Q4 2011 Earnings Call

Company Participants

- Claudio Bergamo, CEO
- Martin Prado Mattos, CFO

Other Participants

- Bob Ford, Analyst
- Jose Yordan, Analyst
- Lore Serra, Analyst

Presentation

Operator

Good afternoon. Welcome to Hypermarcas Fourth Quarter 2011 Results Conference Call. Today with us we have Mr. Claudio Bergamo, CEO; Mr. Martin Prado Mattos, CFO; and Mr. Breno Toledo Pires de Oliveira, IRO.

We would like to inform you that this event is being recorded. (Operator Instructions) Today's live Webcast may be accessed through the Company's Investor Relations Website at www.hypermarcas.com.br/ir.

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

Now I'll turn the floor over to Mr. Claudio Bergamo, who will begin the presentation. Mr. Bergamo, you may begin your conference.

Claudio Bergamo {BIO 16015846 <GO>}

Thank you very much, everyone, for participating in the conference call regarding the Fourth Quarter 2011, which also we will talk about the performance for the full year of 2011.

We'll start on page 5, just to give a summary of the results for the year. In terms of revenues, Hypermarcas closed the year with BRL3.3 billion in net revenues, which represented a growth vis-a-vis reported net sales of 19.1%. And if you comprise this number with the same basis comparison for 2010, it will be -- analyze the effect that the acquired companies, the Company's sales have declined 7.6%. The reason for that drop, as we widely explained along the year 2011, was mostly related of the destocking effect on the indirect clients for 2011, given that the implementation of the new, commercial quality is lower terms and lower discounts.

In terms of profitability, the Company ended the year with BRL712.4 million in adjusted EBITDA, which is in line with the BRL700 million of guidance provided by the Company by the yearend of 2011. That number is close to 2010 and is about 18% below 2010 on the same basis comparison for the same reason I explained for the net sales, because of the effect of destocking in the clients.

If you come to page six and we talk about what's the result of the financial results for the year. And as we have set up as a target, the Company had a very good operating cash flow for the year. The Company ended the year with BRL580 million in operating cash flow, which is substantially higher than 2010, which was BRL67.5 million. Also, for the quarter, the Company reached BRL288.9 million in operating cash flow as a result of the many initiatives we had gone through along the year with the objective to improve the Company's operating cash flow. So in terms of financially speaking, as the target we set up for the year, we ended up to have a very good year in terms of cash flow generation.

That BRL580 million does not include the value of the divestiture of the cleaning and food businesses, which we expect to get up to BRL445 million. (So it's also including the main cash flow plus the value) of the divestiture of cleaning and foods, the Company generated above BRL1.1 billion in cash flow. That cash flow was used to continue investing in the consolidation of our operations, including projects such as Magnum and Matrix Projects, as well as other initiatives we are pursuing.

As well, we used the cash flow to reduce our debt, as you can see on the right side of this chart. The Company reduced the debt at the end of Third Quarter of BRL3.3 billion to BRL2.7 billion by the end of the Fourth Quarter. So that was a very material reduction in debt according to our targets. Then let me also mention that, in this BRL2.7 billion debt, approximately 50% of that debt is long-term debt, which is due in 2021.

Also important to mention that the Company has in cash above BRL2.5 billion, which is enough to offset all its financial obligations by mid 2014. The Company has a very good and a very comfortable liquidity and financial situation, despite the not so strong economic result due to the destocking.

If we look to page 7, just to give an effective review of some of the main initiatives that the Company had pursued along the year, in the organizational front, the Company has created two divisions, one for pharmaceutical businesses and one for the consumer (HPC) businesses.

The Company brought two very experienced presidents to lead the business for both divisions. For the pharmaceutical division, the Company brought Mr. Violland, which used to be the president for Nycomed, in Brazil for the last ten years. For the division of consumer, the Company brought Mr. Nicolas Fischer, who used to be the president for Nivea in Brazil for the last six years. We believe that this model to have these two presidents for these two divisions is very important nowadays because we give the conditions to have a better focus and a better coordination of the different functions between these two divisions.

Then, along to create the divisions, the Company also has implemented new management procedures and techniques and defined clear goals up to the top level in the organization linked to performance and KPIs.

The overall board of directors, which goes up to the third level of the Company, 100% of the directors -- 50% of their annual bonus is linked to annual guidance EBITDA -- the guidance of EBITDA. As well as it was for 2011, given that we had to restate our guidance, no director in the Company received 50% of their portion related to the collective target.

(inaudible) organization we have run through major improvements field force, mainly in the second half of the year, especially in the forces of sales forces for both divisions. In the pharmaceutical division, we have created a specific sales force. For generics business, we have upgraded our sales force that go directly to the point of sales. As well, we have restructured our doctor visit force.

In the consumer business, we had (inaudible) different sales force for the different acquisitions into two sales forces, one which will be dedicated to the cosmetics business and one which will be mostly dedicated to the diapers business. In parallel to that change, as well, we have changed our merchandising force, splitting up into two areas to have a better accountability and better focus for our field force.

In terms of business portfolio, in the second part, the Company has focused strongly on pharma, beauty. And personal care sectors in 2011, as it has done in the past in (acquisitions), because the Company believes to be the most attractive segments, given its potential to grow and its higher profitability than the other markets. According to that, the Company pursued divestiture of food and home care. And the Company was able to successfully sell these businesses prior to the end of the year for very good prices of these businesses, which was used to reduce net debt.

In terms of market strategy, the Company has gone through standardization of commercial policy, as very widely known by many of the financial community, with a reduction of payment terms and discounts, which were very important to improve our working capital management. As well, the Company continued its process of innovation and has launched many new products in both divisions of the pharma and, as well, in the HPC consumer.

In terms of operations of the Company, the first half of the year integration of the acquired companies, especially the Mantecorp and Mabesa, which were the largest two acquisitions performed by the Company, which added close to BRL1 billion in revenues for the Company. The Company was able to finalize the first phase of the integration by June 2011, six months ahead of the original plan, which was in December 2011. As well, in the year, the Company concluded the consolidation of all the pharma operations into Anapolis site, changing (inaudible) -- integrated that site into Anapolis site, which became the largest manufacturing pharmaceutical site in Latin America. As well, the Company started the consolidation of the consumer operations, which we call the Matrix Project.

If we go to page 8, for the people that haven't visited the plant or haven't had a chance to see some of the things that we have performed in the Magnum Project, as you can see, the Company has been able to invest into a major manufacturing site and also, as well, in a new warehouse, which we believe will give the lowest cost position for the Company in the mid and long run.

On page 9, on the left side is the new distribution center for the consumer products, which was finalized now in March and will start up operations in May. On the right side, there are some photos on the new (inaudible) of the new plant for the consumer, which will last until the end of the first half of 2013 to move all the products into that.

So on page 10, the goals for the Company from 2012 now is to develop sustainable, organic growth with profitability and cash flow generation. As five targets, as number one, the Company will continue focusing on profitability and operating cash flow. We'll finalize the operating consolidation projects, such as Magnum, Matrix. And other initiatives. The Company is targeting to improve distribution and point of sale category management. We target to improve operational productivity for its plants, logistics. And field teams, as well as finalize implementation of the new organizational model. We believe that, through that initiatives, the Company will be able to continue delivering in the mid to long run sustainable, profitable growth with cash flow generation with the objectives to reduce its debt and, as well, to provide shareholder value.

So I will pass over now to Martin to lead your through the details of the results for the quarter and for the year. Thank you very much.

Martin Prado Mattos {BIO 19740338 <GO>}

Good afternoon, everyone. This is Martin speaking.

On page 12, we may see that the net revenue of 2011 was BRL3.325 billion, an increase of 19% in respect of 2010 but a decrease of 7.6% if compared against the pro forma basis of 2010, the reference base. As anticipated in the latest earnings release, during Q4 2011, we experienced a decrease in our revenues of 16.3% vis-a-vis Q4 2010 reference base, having reached BRL842 million.

Such poor performance of our sales is explained by a combination of a few factors -- one, a slowdown in the economy compared to 2010, moreover during the second half, owing to the uncertainties regarding the global economy and, here in Brazil, due to inflation pressures (inaudible). Second, the acceleration of our clients' destocking process. Also mainly during the second half of 2011, as anticipated, we placed stronger emphasis in the changes introduced in our commercial policy. And thirdly, the comparison basis for the 2011 results was particularly challenging in view of the very strong growth of our (inaudible) above our (inaudible) in the year of 2010.

On the following page, we may see the sales performance per division. During the year, the organic growth of the pharma division was negative 4.8%, mainly on account of the Q4 performance. We had the changes of our commercial policy in the pharma division, which concentrated and affected with a greater emphasis during the second half of the year 2011. As regards the consumer division, organic growth was negative 10.2%, concentrated in our beauty and personal care divisions -- or the segments of beauty and personal care, while, in the disposable segment, we experienced an organic growth in our sales.

During the quarter, organic growth of the pharma division was 16.9% negative and 15.8% negative in the consumer division. Regarding consumer, such decrease in the quarter also followed the behavior throughout the year, with the disposable segment presenting a better performance than beauty and personal care. The reason behind such behavior is related to the levels of working capital invested (to the chain) of disposables, which are less volatile than the chain of beauty and personal care.

Now, moving to page 14, we see that the gross margin of the year was up 60.3%, an increase of 1percentage point vis-a-vis 2010 and up 0.4% vis-a-vis the organic basis for 2010. Such 40 basis points increase is explained by better margins practice along the year, even compared to the less profitable mix on account of the smaller presence of high-margin medication segment.

During the quarter, the increase in margin vis-a-vis the reported Q4 2010 was up 40 basis points and a decrease of 160 basis points if compared to the Q4 2010 reference base. Such decrease of 160 basis points may be broken down in 40 basis points owing to the lower margin and 120 basis points owing to a less profitable mix on account of the smaller presence of medication sales.

On page 15, we may see that the increase in the organic margin of the year was positive 60 basis points for pharma and negative 50 basis points for consumer. During the quarter, we see that the 160 basis points decrease in the organic margin may be broken down in a 70 basis points reduction in consumer and a 240 basis points reduction in pharma. That amount of 240 basis points negative performance may be broken down in the negative mix effect of 50 basis points among the several different pharma segments and a margin effect of 190 basis points related to the conforming of the production and profitability levels of our new Anapolis plant, moreover, in the view of the idle capacity experienced in this plant due to the decrease of the inventory buffers prepared for the purposes of migration of the production to the new site.

The Company's adjusted EBITDA, as we may see on page 16, was BRL712 million in 2011, virtually the same level experienced in 2010 but a decrease of 17.9% vis-a-vis the reference base of 2010. It is important to highlight that such adjusted EBITDA for the year, although being an unsatisfactory result, is slightly above our BRL700 million guidance and was essentially caused by a lower level of sales in the quarter related to the final destocking adjustments of our clients, as mentioned previously. Adjusted EBITDA for the quarter was BRL139 million, representing a margin of 15.3%.

On page 17, we may see that the full year -- the year closed with a loss of BRL55 million, which, in addition to a full operational result, mainly in Q4 2011, we had a noncash financial expense of BRL236 million in the year due to the exchange rate fluctuation of our bond maturing 2021, since the US dollar against the real exchange rate closed the year at BRL1.87. Net income of the quarter was BRL50 million positive. Despite the operational result, we had a nonrecurring capital gain of BRL118 million due to divestment of our home care and food segments, as announced last year.

On the following page, we may observe that our cash earnings, calculated as the adjusted EBITDA minus depreciation and net interest expenses, was BRL271 million in 2011 and minus BRL3 million during the quarter. Such performance may be explained, in addition to the reduction in the adjusted EBITDA, by the increase of interest expenses in 2011 owing to the fact that the average net indebtedness of 2011 was higher than in 2010 on account of all the investments in acquisitions made in the period.

On the other hand, as we may see from page 19, the operating cash flow, which is the EBITDA minus fluctuation of our working capital of 2011 and also of Q4 2011, was exceptional, having reached BRL580 million in the year and BRL289 million in the quarter. As we have been discussing, one of the main goals of our efforts to regulate the Company's commercial policy in 2011 was to improve Hypermarcas cash generation. And despite the poor performance of sales during the year of 2011, we were very pleased to see the result of our hard work when observing such metrics.

Such improvement, which was remarkable in the Fourth Quarter, may be observed in all the main lines of our operating working capital. We were able to reduce the amount of accounts receivable by means of the changes we made in our commercial policy. We also succeeded in reducing the levels of inventory of the Company to more adequate ones. And lastly and mainly in the Fourth Quarter, we achieved very good results from our efforts to expand payment terms with our suppliers.

Accordingly, we may see from page 20 that Hypermarcas' operating working capital closed the First Quarter of 2011 at BRL1.612 billion and was reduced to BRL1.191 billion in Q4 2011. In the quarter-by-quarter evolution, we see that we managed to improve both our accounts receivable and our inventories and suppliers as well.

It could be important to also note that one of the benefits of reducing the levels of working capital of our chain and our clients is to make the Company's operating planning a simple task, with less volatility and less sales concentration, as we now observe, the overall positive impact. For instance, minimal inventories may be reduced as our clients receive within shorter terms causing less delays in payment, thereby allowing us to better plan and negotiate our purchases with our suppliers.

Lastly, as we may see on page 21, our gross indebtedness closed the year at BRL5.341 billion, of which approximately BRL800 million (inaudible) installment of acquisitions done in previous years and the balance to financing obtained with the financial system, which is BNBS banks and public issuances of debentures and also our bond which matures in 2021.

The amount of our cash equivalents closed the fiscal year at BRL2.596 billion. Consequently, Hypermarcas net debt closed the year in BRL2.745 billion.

We also recorded in our balance sheet in Q4 2011 under other credit of our assets line the amount of BRL71 million referring to the remaining installments related to the divestment of our home care and food segment, which we expect to receive during the first half of 2012.

Furthermore, upon updating the calculation of our bond to the average exchange rate observed in 2012 of approximately BRL1.756, we have a reduction of BRL92 million of our indebtedness. That is, if we take such factors into account, our investment of BRL2.582 billion would represent a leverage of three times our EBITDA guidance for the year of 2012.

At the end of Q3 2011, as mentioned by Claudio, our net indebtedness was BRL3.261 billion. With the strong operating cash flow generation of Q4 2011, combined with the home care and food divestments, we reduced in a single quarter BRL560 million of our net debt. Considering the additional effects that I mentioned of the sale of the home care and food and the exchange rate, leverage reduction of the Company was BRL579 million in the quarter, which also pleases us significantly.

And despite our level of investment being at the top of our historical range, we are of the opinion that, in view of our strong cash position and the long-term profile of our indebtedness with an average maturity of four years, Hypermarcas has an exceptional position with regards to our liquidity. Furthermore, with a much more consistent and relevant operating cash flow generation, now we have a horizon and purpose of pursuing new reductions of our short; and medium-term investments.

We would like to thank you all for the (inaudible). And we can now move to the Q&A session.

Questions And Answers

Operator

(Operator Instructions) Bob Ford, Merrill Lynch.

Q - Bob Ford {BIO 1499021 <GO>}

Guys, I had a question with respect to the inventory levels. You're still sitting on about four months of inventory. And I guess you may still have some buffers in the pharma space. Can you take us through how long it's going to take you to get those buffers down? What's a more normalized level of inventory? Then, simultaneously, how quickly you can bring back or take Anapolis to the designed run rates of productivity and optimizing the production there --

Then, as you -- you're already moving forward, as Claudio mentioned, with respect to consolidating the personal care operations. But there, I would assume that we're talking about simpler processes and, certainly, a more predictable regulatory framework. You're not dealing with Anvisa when it comes to consolidating production there. So maybe the buildup in inventory is a little bit less and the transition is a little bit smoother.

And if you could, just refresh in terms of the CapEx as well, please.

A - Claudio Bergamo {BIO 16015846 <GO>}

Well let's start on inventory levels. We still have some buffers from the pharmaceuticals in our stocks. So that buffers are going down. And as they go down, on the other hand, we will start having buffers for the transfer of the HPC products. So I don't foresee a material reduction on the stocks from now on, given that we are in the middle of the consolidation of the plant. If that wouldn't -- if we didn't have that, probably we would foresee the stocks coming down to something around 100 days or maybe between 90 and 100 days. But given that we still have to maintain the buffers to effect the changes, despite the fact that we are making the change for the HPC on a more gradual manner and every quarter changes one or two or three products, we still have to maintain certain levels of excess stock.

The good news on that front is that, given that we were able to negotiate longer terms with the suppliers during the last quarter and we have been able to maintain a big piece of better terms for -- up to now, it means that we -- the working capital requirements for that change will be lower compared to what happened before in the pharmaceuticals.

Regarding your second question about when we will see Anapolis up to speed, we still -- Anapolis still is in the process of the learning curve. And given that you still have stocks -- they still have some (inaudible) that they have to pursue -- to go after.

So I believe that, as we move along the year, we will have an important change by the second half of the year. And I believe that, by 2013, we will have a normalized productivity for the plant. We are starting up, as well, a specific project regarding that. So that's the timing we are working on on Anapolis now.

Regarding the change for the HPC to Senador Canedo, it's important to understand that the way we are doing that -- we are starting up first with the logistics operations, given that the warehouse, as you saw in the picture, is already built and will be fully operational, including systems and people and all the spaces to stock all the products, the (inaudible), et cetera, the optimization and the warehouse systems and, et cetera, by the end of April. And we should start operating from there already the logistics, everything but Sao Paolo state, from Goiania. When we do that, it's important to understand that part of the gains, especially the fiscal gains and, as well, the service gains we will be able to be capturing.

On the other hand, on the plant change, the plant move into Senador, we have a time schedule, timetable, that we will gradually keep sending products up to there, technology until the end of First Quarter 2013. It's important also to mention that, with this new investment program, as part of the total CapEx, we also included important modernization and, especially, (verticalization) of all the (inaudible) so that we will be fully (verticalized) 100% after the change.

I agree with you that the complexity to start up that is somewhat lower than pharmaceuticals. So we believe that probably we will be up to speed on that plant by second half of 2013. So that's it.

I think your CapEx question is related to that. 100% of our CapEx -- not 100%. Most of our CapEx, a big piece, is dedicated to this project. And also it is important that we have been using to finance that CapEx what we call (inaudible), which is regional development (plan) that give us very interesting -- that which is eight years with three years of (inaudible) with very attractive interest levels. So all the CapEx has been financed through that.

Q - Bob Ford {BIO 1499021 <GO>}

Claudio, what's the CapEx number? Does it include working capital? Or do you expect to generate cash from working capital this year as well?

A - Claudio Bergamo {BIO 16015846 <GO>}

No. I don't think that we will generate cash from realizing working capital. What we do have is a much better working capital condition to grow. One of the key areas which (inaudible), for example, just to give you an idea, we have been able to buy, on average, 200 to 220 days the major raw materials such as (inaudible) and ACP, which we didn't have last year. So that is a major change, I tell you. It's sustainable, not something that we just (inaudible).

That part of -- that initiative, I believe, gives us (inaudible), as well as on the other front of initiatives from the client front, reducing their receivables, as well as on the stock side because, besides the fact that, as you saw, stock is a little higher because of the buffers, the new stock or the stock valuation is lower than before because we have a more, let's say, frequent (inaudible). So our concentration among the (inaudible) has reduced substantially. And we have been able to sell up to half of March something around 40% or 30% of the sales, which is a major advantage, given that you know what we need to produce.

So our certainty of the sales planning, which has improved a lot because of the destocking but, as well, because of the creation of the business units because now people -- it's a more (inaudible) in terms of sales planning. That process, you will recall, sales and operational planning, SOP, process has improved a lot this year vis-a-vis last year. And that's very critical to maintain good working capital levels in the mid to long run.

Q - Bob Ford {BIO 1499021 <GO>}

That's very helpful. Thank you very much.

Operator

Lore Serra, Morgan Stanley.

Q - Lore Serra {BIO 1506730 <GO>}

Claudio, if I could just by asking -- at the current level, how do you see the inventory levels? Are they completely destocked? Do you have a sense of whether they're normalized? And I guess, related to that, as we see the First Quarter numbers in a couple of months, should we see the organic growth rates kind of normalize to -- I know you don't give guidance -- but something much more indicative of industry growth, let us say? Thanks.

A - Claudio Bergamo {BIO 16015846 <GO>}

Yes. As is said also in the Portuguese call, our key focus at the Company for the year is really to deliver the guidance of the BRL850 million. And the full Company is working towards that direction, including our incentive schemes also being related to that. We have, based on that, made a budget for every quarter in order to be able to deliver the BRL850 million.

In our sales budget, we were careful enough to find a balance between push and pull in order not to lose what we have constructed in the last year but, at the same time, to not have too loose that we don't go after the opportunities for improve our distribution reach. That process unfortunately is not something that you see in the very short term. You see in mid and the long run.

That's why, as well, we have upgraded our sales teams. We have created some new field teams. We have redesigned some field teams. We have (generated) the sales teams.

So we believe that, through all the new incentives combined, we will be able to sell our demand for the year. If that's so, given that the comparison for last year will be lower than the comparison for this year, we believe that we will be able to at least sell demand on the top of last year. So on the top, let's say, last year, you have the demand plus the effect of the different basis.

Generally speaking, the First Quarter of the year represents something around 20% for the full year. So that's pretty much the target that the Company is working at this time.

Q - Lore Serra {BIO 1506730 <GO>}

I understand that. But on a year-on-year basis, the fact that you sell less in the First Quarter doesn't really matter because you're comparing against the First Quarter. So what I'm just trying to understand is have you cleaned up the inventories at the client level? Once again, you don't give revenue growth. But I assume you're going to try to go at least with the industry growth. What you're telling us is 11%. Should we see that kind of high, single-digit/low, double-digit growth in the First Quarter of the year as you clean up the inventories? Or is there a process during the year to see a re-acceleration of industry growth -- I'm sorry -- revenue growth?

A - Claudio Bergamo {BIO 16015846 <GO>}

No. We will not -- this year, we don't anticipate any impact on our revenue due to the stock variation for the year. We don't see that for the year.

Q - Lore Serra {BIO 1506730 <GO>}

Okay. Great. Then, just -- that's helpful. Then just a second question in terms of revenue growth. It seemed like when you went through your priorities, the five things you kind of talked about, a lot of them seemed kind of operational. And I wonder what -- What are the initiatives to take share? Particularly, we could see -- regain some share. We can see that your share looks quite healthy in pharmaceuticals but, as you mentioned, not on the consumer side. So can you talk about any efforts, aside from what you've mentioned in terms of the sales team kind of repositioning, to drive sales growth this year?

A - Claudio Bergamo {BIO 16015846 <GO>}

We highlight that one because that's the one that we believe will have the bigger impact in the next 18 months. But clearly, we still continue to invest into the launching processes and innovation process. So many of our brands do have many launches planned for the next two, three years that we have been working on and we will continue working on.

The issue is that we need to give an upgrade on our execution level at the sales point and commercial functions in order that many of the initiatives -- to have higher probability of success. So as I said last year, we did have opportunities to make launches that we somewhat kept them in our pipeline so that we can (free up that) initiatives. So we have to be careful to not free up very good ideas and opportunities in innovation until we again feel secure that we have the right execution level at the marketplace. That's the (inaudible).

Lore Serra. Perfect. That makes sense. And just one last question. In the Fourth Quarter press release of a year ago, you gave some information that you expected to capture an additional something like BRL50 million of synergies. You had like a synergy seizing schedule. Is that estimate still relevant or good for this year, about BRL50 million of additional synergies this year?

A - Martin Prado Mattos {BIO 19740338 <GO>}

That was related to the Magnum project, if I'm not mistaken. And Lore, we think that that's still valid. But it's already included on our guidance for the year.

Q - Lore Serra {BIO 1506730 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Jose Yordan, Deutsche Bank.

Q - Jose Yordan {BIO 1496398 <GO>}

I guess you answered part of my questions on the reason for the postponement of the launches. But did I hear you right in the Portuguese conference call, where you said, basically, those postponed launches will be spread throughout a three; to five-year period? Or will it be sooner than that?

And my second question is related to depreciation. It was significantly higher in the Fourth Quarter. And I just wanted to see whether that was a recurring depreciation based on the new plants, et cetera, or whether there were any one-time items.

I did notice there was in the breakout between continuing and discontinued operations there was an impairment charge there. If you could give us any color as to what that was, that would be great.

A - Claudio Bergamo {BIO 16015846 <GO>}

Well regarding the launches, it's not the idea, Jose, to postpone to three to five years. Actually, it's to do as soon as we feel we will be ready to do it.

But first things first. At this point, we do need to -- that's why in my five targets, I am giving such importance on the distribution and go-to-market platform and infrastructure because, once that is ready, everything we have in our pipeline will have a higher return for that launch. I believe that we -- as every day is passed and every week, we will get better. But it's not something from three to five years, (inaudible) years.

We will continue having innovation process going on along the Company. I don't know if you had a chance to visit our new innovation center for consumer (inaudible), as well our innovation center for pharmaceuticals in Anapolis. If not, please, I advise you to go there. You understand the type of things we are doing. So what happens is that the level of invention will get more sophisticated. So what happens is, over time, the type of launch (inaudible) is more sophisticated and more, let's say, changing -- real changing to consumer, beginning to be more focused on incremental innovation.

So that's pretty much part of our strategic plan. Both business units, the pharma and consumer goods, are pretty aware of what we are working at now -- to have a five-year strategic plan for every single brand by half of the year. So I'm working with the two presidents on that direction.

I'm going to ask Martin to answer the second question.

A - Martin Prado Mattos {BIO 19740338 <GO>}

Regarding the depreciation, now in the Fourth Quarter, we changed one of the rules of our amortization. Given the acquisitions of Mantecorp and, now, Quimica, we did an allocation of a part of the purchase price to generic registration. So a part of the acquisition was allocated, retroactively, to that. And given that that portion on that asset had to be amortized through the year, we included approximately BRL21 million during the

Fourth Quarter on depreciation of those generic registrations. But they are related to the last -- up to two years of amortization related to those allocations.

So what we should see going forward is an increase of our amortization of something close to BRL5 million per quarter. So we will increase the depreciation of our commercial expenses. But on the other hand, we will also increase the amortization.

As per your last question related to the impairment, we have the small operation in Argentina, a small plant there, which we are discontinuing. We are divesting from that business. But during the year of 2011, we had to finance that operation in approximately BRL12 million. Given that we are divesting from that particular plant and business, we did an impairment of that investment.

Q - Jose Yordan {BIO 1496398 <GO>}

Okay. Sounds good. Very helpful.

Operator

Lore Serra, Morgan Stanley.

Q - Lore Serra {BIO 1506730 <GO>}

Claudio, I was wondering if you could just talk a little bit about your outlook on pricing. I know that's a broad topic, given the -- not the complex but the big mix you have. If you could, just give me a sense of what you're expecting on the pharmaceutical side in terms of what was the allowable price increase.

Then, on the consumer side, there's been some view lately that one of the big, multinational competitors is doing a lot of cost cutting and wants to reinvest in terms of price. So I don't know if you're seeing any of that in the market or if you have any sense of how you think that pricing, in general, may be on the consumer side. I'd appreciate any of your comments, please.

A - Claudio Bergamo {BIO 16015846 <GO>}

Okay. On the pharmaceutical, you know there is a specific formula that the Company makes every year. And we published at the beginning of March to be implemented by the end of March. So this year, the price increase will be 4.5% on a weighted average of the formula of all our products.

So besides that, there are some discussions going on now about if they are going to make the OTC price free or not. But that's a deregulation issue which is still not there. But there's some discussions on that. And if that happens, probably we will have a second wave of opportunities for price increase. But it's not now in the price increase that we have implemented by the end of March and will be due from April on.

On the consumer front, overall, there is inflation bypass sentiment among the different players in the market. Most of the companies have received a material salary increase last year in the range of 8% to 10%. So there is a bypass price of something around 6% of price increase in the marketplace.

Q - Lore Serra {BIO 1506730 <GO>}

Thank you very much.

Operator

(Operator Instructions) Thank you. The Q&A session is now closed. I would like to turn the conference back over to Mr. Claudio Bergamo for his closing remarks.

A - Claudio Bergamo {BIO 16015846 <GO>}

Thank you very much, again, for participating. Mr. Breno will be available to answer any follow-up questions that you may have. Thank you very much again. And have a nice day. Bye-bye.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.