# Q3 2021 Earnings Call

## Company Participants

- Adalmario Ghovatto Satheler do Couto, Chief Financial Officer, Investor Relations Officer and Business Development Officer
- Breno Toledo Pires de Oliveira, Chief Executive Officer

## Other Participants

- Caio Moscardini, Analyst
- Emerson Junqueira, Analyst
- Irma Sgarz, Analyst
- Joseph Giordano, Analyst
- Leandro Bastos, Analyst
- Mauricio Cepeda, Analyst
- Robert Ford, Analyst

## Presentation

### Operator

Good morning. Welcome to Hypera Pharma Third Quarter 2021 Results Conference Call. Today with us, we have Mr. Breno Oliveira, CEO; and Mr. Adalmario Couto, CFO and IRO. We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. After the closing remarks, there will be a questions-and-answer session for investors and analysts, when further instructions will be given. (Operator Instructions). We would like to inform you that questions can only be asked by telephone. If you are connected through the webcast, you should email your questions directly to the IR team through ri@hypera.com.br. Today's live webcast may be accessed through the company's Investor Relations website at www.hypera.com.br/ir. We would like to inform you that statements during this conference may constitute forward-looking statements. These statements are subject to known and unknown risks and uncertainties that could cause the company's actual results to differ materially from those set forth in the forward-looking statements.

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

### Breno Toledo Pires de Oliveira {BIO 17653260 <GO>}

Good morning, everyone and welcome to our conference call for the third quarter of 2021. I'm going to start my presentation discussing our growth on Slide 3. For the fourth quarter in a row, we have -- had double-digit organic sell-out growth and market share

gains. In this quarter, the organic sell-out growth represented 13.7% or 1.4 percentage points above the market. During this quarter, we grew above average in prescription products once again, especially in our chronic medication, a strategic segment for Hypera, where we have reinforced our participation over the last years with several relevant launches, and also the increase in the number of medical prescriptions, which have already overcome pre-pandemic levels.

In Skincare, we have gained market share this quarter and in the last 12 months due to the line extensions from our main brands like Episol, Epidrat, Ivy C and Pielus and the medication portfolio performance from Glenmark acquired in early 2020. In Biosimilars and Generics, our growth has still been boosted by our strong capillarity, launches new molecules, increased production capacity and investments in our brand Neo Quimica. In Consumer Health segment in which the company is an absolute leader in the Brazilian market, our main highlights were gastric, anti-flu and vitamins.

This organic growth has been consistent across our business units and the contribution from the brands acquired from Takeda and the Buscopan family have led to a 50% growth in our net income this quarter. Besides that, the synergies from our acquisitions and the initiatives to maintain our profitability has expanded our recurring EBITDA margin by 4 percentage points this quarter, reaching nearly 35%. Our net income from continuing operations grew by 33%, although our debt level grew due to the acquisitions and increased interest rates. We're growing above market rates, investing in our business, in our production capacity, innovation and in our stakeholders well-being.

In innovation on Slide 4, we had some very important launches such as VABAM, an anti-coagulant, which will be promoted with physicians with rivaroxaban. It's the -- the company is now going into the biggest therapeutic class prescription products in Brazil with a BRL1.2 billion sell-out in the last 12 months and a 39% growth. This was benefited by a recent ruling from the Superior [ph] Court, which finished our patent law, reducing the protection period for several molecules. Our quick entrants into this market is due to the investments we made in the last years in our innovation structure. Just like with rivaroxaban, we'll be able to accelerate launches for over 30 projects with high potential that have already been mapped after this ruling from the Supreme Court.

In Skincare, we recently launched Pielus -- excuse me Pielus MX based on minoxidil, which is part of the protocol for treating male pattern baldness. And with this launch, we have started working in a market that represents a BRL120 million. We're also launching a complete line for melatonin, which will become available in the Brazilian market from November. We'll have Melatonum, Vitasay Melatonina and Neo Quimica Melatonina. Our total R&D investments represented 30 -- excuse me BRL376 million in the last 12 months, a 25% growth versus last year. Our innovation index was 31% during this quarter and it's still above the 30% threshold for the sixth quarter in a row.

During this quarter, we also approved payment of interest over our own capital of BRL195 million or BRL0.31 per share, at growth of 5% over what we posted in the third quarter of 2020. We also had our first health group for Neo Quimica Arena, which offered medical services to inhabitants of the east side of Sao Paulo, focusing on preventing against

chronicle diseases. So this is an initiative aligned with our mission to be the best pharma company in Brazil and be a bigger part of people's lives, so that they live more and better.

I'll now pass it on to Adalmario.

## Adalmario Ghovatto Satheler do Couto {BIO 20598860 <GO>}

Thank you, Breno. Good morning, everyone. So as Breno said, we had an expressive growth in sales this quarter, which has been leveraged by the acquisitions we recently made, and that have started to impact our revenues from September last year after Buscopan was acquired. Even excluding the effect of these acquisitions, our growth was about 19%, which is the result of a price adjustment carried out in the second quarter, but also with expressive volume growths in all of the company's business lines. Concerning gross margins, it continued in the same lines as the previous quarter, around 64%. The acquired products portfolio contributed to an increase of nearly 3 percentage points in our gross margins with a positive impact to our mix. The main problem for our gross margins this quarter were the segment -- the Biosimilars and Generics segment due to some discounts provided and higher competitiveness in some categories.

We also had a cost impact because of the currency exchange, which was around 11% lower this quarter and also an increase in the price of inputs, such as primary and secondary packaging material and also some transformation costs. We also have a higher level of disposals and idleness. Considering hedging, as we've been seeing in previous calls, we have increased our hedge levels, especially for dollar priced inputs and a good share of them have been hedged for the next nine months at an average FX of 5.3. Regarding expenses, we had an average increase of 29% looking at all the expense lines, and this has been pulled by marketing, our most relevant investment with increased media campaigns to boost our new brands in our portfolio. And we also expanded our medical visitation team after the Takeda acquisition.

Despite these increases, growth has been lower than the company's income increase. And with every quarter, we've been able to show the benefits and operational synergies from integrating our portfolio of acquired brands. With that, our EBITDA was BRL581 million this quarter and excluding other revenues and expenses, it was BRL566 million with a margin close to 35% over 4 percentage points above the last quarter, excuse me, the same quarter last year and this is due to the dilution of expenses because of synergies. Regarding financial results, financial increases went up due to the company's higher leveraging and also increased Selic rates. This is a main rate that we use for our credit. With that the company's continued operations and net income was BRL465 million, a 33% growth excluding other revenues, which represented 28%. Looking at our discontinued operations results, our net loss was BRL263 million due to the agreement with Ontex to conclude the arbitrage process.

On Slide 7, we have the company's cash flow. This quarter, we had a record cash generation of BRL540 million with increased profitability and a higher working capital investment as a percentage of our income, excuse me, of our revenue. We invested BRL150 million in CapEx, which is in line with what we had foreseen for this year, BRL600 million. In the intangibles line, although, we had a R&D investment of BRL50 million, we

had BRL62 million due to Neocopan and Xantinon brand sales, which led to a free cash flow of BRL400 million. In our financing, we had a new capture of 100 -- excuse me BRL1 billion at a very attractive cost, which will recompose the company's cash and will be used to pay for the acquisition of the Sanofi brands. So with that the company concluded this quarter with a comfortable position in terms of liquidity, with cash above BRL3 billion or above BRL2.5 billion considering the Ontex payment, which was carried out on October 1. And our leverage is above 2 times, which was considered in our guidance this year.

I'll pass it back on to Breno.

### Breno Toledo Pires de Oliveira {BIO 17653260 <GO>}

Thank you, Adalmario. I'm very happy with the company's results this quarter. We had relevant revenue growth, market share gains, the EBITDA margin was expanded and we also had record cash generation with great launches and a great investment in innovations. So I'd like to thank our employees, clients, physicians and patients, which make Hypera Pharma, the main player in the Brazilian pharma market. Our performance in the first nine year -- the nine months of this year reinforces our confidence in reaching our goals for 2021. And it shows that we continue to invest significantly in innovation and in our leading brands, so that we can continue to grow sustainably.

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

And we'll now I'll pass it on to the questions and answer session.

## Questions And Answers

### Operator

Thank you. We will now begin the questions and answer session for investors and analysts. (Operator Instructions). Our first question will be asked by Robert Ford from Bank of America.

### Q - Robert Ford {BIO 1499021 <GO>}

Good morning, everyone, and congratulations for your results. I have three questions. Adalmario, can you tell us a bit more about your receivables and what you're considering for your working capital, now? And Breno, can you give us a small update on Bionovis, its revenues and its innovation pipeline? Finally, how should we think about the innovation pipeline considering the acceleration of patents with this new ruling versus the previous estimates? Thank you.

## A - Adalmario Ghovatto Satheler do Couto {BIO 20598860 <GO>}

Good morning, Bob. How are you? So regarding receivables, we've basically been evolving there. As we said previously, this is a proxy for our product inventory in our client. So -- since the company changed its commercial policies in early 2019, we have been able to reduce that figure. In our mind, our goal is to be around a 100 days on average that would be the inventory at our clients. So during this quarter, we managed to be a bit below this figure, but our goal is to be between 95 days and 100 days. With the operations we have today, this is what we've been able to do. The acquired brands portfolio for Takeda and Buscopan had been at a lower level than that. We adjusted it up a bit -- the inventory for those brands and we've been able to reduce our inventory gradually, but we consider that -- considering working capital investment including accounts receivable and suppliers. We've have also been able to cut down on those levels and increase cash generation for the company. So one of the indicators that we look a lot at is our working capital investments as a percentage of revenue and we were below 35% and we aim to be between 35% and 36%.

## A - Breno Toledo Pires de Oliveira {BIO 17653260 <GO>}

Hi, Bob. So to answer your question on the Bionovis pipeline. So let's start on Bionovis, last year, we said that our revenue was around BRL1 billion. EBITDA margins were still low around 10% give or take last year, but we expect this to continue to increase as the tech transfer process moves forward. So revenue should continue to grow this year and margins overtime will grow. So we had the first product made by Bionovis as a pilot batch and we're on track for a tech transfer and margin gains with Bionovis. As a reminder, we have a 25% stake in that company, it's a joint venture with other Brazilian pharma companies. Considering our portfolio, Bob, this ruling from the Supreme Court was very positive for us in the Brazilian pharma industry because it will really accelerate by a few years, the patent expiration for some very important molecules. So we have about 40 molecules mapped where we can accelerate this process by one to three years, of course it depends on each molecule. So it's great, because investments become more productive. We were investing regardless, but it will accelerate our returns for these products.

## Q - Robert Ford {BIO 1499021 <GO>}

And what's the addressable market for these 30 molecules?

## A - Breno Toledo Pires de Oliveira {BIO 17653260 <GO>}

It's around BRL6 billion out of the molecules we have mapped and our estimated revenue can reach BRL600 million to BRL1 billion in this addressable market.

## Q - Robert Ford {BIO 1499021 <GO>}

Thank you and congratulations once again.

## A - Breno Toledo Pires de Oliveira {BIO 17653260 <GO>}

Thanks, Bob.

## Operator

The next question will be asked by Leandro Bastos from Citibank.

## Q - Leandro Bastos {BIO 21416405 <GO>}

Hi, everyone, good morning. I'd just like to ask about your gross margins. I'm trying to look at all the factors, foreign exchange, mix and costs. So what is your projection for your margin? Thank you.

## A - Adalmario Ghovatto Satheler do Couto {BIO 20598860 <GO>}

Hi, Leandro. Good morning. So concerning our gross margins, we're still being impacted by foreign exchange and costs above the levels we were used to, but we've been able to offset this pressure, especially here in our product mix with the brands we acquired that have higher margins than the company average, and also our new product pipeline. So the pipeline 350 projects on average have a much higher margin the company's average margins. So as we launch these new products, we can partially offset the cost pressures, we've been suffering right now. As you know, good share of our portfolio is indexed. So you have some increases that are given every year. And as we have lower cost pressures we will regain our margins through price increases in the next years, but this is the level we're at right now.

Our acquired brand portfolio has helped us this quarter significantly to make up for our margins. If it were not for the acquisitions, our margins will -- would be closer to 60%. So we were able to have the same margins or the same gross margins we had during the third quarter last year, even with all of the foreign exchange pressures and when we look at the EBITDA margin, operational margins, which are the most relevant ones, we have also reached record cash generation levels, an EBITDA margin of 35%, which is very close to the company's history. Even looking at 2018-2017, the company was always around 35%, 36% EBITDA margins and even with the pressure we've had a very healthy operational margin level.

## Q - Leandro Bastos {BIO 21416405 <GO>}

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

## A - Adalmario Ghovatto Satheler do Couto {BIO 20598860 <GO>}

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

## Q - Leandro Bastos {BIO 21416405 <GO>}

Great. Thank you.

## A - Adalmario Ghovatto Satheler do Couto {BIO 20598860 <GO>}

Thanks.

## Operator

The next question will be asked by Joseph Giordano from JP Morgan.

## Q - Joseph Giordano {BIO 17751061 <GO>}

Hi, good morning Breno and Adalmario. I have a couple of questions. The first is your innovation index, it's quite high. So I'd just like to know what your pipeline will be and what will this innovation index be for the next 12 to 18 months? And I'd also like to know more about the mix effect in your gross margins. You mentioned contributions from acquired assets and I just like to know if we'll still see some detracting effects from generics growing in your mix? Finally, do you have anything to share with us about M&A? We saw that the arbitration process with Ontex has generated a lot of noise, so I just like to know if you have any news on that?

## A - Breno Toledo Pires de Oliveira {BIO 17653260 <GO>}

Hi, Joe. This is Breno. So I'll take your first and your third questions and then, Adalmario will answer about the mix. Considering the innovation levels, we expected to grow on the same comparative basis without considering the acquired portfolio. We expected to grow as we have product coming out of innovation. We believe it will reach about 35% levels. This is what we are seeing and what's coming out of our pipeline and we hope that it will stay at that level. As you know, R&D investments are very slow in the pharma industries. So to give you an idea, the product I just mentioned that we recently launched started being developed in 2017 that was one of the first products that were conceived during our innova [ph] process. So as investments mature and as they grow, we see the innovation index growing.

So to answer your second question about a possible leniency agreement, we have been working with authorities, we've been talking about it and I'm sure that this is a priority for the company. We want to solve this issue as quick as we can. We don't have any set timing for it, but we do want to remove it from the agenda as soon as possible. And I'm sure that most -- we're doing all we can for this to happen. So considering the Ontex agreement, well, these doesn't have anything to do with that. This was a one-off agreement that we had with the company. We have over 30 M&A processes and this was the only case in which we had to make a payment. The terms of the agreement are confidential, so we can't go into detail, but it's the only one, there is no other arbitration process that the company has any risk of losing.

I'll pass it on to Adalmario, so he can answer your next question.

## A - Adalmario Ghovatto Satheler do Couto {BIO 20598860 <GO>}

So considering the mix effect, we do see that Generics are growing above market averages than the company's strategy is exactly that. We're the most diversified company in retail. So we do want to grow in Generics, this is an important growth lever for the company and we have been gaining market share there. So with that -- our unit -- the growth for that unit is higher than the other units, which do put some pressure on our gross margins. This quarter, we saw higher competitiveness in some molecules, so we had to be more aggressive in providing discounts and with that our gross margins were

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

## Q - Joseph Giordano {BIO 17751061 <GO>}

Great. Thank you. Thank you, Adalmario.

## A - Adalmario Ghovatto Satheler do Couto {BIO 20598860 <GO>}

Thank you.

## Operator

The next question will be asked by Caio Moscardini from Santander.

## Q - Caio Moscardini {BIO 20856018 <GO>}

Hi Breno and Adalmario. I'd just like to know a bit more about the potential market for (inaudible). I think this was a class that was positively impacted by the pandemic, so what would be the size of this market if we consider a normalized level? Also considering suppliers and imported APIs, with all of the logistical issues that we've been seeing globally, do you believe that you can be effective, are you expected any greater delays for these inputs? So what is your take on that? Thank you.

## A - Breno Toledo Pires de Oliveira {BIO 17653260 <GO>}

Hi,Caio. This is Breno, I'll answer your first question and then, Adalmario will answer your second one. So anticoagulation was a market that was positively impacted by COVID. This entire class and this molecule, specifically represents BRL900 billion, but it had been growing a lot. In the last 12 months, it grew 40%, but it had been growing at around 20% historically. So once the patent expires as other molecules here in Brazil, we expect it to grow even more nominally, considering that the population will be able to afford it more. It's different from what happens in the US, because in the US people mostly can afford molecules, but in Brazil as patents expire, Generics usually have a lower price or even brand name drugs and that expands the market significantly. So excluding the effects from the COVID pandemic, we believe that the market will be 15% to 18% smaller, but with the access effect, we believe that the market will continue to grow. And I'll pass it on to Adalmario for your second question.

## A - Adalmario Ghovatto Satheler do Couto {BIO 20598860 <GO>}

Hi Caio. Considering API suppliers, our main suppliers are in China and India. So from the beginning of the pandemic in 2020, we also changed our inventory policies. So we've been working on a higher inventory of raw materials versus what we did before the pandemic. So that gives us some more safety and if you look at the third quarter of 2020, our inventory was at around BRL900 million and at the end of this quarter it was above BRL1.3 billion, so it grew by 30% and most of our inventory represents raw materials. So our strategy has worked, but we haven't seen any relevant stock out for the main

ingredients for our products. So we haven't seen any changes, but we have seen delays occasionally from certain suppliers. Shipping is also complicated. We used maritime shipping before, but we have had to use some air transportation, which was expensive during the pandemic, but now it's back at normal levels. In very few cases did we use air shipping. So we don't expect to have any problems with our raw materials.

## Q - Caio Moscardini {BIO 20856018 <GO>}

Great. Thank you Breno and thank you, Adalmario.

## A - Breno Toledo Pires de Oliveira {BIO 17653260 <GO>}

Thank you.

## Operator

The next question will be asked by Emerson Junqueira from Itau.

## Q - Emerson Junqueira {BIO 18949711 <GO>}

Hi everyone, thank you. And I have a couple of questions. First, I'd like to know a bit more about your recurring EBITDA margins. We see significant expansions and we also see that there is a reduction due to lower number of prescriptions. So should we considering that gains will be passed on for more discounts? That's one question.

And my other question is about Melatonum, which is a product that you're about to launch. So I'd like to know what you can share with us about the addressable market and what's your expected profitability levels for this product? And finally, I'd just like to get an update on your pipeline and what you could tell us about the Sanofi portfolio? That's all, thank you.

## A - Breno Toledo Pires de Oliveira {BIO 17653260 <GO>}

Hi, Emerson, this is Breno and I'll answer about your -- about M&As in the recurring EBITDA margins. So as Adalmario said, during this quarter, our margins were 35%, last quarter was above 34%. In our guidance, we were expected -- expecting 34%. So -- and for the future, we believe that our goal is to keep margins at that mid '30s level. So, of course, it will depend on our competition. But as Adalmario said, here in our segment we have price readjustments every year, which allow us to pass on some price increases, especially considering the US dollar. An article is to gain market share, grow above the market and keep the -- our EBITDA margins. So this is our goal, more than being at the market level. So we want to reinvest all of our synergy and gains in scale, so that we can continue to grow above market averages as we have done for the past four quarters.

Regarding M&As, we're at an appropriate average, excuse me, leverage levels, but at the top of the bundle. So on the short-term, we're focusing on deleveraging, so that we can open up some space for more acquisitions, but on the short term, we want to deleverage and integrate this business. So of course, Buscopan and Takeda are 100% integrated into our business, Takeda is basically integrated. We only need to integrate our manufacturer,

which will take place in the next few years. And for Sanofi, with the approval from the monetary authorities, which should take place in the next quarter, it will be simpler than the other ones. It's a smaller product portfolio and everything is going according to plan, but we're focusing on deleveraging and opening space for future acquisitions. So, I'll pass it on to Adalmario, so that he can tell you about the future Melatonum market.

## A - Adalmario Ghovatto Satheler do Couto {BIO 20598860 <GO>}

Hi, Emerson. So Melatonum is a new molecule in the Brazilian market, although it has been approved a long time ago, it was just recently approved in Brazil. So levels are still low and when we look at the American market, melatonin and melatonin combinations represent over BRL500 million and it continues to grow. So we believe there is a relevant market potential here for Brazil. Melatonin is an indication for light insomnia. So when you look at insomnia treatments demands in Brazil, it's a category that represents over BRL600 million and it's very dynamic, especially since the beginning of the pandemic where we've seen a relevant increase in the demand for it. So we believe it will perform very well.

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

## Q - Emerson Junqueira {BIO 18949711 <GO>}

Great. Thank you.

## Operator

Next question will be asked by Mauricio Cepeda from Credit Suisse.

## Q - Mauricio Cepeda {BIO 21783651 <GO>}

Hi everyone, good morning. Good morning, Breno and Adalmario. Thank you for taking my question. I have a complementary question, first on rivaroxaban. You mentioned the importance of that molecule, but when we talked about over BRL1 billion, are you talking about modern anticoagulants and thrombotic drugs? I'm just wondering if there are other molecules in that addressable market? And if you also have increased access to other molecules that can compete with rivaroxaban? Do you know who else is launching a rivaroxaban generic? You mentioned also the foreign exchange pressures that you're under and this of course influences the market, so my question is if you are being more or less aggressive than the market, growing and conserving your EBITDA and if you expect anything will change in terms of prices? My next question is, if you we expect these return -- these investments to return, media investments, we also talked about the leniency agreement and I don't want to make a comparison to (inaudible), because I know that that's arbitration, but can you tell us anything more about that? Thank you.

## A - Breno Toledo Pires de Oliveira {BIO 17653260 <GO>}

Hi, Cepeda. This is Breno. I'll take some of your questions and Adalmario will answer the remaining ones. So you asked if there were any provisions, is that what you said with the leniency agreement?

## Q - Mauricio Cepeda {BIO 21783651 <GO>}

Yes, I -- I was just going to say that Ontex was a surprise. So I'm -- I'm wondering if there -- if you had provisions for the leniency agreement?

## A - Breno Toledo Pires de Oliveira {BIO 17653260 <GO>}

Well, nothing has been provisioned. We don't have any agreement and if we do -- if we do have a leniency agreement, this amount has not had a provision. I think that's clear for everyone, right. That is a potential risk, but we don't believe that it will be relevant, you're considering the company size, the market cap and everything you have in your reports. But just to answer your question, there are no provisions for that. Considering the anticoagulants market, we have rivaroxaban, which is the main one, apixaban and dabigatran. And of course when the patent expires for rivaroxaban, we expect it to grow and gain market share versus the other molecules that still haven't had their patents expired. Does that answer your question?

## Q - Mauricio Cepeda {BIO 21783651 <GO>}

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

## A - Breno Toledo Pires de Oliveira {BIO 17653260 <GO>}

Oh, you had asked about competition. Some other companies have a registration, but they haven't launched it. We were very quick because we were one of the last to get an approval and we are already launching it. And it's a major molecule that should have some competition in the market, considering its size and it's not a single molecule -- well, it is a single molecule, so it's not very complex to develop. But what matters here basically are two things, the first to launch will have a higher competitive advantage and the production cost that we excel at in the generics market.

## Q - Mauricio Cepeda {BIO 21783651 <GO>}

Great.

## A - Adalmario Ghovatto Satheler do Couto {BIO 20598860 <GO>}

And I'll answer your other two questions about foreign exchange pressures and marketing investments. Basically, this quarter, we continue to be pressured, but we will be less pressured than in previous quarters. So the price readjustment that we had in the second quarter has helped us to make up for the foreign exchange in our hedge policy, where we basically had our entire year hedged contributes. We don't have as much pressure and considering productivity, I think each segment has its specificities. So competitiveness has been higher in some generic molecules, where we did had to cut down on discounts to continue to be competitive. So not very relevant when we look at the entire brand portfolio from Consumer Health brands or Prescription brands, Skincare. There is nothing

out of the box in that market and commercial policies continue to be the same and considering in marketing investments, we measure every return we have.

So as we said two major investments that we have made are related to the media, which we've gradually changed our mix to become more digital or go online and with that we can reach the exact target audience that each brand wants to reach. So we can have a much more effective conversion than we did before looking at offline open broadcast media. So we've been able to have greater returns for our investments and also medical prescriptions we're able to measure the level of prescriptions for each physician that we visit. So we've been able to expand our visited base, especially with remote visiting, which was very important during the pandemic. But we continue with that program to improve the productivity for our physicians and get a better return for our marketing investments. I think a part of it can be seen when we look at the percentage marketing over our total net revenue, which has been going down quarter-by-quarter. Of course, this is due to the synergies that we had with our mergers and our revenue growth have followed every quarter. So I think that's a good way of seeing how effective the investments are.

## Q - Mauricio Cepeda {BIO 21783651 <GO>}

Great. Thank you, Adalmario and Breno.

## A - Adalmario Ghovatto Satheler do Couto {BIO 20598860 <GO>}

Thank you.

## Operator

The next question will be asked by Irma Sgarz from Goldman Sachs.

## Q - Irma Sgarz {BIO 15190838 <GO>}

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

## A - Breno Toledo Pires de Oliveira {BIO 17653260 <GO>}

Hi Irma, good morning. This is Breno. As you said, this is something that has been on our radar for a long time. It's drugs being sold outside of pharmacies, so this is a discussion that has gained traction from people who work in retail, who are interested in selling new products just as we see in other countries in the world like the US. It's hard to say if this is something that we'll now move forward or not, it's still very early. But if it does move forward, it will be good for Hypera because as we said, we're leaders in OTCs and that distribution channel is five times bigger than drug stores. So -- and we are already present there. We have some products, especially sweeteners, but also others that are being distributed there. So for us, it would be very easy. We have the distribution infrastructure for that, but it's still early to say how likely it is to move forward on the short-term.

## Q - Irma Sgarz {BIO 15190838 <GO>}

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

## A - Breno Toledo Pires de Oliveira {BIO 17653260 <GO>}

Well, margins will depend on the competition. So if we have the same players that we have in the pharma industry, it will depend on how aggressive, the industry will want to be there. So it doesn't make much sense to have different margins from what we already have in retail pharma, which is even more consolidated if I'm not mistaken than supermarkets. If you look at the main players in the -- in drug stores (inaudible) has 15% market share, so they're more consolidated than supermarkets for example.

## Q - Irma Sgarz {BIO 15190838 <GO>}

Okay, thank you.

## A - Breno Toledo Pires de Oliveira {BIO 17653260 <GO>}

Thank you.

## Operator

(Operator Instructions). This concludes our questions and answer session. We'll pass it back on to Mr. Breno Oliveira for his closing remarks.

## A - Breno Toledo Pires de Oliveira {BIO 17653260 <GO>}

I'd like to thank you all for listening. We received many questions and if you need us we are available. Our Investor Relations team is available to answer any questions you may have. Thank you and have a good day.

## Operator

This concludes Hypera Conference Call. Thank you for listening and have a good day.