Operator:

Good morning. Welcome to Hypera Pharma 3Q21 results conference call. Today with us, we have Mr. Breno Oliveira, CEO, and Mr. Adalmario Couto, CFO and IRO.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After the closing remarks, there will be a questions and answer session for investors and analysts, when further instructions will be given. Should any participant need assistance during this call, please dial *0 to reach the operator.

We would like to inform you that questions can only be asked by telephone. If you are connected through the webcast, you should email your questions directly to the IR Team through ri@hypera.com.br.

Today's live webcast may be accessed through the Company's Investor Relations website at hypera.com.br/ir.

We would like to inform you that statements during this conference may constitute forward-looking statements. These statements are subject to known and unknown risks and uncertainties that could cause the Company's actual results to differ materially from those set forwards in the forward-looking statements.

Now I will turn the floor to Mr. Breno Oliveira, who will begin the presentation. Mr. Breno, you may begin your presentation.

Breno Oliveira:

Good morning, everyone, and welcome to our conference call for the 3Q21.

I am going to start my presentation discussing our growth, on slide three. For the fourth quarter in a row, we have had double digit organic sellout growth and market share gains. This quarter, the organic sellout growth represented 13.7%, or 1.4 p.p. above the market.

During this quarter, we grew above average in prescription products once again, especially in chronic medication, a strategic segment for Hypera, where we have reinforced our participation over the last year with several relevant launches. And also the increase in the number of medical prescriptions, which have already overcome pre-pandemic levels.

In skincare, we have gained market share this quarter and in the last 12 months due to the line extensions from our main brands like Episol, Epidrat, Ivy C and Pielus, and the medication portfolio performance from Glenmark, acquired in early 2020.

In biosimilars and generics, our growth has still been boosted by our strong capillarity, launches of new molecules, increased production capacity and investments in our brand Neo Química.

In consumer health, a segment in which the Company is an absolute leader in the Brazilian market, our main highlights were gastric, anti-flu and vitamins. This organic growth has been consistent across our business units, and the contribution from the brands acquired from Takeda and the Buscopan family have led to a 50% growth in our net income this quarter.

Besides that, the synergies from our acquisitions and the initiatives to maintain our profitability has expanded our recurring EBITDA margin by 4 p.p. this quarter, reaching nearly 35%. Our net income from continued operations grew by 33%, although our debt level grew due to the acquisitions and increased interest rates.

We are growing above market rates, investing in our business, in our production capacity, innovation and in our stakeholders well-being.

In innovation, on slide four, we had some very important launches, such as Vabam, an anti-coagulant, which will be promoted whith therivaroxaban molecule doctors.

The Company is now going into the biggest therapeutic class for prescription products in Brazil, with a R$1.2 billion sell-out in the last 12 months and a 39% growth. This was benefited by a recent ruling from the Superior Court, which finished our patent law, reducing the protection period for several molecules. Our quick entrance into this market is due to the investments we made in the last years in our innovation structure.

Just like with rivaroxaban, we will be able to accelerate launches for over 30 projects with high potential that have already been mapped after this ruling from the Supreme Court.

In skincare, we recently launched Pielus MX based on minoxidil, which is part of the protocol for treating male pattern baldness. And with this launch, we have started working in a market that represents R$120 million.

We are also launching a complete line for melatonin, which will become available in the Brazilian market from November. We will have Melatonun, Vitasay Melatonin and Neo Química Melatonin.

Our total R&D investments represented R$376 million in the last 12 months, a 25% growth versus last year. Our innovation index was 31% during this quarter, and it is still above the 30% threshold for the sixth quarter in a row.

During this quarter, we also approved payment of interest over our own capital of R$195 and, or R$0.31 per share, a growth of 5% over what we posted in the 3Q20.

We also had our first health group for Neo Química Arena, which offered medical services to inhabitants up the east side of São Paulo, focusing on preventing chronical diseases. This is an initiative aligned with our mission to be the best pharma company in Brazil and be a bigger part of people's lives so that they live more and better.

I will now pass it on to Adalmario.

Adalmario Couto:

Thank you, Breno. Good morning, everyone. As Breno said, we had an expressive growth in sales this quarter, which has been leveraged by the acquisitions we recently made, and that have started to impact our revenues from September last year after Buscopan was acquired.

Even excluding the effect of these acquisitions, our growth was around 19%, which is the result of a price adjustment carried out in the 2Q, but also with expressive volume growth in all of the Company's business lines.

Concerning gross margins, it continued in the same lines as the previous quarter, around 64%. The acquired products portfolio contributed to an increase of nearly 3 p.p. in our gross margins, with a positive impact to our mix.

The main problem for our gross margins this quarter were the biosimilars and generics segment due to some discounts provided and higher competitiveness in some categories. We also had a cost impact because of the currency exchange, which was around 11% lower this quarter, and also an increase in the price of inputs such as primary and secondary packaging material, and also some transformation costs. We also have a higher level of disposals and idleness.

Considering hedging, as we have been seeing in previous calls, we have increased our hedge levels, especially for USD priced inputs. A good share of them have been hedged for the next nine months at an average FX of R$5.3.

Regarding expenses, we had an average increase of 29% looking at all the expense lines, and this has been pulled by marketing, our most relevant investment, with increased media campaigns to boost our new brands in our portfolio. And we also expanded our medical visitation team after the Takeda acquisition. Despite these increases, growth has been lower than the Company's income increase.

With every quarter, we have been able to show the benefits and operational synergies from integrating our portfolio of acquired brands. With that, our EBITDA was R$581 million this quarter, and excluding other revenues and expenses, it was R$566 million, with a margin close to 35%, over 4 p.p. above the same quarter last year, and this is due to the dilution of expenses because of synergies.

Regarding financial results, financial increases went up due to the Company's higher leveraging and also increased Selic rates. This is the main rate that we use for our credit.

With that, the Company's continued operations and net income was R$465 million, a 33% growth excluding other revenues, which represented 28%. Looking at our discontinued operations results, our net loss was R$263 million due to the agreement with Ontex to conclude the arbitrage process.

On slide seven, we have the Company's cash flow. This quarter, we had a record cash generation of R$540 million, with increased profitability and a higher working capital investment as a percentage of our revenue. We invested R$150 million in capex, which is in line with what we have foreseen for this year, R$600 million.

In the intangibles line, although we had a R&D investment of R$50 million, we had R$62 million due to Neocopan and Xantinon brand sales, which led to a free cash flow of R$400 million.

In our financing, we had a new capture of R$1 billion, at a very attractive cost, which will recompose the Company's cash and will be used to pay for the acquisition of the Sanofi brands.

So with that, the Company concluded this quarter with a comfortable position in terms of liquidity, with cash above R$3 billion, or above R$2.5 billion considering the Ontex payment, which was carried out on the 1st of October, and our leverage is above 2x, which was considered in our guidance this year.

I will pass it back on to Breno.

Breno Oliveira:

Thank you, Adalmario. I am very happy with the Company's results this quarter. We had relevant revenue growth, market share gains, the EBITDA margin was expanded and we also had record cash generation, with great launches and a great investment in innovations.

So I would like to thank our employees, clients, physicians and patients, which make Hypera Pharma the main player in the Brazilian pharma market. Our performance in the 9M21 reinforces our confidence in reaching our goals for 2021, and it shows that we continue to invest significantly in innovation and in our leading brands so that we can continue to grow sustainably.

Our recent performance in the Brazilian pharma industry is a proof of our resilience and our great growth potential, and Hypera is the best positioned Company. Here, we have a lot of innovation capacity. Our production and distribution capacities continue to grow. We have the main brands in the Brazilian pharma industry, and we are the only company that has a relevant stake in all segments, specifically prescription, generics and skincare, and we are absolute leaders in consumer health.

Thank you, and we will now pass it on to the questions and answer session.

Robert Ford, Bank of America:

Good morning, everyone, and congratulations for your results. I have three questions. Adalmario, can you tell us a bit more about your receivables and what you are considering for your working capital now?

And Breno, can you give us a small update on Bionovis, its revenues and its innovation pipeline?

Finally, how should we think about the innovation pipeline considering the acceleration of patents with this new ruling versus the previous estimates? Thank you.

Adalmario Couto:

Good morning, Bob. Regarding receivables, we have basically been evolving there. As we said previously, this is a proxy for our product inventory in our clients. So since the Company changed its commercial policies in early 2019, we have been able to reduce that figure.

In our mind, our goal is to be around 100 days on average. That would be the inventory at our clients. So during this quarter, we managed to be a bit below this figure, but our goal is to be between 95 and 100 days. With the operations we have today, this is what we have been able to do.

The acquired brands portfolio for Takeda and Buscopan had been at a lower level than that. We adjusted it up a bit, the inventory for those brands, and we have been able to reduce our inventory gradually, but we consider that, considering working capital investments, including accounts receivable and suppliers, we have also been able to cut down on those levels and increase cash generation for the Company.

So one of the indicators that we look a lot at is our working capital investments as a percentage of revenue, and we were below 35%, and we aim to be between 30% and 35%.

Breno Oliveira:

Bob, to answer your question on the Bionovis, know this pipeline, let us start on Bionovis. Last year, we said that our revenue was around R$1 billion. EBITDA margins were still low, around 10%, give or take, last year, but we expect this to continue to increase as the tech transfer process moves forward. So revenues should continue to grow this year, and margins over time will grow.

We had the first product made by Bionovis as a pilot batch, and we are on track for a tech transfer and margin gains with Bionovis. As a reminder, we have a 25% stake in that company, it is a joint venture with other Brazilian pharma companies.

Considering our portfolio, this ruling from the Supreme Court was very positive for us in the Brazilian pharma industry because it will really accelerate by a few years the patent expiration for some very important molecules.

We have about 30 molecules mapped where we can accelerate this process by one to three years. Of course, it depends on each molecule. So it is great because investments become more productive. We were investing regardless, but it will accelerate our returns for these products.

Robert Ford:

And what the addressable market for these 30 molecules is?

Breno Oliveira:

It is around R$6 billion out of the molecules we have mapped. And our estimated revenue can reach R$600 million to R$1 billion in this addressable market.

Robert Ford:

Thank you, and congratulations once again.

Leandro Bastos, Citi:

Good morning. I would just like to ask about your gross margins. I am trying to look at all the factors, foreign exchange, mix and costs. So what is your projection for your margin? Thank you.

Adalmario Couto:

Hi, Leandro. Good morning. Concerning our gross margins, we are still being impacted by foreign exchange and costs above the levels we were used to, but we have been able to offset the pressure, especially here in our product mix with the brands we acquired that have higher margins than the Company average, and also our new products pipeline.

So the pipeline, 350 projects, on average, have a much higher margin than the companies average margins. So as we launch these new products, we can partially offset the cost pressures we have been suffering right now.

As you know, a good share of our portfolio is indexed, so you have some increases that are given every year, and as we have lower cost pressures, we will regain our margins through price increases in the next years.

But this is the level we are at right now. Our acquired brand portfolio has helped us this quarter significantly to make up for our margins. If it were not for the acquisitions, our margins would be closer to 60%.

So we were able to have the same gross margins we had during the 3Q20, even with all of the foreign exchange pressures. And when we look at the EBITDA margin, operational margins, which are the most relevant ones, we have also reached record cash generation levels and EBITDA margin of 35%, which is very close to the Company's history.

Even looking at 2018, 2017, the Company was always around 34-35% EBITDA margins, and even with the pressure, we have had a very healthy operational margin level.

Leandro Bastos:

Great. Thank you, Adalmario. So just another quick question. I am not sure if you mentioned this during your presentation, but was your organic growth for Buscopan representative of this volume?

Adalmario Couto:

Around 40% of the increase this quarter was due to price and 60% due to volume.

Leandro Bastos:

Great. Thank you.

Joseph Giordano, JPMorgan:

Good morning. I have a couple of questions. The first is your innovation index. It is quite high, so I would just like to know what your pipeline will be, and what will this innovation index be for the next 12 to 18 months.

And I would also like to know more about the mix effect in your gross margins. You mentioned contributions from acquired assets, and I would just like to know if we will still see some detracting effects from generics growing in your mix.

Finally, do you have anything to share with us about M&A? We saw that the arbitration process with Ontex generated a lot of noise, so I would just like to know if you have any news on that.

Breno Oliveira:

I will take your first and your third questions, and then Adalmario will answer about the mix. Considering the innovation levels, we expected to grow on the same comparative basis, without considering the acquired portfolio.

We expect it to grow as we have products coming out of innovation. We believe it will reach about 35% levels. This is what we are seeing and what is coming out of our pipeline, and we hope that it will stay at that level.

As you know, R&D investments are very slow in the pharma industry. To give you an idea, the product I just mentioned that we recently launched started being developed in 2017. It was one of the first products that were conceived during our Inova process. So as investments mature and as they grow, we see the innovation index growing.

To answer your second question, about a possible leniency agreement, we have been working with authorities, we have been talking about it and I am sure that this is a priority for the Company. We want to solve this issue as quick as we can. We do not have any set timing for it, but we do want to remove it from the agenda as soon as possible, and I am sure that we are doing all we can for this to happen.

Considering the Ontex agreement, this does not have anything to do with that. This was a one-off agreement that we had with the Company. We have over 30 M&A processes and this was the only case in which we had to make the payment. The terms of the agreement are confidential, so we cannot go into detail, but it is the only one. There is no other arbitration process that the Company has any risk of losing.

I will pass it on to Adalmario so he can answer your next question.

Adalmario Couto:

So considering the mix effect, we do see that generics are growing above market averages, and the Company's strategy is exactly that. We are the most diversified company in retail, so we do want to grow in generics. This is an important growth lever for the Company, and we have been gaining market share there.

So with that, the growth for that unit is higher than the other units, which do put some pressure on our gross margins. This quarter, we saw higher competitiveness in some molecules, so we had to be more aggressive in providing discounts, and with that, our gross margins were impacted.

But at the end of the day, the most important thing, the most relevant thing for us is to make up for our gross margins through acquisitions, through new launches, and focus on cash generation and our EBITDA margins, which, at the end of the day, are very similar across all of our business units.

Joseph Giordano:

Great. Thank you, Adalmario.

Caio Moscardini, Santander:

I would just like to know a bit more about the potential market for Vabam. I think this was a class that was positively impacted by the pandemic. So what would be the size of this market if we consider a normalized level?

Also, considering suppliers and import of APIs, with all of the logistical issues that we have been seeing globally, do you believe that you can be affected? Are you expecting any greater delays for these inputs? What is your take on that? Thank you.

Breno Oliveira:

Caio, I will answer your first question and then Adalmario will answer your second one. Anticoagulation was a market that was positively impacted by covid. This entire class, and this molecule specifically, represents R$900 million, but it had been growing a lot. In the last 12 months, it grew 40%, but it had been growing at around 20% historically. So once the patent expires, as other molecules here in Brazil, we expect it to grow even more nominally, considering that the population will be able to afford it more.

It is different from what happens in the U.S. because in the U.S., people mostly can afford molecules. But in Brazil, as patents expire, generics usually have a lower price, or even brand name drugs, and that expands the market significantly.

So excluding the effects from the covid pandemic, we believe that the market will be 10% to 15% smaller, but with the access effects, we believe that the market will continue to grow.

And I will pass it on to Adalmario for your second question.

Adalmario Couto:

Caio, considering API suppliers, our main suppliers are in China and India. So from the beginning of the pandemic in 2020, we also changed our inventory policies. We have been working on a higher inventory of raw materials versus what we did before the pandemic, so that gives us some more safety.

And if you look at the 3Q20, our inventory was at around R$900 million, and at the end of this quarter, it was above R$1.2 billion, so it grew by 30%. And most of our inventory represents raw materials. So our strategy has worked, but we have not seen any relevant stock out. For the main ingredients for our product. So we have not seen any changes, but we have seen delays occasionally from certain suppliers.

Shipping is also complicated. We used maritime shipping before, but we have had to use some air transportation, which was expensive during the pandemic, but now it is back at normal levels. In very few cases, we did use air shipping. So we do not expect to have any problems with our raw materials.

Caio Moscardini:

Great. Thank you, Breno and Adalmario.

Emerson Vieira, Itaú:

Thank you. I have a couple of questions. First, I would like to know a bit more about your recurring, EBITDA margins. We see significant expansions, and we also see that there is a reduction due to a lower number of prescriptions. Should we consider that gains will be passed on for more discounts? That is one question.

And my other question is about melatonin, which is a product that you are about to launch. So I would like to know what you can share with us about the addressable market, and what are your expected profitability levels for this product?

And finally, I would just like to get an update on your pipeline. What can you tell us about the Sanofi portfolio? That is all. Thank you.

Breno Oliveira:

Emerson, I will answer about M&As and the recurring EBITDA margin. As Adalmario said, during this quarter our margins were 35%, last quarter it was above 34%, and in our guidance, we were expected expecting 34%. And for the future, we believe that our goal is to keep margins at that mid-30s level.

So of course, it will depend on our competition, but as Adalmario said, here in our segment, we have price readjustments every year, which allow us to pass on some price increases, especially considering the USD.

And our goal is to gain market share, grow above the market and keep the EBITDA margins. This is our goal, more than being at the market level. So we want to reinvest all of our synergy and gains in scale so that we can continue to grow above market averages, as we have done for the past four quarters.

Regarding M&As, we are at appropriate leverage levels, but at the top of the bundle. So on the short term, we are focusing on deleveraging so that we can open up some space for more acquisitions. But on the short term, we want to deleverage and integrate this business.

So of course, Buscopan and Takeda are 100% integrated into our business. Takeda is basically integrated, we only need to integrate our manufacture, which will take place in the next few years. And for Sanofi, with the approval from the monetary authorities, which should take place in the next quarter, it will be simpler than the other ones. It is a smaller product portfolio, and everything is going according to plan. But we are focusing on deleveraging and opening space for future acquisitions.

So I will pass it on to Adalmario so he can tell you about the future melatonin market.

Adalmario Couto:

Emerson, melatonin is a new molecule in the Brazilian market. Although it has been approved a long time ago, it was just recently approved in Brazil. So levels are still low. And when we look at the American market, melatonin and melatonin combinations represent over R$500 million, and it continues to grow. So we believe there is a relevant market potential here for Brazil.

Melatonin is an indication for light insomnia. So when you look at insomnia treatments and demands in Brazil, it is a category that represents over R$600 million, and it is very dynamic, especially since the beginning of the pandemic, where we have seen a relevant increase in the demand for it. So we believe it will perform very well.

The most relevant thing for us is that we already have this project in our pipeline for over two years. We had been developing some pharmaceutical options, so it will be launched as a solution and as a tablet, and Hypera can launch across several segments with medical visits, it is a project that will be an OTX, and also for our Vitasay brands and with Neo Química Vitamins, which have a better position. So with that, we will be able to advance in three business units, focusing on different segments.

Emerson Vieira:

Great. Thank you.

Mauricio Cepeda, Credit Suisse:

Good morning. Thank you for taking my question. I have a complimentary question. First, on rivaroxaban, you mentioned the importance of that molecule, but when we talk about over R$1 billion, are you talking about modern anticoagulant and thrombotic drugs? I am just wondering if there are other molecules in that addressable market, and if you also have increased access to other molecules that can compete with rivaroxaban. Do you know who else is launching a rivaroxaban generic?

You also mentioned the foreign exchange pressures that you are under, and this, of course, influences the market. So my question is if you are being more or less aggressive than the market, growing and conserving your EBITDA, and if you expect anything will change in terms of prices.

My next question is if you expect these investments to return, media investments. We also talked about the leniency agreement. And I do not want to make a comparison to Ontex, because I know that that is arbitration, but can you tell us anything more about that? Thank you.

Breno Oliveira:

Cepeda, I will take some of your questions, and Adalmario will answer the remaining ones. You asked if there were any provisions, is that what you said? With the leniency agreement?

Mauricio Cepeda:

Yes. I was just going to say that Ontex was a surprise. So I am wondering if you had provisions for the leniency agreement.

Breno Oliveira:

Nothing has been provisioned. We do not have any agreement. And if we do have a leniency agreement, this amount has not had a provision. I think that is clear for everyone.

That is a potential risk, but we do not believe that it will be relevant, considering the Company size, the market cap and everything you have in your reports. But just to answer your question, there are no provisions for that.

Considering the anticoagulants market, we have rivaroxaban, which is the main one, apixaban and dabigatran. And, of course, when the patent expires for rivaroxaban, we expect it to grow and gain market share versus the other molecules that still have not had their patents expired.

Does that answer your question?

Mauricio Cepeda:

Yes. So, just to continue about rivaroxaban, when do you expect to launch it, or have you already launched it?

Breno Oliveira:

You had asked about competition. Some other companies have a registration, but they have not launched it. We were very quick because we were one of the last to get an approval, and we are already launching it, and it is a major molecule that should have some competition in the market considering its size.

It is a single molecule, so it is not very complex to develop, but what matters here are basically two things. The first is to launch, we will have a higher competitive advantage, and the production costs that we excel at in the generics market.

Mauricio Cepeda:

Great.

Adalmario Couto:

I will answer your other two questions about foreign exchange pressures and marketing investments. Basically, this quarter, we continue to be pressured, but we will be less pressured than in previous quarters. So the price readjustment that we had in the 2Q has helped us to make up for the foreign exchange, and our hedge policy, where we basically had our entire year hedged, contributes. We do not have as much pressure.

And considering productivity, I think each segment has its specificities. So competitiveness has been higher in some generic molecules where we did have to cut down on discounts to continue to be competitive. Not very relevant when we look at the entire brand portfolio from consumer health brands or prescription brand, skincare. There is nothing out of the box in that market. Commercial policies continue to be the same.

And considering marketing investments, we measure every return we have. So as we said, two major investments that we have made are related to the media, which we have gradually changed our mix to become more digital or go online. And with that, we can reach the exact target audience that each brand wants to reach.

So we can have a much more effective conversion than we did before, looking at offline, open broadcast media. So we have been able to have greater return to our investments, and also medical prescriptions. We were able to measure the level of prescriptions for each physician that we visit. So we have been able to expand our visited base, especially with remote visiting, which was very important during the pandemic. But we continue with that program to improve the productivity for our physicians and get a better return for our marketing investments.

I think a part of it can be seen when we look at the percentage marketing over our total net revenue, which has been going down quarter by quarter. Of course, this is due to the synergies that we had with our mergers, and our revenue growth have followed every quarter.

So I think that is a good way of seeing how effective the investments are.

Mauricio Cepeda:

Great. Thank you, Adalmario and Breno.

Irma Sgarz, Goldman Sachs:

Good afternoon. Thank you for taking my question. Just to switch gears a little bit, I would like to ask about this bill that will allow non-prescription drugs to be sold in supermarkets. I know this has been discussed in the past, and I know that it only affects you indirectly, but that would also be an additional distribution channel to reach the end consumer. So I would just like to hear your opinion about that, if you think it is something that will move forward. That is all. Thank you.

Breno Oliveira:

Irma, good morning. As you said, this is something that has been on our radar for a long time, drugs being sold outside of pharmacies. So this is a discussion that has gained traction from people who work in retail, who are interested in selling new products, just as we see in other countries in the world, like the U.S.

It is hard to say if this is something that will now move forward or not. It is still very early, but if it does move forward, it will be good for Hypera because, as we said, we are leaders in OTCs, and that distribution channel is 5x bigger than drugstores.

And we are already present there. We have some products, especially sweeteners, but also others that are being distributed there. So for us, it would be very easy. We have the distribution infrastructure for that, but it is still early to see how likely it is to move forward on the short term.

Irma Sgarz:

Great. And what about margins, do you have any idea about that?

Adalmario Couto:

Margins will depend on the competition. So if we have the same players that we have in the pharma industry, it will depend on how aggressive the industry will want to be there. So it does not make much sense to have different margins from what we already have in retail pharma, which is even more consolidated, if I am not mistaken, than supermarkets.

If you look at the main players in drugstores, Raia has 15% market share, so they are more consolidated than supermarkets, for example.

Irma Sgarz:

OK. Thank you.

Operator:

This concludes our questions and answer session. We will pass it back on to Mr. Breno Oliveira for his closing remarks.

Breno Oliveira:

I would like to thank you all for listening. We received many questions. And if you need us, we are available. Our Investor Relations team is available to answer any questions you may have.

Thank you, and have a good day.

Operator:

This concludes Hypera's conference call. Thank you for listening, and have a good day.