

Q1 2019 Earnings Call

Company Participants

- Julian Garrido Del Val Neto, Chief Financial & IR Officer and Member of Management Board
- Roberto Funari, CEO & Member of Executive Board

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the audio conference call that will review Alpargatas First Quarter 2019 Results. (Operator Instructions) As a reminder, this conference is being recorded and webcasted at ri.alpargatas.com.br.

This conference call includes forward-looking statements or statements about events or circumstances, which have not occurred. Alpargatas has based these forward-looking statements largely on its current expectations and projections about future events and financial trends affecting the business and its future financial performance. These forward-looking statements are subject to risks, uncertainties and assumptions, including, among other things, general economic, political and business conditions in Brazil and in other markets where the company is present. The words believes, may, will, estimates, continues, anticipates, intends, expects and similar words are intended to identify forward-looking statements. Alpargatas undertakes no obligations to update publicly or revise any forward-looking statements because of new information, future events or other factors. In light of these risks and uncertainties, the forward-looking statements and events and circumstances discussed on this conference call might not occur. The company's actual results could differ substantially from those anticipated in the forward-looking statements. Participants on today's conference call are Mr. Roberto Funari, CEO; and Mr. Julian Garrido, CFO and IRO.

I would like now to turn the conference over to Mr. Roberto Funari, please go ahead, sir.

Roberto Funari {BIO 17031506 <GO>}

Hi, everybody. Welcome to our First Quarter 2019 call. I'm here with Julian Garrido, our CFO. And now I will present the performance of the core business. And Julian will follow with the financial review.

On the performance of the core business, I would like to reinforce that our definition of core business excludes Argentina sports goods and textile businesses, as they are being restructured and reorganized as announced last year. So the core business covers the recurrent business and not Argentina sports goods and textile business.

FINAL

So I would like to start in Slide #3. Our revenues reached BRL 940 million in the First Quarter with a growth of 9%, the robust results as we deliver growth in our business, core business in Brazil. And also, we accelerated growth in our international business with Havaianas, where we grew 16%.

Our gross profit grew 8%, in line with the revenue. And this was driven by the growth of our international business. But also because of our productivity and cost management programs, which offset the increase in rubber costs, which had a high inflation in the First Quarter. So the rubber cost increase was totally offset by our productivity and cost management programs. And our EBITDA has grown 7% with some productivity gains and leverage on our SG&A.

Next slide, Brazil. All business units have grown in Brazil. And we grew volume of 3%, revenues by 7%. Our international business grew more by 2% and revenue by 16%, with 16% in our -- in local currency, in our basket of currencies of dollar and euro, represents a 7% organic growth. And these are driven by Asia Pacific, where we grew 79%; and Europe, Middle East and Africa, where we grew 7%. Asia Pacific growth was driven by sell-outs in 3 key countries: South Korea, Japan and Philippines. And also the opening of needed touch points for the brands.

In Europe, Middle East and Africa, we have been growing with strategic partnerships with fashion retailers like Pull&Bear, also in the expansion of our online business and also new touch points. Also a very robust growth, both in our core business in Brazil and international business.

Next slide is our performance on a same-store basis, this is Brazil. So we measure same-store sales in Brazil, where we reached with Havaianas the historical level of 450 stores. Our measurement of same-store sales includes the online business. We grew for Havaianas, 14%; in Osklen, 17%. These are driven by high consumer acceptance of -- for the new collections and also the acceleration of the online business, both in Havaianas. But also in Osklen, where we keep expanding of our omni-channel offer.

Next slide, we show our revenue by business unit and by geography. This is in line with our strategic goal to become a more global, digital and innovative company. As you can see, our international revenues with Havaianas has become 22% of our revenues with a growth of 200 basis points compared to last year, or from 20% to 22%. We are -- this is driven by our higher focus on consumers and sell-outs. And also, our multichannel strategy expansion, with emphasis on the digital channels. We have also increased investments in digital marketing and data analytics. The First Quarter was also showing very high acceptance of our collections, the summer collection of Havaianas. But also the introduction of the new collection for Osklen and the urban portfolio for Mizuno. The performance of Havaianas and Osklen has delivered a higher share of our business and also the international -- high investments in our international business has delivered better returns. So that we are starting to become much more focused on our core business. But also on our international business. We have been also demonstrating a higher operational performance, both in our core business. But also in Argentina.

Next. So I'd like now to hand over to Julian, who will present the financial results.

Julian Garrido Del Val Neto {BIO 20748017 <GO>}

Thanks, Berto. Good morning, to some of you. Good afternoon as well. I'm on Page 8. We're going to be talking about the consolidated results, including Topper and textile as Berto mentioned while on Argentina. So we pick here the 3 main lines of the profit and loss account. Net revenue, the gross margin in the earnings before taxes and depreciation. Then I'll highlight a little bit of the 3 there. So on the net revenue, as Berto said, it's -- we had growth across the board, basically in Brazil: Havaianas, Mizuno and Osklen. And in the international part, we had mid-double-digit growth there, which was pretty good. Now we have the headwind coming from Argentina, mainly on the FX and also the -- again, Argentina is a hyperinflationary economy. So we have the effect of that too, there. On the gross profit. So we had the, of course, the participation of an international partner there, higher margins, helping mitigate effect of the rubber in Brazil, along with productivity gains that we had on managing the cost there.

On the recurrent earnings there, the highlight again, is the gain on the productivity. We are pretty much on track with our strategy. It's not only to grow, to invest. But also manage the expenses.

Please go to the next page, Page 9, I'll talk a little bit about the EBITDA, per se. So there, we see the BRL 129 million in the First Quarter of 2018. And then you see BRL 136 million. So we are up BRL 7.5 million. But we had a bunch of things that changed this comparison. So it's actually not comparing there. So I'll start with 2018. The highlight there is we sold the real estate area we had on our headquarters in Argentina last year. So that's now a nonrecurrent year. And in 2019, we had a good growth coming from our IFRS 16 in this line. I'm going to talk a little bit later about the effect on the bottom line. But it's just in between the lines here. And the -- of course, in Argentina, there is the hyperinflationary effect that we said.

So apples-to-apples, BRL 7.5 million up. Going to next page, Page 10. You see there, as I mentioned, Brazil, slightly pressured here coming from the rubber. But again, that would be way higher if we did not work. And we did, to mitigate the cost of doing it. So we did the work here that we had to do. On the international, again, not only the mix but also the pretty flat year, which is good, 20.6%.

In Argentina, despite of everything, if you compare it to last year, we did the restructuring. And this is just paying off. And we've seen improvement on the results there on the margins coming from Argentina from this perspective.

I will turn now to Page 11, where we see the evolution here, there's a bridge here. If you go to the left here, the first bar that we see there is -- what comes straight from the delta that we had on the revenue of BRL 7.5 million. Even in the BRL 60.6 million, most of that is coming from Argentina, as I mentioned, the real estate would also have a tax credit there. So it's noncomparable. The IFRS we had there, the 2 bars, 18.4%, which was a good guide I mentioned on the EBITDA. But at the same time, because of the amortization, we had a

FINAL

21% below EBITDA. The net effect is a 2.6%, which is basically driven by the interest on the IFRS 16 effect there.

Now the next 3 bars, what you see there, the inflationary adjustments, of course, most of that is Argentina. The financial results, which is through Argentina there and the exchange, most of that is Argentina. The net is 5.5%, if you add the 3 columns there, driven mainly by the financial results. And last but not least is the tax effect that we had last year when we call the dividends of Brazilian (cloud) called GCP here, which brings tax benefit. And we haven't called that anticipation of distribution of results this year. So basically, that's a tax effect of not having done that. So it's -- most of it, out of that BRL 69 million, most of it is nonrecurring local payable.

I'll turn now to Page 12, where we see the financial net position here. Of course, most of that, starting from BRL 111 million from last year, that is, of course, a 12-month view here, not just a quarter. So EBITDA bringing most of it, of course, some that don't affect -- has no effect in the cash here of BRL 189 million, investing on CapEx, BRL 86 million. The financial results, as I mentioned, most of it comes from Argentina, that comes from CapEx that we have in Argentina, though we expect to pay this off this year with the selling of assets on the second semester. And last but not least is the distribution that we did last year, BRL 201 million to the shareholders. So net position now of BRL 20.3 million. Well having said that, I'll turn back to Berto for the final message.

Roberto Funari {BIO 17031506 <GO>}

So we had a very solid, robust performance in the First Quarter of 2019. The revenue growth of 9% in our core business and our EBITDA margins -- recurring EBITDA margin, pretty much in line with the revenue growth. We had all of our core business units performing and we also had a high mid-single-digit growth in our same-store sales. We had all the business performing with a growth focused on consumers and sell-outs. And also driving a better mix, both in terms of product portfolio. But also in terms of channels.

The performance of our international business has been driven by Asia Pacific and Europe. And again, was driven by sell-outs and consumer pool. But also through the creation of needed touch points and the strategic partnerships with fashion retailers. And we had some highlights in terms of greater acceptance of the Havaianas summer collection and the launch of the new collection in Osklen and the launch of the urban casual footwear in Mizuno.

I would like also to highlight, we had 3 new directors joining us, mainly for the strategic direction of becoming a global digital innovative company. Fernanda Romano joined us, being responsible for digital channels. Leandro Medeiros joined us, being responsible of being CEO of Osklen. And Jos   Daniello joined us, being responsible for our HR area. All of them have very strong global profile and also coming from very successful companies and business in line for opportunity to achieve in the long term.

So I would like to finish. Thanks for your attendance. We are very committed to continue to deliver high growth and margin expansion in the future and looking forward to meet you

in the future. I will open now for Q&A. And feel free to ask questions. Thank you.

Questions And Answers

Operator

(Operator Instructions)

This concludes today's question-and-answer session. I would like to turn the conference over to Mr. Roberto for his closing remarks.

A - Roberto Funari {BIO 17031506 <GO>}

Thank you, everybody. And have a nice day.

Operator

This concludes Alpargas audio conference call for today. Thank you very much for your participation. And have a good day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript