Q1 2022 Earnings Call

Company Participants

- Julian Garrido Del Val Neto, Chief Financial & Investor Relations Officer and Member of Management Board
- Roberto Funari, Chief Executive Officer & Member of Executive Board
- Unidentified Speaker

Presentation

Roberto Funari {BIO 17031506 <GO>}

(Foreign Language) And those frauds of mitigation are creating this impact, which is extremely important for our short-term model for protection of our (inaudible).

During the presentation, Julian will get deepen into those frauds to show you how this plan have been working. The second point of highlight in the results of the first quarter is the growth of 11% in constant currency. It was about 9% to 8% of Havaianas 9% in the consolidated, because we had this important exchange rate variation. Our international operations grew 17% in the constant currency. This growth has made us reach a level of revenue, which is the highest in the history of Havaianas for a quarter.

In Brazil, we had a mix searching to get better, we had to sell out positive. However, our selling that has shown decrease. This difference was a reduction of inventory inside the quarter from the beginning to the end of the quarter, therefore, a healthy reduction. And as such, we move it on with a positive sell-out. We also had one important point through up to the quarter. Since we know, we are passing on the price. And that makes this model that we are implementing, showing these positive results as expected.

The international expansion came with increased volume and revenue. As I said, as I mentioned earlier up 17% in constant currency, as well as in the prices of the mix of products. So, the RGM, we are still at the beginning of the implementation of the RGM, but we can already see the results. Therefore, our focus on EBITDA margin protection was reached and the two biggest points that help adding this protection was the stabilization of costs and acceleration of the prices. Therefore, the objective remained in the 19%.

As for Rothy's, we are reporting for the first time on Rothy's. This is the beginning. As we had promised, we are already finding operational and financial metrics. We started with Rothy's officially after March with the first Board meeting. We had restrictions and decisions for the budget in March, and the beginning of this new cycle path of Rothy's started.

So, I'm going to tell you that. It was a very encouraging beginning with a very important cycle of investment. And once again, all the actions being developed, showed to us that we have not only a great brand, but also a very organization at Rothy's. Having said that, I'm going to go through the numbers to remind you once again, they are all in their release that was published. We had a growth of net revenue of 9% versus the first quarter of '21. These made our revenue in the quarter reached BRL927 million. It's the first -- it's a record revenue being a quarter in our history. Our recurring EBITDA margin reached 19%. And our net income from continuing operations was of BRL112 million and our recurring net income was of BRL139 million.

As for the net income from continuing operations, Julian will give you more information on that. Back to the numbers concerning the performance of Havaianas and its financial indicators. We had a net revenue growth in Brazil of 18% and volume in Brazil decreased there was a variation of minus 4%, which is connected to the sell-in. The sell-out was positive. We saw a growth in international net revenue of 8% in constant currency in the Brazilian reals and 11% growth in the international volume.

The gross margin was of 47%. There is an impact of negative gross margin, compared to the last quarter of minus percentage points. However, compared to the fourth quarter, there was an increase of 4 percentage points. Our gross margin per pair is stabilized, compared to the first quarter 2021 at BRL7.7 per pair and it showed an important growth of 31% per pair, compared to the fourth quarter 2021. As for the operating expenses, we continue our strong control and effective control. So, they represented 33% of our net revenue, two percentage points lower than it was last year.

Still we increased our reinvestments in marketing in 12%. Again, that's what makes us to continue our cycle of growth to see the acceleration that is going at a certain moment. The EBITDA margin reached was of 18%. It has a 3 percentage points decrease compared to the first quarter less a year. However, one percentage point higher than compared to the fourth quarter of 2021.

Now, I turn to Julian Garrido, who is going to explain the rationales and some lines of the balance sheet and the overall results. So, I'll be back after Julian.

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

Thank you, Roberto. Good morning, everyone. It's always a pleasure to talk about Alpargatas and our results with you. I would like to remind you that our history is a movie, not a picture.

Today, I will start discussing this evolution in our gross profits. I am looking here at the upper left side corner. We finished the first quarter being at BRL441 million, which is aligned with the BRL442 millions of the first set quarter 2021, which is interesting to see is the contribution of the regions, we can see the international, which is the lighter orange going from BRL217 million to BRL225 million, or 4% up. In Brazil, we had a percentage decrease of 4%, because of the rubber price compared to the price of last year, and we are going to be talking a little bit more on that. So, a little further down today.

When I look at the left bottom of the slide as bad summation, we see that Havaianas within the total, we see that our consolidated is of 47.6%. It is a decrease and although the money is stable. We saw a continuation of the revenue. But once again, we were talking about a movie. If we look, comparing to the fourth quarter of 2021, which was a 42.9%. We wasted 47.6%. So therefore, an increase of 4.7 percentage points increase, definitely having the international business of INS contributing to that.

On the right upper side, we are going to go into the main reasons for the pressure of price, which is the rubber costs. The first two blocks, once again, on the upper right-hand side in commodities and financial exchange. In this proportion of 50/50, they make up the price of our rubbers -- the rubbers used in our processes. Speaking of the commodity a bit, the composition of our rubber. Our rubber, as you know has the butadiene and the insulin. The butadiene has a useful life of about 30 days as a raw material. Of course, after the process -- after it's being processed that we don't see this limitation. As we only have a useful life of 30 days, we cannot stock it large amounts of the butadiene.

And there is not a hedge market for the butadiene, because the shelf life is too short. (Inaudible) on the other hand doesn't have a short shelf life. However, we still don't have a hedge market. So, what do we do in terms of that? The inventory convert, we use this working capital to create to this inventory formation of stock, increasing this coverage and giving us instability in terms of raw material. So, how does that happen in our account and our results?

Well, there is the timing for that as a raw material, the price is fixed at a distributor when it arrives to us as raw material, which goes into the production cost is it becomes a finished product, and then it goes into the COGS. So, it takes like three, four, five months to happen. So, that's why we cannot tell you accurately, when this is going to happen. You can already see an improvement in the market and this instability as Roberto said is starting to be seen, and we are being able to control this a little bit more.

Of course, the rate -- exchange rate variation is something that we have been using. We have strategies and policies for we have a natural hedge for the protection of our numbers. Not only for defects of treasury, but also for the transactional risks. So, with the composition of those two blocks, FX and commodities, and its detail gives us this changing structure. This structural change you can look in our balance sheet and this is what reflects in this beginning of instability. We cannot state anything. However, we have this protection in our balance sheet. Is it -- is this all? Of course, not. We also have the operational efficiency of Alpargatas. You were already tired of listening to -- I was talking about our VIP floor and we also have a very similar verticalization similar to Rothy's, where there is a formula, such as Coca-Cola, where we have optimization of robust new formulas of rubbers, using old rubber, and this is all part of that. And also, our CapEx has been helping using the in our efficiency and decreasing our -- this complexity, decreasing our scrap and improving our process as a whole for all of our resources. So, this is the inventory strategy, that makes us stronger. Next slide, please.

Well, as it has been said before, we don't work only internally, we also work the revenue growth management. This is a pillar. This is not a project. Once again, each has its phases and times. So, it is easing a process, which is a long-term project, which not only accounts for the passing on of prices. But there are also of revenue, there is the availability profit. So, what we saw on the top is blue and underneath is international. In Brazil, the RGM is of BRL61 million, helping us to mitigate this COGS pressure. As for the international, the RGM has already seen at BRL27 million. This is very strong. We are expanding that right now and you can already see this contribution of the RGM inside of its spectrum of the recurring RGM.

In the next chart, we also talk about other costs -- costs, which are more controlled by us. And we are always managed that looking at a return, looking at a return. I excluded marketing here on the right-hand side. So, this secret that we have is to manage these expenses without compromising future. We are investing. We can see that it goes from 222 to 232.

So, investments in CapEx and capabilities what we call, analytics and data, and especially, in digital technology and sustainability. Even though it went from 2020 to 2032, you see that the percentage over the revenue increased from 28 to 26. That's what we call leverage and that's what we are always looking forward to reach.

So, in other words, we will continue to grow our investments without diminishing or undermining our leveraging. On the right side, we have investments in marketing, which are fundamental for the companies, both in marketing. So, we continue increasing it from 56% to 62%, 12% up. Reminding you that as for the international, we invest more. But we don't sacrifice that. So, keeping the investments, keeping and protecting our EBITDA. This is our message here of this slide. Next slide, please.

When we look at this net income. It's extremely important that we break this story into three parts. These are three important things. Two are non-comparable and one is comparable. First one comparable is Havaianas' history. The non-comparable is Rothy's history. Why is it -- it's not comparable? Well, because I didn't have Rothy's last year. So, the first bar you see of BRL126 million, brings us to the net income that we see right now. So, there is Rothy's and one part of Osklen. And I'm going to go through them one-by-one in detail. So, we start at BRL126 million. We have recomposed these discontinued operations of '22 and we reached at a BRL148 million from the BRL148 million. We see a reduction to our BRL139 million, which are the two percent point, I mentioned before.

So, BRL8 million is depreciation. We spent BRL430 million CapEx last year, which more than we invested in 2020, and it went down in 2021. Again, long-term investments in capacity of a production. Yes. As we had recurring EBITDA when compared to 2021, but I want to be repetitive and talk about that again. So overall, this history of Havaianas, a decrease of 2 percent points in investment in precision. This is the comparable. The part of that cannot be compared. We have this first result of the Rothy's minus 2020. This is a picture of investment over $14 million in this first quarter.

Roberto will talk to you a little bit more about that. When you look at the first bars of equity, why equity EBITDA is still not consolidated? Remember, we have 49.9% and the equity is composed of two parts, the amortization. So in overall, this is inventory. So, we should have similar results in the second quarter, enough -- just for five months enough to that, it's going to a much lower number. And remember that there is over USD14 million in this result as an investment and as it should be guys.

Considering Osklen parts, there are BRL30 million, which were Osklen's negative results in this -- the beginning of this year. And the BRL60 million, as we announced in April, we ended our operations. So, a part of that had been made in December. And now, this is the second half of it. This is our composition. The message should be sent here is there are three factors. One is comparable for Havaianas connected to investments and Rothy's and Osklen.

The net financial position, of course, it also has an influence on those three factors: Havaianas, Rothy's and Osklen. And I have separated for you, what is operation and what is now operational. We started at 698, this was our net financial position, which I had as in cash. Last, what I have as debt with banks. So, this is the 698. We removed the Osklen debt, where we sold Osklen. We have operational flow of 12 months, we have 715 of continued operations. Inside the working capital, the biggest part of the 481 comes from the inventory. It's connected to what I mentioned to you about the raw material strategy over the commodities. And there is also a 150 connected to derivatives.

In the operational, it's much connected to Rothy's, what we've already paid for the first installment. And the rest is still there in our cash and the CapEx investments that we made over the past 12 months. As I mentioned before, we spent BRL481 million extra to what is spent in this period of the previous 12 months when we compared to March 2020. Unless, there is a little bit of Mizuno and Osklen over these past 12 months. Therefore, a growth of BRL927 million, solid cash net financial position. This is everything I had to tell you today.

Now, I'm going to turn back to Roberto. Thank you for your attention.

Roberto Funari {BIO 17031506 <GO>}

Thank you, Julian. So, this was a deep dive we had in our main highlights in our finance, especially in the front of mitigation concerning installation of our classes. And now, I'm going to go to another part of the quarter, which is what we are building, how we are building a Rothy's -- and I forgot this for an even brighter future. I'm going to start with Havaianas International, the actions we have been performing, it is extremely important to highlight before I start the update of each one of our businesses, international businesses that we look at an international operations in a different way that we look at Brazil. Being the international operations, Havaianas is advanced as a fashion brand, it's a lifestyle brand.

So therefore, we can apply this strategy of making it a premium brand, which by the way, it's a requirement from all of our customers B2B and our end users those geographies. So therefore, we have a model, which is focused at this stage of the brand as a fashion brand in the international operations. And you are going to see how we are preparing the company and creating the gears we needed to boost this growth. Once again, progress is extremely important, because in order to accelerate, you cannot only have sales objectives. You have all the company to leverage and activate this mechanism of selling.

So, since we streamline those gears and those levers. This machine is going to run increasingly more as a Formula One race. In Europe, we advanced a lot there are many key things happening in our portfolio beyond the quarter with a focus on sandals and accessories advanced a lot.

A month ago, I made a long visit through several different countries in Europe. And what's caught my attention a lot was how we expanded our presence in terms of sandals and the receptivity of -- to our accessories in the market, where our customers increasingly more see the lifestyle aspect of the brain. Secondly, in Europe, we are one step behind Brazil. However, one step ahead of the other international brands. Considering the RGM, we have an internal structure and we are implementing what we call RGM 2.0, using data analytics and tools, and we can already see those very important effects. And here, I'm not only talking about inflation, I'm talking about the whole intelligence behind the pricing. So, we can grow price and volume, which is working well as we see this working well too in Brazil. We are starting a new age for those of you, who are in Europe and USA, right. Because there is a whole generation in those markets, who doesn't know what inflation is. I'm very happy to say that we have deployed -- we deployed this RGM project last year and we are happy to have deployed it.

Our third point is the digital ecosystem. In Europe, we are very advanced. We are already operating in a very similar way, the way we operate what I saw in Rothy's. Not only that, in Europe, we have a first premium work, what do we call to pan-European customers, those who go to several countries, crossing borders and using omni-channel as a purchase channel. We have made an -- we made an exceptional work and we have seen this as our great vector for growth.

In addition to that, we have been reinforcing these -- our talents. We supplied technology. We made important investments, not only that we have a new CFO in Europe since the last day of last year, who came from Nike. We have a new Chief Marketing Officer. The Chief Marketing Officer was promoted to lead the global beyond the core. So, already with this focus of a fashion brand and her experience in fashion, we also brought incredible talents to support her and our operations in Europe.

In addition to that, we made an important change in Europe. Due to the COVID, we were forced to change our business model and focus increasingly what we call the domestic markets, not only depending on the touristic market. So, this has been extremely successful and reinforces the strategy of the brand in Europe. And this focus in the domestic market has been a great success, as tourism catches up after the social restrictions are lifted.

Soon, we are going to make our ERP upgrade to be allied with our digital transformation in the front line, and having an -- is more complex structure of the company. In Europe, there is something missing on the slide, but I want to reinforce that we are also starting the second half of the year, a new logistics operation, which will bring our service levels up, make them better with more capacity for replenishment, more data, more analytics and also offering support to this diversity of channels we have. So, great advancements in Europe. Once again, we are removing the bottlenecks and creating a potential for a higher acceleration of growth. So, I am extremely satisfied with our progress in Europe.

In the USA. USA is still one of our goals and we will be creating a business in Europe that's going to be as large as it is in Europe and Brazil. We have now a model that is more aligned with this fashion, vision of the brand, with the idea of working on removing the bottlenecks, we have a new President for our business in USA. I'm going to have the pleasure to introduce her soon. She starts next year. She joins our company next year. We have also a CFO from Brazil going to the U.S., our new CFO.

We specifically should control how this operation -- logistics operation between Brazil and USA works. And we are also having all the RGM being implemented there. Freddy has already performed important changes to our strategy commerce and RGM strategies, and making a very important adjustments in levels, discount et cetera. This kind of -- this is one of the issues -- we have in the USA. And more than that redirecting our channels to the premium fashion. And therefore, we can reach and meet all the demand we have, making our brand more premium, because we do have this space. We have the room for that for the brand. We are working on several fronts with France, which are about to happen. We are going to have a new 3PL. We made an important benchmark and because Rothy's is extremely strong in that point and we are bringing strong insights to help us. And we are also restructuring Amazon business. We are changing from the 1P to 3P model to a full Connors company called Pattern. This only -- not only gives us financial benefits in the P&L, but also this company Pattern works with several brands. It's a multi-brand, which has a very 4.5 logistics level rating at Amazon still, it puts us one step ahead in terms of algorithms. So, the first quarter we had some, we had -- we suffered in terms of the bottom, because we stop it selling through ads in, and we're back through Pattern.

So, we are extremely happy with this new movement. And this is going to help us to cling our platform of third parties, which are not authorized to sell Havaianas. The go-to-market or GGM, we started this project right now in the first quarter. So, we can gain better prices and bringing the brand to the level we want. And reducing exposure to off price channel and raising our price levels by reducing discount. It's the change that has never been tried before. And I'm extremely satisfied to tell you about this. It's going to create some turmoil in terms of altering the short term, but this is how we actually what we have to do to create a premium brand positioning, the American marketing. In addition to that, we have the upgrade to the new ERP that will support branch work better.

In China, I have great news for China and one not so good news. The good news is that we have the food trading partner upgrade, the BQ. We had a strong work with them, reformulating this new level of volume. And in addition to that, we expanded our team. We are much to align it to the way for example, Rothy's work. So, we are discussing now in China. We have a portfolio plan for creating a more premium and portfolio extension of categories is lights are extremely important in China, and we are opening up this point of only being a domestic market and focusing on tourism, because this has these grown -- this grew a lot, because of the COVID and we have the evolution of the offline with a few wholesalers, trying to have a more robust model. However, the COVID attacked us in terms of consumption, not in terms of supply. So, this is a year of transition in China, whereas I predict a high growth for China. And we -- what we see is not a way that we can operate in China, right now. In fact, there are some blocks in China for deliveries of no essential products that will affect our delivery. So, our decision is to continue investing in brand-building responsibly, throughout this year, restructured our team, streamlined our operations and used this -- take this opportunity when we can be back after the pandemic.

In the distributor market, they also had a very important development. I'd say that this is due to the elimination of the bottlenecks, implementing best practices. And with that, we are having the launch of the global flagship, which had extremely positive results in Asia, in 14 countries. We are bringing this new initiative to new countries. We've also made this important movement of focus on domestic market and looking at tourism as an incremental in sales. We had an acceleration of sell-out in Asia of cost of 20% in Latin America in close to a little bit above 10%.

So, the distributor partner, if your rates are bringing this acceleration of sell-out and sell-through. And we are still upgrading our distributor partners, I told you in the past about this. So, we're having all this focus as a fashion brand with this capacity of handling the domestic market, and this digital approach in Indonesia, Argentina and Mexico.

We're working on it and what we're creating is grounds for what we call the future big bats. I have a dream of not only having six big bats being in our international operations, but actually, expand that into 10 or more, as we evolve in our models. So, all of these work is under the water line, right. But this is fundamental to eliminate to the bottlenecks and to streamline this gears and this levers for growth.

The second area, I would like to emphasize is the digital transformation evolution. Coincidentally, we are celebrating today one year of the acquisition of Ioasys, where we had an integration extremely successful and made extremely with a lot of care last year. And Ioasys brings to us, mainly count and people, 450 employees are a part of what we are -- what we called Alpa Tech, the combination between Ioasys and Alpargatas. This was a quantic jump in our digital transformation capacity, but we are aware that we need to open up new fronts and also to control the pace that we have this transformation.

The first pillar, which is not and this is why, this is the transformation of our mindset, transforming the mindset of the executives, training the leadership, offering training on different leadership, training on the agile methodologies and working in squads. This has been transforming our mindset by working with Ioasys and supporting us working this agile way, not all areas in the company. Just to make it clear, doesn't have to work in these agile way. However, there are two fronts, the B2B and D2C ecosystems. The D2C with a focus with experience of the users.

In the B2B, you have this more -- this is more years and these are improvements that we are making, continuous improvements we are making and which connected to our current technology infrastructure, which can already be 100% cloud-based and these are the large deliveries that we have for we are making right now. In this year, we are celebrating the very important deliveries, in the B2B in Brazil, we are launching a new sales portal. This is going to make our relationship easer with our customers. The customers will go through our indirect channels. It's a platform that's 50% faster than our current process and it's 100% cloud-based. It can be escalated. So, it brings the feature of escalation. And also other features, which will result in a transformation for our indirect channels. Our partners are extremely excited about all of that. And this supports all the movement we are making in the go-to-market for the indirect channels in Brazil.

The second delivery is the Click 2.0. The Click 2.0 is a recommendation for purchase of portfolio, using algorithms that are boost our capacity to generate orders, which is in agreement with our manufacturing logistics capabilities, reducing our lead time, increasing our service levels. And in addition to that, we have the potential of sell-out for our franchisees. So that's an important delivery, which is going to have the biggest impact in our business in Brazil. In the D2C, these deliveries are in Brazil and in our international operations, which has a larger penetration rate.

In Brazil, we are launching our e-commerce flagship 2.0 in Brazil. So, we launched in Brazil, the first they have been shown great experiences and great metrics, performance metrics on the websites and on mobile, because there is a lot of more of engagement in this mobile. And I invite you all, we are going to send you a video. So, you can actually know this platform and I invite you to go there to build there and have your own purchase experience using this website, it's a huge transformation from what we used to have.

So, I think now, we have reached the right point, where we have a low complexity plus brand experience. So, we are going to have faster checkout intuitive search for products and we're going to continue with branding and content what we already had. In addition to that, the mobile platform flagship, which follows the same line. It's not different from what we are looking at in terms of experience in Brazil. It's already one month ahead of Brazil. He's already showing an NPS of 93, which is extremely high for the USA market, and we are also delivering improving the delivery processing 38%.

All of that already shows these capabilities, new capabilities of deliveries that we now have. In addition to that, we have the alignment of all of these experiences and solutions that we are rolling out to all global flagships we have nowadays. In addition to that, we have infinite shelf and payment integration initiatives, which is going to be rolled out gradually. We have a bot in our checkout. So, we are including several fronts of the omni-channel, both in Brazil and internationally.

This is an extremely important slide that shows evolution and progress in our portfolio. Here is a follow-up of what some effect showed to you in the -- on the Investor Day. This is the new collection, that is being released right now. It's a collection that expands bringing new families and new models. Especially, in category of the slides and sandals.

In addition to that, we are diversifying our line of accessories. As I said, it's a huge opportunity, a huge market, where we have opportunities. And one important innovation that you remember when they slim was launched. And now, we have the square family, a product we really bet on it, which is a new shape for flip-flops. We have these slides. The highlights for the slides are, is this tragedy, is the yellow one here on the upper left side with a completely ring you the line for our traditional slides. And as for this core family in Brazil, we'll also have this launch in Brazil. And in the beyond the core, we have disclosed like Street Shanghai and Street Tokyo models. Already, there is a streetwear fashion and we also have (inaudible). So this -- and also, the improvement for the accessory lines that we have. In line with this fashion approach that we -- I have told you about.

And I'm going to tell you a little bit about Rothy's. We are still at the very beginning and I want to get back, because I promised you a few operational and financial metrics. We already have them. We could ask you for a little bit more of a patience for one more quarter, but we haven't done that. We actually already brought them to you. The reason, not ours, Rothy's reason to choose Alpargatas as a strategic investor and look at the future together is to allow us to create unique integration in the industry.

This vision confirms every time we have an interaction. We are already working together in several fronts and that makes us feel very positive about this partnership, which is just starting. When Alpargatas step at the end, the goal of Rothy's Founders is that we open up a new cycle for the growth of Rothy's. Remember that Rothy's used to grow 50% historically. However, during the COVID, they went into cash protection mode. The idea is that we can resume this cycle of growth. Why is that important? Because Rothy's has two characteristics that caught our attention.

The first one. The ROI for investments of performance and marketing is superior to any other brands that we saw in the industries. In the benchmarks, that we had for the industry. For that purpose, the price point is also higher. So, this is performance that brings quick return. Secondly, the most important metric. The lifetime value of consumers, considering the CAC. They have a lifetime value, which is higher of 12 months, which we like to measure. It's above too. So, which is very important for this model. So, one of the large focus is starting already inside the board of our office is to start to the expansion.

The most important number on this is item, we're going to be looking at is the investments of $14 million that was in March. Where is it going to performance marketing? I will be back to that in brand building, what we promised about boosting the awareness of the brand and in the expansion of our retail our mono-brand stores. So, I wouldn't associate this result of $32 million and 20% to the $14 million. Why? I'm going to explain.

Before, I want to talk about for the $32 million, historically, the first quarter of Alpargatas is a quarter that represents about 15% of the entire year. So, it's a year for preparation for the arrival of the collection, it's very similar to what we do with Havaianas in Brazil. It's the introduction of the collection and everything that comes in the second and third quarter with acceleration of the fourth quarter, because of the calendar of the retail in the U.S. So, the first quarter not having -- not been all that strong, already shows growth, we reached BRL32 million. It is already a good recovery since December last year and the investments BRL14 million.

Performance marketing, which started in March, has a lack of up to five weeks to show us the results. And here, we use data analytics. Our digital native company works with the data, they don't work with the guesses or the studies that indicated the result. They have a lack of up to six -- a delay of up to six weeks to see. So, this cycle of high investment is bringing this acceleration. And what we see in April and May, is already an acceleration, aligned to this model that we are looking at. So, that's why we feel comfortable showing you this investment of BRL14 million.

In addition to that, we are investing in the brand building and in the retail expansion. We opened up new additional stores. Now, we have 13 stores. We have a 78% increasing SSS. And in the second half of the year, we're going to bring the three new changes, new optimized websites. They have an incredible website and their technologies are one of their greatest strengths. They were -- they managed to make one even better version of the website that is going to be delivered as we speak. There is a new collection. And third, there is a brand and campaign to be released. This is going to be released throughout the second quarter to raise this awareness, and we're contributing as we had told you.

So, a part of the investment was in the end of the March and now in the second quarter. So, Rothy's is an important part of the history. The EBITDA was negative in 9 million, which is a reflexed of these investments of 14 million, and it's very important to show and just now that we are in the moment of investment.

So moments of investment, orders of investment, moments of investments will bring sometimes negative EBITDA to the results. However, the return will come, but this is going to demand from us to boost this business once again. So, this was this idea to show you this meaningful primary results in the first quarter. So, our goal is to go back to growing in the D2C or in the digital, and use this primary expansion of B2B and acceleration of opening of this source to have this capacity of investment for our international expansion, which international expansion of our product as which we are in the beginning of these studies right now.

So, I think this is the delivery of the -- of promise we made of bringing you more details about Rothy's and allowing you to know better Rothy's business that is making us more excited by the day. Very well. I would like to reinforce now this point. Okay. We have great brands, high potential, but this only happens if we bring talents that can deliver what we want. I have received several question about the people and talent areas of Alpargatas. I want to highlight two points.

First of all, this entire mindset transformation that we are going through right now. But more important than that, very few companies made these leap in terms of talents with critical skills for the future as we did nowadays at Alpa Tech, the combination -- the combined operations of Alpargatas and Ioasys. We have 450 employees. Just Ioasys has over 300 employees.

So therefore, we bring critical skills and technology design skills, which are amazing for a company. We are investing ahead of our potential for growth. And Rothy's also adds to us with 190 employees in the USA and 1,000 employees in China. Employees with high level of skills, very key skills in design, new development of products. And in R&D, we have 212 employees in China, which are working together with the 32 designers in San Francisco, making this translation of design and execution. We have advanced that organization and structure with the skills and the talent profile in line, which is the growth potential of

Rothy's. So, we are going to have the sharing of the best practices. I have already mentioned the 3PL right at the beginning of the 3PL in the U.S.

So nowadays, we have a talent pipeline and a talent capacity that makes me very excited, because we have those people, those talents with critical skills for the future, looking at the future. So, this is what we have to do to create a global powerhouse of desire and hyperconnected brands. So, this is the vision of the progress, in the most fundamental pillars. There are other pillars, I can introduce to use such as sustainability, which is critical, but I think that's in this quarter, what was important is to talk about this short-term issue that we are all focused on.

So, we have a plan that is showing the first signals to be working and here is cost management. So, this is the animal we need to tame right -- right now. So what we said in during the results of the fourth quarter, we said that our model is a model to protect inch in a scenario of an inflation of costs. What does that mean? We need to change the game to pass the adjustment in prices ahead of the inflation of costs and I told you that behind. As we start to stabilize the costs and we started to pass on to adjust the prices, not only to mitigate that, but also go back to our expansion of an acceleration of margins in the future. Where are we at today in the beginning of May? The variation, the raw material cost variation, it's slowing down. There is more stability compared to the previous quarter. The raw material has stabilized the absolute costs. The growth rate from quarter-to-quarter was from 47% to 41%. So, it's a decrease of 6%. This cannot yet to be seen in the COGS. The production cost has went from acceleration of 38% to 29%. So, we'd also decrease the nine points.

At the same time, our adjustment of prices accelerated. The RGM had a fundamental role, was of 10% in January. We started to flow. It is started to flow in the P&L in March. And this new collection, which is being released efficient week, but it started to be released in March. It starts to be seen in the P&L in June. Therefore, we can implement this model and to create this lever, which will create an impact of protection. And in the long-term, we can expand margins with growth.

So then, we are also ahead of a scenario, where there is a risk as well, a macro risk, right. So, we can also be blinded to the risks existing in Brazil in this environment of inflation, which will pressure the revenue of the people and will result in people having to make choices of consumption. Nowadays, stronger brand we have, what we see in the market is that there is an exchange of channels people are consuming, they choose channels to make their money even more effective, because they are losing power of acquisition or power of consumption.

Instead of going to the stores, they think of their stale mission. They change their channels. Since the brand has 300,000 points of sales and we have these -- all of these channels in large portfolio of the prices we see this variation, which is positive this sell-out to grow -- grew again, and the prices grew as I mentioned. And we see our mix protected with this trend of becoming even more positive, but we are at the beginning of this process.

As I said, we will keep looking at the results and look at indicators and control to make sure that this model works. Since the new collection is released in June, into P&L, we are going to be monitoring. And international also brings risks to us and challenges. What are they? It's the first time in 40 years in Europe that people are experiencing one inflation. As we see Brazil, USA is also the first time in many, many decades. So, this is very new for everyone. So, we need to have this vision, understanding that there is this volatility in the market, and understand how this is going to impact the season that is starting right now in U.S. in the whole Northern Hemisphere, and what is going to happen in the market inside of this scenario of inflation that we see.

The second point is the increase of the basic interest rate in Brazil. We are very aware of that and working pose with the point-of-sale to make sure that the inventory are healthy. Because the inventory levels are not healthy, we cannot release the new collection. So, our idea was to be able to implement this model and to be able to deploy this new collection now. And in this second quarter, we are going to have -- should be seeing these variations considering the healthy inventories and also the new collections.

The third point is what Julian had already explained to you about the volatility of the rubber prices, where we have some limitations to create more inventory if we have the opportunity. But as we consider the final product in rubber, we are trying to expand the coverage of rubber and we are evolving on that. As for the second quarter, we see this acceleration of the price pass-through or the adjustment of prices, right, should the product sold with a retail mix, this helps in our inventory health levels. We have a stabilization of the bases. This is going to also be affected by other variables, but we have a quarterly consecutive comparison. So, we have stabilization of the prices, it's important to highlight that. And we also started to look forward.

So, what is the second quarter going to be -- going to look like? I don't really know, we are increasing our inventory. But we don't see any kind of barriers to that. But there is also a volatility of a financed exchange or exchange rates in Brazil. So, we are all cautious about how we are going to be operating the second quarter. However, the policies, the front, the work continue the same. We will replicate them and we will copy them, and we will reinforce them, which has -- have shown us positive results of stabilization of costs and this is our focus this year to protect our EBITDA margin. We are going to see -- to be watching, observing this selling variation numbers, especially in Brazil and continue the operations expansion in Brazil.

Having said that, I open up for questions and answers in Brazil.

Questions And Answers

A - Roberto Funari {BIO 17031506 <GO>}

(Question And Answer)

I'm going to ask you the first question. I'm going to be quick.

We'll go for Danniela from XP, and Richard from Bradesco asking the question about the dynamics of volume. What can we expect for the second quarter?

Given that the inventory of the retail are lower. And if they create a recovery for this sell-in for Havaianas in the second quarter. The evolution of sell-in has allowed is positive. That's what we see, and I think that for the second quarter, we are going to have adjustments to inventory. Some inventory is going to be seen better service levels. So, I don't really see this very favorable inventory levels. In Brazil, the working capital of our customers is adjusted to the inflation that we see in Brazil.

So, I am betting as we advance throughout the year, looking at this sell-out and sell-through should be reflected in the selling. And Joseph, I'm going to send you the last question. Joseph is asking us about our manufacturing structure. What we see about evolution of the OnTime Info? We had a great leaping the OnTime Info, OTI app, both for Brazil and for the international operations. In Brazil, we are a little bit under 80%. Internationally, we are already above 70%, but sorry -- 30% in the international markets. And this isn't good, right. Our expectations internationally are even higher, right.

So, each will go further and in Brazil as well. So, evolution is positive. We have the operations area, both for manufacturing supply chain, which is constantly improving its service levels. But we still have a long road ahead of us to bring it more beneficial to us. As the investments in the ILEP, right, remember, it's going to be a bigger capacity for reacting faster. It's going to be the mixing sector that's going to give us this capacity. And yes, this could too have very good positive results. There is one last question, that's arrived at deck that I think, it's worth mentioning. It's a great question. We mentioned about the new management in the USA, which is more aligned it. Could we talk about the focus and our goals for the U.S., focus and goals well. The goal -- the long-term goal is to grow our share to reach the double-digit in the flip-flop industry market. And nowadays, we also have as goal to have this transformation into a premium brand. These are the most strategic goals for the USA.

Mark, how are you going to reach that? We are going to especially reach -- increasing our D2C, especially the e-commerce. We are improving and implementing in the USA, the best practices for pop-up, which we have from Europe, we are bringing to the U.S. and we are advancing as well now we're logistics. The USA is accelerating, it's going to accelerate as soon as we adjust our logistics. But in the U.S., you cannot take a large leave, if you are not ready in terms of logistics. So, we're trying to challenge both aspects to be able to pull it off.

The brand that has a great potential in the U.S. This comes from customer surveys, as well as from constant feedback. Our commerce -- a commercial partner feedback that we received from customers and we are of course, going to learn from the best practices. Rothy's is sharing with us.

A - Unidentified Speaker

Better. Thank you very much. I'm going to move on now to your final message.

Well done. As you know, guys. The one great success in our first quarter was the cooperation with (inaudible), which is NGO in Brazil, where we brought artists from FAVELAs from the slums in Brazil? And this has been -- this is a best seller already and has a greater demand -- we saw great demand to bring this to Europe as well. So, I'd like to highlight one of the artists, who brought this one of my favorites. I have here with me. This is Louise Mode. He brought this image, which is a child flying and carrying a heart, which is a symbol of hope and strength that all dwellers in Brazil can have a better life than what they have right now, and they can go anywhere and reach any heights. And this is very inspiring for me, I forgot. Because especially in this moment, we are living, where we can have hope, strength and being the owners of our destiny. This is what can make us -- make our business a better business.

I leave you with a great, wishing you (Technical Difficulty)

(Call Ends Abruptly)