Conference Call (English Transcription)

Vulcabras

Earnings Release 1Q21

May 12th, 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.vulcabrasazaleiari.com.br, 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.

After a recovery scenario presented in the second half of 2020, the year 2021 pointed to the continuity of the economic recovery, but that in the first quarter, due to the increase in the cases of COVID-19, this expectation has already been curbed by the stiffening of the restrictive measures that directly affected Brazilian retail. According to the IBGE, in the first quarter accumulated, the nominal retail revenue decreased 0.6% and specifically the retail of fabrics, clothing and footwear decreased 18% in the same period.

Despite so many challenges imposed by the socioeconomic scenario, Vulcabras continues to grow its results in 1Q21, maintaining the positive trend of the 3rd and 4th quarters of 2020, in which the registered net revenue was R$ 311.9 million, representing an increase of 30.7% when compared to the same period last year (1Q20). Gross Margin, even in a scenario of increased production costs due the increases in the prices of raw materials and the due to increased absenteeism in factories, grew 1.7% to 34.0%. The EBITDA margin of R$ 37.3 million and net income of R$ 14.6 million grew 37.1% and 64.0%, respectively, compared to the previous period.

The positive result of the revenue for the third consecutive quarter is a reflection of the gain in market share of the Company's brands in retail customers, supported by the positive performance of collections adapted to the new market reality and consumer behavior.

Under Armour and Olympikus had an excellent performance and supported the group's growth in a quarter in which Mizuno had its production started in mid-February and the company no longer had the participation of the female brands (in the invoicing of the domestic market).

The production of Mizuno footwear is being carried out at the Vulcabras factory in Horizonte (CE), which has a modern industrial park.

We currently produce 7 models from the current collection, and it is expected that by the end of this year, Vulcabras will produce a total of 34 Brand models in the country.

On March 16, we started the operation of Mizuno's e-commerce, already from the new Distribution Center located in Extrema, consolidating the logistics operation of DTC (Direct to Consumer) and the distribution of products purchased from third parties (imported and national) of the three brands, thus bringing more efficiency and better service levels.

Continuing its commitment to minimize the environmental impact of its factories and contribute to local communities, Vulcabras concluded in February 2021 two sustainability projects at its plant in Bahia. The first was the transformation of an area of the company into an area of environmental preservation with 30,000 square meters, in which more than 2,000 seedlings of native species were planted, and for the execution of this activity, people living in the region were hired and trained, who were in a situation of socioeconomic vulnerability. These people received technical knowledge that enabled them to carry out other projects in the future, enabling a new profession for them.

The second was the completion of the project to reuse and recycle 100% of its waste, which started to be fully repaired both for reusing products and for raw materials and inputs in other industries.

We remain confident with the good performance of our brands, and with the start of Mizuno operations (to be enhanced by our differentials) Vulcabras consolidates itself as the largest manager of brands and sporting goods in the country, with a portfolio of products that meets needs of the most different profiles of consumers and athletes.

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,

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

In 1Q21 gross volume totaled 5.1 million pairs/pieces, an increase of 7.1% compared to the total in 1Q20 of 4.7 million pairs/pieces.

Even with the intensification of the COVID-19 pandemic, and the outbreak of a second wave of contamination in the first months of 2021, the performance of volumes sold in all categories was very positive. It should be noted that this was the first quarter without the volume of women's footwear in the domestic and foreign markets due to licensing to Grendene. We only continue to sell this type of footwear through the subsidiaries in Peru and Colombia.

At the end of January 2021, the acquisition of the Mizuno brand operation in Brazil was completed; although the transfer of the brand's inventories and the start-up of the production of national footwear began shortly after the conclusion of the transaction, the effects of this acquisition on the 1Q21 were still small and very distant from the numbers foreseen for the brand.

During the month of March 2021, the performance of the volume sold was negatively impacted by the closing of physical retail sector in most of the country. A significant part of the goods delivered to customers throughout the month, even after confirming the intention to receive them, ended up being retained in the warehouses of logistics operators awaiting for the reopening of stores and, consequently, these were not considered for the assessment of the quarterly revenue.

The impact of the interruption in deliveries during March partially affected the performance of all categories; however, there was still an increase in all of them on a comparative basis;

(i) in Athletic Footwear, there was a robust growth of 22.0%; due to the expressive performances of the Olympikus and Under Armour brands, and also due to the volume of Mizuno's first sales under the Company's management; (ii) a decrease of 83.9% in Women's Footwear, due to the discontinuity of business in the domestic and foreign markets; (iii) increase of 87.7% in Other Footwear and Others, (iv) increase of 9.9% in Apparel and Accessories, due to the expansion recorded with the Under Armour brand.

On page 06, we present the net revenue per product category. In 1Q21, net revenue was R$ 311.9 million, up 30.7% over R$ 238.6 million in 1Q20.

The year started with good prospects for the quarter's performance. The availability of the order book was fully taken and the demand for the products proved to be strong. In the first two months of the year 2021, compared to the first two months of the years 2020 and 2019 (pre-pandemic periods), revenue growth was 8.3% and 24.0% consecutively. If we exclude from revenue 2020 and 2019, the revenue of women's shoes in the domestic market and direct exports (business that was licensed in 2021), the growth is even more relevant, with 17.6% growth compared to 2020 and 34.1% compared to 2019. It is important to emphasize that Mizuno had its production started in mid-February, thus, participated very little in this growth.

However, the intensification of the COVID-19 pandemic once again culminated with the enactment of social distancing measures in all Brazilian states and the closure of all physical retail sector since the beginning of March.

As a result of this shutdown, billing for the month was partially affected, as it was not possible to conclude the delivery of products in transit to customers. With this stagnation scenario, some orders scheduled for the period ended up being postponed. Once again, the Company sought to take every possible measure to minimize the effects of this pandemic, standing on the side of its customers and proposing strategies so that together it would be possible to overcome this difficult moment.

Athletic Footwear revenue increased by 45.1% with positive performance in the domestic market, and also in the foreign market. Both revenue for Olympikus footwear and Under Armour footwear showed growth compared to the same quarter of the previous year. In addition, and still in a modest way, the first revenues with Mizuno shoes were recorded.

The Women Footwear category showed a decrease of 70.1% when compared to the same period in 2020. This was the first quarter of the interruption in sales of women's footwear due to the licensing of the brand to Grendene. 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 2.0% compared to 1Q20. In the period, there was an increase in revenue with the Under Armour brand and a decrease in revenue with the Olympikus brand.

The other footwear and others category increased by 126.9%, with growth in all subcategories.

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

Net revenue in 1Q21 in the domestic market totaled R$ 280.5 million, an increase of 37.8% compared to 1Q20, when it was R$ 203.5 million.

In the foreign market, net revenue in 1Q21 was R$ 31.4 million, down 10.5% over the R$ 35.1 million posted in 1Q20.

In the domestic market, the increase arises from the generalized increase in almost all categories, with revenue of women's footwear as the only exception, which decreased.

In this quarter, there was decrease in direct sales to the foreign market in relation to the same period of the prior year. The athletic footwear category showed an increase in revenues, but the drop observed in the women’s footwear category overshadowed this expansion.

In sales from foreign branches, a reduction was observed in relation to the same period of the previous year, mainly due to the impacts of the measures adopted in the combat against the COVID-19 pandemic in Peru and Colombia, which led to the total or partial shutdown of activities of the 34 stores maintained in those countries.

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

In 1Q21, e-commerce with the Company's brands continued to expand and grew 22.2% in relation to the same period of the prior year.

Although it still has a small share in the Company’s total revenue, 2.1% in 1Q21, the growth of this channel and its potential represent a great lever for expansion.

The “Corre Junto Brasil” affiliate program, which was born as a possibility of supplementing income for physical education professionals, through the indication or recommendation of the products available in our online store, reached more than 7.8 thousand affiliates enrolled at 03/31/2021.

On March 16, Mizuno's e-commerce operation started under the management of the Company. The operation was already born within the new Logistics Distribution Center located in Extrema, which will consolidate the entire DTC (Direct to Consumer) logistics operation.

During the first quarter of 2021, the Company started operations at its new Logistics Distribution Center for e-commerce. The new DC is located in the city of Extrema, Minas Gerais state, and has triple the area of the old DC, automated operations and operates under its own management. The choice for the location of Extrema, Minas Gerais State, is due to the fact that the region is transforming itself into a major logistics distribution pole and offers important competitive advantages, such as proximity to the largest consumer markets, extensive network of carriers and with more efficient tax conditions.

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

Gross profit in 1Q21 was R$ 106.1 million, an increase of 37.6% over the R$ 77.1 million recorded in 1Q20. The gross margin was 34.0% in 1Q21, 1.7 p.p. Higher than the 32.3% recorded in 1Q20.

The initiatives adopted to improve gross margin during 1Q21, with an exclusive focus on athletic footwear and the launch of collections with better profitability, proved to be effective.

Even with 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 prior year and also in comparison with the immediately previous quarter, thus indicating an increase trend in its behavior.

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).

Selling expenses (excluding advertising expenses) increased by 31.6% in 1Q21, compared to expenses reported in 1Q20. A total of R$ 44.1 million was recorded in 1Q21, against R$ 33.5 million in the same period of the prior year. As a share of revenue, selling expenses (excluding advertising expenses) accounted for 14.1% in 1Q21, compared to the 14.0% of 1Q20, showing an increase of 0.1 pp.

In the quarter comparison, there was a relative increase in expenses with commissions, royalties and other expenses, which were offset by reductions in freight.

At the end of the slides we have advertising and marketing expenses that advertising and marketing expenses totaled R$ 11.7 million, a decrease of 4.1% over the R$ 12.2 million in 1Q20.

The share of advertising and marketing expenses over net revenue represented 3.8% in 1Q21, compared to 5.1% in 1Q20, a reduction of 1.3 p.p. The relative reduction in marketing expenses when comparing the two periods is justified by the impossibility of carrying out the marketing actions set forth in the Company's plans due to the restrictions imposed by the Covid-19 pandemic. In light of this new scenario, actions focused on strengthening of point of sale materials for better product display.

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

Administrative expenses totaled R$ 27.0 million in 1Q21, an increase of 9.3% compared to 1Q20. As a percentage of net revenue, there was a reduction of 1.7 p.p., from 10.4% in 1Q20 to 8.7% in 1Q21.

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

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

In 1Q21, the company reported a net financial expense of R$ 5.7 million in contrast to the same period in 2020, when it reported net financial income of R$ 4.9 million.

In the quarter comparison, the main changes 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 gain in 1Q20, due to the effect of the devaluation of the real in the consolidation of the financial statements of branches abroad in that quarter.

At the end of 1Q21, the Company had a net debt of R$ 137.5 million, R$ 75.0 million higher than that observed at the end of 12/31/2020.

The increase in net debt is due to the significant increase in working capital due to the extension of the financing period for trade receivables, the increase in inventories due mainly to the receipt of Mizuno brand products and the impossibility of delivering the products manufactured during the month of March due to the closing of the retail sector.

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

In 1Q21 the Company posted a net income of R$ 14.6 million, up 64.0% over the net income of R$ 8.9 million in 1Q20. The net margin reached 4.7% in 1Q21, up 1.0 p.p. compared to the 3.7% achieved in 1Q20.

Annualized return on invested capital – ROIC1 reached 3.8% in 1Q21 - LTM (last twelve months ended 03/31/2021), which represents a 1.0 p.p. increase compared to 2.8% obtained at 12/31/2020

On page 14, we present EBITDA.

In 1Q21, EBITDA was R$ 37.3 million, an increase of 37.1% compared to R$ 27.2 million in 1Q20. The EBITDA margin increased 0.6 p.p., reaching 12.0% in 1Q21 compared to 11.4% in 1Q20.

On page 15, we present Capex

In the 1st quarter of 2021, R$ 48.2 million was invested in property, plant and equipment and intangible assets. The amount of R$ 47.0 million was invested in property, plant and equipment, an increase of 168.6% compared to 1Q20. The investments made in this quarter are due to the support of the Company's operations and adjustments for the start-up of production of Mizuno footwear. The amount of R$ 1.2 million was invested in intangible assets in 1Q21, mainly in the acquisition of software licenses.

On page 16, we present the cash flow

The cash variation in the period was R$ 92.7 million. The variation presented was essentially made up of the following events: (i) EBITDA of R$ 37.3 million; (ii) decrease in bank liabilities of R$ 17.7 million; (iii) decrease in long-term liabilities of R$ 4.9 million; (iv) investments in property, plant and equipment and intangible assets of R$ 47.2 million; and (v) increase in the need for working capital of R$ 62.6 million.

The main variation in working capital in 1Q21 is due to the extension of the financing period for trade receivables and the increase in finished products inventories.

The Company relies on the work of a cash management committee that participates of the decision-making process regarding financial decisions, acting on the approval of CAPEX investments and working capital management, in order to ensure the liquidity of the business and preserve suppliers and customers.

We conclude our presentation and open space for questions.

Thank you

Q & A Session 1Q21

Operator: Ladies and gentlemen, and 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 will be via webcast. You can proceed.

Mr. Wagner: Well guys, this is Wagner. We received Paola's question here via webcast - thanks Paola for your question. Paola would like to know if the net debt should fall as the company returns to sales volume and generates cash again.

Yes Paola. Our expectation is yes, throughout the year with the recovery, resumption of sales, cash generation will happen - despite the need for additional investment in accounts receivable due to the growth of Mizuno brand, which is expected throughout the year. Mizuno has just started in our operation. We should have a return on this working capital going back to our cash, and we should perceive this still in 2021.

I think you can see that there was an increase in inventories and all of that, inventories, accounts receivable, ends up consuming working capital. The reason for accounts receivable is revenue growth, the inflow, the very interruption of retail, there was a need to extend customer financing a little; and in inventories it was motivated first by the acquisition of Mizuno inventories from the former operator, and secondly by the advance purchase of raw material trying to escape from an eventual supply crisis - not only in our segment, but all segments are suffering from a supply of raw materials - and we strategically opted to advance the purchase of inputs a little. But this should return to normal throughout the year, and these are the reasons that support our expectation of recovery and of reduction of the company's net debt. Thank you Paola.

Operator: Our next question is from Tales Granello from Eleven Financial. You can continue Tales.

Mr. Tales Granello: Wagner, Pedro, good morning, how are you? I would like to know how you are seeing the trends and the competitive environment for this 2Q21, thank you.

Mr. Pedro: Hi Tales, it's Pedro here, good morning, good morning everyone, thanks for the question. I think that, as we reported in our results, January and February had a very good recovery compared to the big sales growth that we saw from a pent-up demand at the end of last year.

The company prepared for this and it has been performing very well. It is important to mention, before arriving in 2Q, that both March of this year and March of last year had problems: it was the beginning of the pandemic last year, and there was also the second wave of closures. We even had some unrecorded sales now in March because of the period when some stores were unable to receive the goods due to the closures.

Then the problem started in March, in April the problem of closures intensified a little, it made us to advance to April the vacation period that we normally give throughout the year. This will privilege our 2H a little, but in April we ended up giving two weeks of collective vacation because we were not able to deliver the goods because the stores were closed.

Moreover, during this period of closures the absenteeism in our factories was growing, so the correct decision was really to advance these holidays. So April was a difficult April, it was a more difficult April; but May is already well within our expectation.

I have talked a lot with customers and when the stores are open, sales are happening, they are recovering well, they are even growing compared to last year. We are in a great growth pace, an important growth not only because of the growth of Mizuno's arrival - even due to the fact that Mizuno practically did not influence sales much in 1Q. If we take our Olympikus and Under Armour operation separately, they grew 17% compared to last year, so the rest of the growth comes from Mizuno and there are also a few from the women segment that we have not been invoicing, but May shows us a very positive trend.

It is well within what we expected for May, April now - unless something unexpected happens - April will also be well within our plan, which is a slight growth and recovery plan on this sale that ended up not happening in its entirety in March and April - but it's ok, we're very satisfied with the result. We changed the company, adapted it, the cost benefit, the most economical products at this moment are the most demanded ones, so the trend remains positive - despite the vacations in April. Thanks for the question.

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.

Mr. Wagner: Well guys, I'll take one more question here sent through our webcast, question from Flavio José Bica, from Clube de Investimento Valor Futuro, thanks for the question Flavio.

Question: Flavio would like to understand if we could better detail the market share gain that we believe we had, and would also like to know if working capital will ease under the current commercial conditions in Brazil.

Flavio, regarding the market share gain I think Pedro explained a little bit in the previous answer, but I can go into a little more detail here. This is the reason why we tried to bring normalized information for the two months (January and February). If we compare January and February 2021 against the context of 2020 and 2019 - pre-pandemic periods - the growths, which were almost 100% supported by the Olympikus and Under Armour brands, are significant for the period.

I think that these growths, added to the figures that we have been following in the disclosures of the Federal Revenue regarding the drop in the volume of imported products, are elements that lead us to believe that yes, we are gaining a lot of market share - in addition to feedback from customers.

Unfortunately, our segment does not have a survey, it does not have a survey mechanism where you can follow up on this in a slightly more formal way, but they are elements that support, that do support our confidence that the market share has been absorbed by our brands.

And the reason for this absorption is really leveraged, I think, due to some factors: the fit of our collection, our portfolio of very well elaborated products, fit for this moment in Brazil; our business model that provides multi-brand retail customers with flexibility, speed, agility; any filling, meeting of additional demands; in addition to speed in replacement and flexibility also within this replacement.

As you may know or have researched within the Vulcabras content, we supply, we replace products in an open grids manner, products that are really ticking. I always use some examples: for example, if only the number 22 of the red X model is selling, we are able to replace only that model that is specifically selling at the point of sale. This speeds up, it increases revenue opportunities, image capture, reduces risks in terms of sale promotions, eventual sale promotions - unlike international brands, which work in a supply chain model that is a little more restricted.

Regarding the CapEx question, I think that the comments here are the same comments that I made in the answer to Paola's question: at the end of the 1Q we have a peak in working capital consumption, a reasonably extended accounts receivable due to the moment and also due to the natural growth of revenues.

We have inventories that were advanced, the purchase of inputs. In order to mitigate any potential supply risk, we decided to advance these purchases, and this should be normalized throughout the year. That is why I think that the level of working capital in terms of inventories should be normalized, it should alleviate a little.

As for accounts receivable, it shouldn't be much easier because we are exchanging receipts for new sales. Mizuno has just entered the business, Mizuno must pull revenue that comes with accounts receivable with compatible terms, average terms of the company.

We have one more question and I'm going to read the question here and I'm going to ask Pedro to answer it, it's a question sent by Carlos from 3R Investimentos: Carlos asks if they can give you an idea of how the competition is going with international players.

I'm going to ask Pedro to touch on this one.

Mr. Pedro: Carlos, thanks for the question. From what I'm seeing at the webcast here you asked two questions, also the question about gross margin.

I'll start with the gross margin. Yes, the gross margin has an upward trend. We are managing, after some very difficult period, to adjust prices. It is true that costs in Brazil have gone up a lot, raw material costs have mainly been going up; but we have been able to restore prices.

Also working hard on product engineering, and the company's growth also helps us to improve our margin, dilute our costs. So yes, this is enabling us.

This has everything to do with your second question, which is competition with the international players - which are our great competitors - and we, I already talked about the others, in other meetings about a more disciplined scenario.

Yes, there is still a lot of sale promotions in Brazil, many promotions, surpluses that are being sold in Brazil - mainly from imports. There is now a product in Brazil that has an almost American price ratio: you find, in international brands, products at prices that you would find in the USA - which seems to me something completely wrong. This is due to sale promotions, but they have decreased somewhat. This whole pandemic and world crisis and our exchange rate (5.50) has caused imports to decrease.

But in addition, what is also important: the scenario has been changing a lot and some brands have been consolidating in national companies, and this is very good for market discipline because we, national companies, are very committed to the result. We need to give, within our own country, sometimes an international brand can look at the country as a country that it sell products, and the result is not so important when consolidating its global balance sheet. So many brands are ending up being licensed and doing with price... for the market, it is good for the discipline of the market. I think that companies that work with international brands are committed and need to show results, something that we saw a certain lack of commitment from international brands in recent years, using Brazil as a way to sell products. That still exists, but the discipline is improving. Is it still lacking? Yes it is, and we hope it will improve even more.

So these are the reasons why we have been improving our margin. The scenario is allowing prices to be readjusted, which had been out of date for a long time, and this market discipline has been improving.

International brands continue to invest in Brazil. They directed their sales more towards national production, local production, which is also good because we are the company - or one of them - that is, the company that most produces sports shoes, which has the most advanced technologies. We are able to produce any technology worldwide. We make the most elaborate shoes, a shoe to sell for R$ 1,000.00 and it is produced in Brazil. So we have the company, the factory and the technology to make any product.

So this local production also benefits us, even when our competitors bring local production, the competition is even more honest. So this is the scenario that brings us a better gross margin and the competition is becoming more honest in my view. This helps our results.

Operator: Please wait while we collect the questions. Reminding that to ask questions just press star one.

Mr. Wagner: Well, we received a question from Clayton Pereira regarding our e-commerce. Clayton asks, regarding the e-commerce*:* Is it focused on Olympikus or is the project also aimed at Under Armour and Mizuno?

I'm going to ask Pedro to answer that too.

Mr. Pedro: Clayton, thanks for the question. In my final remarks I would like to talk about e-commerce, I'll take the opportunity to speak now. We officially opened our new Extrema DC yesterday. It has been running since March, early March. It is an 11,500 m2

DC, with a storage capacity of 7 million items and a DC that has become extremely necessary.

Due to the pandemic, the growth of our e-commerce was exponential. We grew 141% last year and now we have been growing 20% - but I confess that it stalled, because our outsourced operation was becoming very expensive, and thus - inefficient.

We had planned to have our own storage and distribution from the year 2022, but with the pandemic and the acceleration of all digital sales, we rushed to make an investment and created our development center, which will give us much more agility, will give us much more efficiency and profitability.

For you to have an idea, in our partner we had an average of 5 days of delivery, now this period is cut in half, it is 2.5 days - average - at Brazil level and we have a fast delivery that can be delivered within the same day. So a highly computerized DC, ready to sustain this growth.

So our e-commerce, which grew a lot last year, was somewhat limited because it is being operated by a third party, and which also did not have all the capacity we needed. So, as of April, we are already operating, now the inauguration was yesterday, already at maximum capacity and now we can let it grow a lot.

It is focused on the three brands. It is also true that in 1Q we received Mizuno at the beginning of February, so production started then, it was not so relevant within our numbers; and we only received the e-commerce in this quarter, as of the 2Q it will be considered in our numbers as well.

So total focus on the three brands. The investments are from the three brands, we see a very important growth potential for the three brands. We already sell a good amount of our products via the Internet to our partners, our customers; but our own e-commerce today, which represents little, tends to grow a lot in the coming months because now we are well structured for that.

Mr. Wagner: Well, we received two more questions and one question comes from Vinicius, Vinicius good morning. About the Other Footwear and Others line, could you comment on the observed growth?

Vinicius, thanks for the question. It really is a line that, due to its growth, stood out, and the main thing is, in this Other Footwear and Others line item we include revenues obtained from sales of slippers from the sports brands, safety boots (we have the Botas Vulcabras brand) and some components for shoes.

Here I think it is driven by the pandemic moment, where PPE is still being consumed in a very relevant and leveraged way. This growth was really driven by safety boots.

Another question we received here from Mateus. Matheus would like to know what would be the comfortable level of financial leverage for the company.

Financial leverage is what the patient says, Mateus and everyone here in the call, I think it connects a lot with the first question regarding net debt: the Vulcabras operation, it is an operation with relevant Ebitda, a cash-generating operation. Today, it is experiencing a time of need for additional working capital due to a business that is a relevant business, which is a Mizuno business that enters the company in the context of the pandemic; but our expectation regarding net debt, and I think it also translates into financial leverage, is to be an operation with low financial leverage. The CapEx that was built over the last few years and this year's CapEx comes out from the operation's cash. Strategically, we do not see Vulcabras as a highly leveraged operation.

Regarding CapEx in particular, I think it is worth a parenthesis: we made an investment in this 1Q, an investment that sought to adapt our production to receive the Mizuno brand. It is important to note that the collection we are producing today of Mizuno products were developed by Japan and were being produced by the former licensee.

So it's a collection that wasn't born, it wasn't designed, for production technology, for Vulcabras processes. So there was a need for a little adaptation, and we continue to seek innovation, seeking to bring technology and efficiency in the construction of our products. This requires some CapEx, but going back to your question in terms of financial leverage. Strategically, the company is not designed, nor has intention of carrying a disproportionate leverage. The debt really comes to support this specific moment, and over time we must experience a drop in the net debt.

Operator: Please wait while we collect the questions. Again, to ask a question please press star one. Reminding that to ask questions just press star one. To remove the question from the list, press star two.

Mr. Wagner: We have one more question here, this question comes from Adriano Ferreira de Melo from Santander: could you give more details on the figures and characteristics of the investments made in sustainability?

Well Adriano, thanks for the question. Unfortunately, we do not disclose figures, but what I can bring to you is that the company makes an investment, it is increasingly seeking to bring elements that bring, that build value within its commercial, production and development process connected with the ESG pillars.

I think it is super important to highlight the importance that Vulcabras has in the municipalities where it is present in terms of human development, social impact, and this quarter we published two events of extreme relevance. I think one of them is the transformation of an area of the company into an area of environmental preservation, but in this specific one I think that the most relevant one may not even be the planting of the trees themselves, but rather how it was done.

It went through the use of labor from people who are residents of the region, who were in a situation of vulnerability and who received technical training, they were trained - and in fact this action does not stop in this specific planting; these people today, through this technical training, can look for a new profession, they can look for a way out of this situation of vulnerability.

Another event that is very connected with our production process was the completion of a project for reuse, recycling 100% of our waste, where we try to reuse, recycle leftovers from the production process by creating or fostering this circular economy, and what can't be reused we find partners from other segments, in other industries that end up using these leftovers as fuel to generate energy within their processes.

I think what I would like to ratify here, Vulcabras' concern is to try to be, not a project that ends, that has a beginning, middle and end; and this is a value, it is a culture that Vulcabras has and that is ongoing. We continue to feed back the system, feed back initiatives, challenging employees, our engineering, to seek increasingly sustainable solutions, trying to preserve not only the environment, but also the development of society, which is linked mainly around our production plants.

Operator: Please wait while we collect the questions. Reminding that to ask a question, press star one. To remove the question from the list, press star two. Please wait while we collect the questions.

Mr. Wagner: Well folks, we have one more question, I believe that this will be the last question, to respect the schedule. The question comes from Raquel Brandão from Valor Econômico and she asks: hello. Should we expect a reduction in costs in the 2Q, due to the advance of purchase of inputs?

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

Mr. Pedro: Hi Raquel, thanks for the question, a pertinent question for this moment that Brazil has been going through. Costs in Brazil have been rising, and it is a fact that with the whole pandemic, several companies ended up disorganizing themselves a bit, including the suppliers themselves, so since the end of last year there has been a great concern within Vulcabras to not run out of inputs, of raw materials.

We chose to increase our purchase a little, to advance our purchase to protect us, so that we would not have a problem with the shortage of raw materials and would have to stop our factories for that reason.

But the costs of raw materials, the general costs in Brazil - this is nothing new for anyone - has been increasing. And it is not just raw material costs, but general costs in Brazil, all costs are increasing.

I believe that costs have already increased. Maybe I'm being hopeful that they will not increase any more, but we are facing them through price adjustments - and in fact here we are not able to pass on prices in the same amount that costs increase - but the company is managing to adjust prices and the company is growing.

So, the pace of growth at Vulcabras, accompanied by price adjustments, faces these rising costs. In our assessment, costs have already increased what it had to increase and we expect stability from now on. If they increase more, our budgets will be reviewed, but I believe that this year what had to happen in cost increases has already happened.

At the end of this month we will launch the new collection of products - it is completely ready, of the three brands - to carry out sales in the 2H. So we have already priced, we have already made our commercial agreements, we have already made our purchase forecasts for our suppliers and we already have a priced collection to face 2H. So this is our assessment, this is what we hope for. So I believe that costs will not go up anymore, they remain as they are.

Operator: 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: Well, thank you all. I don't think we covered here the details about Mizuno's operation, just to recap: we expected to receive Mizuno's operation from the beginning of the year, it took one more month, we received it at the beginning of February, we depended on the approval of CADE.

We are already producing 6 models, going to 8 models, we will finish the 1S with more than 15 models from Mizuno, in the 2S we will approach 30 models from Mizuno, and then already with the capacity needed to make all the numbers that we forecast and that the brand has been doing for some time in Brazil with growth.

Mizuno is doing well. In fact, the collection being offered on the market is a collection that had already been launched - not by Vulcabras, by the former brand manager. We have already worked on improvements in the development part, in the engineering part, in the technical part of the products, which already brings us some results.

But the new products that we are developing and that are for next year - maybe even later this year - are already products more like Vulcabras itself, from the experience that it has of many years in its specialization in sports shoes.

So we are satisfied with the beginning of Mizuno, but we are seeing a very positive scenario, with a very modern and updated collection as Vulcabras studies the market and is successful at Olympikus itself and the growth we are having at Under Armour.

So I thank you all for your presence. I also want to say that we are very satisfied with the good results obtained in this 1Q. We remain confident about the performance of the results for the coming months and 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 week to all.

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.