Conference Call (English Transcription)

Vulcabras

Earnings Release 3Q21

November 10th, 2021

Operator: Good morning and thank you for waiting. Welcome to the Vulcabras conference call to discuss results for 1Q21 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, 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 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.vulcabrasri.com**, 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, 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 business prospects, projections, operating and financial goals, constitute beliefs and assumptions of the Company's Management, as well as information currently available for Vulcabras. 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 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: Good Morning!

Welcome to the Vulcabras results conference call.

Vulcabras announces its financial results for the 3rd quarter of 2021 with record revenues and net income. Even in a macroeconomic scenario of high volatility, inflationary pressure and political instability that directly impacted consumption, the measures taken recently by the company achieved high performance rates for the second consecutive quarter. Since the beginning of the year, Vulcabras has focused its strategy on simplifying and consolidating its portfolio, thus fully focusing on the sports segment.

Net revenue was R$535.9 million, an increase of 40.0% compared to the same period in 2020. Revenue growth was leveraged by the sports footwear category, which recorded an increase of 66.3%. Both Olympikus and Under Armour posted relevant growth compared to the same quarter of the previous year. In addition, we had an increase in revenue from the sale of Mizuno shoes in full during this period.

Net income for the 3rd quarter was R$126.5 million, the highest quarterly income in the Company's history, and represented an increase of 191.5% over the result of R$43.4 million in 3Q20. The net margin reached 23.6% in 3Q21, an increase of 12.3 p.p., compared to 11.3% achieved in 3Q20.

EBITDA was R$ 138.9 million, an increase of 109.8%, against the R$ 66.2 million obtained in 3Q20. The EBITDA margin increased 8.6 p.p., reaching 25.9% in 3Q21, against 17.3% in 3Q20. In this quarter, Vulcabras announced the anticipated distribution of dividends from accumulated profits throughout the 1st semester in the amount of R$ 86 million.

It is important to highlight that Mizuno has shown growth compared to the previous year since its arrival at Vulcabras. For 2022, expectations are even greater, when we will have the models developed by Vulcabras in production, maximizing synergy with other brands.

Our strategy of focusing on the sports segment, expanding the portfolio of brands, together with the modernization investments made in recent years has already brought important results and gives us the prospect of reaching new records for all the brands in the group.

For next year, Vulcabras will strengthen other categories, such as apparel, and the e-commerce channel, seeking to meet the growth of the sports lifestyle and wellness, behavior trends accelerated by the pandemic.

This quarter the company committed to using clean energy in 100% of its production. As of October 2021, the manufacturing units located in Itapetinga (BA) and in Horizonte (CE) will be supplied by one of the largest wind energy complexes in the world, the Rio do Vento, in Rio Grande do Norte. With the demand for clean energy contracted for the next 13 years, it is estimated that this new supply profile will avoid the release of 15 thousand tons of CO_2 annually into the atmosphere, equivalent to the planting of 67 thousand trees.

The result of this quarter confirms the strength of our brands and our winning business model, which give us certainty in the continuation of growing results, maximizing the creation of value for our shareholders and consumers.

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,

Wagner Dantas: Good Morning

We started the presentation with slide 5, gross volume of pairs and pieces.

In 3Q21 gross volume totaled 7.5 million pairs/pieces, a decrease of 4.9% compared to the 7.9 million pairs/pieces in 3Q20.

The performance of volumes sold in 3Q21 was very positive for all brands. It is worth mentioning that in this quarter sales of footwear and apparel with the Mizuno brand were present since the beginning of the period and that in the same period of the previous year the Mizuno brand was not part of the Company's portfolio.

In this quarter, there was also no sale of women's footwear in the domestic and foreign markets due to licensing of the Azaleia brand, and that the sale of this type of shoes was maintained only in the Peru and Colombia subsidiaries.

The sports, footwear and apparel categories presented great performance. In comparison with the same period in 2020, the following considerations were highlighted;

- in Athletic Footwear, there was a growth of 21.9%, due to the positive performance of the Olympikus and Under Armour brands, and also the addition of Mizuno's sales volume;
- a decrease of 89.8% in Women's Footwear, due to the discontinuance of business in the domestic and foreign markets;
- reduction of 24.3% in Other Footwear and Others,
- Increase of 40.5% in Apparel and Accessories, due to the expansion recorded with the Olympikus brand and also the addition of Mizuno's sales volume.

In the nine months of 2021, gross volume totaled 18.3 million pairs/pieces, an increase of 18.7% compared to the total of 15.4 million pairs/pieces in the nine months of 2020.

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

In 3Q21, net revenue was R$ 535.9 million, an increase of 40.0% over the R$ 382.9 million in 3Q20 and of 49.1% over the R$ 359.4 million in 3Q19.

Optimism for the resumption of business has been noticed since the beginning of 3Q21. With the advance of vaccination against Covid-19 and the decrease in the number of cases and deaths caused by the disease, there was a relaxation of isolation measures and, consequently, the resumption of retail activities, which encouraged the consumer and caused the demand for the Company's products to remain high.

Athletic Footwear revenue increased by 66.3% in 3Q21 over the same period in 2020 and by 72.9% over 3Q19. Both revenues from Olympikus footwear and Under Armour footwear grew in relation to the same quarter of the previous year, in addition to the increase in revenue from the sale of Mizuno footwear.

The Women Footwear category decreased by 79.3% compared to the same period in 2020 and by 82.0% over 3Q19. This is due to the interruption in sales of women's footwear due to the licensing of the brand. The only channel that presented revenue in this category and that will continue to be active was that of foreign branches.

The Apparel and Accessories category increased by 16.5% compared to 3Q20 and by 54.0% over 3Q19. When comparing the period with the previous year, there was an increase in revenue from the Olympikus brand and an increase in sales due to the sale of products with the Mizuno brand.

The Other Footwear and Others category decreased by 3.8% compared to the same quarter of 2020 and increased by 76.9% compared to 3Q19.

In the nine months of 2021, net revenue totaled R$ 1,247.2 million, 73.2% higher than in the nine months of 2020, when it was R$ 720.2 million, and an increase of 26.5% compared to the R$ 986.1 million in 9M19.

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

Net revenue in 3Q21 in the domestic market totaled R$ 498.0 million, an increase of 39.2% compared to 3Q20, when it was R$ 357.8 million, and of 49.3% over the R$ 333.5 million in 3Q19.

In the foreign market, net revenue in 3Q21 totaled R$ 37.9 million, an increase of 51.0% compared to the R$ 25.1 million in 3Q20 and of 46.3% over the R$ 25.9 million in 3Q19.

In the domestic market, when compared to 3Q20, the increase is due to the increase in the sports, footwear and apparel categories, and the reduction in revenue from women's footwear and other footwear and others.

Direct sales to the foreign market showed robust growth when compared to 3Q21, despite the halt in sales of women's footwear. The Olympikus footwear category expanded with the reopening of the Latin American markets and the export of Olympikus slippers to Argentina was also started.

In sales from foreign branches (Peru and Colombia), there was an increase in revenue compared to the same period of the previous year, but a slow recovery was still observed, with gradual openings of trade throughout 3Q21.

In the 9M21, net revenue in the domestic market totaled R$ 1,143.7 million, an increase of 75.2% compared to 9M20, when it was R$ 652.8 million, and of 25.8% when compared to 9M19.

In the foreign market, net revenue in 9M21 was R$ 103.5 million, up 53.6% compared to the R$ 67.4 million in 9M20. Compared to the nine months of 2019, the growth was 34.4% over the R$ 77.0 million reported.

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

In 3Q21, e-commerce with the Company's brands continued the expansion trend, but at a more moderate pace and grew by 2.4% compared to the same period of the previous year and growth of 242, 9% compared to 3T19.

The slowdown in the pace of growth in this channel is due to the Company's strategy of prioritizing the positioning of its brands as opposed to an online market fostered by aggressive discounts.

Comparing the accumulated figures for the periods, in 9M21 there was growth of 5.0% compared to 9M20 and of 197.5% compared to 9M19. As a share of revenue, e-commerce represented 2.9% in 9M21, down 1.9 pp. compared to 4.8% in 9M20 and growth of 1.7 p.p compared to 1.2% in 9M19.

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

Gross profit in 3Q21 was R$ 193.2 million, an increase of 47.7% compared to the R$ 130.8 million in 3Q20. Gross margin was 36.1% in 3Q21, 1.9 pp. above the 34.2% in 3Q20.

The positive impact on costs due to the large volume sold and the high demand for the Company's products led to a significant improvement in the gross margin, despite the negative impact due to the increase in the prices of some raw materials and the specific problems with the introduction of Mizuno footwear.

For the 3rd consecutive quarter, the gross margin grew in relation to the previous period, thus maintaining the upward trend.

In 9M21, gross profit was R$ 435.6 million, an increase of 85.9% compared with the R$ 234.3 million in 9M20. The margin in 9M21 was 34.9%, 2.4 p.p. higher than the 32.5% margin obtained in 9M20.

.**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 42.9% % in 3Q21, compared to expenses in 3Q20. R$ 60.3 million were recorded in 3Q21, against R$ 42.2 million in 3Q20.

As a share of revenue, selling expenses (excluding advertising expenses) accounted for 11.3% in 3Q21, compared to 11.0% in 3Q20, an increase of 0.3 pp. compared to 3Q20.

In the quarter comparison, there was an increase in all expenses compared to 3Q20, due to the robust growth in revenue, which increases the volume of variable expenses with commissions, freight and royalties.

The exception was the line item “Allowance for doubtful accounts”, which presented a reversal of allowance in the amount of R$ 4.7 million due to a change in the expectation of loss of a customer whose court-supervised reorganization process was approved.

In 9M21, selling expenses (excluding advertising expenses) were R$ 150.9 million, an increase of 52.7% compared to the R$ 98.8 million in 9M20. The share of selling expenses over net revenue decreased by 1.6 p.p compared to 9M20, reaching 12.1% and 13.7% in 2021 and 2020, respectively.

At the bottom of the slide we have advertising and marketing expenses. In 3Q21, advertising and marketing expenses totaled R$ 19.5 million, an increase of 52.3% over the R$ 12.8 million in 3Q20.

The share of advertising and marketing expenses over net revenue represented 3.6% in 3Q21, compared to 3.3% in 3Q20, an increase of 0.3 p.p. In 3Q21, despite the distancing restrictions still in force, over the months of July to September there was a return of some field actions, which focused on reinforcing point-of-sale materials for better product exposure and also the occurrence of some sponsored events, albeit in a very restricted way.

In 9M21, advertising and marketing expenses totaled R$ 46.3 million, an increase of 25.1% in comparison with 9M20, when they totaled R$ 37.0 million.

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

Administrative expenses totaled R$ 28.5 million in 3Q21, an increase of 4.0% compared to 3Q20. As a percentage of net revenue, there was a reduction of 1.9 p.p, from 7.2% in 3Q20 to 5.3% in 3Q21.

In the quarter, there was an increase in personnel, IT/telecommunications expenses, which were partially offset by reductions in third-party services.

In 9M21, compared to the same period of 2020, there was an increase of 7.0% in general and administrative expenses, from R$ 78.2 million to R$ 83.7 million. When comparing the percentage of net revenue, there is a decrease of 4.2 p.p. in 9M21 in relation to the equivalent period of 2020.

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

In 3Q21, the Company reported a net financial income of R$ 11.1 million, compared to the same period in 2020, when it reported a net financial expense of R$ 3.7 million. In the comparison between 3Q21 and 3Q20, the main variations were observed in the increase in interest paid, due to the expansion of indebtedness over the past few months, and also the recognition of financial gain in 3Q21.

In 3Q21, there was also the recognition of a “non-recurring” gain due to the recognition of R$ 18.8 million in financial income, related to the monetary adjustment of the credit related to the PIS/COFINS on ICMS lawsuit.

Comparing the nine-month periods, the financial result changed from a financial expense of R$ 0.5 million in 9M20 to a financial income of R$ 23.0 million in 9M21.

At the end of 3Q21, the Company had a net debt of R$ 210.1 million, R$ 147.6 million higher than at 12/31/2020.

The increase in net debt is due to the significant increase in working capital due to the increase in inventories of finished products, mainly due to the receipt of Mizuno brand products and also to the increase in inventories of some strategic raw materials that continue to show volatility in supply and price. Since the beginning of the pandemic, the Company has maintained its financial discipline and has sought to reinforce its cash using pre-approved credit lines.

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

Net income in 3Q21 was R$ 126.5 million, an increase of 191.5% over the income of R$ 43.4 million in 3Q20. The net margin reached 23.6% in 3Q21, an increase of 12.3 p.p. compared to 11.3% in 3Q20.T

In this quarter, the company recorded a non-recurring net gain of R$53.0 million, related to a favorable decision in one of its actions to exclude ICMS from the PIS and COFINS calculation basis.

In addition to the amounts already recognized, the Company still has lawsuits on the same issue in progress, totaling approximately R$264 million in amounts updated up to 09/30/21.pp compared to 3.8% at 12/31/2020.

Net income in 9M21 was R$ 232.6 million, R$ 255.6 million higher than the income in the same period of the previous year. In the comparison between 9M21 and 9M20, net margin increased by 21.8 p.p., from (3.2%) in 9M20 to 18.6% in 9M21.

Annualized adjusted return on invested capital (Adjusted ROIC3) was 24.0% in 3Q21 - LTM (last twelve months ended 9/30/2021), an increase of 19.3 pp compared to 3.8% at 12/31/2020.

On page 14, we present EBITDA.

In 3Q21, EBITDA totaled R$ 138.9 million, an increase of 109.8%, against the R$ 66.2 million in 3Q20. EBITDA margin increased by 8.6 pp., reaching 25.9% in 3Q21, against 17.3% in 3Q20.

As shown in net income, in 3Q21 a non-recurring event influenced the company's EBITDA. There was recognition of the principal amount of the credit in a PIS COFINS lawsuit on ICMS in the net amount of R$36.5 million. Disregarding the effect of this non-recurring event, recurring EBITDA in 3Q21 would have been R$102.4 million with an EBITDA margin of 19.1%, 54.7% higher than the recurring EBITDA in 3Q20, which was R$66.2 million.

In 9M21, EBITDA totaled R$ 279.0 million, an increase of 626.6% over the R$ 38.4 million in 9M20. The EBITDA margin increased by 17.1 p.p. reaching 22.4% in 2021.

On page 15, we present Capex

In the third quarter of 2021, R$ 24.4 million were invested in property, plant and equipment and intangible assets. The amount of R$ 24.2 million was invested in property, plant and equipment, a reduction of 8.0% compared to 3Q20. The investment in intangible assets in 3Q21 was R$ 0.2 million. The investments made in this quarter are due to the support of the Company's operations, mainly with the growth in investments in molds and dies to support the start-up of production of the new footwear collections.

The amount of R$ 0.2 million was invested in intangible assets in 3Q21, mainly in the acquisition of software licenses.

In 9M21, the amount invested in property, plant and equipment totaled R$ 89.0 million. In intangible assets, the amount invested in 9M21 totaled R$ 2.2 million.

On page 16, we present the cash flow

The variation in cash in the period was R$ 89.0 million. The variation presented was essentially due to the following events:

- EBITDA of R$ 279.0 million;
- an increase in bank liabilities of R$ 58.7 million;
- an increase in long-term liabilities of R$ 59.0 million;
- investments in property, plant and equipment and intangible assets of R$ 90.8 million, and
- an increase in the need for working capital of R$ 286.7 million.

We conclude our presentation and open space for questions.

Thank you

Q&A Session

Operator

Thanks. We will now begin the Q&A session for analysts and investors. To ask a question please press star one and to remove the question from the queue please press star two. Questions will be received...

Our first question comes from Larissa Pérez, XP Investimentos. You may proceed.

Miss Larissa Pérez - XP Investimentos

Thanks, guys. Pedro, Wagner, good morning. Larissa from XP here. Thanks for taking my question and congratulations to the whole team for the results.

I think we have three questions: one about apparel, one about growth and the other one about working capital.

I'll ask first one and then I'll ask the others, okay?

Mr. Wagner Dantas - CFO and IRO

OK.

Miss Larissa Pérez - XP Investimentos

Alright. The first question about apparel is the following: in the release, you say that you intend to strengthen this category in 2022, and even now in the 3Q we have already seen apparel gaining relevance as a percentage of revenue, reaching almost 20%.

Can you give more details about Vulca's strategy for this apparel category?

Mr. Pedro Bartelle – CEO

Larissa, this is Pedro speaking. Good morning, good morning everyone, thanks for your question, let me answer this first one.

Larissa, the apparel category has been growing. Now, as the company is 100% focused on sports with the three brands, the arrival of Mizuno also brings a well-developed apparel sector, but with a great growth perspective.

We recently hired Vanessa Szabo, who started working with us not two months ago. Vanessa Szabo is a professional, a director. We are going to have a director dedicated only to apparel and accessories in the company. She is a person who has extensive experience acquired from Nike and Dupont, she came from the sector and not only in terms of the products, but development, sourcing, etc.

This growth already comes from our channels that are being developed, our customers, and the portfolio has been increasing - but it will come mainly from our digital channel, which will grow a lot, and is another branch of the company that has been structured to support growth that we intend to have it in the next few years.

So we are strengthening this area, creating a more robust specific area and we are going to increase this product portfolio, mainly in our digital channels.

Miss Larissa Pérez - XP Investimentos

Excellent. Perfectly clear. Thank you.

I think the second question also refers to growth, specifically in relation to Mizuno and Under Armour. I think one aspect that we have been discussing a lot is the difficult situation in the production of sports shoes in Asia.

I believe that in the short term do you see that this difficulty in importing shoes produced in Asia could benefit Vulca, as you have local production? About the medium term, if you could comment a little bit on the main growth drivers for Mizuno and Under Armor, I think it would be very nice, thank you.

Mr. Pedro Bartelle – CEO

Thank you, Larissa, for your question. Our strong growth this quarter is due to the three brands. Both Under Armor and Olympikus, the brands we already had, they had a growth above double digits. We are not certain on the percentage of each one currently, maybe in the future we will know. The other percentage refers to newly arrived Mizuno. So all brands are growing quite strongly, the collections are very assertive, they are very good. The company is really solid.

The effects of production, the lack of production, mainly in Vietnam, have not yet been perceived, because Vietnam, as far as we know, had problems towards the end of the pandemic. I think they protected themselves for a long time, then these issues appeared more towards the end of the pandemic, the restrictions.

As far as we know, Vietnam has been experiencing production difficulties for two to three months, many factories closed. This will undoubtedly have an impact on footwear imports. This will not last forever, but for a few months.

I believe that Brazil is an important country for the export of these international brands, but the whole world will end up suffering from the lack of production in Asia, especially in Vietnam, for a few months. I think we are going to start seeing this effect of temporary reduction of imports in Brazil by December, and it will remain for a few months until the beginning of next year.

Miss Larissa Pérez - XP Investimentos

Excellent. Perfectly clear. I think one last question from us is about working capital dynamics. I think that the increase in inventories that we see over the course of 2021 caught our attention this quarter, in the release, you say that this happened for two reasons: first, due to the receipt of Mizuno products, and second, the purchase of strategic raw materials.

Can you comment a little more on what we should expect in terms of inventory management from now on? And if you could please give a little more details about the raw material price scenario, I think it would be very interesting to understand a little more about the margin projection. This is it from us. Thank you.

Mr. Pedro Bartelle – CEO

Larissa, I will let Wagner talk about our working capital, but just to finish, one piece of information: this lack of imports that will occur in the coming months will also help Brazil a little to adjust the market. Brazil has a very unadjusted market, many sales, and most sales come from imports.

For many years Brazil has been somewhat used as a country to dispose of surplus production, and many brands have actually sold off a lot of shoes and sold them underpriced, much lower than what they should be selling. Just see how much a shoe costs in the US and in Brazil, for example.

This will not last though. And it will also help us to adjust the market a little more, and this will help us to have better margins - not only us, I think that everyone will need to defend their products a little more due to shortages of imports.

Now, Wagner, please go ahead with your question.

Mr. Wagner Dantas - CFO and IRO

Thank you, Pedro. And thank you, Larissa, for your question. I think that, as for the inventories, their growth can be explained for two aspects: one is structural and the other strategic. As for the structural aspect, we have a brand like Mizuno added to our portfolio, and absorbed by the operation. It is a brand that has reasonable content purchased from third parties, it has garments that we do not produce, we buy them from third parties, whether foreign or domestic.

It also has relevant imported shoes - the most technological shoes are currently still imported - and it is a brand that will bring relevance to the volume of business, it is a brand that is one of our main growth drivers. It has been in the last two quarters and will be in the near future.

So it is natural that structurally the stocks work, they rotate on top of a new level, whether by products purchased from third parties or by production itself, which is being increased through Mizuno products.

Strategically, we - not only Vulcabras, but the whole world - are currently subject to inflationary pressure that originates from supply issues, which originates from specific macroeconomic issues - but in fact we have been monitoring the issue of our raw material.

And we have been preparing our stock, I would say, one step above what would be the natural level, the normal level, which is historically significant in days of raw material stock that we traditionally carry, and this is almost on purpose. This is much more a protection for the business trying to filter, trying to absorb or be less exposed to the price volatility that the entire market is suffering today.

And it is also an additional insurance here for any delays in supply. We have a thriving production, with sales growing rapidly. The last thing we need is for raw material to become some kind of bottleneck at some point. So that explains a little bit of the inventory leverage, the reason why the inventory has seen upward growth in the last two quarters. Part of this is really structural and part of it has a strategic bias, yes.

Just because you talked about turnover and it's not just because of inventories, accounts receivable are also growing, but here it is naturally due to business growth, revenue growth. The terms in the 2Q were a little longer due to the second wave of the pandemic, the effects it had on retail as a whole.

Some signs I can mention are that throughout the 3Q - and the trend is that we intend to maintain for the 4Q - there is a normalization, the return of accounts receivable terms to a historical level for the company, and that it must, despite the growth, be somewhat offset, a means of neutralizing the working capital employed, leaving only accounts receivable consumed, the turnover, through the company's natural growth.

Miss Larissa Pérez - XP Investimentos

Perfect. It was super clear. Thank you, Pedro. Thank you, Wagner. I think this is what we had to say.

Mr. Wagner Dantas - CFO and IRO

We thank you for your question.

Operator

Reminding that to ask questions just press star one. Questions can also be made via webcast. Please hold. Please hold while more questions come in. Please hold.

Mr. Wagner Dantas - CFO and IRO

We received some questions via webcast. Some questions have already been made by Larissa and were part of our explanation.

I have an additional question here, I'm going to read the question and I'm going to ask Pedro to answer. This question was made by Flávio José Bicca:

Good morning. Congratulations for the results. Could you break down the revenue from Under Armour and Mizune in the third quarter?

Pedro, go ahead.

Mr. Pedro Bartelle – CEO

Thank you for your question, Flávio. Flávio, we don't strategically disclose the exact revenue or the number of open pairs per brand currently. But I think it's interesting to say that Olympikus is the biggest sports brand in Brazil in terms of pairs, it already has a very important share that also has been growing more than double digits this quarter compared to last year, and has been growing for many quarters.

Under Armour itself, which is a newcomer brand, this one is growing much more than that, I think it's growing almost 40% compared to last year - and it's a trend of its own to grow, because it's a newcomer brand.

And Mizuno already shows growth for 2021, with some difficulty. When we acquired the Mizuno operation, the collections were already created, so we took over an operation where it was already determined practically throughout the year.

We had to make some adaptations in our industrial park to be able to produce Mizuno shoes created by the former administrator, in a slightly more outdated system. Our production and product development system is a very modern system, and that caused us to face some difficulties. The factory's efficiency could not match what we have in Olympikus and Under Armor, for example, because of the system used to create these products and the machines that would be used, etc.

Even so we managed to grow, Mizuno also grows double digits compared to last year currently - but the good news is that next year we will have a fully developed collection, the national production, so a Mizuno completely developed by us in our development center.

Three collections have already been launched, three brands have already been launched - Mizuno with a certain advance, is more used to being launched earlier - and we already have fantastic sell-in results, there is already very relevant growth for the next year.

So the interesting thing to say here is that the three brands are growing rapidly.

Mr. Wagner Dantas - CFO and IRO

Following the webcast questions, we received another question here from Thiago Pinker from Multifarm Office:

What is the company's strategy to increase the revenue mix in the foreign market?

I'm going to ask Pedro to address this question, please.

Mr. Pedro Bartelle – CEO

Hello, Thiago. Thank you for your question. Our foreign market is basically South America. Our fast and agile production system means that we cannot rely on pre-sales too much in advance, so we can also sell our collections in the countries closer to Brazil and replace these collections after they have already started operating in the marketplace.

We suffered a lot from the pandemic. Our sales to the foreign market dropped a lot, our partner countries, especially Argentina, suffered a lot, but fortunately this year we are already recovering this space a lot.

The portfolio of products we prepared for Brazil also serves these countries, both Argentina, Chile, Colombia, Peru are countries that adapt a lot with this production.

Our growth in Olympikus will depend on the countries themselves improving their economy again - and it is already improving. Business in Argentina, which is our main destination, is already improving, we have already made pre-sales for next year.

Under Armor is starting to place some orders with us for export to these countries as well. We do not manage the Under Armor or Mizuno brand in other countries, but we are suppliers. Our products, for their quality and cost-effectiveness and this production system that can be replaced throughout the current period of the collection, has also been a competitive advantage within these countries.

And, as for Mizuno, we haven't done any negotiations for the export of shoes yet - but from what I see the success of the collections that we are launching in Brazil, we will certainly also be the supplier for these other countries.

But we don't need to create anything specific for other countries, our products are adequate for those countries too.

Mr. Wagner Dantas - CFO and IRO

I'll take another question from the webcast sent from Guilherme Freitas from Eleven Financial:

Based on the good development of the gross margin in this quarter, 36.1%, could you give some perspective for the margin for 2022, since an improvement is expected in the year with new Mizuno collections already developed by Vulcabras.Can we see a significant improvement in this level?

Here, I'll make a comment based on what Pedro had already talked about. Throughout 2021, we are incorporating a relevant brand, which is the Mizuno brand, a brand that brings with it an additional complexity, which is the production of Mizuno shoes that were not developed by us, so it has a low adherence with our production process, with our technologies, and this has brought additional complexity to the absorption of this business - and we have been facing this, trying to manage and trying to overcome the challenges that this complexity imposed on us.

In fact, as of January, we started producing and selling shoes, a new Mizuno: a Mizuno developed by Vulcabras, a Mizuno that I think from the consumer's point of view will bring greater perceived value, a Mizuno that will, from a costing point of view, have great adherence, it is already conceived, thought of in our production processes, in our technologies. So it is, of course, the efficiency of this production of Mizuno shoes, it should indeed have relevant gains versus what we are doing, the complexity that we currently live with.

In addition, there is also what Pedro had already commented about the price increases. I think, collection by collection, we already see in the fourth collection with price increments, after inflationary effects, collective bargaining effects, pressure on the purchase of inputs - but which, in a way, we also seek to resume our gross margin.

So I think it is reasonably fair to have an expectation that the gross margin should evolve throughout 2022. Although we don't give guidance, I think that given the context of 21, it is natural that 22 of us have better conditions to seek to perform a better margin.

Also, we have one more question coming through the webcast, a question sent by Rafael Ferreira from Guepardo Investimentos:

Good morning, everyone. I would like to know the expectations that are envisioned for the 4Q in terms of volume and revenue. Do you see a good 4Q?

I'm going to ask Pedro to comment on this matter, please. Go ahead Pedro.

Mr. Pedro Bartelle – CEO

Thank you, Rafael. Thank you for your question. We already have our 4Q virtually closed, we are already in November. Another quarter of growth follows in which we at the company are having excellent results. We further improved our production efficiency, we managed to reach Mizuno's numbers that we had some difficulties in reaching over the last few months, because of adaptations we had to make in production to produce these collections not created by us.

The market has been moving a little sideways since September. We can see it through our customers. We read 40% of our customers' sell-outs. We, despite not having, not our stores, we serve 10,000 customers, 19,000 points of sale more or less, 40% of sales that represent the largest customers, we manage to sell-out, see the market. a little aside - nothing to worry about, we are optimistic that we will have a good Christmas season.

We are already thinking about next year. We had some problems this year, it was an atypical year: inflation, collective bargaining, recurrent raw material readjustments that don't usually happen. So that you have an idea, we usually launch a product and that product has a price until it changes collections.

During this year, we had to change the price of the product itself in its second, third or fourth replacement billing, so it was a difficult year to operate. There are still some issues, but we are managing to adjust our prices. I believe that there will be a little more stability in these cost increase issues next year.

But the 4Q is a good 4Q, yes, it is a 4Q in which we are already showing good growth compared to our last results.

Mr. Wagner Dantas - CFO and IRO

Well, one more question here that we got from the webcast. This one was made by Lucas Suemitsu from Távola Capital:

Could you provide an update on the production perspective of increasing the percentage of imported products from Mizuno and Under Armor in Brazil?

I'm going to ask Pedro to comment on this matter.

Mr. Pedro Bartelle – CEO

Hi, Lucas. Thank you for your question. First, on the imported ones, the imported ones are not, it is not significant, they do not represent a relevant portion of our revenue. The truth is that Mizuno does have a higher percentage, and Mizuno will also suffer a little from the lack of imported goods, with this production difficulty in Vietnam - but the imported ones are not as relevant within our revenue.

We do import, we import some clothes, we import shoes. We always favor domestic production, but production growth has been very accelerated anyway, not only because of Mizuno but also the growth of the other two brands, and to make our numbers, we will have enough production to supply even this temporary shortage of imported products that will happen with Mizuno.

In fact, the products that we import are very specific products, some with little volume, others with a little more volume, but they are products that we end up dividing our product basket a little bit - but they are products that over time we end up bringing to domestic production, bringing this advantage of being able to deliver and replace it initially.

So I don't see problems affecting our results because of this import, because our production is over 90% domestic.

Mr. Wagner Dantas - CFO and IRO

One more question that we received here from the webcast, a question from Carlos Kamalakian from 3R Investimentos. Carlos asks the following:

If you could give Grendene an update on the licensing of the Azaleia brand, what do you see in this business unit?

I'm going to ask Pedro to comment on this matter.

Mr. Pedro Bartelle – CEO

Carlos, thanks for your question. We made this strategic decision at the beginning of the year, that is, it materializes at the beginning of the year. Our women's footwear division is terminated and we take in Mizuno - Mizuno, even bigger than our women's footwear division.

Our very assertive decision to focus on where we are specialists has worked very well, has given a lot of synergy between the brands and the entire company is focused on sports. This has shown us a very good way forward.

Licensing with Grendene makes perfect sense to us. We are paid royalties, Grendene is a specialist in women's shoes and has already developed its collections, and even produced some iconic shoes that we already produced at Vulcabras. So we are receiving royalties for this and we are very pleased with this partnership - and I believe Grendene is too.

Operator

We remind you that to ask a question please press star one and to remove the question from the queue please press star two. Questions can also be made via webcast. Please hold. Please hold.

We now end the Q&A session. Mr. Pedro Bartelle will make some final remarks.

Mr. Pedro Bartelle – CEO

Well, thank you all for your attendance and I would like to point out that the record result of this quarter is due to a strategy developed over the last few years, which is based on the strength of our brands, on our agile, modern and large production capacity and on our model business, which offers the market a complete portfolio of sporting goods for all budgets. This gives us the certainty that we will continue with growing results, and we will maximize the creation of value for our shareholders and our consumers.

Also I would like to say that we remain at your disposal to provide further clarifications either in person, through our IR team, and dispel any other issues or doubts that you may have.

Thank you very much and a good day to everyone.

Operator

Thanks. The Vulcabras audio conference is closed. We appreciate your participation, have a good day.