

## Y 2013 Earnings Call

### Company Participants

- Jose Roberto Lettiere, Chief Financial and Investor Relations Officer
- Jose Salvio Moraes, Investor Relations Manager

### Other Participants

- Unidentified Participant

### Presentation

#### Operator

Good morning and good afternoon, ladies and gentlemen. Welcome to Alpargatas Fourth Quarter and Full Year 2013 Results Conference Call.

Thank you for standing by. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions to participate will be given at that time. (Operator Instructions) To follow this conference call, please access its presentation at Alpargatas Investor Relations website <http://ri.alpargatas.com.br>.

Before proceeding, it is important to mention that any forward-looking statement provided in this conference call depends on domestic and international macroeconomic scenario, the footwear markets in Brazil and abroad, and other operating factors that could affect the future results of Alpargatas.

The participants of this conference call are Mr. Jose Roberto Lettiere, CFO and Investor Relations Director; Mr. Jose Salvio Moraes, Investor Relations Manager; and Mariane Weger, Investor Relations Analyst.

I would now like to turn the conference over to Mr. Jose Roberto Lettiere. Please go ahead, sir.

#### **Jose Roberto Lettiere** {BIO 16358413 <GO>}

Good afternoon to all of you. It's really a pleasure to be here and talk with you about 2013 operating results. You may have in front of you the presentation we already sent. So, starting with slide 2, talking about 2013 [ph] overall environment.

We had a complex year especially for the footwear market where the market in general did not grow, but Alpargatas had a different performance. We had a growth performance in a very complex year. You may remember that as from May 2013, we had in Brazil all the

public or the protest you may followed by the television or for the ones who came to Brazil that time had the opportunity to see what we had here. So, all in all, we had another good year. Alpargatas grew in a very consistent way in all categories we perform.

And I'd like to go to the page 4, talking about our new accomplishment in 2013. Starting with Havaianas, we are elected as one of the ten most valuable brands in Brazil. It was a study co-ordinated by Interbrand. We had a very important growth in our international business, which is proving year after year that it was a good strategy to expand our brand and to take our brand abroad.

So, we had a 10.4% growth, volume growth in our international business. Also we are preparing for our inauguration, for our debut, in our apparel debut. It's our brand expansion strategy. We started talking about it (inaudible) of years and our plan is to start it in May, just before the World Cup and inaugurate two stores, one in Sao Paulo and one in Rio. Osklen was another good point during 2013. We acquired 30% of the business in March. Now, we are looking for the acquisition of another 30%. We are going to decide this in coming months.

Topper, as you know, it's a Sporting Goods brand, well-focused on soccer and we are now working very hard for the World Cup. We started last year. We will launch new product and it will be ready for the World Cup to present to the customer and the consumers our new Rainha product. Rainha also increased presence and specializes in sports footwear channel. The growth was very broad in last year. We could increase our participation in the casual category mainly and also for (inaudible).

Mizuno, we achieved another record last year, 33% growth in volume and another important element was the renewal of the license contract. It was only this year, but it is worth to mention that we worked very hard during last year and in the last January we signed the 13 years contract plus another 13 depending on some adjustment. So, it's really long term, a very good relationship between Mizuno Corporation and Alpargatas.

Timberland, (inaudible) first anniversary of Timberland, that is a celebration period in Brazil as well. Timberland went very well last year from growing the business, mainly in the multibrand channel, 27% was the sales volume growth. And also we are now strengthening our casual footwear line and it is really proving that it was a good initiative we did.

And Meggashop is our channel for our brand we have in Alpargatas. It's really an outlet. We changed the logo. We made it more modern and more flexible to our consumers. So, continuing in the page 5, we already inaugurated our Montes Claros plant for sandals, which was in October last year. The plant is already producing and improving month-after-month in our ramp-up period, and (inaudible) also was another important accomplishment. We had here, the table, where you can see all the Alpargatas exclusive stores. So, Havaianas, we already achieved 434 stores, Osklen 80, Topper 13, Timberland 17, Meggashop 22 and our Outlet Alpargatas, which is basically in Argentina, 17; so, totaling almost 600 exclusive stores. So demonstrated that our retailer strategy is going well.

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Continuing to page 6, our supply chain, we finalized our global sourcing structure. It was a very important project where we really need people focused on acquisition of the main raw materials, packaging materials and also finished products.

Rubber price decreased last two year in dollars, dollar basis, but due to the real devaluation, we could not enjoy all the benefits. So, we had only a 4% decrease in local currency. Social responsibility, we had our alpargatas Institute. Last year, we had also the (inaudible) of the Institute alpargatas and now that is helping or supporting, sponsoring almost 600,000 students.

Now, moving to the slide 8, we're going to talk about our performance, starting from the net revenue. You can see that we continued growing double-digits in the fourth quarter and also on the full year basis. For Brazil, domestic market we grew almost 12%, 11.8%. In Argentina, it's already here consolidated in the real, it's a 15.2%. And international sandals business, we grew 26.2%. So, in a consolidated basis, 13.9%. So, main element, the main sector that impacted our net revenues growth were -- talking about the growth, the volume growth, so we had a very good year in Sporting Goods. At Challenge [ph] Mizuno, we grew 33%. Argentina also has from the fourth quarter last year, we started turning around the business so the Topper brands started recovering. So, we had a very good fourth quarter. So, year on year we grew 7.3%.

Sandals International 7.4%; in Brazil, 1.4% from the domestic market, but here we had the issue, the capacity issue where we started adding capacity only in the fourth quarter. So, we had capacity mitigation during the year. So, our growth was limited by the capacity. But conversely, we launched a new price range for Havaianas at 10.20 reais, which we proposed to fight against the competition and we were very successful in doing that strategy. Particularly, in the domestic market, it's from 33% to 28%, of course not all the projects, some projects we haven't changed to increase more. International, from 1% to 5% in dollar and euros.

Our mix, as I mentioned before, footwear increased its consideration in our revenues. Forex, considering the international business, when you export, when you sell in Europe region and US and overseas, of course the product helps. But conversely, the swings in Argentina as the reais was revalued against the (inaudible).

We decreased our revenues in reais, mainly because of the Argentine peso to our P&L.

Distribution, the number of clients in the US is progressing very well. We already reached 6,500 point of sales exclusively for Havaianas brand and we opened new stores in US, Brazil and (inaudible). So, all in all, we had another very good year in terms of topline. Going to the page 9, talking briefly about our dividend. We had a good performance in our dividend. We could leverage from revenues to the bottom line. Well, what happened was that we are, in this year specifically, was very good doing our productivity initiatives, implementing our productivity initiatives, monitoring all the products implemented early last year like the Leimen factory, the zero-based budget, also the sourcing strategy.

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So, we started collecting all the benefits from the project we implemented before. The commodity, mainly the rubber helped. We enjoyed a 4% decrease in real, but conversely, we had a downside for the cotton. So, the cotton price increased 30% in Brazil and affected mainly our Argentinean operation. At the G&A, as I mentioned, we had a very strict control and the zero-based budget is really helping a lot our budgeting process.

Certainly [ph], we for most side we had the impact from the higher dollar, and another side, we had a good performance with other hedge accounting policies. We generated positive results, implementing our hedge accounting policy. So, we could offset almost the total of the impact, the devaluation of the reais billed to the P&L.

So, an improvement, 0.6 percentage points in our EBITDA margin comparing 2013 versus 2012, and all of these, as we can see improved the performance regarding margins. With the exception of Argentina where we had a different situation in this country, but considering the last few months, you can see already an improvement and we can talk a little bit more later on this in the presentation.

Going to slide 10, where you can see the breakdown of our net revenues. You can see that Sporting Goods was the good impact in the revenues, from 38% we moved it to 42% in 2013, which is good. We are growing our Sporting Goods business and we are growing in a profitable way. You can see that we ended the year with Sandals representing 52%, Sporting Goods 42% and Textiles 6%. By region, we are maintaining our domestic business close to 70%, 18% represented by Argentina and 12% for all our international business.

Moving to slide 11, talking about consolidated net income, we grew 11% coming from last year where we had a special non-recurring income, which is related to the tax credits in Argentina. So, our growth in net income excluding the non-recurring income in Argentina, will be even higher than the one we see here at 11%.

So, tax planning all below the line items like financial expenses, provisions, (inaudible) so in a very volatile year we delivered another good net income.

Talking about cash in the page 12, as we always mention in our calls, Alpargatas business model is oriented to generate cash. So, cash generation is very important. So, all the KPIs are oriented to generate cash. So, we had another good year. So, we generated R\$235 million and in a year, in a special year where we had an important CapEx to support the investment in the Montes Claros plant for the (inaudible) plant.

We also acquired new loans. We took new loans mainly for long term and primarily to finance the Montes Claros plant. As we already mentioned before, the very competitive interest rate we achieved implementing this project. So, we paid our shareholders almost R\$210 million interest on capital and also dividend. So, at the end of the year, our cash balance was close to R\$800 million, which is very comfortable for Alpargatas to support the future project we are going to continue to implement.

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So, now with the (inaudible) of cash generation, we move to page 15, you can see the evolution of the cash net of debt position. We continue with a good position and strong financial solidity and it is good because all our strategic projects will be well supported with this cash position.

Talking about shareholder compensation, as to provide some details from page 14, we can see that this year our reals on total profit (inaudible) 71.6%; so including 6.7 percentage points compared to 2012. Another point, we are going to continue perform is the (inaudible). This year we need to submit to the shareholders' meeting in next April 20-23 and we are going to implement again for the third consecutive year (inaudible). So, our share performance on the slide 16, so year-over-year we are gaining against the (inaudible).

This year is a little bit different. We have a lot to do, but we believe that providing and generating good results and implementing new strategies, our brand expansion, our international vision process and having more success for the sandals business, we are going to continue to deliver very good results in the coming months and I'm very confident that we are going to change this (inaudible). So, we are going to be positive again soon. So, this was the last slide. I think that as a summary, 2013, despite the volatility we had in the country, Alpargatas again performed very well and analyzing the competitive balance sheet, we could see, we could realize that mainly in the fourth quarter Alpargatas had some better indicators and is well prepared to face all the economic and all the volatility we may continue to face here in Brazil.

So, our strategy is the same, whether to continue investing heavily in our brand and that we have all the confidence that we're going to continue performing accordingly. So, Salvio, Mariane and I, we are here to answer your questions. Thank you.

## Questions And Answers

### Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from (inaudible), Banco Patagonia.

### Q - Unidentified Participant

Yes. Good afternoon. How are you?

### A - Jose Roberto Lettiere {BIO 16358413 <GO>}

Hi.

### Q - Unidentified Participant

Hi, how are you doing? We need to speak in English, is it?

### A - Jose Roberto Lettiere {BIO 16358413 <GO>}

Okay, you choose.

## Q - Unidentified Participant

Okay.

## A - Jose Roberto Lettiere {BIO 16358413 <GO>}

That is better in English for everyone to understand.

## Q - Unidentified Participant

Okay, perfect. We are here with our credit department also and what we would like to know is specifically it's about Argentina, Alpargatas Argentina, its performance during last year and plans for the next year.

## A - Jose Roberto Lettiere {BIO 16358413 <GO>}

Okay. Well, I can tell you the story is that our fourth quarter last year mainly in the Sporting Goods business with our Topper brand, we had a very good quarter. So, we started changing the curve, which was negative until the third quarter and due to new initiatives, new products and a better retail activities. So, I can tell you that we already implemented a lot of things in Argentina to face the environment, which is really bad nowadays.

Our business is well prepared to recover what we had lost in the past two years, not of course because our brands or because of the company or because of the management, but you understand that the economic conditions are not the more comparable to other regions.

So, we believe that in this year, considering all the initiatives we had taken in the last four, five months, we are going to be start performing better in this country, and mainly to Topper, which has continued being the number one brand in Sporting Goods. I cannot give you any guidance because we're a public company, as you know, but we're already implemented a lot of things and in terms of capital structure, cash generation.

So, I think that in 2014, we are going to have a better year compared to what we had in 2013. Okay?

## Q - Unidentified Participant

Okay. Thank you, Lettiere, very much. Let's see if our credit department has any question for you.

## A - Jose Roberto Lettiere {BIO 16358413 <GO>}

Okay.

## Q - Unidentified Participant

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Hello, my name is (inaudible). I'd like to know if you have any investment plans for this year in Argentina.

**A - Jose Roberto Lettiere** {BIO 16358413 <GO>}

We're going to continue investing in our brands, mainly Topper is our key brand in Argentina. We also launched the new Mizuno last year. So, Mizuno is in a very initial stage of the curve. So -- but we are going to continue investing in Mizuno and Topper. So, the company is a brand company and also Argentina is a very important market for us. So, we are going to continue investing behind our brands.

In terms of CapEx, we don't see any major CapEx because we have the capacity. So, we do expect that as the market start changing or improving, so we'll be in a position to attend the demand without any major CapEx.

We believe that with the devaluation of the Brazil, it's one of the elements, we believe that we will be, we are already in a better position or we're more competitive regarding our competitors because we are producers. We do manufacture in Argentina. And our competitors are more -- their business model is more towards the implication [ph]. So, it is another debenture we believe we are going to enjoy. So, we are going to continue to support our brands in Argentina in our business.

**Q - Unidentified Participant**

Are you going to do any changes in your branch portfolio for this year?

**A - Jose Roberto Lettiere** {BIO 16358413 <GO>}

No, not really.

**Q - Unidentified Participant**

Okay.

**A - Jose Salvio Moraes** {BIO 20049415 <GO>}

I mean, Topper is our main brand there, in Argentina. So, all the investments that we do in communication, distribution, innovation will be towards Topper in order to strengthen the brand in local market in order to become it more competitive versus some of the other brands Topper competes in Argentina.

**Q - Unidentified Participant**

Which is the marketer [ph] of Topper in Argentina?

**A - Jose Roberto Lettiere** {BIO 16358413 <GO>}

The last figure we published in last year was around 18%.

**Q - Unidentified Participant**

Okay.

**A - Jose Roberto Lettiere** {BIO 16358413 <GO>}

Yes, Topper, as you know, is the leading brand in Sporting Goods in Argentina.

**Q - Unidentified Participant**

Thank you, thank you very much.

**A - Jose Roberto Lettiere** {BIO 16358413 <GO>}

Okay. Bye-bye.

**Operator**

(Operator Instructions) This concludes today's question-and-answer session. I would like to invite Mr. Jose Roberto Lettiere to proceed with his closing statements. Please go ahead, sir.

**A - Jose Roberto Lettiere** {BIO 16358413 <GO>}

First, thank you for all of you and 2013 was another consistent year for Alpargatas. We could deliver all the major indicators to our shareholders. So, the double-digit topline growth, strong double-digit bottom line growth in terms of EBITDA and also the net income. And most importantly, we continue to generate cash coming from our operations, which is really important.

We have a very challenging year ahead, but we are very confident that we have the people, we have the process, we have the brands, we have distribution, the channels. So, we are well-prepared to continue performing during the 2014. And more -- another important point is that now we've finalized our plant, our sandals plant, we will come to the market with more volumes and we will be in a position to attend all the demand, which we were not able to attend in the past two years due to the capacity constraint.

So, I think that our share price is now is rich and I think that Alpargatas will continue to be one of the best financial choice for all investors. So, thank you very much until next time.

**Operator**

That does conclude Alpargatas' audio conference for today. Thank you very much for your participation. Have a good day and thank you for using Chorus Call.

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