Q1 2016 Earnings Call

Company Participants

- José Sálvio Ferreira Moraes, Investor Relations Manager

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and good afternoon, ladies and gentlemen. Welcome to Alpargatas' First Quarter 2016 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. Before proceeding, it's important to mention that any forward-looking statements 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. José Sálvio Moraes, Investor Relations Manager; Mariane Weger and Pedro Bueno, Investor Relations.

I would now like to turn the conference over to Mr. José Sálvio Moraes. Please go ahead, sir.

José Sálvio Ferreira Moraes

Good morning and good afternoon, everybody. Thank you for participating in Alpargatas conference call. In the first quarter of 2016, the economic environment in Brazil remained challenging. Alpargatas results stood out among consumer goods companies, showing growth in all consolidated indicators. Worthy of note during the quarter was the company's robust performance in Brazil, with net revenue increasing 7.6%, driven by growth in Sandals business sales volume, and revenue. In Sandals International, the exchange rate favored our operations, in particular in the EMEA, Europe, Middle East and North Africa region, which posted record sales volume. In Argentina, profit margins increased due to improved pricing management and higher productivity in operational expenses.

Explaining sales volume of sandals and non-sandals products. In Brazil, the volume growth of sandals was 9% compared with one quarter 2015, and this loss was driven by purchases from indirect channels, wholesalers and distributors to replace the stocks due to high sell-out they have. In international markets, sales volume increased significantly, as I said, in the EMEA region, but this growth was not enough to offset the reduction in volume in the export market, which were impacted by lower sales volumes to countries where restrictions on imports or on the remittance of funds exist. In the U.S., major consumers, customers, mainly postponed their purchases to second quarter. That's why we didn't have a strong first quarter in the U.S.

In sporting goods, in Brazil, the decrease in footwear sales was felt more by Mizuno for two reasons; the first, is the discounts granted in 1Q 2015, made 1Q 2015 comparatively with 1Q 2016 very strong. And the second point for Mizuno is the price increases that was given aimed at improving margin were not accompained by the competition. So the Mizuno footwear on average in the market became higher, the price, especially against our competitors. In Argentina, the drop in footwear sales was concentrated in a small brand we have there called Rueda. Rueda is mainly the Alpargatas footwear. Topper sales volume decreased 19% in Argentina, mainly due to a decrease in exports to Latin American markets, and to lower stocks held by clients as a result of the retraction in sales.

Talking about net revenue; in Brazil, the growth was due to increases in Sandals and Osklen sales, and the growth in revenue was driven by higher volumes and higher average prices. In Sandals International, revenue increased due to the exchange rate. The dollar and euro appreciated 36% and 34% respectively against 1Q 2015. In euros, we had the higher revenues, and they were result of the growth in sales volume, again in the EMEA region. In Argentina, the net revenue increase in footwear and textile prices offset the drop in volume, resulting in a 25% increase in revenue in Pesos. In Reais, the revenue was impacted by the devaluation of the Peso against the Brazilian currency.

Talking about gross profit; in Brazil, the gross profit grew due to the Sandals business higher share in revenue. The more we have the Sandals business grow in Brazil, the higher revenue we have and the higher profitability we have because the Sandals business is the one that we have the higher margin compared to other businesses. In Sandals International where the gross margin increased as a result of the exchange rate and the regional sales mix. And in Argentina, gross margin increased because the adjustment of Topper footwear prices that was brought forward to January compared to the February one year ago. Together with a rich sales mix, this factor increased the average price per pair of Topper in Argentina, 41%, compared to 1Q 2015 which was much above the local inflation.

EBITDA; EBITDA margin in Brazil was reduced by approximately 1 percentage point mainly due to a higher concentration of operational expenses in the quarter. In Sandals International and in Argentina, margins were benefited from higher productivity in operational expenses in this quarter, in particular in marketing, savings in marketing. And finally, our net income, we have a gross of 15.3% in our net income in this quarter, reaching R$118 million with an 11.7% net margin. And the main factor that contributed to this increase in the net income was the EBITDA generation that was very strong in a consolidated basis.

In capital markets and shareholder compensation, in the first quarter of this year, our Alpargatas preferred shares, ALPA4, increased 9.5% and - comparing with a growth of 15% with the Ibovespa. So although in Brazil, we know the situation in the first quarter was not so strong, our shares had a good performance compared with this sector. The board of directors approved in the last meeting held on May 6 a distribution of interest on own equity of R$17.6 million, that together with the R$21.3 million paid out in April, totals almost R$39 million of shareholder remuneration for the fiscal year of 2016.

These are the main figures of Alpargatas and the main reasons that our performance indicators grew. So again, comparing it with other consumer goods companies in Brazil, Alpargatas had a good performance in sales, especially in the domestic market, as I mentioned. And of course, these trends of the Havaianas brand helped this performance in Brazil, as well as in Europe and other regions of the world. We continue to be very confident that this year, for the full 2016 year, we'll continue to have good results with volume growth in all regions, and as well as in our profitability.

We are now open for questions and answers, and thank you again.

Q&A

Operator

This concludes today's question-and-answer session. I'd like to invite Mr. José Sálvio Moraes to proceed with his closing statements. Please go ahead, sir.

A - José Sálvio Ferreira Moraes

Okay. Thank you again, and so I'm here in Brazil. I think everybody knows my e-mail address and phone number. So any other doubts you may have, please don't hesitate to call me. And whenever some of you come to Brazil, let us know. It will be a pleasure to have a meeting here in our headquarter. Thank you very much.

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.