GRUPOTECHNOS

2Q20 RESULTS

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GRUPO TECHNOS ANNOUNCES 2Q20 RESULTS

Rio de Janeiro, August 31, 2020 – Grupo Technos (B3: TECN3) announces its 2Q20 results. The following financial and operational information is presented on a consolidated basis, in compliance with current legislation, unless otherwise indicated.

DATE

08/31/2020

CLOSING PRICE

R$1.12/share

MARKET CAP

R$87,9 million

CONFERENCE CALL

09/01/2020 10:00 a.m. Brasília

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2Q20 HIGHLIGHTS

- Net revenue decreased by 76.4% in 2Q20, due to the impact of COVID-19;
- Average price increased by 18.1% and sales volume decreased by 79.1%;
- SG&A decreased by 43.8%, or R$16.4 million, due to actions to protect cash;
- Negative Adjusted EBITDA of R$16.5 million in 2Q20;
- Net debt of R$61.6 million in 2Q20.

R$ million	2Q19	2Q20	%	2019	2020	%
Gross revenue	90.3	22.0	-75.7%	166.1	73.0	-56.1%
Net revenue	75.5	17.8	-76.4%	138.5	59.7	-56.9%
Gross profit	1.3	3.7	184.2%	27.7	20.9	-24.8%
Gross margin	*1.7%*	*20.6%*	*18.9p.p.*	*20.0%*	*34.9%*	*14.9p.p.*
SG&A	-37.4	-21.0	-43.8%	-70.9	-52.8	-25.6%
Net income	-36.5	-17.3	-52.7%	-46.5	-34.7	-25.3%
Net margin	*-48.4%*	*-96.8%*	*-48.5p.p.*	*-33.5%*	*-58.1%*	*-24.5p.p.*
Adjusted EBITDA	2.0	-16.5	-927.4%	-0.1	-28.7	28,274.6%
Adjusted EBITDA margin	*2.6%*	*-92.4%*	*-95.0p.p.*	*-0.1%*	*-48.0%*	*-47.9p.p.*
Number of watches (000s)	622	130	-79.1%	1,151	476	-58.6%
Average price (R$/product)	143	168	18.1%	141	150	6.4%

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 second quarter of 2020, Management's commentary discusses again two important subjects of the Company's interest––2Q20 Highlights and Remarks on the impacts of COVID-19 and measures taken by the Company:

1. 2Q20 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 2020, the evolution of the "COVID-19" pandemic in Brazil 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 in the second quarter of 2020, the Company implemented a number of actions to protect its cash and decrease expenses that impacted the financial performance in the period.

In the second quarter of 2020, Gross Revenue decreased by 75,7%, compared to the second quarter of 2019, including material decreases in all channels and brands, except the Company's own e-commerce. In the wholesale channel, after a strong sales decline of 91% in April, the Company presented material sequential improvements in May and June, with 74% and 47% decreases, respectively, compared to the second quarter of 2019. The investment in the Company's own e-commerce borne good fruits, with sequential improvements in the period, resulting in a two-digit growth in the second quarter of 2020 compared to last year.

In the second quarter of 2020, Gross Profit totaled R$3.7 million, compared to R$1.3 million in the same period of 2019, amounts that are quite different from historical amounts. Gross Profit and Gross Margin in both periods were significantly affected by extraordinary items, including the cost of factory idleness due to the stoppage during the pandemic in 2020 and the extraordinary provision for inventory in the amount of R$32.3 million in 2019. Excluding these effects in both periods, gross margin decreased by 1.3p.p., from 44.5% in the second quarter of 2019 to 43.2% in the second quarter of 2020. This variation is due to the positive effect of an improvement of 1.5p.p. in the margin of products sold, as a result of the increased share held by the Company's own e-commerce, selective price increases and a better management of promotional channels; and the negative effect of sales deficit in the period and the resulting lower dilution of costs that do not vary directly based on sales in the period, such as technical assistance.

General and administrative expenses decreased by 43.8% in the second quarter of 2020 compared to the second quarter of 2019. On one hand, expected credit losses increased, due to the increased risk on the portfolio of receivables in view of the current macroeconomic scenario. On the other hand, in the second quarter of 2020, the Company implemented a number of actions to protect its cash, which contributed to decrease the expenses mentioned above. In addition to the postponement of cash outflows, the Company accelerated its structural turnaround plan through a drastic reduction in personnel costs, non-key expenses and outsourcing of non-core services, such as technical assistance.

Due to the significant decrease in Gross Revenue, adjusted EBITDA totaled a negative amount of R$16.5 million, compared to R$2.0 million in the second quarter of 2019 without the effects of inventory provision. This impact is primarily due to the sales deficit in the second quarter of 2020, partially offset by savings in sales, general and administrative expenses.

In the second quarter of 2020, working capital totaled R$168.5 million, representing a decrease of R$18.8 million compared to the second quarter of 2019. This is due to the combination of increased inventories and decreased accounts receivable, both of which were affected by a material decrease in sales in the second quarter of 2020; decreased accounts payable as a result of the cancellation of new purchases of inventory; and payment of suppliers through letters of credit.

In the second quarter of 2020, net debt totaled R$61.6 million, very close to net debt reported in the second quarter of 2020, comprising R$68.1 million in cash and R$129.8 million in gross debt. The company increased its gross debt by R $ 14.6 million compared to the previous quarter due to new raisings for the payment of suppliers with letters of credit, net debt remained virtually in line with that of the first quarter of 2020, also due to the actions the Company adopted to protect its cash and decrease outflows.

Although the second quarter of 2020 was materially and negatively affected by the pandemic, the Company witnessed sequential improvements in sales in the period that continued to occur in the beginning of the third quarter of 2020. This sales resumption, together with the actions to protect cash and accelerate the Company's turnaround, indicates a potential improvement in the Company's results already in the second quarter of 2020, assuming the continuous recovery of the economic activity in Brazil.

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 second quarter and a portion of the third quarter 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, 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.

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, albeit in a different pace in each state, is another factor that has positively contributed to 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$5.0 million in the second quarter of 2020.

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 distance wholesales to customers that remained in activity during the pandemic
- fostering of the 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 accounts for a small portion of the Company's sales, but progressively improved since the beginning of the pandemic;
- drastic reduction by approximately 40% in fixed and temporary headcount as of April 2020. Reduction in working hours by 50% for leadership positions and suspension of employment contracts for operational staff;
- 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, adjusting the supply chain to the new scenario, as the current inventory coverage is sufficient to cover almost all re-estimated sales for the year;
- adjustment of the manufacturing plan, considering the temporary closing of the factory as of March 2020 and the current balance of inventory of raw materials and finished products;
- 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;
- 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;
- measures to strengthen and readjust the Company's liquidity structure and indebtedness profile. These measures include the renegotiation of overdue agreements and agreements that are not yet due with financial creditors and suppliers in general, seeking to adjust the Company's indebtedness profile to the short-, medium- and long-term prospects of its activities, protecting its financial and operational capabilities; and
- implementation of an online training program, with 7,096 hours of training in the first semester of 2020, compared to 3,236 hours in the first semester of 2019, representing a 119% increase.

Although some of the actions mentioned above have a predominantly temporal effect, most implemented actions will have a material positive impact on the financial and economic performance of the Company in the long term. Especially, the implementation of structural reductions in its cost base during the period of the pandemic may accelerate the turnaround of the Company and its expected results.

However, it is noteworthy that the Company continues to study additional measures that may be implemented in the next months, as the scenario associated with the COVID-19 outbreak and its impacts on the Company's activities become clearer.

GROSS REVENUE

Gross revenue reached R$22.0 million in the second quarter of 2020, representing a decrease of 75.7% compared to the second quarter of 2019, primarily due to the negative impact of the COVID-19 pandemic and the social isolation measures, restrictions on the opening of stores and limitation on commercial visits as of March 2020.

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

R$ million	2Q19	2Q20	Var %	Var R$	2019	2020	Var %	Var R$
Product Sales	88.6	21.8	-75.4%	-66.8	162.7	71.7	-56.0%	-91.1
Technical Assistance	1.7	0.1	-92.8%	-1.6	3.4	1.3	-60.9%	-2.1
Gross Revenue	90.3	22.0	-75.7%	-68.4	166.1	73.0	-56.1%	-93.1

PRODUCT SALES

Overview

Gross revenue from product sales decreased from R$88.6 million in the second quarter of 2019 to R$21.8 million in the second quarter of 2020, representing a 75.4% decrease. In the second quarter of 2020, the number of watches sold totaled 130 thousand watches, representing a 79.1% decrease compared to the second quarter of 2019. This decrease is primarily due to the impact of COVID-19.

It is noteworthy that, notwithstanding the decrease in sales, the average price reached R$168 in the second quarter of 2020, representing an 18.1% increase, even though launchings accounted for a smaller share of sales. This increase in the average price reflects the Company's strategy to seek greater profitability through selective price increases, a decreased share held by promotional sales channels and a better mix per sales channel.

R$ million	2Q19	2Q20	Var %	Var R$	2019	2020	Var %	Var R$

Classic	43.3	12.6	-70.8%	-30.7	79.0	38.2	-51.6%	-40.8
Sport	8.8	1.6	-82.2%	-7.2	17.4	7.9	-54.8%	-9.5
Fashion	36.5	7.6	-79.1%	-28.9	66.3	25.6	-61.4%	-40.7
Total	88.6	21.8	-75.4%	-66.8	162.7	71.7	-56.0%	-91.1

GROSS REVENUE

Analysis per Distribution Channel

R$ million	2Q19	2Q20	Var %	Var R$	2019	2020	Var %	Var R$
Specialized Stores	64.1	14.5	-77.4%	-49.7	116.6	48.4	-58.4%	-68.1
Department Stores and Others	24.5	7.4	-69.9%	-17.1	46.1	23.2	-49.7%	-22.9
Total	88.6	21.8	-75.4%	-66.8	162.7	71.7	-56.0%	-91.1

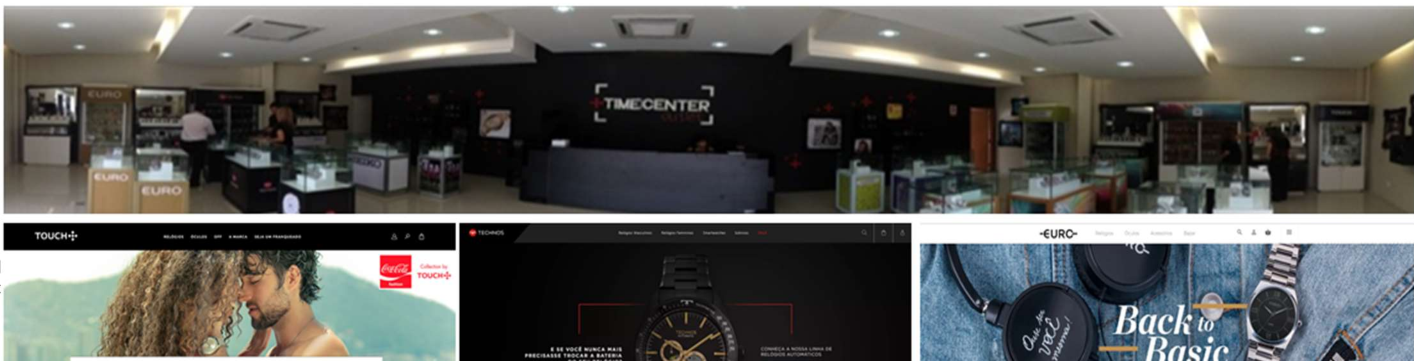
The analysis of sales of watches per distribution channel shows a 77.4% decrease comparared to the previous year in specialized stores and a 69.9% decrease in department stores and others, which also includes online sales customers.

RETAIL AND FRANCHISES

In retail, the Company runs its own operations through websites and outlets. The company operates in e-commerce with four e-commerce websites, three of which are dedicated to the brands Technos, Fossil and Euro, 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 13 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 the Touch and Euro brands. At the end of June 2020, we had 42 exclusive points of sale, with Touch representing 29 and Euro 13.



NET REVENUE

In the second quarter of 2020, net revenue totaled R$17.8 million, representing a 76.4% decrease compared to the same period in the previous year. In the wholesale channel, after a strong 91% decline in sales in April, the Company had material sequential improvements in May and June, with 74% and 47% decreases, respectively, compared to the same period in 2019.

Present value adjustment on gross revenue totaled R$0.2 million in the second quarter of 2020, representing an 89.2% decrease. 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. The factors that affect present value adjustment are the average sales term and the interest rate of the period.

R$ million	2Q19	2Q20	Var %	Var R$	2019	2020	Var %	Var R$
Gross Revenue	90.3	22.0	-75.7%	(68.4)	166.1	73.0	-56.1%	(93.1)
Present Value Adjustment on Sales	(1.9)	(0.2)	-89.2%	1.7	(3.5)	(1.0)	-71.0%	2.5
Sales Taxes	(13.2)	(4.0)	-70.0%	9.2	(24.6)	(12.4)	-49.6%	12.2
Present Value Adjustment on Taxes	0.3	0.0	-86.8%	(0.2)	0.5	0.2	-66.7%	(0.3)
Net Revenue	75.5	17.8	-76.4%	(57.7)	138.5	59.7	-56.9%	(78.8)

GROSS PROFIT

In the second quarter of 2020, gross profit totaled R$3.7 million compared to R$1.3 million in the same period of 2019, amounts that are quite different from historical amounts. Gross Profit and Gross Margin in both periods were significantly affected by extraordinary items, including the cost of factory idleness due to the stoppage during the pandemic in 2020 and the extraordinary provision for inventory of R$32.3 million established in the last year.

Excluding these effects in both periods, gross margin decreased by 1.3p.p., from 44.5% in the second quarter of 2019 to 43.2% in the second quarter of 2020. This variation is due to the positive effect of an improvement of 1.5p.p. in the margin of products sold, as a result of the increased share held by the Company's own e-commerce, selective price increases and a better management of promotional channels; and the negative effect of sales deficit in the period and the resulting lower dilution of costs that do not vary directly based on sales in the period, such as technical assistance.

SALES AND ADMINISTRATIVE EXPENSES

In the second quarter of 2020, SG&A totaled R$21.0 million, compared to R$37.4 million in the second quarter of 2019, representing a 43.8% decrease, due to the efforts to reduce expenses to offset the impact of the COVID-19 pandemic on revenue and the anticipation of actions related to efficiency gains, which are mapped in the turnaround plan.

In the second quarter of 2020, sales expenses decreased by 45.3%, or R$12.0 million, compared to the second quarter of 2019. This decrease is primarily due to decreased personnel expenses, freezing of marketing investments, decreased expenses related to outsourced services, and decreased expenses directly related to sales, including freight and variable compensation. Additionally, Expected Credit Losses totaled R$5.0 million due to the deterioration of the portfolio of receivables in view of the decrease in economic activity and a potential impact on the payment capacity of the Company's customers. Excluding this line item, sales expenses decreased by 63.3% compared to the second quarter of 2019.

In the second quarter of 2020, SG&A decreased by 40.3%, or R$4.5 million, compared to the second quarter of 2019, primarily driven by decreased personnel expenses and decreased expenses related to outsourced services, travel and lease. It is noteworthy that in the second quarter of 2019, the Company had a non-recurring impact of R$2.1 million related to the dismissal of members of the Board of Executive Officers.

Although some of the actions taken to reduce costs have a predominantly temporal effect, most actions implemented in the quarter will have a material positive impact on the financial and economic performance of the Company in the long term. Especially, the implementation of structural reductions in the Company' cost base during the period of the pandemic may accelerate its turnaround and expected results.

OTHER OPERATING RESULTS, NET

In the second quarter of 2020, other operating results, net totaled an expense of R$2.0 million compared to R$15.5 million in the second quarter of 2019. This variation is primarily due to tax effects on the extraordinary inventory provision established in the second quarter of 2019.

EBITDA AND ADJUSTED EBITDA

In 2Q20, Adjusted EBITDA totaled a negative amount of R$16.5 million, compared to a positive amount of R$2.0 million in 2Q19.

R$ million	2Q19	2Q20	2019	2020
(=) Net income	(36.5)	(17.3)	(46.5)	(34.7)
(+) Depreciation and Amortization	(3.0)	(2.8)	(6.0)	(5.7)
(+/-) Financial result	(0.6)	(6.2)	(1.8)	(16.6)
(+) Current taxes	0.0	0.0	0.0	0.0
(+/-) Deferred taxes	15.7	8.3	14.0	16.1
(=) EBITDA (CVM 527/12)	(48.6)	(16.6)	(52.6)	(28.4)
(+/-) Provision for contingencies[1]	(9.5)	0.1	(9.7)	1.2
(+) Other non-cash expenses[2]	(0.4)	0.0	(0.8)	0.0
(+) Other non-recurring expenses[3]	0.0	0.0	0.0	0.0
(+) Impact of present value adjustment on operational result[4]	(1.6)	(0.2)	(3.0)	(0.9)
(+) Extraordinary impacts[5]	(39.0)	0.0	(39.0)	0.0
(=) Adjusted EBITDA	2.0	(16.5)	(0.1)	(28.7)

[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] Non-recurring impacts on result, including the discount in the assignment of credit rights in 2018.
[4] 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.
[5] Extraordinary impacts such as assignment of credit rights, impairment and inventory provision.

NET FINANCIAL RESULT

In the second quarter of 2020, net financial result totaled an expense of R$6.2 million, representing a decrease of R$5.6 million compared to an expense of R$0.1 million in the second 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 result from derivative transactions.

NET INCOME

In the second quarter of 2020, the Company's net loss totaled R$17.3 million, representing an improvement of R$19.3 million compared to the second quarter of 2019. Excluding the extraordinary effects reported last year, net loss decreased by R$21.0 million compared to the second quarter of 2019 due to the impacts of decreased sales, decreased gross margin, decreased expenses, and the negative exchange rate impact in the quarter.

CASH FLOWS

R$ million	2Q19	2Q20	2019	2020
Net income before income tax and social contribution	(52.3)	(25.6)	(60.5)	(50.8)
(+/-) Non-cash adjustments	32.4	17.4	38.5	27.1
(+/-) Operational activities	10.2	13.1	20.3	8.1
(+/-) Investment activities	(1.7)	(14.1)	(6.4)	(15.6)
(+/-) Financial activities	(7.6)	11.0	(33.8)	25.0
(=) Increase (decrease) in cash	(18.9)	1.7	(41.9)	(6.3)
(+) Cash and cash equivalents at the beginning of the period	46.8	46.1	69.9	54.1
(=) Cash and cash equivalents at the end of the period	28.0	47.8	28.0	47.8

NON-CASH ADJUSTMENTS

In the second quarter of 2020, non-cash adjustments totaled R$17.4 million, compared to R$32.4 million in the second quarter of 2019. In this line, the most important changes are: R$5.0 million in provision for bad debts, R$2.8 million in amortization and depreciation and R$6.9 million in exchange rate variation.

OPERATIONAL ACTIVITIES

In the second quarter of 2020, net cash from operational activities totaled R$13.1 million. In the second quarter of 2020, the main changes were: the generation of R$8.4 million in inventories; the generation of R$25.9 million due to decreased accounts receivable and the use of R$21.6 million due to the decrease in suppliers payable.

INVESTMENT ACTIVITIES

In the second quarter of 2020, net cash used investment activities R$0.8 million, impacted by investments in fixed and intangible assets.

FINANCIAL ACTIVITIES

In the second quarter of 2020, net cash utilized in financial activities R$2.3 million primarily affected by restricted cash balance of R$13.3 million as a bank guarantee due to reduced sales and receivables during the pandemic. Additionally, the Company totaled R$ 15.2 million due to new raisings for the payment of suppliers with letters of credit.

CASH RESULT

The activities resulted in a cash increase of R$1.7 million at the end of the second quarter of 2020 that, added to the initial amount of R$46.1 million, led to a final cash balance[1] of R$47.8 million at June 30, 2020. At the end of the second quarter of 2019, the Company's final cash balance totaled R$28.0 million.

[1] Considering restricted cash in the amount of R$20.3 in 2Q20, the final cash balance totals R$68.1.

WORKING CAPITAL

R$ million	2Q19	Days	2Q20	Days
(+) Accounts receivable	138.1	156	81.4	123
(+) Inventories	115.9	240	139.5	372
(-) Accounts payable	66.7	138	52.4	140
(=) Working Capital	187.3	258	168.5	356

In the second quarter of 2020, the Company's working capital totaled R$168.5 million, accounting for 356 days. In the second quarter of 2019, working capital totaled R$187.3 million, representing a decrease of R$18.8 million, or 10.0%.

The Company decreased the average term of accounts receivable from 156 days in the second quarter of 2019 to 123 days in the second quarter of 2020, representing a decrease of 33 days. This decrease is due to the significant decrease in sales and the resulting lower generation of accounts receivable in the period, as well as the decrease of approximately 7 days in terms granted to customers.

In the second quarter of 2020, inventories totaled R$139.5 million, representing 132 more days compared to the second quarter of 2019, primarily due to supplies that were conducted taking into account expected sales that did not occur due to the impact of COVID-19.

In accounts payable, the average term of payments to suppliers increased by 2 days, from 138 days to 140 days. The use of agreements or letters of credit has been contributing to the extension of payment terms with foreign suppliers since 2016, as they represent a payment guarantee to suppliers, allowing an extension of payment terms granted in negotiations with the Company. In the second quarter of 2020, the outstanding balance of accounts payable guaranteed by letters of credit was USD5.2 million (equivalent to R$28.1 million) at the closing of the second quarter of 2020, versus USD11.4 million (equivalent to R$43.6 million) at the closing of the second quarter of 2019. It is noteworthy that in the second quarter of 2020, notwithstanding a lesser use of letters of credit, the Company was able to increase the average term with suppliers, primarily as a result of renegotiations of terms directly with suppliers.

In the second quarter of 2020, Grupo Technos had net debt of R$61.6 million, very close reported in the first quarter and with an increase of R$ 30.0 million compared to the second quarter of 2019. The company increased its gross debt by R $ 14.6 million compared to the previous quarter due to new raisings for the payment of suppliers with letters of credit, net debt remained virtually in line with that of the first quarter of 2020, also due to the actions the Company adopted to protect its cash and decrease outflows.

R$ million	2Q19	1T20	2Q20
Gross debt[2]	(67.4)	(115.2)	(129.8)
(-) Cash[3]	35.8	53.0	68.1
(=) (Debt)/Net Cash	(31.6)	(62.2)	(61.6)

Additionally, the Company raised R$4.1 million in the third quarter of 2020 to replacement of letters of credit and payment of suppliers, in order to protect its cash position during the period of the COVID-19 pandemic. These changes will impact the line items of suppliers and net debt at the end of the third quarter of 2020. In addition to this amount, the Company has to pay R$23.9 million in letters of credit that may also be paid through new raisings and converted into indebtedness.

[2] Gain/loss in the foreign exchange swap regarding our debt, under the line item "gross debt," as described in note 22 of our ITR.

[3] In the calculation of net debt, we took into account cash plus restricted cash in the amount of R$20.3 in 2Q20.

INCOME STATEMENT

R$ thousand

QUARTER

	Consolidated	
	2Q19	2Q20
Net revenue	75,536	17,831
Cost of goods sold	(74,244)	(14,157)
Gross profit	1,292	3,674
Sales expenses	(25,780)	(9,469)
Provision for impairment of trade receivable	(727)	(5,027)
Administrative expenses	(10,917)	(6,518)
Others, net	(15,480)	(2,017)
Operational profit	(51,612)	(19,357)
Financial result, net	(645)	(6,233)
Financial income	(29,373)	8,612
Financial expenses	28,728	(14,845)
Income before income tax and social contribution	(52,257)	(25,590)
Income tax and social contribution	15,733	8,322
Deferred	15,733	8,322
Net income	(36,524)	(17,268)

ACCUMULATED

	Consolidated	
	2019	2020
Net revenue	138,509	59,746
Cost of goods sold	(110,781)	(38,892)
Gross profit	27,728	20,854
Sales expenses	(50,227)	(27,422)
Provision for impairment of trade receivable	(1,353)	(10,368)
Administrative expenses	(19,324)	(14,998)
Others, net	(15,505)	(2,384)
Operational profit	(58,681)	(34,318)
Financial result, net	(1,793)	(16,455)
Financial income	(18,342)	41,182
Financial expenses	16,549	(57,637)
Income before income tax and social contribution	(60,474)	(50,773)
Income tax and social contribution	14,019	16,070
Deferred	14,019	16,070
Net income	(46,455)	(34,703)

R$ thousand

	Consolidated	
	June 30, 2019	June 30, 2020
Assets		
Current assets		
Cash and cash equivalents	27,974	47,847
Restricted cash	7,778	20,286
Accounts receivable	138,135	81,366
Inventories	115,877	139,506
Income tax and social contribution recoverable	5,286	6,713
Recoverable taxes	7,473	28,764
Derivative financial instruments	4,961	6,625
Other assets	13,860	12,252
Assets held for sale	1,767	4,800
	323,111	348,159
Non-current assets		
Related deposits	4,255	0
Derivative financial instruments	0	4,299
Advances to suppliers	4,625	3,875
Recoverable taxes	67,320	42,178
Judicial deposits	5,203	3,923
Other assets	284	20,586
	81,687	74,861
Investments		
Intangible	263,255	192,108
Property and equipment	39,285	36,252
	302,540	228,360
Total assets	707,338	651,380

	Consolidated	
	June 30, 2019	June 30, 2019
Liabilities		
Current liabilities		
Borrowings	28,662	66,356
Accounts payable	66,725	52,383
Income tax and social contributions payable	2,024	7,911
Deferred income tax and social contributions	441	306
Amount payable for the acquisition of non-controlling interest	1,103	1,103
Salaries and social charges payable	7,932	7,343
Dividends payable	1,375	1,375
Derivative financial instruments	1,616	612
Lease payment	3,518	2,487
Other payables	7,059	6,888
Provision for success fees	0	1,619
Payables – assignment of credit right	0	11,236
	120,455	159,619
Non-current liabilities		
Borrowings	42,417	90,690
Income tax and social contributions payable (Note 14)	1,908	1,779
Deferred income tax and social contributions	18,368	7,143
Provision for contingencies	55,746	54,400
Amount payable for the acquisition of equity interest	4,555	4,709
Payables – assignment of credit right	32,561	13,414
Lease payment	2,997	3,990
Other payables	8,271	0
Provision for success fees	0	6,038
	166,823	182,163
Total liabilities	287,278	341,782
Equity		
Capital stock	130,583	130,583
Treasury shares	(11,208)	(11,208)
Share issuance expenses	(10,870)	(10,870)
Capital reserves	203,833	204,432
Profit reserves	168,309	42,450
Carrying value adjustment	(14,132)	(14,291)
Additional proposed dividend	(46,455)	3,205
Loss in the period	0	(34,703)
Total equity	420,060	309,598
Total liabilities and equity	707,338	651,380

R$ thousand QUARTER

	Consolidated	
	2Q19	2Q20
Income before income tax and social contribution	(52,257)	(25,590)
Adjustments for items that do not affect cash flow		
Amortization and depreciation	3,035	2,766
Allowance for recoverable value of inventory	32,349	2,293
Write-off of accounts receivable for foreclosure of guaranteed without generation of cash	15,353	0
Allowance for recoverable value of accounts receivable	(18,742)	5,013
Allowance for contingencies (reversal)	(502)	960
Results from disposal of permanent assets	(6)	903
Impairment of permanent assets	(2)	(2)
Interest on loans	355	1,343
Other interest	225	6,860
Derivative financial instruments	0	(2,782)
Stock option premium	432	0
Others	(78)	18
Changes in assets and liabilities		
Decrease (increase) in accounts receivable	16,105	25,927
Decrease (increase) in inventories	(15,735)	8,390
Decrease (increase) in tax recoverable	(2,033)	(719)
Decrease (increase) in other assets	1,923	290
Increase (decrease) in suppliers and accounts payable	11,626	(21,602)
Increase (decrease) in salaries and social charges payable	755	(778)
Increase (decrease) in taxes, rates and social contributions payable	(1,474)	2,905
Interest paid	(937)	(1,350)
Net cash (applied in) generated by operational activities	(9,608)	4,845
Cash flow from investment activities		
Decrease (increase) in securities	18,771	24
Acquisition of equity interest	(20,819)	(12)
Restricted cash	0	(13,323)
Purchases of fixed assets	856	(309)
Amount received from the sale of fixed assets	715	1
Purchases of intangible assets	(1,171)	(480)
Net cash (applied in) generated by investment activities	(1,648)	(14,099)
Cash flow from financial activities		
Borrowings	0	15,236
Payment of borrowings	(6,085)	(2,949)
Lease contracted	(416)	0
Lease paid	(1,091)	(1,286)
Dividends paid to non-controlling shareholders	(1)	0
Net cash applied in financial activities	(7,593)	11,001
Increase (decrease) in cash and cash equivalents	(18,849)	1,747
Cash and cash equivalents at beginning of period	46,823	46,100
Cash and cash equivalents at end of period	27,974	47,847

R$ thousand	ACCUMULATED	Consolidated	
		2019	2020
Income before income tax and social contribution		(60,474)	(50,773)
Adjustments for items that do not affect cash flow			
Amortization and depreciation		6,045	5,746
Allowance for recoverable value of inventory		32,554	2,442
Allowance for recoverable value of accounts receivable		(18,116)	10,368
Write-off of accounts receivable for foreclosure of guaranteed without generation of cash		15,353	0
Allowance for contingencies (reversal)		38	(238)
Results from disposal of permanent assets		(3)	975
Impairment of permanent assets		-	(3)
Interest on loans		1,282	2,417
Other interest		890	29,638
Derivative financial instruments		0	(24,451)
Stock option premium		827	0
Others		(359)	216
Changes in assets and liabilities			
Decrease (increase) in accounts receivable		38,660	60,023
Decrease (increase) in inventories		(33,326)	(19,333)
Decrease (increase) in tax recoverable		1,036	(2,062)
Decrease (increase) in other assets		6,490	1,583
Increase (decrease) in suppliers and accounts payable		13,453	(32,184)
Increase (decrease) in salaries and social charges payable		976	847
Increase (decrease) in taxes, rates and social contributions payable		(4,929)	3,639
Interest paid		(2,059)	(4,456)
Net cash (applied in) generated by operational activities		(1,662)	(15,606)
Cash flow from investment activities			
Decrease (increase) in securities		20,471	36
Acquisition of equity interest		(22,506)	(24)
Restricted cash		0	(13,323)
Purchases of fixed assets		(2,423)	(1,129)
Amount received from the sale of fixed assets		787	275
Purchases of intangible assets		(2,757)	(1,473)
Net cash (applied in) generated by investment activities		(6,428)	(15,638)
Cash flow from financial activities			
Acquisition of own treasury shares			
Borrowings		0	55,236
Payment of borrowings		(31,981)	(27,869)
Lease contracted		0	0
Lease paid		(1,815)	(2,385)
Dividends paid to non-controlling shareholders		(1)	0
Net cash (applied in) generated by investment activities		(33,797)	24,982
Increase (decrease) in cash and cash equivalents		(41,887)	(6,262)
Cash and cash equivalents at beginning of period		69,861	54,109
Cash and cash equivalents at end of period		27,974	47,847