Conference Call (English Transcription)

Vulcabras Azaleia

Earnings Release 3Q20

November 10th, 2020

Operator: Good morning and thank you for waiting. Welcome to the Vulcabras Azaleia conference call to discuss results for 3Q20. Present today with us are Pedro Bartelle, CEO of the company, Mr. Wagner Dantas, CFO and Investor Relations Officer and our Investor Relations team, Mr. Valdinei Tortorelli, Ms. and Ms. Luciana Serrano

We inform you that this event is being recorded and that all the participants will be only listening to the conference call during the presentation of Vulcabras Azaleia. Then we will start the Q&A session, when further instructions will be provided. If you need any assistance during the conference call, please request the assistance of an operator by entering * zero.

This event is also being transmitted simultaneously through the internet, via webcast, and can be accessed at www.vulcabrasazaleiari.com.br, where the respective presentation is available. The selection of the slides will be controlled by you. The replay of this event will be available soon after its closure. Please note that webcast participants will be able to register, via website, questions for Vulcabras Azaleia, which will be answered after the end of the conference, by the IR area.

Before proceeding, we would like to clarify that any statements that may be made during this conference call regarding Vulcabras Azaleia's business prospects, projections, operating and financial goals, constitute beliefs and assumptions of the Company's Management, as well as information currently available for Vulcabras Azaleia. Future considerations are not performance guarantees, involve risks, uncertainties and assumptions as they relate to future events, and therefore depend on circumstances that may or may not occur.

Investors and analysts should understand that general conditions, industry conditions and other operating factors may affect the future results of Vulcabras Azaleia and may lead to results that differ materially from those expressed in such future conditions.

I would now like to give the floor to Mr. Pedro Bartelle, CEO of the company, who will begin the presentation. Please, Mr. Pedro Bartelle, you may proceed.

Mr. Pedro Bartelle: Welcome to the Vulcabras Azaleia results conference call. Vulcabras Azaleia discloses hereby its financial results for the third quarter of 2020 amid an economic recovery, after the most arduous period of the pandemic, and reports with optimism the recovery of its results

Faced with a scenario of macroeconomic recovery that is still slow, but gradual, data from the Brazilian Institute of Geography and Statistics (IBGE), in September, state that retail registered an increase of 5.2% in July, in comparison with June of this year.

Directly linked to this scenario is the footwear sector, segment that was positively impacted with the resumption of activities of physical commerce in large centers which, according to data from the Brazilian Footwear Industries Association (ABICALÇADOS), accounts for more than 40% of the total of shoes sold in Brazil. Also, according to the Brazilian Association of Handicraft and Footwear Retailers (ABLAC), the Retail Performance Index (IPV), in September, and in the footwear sector as a whole, recorded a positive visitor flow of 12.4%, compared to the same month of the prior year.

In this quarter, we reported healthy sales growth, with the rebuilding of our gross margin and better balance of expenses within this scenario. The pace of sales and production in this third quarter was equal to that of pre-pandemic periods, which evidences the effectiveness of the measures adopted thus demonstrating a growth trend for the second half, as a whole.

In 3Q20, the Company posted net revenue of R$ 382.9 million, an increase of 6.5% compared to 3Q19. Gross Margin was 34.2% in 3Q20, down 0.5% when compared to 3Q19. EBITDA registered R$ 66.3 million, an increase of 2.6% compared to R$ 64.6 million in 3Q19.

The maintenance of the portfolios of the first half of the year, combined with the good performance in receiving orders for the new collections of the second half of the year (Olympikus and Under Armour), launched in July, were fundamental for the full recovery of our manufacturing operations. In July, we had already discontinued the adoption of Provisional Executive Order (MP) 936, which allowed us to operate with reduced working hours.

The use of this Provisional Executive Order, during the critical period of social distancing, enabled the Company to strategically preserve its productive and distribution capacity, thus allowing both a rapid and sharp recovery of results.

We still live with the pandemic and continue to care for the people and communities in which we operate. The security protocol adopted remains very strict in the manufacturing plants, where we protected around 300 people identified as belonging to risk groups. Most of the activities in the commercial, administrative and financial areas continued to be carried out under the home office regime.

In July, we launched the collections of the second half of the year (Olympikus and Under Armour) in an innovative, dynamic and 100% digital format. The success of these collections, seen in the volume of orders made, is due to the relentless pursuit of innovation. New technologies introduced in the plants allowed the construction of increasingly lighter and more efficient models. This has enabled us to build and offer our consumers the widest portfolio of products based on the best cost-benefit ratio in the market.

The performance of our brands' online stores maintained the same trend of expansion recorded over the prior quarters, thus registering a growth of 234.7% over the same period in 2019 and 32.3% over the prior quarter.

In September 2020, the Company announced two strategic changes that endorse its decision to focus its efforts on the sports footwear category, a key segment where the Company has its greatest strengths. In September, the Company announced the purchase of the Mizuno (a leading brand in the running shoe category) operation in Brazil, previously operated by Alpargatas S.A., which, after the fulfillment of the precedent conditions, including CADE's approval, it joined the Olympikus and Under Armour brands becoming part of our sports brand portfolio, where each brand has a different purpose and “target consumer”.

The announcement on the acquisition of the Mizuno operation in Brazil was followed by an announcement regarding licensing of the Azaleia brand to Grendene, which is recognized as a successful manager of women's footwear brands and which has all capability to continue building value in the Azaleia brand, which remains a significant asset for the Company. With this, the Company will start to produce sports shoes exclusively in its factories, generating more scale and synergy.

Where, despite the uncertainties in this atypical year of 2020, Vulcabras Azaleia remained focused on the search to expand its business and capture strategic opportunities. It continues to add value to its brands, develop products and technologies that bring the best value proposition as perceived by the consumer and in the improvement and adding value to its employees.

It is through these ideals and with an optimistic vision of the future that Vulcabras Azaleia believes in its growth and in a prognosis of increasingly better results

Now the presentation of our performance in the quarter. I would now like to give the floor to Mr. Wagner Dantas, our CFO and Investor Relation Officer,

Mr. Wagner Dantas: Good morning everyone. We started the presentation with **slide 5,** gross volume of pairs and pieces.

In 3Q20, gross volume billed totaled 7.9 million pairs/pieces, with growth of 8.6% compared to 3Q19 7.3 million pairs/pieces.

After going through the entire 2Q20 with operations interrupted or operating partially, the Company entered the month of July with the factories operating in the fullness of the available capacity and continued to do so during all subsequent months of the quarter.

The resumption of sales occurred with the products from collection for the first half of the year that were included in the pre-pandemic orders and which were maintained by customers. At the end of July, the new Olympikus, Under Armour and Azaleia shoes collections for the second half of the year were presented. Following launch of the new collections, the growth in the volume of orders occurred very quickly and made it possible to fill the production capacity for the entire second half of 2020.

In view of this positive response from the market, the Company quickly resumed its pace of revenue and, consequently, its revenue growth.

The volume sold grew in almost all categories in 3Q20, with the only exception being the category of women's footwear, which presented a retraction mainly due to the drop in sales of branches abroad, which still face restrictive difficulties due to the adoption of social distancing measures.

In the first nine months of 2020, the gross volume billed amounted to 15.4 million pairs/pieces, a reduction of 22.2% as opposed to the volume in the first nine months of 2019, of 19.8 million pairs/pieces.

On page 06, we present the net revenue per product category.

In 3Q20, net revenue was R$ 382.9 million, a 6.5% increase over R$ 359.4 million in 3Q19.

The 3rd quarter of 2020 began with the easing of social distancing measures in all Brazilian states and with the reopening, even if only partially, of most physical retail. As of July, still taking advantage of the pre-pandemic order book, the Company resumed operation of the factories in the fullness of available capacity, thus continuing throughout the subsequent months of the quarter.

Athletic Footwear revenue increased by 4.0%, with a positive performance both in the domestic and foreign markets. Both revenue from Olympikus footwear and Under Armour footwear increased compared to the same quarter of the prior year.

The Women Footwear category recorded a decrease of 12.8% when compared to the same period of 2019. During the period, there was a decrease in revenue from sales to the domestic and foreign markets, due to the drop in sales volume.

The Apparel and Accessories category recorded an increase of 32.2% compared to 3Q19. Both Under Armour and Olympikus revenues increased. The category of other footwear and other increased by 84.0%, mainly driven by the growth in sales in the boot category.

In the first nine months of 2020, net revenue was R$ 720.2 million, 27.0% lower than in the first nine months of 2019, when it was R$ 986.1 million.

On page 07, we present the opening of net revenue per market.

Net revenue in 3Q20, in the domestic market, totaled R$ 357.8 million, an increase of 7.3% compared to 3Q19, when it was R$ 333.5 million.

In the domestic market: the increase is due to the increase in almost all categories, with women footwear being the only exception. With the reopening of physical stores, even with restrictions on access and opening hours, retail sales once again took center stage in our revenues. The e-commerce with the Company's brands maintained the trend of expansion and robust growth.

In the foreign market, net revenue in 3Q20 was R$ 25.1 million, a decrease of 3.1% over the R$ 25.9 million posted in 3Q19.

In this quarter, there was an expansion in direct sales toe the foreign market in relation to the same period of the prior year. Despite all the difficulties due to the restrictions imposed by the adoption of measures to combat the Covid-19 pandemic by the countries that are the main destinations for these exports, a slow process of resumption of business can be observed. The positive highlight is that the trade resumption for Argentina is gradually being consolidated, despite the difficulties imposed by that country.

In sales of subsidiaries abroad, there was a decrease in relation to the same period of the prior year, but with a significant improvement in relation to the prior quarter. Some locations in the countries where the Company's subsidiaries, Peru and Colombia, are located have fluctuated between the partial and total closure of trade activities, which significantly interfered in the performance of these branches. At the end of September, all retail stores that the Company maintains in those countries were open and functioning, however, with reduced service capacity.

In the first nine months of 2020, the domestic market totaled R$ 652.8 million, a reduction of 28.2% in relation to the first nine months of 2019, when net revenue was R$ 909.1 million.

In the foreign market, net revenue in the first nine months of 2020 was R$ 67.4 million, 12.5% lower compared to the R$ 77.0 million obtained in the same period of the prior year.

Going to page 08, we have the presentation of the e-commerce channel

E-commerce with the Company's brands continued to expand and grew 234.7% over the same period last year and 32.3% over the second quarter of 2020.Net revenue in 3Q20 totaled R$ 16.4 million, compared to R $ 4.9 million recorded in 3Q19

Although it still has a small share in the Company's total revenue, 4.7% of the revenues for the first nine months of the year, the growth of this channel and its potential represent a great lever for expansion

In the first nine months of 2020, e-commerce revenue totaled R$ 34.2 million, an increase of 180.3% over the first nine months of 2019, whose net revenue was R$ 12.2 million.

The “Corre Junto Brasil” affiliate program, which was born as a possibility of supplementing income for physical education professionals, through the indication or recommendation of the products available in our online store, reached the number of 7,200 thousand affiliates enrolled at 9/30/2020. The Corre Junto Brasil project reaffirms Olympikus' commitment to the sport community, which seeks to transform ordinary people into digital entrepreneurs to supplement their income.

The Company continues to invest in the expansion of this channel, in order to support the pace of growth.

Going to page 09, we have the presentation of gross profit and gross margin.

Gross profit in 3Q20 was R$ 130.8 million, an increase of 4.8% over the R$ 124.8 million recorded in 3Q19. The gross margin was 34.2% in 3Q20, 0.5 p.p. below of the 34.7% recorded in 3Q19.

Despite the rapid resumption of production level and the excellent recovery of the order backlog, 3Q20 gross margin was still negatively impacted by the following factors:

- high cost inventories from the second quarter
- higher costs of goods produced, due to increased absenteeism;
- maintaining the same levels of profitability in the new collections presented, thus favoring the volume of sales;
- Increases in raw materials without transferring prices.

In the first nine months of 2020, gross profit was R$ 234.3 million, a reduction of 30.7% over the R$ 338.1 million in the first nine months of 2019. The margin in the first nine months of 2020 was 32.5%, down 1.8 p.p. compared to the first nine months of 2019 (34.3%).

Going to page 10, we present the selling and advertising expenses.

At the top of the slide, we have the graphs of selling expenses (excluding advertising) increased by 6.6% in 3Q20, compared to expenses reported in 3Q19. R$ 42.2 million was recorded in 3Q20, against R$ 39.6 million in the same period last year. As a share of revenue, selling expenses (excluding advertising expenses) accounted for 11.0% in 3Q20, the same share observed in 3Q19.

Variable commercial expenses remained at normal levels, in line with those presented in the last quarters. Freight expenses increased in the comparison of the quarters, influenced by the increase in online sales.

In the first nine months of 2020, selling expenses (excluding advertising expenses) were R$ 98.8 million, down 12.7% compared to R$ 113.2 million in the first nine months of 2019. The share of selling expenses over net revenue increased by 2.2 p.p. in the comparison between 9M19 and 9M20, from 11.5% to 13.7%.

In 3Q20, advertising and marketing expenses totaled R$ 12.8 million, a decrease of 36.3% over the R$ 20.1 million in 3Q19.

The share of advertising and marketing expenses over net revenue represented 3.3% in 3Q20, compared to 5.6% in 3Q19, a reduction of 2.3 p.p.

The decrease in marketing expenses is due to the fact it is not possible to carry out the planned schedule of events, which led to a revision of the marketing budget and its adaptation to the reality of the current scenario.

In the first nine months of 2020, expenses totaled R$ 37.0 million, a decrease of 22.1% compared to the first nine months of 2019, which totaled R$ 47.5 million.

Going to page 11, we have the statement of General and Administrative expenses.

Administrative expenses totaled R$ 27.4 million in 3Q20, an increase of 1.9% over the amount in 3Q19. As a percentage of net revenue, there was a reduction of 0.2 p.p., from 7.5% in 3Q19 to 7.3% in 3Q20.

During the quarter, there was stability in most of the components of this line item. In expenses with third-party services, the increase refers to the higher volume of expenses with the logistical operation of online sales.

In the first nine months of 2020, compared to the same period in 2019, there was a reduction of 2.0% in general and administrative expenses, from R$ 79.8 million to R$ 78.2 million. When comparing the percentage of net revenue, there is an increase of 2.8 p.p. in the first nine months of 2020 in relation to the equivalent period of the prior year

On page 12 shows the behavior of the financial result and the net debt.

In 3Q20, the Company reported a net financial expense of R$ 3.7 million in contrast to the same period in 2019, when it reported net financial income of R$ 0.3 million. In the comparison of the quarters, the main variation was observed in the increase in interest paid due to the increase in debt.

Net financial income (expense) changed from an expense of R$ 2.4 million in the first nine months of 2019 to an expense of R$ 0.5 million in the first nine months of 2020.

At the end of 3Q20, the Company had a net debt of R$ 30.6 million, R$ 52.5 million higher than that observed at the end of 12/31/2019.

Since the initial impacts from the pandemic, the Company has maintained its financial discipline and has sought to reinforce its cash using pre-approved credit lines, prioritizing incentive operations and with extended terms. Such measures aim to face the negative impacts that may still be caused by the Covid-19 pandemic on the Company's activity level.

On page 13, we have net income and Adjusted ROIC.

In 3Q20 the Company posted a net income of R$ 43.4 million, an increase of 3.8% over the net income of R$ 41.8 million in 3Q19. The net margin reached 11.4% in 3Q20, compared to the 11.6% in 3Q19 a reduction of 0.2 p.p.

It should be noted that in 3Q19 some "non-recurring" events positively impacted on the Company's net income by R$ 4.0 million.

The net margin in the nine-month comparison was reduced by 13.1 p.p., from 9.9% in the first nine months of 2019 to -3.2% in 2020.

Annualized adjusted return on invested capital (Adjusted ROIC) was 1.9% in 3Q20 - LTM (last twelve months ended 09/30/2020), a decrease of 16.4 p.p. over the result of 18.3 % obtained at 12/31/2019.

On page 14, we present EBITDA.

In 3Q20, EBITDA was R$ 66.3 million, an increase of 2.6% compared to the R$ 64.6 million recorded in 3Q19. The EBITDA margin decreased by 0.7 p.p. reaching 17.3% in 3Q20, compared to 18.0% in 3Q19.

It is worth mentioning that in 3Q19 some “non-recurring” events influenced the Company's EBITDA positively by R$ 6.4 million.

In the first nine months of 2020, EBITDA was R$ 38.4 million, a decrease of 76.3% over the R$ 162.3 million recorded in the first nine months of 2019. The EBITDA margin decreased by 11.2%, reaching 5.3% in 2020.

On page 15, we present Capex

In the third quarter of 2020, R$ 26.3 million was invested in property, plant and equipment. The investments made this quarter were intended to support the Company's operations. The significant reduction in the molds line item is due to the postponement of the launch of the new collections due to the widespread halt in the Company's operations as a measure to combat the Covid 19 pandemic. The investment in intangible assets in 3Q20 was R$ 0.4 million.

In the first nine months of 2020, the amount invested in property, plant and equipment totaled R$ 57.5 million. In intangible assets, the amount invested in the first nine months of 2020 totaled R$ 1.8 million.

On page 16, we present the cash flow

The cash variation in the first nine months of the year was R$ 217.6 million. The variation presented was essentially made up of the following events:

- EBITDA of R$ 38.4 million;
- an increase in bank liabilities of R$ 270.2 million;
- growth in long-term liabilities of R$ 6.2 million;
- investments in property, plant and equipment and intangible assets of R$ 58.2 million; and
- An increase in the need for working capital of R$ 33.9 million.

We conclude our presentation and open space for questions.

Thank you

Question and Answer Session

Operator: Ladies and gentlemen, we will now begin the question and answer session. To ask a question, please press asterisk 1. To remove the question from the list, press asterisk 2.

Our first question is from Mr. Otavio Magalhaes from Guepardo

Mr. Otavio Magalhaes: Good morning everyone. I have two questions to ask. First of all congratulations on the results.

The first question is: Regarding this down in costs for the 4Q due to the 3Q having higher costs from the 2Q pandemic, we would like to understand how much that would be, and if you can give any guidance, some hint to the market of how much this drop in cost would be, this improvement in gross margin for the 4Q

The second question is about imported goods. We have seen all competing brands raising prices due to this higher dollar, above R$ 5.00, all of them have passed on prices and we do not see this movement at Vulcabras.

I would like to understand when we would have this possibility of passing on prices, if it is an idea for you to pass on prices too, this is because the gross margin has down in recent years and the price ended up being a little out of step with the competition. We have space to increase this price mainly for 2021, and with that gain more gross margin in 2021, recover all that lost margin, thank you.

Mr. Wagner: Good morning, everyone, Otavio, thanks for the question, this is Wagner, I will answer the first question and I will ask Pedro to answer the second question. We do not provide guidance, but I think that in a qualitative way we can say that we do have an expectation of recovery, margin recovery for the 4Q, I think that due to some factors: one of them is the main quarter sales and the main quarter of production volume.

But we have some deflators that, as in the 3Q, we are selling a collection where we have not yet made price adjustments. We strategically prioritized, with the collection of the 2nd Semester, the recomposition of volumes, recomposition of scales, because at the moment when we launched this collection there was a lot of uncertainty regarding consumption, the resumption of consumption in retail.

I think that in a qualitative way we can expect the 4Q to return to levels of what it was in 2019, I think in a safe way.

Regarding the price increase, I am going to ask Pedro to mention a little.

Mr. Pedro: Good morning, everyone, Otavio, thanks for the question. In fact, in the last two years, the Sports Market has been struggling to pass on cost increases, a lot of competition in the market and in some cases large sales too.

It is a fact that several movements in the market have shown that the market will be a little more disciplined, either because of acquisitions or because of the increase in the dollar, for example.

It is true, we already feel a decrease in imports. They are not as relevant yet, but there is a downward trend and there is a tendency to adjust lagged prices. We, I think that, like many companies, had a lot of uncertainties about what the 2nd Semester of this year would be like, we were positively surprised with a quick resumption. We were prepared for this, we did not demobilize our business, we managed to make good adaptations during the crisis period.

July has already seen a very important recovery, and this shows that this quarter you are seeing not only a recovery, but also a growth and an improvement in indicators - this is a trend for the 4Q - and we have also launched our new collections, and then speaking of the year 2021, we launched them now at the end of October in a new reality of price pyramid, etc., which also shows that the trend in sales, growth and improved results in general is being confirmed.

So we see with optimism that the company's results have this tendency to improve. We improved a lot already in the 3Q - and reminding that coming from a pandemic period - our results, our profit are higher than last year, our indicators are already better than 2019 and this trend remains positive. So the is room to do better, for the price adjustment, yes, it is happening.

Mr. Otavio: Thank you.

Operator: The next question is from Gabriel Savi from BTG Pactual.

Mr. Gabriel Savi: Good morning guys. I would like to try to explore a little with you what, in your view, would be the main drivers of this very strong growth that you had in the top line, especially in this uncertain scenario. Is there a factor here in the retail sector that is already preparing for, perhaps, a little stronger demand in the 4Q or would it be another gain in your market share? Would it be there because of a slightly lower pricing point for Olympikus, which in this more uncertain scenario it ended up disadvantaging, either because of a shorter delivery lead-time that you have? I think any view on that would be very interesting.

The second question would be more about gross margin. If you could quantify a little for us how much of this 50 bps gross margin pressure we saw in the quarter that would come from this Inventory, which is a little more than the 2Q stock, and how much is coming from absenteeism, how much would be from a higher raw material price? I think it would also be cool for us to analyze, thanks.

Mr. Pedro: Gabriel thanks for the question. I believe that we made good decisions throughout the pandemic, throughout the crisis, to maintain our business, use all the provisional measures that existed, vacations, etc., and we managed to maintain the operation without demobilizing production and the entire team.

We knew that our business model, which is very fast, flexible, can serve the market in quick replacements, would be essential at a time when the resumption would come. In addition, we know that the footwear sector unfortunately lost 20% of its jobs during the pandemic, so many companies ended up disorganizing a little and maybe even demobilizing.

We took advantage of this pent-up demand and grew. We were able to serve the market and in our assessment here, in our numbers, we are gaining relevant market share. I think that these decisions were fundamental, but also our adaptation speed, collections very focused on having a good cost-benefit ratio - which is already our specialty - and this quick market replacement that is making us gain share, and is our big challenge now, is to keep growing, both in the 4Q and next year. So I attribute a lot to our business model and the decisions made to keep the operation healthy.

Regarding the gross margin, as I said before, we had difficulty in the last two years to readjust prices. The entire market had a lot of sales, with many promotions. There are still many promotions; there are still surpluses in both production and imports that hinder sales a little.

You follow the sports market, you know that it is difficult to know exactly what the price of a shoe you like to buy is, it is difficult to understand exactly what the price is for that shoe, because there are many sales on the market - but the trend is towards normalization due to the movements that exist in the market in national companies, acquisitions and commitments to generate good results.

Vulcabras now has three Sports Brands for next year, I think we will help, among all Brazilians, to discipline the market a little more, as importers end up selling many shoes in Brazil, they end up using Brazil as a country to continue selling world surpluses of Asian production, but I see a positive trend.

This is making it possible for us to adjust some prices and have a tendency to be able to launch products with a little more margin, to increase our product portfolio in various segments and various price ranges.

Just to complete, now with the arrival of Mizuno for Vulcabras we will have Olympikus, Mizuno and Under Armour. CADE's approval for the acquisition of Mizuno is lacking, but we will operate widely in the market in practically all price ranges and market segments.

I will pass it on to Wagner for him to complete, thanks.

Mr. Wagner: Gabriel, the 3Q gross margin I think the main deflator really was the cost of products sold in the month of July, where I venture to say that almost 70% of the sales in July it comes from production made in the 2Q, where the cost was highly compromised by the workload reduction, loss of efficiency with this super short workday and this is a relevant month within the quarter.

The issue of absenteeism we mentioned it because it is something that hindered the organization inside the factory, the setup, but that we managed to compensate reasonably even by compensating the hour banks that we loaded in 2Q when the factories reduced working hours, but were physically closed even as a result of government decrees.

We ended up loading a few hours of compensatory time off and during this 3Q we ended up compensating for that on some Saturdays and that was a determining factor in being able to absorb the deflation caused by absenteeism. I think that in a relevant way, even the most compromised, did not allow this margin in the 3Q to recover in a more positive level, it was really the cost of goods sold, the cost of products sold throughout July.

Mr. Otavio: ok, thanks Pedro and Wagner

Mr. Pedro: Thank you

Operator: ladies and gentlemen, remembering that to ask questions just press star one

Mr. Wagner: well, we received a question from Rafael Ferreira on the webcast. I think it is a timely question and I will read it here so that Pedro can answer it.

Question: I would like to know, please, if you expect to produce Mizuno already in 2021 when CADE authorizes it and if you have a factory prepared for the production of Mizuno.

Mr. Pedro: Rafael thanks for the question. Just to recap, we are very confident that CADE will approve the acquisition. Anyway, we are working in cooperation with Alpargatas and with Mizuno International very well. The transition will be made in a very healthy way with a great understanding between the companies and the brand itself.

Our expectation is, and we have been working for some time to start producing Mizuno in our factories in January - remembering that our factories are factories that produce any type of footwear. Our factories are as modern as any Asian factory. We already produce Under Armour's most expensive and technological shoes in Brazil, for example, which is called HOVR technology.

We are not seeing any difficulties in starting production, the processes are similar. Each brand has a particularity of process and quality requirements, but Vulcabras has decades of experience representing several brands and we are getting ready - and it is worth commenting here that the decision to acquire Mizuno comes together with the licensing decision in our Women footwear, which will open space for Mizuno's production, and, in addition, we are structuring the company a little more because the arrival of Mizuno is an operation three times bigger than our Women’s footwear operation today.

In addition to occupying the Women footwear capacity from January to produce the three brands, to fit Mizuno we are still increasing our production capacity a little more. We will start producing and we are very confident that we will be able to make a very well made transition.

Operator: ladies and gentlemen, again, to ask a question, please press star one.

Our next question comes from Mike Nicholas from Garín Investimentos

Mr. Mike Nicholas: Gentlemen, good morning. First thanks for the space, congratulations on the exhibition. Our question comes in the sense that in addition to the crisis factor, the movement in the price of raw materials and the effective access to inputs have affected especially the smaller peers, and then generating some prospect of concentration.

We would like to know if the company has any expectations of expanding market share from this movement and if you can give an overview of how do you intend to generate a market share expansion that was mentioned, thank you.

Mr. Pedro: Mike this is Pedro, thanks for the question. Commenting on raw materials, it is known by everyone that various costs have increased, and even during this end of year, some problems have occurred due to shortages and delays in raw materials. We, like all other companies, are suffering from this, but in any case, we are not missing, we had some mismatch in the receipt.

We do see some companies with more difficulties, as you said, smaller companies with some difficulties, and I think that the market that has disorganized a little and many companies that have demobilized, are at that moment in a slightly slower recovery, seeing the market with great pent-up demand - and here we are managing to take advantage of this moment.

We already see a gain. In our point of view, you have a 3Q higher than the year 2019, knowing that commerce is still experiencing some difficulties, mainly in physical stores, already shows that Vulcabras has managed to take advantage to win this market.

I do see that our share has been increasing. We have a reading of 40% of the sell-out of our customers, that is, we do not have our own stores, but we have a weekly sales control of 40% of our sales, of our customers, we get this information and see that our participation in customers has already increased.

The trend is to continue. We are optimists and looking for a good moment for Vulcabras, we are already in the right step. At the end of October, we launched the complete 2021collections, including making the necessary investments, renovating collections, and even increasing with the arrival of the new brand, from Mizuno, it will greatly increase the amount of products available to our customers.

Olympikus maintains its collection. It has a small expansion, but Under Armour has a very interesting growth, it will enter the third year that Under Armour is with us and our growth plan has been going on.

So expanding Under Armour, keeping Olympikus thriving as it is, and now Mizuno is coming, we, with this focus on sports, believe that the company will grow. This is logical due to the entry of the new brand, but the market is giving us a good opportunity to grow and we are prepared with management, especially with our factories that are very modern and very efficient and already working at maximum capacity.

Mr. Mike: perfect, thank you

Operator: ladies and gentlemen, remembering that to ask questions just press star one

Mr. Wagner: Well, there is one more question that we received through the webcast, which we believe is a relevant question and we would like to answer here on the call.

I will ask the question. It came from Khalil Lima of Reach Capital:

Good morning. I would like to know what actions you plan for Under Armour, that is, it seems to me that the brand is still little known in Brazil, but that it has enormous potential in comparison to Nike and Adidas, especially in clothing.

Mr. Pedro: Good Morning Khalil, thanks for the question. Yes, Under Armour is still young in Brazil and is also a young brand in the world. Under Armour is the third largest sports brand in the world. It is a brand that resembles the two world leaders, because it is a multisport brand that operates in several sports segments.

It is very strong in the USA. It is a very elite brand in Brazil, it is known by the classes A and B. It is a brand that has been growing, but has a huge space to grow, remembering that, as we are a company that licenses the brand, we also depend on the success of the brand and its chosen paths and strategies, especially its products worldwide. The more the brand performs worldwide, the more we can take advantage in Brazil by selling strategies and products.

But it is also important to say that a Vulcabras is an expert in developing sports shoes. We have the largest development and technology center in Latin America with more than 600 people working for products and technologies in Rio Grande do Sul, in Parobé, and this is seen internationally by the brands that we represent, but also by Under Armour, as a great differential, competitive. So it gives our local production, half of the products that are already being offered in the Brazilian market are raised by us; the other half are cloned and a part that is smaller is imported.

So you have an understanding, we have an important avenue for growth. It can be greatly enhanced by the success of the brand worldwide, but regardless, we are fully capable of implementing it as collections and creating product strategies aligned with the needs of the Brazilian consumer.

We have already done this with Adidas, Reebok, Puma and others…. with several brands and Under Armour is on a very interesting way. We believe a lot in the brand, so we also have very long-term contracts and a relationship that makes us understand that the brand is as if it were really ours.

Operator: Again, to ask a question, please press star one...

Operator: We now end the question and answer session. I would like to give the floor to Mr. Pedro Bartelle for his final remarks.

Mr. Pedro: Well, in my final remarks I just want to comment that I know that there are some questions and doubts about the Mizuno´s acquisition, but for now we are still waiting for CADE's approval to be able to talk a little more about the Mizuno business, but in any case, we reinforce: in 2021 we will have a company completely focused on the sport. We will operate widely in the Sports Market.

Practically all price ranges and sports segments with the three brands that in a certain way compete with each other, but that have different positions within Vulcabras: one is a specialist in high performance shoes, the other is an American brand multisport and Olympikus is a democratizer of sport in Brazil.To reinforce, we will be a more focused company, completely more focused on the sport, more efficient.

In addition, in my final remarks, I want to say a word of optimism. We are seeing a good moment for the Company with everything we have done over the past few months. We went through this difficult part of the crisis very well. We are on a growth bias and a very positive improvement in results.

Thank you all for your presence and we will remain at your disposal to clarify personally or through our IR team, any other points or doubts that may have been pending. Thank you.

Operator: The Vulcabras Azaleia audio conference is closed. We thank you all for your participation, have a good day and thank you for using Chorus Call.