Conference Call (English Transcription)

Vulcabras Azaleia

Earnings Release 2Q20

August 11th, 2020

Operator: Good morning and thank you for waiting. Welcome to the Vulcabras Azaleia conference call to discuss results for 2Q20. 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 de Oliveira.

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 Azaleia. 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 Azaleia, 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 Azaleia's business prospects, projections, operating and financial goals, constitute beliefs and assumptions of the Company's Management, as well as information currently available for Vulcabras Azaleia. 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 Azaleia 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: Welcome to the Vulcabras Azaleia results conference call. Vulcabras Azaleia discloses hereby its financial results for the second quarter of 2020 in a scenario still reflecting the effects from the COVID-19 virus pandemic, which paralyzed activities around the world, but optimistic owing to the promising upturn that has begun.

Here in Brazil alone, according to data from the Brazilian Institute of Geography and Statistics (IBGE), retail sales of clothing and footwear fell by 80.8% in April and by 62.5% in May, compared to the same months of the prior year, and by 37.5% in the accumulated figures from January to May 2020 compared to the same period in 2019.

The footwear sector has also suffered the effects from COVID-19 and, despite estimating growth of up to 2.5% in the production of footwear of the year; it fell by 37.9% in the first half of the year, according to data from the Brazilian Footwear Industries Association (ABICALÇADOS).

Until mid-March, Vulcabras Azaleia showed a positive trend for its results, but this trend was abruptly interrupted with the worsening of the COVID-19 virus pandemic and the enactment of state decrees that paralyzed economic activities almost throughout the Brazilian territory. Aiming at preserving the health of our employees and combating the transmission of COVID-19, the Company was one of the first in Brazil to make the decision of stopping operations at its plants, on March 20. Only the crisis committee and certain essential departments remained in operation, working remotely and with reduced teams, with actions to mitigate the impacts on the Company's operations.

The stoppage of plants and retail stores, in Brazil and worldwide, in the second half of March and that lasted throughout the second quarter, directly affected the Company’s results.

In 2Q20, net revenue was R$ 98.7 million, a decrease of 69.8% over the R$ 327.0 million in 2Q19. Gross margin was 26.8% in 2Q20, 7.2 p.p. below the 34.0% recorded in 2Q19. EBITDA was (R$ 55.1) million, down 209.1%, compared to R$ 50.5 million in 2Q19. EBITDA margin decreased by 71.2 p.p., reaching -55.8% in 2Q20, compared to 15.4% in 2Q19.

Despite the shutdown throughout April of almost all of our operations, at the end of said month, we began, albeit partially, to prepare for the resumption of production, and on April 26, we started operating with a 70% reduction in working hours, pursuant to Provisional Measure 936/2020. For this, Vulcabras has continued to comply with the protocols established by the World Health Organization (WHO) and is offering guidance on prevention measures through its internal channels.

During the month of May, even with a significant part of retail stores still closed and only with the Bahia plant in operation, since the Ceará plant (our largest one) remained shut down by operation of the enacted state decrees, the resumption of the Company’s revenue was resumed at approximately 30% in the same period last year.

In June, with the resumption of operations at the plant in Ceará, accompanied by the gradual reopening of retail stores, there was a marked resumption of the Company's revenue registering around 80% of the amount obtained in the same month of the previous year.

Despite all the instability, regarding the opening of marketplaces, and challenges to resume consumption, faced by retailers, the strength of our brands and our business model allowed us to attain significant and promising results. In July, with a robust order backlog, we stopped following MP 936 and resumed 100% of the activities in both plants. Revenue for the month was higher than the amount recorded in the same month of 2019, preserving margins and controlling profitability

In July, the collections for the second half of the year (Azaleia, Olympikus and Under Armour) were also launched in an innovative, dynamic and 100% digital format. The success of these collections is also beginning to be seen in the volume of orders captured in pre-sales that have been made to customers so far. Which gives us confidence and strength to seek an even more pronounced resumption by the end of 2020.

In the same period, the performance of Vulcabras' online stores gained focus and prominence. The Company has intensified its investments in the online sales channels and, as a result, 131% growth in revenues was registered in relation to the prior quarter. On the Olympikus website alone, there was a 250% increase in sales during the period.

This growth was also intensified with the creation of the “Corre Junto Brasil” (“Run Together Brazil”) membership program, which was born with the aim of helping Brazilians to earn extra income at this difficult time, and which still has a genuine intention of promoting economic activity, helping the community of sports professionals and fostering the sale of national products: the purchase of Olympikus products, the brand made by Brazilians and for Brazilians, moves the gears of the economy. Since its launch, the project has reached and contributed with 5.5 thousand registered members and expects to reach 10,000 members in 2020.

Even with the challenges faced in the first half of the year, we quickly adopted strategies aimed at both protecting our employees and the health of the business and the market. We have already reaped the results of these initiatives and, in the last month, we saw more pronounced resumption in revenue generation.

What allowed us to respond quickly to this beginning of demand recovery was the focus on the Company's strategic pillars. Today our industrial park is equipped with the most modern technology for this type of industry, which allows us to respond quickly to new demands. With this, we have adapted our product collections to reinforce our position as a smart choice, especially in the Olympikus brand portfolio. We know the importance of having the right products for the moment, in order to ensure preference of consumers and partners. We are offering them better quality, design and technology at the best cost-benefit ratio in the market.

In the medium and long term, although it is very difficult to predict what will happen, we see good opportunities for the Company. Our agile products delivery and flexibility in production help our customers with their restocking process, to recover their sales and maintain their inventory levels, and position us as the best choice in this scenario. These characteristics make us even more competitive!

We have been close and supportive to our customers, acting in relationship and negotiation actions with them. All of these actions are making it possible to normalize the order and billing flows. In addition, all of our decisions so far have also been made with our more than 13,000 employees in mind, the importance of their talents, our workforce and their dedication.

The period of social distancing has posed many challenges to the productive, commercial, social and economic chains, but the strength, credibility and structure of Vulcabras Azaleia have made a difference at this time. We are optimistic and confident in the normality of the operations and the imminent return of positive results

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, Thank you.

Mr. Wagner Dantas: Good morning everyone. We started the presentation with slide 5, gross volume of pairs and pieces. In 2Q20, gross volume billed totaled 2.8 million pairs/pieces, down of 57.9% compared to 2Q19 6.6 million pairs/pieces.

Owing to the spread of the COVID-19 virus pandemic, that culminated with the enactment of social distancing measures throughout the second quarter of 2020, most of the retail stores remained closed, both in Brazil and in the main countries where the Company operates.

As a result of this widespread paralyzation, retail sales have been drastically reduced. The performance of E-commerce of the Company’s brands was the highlight of this period, and gained prominence in the Company's sales.

The impact from interruption in sales led to a general decline in the volume sold in the quarter, and most categories and markets showed negative variations. The positive exception was the online sales channel that, through the websites Olympikus.com.br, UnderArmour.com and Azelia.com.br, remained in operation and showed a solid increase in the volume of pairs/pieces sold.

In the 1st half of 2020, gross volume sold totaled 7.5 million pairs/pieces; a reduction of 40.0% compared to 12.6 million pairs/pieces in the first half of 2019.

On page 06, we present the net revenue per product category. In 2Q20, net revenue was R$ 98.7 million, decrease of 69.8% compared to R$ 327.0 million in 2Q19.

The spread of the COVID-19 pandemic in the second quarter culminated with the enactment of social distancing measures in all Brazilian states and temporary closing of most retail stores. E-commerce was the only sales channel that remained in operation throughout this period.

In April, corresponding to the peak of the social distancing measures, the Company's revenue fell to practically “zero”. From May on, with the partial release for the reopening of retail stores in certain municipalities, and taking advantage of the pre-pandemic orders, there was, albeit slowly, resumption of billing. In

June, with the resumption of operations at the plant in Ceará, accompanied by the gradual reopening of retail stores, there was a marked upturn in the Company's revenue generation, registering around 80% of the value obtained in the same month of the prior year. However, following best governance practices, the invoices issued that were in transit at the end of the quarter were not computed in revenue of the month due to the instability in the opening of certain stores. These invoices were delivered on the first days of July.

Throughout this period, the Company engaged in doing everything possible to minimize the effects from this pandemic, upholding a supportive stance with its customers and proposing strategies for, jointly, surmount this difficult time. Efforts were concentrated on negotiations for the maintenance of existing pre-pandemic orders, and, fortunately, the results were positive, thus allowing, as from May, the resumption of the flow of deliveries, thus avoiding any shortages in stocks of retail stores.

Athletic Footwear revenue decreased by 73.6%, with a negative performance in the domestic market and also in the foreign market. Both revenue from Olympikus footwear and Under Armour footwear decreased compared to the same quarter of the prior year.

The Women Footwear category showed a decrease of 72.3% when compared to the same period of 2019. During the period, there was a decrease in revenue from sales to the domestic and foreign markets, due to the drop in sales volume.

The Apparel and Accessories category presented a decrease of 59.6% compared to 2Q19. Revenue from Under Armour and Olympikus brands decreased. The category of other footwear and other presented decrease of 29.6%, with fall in all the subcategories.

In the first half of 2020, net revenue was R$ 337.3 million, 46.2% lower than that revenue in the first half of 2019 of R$ 626.8 million.

On page 07**,** we present the opening of net revenue per market. Net revenue in 2Q20, in the domestic market, totaled R$ 91.6 million, a reduction of 69.5% compared to R$ 300.6 million in 2Q19.

In the domestic market, the decrease is due to the general fall in all categories. There was a significant decrease in retail sales owing to their suspension during most of the quarter. E-commerce of the Company’s brands was the only sales channel to remain in operation throughout this period.

In the foreign market, net revenue in 2Q20 was R$ 7.1 million, a decrease of 73.1 % over the R$ 26.4 million posted in 2Q19.

In this quarter, there was decrease in direct sales to the foreign market in relation to the same period last year. This was also due to the restrictions imposed by the adoption of measures to combat the COVID-19 pandemic by the countries that are the main destinations for these exports. The highlight was the process of resumption of sales of sports footwear to Argentina, which led to the growth in volume in this category compared to the same period of 2019.

Sales of subsidiaries abroad, alike those in Brazil have also presented a significant decrease compared to the same period of 2019. This resulted from the impact from the measures adopted to combat the COVID-19 pandemic by Peru and Colombia, which led to stoppage of all activities and the temporary closing of 43 exclusive Azaleia stores in those countries

Net revenue in the domestic market in the 1st half of 2020 totaled R$ 295.1 million, a reduction of 48.7% compared to R$ 575.7 million in the 1st half of 2019. Net revenue in the foreign market in the 1st half of 2020 totaled R$ 42.2 million, down 17.4% compared to R$ 51.1 million in the same prior year period.

Going to page 08, we have the presentation of the e-commerce channel. This is the first time that we have presented the opening of this channel. We therefore decided because of the relevance and the opportunity that this channel presents to us

In October 2018, upon acquiring the subsidiary of Under Armour, the Company assumed the responsibility for managing the brand's e-commerce. Since then, investments in this channel have been intensified and the operational structure has been reinforced. In October 2019, taking advantage of the knowledge that has been acquired and the business synergy that has been attained, the operations of the other brands, Olympikus.com.br and Azaleia.com.br, started to be carried out internally instead of by commercial partners.

Despite the still little share of 5.3% of the Company's total revenue for the first six months of the year, the growth of this channel and its potential have significantly boosted growth.

During the 2nd quarter of 2020, while all operations of the Company were paralyzed and retail stores were temporarily closed, due to the COVID-19 pandemic, e-commerce continued in full operation and showing significant growth, in spite of the prevailing crisis.

Net revenue for 2Q20, in the e-commerce channel, totaled R$ 12.4 million, an increase of 182.9% in relation to R$ 4.4 million in 2Q19. In the first half of 2020, e-commerce revenue totaled R$ 17.8 million, an increase of 143.4% compared to R$ 7.3 million in the first half of 2019.

By the peak of the pandemic, the Company created the “Corre Junto Brasil” membership program, as an alternative for supplementing income for physical education professionals, through the indication or recommendation of the products available in our online store. By the end of June, we already had more than 5.5 thousand members. The Corre Junto Brasil project reaffirms Olympikus' commitment to the sports community, seeking to transform people into digital entrepreneurs to supplement their income through sports.

In June, according to a survey published by “Similar Web”, Olympikus' e-commerce already ranked among the “TOP 100” in Brazil, in terms of number of accesses. A remarkable result for an own operation that has been carried out for only nine months.

Going to page 09, we have the presentation of gross profit and gross margin. Gross profit in 2Q20 was R$ 26.4 million, a reduction of 76.3% in relation to R$ 111.2 million in 2Q19. Gross margin was 26.8% in 2Q20, 7.2 p.p. below the 34.0% recorded in 2Q19.

In the 2nd quarter of 2020, the impact from the COVID-19 pandemic was significant. In a short period, the Company had to stop production, suspend billing and seek to adapt to the new reality. This abrupt interruption brought about very serious consequences to the Company and the entire footwear chain.

In order to better reflect the impacts of the COVID 19 pandemic on the Company's results, the industrial costs related to direct labor, the indirect manufacturing costs not appropriated to the products due to the stoppage or reduction of the factories' journey, in the amount of R$ 36.4 million, were transferred to other net operating income and expenses, as provided for in NBC TG 6 – Inventories

Even with the reclassification carried out in COGS in the 2nd quarter of 2020, in order to better disclose the negative impact from the pandemic, the gross margin was affected by the following factors: (i) recognition of losses from obsolete inventories; (ii) loss of almost all revenue from retail stores, both in the domestic and foreign markets; and (iii) higher costs of products manufactured even with the aforementioned reclassification.

In the 1st half of 2020, gross profit was R$ 103.5 million, a reduction of 51.5 % compared to R$ 213.3 million in the 1st half of 2019. The margin in the 1st half of 2020 was 30.7%, down 3.3 p.p. compared to that in the 1st half of 2019 (34.0%).

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) decreased 40.2% in 2Q20, compared to expenses reported in 2Q19. R$ 23.1 million was recorded in 2Q20, against R$ 38.6 million in the same period last year. As a share of revenue, selling expenses (excluding advertising expenses) accounted for 23.4% in 2Q20, compared to 11.8% in 2Q19, an increase of 11.6 p.p. The relative growth in selling expenses in the comparison of the periods is mainly due to the significant reduction in revenue this quarter.

The relative growth in selling expenses in the comparison of the periods is mainly justified due to the significant reduction in revenue in this quarter

Variable commercial expenses remained at normal levels, in line with those presented in the last quarters. The allowance for doubtful debts of customers was increased due to the recognition of probable losses on such receivables of R$ 7.4 million.

In the first half of 2020, selling expenses (excluding advertising expenses) were R$ 56.6 million, down 23.1% in comparison to R$ 73.6 million in the 1st half of 2019. The share of selling expenses over net revenue increased by 5.1 p.p. in the comparison between 6M19 and 6M20, from 11.7% to 16.8%.

At the bottom of the slide, we have advertising and marketing expenses. In 2Q20, advertising and marketing expenses totaled R$ 12.0 million, a decrease of 22.1% over the R$ 15.4 million in 2Q19.

The share of advertising and marketing expenses over net revenue represented 12.2% in 2Q20, compared to 4.7% in 2Q19, an increase of 7.5 p.p. The relative growth in marketing expenses in the comparison of the two periods is justified by lower revenue in 2Q20.

The relative growth in marketing expenses, comparing the two periods, is justified by the lower revenue in 2Q20. In view of the general paralyzation of retail stores and the impossibility of following the schedule of events, the marketing budget was reviewed and adapted to the new reality. In the 1st half of 2019, selling expenses totaled R$ 24.2 million, a decrease of 11.7% compared to R$ 27.4 million in the 1st half of 2019.

Going to page 11, we have the statement of General and Administrative expenses. Administrative expenses totaled R$ 26.1 million in 2Q20, down 7.1% compared to 2Q19. As a percentage of net revenue, there was an increase of 17.8 p.p., from 8.6% in 2Q19 to 26.4 % in 2Q20, due to the decrease in revenue in 2Q20. During the quarter, there was a reduction in most components of this heading. In personnel expenses the increment refers to non-recurring restructuring expenses which was partially offset by discounts obtained on lease payments. In the first half of 2020, compared to the same period in 2019, there was a 4.0% reduction in general and administrative expenses, from R$ 52.9 million to R$ 50.8 million. When comparing the percentage on net revenue, there was growth in the first half of 2020 of 6.7 p.p. compared to the same prior year period.

On page 12 shows the behavior of the financial result and the net debt. Net financial expense recorded in 2Q20 was R$ 1.6 million, compared to expense of R$ 0.8 million in the same quarter of 2019. In the comparison of the quarters, the main changes derived from the increase in interest paid due to the increase in debt, in exchange gain and due to the recognition of restatement of tax credit in 2Q19.

Net financial income (expense) resulted in expense of R$ 2.6 million in the 1st half of 2019, compared to income of R$ 3.3 million in the 1st half of 2020.

At the end of 2Q20, the Company had a positive net financial position of R$ 48.5 million, 121.5% higher than that observed at the end of 12/31/2019. Gross debt totaled R$ 278.5 million, with an increase of 546.2% in relation to the balance at 12/31/2019. There was a 418.3% increase in cash and cash equivalents.

Since the initial impacts from the pandemic, the Company has maintained its financial discipline, and has sought to reinforce its cash using preapproved credit lines, prioritizing incentive operations and with extended terms. Such measures aim to face the negative impacts that may still be caused by the COVID-19 pandemic on the Company's activity level.

On page 13, we have net income and Adjusted ROIC. The net result in 2Q20 was a net loss of (R$ 75.4) million and represented a decrease of 351.3% over net income of R$ 30.0 million in 2Q19. The net margin reached -76.4% in 2Q20, compared to 9.2% achieved in 2Q19, a reduction of 85.6 p.p.

Even with all the measures adopted to reduce expenses, the 2nd quarter result was severely affected, leading to significant net loss. The net margin in the comparison of the six-month periods decreased by 28.7 p.p., from 9.0% in the 1st half of 2019 to -19.7% in 2020.

Return Annualized adjusted return on invested capital (Adjusted ROIC) reached 1.3% in 2Q20 - LTM (last twelve months ended 06/30/2020), with a 17.0 p.p. decrease over the 18.3% result obtained at 12/31/2019

On page 14, we present EBITDA. In 2Q20, EBITDA was (R$ 55.1) million, a reduction of 209.1%, compared to R$ 50.5 million in 2Q19. The EBITDA margin decreased 71.2 p.p., reaching -55.8% in 2Q20, compared to 15.4% in 2Q19.

This result is mainly due to the drastic decrease in net revenue in all the Company's businesses and the recognition of manufacturing costs, despite the paralyzation of operations, due to the COVID-19 spread.

In the first half of 2020, EBITDA was (R$ 27.9) million, a decrease of 128.6% over the R$ 97.6 million in the first half of 2019. The EBITDA margin fell 23.9 p.p., reaching - 8.3% in 2020.

On page 15, we present Capex. In the 2nd quarter of 2020, R$ 13.6 million was invested in property, plant and equipment. The investments made this quarter should support the Company’s operations, as well as the continuity of the modernization project of the plants.

Investment in intangible assets in 2Q20 was R$ 0.8 million. The highlight in investments in intangible assets was in the software line item and aimed at modernizing the BackOffice structure. Over the past two years, the Company invested around R$ 100 million mainly in machinery, expansion and technology for this type of industry, which enables us to respond quickly to new market trends. In addition, the plant in the city of Horizonte, in the Ceará state, underwent a significant expansion by 6,800 m² involving future investments and also in the Company.

In the first half of 2020, the amount invested in property, plant and equipment totaled R$ 31.2 million. Investment in intangible assets in the 1st half of 2020 totaled R$ 1.4 million.

On page 16 we present the cash flow Cash generation in the six-month period was R$ 113.6 million, being reduced by R$ 3.4 million due to the effect of conversion of foreign investees’ accounts, resulting in positive cash variation of R$ 110.2 million. The variation presented was essentially due to the following events: (i) EBITDA of (R$ 27.9) million; (ii) a reduction in the need of working capital of R$ 85.7 million; (iii) an increase in bank liabilities of R$ 235.4 million;

(iv) investments in property, plant and equipment and intangible assets of R$ 32.6 million and (v) an increase in long-term liabilities of R$ 7.6 million.

The main variation in working capital in 2Q20 is due to the reduction in accounts receivable from customers. The general paralyzation of the Company's operations throughout the second quarter of 2020 led to a significant drop in revenue and a consequent decrease in accounts receivable.

We conclude our presentation and open space for questions.

Thank you

Question and Answer Session

Operator: Ladies and gentlemen, we will now begin the question and answer session. To ask a question, please press asterisk 1. To remove the question from the list, press asterisk 2. We have a question from Mr. Eric Huang from Eleven. Mr. Eric your audio is open.

Mr. Eric Huang: Good morning everyone, I hope your family and you are all right. Thank you for taking our question. On our side, there are actually two questions, the first one we would like to understand how you are seeing the resumption. You mentioned in the release that in July you already grew in relation to 2019, so we wanted to better understand how much you attribute this growth to some demand dammed up during the closing period of the factories and how much it would really be for a resumption of activities by from retailers.

In addition, the other is in relation to e-commerce, if you have observed the maintenance of growth even with the reopening of stores and if you believe that in the long run with the growth of this e-commerce division if this can bring margin benefits to you, thank you.

Mr. Pedro: Good morning Eric and everyone, I also hope everyone is well. Thanks for the questions. I will answer the first question. I think it is important to make a quick memory: we were forced to suspend our activities around March 20 and during this period we ended up giving collective holidays; we used the provisional measure and timidly started in May to produce at our unit in Bahia, which was the only one that was possible to work. In June, we also timidly started producing at our largest unit, which is in Ceará, but only at 30%.

During this period, we managed to make good renegotiations, maintain our orders, maintain the close contact with our customers and unfortunately, in this quarter we were unable to work how we would like to work in our factories due to the restrictive measures imposed by the states. But fortunately, then speaking of the resumption, in July we started - in fact on the last working day of June - we started to work 100% in both factories. In the entire month of July, we worked at 100%, reactivated our production and our more robust revenues

Even with lower production, in June we had sales of almost 80% of sales compared to 2019; but in the month of July we already had some revenue and higher than the year 2019, which is leaving us very satisfied and optimistic going forward. Our decision not to demobilize anything in our business and maintain our capabilities has proved to be quite assertive at this time.

At the end of July, and continuing to talk about the resumption, on the 25th we launched the new collections in an innovative and digital format, which also greatly accelerated our connection with our representatives, our salespeople (there are more than 300 people) and with the market as well. Therefore, we quickly started receiving orders from the new collections to add to the orders in the current collections.

I have great news to speak. We have a portfolio of future orders at the 2017 level, which was one of our best years in recent years. Our order book formation today is superior to the years 2018 and 2019 for this moment. This makes us believe that the 3Q is practically solved and we are already selling to close. Of course, it takes a while, we still have a few months of work and sales, but we are well on our way to making the necessary sales in our goal planning in a factory full, efficiently, etc.,

And finally, it is important to say that it was also very assertive, in addition to not having demobilized any of our production and maintaining our business size, reinforcing with our customers the importance of our fast sales business model, with a very high speed to adapt, and we adapt very quickly, so this new collection is a collection that further reinforces the great attributes that we have on the market, which are multifunctional products, of excellent cost-benefit and thus they were further strengthened.

We are very optimistic, 2Q was a very bad quarter, and we do not like the result. We were unable to work harder due to restrictive measures and the impossibility of resuming our factories. It is important to comment that the trade has not yet returned in the strength that we are compared to invoicing and order entry. I believe that Vulcabras is a little out of this curve due to the type and model of business and its brands.

About e-commerce, I prefer Wagner to talk because he is very involved in expanding our e-commerce, which has been following a very large growth path. Wagner could you please answer this?

Mr. Wagner: Good morning Eric, Good morning everyone, I also hope that everyone is well, safe wherever you are.

Regarding e-commerce, the growth we recorded in the 2Q is very strong but not surprising. Since we inherited Under Armour’s own e-commerce operation and management structure, we are making all the necessary investments, investments in platforms, investments in hiring know-how for the proper management of this channel.

At the end of last year, we launched our own online stores for our other two brands, Olympikus and Azaleia. Since then, the growth of these two brands and the growth of Under Armour have only brought us beneficial and positive synergies. We are accelerating to the maximum. The focus is on the development of exclusive products seeking to offer the best service and the best level of service to our consumers

How we see, how we received and how we look at these financial results in the quarter was an acceleration of what we were already projecting for the near future. We do not see this growth as a peak, that is, with the reopening of physical retail, some kind of retraction, on the contrary, I think that at least in the case of the Vulcabras operation and in the specific case for our brands this must be a step and from now on it must be a new basis of support. No wonder we launched an affiliate program that was very well received. The beginning of this affiliate program had an almost social focus on generating an additional income supplement for educators, physical education professionals who had their income practically zeroed.

Surprisingly, the thing is catching on. Still in a very viral way, without major investments in advertising, but we already have 5500 affiliates. It is an initiative that begins to take shape and take on the shape of a sub channel within the e-commerce channel and we even have to eventually implement it in other brands. I think in general this is it.

E-commerce is one of the channels that the company is convinced of, is interested in and has been making all the necessary investments. That is why growth is not surprising, in fact it is just an acceleration of what was already programmed, designed. We continue to make investments and improve the platforms, the entire back-office infrastructure, systems, logistical operation behind these platforms, to be able to leverage, to be able to capture and so that at no time does this become a bottleneck. We understand that there is still a very large space of relevance to win within Vulcabras' business as a whole and the representation of its brands. I think it was a little bit of that.

Mr. Eric: thank you very much for the answers.

Mr. Wagner: thank you.

Operator: ladies and gentlemen again, remembering that to ask questions just press star one.

Mr. Wagner: in the absence of live questions and even breaking the protocol, we will answer some questions from the webcast. We received a question from Lucas da Távola Capital. His question is whether we can comment on Under Armor's opportunity in the higher dollar scenario. I am going to ask Pedro to answer. Please, Pedro.

Mr. Pedro: Lucas, how are you? Thank you for your question. Our Under Armor operation is based on offering the Brazilian market all the products that Under Armour has in place in the world through pre-sales made through partners when they are apparel, because we do not produce apparel; some imports of apparel and shoes, we offer, but mostly the deal is done through the production of local products in our factory, where we were also able to deliver to Under Armor the strategy of agility, speed and immediate replacements for our customers, which is a recipe that has worked very well throughout our history and has worked very well with Olympikus.

This scenario of high dollar helps national production without a doubt, because it increases the price of imported products. Under Armor, as it is a recent brand for us, which is already growing, has been giving results, we imagine that with an increase in the prices of imported products, Under Armor will grow a little faster

However, within our plans and in our product portfolio, we have been doing very well. I also believe that in this pandemic moment and in this moment of instability, our business model, regardless of the dollar, also helps Under Armour for the reasons I just talked about, where customers don't need to place bets so far in advance and can source from Under Armor - remembering that we produce Under Armor in Brazil up to R $ 500 in price to the public, which is a very high price, showing that we can make several products of various technologies in Brazil.

I can also answer another question that follows Daniel da Cruz Gouveia Vieira, comes from Valor Futuro. Thanks Daniel for your question, the question is about the scenario, the impacts of the future partnership between Nike and the local operator Centauro, what impacts do they bring to the competition with Vulcabras.

It is a great question because in Brazil, the international brands, in our evaluation, in the last years, and many years, have undergone many modifications and usually had difficulties to operate. It is not in vain that many brands have been looking for partners in Brazil for a long time, and in our assessment, brands that have a local partner can perform better when it comes to having results

We know that international brands, regardless of whether that brand you asked us or others, in the last few years had difficulties in delivering results, and we know that because we saw some sales being done. Today there is anti-dumping in force in Brazil against China, and an extension of this anti-dumping is being discussed so that it is not only against China but against Asia. With anti-dumping only on shoes that come from China importers do not suffer as much, as it does not have as much effect because international brands produce shoes across Asia and not just in China.

But going back to the question, in our evaluation is a good thing because when the international brand has a national partner, it helps to discipline Sales, helps to discipline prices, competition, not least because national operators maybe, different from international operators who do not see in Brazil as something so relevant in their sales, so national operators need to have results and we see with good eyes when brands associate with companies that will have to give results and cannot use Brazil as an outlet or as a place to sell your products. So I see these partnerships as good to help discipline the market.

Operator: Ladies and gentlemen, remember that to ask questions just press star one.

We now end the question and answer session. I would like to give the floor back to Mr. Pedro Bartelle for his final remarks.

Mr. Pedro: Thank you all for your presence. I want to say that we remain available with our IR time to clarify any other points or doubts that may have remained pending, say that we are quite optimistic about the future and any other questions please do not hesitate to contact one of our channels, thank you very much.

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