



azaleia

azaleia djjean  OLYMPIKUS  
OLK  OPANKA  Botas  
Vulcabras



EARNINGS  
RELEASE 1<sup>ST</sup>  
QUARTER  
OF **2018**





*Jundiaí, May 8th of 2018 – Vulcabras Azaleia S.A. (B3: VULC3) announces today its results for the first quarter of 2018 (1Q18). The Company's operating and financial information is presented based on consolidated figures and in millions of reais, prepared in accordance with international financial reporting standards (IFRS). The data in this report refers to the performance for the first quarter of 2018, compared to the first quarter of 2017, unless specified otherwise.*


**Quotes VULC3 (03/29/2018):**

R\$ 9.79 per share

**Number of Shares:**

Common: 245,756,346

**Market Value:**

R\$ 2.41 billion

**Conference Call:**

**05/09/2018 at 10:00 am**  
(Brasília time)

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## Highlights

R\$ Million	1Q18	1Q17	Var. % 1Q18 / 1Q17
<b>Net Revenue</b>	292.0	295.9	-1.3%
<b>Gross Income</b>	100.4	108.3	-7.3%
<b>Gross Margin %</b>	34.4%	36.6%	-2.2 p.p.
<b>Net Income</b>	33.4	26.1	28.0%
<b>Net Margin %</b>	11.4%	8.8%	2.6 p.p.
<b>EBITDA</b>	49.8	58.0	-14.1%
<b>EBITDA Margin %</b>	17.1%	19.6%	-2.5 p.p.

- **Sales (ROL):** R\$ 292.0 million in 1Q18, decrease of 1.3% against 1Q17.
- **Gross Income:** R\$ 100.4 million in 1Q18, decrease of 7.3% against the same quarter of 2017.
- **Gross Margin:** 34.4% in 1Q18, decrease of 2.2% against 1Q17.
- **Net Income:** R\$ 33.4 million in the first quarter of this year, increase of 28.0% against 1Q17.
- **EBITDA:** R\$ 49.8 million in 1Q18, decrease of 14.1% against 1Q17.

## Message from Management

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The first quarter of 2018 signaled a weakening of the growth trend that we observed in 2017. At the moment, market expectation in the improvement of the consumption of the apparel and footwear segment seems to have been postponed. In spite of this, we have been able to work with growths in the lines of sports footwear and apparel, keeping the great importance of Olympikus brand in the Brazilian market, our main business.

The female sector still presented results below our expectation, although based on internal parameters, since we can already see improvements for the next quarter, such as the formation of the orders portfolio and improvement of profitability. The revenues from this sector are still affected by the transfer of the production capacity to the sports sector, carried out at the end of 2Q17.

In the other footwear business line, there was a decrease caused by the reduction of Opanka sliders. Our strategy is to migrate the sale of these products to Olympikus sliders brand, with higher rates and better margins.

In the foreign market, there has been a drop in revenue in comparison with 1Q17 when there was a great concentration of shipments to the Argentinean market, something that should be better distributed during 2018.

Our gross margin has suffered a drop that we believe to be timely and that should be reverted to last year's levels. The main factors responsible for the impact on gross margin were: (i) vacations granted at the end of last year, (ii) a smaller number of working days in comparison with 1Q17, (iii) lower margins on the female sector, which has also worked with discounts and (iv) postponement of the release of the new Olympikus collection. We do not expect to suffer the impacts of these same factors in the coming quarters, and with that we should return to more satisfactory margins.

Due to the effects above and the efficient expenditure management, we have achieved an EBITDA of R\$ 49.8 million, lower than that presented in the last year. Despite this, we posted a significant Cash Generation, managing to maintain our ROIC level and also reached a great reduction of Finance Costs, resulting in a Net Income of R\$ 33.4 million, higher than in the same period of the previous year.

The Net Bank Debt was reversed to a positive net cash balance of R\$ 65.7 million.

We have also concluded the renewal of the IRPJ tax incentives on the manufacturing unit of Sergipe, with a new validity until December 2027.

The factories modernization plan follows at an accelerated pace. In the first quarter of this year, we have invested R\$ 27.0 million in purchases of property, plant and equipment, with highlight for machinery and equipment.

With the new management in our marketing area, there was an intensification in the Olympikus' communication in the digital environment, bringing a segmentation of messages to different consumers. Instead of working with a single campaign, representing a few products, we focus on bringing more customized messages to different audiences, leading to each consumer a specific campaign with the product that best fits their profile, bringing greater return to our marketing expenses. However, we still had a great performance in traditional media. We close the sponsorship deal of the SporTV channels' 5 seconds countdown for the broadcast 64 matches of the World's greatest soccer event. This way, Olympikus will be widely represented in the year's sporting event's greatest coverage.

In spite of facing with a start of the year weaker than expected, we believe in the great potential of our brands and the growth of the markets where we operate. With these guidelines in mind, Vulcabras Azaleia follows firmly in order to achieve great results in 2018 and thus generate value for its investors and continue alongside the Brazilian consumer with high technology footwear.

**Pedro Bartelle**

## Institutional

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Vulcabras Azaleia knows what is the footwear that people like. It is not just the over six decades of activity that lead to this knowledge, but its continuous search for the new.

During this period, the company established itself as one of the largest footwear industries of the country and became manager of leading brands in their segments, such as **Olympikus**, champion in sales of tennis shoes in Brazil, and the **Azaleia**, one of the most remembered brands when the subject is female footwear.

Added to them are the feminine lines **Dijean** and **Opanka**, the **OLK** sports line, and Vulcabras Boots.

The success is due to a business model that carries in its DNA the expertise to make high quality and comfort footwear and the permanent concern to reshape its processes.

This expertise began in July 1952, with the establishment of Companhia Industrial Brasileira de Calçados Vulcanizados S.A., in São Paulo. Manufacturer of leather shoes with vulcanized rubber soles, one of its first icons was Vulcabras 752, which had this name in reference to the month and year of the company's foundation.

Vulcabras Azaleia's business model also ensures significant competitiveness, which results in better services to customers. The company dominates all stages, from research to production, and from marketing to the sale to retailers.

The shoes produced by the company are in the shops of more than 12 thousand clients in Brazil and in more than 20 countries, with special attention to South America. The customer can also find Olympikus and Azalea in their online channels.

There are more than 800 new models per year, designed in the largest center of technology and development of footwear in Latin America, located in Parobé-RS.

The products are produced in three modern factories in the Northeast, in Horizonte-CE, Itapetinga, BA and Frei Paulo-SE. The company's administrative center operates in Jundiaí-SP. These five units in Brazil directly employ 15,000 workers. There are also two branches and distribution centers in Peru and Colombia.

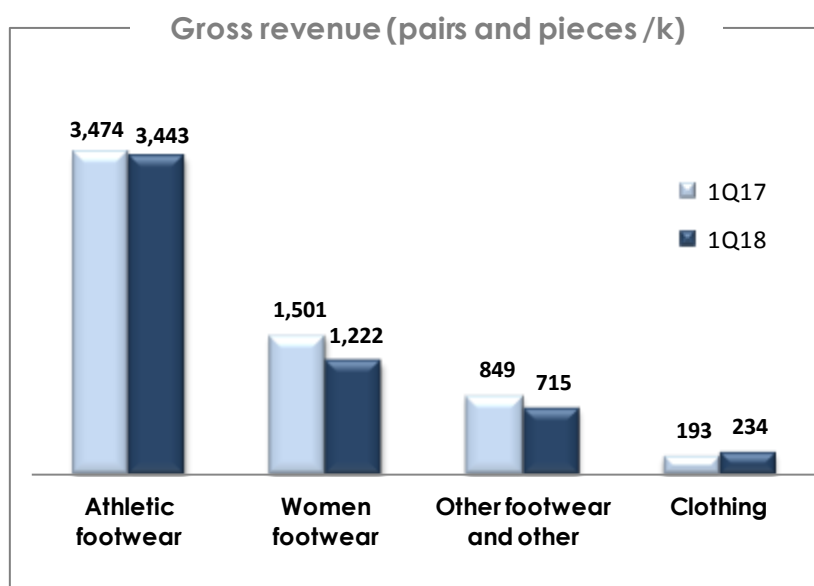
Vulcabras Azaleia not only dominates the processes but also knows how to transform itself.

With these values in tune with its day-to-day operations, the company works on a strategy of portfolio diversification and expansion of base in South America. Its focus is on sustainability and business perpetuity, seeking constant innovation through its brands.

## Gross Volume

In 1Q18 gross volume totaled 5.6 million pairs /pieces with a drop of 6.7% compared to the 1Q17 total (6.0 million pairs/pieces). This variation is chiefly due to: (i) the increase in sports footwear, protective boots and apparel in the domestic market, (ii) the continuation of the strategic decision to reduce the production of female footwear, adopted as from the third quarter of 2017, (iii) reduction of the Opanka sliders in the domestic market and, (iv) a generalized reduction in the foreign market sales.

Pairs and pieces (thousand)	1Q18	Share %	1Q17	Share %	Var. % 1Q18/1Q17
<b>Athletic footwear</b>	3,443	61.3%	3,474	57.8%	-0.9%
<b>Women footwear</b>	1,222	21.8%	1,501	24.9%	-18.6%
<b>Other footwear and other</b>	715	12.7%	849	14.1%	-15.8%
<b>Clothing</b>	234	4.2%	193	3.2%	21.2%
<b>Total</b>	<b>5,614</b>	<b>100.0%</b>	<b>6,017</b>	<b>100.0%</b>	<b>-6.7%</b>



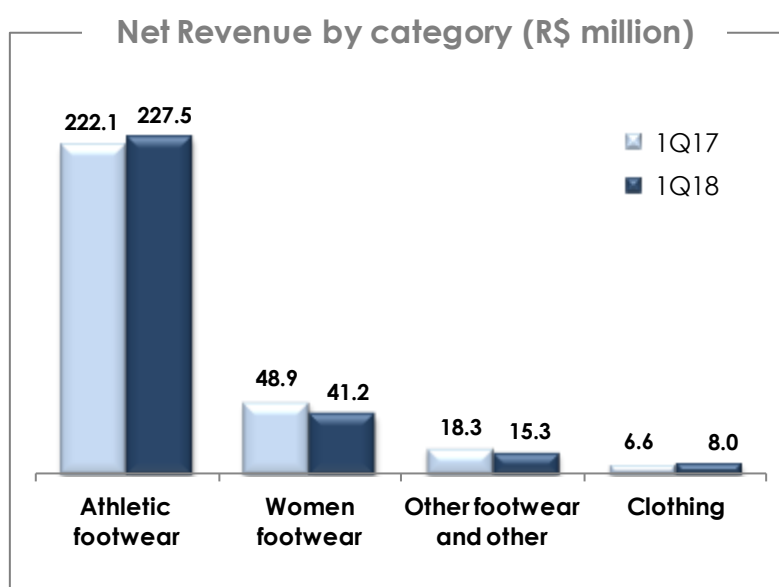
## Net Revenue

In 1Q18 net revenue reached R\$ 292.0 million, decreasing 1.3% over the R\$295.9 million in 1Q17.

In 1Q18 we continued to detect the deceleration in retail sales and, as a consequence, lesser shopkeepers' appetite to buy new products.

The revenue from sports footwear kept its upward trend, presenting significant growth in the domestic market, but was significantly impacted by the drop in the foreign market. There was a drop in the women's sector sales, compared to the same period of the previous year, caused by the maintenance of the strategy of transferring the production capacity of women's footwear to sports footwear. In the *Other footwear and others* category, the reduction refers to the drop in sales of Opanka sliders, partially offset by the increase in the professional boots category. Revenues from apparel and accessories significantly expanded.

R\$ Million	1Q18	Share %	1Q17	Share %	Var. % 1Q18/1Q17
<b>Athletic footwear</b>	227.5	77.9%	222.1	75.1%	2.4%
<b>Women footwear</b>	41.2	14.1%	48.9	16.5%	-15.7%
<b>Other footwear and other</b>	15.3	5.3%	18.3	6.2%	-16.4%
<b>Clothing</b>	8.0	2.7%	6.6	2.2%	21.2%
<b>Total Net Revenue</b>	<b>292.0</b>	<b>100.0%</b>	<b>295.9</b>	<b>100.0%</b>	<b>-1.3%</b>



## Net Revenue: Markets

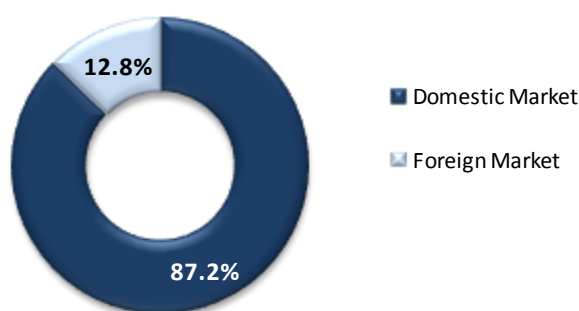
Net revenue in the domestic market totaled R\$ 254.7 million in 1Q18, with an increase of 1.3% compared to 1Q17 when net revenue was R\$ 251.4 million. In the foreign market, net revenue in 1Q18 was R\$ 37.3 million, a drop of 16.2% compared to the R\$ 44.5 million recorded in 1Q17.

In direct sales to third parties in the foreign market, revenues fell in 1Q18 compared to the same period of the previous year, chiefly due to the fact that in 1Q17 there was a resumption of business with the Argentinean market and it still had a high concentration of shipments. For 2018, the goal is for shipments to be more distributed among quarters, which can already be observed in this first quarter of the year and reflected in a drop compared to the previous year.

In sales of foreign branches, we presented a growth in revenue in 1Q18 compared to the same period of the previous year. Although there has been growth, we are still experiencing trade difficulties in the two countries where we maintain our branches. In Peru, political problems resulted in the fall of the President of the Republic due to corruption scandals, which greatly affected consumption. In Colombia, the increase in consumption tax occurred in 2017 still causes negative effects.

R\$ Million	1Q18	Share %	1Q17	Share %	Var. % 1Q18/1Q17
<b>Domestic Market</b>	254.7	87.2%	251.4	85.0%	1.3%
<b>Foreign Market</b>	37.3	12.8%	44.5	15.0%	-16.2%
<b>Total Net Revenue</b>	<b>292.0</b>	<b>100.0%</b>	<b>295.9</b>	<b>100.0%</b>	<b>-1.3%</b>

Share by market - 1T18





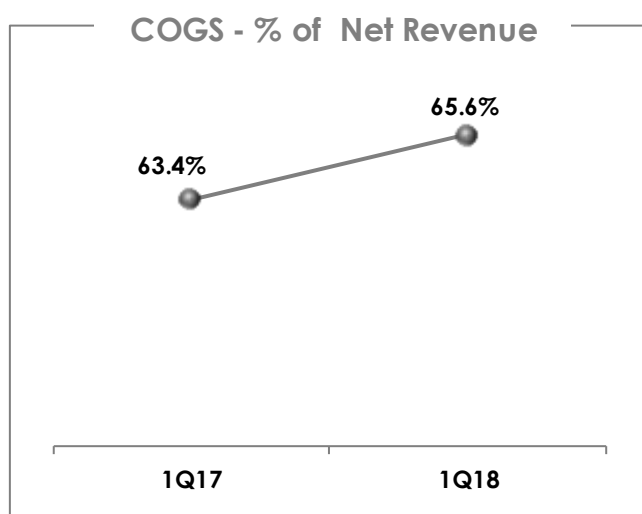
## Cost of goods sold (COGS)

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In 1Q18, as a percentage of net sales revenue, cost of goods sold represented 65.6% compared to 63.4% in the same period of 2017.

Due to the perception of a lower demand since the fourth quarter of 2017, at the turn of the year 2017 to 2018, collective vacations were granted in all the productive units, unlike what happened in the year 2016 to 2017, when the demand was heated and we were operating in full swing. Such a measure is salutary for good business performance throughout 2018, its adoption avoided the increase in inventory levels, which would be sold out in the following quarters. However, with a lower production in the months of December and January, the cost of goods produced was impacted by the apportionment of the factories' fixed expenses and consequently caused the increase of the unit costs of these goods sold in the first months of 2018.

Moreover, in 1Q18 we had two less production days compared to 1Q17, which also impacted on the increase in unit production costs since all costs, except raw material, are allocated by apportionment. As there was a smaller production volume, the unit cost increased.

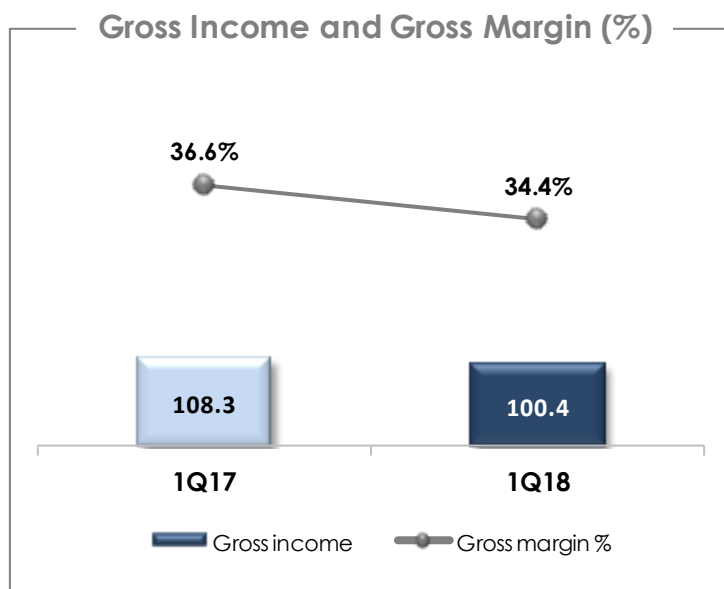


## Gross Income

Gross income in 1Q18 amounted to R\$ 100.4 million, a reduction of 7.3% compared to the R\$ 108.3 million recorded in 1Q17. Gross margin was 34.4% in 1Q18, 2.2 p.p. down the 36.6% presented in 1Q17.

Gross margin in 1Q18 was affected by the following components: (i) granting of vacations between December and January as set forth in the COGS topic; (ii) postponement of the release of the new Olympikus footwear collection, which caused the new products to arrive at the point of sale in the second half of March, thus generating some difficulties in sales; (iii) low profitability in the women's footwear, which continues its restructuring process.

R\$ Million	1Q18	1Q17	Var. % 1Q18/1Q17
<b>Gross income</b>	100.4	108.3	-7.3%
<b>Gross margin %</b>	34.4%	36.6%	-2.2 p.p.



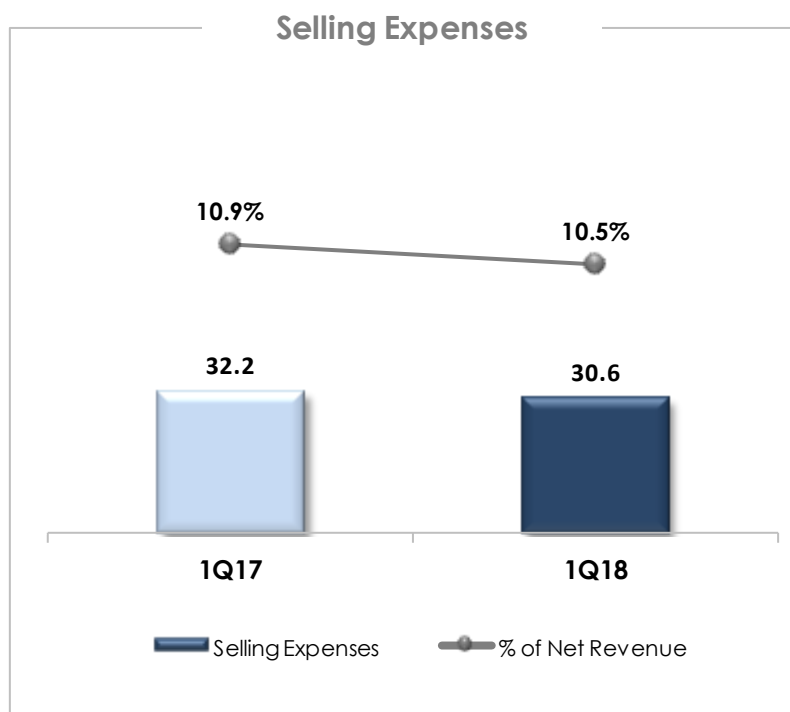
## Selling Expenses <sup>1</sup>

Selling expenses, which include expenses on commissions, freight, royalties, personnel, trade discounts, provision for impairment of receivables and other business expenses, decreased by 5.0% in 1Q18, over 1Q17. R\$ 30.6 million were recorded, against R\$ 32.2 million in the same period of the previous year.

The share of selling expenses in net revenue decreased by 0.4 p.p. when comparing 1Q18 to 1Q17, from 10.9% in 1Q17 to 10.5% in 1Q18.

R\$ Million	1Q18	1Q17	Var. % 1Q18/1Q17
<b>Selling Expenses<sup>1</sup></b>	30.6	32.2	-5.0%
<b>% of Net Revenue</b>	10.5%	10.9%	-0.4 p.p.

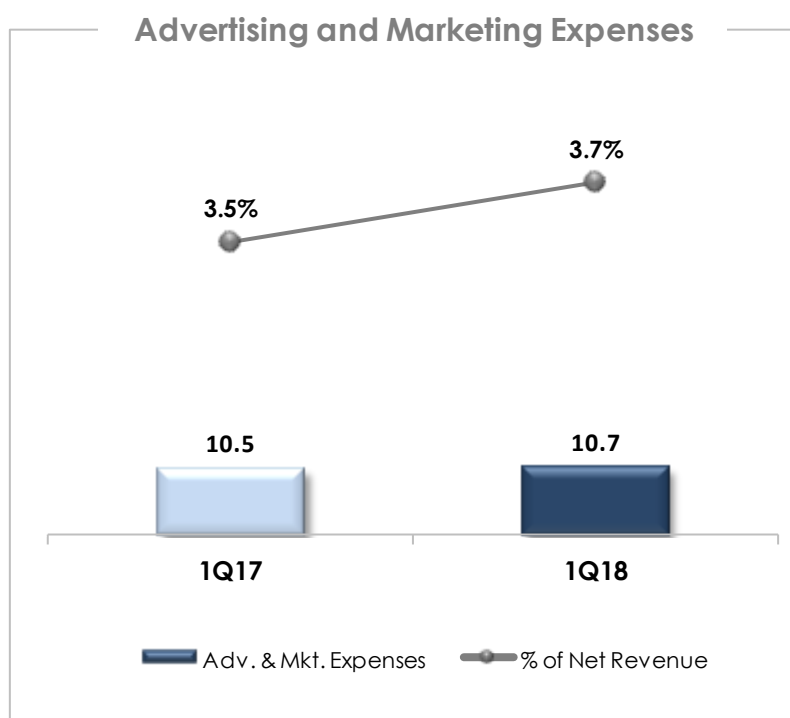
(1) Selling Expenses ex- Advertising and Marketing Expenses



## Advertising and Marketing Expenses

In 1Q18, advertising and marketing expenses amounted to R\$ 10.7 million, an increase of 1.9% over the R\$ 10.5 million in 1Q17.

R\$ Million	1Q18	1Q17	Var. % 1Q18/1Q17
<b>Advertising and Marketing Expenses</b>	10.7	10.5	1.9%
<b>% of Net Revenue</b>	3.7%	3.5%	0.2 p.p.



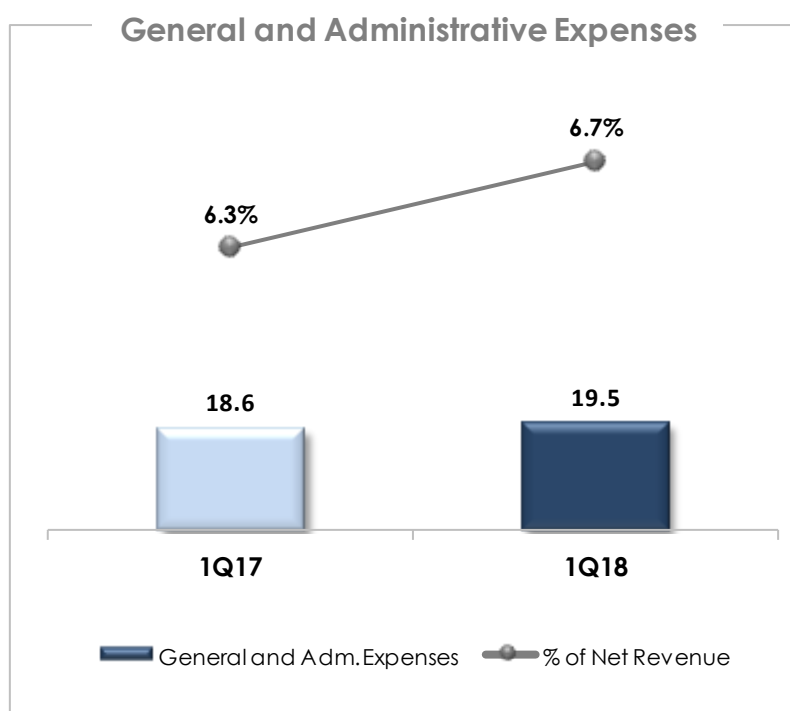
The communication strategy of both brands: For 2018, Olympikus and Azaleia will focus on the online medium, where today there are more than 152 million connected Brazilians consuming various contents throughout the entire day. Brands are working on the power of segmentation allowed by the digital. That is, instead of having a campaign focused on a single product, it will be possible to target different messages to different audiences. The goal is to be able to show the right product to the right person.

In order to be present at the the World's greatest soccer event, we have sponsored the 5 seconds countdown of the SporTV channels for the broadcast of all games. This way, Olympikus will be widely represented in the largest coverage of the sporting event of the year.

## General and Administrative Expenses

General and administrative expenses amounted to R\$ 19.5 million in 1Q18, an increase of 4.8% compared to R\$ 18.6 million in 1Q17. In percentage of net revenue there was an increase of 0.4 p.p., from 6.3% in 1Q17 to 6.7% in 1Q18. As most of the expenses that comprise this group are tied to inflation indexes, the nominal growth is due to this correction.

R\$ Million	1Q18	1Q17	Var. % 1Q18/1Q17
<b>General and Administrative Expenses</b>	19.5	18.6	4.8%
<b>% of Net Revenue</b>	6.7%	6.3%	0.4 p.p.





## Other Operating Income (Expenses)

In 1Q18, other operating income (expenses), net amounted to an expense of R\$ 3.6 million, against an expense of R\$ 2.8 million in 1Q17. This increase is due to the higher volume of new provisions for contingencies in the first quarter of 2018 due to the movement of labor lawsuits. Despite the increase in the quarter, the expectation is that the annual amount of the provision for contingencies will be close to the previous year.

R\$ Million	1Q18	1Q17	Var. % 1Q18/1Q17
<b>Other Operating Income (Expenses)</b>	-3.6	-2.8	28.6%
<b>% of Net Revenue</b>	-1.2%	-0.9%	-0.3 p.p.

## Net Financial Income

Net Financial Income in 1Q18 amounted to a cost of R\$ 2.2 million, a decrease of 87.8% when compared to the cost of R\$ 18.0 million in 1Q17.

The reduction of debt and the drop in the SELIC rate contributed to a sharp reduction in finance costs.

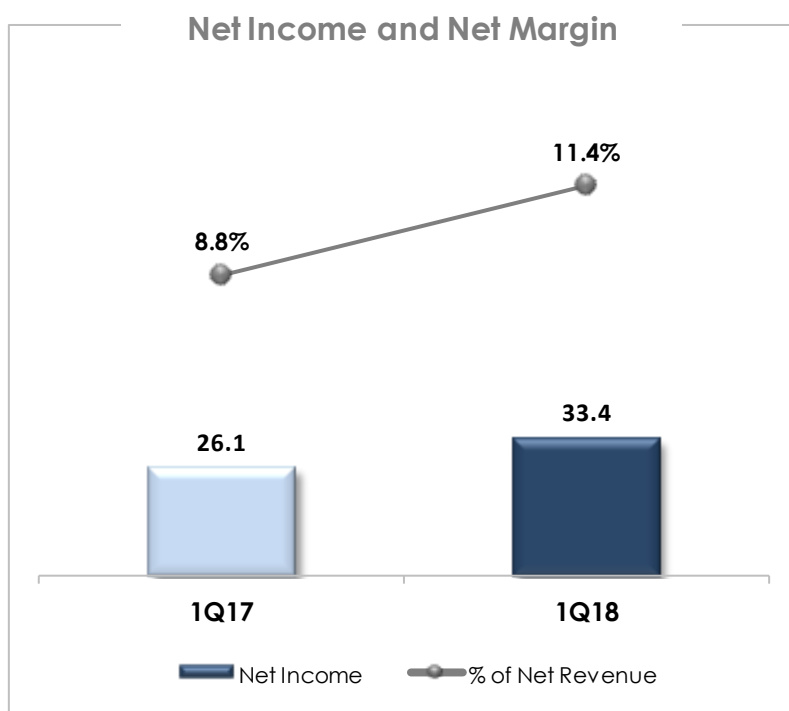
R\$ Million	1Q18	1Q17	Var. % 1Q18/1Q17
<b>Financial Costs</b>	<b>-7.0</b>	<b>-37.1</b>	<b>-81.1%</b>
Capital structure	-2.2	-15.4	-85.7%
Operating	-2.4	-11.9	-79.8%
Exchange differences	-2.4	-9.8	-75.5%
<b>Financial Income</b>	<b>4.8</b>	<b>19.1</b>	<b>-74.9%</b>
Capital structure	2.0	1.1	81.8%
Operating	0.3	1.0	-70.0%
Exchange differences	2.5	17.0	-85.3%
<b>Net Financial Income</b>	<b>-2.2</b>	<b>-18.0</b>	<b>-87.8%</b>

## Net Income

Income for 1Q18 amounted to R\$ 33.4 million, an increase of 28.0% over the income of R\$ 26.1 million in 1Q17. Net margin went from 8.8% to 11.4%, an increase of 2.6 p.p..

Despite the decrease in the gross margin, the good performance in controlling operating expenses and the reduction in finance costs allowed the expansion of the income for the quarter and consequently of the net margin.

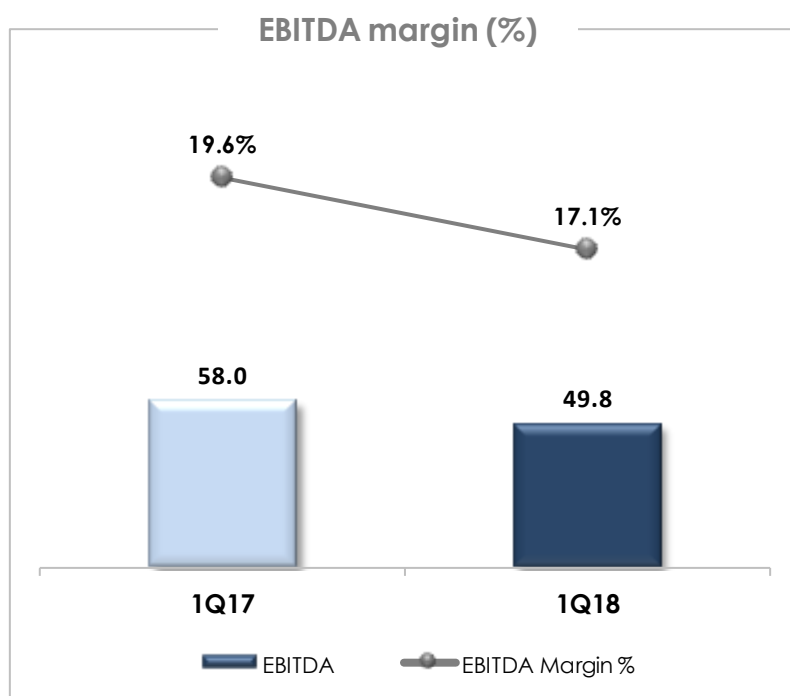
R\$ Million	1Q18	1Q17	Var. % 1Q18/1Q17
<b>Net Income</b>	33.4	26.1	28.0%
<b>% of Net Revenue</b>	11.4%	8.8%	2.6 p.p.



## EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization)

In 1Q18, EBITDA amounted to R\$ 49.8 million, a decrease of 14.1% against the R\$ 58.0 million obtained in 1Q17. EBITDA margin dropped by 2.5 p.p., reaching 17.1% in 1Q18, against 19.6% from 1Q17.

R\$ Million	1Q18	1Q17	Var. % 1Q18/1Q17
<b>Net Income</b>	33.4	26.1	28.0%
(+) Taxes	0.5	0.7	-28.6%
(+) Net Financial Income	2.2	18.0	-87.8%
(+) Depreciation and amortization	13.7	13.2	3.8%
<b>EBITDA</b>	<b>49.8</b>	<b>58.0</b>	<b>-14.1%</b>
Net Revenue	292.0	295.9	-1.3%
<b>EBITDA Margin %</b>	<b>17.1%</b>	<b>19.6%</b>	<b>-2.5 p.p.</b>



## ROIC – Return on Invested Capital

The annualized return on invested capital - ROIC - reached 30.1% in 1Q18 - LTM (last twelve months ended 03/31/2018), an increase of 0.2 p.p., over the 29.9% obtained at 12/31/2017.

NORMAL ROIC	2015	2016	2017	1Q18 (LTM)
Net Income (Loss) for the period (LTM)	(49.9)	35.7	188.9	196.2
(+) Net Financial Income (LTM)	98.2	82.1	49.6	33.7
<b>NOPAT</b>	<b>48.3</b>	<b>117.8</b>	<b>238.5</b>	<b>229.9</b>
<b>Invested Capital</b>				
Loans and Financing	675.4	539.3	94.8	90.9
(-) Cash and cash equivalents	(24.7)	(17.1)	(100.5)	(150.7)
(-) Financial Investments	(10.4)	(8.3)	(5.7)	(6.0)
(+) Related Parties	237.2	255.2	–	–
(+) Equity	35.8	51.9	784.6	818.4
<b>Invested Capital</b>	<b>913.3</b>	<b>821.0</b>	<b>773.2</b>	<b>752.6</b>
<b>Average invested capital for the period <sup>2</sup></b>	<b>909.5</b>	<b>867.2</b>	<b>797.1</b>	<b>762.9</b>
<b>Annualized ROIC <sup>3</sup></b>	<b>5.3%</b>	<b>13.6%</b>	<b>29.9%</b>	<b>30.1%</b>

The annualized adjusted return on invested capital (ROIC – adjusted<sup>1</sup>) reached 42.2% in 1Q18 - LTM (last twelve months ended 03/31/2018), an increase of 1.5 p.p., over the 40.7% obtained at 12/31/2017. <sup>1</sup>

ADJUSTED ROIC <sup>1</sup>	2015	2016	2017	1Q18 (LTM)
Net Income (Loss) for the period (LTM)	(49.9)	35.7	188.9	196.2
(-) Income (loss) from discontinued operations (LTM)	(10.9)	–	–	–
(+) Net Financial Income (LTM)	98.2	82.1	49.6	33.7
(-) Equity Results (LTM)	(1.7)	(2.1)	(8.8)	(8.5)
<b>NOPAT (Adjusted)</b>	<b>35.7</b>	<b>115.7</b>	<b>229.7</b>	<b>221.4</b>
<b>Invested Capital</b>				
Loans and Financing	675.4	539.3	94.8	90.9
(-) Cash and cash equivalents	(24.7)	(17.1)	(100.5)	(150.7)
(-) Financial Investments	(10.4)	(8.3)	(5.7)	(6.0)
(+) Related Parties	237.2	255.2	–	–
(-) Goodwill on acquisition	(199.8)	(198.2)	(198.2)	(198.2)
(-) Investment in subsidiary	(27.6)	(29.7)	(40.1)	(40.3)
(+) Equity	35.8	51.9	784.6	818.4
<b>Total Adjusted Invested Capital</b>	<b>685.9</b>	<b>593.1</b>	<b>534.9</b>	<b>514.1</b>
<b>Average adjusted invested capital for the period <sup>2</sup></b>	<b>682.8</b>	<b>639.5</b>	<b>564.0</b>	<b>524.5</b>
<b>Adjusted Annualized ROIC <sup>3</sup></b>	<b>5.2%</b>	<b>18.1%</b>	<b>40.7%</b>	<b>42.2%</b>

<sup>1</sup> Adjusted ROIC is a non-accounting measure calculated by dividing Adjusted NOPAT (defined as profit (loss) for the period plus net finance income (cost) minus share of profit (loss) of investees and profit (loss) from discontinued operations), divided by the adjusted average Invested Capital. The Adjusted Invested Capital is defined as the sum of equity and Net Debt (as defined below), minus the goodwill recorded in intangible assets and investments in non-controlled companies.

<sup>2</sup> Average invested capital at the end of this period and at the end of the previous year.

<sup>3</sup> ROIC: Last 12 months adjusted NOPAT divided by the average invested capital.

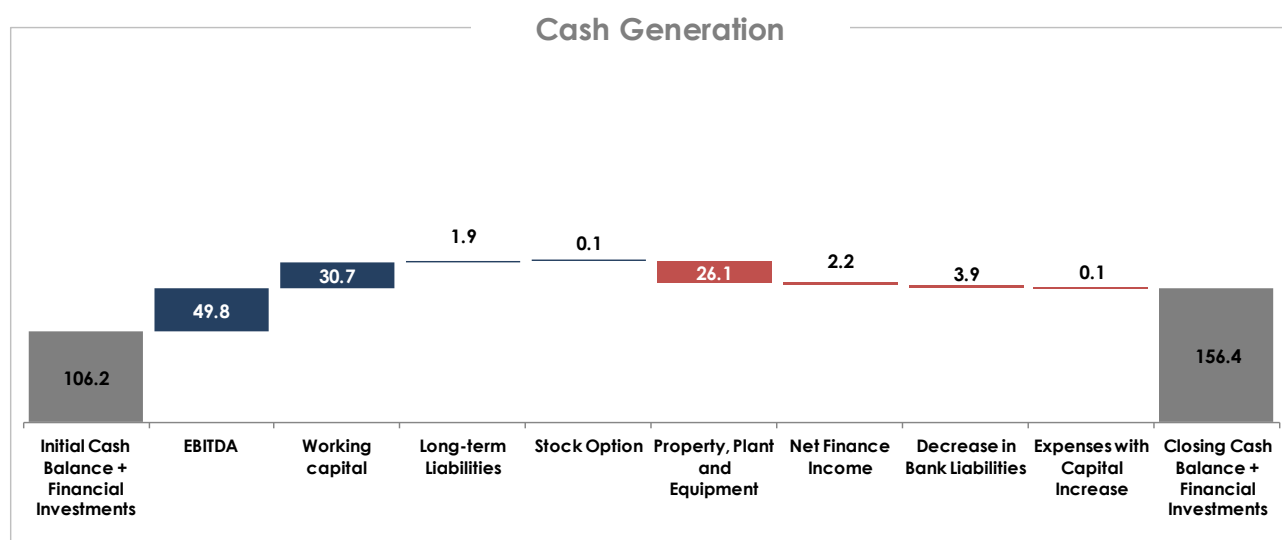
## Capex – Capital Expenditure

In 1Q18, R\$ 27.0 million were invested in property, plant and equipment, an increase of 67.7% over the R\$ 16.1 million in 1Q17. The highlight was in the Machinery and Equipment line item which grew 230% due to the intensification of the industrial plants modernization project. The addition of Capex in Molds in 1Q18, refers to the decision to postpone the release of the Olympikus collection. Intangible assets in 1Q18 amounted to R\$ 0.9 million, an increase of R\$ 0.6 million in relation to the same period of the previous year.

R\$ Million	Additions		Var. % 1Q18/1Q17
	1Q18	1Q17	
<b>Property, plant and equipment</b>	<b>27.0</b>	<b>16.1</b>	<b>67.7%</b>
Molds	10.7	6.9	55.1%
Machinery and equipment	9.9	3.0	230.0%
Industrial facilities	3.8	3.9	-2.6%
Others	2.6	2.3	13.0%
<b>Intangible assets</b>	<b>0.9</b>	<b>0.3</b>	<b>200.0%</b>
Software	0.9	0.2	350.0%
Assignment of right	0.0	0.1	-100.0%
Others	0.0	0.0	0.0%
<b>Total</b>	<b>27.9</b>	<b>16.4</b>	<b>70.1%</b>

## Cash Generation

Cash generation in 1Q18 was R\$ 50.2 million, chiefly due to the EBITDA of R\$ 49.8 million and a working capital reduction of R\$ 30.7 million, mainly applied to the net increase in property, plant and equipment of R\$ 26.1 million.

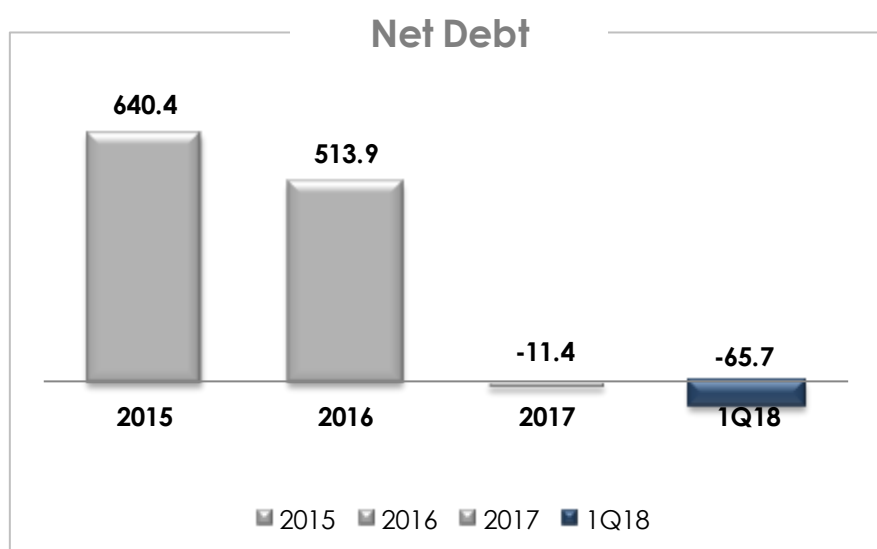




## Net Debt

In 1Q18, due to the maintenance of the cash generation trend, we increased the net cash balance. Net cash, that at 12/31/2017 was R\$ 11.4 million, increased to R\$ 65.7 million at 03/31/2018, an increase of R\$ 54.3 million.

R\$ Million	2015	2016	2017	1Q18 (LTM)	Var. % 1Q18/1Q17
Loans and Financing	675.5	539.3	94.8	90.9	-4.1%
Cash and cash equivalents	24.7	17.1	100.5	150.7	50.0%
Financial investments	10.4	8.3	5.7	5.9	3.5%
<b>Net Debt</b>	<b>640.4</b>	<b>513.9</b>	<b>(11.4)</b>	<b>(65.7)</b>	<b>476.3%</b>



R\$ Million	1Q18	1Q17	Var. % 1Q18/1Q17
Local currency	90.9	92.7	-1.9%
Foreign currency	–	2.1	n/a
<b>Total Loans and Financing</b>	<b>90.9</b>	<b>94.8</b>	<b>-4.1%</b>

## Brands Management

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From a year at the top of sales in Brazil, Olympikus prepared for an even stronger 2018. In addition to opening the calendar year with a new collection, the brand invested in activations alongside trade, emphasized digital communication and reinforced sponsorships, making for a dynamic first quarter.

In January, the releases for the first half of the year were presented, with new models in the fitness, running, cross training, active, lev life, kids and sportswear categories. Among the highlights is RIO 6, official shoes of the Rio Marathon, an event that counts with Olympikus as the official sports brand since 2011.

For its tradition and challenges' excellence, this is one of the most desired events in the category's world calendar. The Rio de Janeiro's shoreline, which is one of the most beautiful scenery in the world for street racing, adds to these aspects. The next edition will be on June 2 and 3, with a forecast of 37,000 runners on the marathon, half marathon (of which Olympikus has the naming rights) and family run, of 6 km and 10 km. With different distances, the brand will be in contact with a varied profile of athletes.

With regard to the communication strategy for 2018, the product emerges as the hero of activations. Focusing on the online media, where today there are more than 152 million connected Brazilians consuming different contents throughout the day, the brand will work on the power of segmentation allowed by the digital. That is, instead of having a campaign focused on a single product, it will be possible to target different messages to different audiences. The goal is to be able to show the right product to the right person.

In addition to a strong online communication, the strategy is integrated with actions directed to the point of sale. Within this front, Olympikus brought training to salespeople and special materials to expand the qualified exposure of the products in the stores.

The trade actions have the aim to offer information on the technologies available in the models for each activity, helping the purchase decision. It is no wonder that Olympikus is recognized as the best choice, for delivering high quality coupled with a democratic price.

The year really began at full speed. Olympikus has renewed its sponsorship of the Pretto Triathlon team, whose members have completed marathons and half marathons with their high performance models in competitions not only in Brazil but also in other countries.

The biggest sports brand in Brazil also went to the tracks with the Cimed team, which debuted in Stock Car's 2018 season in March in Interlagos, São Paulo. At the time, Cacá Bueno received Felipe Massa as guest for the traditional doubles race. The brand was stamped on the pilots' overalls and on the car.

## azaleia

Azaleia is on the move and the first quarter has already brought news that point to others that will continue the brand's renewal sequence. In March, the fall-winter collection and a new phase in digital communication were released, preparing the way for a greater presence in the online channels.

With themes that express attitude and femininity, the new products bring worldwide trends, translated into shapes and highlights and specific tones of the season.

They are fashionists models that come to democratize fashion and accompany the Brazilian woman from work to happy hour. All in a very Azaleian way: with lightness and comfort, thanks to its technology.

All these attributes are in the brand's new communication, which premiered simultaneously to the collection. Totally focused on digital media, the campaign emphasizes the fashion that is used on the streets.



Through the project, ambassadors Grazi Massafera, Camila Coelho and Raíssa Santana reached out to the consumers with their own fashion choices, showing how to use the Azaleia models in everyday life. The proposal is to offer a fashion content that is practical and of easy access to all women, inspired by the trio.

Periodically, the brand's social networks will have news on topics such as “Azaleia of the Day” and the “Choices of the Month” of each ambassador. All this aligned with the brand's plans to be increasingly digital.



## **Independent Audit and Approval by the Board of Directors**

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Vulcabras Azaleia informs that "KPMG Auditores Independentes" was appointed on 01/01/2017 to provide independent audit services.

The consolidated quarterly information for 1Q18, notes and management report were reviewed and approved by the Board of Directors of Vulcabras Azaléia at the meeting held on May 8, 2018.

## Balance Sheet

BALANCE SHEET (CONSOLIDATED)					
In thousands of Reais					
ASSETS	03/31/2018	12/31/2017	LIABILITIES	03/31/2018	12/31/2017
Cash and cash equivalents	150,681	100,502	Trade accounts payable	89,817	69,827
Short-term Investments	1,854	1,741	Loans and financing	83,044	84,474
Trade receivables	335,253	326,522	Taxes payable	12,001	5,822
Inventories	187,460	189,524	Taxes payable - IRPJ e CSLL	0	0
Recoverable taxes	9,552	10,101	Tax Recovery Program - REFIS	128	128
Income tax recoverable	2,851	2,528	Salaries and vacation payable	36,474	34,993
Prepaid expenses	5,885	5,961	Provisions	52,932	53,115
Other receivables	18,767	31,151	Other accounts payable	15,617	18,275
			Dividends proposed	0	0
<b>CURRENT ASSETS</b>	<b>712,303</b>	<b>668,030</b>	<b>CURRENT LIABILITIES</b>	<b>290,013</b>	<b>266,634</b>
Long-term Investments	4,016	3,920			
Recoverable taxes	4,791	4,877			
Deferred income tax and social contribution	120	125			
Judicial deposits	41,814	42,165			
Loans from related parties	0	0			
Other receivables	2,259	2,036			
Prepaid expenses	0	0	Loans and financing	7,873	10,325
Assets held for sale	194	194	Related-party loans	0	0
Capital expenditures	40,284	40,080	Provisions	25,422	24,370
Investment property	3,258	3,362	Taxes deferred on revaluation of PP&E	3,634	3,747
Property, plant and equipment	164,572	152,647	Provision for devaluation of investments	0	0
Intangible assets	203,704	203,049	Other accounts payable	31,959	30,836
<b>NONCURRENT ASSETS</b>	<b>465,012</b>	<b>452,455</b>	<b>NONCURRENT LIABILITIES</b>	<b>68,888</b>	<b>69,278</b>
			<b>LIABILITIES</b>	<b>358,901</b>	<b>335,912</b>
			Share Capital	1,107,555	1,107,661
			Revaluation reserves	7,055	7,273
			Capital reserve	134	0
			Equity appraisal adjustments	-2,655	-3,045
			Accumulated losses	-293,932	-327,571
			<b>Equity attributable to controlling shareholders</b>	<b>818,157</b>	<b>784,318</b>
			<b>Non-controlling interests</b>	<b>257</b>	<b>255</b>
			<b>SHAREHOLDERS' EQUITY</b>	<b>818,414</b>	<b>784,573</b>
<b>TOTAL ASSETS</b>	<b>1,177,315</b>	<b>1,120,485</b>	<b>TOTAL LIABILITIES PLUS SHAREHOLDERS' EQUITY</b>	<b>1,177,315</b>	<b>1,120,485</b>

See the accompanying notes to the quarterly information.



## Income Statement

INCOME STATEMENT	1Q18	1Q17	VAR (%)
In thousands of Reais, except for earnings per share.			
<b>Net sales revenue</b>	<b>291,984</b>	<b>295,883</b>	<b>-1.3%</b>
Cost of sales	-191,575	-187,576	2.1%
<b>Gross Profit</b>	<b>100,409</b>	<b>108,307</b>	<b>-7.3%</b>
Sales expenses	-41,347	-42,693	-3.2%
Administratives expenses	-19,505	-18,557	5.1%
Others net operating income (expenses)	-3,637	-2,757	31.9%
Equity in net income of subsidiares	204	433	-52.9%
<b>Net income before net financial income and cost and tax</b>	<b>36,124</b>	<b>44,733</b>	<b>-19.2%</b>
Finance Income	4,785	19,116	-75.0%
Finance Expenses	-6,940	-37,126	-81.3%
<b>Net Financial Income and costs</b>	<b>-2,155</b>	<b>-18,010</b>	<b>-88.0%</b>
<b>Income before tax on net income</b>	<b>33,969</b>	<b>26,723</b>	<b>27.1%</b>
Current and deferred income tax and social contribution	-547	-653	-16.2%
<b>Net Income</b>	<b>33,422</b>	<b>26,070</b>	<b>28.2%</b>
<b>Income attributable to</b>			
Controlling Shareholders	33,421	26,062	
Noncontrolling Shareholders	1	8	
<b>Net Income</b>	<b>33,422</b>	<b>26,070</b>	
<b>Earnings per share</b>			
Basic and diluted income per common share	0.13600	0.14074	
Number of shares at period-end	245,756,346	185,230,346	

See the accompanying notes to the quarterly information.

## Cash Flow Statement

<b>CASH FLOW STATEMENT (INDIRECT METHOD)</b>	<b>1Q18</b>	<b>1Q17</b>
<b>In thousands of Reais</b>		
<b>Cash flows from operating activities</b>		
<b>Net Income for the year</b>	<b>33,422</b>	<b>26,070</b>
<b>Adjustments to:</b>		
Depreciation and amortization	13,673	13,248
Inventory impairment loss	-226	431
Net value of tangible and intangible assets written off	1,741	5,016
Earnings on investments	-1,623	-587
Losses on contingencies	4,797	3,817
Equity in net income of subsidiaries	-204	-433
Granting shares	134	0
Estimated loss on allowance for doubtful accounts	660	2,868
Financial charges and exchange variance recognised in profit or loss	1,983	8,524
Deferred taxes	-108	118
Minority interest	-1	-8
	<b>54,248</b>	<b>59,064</b>
<b>Changes in active and liabilities:</b>		
Short-term Investments	1,414	0
Trade Receivables	-9,391	22,217
Inventory	2,290	3,210
Prepaid expenses	76	-803
Recoverable taxes	312	-1,400
Other account receivable	12,161	11,600
Judicial deposits	351	-1,789
Trade accounts payable	19,990	12,713
Taxes and social contributions	6,179	8,842
Salaries and vacation payable	1,481	8,677
Other accounts payable	-1,533	-2,358
Provisions for contingencies used	-3,928	-3,726
	<b>29,402</b>	<b>57,183</b>
<b>Cash produced by operating activities</b>		
Interest paid	-276	-9,753
	<b>-276</b>	<b>-9,753</b>
<b>Flow of net cash provided by (used in) operating activities</b>	<b>83,374</b>	<b>106,494</b>
<b>Cash Flow from financing activities</b>		
Acquisitions of property, plant and equipment	-27,015	-16,079
Acquisitions of intangible assets	-875	-308
Short-term Investments	0	803
Gain or loss in conversion of investments	0	-717
<b>Net cash flows used in investing activities</b>	<b>-27,890</b>	<b>-16,301</b>
<b>Cash flows from financing activities</b>		
Loans secured - Principal	98	122
Repayment of loans secured - Principal	-5,297	-83,259
Realization of share issuance expense	-106	0
<b>Cash flows from financing activities</b>	<b>-5,305</b>	<b>-83,137</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>50,179</b>	<b>7,056</b>
Cash and cash equivalents at beginning of year	100,502	17,094
Cash and cash equivalents at end of year	150,681	24,150
<b>Increase (decrease) in cash and cash equivalents</b>	<b>50,179</b>	<b>7,056</b>
<b>See the accompanying notes to the quarterly information.</b>		

## Administration

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### Members of the Board of Directors

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Pedro Grendene Bartelle	Chairman
André de Camargo Bartelle	1st Vice Chairman
Pedro Bartelle	2nd Vice Chairman
Hector Nunez	Independent Member
Roberto Faldini	Independent Member

### Members of the Board of Executive Officers

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Pedro Bartelle	Chief Executive Officer
Edivaldo Rogério de Brito	Chief Administrative, Financial and Investor Relations Officer
Flávio de Carvalho Bento	Chief Industrial Officer
Rafael Carqueijo Gouveia	Chief Commercial and Corporate Operations Officer
Luiz Vanderlei Heidrich	Chief Division Officer - Female
Márcio Kremer Callage	Chief Marketing Officer

### Members of the Audit Committee

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Benedito Alfredo Baddini Blanc	Member
Carlos Gardel José de Souza	Member
Marcello Joaquim Pacheco	Member