Y 2021 Earnings Call

Company Participants

- Julian Garrido Del Val Neto, Financial and Investor Relations
- Mariana do Carmo Espirito Santo, Investor Relations Director
- Roberto Funari, Chief Executive Officer

Presentation

Mariana do Carmo Espirito Santo

(Foreign Language) Julian Garrido, our CFO. This video conference is being recorded and translated simultaneously into English. Questions must be made via chat through the webcasting platform.

So please, before we proceed, we want to make it clear that any statements that may be made throughout this conference regarding the Company's business prospects, operating and financial projections and goals are beliefs and assumptions of the Board of Directors based on information that is currently available. Forward-looking statements are not a guarantee of future performance and involve risks and uncertainties as they depend on circumstances that may or may not occur.

Investors, I would like to now have Roberto, who will start our view to conference. Roberto, please go on.

Roberto Funari {BIO 17031506 <GO>}

Mari, thank you very much. Good morning, everyone. It's a big pleasure to be here all of you in the beginning of 2022. We are going to be talking about the fourth quarter of 2021, and we're going to be talking about the closing of 2021.

As although it seems very far away from now, it's important to show the figures for the entire year. And Julian will be talking about the results later on and going over details. After that, I will come back to have an important conversation with you just show you our roadmap for success from now on and how you are going to be -- how we are going to be drawing our scenarios and the main leverages for growth and for our main objective in 2022, which is our margins. This is the structure of today's presentation. We are going to have a Q&A session at the end of our presentation.

In the fourth quarter of 2021, we reached a net revenue of BRL1.2 billion for Havaianas. Compared to the third quarter, it's a record figure for Havaianas. We went over that and we delivered BRL1.1 billion as net revenue. Costs are impacting our EBTIDA margin, so the challenge in the quarter as we had said before, continues to be the increase of the costs.

An increase in cost that's reached 42% in raw material, and just a reminder that this price curve responds to 70% of our total costs. I will talk a little bit more about it in detail later on. We had a net profit growth of nearly 42%, reaching 400%, reaching BRL303 million, and we had acquisition of 49.9% of Rothy's.

Breaking down a little bit into details, Alpargatas total had a growth revenue increase of 7%. Our EBITDA went from -- was BRL169 million. It is equivalent to the current EBITDA. The total EBITDA growth is equivalent of 35%. The EBTIDA margin grew 3 percentage points with this total EBITDA to 16%, and again a net profit of BRL303 million.

Havaianas, which is our focus business together with Rothy's in our future, we manufacture 70 million [ph] pairs of products. We had a decrease of 3% in the volume compared to the third quarter, with an increase of 7% in the net revenue of BRL1.4 billion, and a 10 percentage point in our recurring EBITDA margin. This is what we're going to be explaining later on. This is the 2021 summary.

It is important that we highlight what we are going to be concentrating on from now on. So I won't go into too many details here, but in 2021, we reached 260 million pairs sold. That's a record number in our history with a net revenue of nearly BRL4 billion -- BRL3.9 billion, with a growth in net revenue of 26%. And remember that we had a strong recovery from 2020.

Gross margin of 50% decreased 2% versus 2020, especially with this impact of the cost that we had. The EBITDA was BRL723 million, growing 17% its growth, which is a good news but it's below the growth of the EBITDA with -- below the growth of revenue which is our goal. So this is a roadmap we are going to be showing you of how we are going to manage -- should be doing that. And EBITDA of margin of 19%, 1 percentage point [ph] decrease compared to 2020, but again a healthy margin of 19%.

In Brazil, we had the growth volume of 10%, net revenue growth of 20%. So this is the RGM, one of our main tools for acquiring that and which has an important role. This net revenue growing 20% is an extremely important point in our strategy and we had our EBITDA going down 5%, a mitigating part but not totally the impact of costs of 42% increase of raw material having some effects in the P&L in Brazil.

As for the international Big Bets, it was a year of great turn, so we increased 31 -- we crossed the figure of 31 million pairs and also $220 million in revenue. It was boosted by the Big Bets, which had been recovering from the second half of 2020, as well as for our distributors' results. We had EBITDA turn around which was a very important.

Our distributor -- international distributors are in a recover. They suffered a lot in 2020, with the lockdown restrictions and with the inexistence of tourism. We implemented a very important change as well as the rollout of the flagship store, and changing the business model that's independent, in the past, used to be only dependent on tourism, now it's much more dependent on the domestic markets. This has been showing very important results, both in Asia as always in Latin America.

You see that was an important performance of our distributing markets, 58% of volumes and 57% of net revenue, and EBITDA growing 91%. And bringing the overall results of the brand, [ph] showing that the profile of this resilience and geographical profile and with this increase of representative of the international bets brings a total of the brand to 13% of Volume, 24% of net revenue and 19% of EBITDA.

Now, I'm going to have Julian, and I'll be back after him.

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

Thank you, Roberto. Good morning to you or good afternoon, depending on where you are. Let's focus on the fourth quarter of 2021. I'm going to show you the highlights, especially as Roberto said, this relation between the RGM pricing and costs, and then Roberto will come back with the roadmap.

So here is the volume. Let's get the P&L from top-down. On the left side, we look at the volume and on the right side the revenue. In orange, the volume. First, we have darker orange Brazil and lighter orange International. We had a growth of 2% from 75% to 6%. When I compare Brazil to the fourth quarter in '20 and fourth -- third quarter 2021, I had a decrease. That's part of this is -- our manufacturing capacity. We are making investments to increase our manufacturing capacity. In the International bets, we also a little affected, although it was able to grow 16%.

When I go to the net revenue, when I look not only at the revenue of the mix but also in pricing, we had a stronger growth. Our top line came through the pricing mix, and of course, when the capacity increases, it's going to also boost these figures. So in the first bar, BRL884 million. Again Brazil -- darker blue Brazil, lighter blue International, a growth of 6%. And if you look compared to the last year in 2020, we saw a growth of 6% in Brazil, although the decrease we saw 4% on the left side for volume, which is work of recovery. Although we have lost in volume, we recovered the margin. And in International, there was a growth of 17% aligned with the growth of volume in the International markets.

Next page, going to our P&L. We grow our gross profit on the left side in cash, on the top -- on the right in percentage. So orange Brazil, blue International. So we see the International growth of 7%, and the biggest pressure of this decrease is due to the increase of the petrochemicals pricing increase. It was responsible for this decrease of 11%.

When I look at the right side, taking percentage points, I see that the consolidator of the Company went down 7.3 points being Havaianas the driver and Brazil its biggest driver, as a correlation we saw Brazil is a stronger in the Company. And out of that, pretty much of the biggest responsible is the cost of the raw material. And below here on the right-hand side, you are analyzing correctly here that we have to -- that is going to tackle this later on. But look, the variation of the raw material increase, 42% if I compare the fourth quarter 2020 versus 2021. And of course, this is the raw material pricing, as Roberto explained, it has a very strong representativity on the top line of about 15%. So if you have easy math, I can react to this increase through my mixing -- my pricing mix, but the point is number one versus what we talk to you about this evolution. This evolution continues valid.

And moving onto the next screen, let's look a little bit at this RGM. This is the overview of the year 2021. The RGM is not only pricing. It's not only a mix. It's also volume. So when you look at those two, you see that it has been strong throughout the year, of course, to try to help us out in terms of the costs and the investments in marketing and expenses.

Next slide. Here we talk about the expenses. As you saw in the press release, I'm talking about the recurring expenses here. Obviously, we had a reduction in overall expenses but because of restrictions -- restructuring, excuse me, -- restructuring that we had last year in the recurring expenses. So the message here is, we are under control -- everything is under control. If you compared to the basis of previous months, the increase we point out here is because of our investments due. And on the right side, it is one I would like to emphasize. We start continue to invest in our brand power, which is the solution for us not only to grow but also to address this temporary increase in raw material prices.

On the next slide -- this is an important slide because we look at the recurring EBITDA. This dotted box, especially in the main bar shows RGM. The RGM absorbs a lot of the expenses and the increasing causes, and of course, the costs in the CPV, [ph] and of course, in the investments that we have in marketing. So it is present. There is a catch-up certainly, and it will arrive soon enough.

Looking at our net profit. We see a stronger growth of BRL566 million in profit growth. But as I said on the left side is the recurring, the 127 into 696. [ph] The first EBITDA is the recurring EBITDA, the first blue bar.

I still have no recurring EBITDA facts of last year and I have no recurring effects this year. The first two bars are of less year. We had non-recurring items BRL203 million, which were negative, which I didn't have this year, so this helping to me to build this turnaround. In financial results, you remember inside our policy for restructuring our capital, we preserved our a solid position of the -- financial position of the Company. We borrowed money because of COVID. We had expenses because of that. It was our mattress insurance. So the interests as I had to pay last year, I didn't have this year, so, therefore, the results were better this year.

The exchange rate variation when we registered the investment on Rothy's of 49.4%, we had registered as accounts payable and then the operations discontinued, specifically the sales -- the sale of Mizuno is where we had receivables. So overall message that the profit is coming from recurring EBITDA, but also from there also effects, which we show to you -- always show to you whether they are recurring or not. Obviously, we had positive results and this is the basis of what we announced.

Let's move on to the next page, our net financial position. Where are we in our cash flow, it continuous solid. We are a company of generation of operational flow. On the left side here, BRL461 million, the orange bar. We ended in December the net financial position. We ended in BRL482 million, BRL21 [ph] million-plus. How much of that come from operational flow, BRL794 million. And look at the CapEx of BRL348 million, so look at the change we have been promoting.

If you remember, in the past, we used to spend BRL70 million or BRL100 million a year, and now we are at the level of BRL350 million of investments. This is all something that helps us that will help us in improving the margins in the future in addition to the RGM work. On the left side, the remuneration. It came from our cash flow and also the acquisition of Ioasys and Rothy's that was through our cash flow. And the generation of cash in our discontinued operations of Mizuno, the last blue bar. Looking at our ROCE now, we see 13.0 -- solid 13% growth from one year to the other over this capital employed.

And now, I go back to Roberto to talk about the future roadmap.

Roberto Funari {BIO 17031506 <GO>}

What I'm going to talk about now is the challenge of this delta of 5 percentage points that we are experiencing in relation to the raw material costs increase. The first thing I want to tell you before I show you the next slide is that we're not going to be hostages of this cyclic raw material. This is a very important decision we have made. We are going to respond, react and this is going that I'm going to show to you in two scenarios that we are going to imagine to portray. Because we have a condition in our middle and long-term increase that we have to expand our EBTIDA margins. This conviction has not changed based on the impacts. But we cannot be a hostage of this impact. We don't know how much we are going to have this cyclic effect from. We know it's cyclical, but we don't control the timing of that. So we're going to have a very important action plan that I'm going to detail to you and try to illustrate how this can be unfolded into potential scenarios.

The first point as Julian mentioned we are not going to stop investing. The brand has never been so strong. The brand has a brand power according to the (inaudible) 48 -- sorry, of 7% -- of 3 percentage points, [ph] 7% of growth of the brand power compared to 2020. But to give the dimension of what that means, the other brands A, B, C, D are not our competitors, are the largest brands in Brazil like Skol, Coca-Cola, Omo. [ph]

So if we look here, we came from a difference of 1.7 [ph] which was against the 1.7 bigger than the most important brand in Brazil. So this growth is key and we will continue to invest in the brand power. And these are shown to us a growth in our market share from 50% to 59%. And we feel work in our stronghold, which is the food distribution channel. We grew this in sharing -- volume and sharing value. This is extremely important because the plan that I'm going to present to you from now on only works if your brand is strong. Our brand is not only strong, but it's stronger than it used to be than it was less a year. It has a market share even higher than it had last year.

So this base is extremely important and that's why we are not going to stop our investments and we are going actually to continue investing in capabilities and technology to keep building and strengthening this brand power that we have. It's important that the

Brazilian market is the key in this discussion. I will mention some things about the international markets.

This slide is extremely important to show you what our plan is, I will break down the plan later on, to leverage our capacity to have this turnaround of revenue. First of all, I want to call your attention to the right side -- to the orange bars on the right side. Here you see the net revenue per pair and these -- it's evolution. You're going to see that our net revenue per pair had a growth which was quite expressive in Brazil, and for the first quarter 2022, we already have a pricing implemented of 10%, and we always have addition of mix into this pricing increase.

With that, we will have -- and going back to the main table on the left side, let's go back to the fourth quarter, we had an increasing raw material of 42% in prices of raw material, and we also had an increase of prices '21 versus '20. The increase of price was of 10%, '21 versus '20 per pair. Not price to consumer -- sorry. The net revenue per pair increased 10%, [ph] not pricing to consumers.

The cost increased at 42%, so that represents about 70% of the manufacturing costs. So the costs of the product sold increased 24%, so 42% become 24%. So this delta of minus 5 points was created in the gross margin. This is exactly what we presented in the Investors Day in December. And there we mentioned that we're going to respond to that with our RGM and we also said that it was a timing because costs and price, they have different cycles in running and impacting the final results.

So if we look forward, how we can create digital scenarios? We are calling 2022 of the year of mitigation, so with this increase of net revenue per pair in the orange bars, this is going to give us a lever of 15%, this is what we are assuming. We have two scenarios. In the second scenario, assuming that what I did and what is already being executed of 15%. The CPV continues with a cost pressure, so increasing the raw material overall for 15%.

We see that we started to make this turn into this new scenario. It's not a scenario of the first quarter or the second quarter. It's our hypothesis of a scenario. It's a simulation of a scenario to see how this evolution will take place.

So this shows that the RGM actions that had a critical impact in volume and pricing mix to mitigate this explosion of 42%, it was extremely mitigated, and this comes into the results account. Let's assume one even more exit of costs, and as you can see, we also have levers like our brand power. If the raw material increases 20% in price, 20% over the 42% which already increased, it brings the impacts in the P&L in 15%. In the pricing this scenario, we would have the RGM even more aggressive of 20%, trying to keep -- the main goal here is to this scenario of reverting this mitigation of this 5 percentage points. How can this be operationalized?

In the short term, we're going to address revenue increase. We're going to have in Brazil areat increase in Brazil of pricing mix and protecting our volume. For the International, we continue with this strategic view of growing our volume, price and mix because there is still a lot of room for growth there. But in Brazil, it's going to be much more revenue based on a more normalized volume line.

We want to be hostages again. We are going to have a focus on cost reduction and here we are going to be even more aggressive. We have already presented some initiatives in the Investors Day, such as the one about packaging for cost reductions, but we also have other, and we are adopting measures for the purchase of raw material that gives us this reduction in price. So we are using our brand power and positions in the market that can help us out in relation to that. And this is also -- of course, that it takes a while to take into the manufacturing cycle and impact to the results, and we will continue the SG&A and our OBZ -- SG&A and our OBZ without compromising our investments. So, in the long term, we have the protection of our EBITDA margins.

In the middle and medium and long term, we see a capacity of expansion of the EBTIDA margin because after the second half of the year, we start to see the CapEx investments increasing our capabilities. The demand exists so having a bigger capability, we start to have benefits of efficiency with bigger capacity in the technologies we are introducing. And with the distribution of technology in our factories, we're going to have more innovation. More innovation means some better mix and it's accelerated beyond the core. More capacity and more innovation also comes as improvement for the service levels. And this improvement of service levels will be executed, so we are going to have a mixing center and better distribution of our logistics networks, amplifying this virtual cycle which is the generation of more volume and revenue.

And last but not least, there is an important vector for accelerating this margin per pair as much as the Company grows and we are growing faster because our line of direct to consumer, which means direct to consumer specialized at our own stores, the online, e-commerce, so all of that makes us to have this prospect of medium and long-term goal, the acceleration of growth.

On that, we're you're going to have the total impact of what we are running. On the benefits of the running costs, we are going to have a 2% increase in the margin. And in this cost reduction, so we are aiming to have a low cost and united that with a competitive advantage, you gain operational scale and we go into the cycle, which is our cycle of medium and long-term, which has not changed the expansion of our EBTIDA margin. But I would like to reinforce that this is going to happen alongside the year -- throughout of the year 2022.

All of this that I showed before were scenarios. These scenarios will be more visible starting in the second half of the year. So this is extremely important because we still have to go through several challenges -- face several challenges so that we can reach the second half. But what is important to have a roadmap and to be in control of the variables because we know that we have a strong brand and we know how to lever these brands.

And with that, I'd like to open our Q&A session.

Questions And Answers

A - Mariana do Carmo Espirito Santo

If anyone has got any questions, please you can send your questions in the chat. I received a question from Richard. [ph] Richard is asking about the prices of raw materials in the short term? And what is the situation of demand versus demand of the butadieno, [ph] which is a chemical price that we see in the world?

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

As far as the raw material in the short term, it has stabilized or not, it's hard to state that. We're talking about commodities. As Roberto mentioned the most important thing is our monitoring and how fast we are responding to that. We are going after what we can control. We can't state if this has stabilized it yet, but we are monitoring constantly, tracking it and working to make it go so the impact is less.

The butadiene or butadiene prices is also depends on cyclical changes, but we are not -- we don't see something very different from what's going on in the world because of the COVID. The most important variation of this raw material pricing is what Roberto mentioned, the strength we have of reinforcing our brand power and seeing the results in our P&L.

A - Mariana do Carmo Espirito Santo

Richard also comments -- he asks us comment about the Havaianas USA. He asked about the performance in the year of 2022, whatever we can mention.

A - Roberto Funari {BIO 17031506 <GO>}

Good question. How are you, Richard? Thank you. I would like to reinforce the following in the USA. From the pricing point of view in the third quarter, I explained it that you. The biggest impact is of the mix of channels. Remember that in 2020, we used to sell more online so higher prices. With the opening of the stores and the indirect channel of the wholesalers increasing, there was this adjustment in the mix of channels.

There was a second effect which I also commented with you which was that we discounted more and also go -- went into the off-trade channel. These actions started in the third quarter, so in the fourth quarter, you see this normalization, the decentralization of the -- our mix of channels. As I had explained to you, that was functional in the third quarter. In the fourth quarter, the pricing was recovered. In the first quarter now, it's seasonal -- very low seasonability, so I wouldn't -- we ended a record year in the USA, last year, very important to mention with important results in our operational profits before the dilution of the headquarters. So nowadays, we have a stronger base in the US, higher with a better and well-balanced strategy of channels. The brand continues to be strong and we are advancing in the US.

A - Mariana do Carmo Espirito Santo

Thank you, Roberto. Natalie [ph] sent the next question. Good morning, Natalie. She is asking Roberto. Can you may comment about the strategies about Rothy's, please?

A - Roberto Funari {BIO 17031506 <GO>}

I can't, Mari.

A - Mariana do Carmo Espirito Santo

We can talk about the acquisition. We have already mentioned as a relevant fact. But any questions about the relevant fact, I request you to contact us in the Investors Relation area and we're going to be able to help you about this.

A - Roberto Funari {BIO 17031506 <GO>}

I'm sorry, but we cannot make comments because of the announcements that we made because of the relevant facts. I can replicate what has been said in the third quarter. We acquired 49.9% of the Rothy's brand. It's an innovative brand and a high potential of growth in the USA. We are very excited about it. We already have received the visits of the founders to Brazil last week, and we are working on what had been published in December. Nothing has changed from what we mentioned or what we disclosed in December.

A - Mariana do Carmo Espirito Santo

Thank you, Roberto. Our next question comes from Joseph Giordano with J.P. Morgan. Can we think of any strategy for raw material hedge or hedging? Julian?

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

The answer is yes. We are working together with a few specialized houses. Once again I buy imperative derivative which is booked [ph] at the end of that comes from oil, so it's not a very perfect proxy. We have been working this hedging also with our volume of purchases. When we realize that to make sense, I will anticipate some purchases to increase -- to improve our pricing. We have been carrying out several studies where we still have not yet reached the final equation, but this is something I will be working on for sure throughout the year.

There is a package of questions over the dynamics of Big Bets. I will try to answer this in the Group, okay. Roberto, go ahead.

A - Roberto Funari {BIO 17031506 <GO>}

Guys, about the international markets, we had a very strong year in 2021, proving rights our focus in the Big Bets. We had specifically a growth in China, but the growth in the flip-flops did not grew. We gained market share in China. It's that we are at the very beginning and we will continue to invest. We are expanding our structures. We are already looking at our presence offline in China, and we are learning a lot and advancing a lot with those learnings.

As I said, China is a slow burn. It's low cook, right? It's a low cooktop burn. So it is going according to our planning and we are not going to change or to reduce our perspective about the -- what we have mentioned in our Investors Day, a strategic -- a strategy comment.

As far as the US, I have already commented. We had a large improvement in our share of the strategy [ph] with this emphasis and focus on D2C. We had an important recovery in the area of wholesaling and we have a very important role here of growing in Europe, and this year of 2021 in Europe, also suffered with the pandemic in 2020. You already see a very important recovery reaching superior levels -- higher levels compared to the pre-pandemic levels and we reached the highest level of strong currency of the history of our European operations. So we have the strong -- the Big Bets, we have a strong brand and strong investment in there.

What is making us happy? Is that -- speaking from a structuring point of view, the investing markets are responding to our strategy. We changed the profile of the distributors. We implemented and had the rollout together with them on our global flagship store. We changed the focus of only focusing on international in tourism to also focus in the domestic consumers. We expanded our presence in some other countries, and together, we also had a very important work of bringing RGM into this equation.

So what were the results? You already see Latin America growing and giving profits. And result in profit, we have already created this mechanism of being able to allow even more finance and investments in the international bets. We changed our distributors and we are starting right now an important work in Mexico. This is from the standpoint of view of the distributors' markets.

We also advanced a lot in Asia and China. Our key of success here is Indonesia where we used to sell pre-pandemic 92% in Bali -- the City of Bali. Only tourists sales. We grew our volumes in the nation above 15% versus the pre-pandemic levels, and now 60% is domestic mark and 40% is tourism. So we opened up our presence in the main shopping malls in Indonesia and we expanded our presence in online. Nowadays, over 25% is online in the Indonesian market and this way, we have a playbook that we are replicating in other countries like in Philippines which have a very similar profile to Indonesia. So this model has been working tremendously well. Our strength is that we work directly in 21 countries, many of them are in the Big Bets, so it's fundamental that we invest in them. But we are present in 130 countries and we cannot forget that. To give you an idea that digital represents 70% of the shoewear -- footwear market in the entire world -- 74% of the entire world footwear market. I have no doubt that Nike right now has 12 directed countries, have energy and capacity of in the future bringing more countries of this base of 130 countries into our Big Bets. This is our long-term vision. So for this purpose, we have to work on those playbooks and have this case successes.

2021 was a very important year. We advanced it a lot. Another important thing is that we suffered with the distributor markets. They suffered a lot because of the restrictions with COVID, for one reason, very low level of vaccination. This has been recovering and we see an extremely positive sell-out in the end of last year, and this is very important for us in those markets. Of course, this is a high level of vaccination or low level of vaccination also affects Europe, US or China. But we see this should dissipating right now and therefore, we can see a clearer perspective of this growth strategy starting to bear fruit.

A - Mariana do Carmo Espirito Santo

Thank you very much, Roberto. Our next question is by Joseph Giordano. From the point of view of elasticity, how do you see the volumes in 2022 considering the increase of point?

A - Roberto Funari {BIO 17031506 <GO>}

The brand doesn't have elasticity. This has not changed. Elasticity in fact you don't change in one year or two years or three years. It all happens over decades of work. So this has not changed.

The most important thing is how we're going to deploy this strategy. The most important for Brazil is the revenue per pair growth, revenue growth, volume growth. So we're going to see variations in Brazil that might have small negative variations. But nowadays, we are absolutely calm about the elasticity. We aim to have this balance. We have an excellent area that uses artificial intelligence. So as we feel that we have a market share pressure on economy side standards that we can define, we can respond, react and have the run capacity to rebalance. But the most emphasis you're going to see in Brazil is the growth of our revenue, especially because of our improvement of channels you were going to see in Brazil this year.

A - Mariana do Carmo Espirito Santo

Thank you, Roberto.

I would like to reinforce, guys. We have already mentioned that we released the relevant fact yesterday. And if you have any questions, you can contact our Investors Relation area with me or Miura Suelen or Fernanda. And we are available to answer any questions you might have. But either way, these informations are all in the relevant fact so that was -- were released yesterday, so we cannot comment anything related to Rothy's and its acquisition. I think this is the last question we received right now.

Julian has already mentioned a little bit. I think it could be a follow-up, Julian, to talk a lot about -- a little bit about the butadiene price and the margin, how this impacts our inventory levels? Please, Julian.

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

This is what Roberto explained it previously. Obviously, we have a lead time of purchase. This comes into our in-house inventory levels and RGM is what is going to track this offset. This is what Roberto mentioned about this 5 percentage points example. There is not much more science behind it. I know you're -- this is along the lines we mention. We told you the increase that happened. You saw the three quarters. Roberto commented that this represents of a total about 70% of our costs -- manufacturing costs.

So Roberto also commented that this -- how the raw material -- the way the raw material prices are going to behave, we don't have control over that. What we can do is to absorb to track and to respond to that. What we are working is that on the second semesters, we are going to have two more quarters -- two more semesters ahead of us, we are paying attention to our case. When we look at the RGM, it's an additional price. It's not only an equation of the butadiene price.

We have obviously an entire intelligence model behind that of tracking future prices. Future prices have their variables, but the most important thing is this work of the stronger brand that we have, the brand power and this possibility of a recovery that we have. If you look -- if you go inside the butadiene prices, they used to be much higher than that. So the impact we had that was 40% is already the result of a lot of work in terms of formulation, in terms of the manufacturing itself, in terms of productivity levels. And the additional is this RGM work that can help me out with the brand power. This is the way of attracting as it was also asked by Giordano, additional protection tools such our cash flow and tools that are existing.

We are working this recovery. The message of -- Roberto's messages, we have not changed a bit from what we told you before. We didn't. We have the brands power and we have to have intelligence for understanding the moments our country is going on right now. And at the end of the day, the final message for the international market is also great growth.

Murilo [ph] is asking. He wants to know what is the last price of the butadiene? We cannot give you this specific answer, Murilo. You know that, we cannot release these. But we can see the last -- we can still see pressure on the pricing of butadiene. We are not going to see in the short term. I would like to tell you that, yes, I can see light in the horizon but not -- it's not true. What we are seeing in the butadiene is that we are using opportunities to buy in moments of low price. Of course, there is volatility right now, so we're trying to have a mitigation of the impact. But the pricing is still high and is still has pressure on us.

Secondly, as the automotive sector was holding back because of this cheap market, we want to understand what is this demand and offer right now. And another very important thing is that several plants that were had production, they resumed production, so I have a bigger offer right now, so we are taking the opportunity in those low points of price. So telling the price or trying to guess the price of the butadiene is not going to change at the center that we saw and mentioned recently.

I want to be a hostage of butadiene is the formula. The most important thing is not the butadiene's price, is the brand power that we mentioned and also the purchase timing. We have an understanding of all of that. The stronger message here is the power -- the brand power. We are not going to be hostages of the pricing of butadiene. You saw the prices. Remember in 2021, the volume and mix pricing we made more than cost and cost went up 42%. So we have extreme brand power but the commodity either control Julian doesn't control. So we might have like strategic actions to mitigate the price, but the medium and long-term price continues the same, so we are very confident about the brand power.

A - Mariana do Carmo Espirito Santo

Murilo answer that -- he understood that he is 100% agrees with your point.

We have one last question today that comes from Bob Ford. [ph] How should we understand the rhythm of your improvement of your segmentation and boost your pricing in current environment?

A - Roberto Funari {BIO 17031506 <GO>}

Great. Excellent question, Bob. I'm happy to have you here again. We have this rhythm of innovation, which is quite strong right now, especially in the international markets collage several things which are very cool. I cannot announce them right now. Of course, I cannot give you this spoiler. But I would say that in 2022, we have a marketing program, which is stronger than 2021.

Our beyond the core is growing at rates -- extremely expressive rates. Our slides and sandals and sneakers, we have a growth of -- let me just find a figure here, of 53% in our revenue. So we're really expanding those categories. This expansion of course in Brazil and outside Brazil, we still believe we're going to accelerate even more than beyond the core outside Brazil. There is a lot of demand. So this increases our average pricing, and our core is extremely healthy right now and the pipeline will continue to reach or feed these models. So we have a model which is extremely strong. This is going to continue and we are going to have -- I'm glad to be very pleased to tell you about the (inaudible) we're going to have and the news in the first quarter of 2022.

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

I would like to add something here. Bob, the investments we told you about CapEx are exactly to helping this capacity of growth of this innovation that to have a larger margin. So everything is extremely connected and we are accelerating. We are investing already, as Roberto mentioned, and we can already see a good part of this and we expect the biggest part of this in the second half. So there is a combination of investments in the CapEx and also investments which are all connected.

A - Mariana do Carmo Espirito Santo

I would like to thank you all for your questions. In case you have any other questions, you know, you can send and forward them to the Investors Relations area. And we'd like Roberto to have the final message.

A - Roberto Funari {BIO 17031506 <GO>}

Guys, I hope you have been more specific today. I tried to talk a little bit less about the entire year, but let me go back to this middle and long-term hypothesis end strategies. This is what we work for. We are a company of an intangible brand. Our brands today are extremely strong with superior products, with the capabilities of scaling up our geographies, our volumes and our sales. We are working to have the best talents. We have the best talents. We are extremely attractive company for new talents and we believe that we reinforced that with the strength of Rothy's to also attractive talent. We have the strong foundations. It's a company that has been -- it's a brand that has been through crisis and that's actually crossed it very well this period of turmoil, including this 2020 crisis where we had a recovery that never seen before in the sugar industry. Our goal is high growth of margin and we want to be hostages of the commodities increase and you're going to see that expansion of margin will be in our future.