Operator:

Good morning. Welcome to Hypera Pharma 1Q21 results earnings call. Mr. Breno Oliveira, CEO; and Mr. Adalmario Couto, CFO and IRO are here with us today.

This event is being recorded. All participants will be on a listen-only mode. After the closing remarks, there will be a Q&A session for investors and analysts. Further instructions will be given then. If you need assistance during the conference call, please press *0 to reach the operator.

Questions can only be asked by telephone. If you are connected through the webcast, submit your question through e-mail at ri@hypera.com.br. Today's live webcast is being broadcast at www.hypera.com.br/ir.

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

I will turn the call over to Mr. Breno Oliveira. Mr. Oliveira, you have the floor.

Breno Oliveira:

Good morning, everyone Welcome to our 1Q earnings call. I would like to start by talking about our growth on slide three. For the second quarter in a row, we grew our sell-out organically in double digits, and we gained market share.

Organic growth was 11.5% in our sell-out, 2 p.p. above market. The comparison for the sell-out is very challenging in this quarter because March last year, the market grew by over 30%, when consumers went to drug stores to purchase medicine right at the start of the pandemic. Our sell-out growth is favored by the gradual improvement of the pharmaceutical industry starting in 2Q last year, as well as our initiatives to boost our growth.

Similar and generics were the highlight with two-digit growth. We have benefited by our distribution network to boost Neo Química brand and through the expansion of our production capacity.

In our pipeline, we have important new products that can contribute to increase our coverage in the generic products, reaching 55% of the total molecules in the market by year's end.

On top of that, this quarter we signed a master sponsorship from a soccer club jersey, Vitasay and Neo Química. It is on top of the naming rights contract of the Neo Química Arena signed last year.

In prescription products, we grew over market average. We are reaping the harvest of the new products we introduced for chronic use, and we also benefited from the strong performance of Colflex, Ofolato and Addera brands.

In skincare, the portfolio has been growing strongly ever since we acquired the Glenmark portfolio. In consumer health, I would like to point out vitamins, supplements and nutritional products benefited from the extension of Vitasay and Finn brands. The gastro segment, with Tamarine, Epocler and Gastrol brands, and the recent introduction of Maracujina Noite.

By concluding the acquisition of the Takeda brands portfolio, we have strengthened our business in this area of consumer health. With these acquired brands, we have consolidated our leadership at 20% market share, and we are now the third largest player in the prescription sector.

The integration of acquisitions is according to plan. In the late 1Q, we had sales and marketing teams from Takeda already integrated to our structure. And in terms of operation, at the end of the 2Q, we will have all the Buscopan secondary packaging and the entire Takeda portfolio being produced in Anápolis, and by early next year, the entire Buscopan production will be conducted in our facilities.

We keep on investing in our portfolio to foster our long-term growth. There are several opportunities to expand the lines of these acquired brands. We have a pipeline with over 350 projects, with the potential to grow the size of the Company substantially in years to come.

These investments are already yielding good results, as you can see on the next slide. 34% of the revenue from this quarter came from products introduced in the past five years, and 8 p.p. growth since we started concentrated our operations in the pharmaceutical industry in Brazil and intensified our investments in R&D.

In the quarter, we have important introductions. Let me point out the expansion of lines of my Neo Química vitamins for both vitamin C and vitamin C +zinc; Addera Flash, the first film D vitamin; and Alektos Ped, an extension from the anti-histamine patented and acquired from Takeda to promote them for pediatric use.

Innovation is part of our DNA. We have been investing more than any other player and introducing products in relevant segments in this market, and they are contributing substantially to our sustainable growth.

I will turn over to Adalmario. He will be talking about this quarter's results.

Adalmario Couto:

Thank you, Breno. Good morning, everyone. I will be talking about the highlights of our results and also for the cash flow in the quarter.

Let me start on slide six, please. Sell-in, that is our net revenue, growth was almost 44% driven by the consolidation of the Buscopan family members and the two months of the Takeda portfolio sales that the Company recently acquired. In the quarter, when we combine the two, their contribution was about R$220 million of additional sales.

When we compare to the same basis last year, excluding the contribution of acquisitions, growth would have been 16%. Out of these 16%, price increases contributed in about 5%, volumes went up about 11%.

All our product lines where we operate had positive contribution towards that growth. A market share gain in several important categories. I would like to point out generics and similar products. Gross margin was 64% in the quarter, an over 2 p.p. drop when compared to the same period last year because of the exchange rate and the product mix.

The average exchange rate was R$5.07, a favorable impact through the hedging policy implemented by the Company. Depreciation was 26% when compared to 1Q20. Trying to mitigate the exchange rate devaluation and to protect ourselves from future volatility, we have updated our prices in early April, and we as we said in the previous call, we had 100% of hedging of 100% of the inputs pegged to the USD for 2021 at R$5.30.

On to expenses now. We had a 19% increase in sales expenses because of the increase in the R&D infrastructure, and we improved our bonuses. The total investments grew by two-digits. That is proof of our commitment to innovation and sustainable growth. Marketing expenses went up 18% by investing in new markets, especially for media expenses in the case of Buscopan, and free samples increase in Takeda portfolio.

We had important introductions, just like Amome. It will compete with the Nasonex brand. And by doing so, we have increased substantially the free samples, which is common when new products are introduced.

Despite that positioning, we had a major drop as a percentage of revenues when compared to the same quarter last year, over 22%, to 18% of our net revenue. That is the first indication of the synergy captured when we acquired these other brands.

SG&A went up 12%. As a percentage of revenue, they were 1.5% below what we had last year in the same period. There were no other relevant impacts, and we have an EBITDA margin of almost 31% in the quarter, a R$362 million EBITDA, substantial growth of 45% when compared to the same period of last year.

The financial result was negative because of the leverage levels after we paid for the Takeda acquisition. Taxes were slightly positive because of interest on equity and because of government subsidies as well. Net income was R$307 million in continued operations, and in total, R$305 million, almost 28% growth.

On to cash flow, on slide seven, we had an operational generation of R$151 million. When we use working capital of Takeda, R$135 million, and payments of that sponsorship on that soccer team jersey. We had smaller CAPEX investments when we compared to the past two quarters of 2020. We are almost concluding the expansion construction site for the solids unit in Anápolis. In intangibles, we have the net payment of almost R$3.4 billion. R&D, investments of R$47 million, and the payment of Simple Organic.

In the quarter, we took some financial additional finance lines for a two-year term, and that is according to our strategy to have that cash cushion because of the impacts of the lockdowns that were announced back in March.

We also paid interest in our equity for 2020 in late March. Interest on equity was R$195 million, R$0.31 per share as to the 1Q21, 5% increase when we compare to last year's numbers. The year was almost 4%.

By doing so, the Company has a cash position of R$1.7 billion and the net debt level is R$5 billion, 2.5x the EBITDA we have announced as our guidance for the year, that was announced in Hype Day.

Let me come and that, in early April, we announced the sale of our distribution center for the consumable products for R$231 million that will contribute to reduce our leverage levels.

As to the balance sheet accounts, major changes were the liquidity position, reducing cash position. On the other hand, we had more intangible lessons after we acquired Takeda's portfolio.

When we look at the major lines that contributed to working capital, we had an increase of almost 20% of finished goods and raw material inventory, and a 10% increase for our consumers.

Receivables are in line with what we had last year. By doing so, we had more cash conversion, 174 days. The most important impact was the working capital for Takeda.

I will give the floor back to Breno for his final remarks before we go on to the Q&A.

Breno Oliveira:

Thank you, Adalmario. We are very pleased with Hypera's results in the 1Q, 12% growth in sell-out, 44% in net revenue, 16% when we exclude acquisitions, 46% EBITDA growth and 24% in net income of continuing operations.

The sell-out growth in recent months, the integration of acquired portfolios, the new launches and the innovation pipeline with over 350 projects puts us to fight for the leadership position in the market.

We are confident we are heading in the right directions. Early data in April show a sell-out growth over 25%. That will entail an accrued growth for the year above 15%, along the lines that of the growth we expect for the year.

That is why early this month we have announced the guidance for 2021. Net revenue about R$5.9 billion. EBITDA for continued operations, R$2 billion, net Income R$1.55 billion.

We remain confident in the growth of the Brazilian pharmaceutical market, and we will keep on growing through innovation, M&A, considering new markets and new distribution channels such as the institutional market and e-commerce. We will continue to use cash generation to invest in our business to deleverage and to distribute dividends to our shareholders.

Thank you for attending this earnings call, and we will move on to the Q&A session now.

Joseph Giordano, JPMorgan:

Good morning, everyone. Thank you for taking my call. I have a couple of questions more focused on the short-term. You talked about capturing synergies. When you look at the guidance, about R$280 million for Buscopan and for other Takeda assets, how much have you captured so far? When should we expect the full speed of these synergies? What about short-term, we had significant price increases in April, and your hedging is seems to be very favorable at R$5.15. What can we expect as to the gross margin and marketing expenses developments? It seems to be very small, still.

And the second question is more on the midterm since you said that towards the year's end you have about 55% of molecules for generics in retail. What does that mean in incremental markets for the Company? Thank you.

Breno Oliveira:

I will be fielding the first question about synergies, and then Adalmario will answer the portion of hedging and marketing, and the last question about generics.

In terms of synergy capture, as you know, we acquired these two companies, and we purchased the Takeda's brand portfolio and Buscopan. In the case of Buscopan, they had a small marketing team. They have already been integrated to our team. Back in September last year. The results you see already include the integration of these teams.

In the case of Takeda, they had a bigger team in terms of product portfolio as well. We have integrated both a marketing and a sales teams, and these representatives that call on doctors offices. These results have already been captured as early as the 1Q.

Now onto the 2Q, we start having synergies in terms of production. Part of the secondary packaging is now being conducted here in our facilities, and by year's end, as early as next year, early 2022, the entire Buscopan production will be conducted in our facilities.

Synergies in sales and marketing have already been captured and production synergies, some of it will be captured now in 2Q, we will be making the secondary packaging, and the remainder ill come by early 2022.

Takeda will take longer because the production contract with signed with them will take from three to five years to transfer that production in-house. But most of these synergies will be captured in the 2Q. You will see most of these synergies captured in 2Q results.

Adalmario Couto:

Let me address your question about price increases and margins. We increased prices back in early April between 8% and 9% on average. That helps to bring margins up. It has not been enough to cover the 100% impact with exchange rate devaluations that occurred last year, but that helped.

This 1Q is historically a quarter with smaller margins, but we expect that in quarters to come, with these price increases, we may be able to restore gross margins. And we are comfortable that we will be able to reach our guidance for the year, that is the EBITDA margin between 33% and 34% for the year, closer to 34%, actually.

As two generic products, they have become more and more important overall, as we manage to have enough capacity to meet that demand for generic products. This is a very important point. We have been investing in increasing our capacity in the past two years, and at the same time introducing new molecules to focus on those more relevant molecules that grow the most, and then we will be able to use the capillarity that we have for the Neo Química brand, and also to benefit from the marketing efforts and, as a consequence, increase penetration. The coverage level will be over half of the market by year's end.

And for the years to come, we will have a very robust pipeline, not only for the molecules that already exist that are no longer exclusive, but many others that will be terminating that exclusivity. Some of them are very relevant, and that will take place in early 2022. We are very well positioned to be one of the first companies to introduce products with those molecules. Thank you, Brenner thinker Demario.

Joseph Giordano:

Thank you, Breno and Adalmario.

Leandro Bastos, Citibank:

Good morning. This is a very quick one. When you look at the acquired brands portfolio, especially those from Takeda, how much is the sell-out growth for these brands, and what do you expect for the future? I hope you were able to hear my question, because the call is breaking up a little bit.

Breno Oliveira:

For Buscopan, it grew 14% in 4Q. It is growing in line with our original portfolio. Takeda's growth is somewhat smaller in February, March, mostly. It is a matter of placement, product inventory. We have been improving that work. It is growing now in April in line with the rest of the portfolio, about 20%.

Let me remind you that Takeda has a less seasonal portfolio. It is not as impacted by covid as the other products from Glenmark. It grew substantially, as we said, about 25%, 30%. So we are very pleased by the sell-out growth of these acquired products.

Takeda at the start was somewhat more difficult, but they are getting back on track, and we are growing over 20% now in April.

Leandro Bastos:

Thank you. Have a good day.

Robert Ford, Bank of America:

Thank you. Congratulations on your results. Can you give us some sales numbers for the 1Q? What about quality of innovation, the repetition of these numbers? You are already innovating the Takeda portfolio. What about the other stronger brands you have also acquired recently?

Adalmario Couto:

Bob, as to Bionovis, it is about double digit growth, that is very relevant. Last year, we grew because of the new molecules that were included in our portfolio. We do not expect as many new molecules, or new products in the portfolio. Growth should be somewhat smaller, albeit significant.

We keep on investing in Bionovis heavily, we believe it is an important branch, or an arm for the PDPs. We have been investing to have its own facility and to have our own product before 2023. But growth is not expected to be as high as the one we had last year.

Breno Oliveira:

Could you repeat the other questions?

Robert Ford:

Of course, Breno. What about quality of innovation? Can it be repeatable when you purchase new products? And you are already innovating in the Takeda portfolio. What should be your take as to the change in innovations for your stronger brands that you have recently acquired?

Breno Oliveira:

Bob, that is part of our business plans in our acquisitions, that was to have new introductions, line extensions. It was not their core and they were not investing in that direction.

There were projects being designed, but they did not pull the trigger, they did not introduce those products. Let me give you an example, the one I just mentioned, Alektos for pediatrician use. It was in their pipeline, but we ended up speeding it up, and we introduced it.

I will not be giving you any details about specific projects, but there are many things in our pipeline along those lines. Things that will be introduced in the 2Q and 3Q, using these strong brands. There are launches for Neosaldina, their number one brand. I will not be giving you any details, but we have already mapped out that new launch.

And the other question was about the quality of the. Innovation portfolio, right?

Robert Ford:

Yes, that is right. Is that repeatable, so that we can have a taste of the quality of that innovation?

Breno Oliveira:

Yes, we monitor that regularly through sell-out. We have a very granular data, both from sell-out sales, as well as prescriptions. Of course, in the case of prescription products, we can see the recurrence of prescriptions, and with our top customers, we purchase data from them, from Raia, PagueMenos, the top retailers, and then we get that information.

And that is according to plan. When we introduce a new product, we put together a business plan for the products and we keep track of results very closely, and that is according to the plan.

Of course, some products do better than expected others not as well, but on average, performance has been according to our expectations.

Robert Ford:

Thank you very much, Breno. Congratulations one more time.

Guilherme Assis, Safra:

Good morning, thank you for taking my question. I would like to delve into the sell-in topic when compared to sell-out. You provided a lot of information about the organic growth, and correct me if I am wrong, sell-in was about 11.5%, sell-out 16.3%, right? You have also mentioned that you invested in working capital to normalize, I guess that is the word, your inventory levels for both Buscopan and Takeda brands.

What should we expect? Will sell-in and sell-out gravitate towards 15%? And what is the dynamics that will play out between sell-out sales and your own sales through your channels?

Breno Oliveira:

Guilherme, you have mentioned an actual fact, sell-out grew 12%, sell-in, including acquisitions, grew 16%. Yes, that is right. Sell-in grew more than sell-out this quarter, but we do not look at quarter after quarter in terms of growth.

In the last quarters of last year, sell-out grew slightly over sell-in, but in terms of nominal values, we keep close track of everything. And spin inventory levels have been kept steady in the 1Q. You have that price increases, profitability comes from the previous period before price increases, and we negotiate that, of course, and this quarter sell-in was a little over sell-out.

Let me remind you that in 1Q20 we had the impact of the 4Q19, was some water shortage in Anápolis that impacted the results for both 4Q and 1Q20. The sell-in comparison was somewhat smaller, but we are not expecting any variations. Mid-term basis, this growth will be closer together, and that is our goal for 2021.

Guilherme Assis:

Perfect. That was very clear. Let me just follow up on that. As to the capital structure, you were very deleveraged. You were even given guidance for the deleveraging levels. Is there anything you can do to speed that deleveraging effort up? You sold your DC, R$230 million. Is there room to sell some more assets, or any other type of activity to improve that deleveraging profile for the Company?

Breno Oliveira:

No. The only asset that was not operational was our DC. We had been working on trying to sell that DC for some time. We have finalized it now. We want to deleverage, of course, that is our goal, especially from cash generation.

Our EBITDA conversion into operational cash flow is very high, and our intention is to use that cash generation to grow the business, to invest in the business. CAPEX, R&D, just as we have been doing, distributing dividends increasingly to shareholders, and at the same time deleveraging the Company.

So that is our goal, to bring to less than 2x EBITDA on a mid-term basis. We are at 2.4x, give or take, using the guidance as our reference, and our goal is to bring that under 2x, but using Company's cash generation in the years to come.

Guilherme Assis:

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

Caio Moscardini, Morgan Stanley:

I have two quick questions, the first one is about the sale of your DC. I would like to confirm that the R$230 million should be other revenues, it should not be booked as the guidance of R$2 billion EBITDA.

And my second question is about the cash flow. The number of suppliers increased dramatically. Are we to expect a return to historical levels on that front?

Breno Oliveira:

Caio, the DC sale will not be booked as results, it is not incorporated in our guidance for the year. That is the sale of an asset, so it was fixed. The profit would be about R$100 million given the booked asset, but it should not be reflected in our results.

And the other question was about the recurring cash flow, is that right?

Caio Moscardini:

Yes. The number of suppliers increased substantially. Is it the new normal or would that be brought down to historical levels?

Breno Oliveira:

The main component of our cash flow was that construction work we had to do for the Takeda portfolio. When you acquire a brand, unlike a company acquisition, you do not get the receivables. We had to build that working capital gradually. We purchased the Taketa products, we have the inventory, we increased our supplier portfolio, and that would be going back to regular levels in quarters to come. This impact will not be recurring when you look at the 2Q21, for example.

Caio Moscardini:

Perfect. Thank you, Adalmario.

Mauricio Cepeda, Credit Suisse:

Good morning. Thank you for taking my call. My question is about the working capital. The question was about the sell-in growing more than the sell-out, and you explained it, but anyway, knowing that both Buscopan and Takeda portfolios are more traditional products, would that be an opportunity to reduce the number of days worth of receivables, or are you going to use that advantage to increase sell-in? Working capital as we see it is being based on suppliers. Is that a result of Takeda's acquisition, or is it the policy that the Company implemented?

And what about remote working, working from home, are you going to resort to that, or maybe a hybrid model?

And I would like to know whether there are any specific risks in the Takeda contract as to the USD, whether packaging is USD based, whether there are any risks there.

Breno Oliveira:

Cepeda, thank you for your questions. Let me address some of them, and then Adalmario will take over as to the Takeda's contract. If I miss something, just let me know.

The first question, as to inventory levels at our customers of the acquired portfolio, yes, that is right, Takeda and Boehringer used low inventory levels with their customers, because they have more predictability in their portfolio.

Our intention is not to increase inventory levels. We are going to compare products, but our intention is to have average levels smaller than what we have at Hypera. So we are going to use that to reduce, to bring our average numbers down, and then they will show up in the receivables.

In terms of number of days, we are at about 110 days. The trend is to bring that down slightly, maybe 100 days, give or take. That is what our expectation for year's end.

Adalmario Couto:

There was another question about the leveraging of our suppliers. We have been working with our suppliers to extend these terms. We started that last year. We have been very successful in those negotiations. That is why these numbers are going up.

Inventory levels go up as well, and you impact the suppliers account as well. Ever since the beginning of the pandemic, we have been increasing our inventory levels for finished products and raw materials to have that cushion, especially for those relevant raw materials.

These raw materials come from China and India. We have increased our raw material inventory levels from China, from India in 1Q. We have boosted our inventory levels of raw materials. By doing so, we are at a better position to discuss or negotiate payment terms.

Breno Oliveira:

And as to remote visiting doctors, we talked about that on our Hype Day. We have used that virtual visiting at the beginning of the pandemic, and we have been resorting to that hybrid model. We expect to perpetuate that. Productivity gains are about 20% by resorting to this hybrid model, and we expect that to remain in the future. It is included in our guidance for the year that it is a productivity gain that can be captured.

Adalmario Couto:

And as to the last portion of your question, the contract we have with Takeda, prices are in BRL. The production of all the products is made in Brazil. It is a 12-month contract term that can be renegotiated every 12 months.

Breno Oliveira:

Let me add to that. There is no difference as to what we have. The Takeda cost structure is very similar to ours. Raw material in general is imported, transformation costs are in Brazilian currency. So we should not expect any changes as to the cost structure.

Mauricio Cepeda:

That was very clear. There is still some delay, right? Jaguariuna plant is even more exposed than yourselves, right?

Breno Oliveira:

Yes, that is right. Initially, that is true.

Mauricio Cepeda:

Perfect. Thank you.

Gustavo Tiseo, Bradesco:

Thank you for taking my question. I have two, actually. The first is about M&As. You have been trying to resort to M&As that will have less impact in the drugstore segment. Are you going to keep on expecting the same line of investments, or anything disruptive coming along? What about the institutional sector? Are you going to boost investments to reach that 7%, 8%?

And my second question is about commercial synergies from Takeda. You said there was marketing, and you have already integrated their marketing teams. What can we expect in the long run? Can we expect mid-term, long-term benefits coming from Takeda? Thank you.

Breno Oliveira:

Gustavo, let me answer the question about the M&A, and then Adalmario will be answering the portion of the synergies. The volume was very low. I do not know whether I understood your question, but I believe that the question was about new M&A opportunities for both the Company, and also in the corporate venture capital program.

Let me start with the corporate venture capital. We have announced two acquisitions, and we had committed in late 2019 to invest up to R$200 million in that program. We are not disclosing how much these acquisitions were, but we still have room for new acquisitions.

We are not in a hurry. There is no urgent need to allocate this capital, but the goal is to keep looking for opportunities, companies and startups that have that growth potential and which are related to the health industry in Brazil.

As to the acquisitions for our own business, as I said, M&A has always been part of our strategy and it will remain so in the future. There are still many opportunities, several multinational organizations leaving the country, or even focusing on their core businesses and selling product portfolios, OTC. Short-term, the focus is deleveraging, but mid-term basis, we keep close attention to new opportunities that may come up to our Company.

As to the institutional segment, our focus is to grow organically there, both using the existing product portfolio, and we have more production capacity now based on the investments we have made. We have room to tackle this institutional market.

And just like we said during our Investor Day, a new product pipeline through partnerships, just like we do in the projects we have for retail, as well as developing our own products once we have our new sterile plant concluded. And it is going to be concluded early next year.

Adalmario will be talking about the synergies.

Adalmario Couto:

Well, Gustavo, you talked about sales expenses in the past. In the past, they amounted to 9% to 10% of our revenues. In this quarter, that number was brought down to about 7%.

So we already see this synergy happening. In the case of Buscopan, it was integrated back in September, and we have not had any additions in terms of sales, maybe one or two people in sales. And for Takeda, these are large and relevant brands, they are perfect fit to our portfolio. We have increased our team, but a small increase when we compare it to the total number of employees we have in that department.

Anyway, we see part of that synergy being captured already. Despite the fact that we have had only two months of Takeda in our portfolio. Now in 2Q, we expect to capture even more synergies because they will be 100% integrated. Specially in sales and marketing teams, we expect to see even more relevant synergy gains.

In the tax portion, we have not captured anything yet in 1Q, and we will begin to capture part of that synergy in 2Q.

Gustavo Tiseo:

That was very clear. I am sorry, the audio was very low, but the answer was clear. You answered all my questions. Thank you.

Operator:

Since there are no questions, this concludes the Q&A session. I will turn the floor over to Mr. Breno Olivera for his final remarks.

Breno Oliveira:

I would like to thank each and every one of you for attending this earnings call. Adalmario, myself and the IR team are available to answer any further questions. Thank you. Have a good day.

Operator:

This concludes Hypera's earnings call. Thank you for attending. Have a great day.