
- ✓ Vast majority of sales done through specialty store, a highly fragmented channel
- ✓ Long-term relationships with clients

### Specialized stores

59.8%

- Includes mainly watch stores, eyewear stores and jewelry stores
- Highly fragmented with few regional players
- Long term relationships

### Department stores

27.6%

- Includes department stores, online retailers and others
- More concentrated in lower priced items
- Emphasis on department stores with a fashion component

### Direct Customer

12.5%

- 14 Outlets
- 5 online stores
- 68 exclusive points of sale, with Touch representing 49 and Euro 19
- Roll out started in September 2010



# Supply Chain

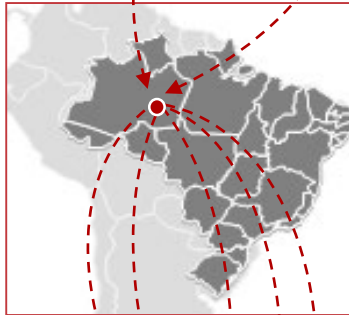
## 1 Suppliers in China and Japan

- Supply chain of approximately 27 partners
- Long term direct relationships, often exceeding 20 years, without distributors or middle men
- Key advantage is flexibility and agility to bring new products to market



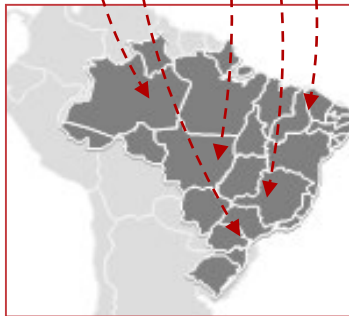
## 2 Assembly Line in Manaus

- Largest watch assembling plant in Latin America, capacity over 5MM units
- Located in Zona Franca de Manaus (State of Amazonas)



## 3 Nationwide after sales

- 11 proprietary offices in Brazil's largest cities
- Considerable improvement in productivity
- Over 20.0% of all repairs are done on the spot



### Innovation (2017x2018)

Implantation of the Lean manufacturing model in 2017, with significant improvement in the aesthetic and functional quality of the products. Modifications made to the production site by referring to more robust productivity and lower manufacturing cost.

### Quality of care (2017x2018)

We restructured our assistance in 2017, transferring the Operations Center in the interior of São Paulo to the Metropolitan region, getting closer to our clients and focusing on improving the operation.

# Strong Growth Opportunities



Core Business



Growth and development of existing brands, products and channels



New channel development



Development of direct retail channel including online, franchising and outlet stores



New products



Development or acquisition of new products leveraging existing brands (Sunglasses, jewelry and smartwatches)

# Core Business: Smartwatches

- Grupo Technos is the pioneer in Brazil in terms of the launch of smartwatches and fitness bands.
- Promising initial sales results indicating strong consumer demand for the connected watch category.
- Company benefits both from the sales of proprietary brands and from new product pipeline of licensed brands from the Fossil portfolio, including Fossil, Diesel and Michael Kors.
- Significant growth opportunity to explore new product innovation, leveraging our leading distribution network and manufacturing capabilities.



# New Channel Development: Direct Retailing

## 1 Outlets

- Fourteen multibrand outlets with a pipeline of additional stores to be opened in 2018
- Direct sales channel for low turnover products. Important role in terms of the company's inventory management strategy.



## 2 E-Commerce

- Five direct-to-consumer ecommerce websites managed by internal team with logistics operated by specialized outsourced service providers.
- Sales and branding channel generating incremental revenues and direct relationship with customers. Direct access to product portfolio and communication campaigns of watch brands.



## 3 Franchises

- 68 exclusive franchised stores: 49 Touch and 19 Euro points of sale.
- Single branded kiosks with multiproduct portfolio: watches, sunglasses, and fashion jewelry
- National footprint with strong growth prospects



# New Products: Eyewear and Jewelry

- Expansion opportunities in adjacent fashion accessory segments
- Leverage brand portfolio, management expertise and existing infrastructure
- Large markets to tap: initial focus on eyewear and fashion jewelry

## Supply chain

- Supply chain in China, expertise in importing products, quality control systems
- Possibility to use Manaus infrastructure and tax benefits

## Distribution

- 70% of our retailers sell either jewelry, sunglasses or both
- Upsell opportunity in terms of existing national sales distribution

## Brands

- Portfolio of brands could be used for other products
- Promising initial experience with sunglasses (Touch/Euro) and fashion jewelry (Euro)



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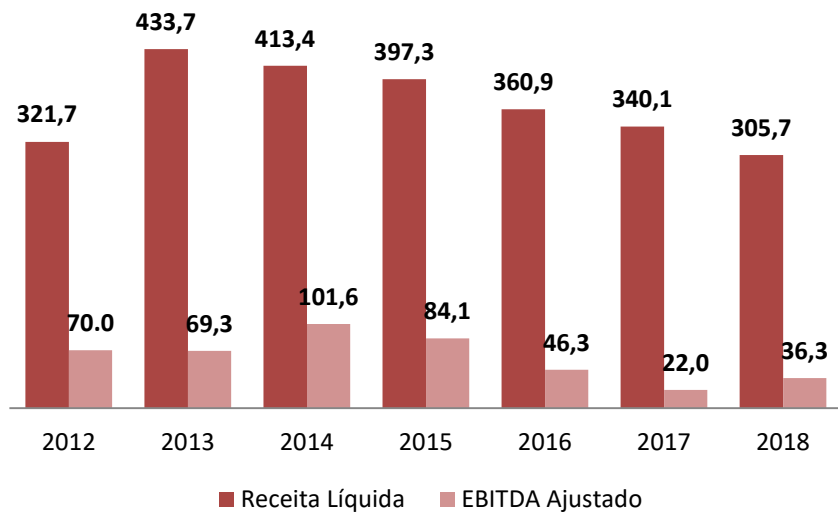
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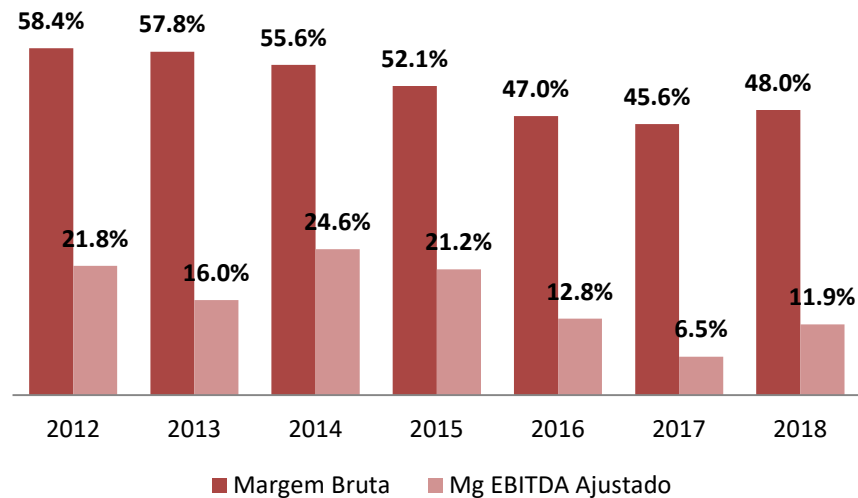
# Operational Results

- Recent decline in revenues and profits mainly driven by economic recession
- Healthy cash generation and margins despite macroeconomic scenario

## Results Evolution (R\$ MM)



## Margin Evolution (%)



# Working Capital

- We have gradually reduced our working capital since 2013
- Our net revenue decreased from 90.8% in 2015 to 71.9% in 2018
- Accounts payable increased due to our continuously work with postponement of term with suppliers
- In inventories we reduced our coverage from 14 months to 7 months from 2013 to 2018
- We advance less in the accounts receivable in relation to terms of sales and delinquency due the economic fragility

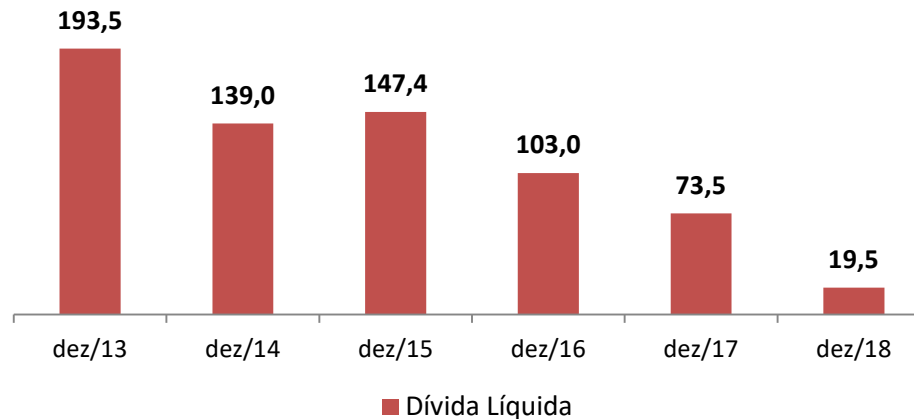
R\$ MM	2013	2014	2015	2016	2017	2018
(+) Contas a receber	232,0	230,0	227,0	219,6	191,6	160,2
(+) Estoques	162,8	133,6	152,7	125,9	105,6	115,1
(-) Contas a Pagar	13,9	17,6	19,0	32,5	35,0	55,4
<b>(=) Capital de Giro</b>	<b>380,9</b>	<b>346,0</b>	<b>360,7</b>	<b>313,0</b>	<b>262,2</b>	<b>219,8</b>
<b>% Receita Líquida</b>	<b>87,8%</b>	<b>83,7%</b>	<b>90,8%</b>	<b>86,7%</b>	<b>77,1%</b>	<b>71,9%</b>



# Evolutin of Net Debt

- In March / 13 we acquired a debt of R \$ 200M in the purchase of the former Dumont Group
- Since then we have consistently reduced our exposure
- In 2015 we made the decision to pay our investors extraordinary dividends of more than R\$ 20M, being the only year we had no net debt reduction
- From 2013 to 2018 we reduced our debt by 90%, or R \$ 174.0M, even with the recessionary movement of the economy

## Dívida Líquida (R\$M)



# Tax Incentives at the Manaus Free-Trade Zone

- The Manaus Free-Trade Zone (MFTZ) is an economic development model implemented by the Brazilian government to create an economic centre in the Western Amazon
- In terms of price, it is extremely beneficial to develop activities in the MFTZ compared to purchasing fully-assembled products
  - Federal incentives provided for in the Brazilian Constitution and approved and in effect until 2073
  - State benefits have also been approved to be in effect until 2073
- Locally assembled products may be sold to final customers at more competitive prices

Tax Benefits		
Federal	Import Tax ( <i>Imposto de Importação</i> ) (II)	88% reduction
	Tax on Manufactured Products ( <i>Imposto sobre Produtos Industrializados</i> ) (IPI)	Exempt
	Corporate Income Tax ( <i>Imposto de Renda PJ</i> ) (IRPJ)	75% reduction
	PIS/COFINS	Exempt
State	ICMS	Tax credit on ICMS paid

Local Assembly		
Purchase price :		100.0
(+) Freight and insurance :	5.00%	5.0
(+) II	2.40%	2.5
(+) IPI	0.00%	0.0
(+) Federal taxes (PIS+COFINS)	0.00%	0.0
(+) ICMS	11.27%	11.8
(+) Customs and legal expenses	7.00%	7.0
(=) Cost at destination:		126.3
(+) Assembly cost :		8.0
(=) Total Cost		134.3
(x) Wholesaler mark-up		2.3x
(=) Wholesale price to retailers		309.0
(x) Retailer mark-up		2.0x
<b>(=) Retail price</b>		<b>618.0</b>

Import of a Fully-assembled Product		
Purchase price:		100.0
(+) Freight and insurance :	5.00%	5.0
(+) II	20.00%	21.0
(+) IPI	20.00%	25.2
(+) PIS+COFINS	9.25%	12.9
(+) ICMS	17.00%	31.0
(+) Customs and legal expenses	3.00%	3.0
(=) Cost at destination :		198.1
(+) Assembly cost :		0.0
(=) Total Cost		198.1
(x) Wholesaler mark-up		2.3x
(=) Wholesale price to retailers		455.5
(x) Retailer mark-up		2.0x
<b>(=) Retail price</b>		<b>911.1</b>

Difference of +47%

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