Conference Call (English Transcription}
Earnings Release 1Q22
Vulcabras (VULC3)
May 04th, 2022

Operator: Good morning ladies and gentlemen. Welcome to the Vulcabras videoconference to discuss the results for 1Q22.

I would like to go through some instructions before starting.

This videoconference will be held exclusively in Portuguese. The transcript of the event in English will later be made available on the company's IR website. The video and presentation of this videoconference will be published on the Company's website www.vulcabrasri.com and on the CVM after the market closes.

Please be advised that all participants will only be listening to the video conference during the presentation and then we will start the Q&A session when further instructions will be provided

Please be advised that forecasts about future events are subject to risks and uncertainties that could cause such expectations not to materialize or to differ from expectations. These forecasts express an opinion only on the date they are made and the Company does not undertake to update them.

Present with us today are Mr. Pedro Bartelle, CEO, Mr. Wagner Dantas, CFO and Investor Relations Officer, and the Investor Relations team, Mr. Valdinei Tortorelli Mrs. Luciana Serrano.

I would now like to give the floor to Mr. Pedro Bartelle, CEO of the Company, who will begin the presentation.

There is an Institutional Video with legend at Portuguese site: click here

Please, Mr. Pedro Bartelle, you may proceed.

Mr. Pedro Bartelle: Good Morning. Welcome everyone to the Vulcabras results vide conference. I will share the main highlights of 1Q22.

Maintaining the upward trend of the last seven quarters, Vulcabras' 1Q22 results set a new record. Net revenue grew 53% compared to the same period in 2021, reaching revenue of R$ 477 million and net income of R$ 54 million an increase of 270%. It was the best first quarter in the Company's history.

EBITDA (earnings before interest, taxes, depreciation and amortization) reached R$ 84 million, 124% higher than in the previous year.

The Company's financial performance in 1Q22 was supported by the structured growth of the three sports brands that make up Vulcabras' portfolio and which are today the Company's main business lever: Olympikus, market leader in sales volume; Under

Armour, reference brand in training, and Mizuno, with 25 years in Brazil and now with the national products collection 100% developed by the Company since January 2022. The arrival of Mizuno to the portfolio in 2021 expanded the mix of brands for the sports market, consolidating the strategic transformation process with a focus on the sports market started by the organization three years ago.

In order to support growth and offer the Company's brands the best sports technologies and greater industrial capacity, Vulcabras inaugurated in March this year the expansion of the factory in Horizonte (CE), which, after an investment of R$ 105 million, gained over 7,000 m², increasing to 120,000 m² dedicated to footwear production.

In addition to the 51% growth in the footwear division, the Company also advanced in the direct sales channel. E-commerce net revenue jumped from R$ 6.6 million in 1Q21 to R$ 22.8 million, an increase of more than 245%.

In 2021, the Company opened an 11,500 m² Distribution Center in Extrema (MG). Before, e-commerce operation was outsourced and the change allowed Vulcabras to have complete control of the logistics operation – which reduced the average delivery time from 5 to 2.4 days.

Another highlight in 1Q22 was sales to the foreign market, mainly to Argentina, which grew 110% from R$ 31.4 million to R$ 66.0 million representing 13.8% of the quarter's revenue, while sales of sports apparel and accessories grew 144% which made the apparel division go from 6.4% to 10.2% in the representation of the company's revenue, when comparing 1Q21 to 1Q22.

The composition of the Company's brands, whether in the footwear or apparel division, offers solutions for all consumer profiles, which gives the Company the flexibility to seek the best results, regardless of the economic scenario.

Moreover, the differential of being a vertical organization and having an "in-house" industry, through an agile and flexible business model, confers adaptability and agility in responding to market changes.

Vulcabras' brand portfolio allows it to deliver a great solution for the consumer, whether in a positive or adverse scenario. And even facing production challenges due to the Omicron variant, the right decisions made in recent years have allowed us to grow sustainably and build solid foundations to continue growing.

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 everyone. It is a pleasure to be here with you for a videoconference to disclose our 1Q22 results.

We started the presentation with slide 5, gross volume of pairs and pieces of 1Q22

In this quarter, we sold a total of 6,425 million pairs of pieces, a growth of 26.5% compared to 1Q21, where the main highlights were Athletic Footwear, where we grew 25.7%, and apparel and accessories, where the recorded growth was 83.5%.

Moving on to **slide 6**, I will comment on net operating revenue.

Net operating revenue for the quarter was R$ 477.7 million, an increase of 53.2% compared to 1Q21. In this quarter, the Company maintained the strong pace of growth observed in previous quarters. All brands continue to be in high demand, despite the slower pace of retail consumption.

The order booking for the period was quickly built up since the presentation of the new collections. Highlight for the Athletic Footwear and apparel and accessories division, which, in addition to the growth described in the previous slide, also presented a significant increase in the average price. In Athletic Footwear, the growth registered was 51.1%. In Apparel and accessories recorded growth was 144%.

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

In this quarter, the domestic market recorded total revenue of R$ 411.7 million, 46.8% higher than in 1Q21. The foreign market, registered R$ 66.0 million, a growth of 110.2%.

In the domestic market, the increase is mainly due to the increase in the categories of Athletic Footwear, apparel and accessories. And in the foreign market, this expressive increase was based on exports Athletic Footwear and Olympikus flip-flops, mainly to the Argentine market.

Going to page 08 we have the net operating revenue to our e-commerce channel.

The e-commerce channel in this quarter more than tripled in size compared to 1Q21. The revenue recorded was R$ 22.8 million. Growth was robust across all brands.

Under Armour and Olympikus have more than doubled in size and the effect this quarter is almost full of the Mizuno effect. Mizuno's e-commerce start the operation in mid-March 2021.

In terms of share of the Company's total revenue, the e-commerce channel also evolved, representing 4.8% of total revenue this quarter versus 1Q21, where it represented 2.1% of the Company's total revenue.

Going to page 09, let’s talk about gross profit and gross margin.

Gross profit in the quarter was R$ 168.1 million against 2021, when was recorded R$ 106.1 million, an increase of 58.4%.

In terms of gross margin relative to revenue, in this first quarter, we reported 35.2%. In addition to maintaining the pace of revenue growth, Vulcabras also maintained the positive trend of growth in its gross margin.

In the quarter comparison, this is the fifth consecutive quarter of gross margin evolution. This comes through gains of scale, a significant improvement in efficiencies, especially in production at Mizuno, where of this quarter we started to produce models 100% developed by us and which, in turn, are more adherent to our technologies and production processes.

They were also fundamental in mitigating the negative impacts that the absenteeism caused by the Ômicron variant at the beginning of the year had on our production.

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

Selling expenses, excluding advertising, in the quarter comparison, was recorded a total of R$ 61.9 million, as a percentage of net revenue from the total recorded, it was 13% against 14.1% in the quarter of the previous year.

The behavior of variable expenses remained within the normal range, showing nominal growth due to the expansion of revenue. The only exception was royalty expenses, which grew relatively due to the increase in the share of licensed brands in total revenues.

In the fixed selling expenses, despite the nominal increase, there was a reduction in the relative share due to the capture of synergies with growth in all brands. Even when dealing with selling expenses, which are mostly variable and directly proportional to sales, the gains in scale and synergies were fundamental to capture this reduction of 1.1 p.p.

In terms of advertising and marketing expenses, as a percentage they were balanced, very similar to the same period last year. We registered 3.6%, which, in nominal values, was a total of R$ 17.2 billion. The absolute value growing as a function of the revenue forecast, but the percentage of revenue, with a certain stability.

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

In this quarter, the total recorded was R$ 26.6 million versus the same quarter in the previous year with R$ 27 million. In fact, there was a small reduction.

In revenue percentages, we had a more significant reduction of 8.7%, we decreased to 5.6% over net revenue in this quarter. There was a certain balance in administrative expenses with sharp growth in revenue, and the percentage of net revenue, presented a decrease of 3.1%

On page 12 let's talk about net financial result and net debt

Comparing 1Q22 with 1Q21, the main variations were the increase in interest paid due to the rise in interest rates over the last few months and the passive exchange variation due to the appreciation of the real during this quarter.

Regarding net debt, in March 2022, the Company had a net debt of R$ 137.6 billion, 41.8% lower than that observed at the end of last year, on December 31, 2021. The decrease in indebtedness was resulted from cash generation due to the reduction in working capital caused by the decrease in accounts receivable from customers and the expansion of supplier's payable, which were counterbalanced by the increase in inventories.

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

Net income in the quarter was R$ 54 million, representing 11.3% of net revenue. In nominal values, a growth of more than 3x the same profit recorded in the previous year. In percentage points, it was the growth of 6.6 p.p.

It should be noted that this quarter's profit did not benefit from non-temporary loans or even non-recurring income. This quarter's result was built 100% by the good operating performance, where the evolution of gross profit prevailed due to a better operating performance and a greater dilution of fixed operating expenses, due to the expressive growth in revenues. Adjusted ROIC, considering the last 12 months, reached 25.8%.

On page 14, we present EBITDA.

The EBITDA recorded was R$ 83.6 million, an increase in nominal values of 124%. The EBITDA margin was 17.5%, a growth of 5.5% over 1Q21. As I mentioned on the previous slide, where I commented on net income, the expressive positive evolution of EBITDA is the result of higher revenue with better operating margins, gains of scale and synergy over expenses.

On page 15, we present Capex

Total CAPEX in this quarter was R$ 40.6 million between fixed assets and intangible assets. The investments made are mainly due to the exhibition at the Ceará factory, where in the second half of March we opened a new shed with more than 7 thousand square meters, with the objective of accommodating a new park of rectilinear looms for the manufacture of Knit uppers.

On page 16, we present the cash flow

The variation in cash in the period was R$ 96.2 million. The variation presented was essentially due to the following events:

- EBITDA of R$ 83.6 million;
- decrease in working capital needs of R$ 69.4 million;
- decrease in bank liabilities of R$ 2.6 million;
- increase in the variation between long-term assets and liabilities of R$ 7.5 million;
- investments in fixed and intangible assets of R$ 39.3 million,

We conclude our presentation and open space for questions.

Thank you

<u>Q&A Session</u>

<u>Daniela Eiger:</u>

Good morning, Pedro and Wagner. Thanks for taking my question. I have two questions. The first concerns margin dynamics. I think it was a positive and surprising highlight in view of all the challenges we saw, both in terms of the quarter due to absenteeism and the same increasing costs dynamics.

I wanted to understand what are your thoughts going forward? There's still room, maybe through a mix or even price transfers, for this margin to continue evolving. So, I would like to understand a bit more about this margin dynamics as well, regarding what you would consider as a possibly normalized margin in the long-term.

My second question is about new licensing. I think this is a debate that has been happening a lot in the sector. We note a lot of interest from foreign brands in performing this auto sourcing for local players. And we hear that a lot, even from sector players and also associations. I would like to understand how you are considering any new opportunities in this direction. Thanks.

Wagner Dantas:

Thanks for the question, Daniela. There were two questions, so let's split the answer in two as well. Regarding the gross margin, as you properly put it, we really achieved a very positive result within the context.

On a seasonal basis, the first quarter is not the quarter with the best margins for our business, and for the retail industry as a whole. In addition to the seasonal effect, we started the year with all the impacts of absenteeism, due to the rise of the Omicron variant of COVID.

This caused a certain disorder in factories, where unpredicted absenteeism is the worse there is, because we do not know who will be absent and from what position. It really took a lot of work to keep efficiencies at the levels they've achieved.

I think the counterpoint of that, and to answer your question about what we can expect in terms of gross margin going forward, is precisely the Mizuno by Vulcabras effect. Mizuno has been in-house for a year now and, throughout 2021, we have not achieved the best possible efficiencies and margins.

Also, this is because we manufacture products that were developed by the former company, products for which we need to take one or two steps back in terms of what could be more modern and efficient in the production process.

Now, as of January, we have produced a Mizuno by Vulcabras, which not only brings novelties, colors and new technologies, but really, the brand brings to the consumer, at the point of sale, a new brand, a new Mizuno, with modern products.

These products come out of the drawing board 100% connected and adherent to our production processes and technologies, which are the most efficient global standards in terms of efficiency and technology.

Mizuno is, indeed, a seal of approval that results in a weighted improvement of the company's efficiency and that also brings us confidence. In terms of the internal context, by producing a Mizuno product that is developed by us we have a lot of confidence that, throughout 2022, we will achieve better efficiency rates, which will translate into better margins.

Regarding the external context, the macroeconomics and inflationary pressure, we continue readjusting prices to the extent that inflation really pressures us, whether due to raw materials or labor disputes, and I believe that this cannot be done any differently when it comes to these political aspects.

Regarding new brands and new businesses, I will ask Pedro to answer you. Thanks.

Pedro Bartelle:

Thank you, Wagner. Daniela, thanks for the question. Just to help out with Wagner's response here, as there is a lot in this question about the increased costs. Indeed, the costs have increased a lot, but these costs have increased a lot throughout 2021. We still predict a little cost increase, but most of the increases happened in 2021.

Compared to last year, we improved our gross margin a bit. Not the total amount we expected, due to absenteeism and because these costs have risen a little more than we imagined. But as we managed to gain margin, we transferred a bit of the increases to prices.

We managed to transfer to prices, and we adapted our collection a little, because the Company is very agile in creating its collections, and we grew. We grew and reduced our costs a little.

I believe that the bulk of the cost increase has already come and gone in 2021. As we make our purchases with a little advance, we already have much more controlled costs this year moving forward.

Regarding new licensing, Vulcabras, over the last three years, acquired two brands. Under Armour, practically three years ago, and Mizuno, almost a year ago, as it started in February of last year.

The market really has a consolidation trend. Many national companies are licensing brands or joining operations. I believe this will be a constant. Vulcabras is very attentive to new business, but has a very large path for organic growth.

Mizuno, under our operation, already represented a growth of almost 50% with what it had been doing. But it is a brand that can double in size quickly. At this time, Mizuno, by using all the resources that Vulcabras has in terms of product development and specialization in the production of footwear, has already been growing a lot.

Under Armour comes from a lower base and represents something around 10%, less than 10% of our revenue. It also has a big path for growth. And there is Olympikus, which is already a market leader, but has also been operating in other markets. It’s not only about our growth in e-commerce, especially in apparel, which has been growing a lot, but also in another category, a high-performance products one, in which we started to act strongly over this first quarter.

The launch of a graphene plate product, the world's first graphene plate product that is also democratizing access to high performance products. The three brands have a good path for growth, but we are very attentive to new business. We will talk about them once we are able to.

Daniela Eiger:

Great, thank you.

Wagner Dantas:

We received a question in the Q&A chat, and I will read it so that Pedro can answer. The question was sent by Thiago Winter. Congratulations on the expressive results of Vulcabras this quarter.

I would like to know more details about the evolution of Under Armour's revenue in relation to the Company's total revenue. What is the share of Under Armour on the Company's revenue? And what was the evolution of the average price of the brand compared to the previous quarter? What are the Company's strategies to continue presenting gains in a scenario of higher inflation and lower consumer purchasing power in Brazil? Thank you very much.

Pedro Bartelle:

Thanks for the question, Thiago. I think I already answered part of it in my previous answer. Under Armour is a brand that is very well known in major Brazilian cities, but not so well known in the whole country.

It is the brand that currently has the smallest share in our portfolio. Olympikus is the leader and Mizuno has been operating in Brazil for 25 years. For that reason, it already has a more significant shared knowledge.

Under Armour does not represent even 10% of our revenue, it is close to 10% of our revenue. The brand is very focused on apparel. Our apparel sector is doubling in size and much of our focus in Under Armour is on apparel.

As to the footwear, we have to develop a good part of them in Brazil. Internationally, 80% of this brand's revenue comes from clothing. In Brazil, footwear is also very important. This flexibility and understanding we have on international brands and the possibility of creating collections here is very important.

We currently have more or less half of footwear and half of apparel, which is very linked to what we do, as we actually manufacture the footwear. But it represents around 10%.

I think that, following up on your question here, the company is very flexible, very agile, very quick to adapt to market scenarios. We gained a little margin in this first quarter, and this is mainly due to this product development and to the fact that we were able to quickly adapt our products, either with the materials or the price ranges with which we have to operate.

There is a demand, there was a repressed demand in the last few months on which we gladly managed to earn a good market share. We did not mobilize our operations throughout the pandemic and prepared ourselves for the resumption.

This meant that, last year, we obtained this market share and we are maintaining it. But I see that the Company is very aggressive in its market performance, because, in addition to having acquired a company like Mizuno during the pandemic, it made a lot of investments.

We expanded our factory in the state of Ceará and modernized it even more, bringing some state-of-the-art machinery for manufacturing the upper part of the footwear. What's that called, upper? The upper part of the shoe, which is made as an elastic sock and adapts directly to the shoe. This is one of the innovations that we have brought. But we are very aggressive in this growth, investing a lot, including in new categories.

We are growing in apparel and we are growing in all brands. It is important to highlight that. Mizuno started operating in Vulcabras in February last year and has already grown by more than 50%, but the other two brands are also growing.

I believe that this adaptation of the products will allow us to quickly serve the market and maintain the margins that we intend to have. We had absenteeism in the first quarter. Now things are more under control. The trend of margin improvement within our budget has been presenting good results.

April was already a good month, our portfolios are full. This pace of results and growth from the first quarter is now moving into the second.

Wagner Dantas:

Excellent. Well, we have more questions through the video conference Q&A. I will read the next question, a question sent by Vitória Minato. First, congratulations on the result. I only have two questions.

We noted an improvement in operating efficiency with expenses being diluted in the quarter. Can we expect a continued improvement for the next quarters, both in gross margin and in EBITDA, as Mizuno is being 100% manufactured in the factory?

And the second question is could you provide some guidance on what you expect in terms of the volume of sports footwear and apparel for the coming quarters?

I will answer that question myself. Regarding efficiency gains, scale gains, synergy gains, I think it is always natural to expect that in the evolution of the year we will maintain a trend similar to the trend in this quarter. In 2021, Mizuno becomes part of our operations in the middle of the first half of the year. In 2022, it is part of our operations for the whole half-year period, and here I'm referring to this first half-year, with really relevant revenue. It is natural, yes.

The example we can have from the first quarter is administrative expenses, where we did have a good evolution, a reasonable gain in scale. I think that going forward it is natural to maintain this expectation.

Concerning the guidance on volumes, for the next quarters, as Pedro mentioned in the answer to the previous question, we had a great quarter. We are practically in the middle of the second quarter. In April, we recorded good sales, so the trend has been positive. The portfolios are aligned.

So, we have a positive expectation of maintaining the trend that we have been performing over the last three quarters, growing sharply, recovering margins quarter over quarter. Naturally, gaining scale and synergies will bring good results. This is a trend we should keep looking forward to.

With that in mind, I will read the next question. The question is from Felipe Demolein, Good morning. Congratulations on the result. We see strong revenue growth in apparel. How do you see the evolution of this segment? What share do you intend to achieve in net revenue in the long term? I am going to ask Pedro to continue with the answer.

Pedro Bartelle:

Thanks for this good question, Felipe. Indeed, since last year, we have further structured our apparel and accessories area. We brought in an Officer named Vanessa Szabo, who has 20 years of experience in the sector, and not only has knowledge of apparel, but also of suppliers, production in Brazil and abroad. This has helped us a lot in structuring the entire sector, which has been growing a lot.

We have a share of something around 10% at the moment. I believe we will get close to 20% soon. The performance of sports brands in countries is also heavily dependent on sports sponsorships to grow in apparel and accessories, mainly due to the sale of replicas of soccer jerseys, in Brazil, and of basketball and football jerseys abroad.

We do not have these types of licensing today. We have had it in the past, and we are always studying whether to sponsor some teams again. We do not have anything right now. But the sportswear collection, for usual sports practice can reach up to 20%. Today, we are already at 10%, but we are growing a lot and I believe that it can represent something around 20%, not considering soccer teams.

Wagner Dantas:

I will continue releasing the questions we receive here through the Q&A. Next question from Rodrigo de Oliveira. Good morning. How do you see the cost pressures the Company might face due to the war and lockdown? I will answer this one myself. I think I answered a little in the previous questions.

As Pedro mentioned, we believe that raw material inflation has already had its biggest hit in 2011. But we remain vigilant. Every collection we launch has its own analysis, profitability, pricing. And, naturally, we transfer on to prices the need that causes these inflationary effects, which end up putting pressure on us.

War and lockdown, of course, put pressure mainly on fuels and commodities. This, in a way, affects it. There is a delay in affecting prices, but as it affects the prices of raw materials, we have to transfer that on. Thanks, Rodrigo, for the question.

Following here with the next question sent by Edson Renel Filho. I would like to know more about the strategy and first results of the Olympikus portfolio, especially the repositioning of the running products. For example, Corre Grafeno, Vento Corre Dois, versus the other pieces, like casual sneakers. I will ask Pedro to answer this question.

Pedro Bartelle:

Thanks for the question, Edson. I think it is worth commenting on Rodrigo's previous question. Over the past year, there have been some lockdown stoppages in Asia that would supposedly bring a shortage of imported products to Brazil.

It actually caused a little delay, but Asia quickly managed to restore its production and supply its markets. There really was a bit of inefficiency in this process. Now, at this moment, there is another Asian lockdown and, this one, may cause a lack of supply.

We have already noticed this because international brands are increasingly placing their orders with national manufacturers, which is very good for us. It is very good for creation of jobs, for the country and for our sector. The competition becomes even more healthy when the product is manufactured in Brazil. So, I believe that in the second half of the year, yes, there may be some momentary shortages coming from Asia.

Well, regarding Edson's question. Olympikus' portfolio is large. Olympikus' purpose is to democratize sports in Brazil. We are the brand that sells the most by volume of pairs.

There has been a worldwide trend for many years, which has been intensifying a lot, to divide the sports footwear and apparel market, the sports market in general, in sports and sports fashion, which has many different denominations, but which we call here athleisure.

Olympikus has been growing a lot in that sense. We hired the singer Iza as one of the ambassadors of this product portfolio, which are sports products that offer comfort, but are not committed to high performance, which are more wearable on a daily basis. All international brands have this division well developed. Olympikus has also been growing in this division.

Within the sports division, Olympikus has always made running shoes, sports shoes in general, but it was not active in high performance. We placed a challenge within the Company: in addition to bringing products with great cost-benefit to runners, a more basic product, why not act in high performance?

We studied this, made a partnership with the University of Caxias do Sul. We had 18 months of tests with athletes with different running styles and we created a product with a propulsion plate made of graphene, which is an abundant raw material in Brazil, with several very positive characteristics. One of them, for example, is lightness.

We managed to make this product a democratic product as well, not only for its price, which is R$ 699 while in international brands most of these products cost R$ 1,500 or more, but we were also able to make a footwear with a wider base, in a more technical sense, which expands the use for more runners, for more people.

This was a product that was extremely technical in international brands and even difficult to use. In Olympikus, we have the propulsion plate in a slightly more democratic product. Its price is practically half of the market price, it has a great margin, it is an expensive product for the Olympikus brand, and it already makes it possible for us to operate in this market.

So much so that this product is our flagship, the most expensive product and the one that most represents this high-performance sector. But we also created a line called Corre Dois, Corre Vento, which are technical products for marathons as well.

The Corre Grafeno product was a big surprise for us. We did all the publicity at launch. We imagined that it would be in great demand, but at our electronic media it sold out in 48 hours.

This made us increase production, which is our advantage. The market is already being supplied again and the good news is that this makes us believe, based on the numbers, that we will also lead the sale of propulsion plate products in Brazil.

Of course, this is not one of the products that sells the most, it is an expensive product, but Olympikus, in addition to being the market leader, will now also have a strong share in high performance products. This is our purpose, to provide access to quality products, good performance products, for the greatest number of people. We are fulfilling this purpose and of our high-performance products too.

<u>Wagner Dantas:</u>

Moving on to the next question we received in the Q&A. The question was sent by Carlos Herrera. What do you expect from the market in the second quarter of 2022? Are the problems in China contributing to greater demand for the Company's products? Or are you having some kind of problem with inputs?

A question for Carlos: has the acquisition of Nike in Brazil by Centauro presented any difficulties for the Company, mainly in terms of product placement in sales at its stores?

<u>Pedro Bartelle:</u>

I can answer that, Carlos. Thanks for the question. We like these slightly more controversial questions that shed a little light on market issues. As I said before, I believe there will be a little lack of supply, but in the second half of the year. Now, in this second quarter, I am not seeing it.

Orders are placed well in advance due to ship time as well. According to our mapping, there may be some shortage in products in the second half of the year. Our second quarter is going very well, it is well aligned with this growth and with this performance that the company had in the first quarter, it is a sequence.

Almost 90% of our inputs are domestically produced, so we do not suffer from a lack of international inputs, many of us need to adapt, there may be a little shortage in some materials. We had some problems with occasional lack of supply of some materials, which we had to quickly replace. For the ones we couldn't replace,

In cases of products that demanded that specific raw material, there were delays and the product was replaced by another one. We have enough suppliers here in Brazil so that we can manufacture our products. Therefore, we are not suffering from shortages at the moment. I believe there will be a little shortage of imported products in the second half of the year.

Is the acquisition of Nike by Centauro presenting any difficulties? None. We consider it a positive thing that international brands are associating themselves with Brazilian operators. Our concerns with major competitors happen when international brands use emerging countries, like they have used Brazil in the past, to dispose of their products, for example.

When you have a Brazilian operator managing an international brand, with a commitment to generating results, this competition becomes much fairer. The share of international brands in Brazil might be something around 5% of their worldwide revenue.

Therefore, they are not that relevant. In the markets where they operate the most, which are the United States and Europe, our relationship with Centauro is great. We are important suppliers of Centauro and I do not see anything that has harmed our relationship. On the contrary, Centauro is one of our partners with which we are growing a lot.

Wagner Dantas:

Next question. Question sent by Felipe Amorosino. Hello guys, good Morning. Regarding the margin, it is still unclear if we can expect that the margin will improve throughout the year. What can we expect of the gross margin in the medium- and long-term for the Company? Do you maintain the gross margin prediction following the idea of a 40% margin?

Pedro, if you will allow me, I would like to answer this question. Felipe, thanks for the question. I think this is a relevant question and it will help the audience a lot to clarify and understand our margin context a little. We are in the fifth consecutive quarter on a quarter-on-quarter evolution curve.

Our gross margin has been rebuilding and evolving for five quarters. Costs are under control. In addition, we have already faced what we believe to be the biggest hit of raw material inflationary pressures in 2021. This is under control and as necessary, we transfer increases on to prices.

We are raising prices. We are in the sixth consecutive collection of new launches, making price increases without losing sell out momentum and continuing to gain market share. And here I am not referring to a specific brand, I am talking about the three brands as a whole compared to the competition in the price pyramid.

Mizuno by Vulcabras gives us a lot of confidence. Throughout 2022, we will manufacture products of the Mizuno brand that have a very relevant revenue in the weighted total. Products that were developed by us and that will deliver more efficient production costs and, consequently, margins that, in the Company's weighted perspective, will help rise this weighted average.

So, I think that the compilation of these factors gives us a lot of confidence to say that yes, it will continue quarter after quarter. I think this disclaimer is important. Our industry, our retail segment is seasonal. The margins in the first quarters and in the first half of the year are not the best margins.

Therefore, we will have increases in 1Q22 against 1Q21, 2Q22 against 2Q21, 3Q22 and 4Q22 against the previous year. And, throughout 2023, we are very confident that we will continue this upward trend, rebuilding gross margin quarter on quarter.

You asked if we continue to pursue the 40% margin idea. Yes, we think 40% remains a target. I see it as difficult for the Company's weighted total to reach this even in 2022. But I see with great clarity and certainty that the path is paved so that we can, in the near future, reach this level of gross margin again.

I do not know if you have any points to add. But I really appreciate Felipe’s question.

Pedro Bartelle:

Just regarding what you said on the margin, our trend is to approach 40%. We recently faced a pandemic and a very expressive increase in costs. Even so, we managed to grow our margin a little, although not as much as we would have liked. I think that in a slightly more stable scenario we will be able to get closer to that 40%.

That is what we are working towards. Although the results of profit and EBITDA are good at the moment, the gross margin is still below what we imagined, and it could cause an improvement in all the indicators once it approaches 40%. Yes, it is possible. We are working towards that.

Wagner Dantas:

Moving on to the next question sent by Cristiano Martins. Good morning. Is there a forecast for dividends? In fact, this is a sequence of several questions, and we are breaking them down to be able to answer them all. Is there a forecast for dividends? Won’t the buyback program decrease liquidity even more? Why do we not have Corre in black? What do you think about creating your own performance assessment app to be even more present in the daily lives of athletes?

If Pedro agrees, I will answer the question on dividends from the buyback program. And then, I will leave the question regarding the app for Pedro to answer. This year, in 2021, we have already distributed dividends in advance in November. For 2022, we certainly need to distribute dividends due to a legal requirement of the Brazilian Corporate Law, corresponding to at least 25% of the profit.

In 2022, we are on a very positive trend. You can see on the presentation page that we address net debt and also the evolution of our cash flow. We have a very interesting cash generation, but we also bring a very strong growth for the Company. The Company is growing in a very relevant way and this growth will naturally generate a need for working capital that should consume part of that cash.

We are following our projections and I think that, to try to answer your question directly, yes, we will distribute dividends. I think as much as our cash will allow. Throughout the year, I think there is a lot of competition as to financing the operation itself, the need for working capital, the payment of debts.

Despite the Company being very little leveraged, we have a debt that is becoming burdensome due to the high cost of Selic, and we are prioritizing paying these debts. We prefer to actually reinvest the cost of debt in development, in launching new models and reinvest in the business to simply pay for unpaid interest. But until the next General Shareholder's Meeting, for sure, we will perform distributions.

The buyback program will not further depress 3Q liquidity. I think that, yes, the buyback, if carried out, will certainly restrict one more point of attention, which is the issue of our liquidity. Regarding the issue of the buyback plan, just to clarify our intentions a little bit:

it is clear to everyone that the company is solid. The company is disclosing that it has been achieving excellent results. It has a horizon, a very positive expectation for future results.

And the fact is that today, if you use any valuation methodology or comparison with the market peers, it is clear that our share price is visibly deducted. It is way, way below reasonable.

Therefore, we do not necessarily need to use this buyback program, but the fact is that we prefer to have the possibility be able to buy back. Whether to use the payment of stock options plans that we have in place or to maximize the value for shareholders through cancellation or sale through treasury shares. I think it is more like having an option or a possibility to use this program if the share continues at the current levels or even reaches lower levels.

I think it is very unreasonable to have a share price deducted as it is today and not at least having this tool and this possibility. This is our view on these two points.

Regarding Corre in black and the app question, I will ask Pedro to answer. I do not know if you have any points to add to the first two questions, but feel free to.

Pedro Bartelle:

No, I think you answered perfectly, Wagner. I just want to emphasize that we do intend to pay a lot of dividends. This is a company that does not want to accumulate cash but wants to pay dividends. That is our intention here at Vulcabras.

Vulcabras has been growing a lot, it needs to finance its operation, but our purpose here is growth and paying dividends. And Corre already exists in black, Cristiano. We have three models in this Corre line. Maybe you are asking about Corre Grafeno, for which we have a grayer color and a very colorful one.

We even have this one here, which was signed by our champions of the Rio de Janeiro International Marathon, who won the marathon wearing this model. Thanks for the tip. We will consider having the color black in other footwear as well.

After all, black is the color that sells the most. In all products, the more sober, darker models are the ones that sell the most. And regarding the app, we already have an app at Under Armour called Map My Run, which is a chip.

We even make this product in Brazil, which shows that Brazil has the capacity to produce even more technological products. This is a chip inside the shoe, which connects to your cellphone and gives you all the information about your run. That's in Under Armour. Maybe we can also extend this to Olympikus and create something even a little more affordable? Thanks for the tip.

Wagner Dantas:

Well, the next question was sent by Alexandre Assali. To what extent could the debt level of limited-income households hurt sales going forward in this coming year? I think I will ask Pedro to answer this one. Please, Pedro.

Pedro Bartelle:

Well, Alexandre, Vulcabras, luckily does well in several scenarios. We have two international brands in Brazil that operate at initial performance prices. They include prices that range from high to the most expensive ones, but through Olympikus, which is the brand that democratizes access to performance products in Brazil, we are market leaders and are able to adapt our collections very well.

If there is an even greater decrease in people's purchasing power, it will not be the first year that Vulcabras will need to adapt its collections. We have done this several times over the years. Our plans are not to bring simpler and more affordable products, but to always increase the quality and attributes of the products.

But we could take steps back on prices if necessary. We could make some products even more affordable. This happened to us a while ago and it was not very good even for the market as a whole.

Because Vulcabras is a leader in the sale of sports footwear, this also hurt some other smaller competitors. There is no brand in Brazil that has a market share significant enough that it could harm us. There are several others that compete with us a little when we lower our prices, and these brands end up suffering a lot.

At this point, I think we have a slightly healthier environment. But, if necessary, we will have to adapt our collections to continue offering products to these consumers for their pocket size.

I do not believe that we are going to need to do that. We are not predicting anything here, but, if necessary, we will do that. We are on the opposite path. We are on a path of growth in our prices and products at the moment.

Rodrigo Bocelli:

Good morning, how are you? Congratulations on the results. Two questions here. First about CAPEX. You continue to make investments in this expansion in Ceará, the installation of the knit machine and all that. I saw that there was an important volume of investments in the first quarter. I would like to know what will happen from the second quarter on.

And the second question, since I have the opportunity and thanking you for the time, I found the operating cash generation in the quarter interesting, mainly due to the significant improvement in working capital. Therefore, I would also like to know what I can expect for the next quarters regarding this matter? Thank you very much.

Wagner Dantas:

Rodrigo, thank you very much for your question and for interacting with us. Regarding CAPEX, we recorded a CAPEX of R$ 40.6 million. A much lower CAPEX. Even though we had some investments in productivity, expansion of the capacity of new technologies, which is an upper of knit CAPEX was much lower compared to the first quarter of last year.

I think that investments in this matter, in this specific project, should slow down throughout the year. I believe that in terms of CAPEX expectations for the year, we intend to have CAPEX at the same level or maybe even a little lower than last year's CAPEX.

I think the Company should now be on a trend to resume maintenance CAPEX over the next few quarters and, which includes tooling molds for the launch of new models, maintenance of factories.

We call it maintenance CAPEX, but it is ongoing CAPEX. A gain from maintaining the operation as a whole, not necessarily a collection of machines or buildings.

As to cash generation, this falls into the answer given to the previous question about indebtedness or payment of dividends. We have an investment that will be necessary to finance this company's growth, which is the working capital capacity.

We have a CAPEX that should be similar to last year's, in a trend of achieving maintenance CAPEX. And we carry the indebtedness, despite the Company being very unleveraged, perhaps the most unleveraged in the sector, we do have clear objectives of paying the debts that mature throughout the year, so that we can reduce the debt service, reverse, in fact, this amount arising from debt and business investments, new projects, new models.

Therefore, I believe these are the cash priorities. Financing growth, paying debts according to their maturities throughout the year, reducing and thus transforming, seeking to no longer have a net debt, but a good net cash so that we can make future distributions.

As Pedro mentioned earlier, and is a very good point, the Company's purpose is to generate value for its shareholders, and one of the ways is through dividends, in case we do not have projects, transformations and investments that bring even more value to the business. Thanks for the question. Rodrigo.

<u>Wagner Dantas:</u>

We have one more question that we received from Felipe Bourbon. Felipe asks: Good Morning. Given the strategy of increasing the awareness at Under Amour, I would like to understand the dynamics of marketing spend for the year.

<u>Pedro Bartelle:</u>

I just remembered to comment here, Wagner, that our CAPEX is also seasonal due to the manufacturing of tools, dies, etc. Normally, it is a little higher in 1Q and 3Q, but that is pretty much in line with what we have been doing over the years for maintenance.

Our marketing strategy with international brands is not very secretive. International brands run their campaigns worldwide. We have tropicalized them, adapted them and brought them to Brazil considering their main initiatives.

So, for example, at Under Amour, we use their ambassadors a lot, like Stephan Kerry, who is a very famous basketball player. That way, we bring in the footwear with the advertising already created by them there, and we just adapt it here.

With The Rock, who also has a special line of his own, we just adapted the advertisements. These campaigns are developed worldwide. However, as our share in footwear development is very significant and important due to the knowledge we have developed in Brazil, we end up creating products and technologies domestically in the country.

So, I would say that half of the marketing strategy is based on international campaigns adapted by us and the other half is created here. Under Amour is a more elitist brand, it is not such a popular brand. It will become better known over time. But our objective is to conquer the market and we are conquering it, we are growing.

This class A and B consumer, mainly from large cities, sees a lot of value in the attributes that this brand has in its products. The products are more expensive than the products normally offered by other brands in the market. Under Amour has the most technological and most expensive products in its clothing and accessories collections.

We are already well-known in the field in which we operate, because in these large cities, people end up getting a lot of information from abroad, not only through travel, but because of their own cultural knowledge. And the brand is very fashionable, in high demand, not only in Brazil, but in all of South America.

I say that because we are also exporting the creations and productions of Under Amour products manufactured here in Brazil to other countries. The work of becoming more well known by other audiences is a bit slower, but we are going to do it very carefully so that the brand always continues the premium positioning it has.

Obviously, the level of marketing investment of a brand that is being built is a little higher. So, yes, our average marketing investment is around 4%, but at Under Amour we have invested a little more, less than double that, but a little more, which is a long-term investment in order for the brand to become more known. After that, we should return to a normal level of marketing investments. You can continue.

Wagner Dantas:

There being no further questions, I would like to give the floor to Pedro so that he can make his final remarks. Please, Pedro.

Pedro Bartelle:

Well, I would first like to thank you all for your interest. Thanks for the support of all the IR staff at Vulcabras. I just have a few points to add in order to recap a bit what we have been talking about in the past. We have a repositioning of the company, with total focus on sports.

The three brands now work within our system, quite adapted. Mizuno's product development, already developed in our patterns, is well adapted to the production of our factories. Investments made over the last few years for expansion and modernization are practically complete.

We anticipate a very relevant and important growth for the Company. All brands are growing, including Olympikus, which is already the market leader. And there are important paths for growth in the e-commerce for apparel and accessories.

We also improved our performance in the foreign market. We used to have a share of around 10% in exports, and we already reached close to 14% today. We managed to recover exports, mainly to the Argentine market.

Part of the Company's growth results from these exports, part from apparel and from a smaller base, but mostly from what we do the most, which are footwear manufactured in our factories. The three brands have been growing very well.

The trend of results and growth continues for the 2Q, practically on the same basis as seen in the 1Q, which is very encouraging for us as a Company. The Company is very solid, it is doing very well, and it remains attentive to all these changes and consolidations in the market.

Thank you once again for your time, interest and I make our IR team or ourselves personally available to answer any questions. Thank you and a good day to everyone.

Wagner Dantas:

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