Y 2021 Earnings Call

Company Participants

- Gabriel Silva Lobo Leite, Chief Financial and Investor Relations Officer
- Roberto Luiz Jatahy Goncalves, Chief Executive Officer

Presentation

Gabriel Silva Lobo Leite {BIO 22198565 <GO>}

Good afternoon, everyone and welcome to the Earnings Call for the Fourth Quarter, the closing of the year of 2021 Grupo SOMA. This presentation and the results are already available on our website in the Company's IR department. I want to remind you that this event is being recorded and will be available on our website.

Having said this, I would like to show you quickly the opening Slide, where we talk about the agenda today. We're going to start off with our CEO, Roberto Jatahy conducting some of the main highlights in the quarter for the closing of 2021. Then after, I'll be presenting in three different phases, the financial results of the Group, segregating Grupo SOMA ex-Hering individually and the consolidated results after the merger of the Company. Then finally, we'll get into Q&A.

I'll pass over to Roberto so that we can begin the presentation.

Roberto Luiz Jatahy Goncalves {BIO 22408649 <GO>}

Thank you, Gabriel. Thank you everyone for watching us today. Next Slide please. I want to start off the presentation talking about the earnings in the fourth quarter of 2021 consolidated ex-Hering as well as the Group as a whole. It was a very challenging year and very different to perform the budget, where you have a very little perspective on what could happen. We had a vision that it would be about 20%, 25% and we were positively surprised with the results demonstrating a bit of the core strength of our brand as well as the good strategy taken on by the Company during the pandemic period, with a very aggressive approach to capture customers.

We are closing the fourth quarter of 2021 with 42% growth compared to the same period in 2020, 75% compared to the fourth quarter of 2019. And when we look at the full year, 67% compared to 2020 and 58% compared to 2019. Grupo SOMA reached results that are record results overcoming all of our expectations imposed by the pandemic.

And moving on to the next Slide. Here we're going to talk about the acquisition with Hering and a bit of this desire we've been working on, the desire for many creative directors in the Company with the perception of this brand, it's a very traditional brand, very resilient in the market. And Hering also has been -- has the objective of a strategic composition in our brand portfolio, really leading our addressable market. And this brings in many optionality that the national market really values, new franchisee models, main sourcing and also different joined it's -- prep [ph]. The thesis for the Hering acquisition is really related to an improvement in operational efficiency, and also generation of desirability in the brand, delivering a better experience for consumers.

Moving on to the next Slide, and we seem to be -- now we're going to get into talking about the integration. Our integration always starts with people and culture. We know how quite frequently when you have problem in the relationship process, you have a very big delay in the integration of the other areas. And so we have a history that's quite efficient in this and this is a collective effort. It's a very skilled team and -- and these areas were quickly identified and this integration took place in our area in a very smooth manner. We've already integrated the financial area, digital technology, commercial planning and operations area, although it's not fully integrated because it relies on the incorporation that's going to be taking place in the beginning of April. It's already been a collective effort with the full team at Hering.

So moving on to the next Slide. We're going to talk about operational excellence and here, this is now mapped our ability with the opportunities we saw ever since September when we performed the acquisition of Hering and the supply chain issue is systemic issue, it's a structural issue and the biggest challenge with Hering today is to really service the demand. SOMA has a rupture [ph] and wholesale orders and its about 10% and this is very complex. While Hering has a history of 25% to 27% rupture, so 17 percentage points in the wholesale channels. And the franchisee channels that can generate a lot more incremental revenue and results in the Company.

Another important point is that this is a decision-making process that was -- we've been -- when we talk about the last quarter, we had structurally this issue of non-service demand, we made the decision to increase our share. We had a margin dimension that the contribution margin actually increases when we deliver this revenue and we started doing something that we really believe in with -- and this is how we're going to be handling this up ahead with the franchisees. When we work on this play, we really preserve our franchisees, we preserve our wholesalers. Now, we understand when we compare bit of our history of Grupo SOMA, that a better delivery can retro feed a better purchase and sequence. And so you have this curve that generates a -- well, probably we'll have a good problem to solve next year and we have a lot stronger sales.

So we're still going to have some top line growth. But we might not be able to restructure the brand if we continue to grow at this pace and within this period also, we messed with a cluster of the wholesalers and we were performing some tests. We've got a group of franchisees that are closer to the Company. We messed with their procurement levels through some algorithm analysis that have been operating in SOMA and we were able to have some important increment upon the other franchisees of about 17 percentage points above this in full price sales, which demonstrates the potential we have when we start analyzing this space and deploying all of our operational intelligence.

Then another important point is, we're already starting to have an in-depth analysis of the assortment and a long tail. We have a really big long tail which impacts the same store at the end, the volume of products, financial health of the franchisees. So there's a analysis process occurring to dimension this product pyramid at Hering, as well as the depth of the assortments.

And another important point is, fundamental to solve this issue of this supply is also that Hering currently does not continue the ERP that it operates with, it does prioritize each SKU, so they handle different teams as if they were the same. And what's the consequence of this? Well, the blocks that come in the store weekly, they are pretty much uncoordinated because the cycles are completely different. This is something we've been able to solve at Grupo SOMA through MRB and now it's like the first-in first-out. So right now, currently one products we don't need our upfront and the ones we don't need right first before the ones we really need.

So these are some of the points here about how much more we can do in the operational efficiency aspects to really capture this, so -- and we're going to be going deeper in this in this level of detail. And this is another important level point of information as well. The Grupo SOMA Directors are accumulating the functions and operational and areas and in technology as well, as well as commercial planning. So for the past six months, we are going to be directly stocking up these areas within Hering and we can really reach an efficiency level at Grupo SOMA and we can really start generating an operation that has more desirability.

So here is a bit of the investment aspects and the creative point of the brand. There is no point in having all this movement if we don't have really good foundations set up, because if not anything, nothing will work and we open up some boxes in the creative areas. We have a procurement Director for female apparel, for male apparel and some professionals in the market that really stand out. A Director that will work on kids and teens, as well as separating the brand area and we're focusing on some different areas with branding marketing, content production and BM, which is so challenging in a moment. And with Hering, our model at least for the first moment is going to be more participative than what we have historically seen in the other brands in Grupo SOMA. We're going to be more involved in the operation and digits characteristics at Hering. And we want to quickly bring it to the same levels. Still these executives are going to be monitored by myself and with Thiago as well, so that we can quickly capture the expected results.

Moving on to the next Slide. Here we are talking about the mission and opportunity that FARM gives us with reconnecting Hering with the younger audience. You can see we had a small collab with Pablo and Hering Kids and this didn't even last hours in the showroom. So when it comes to desirability in the brand if it's well structured, we can connect this younger audience in the digital channels and really present a new format for Hering which is more contemporary. And additionally, FARM also has it's collabs that can help Hering as well unleash some markets that Hering is not so present in, such as in the Northeast, North and Midwest, the more -- the hotter regions of Brazil, where Hering is more difficult to reach. And so we are working on in-depth effort for the assortment. And we also want to have FARM really perform excellent sales and anchoring Hering as well as the brand, which should lead to results that are quite interesting.

Next Slide. Well, as we end this chapter here about Hering, in fourth quarter of 2021 Hering reached its highest revenue in the history of its quarters, BRL647.6 million is the revenue that grew 29% compared to the same period in 2019 and a same-store sales of 19% compared to the fourth quarter of 2020.

Next Slide. Now we're going to talk about FARM Global. FARM Global reached a gross revenue of BRL271.7 million in 2021 and a growth of our 185% compared to 2020. Here, we have an issue that maybe more difficult to understand, because the fourth quarter is a little worse than the third quarter, but this is because of the cycles in the American market. But when you compare the year of 2020 growth 185%, so there is an interesting point. We always said FARM Global was really pulled by the American market. We never really made much of an effort to get there, but we reached a level of revenue and continued to grow at triple digits and this is now a moment for us to take on the leadership of this operation, really searching for ways to be placed in the American market, add the strong brand. And not only something momentarily that will come in even a few years.

So for us to really make these decisions, we hired a global consulting firm to help us with our strategy and really searching for a way to analyze some success cases internationally and this has been -- this work is already taking place. And especially when we start noticing that we cannot let the department stores do or decide the volumes and the places where we're going to sell and how we're going to conduct this business. I think another point is that at this point, we -- when we open, we can be a lot more aggressive. So there is some component in this internationalization and some success cases that in some way don't address the desires of the department stores, but they'll make FARM Global really be a brand that is sustainable in the long run.

So moving on to -- we have about BRL900 million and the gross revenue is growing 46% compared to 2020, where in 2020 we already had a pace growing more than in 2019 has been growing exponentially. And we still have about 80 stores only with FARM and we have a pipeline for store openings of another 50 POS's in the next year. And we also have a restrained demand in the wholesale channel as well. So we work with the wholesale channel with kind of a scarcity perspective and this is very important to have the scarcity approach. So we should now have some growth rates, where we can not stop, so that in the next financial we can continue to grow as well. So it's an operation that grows through digital, there's still a lot of opportunities in physical and still a lot of opportunities with the wholesale channels.

And next Slide please. Here we're going to talk about NV. We're going to talk about the importance of this strategy in our portfolio. And we know that for a competitive differential that NV has, because it's a native digital brand and Natalia is not only an influencer, she started off in the world of fashion and then she became a influencer and set up this fashion brand. So this is extremely important success anchor for the operation when it comes to growth and revenue. It's an operation that has a margin that's really high considering that it's digital presence is happening through Nati and it's an operation that also has sales per square meter that is huge. So we have opportunities for growth that are huge as well.

And this year, it's important to explain and last quarter NV results were lower than the third quarter because we spent the entire year anticipating production. And within this period, we tried to reestablish our inventory during the fourth quarter. We were able to replace it partially, but not sufficiently to be able to deliver the quarter results that we have the potential to actually reach.

Now moving on to the next Slide, here we're talking about Animale and the brand revitalization. This is something that's going to happen with many brands in the Grupo SOMA, 30 years, 35 years, they have to revisit their structures and in some way update there and this is going to be happening ever since 2019. It was interrupted in 2020 and now we're resuming it now in 2021 big and we have a professional that joined us to lead this process and the operation is going in the fourth quarter of 2021 if compared to 2020. Same-stores sales were also quite robust, 30% in the quarter as well. And an active customer base growing 26% compared to the same period in 2020. This active customer base is something we always talk about, which is kind of the guidance of what's going to happen to the brand in the next months.

Next Slide. Here we're talking about Foxton. Foxton is a brand that is within a market now that is not really service. We have very few operations in this direction, which gives us a huge opportunity for growth at Foxton. Of course its a new brand, we don't have the size or the courage may be that we could have, to give us more aggressive approach with the store openings. But we've been growing a lot and in March, April, the second wave of COVID we cancelled some initiatives of new stores because we were afraid with the lack of predictability of what would happen this year. But when we go into more mature brands, we are more comfortable, but Foxton is a brand that's coming into new cities and capital cities and if we had a second wave of COVID that was more difficult, that could lead to a reverse on the results of the brand.

But even so, without opening up half of the stores we had planned, the operation is still delivering in the fourth quarter of 2021 101% compared to the same period in 2020, 62% same-store sales and this is one of the best indicators we have, because growing 100% opening up a bunch of stores is easy, but there is a certain point we can't open up more stores. So same-store sales are super important for us because it really measures the health of the brand and the capacity that the brand has to expand and the gross revenue in 2021 grew 102% compared to 2020. Next Slide.

Now, I'll pass on the word once again to Gabriel and he is going to go through the results at Grupo SOMA.

Gabriel Silva Lobo Leite {BIO 22198565 <GO>}

Well thank you, Roberto. As we get into more details here on the financial results of the Company, we're going to start off talking about our performance in our portfolio excluding Hering first and important it is to highlight here once again, we had a quite strong growth and delivery of record results in the Company. And this represented a growth of 42% upon the revenue in the fourth quarter in 2020, and especially the main indicator here is growing 75% compared to the fourth quarter of 2019 in a period without the pandemic.

So we ended the year with a gross revenue of BRL2.4 billion, a significant growth of 67% versus 2020, and 58% versus 2019, which demonstrates as Roberto mentioned, clearly the strength of our portfolio and its gain in market shares and that we've been delivering consistently over the past quarters. And so, an important highlight is that all the brands in the Group with no exception have delivered double-digit growth, which reinforces our thesis for a consistent growth in the long run.

As we move on to the next Slide. The same-store sales was one important highlight of the fourth quarter, reaching 36.8% compared to the first quarter of 2019, 23.2% versus the same period in last year. And the strong same-store sales growth is coming even upon a base that was already higher in the past. And this really highlights our maintenance of the desirability in our brands in physical and digital. And so same-store sales is really levered by the growth of the active customer base, which really consider the reactivation of customers which was accelerated from the second semester of 2021. Our base reached 1.4 million active customers, which represents a growth upon the base of 2019 at 37%.

Moving on to the next Slide. We ended the quarter once again with an EBITDA that was the record level of BRL116.7 million and it represents an 88% growth compared to the fourth quarter of 2019, and 72% compared to the fourth quarter of 2020. The EBITDA margin was 17.7% and 80 basis points above the fourth quarter of 2019, which was really leveraged by a bigger operational leverage considering the high level of growth in same-store sales, as well as in wholesale. It's important to mention that the gross margin compared to the first quarter of 2019 had an impact in the channel mix, reaching greater sale in the wholesale, which goes from 15% of the total revenue in 2019 and reached almost 19% in this quarter.

And when it comes to expenses, that naturally affects the EBITDA. It's important to mention that we had an important effect and this will be solved by 2022 onwards in the next year, which is related to the wholesale commissions line, which was one of the main lines that really impacted our results in this quarter, basically due to the strong growth that FARM Global has in delivering in these channels. And we had a existing contract at the end of 2021, those contracts finished and we reestablished a new commercial basis reducing the contracts by 50% when it comes to the rates. So this tends to be an important gain, considering the potential of the wholesale operation at FARM Global from January 2022 onwards.

Another important point is related to our P&L, our profit sharing program where we decided to adjust our EBITDA in this quarter, because in 2020 we did not have the payment of the bonus in the Company and consequently the provision also do not take place, which happened even in a year that was naturally spectacular in 2020. Amidst all of the challenges faced, we decided to prioritize the Company's cash position in an adverse moment. And then considering a scenario where in 2021, once again we are delivering results with strong growth. And we had a partial effect that impacts the total results in the fourth quarter. We were able to concentrate in the fourth quarter because of a temporary issue where we had to wait for the closing of the year to understand where the Company's results were headed. And that's why this adjustment took place.

And additionally, what I think is important to mention is that, due to our high levels of growth and the consecutive acquisitions we've been performing, from 2022 onwards, we would have a priority agenda in the Company with an in-house perspective in regards to the SG&A, so that we can really capture scale gains and expand the operational leverage in the Company. We've been growing at high rates and we still see a big potential to capture value within the SG&A up ahead. When we look at the graph on the right side graph -- bars, we ended the year with an EBITDA of BRL343.2 million, a growth of 69% year-over-year versus 2019. The EBITDA margin in 2021 was 16.6%, growing up the same 80 basis points we delivered in the quarter versus 2019.

The gross profits in the quarter, moving onto the next Slide, reached BRL74.2 million, with a growth of 92% compared to the fourth quarter of 2019, and 86% versus the fourth quarter of 2020. We ended the year with the highest profits in our history, reaching BRL226 million and a significant growth, more than doubling our operation and reaching the net margin of 10.9%, with gains of 2.5 percentage points higher than the period before the pandemic in 2019. With this details, I think it's important to mention a bit of the future in a moment.

I wanted to mention a bit of our performance expected for the future. And while we consider the macro conditions that are still unfavorable when it comes to the global supply chain, we see a big opportunity to capture share throughout the year of 2022 and the next years. Now we're super optimistic for what's coming ahead and so this comes through wholesale where we delivered record sales in the showroom in the winter and top winter collections. In winter, we grew 42% compared to 2021 and in the top winter period we reached the 60% growth compared to the same period in the previous year.

This is quite impressive because when we go back in time, we reflect on the uncertainties in the past about the actual role that the wholesale channel would take on in the market, considering the growth and the potential that digital had been gaining. What we see today contrary to what I would imagine, is that wholesale will be our main driver for growth in next years, really due to a combination of some important factors.

First, we have brands that have higher desirability and the high demand for scarcity. FARM for example, which could be delivering and selling more potentially in FARM, but we kind of hold these sales to give a little bit of future desirability and so we also have a market that's highly plagiarised and without any capacity and this is fundamental, especially because of the anticipation and also due to the necessary volume, when you consider you have a shorter margin and in the macro environment as we are currently existing with sourcing restrictions which really harm some of these brands and different than in the physical channels where they can navigate, we see that there is a competitive differential in our brand, as it is quite significant. And in physical and digital, the brands also face a bit of competition from other small brands that operate on Instagram and WhatsApp and that in wholesale, due to the complexity of this operation, the smaller brands that are still just starting can't really operate with this kind of ease. These factors have been reached a softer competition over time and this has been accelerating our market share gains and our share of wallet in the wholesale.

So as you operate in a very different market with a number (inaudible) on the bottom of the Slide, but in the same kind of pace as the other brands in the Grupo SOMA, FARM Global has also been accelerating a lot in wholesale. The FARM sales are very strong with some of the spring and High Summer collection with sales that are more than doubling versus previous collections.

Finally, as we move on to the next Slide, it's important to mention the performance in the month of January and February in 2022, where we were able to keep a very strong pace. And we were able to keep this in the first months of 2022, reaching total growth in January of 54% compared to January last year, and 63% compared to the same period or month last year. We know it's not going to be an easy year, but we continue to be very optimistic in this process and in our planning for the year.

So as you move on to the next channel and talk about Hering, specifically as Roberto mentioned, we have a lot of debt and we had one of the best quarters in our history at the growth of 29% compared to the same period in 2020 and 2019. This performance was only possible due to a combination of a significant improvement in the levels of service and deliveries and also better distribution intelligence which guaranteed in a very short period of time, and I want to remind you that the closing of the operation only happened in September, where we able to capture a lot of value just because we delivered together with the Hering team that performed the execution, everything we had already kind of promised and delivering what you promised is the base phase, so that we can accelerate growth at Hering and really capture quick wins. In the short term, revenues have been reduced and we're guaranteeing a sell-out that's quite well supplied in the end of the year.

Moving onto the next Slide. The same-store sales in the sellout including the franchisees were once again highlight, delivering double-digit growth that's quite high in the last six months, not only in the quarter but in the last six months, overcoming 18% in 2020 and 2019. These results demonstrate the value that this delivery has over time, good delivery and this is something that we really prioritize in our agenda with the Hering team. As we have mentioned, from September onwards, we expanded the allocation and supply of finished products to guarantee better leveling in the capacity and better prioritization in the supply chain. This is a fundamental initiative to place Hering in this virtual cycle and its supply chain with partners, and here we're talking about the franchisees and the wholesalers, even if in some way this kind of a temporarily penalizes the margin. So it's fundamental to guarantee the health of this chain and the inventory, which is the most important.

And for 2022, our focus is going to continue with some in-depth work between the different operational areas at Hering and some of which will deliver results that are quite robust through this reduction and in ruptures. Same-store sales were kept quite strongly in the first months of 2022 as an important sign of what we could expect up ahead. We've overcome 20% growth in same-store sales in January and we reached the impressive milestone 38% in February.

Moving on to the next Slide. In the same way as the other brands, as the Group, where we bring in the showroom sales, sales also were accelerated and kept a very strong pace.

The commercial appetite of the franchises and the wholesalers is really high, without any kind of effect when it comes to the transfer of inflationary costs that we faced overall in the national retail scenario. The showroom sales which really went above our expectations with strong growth versus 2021. For autumn and fall, we delivered 25% growth. And in winter 42%.

Finally, quickly about these results, consolidated for the Company with Hering, from the fourth quarter we ended the year with an adjusted EBITDA of BRL430 million, more than doubling our EBITDA in 2019, and the net income in the period of BRL300 million with a final net margin of 10.7%.

I'm going to end here with this presentation of our financial results. And I think now we're open up to Q&A. Thank you very much.

Questions And Answers

Operator

Let's move on to the Q&A now. And I'll send you the questions and read them as they come. First of all, I want to thank, Bob. The first question is from Bob Ford and he is asking about, if we can explain a bit of the decisions on the supply chain that we made about Hering in the quarter and also some of the long-term plans we have for the product and brand and how we've been performing better alignment in the interests within the channel?

A - Roberto Luiz Jatahy Goncalves {BIO 22408649 <GO>}

Thank you, Bob. I think first of all, the main mission Hering has is to deliver what it solved, Hering has a structural profile with a lot of rupture in the wholesale chain and there's a lot of money being left on the table. And also, when we talk about the fourth quarter, you are asking me, what was the decision making process to give up a bit on the percentage margins and having nominal incremental margin when we bring in the finished products, which is basically just a good vision and perception that we really want to build with the wholesalers and the franchisees, our partnership relationships.

So this point of the gross margins within Hering and this percentage is really a dogma within Hering, you could not do anything in this -- in the sense before, now we've been (inaudible) raising some issues that were established in some way at Hering and that may be now will make much sense. And then it's really clear when we perform this movement, we have the same-store sales that the franchisees that are really high and this probably happen. And with this, we can really see the results of that. So the revenue curve that's more in line with the needs of the hotels and also of course potentially a full price sale when they're going to buy this year volume of products that they sold and who is delivering tends to have better performance than a repurchase in the next period that's even better.

Then you get into this virtuous cycle, which is what we really worked on in Grupo SOMA through this established confidence among parties. When you ask me about some of the rules and how we address possible channel conflict, I think we're talking about the omnichannel approach that we plan to start off with in Hering. And what we're doing and we're going to get deeper in this as well in the Investor Day. We were talking about this revenue share just when we discovered and thought of another methodology which is foreseeing centralized inventories that's not distributed initially with the franchisee. And so then after considering some commercial rule, everyone can really access these inventories. These rules are being designed and tested with the franchisees and we also provide more details during the Investor Day period.

Operator

Great. So, Bob also had another question here and he asked us to talk about this a bit. I think you already addressed a part of the question on the competition of the supply of the channel and the wholesale and who we're robbing share from and how we're improving the integration and alignment of the interest in the long term.

A - Roberto Luiz Jatahy Goncalves {BIO 22408649 <GO>}

Well, I think this alignment of interest is going through a bit of what I mentioned before. The issue is really the point of the conflicts in the channel. We see in the wholesale channel that there is a lot more conflicts to set up a showroom when you have a fragile brand and it's quite expensive, you have to bear and anticipate a lot of things with brands that don't have operational efficiency and speed in the -- in the chain, so normally this is a big bet. And these operations don't have the cash that they need to do this.

So the market share gains that are quite obvious within the wholesale channel and within retail this exists as well, but not with the same strength that we see in wholesalers. And as you've seen, we have small components there, small brands that operate with digital platforms like Instagram and WhatsApp that take on or occupy some space and grab a bit of market share. But the level of agility and the operations that do not go through pandemic period very well, with very significantly see market share gains in retail as well.

Operator

And the next question is -- it's from Joseph Giordano from JP Morgan. And how we've seen the sales dynamic for the big stores in this Hering forma with the mega stores and how the rollout of this initiative can really change the Company trooper up ahead?

A - Roberto Luiz Jatahy Goncalves {BIO 22408649 <GO>}

Thank you, Joseph. And well what we've seen here basically is that the mega stores, they have the missioners as we could say, presenting a new Hering and in the Investor Day we're going to go through this process in very detail. So we have the objective of rebuilding this new image that Hering has in some of these cities and this will kind of reverberate in some of the cities that are smaller as well and in periods also we start off the mega stores, it's not a shift, a radical change in the business model for Hering. What we do is we plan to continue working with the franchisees and with the wholesalers. So we really want to protect in the main capital cities the image and purchase experience that Hering has.

The economics in these stores are extremely positive because they have this model with costs that are basically doubling in size and we have an increment in the cost about 20%, 25%. And the semi arrangements we also have with subsidies, and normally you have a growth in revenue that's about 50% to 60%. So its important to say that Hering's own stores didn't really have a physical model that was correct. So there is a really heavy tax flows, but within the SOMA Group, they are probably going to be a lot more profitable because of our physical model.

Operator

And next question from Danny at XP. Thank you Roberto and Gabriel for this opportunity. My question, first about FARM Global. We -- you talked about entering the market with accessories as a second move for the beach wear and children's wear and also entering the European market. I want to see what you're thinking about the brand when it comes to revenue and how the profitability of the operation has grown.

A - Roberto Luiz Jatahy Goncalves {BIO 22408649 <GO>}

Well, thank you, Danniela. Here we have many different demands, especially with department stores and an increase in assortment as well. As you mentioned, the assortment for FARM, it's in some way, it's really in a specific niche for certain use situations. And we should probably start off with more of a neutral process, with a bit of a blend with this issue really making FARM become more adaptable and not losing its DNA, but of course adjusting to the international market. There's a demand for footwear as well and this is something that all of the specific department stores have requested.

There's also an order, a request in regards to the print for FARM and this is also being addressed and there's also a request for children's wear as well. So what we need to do is, we have to be careful here, to do things carefully and what we're doing in (inaudible) is the accessories and then after we could be entering the beach wear and increase the assortment we have, bringing in more basic easier use and out of the harder period in the American market. And finally we should come in with Pablo with adherence that's very similar to FARM and that's when you have a question which is, what's the potential, and I think in our minds that we understand its potential.

I think it's quite difficult or complicated to provide guidance on this and in the Investor Day, we're going to talk about the main levers that we're going to be tightening or working on, to be able to develop FARM International. And it's important to mention -- and we really start conducting this growth and leading this growth and not letting it happen on its own organically. But at the end of the day, it's really difficult that I mention numbers, we are bringing these cases in some operations that had about $30 million and others that went over $200 million, $300 million operations. So it really depends on our capacity to adapt the product, without losing our essence and our differentials. But in the same way as we have to believe, it is a new business and it would be a lot easier maybe to have a BP for five years. But here, we are going to invest some -- we're going to present some of the main levers for growth. And then each one can in some way model this potentially until where FARM can reach.

Operator

So I think finally, the last question is also from Danni, about Hering and we brought in some different initiatives and opportunities have been mapped out and she wants to understand which ones we should highlight as bringing in more opportunities in the short term and which ones should be more complex, right.

A - Roberto Luiz Jatahy Goncalves {BIO 22408649 <GO>}

And well when it comes to these initiatives is operational efficiency. I think the most complex is really delivering what we sold and billing what we sold. So to do this, we will need to expand this impact as well, as we've been talking about this, while we consider this new job positions Hering grew as well. And we have some bold plans with Hering. So when they perform the first delivery, they're going to grow as well and we're going to be really seeing a process like this and we hope that we'll be normalizing the international sourcing for Brazilian retail to kind of reverse part of the sourcing in international market, decompressing a bit of what we currently experience. And so the big initiative is to be able to bill what we sold and we see an increase in job positions prioritizing the supply chains.

And the capacity for supply as well, and we occupy this with some products that we don't need and we generate some restrictions for some products that we need. So this prioritization and the purchase recommendations as well, we're already talking about maybe a second wave where we plan to increase orders and not only meet the demands or orders, but provide some procurement recommendations that are operating through algorithms. And then omni channel approach where we go through all of digital and you can't do much in digital while we don't, and really transform the staff room. And we should be working on this considering the complexity that Hering has, but we should be completing this work.

Another important offending factor is the delivery delays and the average delay is almost 18 days delay, while in summer this is nine and over time this delay in delivery can reduce that sale period in the store. And we increase the volumes that are going to be sold at special sale prices due to this delay. So another important negative factor is also the rupture. So when we re-dimension this inventory, then we have some inventories that are not distributed initially, they're going to the automatic replacement in stores mitigating rupture and we really generate operational efficiency that's very significant within Hering. And finally, we have more efficiency in our inventories. We're adding inventories, which really helps us to maximize the full price sales. We tend to buy less and we once again reduced the balances of the inventory that ended up modestly reducing the margin in the digital channel.

Operator

And so, another important question is from Irma from Goldman Sachs. And she said she wants to understand a bit of how we think about the increase in prices through the brands, considering the inflation scenario and many of the raw material line and if we're going to keep the prices more stable for ex-Hering products or if we're going to try to adjust this in other point in the pyramid.

A - Roberto Luiz Jatahy Goncalves {BIO 22408649 <GO>}

Well, in our case, we are not going to give up on margins. We will -- we have an inflation that's not small and it's not just an inflation with some important innovation of other expenses such as rent and media, and so we don't have the conditions to not transfer this, actually almost all of them have already transferred prices. The only one that has not yet is FARM transferring about only 80% of this and finished transferring in the beginning of the year, it would be this amount. So we see a small margin drop in FARM. But this is completely transferred in other brands and FARM is doing very well.

Now we haven't seen any restrictions believe it or not and the market absorbed quite easily this and we don't have a scenario with difficulties for price transfers. We don't have a scenario with difficulty in sales and at the same time, it is very challenging. It's the year where we start with revenue traction that's very high. All of the parties are transferred and we open up the news and we see that there is some situations where we almost rethink about the budget we performed.

So it's a challenging year once again. But we're not going to arbitrating crisis would arise. So we're going to create some mechanisms to our defense and if this occurs, we'll be able to pilot this inventory, so we don't have such a big volume. But we have this belief in the first semester it's quite protected and if there is any surprise, it's going to be in the second semester.

Operator

Well, thank you. Those were the questions. And I'll pass on the word to you for the final remarks. Thank you, everyone.

A - Roberto Luiz Jatahy Goncalves {BIO 22408649 <GO>}

I just wanted to thank you all for listening to us today and accompanying us. We are available to clarify any additional questions through our IR department of the Company. Thank you so much and have a good afternoon.