Video Conference (English Transcription}
Earnings Release 2Q22
Vulcabras (VULC3)
July 29th, 2022

Operator: Good morning ladies and gentlemen. Welcome to the Vulcabras videoconference to discuss the results for 2Q22.

I would like to go through some instructions before starting.

This videoconference 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 videoconference 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. Wagner Dantas, CFO and Investor Relations Officer, the Investor Relations team, Mr. Valdinei Tortorelli and Mrs. Luciana Serrano.

Let's stat the call with an Institutional video. Click here

I would now like to give the floor to Mr. Wagner Dantas, CFO and Investor Relations Director, who will begin the presentation.

Please, Mr. Wagner Dantas, you may proceed.

Mr. Wagner Dantas: Good Morning. Welcome everyone to the Vulcabras results video conference.

Vulcabras, the largest Sports Brand manager in the country, reports another historic quarter with record sales and gross revenue accumulated in the last 12 months exceeding R$ 2.7 billion. With revenues of R$ 760 million, 60% higher than 2Q21, the Company has maintained consistent growth for eight consecutive quarters, thus registering the best quarter in its historical series. In addition to the record revenue, with a gross margin of 36.0% (1.9 p.p. above 2Q21), an EBITDA margin of 20.3% and a net margin of 15.8%, the Company presents results that confirm the successful execution of its strategy focused on the sporting goods market.

With consumers more concerned with health, comfort and well-being in recent years, sporting goods have gained the Brazilian's daily life, expanding the moments of use. In this scenario, the strategic transformation that the Company began in 2018 gained speed. With a focus on the sports market and a vertical business model that has a modern sports footwear research and development center (the largest in Latin America) and factories with cutting-edge technology, able to produce the best technologies in the world, the Company grows each quarter, offering a mix of brands and an assortment of innovative products that allow it to meet the needs of all profiles of athletes and consumers, in all price ranges, expanding its offer through multi-brand retail and its own direct-to-consumer sales channels.

2Q22 Highlights

In 2Q22, the Company maintained the strong pace of growth observed in previous quarters, in all brands and in all categories. Revenue growth in the Athletic Footwear category was 56.5%, with relevant highlights in the 3 brands:

Mizuno, the first footwear collection created and produced 100% by the Company had excellent market acceptance and reinforced the brand's growth potential in Brazil. Vulcabras' consumer knowledge and competence in developing and producing high-performance sports products allowed the creation of highly successful products that contributed to the quarter's results.

Olympikus, with the expansion of the portfolio including products for high performance in running, consolidated its presence in this segment. The Olympikus Corre Graphene, which has a technology developed at the Company's research and development center, brought to the market the first sneaker with a graphene propulsion plate in the world, which has already won a podium in the marathons of São Paulo, Rio de Janeiro and Porto Alegre, attesting to the performance of the product in high performance tests. Along with Corre 2 and Corre Vento, the brand consolidates its presence in high-performance racing with innovative technologies.

Under Armour, following the growth of the Basketball category in Brazil in recent years, has expanded its operations beyond training and running and has been investing to connect with this audience and expand its presence in the national market. In addition to the models by star Stephen Curry, this quarter the Buzzer model was launched, being 100% developed and produced by Vulcabras. The model has had very positive sales results, expanding its participation in the basketball community and increasing brand awareness in the country.

The apparel and accessories category showed a 153.1% increase in revenue compared to the same period in 2021, following a strong pace of growth in all brands, with actions aimed at improving the assortment and availability of parts.

E-commerce maintained the trend of accelerated expansion, with growth of 121.4% in 2Q22 compared to 2Q21. The robust result of the channel is due to the strong expansion of sales of the three brands operated by Vulcabras, supported by the investments made in 2021 to build the distribution center located in Extrema (MG), dedicated to the operation of direct sales to the consumer.

In the foreign market, results are equally positive, with growth of 107% compared to the same period in 2021, mainly due to sales of Olympikus footwear.

All indicators show that the Company's growth has remained constant, demonstrating a resilient business model. In recent years, Vulcabras has transformed itself and mapped avenues of growth that has guided the Company´s planning. Focusing on Sporting goods made it possible to gain synergy in operations and evolve not only in revenue, but also in margins.

The scenario for the second half of the year remains positive with the order booking of all brands already built and with growth potential, pointing to the continuity of positive results.

Next, we present our performance in 2Q22 and, for that purpose, we make available on our website both the IR and the webcasting of this videoconference the graphic presentation of the results to accompany our comments on the main highlights of the quarter.

We started the presentation with slide 5, gross volume of pairs and pieces of 2Q22

In 2Q22 gross volume billed totaled 8.4 million pairs/pieces, an increase of 46.1% compared to the 5.7 million pairs/pieces in 2Q21.

The Athletic footwear and apparel categories continued to show excellent performance in 2Q22 and presented robust growth when compared to the same period of the previous year.

- In Athletic Footwear there was growth of 26.8% in 2Q22 against the volume sold in 2Q21, with the three brands posting increases.
- The highlights were the expressive growth of the Mizuno and Under Armour brands, which continue at an accelerated pace of expansion.
- In Apparel and Accessories there was an increase of 107.8% with strong expansion in the three brands.
- 66.5% increase in Other Footwear and Other category, with growth in all subcategories (slippers, boots and women's footwear). As of this quarter, the volume of women's footwear sold at the branch abroad began to be consolidated in Other Footwear and Other.

In the 6M22, gross volume totaled 14.8 million pairs/pieces, an increase of 36.9% compared to the total of 10.8 million pairs/pieces in the 6M21.

Moving on to **slide 6**, I will present on net operating revenue by division.

In 2Q22, net revenue was R$ 656.8 million, marking an increase of 64.4% over the R$ 399.4 million in 2Q21, the Company's new record revenue in a single quarter.

In the 2nd quarter of 2022, the Company maintained the strong pace of growth observed in previous quarters and all brands continued to be highly demanded. Despite the difficulties faced by the Global economy, the Brazilian sporting goods retail presented a satisfactory performance in 2Q22. Retail sales on the main commemorative dates of the period, Mother's Day and Valentine's Day, showed good sales performance and allowed the normalization of inventories throughout the chain.

- Athletic Footwear revenue increased by 56.5% in 2Q22 over the same period in 2021. The increase in revenue in 2Q22 compared to 2Q21 is due to the excellent performance of all brands, especially Mizuno sneakers, which continued to show an accelerated pace of growth.
- The Apparel and Accessories category increased by 153.1% over 2Q21 with all brands posting expressive growth. The apparel and accessories category

represents an important avenue of growth and has been meeting expectations, with growth above the average of the other categories.

- The Other Footwear and Other category increased by 72.5% over 2Q21. The revenue growth in this category is due to the positive performance in all subcategories of this group.

In the 6M22, net revenue totaled R$ 1,134.6 million, 59.5% higher than in the 6M21, when it was R$ 711.3 million

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

Net revenue in 2Q22 in the domestic market totaled R$ 586.0 million, an increase of 60.5% compared to 2Q21, when it was R$ 365.2 million.

In the foreign market, net revenue in 2Q22 totaled R$ 70.8 million, an increase of 107.0% compared to the R$ 34.2 million in 2Q21.

In the domestic market, when compared to 2Q21, the increase is chiefly due to the increase in the categories of Athletic footwear, apparel and accessories.

Direct sales to the foreign market presented significant growth when compared to 2Q21. The Olympikus footwear and slippers categories were responsible for the robust sales growth compared to 2Q21 revenue.

In the sales of the Peru branch, revenue growth was also observed in relation to the same period of the previous year.

In the 6M22, net revenue in the domestic market totaled R$ 997.8 million, an increase of 54.5% compared to the 6M21 when it was R$ 645.7 million.

In the foreign market, net revenue in the 1st half of 2022 was R$ 136.8 million, an increase of 108.6% compared to the R$ 65.6 million in the same period of the previous year.

Going to page 08 we have the net operating revenue to our e-commerce channel.

In 2Q22, e-commerce with the Company's brands continued the growth trend and grew by 121.4% compared to the same period of the previous year.

The robust growth of this channel is due to the strong growth of sales of the three brands operated by the Company.

As a share of revenue, e-commerce represented 4.2% in 2Q22, up 1.0 p.p. compared to 3.2% in 2Q21.

In 6M22, e-commerce grew by 165.6% in relation to the same period of the previous year. As a share of revenue, e-commerce represented 4.5% in 6M22, up 1.8 p.p. compared to 2.7% in 6M21.

Going to page 09, let’s talk about gross profit and gross margin.

Gross profit in 2Q22 was R$ 236.2 million, an increase of 73.4% compared to the R$ 136.2 million in 2Q21. Gross margin was 36.0% in 2Q22, 1.9 p.p. above the 34.1% in 2Q21.

The evolution of 1.9 p.p. in the gross margin of 2Q22, compared to the same period last year, is the result of synergies and scale gains on a relevant growth in the volumes of shoes produced, added to better efficiencies captured in the production of the new models of Mizuno shoes, 100% developed by Vulcabras and much more adhering to the Company's modern production processes.

The ability to pass on the pressure that eventual increases in raw material prices and other costs exert on the final cost of the products produced, was also fundamental for maintaining the evolution of the gross margin.

Gross profit in 6M22 was R$ 404.3 million, an increase of 66.8% compared to the R$ 242.4 million in 6M21. The margin in 6M22 was 35.6%, 1.5 p.p. higher than in 6M21, when it was 34.1%.

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

At the top of the slide, we have the sales expenses graphs (ex-advertising)

R$ 75.4 million was recorded in 2Q22, an increase of 61.5% compared to the R$ 46.7 million in 2Q21. As a share of revenue, selling expenses (excluding advertising expenses) accounted for 11.5% in 2Q22, compared to 11.7% in 1Q21, a decrease of 0.2 p.p. compared to the same period of the previous year.

The behavior of variable expenses remained within the normal range, presenting nominal growth due to the expansion of revenue. In fixed selling expenses, despite the nominal increase, there was a reduction in the relative share due to the capture of synergies with the growth of all brands.

In 6M22, selling expenses (excluding advertising expenses) totaled R$ 137.4 million, an increase of 51.5% over the R$ 90.7 million in 6M21. The share of selling expenses over net revenue decreased by 0.7 p.p. compared to 6M21, reaching 12.1% and 12.8% in 6M22 and 6M21, respectively.

At the bottom of the slide, we have advertising and marketing expenses, which in 2Q22 totaled R$ 24.3 million, an increase of 62.0% over the R$ 15.0 million in 2Q21.

The share of advertising and marketing expenses on net revenue represented 3.7% in 2Q22, compared to 3.8% in 2Q21.

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

General and administrative expenses totaled R$ 32.1 million in 2Q22, an increase of 13.8% compared to 2Q21. As a percentage of net revenue, there was a reduction of 2.2 p.p. from 7.1% in 2Q21 to 4.9% in 2Q22.

In 6M22, compared to the same period of 2021, there was an increase of 6.3% in general and administrative expenses, from R$ 55.2 million to R$ 58.7 million in 6M22.When comparing the percentage of net revenue, there is a decrease of 2.6 p.p. in 6M22 in relation to the equivalent period of 2021.

On page 12 let's talk about net financial result and net debt

In 2Q22, the Company reported a net financial expense of R$ 8.2 million, compared to the same period in 2021, when it reported a net financial income of R$ 17.7 million.

Comparing 2Q22 versus 2Q21, the main variations were observed in the increase in interest paid, due to the increase in interest rates over the last few months, and in the foreign exchange gain due to the depreciation of the Real during this quarter.

Comparing the six-month periods, the net financial income (expenses) changed from a financial income equivalent to R$ 11.9 million in 6M21 to a financial expense of R$ 17.9 million in 6M22.

At 06/30/2022, the Company had a net debt of R$ 183.9 million, 22.2% lower than at 12/31/2021.

The decrease in debt was due to cash generation as a result of the expressive result for the period.

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

Net income in 2Q22 was R$ 103.8 million, an increase of 13.4% over the income of R$ 91.5 million in 2Q21. The net margin reached 15.8% in 2Q22, a decrease of 7.1 p.p. compared to 22.9% in 2Q21.

In 2Q22 and 2Q21 some “non-recurring” events impacted the Company's net income. In the comparison of Recurring Net Income, the growth in 2Q22 was 207.4% when compared to the R$ 30.9 million in 2Q21.

The improvement in the net margin of 2Q22 is due to the gain in gross profit due to the better operating performance and also to the greater dilution of operating expenses due to the significant growth in revenues.

Net income in 6M22 was R$ 157.7 million, an increase of 48.6% over the income in the same period of the previous year. The net margin in 6M22 vs. 6M21 was reduced by 1.0 p.p., from 14.9% in 6M21 to 13.9% in 2022.

In the comparison of Recurring Net Income, the growth in 6M22 was 227.3% when compared to the adjusted income obtained in 6M21, which was R$ 45.5 million.

Adjusted ROIC for the last twelve months ended in 06/30/2022 was 27.1%, 1.1 p.p. higher than the adjusted ROIC obtained in 12/31/2021.

On page 14, we present EBITDA.

In 2Q22, EBITDA totaled R$ 133.4 million, an increase of 29.9% against the R$ 102.7 million in 2Q21. EBITDA margin decreased by 5.4 p.p., reaching 20.3% in 2Q22 against 25.7% in 2Q21.

In 2Q22 and 2Q21 some “non-recurring” events impacted the Company's EBITDA. In the comparison of recurring EBITDA, the result obtained in 2Q22 of R$ 124.6 million represented a growth of 85.1% when compared to the R$ 67.3 million in 2Q21.

The robust increase in sales, combined with the improvement in operating margins and the strict control over operating expenses, resulted in a significant increase in EBITDA.

EBITDA in 6M22 was R$ 216.9 million, 54.9% higher than the result in the same period of the previous year. The EBITDA margin in 6M22 vs. 6M21 was reduced by 0.6 p.p., from 19.7% in 6M21 to 19.1% in 2022.

In the comparison of Recurring EBITDA, the growth in 6M22 was 98.9% when compared to the recurring EBITDA obtained in 6M21, which was R$ 104.6 million.

The recurring EBITDA margin in 6M22 vs. 6M21 increased by 3.6 p.p., from 14.7% in 6M21 to 18.3% in 2022.

On page 15, we present Capex

In 2Q22, R$ 31.4 million were invested in property, plant and equipment and intangible assets. R$ 30.8 million were invested in property, plant and equipment, an increase of 71.1% compared to 2Q21. The investment in intangible assets in 2Q22 was of R$ 0.6 million.

In another quarter, the Company continued to invest in the modernization of its industrial park. The investments made in this quarter are mainly due to the physical expansion of the industrial park in Ceará, to accommodate the increase in the park of rectilinear looms for the production of Knit uppers.

On page 16, we present the cash flow

The variation in cash in 6M22 was negative by R$ 8.6 million. The variation presented was essentially due to the following events:

(i) EBITDA of R$ 216.9 million;

(ii) Increase in the need for working capital of R$ 64.2 million;

(iii) Decrease in bank liabilities by R$ 61.0 million;

(iv) Variation between Long-Term Assets/Liabilities of R$ 11.1 million,

(v) Investments in property, plant and equipment and intangible assets of R$ 71.0 million.

We conclude our presentation and open space for questions.

Thank you

Q&A Session

Thiago (via webcast):

You comment that the outlook for the next quarters remains very positive, with portfolios already built for all brands. Can you color the level of growth that we can expect going forward? What is the Company's expectation regarding the World Cup?

Wagner Dantas:

Thiago, thanks for the question. We actually commented, including in the message from Management, that we ended 2Q very well integrated, with orders in a very relevant volume, which allows us to program the factories, our production, in a very assertive way, seeking to maximize efficiencies.

This really already gives us a lot of confidence, a lot of security to follow and to say that we should maintain the positive trends that we had in the last quarters, going into 2H. And by the strength of the brands, the new collections of the product portfolio, we also created great trust, not only throughout 2H, but also looking towards 2023.

Just to get back to the growth level, we don't give guidance, but I think it is feasible to expect growth in the double digits. I think that growth will not be at the same level as it was in the 1H, even because of the 2021 base, which ended up being very influenced.

The 2H21 was a very relevant, very strong half-year period, with Mizuno already being commercialized and produced at full speed. It is a fact that the Mizuno we produced at the time was not yet the Mizuno developed by us. So, it still didn't maximize, didn't capture all the benefits, all the contributions that Vulcabras was able to bring to the brand's collections, and that we started to really capture throughout 2022. This explains a lot the success that Mizuno is having in the market today with consumers.

So, yes, the expectation for 2H is a very positive expectation. Growth percentages, certainly above double digits, and we remain very confident, even in terms of capturing orders and with the performance of sell out that we captured from our brands, from our products.

The expectation regarding the World Cup, I believe, is not something that will directly influence our brand portfolio. Our brands are not in football today. I think the World Cup is always a very relevant event, a global event, an event that motivates people to start or intensify the practice of sports, and this, in some way, should bring an indirect benefit to the practice of sports and, consequently, an indirect benefit for our brands that have, within their complementary positioning, in their product portfolio, an offer that meets all needs and all pockets.

So, we expect some kind of indirect influence, but in a direct way, I think the influence will not be very relevant, since we are not, through the three brands, present in football.

Thiago:

In the release, you mentioned that you operated practically at full occupancy in the quarter. Can you provide an update on your capacity expansion strategy to support future growth?

Wagner Dantas:

Thiago, once again, great question. Yes, from the perspective of labor allocation, we always seek maximization, the greatest possible efficiency. So, we acted throughout the 2Q seeking to maximize the full occupation of our allocated workforce.

From a CAPEX perspective, we are far from reaching the ceiling or the cap. We use the expression 'factory ceiling', we still have a lot of room to grow. As for CAPEX allocated to machinery, we have few process steps currently operating in three shifts. Most of the stages of our production process still operate in two shifts, and any additional expansion, we are able to, by making very specific investments, nothing very relevant for the Company's level, we are able to unlock stages that we can call bottleneck stages within the process.

We are very well structured, very well organized, to capture the growth that is yet to come; growths that is not restricted to 2H, growth that are paved throughout 2023 as well.

And, in terms of CAPEX, we do not see a need to carry out something structural, something extremely relevant. We continue with business maintenance CAPEX, investments in molds, tools, because this is related to the nature of the business. Launching new collections demands this type of investment.

Yes, we continue to carry out some specific CAPEX to unlock stages of the bottleneck process, such as the purchase of one ejector or another, but this is not very relevant, given the whole of the Company.

So, we have enough production to sustain the future growth that we see on the brands' horizon, channels, and categories.

Thiago:

How much margin expansion remains to be captured through operational synergies between the brands and through innovation in new collections?

Wagner Dantas:

Thiago, we have seen in the last six, seven quarters, in a constant evolution of gross margin, quarter against quarter of the previous year. We publicly declare that we understand, as a joint operation of the Company, as a healthy gross margin, a target of 40%. In this quarter, we reported 36%, an evolution of 1.9 p.p. compared to 2Q21.

We expect for the next quarters the same pace, same quarter-on-quarter growth pace. Our activity has a certain seasonality. It is natural, it is the history of our business that 1H margins are not the best due to production days, even sales volume. The scale of the 2H is usually larger due to commercial dates.

So, yes, we expect maintenance. There are still synergies to be captured. As we have an expectation of revenue growth, naturally we do not grow fixed or indirect costs in the same proportion, we continue, making fixed and indirect investments very punctually and when necessary, really.

So, I think it is quite reasonable, yes, to expect this trend to continue. In recent quarters, we have been improving by 1.5 pp, almost 2 pp quarter on quarter, and we expect to continue in the same pace of evolution, and this will come through synergy, gains of scale, but it also comes through innovation, the capacity that our development center has to bring intelligence to the development and to the footwear technology, delivering a lot of performance, with added value, with a very smart intrinsic value of the products.

So, yes, we expect this positive trend to continue, not only during the 2H, but over the next good quarters. It's our expectation, it's our trust.

Renan Sartório:

Congratulations on the result. I would like to ask how inflation in raw materials has evolved in the 3Q. Also, now that you've done with the ramp-up of Mizuno, whether they are considering another acquisition opportunity. Thanks.

Wagner Dantas:

Renan, thanks for your questions. Cost inflation and Mizuno, potential for new acquisitions. Regarding cost inflation, it still exists. We launch collections almost quarterly. So, new materials, we've been trying to intelligently control this through product development. But I think the most important thing, what I always try to pass on to investors, is our ability to pass on inflationary pressures that the costs of our products may suffer to the sales price, whether due to collective bargaining or an increase in raw material.

We have been, in a successful way, carrying out these transfers. I can say that, since 4Q20, we have been evolving in a neutral inflation. What we are under pressure, we are able to pass on to the POS, and maintaining the evolution in sales volume, without losing sell out traction. In this we have been very successful, and we continue to be so.

I even used an expression recently, it seems the worst is over, Pedro himself mentioned in the last call. In 2021, really, we experienced a rally of price increases, and we don't see that rally happening throughout 2022. There are still discussions, negotiations around increases in raw materials, but to a much lesser extent, a much less relevant, thriving volume, as we have seen throughout 2021.

But anyway, we follow the same policy. From the moment that our costs are pressured, we have been passing this on to the sale price, and the recovery of the margin has been maintained, in a way, by the synergy gains, by the evolution of our product collection, by the efficiency gains that the development center has been contributing to the collections, and the modern industrial park that we have has been able to deliver in maintaining high efficiencies.

Mizuno, I even jotted down here an expression you used, “now that we’re done with the ramp-up of Mizuno”. The Mizuno of the 1H is a Mizuno produced by us, but we can't say yet, we still don't see that we've finished this ramp-up from Mizuno. We finalized the introduction of the Mizuno brand within the Vulcabras environment, within our development, launch, production and market supply process. But the brand, I can say that it is still far from hitting its ceiling.

It is an extremely strong brand, a brand that has been present in Brazil for over 25 years. A brand that has a very relevant brand awareness. It was really a sleeping giant, and we are on the curve, we are in the process of making the brand resume the leading role it had in the past, and I can say with great comfort and confidence that, within Vulcabras, the brand has everything to be bigger than it once was.

So, the introduction of Mizuno, yes, it was completed, but the ramp-up of Mizuno keeps happening. Mizuno projects growth for the next quarters, growth that is still relevant. So, we still have a lot of space to consider that the ramp-up, that Mizuno has reached its potential that it’s on a mature curve. It is still on a growth curve, yes.

New brands, I always like to start this answer by saying that there is always room for one more, but we proceed in a very responsible, conscious way. First, attentive to market movements. I think that even due to the leadership, dimension, capacity and strength of Vulcabras, we would hardly not be evaluated in an eventual, a potential movement.

We also follow a strategy of evaluating potentials that may make sense, complementing our brands portfolio. We understand that, with cannibalization, we would end up not building value, but destroying value.

So, we remain very attentive, but there is nothing under discussion today. But I think that, even because of the portfolio of brands we have, which already allows us to explore all the needs of consumers, in all price ranges, it is becoming increasingly difficult for something complementary to make sense. But we are still very attentive, prioritizing this complementarity and looking for something, always prioritizing something that connects to our sporting DNA, with a focus on sport, which has been a successful strategy, and we have been proving the delivery of this strategy of success in results over the last few quarters.

Renan, I hope I have answered your question.

Renan Sartório:

Perfect, Wagner. Only one follow-up, if I can, on the issue of passing on prices, how have you been feeling about the elasticity of the consumer?

Wagner Dantas:

I think our brands are strong brands. Consumers have been accepting the evolution of prices as our volumes in the three brands continue to evolve. So we don't feel any sell-out loss, loss of traction in the eventual need for passing on prices.

I think it's also important and fair to comment that it's not just us that are passing on prices, but the competition as well, the market as a whole. And I think this is not restricted to sporting goods. Inflation is something that goes beyond the sports industry, goes beyond Brazil. It is present in the global context, in all segments. We've been following it, it's really been something relevant.

But bringing the zoom back into our sporting goods universe, we've been very successful as volumes continue to rise, as brands maintain their sales traction, it's not just sell-in, but the sell-out also performing at the point of sale. I think the strength of brands is very relevant and strategic right now.

It is worth mentioning that Olympikus is the market leader in sales volume in Brazil, a very consolidated brand and a brand that continues to grow; at a slower rate than the other two, but it continues to grow, even in a reasonably volatile and unstable macroeconomic environment that we live in today.

Under Armour is the third largest sporting goods brand in the world, a very relevant brand, a brand that has a huge potential to be explored here in Brazil and that, in its proportion, in its size, which is smaller than the other two brands, has also been growing a lot, and has been responding well to the adjustments we have been making.

And Mizuno, as I mentioned in the previous question, is a giant that was sleeping, a brand that has already been a protagonist in the sporting goods sector here in Brazil. It is retaking its space, it’s retaking its rightful space through the brand awareness that the brand has, and again, within Vulcabras, it has everything to be bigger than it once was.

Renan Sartório:

Perfect, Wagner. Thank you very much.

Guilherme Domingues:

Good morning. Congratulations on the result. On my side, I have a question regarding the foreign market. We've already seen revenue growth since last year. In the previous quarter, we had a growth of more than 100%, in this quarter, too, there is an increase in penetration, evolution of penetration. I would like to know, then, how is the long-term management mind on this front, in the countries in which it operates? How are you looking at the avenue of growth, in line with the increase in revenue penetration? So, I wanted to explore these penetration points, aligned with the growth perspective. Thanks.

Wagner Dantas:

Guilherme, thanks for the question. The foreign market is a market that currently represents 10.8% of the Company's total revenue, just under 11%. It is a market in which we compete with international brands that produce in Asia.

Pedro always comments on the calls about competitiveness, the Brazil cost, the cost of Brazilian labor. There is a huge discrepancy with the Asian cost, the cost of Asian labor. The ratio we have today is that the man-hour of Asian labor costs something around US$ 1 per hour, and in Brazil it costs US$ 2.5, even with the exchange rate as it is. So, it is natural that this competition is a factor that creates great challenges for us to be able to leverage or really have the foreign market more relevant than it is.

It has been growing, yes. It has been growing very focused on Mercosur markets, where, through bilateral agreements, Brazil ends up compensating for this lack of competitiveness, or this artificial disadvantage. We also know that the origin of that US$1 an hour is a little questionable in terms of conditions, in terms of how this labor is applied in Asia, even supported exports from Asia; there are more macroeconomic and geopolitical discussions.

But the fact is that we have been evolving, and evolving well. We have been evolving well through Olympikus, a strong brand, which has a reasonable presence in Peru, where we have a subsidiary. We have been doing well in markets such as Argentina and Paraguay, through distributors, markets where the brand is really relevant.

We also have another avenue that promotes the evolution of the foreign market, which is Under Armour itself. Today, we produce some models and export them to the Argentine market, to the partner that operates the Under Armour brand there.

In other words, we see other markets interested in Vulcabras developments and production, and this further endorses and proves the success of our product development and business model. So, markets that have access to both Asian and Brazilian products at the same cost, they have been prioritizing the products that we have developed due to a truly product portfolio choice. This makes us very happy and optimistic about the evolution.

But the Argentine market is experiencing instabilities, sometimes arbitrariness, which make us act very conservatively, very responsibly, and not seek great leverage.

So, we continue. I think the expectation for the future is that the foreign market will continue to grow. I think the domestic market is our main focus, transforming Brazil through sport. The domestic market still has enormous potential. Global trends of changing consumption, which today prioritize comfort and well-being, people practicing more sports make the sporting goods market really have a growth trend, and this is also reflected in Brazil.

So, we still see a lot of opportunity for our three brands to explore in Brazil, and the foreign market, within the competitiveness that we can achieve against subsidized products of Asian production, we are also looking for the spaces and opportunities that appear.

It is natural, geo-economically, that this is more relevant in the markets, in the Mercosur countries, but we have also occasionally seen opportunities in other markets. But there is always the restriction, always this challenge of competing against an Asian production cost that, in a way, has its subsidies.

Guilherme Domingues:

Very clear. Thanks. Congratulations on the result.

Flavio Bicca:

Good morning. I would like to congratulate you on the results. We have been investors in Vulcabras for some good years now, and I would also like to point out that, despite the Company's low leverage, I agree with your point of view. We live in a complicated country, full of political and social complexities. I would like to punctuate my point of view, because, sometimes, investors are demanding a lot from the company to work with higher leverages, and I think it is important to mention this, because sometimes it is a counterpoint that can also generate a relevant opinion for the controller to follow on the path you are on.

And, within this aspect, I would like to ask if the Company is putting on its radar the payment of interest on equity before the end of the year, because this is a way to save a little in taxes, given the low leverage. I think it would be an opportunity. So if you can talk a little bit about this point.

Wagner Dantas:

Perfect, Flavio. Thanks for the consideration. Really, debt service has gotten very expensive recently, very quickly. With the rise in the Selic rate, carrying leverage, carrying debt, today, is costly, it is heavy. We prefer to use the amount invested in debt service, in innovation and modernization investments. It is really invested in the business, since the business has a more relevant expansion and growth horizon.

The results speak for themselves. Our EBITDA is strong, today between 19% and 20%. Looking at the 2H, we have very well fitted horizon. We must have the maintenance of good results, the maintenance of the trend of evolution of good results.

But the fact is that, even being a super cash-generating operation, in the short term, in 2022 this cash generation has been invested in some points. One of them you already mentioned, which is the issue of indebtedness. We have been analyzing and, with the increase in debt service, I think our tendency will be to seek a position aiming at more net cash. I think maybe we haven't reached it yet, but we should get very close by the end of the year.

The Company's need for working capital is latent, given a relevant growth, growing in the 1H almost 60% against the 1H of next year, and having a profile of our receivables today rotating on a consolidated basis in the range of 100 to 110 days. It is quite natural that this consumes the cash that this requires leverage, the financing of our customers, and a good part of this cash generation has been invested in this.

I think that, in the same proportion, we have a CAPEX that is not structural, extremely relevant. It is slightly above our maintenance CAPEX. A CAPEX that was concentrated there, between March and April, very focused on a modernization process, which was the expansion of the Horizonte factory, which allowed us to build a production park with straight looms for the production of knit uppers; upper is the upper part of the footwear, knit is that technology that makes the upper part of the footwear almost like a sock, with technological attributes.

So, it's a strategic investment, an investment with a modernization bias, but it also brings with it an expansion of production, since I don't stop producing footwear with traditional uppers, and we must continue with some investment.

So, I think cash generation is relevant. In 2022, it has been invested in the need for working capital. A good part has been invested in this very specific and strategic modernization CAPEX. It has been balanced with debt and its debt service. But I think that, yes, we have also been publicizing, speaking publicly, both Pedro and I, that the Company's objective, in the absence of a project or something that brings a greater return to the shareholder, is to carry out distributions, and we will follow this trend. This is a decision of the management, to proceed in this way, within the limit of our cash.

I think that, as we approach net cash, we should intensify future distributions, bringing some comfort, keeping the business within its working capital and investment needs, but, yes, as this cash is transformed into liquidity, we should speed up distributions.

And looking at the 2022 horizon, we will certainly have a very relevant result. We have, even by legal obligation, a minimum distribution of 25%, and we have been closely monitoring our cash position, the evolution of the cash limit and, if there is space, we must understand if there is room for anticipation.

It is difficult today to make a commitment, take a position. The commitment that we have actually achieved, and that we have already assumed, is that, within the limit of net cash, we do have the purpose, the intention of accelerating distributions, and in 2022 there is a reasonable consumption of operating cash generation being invested in the business itself to finance this very relevant growth.

But once, the Company grew almost 60% half-yearly. It is natural that it needs cash for maintenance, to sustain this operation. I hope I answered your question.

Flavio Bicca:

It's answered. Just a detail on interest on equity, if it was the figure that was thought, because, looking at the Company's history, you haven't done that for many years.

Because sometimes the Company has some legal limitation of not distributing interest on equity, only the dividend. It's just that parenthesis.

Wagner Dantas:

The instrument itself is something we've still discussed a lot. There is, at this moment, no definitive position between one instrument or another. There is no legal restriction that prevents us from distributing in one way or another.

What we did, we resumed recently, was the distribution of dividends, and, whether in one way or another, strategically, the answer is the same: we must intensify distributions as the Company's net cash allows and we have space.

Flavio Bicca:

Perfect. Thank you Wagner.

Caio Lobo (via webcast):

Good afternoon. Do you think of a plan to issue new shares to increase the Company's liquidity on the Stock Exchange?

Wagner Dantas:

Caio, thanks for the question. It's a question that I, as the Company's IR, receive with some frequency. I think it is important, at this time when we are in a more open forum, to ratify our understanding.

The Company comes with very relevant results, with a very positive trend. The Company was transformed, reorganized, made investments, did not demobilize in moments of uncertainty, made specific and strategic acquisitions that are paving the horizon for maintaining the Company's growth trends. We have great aspirations for the future, a lot of confidence, and we don't see that translated into the Company valuation today. I think the market has not reacted yet, as the results are really proven, delivered and solidified within this strategy.

Answering your question, today, at the current price, it makes very little sense. I know that liquidity is a questionable issue today within our free float, in some cases, in some funds, maybe even prohibitive, but with this current pricing, it makes very little sense to think about looking for an addition of resources from a source where, today, the pricing is still not in agreement.

And I think there is also the moment of the Company. As I answered in the previous question, it is an extremely cash-generating operation, an operation that managed to make its relevant and recent acquisitions with its own capital, with its own cash. We bought Under Armour, we bought Mizuno with the cash from the operation.

I think that, at the moment when it is reasonable to analyze this path, that is, the stock price at a level that makes sense for the management, yes, it can be an option, it can be a path to be explored, to be discussed. Today, with the current price, I find it very unreasonable to analyze a new issue as a source of funding for the next steps.

But we remain very confident in the delivery of results, and confident that this will be reflected in the share price in the near future, as we have been delivering, I think very consistently, the evolution of results.

Today we have a result that, in the sector, is a very good result. I don't want to question whether the results of the other companies are better or not, but it is a very relevant result, an EBITDA of 20%, a growing operation. This gives us a lot of peace of mind to say that we are going to accelerate distributions.

So, I think that all these are elements that are computed on the Company valuation over time, to the value of the share, as the market sees it. And we have already stated this in a very transparent, public way, we believe that today there is still plenty of room for the Company's share to move higher, and that, of course, should happen.

Operator:

There being no further questions, I would like to turn the floor over to Mr. Wagner again, for the final remarks. Please Mr. Wagner, go ahead.

Wagner Dantas:

I would like, in the final remarks, first of all, to thank everyone who participated in the call. Vulcabras completed, now in July, 70 years, in its best shape. We released a 2Q with historic results for the Company, and I think this is just the beginning. We are far from reaching the mature curve of all the strategic decisions that were taken over the last three and a half years, four years, when the Company began to follow a path of organizing itself and focusing on the production, distribution and sale of sports articles.

We remain very confident in the strength of our three brands, extremely confident in our business model, which is much more agile and much more assertive, which is able to adapt and react quickly to new trends and market changes. And we are also very confident in maintaining the trends that we have captured over the last few quarters, trends in the evolution of results, trends in revenue growth and brand expansion.

We remain at your disposal through our IR channels, whether through our email or telephone. We are also available to clarify, either through e-mail or even in person, holding meetings, any questioning, any doubt that all of you may have after the call, feel free to contact us.

Thank you one more time. A good rest of the morning, a good day to you. Thank you very much.

Operator:

The Vulcabras video conference is closed. We appreciate everyone's participation and wish you a great day.