

**Operator:**

Good morning. Welcome to the Hypera Pharma First Quarter 2022 Earnings Call. We have Mr. Breno Oliveira, CEO; and Mr. Adalmario, IRR, with us today.

We would like to inform you that this event is being recorded and all participants will be in a listen-only mode. We will then have a Q&A session for investors and analysts only. Further instructions will be given then.

(Operator Instructions) We would like to inform you that questions can only be asked by telephone. So if you are connected through the webcast, you should e-mail your questions directly to the IR Team at [ir@hypera.com.br](mailto:ir@hypera.com.br). Today's live webcast may be accessed through the Company's Investors Relations website at [www.hypera.com.br/ir](http://www.hypera.com.br/ir).

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

We will now pass on to Mr. Breno Oliveira, who will begin his presentation space. Mr. Breno, over to you.

**Breno Oliveira:**

Good morning. Welcome to our earnings call for the first quarter of 2022.

I would like to start my presentation, talking about growth on Slide 3. This was an excellent start of the year, we've grown our organic sell-out above market average in all three months of this quarter. We end this quarter with above-market growth in all our business units. We've grown 22% of our sell-out, 6p.p. above market average.

In Prescription Products, our performance was benefited by the growth in chronic medicines. We have been growing in this segment with important new introductions and new products and also growth of leading mark brands in acute drugs, Rinosoro and Alivium. In Consumer Health, growth was driven by anti-flu, painkillers, and gastrointestinal, Benegrip, Blumel and Engov are the highlights. In Skincare we were benefited by the line extensions in sun protection and anti-ageing lines as well as the growth of our skin or dermatological products.

In Similar and Generics products growth was driven by the introduction of new molecules and our production expansion in Anápolis. We have moved forward in our Institutional Market strategy, starting our pilot plant and selling the first batches of immunoglobulin that contributed to a growth of 170% in this new business unit. For the sixth quarter in a row, we have gained organic market share and this is the biggest difference between the growth of Hypera and the growth of the market. This growth above market is the result of the initiatives to drive our sustainable growth, highlighting the faster pace of new products, increased production capacity and investment in our leading brands. In this quarter we have concluded one year of the acquisition of Takeda portfolio.

We are even more convinced that this was the right move for the company, we more than doubled the growth of this portfolio when compared what we grow today and to what the portfolio grew a year ago. We have already captured over 90% of integration

synergies that were calculated when we announced the acquisition. On top of that, we have introduced new important line extensions such as Alektos at pediatrician – pediatric Alektos and Neosaldina Dip. Our organic growth and the speeding up of acquired brands show that we have the best platform in the pharmaceutical industry to combine organic growth, sustainable organic growth and the acquisition of strategic iconic brands. As of this quarter the brand portfolio of Sanofi will also benefit from our business platform.

As I will talk about on Slide 4 we've concluded in late March that acquisition and we included iconic brands for Consumer Health and Prescription Products such as AAS, Naturetti, Cepacol, Buclina and Hidantal. We've also concluded the sale of operations in Mexico and Colombia to Eurofarma. We have several strategies that have been mapped out for drug stores, the medical community and consumers to speed up the growth of those brands.

We also promoted Engov after Neosaldina and Vitasay, in the leading entertainment show in Brazil, Big Brother Brasil, that was a huge success. The customized activities to the show catapulted sales of these brands impacted over 100 million people and generated over 24,000 interactions on social media. Neosaldina grew 20% and Engov After grew 80% in this period.

This quarter we have introduced important products in all market segments, I'll talk about them on Slide 5. In Consumer Health, the highlight was Neosaldina Dip, a line extension of our OTC leading brand and the 5<sup>th</sup> line extensions for Vitasay vitamins. In Prescription Products, the highlight was the line extension of Ofolato SOP a food supplementary based on Methylfolate associated to vitamins. In Skincare, line extensions of Episol, Similar and Generics products, Paroxetine, Minoxidil and Montelukast. We are growing above market average consistently, driving the growth of our brands that we have included in our portfolio. We're not losing sight of giving returns to our shareholders, our profitability and focus on innovation.

I'll turn over to Adalmario, he will be giving you more detail about this quarter's results.

**Adalmario Couto:**

Thank you, Breno. Good morning, everyone. Let me start talking about the numbers of this start of the year. As to sales we had about a 28% increase, but unlike other quarters most of this growth was driven through organic channels. The brands that we have incorporated last year accounted for about 3 percentage points of that growth. The remainder was from mature brands with a more relevant contribution of recent introductions.

The new products that were introduced in 2021 accounted for about 8% of our revenues in the first quarter. About a third of our growth that clearly indicates how important it is to keep on investing on our innovation pipeline to keep on expanding our market share and growing above market average. Gross margin was about 63% in the quarter above 1p.p. drop when we compare to Q1 '21, that's because of input costs and the currency devaluation. Despite having that more relevant growth in some categories with smaller margins such as generic vitamins and dermal cosmetics, the mix contributed positively because of the OTC and prescription portfolio, portfolios rather.

On to expenses, we have a positive impact of acquisitions with a drop of all expense lines. And when we add sales, marketing and administrative expenses, that accounted

36% of our revenues. Now they account for 32%, that's a substantial improvement in our marketing investments mostly.

Total investments in R&D include intangible assets, surpassed 8% of our revenues when compared to 7% in the same period of last year. That again shows that we are committed to innovation and sustainable growth. This concludes the quarter with an EBITDA margin of almost at 34% above R\$500 million, a 40% growth when compared with the same quarter of last year.

Financial expenses increased substantially because the company is leveraged because of the acquisitions and the CDI increase that's the most important indicator of our financing. Net revenue of continued operations R\$350 million a 13% growth on to cash flow and indebtedness investments in working capital was larger this quarter. Inventory, raw materials, semi-finished products are on the rise but we are expanding our safety inventory level.

Our operating cash flow was above R\$300 million, more than double of what we had in the same period last year. It's more than enough to cover all CAPEX and R&D investments. Free cash flow generation was negative almost R\$550 million, considering the payment of Sanofi brands acquisition that occurred on March 31, net of the portfolio ex-Brazil. Our financing flow was R\$560 million positive, reflecting the inflow of new funding's that were hired in this quarter, net of interest payments and main payments of the main financing.

In this quarter, we paid out interest on own capital of R\$1.23 per share. We conclude the first quarter of the year with R\$1.6 billion in cash and net debt of R\$6.7 billion, a 2.5 times leverage of EBITDA of continued operations for the year 2022.

We maintain our focus on our financial priorities, protecting liquidity, increased cash generation to speed up the deleveraging of our balance sheet. Reinvesting with discipline the excess in cash to support our organic growth through our product pipeline, also expanding our manufacturing facilities.

In conclusion, I just would like to say, that we keep on moving forward in our ESG initiatives. Just yesterday, we approved new risk policies related parties, activities, the nomination of Board Members, our team remains focus to help the well-being of all stakeholders to connect purposes so that people can live more and live better. And weeks to come we are going to produce our first Annual Report, the first audited annual report with more ESG initiatives and value generation to all stakeholders and also to reduce carbon emissions and resin and waste management.

I'll turn over back to Breno for his final remarks.

**Breno Oliveira:**

Thank you, Adalmario. In conclusion, I just would like to once again say that we are -- I'm very pleased with the Company's results on the quarter. I would like to thank the entire team of senior management everyone involved. Without this wonderful team, we wouldn't have been able to reach these results.

In the next quarters, our focus will be on cash generation, the integration of Sanofi portfolio and we will keep on with the strategy of organic growth, exploring new markets

such as the institutional markets, innovation, line extensions of our unique brands we have in our portfolio.

The performance in the first quarter, the resilience of the pharmaceutical industry, the strength of the leading brands portfolio we have and new products and portfolio acquired from Sanofi, once again focuses on reaching our guidance for 2022.

Thank you. I think we can now start the Q&A session.

**Robert Ford, Bank of America:**

Good morning. Congratulations on the results. Breno what's your take on the inventory levels going up?

**Breno Oliveira:**

I think you are referring to our in-house inventory?

**Robert Ford, Bank of America:**

Yes, that's right. How much of that is API and what are the event per levels of your Asian suppliers?

**Breno Oliveira:**

Yes, I got it. As we've been saying for a couple of quarters, ever since the beginning of the pandemic, we have been paying close attention to our APIs, API inventories, especially those from China and India. Because of the supply risks and logistics bottlenecks, we've seen time and time again. We haven't to reduced our inventory levels, quite the contrary. We have expanded the inventory levels of some key products that come from China.

And we have also increased the level of finished products -- semi-finished and finished product levels. This is a more of a traditional approach, but that's driven because of the sales pickup in the second semester, second half of the year. When we are preparing our inventory levels in the first quarter, we are looking to the sales of the quarters to come which are usually better. Again, we are going to maintain higher inventory levels up until the point in which we are certain, that these logistics problems are part of the past.

As you said, gross margins are about 65%, despite the costs increase in as far as capital is concerned. I think we should prevent these risks of shortage of products that have higher margins.

**Robert Ford, Bank of America:**

Can you talk about the competition and how welcoming is the market as far as price increases?

**Breno Oliveira:**

Well Bob, price increases were just transferring costs for both the industry and retail. This market is wonderful, this market dynamic, of course there are pros and cons. But on the pro side everyone increases prices at the same time there are no major negotiations going on with customers, because everyone, all of us are increasing prices at the same time. As far as the competition goals in the industry, I think it should be transferred over to price too, costs are going up.

We are just transferring that cost increase that we've had in recent years and inflation is not giving any signs of coming down, quite the opposite. That increase that were approved by CMED was about 10.90%, everything will be transferred over and there won't be any discount issues.

**Roberto Ford, Bank of America:**

And finally there is a large wave of flu, what's your take about that situation?

**Breno Oliveira:**

It's difficult to forecast what's going to happen in the future. I don't think that is surge we had in late last year and earlier this year. I don't think it's related to what's going to come down the road. There is some outbreaks, both flu and COVID, more focused on flu now.

And this is going to help, since we are leaders in anti-flu drugs but that dependence is smaller than it used to be. I think it's about 6% of the portfolio, that comes from anti-flu. Before the acquisitions back in 2018-2019, that participation was even bigger.

**Robert Ford, Bank of America:**

Thank you, and congratulations one more time.

**Breno Oliveira:**

Thank you, Bob.

**Joseph Giordano, JP Morgan:**

Good morning, everyone, Breno, Adalmario. I have three questions. One is somewhat more technical, what's your take on stabilized gross margins? What's your take as far as costs and hedge is, are concerned?

The second question is about these new growth avenues. You talked about the institutional market, what is the potential there? 70 molecules, R\$12 billion, are you considering partnerships to speed up growth? You talked about immunoglobulin. And finally do you have any updates on some lenience agreements? Thank you.

**Breno Oliveira:**

Joe, Adalmario will field the first question and then I'll address the second and third.

**Adalmario Couto:**

Joe, as to the price transfer this will help as of the second quarter. We are implementing price increases that have been authorized by CMED, it will happen to stabilize margins.

And the gross margin will be very similar to what we had last year, with those price increases. As to foreign our exchange rate rather, I don't think we will benefit from it, at least in this year, because of the devaluation of the local currency. We had our hedging policy in place it's a little below R\$5.30, it's hedged to years end, but we're taking opportunity of this moment to hedge that below the exposure for 2023. So exchange rate won't be that helpful. However, we are protected and we're starting 2023 to increase the hedging impact. But overall, I believe will have greater gross margin for the quarter and for the remaining of the -- remainder of the year.

**Breno Oliveira:**

Joe, let me address the institutional market now. We are very optimistic, we are very excited about this growth opportunity. Since our presence there was not relevant because it accounts for over 40% of the total pharmaceutical market. So there are many opportunities for growth. So, we are setting up R&D teams, we're going to have specific R&D for this institutional market, a pilot plant that will be dedicated to this segment, but it takes time. We will see results from these investments in five years, in four or five years.

On the other hand, the avenue growth on the short term is through partnerships, we are working on it. We are introducing at least four, five molecules through partnerships. And there is also that opportunities I talked about and you point that and you pointed that out in immunoglobulin. There is a shortage in the short term and Anvisa has given us that opportunity to sell it without the final registration. So we are bringing more product to the marketplace due to patients. In essence and we are of course aiming at getting the long-term registration, the definitive registration for this and other molecules. So we're very optimistic. As I said in the last call, in the previous call, revenues should be about R\$300million for this segment, a growth that almost doubled from last year, which is also doubled when compared to 2020.

Let me answer the last question. We are currently in negotiating with CGU to finalize that agreement. We are in the final stages of that negotiation. As soon as we have information, we'll make that available to the market. We'll formally announce that to the marketplace about that agreement. But again, we are at the final stages of that negotiation. We expect to make that announcement pretty soon.

**Joseph Giordano, JP Morgan:**

Thank you.

**Breno Oliveira:**

Thank you, Joe.

**Mauricio Cepeda, Credit Suisse:**

Good morning, folks. Thank you for taking my question. I would like to focus on the institutional segment. It's long-term, I understand. But there is some good possibilities for the mid-term. What is the regulatory strategy? Are you considering faster registration? What processes are you developing internally? What's the registration status, how is it going to play out in years to come?



Let me now address competition. Again, please, do you believe that discount levels will remain flat? Based on Sindusfarma data, before the price increase, discounts were decreasing because of depressed cost. But away from what CMED regulates, what's the dynamics as far as price increases go, when you compare your own increases to those of the competition?

**Breno Oliveira:**

Hello, Cepeda. Let me address the first question. Our short-term strategy in the institutional segments is growth through clones and partnerships, as far as portfolio expansion goes. I answered that when Joe asked this question. Another growth stream is a distribution expansion. So we've been expanding our sales team to focus in this segment, and as we increase our portfolio we have more penetration in this segment of institutional customers. With the current portfolio we have today, which is not ideal for this segment. However, there are many opportunities for growth still. We do have some drugs that we acquired, that are used in institutional market. Dramin, Buscopan, inj. versions of these drugs provided that we can reduce costs when we integrate the manufacturing of these drugs in our own plant, which will be operational early next year. So these are the three main driver on the short-term basis. On a mid-term basis we go back to developing new products. And there is nothing new under the sun in the area. Despite those products that are -- have a limited offering in the marketplace that the period are the same. The approval times are the same of those drugs for the retail. Development times are similar too, approval times would be 18 months after the submission. So these developments starting now will yield results in four, five years and into the future. So we are starting now with the development, despite we not having a dedicated R&D department operational, we are using our own R&D structure and outsourcing some steps of their process, so we are already getting things into motion for those 70 molecules that's the addressable market of R\$12 billion.

Okay, onto the second question now. I think Adalmario will answer that.

**Adalmario Couto:**

As to the competition, I think Breno had mentioned that most players are transferring those cost increases onto consumer prices. When you look at the more competitive section generic products, just like you said, discounts are trembling throughout 2021 and it can be seen even more so earlier this year. Again, nothing new there. On our end, we have been focusing on some relevant molecules, those that were not present yet and we're going to speed up the process to be there. So on our end, we always have our competitive advantages, not only distribution and the brand in Neo Quimica, but also our production scale is an advantage. So we have the largest manufacturing facilities in the pharmaceutical industry, Brazil, and even in Latin America. That helps substantially, especially in those more competitive categories, we have scale and we can be more price competitive. To a certain extent, this is a more rational market, we have been able to grow and gain market share, especially introducing new molecules.

**Mauricio Cepeda, Credit Suisse:**

That was very clear. Thank you, Breno. Thank you, Adalmario.

**Caio Moscadini, Santander:**

Hello. As to Sanofi, you have included their brands for over a month now. What is your expectation as to the introduction of these new brands? Just like you did with Takeda and Buscopan, could you share some of the synergy expectations you have been able to notice? Thank you.

**Breno Oliveira:**

Hello, Caio, as I said at the beginning of the presentation, we have mapped out many things for this Sanofi portfolio to boost our sales both for their current, for our current portfolio, more distribution focusing on some categories that Sanofi was not strategically focusing before. There are two highlights, Cepacol is one of them. Very strong brand that received a little media investments. A few -- just a few new introductions that took place decades ago, so there is still a lot of opportunity to renew those lines. That's what we know how to do for both Cepacol as I said and Naturetti. These two would be the highlights that should receive a more of our focus in the short-run.

As far as Prescription Products, we're going to include them in the medical grid. Hexomedine, all portfolio products will yield relevant sale increases once they are in our platform. We don't -- we haven't detected any additional synergies other than those that we indicated at the acquisition, everything is going according to plan.

**Caio Moscardini, Santander:**

Thank you, Breno.

**Vinicius Figueiredo, Itaú:**

Good morning. Can you hear me now?

**Breno Oliveira:**

Yes, we can hear you fine, Vinicius.

**Vinicius Figueiredo, Itaú:**

Wonderful. Let me start with the follow-up of a first question that was asked before. As to inventory levels you talked about the supply chain risks of raw materials, I would like to better understand, is it raw material for specific drugs or a group of drugs? I would like to better understand what or how much of your portfolio would be subjected to this risk?

And the second question, you said before very clearly that the focus should be cash flow, the integration organic growth. So would it make sense to believe that you resort to some inorganic move? Would that happen further down the road? With that an M&A would be similar to what you've done before, you would acquire portfolios or would you acquire whole company? Would that be interesting to you too?

**Adalmario Couto:**

Thank you, Vinicius. I'll address the first one and then Breno will answer the second question about the acquisitions. As to inventory levels, yes, we have increasing the inventory levels across the board especially pharmaceutical inputs from China and India. As we know, we have a large lead time already, when these products are delivered. Ever since the beginning of the pandemic when we first detected the outbreak in China, we



decided to increase our safety inventory levels. We have been maintaining that policy and we have increasing that even further, to prevent any shortages in the marketplace. We did the right thing and we, there was that outbreak, the flu outbreak and a higher demand for those products. This was not seasonal at all. And since we had that higher level of raw material inventories, we were able to manufacture and replenish those stocks to our consumers faster than the competition. So we did the right thing. We are maintaining higher inventory levels, but this is across the Board. There are some APIs that are more relevant, of course. We are present in every category. There are some APIs that we use for generic products, prescription products, OTC. These are key raw materials, we have of course higher inventory levels. But again, it's an increase across the Board.

As to the impact we've detected so far from the war in Ukraine, there are some delays as far as logistics go, but this is not significant as we speak. Five to seven day delays for some shipments, nothing that would dramatically impact our production.

Before I talk about M&A, let me just answer the question two part of that performance in the first quarter. It was because of the higher inventory levels for both finished products a tour customers' inventories or as their warehouses and also raw material inventory levels. Especially raw materials having those higher inventory levels, we were able to quickly adapt to that demand shift, we've seen earlier this year unlike some other competitors.

**Breno Oliveira:**

Okay. Let me answer the M&A question now. We are at a leverage level, 2.5 times. As Adalmario said, when we look at the EBITDA for the future, we wouldn't like to exceed that limit in the short term. But since we generate a lot of cash that's enough to pay dividends and to invest in the business, as that leverage ratio comes down and interest rates come down too, further down the road, we may look at opportunities. In the short-term, smaller and more strategic opportunities, we may consider, but nothing major there. Very, very specific segments, very strategic segments to Hypera.

**Vinicius Figueiredo, Itaú:**

Perfect. That was crystal clear. Thank you.

**Irma Sgarz, Goldman Sachs:**

Let me go back to the mix for the institutional segment. Would that imply any structural change in the working capital? Are there any differences as far as working capital requirements are? Thank you.

**Breno Oliveira:**

Hello Irma, there aren't major differences in the institutional market when compared to retail. Customers have even less inventory, so the working capital requirements are somewhat smaller and it's very small. Even reaching our objectives or when we reach them, it won't be relevant, still this is 15%, that's the target. 15% of our revenues would come from this segment. Again, it won't change working capital requirements significantly, and that includes margin as well.

Gross margin is a lot smaller than gross margins, in retail for our portfolio, our retail mix today. But as far as EBITDA margins, they're not that different from what we have today. And you have data from bulky, focused in this segment, (inaudible). So companies are focused in this segment, have EBITDA margins that are very similar to our own EBITDA margins. Again, we don't see any major changes, as far as profitability and working capital requirements are, as we move along in the expansion of our, in the expansion of our activities in this segment.

**Irma Sgarz, Goldman Sachs:**

All right. Thank you.

**Operator:**

(Operator Instructions) Thank you. This concludes the Q&A session, I'll turn over to Mr. Breno Oliveira for his final remarks.

**Breno Oliveira:**

Once again I would like to thank you for attending this earnings call. Thank you for your interest in the company. And we are at your service to answer any questions you may have, please get in touch with our IR team.

Thank you. Have a good day.

**Operator:**

This concludes Hypera Earnings Call. Have a good day. Goodbye.