

**Operator:**

Good morning, ladies and gentlemen, and welcome to Hypera Pharma's conference call where we will be talking about the 2Q22 earnings. We have with us Mr. Breno Oliveira, CEO; and Mr. Adalmario Couto, Executive Director of Investor Relations, or IRO.

We would like to inform you that this event is being recorded, and you may watch it on the Company's investor relations website, [hypera.com.br/ri](http://hypera.com.br/ri). We would like to inform you that all participants will be in listen-only mode during the presentation. Afterwards, we will have the questions and answer session, when further instructions will be given.

Before we continue, I would like to underscore, some of the information mentioned in this conference call may refer to projections or statements about the future. They are subject to risks, known and unknown, and uncertainties that can lead them to not come to pass or differ substantially from what was expected.

Now I would like to give the floor to Mr. Breno Oliveira, who will begin the presentation. Mr. Oliveira, over to you.

**Breno Oliveira:**

In this quarter, we grew our organic sell out by 25%, or 6.5p.p. above market growth. Our unreplicable portfolio of leading brands made the difference once again and we gained market share for the seventh consecutive quarter. And in this quarter the gain was in all the company's business units.

Our highlights were our power brands, the more traditional ones from Hypera and the ones we have recently acquired. Besides the performance of our leading brands and accelerated launches, our internal raw material inventory policy and our finished products with our clients have been very efficient and have contributed towards our sell-out growth.

From the beginning of COVID, we decided to operate at higher inventory levels for our main raw materials from China and India. And we kept healthy levels of finished goods with our clients. This has ensured that we have a good supply of most of our products in pharmacies and distributors, and we have managed to grow across our main products, especially during the time in which we had less availability of pharmaceutical products.

We continue to innovate to strengthen our market share in the Brazilian pharma industry even more.

This quarter, we have invested over R\$120 million in innovation, research and development, and we have had important launches, which I will mention on slide 4.

We launched the patented estrogen-free contraception drug, Ammy, which is a milestone for Hypera Pharma going into a category that represents R\$1.7 billion. Besides that, we launched, Epocler Todo Dia, our first extension of the power brand Epocler line, and Buscofem Hot, the first line extension for Buscofem since its acquisition in 2020. We have over 100 products that will add R\$1.6 billion to our gross revenue when they reach peak sales in 5 years.

This quarter, we reinforced our medical board with the arrival of Dr. Fernando Bacal, Director of the Incor Transplant Center and responsible for the cardiology area at

Einstein, and Dr. Yana Zogbi, responsible for the Oncology Center at Hospital Sírio Libanês. Their arrival will greatly help in the development of our innovation pipeline for the additional market as well as for prescription drugs.

We continue to invest on our growth, and we maintain our commitment to our business sustainability, paying our shareholders and well-being for our stakeholders, which I will mention on slide 5.

In this quarter, we advanced our strategy for the institutional market. We had net revenue of R\$128 million, a growth of 157% over 2Q21, highlighting the additional revenue from the sale of Immunoglobulin.

We remain firm with our initiatives to gain market share. Expansion capacity for injectables, as we mentioned in 2021 will be concluded this year, and will add our capacity or production capacity next year. And we continue to advance in our R&D area exclusively for this market to support our innovation pipeline.

In the 2Q, we declared interest on own capital of R\$195 million or R\$0.31 per share, and this was published in our 2021 annual report, showing our main highlights and initiatives in environmental, social and economic standpoint, including our emission reduction plan, which will add value and help people to live longer and better.

I will now pass the floor to Adalmario, who is going to give us some more details on these results.

**Adalmario Couto:**

Thank you, Breno. Good morning, everyone. This quarter, our net revenue was 26% higher than the comparative period and organic growth of the Company's brand portfolio and then the recently launched products, which had a significant contribution, nearly 30% this quarter.

We also had contributions from sales to the institutional market, which were above R\$128 million this quarter and a contribution to net revenues from the brands acquired from Sanofi of R\$ 54 million. Our gross margins were 64% versus 65.5% in the 2Q21. This is a consequence, especially of a higher share of products in the hospital channel from our product mix.

We also had some specific inputs at higher costs due to a higher demand during this period. This impact we received from the gross margin in an institutional market does not affect our EBITDA margin much, considering we have a lower relevance there in marketing investments and in sales in this market versus the retail segment.

As Breno mentioned, our power brands had another strong quarter in growth, contributing to dilute operational expenses, especially marketing expenses, which went up 5% year-on-year, above R\$300 million this quarter. This also had a dilution from acquisitions, which continue to impact our expenses positively.

There was a reduction of 3.3 p.p. on expenses versus net revenues. Expenses and sales represented 10% of our net revenue this quarter, which is similar to what we had last year. And they were benefited from the dilution of R&D used during this time. This quarter, we also received a benefit of R\$11 million from Lei do Bem.

When we include the amount capitalized as intangible assets, and the total investments in R&D, they were 6.5% of our net revenue this quarter or nearly 2 p.p. above the comparative period last year. These R&D investments consider all the efforts we are making to develop the product pipeline in the institutional market. As we said before, we have mapped over 70 projects with an addressable market above R\$12 billion.

In SG&A, we had a reduction, and this reflects the synergies captured in integrating the brands acquired from Sanofi. With that, EBITDA margin from continued operations, excluding the others was 1.5 p.p. higher than the 2Q21, reaching 35.6%. And net income of continued operations was R\$455 million this quarter. There was an impact from financial operations, nearly R\$138 million, given that the Company needed to take some debt for the acquisitions and debt now has a higher cost.

Now continuing with our cash flow and debt in this quarter on slide 7. We had record operational cash generation for a 2Q, R\$535 million, even considering the initial investment of R\$47 million for the working capital and for the brand portfolio acquired from Sanofi.

This quarter, we invested 38% of our net revenue in working capital versus 36% in the 2Q21. This high variation in working capital was due to increased inventory days for raw materials. And this is in line with our strategy of having a higher safety inventory, creating a buffer for the most strategical inputs.

After the CAPEX investments, focused on expanding production capacity, new lab and a pilot channel for the institutional, we had a free cash generation of R\$364 million. We also had a net output of R\$435 million in the financing cash flow with an amortization of R\$230 million and the remaining for interest rates. Therefore, our cash position at the end of June was R\$1.5 billion and our net debt above R\$6.5 billion, or 2.5x EBITDA considered in our guidance for 2022. We are also working in new ways of capturing funds to expand our debt terms and to keep an attractive and low spread.

With that, we maintain our commitment to the Company's main financial goals, protecting liquidity, increasing cash generation to deleverage our balance and reinvesting any excess cash to support our organic growth through our product pipelines, our production capacity, entering new channels and our digital initiatives.

That is it for me, and we will now return to Breno, who is going to make his closing remarks.

**Breno Oliveira:**

Thank you, Adalmario. So to conclude, I would like to restate that we are very happy about the Company's results for the 1H22.

With the gain in market share that we had during this time, we became the biggest pharma company in the Brazilian industry. So I would like to thank our employees for their work and their collaboration, but also our clients, partners and consumers.

For the 2H22, we will continue to focus on generating cash, integrating the portfolio we acquired from Sanofi and expanding our sell-out. We are still confident about the guidance as we set out for 2022.

And I would like to invite everyone to our Hype Day, which will happen on September 1. We will send you further details soon. Thank you, and now we will continue with the Q&A session.

**Robert Ford, Bank of America:**

Thank you. Good morning. Congratulations for your results. I would like to ask about market share improvements during this quarter. How do you see your market share? And how much should we consider for the future, if you could tell us a bit more about that. Finally, do you think the elections affect your sales, power brands, digital?

**Breno Oliveira:**

Your audio was not very good, so we did not get your questions. I think the first one was related to market share, and I will answer that one. And I think you might have asked about sustainability and market share gains. And then I will ask you to repeat your other questions.

Considering market share gains, we are confident that these gains are sustainable on the long term. And we are collecting the results from the efforts we made in the last years.

The entire Hypera team with all the investments that were made in R&D since 2017, where we invested more in research and development and in expanding production capacity. This is an effort we have been making, the decisions we started in 2018 and the investments we started in 2019.

So now we are starting to collect the results of these investments, these initiatives and also the acquisitions we made. As we said, since the end of the acquisitions, we have seen higher leverage in these brands in our go-to-market platform. And that has led to concrete results.

So our market share gains are sustainable. We often get asked about categories that were benefited by COVID, like anti-flu medications and drugs related to the respiratory system.

What we see is growth across the board in many categories. As I said, this was across all the Company's categories, Generics and Similar, skin care, which basically is not impacted by this movement. And currently, the weight of these product lines that we depended most on in the past like anti-flu medication and vitamin D, considering the Hypera portfolio, they are much less representative than they used to be. So we are very confident that the gains will be maintained. Does that answer your question?

**Robert Ford:**

Yes, that answers it very well. And if you can tell us a bit about Buscopan and improved margins?

**Breno Oliveira:**

Right. Consider earning the verticalization, it is a long-term movement, Bob. We have a process to transfer technologies over the next 2 years, but we really believe in improving our margins. But the most important thing we are seeing from this trend of having more raw materials available is much more about ensuring that it will be available and avoiding

ruptures, having more controls over the chain. This is what motivated us to acquire this plant and technologies.

**Robert Ford:**

Right. There was a significant reduction in marketing expenses. Is that sustainable or was it seasonal?

**Breno Oliveira:**

Bob, this is a reflection, a reduction of our marketing as a percentage of our revenue. It is a reflection of the mix change in our portfolio. Like, gaining market share by expanding the Generics and Similar market in the institutional market as well. The main contribution for the dilution of these expenses besides acquisitions. The acquisitions we made and then become more efficient, especially in fixed expenses by diluting fixed expenses with a greater product portfolio.

There is another factor that contributes here, which are the line extensions we are making. So with that marketing percentage, we can be more efficient in positioning it to have a better product portfolio under the umbrella brand. So I think that is the reason why we have been able to dilute marketing expenses and maintain efficiencies in these expenses, which were all reflected in our recent market share gains.

**Adalmario Couto:**

Yes. And Bob, to add to that, although we see a dilution as a percentage of the net debt this quarter. The investments we made in marketing were at record levels. The Company has never invested more in a single quarter. So we continue to invest more to support all of our power brands, making line extensions.

But as Breno said, given our mix and some portfolios in some categories that do not have these investments that are also growing, we see a dilution and synergies also of the line extensions we acquired. But we have made big investments. We are growing in digital.

A number of years ago, we had minimal investments in digital. So now about 50% of our media investment has been in digital as well. So we can speak directly to our consumers and our targets. And we want to continue increasing it.

**Robert Ford:**

Great. Thank you, and congratulations.

**Joseph Giordano, JPMorgan:**

Good morning. Thank you for taking my questions. I actually have 3. The first is about the pipeline of 100 products to be launched short term. I would like to hear about how that is split between retail and institutional. I would just like to understand how fast we are accelerating this expansion institutionally. And looking at a product that you highlighted, the second question, immunoglobulin, I understand that you do not have a permanent registry for the product. But how is that being dealt with by the health authorities?

Also, you mentioned inventory for raw materials, which I think is very important, but I would like to ask about API prices. Has that been stabilized? Is the supply chain normalized now? That is it.

**Adalmario Couto:**

Joe, good morning. So to answer your first question, and I will let Breno answer your other ones. In this pipeline of 100 products, we have already launched nearly 30% by July. And now we will have an acceleration in the 2Q. Most launches are for the retail channel. So we have 95 launches in retail this year. Many of them are line extensions, but also going into new categories that we did not work in before.

So Breno had mentioned contraception. Gynecology is also an area that we are very strong in, but we did not have a contraception. So now we can come in with a new generation drug that is patented as well. So we have a patent for the molecule at this concentration, and we will have it until 2031, and there are many other innovative launches to come in the 2H22. But we have 7 launches in the institutional channel. We have had 2 by July, and we will have 5 more until the end of the year. I do not know if that answers your question.

**Breno Oliveira:**

Joe, about immunoglobulin, we do not have and we do not want to give any information on registries due to competitive issues. But obviously, we are working on it so that we can get a permanent registry. It is an important product for the institutional segment, and we will try to be a part of that market.

So with the temporary authorization, we have brought in products to support our sales for the 2H22. So we already have the product. And we should have additional sales in immunoglobulin over this year. And we are going to be working on getting this as quick as we can because it is very important for the institutional market.

Considering your third question, considering price dynamics and safety inventory, we see a wide price variation. Some APIs have significant price increases we see some of them stabilizing or even reducing in some of them. Some of the ones that had relevant price increases in the last months.

On the other hand, considering lack of APIs, ANVISA in the last few years has made it much more flexible, more flexible rules to register and include new suppliers. And we have benefited from that. So we are able to bring in other manufacturers, include them in the registry, buy from them and promote more price competition among them for some molecules.

So there is an effect of these 2 factors which generates a higher price, which is being offset by the increases due to higher inflation and higher price increases authorized by CMED.

So net to net, we do believe that price has increased, but that will probably normalize in the next months.

**Joseph Giordano:**

Great. Thank you, Breno.



**Gustavo Miele, Goldman Sachs:**

Good morning. Thank you for the presentation. We have a couple of questions on our side. First, if you could give us an update on a drug that was very relevant last year, which was rivaroxaban. Do you see any relevant changes in the competition for this category? Is there space for any kind of relevant extension for this drug? And how do you project it for the future? Its CAGR has been very robust. So do you believe it will continue to mature? Is there still space to grow. That is my first question.

And my second question is about updating the verticalization process that you had announced for Buscopan. So do you believe there is some room to ramp that up? Do you think that there is a possibility of having any similar movements for other drugs in the Company? That is all.

**Breno Oliveira:**

Gustavo, I will answer the first one. About rivaroxaban, we are very happy about the results that we have been having in the 8 months we have been in the market. As we said, we managed to be the first brand to promote the molecule as a prescription, and we are doing very well. So in Prescription and Generics, they have been launched and they are both performing very well.

We have some line extensions to come for the association with rivaroxaban and that makes a lot of sense from the clinical standpoint. But we do not want to mention it too soon. I would say major, relevant molecule, and we were very assertive in being the first to launch. And now we are collecting the results of being the first to launch.

There are some other molecules, as we said before, that are losing their patents this year. And we believe we will be the first to launch them. Some will be launched next month. And we are very confident in the fact that we will be able to lead in this market.

We mentioned this during Hype Day last year. We have a major pipeline of molecules that are no longer exclusive. And we are working a lot with our internal developers to lead this and to come ahead of our competition. So there is a lot still to come in our pipeline.

Considering verticalization of APIs, Bob had asked about this before. As I mentioned, it is an effort that we are beginning now, but to have results in a number of years. When we conclude the tech transfer and the API production, contribute by 2024, our goal is to learn and maybe to use it for other APIs, especially phytotherapy, so Brazil does not come at a competitive disadvantage versus China and India in producing these APIs.

So that is something that we are looking at closely, but it can be applied to other phytotherapy drugs.

**Gustavo Miele:**

Thank you. Great.

**Vinicius Figueiredo, Itaú:**

Good morning. Thank you for taking my question. So this continues Joe's question. You had made a lot of growth in the institutional market. I would just like to understand how reproducible this level of revenue is in this channel. Of course, you mentioned there will be a demand for immunotherapy that should continue, but I would just like to understand if that can be recurrent.

I would also like to ask about your sell-out and sell-in performance. This gap was widened. So I would like to know what your inventory levels are in this channel. And I would also like to ask when you look at accounts receivable, it went down sequentially. So I would just like to understand if you are out of inventory in the sales channel, if there is any difference in the mix behind this change. That is all.

**Breno Oliveira:**

We also mentioned immunoglobulin when we talked to Joe, and I think it was an opportunity that was generated, that we managed to take because we had the structure available for the institutional channel. We have the relationships with partners, and we managed to benefit this year in 2022.

In the future, this product will depend on if we can get the definitive registry or if it is still in shortage in the market, which is what we are seeing. And we will see if the temporary authorization will be allowed by ANVISA. But we had already been working on an innovation portfolio for the institutional market even before the business unit, which was created a year ago. And we have been working on having a long-term pipeline.

For next year, we will have new products, new launches to compete in the market and maybe what happened was that we had advanced growth, which was originally expected for next year. We managed to advance it with immunoglobulin, but we are working on it. And I cannot be certain for next year, but on the medium term, this business unit will be essential for our growth for Hypera.

And the second question was about sell-out and sell-in, right? Basically, what we saw during this quarter specifically, and I would not look at this variation quarter-to-quarter, because this is a B2B market, so it is very dynamic. Orders and variations are much higher than in retail. Retail has a much flatter demand.

So this is B2B. In May, demand was very strong, in April as well, since prices had gone up in March. So sellout was much higher, and we finished at a good inventory level with our clients. It was still below what we used to have, but in a matter of months or 45 days, it had been adjusted and resolved very quickly.

So I would advise you to look at this difference at a longer time horizon. Because it is quite balanced during this period. Sell-in and sellout is quite balanced.

**Vinicius Figueiredo:**

Great. So just to try to understand this. When we look at accounts receivable and inventory, there isn't a big difference from having a higher percentage of sales from the institutional channel, right? For now, the terms are very similar, and receivable and storage are very similar to retail.



**Breno Oliveira:**

Yes. Even the dates for receivables are much lower, but they are very small in comparison to the rest. So they impact the Company's growth but it does not affect the Company's average time to receive. Most movements are related to the retail market.

**Vinicius Figueiredo:**

That was very clear. Thank you.

**Leandro Bastos, Citibank:**

Good morning. I have a couple of follow-ups on points that you have already explained. First, immunoglobulin. We understand that ANVISA's decision is valid until the end of the month. So we have been following up on this. Immuno derivate still seem to have some shortages. So how do you see a possibility of it being continued? And also for Buscopan, you mentioned an extension until 2024. Why does it take so long? What happens in this process? That is it.

**Breno Oliveira:**

Considering immunoglobulin, Leandro, we still believe there are many shortages in the market. We talked to some professionals in hospitals. We believe that it is still at a shortage, but we do not believe that ANVISA will postpone this line extension to bring in products with no registration, but they are always looking at availability. But we are looking at it closely.

The second question, what was it? On tech transfer for scopolamine, why does it take that long? Well, first, we need to conclude the business. We signed it, but it will be concluded in August. And then the tech transfer process will begin. That is when it starts. And then we will need to have an API production. Then there needs to be a registration, we need to have a new manufacturing location, update the DMF for Buscopan, which is the Drug Master Final registry. There is an entire process, and we need to wait for ANVISA to approve it, and that is why it takes a bit longer than you imagined.

**Leandro Bastos:**

Thank you.

**Caio Rocha, Bradesco:**

Thank you. The point we would like to ask was about the shortage of inputs in the market that favored the results you reported. So I would like to understand a bit better if you have any visibility on share gains or how much it was due to the shortage of inputs and if that still continues?

**Breno Oliveira:**

Hi, Caio. This was a recurring topic in the media, but in our case, we did not have a shortage of products, given our commercial policy of having elevated inventories with our clients and also the higher inventory of raw materials that we have in the Company.

But we did have some one-off shortages, especially in the hospital market, but it was much more due to price than any issues with CMED.

CMED approved the price of some products for the last month, it was a shortage of some products, and these companies have lower levels of inventory for products with their clients. And given the demand which was quite high, especially at the end of May and June, they did not have enough time to react and resupply points of sale. But we see that in July, it has already been resupplied and we still have a high demand. But we do not see any shortage of any specific products in any categories now. So we have been able to react and resupplies all the pharmacies.

**Caio Rocha:**

Thank you.

**Operator:**

This now concludes the questions-and-answer session. And we will give the floor to Mr. Breno Oliveira for his closing remarks.

**Breno Oliveira:**

Thank you, everyone, for participating in this call. And I would just like to invite you once again to our Hype Day, which will be held in person here in São Paulo with a webcast, so it will also be online. And we will be able to go into details on our growth plan for the next years in the institutional market and in our traditional market for retail. So we will bring in several executives from the Company to talk to you so you can write it on your schedule, September 1. Thank you, and have a great day.

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