



# Grendene

## 1<sup>st</sup>. Quarter 2005 Earnings



Company:	<b>Grendene S.A.</b>
Stock Symbol at Bovespa:	<b>GRND3 (<i>Novo Mercado</i>)</b>
Shares Offered:	<b>19.9 million common shares, 100% tag along rights</b>
Free Float:	<b>19.9% of the total capital</b>
# of shares outstanding:	<b>100 million of common shares</b>
Price Range:	<b>R\$ 31.00 / share</b>
Offering Size:	<b>R\$ 616.9 million</b>
Market Value (01/14/05):	<b>R\$ 3.4 billion</b>
Non-institutional investors:	<b>20% of the Offering</b>
Initial Public Offer:	<b>10/28/2004</b>
Listing day at <i>BOVESPA</i> :	<b>10/29/2004</b>
Closing Announcement::	<b>12/02/2004</b>

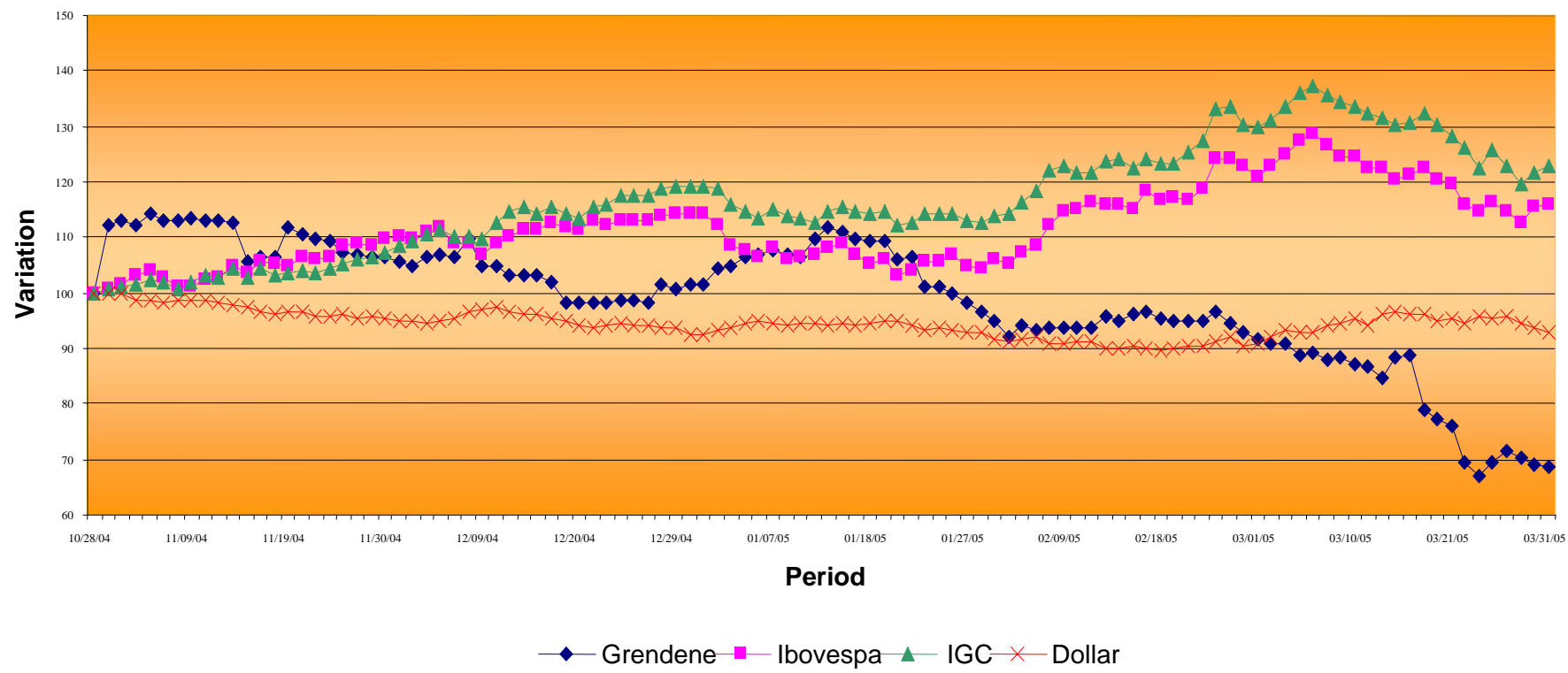
**As of October 29, 2004**

Shareholders	# of Shareholders	# of Shares	Part. %
Individuals	7.745	2,943,672	14.79
Investment Clubs	160	289,220	1.45
<b>Institutional Investors</b>	<b>784</b>	<b>16,461,012</b>	<b>82.72</b>
Domestics	558	3,761,981	18.90
Foreigners	226	12,699,031	63.81
Other	309	206,096	1.05
<b>Total</b>	<b>8,998</b>	<b>19,900,000</b>	<b>100.00</b>

**As of April 30, 2004**

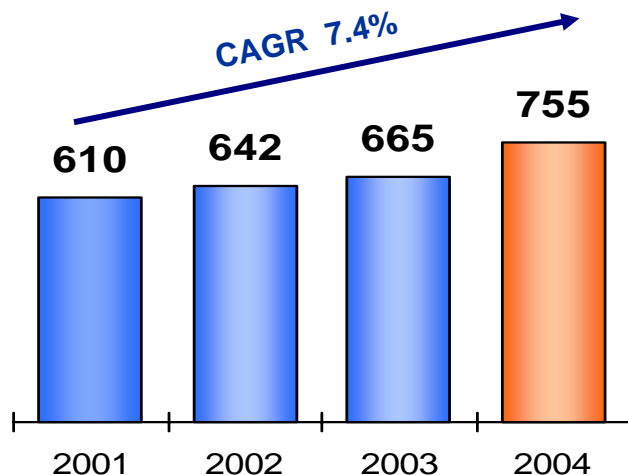
Shareholders	# of Shareholders	# of Shares	Part. %
Individuals	4,224	1,910,363	9.60
Investment Clubs	28	182,000	0.92
<b>Institutional Investors</b>	<b>227</b>	<b>17,082,861</b>	<b>85.84</b>
Domestics	125	3,380,083	16.98
Foreigners	102	13,702,778	68.86
Non Institutional	94	724,788	3.64
<b>Total</b>	<b>4,573</b>	<b>19,900,000</b>	<b>100.00</b>

Appreciation ON GRENDENE  
Basis 100 = 10/28/04

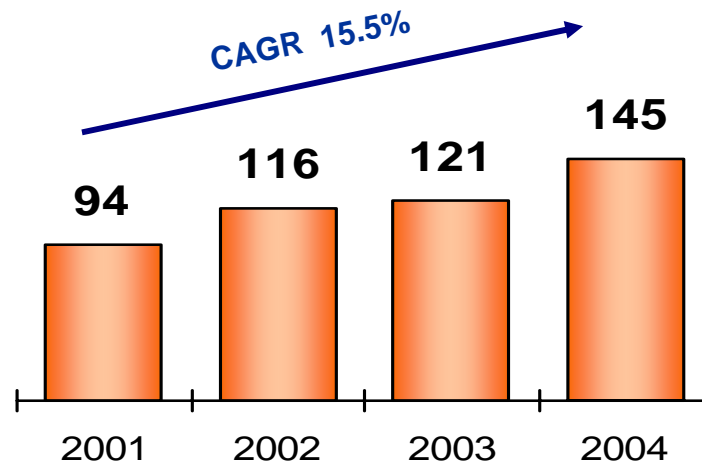


**Brazil is the world's third largest footwear producer.**

**Brazilian Footwear Production  
(Million pairs per year)**



**Grendenes's Footwear Production  
(Million pairs per years)**

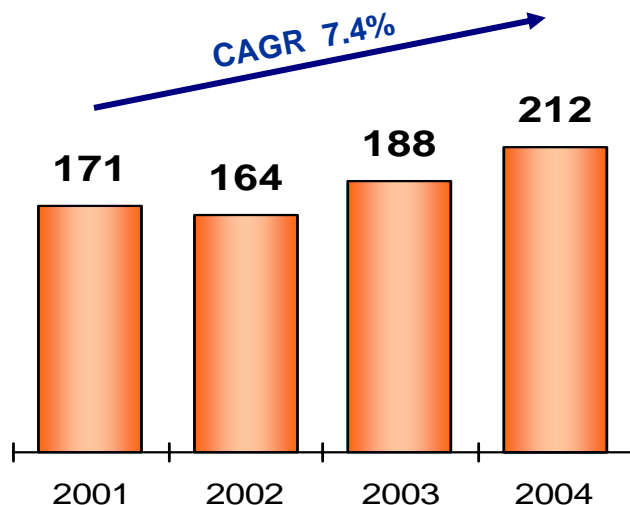


Source: ABICALÇADOS e GRENDENE

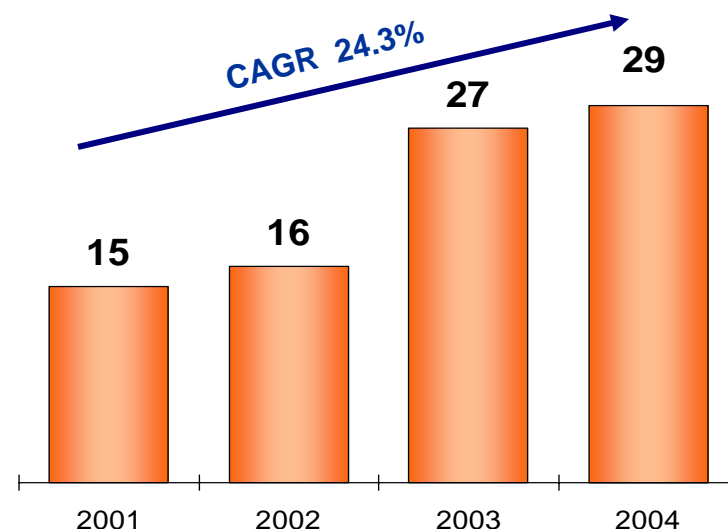
- **Brazilian GDP grew in the last 4 years only 2.2%**
- **Grendene has been growing above the Brazilian GDP and industry compound average growth rate**

**Brazilian footwear industry exported approximately 212 million pairs and \$1,809 million in 2004**

**Brazilian Footwear Exports**  
(Million pairs per year)



**Grendenes's Footwear Exports**  
(Million pairs per years)



Source: ABICALÇADOS e GRENDENE

- Grendene accounts for approximately 14% of Brazilian footwear exports
- Grendene has been growing above the Brazilian industry
- The largest masculine sandals exporter in Brazil (Rider)
- Melissa is a fashion trend launcher local and abroad

**Grendene is one of the world's largest producer of synthetic footwear, with approximately 23 thousand employees, Gross Revenues of R\$ 1,5 billion in 2004 and 145 million pairs sold.**

## Market and Brands

- Operates in 4 segments: men, women, kids and mass market.
- 80% of gross revenues in Brazil and 20% abroad (2004).
- Leadership in kids
- Strong brands

## Products

- Synthetic and injected footwear based on PVC/EVA, totaling more than 480 new products launched every year.
- Strong marketing culture and product differentiation.

## Market Share

- 145 million pairs sold in 2004, representing 21% of Brazil's production (121 million pairs in 2003 and 18% market share).
- 14% of the Brazilian footwear exports.

## Production Capacity

- Installed capacity: 160 million pairs/year in 2004, 176 in 2005
- In-house technology for plastic injection and production of moulds.
- Strategic location of plants in Brazil's Northeast creates important tax and labor cost advantages.

## Sales Channels

- Domestic market via sales representatives.
- External markets via direct exports and also through international subsidiaries and special sales division (Melissa line).
- Around 17,300 sales points in Brazil and 19,500 overseas.

- Marketing Differentiation
  - Innovation / R&D
- Production Scale / Technology

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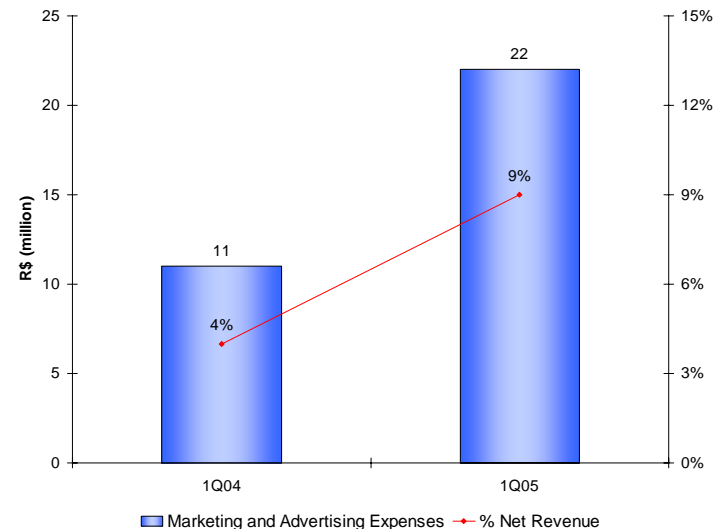
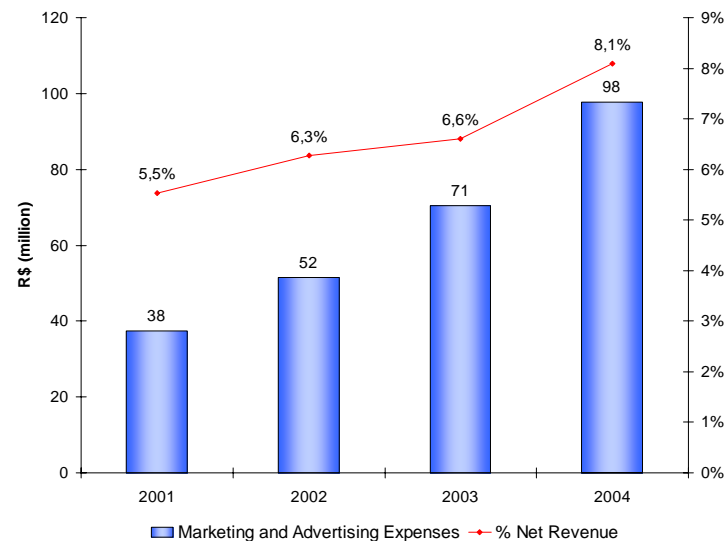
**Business Design**

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**Satisfying market demand /needs**

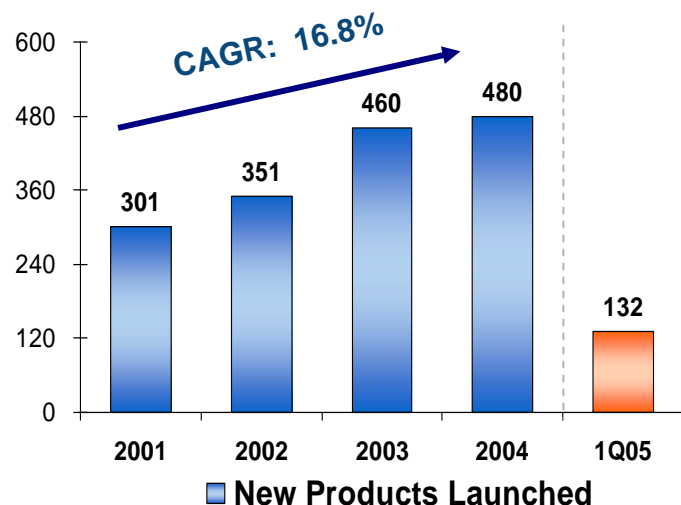


- **Agressive marketing**
- **Strategy based on the creation of emotional appeal**
- **Celebrity licensings**
- **Use of cartoons characters**
- **Differentiation in the Company's kids lines products with accessories to give a game and funny appeal**
- **More than 23 internacional and local licensings and contracts with celebrities**
- **More than 38 TV advertising campaigns in 2004**
- **Investments in advertising and marketing to create market opportunities and strong brands recall**

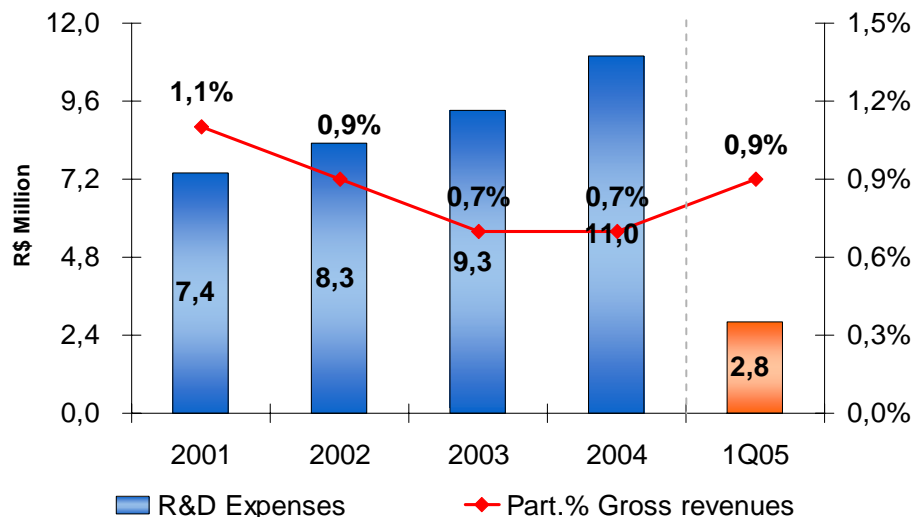


- More than 120 people in the R & D area
- Creating constantly new models
- Creating new concepts to follow fashion trends
- Defining new trends and create barriers to entry
- Creative, self-sustainable process and design on international trends
- Large database of images and products
- Developing proper products to the production process
- Seeking to remain in the forefront of the worldwide most modern
- Using fashion icons in its publicity
- Translating and transforming information in business design

## Number of New Products Launched



## Research & Development Expenses x % Gross Revenues



- **Proprietary technologies**
- **Scale and verticalized production**
- **Automated production and gains of scale**
- **Among the largest world footwear producer**
- **2nd largest Brazilian raw material producer (PVC)**
- **CAPEX of R\$69.1 million in 2005 due to capacity expansions (R\$27.5 million in 2004)**

**Sobral (CE) – Main Plant**

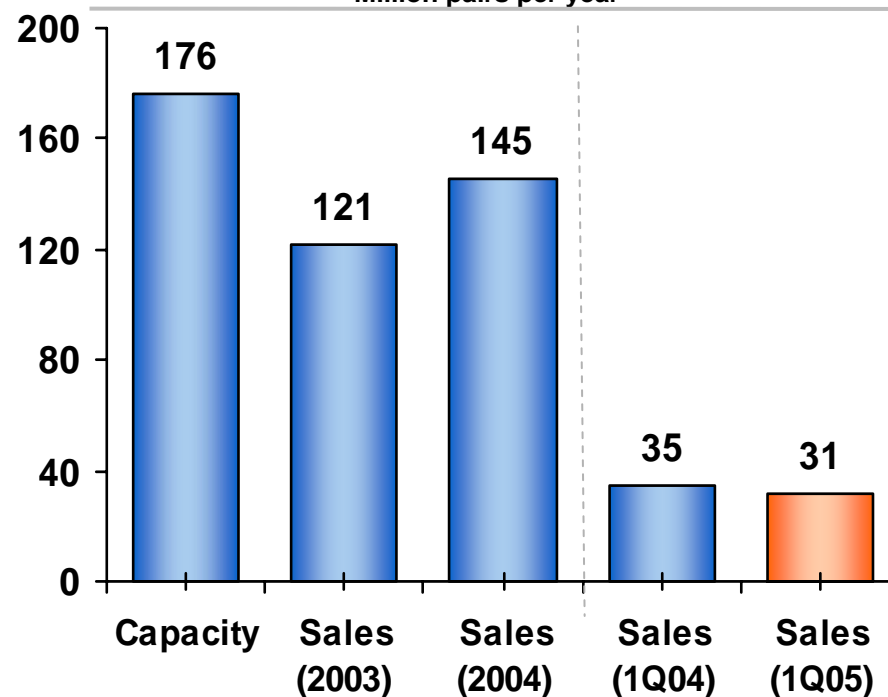


Constructed Area: 166.128 m<sup>2</sup>

Grendene total installed Capacity: 176 M pairs/year in 2005

**Installed Capacity x Sales Volume**

Million pairs per year



**Grendene is well positioned in different market segments with similar margins and a diversified product portfolio.**

Segments	Brands	Revenues in 2003 (R\$ million) – Domestic Market	Revenues Share participation (12M03)	Annual Production in 2004 (Million of pairs) – Domestic Market	Revenues in 12M04 (R\$ million) – Domestic Market	Revenues Share participation (12M04)
<b>Women</b>	Grendha, Meliissa e licencings	295,1	30%	28,7	426,0	33%
<b>Men</b>	Rider	218,8	23%	21,8	281,8	22%
<b>Kids</b>	Licensings	334,2	34%	27,1	390,6	30%
<b>Mass Market</b>	Ipanema, Ginga	125,6	13%	34,5	191,4	15%
<b>Total Brazil</b>		<b>973,7</b>	<b>100%</b>	<b>116,6</b>	<b>1,289.8</b>	<b>85%</b>
<b>Total Exports</b>		<b>302,7</b>		<b>28,7</b>	<b>235,2</b>	<b>15%</b>
<b>Total</b>		<b>1,276.4</b>		<b>145,3</b>	<b>1,525.0</b>	<b>100%</b>

Source: Grendene

**Sales not dependent upon a specific product or segment / focused in growth potential in the women and mass market segments.**

## 2004 was a great year for Rider : Celebration of 18 years old, since 1988 with design made in Brazil

- **Rider:** consolidated as a reference of the type of product in Brazil. There are 3 Rider categories: Sports, Beach and Adventure. Developed concept of “after-sport” product in the international market. Leader in recall and the jingle campaigns are hits year over years.



- **Rider's Concept:** the brand is part of Brazilian culture and search inspiration in 8 thousand Km of coast, in more than 40 urban centers and in the untiring happiness of 175 million of Brazilians.



- **Let's Rider:** the Brazilian territory is the Rider territory searching inspiration in the Brazilian Soul.



- **Rider's technology:** walking comfort due to amortization system in arch format.

- **Rider's 2005 launchings:** new adults and children *papeetes* with characteristics of beach products but with adventure attitude and new models in the beach and sport lines. Partners inside water, in the beach or in the country side.



- **Exports:** present in 85 countries, like USA, Mexico, Spain, Italy, England, Japan, among others. Partners: Mormaii, Pininfaria and Ayrton Senna. Main international clients: Schell's; Footlockers; Model's; Nordstrom; JC Penney and Citadium. Present in fashion editorial worldwide.





## MELISSA as an important conceptual line

- **Melissa:** a benchmark for synthetic sandals in the world. Important tool to “test” the market by identifying preferences and defining trends, creating value to the full-plastic footwear segment. **Melissa** was the first brand in Brazil to do merchandising on television.



- **Melissa's Concept:** more conceptual approach, with a strategy of selective distribution such as boutiques, women's fashion stores and even designers houses, working with important and well-know brand names as well as through innovations, including stylists (like *Alexandre Herchcovitch* and *Marcelo Sommer*) and designers from areas other than fashion to create of models, such as furniture designers, *Irmãos Campana*.



- **Melissa Fall - Winter 2005 Collection launchings:** Melissa Celebration (in middle of 2004) Collection commemorating 25th Anniversary of **Melissa** (the first one was the Spider model in 1979) and **Melissa** footwear, sandals and handbags created by *Irmãos Campana*, by *Alexandre Herchcovitch* and by *Marcelo Sommer* lauched in Europe and Japan. And the **Fall - Winter 2005 Collection** with the new **Melissa Love Robots** campaign at the *São Paulo Fashion Week*, associating the use of technology as an aggregating element for social integration, humanizing technology and transforming it into a game. Technology is soft and sweet like **Melissa = MELISSA + TECHNOLOGY +PASSION**.



- **Melissa's partners:** Melissa was already produced to different trademarks during its history, like Ellus, Fiorucci, Forum, Jaqueline Jacobson, Jean Paul Galtier, Patrick Cox, Stephanie Kelian, Thierry Mugler, Triton, Pakalolo, Zoomp, Yes Brazil, Rosa Cha, among others.

- **Exports:** The special **Melissa** footwear line has new commercial sales fronts, focusing in points of sales in Europe (136), Argentina (100), Mexico (80), Japan (21 only in Tokyo), USA (20), Australia (26), Mexico, Spain, Italy, England, Japan, among others. Main specialized and upmarket fashion stores international clients: Selfridges, Bread & Honey, Question Air and Harpers in England; Le Bon Marché in Paris; Azzurd in Amsterdam; Love Therapy in Florence (Italy); Fidelio in Switzerland and United Arrows in Tokyo.



## Product demand using emotional appeal through celebrities

- **Grendha:** expands concepts identified in the Melissa line to more accessible prices. Increased diversification, normally associating the product to local celebrity through a licensing agreement.



- **Grendha's Concept:** licensing with celebrities assures a strong emotional appeal. The advertising and publicity campaigns are strong to take advantage of the new collections, helping to increase the demand through celebrities from different areas.



- **Grendha's Fall - Winter 2005 Collection launchings:** three new **Grendha** line models were launched in the *Gianecchini Collection*, with TV publicity campaigns starting in January 2005 and a doll-style model with a publicity campaign featuring *Daniela Cicarelli* and to be aired from March 2005.



- **Grendha's Celebrities:** the main and most recent celebrities are *Gianecchini*, *Adriane Galisteu*, *Carolina Dieckman*, *Daniela Cicarelli*, *Debora Secco*, *Ivete Sangalo*, *Taís Araujo* and *Wanessa Camargo*.

- **Markets:** recent segment lauched in 2001, is more concentrate in the domestic market were it have been gaining market share, reaching 18.5% in 2004 against 15% in 9M04. The exports are available through the international representatives, but are more focused in US and Latin America.



## Product demand highly influenced by brands and licensings

- **Kids:** Intense use of cartoon characters and accessories that open room for higher prices and margins.
- **Kids' Concept:** associated brands with icons of the infant universe through licensing and intensive use of accessories to assure a emotional appeal, influencing demand.
- **Kids Fall - Winterl 2005 Collection launchings:** among the 15 new launches, the highlights are those with TV ads and commercials from march205. *Sandy* trainers, *Senninha* trainers with light, *Vanessa Camargo* doll shoes, *Xuxa* boot, *Batman* trainers with flash light, and *Hello Kitty* trainer with light.
- **Kids' newly licensed products:** were added to Grendene's portfolio *Batman*, *Hot Wheels*, *Barney*, *Strawberry Collection*, and new items under license from Disney Collection including *Nemo*, *Pooh Little Bear* and *Princesses*.
- **Markets:** with the leadership of 45% market share, the segment is focused in the domestic market. New efforts for exports are negotiations to produce under Disney licenses, products to export specially to USA.



Sandy plataform trainer



Sandy trainer



Xuxa boot



Sandy with Radio



## Product demand highly influenced by brands.

- **Ipanema and Ginga**: boosted the company's participation in the flip-flops, high-heel shoes and unisex sandals segments with competitive prices and focus in the distribution strategy. We highlight the "Ipanema by Gisele Bündchen" line.



- **Ipanema's Concept**:: associated brands with a top Model or other celebrity with a strong identity with a tropical country and famous beaches like Ipanema, avoiding to present a beach sandal as a commodity. Higher value added to the products incorporating a fashionable idea to the products through celebrities appeal, influencing demand.

- **Ipanema's Fall - Winter 2005 Collection launchings**: new inner soles with various floral themes and the Ipanema line for children with inner soles with game themes such as designs, small animals and other icons of the infant universe.



- **Markets**: recent segment launched in 2001, was initially more concentrate in the domestic market were it have been gaining market share, reaching 17% in 2004 against 15% in 9M04. The exports are available through the international representatives, in more than 57 countries.

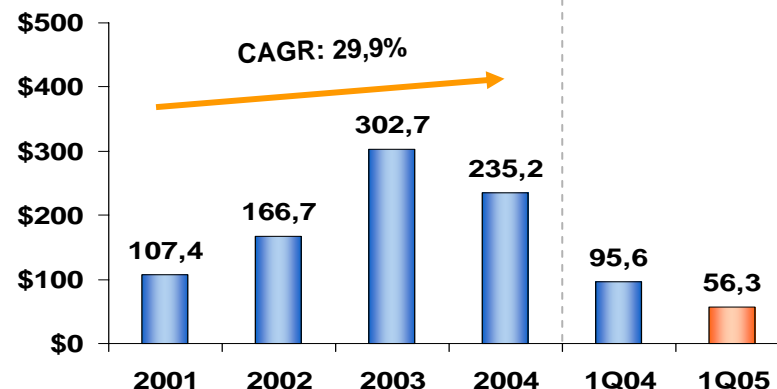
## Exports - Strong Brands & Products

- Exported 28.7 million pairs of shoes in 2004, an increase of about 7% (8.9 million pairs in 1Q05)
- Exports accounted for approximately 20% of the total sales volume in 2004 (17.9% in 1Q05)
- Maintenance of the existing export strategy to more than 65 countries
- New commercial fronts have been developed, including countries in the Andes Pact - Bolivia, Chile, Colombia, Ecuador, Peru and Venezuela – where new authorized representatives and distributors for the Region have been appointed.
- Grendene has two growth strategies to the international market:
  - ☐ Own brands and designs
  - ☐ Own design with third-party brands
- Grendene has already 416 products registered in 82 countries

### GLOBAL SALES

Countries	Pairs (in million)	Percentage Sold (%)
South América	9.2	32%
México	5.7	20%
USA/Canadá	5.7	20%
Europe	5.5	19%
Others	2.6	9%
Total	28.7	100%

### Gross Revenue from International Sales



**Commitment to the highest corporate governance standards, reiterated by the company's listing in the Novo Mercado.**

- Common shares with 100% tag-along.
- Possibility of minority shareholders to be represented in the board of directors.
- 25% of free float in 3 years.
- Results published in US GAAP within the the Novo Mercado deadline.
- Adherence to clear release policies.
- Bovespa's arbitrage committee.

**Grendene's free cash flow enables the company to establish an aggressive dividend distribution policy.**

- Potential pay out of up to 100% of distributable net earnings
- Half-year payments in May and November
- New shareholders have rights for the full dividend for 2004 period.

**New dividend policy confirms Grendene's commitment in using the highest level of corporate governance standard.**

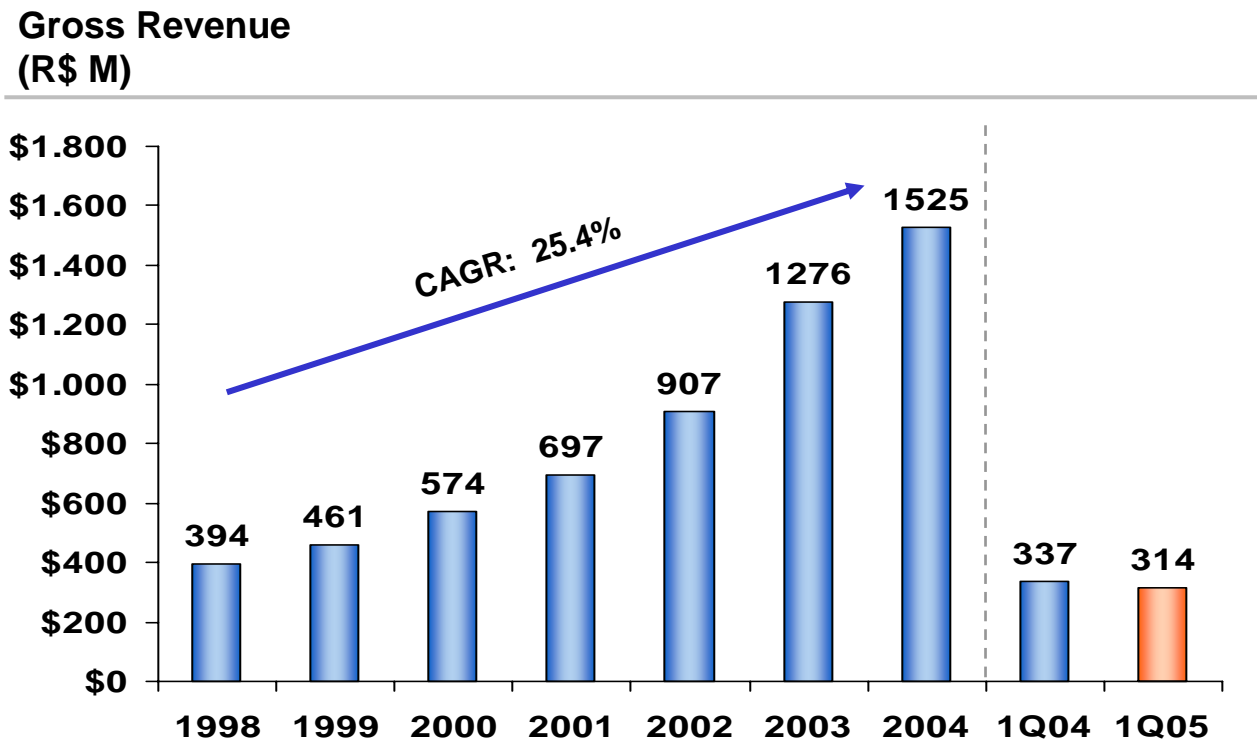


# Operational and Financial Performance



## Gross Revenue Evolution

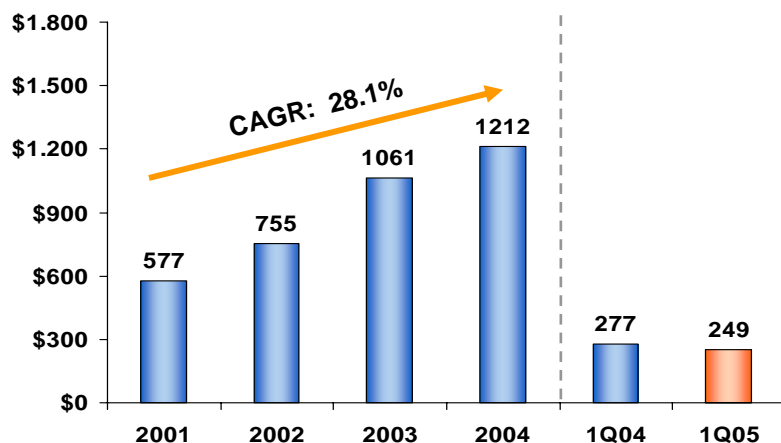
**Consistent revenues growth despite the country's weak economic performance.**



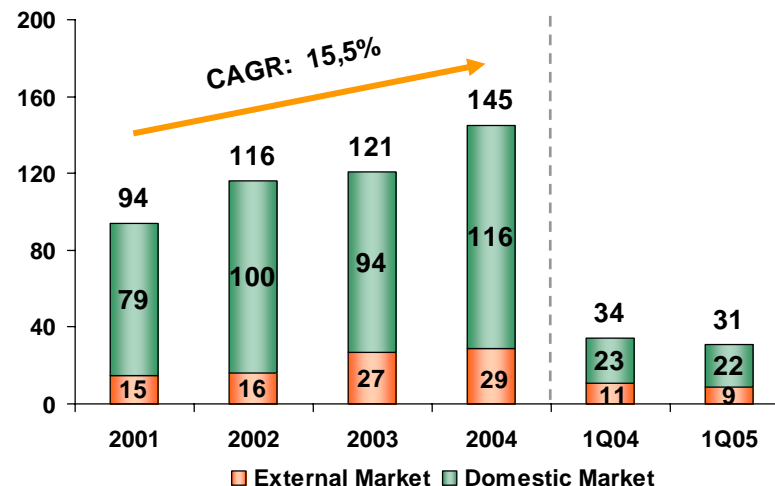
***Reflects its market positioning, strong brand and product innovation capacity at compatible prices.***

**Sales volume has presented a strong growth, with positive impacts on the company's Net Revenue.**

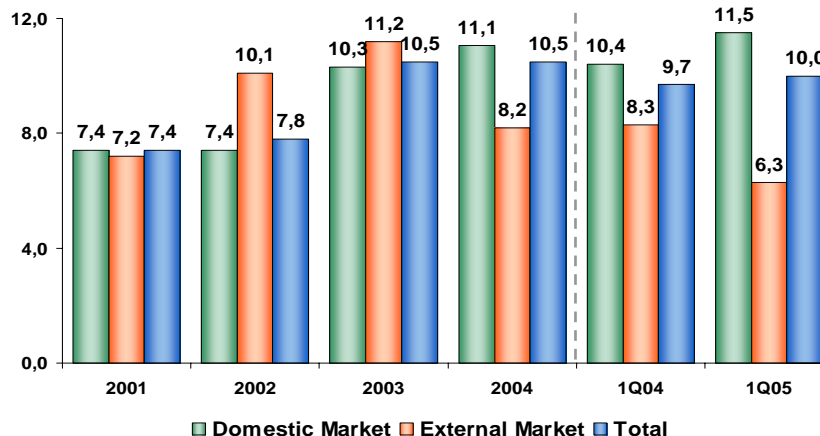
**Net Revenue  
(R\$ Million)**



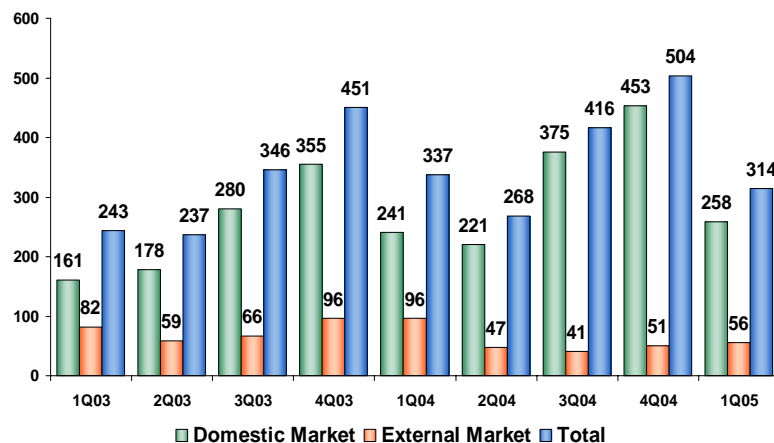
**Sales Volume  
(Million of pairs)**



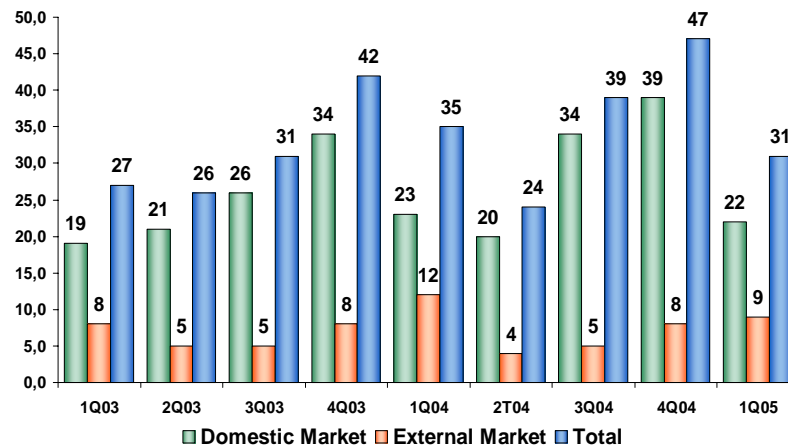
**Average Price (R\$)**



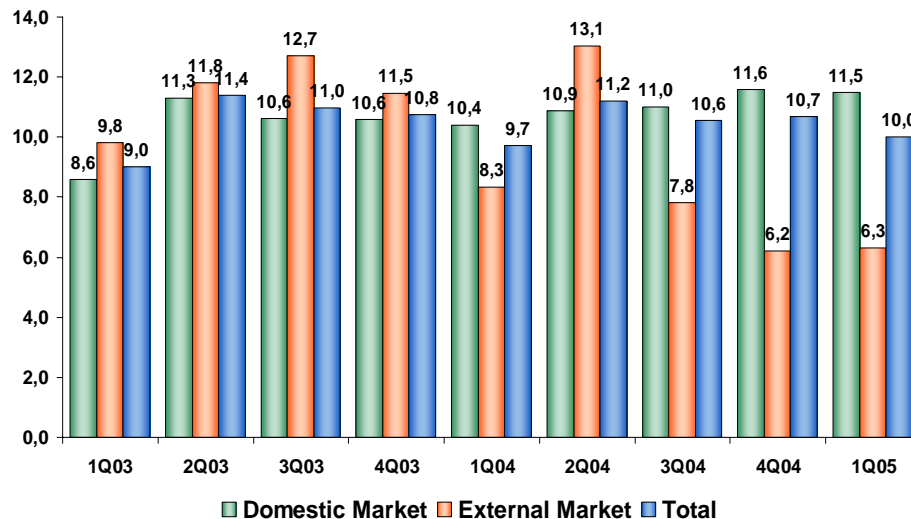
## Gross Revenue (R\$ Million)



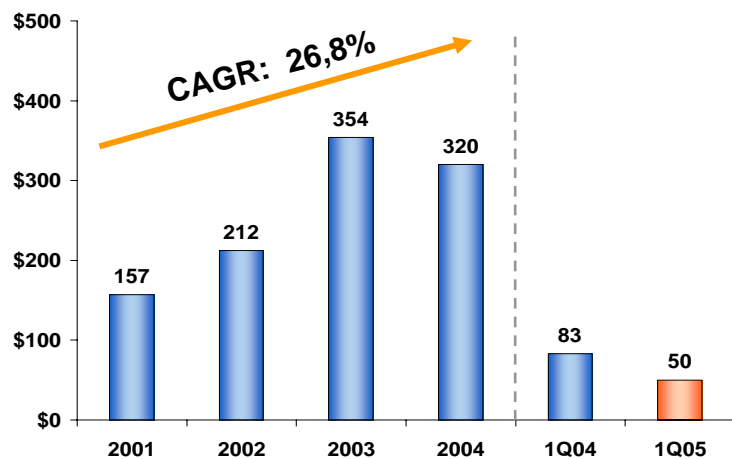
## Sales Volume (Million of pairs)



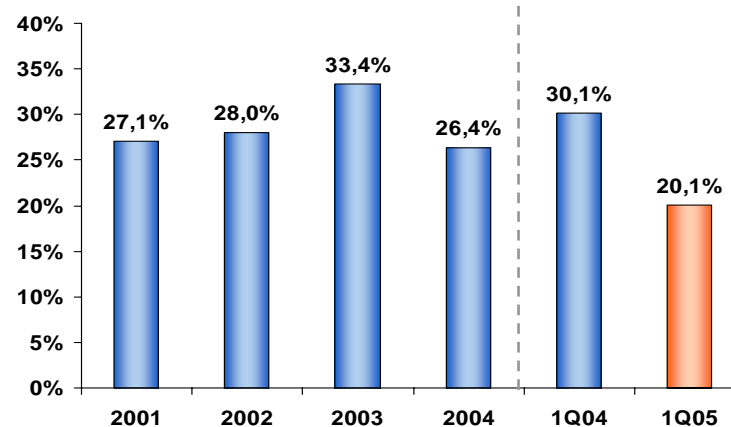
## Average Price (R\$)



## Adjusted EBITDA (R\$ million)



## Adjusted EBITDA Margin (%)





## State Tax Benefits

Location / Incentive	End Date	Term Years	% Financing	% Amort.	Amort. Period	Index
<b>Sobral - CE</b>						
ICMS - PROVIN	FEB / 2009	15	100%	25%	60	TJLP / IGPM
ICMS - PROVIN	FEB / 2019	10	75%	1%	60	TJLP
PROAPI- EXPORTS	SEP / 2011	15	11%	10%	60	TJLP
<b>Crato - CE</b>						
ICMS - PROVIN	SEP / 2012	15	75%	1%	60	TJLP
ICMS - PROVIN	SEP / 2022	10	75%	1%	60	TJLP
PROAPI- EXPORTS	JAN / 2014	15	11%	10%	60	TJLP
<b>Fortaleza - CE</b>						
ICMS - PROVIN	APR / 2015	15	75%	1%	36	TJLP
ICMS - PROVIN	APR / 2025	10	75%	1%	36	TJLP

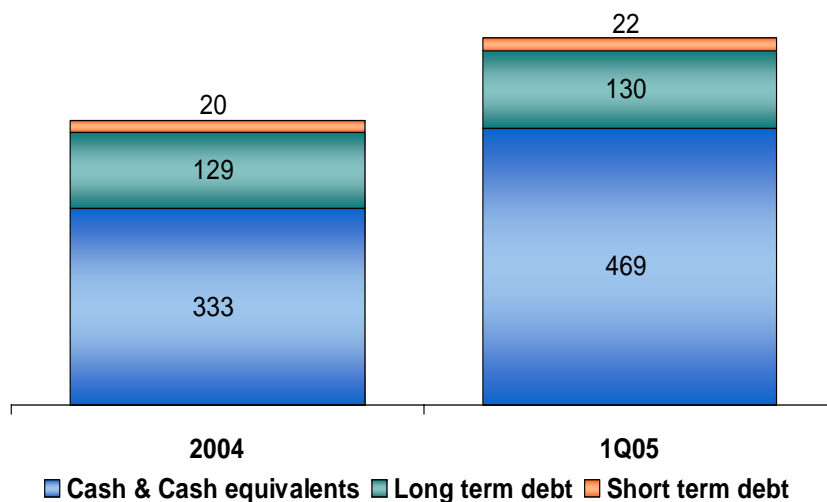
- Protocol to future expansions in the states of Bahia and Sergipe.
- The tax benefits (PROVIN) in Crato and Fortaleza were renewed in advance for plus 10 years

## Federal Tax Benefits

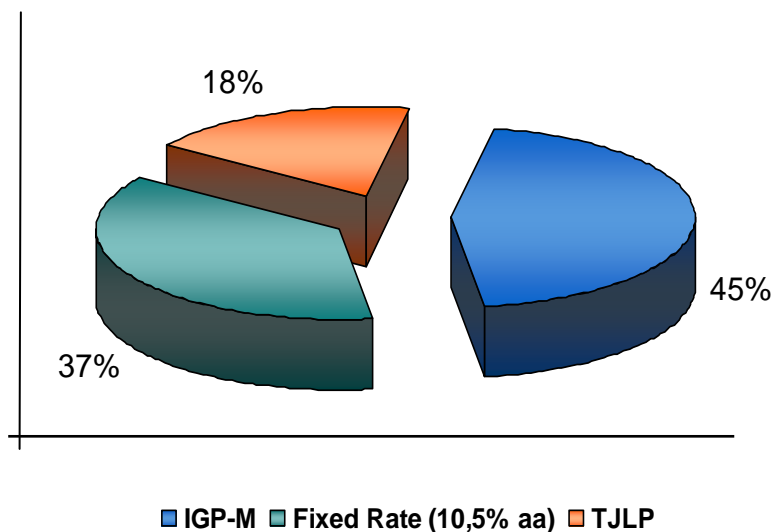
Location / Incentive	Beginning Date	End Date	Total Period
<b>Sobral - CE</b>			
Reduction 75%	2003	2012	10 years
<b>Fortaleza - CE</b>			
Reduction 75%	2001	2010	10 years
<b>Crato - CE</b>			
Reduction 100%	1997	2006	10 years

## Grendene presents a solid financial position.

Net Cash of R\$ 317 million (1Q05)  
(R\$ Million)

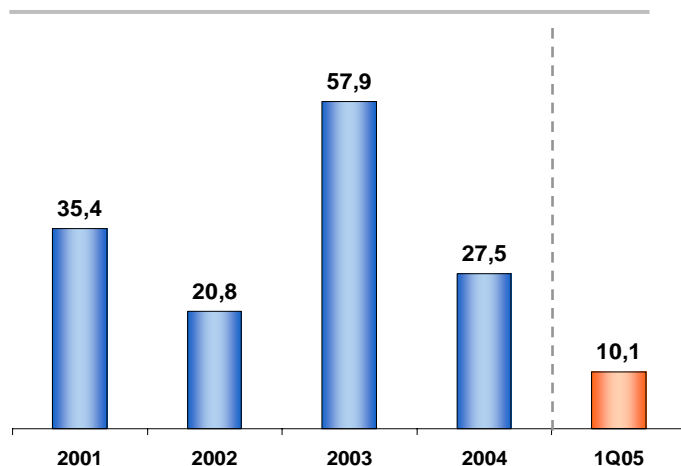


Cost of debt – as of March 31, 2005

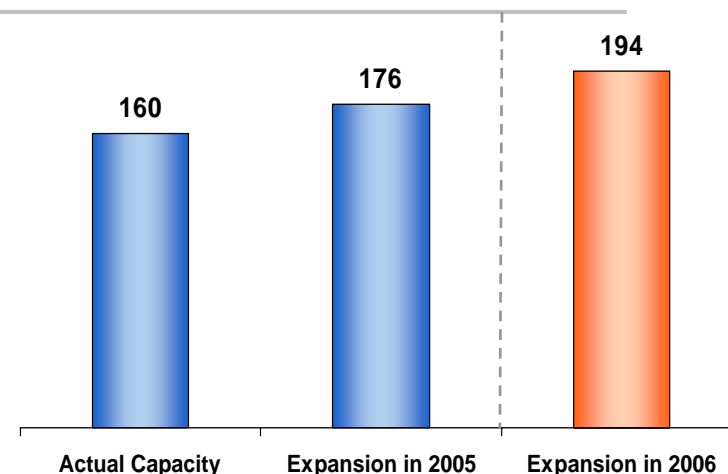


- The company has no currency exposure.
- Revenues from exports is substantially higher than costs from imports.

Capex  
(R\$ Million)



Capacity expansion  
(Million of pairs)



• <u>CAPEX (In million of <i>Reais</i>)</u>	<u>2004</u>	<u>2005</u>
Industrial buildings and plant	10.7	11.6
Machinery and equipment	11.3	20.5
IT equipment and software	2.6	1.0
Other capital expenditures <sup>(1)</sup>	2.9	1.0
Industrial buildings and plant, Machinery and equipment <sup>(2)</sup>	0.0	35.0
<b>Total</b>	<b>27.5</b>	<b>69.1</b>

(1) Includes investments in vehicles, aircraft, real estates, utensils, brands and patents.

(2) Greenfield at Bahia, expanding by 10% the company's production capacity (+18 million pairs) start-up in 2006.

## Grendene's strategy is focused on five main aspects.

**Focus on Synthetic Footwear**

**To expand in the local market**

**To continue diversifying the products portfolio**

**To expand overseas**

**To expand production capacity**

- To maintain its focus in the creation of synthetic footwear, with an automated production process, allowing for significant scale gains.
- To consolidate, create value and spread out the use of synthetic footwear.
- High potential of market share expansion in the women and mass market segments.
- Strengthen relationship with clients in order to establish sales strategies for them.
- Growth of 23.5% in volume in the domestic market
- Constant product and concept innovation that express the brand value
- Products associated with celebrities and cartoon figures with emotional appeal.
- Expand our presence in market where we already operate.
- Growth of 6.6% in volume in the exports
- Identify new markets that present profiles appropriate to our products.
- Competitive prices with a distinct design and always looking at new fashion trends.
- Ability to rapidly increase its installed capacity at low-cost.
- Production focused on regions that allow the company to maintain their scale and cost advantages.

## Strong brands

- Strong and recognized brands, benchmark in synthetic footwear industry.
- Capacity of creating and launching fashion trends at global level in the segments it operates.

## Marketing and innovation capacity

- Constantly launching new models. Active portfolio of 180 products in 2004
- Successful strategy of creating “emotional appeal” on its products through the licensing of celebrities and cartoon characters.

## Distinct production process with scale

- Verticalized production and development of proprietary injection technology allow efficient, versatile and fast production on large scale, generating superior quality products at competitive prices, even when considering less value-added products.

## High corporate governance level

- Commitment to the highest corporate governance standards, reaffirmed with the Novo Mercado listing.
- Dividend policy to distribute up to 100% of the distributable Net Earnings.

## Consistent cash flow generation and solid financial structure

- Gross Revenues of R\$ 1,5 billion in 2004
- Adjusted EBITDA of R\$ 50 million in 1Q05.
- Adjusted Net Earnings of R\$ 37 million in 1Q05.
- Net cash of R\$ 317 million in the 1Q05

# RIDER



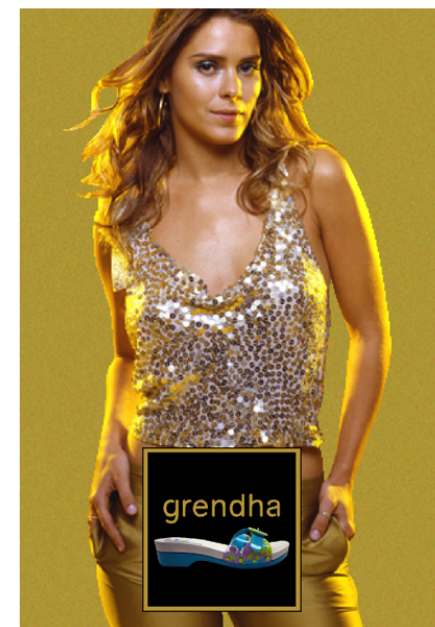




## Grendha & Celebrities

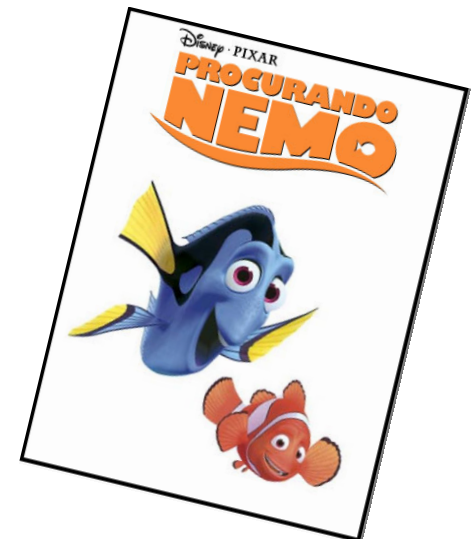
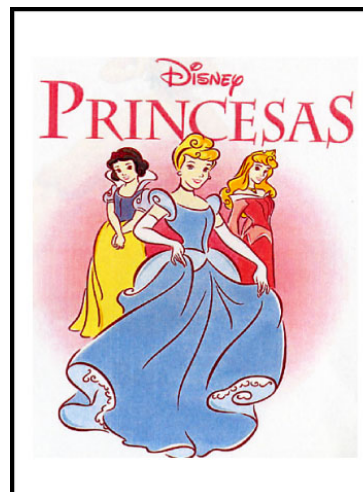


**grendha®**  
Ivete Sangalo



# Grendene Baby and Licensings

## Grendene Kids and Licensings

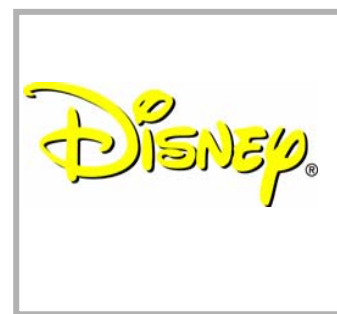




# Grendene Baby and Licensings



# Grendene Kids and Licensings





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**IPANEMA  
GISELE  
Bündchen**

**Mass Distribution  
Segment**

-

**Strong Brands and  
Products**



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# MELISSA

New Collection Fall -  
Winter 2005 launched at  
São Paulo Fashion Week

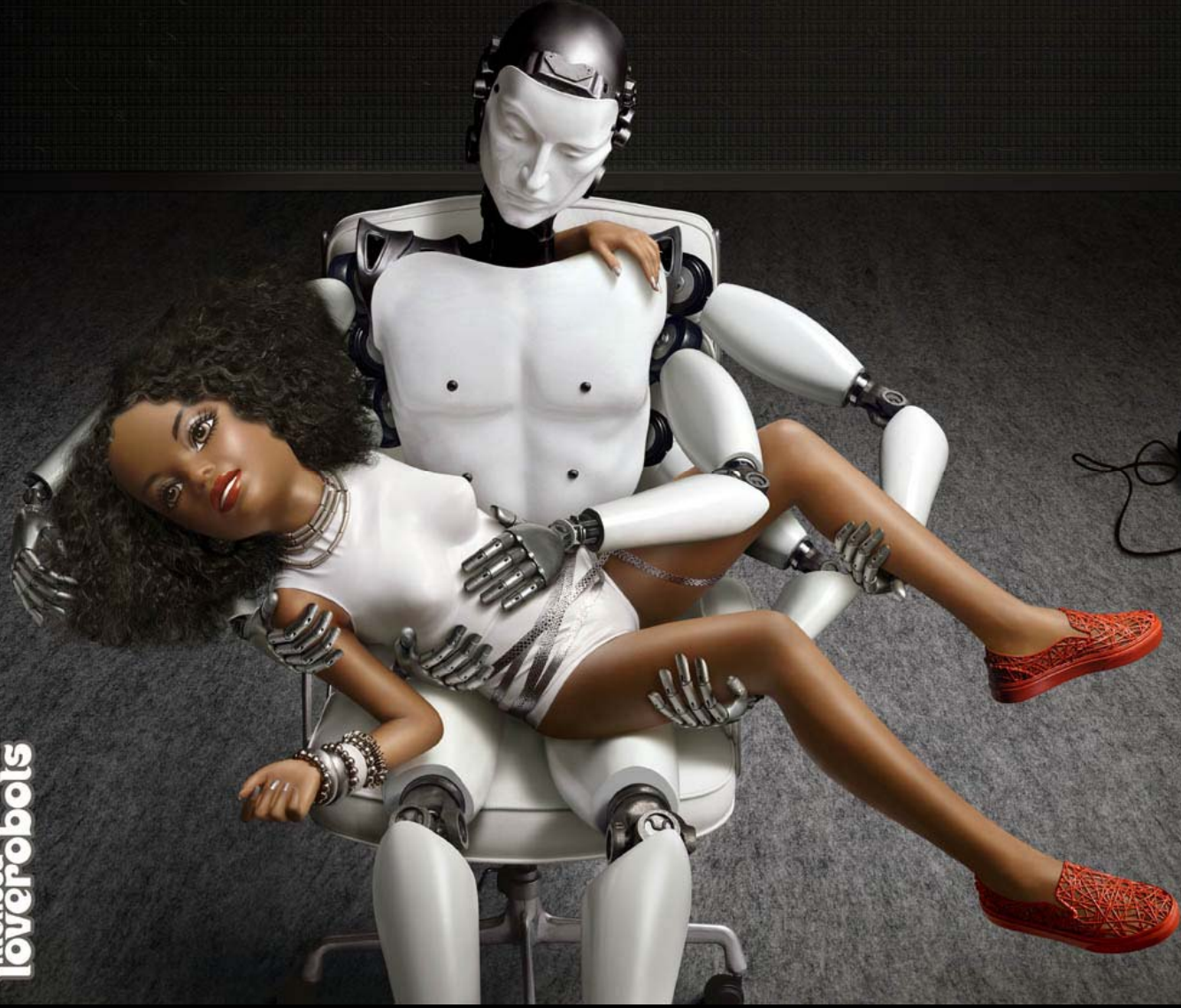
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