



1Q21 Teleconference Transcription – May 11, 2021

Melissa Angelini:

Good morning everyone and thank you for waiting. Welcome to Blau Pharmaceutica 1Q21 results conference call.

We have with us today Marcelo Hahn, CEO, Douglas Rodrigues, CFO and Melissa Angelini, Head of RI.

I would like to pass the floor to Marcelo Hahn, CEO, who will begin the presentation. Please Marcelo, go ahead.

Marcelo Hahn:

Thank you, Melissa. Blau morning everyone, thank you for your participation. It is a pleasure to be in our first results call after our IPO.

Many of you already know Blau's history, which started 33 years ago and with the IPO at B3, we start a new cycle of growth. The IPO served to strength our cash flow and accelerate the execution of our strategy, now stronger with more resources and opportunities.

Part of the company's management was very committed to make the IPO happen. It took a lot of time and focus, but while part of the team was focusing on the IPO project, another part of the team was fully focus on the operation and execution of the quarter.

We had a 49% net revenue growth in the quarter-on-quarter, and when we look at the last 12 months, the growth was 28%, consistent with our historical growth in recent years.

It is important to note that we have a very robust portfolio which gives us the flexibility to offer products according to market needs. The product mix is



relevant for increasing the market share in certain markets and continue with margin expansion.

In the first quarter, we increased the market share with our addressable market to 34%. In other words, Blau serves one third of the entire institutional market in which we operate, according to IQVIA Math in March 21.

In the IQVIA Hospital segment ranking, no retail, we are in the top 10 of the entire market and we are the second largest national pharmaceutical industry in the ranking, very close to the first one.

We saw a higher demand for some anesthetic products that little contributed to the top line but had an impact on the market. Anyway, in the consolidated results, the impact of the margin was less than 1 percentage point from both products.

When we look at the growth in terms of volume and price, about 60% of the growth came from volume. In the quarter, we had an increase of more than 60% in injectable units produced and more that 8% in solid units manufactured.

This specific growth in volume reflects all the efforts we are making to address the issue of production capacity in the short term and also the flexibility that ANVISA granted us about changing the manufacturer locations and lot size for some projects with greater demand in the market, upon presentation of a timetable.

In the operational highlight, it is important to highlight some initiatives. P400: as many of you already know, we obtained this application of good manufacturer practices for the P400, with the approval of the production of four APIs: Alfaepoetin, Filgrastim, Pegfilgrastim and Somatropin.

We also continue to invest in innovation and new product development, the equivalent of 4% of our total net revenue. We have eight new projects submitted to the sanitary agency, ANVISA, in the first quarter and three new registration approval for the region.



We are also making some specific improvements to expand production capacity in Cotia, Caucaia and São Paulo, in addition to adapting Blau Goiás to Blau's standard.

Another very important point is our ESG agenda. In the first quarter, we moved forward with the ESG project internally. We hired and started a project with a specialized consultancy to implement the company's first sustainable report, where we mapped key themes, defined the materiality matrix, which we will focus our efforts and elaborate ESG strategy agenda.

Yesterday we published our first ESG report. We also invested a lot in human capital, with a team reinforcement in several key areas of the company and aligned with important corporate governance issues that are constantly evolving.

The results we presented here demonstrate the commitment of the entire team. We remain focused on continuing with our sustainable growth and always with the same goal in mind: to become the reference company in the health sector for LATAM, to be the largest and most modern pharmaceutical industry in biotechnology and specialties in Latin America, with a broad portfolio to meet the growing demand for healthcare and continue to generate shareholder's value.

Now I will call Melissa Angelini, our IR Head to comment on our operational performances.

Melissa Angelini:

Thank you, Marcelo, good morning everyone. Going to slide 4, as Marcelo mentioned, we had an expressive growth in top line, with a CAGR of almost 20% from 2018 to the 1Q21 LTM.

We keep increasing production capacity to address our short terms needs, as Marcelo also explained, and supply the market. Approximately 60% of the growth came from volume, we had higher volume from Pharma Limório, now



Blau Goiás, and we also had several improvements in our production lines in all the other plants here in São Paulo.

Also, we managed to get an approval from ANVISA to change the lot size and production facility, which contributed to the increase in volume.

In our biological lines, as expected, although we still have higher demand, we had lower sales of Imuno than the last year due to the offer restrains that you already know.

With Alfaepoetin, we had higher volumes from last year and with the other products as well.

When we look at the Specialties, our business unit, we also had a very good increase impacted mainly by recurring increasing production capacity that we mentioned before.

Also in this line, as Marcelo told you, we had any specific demand for two anesthetics that contributed to 1 percentage points to the consolidated gross margin. All the rest is the trend of the company, the new level that the company is going to work now.

Oncology is growing well, the Others are impacted mainly by Botulim, as you guys know, it is a Dermocosmetic, so it had less sales due to the covid situation that is still currently present here in Brazil.

We continue to have high capillarity in the market, we are presented in over 7,000 institutions in Brazil with a market share of 34% in our addressable market, as Marcelo mentioned.

Going to slide 5, when we look at our gross profit and our gross margin, we can see the same trends that we just mentioned.

Having a robust portfolio is very important to us. We keep all the registration active exactly for that because we are able to offer what the market needs



exactly when they need. So, in different period of time, we offer certain products, and in another period, we offer another product.

We also had higher sales in the private channel, almost 80% of our sales came from the private institutions, where else in the last year was about 70%. This also has a positive contribution to our margin.

We are also delivering dilution in COGS, as you could see our earnings release, we had a dilution of about 660 bases points quarter-over-quarter. So, as you can see, this is the new standard of the company. We are delivering great results due to the ongoing execution of our strategic plan as you have been seen throughout the quarters.

With that, I will pass it over to Douglas so he can comment on our financial performance.

Douglas Rodrigues:

Thank you, Melissa. Good morning everyone. Related to OPEX, the same trend and the same performance as in the previous quarters. It means the sales growth is higher than the OPEX growth.

And just some details about the performance of OPEX in this quarter. In terms of G&A, the increase is related to some expenses related to IPO process, we created a reserve in our financial and in terms of our RD&I, it is important to mention that last year, in the first quarter we launched our Center of Innovation, Inventta. In this 1Q21, it is running in its full capacity, so the expenses doubled in comparison to the previous quarter last year.

In terms of the EBITDA margin, we see the same trend. As Melissa mentioned and Marcelo also mentioned, the performance in terms of the gross profit in also in terms of the operation leverage and the dilution of expenses allowed the company to increase 2 more base points in comparison with the full year of 2020.



Now, the company's EBITDA margin is 36%. Last year, full year, 34%. It is the same performance in terms of continuing to expand our margins, net profit, and also EBITDA margin.

Just some highlights in terms of financial expenses and net income. In terms of financial expenses, there is a big evolution in terms of positive impacts in this quarter.

Why? In 1Q20, we had a strong negative impact in terms of the evaluation for local currency in the first quarter. This quarter is more favorable in terms of the devaluation. We still have devaluation, but it is lower in comparison with the last quarter.

And also, the positive impact of our hedge contracts, so it permeates in terms of the net financial expenses in comparison quarter with quarter a better performance.

Of course, it permeates in terms of contributing to the increase of net profit margin, that in the quarter, reached 26% and 24% in the LTM.

In terms of the CAPEX and working capital, I think it is very important to mention that the company continued the execution of our business plan. So, the increase in terms of the total CAPEX for capacity production, for intangible in terms of the development of new products, the increase in this period quarter versus quarter was almost 70% increase.

And we also see the same trend in the working capital as the company initiates a new cycle of growth, so there is an increase in terms of the level of the inventories.

In terms of the accounts receivable, as we increase the participation of the private channel, of course it increases our days of accounts receivable for this quarter.

In terms of the leverage, the current leverage of the company is 1.2x. It increased before the IPO, but it is under control, it is more related to keeping



the pace of growth and new investments in capacity production and the development of new products.

So, basically, in terms of the financial performance, these are the main comments. Now, we are open and fully available to answer any questions. Thank you.

Melissa Angelini:

Thank you, Douglas. Just as a reminder, we are open for questions. you can ask your questions through the webcast platform. Will give it a minute to gather the questions.

Joseph Giordano, JPMorgan:

Actually, there are two questions. Can you comment about the evolution of the plasma collection initiative in the US? Also, how are you seeing discussions concerning tech transfer agreements to accelerate pipeline development?

Marcelo Hahn:

Hi, Joseph, many thanks for your question. The collection starts this month in Hemarus collection center in Florida and we have already defined the second collection center, so we will start the development of this new center.

About tech transfer agreements to accelerate pipeline development, Blau is always aware of that. We are having a lot of discussions and soon we will have news about this issue.

About the potential change to the regulation of blood derivative products in Brazil, as you might know, collection of plasma in Brazil is regulated by a law that says that the plasma and all the derivative of plasma belongs to the government, to the State.

Changing this is a very big challenge. We do not see a change in that in the short-term, but there is a possibility, and we are preparing a presentation to



show to congress members about this situation to try and persuade them to think about and to discuss this opportunity of changing the collection and the law of the plasma in Brazil.

Melissa Angelini:

Thank you, Marcelo. There seems to be no other questions, so I would like to thank you all. I will pass it over to Marcelo for his final considerations.

Marcelo Hahn:

We are very happy to announce today our first results of 1Q21 after our IPO. We are very focused in keeping the company's historical growth results, to bring value to our shareholders. We want you to know we are very focused on keep growing the company and bring more opportunities to the company.

I would like to thank you for joining us today. Thank you very much.

Melissa Angelini:

Thank you everyone, have a great day.

Douglas Rodrigues:

Thank you.