VULCABRAS

VULC
B3 LISTED NM

Video Conference (English Transcription)
Earnings Release 1Q25
Vulcabras (VULC3)
May 07th, 2025

Operator: Good morning ladies and gentlemen. Welcome to the Vulcabras Video Conference to discuss the results for 1Q25.

I would like to go through some instructions before starting.

This Video Conference will be held exclusively in Portuguese. The transcript of the event in English will later be made available on the Company's IR website. The video and presentation of this Video Conference will be published on the Company's website www.vulcabrasri.com and on the CVM after the market closes.

Please be advised that all participants will only be listening to the Video Conference during the presentation and then We will start the Q&A session when further instructions will be provided.

Please be advised that forecasts about future events are subject to risks and uncertainties that could cause such expectations not to materialize or to differ from expectations. These forecasts express an opinion only on the date they are made and the Company does not undertake to update them.

Present with us today are Mr. Pedro Bartelle CEO and Wagner Dantas, CFO and Investor Relations Officer.

Now we are going to watch an institutional video and in the sequence we return with Mr. Pedro Bartelle

Click here and select ***1T25 Videoconferência***

Mr. Pedro Bartelle

After a historic 2024, Vulcabras began 2025 at a fast pace, reflecting the consistent execution of its vertically integrated business model focused on product innovation brand strengthening, and operational efficiency.

In the first quarter of 2025, Vulcabras' Net Operating Revenue (NOR) reached R$ 701.2 million, representing a 17.4% increase compared to 1Q24 and marking the 19th consecutive quarter of growth. EBITDA totaled R$ 140.4 million, a 14.7% increase, while the EBITDA margin was 20%. Net Income amounted to R$ 106.1 million, an increase of 19.5% over the same period last year.

The e-commerce channel continued its strong growth trajectory during the quarter, posting a 53.8% increase and reaching revenue of R$ 118.4 million, which accounted for

16.9% of the company's Net Revenue. This performance helped boost the purchasing journey, strengthen brand positioning, and deepen customer relationships — all without the need for aggressive promotional campaigns.

ATHLETIC FOOTWEAR DIVISION GROWS, DRIVEN BY THE CORRE LINE AND MARKING NEW CHAPTERS FOR THE OLYMPIKUS BRAND

The Athletic Footwear division maintained its growth trajectory in 1Q25, recording an 18.5% increase compared to the same period in 2024, primarily driven by the success of the Corre line. The combination of product innovation, brand strengthening, and a consumer-centric approach supported this positive performance, further consolidating the Company's leadership in the national sports segment.

Olympikus, celebrating its 50th anniversary in 2025, continued its upward path, propelled by new launches within the Corre Family and the special Corre 4 Strava collaboration. This partnership marked the second consecutive year of the Olympikus Corre model being the most used by Brazilian runners on the app. The quarter was highlighted by the release of new colorways of best-selling models and the start of the brand's 50th-anniversary celebrations, including the proprietary "Bota pra Correr" festival held in Serra do Cipó (MG). In the high-performance segment, the brand secured a fourth consecutive victory at the São Paulo International Marathon with the new Corre Supra 2 model.

Mizuno advanced its innovation and portfolio expansion strategy in high-performance running with the launch of the Neo Zen, a model designed for daily training and long distances. The brand also introduced new colorways of the Neo Vista, reinforcing its position in the "super trainer" segment. The Mizuno Running Station, a hub for runners at USP, strengthened the brand's connection with the high-performance running community by serving as a weekend gathering point for runners and hosting recurring brand activations. In the Sportstyle segment, Mizuno hosted exclusive events at the Mizuno Listening Store in São Paulo, including the AM Sessions, which combined music, coffee, and urban culture to bring the brand closer to a younger, trend-conscious audience. In football, the launch of the Silver Pack, a special-edition boot color collection, featured coordinated activations with all sponsored players, boosting visibility and reinforcing the brand's presence in the category.

Under Armour continued its strategy of diversification and strengthening in both performance and sportstyle segments. The brand launched the Charged Quicker 2, targeting runners seeking lightness and agility, as well as the SlipSpeed Mega, a versatile model combining technology and comfort for training and everyday wear. In the sports lifestyle category, Under Armour introduced the new Emerge model and new colorways of the Reps 2, expanding its offering for consumers who seek style with performance. In basketball, the brand advanced the global Stephen Curry franchise with the release of new Curry 12 colorways—Gravity and Extraterrestrial—further strengthening its position among elite athletes and sports fans.

CAPITAL ALOCATION

Vulcabras reinforces its commitment to maximizing shareholder returns and maintaining a conservative capital management strategy. In line with this approach, and considering the recent growth along with our expectations for 2025, the Company plans to allocate capital expenditures (CAPEX) toward the expansion of its industrial complex. In addition, working capital investments are expected to slightly exceed the levels recorded in 2024. These investments are anticipated to generate returns consistent with our strategic goals and to deliver increased long-term value to the Company. Despite these planned investments, and supported by strong cash generation, the Company is announcing a round of monthly dividend payments of R$ 0.125 per share to be distributed in August, September, and October 2025. Annualizing this monthly dividend commitment and considering a share price of approximately R$ 17.30, the Company currently offers a dividend yield of approximately 9.0%.

Furthermore, during the first quarter of 2025, Vulcabras repurchased 762.2 thousand shares, bringing the total number of treasury shares to 3,869.2 million, which corresponds to 1.4% of the Company’s outstanding shares. This share repurchase program is part of a capital optimization strategy aimed at enhancing shareholder value and reinforces the Company’s confidence in its future performance.

These actions reflect Vulcabras' ability to align sustainable growth, attractive shareholder returns, and the maintenance of a deleveraged and resilient balance sheet—well-positioned to capture new opportunities as they arise

SOLID FOUNDATIONS FOR SUSTAINED GROWTH

With a growing order book and recently launched collections receiving strong market acceptance, Vulcabras enters 2025 with a positive outlook. The Company believes that it is consistent focus on innovation, combined with portfolio expansion and operational efficiency, will support its growth momentum in the coming months, further strengthening its position in the Brazilian sports market.

We now turn the floor over to Mr. Wagner Dantas CFO and Investor Relations Officer.

Wagner Dantas: Good Morning

Let's begin the presentation by highlighting one of the Company's main operational indicators, the gross billed volume, with details available on slide 5.

The first quarter of 2025 was marked by consistent sales volume growth across all product categories, reflecting the effectiveness of the Company’s business model. This positive performance was primarily driven by favorable retail dynamics, which showed steady improvement throughout the period.

Gross volume invoiced reached 7.1 million pairs and pieces, representing a 5.6% increase compared to the same period of the previous year. This result reflects the positive sales performance across all product categories.

Starting with the Athletic Footwear category, we recorded a 3.5% growth compared to the first quarter of 2024. This increase was mainly driven by domestic market sales. The highlight of the category was the Corre line from the Olympikus brand, which maintained strong consumer acceptance and consistent performance in the running segment.

The Others Footwear and Others, posted a 23.5% compared to 1Q24, with notable growth in the flip-flops and professional-use boots categories, both of which showed significant progress during the period.

Finally, Apparel and Accessories, this category recorded a 0.8% increase compared to the same quarter of the previous year, mainly driven by improved retail performance in the domestic market.

Let's now move on to slide 6, where we present Net Revenue broken down by product categories.

The Brazilian footwear retail sector showed signs of recovery in the first quarter of 2025, driven by the strengthening of the domestic market and increased consumer spending fueled by factors such as declining unemployment levels and rising household income.

On the other hand, in the Foreign Market, sales are still under pressure, especially in countries like Peru and Argentina, where ongoing economic challenges continue to impact local performance.

Even in the face of this mixed scenario, the Company maintained its growth trajectory and overcame challenges, achieving, for the 19th consecutive quarter, a significant increase in net revenue. We closed the quarter with R$ 701.2 million, representing a 17.4% growth compared to the same period of the previous

Athletic Footwear grew 18.5% in the quarter, mainly driven by the strength of the domestic market. Despite a contraction in the Foreign Market, all of the Company's brands performed well, with a highlight once again being the running category of Olympikus, fueled by the continued success of the Corre line.

The Others Footwear and Others category posted strong growth of 26.4%, reflecting increased sales of flip-flops and boots designed for professional use.

Apparel and Accessories recorded a 3% growth compared to the first quarter of 2024, a result mainly attributed to the recovery of the domestic retail market.

Moving on to slide 7, we will detail Net Revenue segmented by markets, highlighting performance in both the domestic and foreign scenarios.

The Brazilian footwear retail sector performed well in the first quarter of 2025, driven by the strengthening of the domestic market and increased consumer spending.

In this context, net revenue in the domestic market totaled R$ 671.3 million, representing a 19.3% increase compared to the same period of the previous year. This positive result was driven by growth across all product categories, with Athletic Footwear once again standing out for its strong and consistent performance compared to 1Q24.

In the Foreign Market, net revenue reached R$ 29.9 million for the quarter, a decrease of 13.1% compared to the same period last year.

Although operations in Peru showed a positive performance during the quarter, direct exports from Brazil—primarily focused on the Argentine market—remained in decline, reflecting the drop in consumer demand in that country.

Moving on to slide 8, we will address the performance of the e-commerce channel, which remains one of the Company's key growth pillars.

In 1Q25, the e-commerce channel reaffirmed its relevance within Vulcabras' strategy, serving as a natural extension between the brands and their consumers.

Driven by a strategy focused on digital positioning and excellence in the purchasing journey, the channel recorded net revenue of R$ 118.4 million, representing a 53.8% increase compared to the same period of the previous year.

This strong performance led e-commerce to account for 16.9% of the Company's net revenue for the quarter, an increase of 4.0 percentage points compared to 1Q24, further reinforcing its growing role within Vulcabras' channel mix.

Moving on to Slide 9, we present Gross Profit and Gross Margin.

The increase in production and sales volume, combined with higher average prices, offset gross margin impacts despite significant pressure on the cost of goods sold.

The Company's manufacturing plants resumed full operations following the collective vacation period, and gradually, efficiency indicators reached planned levels. Targeted production volumes were achieved, and the cost of manufactured goods remained within expectations.

In the first quarter of 2025, the Company reported gross profit of R$ 281.9 million, representing a 17.5% increase compared to the R$ 239.9 million recorded in the same period of the previous year. The consolidated gross margin remained stable at 40.2%, in line with the result reported in 1Q24.

This performance not only demonstrated the Company's resilience in a challenging macroeconomic environment, but also reinforced its commitment to innovation, excellence in product delivery, and agility in adapting to new scenarios.

Moving on to Slide 10, we will present selling-related expenses.

In 1Q25, expenses related to sales, advertising, and Estimated Credit Losses (ECL) totaled R$ 134.1 million, representing a 21.1% increase compared to the same period in 2024.

Excluding advertising investments, expenses directly linked to commercial activity and credit risk management totaled R$ 98.6 million in the first quarter of 2025, reflecting an 18.5% increase compared to 1Q24. When measured against net revenue, these expenses accounted for 14.1%, a 0.2 percentage point increase versus the same quarter of the previous year.

During 1Q25, the Company maintained a trend already observed in previous quarters: the increasing share of e-commerce, especially through marketplaces, in the sales mix resulted in higher volumes of variable expenses such as commissions and shipping costs.

In addition, throughout 2024, the Company opened five outlet stores, which required expanding the workforce and led to higher operational expenses for these new units.

Now moving on to Slide 11, we will detail Advertising and Marketing expenses, analyzing their evolution during the quarter and the main factors that contributed to this movement.

In 1Q25, investments in advertising and marketing totaled R$ 35.5 million. This increase reflects the intensification of brand positioning and communication initiatives during the quarter.

Throughout 2025, Olympikus will celebrate its 50-year history, consolidating its position as one of the leading brands in the national sports segment. In honor of this milestone, the Company has organized a robust calendar of events and brand activations focused on strengthening emotional connections with consumers, increasing the brand’s visibility, and reinforcing its positioning as a leader in innovation and accessible performance.

Among the planned initiatives, one of the highlights is the sponsorship of 50 running events across different regions of Brazil. These events aim to bring the brand even closer to its audience, encouraging sports and well-being through authentic and memorable experiences.

This project reinforces Olympikus’ commitment to democratizing sports and continuing to invest in high-impact initiatives for consumers.

Mizuno reinforced its presence in the performance running segment with the launch of the Neo Zen and new colorways of the Neo Vista, consolidating its positioning among high-performance runners. It also launched the Onihayai Pack, which gained visibility during the Osaka Marathon, and held events at the Mizuno Listening Store in São Paulo, engaging with younger audiences through the Mizuno AM Sessions project.

Under Armour expanded its portfolio with new performance and casual models, including the Charged Quicker 2, SlipSpeed Mega, Emerge, and new colorways of the

Reps 2. It strengthened its Curry 12 line in basketball and, on the international stage, signed a partnership with the NFL as the official provider of cleats and gloves—expanding its presence in American football and reaffirming its focus on innovation and high performance.

Moving on to Slide 12, we will cover General and Administrative Expenses.

The share of General and Administrative Expenses (G&A) relative to Net Revenue reflected the stabilization of their proportion, even with the addition of expenses not present in the 1Q24 comparison base, such as rental costs arising from the opening of new outlet stores.

In 1Q25, general and administrative expenses totaled R$ 43.9 million, representing a 17.1% increase compared to the same period of the previous year. As a percentage of net revenue, they remained stable at 6.3%, the same level recorded in 1Q24.

The main variations during the period were concentrated in rental expenses—driven by Rental expenses, driven by the addition of new retail locations; personnel costs, reflecting wage adjustments from collective bargaining agreements for administrative employees and the increase in labor-related charges due to the reinstatement of payroll taxes, and third party services expenses, related to enhancements in the e-commerce platform.

Now moving on to Slide 13, we will discuss Financial Result and Net Debt, highlighting the key factors from the quarter and their effects on the Company's capital structure.

In the first quarter of 2025, net financial result was positive at R$ 2.3 million, reflecting a significant improvement compared to the first quarter of 2024.

The quarterly variation was influenced by a decline in financial income and expenses, as a result of reduced investments and lower debt levels. Additionally, the period was positively impacted by foreign exchange gains, driven by the appreciation of the U.S. dollar against the Brazilian real.

As of March 31, 2025, the Company reported net debt of R$ 10.1 million, representing a 55.3% reduction compared to December 31, 2024. This significant decrease in net indebtedness was mainly driven by strong operating cash generation during the period.

On slide 14, we present Net Income and Adjusted ROIC, indicators that highlight the Company's operational efficiency and its ability to generate value on invested capital.

In the first quarter of 2025, the Company's net income reached R$ 106.1 million, representing a significant 19.5% increase compared to the same period in 2024. This result was driven by strong operational performance and efficient financial and tax management.

Net margin for the period was 15.1%, reflecting an expansion of 0.2 percentage point compared to the first quarter of the previous year.

Annualized adjusted ROIC reached 29.2%, showing a slight decrease of 0.3 percentage point versus the result as of December 31, 2024.

Now, on slide 15, we will detail the EBITDA performance.

In 1Q25, the Company's EBITDA totaled R$ 140.4 million, representing a 14.7% increase compared to the same period in 2024.

Despite the growth in absolute EBITDA, the EBITDA margin closed the quarter at 20.0%, reflecting a slight decline compared to the previous period. This reduction is mainly associated with the increase in commercial expenses, particularly due to the accelerated growth of the e-commerce channel, which involves higher operational costs.

Even so, the EBITDA margin remained at a solid level, consistent with the Company's operational structure, demonstrating its ability to adapt and maintain resilience in the face of the challenges encountered during the period.

Moving on to slide 16, we will discuss CAPEX.

In the first quarter of 2025, the Company invested R$ 48.4 million in property, plant, and equipment as well as intangible assets, representing a 63.0% increase compared to the amount invested in the same period of 2024.

The main investments were directed toward the expansion of the industrial complex, with the acquisition of new equipment aimed at increasing production capacity, while maintaining a focus on modernization and greater efficiency gains throughout the production process. This reflects the Company's culture of continuously seeking optimal capital allocation, as investment decisions remain guided by the expectation of short-term payback.

Now, moving on to slide 17, we will address Cash Flow, highlighting the main components that influenced the variation during the period.

We closed the first quarter of 2025 with a robust cash position of R$ 247.6 million and net debt of R$ 10.1 million, underscoring the strength of our financial structure. Leverage remains at comfortable levels, allowing us to continue capturing growth opportunities in a strategic and responsible manner without compromising our payment capacity.

Cash variation in the period was R$ 66.7 million, the result of a combination of factors that reflect the Company's sound operational and financial management.

Key highlights include:

EBITDA of R$ 140.4 million; capital increase of R$ 4.4 million from the exercise of the Stock Option Plan, reduction in working capital requirements by R$ 36.7 million.

On the other hand, there was a reduction in bank liabilities of R$ 79.1 million; investments in property, plant, and intangible assets totaling R$ 46.1 million; and dividend payments of R$ 101.6 million during the quarter. These movements reflect our balance between shareholder returns, financial discipline, and investments aimed at ensuring sustainable growth.

This concludes our presentation, and from this point on, we are available to answer any questions you may have.

Victor Rogatis, Itaú BBA

Good morning, everyone. Thank you for taking my questions. I have three here.

First question: The average ticket in Athletic Footwear grew by double digits in this first quarter. I imagine there is a significant component of price pass-through involved. Can we expect this double-digit increase in the average ticket to continue in the upcoming quarters throughout this year? Are you planning to implement any new price adjustments in Athletic Footwear during this year? That is my first question.

Second question: This is regarding selling expenses. You mentioned the Olympikus brand anniversary this year and the sponsorship of 50 races. When we look at the growth in marketing expenses, especially growing at a rate above net revenue growth, is this a trend we should expect to continue in the upcoming quarters of this year as well? That is my second question.

Third and final question: This is related to CAPEX. You also mentioned that the idea this year is to allocate CAPEX toward expanding the industrial complex. I would like to understand what CAPEX level we could expect for this year. How much should production capacity grow or increase after this investment? In addition, regarding your current capacity, how much of it is being utilized today? Thank you, everyone.

Wagner Dantas

Good morning, Rogatis. Good morning, everyone. First, thank you for the questions. I have taken notes here—let us see if I did not miss any.

Regarding the average ticket, we have indeed seen very positive developments—not just this quarter, but throughout all of 2024.

Over the course of 2024, the source of this growth has, in fact, been mix. The increase in average price or the collections across the three brands—especially at Olympikus—has been quite significant. The "Família do Corre" line, which has a much higher average ticket than Olympikus, has strongly driven this upward trend. That was the dynamic throughout 2024, and it was not any different now in 1Q25.

Yes, we implemented an initial price increase, targeted to specific models, necessary to mitigate inflationary effects and pressures from the reinstatement of payroll taxes.

However, it was not a broad-based increase across the entire line, it was much targeted and carefully planned.

The major part of the increase in average price in 1Q came from mix. We can say that at least two-thirds came from mix, and one-third from actual price increase. The success of the "Família do Corre" line, which endorsed and paved the way for all this significant growth we have seen in 1Q, is also reflected in the average ticket.

In addition, we remain very confident that this mix across the three brands, especially evident in Olympikus, will continue to trend positively throughout the year. Therefore, we are quite confident that the average price will keep evolving, and that the main driver for this evolution will be mix, not just price hikes.

As for second half of the year, we have already launched the collections, and we are currently capturing orders for the volumes and products that we will be selling throughout the second half. Yes, we have implemented some selective adjustments, but again, always considering elasticity, dynamics, and volume. Yet, we still believe that mix will remain the key lever for growth in the average price.

For the second question—Pedro, if you would like to add anything to the first one, please feel free.

Pedro Bartelle

No, that is exactly right. Roughly 70% comes from mix, and around 30% comes from price increases that we implemented for the first half of the year and that we have already applying for the second half as well, selective price adjustments. However, what will continue to drive the increase in the average ticket is the mix. In addition, the investments we are making are because we are expanding the collection, especially high-performance products across the Company as a whole, within the three brands—particularly at Olympikus.

In addition, yes, this will definitely continue to push the average ticket higher.

Wagner Dantas

Perfect. Regarding selling expenses, yes, in 1Q we did have a growth in selling expenses that exceeded revenue growth. In terms of commissions and freight expenses, I believe this is likely to be a trend as e-commerce continues to grow significantly. It is natural for these expense items to represent a slightly higher percentage of revenue, commissions or take rates for marketplaces are a higher percentage than the commissions we pay to sales representatives in wholesale.

In addition, final consumer shipping will always be more expensive than sending a full truckload directly to a retailer's distribution center. Therefore, as e-commerce takes up a larger share of our total revenue, it is only natural that these two line items will continue to grow.

As for advertising and marketing, I think the first caveat here is that 1Q of last year was somewhat atypical. We entered 1Q last year with some macroeconomic concerns and uncertainties at the time, so we held back quite a bit on investments and significantly reduced the comparative base.

However, for 1Q25, and this will continue to be the case throughout the year, we are making a slightly higher investment, when compared to our historical average in terms of revenue percentage. This is largely due to the 50th anniversary of the Olympikus brand.

We will be sponsoring 50 races for the brand, and we are indeed investing heavily, consolidating and trying to maximize the impact of the stories that all three brands are telling, especially, once again, Olympikus, which has seen great success with the "Família do Corre" line.

Wagner Dantas:

The last question from Rogatis is regarding CAPEX. In percentage terms, we saw a significant increase in 1Q, but I believe that for the year as a whole, we will indeed carry out a slightly higher nominal CAPEX compared to what was executed in 2024. As a percentage of revenue, it should remain at a very similar level, it is not expected to be disproportionate.

Nevertheless, yes, we are actively seeking new opportunities. The growth of the "Família do Corre" line requires investment in certain technologies and specific production processes, and this leads to increased production capacity. We are also constantly looking for the best capital allocation, investments with short-term paybacks.

Moreover, just to give you some direction or a sense of our approach—short-term for us means between 2 and 3 years. We rarely make CAPEX investments with a payback longer than that. We always maintain a capital allocation mindset, seeking opportunities that yield returns on invested capital in the short term.

Therefore, as a reference point, we can expect CAPEX in 2025 to be higher than in 2024. However, as a percentage of revenue, it should remain very close, so we don't expect it to be disproportionate to the business that is developing throughout 2025.

Pedro Bartelle:

Just to add to the discussion, since the question also touched on production capacity—yes, we have slightly changed the profile of our investment due to the success of the Corre line. We are bringing forward some investments that we had originally planned to make this year and next year.

Because the Corre line, beyond the fact that we are expanding it, and I'll talk more about the collection and strategic aspects in a moment—it has shown us a level of demand that exceeds our current production capacity. So, investments are being made.

We are increasingly convinced that our strategy of vertical integration is our key differentiator. For example, some uppers—the top part of the shoes—which we used to outsource, we are now internalizing. This also requires investment, but it demonstrates that producing in-house is more profitable. We will produce in-house as much as we can.

And we are increasing our production capacity by around 10%. We are still discussing how much we will grow during the second half of the year, because growth must be sustainable—we can't grow too fast by onboarding too many people at once, as that isn't very efficient. But we already have a very solid plan for this year and the beginning of next year, and we are confident in strong growth.

The growth levels Vulcabras has reached from last year to this year—especially in this quarter—represent a new threshold that we are now considering as our standard for growth going forward.

Victor Rogatis, Itaú BBA

Thank you, Pedro and Wagner. Just a quick follow-up here. What percentage of your current production capacity is being utilized today? And once you increase that production capacity by 10%, does that necessarily imply an increase in factory headcount as well, or is it more a matter of expanding capacity through machinery and so on, while maintaining the same number of factory workers you currently have?

Pedro Bartelle

We are at the factory today, and this morning we already took a walk around. What we've been discussing the most here is which processes we can modernize and what solutions we can implement to reduce the number of people needed—rather than increase it. But in this case of growth, yes, we will be increasing the number of workers.

That said, with each passing year, we manage to implement processes that rely less and less on manual labor. Still, this is a labor-intensive industry.

There's no doubt we will continue to grow, but we aim to grow more through processes—through flat knitting machines and automated operations—rather than through increasing headcount. But yes, growth will still require more people.

Victor Rogatis, Itaú BBA

In addition, just one last question: Today, what percentage of your current production capacity is being utilized?

Pedro Bartelle:

Yes, sorry, I had forgotten about that question. This is something very particular to Vulcabras: we do not like to operate with idle capacity. We have learned that working with idle capacity does not generate efficiency. So today, we are practically operating at full capacity, utilizing all of our production capability. Of course, if you bring in more people, change certain processes, or implement a third shift, which is less profitable you can increase output.

However, here, we have a way of working where efficiency is pursued without idle time, so we do not have machines sitting still. Naturally, in some processes you may have more rubber in the sole, or less, which can leave some machines available at times, but within the production process overall, we are operating virtually at full capacity. That is why we are investing now for growth.

This growth investment was already planned for this year. In fact, typically, our CAPEX is split: half for modernization and half for increasing production. What we have seen in the beginning of this year is that we are redirecting part of the modernization budget toward expanding production, due to higher demand at the moment.

Wagner Dantas:

Just to give a bit of numbers here for the answer, our average annual depreciation is around R$100 million. Last year, we had R$200 million in CAPEX, so if you think about simply replacing depreciation, more than 50% of the last year's CAPEX was just for replacement. The other R$100 million was aimed at modernization, pursuing more efficient processes, and expansion.

Eric Huang, Santander:

Good morning, Pedro. Good morning, Wagner. Thank you for taking our questions. I think we have two on our side. The first one is regarding the gross margin. I think it was a positive surprise that you have already reversed the pressures we saw in Q4, especially considering the reinstatement of payroll taxes. So, just thinking ahead, looking at the rest of the year—as you mentioned, you have made some selective price increases.

What can we expect in terms of margin outlook going forward? After perhaps a stable year-over-year comparison this quarter, is there room for margin expansion in the next ones, especially driven by a mix effect? That would be the first question.

In addition, the second one is about the competitive dynamics. We would like to understand a bit better, how you have been observing the competitive landscape. I think we have gone through 2024, and even prior years, with a somewhat more promotional environment. How is that evolving?

Moreover, with all the current discussions around trade wars, do you see any risks—or even signs—of higher volumes of imports, especially from China at lower prices? How are you viewing this situation? Thank you.

Wagner Dantas:

Great, Eric. Thanks for the two questions. I will take the first one, and Pedro will add anything.

I think that, indeed, in Q4 we faced some short-term challenges that arose quickly and significantly pressured our margins. In Q1, the great news is that we managed to work through it, we reacted well, and we have been able to manage and overcome, to a certain extent, these very short-term challenges.

However, these challenges were not factored into our pricing assumptions throughout H1. Therefore, in Q1, we managed to find a way to overcome those pressures. In Q2, the pressures have not really eased. Specifically regarding absenteeism, it remains above historical levels. However, compared to Q4, our proactive actions have had an effect. Therefore, it is better than Q4, but still high—uncomfortably so—when compared to the company's historical benchmarks.

Therefore, it is a pressure that persists in Q2, and we are working to mitigate, or even overcome, the impact it has on our cost of goods produced.

For H2, these variables are better accounted for, because once we identified them and understood the new levels, we were able to incorporate them into our pricing assumptions. So, trying to answer your question, Eric - in Q2 we will still be under pressure, and we are looking for the best paths and strategies to better absorb and manage these challenges.

In H2, the challenges are already mapped out, so we have been able to factor them into pricing. As I mentioned in a previous question, we will implement new selective price increases to mitigate pressures like these. However, that is the general trend: margins in H1 are quite challenging, while Q2 remains tough, we found a way forward in Q1 and are actively working through Q2, seeking opportunities to mitigate the effects.

In H2, we expect a better scenario, since we now understand the assumptions and the new reality of these variables, and we are incorporating them into our pricing.

Pedro Bartelle:

I will speak now about the competition. In some meetings and moments, we often talk about forecasts regarding what might happen with our competitors, whether they might be heavily stocked or not, and what kind of strategy they might adopt or are adopting, but honestly, every time I answer this question, things don't change much.

We continue to see big clearance sales in Brazil, as there have always been, and we have learned to operate within a scenario where you go online and see all kinds of pricing—not for our products, because we manage our products very well. In fact, our e-commerce is growing 50%, it's profitable, already generating absolute profits equal to those from wholesale sales. So yes, it's possible to sell healthily, even in a highly promotional environment.

So we're still in this scenario, but we continue to perform well. I think for two reasons: first, because our market is a growing market. The demand for athletic goods—whether for sports practice or for daily use—keeps expanding. Not just in the sports line, but also in the lifestyle category.

As for imported goods that might no longer be directed to the U.S. and instead come to other countries—yes, we are concerned. Of course we are. I am a board member at Abicalçados. But we are just as concerned about the imports that already come in subsidized. We have always been defending the local industry from these subsidized products that have long entered Brazil.

However, China is not the only sneaker producer in the world. In fact, the largest producer is not China—it is Vietnam, for instance. Vietnam, Indonesia, Bangladesh—these other countries continue exporting and will export heavily to the U.S. I remember in 2010, when a lot of product was being diverted to emerging countries, China was a major exporter, and overnight Vietnam became the largest exporter.

Therefore, I think Asia as a whole will adjust to this. A lot of product will arrive in the same countries it is already going to, and we are keeping an eye on that. However, we have a strategy that I think helps us—not fully protects us, but definitely helps. We offer the best cost-benefit ratio and we focus heavily on that type of product—the "joker" product, the multifunctional product.

Of course, this is more prominent in Olympikus, but both Under Armour and Mizuno also offer products that—modesty aside—have the best cost-benefit in Brazil today. We have a strong presence in the basic and mid-tier segments because we have built a vertical integration strategy that allows us to compete effectively, deliver, and restock across all the complexity we manage internally to offer customers the best deal.

So, let's see what happens—but we are prepared for any scenario.

Larissa Summer, XP:

Good morning, Wagner and Pedro. Thank you for taking our questions. On our side, we have two—though most have already been addressed in previous answers. One topic we would like to hear a bit more about from you is the digital front. We have seen DTC putting pressure on EBITDA margin for a few quarters now, due to the profitability gap that Wagner even mentioned, it is a slightly different business model with additional expenses.

Therefore, if you could comment on how you view this profitability gap, whether there are any processes in place to improve digital profitability or if you believe, it is already at an optimal level. In addition, what is the strategic vision for this channel going forward? When could we perhaps start to see the channel mix contributing positively to your margins?

Moreover, a second question, a follow-up on the CAPEX topic, which we have already discussed quite a bit, but from a capital allocation perspective: you have extended the dividend policy and have this additional CAPEX investment for the year, which has already been well discussed. However, we would like to understand whether you see room for any other capital use movements. How are you thinking about that? Could we perhaps expect an extraordinary dividend at some point?

In addition, while we are on the subject, an update on the M&A front would be great. Thank you

Wagner Dantas

Thank you, Larissa, for the questions. I will talk a bit about profitability, and Pedro will elaborate on the channel strategy.

In Q1, e-commerce accounted for almost 17%, specifically 16.9%—of the Company's total revenue. It has already reached a significant scale. It has a different cost structure compared to the wholesale business, and because of that, as its share grows, it slightly shifts the expense percentages—mainly variable expenses, which follow a different structure.

But our objective with e-commerce is, first, to provide incremental sales to what we already achieve through wholesale. It is about accessing new pockets, reaching new consumers, and having the opportunity to offer the best of what our brands have—the extended shelf, so to speak. Therefore, we see it as a complementary sales channel, and our current focus is on improving the quality of these sales.

The channel was launched within Vulcabras as an in-house operation in April 2021, and since then, its profitability has grown almost in line with revenue growth. About a year and a half ago, profitability was around the midpoint of the Company's weighted average.

What I can tell you, we do not break out isolated profitability for the channel—but is that it has been evolving significantly, and it is increasingly approaching the Company's overall weighted average. There is still some room for scale capture and synergy gains, but I can also say that, compared to the profitability of pure e-commerce players, we are already at benchmark market levels.

For certain brands specifically, the EBITDA margin from the channel is already very close to the EBITDA margin of the same brand in wholesale. Therefore, we expect that, in the near future—maybe not yet in 2025, but perhaps in 2026—the profitability qualification of this channel will shift from being a margin drag to potentially sustaining or even enhancing margin.

In absolute value, I think Pedro has touched on this briefly, but since we're selling directly to the consumer, the profit per pair in e-commerce is already equal to or greater than the profit per pair we achieve through wholesale. Therefore, in terms of cash generation, it is already an accretive channel for the business. Our current focus is on improving the quality of the channel, ensuring it delivers a return on capital.

Pedro Bartelle:

Speaking a bit about the strategy for our direct-to-consumer sales, it is currently a top priority within Vulcabras. E-commerce has grown and is now significant—accounting for 17% of our total revenue. As we have said before, and we continue to believe, we want to expand our share of direct sales, whether through the e-commerce channel, which will continue growing, and growing with expanding margins.

We are projecting margin growth this year in the e-commerce channel, even though it is already a channel that, in absolute terms, is as profitable as wholesale. That is also because we need to play a bit of a disciplining role in the market, since we are the distributors of these brands.

So, we believe that opening our own stores is also necessary for the future positioning and sales of our business, because in Brazil, many of our sales are made through shoe stores, and many others through specialty sporting goods stores that don't sell apparel. Having our own stores will help us showcase our collections much more effectively.

I have been saying this for a while now, and I would like to point out that we did not use to be e-commerce specialists. We used to run a loss-making e-commerce operation. We tried to find a solution in the market—through M&A and other avenues—but that did not work out. Therefore, we built our own structure, and today I truly believe we have become specialists. We are experts—and in my view, even a reference in online footwear retail in Brazil, with the Extrema distribution center and so on.

We also want to expand our retail footprint, which currently consists of only 15 stores—most of them being outlets or factory stores. In addition, for that, we have a new development in our structure: starting yesterday, our new Board Member is Alberto Serrentino.

I do not know if you are familiar with him, but Alberto Serrentino is a retail expert, a sales expert, and someone I have known for quite a while—along with several executives here. He brings with him deep expertise in retail, direct sales, Omni channel strategies, and more. This is an important next step for Vulcabras.

In addition, just to highlight—our growth in direct-to-consumer sales is not coming at the expense of wholesale growth. So this is all incremental to what we're already doing today.

I believe the next question was about CAPEX

Wagner Dantas

Just to wrap up on the e-commerce complementarity strategy: it truly brings incremental sales and helps us overcome certain challenges we face in distributing and selling specific categories, like apparel. In the case of Under Armour, for example, e-commerce plays a huge and very relevant role.

On capital allocation and the potential for further distributions or M&A, I would say that regarding distributions, we are very pleased with our strong cash generation. The Company grew 17.4% while maintaining a 20% EBITDA margin in Q1. In other words, we continue to generate significant cash.

Although our plan includes an additional CAPEX investment—expected to remain at a similar percentage of revenue as last year—with revenue growing, this investment does not burden our cash generation. So we feel quite comfortable with the monthly distributions we are making.

R$ 34 million per month adds up to R$ 408 million for the year, which is a highly significant distribution. Compared to net income over the past 12 months, it represents a payout that is possibly unmatched in the market. Our guiding principle is not payout ratio or a dividend policy, but rather our cash position. At this moment, with high interest rates and a potential upward bias in the short term, we feel more comfortable maintaining an unleveraged balance sheet.

We ended Q1 with R$ 10 million in net debt—technically a net cash position—while still maintaining all these distributions.

If our net cash position reaches more substantial levels, we have always been vocal about not holding unnecessary cash for operations. We would return to issuing extraordinary dividends, but that will depend on how cash generation evolves.

I believe the current payout—the commitment we are fulfilling quarter by quarter, is very solid. In addition, yes, we do plan to maintain it, certainly into 2025 and 2026, depending on how tax discussions evolve. We see this as a significant commitment, and if opportunities arise, we will certainly evaluate and consider them.

Just to close out the capital allocation topic—regarding M&A—given our unleveraged balance sheet, technically net cash, and current level of distributions, we feel comfortable and well positioned to move on any inorganic growth opportunities that may come our way.

At the same time, although we maintain ongoing conversations, exploratory talks with brand managers and retail operators, we recognize that the macroeconomic context adds challenges to moving those talks forward. Today, any investment—due to interest rates and macroeconomic uncertainties not only in Brazil but now globally—makes any investor or entrepreneur think two or more times before taking the next step.

So it is a still-active agenda, but with added hurdles, especially from a macroeconomic perspective, for advancing to the next stages.

Pedro Bartelle:

Just to add to that, Wagner, we have talked about this before, but since we have a solid mapping of the market, we have ended up speaking with several brands and companies.

In addition, I say this with humility: any brand that could take advantage of Vulcabras' entire structure would perform better in Brazil than it does today. Some of them fit with us, others do not; some we would like to have, others we would not. However, what I want to say is that Vulcabras is ready to absorb more businesses.

That said, I would like to take a moment here: we are currently experiencing growth with the Olympikus brand within the high-performance category, which is essentially a new brand and has already become more relevant than some international brands present in Brazil.

For the second consecutive year, we have been the most-used running shoe by Brazilian runners on the Strava app. Last year, our Olympikus Corre model was the most-worn shoe crossing the finish line at the São Paulo International Marathon, as well as the Porto Alegre and São Paulo marathons. Therefore, we are building a new business, and it has required a great deal of attention in terms of investment and growth. It is almost as if we have brought a new brand into the company.

In addition, I want to highlight this because I believe it is the most important initiative we currently have at the company: the entire Corre line. All the work we've been doing in connecting with the running community, building brand equity, enhancing the value of our business, and expanding the collection. It started with a single shoe—the Corre 1. Today, we already have seven high-performance franchises. Just yesterday, we launched two new models: the Supra 2 and the Turbo—products we did not previously have.

So now, we have seven high-performance franchises, plus four basic franchises that are also launched and selling well. Within the running category, we are even developing sub-brands. For example, the Corre Max—a high-cushioning product—that will evolve into a broader category, with 'Max' across various cushioning levels and price points.

We also have the Corre 4S, which is the Corre 4 with a fashion-forward upper, being sold on our website, at Authentic Feet, and in other fashion-oriented stores. The Turbo is an intermediate product between the Corre 4 and our propulsion plate shoes like the Graphene and the Supra. The Turbo sits in a new category—it has the characteristics of plate shoes but without the plate. Therefore, it fits between the Corre 4 and the Corre Supra.

I am emphasizing this—and we have trail models and others—because the market has responded very positively, and we are continuing to expand. In the second half of the year, there will be more news and new product categories. We will not just have two plate shoes—we will have more. We will have more cushioning products, and we will continue expanding the collection as the market gives us space. So yes, we are making this major in-house investment.

Operator

There being no further questions, I would like to hand the floor over to Mr. Pedro for his closing remarks.

Pedro Bartelle

Everyone, there is so much we would like to share—there are many great developments happening within the company. I think we have covered the main ones. I would like to leave our channels open to you—Wagner and the entire IR team are available.

Wagner, I have shared what I wanted to say about Olympikus, and I would like to highlight that Mizuno is going through a very important transformation. We have started developing a high-performance collection for Mizuno based on their new releases, and in my view—and I think I know a bit about the subject—it is a revolution.

Mizuno is modernizing significantly. It is becoming a super modern, high-performance brand—it always has been—but now with an expanded product line. In addition, we already have products ready for production in H2 here in Brazil.

Under Armour, as we know, is a brand that originated from apparel and has a stronger presence in that segment, which is why direct sales are also very important for us. However, beyond that, with the huge growth in running, we are also developing a high-performance collection for Under Armour for H2, while still maintaining training, basketball, and football for Mizuno, and Sport Style as well.

As I mentioned before—but I'd like to emphasize again—we've brought Alberto Serrentino into the company, and he'll be a very important asset for this next step at Vulcabras: expanding direct-to-consumer sales, Omni channel presence, and having a setup that will help us not only sell more, but also help the entire market sell more. We will be able to showcase our products better and present the full concept of each of our brand collections more effectively.

So, thank you all very much for your attention, and we remain at your disposal. Have a great day

Wagner Dantas:

Thank you, everyone. Have a great day

Operator:

The Vulcabras video conference is now concluded.

We thank you all for your participation and wish you a great day