

Q3 2020 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

- Gustavo, Analyst
- Gustavo Oliveira, Analyst
- Irma Sgarz, Analyst
- Joseph Giordano, Analyst
- Kayu, Analyst
- Robert Ford, Analyst
- Tobias Stingelin, Analyst

Presentation

Operator

Good morning. Welcome to is Hypera Pharma's Third Quarter 2020 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 a listen-only mode during the Company's presentations. After the closing remarks, there will be a question-and-answer session for investors and analysts, when further instructions will be given. (Operator Instructions)

We would like to inform that questions can only be asked by telephone. So if you are connected through the webcast, you should email your questions directly to the IR team at ir@hypera.com.br. Today's live webcast may be accessed through the Company's Investor Relations website at hypera.com.br/ir.

We would like to inform that some statements during this conference may constitute forward-looking statements. Such 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'll turn the floor to Mr. Breno Oliveira, who will begin the presentation. Mr. Breno, you may begin your conference.

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

Good morning, everyone, and welcome to our results call for the third quarter of 2020.

Before I go into the operational performance of this quarter, I would like to talk a bit about the impacts of the pandemic on the pharma industry and how Hypera is responding to these trends. Seven months surpassed since the beginning of the pandemic, so we have been focusing on preventive and chronic treatments and we are using technology to interact with doctors and drug stores. Over 50% of physicians are using telemedicine and over one-third of consultations are being held online during the pandemic, which also affected prescription, which was regulated in Brazil in its electronic form. So drug stores started adopting e-commerce, and physicians received 80% of their consultations online. And now this level at about 15% to 20%, which should remain in our opinion.

Hypera is responding very quickly to these new trends. With regard to media, we consistently increased our investments in e-commerce. In 2018, that represented 8% of our total and now it represents around 22%, and we expect that in 2021, it will represent 30% of our investments in media. So we are able to spread our investments in media across more brands and increased the levels of conversion and sales for our investments.

On the medical promotional model, we invented a remote visiting our model in 2019 to assess in which physicians this hybrid model would work better. We're also using the same model's send free samples without necessarily being there in person. With that, we're able to face the challenges of the pandemic because at the end of March, we had 1,000 medical reps at home without being able to visit people in person. At the end of April, everyone was working again on a virtual model. Now we have a hybrid model for visits, which can still be improved. But we do believe that this will be the model that will remain with in-person and remote visits according to physicians' needs.

On the e-commerce side, sales have doubled from 1% of sales to 2% now. For major drugstore chains, this figure is a bit higher. It's still a low level incurs into other retail areas, but this is a trend that is here to stay and we want to be at the forefront in this area and ahead of our competition. In here, we launched our e-commerce direct-to-consumer platform where we have direct sales through our website and where we also can plug the platform into other existing markets and new ones. We also want to leverage e-commerce initiatives with our main clients. We're investing a lot on this front.

Our team is 100% focused on treat -- our digital trade marketing and we focus on our clients' main platforms. So that the availability and appearance of our products is impeccable on websites and apps. The same as we are doing on stores -- on brick-and-mortar stores. We also have a multi-channel support network for B2B, which will be implemented by 2021. So we have the biggest physical presence in stores and our consultant are reaching 80% of point of sale.

But we still have the potential to serve as the remaining 20% through digital tools and also by offering an omni-channel solution for clients who are only seen in person to date. We want that the 80,000 our drug stores in Brazil can access the special promotions in

our product portfolio through our representatives, through our call center or any of our digital platforms.

We are looking at the digital transformation, which has been accelerated since the pandemic. From 2019, we've created some areas in the Company to be focused on these opportunities, such as digital and business innovation departments. With this and other initiatives in the Company, we will be at the forefront and ready to take the opportunities that were created during the pandemic.

Now to talk about our operational results. Our net revenue reached BRL1.8 billion, a growth of 8% versus the second quarter of 2020 -- excuse me, 2019. This is the highest value ever recorded in a quarter since we started our operations, exclusively for the pharma industry. This was boosted by the sell-out performance which grew 7.5% this quarter, reflecting an increased demand in drugstores due to the higher flexibility of the population movements. So this flexibilization of the quarantine has increased the number of doctor visits and foot traffic in drug stores, which has impacted our sellout.

Generics have been our highlight with a two-digit growth. And just as in the second quarter, this was boosted by our strong distribution platform, which includes all points of sale in Brazil. Prescription products have -- had their demand recovering in most business units. We had suffered a strong impact in the beginning of the pandemic, especially in April. And since May, we started seeing a gradual recovery in several categories. The main highlight was dermatology, chronic, medications and vitamins, which continued to grow two digits versus last year. But the recovery has still been shy in some categories such as respiratory, orthopedic and pediatric drugs. These are categories that were more impacted by the slowdown in medicals visits.

In Consumer Health, vitamins and supplements have continued to grow strongly. They've been followed by our sweetener brands such as Zero-Cal, which has reached historical market shares. Influenza, where the Company leads, had a strong drop in the third quarter, just as it had suffered in the second quarter. Our expectation is that their impact will be smaller in the next months since this category has become less relevant in the fourth and in the first quarters. And we already see this behavior in the preliminary data from October. And this quarter, we strengthened our absolute leadership in Consumer Health, by acquiring the Buscopan brand family.

This is a leading brand in the market. And with the conclusion of this acquisition, we've taken an important step for the Company. These are strong brands that continue to grow and which will be used to extend lines with future launches in the category. And we have reinforced our Vitasay brand and we have Addera + and three other brands. We also have Maracugina muta [ph] with a higher dosage, and we also have (inaudible) a leading brand in skincare.

Innovation continues to be the basis for our sustainable growth. This quarter, we invested over BRL90 million in R&D, the highest amount ever invested in a company about -- in this Company in the quarter. And our innovation index reached 33%. We've accelerated our investments to expand our production capacity in Anapolis, and this is at the end stage of

FINAL

our execution. Our expectation is to start producing vitamins and solids and the new production plants in December. From the first quarter of 2021, we will probably see a significant increase in our capacity, which will help us with the growth we expect from the generics and similars area. This area is growing above the market, especially in a challenging macroeconomic scenario, which we will probably face in 2021.

We continue to see innovation and increased production capacity without forgetting about profitability and returns on capital for our shareholders. This quarter, our EBITDA grew, and even with the negative impact of the pandemic. (inaudible) we also had a record operational cash generation BRL455 million.

Before I give the floor to Adalmario, I'd like to talk a bit about the sponsorship we will have for chemical rights with Neo Quimica Arena. [ph] We're going to invest millions of BRL for the next few years and will be a great landmark for Neo Quimica. We will have higher exposure during games and we'll also have visibility in stadiums, and that goes for Neo Quimica and other Hypera brands, which will have streaming rights for part of the stadium. But we have a higher expectation for this initiative than just exposing our brands.

We see this as a great opportunity to have a closer relationship with our main stakeholders. Our goal is to locate, get to know and to have loyalty with the supporters of core insurance who already know Neo Quimica, and who have an emotional bond with the brand. Starting with healthcare professionals and then all consumers from Hypera. We want to get to know their habits and create a loyalty program for them by mapping, engaging and exploring any promotional opportunities we can have, focusing especially on selling Neo Quimica brands, and in the future and other Hypera product lines. We have a dedicated team for this project who'll start to implement this program in early 2021, and we hope to collect the results over the next five years.

Now, I'd like to give the floor to Adalmario, who is going to go into detail on the quarter's results.

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

Thank you, Breno. Good morning, everyone. So I'll go into details about the results this quarter, starting with sales and also expenses, and then we'll go into cash flow.

Overall, we had a great performance at growth of nearly 8% in gross and net revenue. Returns have been reduced to this quarter versus the third quarter of 2019, and we had in positive, in fact, of the price readjustments of 5% in the second quarter, and volumes also grew by 3%. So growth is quite balanced between sell-in and sell-out.

Growth this quarter was led by the good performance in a few categories as Breno already mentioned, especially chronic disease products, vitamins and nutritional products, painkillers and dermatology products such as sunscreen as people are going back to their normal activities. And the generics portfolio has also increased by two digits led by an expressive growth in volume this quarter. This strong performance was partially impacted by a part of the portfolio such as respiratory, pain and inflammation and

FINAL

pediatric products, and also and anti-flu drugs because of COVID. There was a strong deceleration when we compare to the second quarter of 2019.

We start to see some recovery in parts of the portfolio as most doctors are still not having enough visits, but flu and allergy drugs should return to the -- to their levels in 2021. This quarter, we already started seeing the benefits from the acquisitions and integration of Buscopan, which was basically concluded its sales for this quarter. It was still shy because we only had one month of sales. And now for the next quarter, we should see the full contribution of the Buscopan and Buscofem brands.

Gross margins were at 64% this quarter, a drop of 3.5%. This was due to the cost of products sold and also a devaluation of 23% of the BRL versus the US dollar. We also had an impact from MIPs [ph] because of a higher or presentation of generics, which was slightly offset by increased prices. Between the exchange impact and the mix, we had a drop of about 4% in gross margin, which was slightly offset by prices.

This quarter, we continued to invest in R&D. We had an increase of nearly 45% in R&D as we are acquiring raw materials and higher personnel, and we're also including new suppliers in our projects.

Regarding expenses. We had higher efficiency and expenses with sales of reduction in trips, a lower level of marketing expenses. There was a strong concentration in media campaigns for the anti-flu portfolio launches in the third quarter last year. And this year, we saw a reduction in these campaigns. We also had a reduction of our participation in events, conferences, free samples and promotional materials.

In the others line, we had a revenue of about BRL63 million. This included the Buscopan brand, which we had already discussed last quarter, and there were also additional fiscal credits. With that, we finished the quarter with the EBITDA margin above 36%, a growth of 32% versus the same period last year. And it's quite in line with the budget we had for this quarter.

Financial results were impacted by lower cash position due to payments from Buscopan, and other bank expenses with fees and other operations carried out this quarter. The IR line has -- had a positive contribution, especially on interest over own capital this quarter, and also the submission [ph] in the State of Goias. With that, net revenue was BRL350 million, [ph] and the total net profit grew by 29%.

Now looking at cash flow on Slide 6. This quarter we had a record cash generation in a single quarter BRL465 million. Considering the variation between accounts receivable and suppliers, our working capital investment is still below the net revenue, an increased cash generation. So it was more efficient and covered CapEx investments of BRL130 million, and a part of our R&D investments of BRL50 million. We also had an acceleration of investments in CapEx because of the expansion works for Anapolis, it represented about 80% of our total CapEx. With that, we generated free cash flow of about BRL300 million.

FINAL

Regarding financing cash flow, we issued a new debenture of BRL135 million due by 2026. So this was in line with our plan for the beginning of the year for the Takeda acquisition. In our operation, this is more than enough to pay for that acquisition which should take place in late 2020 or early 2021. We also had a rollover of the financing plan at an attractive cost, excuse me, at an attractive rate, and we also had income tax retained and we also had a new declaration of interest on own capital, which represents an increase of 15% versus the previous year. This is in line with our allocation strategy and our strategy to return capital to investors.

At the end of the quarter, our gross debt was at BRL5.5 billion, quite concentrated in our gross cash position. With that, we have a solid capital position, a very healthy balance, even considering the amount spent with the Takeda acquisition. Our leverage will be around 2 times net debt and proforma, EBITDA will continue in line with the portfolio acquired for next year.

So that's all I had from my side. I believe we had very solid results for the third quarter. We're very optimistic that the worst of this crisis is behind us. We're excited for the perspectives for the fourth quarter of 2020, where we will have the integration of the acquisitions that we began and we'll have a higher availability of products with the expansion in Anapolis, and a lower impact from the pandemic on relevant categories in our portfolio.

So I'll now give the floor to Breno for his closing remarks.

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

Thank you, Adalmario. We see a gradual recovery in the pharma industry shown by our sellout. It indicates that really the worst from the pandemic was suffered in the second quarter, so we're optimistic on our operational performance for the fourth quarter and for 2021.

This quarter, we took important steps to approve the Takeda brands with TachoSil [ph] brand being sold. We expect that important brands from Takeda will be included in our portfolio in early 2021, and will contribute towards our net revenue, making Hypera Pharma the biggest pharma company in Brazil. Our strong cash generation has allowed us to invest on our business. Our portfolio has leading brands. We have a strong innovation capacity and at the same time we are able to pay dividends for our shareholders, and continue to analyze investment opportunities in the middle of long -- and longer term, of course, keeping at a healthy debt level. We believe in the potential for the pharma industry to grow and it betters the best-positioned Company to capture opportunities in this market in the next five years to 10 years.

Now, let's continue with the question-and-answer session. Thank you.

Questions And Answers

Operator

Thank you. The floor is now open for questions from investors and analysts. (Operator Instructions) Our first question comes from Mr. Robert from Bank of America.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you. Good morning, everyone, and congratulations on your results. Breno, what is behind this major increase in R&D expenses? And can you tell us about your pipeline and what organic and inorganic opportunities you see? Secondly, what should we think about the marketing investments? Finally, I was very impressed at your SG&A cuts; how much of it is sustainable? Thank you.

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

Thank you, Bob, thank you for your questions. Starting with investments in R&D. Basically, we have two changes. What's here in the P&L line is related to maintaining approvals, so it addresses new requirements from Anvisa. This quarter, we also had a higher R&D expense, which will continue to be higher because of the production transfers to new areas. When you transfer a production from one new area to a different area, you have to go through an entire process and make sure that the new machines have the same efficiency as the previous ones and the same efficacy. So that also increased our expenses recently in R&D.

There is a new resolution from Anvisa 348, that allowed companies in the pharma industry to accelerate their approval process because of the pandemic, so they can get new active principles quicker and new products approved. So we along with several competitors have made use of this opportunity to avoid -- to register new suppliers and avoid any supply chain rupture since we nearly had one at the beginning of the year. So that accounts for the R&D expenses and the P&L line. So what we can capture from that is basically the new products portfolio, which is what we've been investing in focusing on the long term, so investments made now only have results in two years to three years as products get approved by Anvisa.

So one point I'd like to highlight here is that our innovation index is quite high. A major part of our revenue comes from new launches. We know, and we've said this in many occasions that this is the case, growth comes from innovation. So that is something that we cannot avoid and what we're investing in right now, will bring us results in a couple of years. And the results we're getting now are from the investments we made two years to three years ago.

Regarding marketing expenses, they are now at around 18% to 19% of our revenue. We believe that for 2021, it should remain at that level. What we've done is try to make these expenses more efficient. And media investments, for example, have grown, especially in digital media, which we believe has a better conversion rate, and this is an area where we can split investments across more brands in our portfolio.

We can also gauge our conversion better in sales. As we invest in digital media, we have a much better-defined target for consumers of a certain brand. So we've been trying to

FINAL

become more efficient, of course, in offline media. We've been negotiating with major channels on broadcast stations, so we've been trying to find more efficiency there. We are seeking opportunities, which are more in line with our portfolios.

Regarding the G&A cuts, I think this also includes some of the sales expenses we had in our past, such as marketing. We made a big effort now during or after the impact we suffered from the pandemic, and we tried to gain inefficiencies, especially with marketing expenses, so SG&A changed as a whole. We're working on our budget for next year, and we believe that some of these gains will be captured next year again. But what we've been trying to have is more efficiency, not necessarily reduce investments. So we want to reach a higher number of, for example, physicians when we talk about doctors visits. Through this hybrid model, our goal was to see more physicians and not reduce the number of staff members.

Just as with other expenses related to marketing, I think that with the pandemic, the scenario has changed a bit. You know, conferences are being held online. We are able to have much higher efficiency in our investments. This is not related to the pandemic, but we're also working on having more efficiency in using free samples. So on the G&A and expenses as a whole, we also had cuts in traveling, so it's clear that we can do a lot of the work remotely through remote interactions. And I think this is here to stay, so next year, I think we will be more efficient with our expenses and we'll be able to generate higher demands with the same investments.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you. That was very clear. Congratulations.

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

Thank you, Bob.

Operator

Our next question comes from Mr. Tobias from Citibank.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Hi, Breno, good morning. A quick question. Can you give us an update on how negotiations are going? Is there anything you could tell us about that? Also, you suffered an impact from the exchange and maybe you've started to recover on that side. So -- but how do you see margins? Thank you.

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

Hi, Tobias. Regarding any possible deals that the Company might have with their authorities, as was said and other occasions, we are doing the best for the Company and the best for our shareholders. But unfortunately, we don't have anything we can tell you about that.

What we can say, and this is something we've said and other occasions is that this will not impact the Company's business. So when we talk about clients, suppliers, partners, this will not have any impact on our business. We are contributing to with our authorities, and our goal is to resolve this issue as quick as we can. But unfortunately, I can't give you a timeline. I can't give you a timeframe.

As for margins, Adalmario will answer.

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

Hi, Tobias. So with regards to gross margins, we have suffered an impact and reduction since last year because of foreign exchange changes since the beginning of the year. We are basically seeing our margins recovered gradually over time as we work with the new level, with a new exchange rate and for the next years, we'll probably have price readjustments that will offset the new exchange rates. For this year, we've already hedged for the fourth quarter. We already hedged in the first half of the year for the rest of the year, and we're looking at the best level to start hedging for 2021. So this is something we're doing now as we plan the budget for 2021.

So two things that will impact margins for the next years are acquisitions, so the products portfolio that we acquired has higher margins than the average in the Company. So we should be working with higher margins next year gradually as we perform integrations and capture synergies, especially tax benefits, and also the new products pipeline. Next year, we will start having a higher number of launches. And then, many of them will have higher margins than we have on average in the Company, which should also increase margins for the next year and for the following years.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Great. Thank you.

Operator

Our next question comes from Mr. Joseph from J.P. Morgan.

Q - Joseph Giordano {BIO 17751061 <GO>}

Hi. Good morning, everyone. Good morning, Breno and Adalmario. Thank you for taking my question. I'd like to understand a bit about what your thinking about capturing synergies from Buscopan and Buscofem? The acquisition will be concluded soon, so I'd just like to understand what we should think about for the synergy curve?

And secondly, how is it going with regulators to approve Takeda assets? Should we consider that it will be completed by the end of the year? And finally, how do you see acute medications recovering? This is a relevant part of the portfolio that has taken a hit, so how do you think that will do over time? Thank you.

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

FINAL

About the synergies with Buscopan, basically, the integration process is over. We've already started to capture from -- the personnel we got from Boehringer [ph] which was very small, they've already been on-boarded. So in terms of synergies and points-of-sale, we've already captured that. Point-of-sale activities and sales have already been included in our team from day one.

I think the next step in terms of capturing synergies will be making production internal. So one of the steps will be taken now in early 2021, and it will be completely internalized probably by the end of 2021. So that's when we will capture 100% of synergies and start 2022 with 100% of our synergies already captured.

With regard to Takeda, well, we're still going through the process to get everything approved by (inaudible) A strong step was selling the (inaudible) brand which was an important step for the transaction to happen. And in terms of timing, we believe that it will probably be approved by early 2021, probably between January and February. But everything is running smoothly according to plan, and as for synergies, we start capturing them quickly as soon as we can internalize these productions and as soon as we -- are approved. And bringing the production into the Company takes a longer time. We have many products so it will take at least three years for all of the Takeda brands to be produced by us.

You had asked about acute medications. We already see a slight improvement in sell-out there. This is happening as you know, life goes back to normal here in Brazil. We are seeing more doctors visits, schools are starting to reopen, so kids are interacting and going back to normal and they start getting sick again, going back to the doctor again. And that is a relief for us. We see that there is a gradual recovery every month for that part of the portfolio.

It's important to mention that we might even have a better level in 2021. As we said, the performance for chronic drugs have increased a lot. You know, as we had said, it was dropping in late 2018, early 2019, and this has been reversed. So we have good expectations at this new level. This higher level for chronic drugs will remain and acute drugs recover in the next months, so it could be that the new normal has an even higher sales level for the Company. But we'll have to monitor and see how it's going over the next months.

Q - Joseph Giordano {BIO 17751061 <GO>}

Great. Thank you, Breno.

Operator

The next question comes from Ms. Irma Sgarz from Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Hi. Good morning. I'd just like to ask a bit about your competitive environment, both for generics and for similars. Obviously, we've seen a major increase in competition. We

know that retail has become more competitive in the last years, so what do you think the current environment is like in that segment?

Finally, on retail in the pharma industry, we are seeing many companies obviously, reaching the capital market. Of course, this is the moment for them to expand. So I'd just like to know if that has changed anything about your commercial teams or your commercial dynamics? Thank you.

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

Thank you, Irma. So to answer your first question on the generics market. The market there is still a very dynamic. That category is growing more than above the average for a long time it has. So we believe it will continue on that same trend and we might even see that movement increasing in 2021. We know that the economy in Brazil was not as impacted than other regions, especially because of government aid which has now been reduced and will no longer be given.

So with that, we believe that the macroeconomic scenario is still challenging, and there generics and similars usually perform better. There is a trade-down, so I think we are very well positioned for that to happen. We've been investing since 2019 in that. That was a bottleneck for the Company in the past and now if the demand does increase as we expect, we do have the capacity to meet the demand, which should take place in 2021.

Recently, we have been able to gain market share in this category, especially through new launches. So our pipeline was focused on brand initially, especially for Buscopan, and now we start seeing a higher presence in our own pipeline, and in the business development pipelines through partnerships. So we are now having a higher offer and a higher capacity. So we believe that we are very well positioned to capture the growth that should come in the generics and similars segment.

You had asked about the retail and drug stores, and how competitive it is. We see that our clients have more capital now, but we haven't seen the business is changing. But we do see it with good eyes. For Hypera, it's very good as more players or as major players start having more stores with more points-of-sale for us to be able to sell our product portfolio.

So as soon as we conclude the Takeda acquisition, we'll be leaders in the pharma industry. So we see this with very good eyes

Q - Irma Sgarz {BIO 15190838 <GO>}

Thank you.

Operator

Our next question comes from Mr. Kayu [ph] from Morgan Stanley.

Q - Kayu {BIO 19694021 <GO>}

FINAL

Hi, everyone. Thank you for taking my question. I'd just like to understand what your gross margin GAAP is between your different segments? I'd also like to know if you've been able to gain gross margins in generics due to your higher efficiency. Thank you.

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

Hi, Kayu, how are you? Yeah. Our portfolio, as you know is diverse in the pharma industry. So we have a strong position and the high margin categories such as prescription products and over-the-counter products, but also products with lower margins such as generics. Similar are around the middle there.

In the case of generics, especially, generics, there is a great margin variation per molecule, and it depends on investors coming in and going out in several markets to be able -- for us to be able to work. And depending on what molecules are there, that affects our margins. The most important thing with generics is to have a good market coverage with the highest number of molecules possible and make use of the volatility we have in the market, which is normal. As competitors step in and out, we assess what margins we want to have in each molecule. But I think overall, we've been expanding our portfolio through our pipeline, as we said, and our goal is to increase our market coverage by 50%. And we hope to do that in the next years with new molecules.

Q - Kayu {BIO 19694021 <GO>}

Great. Everyone, thank you.

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

Thank you.

Operator

The next question comes from Mr. Gustavo from Bradesco.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good morning, Breno and Adalmario. Thank you for taking my question. So I have two quick questions. First on marketing, especially television marketing. I'd like to know if you are going to invest more on that in the fourth quarter? And how you're doing with your suppliers, for example, with global since you have a major contract? Do you see that you will pay less now and then [ph] you pay only what you use next year? Do you have any contracts so that you don't lose money there for not running anything on TV?

You also mentioned that you had less expenses -- variable expenses with sales. So maybe because of the pandemic, you are selling fewer products that have variable lines. Or was this due to a different factor, if you can answer that, please?

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

Hi. Regarding media contracts for offline media and specifically television, we're still negotiating contracts for next year. So right now, we don't have anything really that we

Bloomberg Transcript

FINAL

can share, but the negotiation we had this year was very good. We got a lot of visibility and we were able to capture the best spaces on -- the best time slots on TV and with the other TV stations we work with. So for next year, we're still negotiating, but we will continue to be strong on online and offline media. We usually negotiate these packages together, online and offline. We want to continue to invest but also increase the percentage of what goes online.

With regard to variable expenses, this quarter we did have a reduction in PPRN premiums, what you call, you know, variable remuneration, and that was especially for our field staff and field representatives. But I think what had the biggest impact here were the contributions this quarter. We saw a reduction and a part of the reduction we had in the second quarter and the third quarter for social security contributions should return on the fourth quarter. So a part of the reduction we had from social security contributions will return on the fourth quarter.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay. Thank you.

Operator

The next question comes from Mr. Gustavo [ph] from Itau BBA.

Q - Gustavo {BIO 16003059 <GO>}

Good morning, Breno and Adalmario, thank you for taking my question. I'll be very quick. I'd actually like to ask about Consumer Health. You said a word [ph] that vitamins were a positive highlight, but on the other hand, we saw a slower performance in anti-flu medication. So I'd just like to know what is due to temperature, what is due to COVID, if you see this category becoming normalized in Consumer Health, especially in the fourth quarter, considering how relevant it is in your portfolio? Thank you. That was all.

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

Hi, Gustavo, thank you for your questions. I think right now, we are seeing many changes, and it's very difficult to know what comes from each part. But we think that the main effect is the pandemic, with COVID people are staying home or when they do go out, they are wearing masks. We're having less contact, people are walking less on the street, circulation is lower, so I think that's the main factor and it's more important probably than temperature in terms of anti-flu medication performance.

As I said, in the beginning, we see a reduction of the impact this quarter for a couple of reasons. First, people are walking more -- they're going out more and this portfolio is you know, losing relevance now in the fourth and first quarters because of the summer. We're not in the seasonal part of the year where people have the flu. But how will this market behaves next year, it will really depend on how we're going to be doing by next winter with regards to social distancing and vaccines and so on.

Bloomberg Transcript

Assuming that things go back to normal, we think we have a strong growth potential for the category. Since 2020 won't be a relevant basis for comparison here in our budget, we're looking more towards 2020 -- excuse me, 2019 a much more than having a comparison with 2020.

Q - Gustavo {BIO 16003059 <GO>}

Great. That was very clear. Thank you.

Operator

(Operator Instructions) The Q&A session is now closed. I would now like to give the floor to Mr. Breno for his closing remarks.

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

I'd like to thank you all for listening to today's call. And our Investor Relations team is available if you have any additional questions. So please do ask. Thank you, and have a good day.

Operator

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

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.