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Chilli Beans: Peace, Love, and Sunglasses

After 15 years of selling sunglasses, people want to know the secret to our success, but it's as simple as rice, beans, love, and pepper. There's nothing more complex to explain.

— Caito Maia, Chilli Beans CEO

Caito Maia, Chilli Beans' 46-year-old founder and CEO, watched brown dust swirl around enthusiastic revelers in outlandish costumes. It was September 2015, and electronic music pulsed across the hard-packed desert surface where thousands had congregated to join a celebration of self-expression in Black Rock City, Nevada. They were there to party, expand their horizons, and watch a 40-foot tall wooden effigy burn at the end of the week-long festival. Maia and his team (see **Exhibit 1**) had decided to attend Burning Man to "oxygenate" themselves, change their perspectives, and perhaps gain some inspiration for the company's upcoming product lines. Maia, the former Brazilian rocker, had come a very long way from the days when he took red eye flights from California to São Paulo, Brazil with suitcases full of sunglasses. Since 1997, his company had experienced explosive growth in Brazil by offering quality fashion products that specifically targeted the country's rapidly growing middle class. Within 18 years, he had exponentially increased production and constructed a complex supply chain to keep up with over 650 franchise stores and kiosks that had opened across Latin America, the U.S., Middle East, Africa, and Europe. Moreover, he also had to ensure that Chilli Beans' culture remained intact as the company continued to enlist new franchisees into its growing global network.

Chilli Beans experienced several obstacles as it grew internationally. The company had to deal with a much more competitive landscape and sophisticated consumer base when it entered developed markets in 2006. Real estate investments in the U.S. grew more expensive as the Brazilian real^a dropped against other foreign currencies. Some franchisees complained that the company was not sufficiently flexible to allow them to adapt to local conditions. Furthermore, Chilli Beans ran the risk of falling behind in the e-commerce space, as it had only developed its online platform in the last three years. Maia had a series of difficult decisions to make. What foreign markets should be prioritized? If it had to adapt to new markets, how should Chilli Beans differentiate its products while still maintaining retail and brand consistency? What channels should be employed and what role should e-commerce

^a The Brazilian real (plural reais) traded at a one real to 0.32 U.S. dollar ratio as of July 2015.

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play? Maia briefly considered his options and their ramifications, but he knew he had not traveled to the middle of the Nevada desert to only contemplate business strategy. He walked into a crowd of other “burners” dancing around a DJ booth and joined the party.

Brazil’s Emerging Middle Class

After stagnating in the 1980s and 1990s, the Brazilian economy improved dramatically beginning in the early 2000s.¹ Six million Brazilians (Brazil had a 2015 population of 202 million)² rose into the middle and upper classes from 2000 to 2010.³ Another 40 million rose out of poverty and into social Class C (monthly income between \$690 and \$2,970) between 2003 and 2011.⁴ Brazil’s GDP grew about 5% per year between 2007 and 2012, and its population’s living standards rose along with it.⁵ With higher wages and a 2012 unemployment rate of 5.5%, Brazil’s middle class found itself with more disposable income and a willingness to spend it.⁶ (See **Exhibit 2**.) The country became the third largest cosmetics, fourth largest personal computer, and eighth largest car market in the world.⁷ Companies that catered to the Brazilian middle class’ demand for higher-value products found themselves in a much more advantageous position than those that were slower to exploit this growing consumer trend.⁸ However, decreased global demand for many of the commodities that Brazil exported, widespread drought in agricultural regions, unsustainable state programs, corruption, and rising government debt put a brake on the country’s ascent.⁹ Brazil’s annual growth rate decreased from 7.5% in 2010 to 1% in 2012.¹⁰ Two years later, it was in a recession.¹¹ The real depreciated 12.5% against the U.S. dollar over one year¹² and inflation rose to 7%, which greatly affected consumers’ purchasing power and consumption.¹³ The country’s GDP was projected to contract by an additional 2% in 2015.¹⁴ There were concerns that the country was heading into one of the worst recessions in its history.

The Making of Chilli Beans

People used to buy sunglasses from some guy in a white coat. It looked like a pharmacy. Eyewear is fashion, not health. Chilli Beans was self-service and allowed people to choose what they wanted.

— Caito Maia, Chilli Beans CEO

In 1986, when he was 18, Maia came to the U.S. from his native Brazil to study and play music.¹⁵ The São Paulo native attended the Berklee College of Music in Boston, and was a drummer, guitarist, and vocalist in three different bands.¹⁶ “I sold my old car when I lived in Boston to pay for Berklee,” recounted Maia. “Eventually, the money ran out. I lived in an empty apartment without food for six months. I weighed 125 kilos at the time and lost 50 kilos, not on purpose, of course, but simply because I had no money for food. After that, I made a lot of money modeling for fashion brands. Life is crazy.” Whenever he went back to his home country, Maia’s friends commented on how much they loved the style of the sunglasses he brought from the U.S.¹⁷ He also noticed that, although Brazilians could buy sunglasses at either very cheap or expensive outlets, businesses were not offering those products at a mid-range price.¹⁸ In the early 1990s, he bought 250 sunglasses from a “barefoot hippie” street vendor in the U.S., packed them in his bag, and decided to try to sell them in Brazil.¹⁹ He priced them at about 50 reais²⁰ (about \$25 at the time)²¹ apiece and sold out within three days.²²

Buoyed by his success, Maia went on to found Blue Velvet, his first company, in 1994.²³ He took routine flights to the U.S., where he filled his suitcase with the newest lines of sunglasses, and then flew to Brazil to sell them to retailers.²⁴ After purchasing his sunglasses and returning to the airport, “I would take a shower at the airport, eat a meal for \$4, and return to São Paulo,” said Maia.²⁵ Although Maia had many customers, the company had cash flow problems, as he had to pay his suppliers up

front and then sell the products at a wholesale rate to his buyers.²⁶ Nor did the company control its own brand name.²⁷ After several of its buyers refused to pay for inventory that had been sold to them, Blue Velvet quickly went out of business two years after it was founded.²⁸

Learning from Past Mistakes

In 1996, Maia's rock band, Las Chicas Tienen Fuego, was nominated for an MTV Brazil Music Video Award, but broke up the following year.²⁹ Faced with either reuniting Las Chicas Tienen Fuego or redoubling his business efforts, Maia used the surplus sunglasses from his Blue Velvet days to open a kiosk in the Mercado Mundo Mix stall market in the industrial Barra Funda neighborhood of São Paulo.³⁰ While there, he learned how to interact with customers and price his products. He also decided to sell his sunglasses under his company's new name: Chilli Beans.³¹ (See **Exhibit 3** for Chilli Beans brand logos and **Exhibit 4** for its management team.) The odd spelling was the product of an accident.³² Maia asked José Caporrino, a friend and owner of Fracta, a marketing agency that partnered with Chilli Beans throughout its history, to help him create an impromptu banner for his kiosk.³³ However, Caporrino wrote the company name with a double "l."³⁴ "It became a matter of never fixing the mistake," said Maia. "In numerology, the second 'l' means money."³⁵ Later in 1997, Maia opened a kiosk in São Paulo's Galeria Ouro Fino shopping mall.³⁶ By 2000, after launching a second kiosk in the Shopping Villa-Lobos shopping mall, Chilli Beans had perfected the self-service business model that became one of its signature innovations.³⁷ Most other sunglasses retailers placed their products behind locked glass cases to ensure that they were not stolen.³⁸ Chilli Beans kiosks, however, had rows of sunglasses that customers could pick up, examine, and try on at will.³⁹ "From the first kiosk, we made sure the products were not behind anything that could inhibit the consumer," said Maia.⁴⁰

Expansion

In 2001, Chilli Beans issued its first franchise and, by the end of the year, it had 20 points of sale (POS) in its portfolio.⁴¹ In 2002, it inaugurated its first standard store in the Shopping Ibirapuera shopping mall.⁴² The store was Chilli Beans' first non-kiosk POS. Maia drove traffic to his POSs by selling tickets to electronic music raves inside the stores. "We didn't have any money, and we had to get creative," said Maia. "So, we started selling tickets. There were lines that ran into the street. 15,000 people would come to our stores just to get into those parties in the 2000s." While it continued to grow in Brazil, the company soon turned its attention to international expansion. In 2005, Chilli Beans opened its first overseas POS in Lisbon, Portugal.⁴³ The following year, it established a concept store on Los Angeles' Melrose Avenue—one of the city's most famous and eclectic shopping districts.⁴⁴

As Chilli Beans increased its POSs (see **Exhibit 5** for Chilli Beans' retail growth), it also broadened its product range. In 2006, it started a line of watches and hand-made sunglasses.⁴⁵ Three years later, it launched a cobranding initiative by enlisting famous Brazilian designers to create exclusive product lines.⁴⁶ It also started a line of prescription glasses under its Vista brand.⁴⁷ Chilli Beans projected that the Brazilian prescription glasses market was worth about 29 billion reais.⁴⁸ It also reasoned that prescription eyewear was less affected by seasonal fluctuations.⁴⁹ By 2011, the company had 400 POSs.⁵⁰ In the following year, it opened a record 150 POSs and launched Navio Chilli Beans,⁵¹ a chartered cruise that hosted 3,000 people (1,600 company personnel and 1,400 guests) on a 36-hour sail.⁵² (See **Exhibit 6**.) It included dozens of musical acts, fashion shows, and promotional events.⁵³ "130

people who went on the last cruise had never seen the ocean,” said Maia. “For 300, it was their first time on a boat. You can’t forget that kind of experience.”^b

The Gávea Investment

In 2011, Gávea Investimentos (Gávea), a Rio de Janeiro-based investment firm that was owned by JP Morgan and run by the former president of Brazil’s Central Bank, bought a 29.82% stake in Chilli Beans⁵⁴ for 100 million reais.⁵⁵ “The goal of the deal is to help channel more investment into the company, with a focus on bulking up and expanding the brand overseas,” said Maia.⁵⁶ Maia retained control of the remaining 70.18%⁵⁷ and continued as the CEO of the company.⁵⁸ Gávea, meanwhile, gained a seat on Chilli Beans’ board.⁵⁹ “We were very attracted to the sunglasses sector in Brazil,” said Marcos Pinto, a partner at the firm and Chilli Beans board member, “Return was over 50%. The company didn’t have to invest in store expansion, and you couldn’t tell the difference between a franchise store and a store they owned. They both had the same people, products, and environment. They reached all of Brazil with very little capital. Caito’s leadership was also very important. He can energize the employees and the entire network. He navigated the relationships with franchisees and kept them focused and energized.” Gávea sought to professionalize Chilli Beans. “It wasn’t analytic enough,” explained Pinto:

That’s part of why Caito wanted us to join. It was largely built on his intuition with no science behind it. There has to be room for analysis. The sales team had monthly targets, and would beat them one month, but wouldn’t meet them the next month. There was very little control of gross margins. They were doing so well that the company didn’t monitor them. They paid attention to gross margins of collections, but not of individual sales. We used to get financial numbers every 3 months. Now it’s every 15 days. Also, the process of opening new stores was amateurish because Chilli Beans didn’t check if franchisees had the capacity to manage a business. They incentivized franchisees to grow, even if they had cash flow problems, though we’ve changed a lot of that in four years. We’re now reaching the right balance between intuition and rigorous data analyses and processes.

“Beginning in 2008, we were approached by several venture capital firms, but we went with Gávea because they were the best long-term proposition,” added Ricardo Ribeiro, Chilli Beans’ commercial and expansion director. “They understood that Chilli Beans had to be managed by Caito and his team. We still went through a major change because we professionalized how we managed the business. We tried to maintain the culture while being much tougher on the numbers, but many managers and directors who had started with the company left because they weren’t able to adapt to the new environment. We are still building the new senior management team that’ll be in the company for the next ten years.” “We now collect the sales figures of all of the stores on a daily basis,” added Thiago Maino, the supply chain director for Chilli Beans’ Brazilian POSs. “We know what styles are selling and can restock exactly what the POSs need every week.”

As Chilli Beans reformed its practices, it walked a fine line between keeping its entrepreneurial nature and implementing controls that would ensure its success during its next growth phase. “There were cases in Brazil where private equity or investors invested in companies with similar cultures as Chilli Beans, and left them worse than they found them after trying to force change,” said Felipe Meldonian, Chilli Beans’ CFO. “When they tried to implement cold market policies without listening to the company, they were unsuccessful. We are trying to avoid those mistakes.”

^b See Janela Digital, “Chilli Beans. A Convencao do Navio,” Vimeo video, 2012, <https://vimeo.com/40691152>, for a video of Navio Chilli Beans.

Pepper in the Veins: Chilli Beans' Culture

Our company culture is not written down or hanging on a wall. It's inside the people working here. We don't need to print a book. After working here for two weeks, you'll either get it or you won't.

— Ricardo Ribeiro, Chilli Beans' commercial and expansion director

Chilli Beans' products were designed as trendy and quality fashion statements for Brazil's young and growing middle class.⁶⁰ It not only wanted its customers to identify with its brand, but to see themselves as a part of it and "be a Chilli Beans."⁶¹ Chilli Beans did not, however perceive itself as a company that sold fashion accessories.⁶² Instead, what it really offered its patrons was a lifestyle that was modern, bold, and broke established rules.⁶³ Maia embodied his company's outlook, as he often appeared at or personally led Chilli Beans-sponsored rock, electronic, and alternative music events. He also habitually flew around São Paulo in a personal helicopter and counted many professional musicians, models, artists, and celebrities as personal acquaintances.

From early on, Maia sought people who would share his vision for a daring and vibrant business.⁶⁴ When looking to build his managerial team, Maia chose individuals who could simultaneously fit two different molds: managers and salespeople who shared a desire to offer customers a common experience, rather than just a set of products.⁶⁵ These were the same attributes that the company looked for in its salesforce. "Our biggest advocates are the salespeople in our stores," said Ribeiro. "They're our most important investors. They're the ones who get Chilli Beans tattoos. When a 22 year-old walks into a company that allows her to be herself, that demonstrates respect and builds loyalty. That differentiates us from other companies. We exercise this every day. We have to be humble enough to listen to everyone. When sales associates tell us something, we have to listen to them." Though it did not have a formalized feedback process, Chilli Beans used a mobile app to collect ideas about future lines from customers and employees.

Chilli Beans placed a great emphasis on supporting its franchisee network. "My team and I visit every POS in Brazil every two months to help them with operations and train them on how to sell more products," said Eduardo Salise Felix, Chilli Beans' expansion director. Maia and his executive team further reinforced the Chilli Beans culture at every level of the company by personally visiting the POSs. "Ricardo and I are going to visit 200 stores this year," said Maia. "We're going to hug people and say thank you. Visiting, talking, and hugging make a big difference. Our people are happy because we like and respect them. It's not a show. It has to be authentic. You can't be fake. They will notice and dislike you for it." "It's the Caito effect," said Diogo Guimaraes, Chilli Beans' marketing director. "He's a rock star and he transferred the rock star look and feel into the business. He calls the store visits 'tours.' We don't have a sales convention. We have a cruise. It's very appealing to a 20-year-old kid. Caito is worshipped here. A lot of the purchases come from our own associates. They get to buy the sunglasses with a discount. We have a joke that if we come out with a really good line, then it won't get to the customers because the associates will buy it all."

Beginning in 2001, Chilli Beans became an increasingly complex organization to manage as it grew through its burgeoning network of franchisees.⁶⁶ Nevertheless, though more franchisees sought to sell its products, the company made a conscious decision to vet potential kiosk and store owners before allowing them to open an outlet.⁶⁷ Chilli Beans was not interested in enlisting franchisees who solely wanted to join the company to make money.⁶⁸ It therefore set up regional offices whose job it was to ensure that possible franchisees would act as inculcated members and representatives of the company's culture should they be allowed to join.⁶⁹ Once they joined the company, staff in all outlets presented

their products as bold, exclusive, and original.⁷⁰ Employees were expected to be dynamic, expressive, and constantly smiling.⁷¹

Even as Chilli Beans grew into an increasingly complex organization and network of franchisees, Maia ensured that the company's tradition of inclusion remained a hallmark of the brand. "There was a Brazilian makeup brand that launched a Father's Day commercial with a gay couple," explained Guimaraes. "People said the ad destroyed conservative family values. The company got smashed on social media but, when we saw this, we supported them on Facebook. Then we got smashed. We are very aware of our values and take every opportunity to show them. It took us 40 minutes to get that post out. We didn't even ask Caito. We knew it was part of our DNA. He was totally onboard when we finally told him. That would take a week in a big company and, by then, it wouldn't have counted."

Chilli Beans Outlets

We know how to grow in Brazil. It's a machine.

— Caito Maia, Chilli Beans CEO

As of September 2015, Chilli Beans had 650 POSs, including 625 in Brazil (see **Exhibit 7** for a regional breakdown), eight in the U.S., and 17 in other countries (Colombia, Kuwait, Mexico, Peru, Portugal, and UAE).⁷² (See **Exhibit 8** for select country figures and **Exhibit 9** for company financials.) Additional outlets were planned for Chile and Thailand in 2015.⁷³ Despite its international presence, "Brazil remains our most important market," explained Meldonian. "More than 90% of our stores are found in Brazil. The brand is very strong here, and we need to capitalize on that." Chilli Beans' franchise network had retail sales of about 514 million reais annually, 70% of which came from sunglass sales, 20% from watches, and 10% from prescription glasses.⁷⁴ Prices averaged between \$128 and \$298 per item, significantly higher than the products Maia sold during his Blue Velvet days.⁷⁵ (See **Exhibits 10a**, **10b**, and **10c** for Chilli Beans' prices compared to competitors.)

Chilli Beans retailers were divided into four classes: kiosks, standard stores, concept stores, and flagship stores. The company sometimes offered franchisees exclusive operating rights in a specified territory, which could range from the size of a country to a mall. The only recurring costs franchisees owed Chilli Beans were product royalties, which were included in the price of the products they bought and a 3% marketing fee. The products retailed at about 2.6 times the amount Chilli Beans sold to its franchisees. "Each POS has about a week and a half worth of inventory," said Maia. "We teach them not to spend money on too much stock because we manage it. We used to have eight months of warehouse inventory. Last year, we had four and a half months. This year, we'll bring it down to two months. We had to reduce our wholesale by 20%, which was painful, but also healthier for the franchisees." All POSs were equipped with "digital mirrors," stations that displayed digital images to customers as they tried on different sunglasses and other accessories.⁷⁶ (See **Exhibit 11**.) Those photos could then be emailed to customers or posted to social media.⁷⁷

Sales associates were trained to understand customers' lifestyles and preferences before suggesting a product that matched their personalities. "In other stores, people are taught to sell anything to customers, but our training emphasizes matching customers' eyewear needs to their appearances," said Guimaraes. "You can't stick round glasses on a round face. You should sell square glasses, even if they are cheaper. We also train our teams to understand every product. We have a training team that goes into the stores and we send weekly videos and printed 'pepper drops' that explain all the products. There's a tear on the frame of a pair of Amy Winehouse glasses. It comes from a song where she said that she cried a river after a breakup. Being able to tell that story converts more customers."

Kiosks

Chilli Beans kiosks were 10.5 feet long, six feet wide, and 3.6 feet tall.⁷⁸ (See **Exhibit 12** for an example of a Chilli Beans kiosk.) Kiosks could display 216 sunglasses, 80 watches, and 20 prescription glasses.⁷⁹ They were located in the middle of shopping mall walkways to maximize customer traffic and the number of impulse purchases.⁸⁰ All products were prominently displayed, outside of glass cases, and available to be handled by potential customers.⁸¹ The total cost of opening a kiosk was about 123,000 reais. This included a 30,000 franchise fee and 40,000 reais for stock, with the remainder split among uniforms, computers, and miscellaneous costs. “Opening a kiosk is much cheaper than a store,” said Lazaro Masur, the owner of 26 Chilli Beans’ POSs in Rio de Janeiro. “They can even sell more stores. I’ve opened kiosks that broke even in four months. You can test the area or mall. After opening a kiosk, you can think about a store. If it’s not good, you can just move it somewhere else. Especially in a new mall, you often can’t get a kiosk in there because they want to sell a store location.”

Standard Stores

Standard stores were significantly larger than kiosks and integrated into a shopping mall’s floor plan. (See **Exhibit 13** for a picture of a Chilli Beans standard store.) They averaged between 430 and 646 square feet and offered a wider range of products, though at roughly the same proportion of a kiosk.⁸² The stores’ larger sizes allowed for greater inventory storage and promotional and brand displays.⁸³ However, costs such as rent and utilities were also higher.⁸⁴ “We sometimes open a store to guarantee a location in a mall with a lot of traffic,” explained Mansur. “But they’re way more expensive. We have to pay a key fee, which could be up to 100,000 reais. Then we have to build the store, which is 5,000 reais per square meter. Stock is 60,000 reais, and you have to add in an additional 10,000 reais for other, smaller costs. In most situations, you’re better off opening a kiosk.”

Concept Stores

Chilli Beans operated stores that offered patrons a significantly wider array of products than standard stores. Known as concept stores, they sold the company’s usual mix of sunglasses, watches, accessories, and prescription glasses, as well as cobranded and licensed items from Chilli Beans’ partners. (See **Exhibit 14**.) This could include bicycles, skateboards, guitars, backpacks, and purses. However, as of 2015, Chilli Beans only operated a handful of concept stores, which it planned on phasing out as it concentrated its multi-brand efforts in its flagship stores.

Flagship Stores

Chilli Beans opened its first flagship store in São Paulo in 2013.⁸⁵ A second flagship store followed in 2014 in Santa Monica, California’s 3rd Street Promenade.⁸⁶ The company’s marquee store was located on Rua Oscar Freire, one of São Paulo’s trendiest shopping districts. (See **Exhibit 15**.) The store, built by Gustavo Menegazzo, a Brazilian architect that constructed many of Chilli Beans’ outlets, had a 8,072 square-foot floor plan, and cost approximately 10 million reais to construct.⁸⁷ The venue carried over 2,500 individual products, 20% of which were found exclusively at the flagship store.⁸⁸ Chilli Beans also partnered with IBM to create a unique user-driven system where shoppers could design and manufacture their own sunglasses within five minutes.⁸⁹

The flagship store was built as a futuristic, fashionable, and user-friendly cultural venue that served as a real-world representation of what the company stood for. It brought the brand’s values to life through monthly parties hosted by live bands and DJs. It also performed a vital indoctrination role for new staff, managers, and franchisees, who often worked and trained there before going to their POSs.

The store was characterized by a pervasive sense of kinetic yet friendly energy, which was exhibited by the employees. Hundreds of sunglasses, watches, and other items lined the brightly lit interior, where sales associates helped customers pick out products. Electronic, rock, and pop music pumped out of surround sound speakers, and large screens arrayed along the walls showed a constant stream of artistic displays and video montages. The first floor was dominated by a 12-foot tall stylized statue of a hostess designed by British artist Colin Christian.⁹⁰ The second floor contained a rotating art exhibit, while children were encouraged to play in a dedicated Kids' Space that had Barbie and Hot Wheels toys.⁹¹ Artists were invited to perform and display their work several times a month,⁹² and a Chilli Beans Café operated by Suplicy (a local cafe chain) offered food and drinks to customers.⁹³

Marketing

Chilli Beans does not sell products. It sells Chilli Beans.

— Caito Maia, Chilli Beans CEO

As Chilli Beans embarked on its first expansionary phase in 2001, it found it had little money to spend on advertising initiatives.⁹⁴ Maia therefore chose to invest in a limited visual campaign that involved attractive people wearing Chilli Beans sunglasses in racy ads.⁹⁵ This esthetic soon became Chilli Beans' calling card and a fundamental part of its marketing.⁹⁶ (See **Exhibit 16** for examples.) Posters were strategically placed in a few, high-traffic outdoor locations to make it seem as if the company had undertaken a massive marketing initiative.⁹⁷ Even as Chilli Beans' budget increased, Maia still demanded that the marketing team deliver results with fewer resources. "Anyone can spend a budget, but we need to keep the spirit of the company," said Maia. "I will always ask my team to deliver 50% more without more money. We're launching a Beatles collection soon and we're putting 90% of the marketing into TV, but we still need to get the word out in São Paulo. So, we're booking eight Beatles cover bands, putting them on the back of trucks, and driving them around the city while they play. The bands aren't getting paid and the trucks are cheap. We're also going to put guys on crosswalks all across São Paulo to recreate the Abbey Road cover art."

The company projected itself as democratic, unprejudiced, provocative, and irreverent.⁹⁸ "But there's one aspect about Chilli Beans' marketing that really differentiates us from our competition," said Guimaraes. "All other marketers target by class and age. For us, the stories are so important that the segmentation is based on them. With the Beatles, we target whoever loves the band and has two ears to place our glasses on. It doesn't matter if it's a 20-year-old kid or a 60-year-old lifelong fan. It doesn't matter if he goes to work by bus or Mercedes." To reinforce its brand image, the company often sponsored extreme sports events, rock concerts, alternative music, large festivals, outdoor events, and TV shows that shared its particular ideology.⁹⁹ For example, in the summer of 2010, Chilli Beans hosted a "Big Brother Brasil" party in which the program's participants talked, danced, and joked with its sunglasses models.¹⁰⁰ A few months later, the company launched its "*E se colocar pimenta?*" ("And add pepper?") campaign during the commercial break of a live broadcast Paul McCartney concert in São Paulo's Morumbi Stadium which Chilli Beans partially sponsored.¹⁰¹ (See **Exhibit 17**.)

Chilli Beans largely eschewed promoting its products' functional uses in its ad campaigns.¹⁰² Instead, it presented an environment full of provocative and attractive men and women in a nonstop party atmosphere, and then invited potential customers to join them.¹⁰³ Chilli Beans launched ten marketing campaigns between 1998 and 2010.¹⁰⁴ (See **Exhibit 18**.) Several attributes, including beauty, pleasure, "Brazilianess" (a fun, welcoming, and laid-back attitude, multiculturalism, etc.), and most importantly, hedonism, were ubiquitous.¹⁰⁵ "Every company in the world does moody brands," said Maia. "We don't do that. It's not our brand identity." "Chilli Beans has three brand pillars," expanded

Guimaraes. “The first is music, which is also the most important, the second is fashion, and the third is art, which includes visual artistic expression like cinema, tattoos, graffiti, etc. We’ll also start building sports into a fourth pillar next year. Every penny I spend goes to one of those pillars.”

The company spent about 80% of its budget on a single outlet: Globo TV. “The TV market in Brazil is very concentrated,” explained Maia. “Globo basically has a monopoly.” “As the brand grew, it became difficult to reach the entire country by only using magazines, newspapers, and even digital outlets,” said Caporrino. “We use TV to make a large impact. The brand is so widespread in Brazil that TV is the only way to get our message across to the people we want to reach. It’s expensive, but it works. Franchisees pay for their own media buys outside of Brazil. They’re focused mostly on digital. They might advertise a bit in magazines or live parties, but we don’t send them marketing plans.”

Chilli Beans often partnered with musicians and celebrities to create new lines of products. “70% of the time, we develop a concept and try to come up with a name that perfectly encapsulates what it represents,” said Maia. “That’s how we wound up hiring Iggy Pop,” recounted Ribeiro. “We came out with a line called Punk Glam, and since Iggy Pop is the grandfather of punk, we couldn’t think of anyone better to represent it. We brought him to Brazil and put him in the middle of São Paulo fashion week—the highest fashion event in the country.” “We had no control over what he was going to do, and that’s exactly what we wanted,” added Guimaraes. “We made a pair of giant sunglasses, asked him to smash the lenses with a scepter, and then told him to do whatever else he wanted. The fashion industry on the catwalk was a joke. For us to be there was a provocative move. We wanted to break things. The media frenzy was insane. Caito loves this crazy stuff.” In creating the Punk Glam, Chilli Beans formed its first international partnership with Swarovski, a 120-year-old Austrian producer of luxury crystal jewelry, sculptures, and chandeliers.¹⁰⁶ “This is one of the most important collections ever launched by the company,” said Maia. “Our partnership had some very cool results. We are very happy with the visuals and designs of the pieces.”¹⁰⁷ The product line consisted of 80 sunglasses, prescription glasses, and watches partly inspired by the movies “Natural Born Killers” and “Clockwork Orange.”¹⁰⁸ Many of the Punk Glam products incorporated crystal accents into their designs, while the accompanying marketing campaign prominently featured motifs of breaking glass and mirrors.

Despite its affinity for risk, Chilli Beans controlled its franchisees’ marketing. “We tell them what to do but allow them to customize the material,” said Maia. “If you give too much autonomy, the brand will get off concept. There’s no other way to control a brand with 650 stores.” However, Chilli Beans did grant its franchisees a large amount of freedom to implement social media marketing strategies. “We allow them to build their own store Facebook pages,” continued Maia. “They can put up their own pictures and posts. I started a competition among our POSs to see who could gain the most followers. In six months, we added 600,000 followers to the two million we already had. On balance, allowing the stores to do their own thing is 80% positive and 20% negative, but I love it. I want to have four million Facebook followers by the end of the year, and that’s going to come from the stores.”

Supply Chain

We call what we do at Chilli Beans “flash fashion,” not “fast fashion.” Zara does fast fashion. They have three months to bring out a new line. We do 20 new lines every week.

— Diogo Guimaraes, Chilli Beans marketing director

“We deliver a new store to our customers every week,” said Maia. “The energy constantly changes and customers love that.” The company launched 10 new collections in four colors every week.¹⁰⁹ (See

Exhibit 19 for Chilli Beans' supply chain.) It also introduced five watch and two prescription glasses lines a week.¹¹⁰ "We don't do a lot of consumer research before launching a line," expanded Ribeiro. "They originate from what we feel is going on in fashion and in the world. We take chances." This necessitated an extensive and efficient supply chain to transport the products from Chilli Beans' manufacturers to its hundreds of POSs around the world. All of the products were exclusively designed in Brazil.¹¹¹ "The whole product development lead time takes seven to eight months," said Kleber Wilson, Chilli Beans' product manager. "That includes two months of creation, three months of production, and two months of transit time." The design process was very collaborative and involved employees from multiple departments beyond the eight designers on staff. "Everyone comes up with ideas for a new line," added Kleber. "We'll decide on the models we want and send the designs to the suppliers. We have five sunglasses and six watch suppliers in China. We also have a sunglasses supplier in Brazil." The manufacturers often offered some of their own designs which the design team could modify. 85% of Chilli Beans' products came from China while the remainder was manufactured in Brazil. Franchisees typically received their orders on a Wednesday along with a set of samples of the following week's product lines. The franchisees displayed the samples for two days to ascertain which were likely to sell well. They then placed the next week's order with Chilli Beans on Friday and received it along with the subsequent batch of samples the next Wednesday. About 60% of an order was composed of new lines while the remainder was reorders.

Chinese Production

A product team visited the company's Chinese suppliers twice a year.¹¹² Based on guidelines set by the designers, the team sat in marathon sessions where every member tried on thousands of sunglasses and watch designs until they found the models that would comprise Chilli Beans' upcoming lines.¹¹³ Only about one in 10 designs made the cut.¹¹⁴ "China offers what no other country in the world can: quality products, attractive prices, and a quick turnaround time," said Maia.¹¹⁵ "In more than half of the factories that we visit, they ask us to explain what we do. It is a self-taught system. We learn as we go and we create a collection. We are constantly developing this system."¹¹⁶ Once the orders were made, the Chinese factories sent samples of all of the chosen designs to Brazil to be further analyzed.¹¹⁷ If the designs passed muster, Chilli Beans then bought enough inventory to last six months.

Brazilian Production

In 2012, Chilli Beans announced that it would begin sourcing some of its products from Brazilian factories. "The Brazilian manufacturers can't match China on technology, but they can make good products with good fashion sense because they understand our customers' needs," said Wilson. "The Brazilian production cycle is two to three months long. If we need a model quickly or are worried about dumping,^c we go with Brazil. We can also change the production. They are great partners and it wouldn't be fair to take a product they designed and make the Chinese suppliers copy it." "The currency exchange rate is hurting us since we pay our Chinese suppliers in U.S. dollars," added Maia. "Which is why we want to shift to sourcing 35% of our production to Brazil next year." Prescription glasses lenses were also sourced from nine Brazilian factories, since government regulation prohibited custom prescription lens production at POSs.

^c "Dumping" refers to importing a large number of cheaper, foreign-made goods as part of a strategy meant to undercut domestic competitors' prices and push them out of the market.

Transportation

Products manufactured in China were transported via cargo ship to the port of Espirito Santo, where they were charged preferential tax rates. They could also be sent via air transport if they needed to make a tight deadline. Once they arrived in Brazil, they were sent to a São Paulo warehouse and distributed to Chilli Beans franchisees around the world. “We don’t send the products directly to other countries because we need to control the quality of the collection,” explained Wilson. One week before they were slated to be shipped from storage locations to Chilli Beans’ franchisees, the company sent franchisees samples of the new collections from which they chose what products they would order.¹¹⁸

Growing Competition

There is an iconic eyewear trade fair in the Italian city of Mido. Our designers are forbidden from going. We don’t want them drinking from the same sources as Ray Ban and Oakley because, six months later, we’ll have the same products as them. They should go to Mexico, Nepal, Russia, anywhere to get inspiration, but not Mido.

— Caito Maia, Chilli Beans CEO

International Competitors Move In

As of 2015, Chilli Beans accounted for 20% of the Brazilian sunglasses market, making it the largest company in the sector.¹¹⁹ However, its success did not go unnoticed. Several large international and domestic companies, many of which had sold more expensive sunglasses in Brazil for years, soon began to offer products to the country’s mid-range market segment. Luxottica was an Italian business group that owned Oakley, Ray-Ban, and Vogue, and earned about \$10 billion in revenue in 2013.¹²⁰ Before 2011, the cheapest sunglasses it sold in Brazil cost 400 reais, which kept them out of the reach of the middle class.¹²¹ To reduce costs, Luxottica bought Tecnol, one of the largest Brazilian sunglasses manufacturers in 2011.¹²² It then launched Sunglass Hut—its lower priced brand—in the country.¹²³ Within three years, Sunglass Hut had expanded to 45 stores (it had 2,700 outlets worldwide).¹²⁴ “Our offerings here were shameful,” said Luca Lisandroni, Luxottica president in Brazil. “The game changed in 2013, when we structured partnerships to sell Ray-Bans in ten installments of 29.90 reais.”¹²⁵ NYS Collection Eyewear (NYS), which was named one of the top 50 franchises to work for by the Franchise Business Review, was a U.S.-based sunglasses and prescription glasses retailers that had 1,500 POSs in 40 countries.¹²⁶ The company entered the Brazilian market in 2013 and concentrated its efforts on expanding in airports and shopping malls.¹²⁷ Like Chilli Beans, NYS sold its own brand of quality eyeglasses at mid-range prices.¹²⁸ It also allowed customers to touch and try on its products at its kiosks and other POSs.¹²⁹ In 2015, NYS announced that it would expand its Brazilian presence to 200 POSs.¹³⁰

Domestic Competitors

In 2013, 3i, a British private equity firm, bought Óticas Carol (Carol), Brazil’s second largest glasses^d retailer¹³¹ for 108 million reais,¹³² which marketed its products to the middle class.¹³³ Carol had 490 POSs throughout the country (the majority of which were franchisees) and 260 million reais a year in revenue.¹³⁴ Following the acquisition, the company planned to open an additional 200 stores over the span of a year and increase annual franchise revenue to 1 billion reais over the next five years.¹³⁵ As of 2015, and following the implementation of its growth strategy, Carol had 650 stores in Brazil.¹³⁶ Óticas Diniz, meanwhile, held the largest share of the glasses sector in Brazil.¹³⁷ The company was founded

^d The glasses sector included the sale of both prescription glasses and sunglasses.

in 1992 by Arione Diniz, the sixth of his family's 12 children who overcame poverty to start a company that, by 2015, had 850 stores and an annual revenue of 550 million reais.¹³⁸ 200 of those outlets opened between 2011 and 2014.¹³⁹ Óticas Diniz eventually grew into the largest glasses retailer in Latin America.¹⁴⁰ The company also dedicated a growing portion of its display space to selling sunglasses.¹⁴¹

Expanding into the U.S.

Caito will never turn his back on the U.S. or other foreign markets. They are too important to the brand.

— Felipe Meldonian, Chilli Beans CFO

The 2013 U.S. eyewear retail market accounted for approximately \$35 billion in sales, \$3.4 billion of which came from sunglasses.¹⁴² Luxottica was the leading eyewear retailer in the U.S. in 2014 with \$2.3 billion in sales.¹⁴³ It was followed by Vision Source (\$2.2 billion), Walmart (\$1.5 billion), National Vision (\$890 million), Visionworks (\$880 million), and Costco (\$833 million).¹⁴⁴ Luxottica had 4,631 retail locations in North America in 2014.¹⁴⁵ Its retail outlets included LensCrafters, Pearle Vision, Sunglass Hut, Oliver Peoples, Sears Optical, Target Optical, Alain Mikli, The Optical Shop of Aspen, ILORI, Sunglass Icon, and "O" Stores and Vaults.¹⁴⁶ Furthermore, it operated several e-commerce websites, including Oakley, Ray Ban, Sunglass Hut, and glasses.com.¹⁴⁷ Sunglass Hut, which was founded in Miami in 1971, was Luxottica's largest sunglasses retailer. It operated 1,918 stores in North America,¹⁴⁸ saw its 2014 total sales increase 13.5%,¹⁴⁹ and had a global operating income of \$708 million.¹⁵⁰ On the other end of the price spectrum, FosterGrant was a Rhode Island-based company that was the largest distributor of moderately priced sunglasses (under \$30) in the U.S.¹⁵¹ The company had originally popularized tinted sunglasses for the larger consumer market in the 1930s.¹⁵² It also accounted for 70% of the U.S. over-the-counter (OTC) reading glasses market.¹⁵³ FosterGrant sold its products in over 85,000 outlets around the world¹⁵⁴ and had about \$200 million in annual revenue.¹⁵⁵

Entering the U.S. Market

Chilli Beans' U.S. expansion proved difficult. (See **Exhibit 20** for Chilli Beans' U.S. financials.) American consumers were conditioned to a more sophisticated, highly competitive, and mature retailing environment than what was found in Brazil. "I have no pricing competition in the U.S. right now," said Maia. "But if another company copies my pricing, I will lose. There's an open space and I need to move fast. Luxottica tried to buy us three times. They offered to change 200 Sunglass Huts in the U.S. into Chilli Beans stores to launch the brand. They own everything. Manufacturing, retail, everything, but I don't want to sleep with an elephant." "We had trouble when we first entered the U.S.," said Guimaraes. "Our first billboard campaign just had the company name, but didn't even mention sunglasses. People thought we were a Mexican restaurant. We are going slower now to go faster in the future. We are working more on digital and building e-commerce." "We hired a good marketing guy who tried to understand how to make the brand interesting to American consumers," added Riberio. "He did a great job of expanding the brand and finding locations, especially in Los Angeles. The problem was that he was great at marketing, but not operations. We needed someone who knew how to manage operations, pricing, and a salesforce."

Chilli Beans discovered that kiosks did not work as viable POSs in the U.S., and eventually closed them down, reducing its U.S. POSs from 20 to eight. A weaker Brazilian currency made real estate investments more costly, especially since stores were much more expensive than kiosks. "I'm frustrated with the U.S. Americans aren't ready to spend money in kiosks because they believe the products are of poor quality," described Maia. "They don't know the brand. That means that we have to open stores because that's where Americans like to shop. To open a store in the U.S., we have to spend \$1 million

on the key fee and then another half a million to build it. Kiosks cost \$20,000. We also have a very expensive back office. Right now, we're making \$4 million in sales in the U.S. with a 10% profit. That's \$400,000, but back office costs are \$900,000. The U.S. is our biggest challenge."

Finding motivated employees proved to be difficult. "We have a big challenge in the U.S.," said Maia. "Retail employees don't love their companies. At the Gap or Abercrombie, employees are just waiting for checks. You only see love for the company at Apple and Starbucks." Furthermore, Chilli Beans soon found their customers in the U.S. to be less loyal to the brand than in Brazil. "Customers just care about discounts," continued Maia. "U.S. customers are obsessed with promotions and sales. They won't buy without a sale. I'm trying to introduce something different into the country that isn't a commodity. We have a store in Beverly Hills. The mall started charging parking and the sales went down by half. I was creating a great relationship with customers, but they stopped coming back."

"Beyond paying down a lot of Chilli Beans' debt, a large chunk of our investment went into U.S. operations, which I believe was money poorly spent," said Pinto. "We were unprepared for the market challenges. We relied too much on intuition and not enough on data. The management of the stores was poor, the company didn't understand the U.S. market, and we spent too much on overhead. I would focus on Brazilian expansion. When you become the leader in a market in which you can double your size by using your current model, that growth should be your priority." Despite Chilli Beans' difficulties in the U.S., Maia remained committed to expanding in the market. "We're going to be building a new store in Miami," he explained. "Maybe we should have concentrated our efforts in Miami first instead of California, grown the brand, and then expanded. Miami is the reference point and dream location of people all over Latin America, ten times more than California."

Looking Ahead

Finding the right balance is one of the most difficult things to deliver. We are professionalizing and getting tougher with the relationships and metrics, but balancing the culture with new policies will be difficult.

— Felipe Meldonian, Chilli Beans CFO

As of 2015, Chilli Beans had about 60 million reais in debt. This was largely derived from two sources. The company initially had a very flexible posture with its network of franchisees. It accepted many investors who did not have the necessary managerial skills to operate a POS. A sizeable portion were unable to pay Chilli Beans on time or at all, accounting for between 45 and 50 million reais in debt. "At least 20% of receivables are question marks," said Meldonian. Chilli Beans also invested in two major initiatives: the flagship store in São Paulo and the move into the U.S. market, which both cost between 10 and 15 million reais. The company also experienced other pressures. "We now target about three months of inventory," explained Meldonian. "But when Gávea invested, Chilli Beans had nine months of inventory. It was enormous. We had very unbalanced working capital. Since 2013, we've been working on moving that inventory to earn back that investment. The exchange rate also hit us hard, since almost all of Chilli Beans' products are imported." Furthermore as Brazil's economy slowed, so did the demand for discretionary spending on items such as sunglasses. "When the economy was growing, sales grew faster than GDP," said Pinto, "We still have positive sales, but it's a tough market. We can't increase prices much more because our competitors are lowering their own—not to the level of Chilli Beans, but the gap is much narrower." "We're still opening new POSs at a very fast rate," added Evandro Tadei, a Chilli Beans board member. "As people are laid off, many want to start new businesses. We were named best franchise in 2014, and that's drawing a lot of potential franchisees who left the workforce."

Expanding into New Channels (Wholesaling)

Chilli Beans explored diversifying its distribution channels by partnering with other retailers to sell its products. “We are looking into partnering with a very big retail company,” said Meldonian. “They earn 50% of their revenues from other brands. In Brazil, we have 5,570 municipalities, and when you consider criteria for expansion, it would take too long to reach the smaller cities. We want to expand in the bottom of the pyramid without cannibalizing the market we already have. The downside is that we will not be able to ensure the same passion from the sales associates in multi-branded stores.” Another option Chilli Beans faced was expanding its product offerings. “For every pair of sunglasses sold, five prescription glasses are sold in Brazil,” said Pinto. “Now they compose a little over 10% of Chilli Beans’ sales. We can definitely increase that share. We might make a separate brand for prescription glasses that won’t be as trendy or young as Chilli Beans, but it would be for all ages.”

E-Commerce

Chilli Beans’ e-commerce website only went live in 2012. “Chilli Beans first concentrated on expanding its physical stores and franchises,” said Diego Agustini, Chilli Beans’ director of e-commerce strategy. “This became a problem. Customers started to complain about not being able to buy online. It’s impossible not to have an online store now.” To drive customers to the site, Chilli Beans advertised on sports, music, and fashion blogs. “You have to understand your customers,” continued Agustini. “That means that you have to go where your customers are.” Though online sales increased 30% between 2014 and 2015, the company was not afraid of cannibalizing its traditional outlets. “The channels are complimentary,” explained Agustini. “It’s very different buying sunglasses online than in a store. The website actually helps the stores sell more by educating customers about the new brands. The website has all of the newest releases.”

The U.S. online eyewear market experienced a 65% increase in units sold between 2009 and 2014 and reached sales of 27.5 million units in 2014.¹⁵⁶ Contact lenses dominated the market (17.7 million units), though 5.7 million units sold were sunglasses while an additional 2.5 million were prescription glasses.¹⁵⁷ As of 2015, Chilli Beans’ website only allowed customers in Brazil and the U.S. to buy online. Within the U.S., its ultimate goal was to account for 15% of the country’s total Chilli Beans sales. “Our e-commerce problem in the U.S. is the same as the overall brand’s,” explained Agustini. “People don’t know the company and it’s difficult to expand the brand online.” To increase sales and brand awareness, Chilli Beans considered selling its products on Amazon. “That could bring in a lot of money,” said Agustini. “But we don’t know if and when we’ll start selling on Amazon. We need to understand the American customers and market first.”

A Possible IPO

“I’d like to IPO the company,” said Pinto. “And I do think that Caito is the right CEO for a public Chilli Beans. He can bring people into the team who have the skills he lacks. He’s learned a lot during our relationship about making the company profitable. He’s the charismatic leader who’s the soul of the company and has the support of the other managers.” “I think that’s a reasonable target,” added Meldonian. “The brand is very strong. There are a lot of people knocking on our door. We can definitely reach 1,000 stores, though I don’t know if we can do an IPO with only that number. That would mean about 1 billion reais in revenue, 500 million of which would go to Chilli Beans corporate, and between 20% to 25% percent EBITDA, which is 100 million reais. I don’t know if that’s enough for an IPO, but we might have the right conditions to do that in three to four years.”

Reoxygenizing

Maia sat down on the dusty ground next to the rest of the Chilli Beans team to watch flames consume “The Man” and leap high into the cloudless desert night. They had spent the last several days braving sandstorms and sweltering heat, viewing massive outdoor art installations, and interacting with people from across the world. Nevertheless, Maia knew that the company still faced difficult choices when he returned to São Paulo. How would it manage the myriad problems franchisees were reporting from close to a dozen very different overseas markets? Would Chilli Beans need to institute a much more structured expansion policy within and without Brazil, rather than largely reacting to possible opportunities as they presented themselves? Should he postpone the company’s U.S. expansion plans or retreat from the market altogether to focus on Brazil? Despite the incredible success Chilli Beans had experienced since he first opened a makeshift stand with a hand-painted sign, Maia knew there was still much work left to be done if the company was to continue to grow. Maia temporarily pushed those thoughts out of his head, however. He wanted to fully absorb the culmination of Burning Man’s tribute to inclusion, self-reliance, and community.

Exhibit 1 Chilli Beans Employee Bios**Caito Maia**

Caito Maia, the founder Chilli Beans, the largest sunglasses retailer in South America, revealed that he loved watches even more than sunglasses. Indeed, he had a collection of over 180 watches. "Like mobile phones, the watch has ceased being only a utilitarian accessory that tells time. It has become a fashion accessory," he explained. In fact, he chose watches based on his outfits. Regarding sunglasses, Caito confessed a preference for pieces from the 1970s. "The 70s models are really attractive," he said, adding that he always chose sunglasses according to his particular mood.

Maia started selling sunglasses in the late 1990s, when he traveled to the U.S. to study music. He later chased success with his rock band, "Las Chicas Tienen Fuego." To increase his income, he decided to sell sunglasses he bought in California to his friends back in Brazil. "It was with the profit from sunglasses sales that I managed to come back to Brazil," he remembered. Eventually, Maia's sunglasses business became more profitable than music. "I won awards with the band, but the time came to make a choice, and retail had a stronger appeal." For a time, Caito sold sunglasses wholesale, which he distributed to multi-brand stores. "Once, a large supplier did not pay me, and I realized that there was no way I could run a business if I did not have control over the operation," he remembered. In 1998, he decided to invest in the creation of his own brand, and opened the first Chilli Beans store in the Ouro Fino Gallery, in São Paulo, Brazil.

Despite the brand's impressive growth rate, Maia was a consummate entrepreneur, and insisted on running daily operations himself. Every year, he and several other Chilli Beans executives traveled to the company's disparate POSs around the globe. During these "tours," Maia recognized the brand's hard-working employees, and identified problems and opportunities through direct contact with clients. As of 2015, Chilli Beans had 650 POSs throughout the world.

Ricardo Ribeiro

Ribeiro was the commercial director of Chilli Beans, the largest South-American sunglasses retailer. His responsibilities included overseeing business strategy, franchising, and international expansion. He had 20 years of experience in marketing, commerce, and retail. Before joining Chilli Beans, he worked for large multinational companies including Pepsico and Melitta, where he oversaw snack and beverage brand development in Brazil.

Felipe Meldonian

Meldonian has been Chilli Beans' CFO since 2015. He was previously the CFO of Codeme Engenharia (Usiminas Group). He had a Bachelor's degree in business administration. Meldonian had worked in management, finance, accounting, HR, investor relations, and IT.

Lázaro Carlos Mansur

Mansur earned his Bachelor's degree in business administration in 1992. Based in Rio de Janeiro, he has been an "Ellus" franchisee owner since 1985. He became a Chilli Beans franchisee in 2002 and, as of 2015, operated 37 POSs. Mansur had extensive experience in fashion retail, branding, franchising, shopping center negotiation, expansion, and business administration. He was a member of Rio de Janeiro's Chamber of Commerce Franchising Commission.

Manuel Rangel Macchiavello

Macchiavello earned an MBA from the Sao Paulo Business School. He was based in Lima, Peru. He had 15 years of experience in fast-moving consumer goods (FMCG) companies, including four years at Kraft Foods Peru and 10 years at AB InBev. Macchiavello specialized in marketing and sales. He helped manage several billion dollar brands, such as Budweiser, Brahma, Stella Artois, Corona, Philadelphia, Milka, and Oreo.

Marcos Pinto

Pinto joined Gávea Investimentos in May 2011. He previously served as commissioner of the Brazilian Securities Commission (2007 to 2010) and chief advisor to the president of the Brazilian National Development Bank (2005 to 2006). Marcos also worked as an attorney at Morrison & Foerster LLP in California (2001 to 2002) and Levy & Salomão Advogados in São Paulo (2003-2004), where he advised clients on M&A and private equity deals. Marcos held an LL.B. and Ph.D. in law from the University of São Paulo, an LL.M. from the Yale Law School, and a Master's degree in economics from Fundação Getúlio Vargas. He was also a visiting researcher at Columbia University and taught corporate law at Fundação Getúlio Vargas.

Jose Marcos Caporrino

Caporrino was the creative director of FractaMoma Propaganda. He had been responsible for Chilli Beans' branding and advertising campaigns since the company was founded.

Source: Company documents.

Exhibit 2 Brazil Financial Data (Billions USD), 2005-2014

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|-------|----------|---------|---------|---------|---------|---------|---------|---------|---------|
| Total GDP | \$891 | \$1,1010 | \$1,393 | \$1,697 | \$1,665 | \$2,209 | \$2,616 | \$2,413 | \$2,392 | \$2,346 |
| Disposable Income | \$579 | \$721 | \$900 | \$1,070 | \$1,092 | \$1,413 | \$1,680 | \$1,587 | \$1,581 | \$1,558 |
| Consumer Expenditure | \$525 | \$654 | \$815 | \$989 | \$1,006 | \$1,295 | \$1,536 | \$1,449 | \$1,443 | \$1,425 |
| Consumer Expenditure on Jewelry, Silverware, Watches, Clocks, and Travel Goods | \$1.3 | \$1.6 | \$1.9 | \$2.2 | \$2.3 | \$2.8 | \$3.2 | \$2.9 | \$2.8 | \$2.7 |

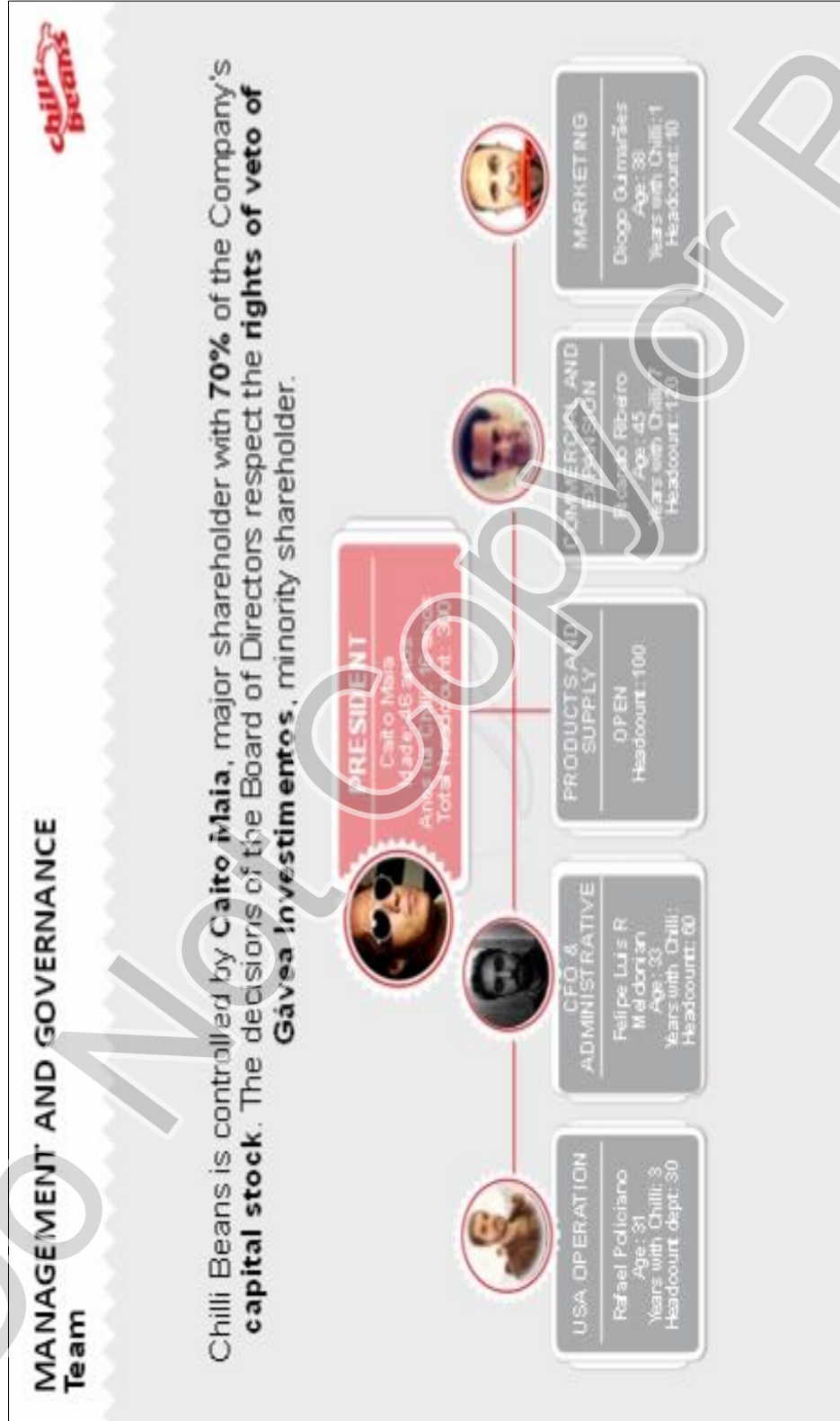
Source: Adapted from Euromonitor database, accessed July 2015.

Exhibit 3 Chilli Beans Logos, Tattoo, and Maia with Employees



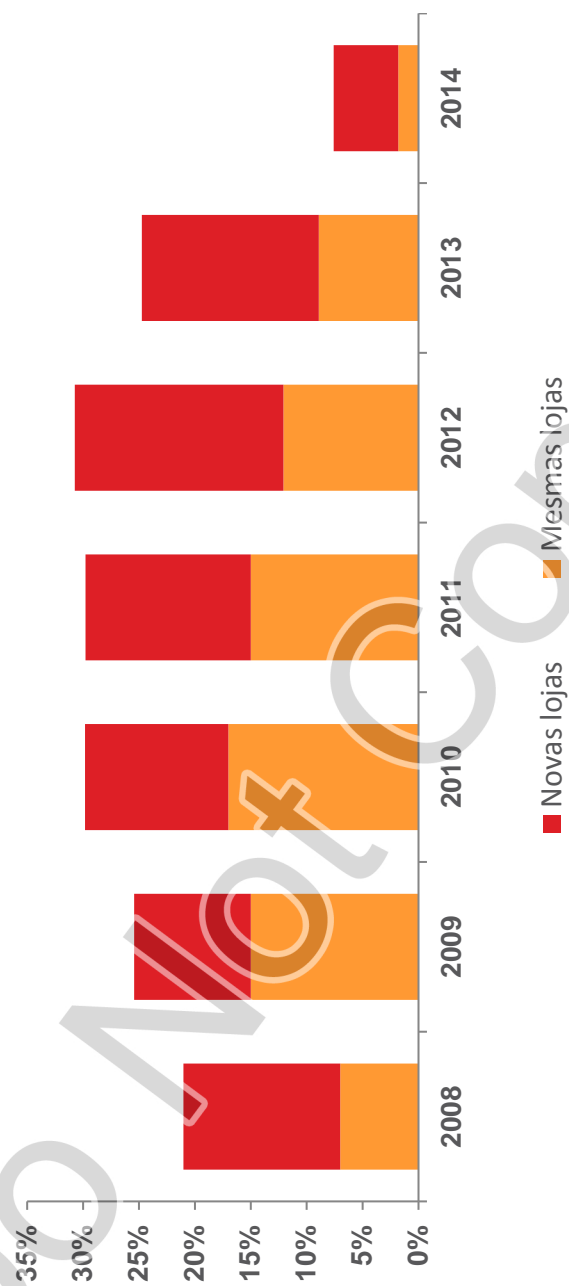
Source: Company documents.

Exhibit 4 Chilli Beans' Management Team



Source: Company documents.

Exhibit 5 Chilli Beans' Retail Growth, 2008-2014



Source: "Institutional Presentation," PowerPoint presentation, Chilli Beans, 2015, p. 8.

Note: "Novas lojas" means "new stores." "Mesmas lojas" refers to existing stores.

Exhibit 6 Navio Chilli Beans

Source: Company documents.

Exhibit 7 Chilli Beans' POS Regional Breakdown and Expansion Potential in Brazil, 2014

| Region | Current Base | Expansion Potential | % of National Population | % of National GDP |
|-----------|--------------|---------------------|--------------------------|-------------------|
| North | 52 | 21 | 8% | 5% |
| Northeast | 128 | 79 | 28% | 13% |
| Midwest | 53 | 37 | 7% | 8% |
| Southeast | 310 | 135 | 43% | 49% |
| South | 82 | 40 | 14% | 15% |
| Total | 625 | 312 | 100% | 100% |

Source: Adapted from "Institutional Presentation," PowerPoint presentation, Chilli Beans, 2015, p. 9 and Rebeca Duran, "Brazilian Regions," *The Brazilian Business*, October 21, 2013, <http://thebrazilbusiness.com/article/brazilian-regions>, accessed September 2015.

Exhibit 8 Annual Chilli Beans Retail Sales by Country (Reais), 2014

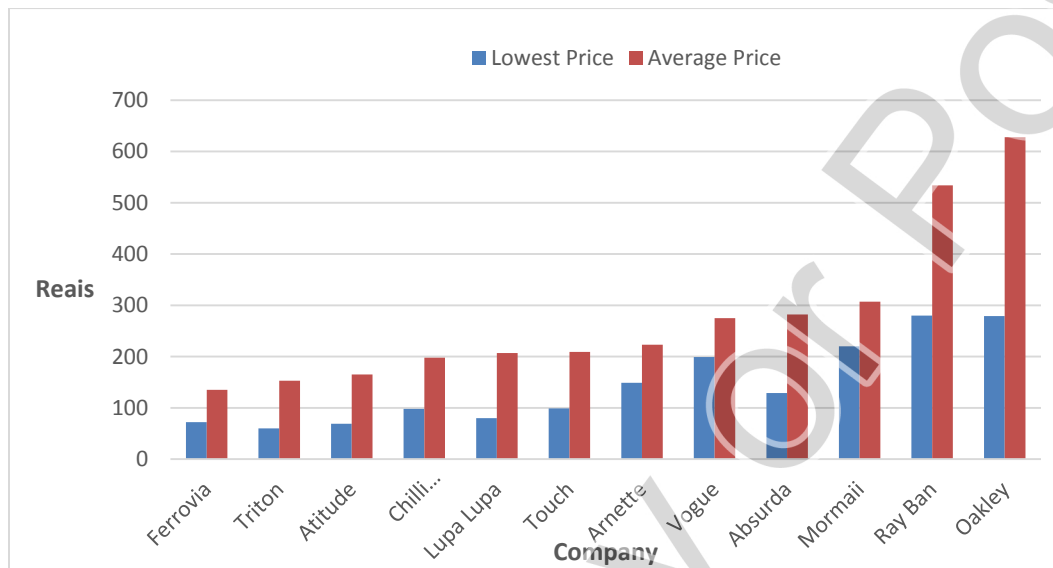
| Country | Sunglasses | Watches | Prescription Glasses | Lenses | Bags | Other | Total |
|---------------------|--------------------|-------------------|----------------------|------------------|----------|---------------|--------------------|
| Brazil | 360,202,741 | 84,574,513 | 37,044,271 | 6,797,572 | - | - | 488,619,097 |
| U.S. | 4,220,399 | 1,481,024 | 500,583 | - | - | - | 6,202,005 |
| Portugal | 3,596,942 | 918,477 | 261,389 | - | - | 40,652 | 4,817,459 |
| Colombia | 1,525,163 | 403,168 | 548,373 | - | - | 12,309 | 2,489,013 |
| Peru | 1,086,610 | 401,644 | 302,503 | - | - | - | 1,790,758 |
| Mexico | 136,247 | 31,099 | 15,762 | - | - | 1 | 183,108 |
| UAE | 119,073 | 7,368 | 8,564 | - | - | 203 | 135,208 |
| Israel | 362,851 | 51,666 | 35,579 | - | - | 6 | 450,101 |
| Kuwait | 3,322,230 | 904,032 | 450,289 | - | - | 141 | 4,676,691 |
| Total International | - | - | - | - | - | - | 20,744,344 |
| E-Commerce | 3,168,760 | 1,321,957 | 510,943 | - | - | - | 5,001,660 |
| Total | 377,741,015 | 90,094,947 | 39,678,254 | 6,797,572 | 0 | 53,313 | 514,365,101 |

Source: Company documents.

Exhibit 9 Chilli Beans Company Financials (thousand Reais), 2014-2016

| | 2014 | 2015 (est.) | 2016 (est.) |
|--------------------------------|---------|-------------|-------------|
| Gross Revenue | 209,254 | 246,920 | 283,958 |
| Taxes | 36,937 | 43,586 | 50,124 |
| Returns | 4,785 | 4,783 | 4,783 |
| Liquid Revenue | 167,532 | 198,511 | 229,051 |
| Products | 82,483 | 97,330 | 111,929 |
| Other Indirect Sources | 6,220 | 6,718 | 7,255 |
| Credit on Returns | -2,221 | -2,221 | -2,221 |
| Gross Profit | 78,491 | 93,907 | 108,989 |
| Operational Expenditure | 41,179 | 43,238 | 45,400 |
| Reserves | 6,599 | 7,259 | 7,985 |
| EBITDA | 30,713 | 43,410 | 55,604 |
| Depreciation and amortization | 3,842 | 4,034 | 4,236 |
| Financial Expenses | 5,594 | 5,594 | 5,594 |
| Profit Before Tax | 21,277 | 33,783 | 45,755 |
| Income Tax/Taxes on Net Income | 6,672 | 9,205 | 12,705 |
| Liquid Profit | 14,605 | 24,578 | 33,069 |

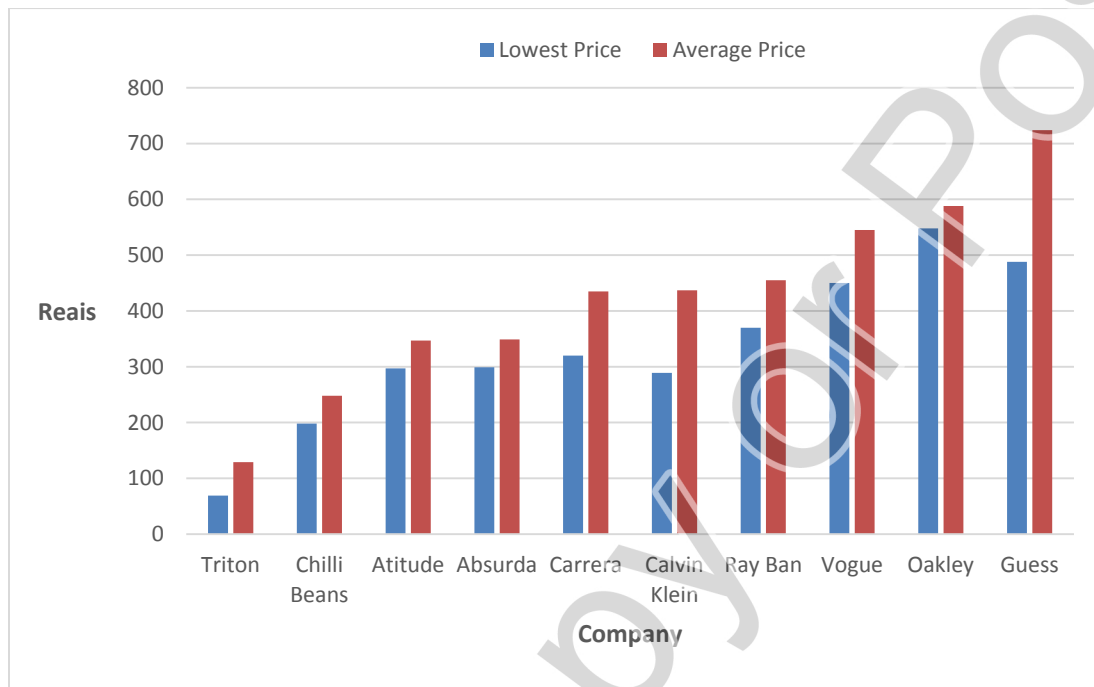
Source: Company documents.

Exhibit 10a Chilli Beans Sunglasses Prices Compared to Competitors, 2015

Source: Adapted from "Institutional Presentation," PowerPoint presentation, Chilli Beans, 2015, p. 16.

Exhibit 10b Chilli Beans Watch Prices Compared to Competitors, 2015

Source: Adapted from "Institutional Presentation," PowerPoint presentation, Chilli Beans, 2015, p. 16.

Exhibit 10c Chilli Beans Prescription Glasses Prices Compared to Competitors, 2015

Source: Adapted from "Institutional Presentation," PowerPoint presentation, Chilli Beans, 2015, p. 16.

Exhibit 11 Chilli Beans' Digital Mirror

Source: Company documents.

Exhibit 12 Chilli Beans Kiosk



Source: Company documents.

Exhibit 13 Chilli Beans Standard Store



Source: Company documents.

Exhibit 14 Chilli Beans Concept Store



Source: Company documents.

Exhibit 15 Chilli Beans Flagship Store

Source: Company documents.

Exhibit 16 Chilli Beans Marketing



Source: Company documents.

Exhibit 17 “E Se Colocar Pimenta” Ad Campaign



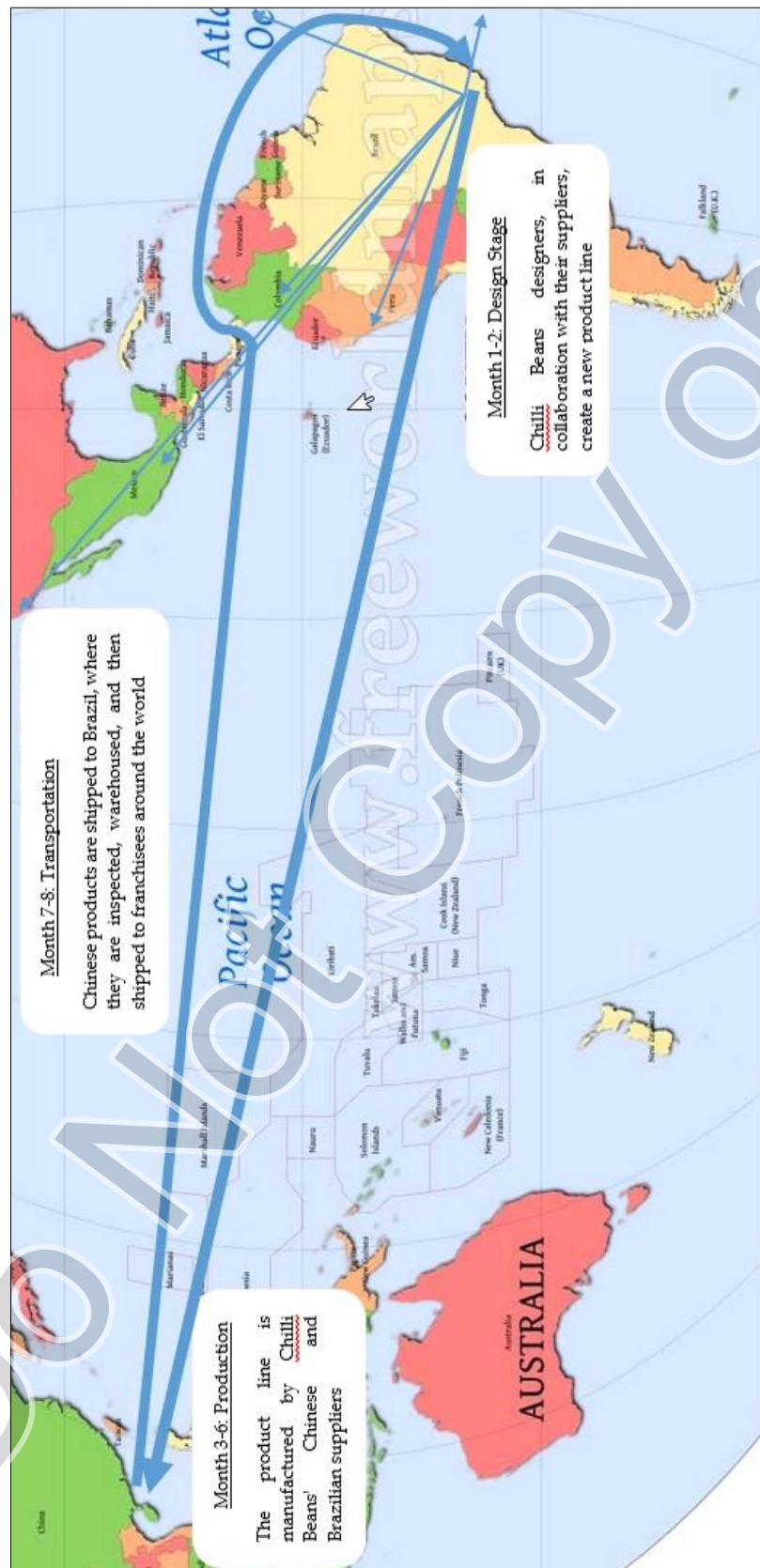
Source: “Nova campanha da Chilli Beans – Baixe os Wallpapers,” *Blog da Chilli Beans Atibaia*, Chilli Beans, December 13, 2010, <https://chillibeansatibaia.wordpress.com/author/chillibeansatibaia/page/2/>, accessed October 2015.

Exhibit 18 Chilli Beans Marketing Campaign Themes, 1998-2010

| Year | Campaign | Female Rivalry | The Dictatorship of Beauty | "Brazilianess" | Material Power | Sexuality | Alpha Female | Beta Female | Sexual Power | Alpha Male | Post-Modernism | Pleasure | Urbanism |
|------|----------------------------------|----------------|----------------------------|----------------|----------------|-----------|--------------|-------------|--------------|------------|----------------|----------|----------|
| 1998 | <i>Ciúmes</i> (Jealous) | X | X | X | X | | | | | | | | |
| 2000 | <i>Peladas</i> (Naked) | | X | X | X | X | X | X | X | X | | | |
| 2002 | <i>Fetche</i> (Fetish) | | X | | | X | | X | X | X | | | |
| 2003 | <i>Olhos</i> (Eyes) | | | X | | | | | | | X | | |
| 2005 | <i>Pornochanchada</i> | X | X | X | X | X | X | X | X | X | | | |
| 2006 | <i>Relógios</i> (Watches) | | | | | X | | X | | | X | X | |
| 2007 | <i>Special</i> | | X | | | X | | | | | | X | |
| 2008 | <i>Compulsão</i> (Compulsion) | | X | | X | X | | | | | | X | |
| 2009 | <i>Novos Mundos</i> (New Worlds) | | X | | X | X | X | X | X | X | X | X | X |
| 2010 | <i>Pimentas</i> (Peppers) | | X | X | | X | X | | | | | X | |

Source: Ildemberg Leite de Souza and Andre Luiz Maranhao de Souza Leao, "Dionísio Usa Chilli Beans? – Análise Mitológica da Publicidade da 'Marca Chilli Beans,'" *Revista de Administração Contemporânea*, October 2013, p. 588, <http://www.scielo.br/pdf/rac/v17n5/v17n5a06.pdf>, accessed July 2015.

Exhibit 19 Chilli Beans' Supply Chain Timeline



Source: Casewriter.

Exhibit 20 Chilli Beans' U.S. and Brazilian Financials, 2014

| | Brazil Average | U.S. Average |
|--------------------|-----------------------|---------------------|
| Gross Sales | 100% | 100% |
| Discounts | 3% | 5% |
| COGS | 39% | 15% |
| Taxes | 10% | 0% |
| Rent | 11% | 39% |
| Payroll | 17% | 40% |
| Administrative | 3% | 7% |
| Advertising Fund | 3% | 3% |
| Financial Costs | 2% | 0% |
| Operational Profit | 12% | -11% |

Source: Company documents.

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