Conference Call (English Transcription)

Vulcabras

Earnings Release 2Q21

August 11th, 2021

Operator: Good morning and thank you for waiting. Welcome to the Vulcabras conference call to discuss results for 1Q21 Present today with us are **Pedro Bartelle**, CEO of the company, **Mr. Wagner Dantas**, CFO and Investor Relations Officer and our Investor Relations team, **Mr. Valdinei Tortorelli**, Ms. and **Ms. Luciana Serrano**

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

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

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

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

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

Mr. Pedro Bartelle: Good Morning!

Welcome to the Vulcabras results conference call.

In 2Q21, Vulcabras reported yet another positive result, overcoming the challenges imposed by the socioeconomic scenario, which is still affected by the effects of the Covid-19 pandemic.

According to data from the Brazilian Institute of Geography and Statistics (IBGE), the fabric, clothing and footwear segment registered a growth in sales volume of 26% in the first five months of 2021. Considering the sharp drop registered in 2020 and the impacts caused by the second wave of Covid-19 in 2021, the resumption of the sector in 2021 was still timid and below expectations.

The second wave of Covid-19, once again imposed a sequence of restrictive measures that began in March and lasted until the end of April, impacting directly operating retail trade across the country.

With the trade closed and due to the impossibility of carrying out scheduled deliveries, the Company decided to bring forward the vacation initially planned for the 2nd half of 2021, paralyzing its manufacturing operations throughout the second half of April.

Despite all the difficulties faced at the beginning of the quarter, Vulcabras managed to remain above the performance of the sector, recording total net revenue of R$ 399.4 million, an increase of 304.7% over the R$ 98.7 million 2Q20 and grew 22.1% compared to the R$ 327.0 million recorded in 2Q19, reiterating the strength of the current result.

Net income for 2Q21 was R$ 91.5 million, an increase of R$ 166.9 million over the net loss of R$ 75.4 million in 2Q20 (period heavily affected by the first wave of COVID-19 in the country), and also a growth of 205.0% compared to the result for 2Q19, which was R$ 30.0 million.

EBITDA was R$ 102.7 million, an increase of R$ 157.8 million compared to the (R$ 55.1) million in 2Q20, and a growth of 103.4% in relation to the R$ 50.5 million in 2Q19.

The revenue from Athletic Footwear in the 2nd quarter of 2021, presented an increase of 438.1%, compared to the same period of 2020, and a growth of 42.1% over the 2nd quarter of 2019. Both the revenue from Olympikus shoes, as well as that of Under Armour footwear, growth compared to the same quarters of previous years (2Q20 and 2Q19).

This was the first quarter of the year in which sales of shoes and apparel with the Mizuno brand present since the beginning of the period. This quarter, the last stage of the transfer of the operation to Vulcabras was also completed, with the definitive assumption of all existing distribution channels of the brand in Brazil.

In the sustainability pillar, the Company released its first sustainability report, which compiled the main actions carried out in 2020. The document addressed the company's main social and environmental initiatives, whose pillars of action are carbon reduction and clean energy Consumption, reuse and save water, circular economy, social responsibility and impact on the communities where it operates.

In this way, the positive result is the result of a consistent strategy and decisions taken during the hardest moments of the pandemic which consisted in not demobilizing the operations and adapting the Company to the resumption. We trust in the strength of our brands and in our business model, which dominates all stages of the chain from conception, production, replacement and sale. We continue to invest and offer a portfolio of products that seeks to meet the needs of the most diverse consumers and athletes.

This quarter we took another important step towards Vulcabras' growth. We are confident in our decisions and remain confident in our purpose of building a better country based on sport.

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

Wagner Dantas: Good Morning

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

In 2Q21, gross volume totaled 5.7 million pairs/pieces, an increase of 105.3% compared to the total in 2Q20 of 2.8 million pairs/pieces.

The performance of volumes sold in all categories in 2Q21 was very positive, even with the closure of most physical retail during the months of March an April due to the intensification of the COVID-19 pandemic, given the advance of a 2nd wave of contamination.

It should be noted that this was the firts quarter of the year in which sales of Mizuno brand shoes and clothing were present since the beginning of the period. In this quarter, there was also no sale of women's footwear in the domestic and foreign markets due to licensing of the Azaleia brand, and that the sale of this type of shoes was maintained only in the Peru and Colombia subsidiaries.

The second quarter of 2021 began with a large volume of ready-made goods in the Company's inventories waiting for the reopening of retail to be delivered. As the resumption process was slower than expected, the Company decided to interrupt production at its two industrial plants for 15 days as of 4/15/21, thus advancing vacations that were scheduled to be granted during the 2nd half of the year.

The impact of the interruption in deliveries during March and April partially affected the performance of all categories during 2Q21, but even so, the athletic categories showed excellent performance.

In comparison with the same period in 2020, the following considerations were highlighted; (i) in Athletic Footwear, there was a robust growth of 229.0%, due to the positive performance of the Olympikus and Under Armour brands, and also the addition of Mizuno's sales volume; (ii) a decrease of 72.5% in Women's Footwear, due to the discontinuity of business in the domestic and foreign markets; (iii) reduction of 9.8% in Other Footwear and Others, (iv) increase of 183.6% in Apparel and Accessories, due to the expansion recorded with the Olympikus and Under Armour brands and also the addition of Mizuno's sales volume.

In the first half of 2021 gross volume totaled 10.8 million pairs/pieces, an increase of 43.5% compared to the total of 7.5 million pairs/pieces in the first half of 2020.

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

In 2Q21, net revenue was R$ 399.4 million, an increase of 304.7% over the R$ 98.7 million in 2Q20, and grew 22.1% compared to the R$ 327.0 million in 2Q19.

The start of 2Q21 was challenging. The quarter began with most physical retail closed due to the intensification of the COVID-19 pandemic, which once again culminated in the enactment of social distancing measures in all Brazilian states. As a result of this retail shutdown and due to the impossibility of delivering the products to customers, billing for the month of April was significantly affected. In the following months, deliveries were normalized and retail performance reacted and presented significant improvement. On the main commemorative dates of the quarter, Mother's Day and Valentine's Day, there were significant growths compared to the same dates in 2020.

The Athletic Footwear revenue increased by 438.1% over the same period in 2020 and by 42.1% over 2Q19. Both revenues from Olympikus footwear and Under Armour footwear grew in relation to the same quarters of previous years (2Q20 and 2Q19), in addition to the increase in revenue from Mizuno footwear.

The Women Footwear category decreased by 14.6% compared to the same period in 2020, and by 76.4% over 2Q19. This is due to the interruption in sales of women's footwear due to the licensing of the brand. The only channel that presented revenue in this category and that will continue to be active was that of foreign branches.

The Apparel and Accessories category increased by 237.8% compared to 2Q20 and by 36.5% over 2Q19. In the period, there was an increase in revenues from Olympikus and Under Armour brands, and also the start of sales of the Mizuno brand.

The Other footwear and others category increased by 43.4% and 1.0% compared to the same quarters of 2020 and 2019, respectively, with growth in all subcategories.

Net revenue in 1H21 totaled R$ 711.3 million, an increase of 110.9% compared to 1H20, when it was R$ 337.3 million, and of 13.5% over the net revenue of R$ 626.8 million in 1H19.

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

Net revenue in 2Q21 in the domestic market totaled R$ 365.2 million, an increase of 298.7% compared to 2Q20, when it was R$ 91.6 million, and of 21.5% over the net revenue of R$ 300.6 million in 2Q19.

In the foreign market, net revenue in 2Q21 totaled R$ 34.2 million, an increase of 381.7% compared to the R$ 7.1 million in 2Q20 and of 29.5% over the R$ 26.4 million in 2Q19.

In the domestic market, when compared to 2Q20, the increase is due to the general increase in almost all categories, with the only exception being the revenue from women's footwear, which decreased.

In this quarter, there was an increase in direct sales to the foreign market when compared to the same period of previous years (2Q20 and 2Q19).

The athletic footwear category posted a significant expansion, but the drop observed in the women's footwear category due to the licensing of the Azaleia brand overshadowed this expansion.

In sales from foreign branches (Peru and Colombia), there was an increase in revenue compared to the same period of the previous year, but still below the revenue in 2Q19. In the foreign branches, a slow recovery was observed, with gradual openings of retail throughout 2Q21.

In Peru, efforts to recover the operation continue, but the level of consumption in the economy has dropped sharply due to the effects of the Covid–19 pandemic and also to economic insecurity due to the country’s slurred political process.

In Colombia, the Company decided to discontinue the branch's activities in the coming months and, therefore, sales in 2Q21 were made only with the balance of existing inventories.

In 1H21, net revenue in the domestic market totaled R$ 645.7 million, an increase of 118.8% compared to 1H20, when it was R$ 295.1 million, and of 12.2% compared to the R$ 575.7 million in 1H19.

In the foreign market, net revenue in 1H21 was R$ 65.6 million, up 55.5% compared to the R$ 42.2 million in 1H20 and up 28.4% compared to the R$ 51.1 million in 1H19.

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

In 2Q21, following the general behavior of the market, e-commerce with the Company's brands continued the expansion trend, but at a more moderate pace and grew by 1.6% compared to the same period of the previous year, and by 186.4% compared to 2Q19.

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

Comparing the accumulated figures for the period, in 1H21 there was growth of 7.9% compared to 1H20, and of 163.0% compared to 1H19. As a share of revenue, e-commerce represented 2.7% in 1H21, down 2.6 pp compared to 5.3% in 1H20 (time of the peak of the pandemic and general drop in revenues from other channels) and growth of 1.5 p.p compared to 1H19.

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

Gross profit in 2Q21 was R$ 136.2 million, an increase of 415.9% compared to R$ 26.4 million in 2Q20 and of 22.5% over the R$ 111.2 million in 2Q19. Gross margin was 34.1% in 2Q21, 7.3 pp higher than the 26.8% in 2Q20 and 0.1 pp higher than the 34.0% in 2Q19.

Even having been negatively impacted by the increase in cost components that ended up putting pressure on the costs of products produced, the gross margin increased in relation to the same period of the previous year, and also in comparison with 2Q19, thus maintaining an increase trend in its behavior.

In 1H21, gross profit was R$ 242.4 million, an increase of 134.2% compared with the R$ 103.5 million in 1H20 and of 13.6% over the R$ 213.3 million in 1H19. The margin in 1H21 was 34.1%, 3.4 pp higher than in 1H20 (30.7%) and 0.1 pp higher than in 1H19.

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

At the top of the slide, we have the graphs of selling expenses (excluding advertising), increased by 102.2% in 2Q21, compared to expenses in 2Q20, and by 21.0% in relation to 2Q19. A total of R$ 46.7 million was recorded in 2Q21, against R$ 23.1 million and R$ 38.6 million in the same periods of 2020 and 2019. As a share of revenue, selling expenses (excluding advertising expenses) accounted for 11.7% in 2Q21, compared to 23.4% in 2Q20 and 11.8% in 2Q19, a decrease of 11.7 pp compared to 2Q20 and of 0.1 pp over 2Q19.

In the quarter comparison, there was an increase in all expenses compared to 2Q20, due to the robust growth in revenue, which increases the volume of variable expenses with commissions, freight and royalties.

The exception was the line item “Allowance for doubtful accounts”, which presented a reversal of allowance in the amount of R$ 8.6 million due to a sale with discount of credit rights related to trade notes included in the reversed allowance. The write-off of these notes was transferred to the line item “Discounts granted” in financial income (expenses).

In 1H21, selling expenses (excluding advertising expenses) were R$ 90.7 million, an increase of 60.2% compared to the R$ 56.6 million in 1H20 and of 23.2% in relation to 1H19. The share of selling expenses over net revenue decreased by 4.0 pp in 1H21 compared to 1H20 and increased by 1.1 pp compared to 1H19, reaching 12.8%, 16.8% and 11.7% in the first six months of 2021, 2020 and 2019 respectively.

At the bottom of the slide we have advertising and marketing expenses. In 2Q21, advertising and marketing expenses totaled R$ 15.0 million, an increase of 25.0% over the R$ 12.0 million in 2Q20 and a decrease of 2.6% compared to 2Q19.

The share of advertising and marketing expenses on net revenue represented 3.8% in 2Q21, against 12.2% in 2Q20 and 4.7% in 2Q19, a reduction of 8.4 p.p. and 0.9 p.p., respectively. The relative reduction in marketing expenses, mainly in comparison with 2Q20, is explained by the abrupt reduction in revenue and the impossibility of carrying out marketing actions in 2Q20.

In 2Q21, despite the distancing restrictions still in force, throughout May and June, there was a return of some field actions, which focused on the reinforcement of point-of-sale materials for better product exposure.

In the 1st half of 2021, advertising and marketing expenses totaled R$ 26.8 million, an increase of 10.7% compared to those in the 1st half of 2020, which totaled R$ 24.2 million and, a reduction of 2.2% when compared to the R$ 27.4 million for the same period of 2019.

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

Administrative expenses totaled R$ 28.2 million in 2Q21,an increase of 8.0% compared to 2Q20 and of 0.4% over the R$ 28.1 million in 2Q19. As a percentage of net revenue, there was a reduction of 19.3 pp, from 26.4% in 2Q20 to 7.1% in 2Q21, and a reduction of 1.5 pp when compared to 8.6% in 2Q19.

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

In 1H21, compared to the same period of 2020, there was an increase of 8.7% in general and administrative expenses, from R$ 50.8 million to R$ 55.2 million, and an increase of 4.3% compared to the R$ 52.9 million in 1H19. When comparing the percentage of net revenue, there is a decrease of 7.3 p.p. in 1H21 in relation to the equivalent period of 2020, and a reduction of 0.6 pp compared to 1H19.

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

In 2Q21, the company reported a net financial income of R$ 17.7 million, compared to the same period in 2020, when it reported a net financial expense of R$ 1.6 million. In the comparison between 2Q21 and 2Q20, the main variations were observed in the increase in interest paid, due to the expansion of indebtedness over the last few months, and also, the recognition of the foreign exchange losses in 2Q21.

Some "non-recurring" events impacted the performance of the net financial income (expenses) in 2Q21: (i) recognition of R$ 38.9 million in financial income, related to the monetary adjustment of the PIS/COFINS credit on ICMS,; (ii) granting of a financial discount in the amount of R$ 8.6 million due to the sale with a discount of credit rights related to trade notes that were included in the “Allowance for doubtful accounts”.

Comparing the six-month periods, the net financial income (expenses) changed from a finance income equivalent to R$ 3.3 million in 1H20 to an income of R$ 11.9 million in 1H21.

In the end of 2Q21, the Company had a net debt of R$ 202.2 million, R$ 139.7 million higher than at 12/31/2020. The increase in net debt is due to the significant increase in working capital due to the increase in inventories of finished products, mainly due to the receipt of Mizuno brand products and also to the increase in inventories of some strategic raw materials that continue to show volatility in supply and price.

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

In 2Q21, the Company posted a net income of R$ 91.5 million, an increase of R$ 166.9 million over the net loss of R$ 75.4 million in 2Q20, and an increase of 205.0% over the result for 2Q19, which was R$ 30.0 million.

The net margin reached 22.9% in 2Q21, an increase of 99.3 pp, compared to the -76.4% in 2Q20, and of 13.7 pp over the net margin in 2Q19, which was 9.2%.

In 2Q21, some “non-recurring” events impacted the Company's net income. For a better understanding, the amounts and respective effects of each of these events on net income for the quarter and accumulated for the period are shown below. (i)recognition of R$28.6 million in other operating income and expenses related to the principal amount of revenue related to the credit in PIS COFINS lawsuits on ICMS, (ii) recognition of R$ 38.9 million in financial income related to the value of the financial update of the credit in a PIS COFINS lawsuit on ICMS, (iii) recognition of the R$ 1.8 million debit of PIS and COFINS levied on the financial update on the PIS COFINS credit,(iv) and recognition of the R$ 5.1 million debit of income tax and social contribution levied on the PIS COFINS credit on the recognized ICMS.

Disregarding the effects of these non-recurring events, recurring net income for 2Q21 would have been R$30.9 million, with a net margin of 7.7%, 4% higher than the recurring net income for 2Q19, which was R$29. 7 million.

Net income for 1H21 was R$ 106.1 million, R$ 172.5 million higher than in the same period of the previous year and 88.8% higher than in1H19, when it was R$ 56.2 million. In the comparison between 1H21 and 1H20, net margin increased by 34.6 pp, from (19.7%) in 1H20 to 14.9% in 2021, and increased by 5.9 pp in relation to the net margin in 1H19 which was 9.0%.

Annualized adjusted return on invested capital was 18.3% in 2Q21 - LTM (last twelve months ended 6/30/2021), an increase of 14.5 pp compared to 3.8% at 12/31/2020.

On page 14, we present EBITDA.

In 2Q21, EBITDA was R$ 102.7 million, an increase of R$ 157.8 million compared to (R$ 55.1) million in 2Q20 and of 103.4% compared to R$ 50.5 million in 2Q19. EBITDA margin increased by 81.5 p.p., reaching 25.7% in 2Q21 against -55.8% in 2Q20, and increased by 10.3 p.p compared to 15.4% in 2Q19.

As shown in net income, in 2Q21 some non-recurring events influenced the Company's EBITDA. They were, (i) recognition of R$28.6 million in other operating income and expenses related to the principal amount of income referring to the credit in a PIS COFINS lawsuit on ICMS; (ii) recognition of the R$1.8 million PIS COFINS debit levied on the financial update on the PIS COFINS credit;(iii)and the reversal of the provision for debt under "provision for doubtful accounts" in the amount of R$8.6 million due to the sale operation with discount of credit rights on the securities that made up the provision reversed.

Disregarding the effects of these non-recurring effects, recurring EBITDA in 2Q21 would have been R$ 67.3 million with an EBITDA margin of 16.9%, 28.2% higher than the recurring EBITDA in 2Q19, which was R$ 52.5 millions

In 2Q21, some “non-recurring” events impacted the Company's EBITDA. For a better understanding, the amounts and respective effects of each of these events on EBITDA for the quarter and accumulated for the period are shown below.

On page 15, we present Capex

In the 2nd quarter of 2021, R$ 18.8 million were invested in property, plant and equipment and intangible assets. The amount of R$ 18.0 million was invested in property, plant and equipment, an increase of 32.4% compared to 2Q20. The investment in intangible assets in 2Q21 was R$ 0.8 million. The investments made in this quarter are due to the support of the Company's operations, mainly with the growth in investments in molds and dies to support the start-up of production of the new footwear collections.

The amount of R$ 0.8 million was invested in intangible assets in 2Q21, mainly in the acquisition of software licenses.

In the first half of 2021, the amount invested in property, plant and equipment totaled R$ 64.9 million. In intangible assets, the amount invested in 1H21 totaled R$ 2.0 million.

On page 16, we present the cash flow

The cash variation in the period was R$ 74.1 million. The variation presented was essentially made up of the following events: (i) EBITDA of R$ 140.0 million; (ii) increase in bank liabilities of R$ 65.5 million; (iii) increase in long-term liabilities of R$ 3.3 million; (iv) investments in property, plant and equipment and intangible assets of R$ 66.5 million; and (v) increase in the need for working capital of R$ 212.3 million.

The main variation in working capital in 2Q20 is due to the increase in inventories of finished products due to the receipt of inventories with the Mizuno brand and the strategic increase in inventories of raw materials.

We conclude our presentation and open space for questions.

Thank you

Q&A Session

Operator

We will now begin the Q& A session. To ask a question please press star one. To remove the question from the list, press star two.

Our first question comes from Eric Wang from Eleven Financial. Please Mr. Eric, go ahead.

Mr. Eric Wang - Eleven Financial

Good morning Pedro, good morning Wagner, congratulations on the results and thanks for the question. On our side, we would like to understand a little more, talking about gross margin prospects for the rest of the year, especially considering that you had an evolution versus 2019, having the initial impact of the Mizuno integration.

So I think we would like to understand how we could expect the behavior of the gross margin going forward, how should an eventual margin increase, what should be the pace of this?

And if you could also comment a little about what you have seen for the 3Q in terms of perspectives for the main brands and also if you could comment a little about the international operations, how are the perspectives going forward, what do you expect of these operations, thank you.

Mr. Wagner Dantas - CFO

Good morning Eric, this is Wagner, thank you very much for your question. I think that we can actually break your question into three: I think the margin perspectives, a little about the expected orders and how we see 2H, and a little bit about imports.

I'll answer the first part here and then the other two I'll leave with Pedro, ok? Well, margin perspectives, even talking about it, before talking about the future, I will talk a little about the past and what builds our confidence, an expectation that the margin will actually come a little higher than what we have been recording.

I think the 2Q margin, within the context, indeed we see it as a good margin. I think it is important to emphasize once again that due to the month of April, the beginning of the quarter, the market as a whole was suffering the impacts of this second wave of the pandemic. Retail was practically closed throughout Brazil, and even to balance and control inventory levels, we were forced to anticipate vacations. We stopped our manufacturing operations for 15 days, so we had this quarter's gross margin impacted by 15 days of fixed expenses, costs that you cannot vary and without any type of production to absorb these costs.

These costs ended up being fully expensed in the margin for the quarter - and even so Vulcabras managed to support a margin of 34%, 34.1%, which has been our historical average. If it weren't for these effects, we for sure, I think it's very fair to have an expectation that we should have come with a margin of at least one point and a half better than what was disclosed.

I think that looking forward, we do not expect to have any kind of effect from the pandemic again. We expect consumption to continue progressively from now on and we have the launch, the beginning of collections billing that comes from some price increases, which are necessary to recompose the margin, to protect the margin, due to all the pressure that not only Vulcabras, but the segment, all industries and retail has been suffering from the inflationary effects.

The collective bargaining was very heavy, the accumulated INPC in the last twelve months is no mystery to anyone, it came very strong and the readjustments, the inflationary pressure on input prices, raw material costs, were also strong and it was necessary to make this adjustment of the prices.

So the gross margin for the 2H - we don't disclose guidance - but it is very fair if we create an expectation that it will be better than the 2Q, that it will be better than it would be the 2Q without the stoppage of the plants. So I think it should come in a progressive curve, indeed.

Well, I'm going to let Pedro comment on the adaptation, how we see our order backlog and also on the import flow. Go ahead Pedro.

Mr. Pedro Bartelle - CEO

Well, thanks for the question. Wagner commented very well on margin, we really had an impact in April. We had to take a 15-day vacation, the second wave of COVID, many stores ended up closing, factory absenteeism grew and we made the right decision to anticipate the vacations we normally give throughout the year. So we anticipated this vacation and now we will have a slightly higher production in the 2H.

Margins were somewhat affected by this. They have also been affected by the constant increase in raw materials, but we have managed to readjust prices and our growth has also helped us to improve our margins.

As for the 2H we are optimistic. We have already launched the 2H collections, we are already selling, we have already practically sold 3Q, and we are already selling the 4Q of the year as well, the sports footwear collections that we launch - which is now our total focus - they are now made a little more in advance. So there is already a good ordering trend.

Adding to this question, the Mizuno integration, in fact we have, had, are having some integration problems, because as we got an operation working in a way of producing footwear that was different from our way of producing, we ended up suffering a little with some adaptations required to be able to adjust this production.

Vulcabras is a very modern company, very up-to-date with regard to the production of sports footwear and we took a collection that did not yet enjoy a modern plant or process for the production of sports footwear. So we had some problems, but we're already solving them. So the new collections created by Vulcabras have already been presented to the market, they are collections that will begin to arrive at the end of the year and at the beginning of next year, with production completely adapted to our machines, to our processes.

Brand integration is going well. We managed to make a good delivery in the market, that is, the replacement of one company by another had no marketing problems. "We did have problems in adapting production, but we are growing, already a bit with Mizuno, and the company's growth comes from the sports footwear category - remembering that we licensed women's footwear to Grendene. At this point there was a drop in the signal and Wagner took the answer."

Operator

Please wait a moment, we are re-establishing the connection.

Mr. Wagner Dantas - CFO

Guys, I think Pedro had a little problem with his connection, I'm going to continue here the answer he was composing with you.

The fact is that in the 2H we already launched the collections. We have a positive acquisition of orders, which gives us a lot of confidence to say that against 2019 and even against 2020, and even due to the entry of the Mizuno brand into our portfolio, we should continue to grow.

Pedro was commenting, this growth in sports footwear is robust, and in the company's consolidation we have a deflating effect which is the exit of women's footwear - but the growth in sports footwear is enough for the company as a whole in a consolidated manner to continue to grow. Even the 2H of last year was already a strong half-year period, it was a recovery half-year. The growth in 2H20 against 2019 was very relevant and we, even with this strong base for 2020, we have a very positive expectation for the Mizuno brand.

Regarding imports, I think it's the last point of Eric's question, imports continue to drop sharply, and I think it's worth mentioning here that it's a sharp drop on top of a 2020 that was already coming from a very abrupt drop. So even in the accumulated result, we see import data decreasing, and this I think gives us even more confidence. Our business model is agile, flexible and we really understand that our three brands are gaining a lot of market share, occupying the spaces that the competition will leave.

I think that the issue of falling imports is not just a matter of occupying spaces or opportunities at the moment. I think it also goes against an unsustainable competition that international brands have been practicing in recent years and I think that today, even given the latest moves, players should follow a pricing, profitability protection, something more sustainable. And in this scenario, let's say, of equal competitiveness for the Vulcabras brands, perhaps the Vulcabras business should stand out for sure.

Eric, I hope I've covered all your points here, if I missed any here please feel free to reinforce them.

Mr. Eric Wang - Eleven Financial

No thanks, it was super clear.

Mr. Wagner Dantas - CFO

Thanks.

Operator

Reminding that to ask questions just press star one. Again, to ask a question please press star one.

We will continue with the questions via webcast, directly with the speakers. Please go ahead.

Mr. Wagner Dantas - CFO

We got a question here on the webcast from **Mr. Carlos Herrera**, he asks: hello guys, how are you? Could you comment a little bit on the trends you are seeing in July and August? Do you believe that we will be able to return to 2019 volumes as of 3Q or are you still seeing poor demand due to the continuation of the pandemic?

Pedro is restored here, I'll let him take that question.

Mr. Pedro Bartelle - CEO

Carlos, thanks for the question. July was already well within our expectations, growth continues. Even compared to 2H20 - which was very good, there was repressed demand, so it was a good 2H last year - we are forecasting a continuation of our growth. Compared to 2019 we also grew, both the Olympikus brand and the Under Armor brand, which already existed, are growing, and Mizuno has also been growing in the numbers that were practiced last year. So we project a better 2H compared to the last two years.

Mr. Wagner Dantas - CFO

Perfect. Answering another question here that we received through the webcast, question now from **Bruno Baratto**: Good Morning. In the short and medium term, is Vulcabras' perspective to continue using the generated cash to expand the operation with the integration of new brands, as it was with Mizuno and Under Armor, or do we already foresee the distribution of dividends?

Thanks for the question. In fact, Vulcabras, in its essence, in its structural form, is a cash-generating operation, so much so that we managed to acquire Under Armor and Mizuno without the need for indebtedness or issuing something more structured.

The issue of dividend distribution, until 1Q21, Vulcabras was still carrying accumulated losses. As of 1Q21, we, Vulcabras Holding, Vulcabras S.A., started to accumulate retained earnings, which allows us, in this fiscal year of 2021, to make the distribution of dividends.

Here I think it is important to reaffirm: Vulcabras has always demonstrated and made it public that it does have the objective of distributing dividends, and that is how we should continue. In this first period, we have the possibility. We have been studying the matter with regard to figures, percentages, but I think that at least there is still the point of how much our cash will allow us to carry out the distribution - but yes, I believe that 2021 is very fair to say that Vulcabras must indeed continue with the distribution of dividends, but it is yet to mature how much will be distributed even on top of the profits that will be earned and on top of the available cash that the company may have. But we should indeed proceed with the distribution.

Well, we have one more question here on the webcast, the question, a new question from **Carlos Herrera**: Could you comment on the growth strategies? Are there acquisitions in the pipeline or does growth tend to be more organic?

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

Mr. Pedro Bartelle - CEO

Carlos, thanks for the question. Vulcabras has made two good acquisitions in the last two years: it acquired Under Armour, and this year made the recent acquisition of Mizuno.

We are on the lookout for opportunities. The market has been consolidating, several opportunities have been appearing in the market. Regardless of whether Vulcabras projects its growth via acquisitions or not, Vulcabras has a lot of work to do with its three main brands: with Olympikus itself, which is the largest sports brand in Brazil, which sells the most volume of pairs.

There is room to grow and it is worth noting here that the decisions we made during the pandemic not to demobilize our operations, not to lay off people and prepare for the resumption by adapting the company, we are reaping the results now, because the three brands are growing, including Olympikus itself. We are gaining this share.

Under Armor is a brand that has recently arrived in Brazil, so it has a large space to grow. And Mizuno itself is a very interesting brand within our portfolio, because from now on it will start taking advantage of all our development, all our modern product development, technology and especially our modern plants, which are plants that can produce any kind of technology, any footwear in an international level. We don' fall behind to anything, to any Asian plant by the way.

So we have space to grow with our brands - and this is already happening. But Vulcabras is attentive to any opportunity that comes in the market, and when there is an opportunity, we will talk about it here.

Operator

Reminding that to ask questions just press star one. Again, to ask a question please press star one. To ask a question please press star one. Reminding that to ask questions just press star one. Again, to ask a question please press star one.

We now end the Q&A session. I would like to give the floor to Mr. Pedro Bartelle for final remarks. Please Mr. Pedro, go ahead.

Mr. Pedro Bartelle - CEO

Thanks. Well, I just want to reinforce a few points. We really saw an interesting growth for the company, we are reaping the fruits of good decisions made during the pandemic, of course we have been gaining market share.

The integration of the Mizuno operation is going well, but we will have this operation completely adapted to our way of working at the end of this year, the beginning of next year. Even so, we are already demonstrating that we are growing with the brand, so the outlook is very good. Our pre-sales for this year of this 2H are very good and show this growth trend compared to 2020 and 2019.

An important issue of recomposing margins, regardless of whether costs have increased - and raw materials have really been increasing, this even put pressure on our cash, we ended up buying some raw materials in advance because during the pandemic there was a shortage. Vulcabras did not suffer from this, it managed to supply itself well, but there was a shortage and that is why prices also rose.

Some prices we are managing to recover and margins could have been a little better if we hadn't had a vacation in the 2Q. So we have a clean 2H ahead, with good portfolios, excellent growth prospects with price.

So once again I thank you all for your presence and we will remain available to clarify in person or through our IR team any other points or doubts that may have remained.

Thank you very much and a good day to everyone.

Operator

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