

**Pague Menos**  
**Conference Call Transcript – 4Q21**

**Operator:**

Good afternoon, and thank you for waiting. Welcome to Pague Menos conference call to discuss 4Q21 results. Today with us, we have Mr. Mário Queirós, CEO, Mr. Luiz Novais, CFO and IRO, and Mr Jorge Jubilato, V.P. for people, legal, administrative and ESG.

We would like to inform that during the Company's presentation, all participants will only be able to listen to the call. We will then begin the Q&A session when further instructions will be given. In case you need any assistance during the conference call, please request the operators help by pressing \*0.

We would also like to inform that the conference call in Portuguese will be presented by the Company's management and for the English conference, there will be simultaneous translation. The event is also being broadcasted simultaneously on the internet via webcast.

Before proceeding, we would like to mention that any forward looking statements made during this conference call are based on the beliefs and assumptions of Pague Menos and on information currently available to the Company, they involve risks and uncertainties because they relate to future events, and therefore they depend on circumstances that may or may not occur. Investors and analysts should understand that conditions relative to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward looking statements.

The conference is now being turned over to Mr. Mário Queirós. Mr. Mário, you may proceed.

**Mário Queirós:**

Welcome, everyone, welcome to one more conference call in which Pague Menos will present the numbers for the year 2021 and the numbers for 4Q21.

2021 was a year that was as challenging as 2020. We started with the second wave of COVID 19, which brought a lot of uncertainty to the market, but still we were able to grow at double digit rates, reaching more than 10% growth. We also increased our EBITDA margin in 0,5 p.p., representing R\$61 million, and we nearly doubled our net income, which was record breaking, more than R\$200 million, excluding the IFRS 16 effects.

In addition to the negative effects of the pandemic, we also had the inflation impacting most of the SG&A accounts, and this robust result was only possible due to continuous improvements in our commercial and operational areas as you're going to hear later from Mr. Luiz Novais.

We also had our growth levers boosting our business results. The Omnichannel platform reached nearly 9% of our revenues in 4Q, and this was very much due to the relaunch of our app, which is now much more user friendly and has one of the best ratings in the market.

And our health hub, which is now consolidating as the first option for Brazilians that want to take care of their health, so we also had an increment in our portfolio of services that I'm going to discuss in more detail later.

We also published our ESG 2030 agenda, Health for All, where we present the nine commitments of the Company, which deploy into 32 goals that will be presented by Jorge, people, legal, administrative and ESG V.P.

And now, I turn it over to Mr. Luiz Novais to talk about the beautiful numbers that we had in 2021.

**Luiz Novais:**

Thank you, Mario. Good afternoon. So let's start on page four of the presentation, here we see the results for 2021. As Mário already said, we're very happy to share these results with you, very consistent results, so we had one more year of consistency in our results. We are in our eighth quarter of evolution in terms of our operational indicators. In the accumulated for the two years, we grew 18% in sales, 10,3% in 2021.

We grew by more than 30% our EBITDA, and we reached the mark of 176 million of net income, which is record breaking for us and is exceeding the expectations that we had set in our IPO in 2020. So this means that we are growing at an even faster pace than we expected at the time.

And this is not by chance, we are seeing the results of all the investments being made by the Company during 2018, 2019. Investments in people, infrastructure and technology, and we have reached a very good point of maturity of our management and of the infrastructure of the Company, and that's why we have been reaping such good results. On the next page we highlight some of these advancements.

On page number five, we see our commercial advancements that were paramount for the good results that we had in 2021. So here we have our supply chain team and our commercial team. They reached very important markers in terms of growth of our gross margin and in sales. Also an increase in our assortment of products, and the reduction in our stock outs. So the indicators are 1p.p. extra in our gross margin. We have one of the best gross margins in our industry.

In private label, we grew by 0,6%. We are a reference in our industry, already in private label and we continue to expand our portfolio and we're very optimistic about this category of products. We reached 2,8% in total sales of the Company coming from the campaigns carried out through our CRM channels, which is more than double the numbers that we had in 2020.

For active assortment, we reached close to 10,000 items per store on average.. These items in our portfolio today account for 15% of the total sales of the Company. So this means that they are an important part of the results and the very important growth levels that we have been reaching.

And the two last indicators that reinforce the level of maturity of our supply chain team. We reduced by 37% the stock up level in our stores. We are right now at the best number historically speaking. And we also reduced our inventory losses, which is another very good indicator.

On page number six, we see the operational improvement of the Company. So just like I paid compliments to our commercial teams, we also improved the execution in our stores and the sales journey of our customers. So here I must pay compliments to the six operational indicators. The first one is the average store sales. We had more than a 10% increase. The NPS also reached a very good mark of 74, which is important not just for us in pharma retail, but for retail as a whole. And the three last indicators here, we have channels that are very strategic for us that are growing at a fast pace.

So for our digital channels, the average for the year was 7,7% of the total sales and the most recent data for 4Q, we reached 8,8% of total sales coming from digital channels. This is a very

high number of very high share for us since we are more than 75% present in the Northeast region.

Going for Clinic Farma, we reached 2.5 million customers served, and we are leading this primary care services movement here in Brazil. You're going to hear more about our health hub in the next part of the presentation.

And for agreements and partnerships, we've reached 21% for the year, and the most recent data show that we reached nearly 27% in 4Q in terms of the sales coming from agreements and partnerships, a channel that is growing very fast and we already reached more than double the level that we had in 2020.

On slide number seven, we see another great achievement of the year 2021, another indicator that we were able to deliver thanks to an effort that lasted for two years, we have been reinforcing our expansion team, revising our expansion strategy, reinforcing our capabilities of our expansion structure, so we have the first batch of stores, the 2021 batch of stores.

We inaugurated 80 new stores in the year, meeting the guidance that we had formalized for the year 2021, and we're very happy with this new group of stores. We have 80% of the stores concentrated in the North and Northeast of the country, which are our main markets. We are focusing on the expanded middle class where we have a lot of operational know how.

The performance of the new stores is very much in line with the viability analysis that we approved in our real estate committee. We have not been seeing any cannibalization. We are closely monitoring the 80 new stores that we inaugurated, all of them are performing really well and in line with the other stores of our chain. And we have a 20% IRR projection for this new group of stores, and we take this chance to reinforce the guidance for 2022, which is to inaugurate 120 new stores

On slide number eight we see the evolution of our market share. We closed the year with 30 bips reduction year over year. We had a very good growth. More than 90% of our stores in 2021 are mature stores, and we grew by more than 10% in these stores, which is more than the growth of the market and more than the drug inflation. But in 2021, according to Abrafarma, the market grew 16% and this was leveraged by the number of stores inaugurated in 2021.

We had 4,000 new drug stores inaugurated in 2021, more than 1,000 stores increase compared with 2020 and also the inauguration of many independent pharmacies, and this was certainly driven by the pandemic. We are very optimistic about our market share in the coming periods due to the good number of stores that we opened in 2021 and the 120 that we plan to open in 2022. And also because our mature stores are still performing at a higher level than the inflation rate for drugs. So we're very optimistic about our market share, looking forward.

On page number nine, here we have our sales performance. Same store growth in 2021 was 9,9%, considering that the drug inflation was close to 7,5%, we have a very favorable same store growth rate. In the two year accumulated numbers, we grew more than 20% in same store sales. The drug inflation in the period was close to 11%, so we grew nearly double in terms of the same store compared with the drug inflation.

On the right side, we compare the quarter for evolution in the last two years in our core regions, North and Northeast and all the other regions in Brazil. In 4Q21, we see that in the North and Northeast the growth was slightly lower than that of the other regions of Brazil, and that is because we suffered a lot of pressure compared with 4Q20, a period when they grew about 14%. But when we look at the two years accumulated data for the two years, the North and the Northeast, compared with the other regions, grew at the same level of 18%.

And we also see a more uniform growth trend now in 1Q22 for the North and Northeast. We also see growth rates at the same proportion as that of the other regions, and we're very optimistic about these regions, looking forward.

Now on page number 10, we have a gross profit in margin. This was the main growth lever in terms of profitability in 2021. We were up by 1p.p., which is very significant, we already had one of the best margins in our industry, and now we have the second-best margin in our industry. And this was driven by private labels, which is a category that has been growing greatly, also generics have been showing a lot of growth. And in addition to these categories, services also helped drive our margins up in this last quarter last year.

Also, our pricing in the vendor management project, which improved our capabilities to negotiate with suppliers and the stock out rate, which showed a very important reduction and also contributed to the improvement in our gross margin for the year.

And two channels that are very strategic for us, but when they grow, they put some pressure on the margin, but still we will continue to invest in their growth, digital channels and agreements and partnerships. These are two very important channels for us to improve loyalty, cash margin and sales of the Company. Despite the pressure they put on our numbers, we will continue to invest in them and bet on them, and we're very optimistic we still see a lot of room for them to grow in the coming period.

On slide number 11, we see the evolution of our sales, selling expenses and contribution margin. We had an important expansion in our contribution margin in 2021, 70 basis points. And that was despite the pressure coming from three important factors first, the inauguration of 80 stores. So when we compare 21 with 20, we have 80 new stores and you all know that, stores in their first months of existence, their margin can even be negative. But in our portfolio, the break even point for these stores is close to month six, so starting at month six, they start to positively contribute to the EBITDA. So these 80 new stores put some pressure on our EBITDA, which is why we see the red lines in our selling expenses and contribution margin.

We also see another effect here when we compare 21 with 22, which were the provisional measures that were approved by the government in 2020 to fight the pandemic. So, the suspension of labor contracts and special conditions for vacations and working hours, it was really helpful for us in 2020. We use all of those provisional measures. So, this hinders a comparison somewhat. And in 2021 the drug inflation was slightly lower than supplies inflation.

So even with these three pressures, we still had an increase of 70 basis points in our contribution margin, which means that the profitability of our Company is evolving positively. And we're very positive about the year 2022 seeing the maturation of our companies, the inauguration of the stores in 2021, the maturation of these stores and also the expense reduction and productivity projects that are ongoing here in the Company.

On page 12, we see our G&A expenses and the EBITDA. So for the year, for G&A expenses, we had 2,8%, which is very similar to the previous year, where we had 2,7%. Here we also had inflation pressure and we also made a lot of investments in the administration aspects in 2021, particularly in consulting services that are helping us build the future of the Company with strategic projects.

We also reinforce our technology team, which is helping us develop new solutions and tools for the Company and also the Company's management, the variable compensation for the Company's management in 2021, due to the excellent results that we had, we also had a somewhat higher cost.

And also the share program of the Company, the stock option program of the Company. The Company has a very senior executive group that has been helping us greatly, they have been helping us bring Pague Menos to the next level of results. So we finished the year with an important growth of 50 basis points in our EBITDA margin, even when we compare a year with 80 new stores, with a year with no new stores. So this has been a very important year for us and we also have pressure from the inflation rate and from the provisional measures that favored the results for 2020, as I already said.

For a net income, on page 13, this is also a record-breaking result for us. We reached 2,2% net margin and 2,5% net margin, excluding the IFRS 16 effects, which brings us to the next level. So we had growth in our sales, growth in our EBITDA margin and a better cash situation which brings us to better financial results.

And as we heard from the previous slide, we also see space to continue to improve our profitability through expense reduction projects, gains in operational leverage and due to the maturation of the new stores that we inaugurated and that are already performing really well.

To finish my part of the presentation, I want to talk about the cash cycle and debt. We invested more in stocks in 2021, and this investment has been making all the difference in the growth of our sales and the increment in our gross margin, so this investment was worthwhile. We finished the year with 113 days of stock, and that's a time of the year where we have greater stocks due to vacations in the pharmaceutical industry.

We finished the year with 1,3 times our net debt EBITDA ratio, which is a level that is still very much under control, a very healthy cash situation for the Company. And for 2022 our expectation is that the operational cash generation will be sufficient for all the inaugurations we have planned for the year. So this is the end of my part, I stop here and now I hand it over to Jorge and he is going to talk about our ESG journey.

### **Jorge Jubilato:**

Thank you, Novais. Good afternoon, everyone, it's a pleasure to be here with you today and for this very noble reason, because we truly believe in this very important topic, which is our ESG agenda.

Talking about ESG is easy because we have always had initiatives in this front since they started the Company 40 years ago with involvement of our top administration and special participation of Patriciana Rodrigues, the chairwoman of our administrative board. And we have made some commitments and now we have the opportunity to formalize our 2030 ESG agenda, which is called health for everyone.

And we have three pillars: health for people, health for the environment and health for business. So together with our management, we defined nine commitments in line with the Sustainable Development Goals of the U.N., for the short, medium and long term. This strategy was built by listening to more than 6,000 stakeholders and based on their inputs we defined our materiality matrix, and that's where these 32 goals come from. And these are stated in our website [esg.paguemenos.com.br](https://esg.paguemenos.com.br) where you can find more details about the topic.

Here on slide 17 we have the highlights of the health for people pillar. Here, the purpose is to prevent and promote adherence to treatment to contribute to the health of people focusing on the physical and mental health of our employees and impacting the communities where we operate. In this pillar we have 10 goals and still in 2022, we will focus on our voluntary work project. By 2025 we want to implement Clinic Farma Itinerante with free pharmaceutical

services for communities, and by 2030, we want to invest 1% of our net income in favor of the society and promoting health.

Now on slide number 18, we have the health for environment pillar focusing on actions that can mitigate climate changes and the environmental impact of our packaging. So we took on a commitment that by 2022 all of our units that have been open for more than two years will be powered by renewable energy. In 2025, we will launch a new concept of drug store, which will be called the Pague Menos Green Store, and we will ensure the reuse and recycling of obsolete materials.

On slide 19, we have our health for business pillar. And here the purpose is to focus on ethics, transparency and development of our people, ensuring inclusion, which is a very strong topic in our Company through diversity and requiring from our vendors the same ESG practices that we adopt. So we will communicate our hours of training, and in 2021, we already anticipated the targets for 2021, and by 2025, we want to have 50% of our executive positions held by women, and we will be certified by ISO 31000 for risk management. And by 2030, we want 100% of our private label products containing no controversial ingredients in their composition.

And finally, on slide number 20, we were very happy to learn that we were considered the best pharma chain to work in, and we are among the top 10 for national retail, which also anticipates the delivery of our ESG commitment to be among the 10 best companies in retail by 2025.

We are also part of the select group of the IGPTW Index of B3, so these are amazing achievements, and these results come from the efforts that we've made to value our team of giants and our people. Throughout 2021, we are focused on taking care of the health and well-being of our employees and to stress diversity and inclusion in our Company through actions that show respect to people and their histories.

Through our quality of life area, we created programs focused on the physical and mental health of our employees. We also strive to value the diversity that we already have in our Company in promoting inclusion and racial equity, gender equity, inclusion of people with disabilities and integration of different generations. We structured an inclusion program and we highlight to the representative this program, with a diversity and inclusion committee and our first affinity groups.

And finally, for the development pillar, we celebrated the first year of our corporate university Up Farma with the following highlights: more than 300,000 hours of training for our sales team, implementation of 67 school stores. An initiative that integrates new employees and onboard new employees and recycles current employees, the formation of youth in vulnerable communities, and some important partnerships with renowned teaching institutions offering access to higher education to our employees and their families.

And finally, we structured our continued education course for retail operator, which started in 2022 and is already having an impact on our society. And this year, we still have much more to do, and we already know how we are going to do it, not just in the ESG front, but also leveraging our main competitive edge, which is the Pague Menos culture.

Having said this, I thank you all for the opportunity to talk about our ESG agenda. And now I turn it over to our CEO Mario Queirós, who is going to talk about one more competitive advantage of Pague Menos, our health hub. Mario, the floor is yours.

**Mário Queirós:**

Thank you, Jorge. Yes, it makes us very proud to see Pague Menos among the top 10 best companies to work in in national retail. This is certainly the result of a lot of hard work. We

have always focused on our greatest and most important capital, which is human capital and our team of giants.

Now on slide number 22, we talk about our health hub. As we heard from Luiz Novais at the beginning of the presentation, we had more than 2,5 million customers served in 2021. It's a nearly 200% increase year over year, so our health hub is showing the relevance that it has gained in the Brazilian pharma market.

Just to put you into context, of every 100 customers entering a Pague Menos store, nearly six used some service offered by our Clinic Farma. And Clinic Farma is growing, we already have nearly 880 units distributed throughout all the states in Brazil, and we expanded our portfolio of services, now we have 57 health protocols, also a nearly 84% increase year over year.

Besides Clinic Farma, our health hub, we also have our special medicine service that grew by 171%, resulting from the expansion of our product portfolio and the investments in our sales representatives force, which are helping us communicate high complexity products, oncologic products, anti-cancer therapies, and this is still an avenue where we can grow greatly in the future.

Another area that is very promising is agreements and partnerships, which in 4Q accounted for nearly 27% of our total sales. So we have agreements with large companies, health plans, organizations offering exclusive discounts to their beneficiaries and employees, and this has really been bringing a lot of benefits to our stores and helping us improve the loyalty of our customers.

And finally, here on slide 22, we have the launch of our extramural health hub. So in addition to the 880 pharma clinics that we have throughout Brazil, we are also going to the entities, companies and associations and establishing important partnerships that we call B2B2C partnerships. So here's some examples with Hapvida, in addition to the discounts that we offer to their members and employees, we also have a partnership that allows them to measure blood pressure and blood glucose in our clinics every week free of cost.

With Banco Pan, they're offering to their more than three million customers, they pay a fee of R\$10 and they have access to all clinic pharmacy services and other benefits. And with Dasa, we started a pioneering partnership in vaccination, so you can go to any of our stores and you can schedule your shot and a Dasa professional will come to our stores or you can go to a Dasa unit, or they can go to your home to offer you the vaccine. And we are also offering mini health checkups in partnership with Dasa. So these partnerships are a very good channel that allows us to offer services, and we're going to invest greatly in this channel in 2022.

Here on slide 23 we talk about our Omnichannel platform. So nearly 9% of the total sales in 4Q21 came from our digital channels, which means an increase of more than 85%, and as you heard from Novais, the market share is 5,4% when we look at the total pharma market, but when we look at the e-commerce world, it's nearly 12%. So our relevance in the e-commerce world, even if most of our business is focused on the North and Northeast, where the level of maturity of the population for digital channels is lower than that of the South and Southeast of the country. Still, this shows the strength of digital channels for Pague Menos.

And as I already mentioned, one important factor that really helped for the expansion of our digital channels was the launch of our new app, which is much more user friendly and already has one of the best ratings for the Android and iOS platforms. Here, a technical piece of data which is worth mentioning is the development of our PIC (Channel Integration Platform), which allows for more agile and easier integration of our partners with our systems.

Also, the launch of the digital services hub was something really great, if today, if you have Alexa or the Amazon device, you can schedule your Covid test through Alexa and we have many other services that we are including. We are turning our health hub into a digital health hub.

And we also have the start of our marketplace operations in partnership with Dasa and many others. We believe that digital is here to make things easier and to promote access not just for the purchase of products, but also to hire contract services, so that's why we have been investing a lot in a service marketplace as well.

The last slide of the presentation shows an outlook for 2022. So what can we expect from the Company in 22. Regarding the organic expansion of the Company, we will see a normalization in the store opening pace. As you heard from Luiz, we inaugurated the 80 stores that we had promised for 2021, and 48 of them were inaugurated in 4Q. But now in 2022, we believe that we will be able to normalize the pace in which we open our store. And as Luiz already mentioned, the break even is usually a six month period. So after six months, they already start contributing to our results, and we believe that we will start again to see market share gains in our core regions.

Regarding the Company's profitability for 2022, what we expect is maintenance of our gross margin, which, as we heard, is one of the highest in our industry. We still have a lot of opportunities to grow this gross margin, and we are willing to invest in the acquisition of new customers. We are willing to invest part of the gains that come from the better profitability of the Company to acquire new customers.

We also have in partnership with consulting firms, our opex reduction projects, and this will yield us some operational leverage and sales increases considering the investments that we already made in 2019, 2020 and 2021.

Now regarding Extrafarma, we expect that CADE's decision should take place in 2Q22, and there's a slight possibility this will be delayed to 3Q, but we strongly believe that it will happen still in 2Q. From then on, we will start managing the Company, the integration of the Company. We know about the potential. We know how valuable this integration with Extrafarma will be, and then we will start capturing the synergies.

And finally, our health hub in 2022, we will be seeing a rollout of these B2B2C partnerships and Clinic Farma will become a point of contact with a health plan, beneficiaries and also some HMOs and the services marketplace will also consolidate with vaccination, telemedicine and other services that we can offer our customers digitally.

So I stop here and I think now we can open for questions.

**Vitor Pini, Banco Safra:**

Good afternoon, Mario, Luiz and Jorge and the rest of the team. Thank you for answering my question. My question is about your margins. First, the new store openings, we will see a significant acceleration in the store openings in 2022. So how do you think the margins will behave and not just the margins, but also the store productivity or the revenue per store in 2022?

And still about your margins, in terms of your selling expenses and administrative expenses, what should we expect later this year considering the pressure coming from the high inflation rate? So what will happen with your selling and administrative expenses?

**Mário Queirós:**



Thank you, Vitor, for your question. I will ask Novais to answer about the margins and the new stores, and Jorge about the expenses.

**Luiz Novais:**

Thank you, Vitor. Regarding the margins, with the normalization of the number of new store openings in 2022, the guidance says we will open 120 stores compared with 80 stores in 21. So this is a more comparable period. When we compare 21 with 2020, we inaugurated 80 stores in 2021, which certainly puts pressure on our expenses compared to the previous year because we did not open new stores in 2020. Practically none.

So with the normalization of the store openings and with the room we have to still further grow our same store sales. So as we saw in 2021, with same store sales increasing, we still have the potential to grow our sales, improving our assortment, improving our digital channels and our private labels, among other elements. And we also have opportunities in generics and gross margin for generics and other levers in terms of gross margin and also improving our operational leverage. So we expect to gain operational leverage, even with this large volume of new store openings in 2022.

About the average revenue per store productivity, as you asked. Since the stores in the start of their maturation have a lower revenue level than more mature stores. Yes, we tend to see, as we already saw in 3Q and 4Q, a drop in the average sales per store due to the larger volume of store openings. However, if we isolate inaugurations from this metric and if we look only at mature stores, we continue at the same levels or even growing. The average sales for store is growing above the inflation rate, so we're very optimistic in terms of our operational leverage with the normalization of the margins, and even with a lower average sales for store, we still expect to gain operational leverage.

**Jorge Jubilato:**

Hello, Vitor, thank you for your question. About the expenses, it is certainly very challenging, just like in retail in general, 80% of these expenses come from personnel and occupancy. In these two fronts, for example, occupancy last year we had IGP-M peaks of 34%, 35% and in mid-year and close nearly in 20%, our deliveries were about 11% of the adjustment, so half of the IGP-M. But we already started 2022 with all this, and we also have the increases this year. Of course, the IGP-M is a little lower, but this continues this year.

So our focus is to review the negotiations of our rental contracts for 2022. This is something we are already doing, and we have external support helping us to be able to have even better negotiations than what we had last year. So this is an important front of our action plan and when we talk about the personnel expenses, the IPCA is also over 10%. So this is certainly putting pressure on our payroll as well. This is the reality of the market and this was something that was budgeted in the past. So this was something that we had foreseen.

And we also have projects ahead of us, for example, the productivity project that we have planned and we have been studying the data to come to the right amount of people to serve the right amount of customers in each weekday and each period of the day. So this means that we will have the right number of people where we sell more and where we do not sell much. So this sales per employee ratio will be further optimized in the Company.

And we are working with specialized consulting firms in all these fronts, and we are doing a very important deep dive for each of these points to search for opportunities for savings. So as I said, this was already in our budget. This was foreseen. These were challenges that we already had before. And we are now optimizing with the help of these consulting firms, we're

seeking more opportunities for savings, so we are very well-served to be able to deliver on our budget and even generate more savings.

**Vitor Pini:**

Excellent. Thank you.

**Ruben Couto, Santander:**

Good afternoon. Could you talk more about the, well, of course, the opening of new stores in the region will, of course, have an impact on this dependency, but what is the situation of the current store base, which I believe are the main points that are suffering with a share loss? Are you implementing any initiatives?

Is there anything to be done to improve their competitiveness for your current stores, to be able to compensate for the growth of associative? And a question that we had last year, we have already seen you be very aggressive in terms of prices. Will it happen again or was it a one off situation based on the market dynamics?

**Mário Queirós:**

Thank you, Ruben, for your question. When we look at the same store sales, we had a good performance. And the differentiator that did not allow us, that prevented us from gaining market share was the new store openings. As you heard from Novais, we had more than 4,000 new stores net in the market, so the market was growing as a whole and was growing at a higher rate than us.

When we are able to normalize our store openings this year, we believe that in 2022, we will go back to gaining market share because the 80 stores that were inaugurated last year and the 120 that will be opened this year will contribute for us to grow above market levels.

And once again, in same stores, we have opportunities to grow with digital. We have opportunities to grow with generics and private label. So we're very confident that we will be able to go back to gaining market share still in 2022.

**Ruben Couto:**

Very clear, thank you. And about the private labels, can you give us an update from the regulatory standpoint? If there's been any advancements in the release of private label drugs, is this a category that has been gaining traction? Can you share this with us?

**Mário Queirós:**

Thank you for your question, Ruben. The most recent information we have is that the use of one single brand for different drug products has not been approved yet, so we cannot have several Pague Menos products or several Dauf products. Dauf is one of our private label, so I have to create one brand for each product. So this already caused us our private label to lose strength, our Pague Menos brand.

And another point with private labels is that in addition to the loyalty part, private labels should improve the Company's profitability, so, for example, generics, there's a possibility of them approving generics today. Our gross margin for generics is about 50 to 60%. It will be very difficult to reach 80 or 90% gross margin. Of course, we want to have a significant increment in margin compared with the market leader, otherwise it's not a good deal to add this brand.

So it is an opportunity, and the approval of private labels for private label drugs, but we have to look at this very carefully to make sure it's going to be profitable for the Company.

**Ruben Couto:**

Perfect. Thank you.

**Daniella Eiger, XP Investimentos:**

Hello, Mario, Luiz. Thank you for answering my question. I have two questions. The first question is a follow up about Extrafarma. You mentioned that the decision should take place in 2Q or maybe 3Q. How do you see the risk of, for example, I know that you have legal support and you are very confident about the transaction, but we also saw the DPSP coming as an interested third party.

So can you give us an update of how this is evolving? And my second question was something very surprising, a positive surprise, actually, which was the partnership with Dasa. So could you please give more color about how this partnership will function? Is there any economics, any type of fee that will be paid depending on the services used? And I'd like to understand if at the end of the day, it will improve the robustness and the traffic for Clinic Farma. So can you please, elaborate on this initiative, I found it very interesting.

**Mário Queirós:**

Thank you, Daniella, for your question. So let's start with Extrafarma. We still have hopes that the drugs will not be involved in the transaction because the market is very pulverized. We have more than 80000 drug stores. We know that CADE looks at everything very carefully, at the district level, even. But we have very solid arguments, and if we have any remediation, it should not be significant. It should not bring us to the point of canceling the transaction. Of course, I cannot assure you that this is not going to happen, but we continue to be very confident that this transaction will take place and that we will be able to deliver on the synergies that we projected when we announced this by.

So we did have DPSP manifesting as an interested third party, but this does not change our expectation regarding the success of the transaction. And also, you mentioned the time frame that it is taking longer than we expected. We have an agreement with Extrafarma that they will continue to run the business until the handover. So we have our specialized team working with them and monitoring market information and everything is within expectations.

Now your question about the partnership with Dasa. I don't mean to be repetitive, but what we want is to look at Pague Menos as a first place to go in terms of primary health care. So we started with a partnership for vaccination, so we had less than 10 stores, fewer than 10 stores where customers could go and get vaccinated, and now with this data partnership, we have increased to more than 80 stores. Is that the right number? I do not have the exact number, but it is around 80. It is especially in Sao Paulo, but we also have other states where the Dasa group is present, mainly in the Northeast.

And vaccination is not something, well, except for the influenza vaccine, which you take every year, for other vaccines you have to plan, right. People usually plan when they need to get vaccinated. So the idea is that here, at Pague Menos, in Clinic Farma, I can schedule an appointment to get vaccinated so I can come back another day or I can pay now and come back, or go to one of the Dasa clinics to get vaccinated. Also, the mini checkup. We are offering a mini checkup. It is a Dasa product that they can buy at our store and then go to a clinic to have the tests done.

So Dasa is using the traffic of customers in Pague Menos stores, and we are adding services to our health hub. So it is a win-win partnership. Actually, it is a win win win partnership because it is a win for Dasa, for the customer and for Pague Menos.

**Daniella Eiger:**

It is very clear, Mario. And along the lines of what you said about this more complete offer. So considering lower income customers, are you seeing a migration of customers from health plans to your health, from other health plans to your health hub? We know your health hub is focused on services and discounts, so it could be an alternative for people that have an income restriction right now and a better alternative compared to a health plan.

**Mário Queirós:**

Yes, I believe that you're referring to our Sempre Bem Clube, right?

**Daniella Eiger:**

Yes. Yes.

**Mário Queirós:**

Well, here I must admit that we launched the Sempre Bem Clube, but it was not ready, the offer was not complete when we launched it, for example, we did not have the option to pay using a bank slip, and we know that for lower income populations, sometimes they do not have credit cards, so they work with banks slips and we did not offer this option when we started, so this was something that we had to adjust. So there were some details when thinking of lower income classes that we had not really thought through, and now we are thinking them through for the relaunch of Sempre Bem Clube, we are thinking of all these details so that we can have a better fit with this class, which is our great focus, which is the expanded middle class.

**Daniella Eiger:**

Excellent. Very clear. Thank you.

**Felipe Amancio, Itaú BBA:**

Hello. Thank you for answering my question. In this quarter, we saw an evolution of the digital front, which accounts for 8,8% of the sales of the Company. Can you please update us on the work that's being done here and also other growth avenues that you see in this front? And also, what are the potential impacts that we can expect on your margin?

**Mário Queirós:**

Thank you, Felipe, for your question. Well, our digital, we relaunched our digital platform, we relaunched our app in the end of 3Q and our rating for the previous app was two, and now it is more than four. It is one of the highest ratings for our industry. It is much more user friendly. It is a native app. And this is one of the greatest drivers that we have to grow in digital. Also, our call center, telesales and uniformization of customer service, standardization.

This is also something that has been advancing, particularly in the North, in Northeast, our core regions, which are not early adopters of digital platforms, e-commerce and applications,

they still prefer to use the phone. Just to give you an idea, we did not have tele-delivery in Pernambuco and today the share for tele-sales in Pernambuco is already very significant.

We also have our partners, the super apps, such as IFood and Rappi. We had a strong partnership with Rappi and we still did not have IFood for drugstores, but that was launched in 2021 and today IFood accounts for more than double the sales of Rappi. So this is another contributor. So it is what we call a frenemy, friend plus enemy. But this is the reality. They do have their captive audience, and it's a very good partnership because of the quality and the speed of delivery. All our customers are very happy.

Also, we have continuous work in terms of SEO, or customer journey and easiness of use, user friendliness, the size of the button, the type of button. We work a lot with the elderly population, so everything has to be very visible, very clear. We also are working hard to have our ads being shown first in search engines online, so continuous work. And the results of this work is growth. So we went from 5,2% share in 4Q20 to 8,8% in 4Q21, a very significant growth and we are very confident because we still have a lot of things to explore. The benchmarking is 17% to 18%, so we are still at 8,8%, so there's a lot of room to expand.

**Felipe Amancio:**

Thank you.

**Operator:**

This question and answer session is now closed. Now I hand back over to Mr. Mário Queirós for his final remarks.

**Mário Queirós:**

I would like to thank you all for taking the time and listening to our video conference today and highlight that we're very happy with the results achieved in 2021. We have record breaking net income, more than R\$ 200 million, and we're even happier and more confident about what is to come in 2022. The 120 stores that we will open in 2022, the digital channels gaining even more relevance and Pague Menos consolidating as the first option for Brazilians in terms of primary health care. Have a great afternoon and I'll see you next time.

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