Conference Call (English Transcription)

Vulcabras

Earnings Release 4Q20

March 10th, 2021

Operator: Good morning and thank you for waiting. Welcome to the Vulcabras conference call to discuss results for 4Q20. 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 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, 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 discloses hereby its financial results for the fourth quarter of 2020 at a time when retailers are still looking for stability and sales recovery.The company reports a positive performance in the last three months of the year, with growth of more than 20% in most of its financial indicators.

According to the Brazilian Institute of Geography and Statistics (IBGE), retail sales in Brazil fell in November and December 2020, after a few months of recovery. In December, sales decreased 6.1% compared to November 2020, and 0.1% in November compared to October 2020.

Following the same trend, a study carried out by the Brazilian Association of Handicraft and Footwear Retailers (ABLAC) with 3,000 stores, including medium and large footwear chains in the country, points out that the Brazilian footwear retailer closed 2020 in a 33% drop in turnover compared to 2019. Revenue fell from R$ 51 billion to R$ 34 billion in the period. According to the association, the numbers are still a reflection of the pandemic that hit business worldwide.

Against this backdrop, Vulcabras presents a healthy quarter with sales growth above double digits.

This growth above the sector is mainly due to the company's decision not to demobilize its operations and to adapt very quickly to the new market conditions. The Company maintained the prices of its products in the new collections sold in the second half of the year and also granted longer payment terms in order to support its customers in the process of resuming retail. Vulcabras' accelerated response reinforced its position as a strategic partner in the resumption of retail and provided the market share growth for its brands.

The collections launched for the second half of 2020 had excellent market support and absorbed retail demand at the time of resumption of activities, increasing the share of the Company's brands in national retail. Adapting their product collections to the current moment was a strategy that proved to be effective. The Company understands that having adequate products for each moment is important to guarantee the preference of the consumer and partners.

During the quarter, the brands' e-commerce continued to expand in 2020 and increased 141.1% compared to 2019.

Moreover, the Company has invested in a new distribution center, in Extrema (MG), which will enter into full operation in the second half of March. This new distribution center will have a logistics operation dedicated to all the brands e-commerce and also with the operation of distribution of finished products purchased from third parties (imported and domestic). The strategic choice of location, which includes logistical facilitators, labor and specialized services, will give Vulcabras even more efficiency and competitiveness for its business.

Focusing on Sport on January 29, 2021, Vulcabras completed the acquisition of Mizuno's operation in Brazil, starting to develop, produce and import branded products, including footwear, clothing and accessories, exclusively in the national territory for retail distribution and direct marketing to the consumer through its own stores or e-commerce (www.mizuno.com.br) until December 2033. With the integration of the Mizuno brand into its sports brand portfolio, as well as the licensing of the Azaleia brand to Grendene, Vulcabras concludes a strategic transition, which began in 2018 with the acquisition of Under Armour, and consolidates itself as the largest manager of sports brands in the country

Olympikus, Under Armour and Mizuno will have at their disposal all the technology and innovation of the Company's shoe development center, the largest in Latin America, its modernized industrial park, with production technology worldwide, a large commercial team that serves more 10,000 customers nationwide and marketing strategies dedicated to each brand. This composition of brands allows Vulcabras to offer products that meet all the profiles of consumers and athletes and their respective needs, with shoes ranging from R$ 149 to R$ 1,600 and sports clothing and accessories from R$ 49 to R$ 999.

Today Vulcabras is the largest sports brand management company in Brazil, this is due to the investments made and the constant search for growth. Today the company has a relevant portfolio of brands, a modern structure for development, production and distribution and a team of highly qualified employees. Therefore, we are convinced that we are ready to grow even faster and faster.

We continue to seek the growth of our brands and see a future with gains in sales and profitability, which will provide 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 4Q20, gross volume totaled 9.7 million pairs/pieces, an increase of 31.5% compared to the total in 4Q19 of 7.4 million pairs/pieces.

The volume sold grew in almost all categories in 4Q20, with the only exception being the category of women's footwear, which presented a retraction due to the licensing of the Azaleia brand to Grendene and consequent phase out of our own production during the quarter. The production capacity released by the decrease in women's shoes was fully occupied by the production of sports shoes, which showed a 24.6% growth in sales in 4Q20 compared to the same period in 2019.

In 2020, the gross volume billed amounted to 25.1 million pairs/pieces, a decrease of 7.6% as opposed to the volume in 2019, of 27.2 million pairs/pieces. The decrease observed in 2020 is due to the generalized halt in industrial and commercial activities throughout the first half of the year in almost all countries in the world as a measure to combat the spread of the Covid-19 pandemic. Even in the face of this extremely difficult scenario, the categories of Apparel and Accessories and Other Footwear and Other (mainly composed of Boots for professional use) showed growth in comparison with 2019.

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

In 4Q20, net revenue was R$ 459.1 million, a 22.8% increase over R$ 373.9 million in 4Q19. The robust order book created after the launch of the new collections at the end of July, added to the easing of social isolation measures in all Brazilian states and the reopening, even with some restrictions from most physical retail, it was essential for the excellent performance of revenue during the 4th quarter

Athletic footwear revenue increased by 21.7% in 4Q20, with all orders fulfilled and an important presence in Black Friday and Christmas sales. The revenue from Olympikus shoes as well as that from Under Armour shoes increased in relation to the same quarter of the previous year.

The Women Footwear category recorded a decrease of 7.2% when compared to the same period of 2019. The downturn is due to the licensing strategy of the Azaleia brand and the consequent decrease in the production of women footwear with the transfer of production capacity to athletic footwear.

The Apparel and Accessories category recorded an increase of 59.0% when compared to 4Q19. Both revenue from Under Armour brand and Olympikus brand increased.

The Other footwear and other category increased by 87.5%, mainly driven by the growth in sales in the boots category, mainly due to the rapid resumption of the pace of full production after the shutdown that occurred in the peak months of the Covid-19 pandemic.

In 2020 net revenue was R$ 1,179.2 million, 13.3% lower than in 2019, when it was R$ 1,360.0 million. The decrease observed in 2020 is due to the generalized halt in industrial and commercial activities observed throughout the first half of the year in almost all countries in the world as a measure to combat the spread of the Covid-19 pandemic. The positive highlights were the Apparel and Accessories and Other Footwear and Other (mainly professional boots) categories, which showed positive performance even in the face of all the difficulties experienced throughout the year.

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

Net revenue in 4Q20, in the domestic market, totaled R$ 425.3 million, an increase of 24.3% compared to 4Q19, when it was R$ 342.2 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.

In the foreign market, net revenue in 4Q20 was R$ 33.8 million, an increase of 6.6% over the R$ 31.7 million posted in 4Q19.

In this quarter, there was an expansion in direct sales to the foreign market in relation to the same period of the prior year. The positive highlight was the growth of business with Argentina, despite the difficulties imposed by that country. In sales of subsidiaries abroad, there was a slight growth in revenue in relation to the same period of the prior year. The problems and effects resulting from the Covid-19 pandemic are still being felt in the economies of the countries where the Company's subsidiaries, Peru and Colombia, are located, which ends up significant in the performance of these branches.

In 2020, the domestic market totaled R$ 1,078.1 million, a reduction of 13.8% in relation to 2019, when net revenue was R$ 1,251.3 million.

In the foreign market, net revenue for 2020 was R$ 101.1 million, 7.0% lower compared to the R$ 108.7 million obtained in 2019.

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

In 4Q20, e-commerce with the Company's brands continued to expand and grew 81.3% over the same period last year. Net revenue in 4Q20 totaled R$ 14.5 million, against the R$ 8.0 million in 4Q19.

Although it still has a small share in the Company's total revenue, 4.1% in 2020, the growth of this channel and its potential represent a great lever for expansion.

In 2020, e-commerce revenue totaled R$ 48.7 million, an increase of 141.1% over 2019, whose net revenue was R$ 20.2 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 stores, reached the number of 8,000 thousand affiliates enrolled at 12/31/2020.

The Company believes in this channel's potential and has been making robust investments for its expansion. Aware of the moment experienced with the growing search for online sales, the Company made another important move to lay the foundations for this channel's growth. During the 4th quarter of 2020, the Company started the project to transfer the e-commerce logistics DC to the city of Extrema- MG, which has three times the area of the current DC, modern structures, and automated operations and under its own management.

The choice for the location of Extrema - MG is due to the fact that the region is transforming itself into a major logistics distribution pole and that offers important competitive advantages, such as proximity to the largest consumer markets, extensive network of carriers and relevant tax incentives. . All of these movements aim to provide the necessary conditions for the rapid growth of this important sales channel.

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

Gross profit in 4Q20 was R$ 150.3 million, an increase of 12.4% over the R$ 133.7 million recorded in 4Q19. The gross margin was 32.7% in 4Q20, 3.1 p.p. below the 35.8% recorded in 4Q19.

Despite the rapid resumption of production level and the excellent recovery of the order backlog, 4Q20 gross margin was still negatively impacted by the following factors:

(i) rising costs of products produced, due to increased absenteeism, declines in production due to supply problems and an increase in raw materials; and,

(ii) Maintenance of sales prices, without the transfer of cost increases, since the collection pricing took place at the end of July and the capture of most orders for the 4th quarter along the months of July, August and September.

In 2020 gross profit was R$ 348.2 million, a decrease of 26.2% over the R$ 471.8 million in 2019. The margin for 2020 was 29.5%, 5.2 p.p. lower than in 2019 (34.7%). The factors that influenced the drop in gross margin in the year were:

(i) direct recognition in COGS of costs incurred with the shutdown of manufacturing operations during the 2nd quarter of the year as a result of the Covid-19 pandemic;

(ii) an increase in the cost of products produced due to the level of absenteeism throughout the second half of the year and also due to production losses due to the shortage of some inputs; and

(iii) Cost pressure due to the general increase in raw materials.

For comparative purposes only, if we disregard the R$ 36.4 million from the shutdown of manufacturing operations during 2Q20, gross profit for 2020 would total R$ 384.6 million and the gross margin would be 32.6%.

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 12.9% in 4Q20, compared to the expenses reported in 4Q19. R$ 48.1 million was recorded in 4Q20, against R$ 42.6 million in the same period last year. As a share of revenue, selling expenses (excluding advertising expenses) accounted for 10.5% in 4Q20, compared to the 11.4% of 4Q19, showing a decrease of 0.9%.

Variable commercial expenses remained at normal levels, in line with those presented in the last quarters.

In 2020, selling expenses (excluding advertising expenses) were R$ 146.9 million, a decrease of 5.7% compared to R$ 155.8 million in 2019. As a share of revenue, selling expenses increased by 1.0 p.p. compared to 2019, from 11.5% to 12.5%, due to the drop in revenue observed in the year due

(i) to the reduction over the course of the first half of the year, which provides a greater relative share of fixed costs,

(ii) and the increase observed in the cost of freight for products partly due to the increased share of online sales, which have higher delivery costs and, in partly due to increases in transport costs that were absorbed throughout the year.

At the end of the slides we have advertising and marketing xexpenses that In 4Q20, totaled R$ 16.1 million, a decrease of 25.1% over the R$ 21.5 million in 4Q19.

The share of advertising and marketing expenses over net revenue represented 3.5% in 4Q20, compared to 5.8% in 4Q19, a reduction of 2.3 p.p.

The decrease in marketing expenses is due to the fact that it is not possible to carry out the planned schedule of events, due to the adoption of security protocols to combat the Covid-19 pandemic.

In 2020, expenses totaled R$ 53.1 million, a decrease of 23.0% compared to 2019, which totaled R$ 69.0 million.

The share of advertising and marketing expenses over net revenue represented 4.5% in 2020, compared to 5.1% in 2019, a reduction of 0.6 p.p.

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

Administrative expenses totaled R$ 32.4 million in 4Q20, an increase of 8.7% over the amount in 4Q19. As a percentage of net revenue, there was a reduction of 0.9 p.p., from 8.0% in 4Q19 to 7.1% in 4Q20.

During the quarter, there was stability in most of the components of this line item. The increases were observed in third-party services, due to the higher volume of expenses with the logistical operation of online sales, and in maintenance, cleaning and environment, due to the necessary adjustments to comply with the protocols to combat Covid-19.

In 2020, compared to 2019, there was an increase of 0.9% in general and administrative expenses, from R$ 109.6 million to R$ 110.6 million. When comparing the percentage of net revenue, there is an increase of 1.3 p.p. in 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 4Q20, the Company reported a net financial income of R$ 0.4 million in contrast to the same period in 2019, when it reported net financial income of R$ 7.5 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 income of R$ 5.1 million in 2019 to an expense of R$ 0.1 million in 2020. The main highlight of this variation was also the increase in interest paid due to the increase in debt.

At the end of 4Q20, the Company had a net debt of R$ 62.5 million, R$ 84.4 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. During the year 2020, the balance of loans and financing increased by R$ 268.5 million.

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

In 4Q20 the Company posted a net income of R$ 54.6 million, an increase of 21.1% over the net income of R$ 45.1 million in 4Q19. The net margin reached 11.9% in 4Q20, compared to the 12.1% in 4Q19, a reduction of 0.2 p.p.

In 2020, net income was R$ 31.5 million, a decrease of 78.0% in relation to the R$ 143.1 in 2019. The net margin in the twelve-month comparison was reduced by 7.8 p.p., from 10.5% in 2019 to 2.7% in 2020. Despite the difficult 1st half of 2020 experienced by the Company, the quick resumption of business and the vertiginous recovery observed during the 2nd half of 2020, were decisive for the reversal of the negative results and the closing of the year with profit.

Annualized adjusted return on invested capital (Adjusted ROIC) was 3.8% in 4Q20 - LTM (last twelve months ended 12/31/2020), a decrease of 14.5 p.p. over the result of 18.3 % obtained at 12/31/2019.

On page 14, we present EBITDA.

In 4Q20, EBITDA was R$ 73.9 million, an increase of 22.8% compared to the R$ 60.2 million in 4Q19. The EBITDA margin reached 16.1% in 4Q20, the same obtained in 4Q19.

In 2020, EBITDA amounted to R$ 112.2 million, a decrease of 49.6% over the R$ 222.5 million recorded in 2019. The EBITDA margin decreased by 6.9 p.p.,

On page 15, we present Capex

In the fourth quarter of 2020, R$ 27.6 million was invested in property, plant and equipment. The highlights in the quarter were the investments made in the new logistics DC for e-commerce located in Extrema – MG, and the adjustments in the Ceará factory to receive the production of Mizuno shoes. The amounted invested in intangible assets in 4Q20 was R$ 0.8 million

In 2020, the amount invested in property, plant and equipment totaled R$ 85.1 million, a decrease of 26.6% compared to 2019, when it was R$ 115.9 million. In intangible assets, the amount invested in 2020 totaled R$ 2.6 million, with a total focus on new software.

On page 16, we present the cash flow

The cash variation in 2020 was R$ 184.1 million. The variation presented was essentially made up of the following events:

(i) EBITDA of R$ 112.2 million;

(ii) An increase in bank liabilities of R$ 268.5 million;

(iii) growth in long-term liabilities of R$ 11.2 million;

(iv) investments in property, plant and equipment and intangible assets of R$ 84.9 million; and

(v) An increase in the need for working capital of R$ 111.3 million.

We conclude our presentation and open space for questions.

Thank you

Question and Answer Session

Operator: Thanks. We will now start the questions and answers session. To ask a question, please press star one and to remove your question from the queue press star two.

Our first question comes from Eric Huang, Eleven Financial.

Mr. Eric Huang: Good morning Pedro, good morning Wagner, thank you for taking our questions and congratulations on the results.

During the quarter, we see a certain pressure on the gross margin. We would, if you can explore a little more about what you see in terms of trends for the gross margin in 2021, if you, I mean, how is the issue of resetting of prices and if you see any pressures there due to raw materials.

And if, if you allow me a second question, it would be in relation to the market at the beginning of this year. How are you seeing the trends, if you have seen any change in the behavior of customers in terms of new orders, how is it being in the face of this pandemic scenario, in short, with this second wave, thank you.

Mr. Pedro: Well, good morning Eric, its Pedro here, thanks for the question, good morning everyone. The first question regarding the gross margin and the pressure on the increase in costs, in fact in the 2H of last year we were already recovering, I think the 3Q already shows a recovery; the 4Q, then, not only a recovery, but with a significant increase in sales.

Our collections are launched a little in advance, so the 2H did not have a price reset, so the margin still came under pressure; but the collections for the year 2021 were launched in October 2020 - already with price adjustments. We were able to make the price adjustments, so our expectation is for a 1Q21 already with adjusted prices, with better margins, margins that are recovering.

In fact, costs have been increasing, not only in our footwear chain, but general costs in Brazil have been increasing. There is the impact of the dollar, which on the one hand protects us from imports, but there are also many of our raw materials that are in dollar - but in any case we are not only able to pass on the price of products that continue, which are the carryovers*;* we were also able to adjust our new product collection to the needs of the market at the moment, which are even more cost-effective, but already with a more adjusted margin. This was possible to be done.

Answering your second question by continuing to talk about our steps here, we managed to make a good sale. We have the 1Q sold, we have already forwarded 2Q very well for the year as well. In fact, we have already moved through January and February, so we already know that we are within our numbers, we are within what we expected.

March started the first days well, today we are apprehensive because we have a factory that makes shoes without any problem, with maximum efficiency; we have portfolios full of orders to deliver on the Brazilian market, but we are unable to deliver in some states where restrictions prevent us from delivering because stores are closed.

Our direct channels and third parties' e-commerce have become quite relevant and important at this moment, but we are apprehensive and prepared to return to have a revenue in March in full swing, as soon as the markets open. This is a problem.

So, talking a little about the market, the year starts well. Commerce does not recover - I think it is not only in the footwear chain - but commerce as a whole does not recover, but Vulcabras is a very agile, fast company and adapts very quickly. It made good decisions not to demobilize its operation, absorbed this repressed demand that existed at the end of last year, gained market share and has continued to grow its market share.

So, making a brief summary, yes, we are very well as a company. The factories are full of orders, they are manufacturing within their efficiency; what concerns us is being able to deliver these products to the states that are under restrictions. Apart from restrictions, both margin and sales have remained at the growth rate we experienced last year.

Mr. Eric: Okay, very clear, thanks.

Operator: Our next question comes from João Andrade, Bradesco BBI.

Mr. João Andrade: Hello, good morning, congratulations... sorry, hello, good morning, congratulations on the result, thanks for taking my question. I wanted to ask about the competitive environment, how are you seeing the competition there, during Q4? I think you, the share gain, anyway, the volume was amazing. How are you looking forward, too, especially with this difficult environment, closings, etc.? Thanks.

Mr. Pedro: João, Pedro here again. I will answer, Wagner, please, if you want to complement. The market is still very much oversupplied. The difficulty of consumption, of sales, still puts a lot of pressure on our sports footwear sector with many clearance sales. This is a factor that concerns us.

But in any case, shoe imports, because of the dollar, have been decreasing. This opens up a greater sales possibility for national products. We have one of the best factories, the biggest one, the sports shoes factory in Brazil and we are taking advantage of this moment in the market, where imports are decreasing.

Anyway, there is still a lot of clearance sales in the market, but I believe in a more disciplined scenario. There were several movements in our sector, acquisitions of brands, our big international competitors changing their strategies a little, and I believe that the market discipline will exist because the prices of imported products became very expensive, and then the national production causes the companies that produce, or companies that buy national products, to sell at the most correct prices, without *dumping*, etc. So, I see a good horizon then.

What really concerns us - I think that not only our sector but concerns the whole of Brazil - are the restrictions, in which a new *lockdown*, a new stoppage at the beginning of the year, were not expected. We are prepared here. Our factories are manufacturing at maximum capacity, we have orders for that and at the present time, in the states where we are not able to deliver, we have suspended activities. There is no cancellation of orders, I believe we will postpone.

If the restrictions last for a long time - something that we would not like to happen - we have a plan B, which would be to decrease production a little now and increase it in 2H.

But I see a good horizon, as soon as these restrictions end, for those who have the local industry, for those who produce in Brazil and have brands adapted to this market moment, where cost-benefit is fundamental for the recovery of business.

And we have the local production of Under Armour, now Mizuno, and Olympikus, which is the sneaker brand that sells the most pairs in Brazil.

Mr. John: Perfect, thank you very much.

Mr. Pedro: Thank you.

Operator: Thanks. We remind that to ask a question just press star one and to remove your question from the queue press star two. While we are waiting for further questions the speakers can continue with the questions received via webcast.

Mr. Wagner: Good morning everyone. We received some questions from the *webcast*, I will read them and we will answer them.

Danielle Nicole Lopes from Nord Research sent us some questions, I think some of them Pedro has already commented on regarding the gross margin, we will come back a little bit more on this point. She asked a question here: do you have a study on how *e-commerce* will end up in the company's revenue percentage in 2021?

E-commerce has demonstrated itself as an extremely relevant channel, a channel where you talk directly to your consumer, a channel that you, besides selling, end up capturing information and behavior trends, and even in this sense Vulcabras, understanding the relevance of this channel, has been making investments, internalizing its e-commerce operations with its own team dedicated to commercial planning.

And now at the end of 1Q21 we are going into operation with a logistics operation dedicated to e-commerce, an operation located in Extrema. It is a relevant investment and it is an investment, a positioning, a strategic action that paves the way. We do hope to keep growing in this channel, but it shall bring as pillars a positioning of our brands, a place where we can tell all the product and technology stories of our brands, not only depending on the retail, but complementing the physical retail, the multi-brand retail.

Being in Extrema will bring a better service, a better level of service. It is a location that today practically specializes in activities, in selling with e-commerce. So, there you have at your disposal a workforce already qualified in this channel, you have highly qualified service providers, and it is also a location that offers us tax incentives.

I think that this set besides supporting brand positioning, technology positioning, and stories complementing the multi-brand retail, is a channel that we do expect to deliver a better level of service to our consumers, also a better profitability within its figures.

Another question here also from Danielle, taking advantage of the fact that I have the floor, the fourth question: will the increased focus on sports in 2021 bring normality of margins or can we expect some improvement beyond normality with the new mix?

Having the company almost 100% focused on sporting goods - I said almost 100% because we still have the PPE boots division, but that represents very little of our portfolio. The company today in terms of its product development capacity, its production capacity, and in its distribution network is 100% focused on sporting goods. For sure, yes, it will bring synergies within the development, production and distribution process.

I think it is important to stress that each brand has its clear positioning, each brand has its focus, its consumer-focus, each brand has its marketing strategy.

Together the three brands complement each other, where we are very comfortable in ensuring that we have a suitable solution for all the needs and all the pockets of the consumers - but the fact is that there are indeed synergies within the processes.

I think that the three brands will have as a great competitive advantage our footwear development center, which today we are proud to say is the best and most well prepared, qualified, modernized development center in Latin America. In terms of development capacity and production capacity Vulcabras today has what is the state-of-the-art of excellence globally speaking, and we do believe that these synergies can bring gains in scale, gains in commodities with respect to raw materials, and this is reflected within their margins.

Of course, it is also important to say that the entry of Mizuno will leverage this synergy - but over time. We receive Mizuno, which comes already elaborated, built, with a portfolio of products. These portfolios, these products, today we are prioritizing their adaptation, their adequacy within our production process, but throughout 2H21 and 2022 we should be starting to absorb and to be able to introduce within the Mizuno collection a greater intelligence in the development of these products, intelligence derived from the know-how that Vulcabras has within these stages of production development.

Naturally, throughout 2021 the portfolio of businesses will change, we have the women's business that left the company during Q4. The margins for women's footwear, the complexity in developing the production of women's footwear, in a certain way, brought and presented lower margins, a little lower than the company's average, and Mizuno enters with a margin level, even at this first moment, more equivalent, closer to the company's average.

So, by simply weighting the brand portfolio, this new brand mix, we expect that throughout 2021 we will already have a gain in the company's weighted average margin, and over the next 22 collections, then we will leverage these margins in terms of product development and synergies.

Following on the webcast questions - we haven't had any other questions within the conference call yet - we have a question here from Fabiano Vaz congratulating us for the result: how are you seeing the costs and price of raw materials in this beginning of the year? Are they still suffering from this increase? Should we still see more pressured margins in these first months of 2021?

This question I will ask Pedro to follow up with the answer.

Mr. Pedro: Well, as I had already mentioned, we have been suffering with the increase in raw material costs since last year, so the 4Q result does have pressure on the cost of raw materials - but it was not only pressured by this cost; we also had another problem that I think is important to comment on: due to the pandemic we had a higher absenteeism in our plants, which made us have to hire more people to replace the people who ended up not going to work in the plants.

There was already a plan to hire these people, because Mizuno would be arriving recently and it would be necessary to supply the growth of the company with the arrival of Mizuno - remembering that women's is a smaller division within the company and Mizuno comes as a much larger business than women's - so there was the need for more employees to sustain the growth.

But as I was already commenting, we manage to reset the prices of current products, of those that continue, but our business is very dynamic and we launch product collections and new products all the time: at least four collections a year, two large and two small.

The big 1H collection was launched in October already with new prices, already with new models - and they already had the price readjustment done.

So, we believe that this first stage is under control with the resetting of prices, and we are very attentive to new cost increases to readjust prices again. The readjustments made were for the products of January, February, and March. These products continue April, May and June, we already have orders for April, May and June. In January we also launched a mini-collection, which also came with a price readjustment, and this one will start to go to market in April.

So, in our view we were able to reset these prices, and it was the right time to do it. Olympikus is our protagonist brand here, it has a middle price range in the price pyramid and we have a very big protagonism in this price range, so the prices were readjusted and we are not feeling any major problems for the time being.

The international brands that we manage may have a little more difficulty because there are still several sales being practiced in the market by all brands.

Wagner, following that I think I see that you have one more question about Mizuno. Do you want to read it and I will answer?

Mr. Wagner: Yes. Fabiano from Nord Research asks us if you can already see how the start with Mizuno is going? What do you see as positive and the challenges throughout this year?

Mr. Pedro: Well, thanks for the question that is one of the main issues. Just to remind you, all the results that we are reporting are results that have nothing at all from Mizuno sales. In Q4 we still didn't have the Mizuno operation inside Vulcabras, also in the first month of the year we won't have it because Mizuno becomes part of Vulcabras starting February 1st, so Mizuno started on February 1st.

Regardless, we have been working on the transition for a long time, and we have made a good transition. We have already started operations, so February was a more initial month - but already with orders, already producing Mizuno products in our factories.

What I can say is that the Mizuno operation is a solid operation, a well-known operation in Brazil, developed over many years; but an operation that has many gains yet to be captured. We have already identified several improvements to be made in the process, we are specialists in sports footwear and we have already identified that the products already launched previously can be produced in a slightly more efficient way - and this we will be able to do in our factories, we are already doing it, so there is the gain of efficiency of a specialized sports footwear production plant.

And we also have - and here in a little more long-term - gains to be captured in product engineering, where our development center has already made an analysis that it can develop the products in a more efficient way, so that it generates better results.

We inherited a working operation from the former administrator, with orders on backlog. These orders start to be manufactured by Vulcabras, but still with a collection already released, where we, in the next collections, have the conviction that we will develop more profitable products and also more adapted to the Brazilian's taste and to the market trends.

We already have a very good understanding with Japan. We already have several products created by Vulcabras in a very short time period being approved by them, and in a great rhythm of approval; but we will practically all this year have gains with the production of products with better efficiency, the products already released.

The new products from there, created by Vulcabras, will enter the market closer to the end of the year, and a large collection will come starting 2022. The processes take a little longer when the international brand needs to go through some approval processes.

And also Mizuno is a brand and specialist in high-performance footwear, which has a major presence in mid- and high-prices, but also has a major work in regaining the preference of runners. Mizuno lost a little of this market share, but the new product collections and the investments we will make in running, in spreading the new technologies, make us believe that we will recover this space that Mizuno lost a little over the years.

So, the news from Mizuno for us is good. The operation is still working, we got a working operation and we are already having gains, even with a collection that was not developed by Vulcabras. It is a step by step process, but.. ah, another important fact is that even with these improvements we have not identified a need to take any step backwards, like decreasing production, or removing products and repositioning the brand. The brand is very well positioned in the market, it is very well known, but there are several gains to be captured within the brand.

In addition, with the current synergy from Mizuno, Under Armour and Olympikus, we have a complete portfolio of brands and we will act in various price ranges -

practically all of them: the shoes go from R$ 149 to R$ 1600, the clothes from R$ 49 to R$ 1000 - practically in all price ranges and acting in all sports segments, all sports divisions.

It is clear that the priority will be the running and training lines, or gym or fitness, which are the lines that sell the most - but we are going to work with soccer, basketball, and in several other sports. I often say here that Vulcabras today has a complete portfolio to meet the needs of any athlete in Brazil, thank you.

Mr. Wagner: Perfect. There's one more question here on the webcast, I think it's a relevant, pertinent question, let's read it, from Paloma Melo from GTI Invest: good morning. Does the increased need for working capital have to do with the resumption of operations or with longer terms for customers?

Paloma, thank you for your question. Most, if not all, of this increase in working capital is actually from sales growth, it comes from the increase in receivables in Q4.

The fact is that if you analyze the working capital by year, it actually has a proportional increase due to the drop in sales during the year, but as our average receivables term is between 105 and 110 days, the receivables are almost entirely built within this term, and the 4Q growth by itself causes this working capital, these receivables, to increase in the same proportion. Sales grew in Q4, 22, almost 23%, and receivables followed the same trend, okay?

Speaking of working capital value, later on, in 2021, the company will have a change in brand portfolio. Mizuno, it is public, that the expectation of revenue from the Mizuno brand is higher than the revenue we had with the women's business, with the Azaleia brand, so there is indeed an expectation of sales growth by simply changing the portfolio, and it will certainly generate an increase, an additional need for working capital during the year - but this working capital will be built over the year, and we understand that our cash is well balanced to accommodate this new need, this additional need. Thanks for the question.

Operator: We remind you that to ask questions by phone you can press star one, and to remove the question from the queue press star two. Please wait. Remember that to ask questions you just need to press star one. Questions will also be received via webcast. Please wait.

We continue without any further questions. I now give the floor to Mr. Pedro and Mr. Wagner for their final considerations.

Mr. Pedro: Well, thank you very much for your interest and attention. I will make a quick summary of the main points here:

I see that there are several questions regarding the recomposition of prices and margins. I reiterate here that it is being possible to reset the prices for 2021, which already shows us a trend to increase our general margins, especially our gross margin. So, what was pressuring the costs, we are managing to pass on and raise our margin, which is our main goal for 2021.

Furthermore, I reiterate here also that this market gain we believe is a permanent market gain, it is not a big momentary market. Yes, we grew, the opportunities arose for those who were better prepared. We have been gaining since 3Q last year, a 4Q with over 20% growth from existing operations - not counting Mizuno.

Our factories are full, we have great portfolios, and this makes us very optimistic for this half-year period. We believe that in 2H we should have an even better situation with the pandemic improving, the vaccines arriving.

This market gain comes from this agility of the company, this quick adaptation; but it also comes from a market situation that improves for a company like Vulcabras with a more expensive dollar and with this importation decrease. I believe that the local production of Vulcabras and other companies will intensify a lot, and since we are specialists in this we will have to take advantage. This is not something we consider to be momentary.

The only concern - or the biggest concern - within this very positive scenario for us, which was January and February, are the restrictions that are currently in place in March, making it impossible for us to invoice; however, we are not suffering with cancellations; we are helping our partners, our more than 10,000 clients - but in several markets we have suspended business.

As soon as it is possible to start invoicing again, as soon as the stores open in these markets, we will come back with full force because we strongly believe that our product is fundamental for the recovery of businesses, for being one of the best cost-benefits that exist in the market.

That is the summary. Mizuno comes, it is already incorporated in the company, it is already working, we are already manufacturing, the people are already all working, those that migrated from Alpargatas to Vulcabras, adapted to Vulcabras, and we have a great growth path with Mizuno as well, with Under Armour and a slightly smaller growth with Olympikus, which is already the market leader, but was also the biggest responsible for the 4Q growth of more than 20%.

So, I just want to thank everyone for attending and to say that we are at your disposal to clarify any points that were left with our IR team, any doubts that may have remained.

Thank you very much, cheers to all, and a good day.

Operator: Thanks. The Vulcabras audio conference is now closed. We appreciate everyone's participation, have a good day, and thank you for using Chorus Call.