Operator: Good morning ladies and gentlemen. Welcome to the Vulcabras Video Conference to discuss the results for 1Q23.

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, Mr. 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. **Click here**

Mr. Pedro Bartelle:

Good Morning Welcome to Vulcabras Video Conference of 1Q23.

Vulcabras continues with strong growth and announces another new sales record in 1Q23. Even in an unstable macroeconomic scenario and a challenging retail environment, gross operating revenue grew 19.6% compared to the same period in 2022, reaching revenues of R$ 571.1 million. The gross margin evolved from 35.2% to 39.5%, an increase of 4.3 percentage points. Ebitda (earnings before interest, taxes, depreciation and amortization) grew 39.8%, reaching the mark of 116.9 million, with an Ebitda margin of 20.5%. Net profit increased 54.8%, reaching R$83.6 million, with a net margin of 14.6%, 3.3 p.p. higher than 1Q22.

The evolution of the gross margin for the ninth consecutive quarter demonstrates the consistency and robustness of the Company's business model. This growth is linked to the entry of new product models with greater added value and technological attributes, which increased profitability and to synergies in the production processes, as a result of the strategy of focusing on the sports market.

In 1Q23, the footwear division grew 18%, with Under Armour and Mizuno revenues expanding at a rapid pace. The American brand maintains its expansion based on a strategy of focusing on the training and basketball categories, global strengths of the brand. Mizuno, with just over two years in the portfolio, continues to grow at an accelerated pace, regaining its strong presence in the running market.

Olympikus, our own brand, is gaining more and more prominence, expanding its presence in running with the proposal to democratize access to high-performance technology through the launch of products with greater added value. In this sense, the brand took a leap last year, with the Corre Grafeno, the world's first graphene-based propulsion plate sneakers. And, this year, it innovates again with the launch of Corre 3, the most versatile shoe of the Corre Family, in yet another co-creation with runners and performance running specialists, having been tested and approved by the USP biomechanics laboratory (reference on the subject).

Another highlight of 1Q23 was the expansion of e-commerce, which recorded new growth of 120.4% in 1Q23, jumping from R$ 23 million in 1Q22 to R$ 50.7 million, representing 8.9% of total revenue. The result comes from the strong expansion in sales of the three brands, with a strategy that combines the strength of the brands and a broad product portfolio.

Vulcabras continues to advance in the apparel and accessories division, which grew 37.7% over the same period in 2022. Revenue in this category rose from R$ 48.8 million to R$ 67.2 million, compared to 1Q22, corresponding to an 11.8% share of total revenue. The performance reinforces the division's potential, increasing its relevance in the Company's product portfolio.

In addition to the results above, Vulcabras also announces the payment of interim dividends in the amount of R$ 0.15 per share, maintaining the quarterly payment as previously announced by the Company.

Quarter after quarter, the constant evolution of results is the result of the execution of a strategy built through investments and focus on the sports segment that maximized the capture of synergies and efficiencies. The scenario for the future remains positive, with confirmed portfolios for the second quarter pointing to a sustainable growth trend.

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

Mr. Wagner Dantas:

Good Morning.

Let's start the presentation of the 1Q23 results talking about the Gross Volume, where the information can be seen on slide 5 of the presentation.

In 1Q23, gross volume billed totaled 6.7 million pairs/pieces, an Increase of 3.7% compared to 1Q22.

Talking a little about the growth by category in 1Q23, in Athletic Footwear there was a reduction of 1.0% in 1Q23 versus the volume sold in 1Q22. The volume loss in this quarter is exclusively due to the drop in revenue from the foreign market, which overshadowed the growth registered in the domestic market. The highlights in this quarter were the significant growth registered with the Under Armour and Mizuno brands, which continue to expand at an accelerated pace.

In Other footwear and others, there was an increase of 2.8% due to the growth registered in the professional boot category, which was overshadowed by the drop in the volume of flip-flops due to the difficulties faced in sales to the foreign market.

In Apparel and accessories, there was an increase of 18.9% in 1Q23 when compared to the volume measured in 1Q22. In this quarter, the Company's three brands presented a positive performance, with special emphasis on Mizuno Apparel and Accessories, which, like sports shoes, also continues at an accelerated pace of expansion.

Moving on to slide 6, I will comment on Net Revenue by product category.

In 1Q23, the Company maintained the consistency of growth observed over the last quarters and recorded net revenue of R$ 571.1 million, an increase of 19.6% over the R$ 477.7 million in 1Q22.

In yet another quarter of revenue growth above the average retail performance, the Company maintained its strong pace of sales expansion, posting positive performance in all its brands.Once again, it is worth mentioning that the Apparel and Accessories category suffered a reduction due to the previously mentioned seasonal effect.

In Athletic Footwear we grew 18.1%, in Other footwear and others the increase was 11.2%, and in Apparel and accessories there was an increase of 37.7% compared to 1Q22.

The excellent results presented in Apparel and Accessories reinforce the potential of the category in its addressable market and it has been gaining more and more relevance within the Company's product portfolio.

Moving on to slide 7, we have the breakdown of net revenue by market.

In the domestic market, we invoiced R$ 524.9 million in 1Q23, an increase of 27.5% compared to 1Q22. The highlights of the quarter were, once again, the robust growth of Mizuno brand footwear and, also, the performance of the Apparel and Accessories category, which continues to increase its relevance within the Company's portfolio.

In the foreign market, net revenue in 1Q23 amounted to R$ 46.2 million, down 30.0% over 1Q22. Direct sales to the foreign market showed a sharp decline due to macroeconomic factors in the countries to which the products are exported. In Argentina, which is the main destination for the Company's exports, the difficulties faced by local distributors to obtain the approval of import licenses and the creation of credit guarantees, practically stopped business throughout this quarter.

In the sales of the Peru branch, revenue reduction was observed in relation to the same period of the previous year. The reduction in the operation in Peru is due to persistent political problems in that country and, also, the occurrence of an unusual weather phenomenon that affected several cities and caused the temporary closure of commerce in some of them..

On Slide 8 we have information related to the digital channel.

The Company's e-commerce channel recorded net revenue of R$ 50.7 million in 1Q23, maintaining the expansion trend, showing growth of 120.4% compared to the same period of the previous year.

The growth of the digital channel continues to be driven by the positive sales performance of the Company's three brands and 8.9% of consolidated net operating revenue in 1Q23, an increase of 4.1 p.p. compared to 4.8% in 1Q22.

Moving on to slide 9 to talk about Gross Profit and Gross Margin.

Gross profit in 1Q23 was R$ 225.3 million, an increase of 34.0% compared to the R$ 168.1 million recorded in 1Q22. Gross margin reached 39.5% in 1Q23, of which 4.3 p.p. higher than the 35.2% reached in 1Q22.

For the ninth consecutive quarter, the Company reports evolution in gross margin. The 4.3 p.p gain in the gross margin achieved in 1Q23 compared to the margin obtained in 1Q22, demonstrates the consistency and reach the Company's business model.

The main factors leading to this gross margin gain were:

i) Expansion of the product portfolio in all brands, reaching new categories;

ii) Launch of new product models with higher added value;

iii) Capturing synergies and economies of scale as a result of production growth;

iv) Cooling of the international logistics cost and;

v) Growth in the share of DTC sales where, due to the nature of the channel, margins are higher than the Company's overall average.

Moving on to Slide 10.

Selling and Allowance for Doubtful Accounts expenses (excluding advertising Expenses) in 1Q23 totaled R$ 79.4 million, registering an increase of 31.5%, compared to 1Q22.

As a share of revenue, selling expenses (ex-advertising) represented 13.9% in 1Q23 compared to 12.6% in 1Q22.

Some variable selling expenses showed expansion in their representation relative to revenue, due to changes in the participation of brands and channels.

Advertising and marketing expenses totaled R$ 23.7 million, an increase of 26.7%, compared to 1Q22.

As a share of net revenue, advertising and marketing expenses accounted for 4.1%.

We can move on to slide 11.

General and administrative expenses totaled R$ 32.4 million in 1Q23, an increase of 21.8% compared to 1Q22. As a percentage of net revenue, there was an increase of 0.1 p.p., from 5.6% in 1Q22 to 5.7% in 1Q23.

In 1Q23, the increase in administrative expenses is mainly due to the increase in personnel expenses due to one-off reinforcements in the administrative teams and the transfer to salaries of increases negotiated in collective agreements. In third-party services, the increase is due to the expansion of services related to DTC’s (Direct-to-Consumer) BackOffice.

We now move on to slide 12 to talk about the Financial Result and Net Debt.

The net financial result in 1Q23 recorded an expense of R$ 2.1 million.

Comparing 1Q23 versus 1Q22, the main variations were observed in the increase in financial income due to the increase in cash, the correction of PIS/Cofins credits to be recovered mostly in December/22 and, also, the net variation between revenues and foreign exchange expenses between the two periods.

On 03/31/2023, the Company had a net debt of R$ 90.5 million, 57.8% lower than that observed at the end of 12/31/2022.

On slide 13 we have net income and adjusted ROIC.

This quarter, we presented a net income of R$ 83.6 million, recording a growth of 54.8% over the result presented in 1Q22.

The net margin reached 14.6% in 1Q23, an increase of 3.3 p.p., compared to 1Q22.

The annualized return on invested capital (ROIC-adjusted) reached 26.9% in 1Q23-LTM (last twelve months ended 03/31/2023), with a reduction of 1.2 p.p. on the result obtained on 12/31/2022.twelve months ended 12/31/2022), an increase of 2.1 p.p. on the result obtained on 12/31/2021.

We now move on to slide 14.

The Company's EBITDA reached R$116.9 million in 1Q23, growth of 39.8% with an EBITDA Margin of 20.5%, which represents a gain of 3.0 p.p., compared to 1Q22.

The expressive growth of the EBITDA Margin is mainly due to the excellent operating performance, which resulted in a 4.3 p.p. increase in the gross margin.

Moving on to slide 15 of the presentation.

In this quarter, the Company continued to invest in the expansion and modernization of its industrial park, with emphasis on the expansion of the pavilion of the industrial park in Bahia and the adequacy of the layout at the plant in Ceará.

CAPEX presented in 1Q23 was R$ 33.4 million, a reduction of 17.7% in comparison with the investments presented in 1Q22.

We can now move on to slide 16

We ended 1Q23 with R$ 383.3 million in cash and a net debt of R$ 90.5 million. Our final financial leverage position is comfortable and represents 0.2 times Ebitda.

The cash variation in 1Q23 was R$177.2 million, consisting essentially of the following events:

(i) EBITDA of R$ 116.9 million;

(ii) Increase in bank liabilities by R$ 56.8 million;

(iii) Decrease in the need for working capital of R$ 62.7 million;

(iv) Variation between Long-Term Assets/Liabilities of R$ 19.2 million,

(v) Investments in property, plant and equipment and intangible assets of R$ 29.9 million,

Question and Answear

Operator: We will now start the question and answer session for investors and analysts. Participants can submit questions in writing using the Q&A tool at the bottom of the screen.

To ask questions by audio, simply click on the "Raise your hand" button. When your name is called, a notification will appear to open your microphone.

Laryssa Sumer, XP (via webcast):

Is there still much room for margin expansion through mix and synergy gains? How is your mind and strategy for possible tax changes in ICMS incentives?

Wagner Dantas:

Well, regarding margin gains, I think the first point to mention, this 1Q margin is a very relevant evolution, a very positive evolution, 4.3 p.p., it really is something relevant, but not unexpected. It's something we've already mapped out, something we've been working on.

And it really sets a new gross margin level for the Vulcabras operation. It has elements that bring with it a commercialization of products or a mix of products with greater added value. It captures a certain cooling of logistical costs of international freight that impact purchased products and raw material imports.

It brings with it a weighted mix effect, in a greater share of an e-commerce channel that structurally has higher gross margins. And it also captures a stabilization in the evolution of raw material costs, which, compared to what we have experienced in the last two years, has been somewhat stabilizing.

And, added to all these elements that I pointed out, in fact there is a very relevant gain in synergy, economies of scale, which come from the same infrastructure, the same industrial park, the same organization and which has been scaling, which has been supporting growth of strong brands, thriving brands, relevant to its target audience, in its target categories.

And the sum of all this really is this new gross margin level, which we hope, throughout 2023, that it will be sustained, that we will really maintain this positive evolution, always comparing quarter against quarter of the previous year due to seasonality.

It is known that in 2H our margins are higher due to the commercial dates, due to having more production days. But keeping the seasonality aside, we are happy, confident and really establishing a new gross margin level for the business.

And keeping the pace of evolution, so I think that's the point. This is the ninth consecutive quarter of quarter-on-quarter gross margin growth. In this 1Q there is a leap, we have a very positive expectation for the 2Q that is being designed, and in 2H the margins are really better, naturally.

Second question: how is your mind and strategy for possible tax changes in ICMS incentives. The discussion of tax reform, and changes, is a discussion that extrapolates the results or just Vulcabras. It is a discussion that brings to the scope, I think, the Brazilian industry, as a whole.

And making a filter, zooming in on the sporting goods market, I think it impacts the market as a whole. The products that are marketed are marketed by retailers who have incentives, especially ICMS related to distribution. They are marketed by brands that buy from manufacturers that also enjoy tax incentives, just like us, Vulcabras.

And we end up being a little more exposed, or with public numbers on top of possible impacts, due to the fact that we are verticalized and we really connect from the raw material to the final product for the consumer. So, the chain as a whole has its tax planning.

But I think that the summary, our point of view on this, first, is a theme that has been dragging on for decades. It's not a new topic. Two, it is an issue that will impact the industry, the segment as a whole, any relevant impact on this will not be limited to Vulcabras. Will extend to the entire supply chain until to the consumer.

And specifically with regard to ICMS, what I can say is that our incentives have always been aimed at investment. Incentives that, in fact and in a very tangible way, Vulcabras delivers to society in return. We are part of an industry, we are a company that generates jobs, which has a socio-economic impact.

Normally I even use the Ceará plant as an example, where we are here today doing the call. The plant located in the city of Horizonte. The population of Horizonte today revolves around 66, 67,000 inhabitants. And if we exclude, a quick count, the elderly, children, civil servants, we eventually bring that number down to half of the economically active population, 33, 34,000 inhabitants. We employ 11,000 people at this plant. So it has a very relevant impact.

We have Senai's school here, which trains and prepares young people, and we have a large percentage of conversions. These teenagers, these young people, leave Senai straight to Vulcabras as their first job. So it has a whole impact, really a counterpart, I think this is the word to use in this theme, a socio-economic counterpart for the locations, for the places where we are installed.

And we understand that the government, the reform, the unfolding of this theme do have to take this aspect into account, privileging, really protecting, incentives, industries, which generate compensation. And I think that's it. This is very much from our point of view on the subject.

Just to reinforce the issue of ICMS incentives, which was Larissa's question. They are incentives. All our incentives are related, they originate from investment incentives. Thank you very much Larissa for the question.

Pedro Bartelle:

First of all, good morning. Good morning again, everyone. I think I would just reinforce a little about the gross margin to make it clear that it is a new gross margin level and this gross margin, in addition to all the reasons that Wagner mentioned, I would like to reinforce the decision that we made to focus 100% of the company in sports.

This is a greater synergy between all processes and an efficiency gain in all processes as well. So we have a company and people completely focused on sports brands.

During this period of great volatility, from the pandemic until now, there was a lot of increase in costs, etc., and today we see greater stability. So, this has also brought greater predictability for us to price our products. We sell in the medium and short term, but we need to price them in advance. And nowadays we have more predictability for pricing.

But the main reason why we are gaining margin is really this improvement in efficiency in all processes, not just in manufacturing processes. We never had the efficiency we have today at the factories. So, every month we are gaining a little more efficiency, we are managing to perform a little better, that all people are dedicated only to sports technology, the creation of sports footwear and the production of sports footwear. But thanks for the question.

Wagner Dantas:

While we await the capture of more questions I would like to comment, I think that one aspect that we try to make as clear as possible in the release, but which I think is important to reinforce, regarding dividends and what we have as a horizon, as an expectation of continuity.

In November of last year, we approved the results for the 3Q and together with the approval of the results, the Board decides on the payment of dividends and there we announced that we should continue with quarterly distributions. And so we started this cycle now from 2023, where on a quarterly basis we do have the objective of distributing dividends on a constant basis throughout the year. Constantly in recurrence and also in relevance, in the amount per share.

It is a bit of the horizon that we understand as healthy in the company's cash planning, for us, in a public way, we have already mentioned, we have already commented and reaffirmed, and here I reaffirm our intention of not, the market jargon is to invest cash, of not retaining cash. We have a commitment or a need for relevant working capital due to accelerated growth.

We grew 19.6% in this 1Q on top of a base that already comes from a very relevant growth. So, the Company really reaches a new level. And along with this new level, our financial cycle demands a need for working capital.

We have a CAPEX, which is a modernization CAPEX, a maintenance CAPEX. However, linked to this, the Company is currently experiencing a very low level of indebtedness. Our debt is 0.2x EBITDA, almost net cash. And, in fact, we have no intention of converting net cash. I think this one is a fair statement which I think is important to be mentioned and in this way we are accelerating the recurrence and now stabilizing the level of dividends that we should distribute.

And eventually, at the end of the fiscal year, according to the cash evolution, according to the interest rate evolution, other elements, there is indeed a positive perspective of possibly paying complementary dividends.

So, I think the message here is that we have a horizon, an expectation of a payout increase throughout the period. And I think that was the point that I would like to comment on at the moment that we are receiving here, compiling the other questions.

Cristiano Euzébio Martins (via webcast):

Good morning. With these good results, is there room to add another relevant brand to Vulcabras' portfolio and seek even more market share?

Vinícius Escobar (via webcast):

Congratulations on the results. With this cash generation and low debt, do you have any intention of making any acquisitions? Or will you focus only on the three brands? Thanks.

Pedro Bartelle:

I asked to join the two questions, my answer will answer both questions. First yes, there is space. Vulcabras is very well organized, the focus on sports created a great synergy within all processes. We have a very well-oiled management. We are attentive, the market is still negotiating, I think it has slowed down now with the change of government, uncertainties in the market.

But yes, there is a consolidation of brands in our sector. I see that even international brands realize that having a national operator is very good, especially someone who can supply local production and be quick to replace, etc.

So the answer is yes, we have room for more Vulcabras businesses and Vulcabras is well organized to do new business. We have no deals to be commented on or publicized. There's nothing we're about to say or do but yes, Vulcabras is very attentive.

Regardless of that, Vulcabras has been growing a lot in its three brands and in two other divisions, which is not Vulcabras’ core business, it wasn't Vulcabras’ core business, which is with regards to clothing, the clothing division, which has already exceeded 10% of revenues, which is already quite relevant revenues, can grow, can reach 20, it also depends on whether we have a football club that sells a lot of jerseys.

But usually these brands end up having 20% when they have football teams. Above ten already starts to be a relevant value for us, it can grow to reach 20%. And our own e-commerce, which was always based on 4.5%, is now approaching 10%, it will grow, which are our direct sales.

But regardless of these two divisions, brands have been growing. Under Armour from a lower base, the smallest brand within the Company today, despite being the third largest sports brand in the world, has been growing, has found a very healthy path in basketball and in training, all gym products, where it has its globais strengths. And we have managed to implement this with great success in Brazil.

At Mizuno for two years, and now this is the third year that the brand has been with us, we have already broken the sales record. Last year we already had the biggest year in Mizuno's history, but it still has a lot to grow. Vulcabras has put all its experience in product development and the quality of its factories to produce products with great perceived value, and has given us an even greater market share.

We have already conquered a very relevant space, we are already reconquering these avenues. But there are also other Mizuno categories that we are going to start working on, for example, volleyball, tennis and the entire line of Mizuno fashion products, which, even though it is an extremely technical high-performance sports brand for running, it has all its historical products.

Mizuno has over 100 years of history. We are going to bring all this Japanese fashion to Brazil as well. We believe a lot in this category.

And the other novelty that we have been talking about for some years now, but which has really become a relevant business within the Company, is Olympikus' performance running collection. Remembering, Olympikus has the purpose of democratizing sport in Brazil and now it also has the purpose of democratizing high performance in Brazil.

So, in addition to products with graphene propulsion plates, there is a collection that has been growing a lot, marathon products, and I think the results we are getting are unquestionable. Last year we had 100 podiums in Brazil in marathons, in runs that we participated with these shoes, so we are expanding this line.

This line already represents more than 10% of Olympikus' revenues, which is the brand that sells the most pairs in Brazil and is growing. Regardless of any kind of inorganic growth, organically we are growing and intend to continue growing.

The 1Q was a quarter in which we consider the market scenario to be good, the market is somewhat stable, I would say. We are a little off the curve, I think, in terms of growth, but we are always very focused on maintaining the profitability of our business and growing our margins. Margins already approaching 40%, gross margin, almost 15% net profit and over 20% EBITDA. All of this is recurring. So we still have a lot of room to grow and we are attentive. Thanks for the questions.

Cristiano Euzébio Martins (via webcast):

Vulcabras' view on the representation of revenue by social class.

Wagner Dantas:

I think that today the combination we have of the three brands, which despite being sporting goods brands and in some situations shared the same point of sale with multibrand customers, are brands that focus on consumers, different target audiences. Then they become really complementary.

Today we sell shoes ranging from R$179 to R$2,000, footwear for a simple walk to the highest running performance. Clothing that starts at R$79 and goes up to R$1,200. So the complementarity of these brands today gives us a lot of comfort in really offering the consumer a great solution for all needs and all budgets. So we are very happy here with the portfolio.

Nicolas Belato Pereira (via webcast):

Congratulations on the results. Is there a prospect of improving international sales?

Pedro Bartelle:

Nicolas, I can answer that question, I lived in Argentina for four years, I went to open our branch there, and our biggest market is the Argentine market. Our drop in volume in the foreign market is due to the difficulties we are facing in making our sales, mainly to Argentina, and it is a public problem and everyone has seen the difficulties that exist in Argentina.

Yes, we could even be growing in the foreign market if we had conditions to operate in Argentina, and nowadays we don't operate directly anymore, it's through a distributor, but it's a country that is going through serious difficulties.

In addition to Argentina, we also export to Colombia, Peru, Central America, but the great partner, the great consumer has always been Argentina. We are growing in the domestic market more than this drop in the foreign market, so it has compensated. But a lot depends on our neighbors here. As soon as there is stability in that country, and more concrete, safer negotiating conditions, we will resume operations.

We were already very big with the Olympikus brand in Argentina. We have already disputed the first three sales positions with Olympikus. In addition to Olympikus, we already export Under Armour to Argentina, to the distributor in Argentina, and we have plans to start distributing to South America, mainly Mizunos. But it will depend on other countries, as soon as we have safer rules, we will increase our exports.

Wagner Dantas:

It is a much more macro issue than a micro one.

Nicolas Hendges (via webcast):

Does the Company have plans to open its own stores or via a franchise model? If yes, can you develop the topic a little?

Pedro Bartelle:

The Company is very attentive to increasing its share of direct sales. We have made major investments in our e-commerce to increase our direct sales. We are already approaching 10%. The Company has indeed assessed the opening of its own stores. It will make a lot of sense to us, because the Brazilian market has a lack of exposure for clothing and accessories.

Traditionally, Brazil has many shoe stores and many places where we sell our shoes, but they don't sell clothes or accessories. Brazil is also not very developed in terms of brand exposure. Talking about corner, about mini stores inside stores, like department stores, unfortunately, if this had been developed more, I think we could have these mini stores inside these stores.

And since this deficiency exists, and for brands to develop, to show their entire proposal, own stores, yes, it makes a lot of sense. In recent years, we have chosen to focus our business on the sports market, modernize our factories, make the necessary investments to grow, which, by the way, were made. We no longer need to invest in construction, our factories are very busy, there is no idle capacity, but there is room to grow within our factories.

And yes, we are watching. When we talk about new businesses, we have seen some businesses in the market and Vulcabras has this desire to do it. But, Vulcabras has done, in recent years, mainly, great deals. So, we are not going to do some business for growth or to increase revenue. We are only going to do business that is great business and very profitable to maintain our profitability.

Commerce is experiencing some margin difficulties, we know. So we're looking at it fondly, but there's nothing concrete to talk about. We are not going to open any stores tomorrow, etc. But it is on our radar to increase our sales through direct sales, not only in e-commerce, but also to have stores in the future. So, if the question is: does Vulcabras intend to have a store? Yes, I can't tell you when, but it intends to have a store.

Wagner Dantas:

If I can only add one relevant point, Pedro. I think physical retail has a challenge in the SG&A structure, a very relevant cost structure. And you can't really keep running pilots, doing random tests, because in fact, to destroy value you don't need to take many steps, it's just one step in the wrong direction and you start to really distribute value.

And here I would like to reinforce a point that Pedro even mentioned on top of the last deals that were done. Vulcabras has a culture, a very strict discipline in not growing at any cost.

So, business that we really may come-to do implementation in the new strategic path that we may take, with absolute certainty, we are very careful that it is an assertive path, a path of building value for the shareholder and not just a path of growth. And then we'll see if it makes a profit or not.

So it is a topic that has been gaining relevance in our strategic discussion agenda. It's a theme that, as Pedro mentioned, to have more doors to present clothing, which is difficult to distribute in Brazil, would be great. It would be most welcome. But you can't go out doing it anyway or in any way.

So we are really maturing the idea, we are evolving and we believe that in the near future we will find the right way to accelerate in this avenue of growth which is to go direct to the consumer which would also leverage the sale of clothing, accessories.

Once you control the consumer's journey, you can make a much more qualified sale and not just a t-shirt thrown on the rack and fighting over price. This we see as destruction of value. So, this is a concern that we have in our functions regarding this topic. Thanks for the question.

Renan Sartorio, Bradesco BBI:

Hi Pedro and Wagner, how are you? Congratulations on the results. Sorry if maybe I'm repeating a question, it's just that I was a little late on the call. I would like to know your expectations regarding the recovery of international sales, especially in Argentina.

And also ways you think of offsetting the volume loss at Olympikus or the volume growth prospects at Olympikus going forward.

Pedro Bartelle:

Thanks for the question, Renan. In fact, we've already talked about it. Our biggest market is the Argentine market. So our drop in the foreign market is due to the difficulties of doing business in Argentina, the insecurity of doing business in Argentina.

Today we have a distributor there, I know the subject well. I opened our branch there in 2003, I lived there for four years and I know that currently there are not very clear rules for doing business there and the instability of the country makes us cautious with our distribution there. It’s unfortunate, since it is a country that is a great consumer of sporting goods.

We, at Olympikus, have already disputed the first three places in sales in Argentina, we already had a factory in Argentina and we know the subject well. But it doesn't depend on us, it depends on stability, it depends on clearer rules for our distributor to act.

Regardless, we are expanding our distribution of the three brands, and we are also going to start exporting Mizuno, which we did not export, mainly to South America, because of this advantage that we have of having agility, being fast and being able to replace almost monthly within Brazil and quarterly in these countries.

International brands end up selling every six months, and here in South America we manage to deliver two or three times during a half year period. So we managed to even deliver replacements. These customers of ours see this advantage as a competitive advantage as well.

So Colombia, Peru, Central America, we have several other customers, but the biggest one, unfortunately, is Argentina and it doesn't depend on us. We'll hope there are clearer rules.

Sérgio Oba:

Hello Pedro, Wagner. Thanks for taking the question. Congratulations on the results. Just getting a hook, that's two questions actually, but the first one getting a hook on the plan of eventually opening own stores. The strategy would be more to open pilot stores, one for each brand, or together, given the different positioning of Mizuno, Under Armour and Olympikus. Would you open a pilot store for each brand or consolidate? If you can give a little more color about that.

And the second question, if you could elaborate or provide a little more detail about the lead time evolution of the Mizuno brand. Thank you guys.

Pedro Bartelle:

Excellent. Thanks for the question. Our plans to increase direct sales start with Under Armour, because Under Armour worldwide, 80% of sales are made with clothing and accessories, only 20% with footwear. We are, even because of our tradition, product development and our production capacity, in Brazil, we are bigger in footwear than in clothing.

But as the brand is a very strong clothing brand, and there is this lack of clothing exposure of stores that really show the complete proposal of the brand in Brazil, our idea is to start with Under Armour.

Even because Olympikus itself is the biggest brand in Brazil, it is the one that distributes the most, but Mizuno is also a brand that distributes a lot in Brazil. It already comes from a distribution tradition and permanence of more than two decades in the country. So, the idea would be to start with single-brand stores, with Under Armour stores.

About Mizuno, I would comment here that we have a growth plan for Mizuno, but we are positively surprising ourselves. Since we took over the brand and started adapting the products that already existed, and in fact, the factory here is very specialized in making sports footwear, the quality of the products has already improved, and only the improvement in quality has generated greater sales.

Then we started to develop better or more modern products based on the same categories that already existed. This has already led to growth, it has already made it possible for us to have the best year in history. But now we are adding product categories.

So Mizuno launched a category of products worldwide with a technology called Enerzy, which is a high-performance product for super light running. And this technology and this product category is already being sold and will start to be delivered now in the 2H in Brazil, products made in Brazil.

So, these are products that, the imported ones, are over R$ 1000 and we manage to bring from R$ 600 to R$ 800 more or less, high performance products with this technology, made in Brazil.

So we see an important space for growth for Mizuno, but I think the important thing is to say that it has been reconquering this space that, in a certain way, has remained dormant over the last few years. I think that Mizuno's products have always been in great demand, the brand is very strong, but it needed to bring high performance in terms of volume to Brazil, be it imported or domestic footwear. We import a small part, but Vulcabras here has the capacity to make any technology.

In fact, we make Mizuno's most elaborate products, we will make this new category. We also made the Hovr line, for example, from Under Armour, which is the most technological product. And we're making graphene boards, for example, at Olympikus, winning marathons. So, Mizuno has been positively surprising us, we have already had the best year in history, and we see that there is an important space for growth there.

Operator:

There being no further questions, I would like to give the floor to Mr. Pedro for the final remarks.

Pedro Bartelle:

Wagner, please make yours first.

Wagner Dantas:

I think from an even more financial perspective, doing a quick x-ray of what Vulcabras is after transformation, which it has undergone over the last few years. It is a growth company in the recent past, in recent quarters and our expectation is to maintain these trends. We're growing across all brands, all channels, all categories.

It is a company that captures, has had efficiency, excellence in capturing synergies and economies of scale. We have been growing significantly, in a relevant pace, on top of the same infrastructure, on top of the same team, on top of the same organism.

It is a cash generating company, the 1Q is normal in our segment, in our market, not capturing the best margins, and we released a 1Q result already with an EBITDA margin above 20%, it is a highly cash generating company. It is a company that, from a financial perspective, capital allocation is very well balanced. At a time when the Selic rate is unsustainable, high, we have a very low net debt, practically, almost zero.

And it is a company, in addition to being profitable, generating cash, paying dividends. I think we are showing signs, step by step we are building this in a very responsible way. But yes, we are gaining traction in the recurrence of dividend payments, now we are going to gain traction in the relevance of the amount we are paying.

And depending on the evolution of our cash and depending on the interest rate and other variables, we do have a bias there, an expectation of eventually accelerating payouts.

So I think that the summary of my considerations, Pedro, even to pass it on to you, really with financial eyes, how I see Vulcabras today as an organization, as a company, in this transformation process.

Pedro Bartelle:

Thank you, Wagner. Well, my final thoughts are simple: ten consecutive quarters of revenue growth, nine consecutive quarters of gross margin increase. This gross margin of 39% is already a new level for Vulcabras, it is not a surprise.

The Company's focus on the sports market, on the three sports brands, all our 18,000 employees focused on the efficiency of all our sports processes, has indeed generated greater synchronism within the operation and efficiency has been appearing in all processes. Also the time dedicated by everyone to creating new products, new categories.

Vulcabras has been growing, the 1Q is the most challenging quarter. We have the 1H that is always more challenging, the 2H is always the one with the highest sales. In our assessment, the market is stable. A few months ago we had great sales, now it's Mother's Day, I believe it will be a good recovery for commerce.

And with regard to Vulcabras itself, we have already started the 2Q, our portfolios show us a trend to continue our results, equally our growth levels. So, the prospect is that Vulcabras will continue with its plan to continue growing and investing in its brands.

Thank you all for your attention and I leave our IR people, and ourselves, at your disposal for any other questions that may arise. Thank you all.

Operator:

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

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