

Operator:

Good morning, ladies and gentlemen. Welcome to Hypera Pharma's earnings call for the 4Q24. We have with us Mr. Breno Oliveira, CEO; Ramon Silva, CFO; and Adalmario Couto, IRO.

This event is being recorded. The video can be seen at the Company's Investor Relations website, ri.hypera.com.br.

We would also like to inform you that all participants will be in listen-only mode. We will then have a Q&A session. Further instructions will be given at this time.

Before we proceed, I would like to reinforce that some information in this conference call may contain projections or statements about future expectations. This information is subject to known and unknown risks and uncertainties that may cause them not to materialize or to be substantially different from what was expected.

I will now turn it over to Mr. Breno Oliveira, who will begin the presentation. Mr. Oliveira, you have the floor.

Breno Oliveira:

Good morning. I would like to thank you all for being here for our earnings presentation. I will start speaking about our growth on slide 3. Our sell-out went up 9% in 2024. In the Non-Retail Market, it was 26%, and in the retail market, it was 8%. We are continuing to grow significantly in the Non-Retail Market, the growth was nearly 20 p.p. above the overall market growth. And this was mainly driven by acceleration in sales for our current portfolio.

Retail sell-out growth was in line with our expectations for the year. Flu related products, which represents about 1/3 of our sell-out had a significant recovery in the second half of the year and concluded with a growth of 6% throughout the year versus a drop of 3% in 2023. Our growth was below the average market growth due to the mix effect and also due to a strong increase in the patented medication market, which grew 21%.

We have significant projects in our pipeline to launch molecules that will lose their patents by 2030, and we are also strengthening our efforts in several categories in chronic and preventive treatments, and we also have line extensions for important brands in our OTC portfolio.

Sell-out growth for the year did not result in an increase in our net revenue due to the working capital optimization process that began in the 3Q24. As a reminder, our working capital optimization strategy aims at boosting the Company's operational cash generation by reducing inventories at our clients and consequently reducing our account receivable days.

By operating with less inventory throughout the chain, we will also increase our operational income due to a reduction in returns, discounts and discards. It is important to mention that our focus is to reduce inventories at our clients' distribution centers without changing the availability of our products at points of sale.

We advanced significantly and at a faster pace than we initially expected in this process throughout the 4Q.

We continue to advance in this process, and now in early March, our average sales term is about 70 days, which concludes about 80% of the foreseen adjustments already in the 1Q.

We did not have any problems in supplying to points of sale right now, and don't see any impact in sell-out growth in the coming months due to this strategy. Our working capital optimization strategy is not changing our marketing and innovation investments nor our investments in increasing production capacity, as I will show in the next slide.

We invested over R\$2.3 billion in marketing, innovation and in the increase of our production and distribution capacity. Investments in marketing including advertising, promos, medical visits and point of sale initiatives aiming at boosting our sell-out growth, represented R\$1.3 billion in 2024.

Investments in research and innovation reached about R\$560 million. We reinforced our product portfolio with over 50 launches in 2024 with line extensions for significant consumer health and skin care brands. Our cardiology, CNS and respiratory products were also a significant highlight along with our prescription products.

Our CAPEX investments came to a total of R\$428 million in 2024, which include investments in our new innovation center, a new pilot plant and a new biological and oncological plant to support our growth in the Non-retail Market. We are also including the site for the scopolamine extraction, the main raw material for the production of Buscopan.

We also concluded the expansion of our distribution center in Anápolis, which began in 2022 and added 27,000 pallet positions, automating inventory management and picking, in an area of 4,600 square meters, which will help with the reduction of our deliveries lead time and consequently will help the working capital optimization process.

In 2024, we were once again recognized for our practices and our sustainable initiatives and we advanced in our corporate governance. We were selected once again to be in the FTSE4Good Index Series, one of the most important sustainability indexes, and we are once again par of B3 IDIVERSA, which recognize companies that meet ethnic and gender diversity guidelines.

We are also a part of the S&P Global Sustainability Yearbook, which includes the most sustainable companies in the pharma industry in the last year. We strengthened aspects of corporate governance by creating a Sustainability and Governance Committee which reviewed the bylaws of the Board of Directors and advisory committees, and we also updated the Company's materiality study.

I will now pass it over to Adalmario, who will talk to us about the results for this quarter.

Adalmario Couto:

Thank you, Breno. Good morning, everyone. In 2024, the Company's net revenue was R\$7.4 billion, down 6% versus 2023. Our working capital optimization led to this, and it began in September last year.

Since we advanced significantly in the inventory adjustment at our clients, net revenue decreased in the latest quarter with a reduction of 18% in sales versus the 4Q23. This

also had an impact on our operational leverage, as expected by the Company. With that, gross profit was R\$4.4 billion, and R\$786 million for the quarter, a reduction of 4 p.p. in 2024 and 10 p.p. for the quarter.

Operational income was reduced due to the lower operational leverage, but also due to the mix of products sold, with a higher reduction in the sales of consumer health and prescription products, which are the segments that have our main power brands that have higher margins.

Since the beginning of the working capital optimization process, we have continued to invest on the main demand levers which includes digital media, POSs and medical visits. Our aim was to continue supporting sell-out growth and market share for our brands.

We also invested in boosting new product launches, which are essential for the Company's sustainable growth. With that, we had an increase in these expenses as a percentage of our net revenue. Marketing expenses grew 7% in 2024, which is in line with our sell-out, and selling expenses went up 4% in the last year.

General and administrative expenses were 5% higher than in 2023, a level similar to the inflation rate for this period. With that, our EBITDA from continuing operations was R\$ 2.1 billion in 2024, with a 28% margin, and it was R\$137 million for the quarter, a margin of 9%. EBITDA reduction led to a reduction of 19% in net income from continuing operations for the year.

The next slide shows our cash flow. We posted the highest operational cash flow in our history, above R\$2.5 billion, considering the significant improvement in working capital investments, and this also benefited from our internal inventory reduction of raw materials and finished goods, which started in 2023.

With the progress of the working capital optimization and the expected growth in our sell-out, we expect to further boost our operating cash flow growth for this year. We also had an investment in intangibles, which includes mainly R&D investments that were capitalized throughout the year, showing our commitment to expanding our brand portfolio and building our innovation pipeline for the Non-retail market.

So, we expanded our free cash flow by 21%, and we finished the year with a net debt of R\$7.5 billion, considering the payment of interest on capital which was carried out at the end of last year. Our shareholder payout strategy was maintained, and we paid R\$739 million in interest on capital and dividends for 2024, which represented a dividend yield of 6.5% approximately.

I will now turn it over to Mr. Breno Oliveira for his closing remarks.

Breno Oliveira:

Thank you, Adalmario. I would like to conclude this call by saying that we are very happy about our working capital optimization process so far. This is very painful in the short term, but it will provide enormous benefits for the Company starting in the next few months.

As I mentioned before, at the end of the 1Q we will have concluded about 80% of this movement, and in March we are practicing new sales with 70-day terms. We hope to

achieve our target of 60 days by April so that we can work in a normalized fashion starting in May.

By concluding the working capital optimization process, Hypera will be able to combine sustainable growth with better returns on invested capital due to a significant reduction in working capital investment.

Thank you, and we will now continue with the question-and-answer session.

Q&A Session

Joseph Giordano, JPMorgan:

Thank you for taking my question. So my question is about the current trends in adjusting your inventory throughout your channel. You are further along in this process than we had imagined 4 or 5 months ago. So what I would like to understand from you is this. Looking at the very end, you mentioned in the release that most of your sales is already within these new policies. So when should we expect an inflection in your P&L? Can we start thinking about the 2H25 with some growth and some operational leverage?

My second point is about your pipeline. You mentioned your pipeline of 50 new products and how the Company has a potential share gain on some fast-growing segments of the market. So, how will these launches be phased in 2026? Do you believe that this will accelerate the growth? Thank you.

Breno Oliveira:

Joe, I am going to answer your first question, and then Adalmario will answer the second one. Considering this process, we have been able to do it faster than we had imagined initially, when we published that this process was going to happen, especially because from the operational standpoint, things are going according or better than the plan. So every month since October, we have been able to reduce these terms and clients have been able to reduce their inventories without it affecting their working capital.

So as I mentioned in March, we had already been working with 70-day terms. Our goal is to get to 60 days, and we will probably have this adjustment in April. And then in May, we will probably be operating normally. So, starting in May, we will probably have sell-in and sell-out equal to each other.

The 2Q results are still impacted by these effects. But starting in the 3Q, we expect to see results closer to what the Company will post from now on. So that was all. I will now pass it over to Adalmario to answer the second question.

Adalmario Couto:

As we mentioned in our release that last year we launched 50 new products. Many of these launches were line extensions for the main brands we have in our portfolio. So we launched Buscopan droplets compound, which was a version that we had already had before with Boehringer. So, we were able to return the SKU, and it is performing very well. Today, Buscopan is the biggest brand in the Company, with a sell-out of almost R\$ 500 million, considering the entire family. We are very pleased with that.

At the end of last year, we also launched Neosaldina Muscular which is a headache analgesic, but now we are making use of the strength of this brand to go to other categories. This was something that was done last year in December, but the initial results have been very positive. And as we mentioned before, today we have both the pipeline and the internal structures here in the Company prepared for all this patent cliffs, that will start to accelerate in 2026 until 2030.

So our potential market today is approximately R\$10 billion, but it will probably go up when we have new patents cliffs, especially because some of these products have a high average ticket. So there is an expectation that this ticket will be reduced, and that will give more access to the population.

So we continue to invest in our pipeline. We are focusing mostly on chronic treatments, central nervous system, cardiology, endocrinology. These are the 3 main therapeutic classes in the market. But we have many launches in our portfolio of vitamins, probiotics, women's health and also skin care, which is the segment in which we launched the most products every year with Mantecorp Skincare, Simple Organic, and Bioage, all the brands we have in this segment.

So we are very excited. Our goal of balancing our portfolio continues. We are trying to balance between chronics and acute. We still have many acute treatments as we can see in our mix, but the medium to long-term trend is to balance this out and to be in line with the current market, with a higher share of chronics as well.

Robert Ford, Bank of America:

Thank you for taking my questions. How should we think about your sales and EBITDA comparison for the 1Q? And what is pressuring the competition in generics? Is it a specific competitor, or is it something broader? Thank you.

Breno Oliveira:

About the first quarter, we are making an adjustment at a higher magnitude than we had in the 4Q. I think the dynamic will be very similar to the 4Q. Expenses continue, they grow following sell-out, which is doing well and according to plan. And sales have been smaller in the short term due to this adjustment process.

But we are going to have an earnings call in about a month to talk about the 1Q, but it will follow a similar trend to the 4Q. But this is within expectation.

Considering generics, we see a competition between the main players in the market. They are more aggressive with a few molecules, large molecules, and we are also playing the game. We are also being more aggressive so that we can at least maintain our market share across a few categories. But there are price increases. So we will have to see how the market behaves in the 2Q in this category of generics.

As a reminder, generics represent 15% of our revenue, while branded products, including OTC and prescription, represent 85% of our portfolio.

Robert Ford:

Thank you, Breno. And Adalmario, what are you thinking about the covenants?

Breno Oliveira:

Ramon, our CFO, will answer that question.

Ramon Frutuoso Silva:

Bob, the leverage for the quarter, finished very close to what we had already imagined. With working capital adjustments, we expected a reduction in EBITDA and leverage was expected to be higher than in the previous periods.

So about the covenant specifically, just as a reminder, we have a very flexible covenant. The trigger for this covenant is a leverage of 3.75x EBITDA, and this calculation is made with the highest value between the EBITDA of the last 12 months and the annualized quarter EBITDA.

So in order to trigger this, we would need to not follow this metric for 2 consecutive quarters. So we feel very comfortable with the level of leverage in the 4Q and in the next quarters, in which we will still see the effects from working capital optimization.

Mauricio Cepeda, Morgan Stanley:

Thank you for taking my question. I would like to ask about prices in the chain due to this readjustment from CMED, which will be below inflation this year, and I would also like to ask about how you are going to give discounts on the factory prices for the channel. This is not the discount that appears in your financial statements, but it's the whole matter that actually shapes effective market prices. So how do you intend to work on that? Do you believe that the industry will reduce discounts on factory prices in order to compensate for this lower price increase by CMED? And how does this relate to the aggressiveness strategy that some generic players have been using?

And my second question is about the regulatory front. Once again, I know this is not a new idea in the industry to try to bring regulated factory prices down to the effective price, because I always hear the argument that the effective price is always much lower than the factory price. And now we see that with the inflation pressure in Brazil, we are starting to think again about tying the price to the effective price. How is this advancing? What sort of risks are you seeing? How are you getting prepared for that? Thank you.

Breno Oliveira:

Considering price increases, as a reminder, for us, this has a much lower impact than for the average player in the industry or in the retail, because our portfolio, about 60% of it is not subject to price increases in OTCs and other medication.

These prices are monitored, so companies may increase their prices as their cost increases, and then they inform CMED about this. So in these categories, our prices will be increased very close to the inflation rate.

To answer the second part of your question, we have generic and similars, which have a listed price as a reference. But the prices used are significantly lower than these listed prices. So this does not have an impact for us either, considering there's some flexibility depending on the competition.

So this is not a limiting factor. The biggest limiting factor is competition in the generics and similar markets, which are very competitive. We plan to increase prices close to inflation and monitor the competitors and see how they will react.

So price increases below the inflation, we observe that in some years it is higher than others, depending on the foreign exchange rate. But on average, this tends to adjust itself. And we expect to have higher prices close to the inflation rate due to having a less regulated portfolio.

And to answer your next question, we have been keeping track of this with the associations that we are in, like Sindusfarma, FarmaBrasil and others, and this is an issue that has been brought up again, but we believe that for the industry, this is something that we have already been doing.

Our prices are far below the price limit. And this is counter to our free market dynamic. And that's why prices are currently lower than the listed price, but this can have a higher impact in retail because it impacts the highest price that retailers can use with its consumers.

I do not think it has that much of an impact for the industry. But we have been keeping an eye on this, and we have not seen any news besides what we saw in the media recently.

Vinicius Figueiredo, Itaú BBA:

Good morning. Thank you for taking my question. I have 2 very quick ones. The first is about this working capital change. In these negotiations with your clients, distributors and major networks or chains, at some point in order to have this lower level of receivables, you mentioned that it is reaching 60 earlier. Does that have any sort of impact when we consider the gross margins, whether it is due to negotiation, or a cost related to that?

And another thing I would like to ask is about best seller medications that have patents expiring in the next few years. What have you seen from your competitors about this? In your mind, does it still make sense to invest and take a part of this addressable market? Thank you.

Breno Oliveira:

Vinicius, about the first question, negotiating with clients, from the margin standpoint, we mentioned before when we talked about the benefits of this process that we would see later on, one of them was discounts for logistics because we were taking up a big part of the distribution centers, and these discounts have been dropped as of the 4Q, and that's how we will continue to work from now on.

But that's not very relevant. There were very few clients that we had this agreement with, but that hasn't been the case since the fourth quarter. And the remaining is basically what we had mentioned before, the industry, in general, finances their clients, their inventories, their working capital. So, by reducing these terms, naturally, inventories at clients are decreases. And we are basically removing inefficiency from the chain. But for the client this has no impact from a working capital point of view.

So, we are also not receiving any pushback from our clients. And then, both we and our clients need to be more efficient when it comes to logistics to prevent against product stockout in the chain and we haven't had any of that. Also, I also don't believe that we're going to have stockouts, during this final part of the working capital adjustment. So that's my answer to the first question.

I did not really understand your second question, what you are referring to.

Vinicius Figueiredo:

I was thinking about medication that have patents to expire now, especially Ozempic. That's the clear example. Thinking about how the competition is getting ready for it, there are some examples from the past where you had a molecule that had many competitors. And then it ended up having a lower price than expected. So thinking about the future, is that still something that makes sense or maybe the Company's focus is a little bit more niche, I do not know.

Breno Oliveira:

About Ozempic specifically, the patent will expire in April next year. Originators are seeking a time extension for this patent, but this expiration date should be maintained. And there are 4 players that have already filed for registration with Anvisa, but we do not know when it will be launched, but there are some players who have made that request.

I believe that, in this case, it may be different from what has happened in other markets, such as Rivaroxaban and Apixaban, which are simpler to develop. It's a pill with one simple active ingredient, so it's quite easy to copy and several players have entered. Raw material prices have also gone down significantly since the patent cliff, and that's why it generated a stronger competition. So here, we believe that API availability, and the pen availability for packaging the product, it is not as available. Also, production costs are higher, so we do not expect to see prices going down as much in this category, semaglutide and similar molecules in the short term.

But we are also working on launching as soon as the patent expires and we're very optimistic about this product starting next year.

Samuel Alves, BTG Pactual:

Good morning. I have a couple of questions. Regarding sell-out, you have said in your release that it's a bit below the overall average for the market, also in view of the strong growth of these patented medicines. So do you believe that that's just the current scenario, or do you think that this will happen throughout 2025 and 2026?

And the next question is about margins in 2025. You explained that working capital optimization has been accelerated. Obviously, we will still have this effect of operational deleveraging in the first quarter, but how do you imagine the margins will be at the end of 2025? Can we consider the margins that the Company had before this working capital optimization? Thank you.

Breno Oliveira:

Samuel, I will answer the first question and Ramon will answer the second one. We see this patented product market growth as very positive, because the bigger the market, the greater our opportunity is once these patents expire.

So we believe that this market will continue to grow, especially GLP-1s, in 2025 and 2026. Mounjaro will probably enter in 2025 and will still help this market growth. So, we do not believe that this will cannibalize current markets. I think that this is more of an opportunity with medication that we have for the adverse effects caused by the usage Ozempic and the medication related to it.

Ondif, a medication for nausea, which is a common side effect of using Ozempic, is one of the fastest-growing ones. So, we see this as an opportunity, not for 2025, but probably from 2026 onwards, as we start playing in these markets as well.

I will let Ramon answer the next question.

Ramon Frutuoso Silva:

Samuel, considering the margin, we are still going to see smaller margins in the first semester, considering that we are continuing the working capital optimization process. So fixed costs will be less diluted in the short term, but starting in the 2H25, we will start seeing margins at closer levels than we had before, as you mentioned.

Operator:

This concludes the question-and-answer session. We will now hand it over to Mr. Breno Oliveira for his closing remarks. Go ahead, sir.

Breno Oliveira:

Thank you. And I would like to thank everyone for being here for this call. Our management and our Investor Relations team are available to answer your questions on our results for the 4Q. And I would also like to reinforce that in about 1 month, we will be back to talk about the Company's results for the 1Q. That is scheduled for April 24. And we will have news about the 1Q.

Thank you, and have a good day.

Operator:

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

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