

**Operator:**

Good morning. Welcome to Track&Field's 2Q21 earnings conference call. We have here today Mr. Fred Wagner, CEO, and Fernando Tracanella, CFO and IR Director.

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Before proceeding, we would like to clarify that the forward looking statements that may be made during this conference call relating to Track&Field's business prospects, projections and operational financial targets are based on the management's beliefs and assumptions, as well as on currently available information. They involve risks, uncertainties and assumptions as they refer to future events and hence depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future performance of the Company and lead to results that differ materially from those expressed in such forward-looking statements.

I will now turn the floor to Mr. Fred Wagner, who will do the opening of the presentation about the 2Q of 2021. Mr. Wagner, you may proceed.

**Fred Wagner:**

Good morning, everybody. I will start making a summary of the market perspectives. We see the addressable market that we are growing, some structural changes in the consumer behavior, although we have been gradually going towards normality.

People somehow will continue partially working online, more quality of life, and more concerned about a healthy lifestyle. And that directly affects our addressable market.

And we believe that our products and services that we provide are attractive to the consumer, and that reflects directly in our sell-out.

We had excellent Mother's Day and Valentine's Day, transforming the Company and the way we sell during the pandemic. We not only sell on stores, but we have store consumers that are different, and we go on incrementing new tools and new methods. It is a continuous method of implementation with control, and we are learning a new sales dynamics. We are satisfied with these changes.

And also, in omnichannel, we are progressing in an important way. We have more than 200 stores with ship from and collect in store. And this half, we opened more stores. So these stores will be able to sell to the whole of Brazil, and that increases not only the digital assortment that we have, and also how quickly we can deliver products in Brazil. In customer satisfaction, I will tell you this a little bit.

We also inaugurated our CD in Osasco. it was an important move, we increased 4x our storage capacity with this growth that we have. We needed better structure, and also capacity of having an inventory that is more structured. So this move was excellent.

The app in our platform, the platform is growing, the users' number is more than 200,000, we have more than 500 trainers in our trainers base training about the app, and we offer more than 40 spot modalities to the consumers, and this platform keeps growing.

And we believe that here we have an important opportunity to have a closer relation besides the commercial relation with the consumers. So within this platform, we also have kept on moving throughout the pandemic, where we had more than 120,000 people receiving free classes on a daily basis. It was a way that we could give our consumers an active moment at home, especially when the pandemic was worse. We went on with this program and we still have it on, and we are quite satisfied to be able to offer this for people.

And finally, we have our NPS that we measure by channels, and this quarter it was 83, it was quite high, showing that somehow we are able to beat the expectations of our consumers. And we are always looking towards the year to see if we can improve.

So a very good morning for all of you. I will be back soon. And now, Tracanella will talk about the results.

**Fernando Tracanella:**

Thank you, Fred. Good morning. It is a pleasure to talk to you all. I will go through the main highlights of this quarter in a summarized way, so that we have more time for Q&A.

So if you can go to slide number seven, the highlights of this period. First, we are still growing, physically speaking, nine new stores in this period. We still want to open more stores, more than we did last year. In 2020, it was 35 new stores, and we believe that this year we are going to open even more, and it is going to be the year with the highest number. I will talk more about that.

Second point, sellout, R\$176 million. We had an important growth as compared to 2020. In 2020, the base is distorted because of the beginning of the pandemic, and a few stores that were closed throughout the quarter. But when we look, comparing to 2019, before the pandemic, the growth was relevant 84%. And even if we look on the same basis of stores of 2019, how the stores performed in 2021, the growth was 63%. So we grew in a significant way vis-à-vis 2019.

Net revenue with the growth, also important, comparing to 2020 it was a distorted base, but compared to 2019, 64% growth. I will give you more details.

It was a period of good indicators in EBITDA and net income. We grew our indicators on profitability, and something important that I will also coming later on is that the growth of the Company has been having healthy margins. We have a gross margin and a level that is compatible with the history of the Company, and also delivering a decrease of fixed costs, what is translated in good EBITDA and net profit.

Net profit was R\$14 million, an important growth as compared to 2020 and 2019. 2020 was a year that, again, was very difficult because of the beginning of the pandemic, and the Company had adjusted net profit, a result close to breakeven. But when we look at the pre-pandemic, the profit growth was above 80%.

On page eight, a little bit more details on sellout. The quarter had a growth in all channels. Franchises grew significantly compared to 2020 and 2019, 481% and 94%. Our own stores grew a lot compared to 2020, and it was the beginning of the pandemic, we had a little bit more difficulties in our own stores, many were in shopping malls. So the base is a little bit weaker for our own stores as compared to 2020. But even so, when we compare to 2019, with more mature stores, that grew more than 50%.

In the case of e-commerce, there is something important to emphasize. When we look at those figures in the graph, we see that build by our distribution center, but there is a parcel of the sales that were kept in the site and built by the stores. Our strategy of omnichannel and ship from store, when we compare to 2020, the figures are stable, and that demonstrates the good performance in our digital side, since we had many stores that were closed in 2020.

Even so, we had e-commerce sales, including omnichannel, on the same level of last year, and irrelevant growth compared to 2019. There was a change of level in our digital business.

Considering omnichannel in the figures of e-commerce, that channel represents 9% of our businesses, against a number that was closer to 3% in 2019.

Something else that is important to talk about is sellout, and I think it is worth emphasizing the initiative of the Company of launching new lines like beach tennis, yoga, increasing the variety of tennis with Track&Field with new colors and models also helped us a lot in this quarter. We have here a combination of an addressable market that is very favorable, as Fred said, and also good initiatives by the Company.

Now, on slide number nine, net revenue. We had a 64% growth, with net revenue of R\$94 million. Again, comparing to 2020 it is distorted, but as I commented against 2019, R\$114 million, it shows how the figures are healthy.

There are three points that I would like to emphasize here. First, launching of the collection, as we commented last quarter. We did it in April, which was very good because we could launch the collection. We launched the collection with the stores reopening. The second point was a change in CD that happened in the last week of June, so we were one week without billing for the franchisors, increasing the delivery time in e-commerce. That is a very good movement, considering that we changed the storehouse. We took the whole inventory, 100% to another city close to São Paulo, Osasco.

And also, comparing to 2019, in 2021 did not have any presential events like tracks. And as soon as it is possible to do this in a safe way, we will, and we will go back with this line of billing for the Company.

On the next page, slide ten, I would like to comment a little bit about gross profit that was a total of R\$56 million. And this is interesting to understand the performance of Track&Field. We could maintain profitability above 2020. We grew our gross margin with the same level of 2019. So different from what happened in many retail sectors, the growth of the Company does not depend on an additional promotional effort.

This is also correct from the beginning of this difficult era of the pandemic in our commercial policy. We were not dependent on discounts, so very quickly, we went back to a normal policy of full price, and that reflects on less dependency on promotions and gross profit, a gross margin that is quite good, helping us in total profitability.

Now, on page 11, I am going to talk a bit about the expenses. The expenses grew from the growth of the Company in the period. We had some expenses that are quite variable, and store conditions, marketing, occupation expenses, the freights grew because of the digital channel, expenses with e-commerce platform. So some variable expenses followed, aligned with the growth of sales in this period.

And in administrative expenses, there is operational leverage, and comparing to 2020, there is a distortion because of the provisional measure of suspension of hours and labor contracts, and it reflects the structure of the Company to face growth.

In the 1H19, the Company was beginning a process of corporation restructuring, changing governance, and that leads to more expenses. And in our view, it will be diluted throughout time, as we have demonstrated in 2020. Seasonality of the 2H is very important in our operational leverage, and this cost dilution will be more evident now in the 2H21. From now on, we see loads of potential of operational leveraging.

On slide 12, resulting from this good gross margin and being more efficient operationally wise, a growth of EBITDA, changing the difficult period of last year, but an important growth considering

2019, 87%. Few adjustments. We are talking here about adjustments that are more connected to IFRS 16, and a stock option plan that was finished.

And on slide 13, adjusted profit of almost R\$14 million. We grew 30x as compared to 2020, with distorted basis, but an important growth if we compare it to pre-pandemic. On adjusted margin, also very good, we are quite happy with this result, with good indicators of a good performance throughout the year.

I will comment a little bit about expansion on slide 14. The Company is expanding. We have a perspective of opening more than 35 stores, as we have mentioned. We have the perspective of having a record, that was last year in terms of new stores, focusing on franchise stores. We should have this year three own stores and the rest as franchises, which is the strategy of the Company, to grow with franchised partners.

Street stores with more representativity, occupation costs that are quite attractive, and also important, increasing capillarity. The Company will now add 29 cities, and it will in more than 120 cities, close to 130. And it is going to smaller towns with success, with excellent franchisees, which is the characteristics of our business model.

On the next slide, some of the stores that we opened this year. Some examples. For instance, Rio Branco, our first store in that state. We are in 20 states plus DC, almost the whole of Brazil. We opened different stores. Our own store, for instance, in the Albert Einstein Hospital, and different models. For instance, in Quinta da Baroneza, São Paulo, we have a greenhouse. So very flexible, concerning the type of stores and different sites.

Next slide, it is just a map of Brazil. Slide 16 is a summary of our footprint. The Company is more on the Southeastern region, but we see good potential of growing in other states, and also in these other regions of Brazil to be out of the capital, to smaller towns, as we have been doing, especially in the Southeastern region. As Fred mentioned. more than 200 stores at the end of the quarter had ship from store, which is something that is quite successful.

Next slide, some pictures of our distribution center. It has a longer agreement, a long contract in Osasco, about 7,000 m<sup>2</sup>. That increases our capacity of storage and distribution for the coming years. CAPEX, R\$3 million, and something that we talked a lot during the appeal. Something that was mentioned as one of the use of proceeds of the operation. And we delivered that in the end of this quarter.

Now I go back to Fred who will talk about the platform, and then we will proceed with Q&A.

**Fred Wagner:**

Thank you, Tracanella, for this update. I mentioned a bit, but our concept of this strategy is to keep on engaging people and consumers, to have our app as a place where they find modalities, trainers, public and private classes. And that is an interface between trainers and clients, giving the trainers opportunities to organize their lives, and at the same time an opportunity of our trainers to have more group classes that are more advantageous for them.

We intend to keep on doing this throughout time, growing this base. It is an important part of our strategy. We have been doing this, and the strategy is quite consistent.

So at last, this is it. We close our updates and open for questions. Thank you.

**Gabriel Simões, Itaú BBA:**

Thank you for your presentation. Thank you for the questions, I have to actually. The first one is about the categories. You have commented about the growth that you have in the addressable market, success of this new beach tennis line, and an increase in the variety of shoes as

successful. So what is your expectation for the entrance of the brand in other sports? Is there any plan for that, thinking about expanding the addressable market?

And the second question, you commented that you opened nine stores this quarter, and they should go beyond 35. Could you give more details, in which point is this? Do you have any agreement signed? How is it going? Could you give emphasis also on the experience that stores? How is the first store going? This would be interesting too.

**Fred Wagner:**

Gabriel, thank you for the questions. Talking about the lines, we commented on the increase of the assortment that the digital allowed us to do, concentrating on omnichannel. The strategy works very well.

We could have more differences without having more stores. Yet, we are doing it. It began with beach tennis, as you mentioned. We did research in relation to the consumer behavior and complemented our line with accessory products makes sense. That makes sense for that one line. We did that with beach tennis and that worked, with rackets, balls, etc. We did it with yoga, we increased our offer of yoga accessories, and that also worked. And we should go on with this process in other categories like running, fitness and other sports. The strategy is working individually per category, so it should go on.

This type of action with the opportunity of doing this through the digital channels, and later on with another strategy, will leverage, we will be able to offer products to our clients, even not having a very large footprint.

Tracanella will talk about expansion, and then I will talk about the experience store.

**Fernando Tracanella:**

Gabriel, good morning. Today, we have more than 30 stores with contracts signed for franchise and for rental. So we really believe that we will reach more than 35. We have a large volume of openings in the coming months until November, and another store in December, too. Concentration will be from now on, but we have this pipeline that is quite advanced, and we are comfortable that this goal will be achieved.

Of course, there is always some uncertainty of one or another store, but most of them have the point identified. The building has been negotiated and the franchise agreements have been signed. The first experience store, we should inaugurate in September in Iguatemi, and we are quite satisfied with the result of the project. It is going to be the first store that we will put together our universe of retail with our universe of experiences. We will have the opportunities of connecting our customers, not only with the product, but also with the experiences we have.

I wanted to give the details. It will be interesting to have you there to show the store in presence, but it is interesting that we use that to modernize the project, some things that we thought about communication, connection with the digital world. So the store will have many, many new things, always focusing on using technology for something that works for the consumer.

We are not putting technology just because we are using technology. We are using it to improve the customer experience. It is an approach that is a bit different from technologies that were brought to retail throughout time.

We are always thinking about customer experience and how to put the consumer in awe, connecting to the store's universe. So in September, we will be ready for you, and everybody who is listening to us, to visit us and we will show you the stores.

And we should have the launching of a second store committed in the 1H22, in Sao Paulo, and that we will also progress to the whole of Brazil.

**Gabriel Simões:**

Thank you for the answers.

**Robert Ford, Bank of America:**

Thank you. Good morning. Congrats. I would like to talk about the 2Q. How are you thinking on the 2H with respect to the EBITDA margin? And how do you think of the digital experience of the client in terms of facility of users and functionality? Thank you.

**Fred Wagner:**

Hi, Bob. Good talking to you. About the 2Q, we are reopening, and in relation to product mix, beach tennis is an example of a category where you can bring together social interaction, keeping distance. So that was quite popular.

Besides being a modality that works. In remote places, everybody who is by the seaside has access to this sport, and we see that some arenas are being open also in the cities in Brazil. So we believe that this sport should go on being very popular, and that increases our medium ticket.

But not just that. Yoga, running, all outdoor sports have been growing in a significant way, we noticed that, and that is within our strategy of the focus, not only for this year, but also for next year, to look at those outdoor categories that we believe will go on being very popular. Out leisure is in our focus.

Bob, could you repeat the second half of your question?

**Robert Ford:**

Of course. What do you think of digital interfaces in terms of facility of use, research functionality?

**Fred Wagner:**

This is something interesting. Those interfaces, they are progressing, and more and more have new options for interfaces that we can offer, especially social selling. It is not an interface that is similar to e-commerce. It changes a bit because it is an interface with interaction. So we have been exploring the opportunity of using new interaction tools that can put together sales through the digital world, and that is not an interface that is just digital, like e-commerce.

In e-commerce, we see, of course, a change that is happening, but it did exist before the pandemic. And maybe what we have to think now, what are the new opportunities of social selling to bring together digital with the interaction with the sales team and assisted sales through message system? This is something that we have been looking at, and we have been implementing new tools, also through a tool that can concentrate communication, WhatsApp communication, distribute to the stores and control when somebody accesses a store, so you can look for this interaction.

So with this decentralization, we want to avoid a decrease in the quality of service. And that affects our NPS. We can have decentralization in a word when, in the beginning of the pandemic, the operations could not sell. The operations were centralized, and now we are in this moment of organizing and providing more tools to make this more controllable, with high quality.

**Robert Ford:**

And which benchmarks are you looking to make a format for the solutions?

**Fred Wagner:**

When we talk about social selling, we talk about any sales that starts digitally. I think this figure should grow even more as we put more tools. We are in a high level, 32% excluding e-commerce, but I believe that somehow, even a person that comes physically to our store in São Paulo and accesses a link or something, and checks and information on a merchandise or a product, somehow there is this issue of social selling that they can connect to the salesperson digitally, or digitally access the service that complements the physical experience.

So the experience we are doing is looking towards this world. We no longer have this frontier between physical and digital. We say we want to communicate with you the best way possible at any point of time. So you may start the sale in the store, but you can finish it via WhatsApp if you are in a hurry. One thing will complement the other, and you can do that.

Thinking like that, this number of social selling should increase in this frontier. And if we talk only about e-commerce, this should make more sense. And when we take this relation connected to the sport experience, we should broaden that, talk about wellness, because our platform is pointed at better quality of life. So we should expand that content so that it is not only in physical activity, but also nutrition, talk to people on health concerns and quality of life.

**Robert Ford:**

Thank you for the answers. And once again, congrats.

**Operator:**

The &A session is now over. I would like to give the floor to Mr. Fred for his final considerations.

**Fred Wagner:**

I want to thank everybody for your presence. We are quite satisfied with all the coworkers, all the people who make Track&Field what it is and are responsible for their performance. We are going through a difficult moment, but we are quite optimistic. Tracanella is here with me, and the IR governance.

And I want to say that we will expect you for our next conference call with the news that are maybe even better than what we gave you today. I hope you stay well.

**Operator:**

Track&Field conference call is now closed. We thank you all for your participation, and wish you a very good day.

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