Operator:

Welcome to Hypera Pharma conference call to discuss its 1Q20 results. We have with us today Mr. Breno Oliveira, CEO; and Mr. Adalmario Couto, CFO.

We'd like to inform you that this event is being recorded, during the Company's presentation all participants will be in a listen-only mode. Then we will begin a Q&A session for investors and analysts only, when further instructions will be given. If you require any assistance during the call, please, dial * 0 to reach the operator.

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

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

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

We would now like to turn the floor over to Mr. Breno Oliveira. Who begin the Company's presentation your presentation now, the floor is your sir.

Breno Oliveira:

Good morning, everyone and welcome to our results call for the 1Q20. I'd like to start by talking about our independent committee, in the previous call we said that we were at the final stage of their work and we were expected to finish by April, now due to the current situation that schedule will be slightly delayed and now we're expecting them to finish in May. We will provide communications to the market as soon as it is concluded.

Now let me talk about our operational performance, on slide 3. In 1Q20, our sell-out went up by 11%, reaching two-digit growth for the fourth quarter in a row. This was mainly due to increased demand especially in Consumer Health during the second and third weeks of March. This was in consequence of consumers rushing to buy medication after the Covid-19 pandemic started. The main categories benefited by this were flu medication, pain killers and vitamins. In branded prescription products the highlights for this quarter were Rinosoro, Predsim, Colflex, Ofolato and especially, Addera, due to the recent news about studies showing the importance of vitamin D to regulate the immune system and reduce respiratory infections.

On the other hand, we see that some important categories such as dermatology and pediatrics have already felt negative impacts from the reduction of doctor consultations due to the Covid-19 pandemic; this pressured the growth in demand for prescription products this quarter. We're monitoring how the market behaves on the short-term closely during the last week of March early April, we saw that our excellent performance was reversed, but now it seems to be gradually growing over the last few weeks. In the 1Q20, the Company recorded a net revenue R$815 million with a recovery of the gross margins to 67% and the EBIT margin to 31% this quarter, which is in line with what we expected for the rest of the year. The Covid-19 pandemic brought additional challenges for the daily operations of Brazilian companies in all different industries throughout the quarter and for Hypera it was not different. I just like to mention the main measures we took recently, on slide 4, our main focus has been to take care of our employees, we have adopted home office with a 100% of our administrative worker and we placed all employees who are in the risk group in home office. They will come back gradually from May with additional safety measures and in the case of doctors visits we are now using a tool for virtual visits for those doctors who have still not come back to their clinics.

We would like to reinforce our corporate health Team and we're offering remote Medical Services to all our employees and their family members, were also helping communities where we are, we donated to NGOs and, in the state of Goiás we've donated 20 respirators to the city of Annapolis the city where most of our employees are we've also donated medication, food and hand sanitizer and we started partnership between the Benegrip grant and the Rappi delivery service to deliver medication with free shipping in Sao Paulo and Rio de Janeiro. It's also very important to protect our planet and our Innovation Center were adopting several different prevention measures such as taking people temperature when they come into the plant and it's something distancing in hires of higher flow in areas of such as the entrance and their cafeteria.

We also have an action plan if there are any covid-19 cases in our facilities. We've also anticipated the purchase orders for active ingredients imports from China and India from February and we're not expecting any shortages. We took these measures because as a pharmaceutical company, we have the obligation of ensuring health and the supply of medication to the Brazilian population, but we always have to keep in mind that all our teams in communities need to also be protected besides these initiatives were also trying to strengthen our short-term liquidity, which is already robust. And this is done preventively due to the uncertainties we have in the current market.

We have a credit line of around 900 million for 2020 and 2021. We've also put out R$2.5 billion in long-term debentures with a pre negotiated cost of CDI plus 1.5 percent a year to pay for the acquisition of the Takeda portfolio. Which should be do at the fourth quarter 2020, with that, we have a pro forma cash position of proximally R$5 billion more than enough to pay for our acquisitions such as Takeda after the Brazilian authorities approve it.

We'd also like to remind you that in March, we negotiated a sales of the LATAM installment ex-Brazil of our portfolio of for Taketa to be sold at US$161 million and with that we will focus exclusively on the Brazilian Market where we see many growth opportunities. With the derivative operations carried out in March and April, We reduce our exposure to under US$400 or under 50% of the original exposure.

Before I let Adalmario speak, I just like to quickly talk about Innovation, which is shown here on our presentation. Our total R&D Investments including what was capitalized with intangible assets reach 7.2% of our net revenue, reinforcing our commitment to Innovation and sustainable investments, including it during this difficult moment of the pandemic

In this quarter, we acquired the Glenmark Dermatology portfolio. Which is very important and will reinforce our Dermatology portfolio. And it will reinforcement Mantecorp skincare's position with dermatologists. We also extended a number of brands and also the new Artrotop anti-inflammatory ointment and Centrotabs Beauty a new product which extends a central tabs line.

Now, I'd like to pass the floor to Adalmario, who'll talk about this quarter's results.

Adalmario Couto:

Thank you, Breno. Good morning, everyone. I'm going to start with our mean highlights on slide six. Net revenue for this 1Q20 was R$815 million, more than double year-on-year. I know it’s not a good basis for comparison, given the drop in sales in Prescription Product and Consumer Health in 1Q19, the goal then was to reduce the inventory of those products for clients at the time.

Gross margin was below sell out of sales. As Breno said it was very prevalent in the two weeks of mid-march. We didn't have any time to react and so that we could we compose our inventory during that time. We also saw a lower level of the demand and the last quarter because of the impact of the pandemic and this was also associated to an indefinition on a price readjustment by CMED, which was delayed this year for over 60 days.

I'd also like to highlight that from this quarter on sell-in growth should be close to sell-out since we are operating in the new commercial model with smaller inventories of our products in our clients since the 2Q19. In the 2Q20, sell-in should be higher than sell-out to recompose our clients' inventory after the above-average demand in the month of March.

Gross profit amounted R$543 million and our gross margin was nearly 67%, almost 7% higher than the 4Q19. Some factors contributed to that increase such as reducing idleness in our plants and the increase in our average price, reducing commercial discounts and that offsets a negative impact of exchange rate.

The average exchange rate was around R$4 versus R$3.68 of the 1Q19. So it was an increase of around 10%. Here, I have to remind you of our policy to hedge a 100% of purchase orders for imported inputs. Earlier this year, we also had additional hedging using our purchasing forecast for 2020. So the impact of the foreign exchange on gross margin should be minimized for 2020.

Factors that impacted our gross margins negatively in this quarter were still high volumes of returns and disposals which were above what we expected but should be normal for the remainder of the year.

The better gross margin contributed in helping our EBITDA margin to go above 30%. This was basically due to higher discipline and managing expenses in the first quarter because of the covid-19 pandemic. I'll give some more color on that.

This quarter we saw one off reduction of promotional activities and POS due to restricted circulation and social distancing and many states at the end of March, which led to a reduction of about 25% in promotional discounts in the last quarter.

Regarding commercial expenses, they were at the same levels we saw in 2019, but the R&D team was increased and this was offset by employee profit share provision be returned and also higher activation of expenses related to R&D projects. Marketing expenses were R$23 million higher than last year given the increase in Medical visitation in June, last year, and the one-off increase in the number of free samples during the last quarter, a part of this growth was offset by better negotiation with some offline media packages and also a reduction in the number of ads because of covid-19.

Administrative expenses were slightly lower than last year and we had a positive result of R$35 million in other expenses accounting tax credits we received during the last quarter. Our financial results were positive because of the company's net cash position and also the P&L from the hedge to reduce the exchange exposure related to paying the Takeda portfolio acquisition.

We also had a positive contribution from income tax, which can be explained by an increase in the capital returns for shareholders, which maximizes the tax benefit. The total amount declared this quarter was a R$185 million or about R$0.29 per share, 15% higher than what we saw in the 1Q19 and this is the fourth consecutive year in which capital returns were higher for shareholders. We expect for that to continue and if possible to do it via interest on own Capital, which shows our confidence that we have in our own cash generation now and in the future.

Now, let me talk about cash flow on slide seven. Our operational cash flow was R$107 million in 1Q20. It was more than necessary to support our CAPEX investments and intangible investments, which are mainly in pipeline projects. They are all leveraged.

As Breno commented, our investments in R&D went up by 11% this quarter, reaching a total of R$58 million between what was spent and activated. With that, we had a free cash generation of R$45 million. As Breno already said, to increase our liquidity position, we had already reinforced the Company's liquidity with nearly R$600 million of an additional credit until the end of March. So all of this along with the additional R$300 million and the release of nearly R$2.5 billion proof how we can access the capital market, if necessary, and also how we can ensure the lowest available spread levels in the market.

Maintaining the robustness of our spreadsheet will still be our priority, especially given the current situation, we also want to use the strength of it to ensure sustainable growth long-term, with that, are free cash position at the end of the quarter was R$240 million after paying interest on our own capital regarding 2019.

I will now turn back over to Breno for his final remarks.

Breno Oliveira:

Thank you, Adalmario. Just as in all past crises, this one will not be different and it will also generate opportunities. We're working to come out of it stronger.

We hope to collective fruits of the recent Investments we made in some front such as creating last year a trade marketing structure focused on e-commerce for our main clients. Its sales have more than doubled in the last weeks. In early 2019 we created a virtual medical system which allowed us to plug this platform quickly to nearly one thousand medical reps we have out in the field so that they could work again in a hybrid model between personal and online visitation, which should be more common from now on and being closer to startups in the health tech industry with our programs Hypera Hub and Hypera Ventures identifying investment opportunities and Partnerships that we may have with segments that can have exponential growth in the short and medium term. So despite this difficult moment the long-term growth foundations for the market will continue to be attacked especially given the aging of our population, which increases the consumption of medications.

Concluding, the transformational acquisitions of Buscopan and the Takeda portfolio will make a Hypera Pharma the biggest Brazilian pharma company and absolute leader in consumer health, and along with our leading Brands a robust go-to-market platform our liquidity and our strong investment capacity put us in a position as the best prepared company to take the growth opportunities present in the Brazilian Pharma industry.

Thank you, I'd now like to move on to the Q&A session.

Robert Ford, Bank of America:

Good morning, I hope you're all safe and well. I have three questions, please. First, can you tell us a bit about the current operational trends in terms of mix and competition, please? Second, what are your plans for your sales team to go back to work and how are you considering technology in order to do that? Finally, can you tell us about your operational coverage and your gross margins expectations for the rest of the year, please?

Breno Oliveira:

Hi Bob, good morning. Thank you for your questions. I hope you and your family are also safe. So let me ask your first and your second questions, and Adalmario will answer the third. Regarding current trends, we saw a strong and fast movement in mid-march, in terms of demand. We saw a great variation of higher demand in different products. We mentioned some categories that do very well such as flu medication, vitamins, vitamin D specifically for us.

They all did very well but on the other hand, we saw some categories, especially for Acute treatments, which depend on medical consultations, the Pediatric line, for example, as you know, children are not going to school so they're not getting sick and that impacts our performance. So we saw that performance changed significantly in the different categories we work in.

April started slowly, we saw a downward trend, but over time, you know week by week the performance ended up improving, so we believe that the market should come close to zero growth in April, but it is a gradual positive trend.

In terms of competition, we see that there are some smaller players were very aggressive in the past that are no longer so commercially aggressive. As you know, there's the effect of the exchange rate on our margins, but this also affects our competitors everyone ends up being affected everyone depends on the same things coming from abroad and the credit crisis for the smaller players that ends up impacting them more in terms of credit availability.

So, to answer your second question about going back to business as usual, our entire field team first is working from home and the case of medical visits they are now doing online visitations and some weeks later they were all given a collective vacation. And now we're seeing that there's slowly going back to the field, the merchandising team, the reps which go back to big chains just recently came back last week. Of course, you're taking all necessary precautions wearing gloves and masks. They also have a flexible working hour to avoid peak hours and the medical visitation teams are in fact going back to work today. They're starting to use a new tool so that they can visit physicians remotely.

So we believe that these new technologies are here to stay. There should be great change in how they behave and this relationship between reps and doctors but also between doctors and patients, we see that telemedicine will be more and more common from now on. These are changes as in many other industries which are coming before a trend that would still going to happen gradually and this is all taking place very fast in a matter of weeks; many technologies are being adopted changing the way in which reps relate to doctors and doctors with their patients.

Well, I hope I've answered your first two questions Bob. If so, I'll let Adalmario answer your third questions. Excuse me, a third question about margin.

Adalmario Couto:

Hi Bob, good morning, we do not have a formal guidance for gross margins, but given this challenging scenario since the BRL is weaker, we think that the gross margins this year will be closer to what we had in this first quarter. We hope to have a more positive effect of our product mix even with new launches both OTC and prescription.

And also we expect to see a positive effect from some categories in our portfolio, which have been performing well right now such as Vitamin D, which is Addera. This is a product that has higher margins than the company's average gross margins and we saw an expressive increase in its demand because of the awareness that came up around vitamin D. This was a segment that had been on the downs in the past, but then, from March, we had a reuptake in demand and Addera, since it leads the segment, ended up gaining even more market share.

So, because of that and some other specific categories in our portfolio, we see that gross margins should be around 67%, or that level, for the rest of the year. Just to add something in our budget and our plans, we are getting prepared for an exchange rate of R$5 per dollar. So we're seeing how that would impact our average cost over the year. Our margin forecast which Adalmario mentioned is considering the scenario. Now, we're going to see how things behave in the next weeks and months and then based on our competition and how they behave we'll see if we need to have any additional price adjustment to offset a higher exchange rate.

Robert Ford:

Thank you very much.

Joseph Giordano, JPMorgan:

Good morning, everyone. Good morning, Breno and Adalmario. Thank you for taking my question. I actually have three. The first one is just to clarify something regarding your hedging rental mention that this 17% budget for gross margins is working with an exchange rate of around R$5. So I just like to know if a hedge when we talk about the acquisition and the operational hedge are at the same effects level.

A second point which is very important that the covid context is trying to understand how this sell out was doing until mid-march? We finished the quarter at 11%, so I just like to separate what's the underlying trend in the sellout, just to try to extrapolate what the second quarter would be like given your prescription mix. So if you could tell us what percentage of products really do require a prescription.

Finally, if you can talk about price increases which were postponed to June that increase of 4.1& - 4.2% at just like to understand if there are any chances of seeing an incremental adjustment to that price hike given the exchange rate volatility since then has been so significant. Thank you.

Adalmario Couto:

So I'll take your first question regarding hedging. Since we announced the acquisition of Takeda, we've been hedging reducing our exchange exposure. We announced it at R$4.50 and then, we carried out a part of the Hedge and then we had some more over the next days. Now, the average cost that is the rate we're using for hedging is around R$5.16 on average. Which is about R$240 million that we had. Of course, we're watching the exchange rate closely and whenever we have an opportunity whenever it's closer to five we can increase this hedge, it is to continue the strategy for the next days to reduce our exposure even more.

Considering purchasing hedge, we've always done it once we place an order. So from the moment, we place an order until we pay, historically we've always hedged like that. What we did differently this year was actually to have an additional hedge with a purchase forecast for what we had for the rest of the year.

So the first two weeks of January we already had used most of what we had forecasted until June, add around R$4.10, which is around the level we were earlier this year. With that purchasing plus the additional hedge we set apart we see that this higher exchange rate will create an impact on our cost between September and October this year and then, obviously, we are going to monitor things to see if we have an opportunity to increase that hedge even more.

Breno Oliveira:

So Joe, consider your other questions, your second question was the percentage of prescription in our portfolio. Was that it?

Joseph Giordano:

Yes, the pretty covid sell out so we can understand what your underlying trend was and secondly how much of it was from prescription medication? I had also asked about price increases.

Breno Oliveira:

Right, sell out before the Covid crisis had sped up, but it was also not a very big difference. It was high single digit for the first two months of the year. What happened in March was a variation of the demand as I was saying and subcategories growth went down significantly such as cosmetics. The market practically did not grow at the first quarter and that for us has a higher weight than the market average. Prescription as a whole represents about 40% of our portfolio. So we have different effects within the category of prescription medication.

We had a high impact, for example on acute use medication, so orthopedic products for example, as people are exercising less, they're also getting less injured in home. So we have fewer visits to orthopedics and fewer painkiller prescriptions.

So, that's it, there was an increase in the trend and as Adalmario said we didn't have the capacity to react in sell in so quickly as you know, our revenue is recorded by delivery of goods. So all of this cycle between the increase in sell out having more orders from clients and delivering products has not been recorded yet for the second quarter, but we do expect to see that still in the second quarter.

Regarding price increases, there are discussions among pharma associations and the government; there are some discussions on how to negotiate in an increase in prices. But I do believe that we should be working with the expected increase which we had already mentioned. We're not expecting to see an even higher one, but as a reminder for us that impact is only an approximately 16% to 18% of our portfolio, because OTC as you know, from March we already had some categories that had their prices set at, and from March all of the OTC portfolio will not change, as for generic and similar products, we have a very high level of discounts. So even if prices don't go any higher than we had announced, the industry does have enough room to work with discount. So, what really affect is prescription products which are already close to our price limits in the list of prices and they represent around 17% of our portfolio.

Joseph Giordano:

Thank you, Breno and Adalmario. Have a good day.

Gustavo Oliveira, UBS:

Good Morning, Breno and Adalmario, so considering that in the first quarter sales were bit below our expectations from the consensus. I just like to understand what you're thinking about the guidance you had already published. Do you think that that guidance will be maintained? And also I'd like to understand along the same lines that you said that in the market there was a slight growth, so what's the expected market growth in your perception?

Breno Oliveira:

Hi Gustavo, so, these sales despite being smaller and selling than what we expected are not so different from what we already had in our plans. If we take the mid-range if we take sales in the first quarter versus the guidance for the year, we reached about 19% of the guidances mid-range. Sell out represents about 20% of the year for the 1Q. So as a reminder, our portfolio is very strong during the winter, So, especially for the 2Q and 3Q we have flu medication we have an antihistamine portfolio Rinosoro, Predsim, all of these products have higher demand during winter.

So, sell out for the 1Q is a bit higher than the 19% we saw in our goal for the year, which should be around 20% - 21% percent, but it doesn't reach the 25%, so it's less than one quarter of our yearly sell out. In other words, we are comfortable with these numbers they are different but not too different from what we imagined. So, there was a demand at the end of the quarter, so we didn't manage to replenish the stocks because deliveries were slower, but we see this happening in the first few weeks of April.

Gustavo Oliveira:

I see it. What about your expectation for the market growth? You said that in the 1Q, the market itself was flat, but you had an increased sell out of 11%. So you gained and share. How do you imagine this is going to continue for the rest of the year?

Breno Oliveira:

It's hard to say for the year. Our expectations was to have high single-digit growth by talking to clients we see that the tendency for April for many of our clients in the preliminary data we have from other preliminary guides is also pointing to a week or growth in April which offsets the stronger growth we had in March.

It's hard to say you asked about our guidance and we don't see any reason right now to change it at all. I think it's too soon, I don't think there's going to be huge variation in the demand from the market average. Like I said, we had some drastic changes in some categories, but for the market average, we do not see any reason to have a variation regarding our original projection, so with that being said I believe the market will continue this high single-digit trend for the entire year.

Gustavo Oliveira:

One last question, if I may. You mentioned the investigation at the beginning, but that was exactly when I came in so I'm not sure what you said. I think it was delayed, but if you could tell us a bit more about why it was delayed.

Breno Oliveira:

What I said was that originally we had expected for the investigation to finish in mid-April. So we would have the results presented to our governance departments and our board, but because of the pandemic, at first we had to postpone some of the meetings. But we believe this process will conclude now in May. So, there was a slight delay of about 1 month this process.

Gustavo Oliveira:

So that's in the company, right? I believe you're talking to the regulators are the conversation still normal?

Breno Oliveira:

I don't have any details that I can share. The impact that we have is internal to the company.

Gustavo Oliveira:

Great, that's right Breno, thank you.

Gustavo Miele, Itaú BBA:

Good morning, Breno and Adalmario. Thank you for your presentation, I hope you're all doing well. I actually have two questions. The first is about your Dermatology portfolio, which was acquired last year from Glenmark. Is there anything you can share with us about how much weight it has in your sell out, do you expect these 9 brands to grow? Is it going to be very different from the consolidated growth that you have. If you could give us some more details about these Brands specifically, I would appreciate it.

My second point, I just like you to talk a bit more about the partnership you had with Rappi to deliver Benegrip, how much benefit do you expect to get from that partnership and you also expect to extend it to other kinds of medication? According to the different market opportunities you see. That's all, thank you.

Adalmario Couto:

So let me take your first question and then Breno will answer the second one. From the strategical point of view, the acquisition is basically bringing a lot of synergy into our current portfolio, which is a portfolio still focused on cosmetics. Today Mantecorp

Skincare as a brand is a leader in the Brazilian market. Of course, we have L'Oreal, which has several brands and works in four different brands, but as a single brand, we are already market leaders, but there is still a gap in what we call medication prescribed by a dermatologist.

So, it's very complimentary tour portfolio and see ran portfolio many of which were recently launched, so they contribute to our sales at a low level for now, but we believe that in our hands from the moment in which we can expand our promotional activities with our representatives. We are going to be able to generate significant growth throughout the first and second year when these activities begin. Just to give you an idea this portfolio was promoted by team with fewer than 30 representatives and now we have over a 150 representatives visiting dermatologist, so there's a great potential but this will be seen in the future. Right now we only will have marginal contributions.

Breno Oliveira:

As to the agreement or the partnership we had with Rappi, we're seeing this from the social point of view. And it's not exclusive to Benegrip just to make it clear any medication purchased through the Rappi app in these two cities São Paulo and Rio have free shipping which is being offered by Rappi and ourselves. So it's a social activity to help by using the Benegrip brand to sponsor it instead of Hypera which is not a brand name that consumers know very well.

So, it's more of a long-term marketing activity with a social outlook. We don't expect to have relevant sales gains short-term stemming from this activity. So we're also looking at several other initiatives sponsorships, sponsoring, you know live shows that many artists are giving online. We've also sponsored with Brands like Engov and Benegrip and other donations we mentioned in the beginning. For example, we had a donation to an NGO in the state of Goiás, where we donated respirators to the city of Anápolis – 20 respirators. We also donated medication, Addera and others. So there are several activities we are conducting to help the communities where we are.

Gustavo Miele:

Thank you. That was very clear. If I may I have a third question I had to leave the call for a few minutes. I'm not sure if you've already mentioned anything about this and I apologize if I'm repeating anything. Did you in April see any replenishment to offset that mismatch and sell out and sell in in March for Consumer Health? Did you notice anything in April, or will it be left more towards May? Thank you.

Breno Oliveira:

Yes, we have seen it, we received orders from clients and as I said, our revenue is based on products being delivered, so there was a cutoff point in what was delivered until March 31st, but these orders to replenish products have already been taking place and we saw some of that effect in April. So, this mismatch should be reversed by the second quarter.

Gustavo Miele:

Thank you. That was very clear. Thank you.

Fred Mendes, Bradesco:

Good morning, everyone. I have two questions. First, I'd like to refer back to what Gustavo mentioned. In terms of revenue it wasn't bit below what I had expected, of course there were doctors visitations, but it just like to understand if there were any impacts from the drought in Anápolis. If I'm not mistaken, some of the revenue was going to be postponed to this quarter and I'm not sure if it had any positive or negative impacts and the results you showed, so that's my first question.

Secondly, in renegotiating with clients, I just like to understand what that's like, I know that you deal with major players, so in theory, we have a better cash position, but I just like to know if we are seeing that these players are trying to be more aggressive in renegotiating prices. Thank you.

Breno Oliveira:

So, let me answer your second question with regards to renegotiating with clients. We did not see any requests for that to renegotiate terms, we're basically performing very well, especially in comparison with other Industries. Our doors are still open.

You don't see any major Impact in our client's results, so there's been no need to renegotiate anything. Of course, in this scenario we have to get ready for a possible stress of the future. We reviewed our credit limits, we reviewed our credit limits for some clients, but right now we didn't see any changes in the default levels, customers have also not tried to postpone payments. So, prices have not been renegotiated because we still have demand.

And sorry, what was your first question? Can you repeat it, please?

Fred Mendes:

I just like to understand your revenue. I know Gustavo mentioned it, but did you suffer any impact from the drought in Anápolis? We saw that in previous quarters, and he said that some of it would be absorbed at this quarter before so I just like to know if you did see any impact to this quarter.

Breno Oliveira:

I think there was an impact we said in the 4Q earnings call, that, because of that drought issue there, we had much lower inventories at the end of the 4Q than we would like. And we saw that the replenishment would take place in the 1Q20 and 2Q20, so we still see that some of these sales will be different because they were lost in the 4Q, but they will be recovered in the 2Q. So the 2Q, because of it and because of a more concentrated demand at the end of the quarter, we see that our clients inventory levels are a bit lower than what we would like or what we expected, but that will change now, in the 2Q.

Fred Mendes:

Great, thank you, Breno.

Irma Sgarz, Goldman Sachs:

Good morning. Thank you for taking my question. Most of my questions have already been answered. But I just like to ask a follow-up question about the timeline for launching new products. Do you see any delays impacting this year or maybe next year?

And my second question is about your marketing activity mix and if you could contain some of the expenses right now for the weaker demand. How do you see the balance between the cuts you made to your expenses through your sales force and marketing and how is it being redirected towards new activities? Do you see that leverage impacts your margins? That was my question. Thank you very much.

Adalmario Couto:

Good morning, Irma. Let me answer your first question, regarding the launch timeline, we have a robust pipeline right now. We have around a 100 launches expected for this year, but most of them are concentrated in the 2H20. So for now, we don't see an impact where in the pre-launch phase, basically producing what needs to be produced, inputs are coming in, we're doing training and for now the timeline is maintained normally, obviously we're monitoring the situation from closely, but as Breno mentioned our medical visitation team, merchandising, store visits should resume this week.

We are still using a new tool, which actually we had already been testing throughout last year to visit a doctors and, obviously, the launches we have now in the 2Q will be using this platform. The idea is to use a platform for launches and also to communicate with the market the new products that to be launched this quarter. So, the timeline will depend on the situation and how soon we can go back to normal.

Our segment has not been so impacted because, you know, pharmacies are still open, but we have some categories especially specialist physicians, where we need to be closer to them to launch products well. So, we are monitoring how that's going and we'll see how the situation does in the 2H20.

As to your other questions Irma my about cutting costs. We have to highlight that we're not reducing investments for not reducing our investment plan. Obviously, we had a simulation for the worst case scenario. We had ready maps that if we had to custom cut costs where we would do it; this is very well matched to preserve our cash, but so far, we haven't seen this market movement taking place.

Sales are still coming in, competitors are also investing, but we did see was change this some areas. For example, medical visitation and reps were on vacation, doctors also had their clinics closed, so the distribution of free samples, which is a relevant part of the cost was reduced. Expenses with travel is also a zero in the company, and this will probably continue in the future. We saw what we can do, how we can meet via Zoom or other online tools, so the need for travel will be reduced from now on.

Regarding marketing we had that issue of soccer championship games changing since we sponsor soccer teams, but we've been talking to Globo and other broadcasters, to get a different time slot for them. It is not to reduce our investment in media, quite contrary, now we've been taking this opportunity in April since people are staying home and viewership is going up to accelerate it, so probably in the 2H20, we're going to have a higher investment in media, but this is all within our plan.

For the year, we didn't change anything in terms of cutting costs; we basically reallocated our expenses in different scenarios. So for example, we had an investment plan for e-commerce, trade marketing for the e-commerce platforms. We anticipated a good part of these Investments that were planned for the year, for now, for April and May which is when people are shopping online more. So, basically we did that kind of movement but our investments in marketing will continue to generate demand focusing on sell out and market share gains, which is our long-term goal.

Irma Sgarz:

Great, thank you.

Tobias Stingelin, Citibank:

Good afternoon. I hope you're all well. A quick question, you mention Addera represented if I'm not mistaken 10% of your sales in the past. Then we have that change in protocol – a difficult moment in the past, but now with this improvement with Covid-19, since it's now being prescribed, or referred to, what should we expect from this category?

Breno Oliveira:

Today it represents for the year, of course on the short-term it's higher, but for the year about 6% of our total portfolio, give or take – I'm looking here at sellout, this was the data I have. But it had a reversal, right, it was dropping; it dropped 15% - 20% and now it's contributing again positively to the portfolio, but it's still think its early Tobias, to know if that's a long-term trend. We have been demonstrating more and more a correlation to covid-19 and that can be a good thing to revert that negative trend we had seen in the vitamin D Market over the last year. But on the short-term we did see a very positive impact.

Tobias Stingelin:

Thank you. Now, thinking at a higher level, in your budget this year, it was going down, right? Because of the measures you had introduced last year, or did you think the business was already flat or stable before covid-19, of course? Just to think about your base case.

Breno Oliveira:

Are you talking about Addera specifically?

Tobias Stingelin:

Yes, I am. I know that it was going down and you introduced a number of measures to change that trend, but I don't know exactly how it was doing, so without that outside factor, do you think it was going to continue going down?

Breno Oliveira:

No, it was positive, but marginally so – low single digit, – but considering launches line extensions the brand as a whole was growing according to our low single-digit plans considering the new launches already.

Tobias Stingelin:

Great, one final question, vitamins are still a low chair for you right how much they represent now as a ballpark figure?

Breno Oliveira:

Tobias you know, we have strong brands to explore this segment. Basically, we relaunch the Vitasay brand last year and we also launched Centrotabs, which is what we call a smart choice. It is more directed towards independent and medium-sized chains. So, we still have a small share, but from mid-March and to April we saw a strong demand. It is basically one of the few vitamins that have a strong media presence on TV with Vitasay, and we also have a presence a strong distribution with Centrotabs and we're taking part in that overall market growth in this specific category. So, between Addera, Vitasay and Centrotabs, it represents around 7% to 8% of our portfolio.

Tobias Stingelin:

Great, thank you.

Operator:

This concludes the Q&A session. Mr. Breno Oliveira will be making his final remarks

Breno Oliveira:

Thank you for taking part in our call. And as usual, our IR team is available to answer any questions you may have. Thank you. Have a good day.

Operator:

Hypera conference call ends now. Thank you. Good afternoon.