

# UBS

*Global Emerging Markets One-on-One Conference*

## 9M14 Results

# Grendene®



ALWAYS NEW. ALWAYS IPANEMA



Ipanema

# Disclaimer

This presentation contains statements that can represent expectations about future events or results. These statements are based on certain suppositions and analyses made by the company in accordance with its experience, with the economic environment and market conditions, and expected future developments, many of which are beyond the company's control. Important factors could lead to significant differences between real results and the statements on expectations about future events or results, including the company's business strategy, Brazilian and international economic conditions, technology, financial strategy, developments in the footwear industry, conditions of the financial market, and uncertainty on the company's future results from operations, plans, objectives, expectations and intentions – among other factors. In view of these aspects, the company's results could differ significantly from those indicated or implicit in any statements of expectations about future events or results.

# Agenda

**Mission, Vision and Values**

**History**

**Dividends**

**Capital markets**

**Plants**

**Capital Expenditure (CAPEX)**

**Production**

**Footwear Sector**

**Brands and Marketing**

**Results**

**Guidance**

**Mission**

To create democratic fashion, responding rapidly to the market's needs, generating an attractive return for the company and its partners.

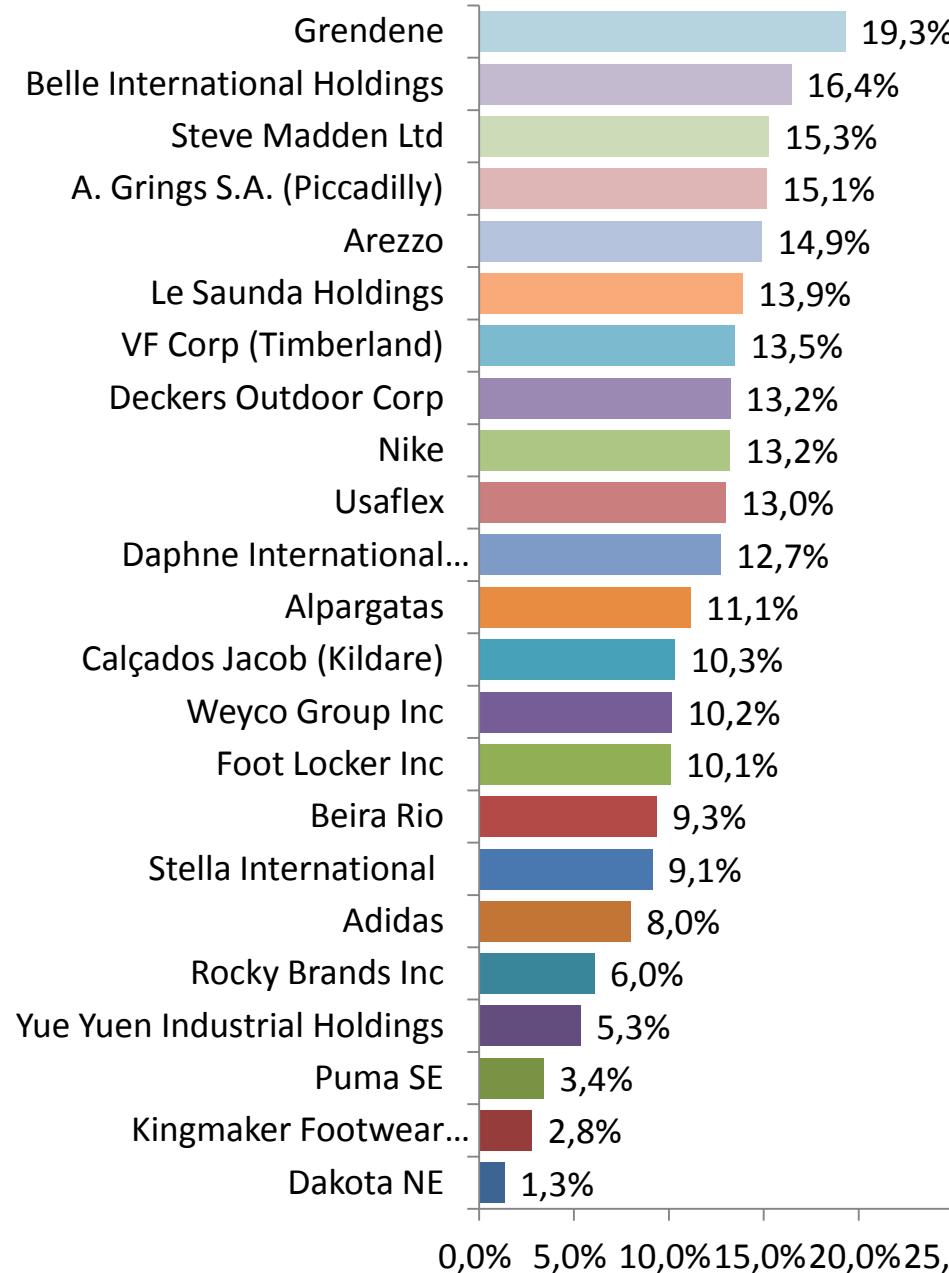
Being among the most profitable companies in the world and the leading organizations in the sector.

**Vision****Grendene Values****Profitability****Competitiveness****Innovation****Agility****Ethics**

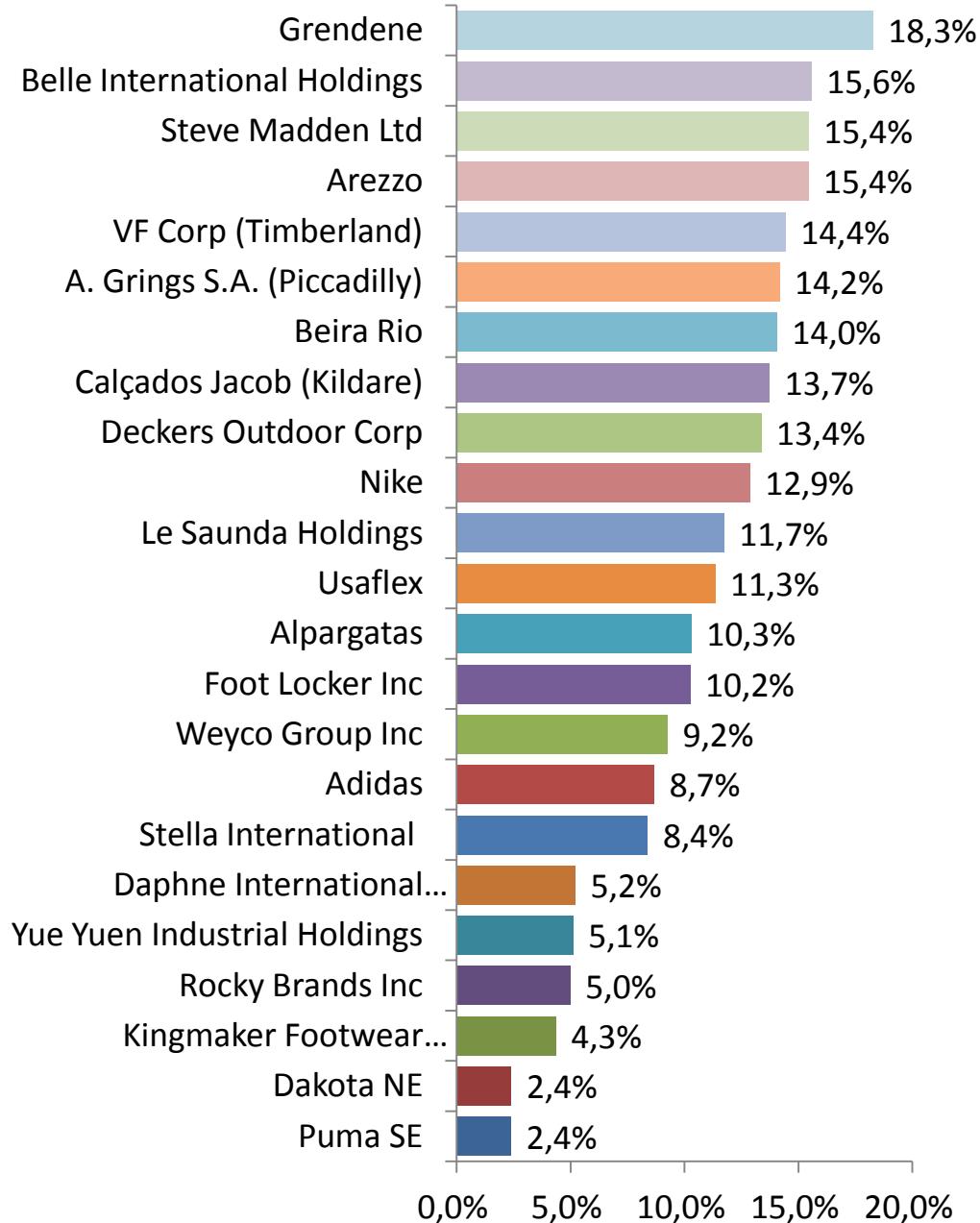
# Profitability – Ebit margin

Source: Grendene / Bloomberg / Companies Financial Statements

**EBIT margin - 2012**



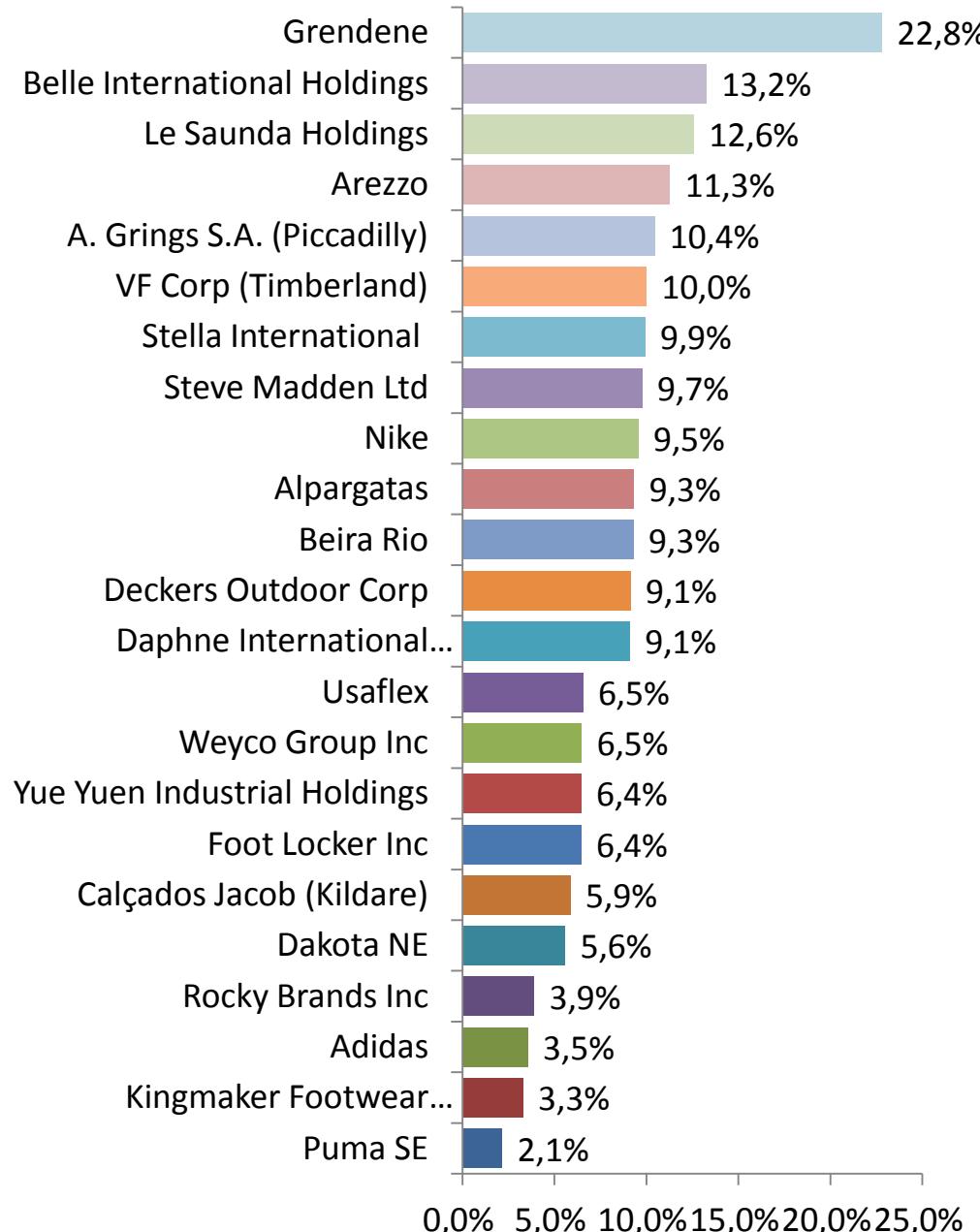
**EBIT margin - 2013**



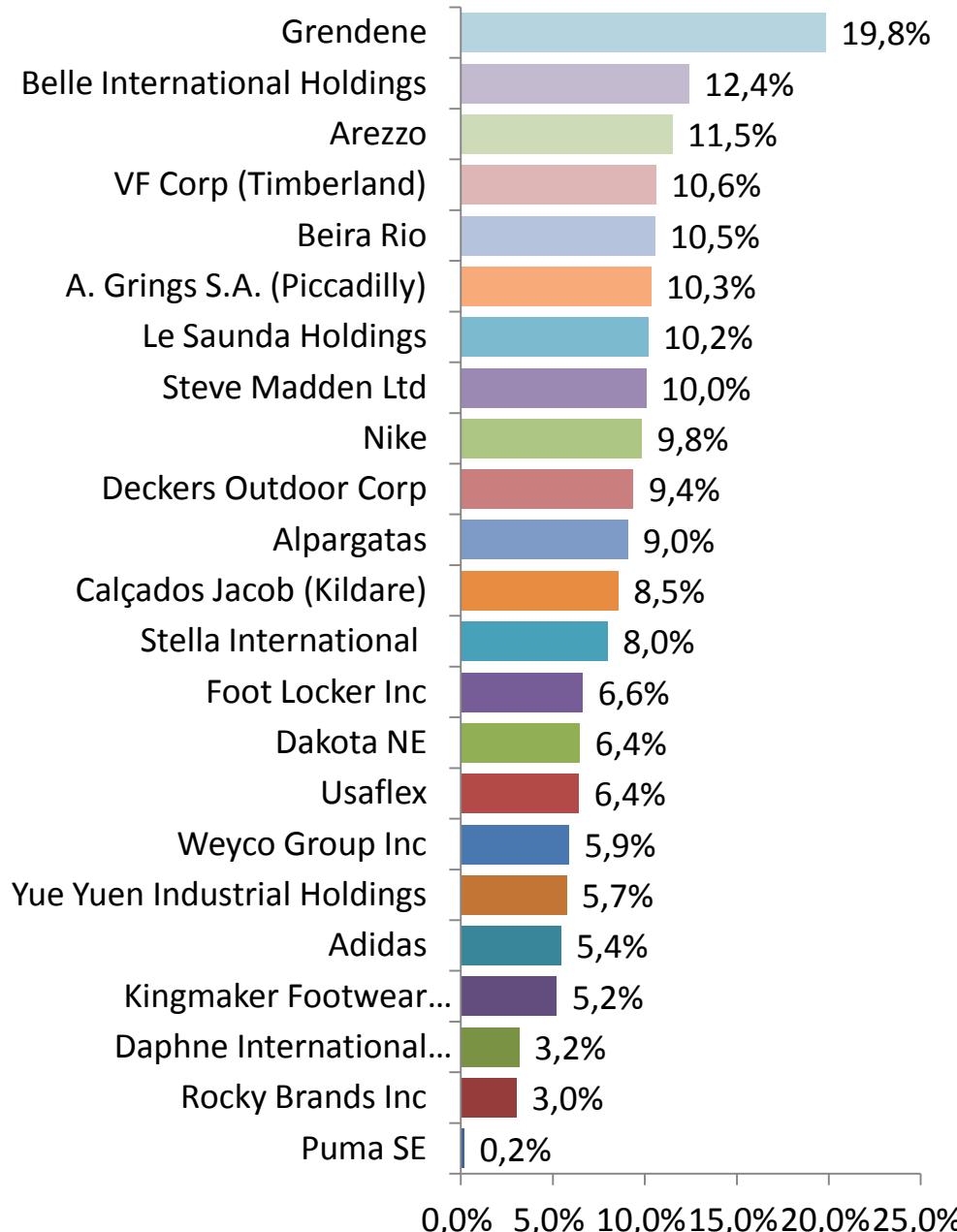
# Profitability – Net margin

Source: Grendene / Bloomberg / Companies Financial Statements

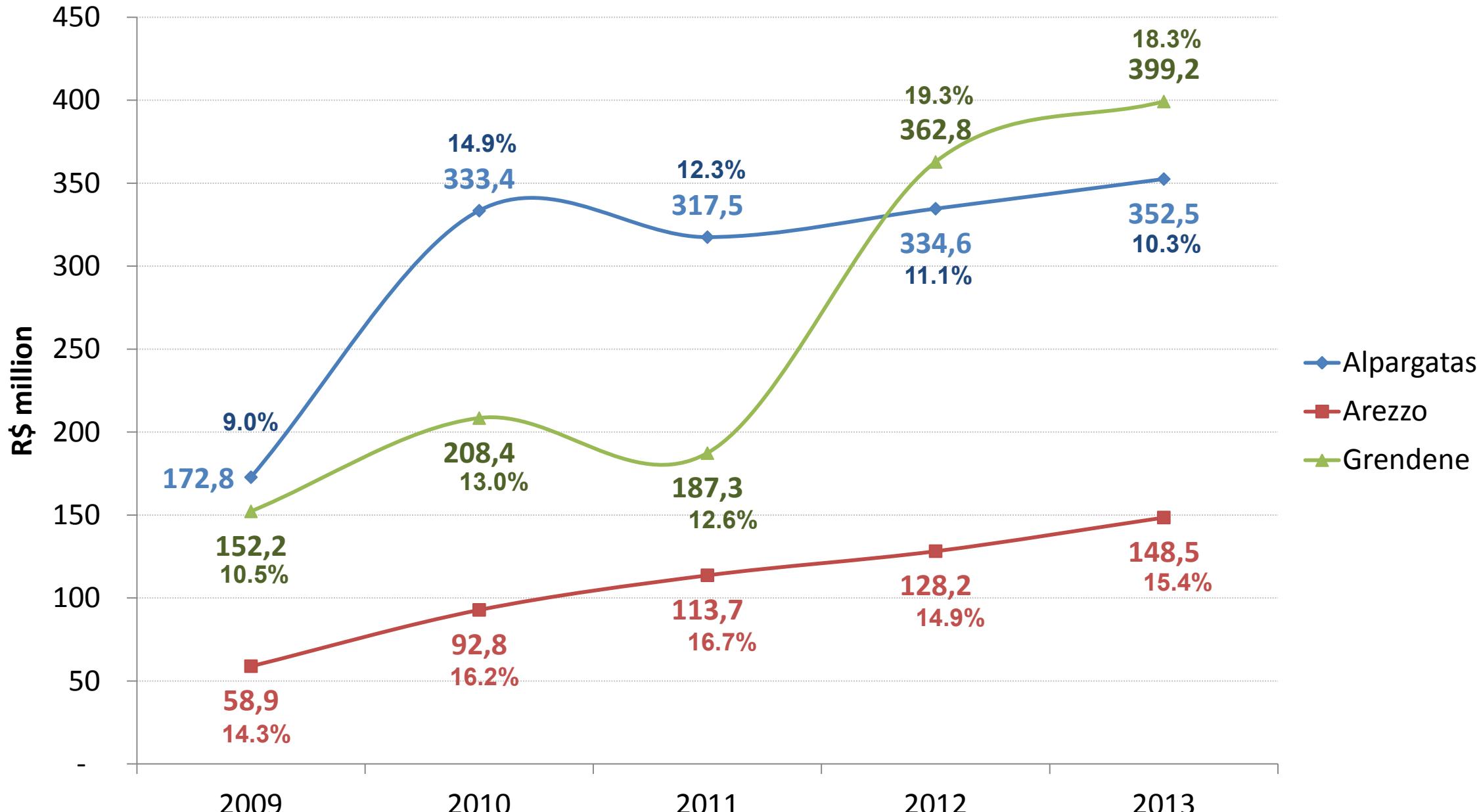
**Net margin - 2012**



**Net margin - 2013**



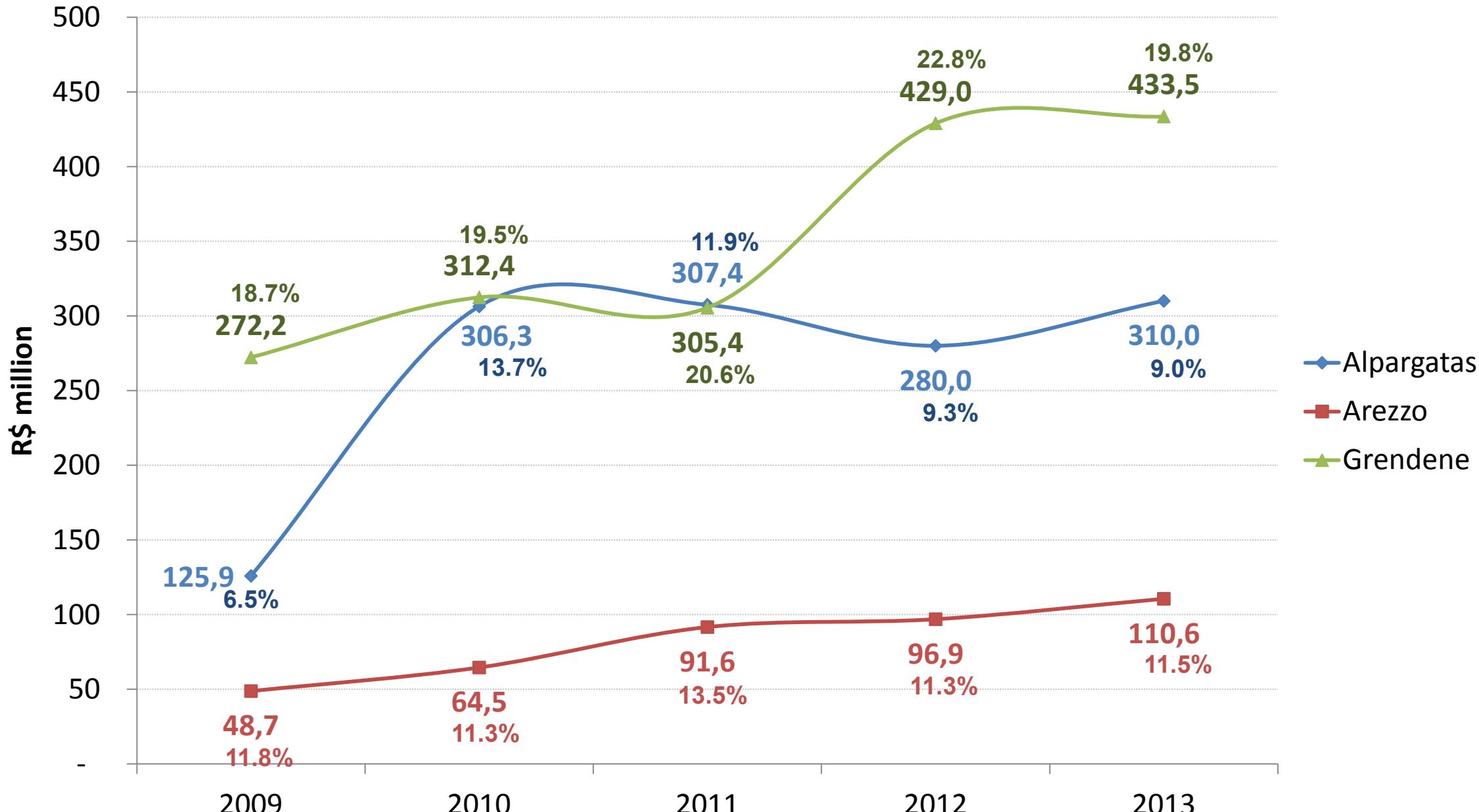
# EBIT and EBIT margin - Main companies in Brazil



Source: Grendene / Bloomberg

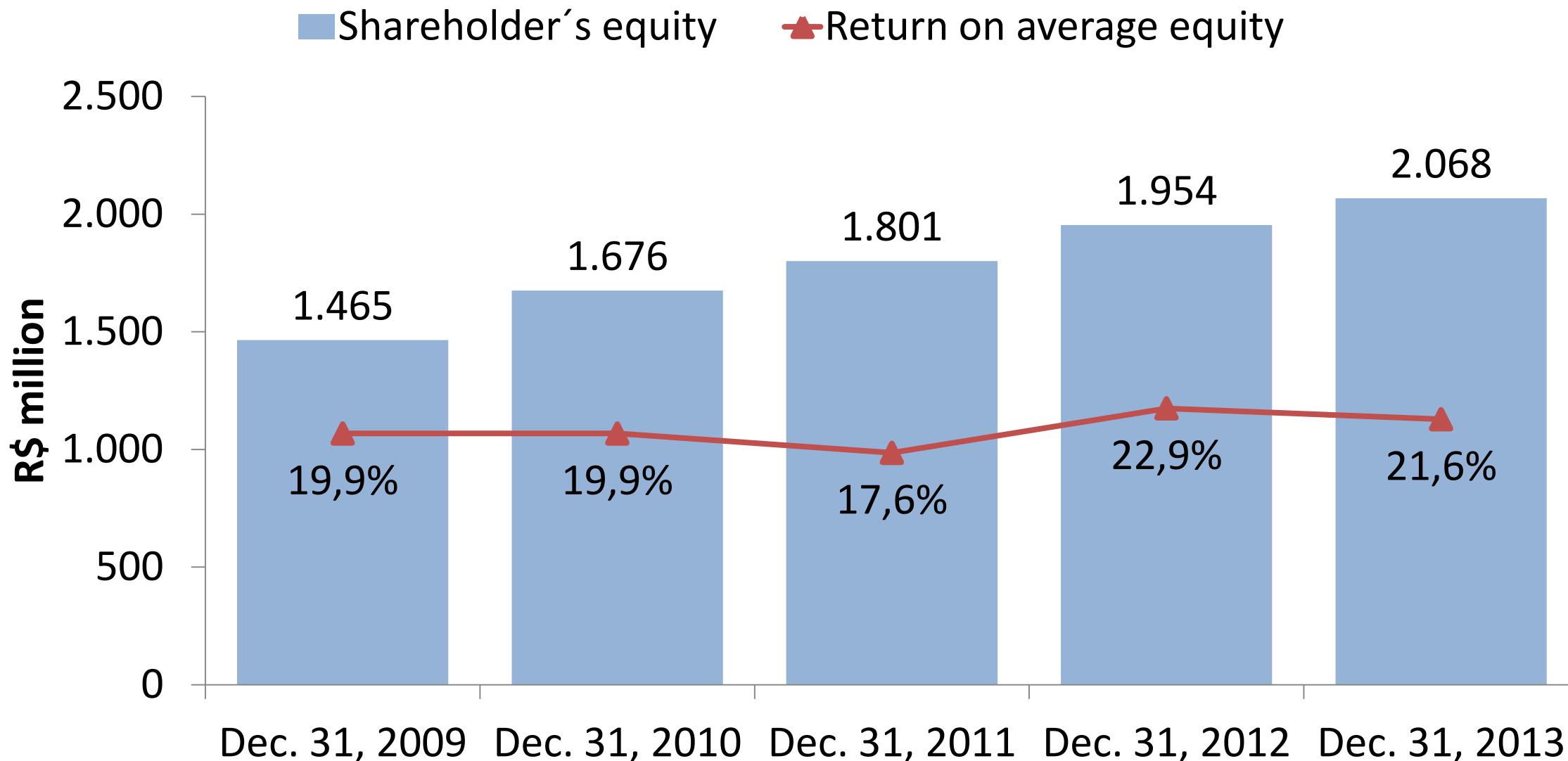
# Profit and Net margin

## - Main companies in Brazil



Source: Grendene / Bloomberg

# Shareholder's equity and return on equity



# Timeline

70's

- Grendene **was founded in Farroupilha**, in the State of Rio Grande do Sul.
- **Launch** of the sandal collection with **the brand Melissa**.



80's

- Openning of own **plant making molds**.
- Launch of the **Rider brand** of sandals for the men's market.



90's

- Openning of the factories in Ceará State.
- Launch of the **Grendha brand** product line for the women's market.



# Timeline

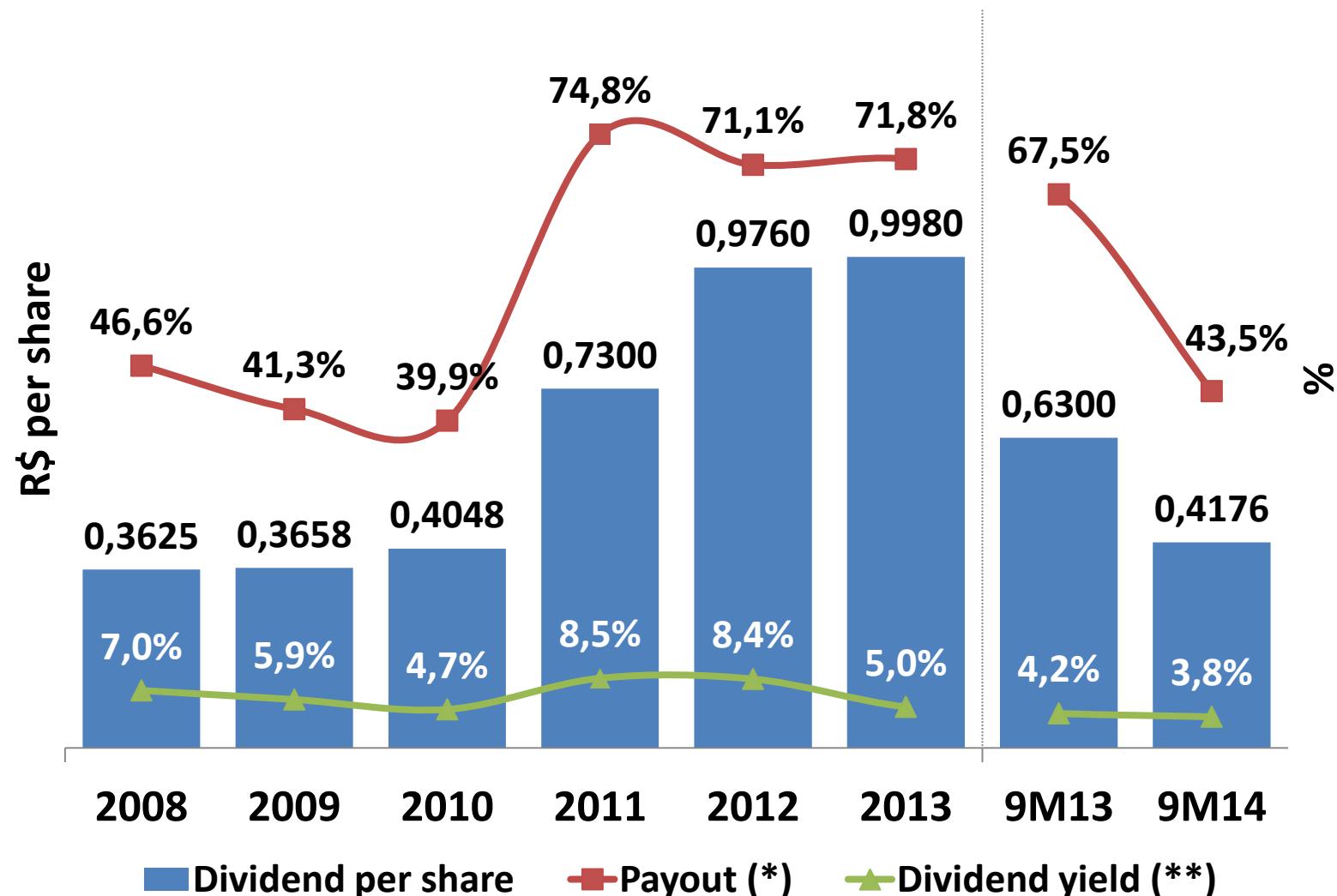
- Grendene started having common shares ("GRND3") negotiated at the Novo Mercado of BM&FBOVESPA.
- 2000 -
  - Opening of **Galeria Melissa** in São Paulo
- 2010
  - New plant – Teixeira de Freitas (BA).
  - Launch of the **Ipanema, Zaxy and Cartago brands**.
- 2011 -
  - New plant – Sobral (CE).
  - Opening of **Galeria Melissa** in New York.
  - **Clube Melissa's** creation.
  - **Creating of the subsidiary A3NP Indústria e Comércio de Móveis.** Partnership with Philippe Starck to produce products on an industrial scale with sophisticated design and accessible cost for the middle income groups.
- 2014
  - Opening of **Casa Ipanema**.
  - Opening of **Galeria Melissa** in London.



# Dividends Policy

The Company's dividend policy is **distribute, as dividends – after constitution of the Legal Reserve, and the Reserve under the Bylaws – that part of Profit that does not arise from state tax incentives.**

Accumulated amount of deliberate dividends since IPO:  
R\$1,672,497,576.63 – representing R\$5.561644 per share.  
(Basis 300,720,000)



(\*) Payout: Dividend divided by profit after the allocations to legal reserves.

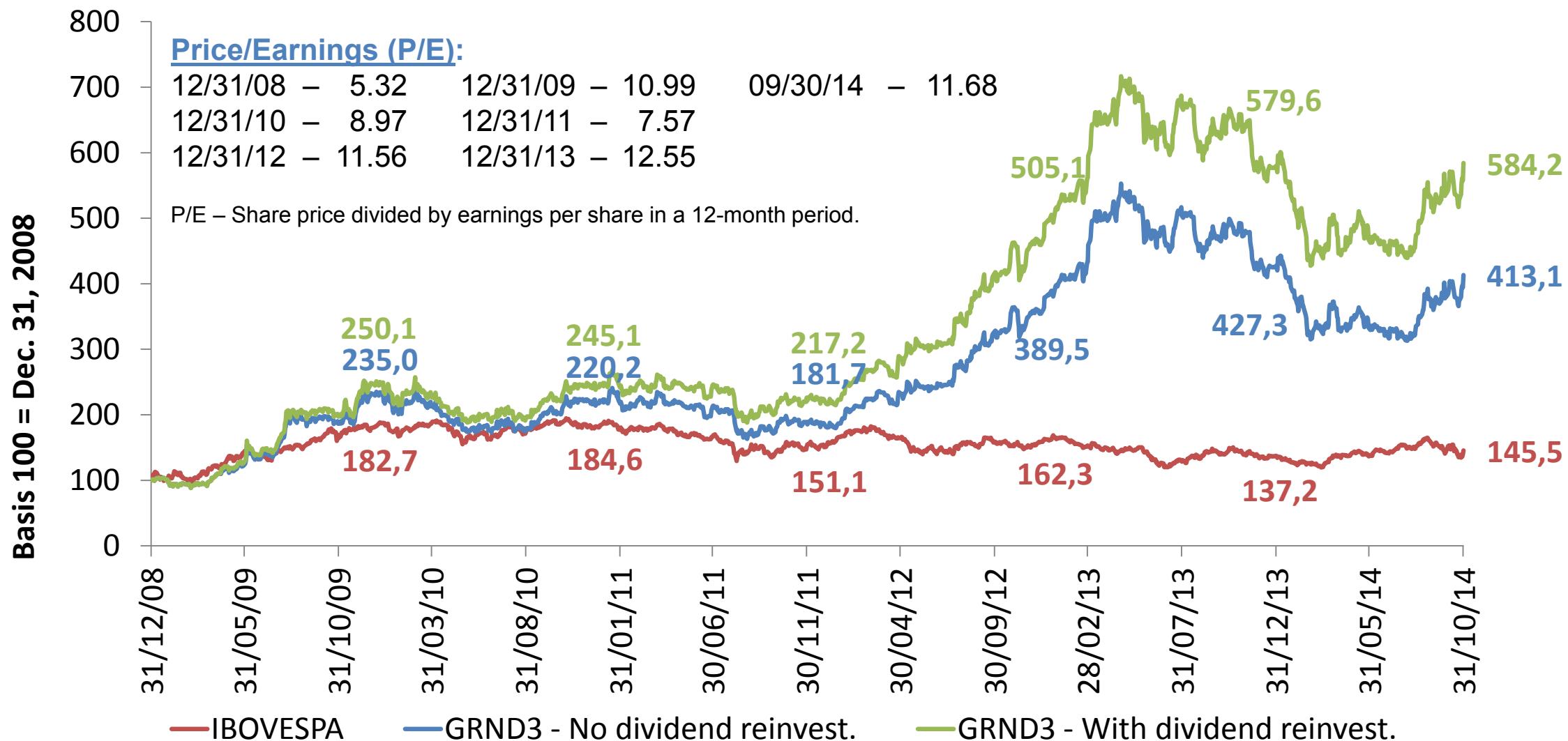
(\*\*) Dividend yield: Dividend per share in the period divided by the weighted average price of the share, annualized.

# Capital Markets

**Grendene®**

Last 52 weeks	Date	Share price	Market capitalization	Market capitalization – free float
Minimum	Feb. 25, 2014	R\$ 13.02	R\$ 4.1 billion	R\$ 1.0 billion
Maximum	Aug. 12, 2013	R\$ 20.99	R\$ 6.3 billion	R\$ 1.6 billion

## Evolution GRND3 x IBOVESPA – Dec. 31, 2008 to Oct. 31, 2014



# Location of industrial plants

**Grendene®**



Sobral / CE



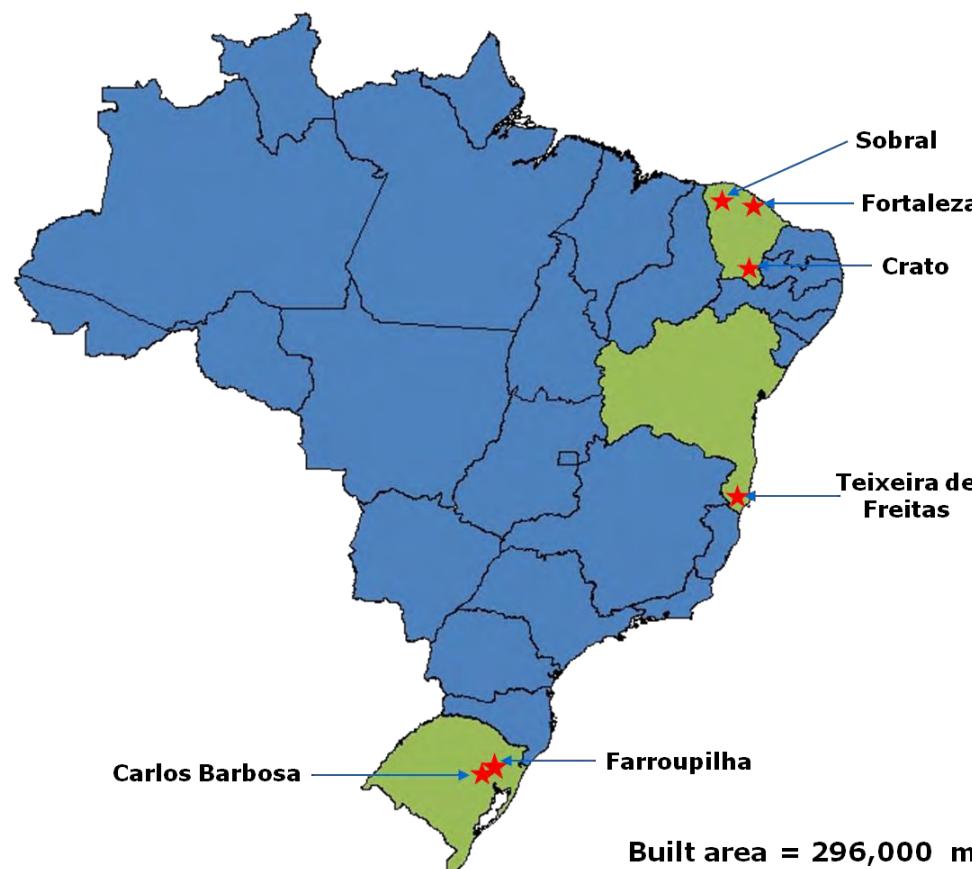
Carlos Barbosa / RS



Farroupilha / RS

Production capacity:  
250,000,000 pairs / year

**Brazil**



Employees:  
Northeast region: 24,100  
South region: 2,100



Fortaleza / CE



Crato / CE

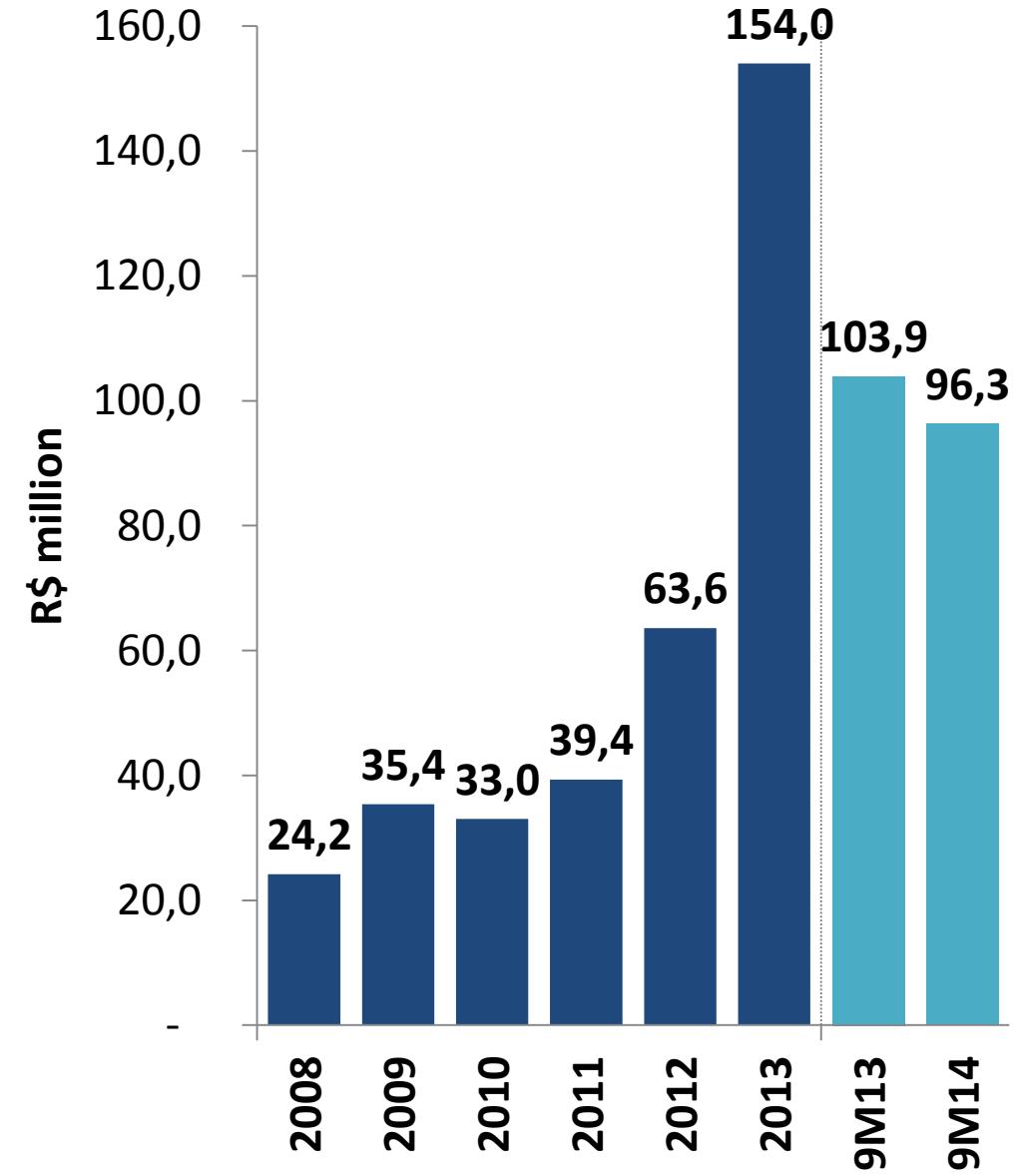


Teixeira de Freitas/BA

# Capex (Property, plant and equipment and intangible assets)



Investments increased the production capacity.



# Footwear sector

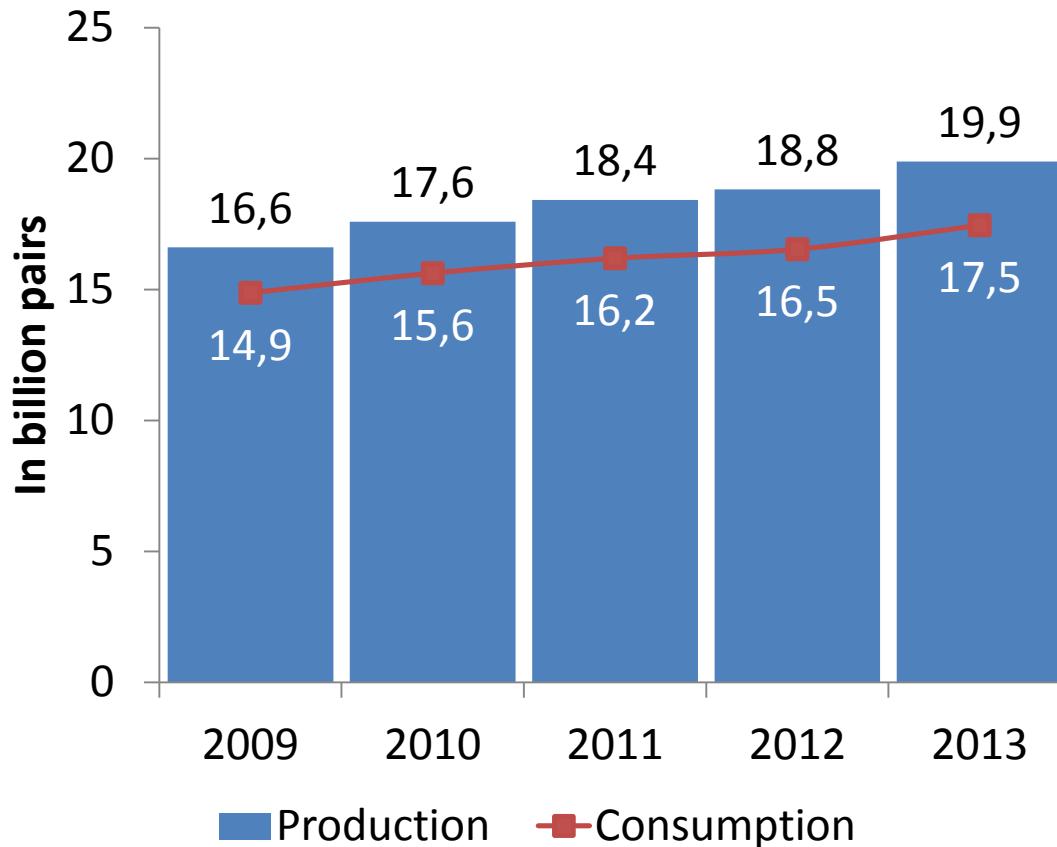


# Footwear sector – World

Grendene®

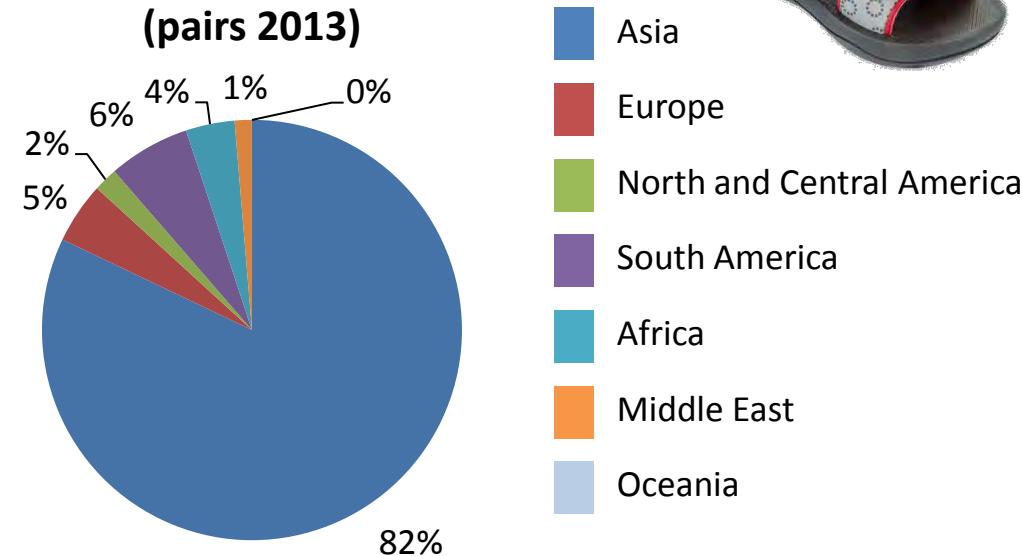


**Evolution of worldwide production and consumption of footwear**

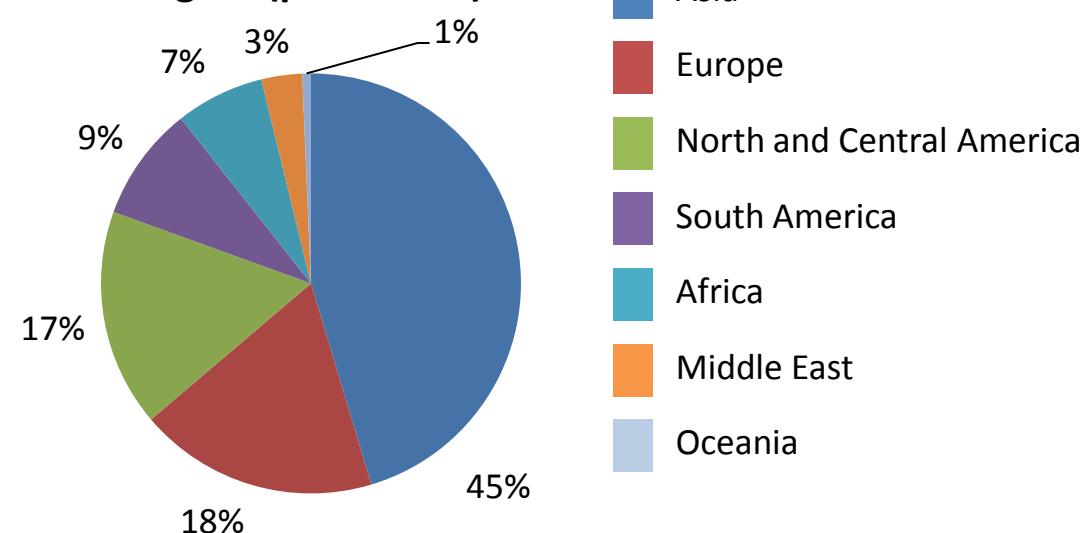


Brazil ranked third among the world's largest producers of footwear and fourth in Consumption in 2013.

**Footwear production by region (pairs 2013)**



**Footwear consumption by region (pairs 2013)**



# Footwear sector – Brazil

Grendene®

- World's 3<sup>rd</sup> largest producer;
- About 8,100 producers;
- 353,000 direct employees;
- Production: 900 million pairs in 2013;
- Exports: 123 million pairs to more than 150 countries in 2013;
- Apparent consumption, Brazilian domestic market: 816 million pairs and – 4.2 pairs per capita/year in 2013.

Source: IEMI/RAIS/ABICALÇADOS/SECEX



The footwear sector in Brazil is characterized by small companies and labor-intensive, with no barriers to entry or exit.

# Footwear sector – Brazil

**Grendene®**

Million pairs	2008	2009	2010	2011	2012	2013
Production	816	814	894	819	864	900
Imports	39	30	29	34	36	39
Exports	166	127	143	113	113	123
Apparent Consumption	689	717	780	740	787	816
<b>Per capita consumption (pairs)</b>	<b>3.7</b>	<b>3.8</b>	<b>4.1</b>	<b>3.8</b>	<b>4.1</b>	<b>4.2</b>

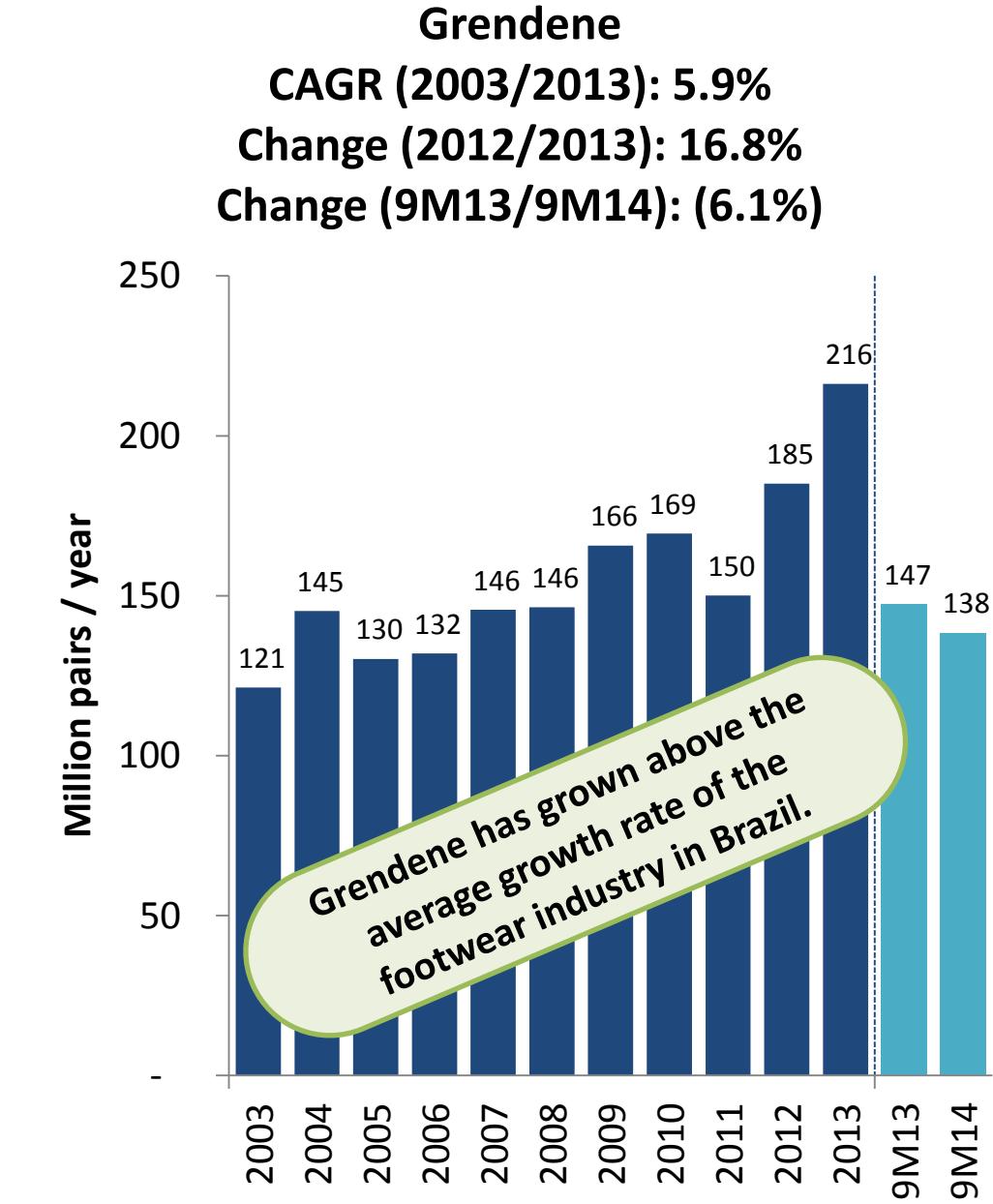
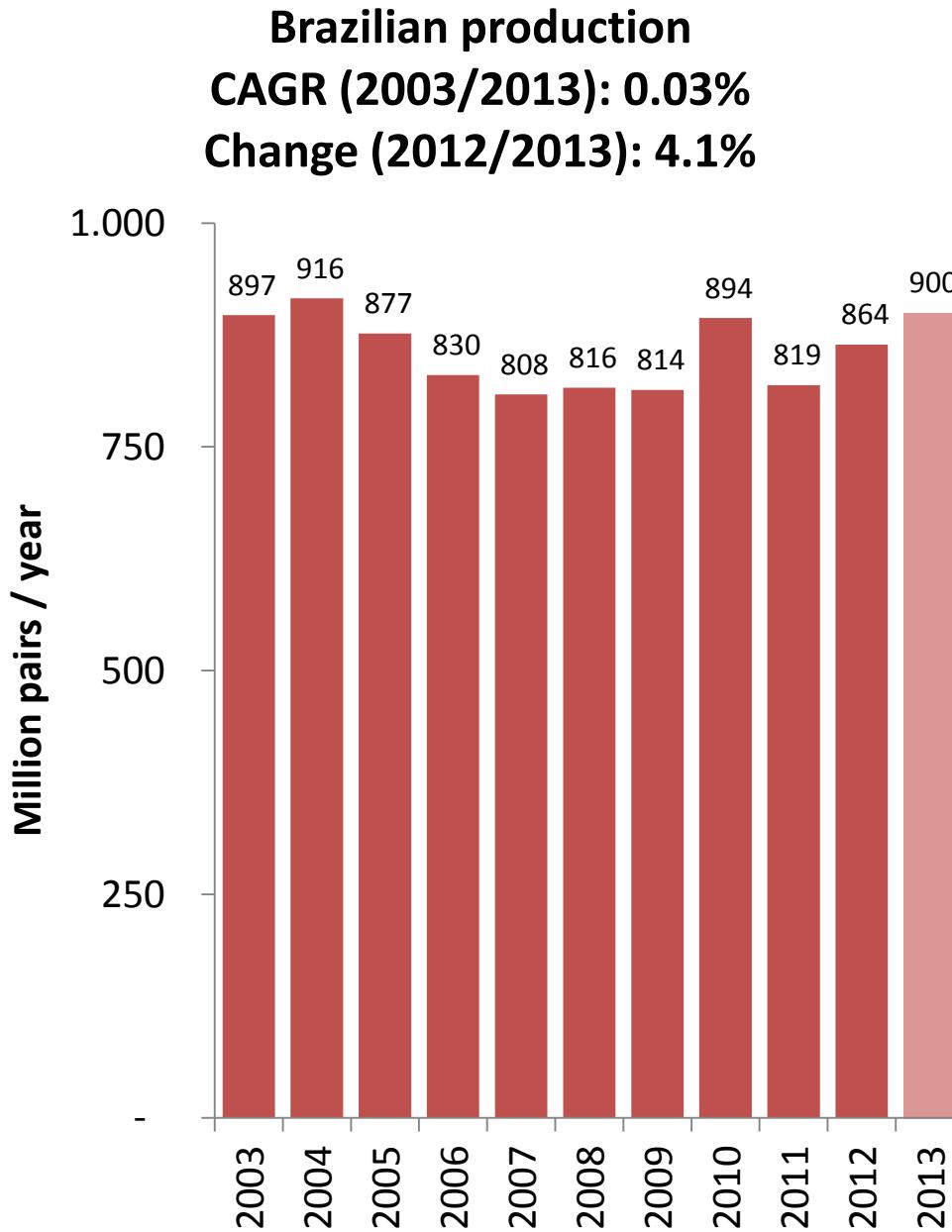
Source: IEMI / SECEX / ABICALÇADOS



# Brazilian footwear sector x Grendene

Grendene®

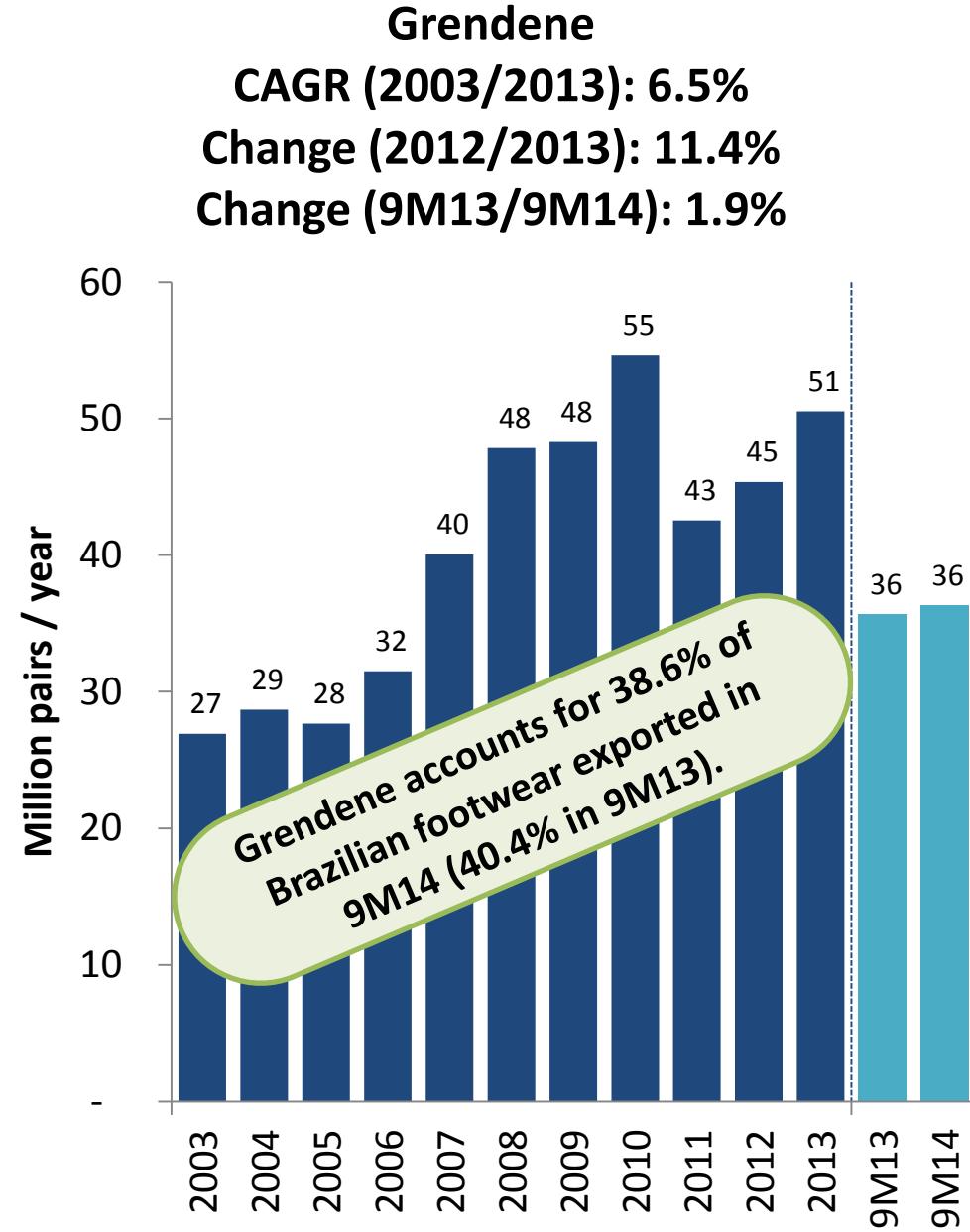
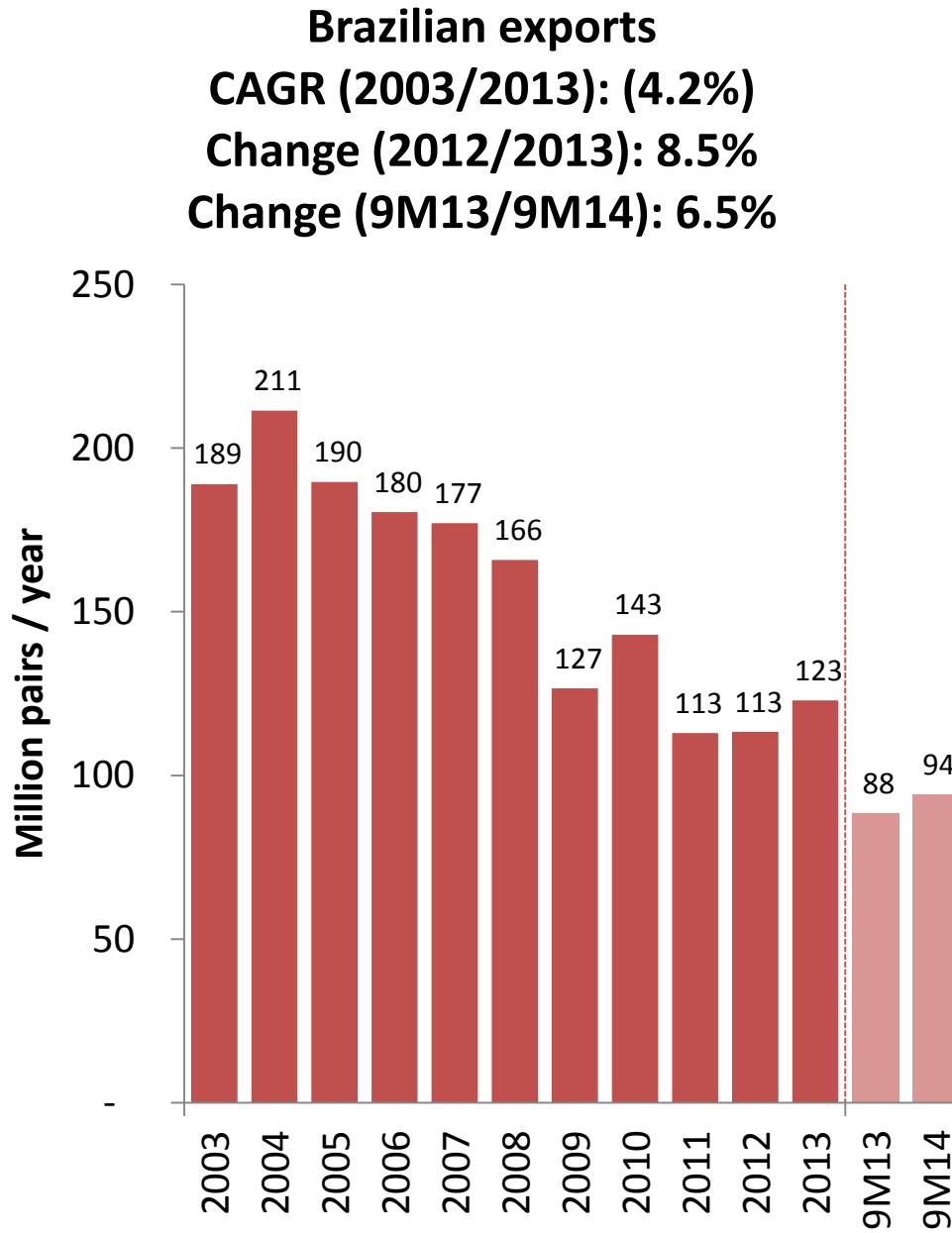
Source: IEMI / Abicalçados / Grendene



# Exports: Brazil x Grendene

Grendene®

Source: MDIC / Decex / Abicalçados / Grendene



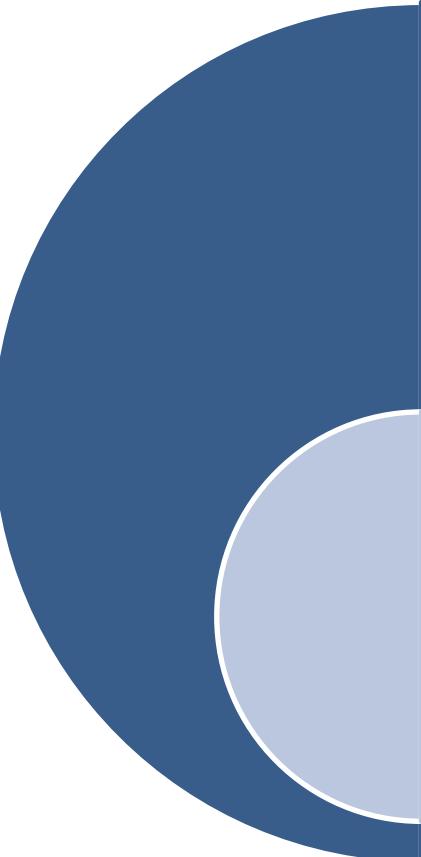


# melissa®



# ZIZOU

# zaxy



Products that meet essential and basic needs at low cost.

Products for all the income levels: A, B, C, D and E – with very good cost x benefit.

# Marketing

Casa Ipanema – Rio de Janeiro/RJ – Brazil  
Photo: Mariana Vianna



Ipanema



Fiorella Mattheis  
Actress



Giovanna Ewbank  
Actress



Sheron Menezes  
Actress



Giovana Lancellotti  
Actress

**Grendene®**

# melissa®



Showroom Melissa –  
Milano / Italy



Galeria Melissa –  
New York



Galeria Melissa –  
London



Pop Up Store Melissa –  
Miami / USA



Clube Melissa



Galeria Melissa –  
São Paulo

**Grendene®**



# Sales channels

**Grendene®**

## Clube Melissa



Retail



Strong relationship  
with trade



Retail



Retail

# Results (in IFRS)



# Main financial and economic indicators



Million of R\$	2008	2009	2010	2011	2012	2013	Change % 12-13	CAGR (5 year)
Gross revenue	1,576.0	1,819.4	1,998.6	1,831.6	2,324.5	2,711.4	16.6%	11.5%
Domestic market	1,220.5	1,464.4	1,603.8	1,489.9	1,845.4	2,146.9	16.3%	12.0%
Exports	355.5	355.0	394.8	341.7	479.1	564.5	17.8%	9.7%
Net revenue	1,249.9	1,455.8	1,604.5	1,481.1	1,882.3	2,187.3	16.2%	11.8%
Cost of sales	(731.2)	(889.7)	(953.3)	(840.5)	(1,000.2)	(1,193.6)	19.3%	10.3%
Gross profit	518.7	566.0	651.2	640.6	882.1	993.7	12.6%	13.9%
EBIT	165.9	152.2	208.4	187.3	362.8	399.2	10.0%	19.2%
EBITDA	191.5	178.5	236.6	216.2	394.5	435.9	10.5%	17.9%
Net income	239.4	272.2	312.4	305.4	429.0	433.5	1.1%	12.6%

Margin %	2008	2009	2010	2011	2012	2013	Change 12-13 (p.p.)	Change 08-13 (p.p.)
Gross	41.5%	38.9%	40.6%	43.3%	46.9%	45.4%	(1.5)	3.9
EBIT	13.3%	10.5%	13.0%	12.6%	19.3%	18.3%	(1.0)	5.0
EBITDA	15.3%	12.3%	14.7%	14.6%	21.0%	19.9%	(1.1)	4.6
Net	19.2%	18.7%	19.5%	20.6%	22.8%	19.8%	(3.0)	0.6

# Main financial and economic indicators (9M)

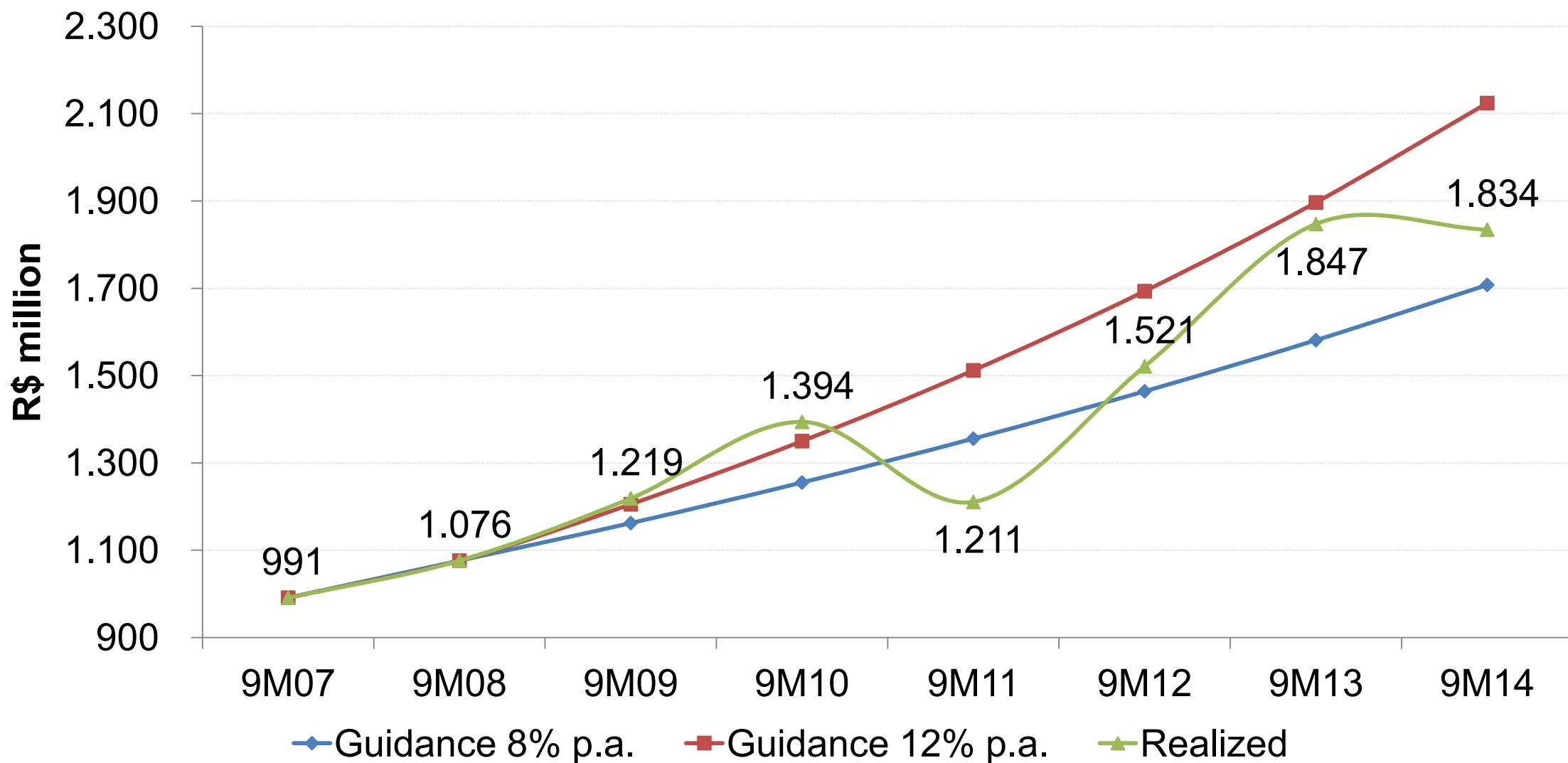


Million of R\$	9M12	9M13	9M14	Change % 9M14-9M13	CAGR (2 years)
Gross revenue	1,521.1	1,847.3	1,834.2	(0.7%)	9.8%
Domestic market	1,229.4	1,475.1	1,424.3	(3.4%)	7.6%
Exports	291.6	372.2	409.9	10.2%	18.6%
Net revenue	1,222.7	1,485.1	1,492.0	0.5%	10.5%
Cost of sales	(666.5)	(813.6)	(836.7)	2.8%	12.0%
Gross profit	556.2	671.5	655.3	(2.4%)	8.5%
EBIT	195.0	259.8	217.1	(16.5%)	5.5%
EBITDA	218.4	286.5	251.7	(12.2%)	7.4%
Net income	261.0	290.6	295.0	1.5%	6.3%

Margin %	9M12	9M13	9M14	Change (p.p.) 9M14 – 9M13	Change (p.p.) 9M14 – 9M12
Gross	45.5%	45.2%	43.9%	(1.3)	(1.6)
EBIT	15.9%	17.5%	14.5%	(3.0)	(1.4)
EBITDA	17.9%	19.3%	16.9%	(2.4)	(1.0)
Net	21.3%	19.6%	19.8%	0.2	(1.5)

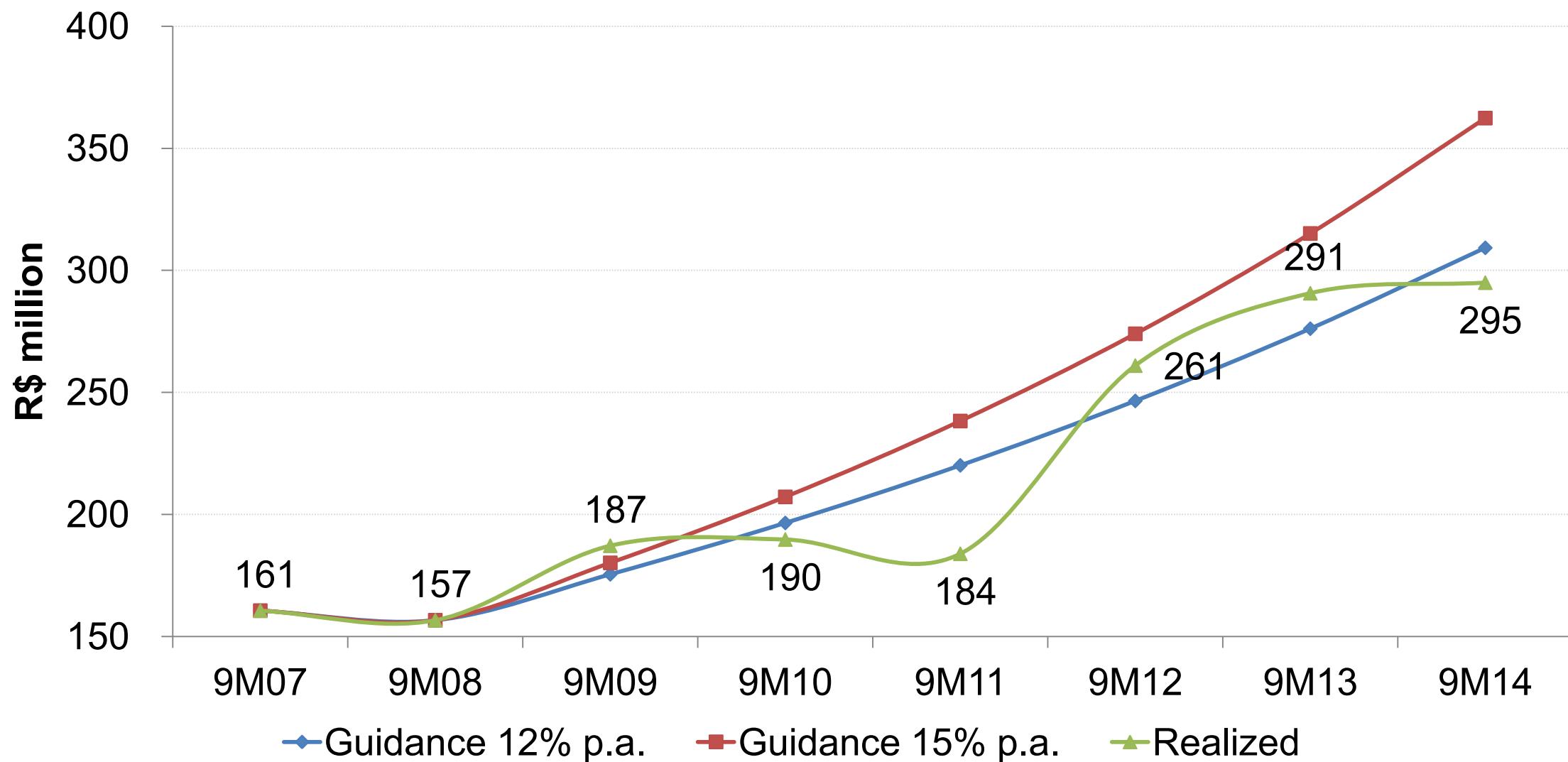
# Gross sales revenue (9M)

**Growth at a Compound Annual Growth Rate (CAGR) between 8% and 12%**



# Profit (9M)

**Growth at a Compound Annual Growth Rate (CAGR) between  
12% and 15%**

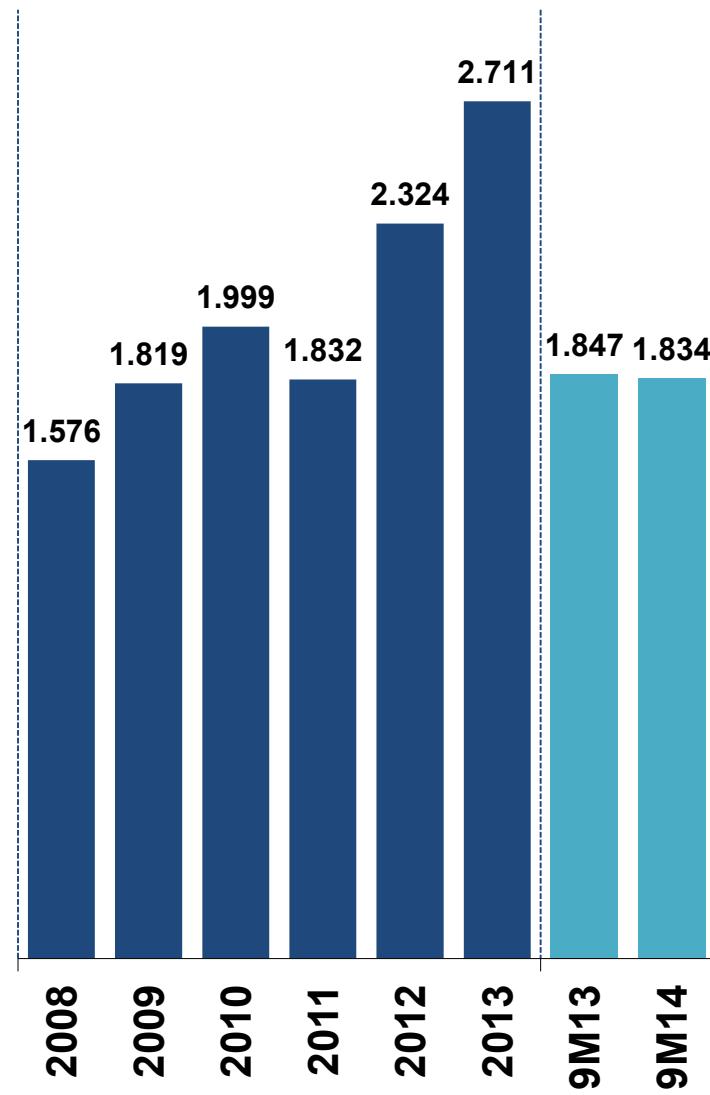


# Gross revenue (IFRS) – R\$ million

Note: CAGR 5 years

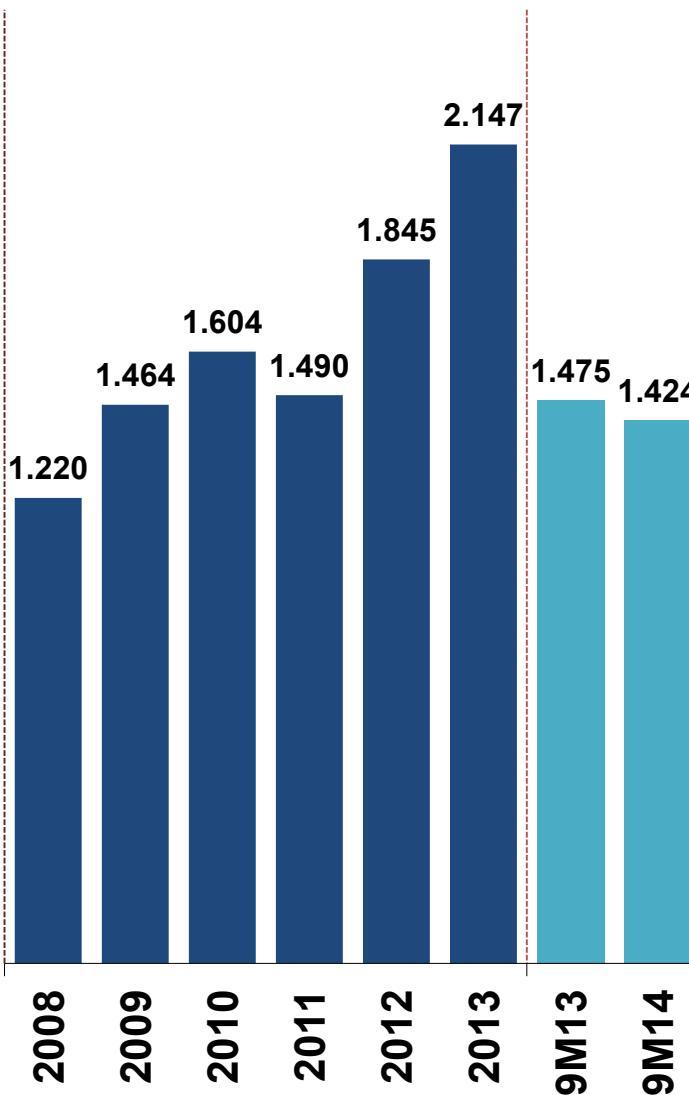
## Gross sales revenue Total

CAGR (2008-2013): 11.5%  
Change (9M13-9M14): (0.7%)



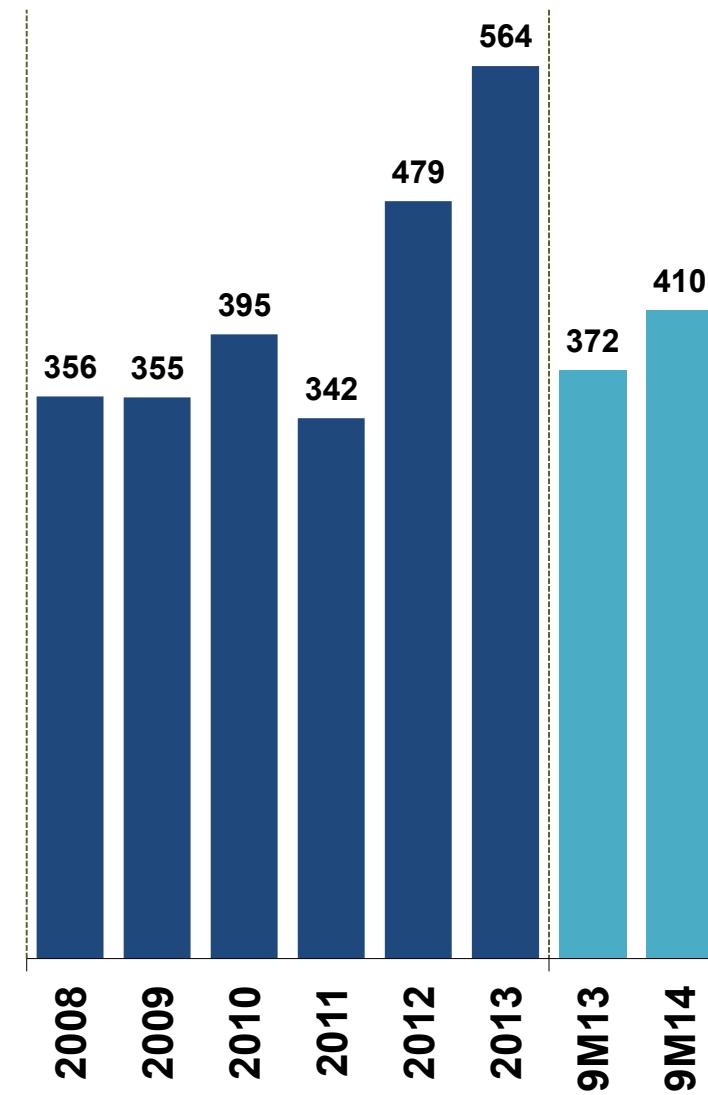
## Gross sales revenue Domestic market

CAGR (2008-2013): 12.0%  
Change (9M13-9M14): (3.4%)



## Gross sales revenue Exports

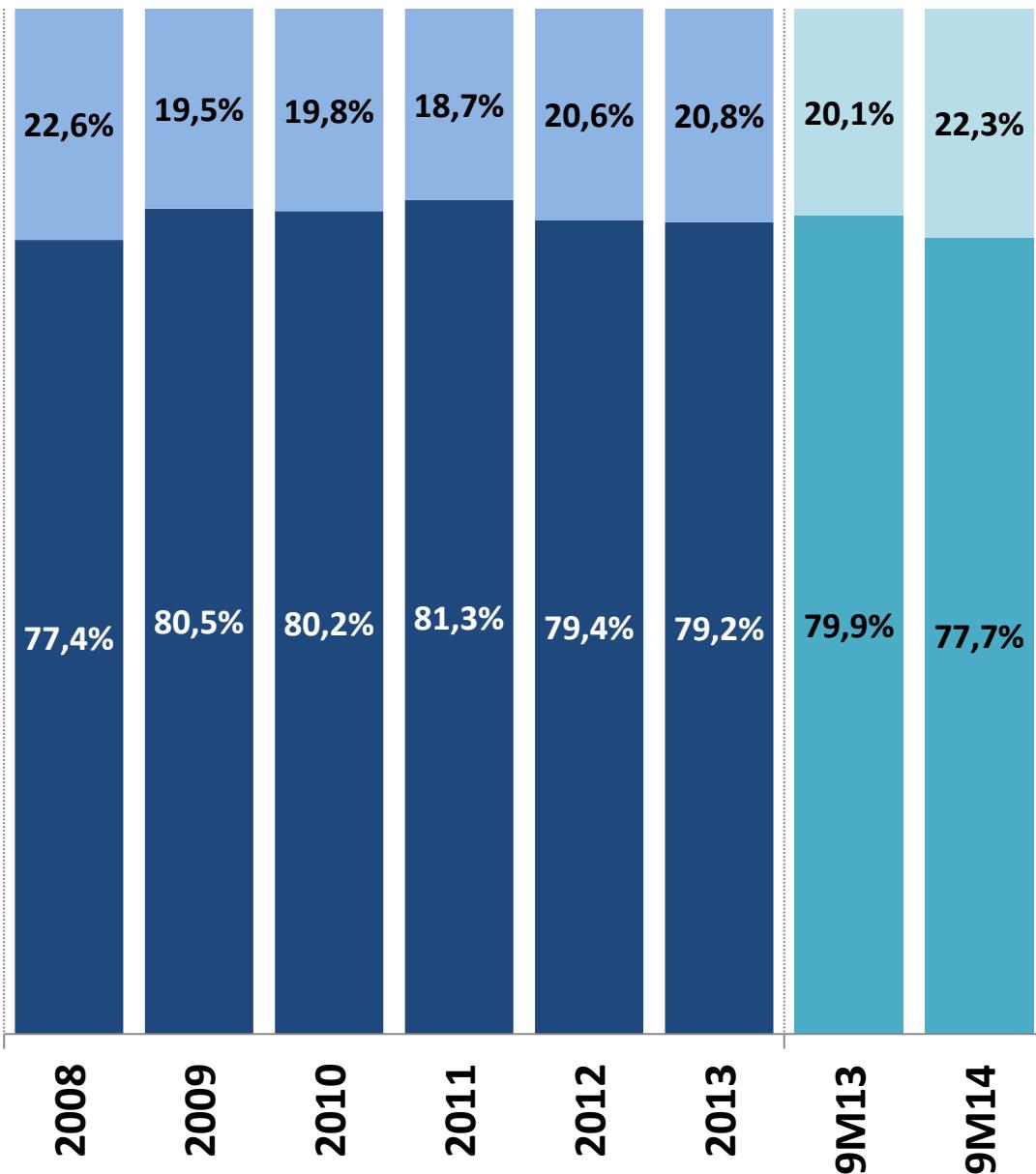
CAGR (2008-2013): 9.7%  
Change (9M13-9M14): 10.2%



# Market %

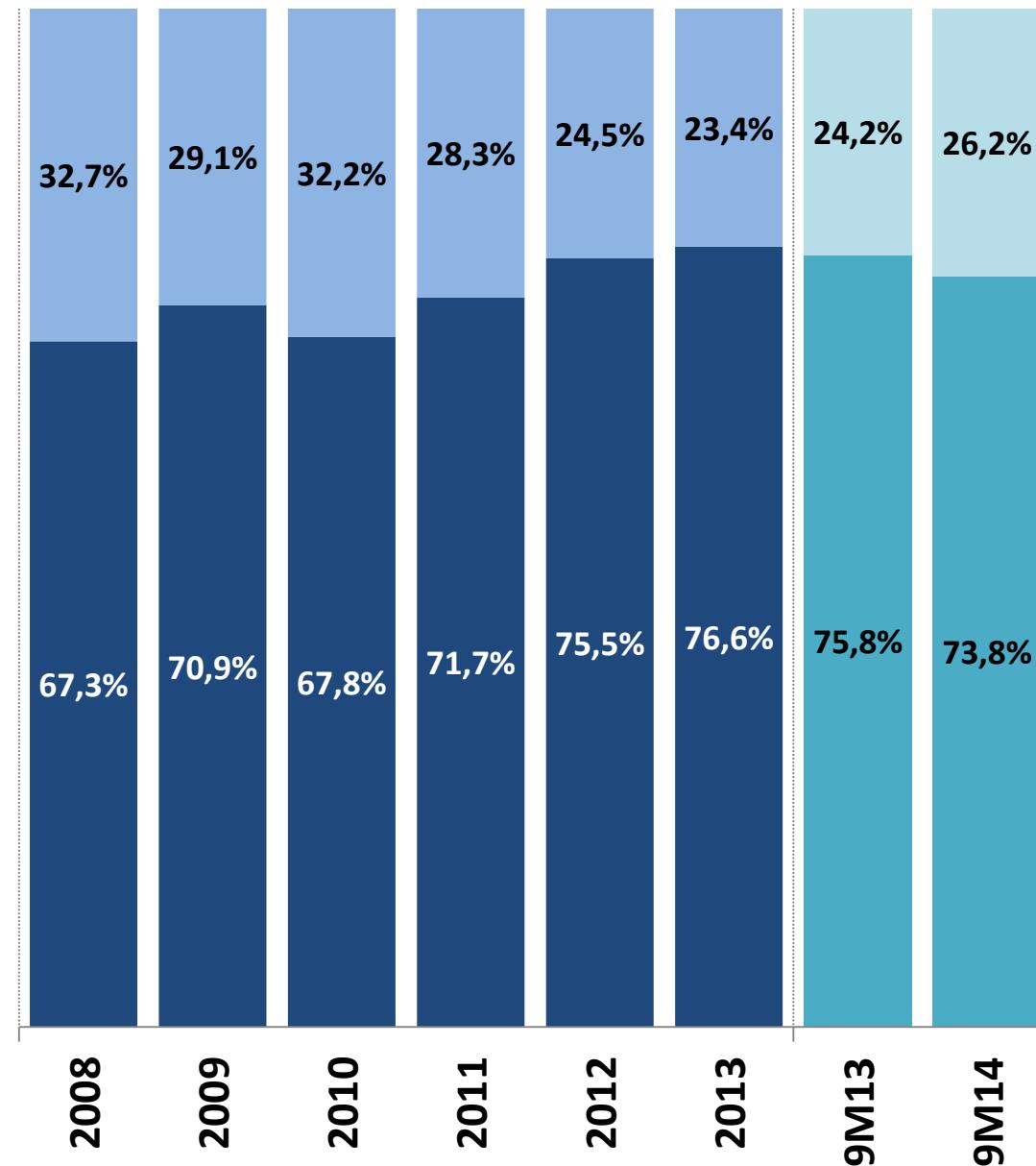
**Grendene®**

**Gross sales revenue**



■ Domestic market ■ Exports

**Sales volume**

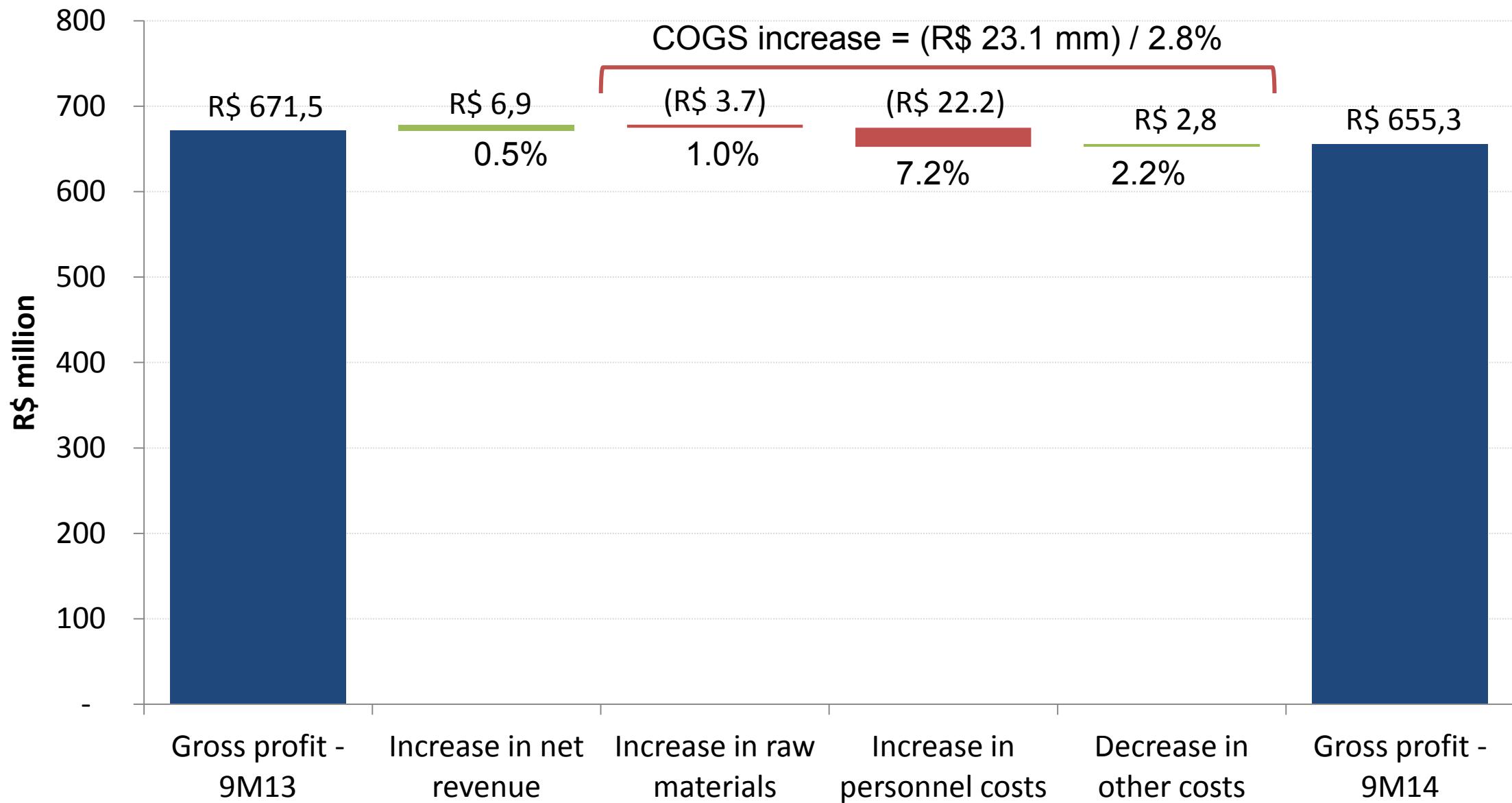


■ Domestic market ■ Exports

# Results (IFRS) – R\$ million

Grendene®

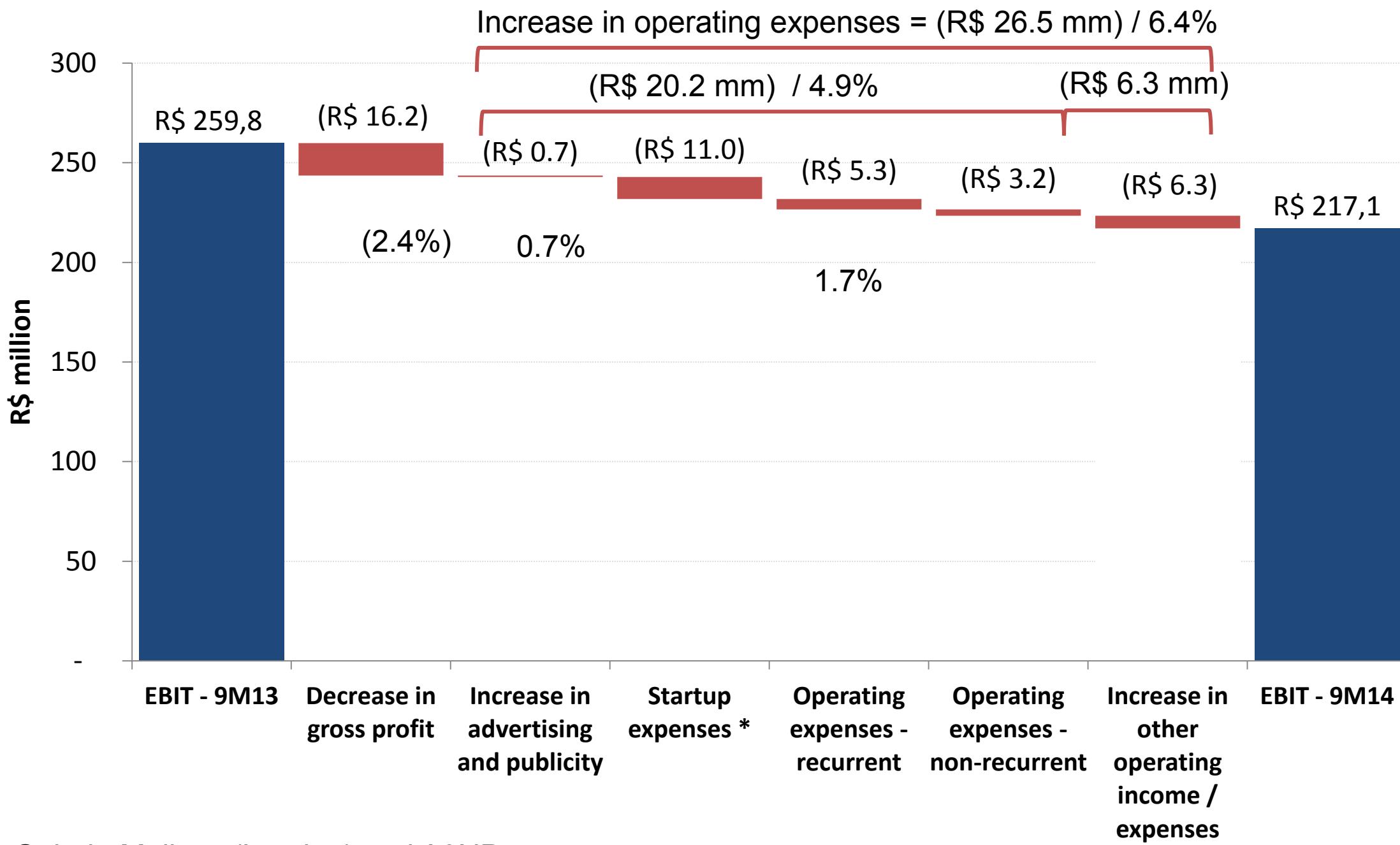
## Gross profit



# Results (IFRS) – R\$ million

**Grendene®**

## EBIT

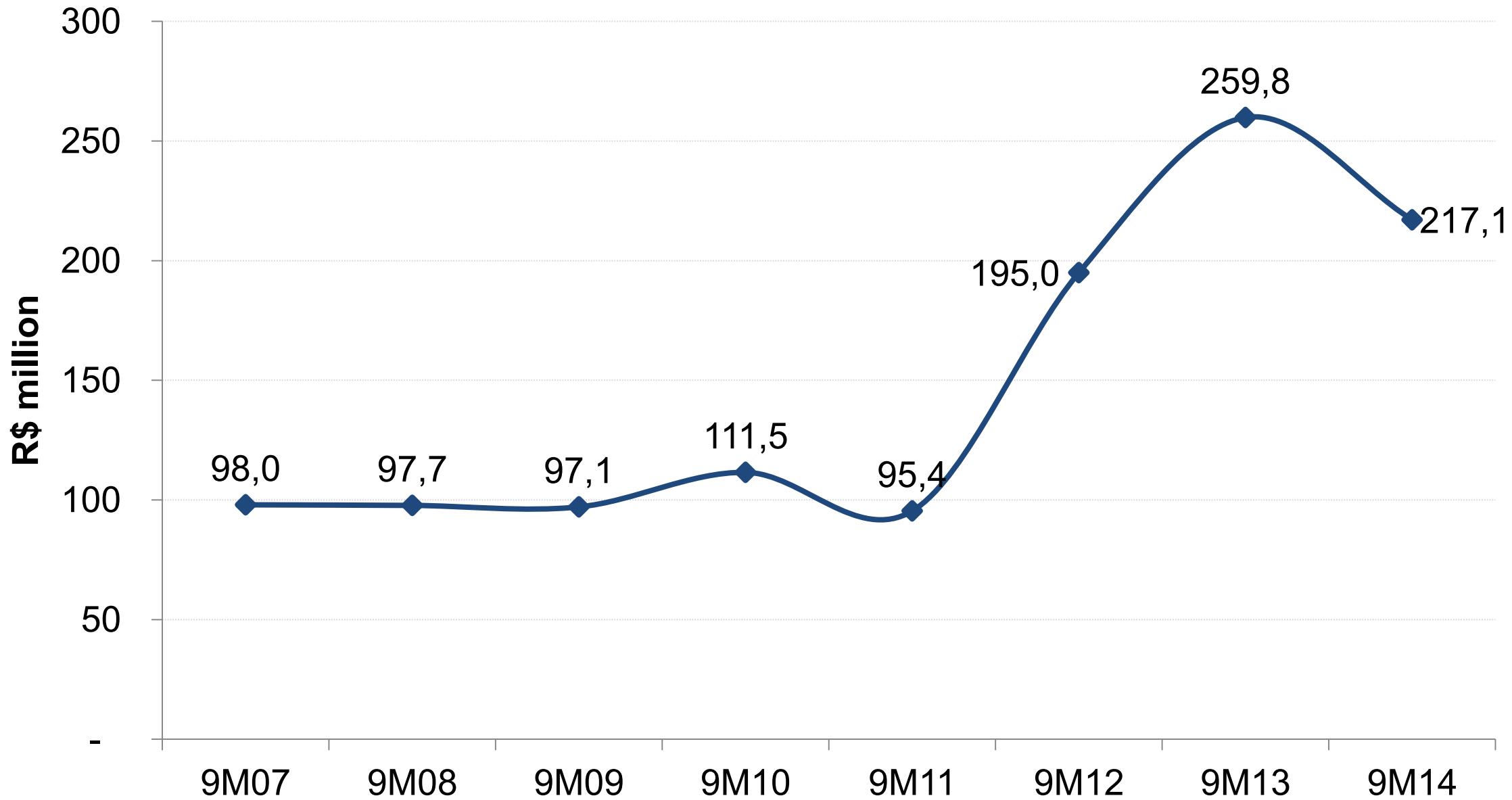


\* Galeria Melissa (London) and A3NP

# Results (IFRS) – R\$ million

Grendene®

## EBIT (9M)



# Results (IFRS) – R\$ million

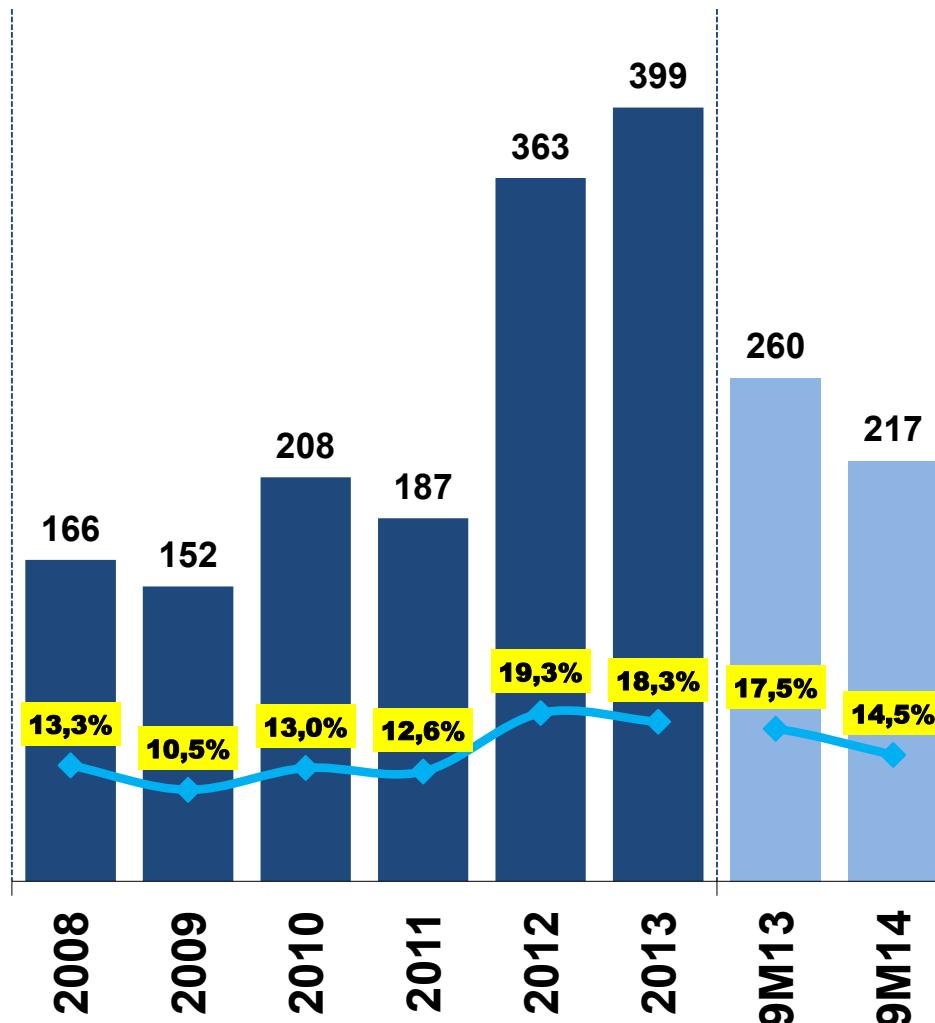
Grendene®

Note: CAGR 5 years

Improvement in the internal processes of generate value.

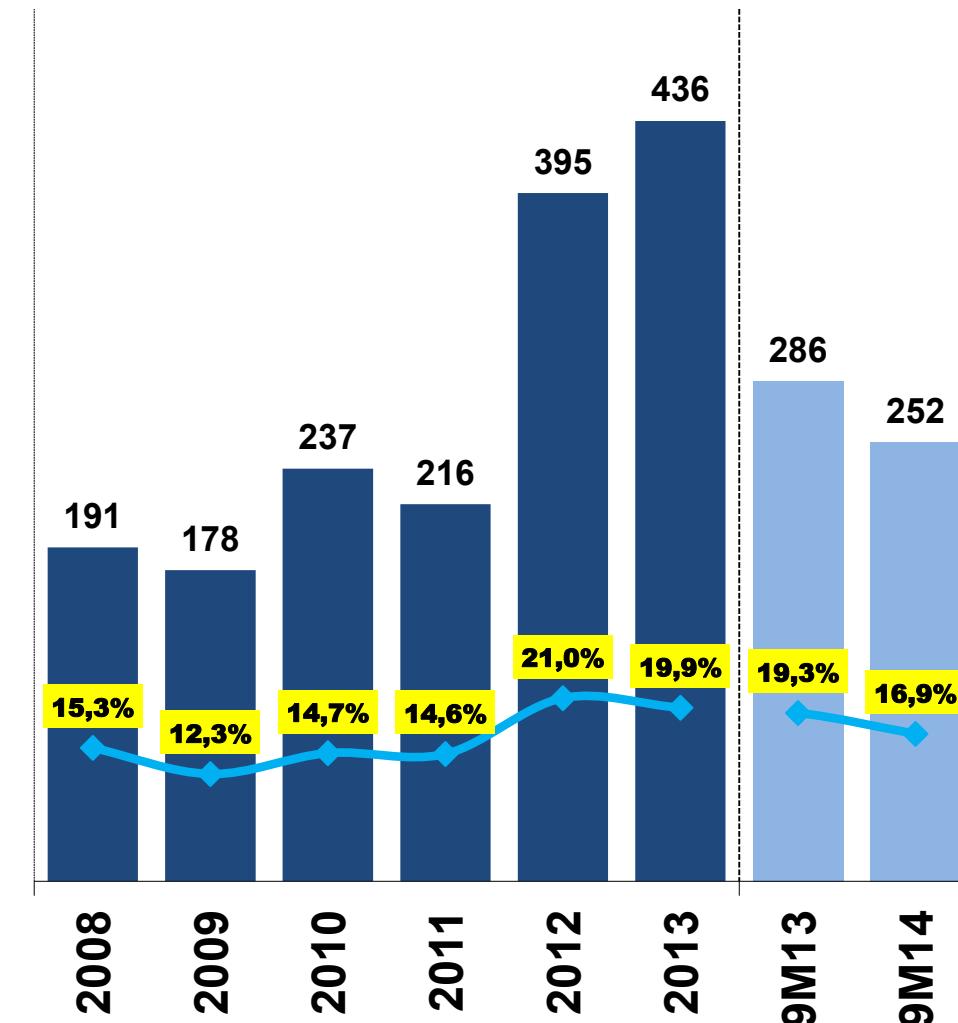
## EBIT / EBIT margin

CAGR (2008-2013): 19.2%  
Change % (9M13-9M14): (16.5%)



## EBITDA / EBITDA margin

CAGR (2008-2013): 17.9%  
Change % (9M13-9M14): (12.2%)



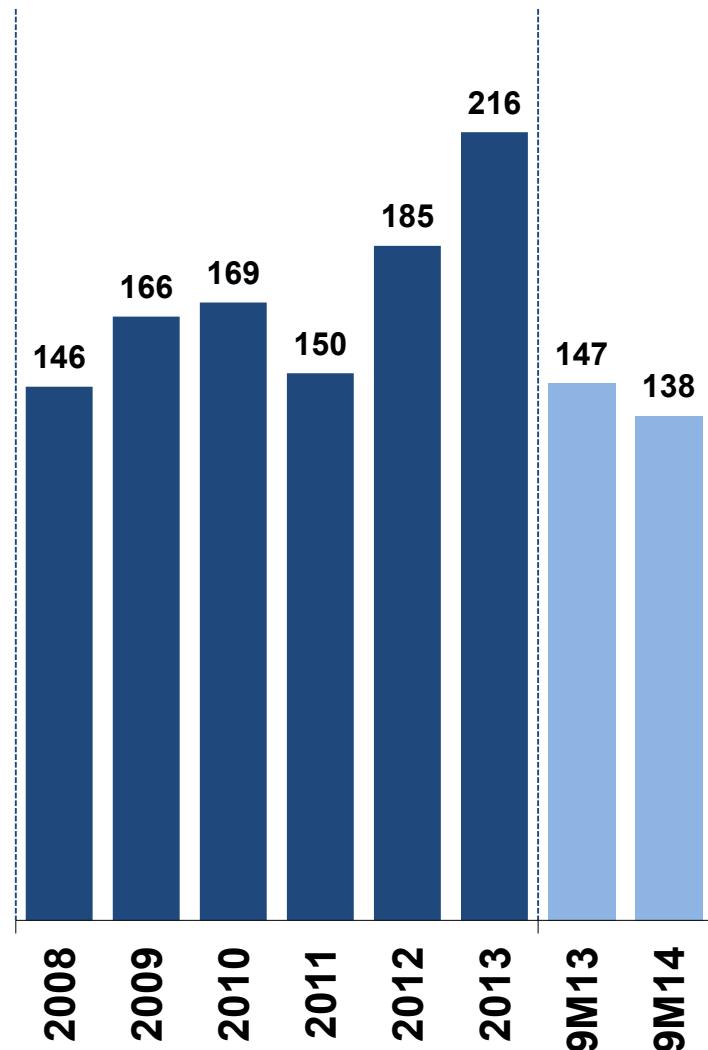
# Production (million pairs)

Grendene®

Note: CAGR 5 years

## Sales volume – Total

CAGR (2008-2013): 8.1%  
Var. % (9M13-9M14): (6.1%)



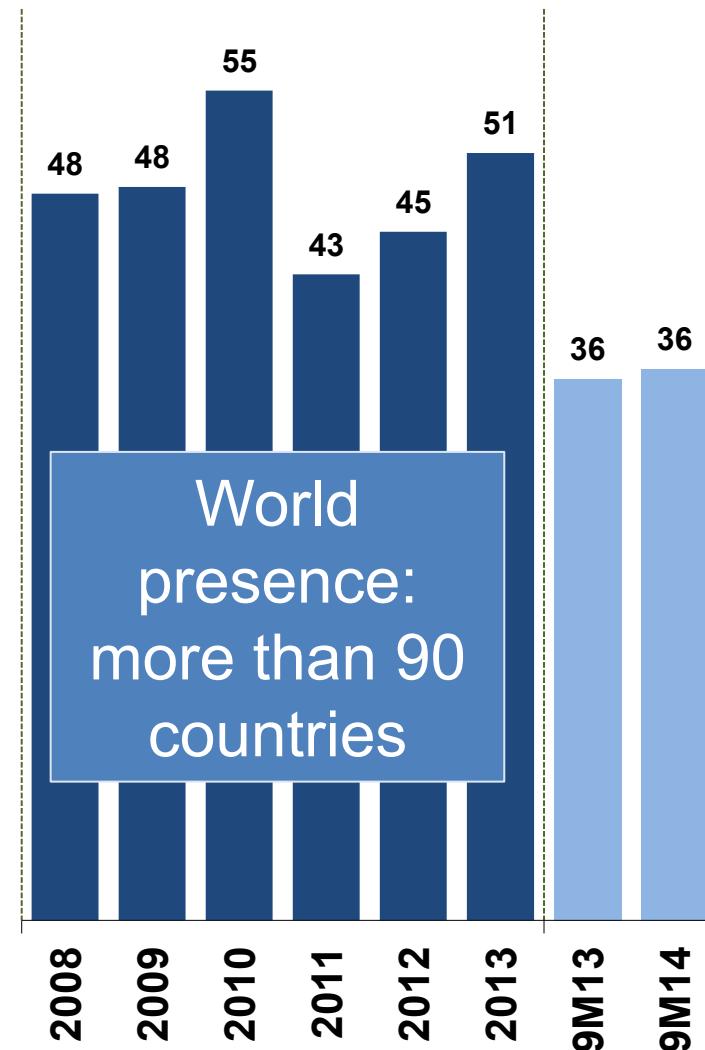
## Sales volume – Domestic market

CAGR (2008-2013): 10.9%  
Var. % (9M13-9M14): (8.6%)

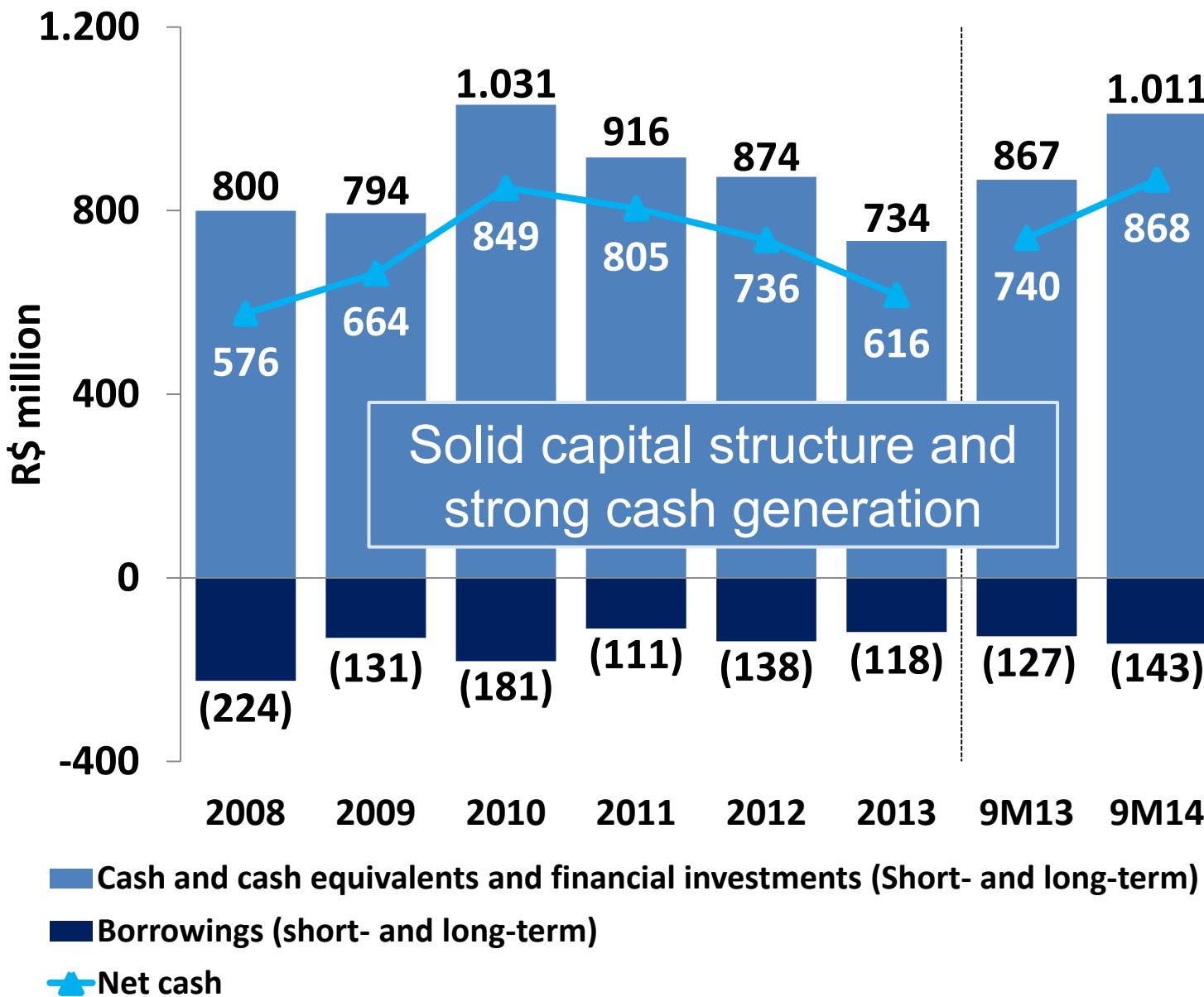


## Sales volume – Exports

CAGR (2008-2013): 1.1%  
Var. % (9M13-9M14): 1.9%



## Cash and cash equivalents and financial investments (short- and long-term), borrowings (short- and long-term) and net cash



Less labor intensive

More capital intensive

**Strategy: Break paradigms**

Higher entry barriers

Highly marketing intensive

*Our expertise of 40 years, producing innovative footwear and generating desired brands, shows the success of our vision of the market, our strategy and our business model – and our capacity to create value for stockholders.*

# Value proposition

Cartoons characters, celebrities and successful designers

## Brands

### Products

- Constant creation of products
- Innovative design
- Manufacturing technology
- Few products in large scale

### Marketing

- Aggresive marketing
- Segmentation
- Investment in media / events
- Strong relationship with trade

### Management

- Scale gains, scope gains
- Profitability
- Continuous improvement
- Financial solidity
- Sustainable growth

Value for Stakeholders

# Melissa

**Brand:** Melissa

**Main competitors:** Arezzo, Schultz, Grudy, Flor de Mel, Cravo e Canela.



Melissa Glove Love  
+ Karl Lagerfeld



Vivienne Westwood  
Anglomania + Melissa  
Slave Sandal



Melissa Ultragirl +  
J. Maskrey

melissa®



Melissa Moon Dust +  
Jason Wu

## Women

**Main brands:** Grendha, Zaxy, Ilhabela

**Main licenses:** Ivete Sangalo, Shakira, Paula Fernandes

**Main competitors:** Via Marte, Beira Rio, Ramarim, Dakota, Picadilly, Via Uno, Anacapri, Usaflex.



Juliana Paiva



Grendha Shakira



Grendha Juliana Paes



Grendha Ivete Sangalo



Grendha Paula Fernandes

## Men

**Main brands:** Rider, Cartago

**Main licenses:** Guga Küerten, Bad Boy, Mormaii

**Main competitors:** Kenner, Beira Rio, Alpargatas, Itapuã, Free-Way.



## Kids

**Main brands:** Grendene Kids, Grendene Baby, Zizou

**Main licenses:** Ben 10, Hello Kitty, Disney, Hot Wheels, Smurfs, Barbie, Moranguinho, Fisher-Price, Max Steel, Angry Birds entre outras.

**Main competitors:** Klim, Bibi, Pampily, Bical, Pé com Pé, Marisol



## Mass market

**Main brand:** Ipanema

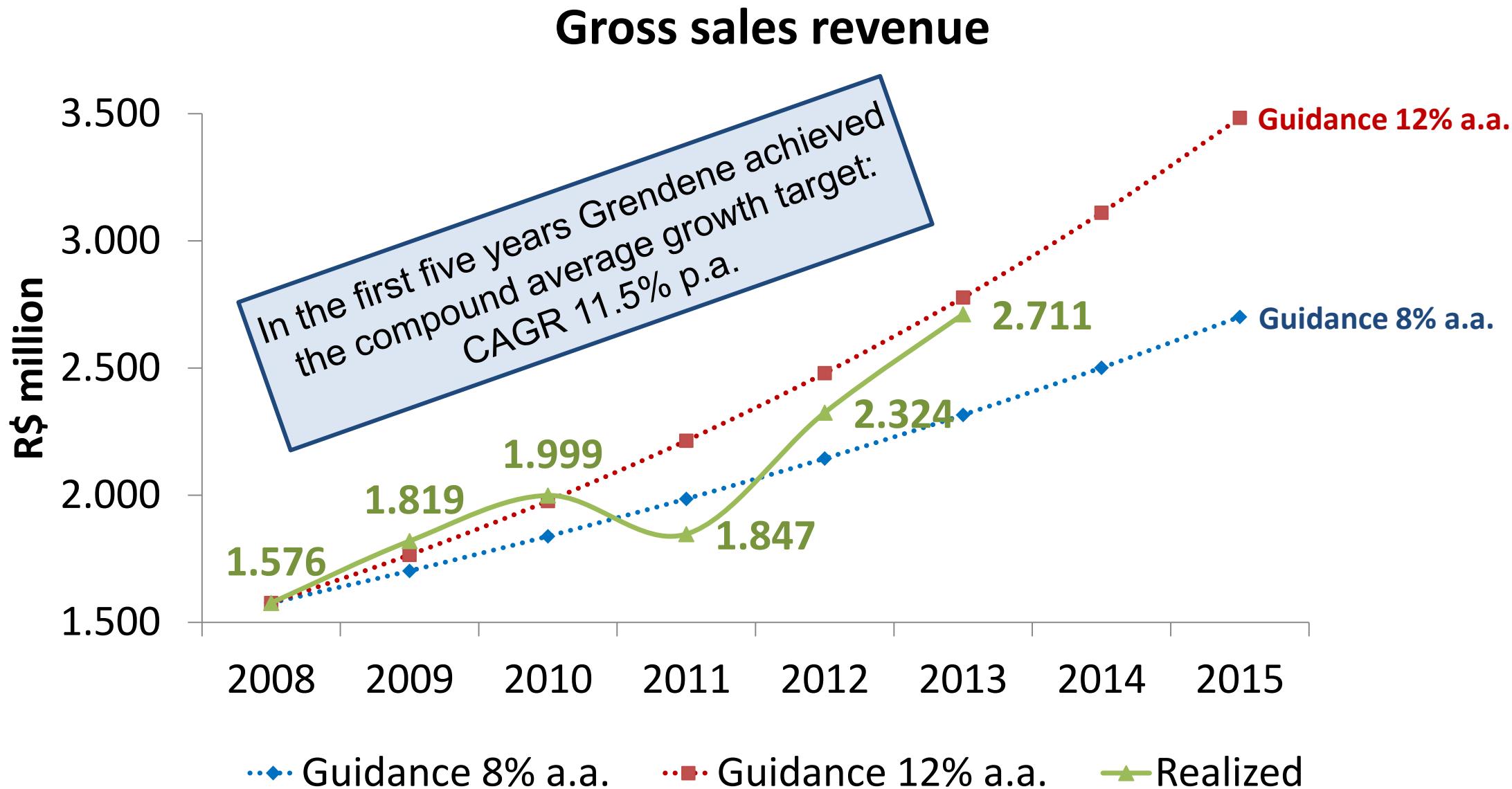
**Main competitors:** Alpargatas, Dupé, Balina, Beira-Rio.



*Ipanema*



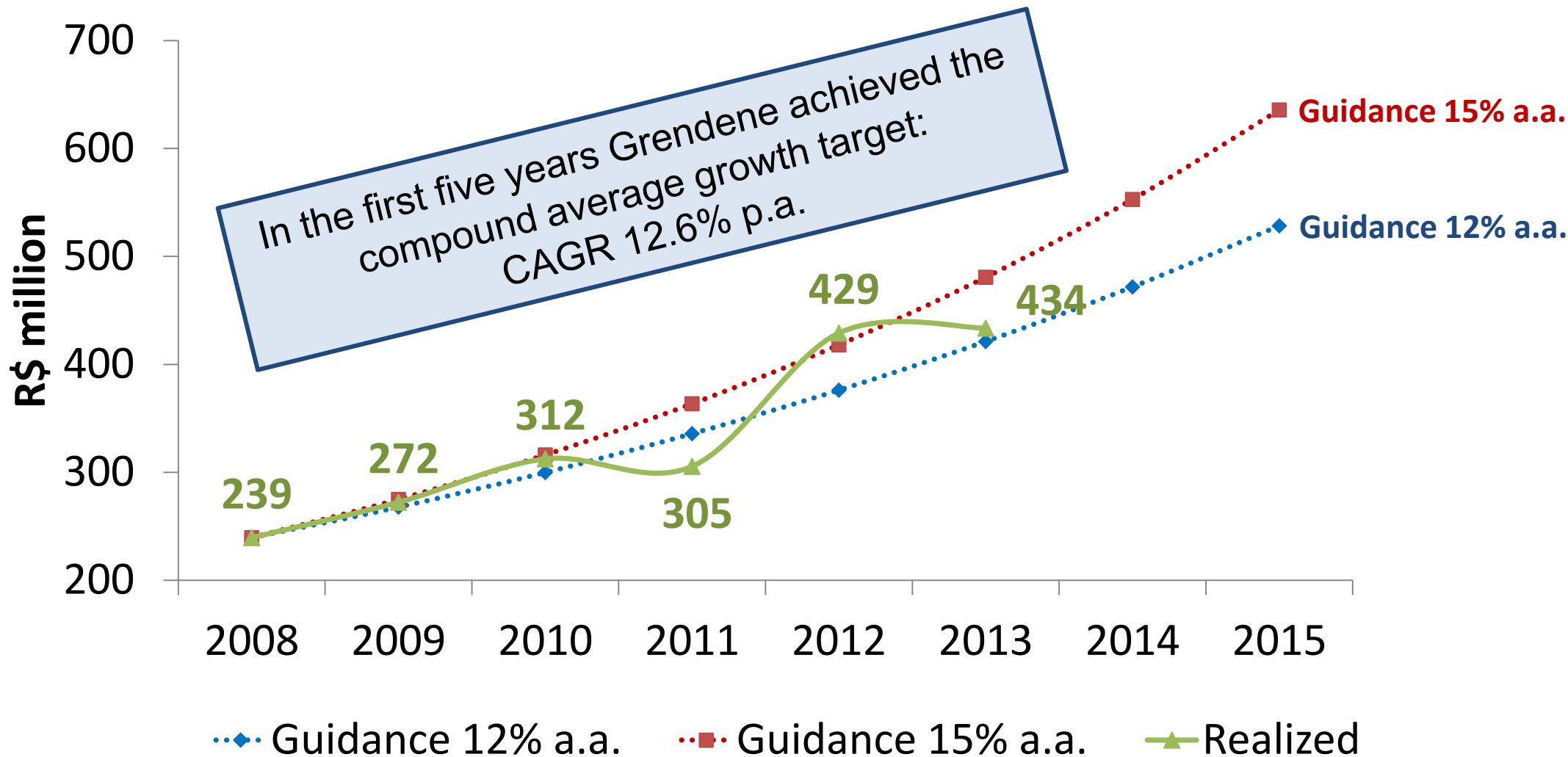
# Guidance



We expect in this period to have some years with higher growth than these rate, as happened in 2009 and other years with lower growth, but on average we intend to achieve these targets.

# Guidance

## Net Profit



We expect in this period to have some years with higher growth than these rate, as happened in 2009 and other years with lower growth, but on average we intend to achieve these targets.

# Perspectivas



## Targets for: 2008-2015

Gross revenue growth at a compound annual growth rate (CAGR) between 8% and 12%.

Profit growth at a compound annual growth rate (CAGR) between 12% and 15%.

Advertising expenses: average 8% - 10% of net revenue in this period.

We expect in this period to have some years with higher growth than these rate, as happened in 2009 and other years with lower growth, but on average we intend to achieve these targets.

# Guidance 2014 / 2015

Approximately R\$ 120 million in CAPEX – modernization and productivity gains of the plant (in 2014).

TOG – Sales beginning in Europe in the second half of 2014. Sales in Brazil should start in 2015.



Philippe Starck, Nicola Rapetti and Ambroise Maggiar at RBC Center Montpellier.

In 2015 the *Clube Melissa* probably exceed 200 stores as initially estimated as the potential of this operation.

clube  
**melissa**





**Francisco Schmitt**  
CFO & IRO  
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**Thank You**

**Further information**

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