Conference Call (English Transcription)

Vulcabras

Earnings Release 4Q21

March 09th, 2022

Operator: Go 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!

Vulcabras ended 2021 with historical results for the company, with growth in all indicators. Gross revenue was 2.2 billion, an increase of 56% compared to 2020. EBITDA (earnings before interest, taxes, depreciation and amortization) reached R$ 399 million, 255% higher than in the previous year. Net margin jumped from 2.7% in 2020 to 16.8% in 2021, while gross margin reached 35.3%, an increase of 5.8 percentage points.

The record revenue in 2021 is the result of the strategic transformation built over the last 3 years, adjusting the company's focus to the sports market with the arrival of Mizuno to our portfolio, which already had Olympikus and Under Armour, which allowed a better portfolio mix. Also, the decisions taken during the pandemic, which did not demobilize the operation and expanded investments, allowed a quick resumption after the reopening of retail, even in the face of a scenario of economic instability.

As part of the growth plan, the digitalization of sales channels was carried out, focusing on e-commerce and new tools to support our partners' digital operations. Through the construction of the Distribution Center, in Extrema, Minas Gerais, the distribution operation for e-commerce was expanded and allowed a closer and direct connection with the brands' consumers. These measures, in addition to Vulcabras' ability to develop high-tech products, in line with domestic market demand, played an important role in increasing revenues and net profit.

4Q21 Results

As in the year, Vulcabras recorded an increase in all indicators in the 4th quarter compared to the same period in 2020. For the third consecutive quarter, the company recorded a record revenue, reaching R$ 730 million in gross revenue, an increase of 36% compared to 4Q20.

EBITA increased by 62.1%, from R$ 73.9 million to R$ 119.8 million. The EBITDA margin grew 3.2 percentage points, reaching 19.3%, compared to 16.1% recorded in 4Q20. Net profit was R$ 81.2 million, an increase of 49% and the net margin was 13.1% in the quarter, an increase of 1.2 percentage point compared to the 11.9% achieved in 4Q20.

The result for the last quarter was leveraged by the strong growth of Mizuno footwear and by the Apparel and Accessories division, which increased by 58.8% compared to 4Q20. Revenue from the brands' e-commerce channel rose 81% over the same period last year. The company's gross margin was 36.1%, 3.4 p.p. higher than in 4Q20, supporting the recovery of the margin that the company has been showing in recent quarters.

2022 will be the year of consolidation of this strategy, with opportunities for growth in the direct-to-consumer sales channel (E-commerce and stores) and in the apparel category. To continue with the process of digitalization and expansion of the direct-to-consumer sales channel, the team was reinforced by hiring Ewerton Ramos as commercial director of Direct to Consumer. Ewerton has extensive experience in e-commerce at large retailers and at Vulcabras he will be responsible for all brands in this channel. For the apparel and accessories (V&A) division, Vulcabras hired Vanessa Szabo, an executive with over 25 years of experience in the Brazilian textile industry, to take over the area's management with the mission of increasing revenues and margins, capturing synergies and integration in the supply chain, while preserving the brands' individuality, technologies and positioning.

Moreover, in the first quarter of 2022, the new national collection by Mizuno, 100% developed by Vulcabras, will arrive at retail with more adherence to the needs of the Brazilian consumer, capturing synergies in the productive process, which should provide better margins. With the strengths of Vulcabras and the strength of the Mizuno brand, the brand returns to its leading role in the national sporting goods market. For Olympikus and Under Armour, the prospects are for consistency in the delivery of results, with the sales portfolios captured for the coming quarters showing good results.

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

Wagner Dantas: Good Morning

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

In 4Q21 gross volume billed totaled 8.8 million pairs/pieces, a decrease of 9.5% compared to the 9.7 million pairs/pieces in 4Q20.

It is worth mentioning that in this quarter sales of footwear and apparel with the Mizuno brand were present since the beginning of the period and that in the same period of the previous year the Mizuno brand was not part of the Company's portfolio. 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 footwear was maintained only in the Peru subsidiary

The sports, footwear and apparel categories presented great performance.

In comparison with the same period in 2020, the following considerations were highlighted;

i. In Athletic Footwear, there was a growth of 7.5%, due to the addition of Mizuno's sales volume and the positive performance of the Under Armour brand;

ii. Decrease of 82.9% in Women's Footwear, due to the discontinuance of business in the domestic and foreign markets;

iii. Reduction of 23.1% in Other Footwear and Others,

iv. 24.8% increase in Apparel and Accessories, due to the addition of sales volume with the Mizuno brand and the expansion recorded with the Under Armour brand. In the nine months of 2021, gross volume totaled 18.3 million pairs/pieces, an increase of 18.7% compared to the total of 15.4 million pairs/pieces in the nine months of 2020.

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

In 4Q21, net revenue was R$ 620.0 million, an increase of 35.0% over the R$ 459.1 million in 4Q20.

In the 4th quarter of 2021, the Company maintained the strong pace of growth observed in previous quarters. All brands continued to be highly demanded and the order backlog for the period remained full since the beginning of the quarter.

Athletic Footwear revenue increased by 51.6% in 4Q21 over the same period in 2020. The increase in revenue in 4Q21 compared to 4Q20 is due to the sale of footwear under the Mizuno brand, which did not occur in the same period of the previous year, and to the growth in revenues from Olympikus and Under Armour footwear.

The Women Footwear category decreased by 64.5% compared to the same period in 2020. This is due to the interruption in sales of women's footwear since the beginning of 2021 due to the licensing of the brand and the closure of the operations of the Colombia branch. The only channel that presented revenue in this category and that will continue to be active was that of the Peru branch.

The Apparel and Accessories category increased by 58.8% over 4Q20. When comparing the period with the previous year, there was an increase in revenue from the Olympikus and Under Armour brands and an increase in sales due to the sale of products with the Mizuno brand.

The Other Footwear and Others category presented the same revenue compared to the same quarter of 2020.

In 2021, net revenue totaled R$ 1.867,2 million, 58.3% higher than in 2020, when it was R$1,179.2 million

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

Net revenue in 4Q21 in the domestic market totaled R$ 585.8 million, an increase of 37.7% compared to 4Q20, when it was R$ 425.3 million. In the foreign market, net revenue in 4Q21 totaled R$ 34.2 million, an increase of 1.2% compared to the R$ 33.8 million in 4Q20.

In the domestic market, when compared to 4Q20, the increase is due to the increase in the categories of Athletic Footwear, apparel and accessories and other footwear and others, and the reduction in revenue from women's footwear.

Direct sales to the foreign market showed robust growth when compared to 4Q20, despite the halt in sales of women's footwear. The Olympikus footwear and slippers categories showed robust sales growth compared to 4Q20 revenue.

In sales from foreign branches, a small reduction in revenue was observed in relation to the same period of the previous year, due to the closure of the operations of the Colombia branch that occurred during the second half of 2021.

In 2021, net revenue in the domestic market totaled R$ 1,729.5 million, an increase of 60.4% compared to 2020, when it was R$ 1,078.1 million. The highlight of the year was the increase in revenue brought about by the start of operations with the Mizuno brand. In the foreign market, net revenue in 2021 was R$ 137.7 million, up 36.2% compared to the R$ 101.1 million in 2020, with the highlight to the return of sales of Olympikus footwear and slippers in the Argentinian market.

In the foreign market, net revenue in 2021 was R$ 137.7 million, up 36.2% compared to the R$ 101.1 million in 2020, with the highlight to the return of sales of Olympikus footwear and slippers in the Argentinian market.

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

In 4Q21, e-commerce with the Company's brands continued the expansion trend and grew by 80.7% compared to the same period of the previous year.

Even in the face of weaker consumption at the main events of the quarter, Black Friday and Christmas, the online channels of the brands were able to position themselves and, in this way, present robust revenue growth compared to the same quarter of the previous year.

Comparing the accumulated figures for the years, there was a growth of 27.9% in 2021 compared to 2020.

As a share of revenue, e-commerce represented 3.3% in 2021, down 0.8 p.p. compared to 4.1% in 2020. It should be noted that the drop in the relative share in the comparison between the years is due to the large reduction in 2020 revenue due to the problems faced with the restrictions imposed by the fight against the Covid-19 pandemic.

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

Gross profit in 4Q21 was R$ 223.8 million, an increase of 48.9% compared to the R$ 150.3 million in 4Q20. Gross margin was 36.1% in 4Q21, 3.4 p.p. above the 32.7% in 4Q20.

The positive impact on costs due to the large volume sold in 4Q21 led to a significant improvement in the gross margin, despite the negative impact due to the increase in the prices of some raw materials.

The achievement in the 4th quarter of the year of the same gross margin of the previous quarter, 36.1%, in spite of the collective vacations granted at the two plants during the second half of December, demonstrates the consistency and robustness of the Company's business.

In 2021, gross profit was R$ 659.4 million, an increase of 89.4% compared with the R$ 348.2 million in 2020. The margin in 2021 was 35.3%, 5.8 p.p. higher than the 29.5% margin obtained in 2020.

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),

In 4Q20. R$ 70.5 million were recorded in 4Q21, against R$ 48.1 million in 4Q20. As a share of revenue, selling expenses (excluding advertising expenses) accounted for 11.4% in 4Q21, compared to 10.5% in 4Q20, an increase of 0.9 p.p. compared to the previous year.

Comparing the quarters, an increase in all expenses was observed in relation to 4Q20, this is due to the robust growth in revenue, which increases the volume of variable expenses with commissions and freight, whereas the increase in expenses with royalties is due to the increase in revenue from the licensed brands. It should be noted that the growth in expenses with royalties is structural and is due to the increase in the share of revenues from licensed brands in the composition of the Company's total revenues.

In 2021, selling expenses (excluding advertising expenses) were R$ 221.4 million, an increase of 50.7% compared to the R$ 146.9 million in 2020. The share of selling expenses over net revenue decreased by 0.6 p.p. compared to 2020, reaching 11.9% and 12.5% in 2021 and 2020, respectively.

At the bottom of the slide we have advertising and marketing expenses.

In 4Q21, advertising and marketing expenses totaled R$ 21.8 million, an increase of 35.4% over the R$ 16.1 million in 4Q20.

The share of advertising and marketing expenses over net revenue represented 3.5% in 4Q21, the same share of 4Q20. In 4Q21, field actions were intensified, focused on reinforcing point-of-sale materials for better product exposure, as well as sponsored events, such as the Mizuno Enerzy and the Rio Marathon.

In 2021, advertising and marketing expenses totaled R$ 68.1 million, an increase of 28.2% in comparison with 2020, when they totaled R$ 53.1 million.

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

Administrative expenses totaled R$ 34.5 million in 4Q21, an increase of 6.5% compared to 4Q20. As a percentage of net revenue, there was a reduction of 1.5 p.p, from 7.1% in 4Q20 to 5.6% in 4Q21.

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

In 2021, compared to the same period of 2020, there was an increase of 6.8% in general and administrative expenses, from R$ 110.6 million to R$ 118.1 million. When comparing the percentage of net revenue, there is a decrease of 3.1 p.p. in 2021 in relation to the equivalent period of 2020.

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

In 4Q21, the Company reported a net financial expense of R$ 10.5 million, compared to the same period in 2020, when it reported a net financial income of R$ 0.4 million. In the comparison between 4Q21 and 4Q20, the main variations were observed in the increase in interest paid, due to the increase in indebtedness and the higher interest rate over the past few months. Comparing the years, the financial result changed from a financial expense of R$ 0.1 million in 2020 to a financial income of R$ 12.4 million in 2021.

In 2021, there was the recognition of a “non-recurring” gain due to the recording of financial income of R$ 49.1 million related to the monetary adjustment of the credit related to the PIS/COFINS on ICMS lawsuit and also the recognition of expense with the discount granted in the sale of credit rights.

At 12/31/2021, the Company had a net debt of R$ 236.4 million, 278.2% 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 receivables from customers and in inventories of finished products, mainly due to the growth of operations with the Mizuno brand.

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

Net income in 4Q21 was R$ 81.2million, an increase of 48.7% over the income of R$ 54.6 million in 4Q20. The net margin reached 13.1% in 4Q21, an increase of 1.2 p.p. compared to 11.9% in 4Q20.

The improvement in net margin is mainly due to the increase in gross margin due to better operating performance.

Net income in 2021 was R$ 313.8 million, an increase of 896.2% over the income for 2020, which was R$31.5 million. In the comparison between 2021 and 2020, net margin increased by 14.1 p.p., from 2.7% in 2020 to 16.8% in 2021.

Annualized adjusted return on invested capital (Adjusted ROIC3) was 26.0% in 4Q21 - LTM (last twelve months ended 12/31/2021), an increase of 22.2 pp compared to 3.8% at 12/31/2020.

On page 14, we present EBITDA.

In 4Q21, EBITDA totaled R$ 119.8 million, an increase of 62.1% against the R$ 73.9 million in 4Q20. EBITDA margin increased by 3.2 pp., reaching 19.3% in 4Q21 against 16.1% in 4Q20.

In 2021, EBITDA totaled R$ 398.9 million, an increase of 255.5% over the R$ 112.2 million in 2020. The EBITDA margin increased by 11.9 pp. reaching 21.4% in 2021.

On page 15, we present Capex

In 4Q21, R$ 43.6 million were invested in property, plant and equipment and intangible assets. The amount of R$ 43.3 million was invested in property, plant and equipment, an increase of 56.9% compared to 4Q20. The investment in intangible assets in 4Q21 was R$ 0.3 million.

The investments made in this quarter are due to the support and modernization of the Company's operations. The Company has been allocating most of its investments in property, plant and equipment to the introduction of a new industrial technology that consists of manufacturing the uppers of sports shoes using rectilinear looms that weave the pieces from yarn. For the absorption of this new technology, in addition to the acquisition of equipment, it was necessary to build a new industrial building in the CE plant, fully air-conditioned and with specific conditions to accommodate this new equipment.

In 2021, the amount invested in property, plant and equipment and intangible assets totaled R$ 134.9 million. In 2021, the amount invested in property, plant and equipment totaled R$ 132.4 million, in intangible assets the amount invested was R$ 2.5 million.

On page 16, we present the cash flow

The variation in cash in the period was R$ 124.2 million. The variation presented was essentially due to the following events:

- EBITDA of R$ 398.9 million an
- increase in bank liabilities of R$ 49.6 million;
- increase in the variation between long-term assets and liabilities of R$57.2 million, mainly due to the increase in recoverable taxes caused by the recognition of extemporaneous credits in PIS/Cofins actions on ICMS
- investments in fixed and intangible assets of R$ 133.7 million,
- increase in working capital needs of R$ 285.2 million and
- Dividends paid in advance in the amount of R$ 86.0 million.

We conclude our presentation and open space for questions.

Thank you

Q&A Session

Operator

Ladies and gentlemen, we will now begin the Q& A session. To ask a question please press *1 and to remove the question from the queue please press *2. Please wait while we collect the questions.

Our first question comes from Fernanda Urbano, XP Investimentos

Miss Fernanda - XP Investimentos

Good morning Pedro, Wagner, the entire Vulcabras team, this is Fernanda from XP, thank you for taking our question and congratulations on the results. On our side, we have two points: first, in the release you mention that the large volume sold in the 4Q had a positive impact on costs, helping to mitigate the effects of higher prices for some raw materials.

Could you give a little more context on these operating leverage effects in the quarter, and what we could expect going forward?

And a second point: in the release you also mentioned that a large part of the CapEx has been earmarked for the introduction of this new industrial technology in the manufacture of footwear uppers. We wanted to understand a little bit if this technology has any material impact on margins, and if this investment was 100% completed or if we should still see some CapEx for this in 2022.

If you could also add some context to the CapEx for this year, that would be great, thank you very much.

Mr. Pedro Bartelle – CEO

Hi Fernanda, this is Pedro, good morning everyone, I'll start with your first question. In fact, the costs, especially in the year 2021, have increased a lot. We managed to pass on some prices, but we ended up having to work a lot within our product development to adapt the collections.

We grew a lot in 2021 and improved our margins, even with these cost increases. And then there are three factors: one is the price transfer itself, the second is... the price increase, the second was the synergy caused by the focus on the sports market, right? And the growth of the company itself, which has significantly diluted our costs.

So we managed to pass on the price, and we also managed to achieve better margins through this growth and adaptation of our collections.

I'm always asked here about costs. I believe 2021 has already seen a huge increase in costs. We know that there will continue to be some increases, but the cost increases in 2021 were already quite large. There will be some increases mainly linked to the increase in oil, we have some raw materials mainly for soles linked to these costs with Braskem, which is a great partner, for example, but I think most of the increase in costs has already came in the year 2021.

Regarding the second question, the expansion that we made and that we are opening now at the end of the month at Horizonte in our 7,000 m2 plant, it is in line with the company's growth and the need for some modernization as well, which is constant within our sector.

So we built an expansion inside the factory, mainly to accommodate these machines, which are machines that make the uppers, the upper part of the footwear, practically entirely inside this machine. This prevents us from having to do a lot of sewing or overlapping parts. We popularly know this technology as *knit*, a category, as if it were a sock on top of the footwear.

It's a big trend in the market, we've been using it for some time - but we are intensifying a lot within our product portfolio. Mainly with the arrival of Mizuno, now the uppers, the upper part of the footwear, is more elaborate and brings more technologies of the footwear, so they are to make the footwear with a higher price too. This investment is not only due to modernization, but also due to the need to increase production capacity.

Miss Fernanda - XP Investimentos

That was super clear, thank you.

Mr. Pedro Bartelle - CEO

Thank you.

Operator

Ladies and gentlemen, we remind you that to ask a question, just press *1.

Mr. Wagner Dantas - CFO and IRO

Well, good morning everyone, this is Wagner. We received a question through the webcast, I will read it and ask Pedro to answer it.

Question came from **Rafael Teixeira from euqueroinvestir.com**. Rafael would like to know if the contribution of Mizuno footwear is already fully reflected in the results, or if there is any increase in gross margin to be captured by the production of Mizuno footwear that are developed internally by Vulcabras.

Mr. Pedro Bartelle - CEO

Carlos, thanks for your question. We acquired Mizuno and it entered our portfolio last year, starting in February of last year, and we took on an operation that had already been developed previously and with products already developed, with demands already pre-contracted.

What we were able to do throughout 2021 was to adapt this production to our factories a little. We had some difficulties, because the way this collection’s products were developed previously was a little old-fashioned. Our factories are very modern and very adapted to the production of footwear, expert in sports footwear. So we had to respect this development and produce the footwear by making some adaptations, including in our production process.

It wasn't ideal for us. We managed to capture some synergy, we managed to make a few improvements, even in 2021 it showed a growth of the brand itself - but it was not being produced with a development made by us.

As of the year 2021, we have developed a collection to be produced in the year 2022, which is the collection that we are producing from now on, starting in January. This collection is indeed a collection developed along the lines of specialties that Vulcabras has in its industrial park, super modern machines, this industrial park, for example, that we were talking about *knit*, and yes, the new collection brings more productive efficiency to Vulcabras, so we expect better margins at Mizuno.

And a synergy with what we already produce from Olympikus and Under Armour, because Mizuno, keeping its particularities, its positioning, will be manufactured in the same molds that we manufacture the other two brands. So we managed to produce this collection in 2021, but not ideally as we would like. As of January of this year, we are producing according to our expertise here. So the trend is for improvement.

Talking a little bit about this and taking advantage of your question, Vulcabras has been growing consecutively quarter after quarter, and in 2022 the trend remains the same. So we intend to continue with the pace of growth and improvement in margins, because now, with the Mizuno collection fully developed by us, we will have better margins and better synchronism throughout the entire operation.

Operator

Ladies and gentlemen, we remind you that to ask questions please dial *1.

Our next question comes from Renan Sartorio. Please go ahead.

Mr. Renan Sartorio – Bradesco BBI

Hi, good morning, this is Renan from Bradesco BBI. I would like to ask a question: if you could talk a little bit about the issue of demand at the end, and also the issue of whether Olympikus products are still replacing imported products.

And on this question, if you could talk a little bit if this comes more from a lack of supply of imported products from Asia, or if it is more a lack of demand for more expensive imported products.

And a second question, I would like to know a little about what percentage of revenue do you expect e-commerce to reach in the future, thank you.

Mr. Pedro Bartelle - CEO

Carlos, thanks for your question. It's a fact, I see Vulcabras a little off the curve. We drew up a plan to focus on sports for almost three years, last year we already moved away from female footwear, we licensed it. We made some good decisions during the pandemic not to demobilize our operation, which allowed us to gain some market share.

So when we see this growth at Vulcabras a little higher than what we see in the market itself, there are a few reasons: demand improves, it even improved at the end of 2020, then at the beginning of 2021 we have another difficulty there with second wave of COVID, then it got better, Christmas was good, I think commerce was not so, a little short of what was imagined, Black Friday was also not so strong - but it has been recovering.

Vulcabras is a little above this recovery. When we look at the separate businesses here as well, we have Under Armour itself, which has been growing from a slightly smaller base; Mizuno, which has been growing a lot, because it is a new brand within Vulcabras' portfolio; but Olympikus is a stable brand here, which has a very relevant market share, it is the one that sells the most in the market.

So we made some adaptations that helped Olympikus also grow, but it's not growing like Vulcabras itself, so it grows a little less - and then we see that the market is not so hot. So I think Vulcabras is a point outside the curve due to the investments it made and mainly due to the new brands.

The issue of imports, it has decreased a little with the difficulties caused by the pandemic and by a stoppage mainly in Vietnam for some time, because of a big wave of COVID that happened there last year - but in fact I don't see a big decrease, we don't feel a large decrease here, a stability in imports. So we even noticed in the last six months something very similar to what was happening before the pandemic.

We are indeed managing to replace some imported ones with domestic production, which is why we are able to make increasingly expensive footwear here at Vulcabras. We are making Under Armour's most expensive and most elaborate technology, for example, which is HOVR, which is a product that we charge R$1000 for it, completely made nationally, all processes and all parts are made in Brazil.

And now in Mizuno we will also make footwear with high values close to R$ 1000, even beyond that throughout the year. This shows that we in Brazil have access to all... machinery to be able to make these products.

So the dollar helps us a little when it is appreciated, imports decrease a little - but this demand for national production has also been growing, which means that our customers can replace their products practically monthly, imported products would have to - or they do - buy with six months in advance.

I even expected that there would be an even greater decrease in imports, but I didn't see this happening with great force, I think it was more stable.

And your second question about e-commerce, we actually had a year of transition, the year 2021, because we made a big investment in Extrema, almost all of our own distribution center. In the past, we had done it by a third party, this even limited our growth a little. Today, our distribution system is well-oiled, ready to grow - from a slightly smaller base, but we still haven't reached, close to reaching 5% of our revenue, but we grew 80% in 2021.

So the perspective is to continue growing and I believe that these values only tend to increase quarter by quarter. We are prepared for this, and we know that the demand for the digital market has increased a lot, not only because of the pandemic, but it was already increasing a lot.

And these are some growth avenues that we see for the future. Brands will continue to grow organically, Mizuno, Olympikus; Under Armour from a smaller base, we've had the brand for three years, it's been growing steadily; Mizuno will grow mainly because it is a new brand, but within e-commerce and the clothing and accessories sector - which, by the way, clothing and accessories with more than 50%, 58% last year - are important growth paths that we have. And e-commerce will represent double digits soon, in my opinion and in our budget here. Thanks for your question.

Mr. Renan Sartorio – Bradesco BBI

Thanks.

Operator

Ladies and gentlemen, we remind you that to ask a question please dial *1.

Mr. Wagner Dantas - CFO and IRO

Well, we're out of questions for now. I would like to take the opportunity and comment a little about the company's current situation from a financial perspective.

Vulcabras is here in its 4Q reporting consistent and representative growth. These are growths that are based on a relevant portfolio of brands, a very strong portfolio of brands, which proposes to have a great solution for all pockets and all needs, a portfolio of brands that leveraged on the strengths of Vulcabras, I think it has room to be even more relevant than it already is.

Today we have Olympikus, which is the leading brand in footwear sales, we have Under Armour, which is the third largest brand in the world and with a growing brand *awareness* in Brazil. It will certainly have space, and it will conquer its space and have an even stronger role.

We have Mizuno that has been in Brazil for some time - something close to 25 years - but it has gone through a recent period without major investments, without innovations and that within Vulcabras we have already been capturing these trends, and this should only be leveraged from here on. It has everything to regain its leading role - and it has room, perhaps, to be bigger than it has been in the past.

I think from a financial perspective the margins are evolving. We come with the need to pass on prices due to inflationary pressures, and we hope that this will attenuate - but if there are new needs, unfortunately, we will eventually have to pass on prices.

But we look at the perspective of recomposing margins, the origin of this really being synergies, efficiency improvements. A Mizuno produced by us, developed by us, 100% adhering to our technologies, we will certainly have better synergies and scale gains in the near future. The company has been growing by leaps and bounds and our expectation is for maintenance.

A cash-generating operation, an operation with low financial leverage, an operation that ends in 2021 with 236 million net debt. Although growth requires additional working capital to be injected into the operation, our expectation, our plan is that this net availability, this net debt, will decrease throughout the year.

And I think that's it. From a financial perspective, Vulcabras is light, very strong, has been delivering good results and I think the expectation is that these trends will continue. We should continue with good results in the near future, in the short/medium term for sure.

I'll pass it on to Pedro to make the final remarks.

Mr. Pedro Bartelle - CEO

Well, first thank you all for your presence and interest. I want to comment that this result from Vulcabras in 2022 is a result that is well aligned with our strategies of focus on sports, of not having demobilized the company during this period, prepared for growth.

Almost three years ago we acquired Under Armour and a year ago we closed the acquisition of Mizuno, in addition to our own brand, Olympikus. Our contracts with international brands are contracts that we've had for many years, since the 80's we represent brands here when Vulcabras was transferred to management, or to us as shareholders, so we have a lot of experience in managing these brands.

Currently, both Under Armour and Mizuno's contracts are new - very long-term contracts - which makes us treat the brands here as our own. Under Armour's growth outlook has been delivered from a slightly smaller base, Under Armour wasn't as well known in Brazil - but it's been growing a lot; and Mizuno luckily managed to be very well integrated throughout 2021, and now throughout 2022 it will work within Vulcabras like any other brand here, I already talked about the development of the collections.

I will make my final remarks. We have been growing at an accelerated pace and recovering our margins. We are almost heading towards the end of 1Q22 and our results trend remains the same: we continue to grow and we continue to improve our margins. So, regardless of the economic scenario being a little difficult, Vulcabras has been delivering its results.

I want to make the staff of our IR team completely at your disposal for any questions you may have, and I thank you all and have a good day.

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.