

Y 2021 Earnings Call

Company Participants

- Adalmario Ghovatto Satheler do Couto, Investor Relations Officer
- Breno Toledo Pires de Oliveira, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Analyst
- Caio Moscardini
- Joseph Giordano
- Mauricio Cepeda
- Robert Ford
- Vinicius Strano

Presentation

Operator

(Call Starts Abruptly) (Operator Instructions).

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

Meaning that Hypera entered the biggest therapy class in Brazilian pharma retail. We're also the first to launch melatonin products with melatonin, Vitasay Melatonina and Neo Quimica Melatonina as soon as Melatonina was approved in Brazil by the authorities. Our innovation teams deserve Kudos. Because we are the Pharma company that most launches product in Brazil. And they really made a difference in 2021 once again. I'm not going to talk about all launches we have this year, it was over 80 new products, but we expect that these products will add about 1 billion to our gross revenue in peak sales. 2022, we expect to launch over 100 new products across all segments, which according to our expectations, may add 1.6 billion to our revenue when we reach peak sales, as you see on Slide 5.

Another important step that we took in 2021, was expanding our production capacity which we will discuss further on. In 2018, we decided to increase our investments in production capacity in our plant in Anapolis, to meet the growing demand for our product and also for new launches. We concluded a project and expanded our solid production capacity by 75%. And we have already been seeing the benefits of that expansion in the company's recent growth. We've also advanced in expanding our vitamin production capacity, a strategic segment for Hypera which has already been growing at a fast pace in the last two years. We should reach a capacity of over 1 billion pills per year at the end the

2022. Besides that in 2020, we also invested in tripling our injectable production capacity by 2023.

It will also support our new initiative to grow into the institutional market, which I will mention on Slide 7. The institutional market corresponds to about half of the total pharma market in Brazil, and it's been posting consistent growth rate of two-digits in the last two years. As we said in the last Hype day, in 2021, we set our strategy and we started organizing our stroke -- our structure to go into the institutional market. We have over 20 experienced professionals who are dedicated to this new business unit, and we are creating a research and development area for the institutional market. We're also developing a pilot plant with over 10,000 square meters in Sao Paulo to support our growth in that market.

The company has mapped over 70 molecules to be launched in the next few years in oncology, specialties and biologicals and we are complementing our work through biodiversity potential market of 11 -- excuse me, BRL12 billion. We hope that this new business unit can represent about 15% of our revenue in five years. We recently got an approval with ANVISA to temporarily sell immunoglobulin given that this molecule is facing shortages in Brazil. We're happy to take that important step and help the Brazilian population to access the molecule in such a critical moment for the market. Immunoglobulin is one of the biological products in our new products pipeline, and we hope to get a definitive approval for the molecule within these in the next few months.

Besides some important operational and financial advances this year, we have made significant strides and several topics related to sustainability in our business, and we have not lost sight our commitments to conserving a good environmental well being for our stakeholders. We entered in dermo-cosmetics with Bioage, and we announced an acquisition of 12 brands from Sanofi that includes iconic brands in Consumer Health such as AAS, Naturetti and Cepacol, besides some prescription drugs like Buclina and Hidantal. We expect to conclude the acquisition very soon depending on approval from monetary authorities.

Another important point advance this year, was the creation of the Hypera partner program, our omni-channel B2B platform allowing all drugstores in Brazil, to have access to innovations and special conditions in our products portfolio. In 2021, we sold over 100 million -- through that platform and we hope to reach 300 million in sales through the platform in 2022.

Moving onto Slide 7. Once again, we were certified as a great place to work. And we started we started integrating the anti PTW portfolio from B3 in the last quarter. We also got an approval from Women on Board to how women are represented in our board. And we also evolved in the main global ESG rankings such as the Dow Jones sustainability index, MSI, and CPD. We also joined the Juntos pelo Araguaia project that will increase water availability in the Araguaia basin through forest and forestry conservation and soil conservation initiatives. We will continue to invest in sustainable growth and in the well-being of our stakeholders without losing sight of our commitment in compensating our shareholders. We approved payments of interest on own capital of BRL779 million, BRL1.23 per share, 5% above what was approved in 2020.

FINAL

Before passing over to Adalmario, I just like to quickly talk about changes in our administrative structure that we announced yesterday. Adalmario will now focus specifically on innovation, business development and digital new businesses and Investor Relations. And all other financial attributions will be passed to Ramon. Ramon has been working for the company for nearly 10 years and he has worked in planning projects, and he was already the company's Financial Director in the last two years. We'd like to wish all the best to Ramon who is now the CFO at Hypera, and Adalmario, who will focus specifically on initiatives to boost our long-term sustainable growth.

I'll pass it over to Adalmario, who will talk about this year's results.

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

Good morning, everyone. I hope you are all doing well. Thank you, Breno. Thank you for your confidence in these new responsibilities. It's an honor to be able to be closer to the company and help us grow through the sales of new products and new categories here in Brazil. And I hope, we can continue having innovation in our power brands. As you mentioned, in the last year, we were able to launch several products and we still have a lot of potential ahead of us with the products to be launched in 2022, and everything we have in our pipeline. We've also also invested significantly in acquisitions, partnerships with startups, and creating new business models in the company, which is the case for E-commerce, B2C, loyalty programs, and the partnership that you mentioned.

I think, there are several opportunities ahead of us to add categories to our portfolio to look into new channels and new opportunities. Looking at fourth quarter figures and figures for 2021. We had an exceptional fourth quarter. One of the best ones in the company's last three years. I think we were able to clearly show that Hypera is operating at a different level now. Our sales were 43% above what we had in the previous year, quite leveraged by the Takeda acquisitions and some other smaller acquisition like Bioage and Simple Organic, which added about BRL300 million, a total of BRL1.6 billion. When we compare to the previous year and excluding acquisitions, our growth was nearly 16%. And a lot of it came from 10% volume increase and the rest from price increases.

The main difference in this quarter, is that our main growth came from consumer health and prescription brands, which is different from what we had seen in previous quarters while The biggest share came from generics. Gross margins were above 62% this quarter, up 1 percentage points comparing to 2020. Even with increased prices from inputs and transformation costs, we were able to get better margins. Especially due to a better mix and the brands we acquired from Takeda. Increased sales in our traditional brands and Anti-Flu medication and due to foreign exchange effects given our hedge policy which had a very positive effect.

For this year, we've basically hedged 100% of our purchases for the next 12 months, and we are using this reduction in the last few days to increase our protection. Considering expenses, we had a relevant drop across all expense lines as a percentage of revenue, expenses in sales marketing and administrative put together used to represent 38% of our revenue and now they are under 28% this quarter. A reduction of nearly 4 percentage points in marketing and sales. These are the main expenses that the company has. And I

Bloomberg Transcript

FINAL

think that demonstrates very clearly for one more quarter our potential synergy as we bring in new brands and launches into our platform.

So that concludes our quarter, with EBITDA margin of 35% and EBITDA of 571[ph] million a growth of 61% versus the same quarter last year. The financial results were impacted by higher leverage in company that position and also the variable cost of our debt, which is fixed with the CDI. So our growth was nearly 12%. When we look at a snapshot for the year, it's clear to see how 2021 was transformational for the company. 45% growth on net revenues and then organic growth above 15%. Our gross margin in 2021 was at the same level of 2020, with price increases and integrating acquired brands which offset foreign exchange pressures and higher input prices. SG&A expenses represented 32% of our revenue in 2021, a reduction of 6 percentage points versus 2020. And here, once again in marketing, although there was a reduction as a percentage of our revenue, we increased our investment by BRL250 million, our investments in media, CDP and representatives for medical visits.

We also added BRL60 million in expenses with sales teams. And we continue to invest in new projects to develop our R&D. With that, our EBITDA was above BRL2.1 billion, 46% growth and margins above 35%. Net profits above BRL1.6 billion and a growth of 22%. This figures are above the guidance for 2021. Revenues are slightly above the guidance and EBITDA above -- and net profits above it by 4%.

Continuing with our cash flow and working capital on Slide 11. Our working capital had a reduction at the end of the year in accounts receivable and suppliers, and this was due to the consolidation of the acquired brands from Takeda and Buscopan. On accounts receivable, these brands have lower terms with our clients. And on accounts payable, we also have some terms to pay our suppliers, which are lower than what we had negotiated with our other input providers. That also reduced our accounts payable from the fourth quarter of 2021. As the products become more internalized, we have some room to grow and to improve accounts payable. And we will begin that process for Buscopan in March, and in Takeda, we are expected to begin in 2024.

This puts us at ease with our liquidity levels. We're at a very solid position with record occupational cash generation, and above 16% growth versus last year. With the cash generated, we can maintain our capital allocation priorities and optimize how we use our operational cash in investing in increasing production capacities. We will also have a production pipeline, healthy production pipeline and invest in future acquisitions that will add to the company's portfolio. And any excess cash will be given back to shareholders in the best way possible. The company generated more than enough cash to cover our CapEx investments, which were at a record high this year above 180 million, which was what we invested in 2020, and also all of our R&D investments part of which have been activated.

And our funding flow, we had a positive balance which reflect new issuances that brought in cash about 2.2 billion and also interest rate payments. And especially re-buying shares and gains in investment hedging. So we finished the year at nearly BRL2.3 billion in cash, a net debt above BRL5.1 million. And when we adjusted to the GCV paid in 2021, and the

Bloomberg Transcript

Sanofi brand payments that should take place in the next few days. Our net debt will be around a BRL6.5 billion or 2.5x the EBITDA estimated for 2022.

I'll now pass it on to Breno, who's going to talk about the financial projections and final remarks on Slide 12.

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

Thank you, Adalmario. 2021 had important advances for Hypera. About BRL2 billion invested in production, innovation and promoting our leading brands to strengthen our business platform even more. We invested more than any other Brazilian pharma company invested in 2021. These investments contributed to the company so that it could expand its organic market share in 2021 and also, we could start 2022 with our strong performance. The first two months is showing that our sell out will grow to above 30%.

This underscores how we can continue to be the best prepared Pharma company to capture growth opportunities in the Brazilian Pharma industry. Based on our recent performance we also announced our guidance for 2022 which are, net revenue of BRL7.4 billion and adjusted EBITDA for continued operations excluding other revenues and expenses of about BRL2.65 billion, and net income from continuing operations of around BRL1.7 billion.

Well that concludes our presentation. Thank you, everyone. And we will now continue with the question-and-answer session.

And we will now continue with the questions-and-answer session.

Questions And Answers

Operator

(Question And Answer)

Thank you. We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) Our first question is from Bob Ford from Bank of America.

Q - Robert Ford {BIO 15127836 <GO>}

Thank you. Good morning, everyone. Congratulations for your results. And (Technical Difficulty).

A - Unidentified Speaker

Thank you for your questions, Bob. Now, I'll answer in Portuguese, and I hope that you're listening to the simultaneous translation.

Q - Robert Ford {BIO 15127836 <GO>}

No, no problem.

A - Unidentified Speaker

So to answer your first question on Bionovis, when we talk about the addressable market BRL12 billion. We're talking about the market that Hypera will be working on directly through our new business unit, and that excludes the Bionovis market.

The addressable market for Bionovis is about 30% of our total institutional market. So that's about BRL18 billion. So that BRL12 billion is in addition to what Bionovis has been boasting. So, we're focusing on monoclonal antibodies, which is their in area. And this of course includes biological medication, but not monoclonal antibodies. And also medical specialties and oncology that is what we're focusing on directly with the team I mention has 20 people, that we're putting together, which will represent hopefully 15% of our revenue excluding Bionovis. That's the joint venture that we have a 25% share of focusing on biosimilars.

So, considering your second question, Bob about the OTC market. Congratulations on the report you published recently by the way. OTC as a whole represents about 50% of our portfolio. All medications that don't require prescriptions to be retained, and also the dermal portfolio, which has a similar profile. And that's a strength of our portfolio of 50%, because when it's done correctly with all the right investments into marketing, everything being done efficiently for brand visibility in media and BOSS [ph], it buffers our business, it protects our business. So you can see that in developed countries that have fewer generics or own brands.

Branded products still have great margins and also allow us to carry out our strategy, which is our core business extending the line using umbrella brands, strong brands to extend our product portfolio on that brand. And through that, we are much more efficient in our marketing expenses. So that's it. Unilever recently had a bid as you said in your report. That was 18 times on the GSK portfolio and it was accepted. So, that's the major strength in our portfolio.

So, to answer your last question about Simple Organic, we're very optimistic about the acquisition. We have about 65% of the company. The entrepreneur who created it has still running the business and we hope that the company will be a separate entity to keep its agility. It's been doing very well, and 2021 it tripled its income, and it's expected to double it again. So besides that, we have also been learning a lot from it in Hypera, and that was the main reason behind this investment, especially in cosmetics and the direct-to-consumer relationship.

We also recently launched our website in direct-to-consumer cosmetic products. So the business has been doing very well. And it's going to start selling in the US as well. Simple Organic is going to start a new growth phase selling online in the US. And it will focus on that model of Brazilian beauty. So we're very excited about these investments. I think that answers all of your questions, right?

Q - Robert Ford {BIO 15127836 <GO>}

Yes. That was very good. Thank you.

A - Unidentified Speaker

Thank you, Bob.

Operator

The next question will be asked by (inaudible) from Itau Bank.

Q - Analyst

Good morning, everyone. Thank you for taking my question. So the first thing I'd like to talk about is a Generics. Your Generics portfolio is very relevant considering your launches for 2022. But, we've seen slightly lower sell-out performances are lower than the market. So, can you tell us about what you're mapping to accelerate our organic growth in this category? My second question is, well for your 2022 guidance, the EBITDA margin we're seeing excluding other revenues and expenses is above what we have been expecting. So, we would just like to understand how much of that came from these Sanofi contributions, or is that a synergy that is being better captured than you expected? That's basically it. Thank you.

A - Unidentified Speaker

Hi, Vinicius [ph]. Thank you for that question. So let me answer your first question on Generics, and Adalmario will answer your second one. Generics and Similar, the brand grew slightly below the whole market performance. But for the last quarter, we see that it's been picking up steam. So it's a market that faces tougher competition, but that's a part of our strategy. We want to grow above the market average. We're trying to lead the pharma industry and that's the fastest growing segment in Brazil. So we have to play there.

With that being said, although, we're facing a tougher competition. It's still very profitable for the company. Considering our cost structure, there is a lot of synergy with other business units. So it's still very profitable for Takeda.

To look ahead, what the strategy we're looking at is. Well, in the past, we focused on having a higher stake in other therapeutic classes, having more coverage in Generics. We launched several products, several molecules in the last years and months.

Again, Rivaroxaban, we were the first to launch it with medical promotions, and the second to launch it in the Generics market. And now, we've also been seeking cost reduction, so finding efficiencies in manufacturing and also sourcing raw materials. So, that is a core. In this market, if you have the best cost, you're going to stand out, and that's why we're trying to get more suppliers and more options in input suppliers at the lowest cost possible.

So, that's our strategy. And of course, we will continue to invest in processing, which we have already been doing, and will try to be the first to launch molecules once patents are broken. So, with Rivaroxaban, we were one of the first and that's our goal from now on, especially looking at many patterns will be broken as there is a new understanding from the Supreme Court in Brazil about how patents can be broken. So I'll pass it on to Adalmario, so he can answer your next question.

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

Hi, Vinicius. So incorporating Sanofi brands to our portfolio, do help with our margins, because the gross and the EBITDA margins for these products are above the company and that connects to our potential synergies, which we have shared with you before.

So that will take us to much higher EBITDA margins that what we have in our portfolio. And absolute terms, they're not that significant, but in proportional terms, the acquisition is one of the ones that has most given a synergies as a percentage of our income, our revenues. So we're going to bring these brands to our platform without any additional investments in Personnel or structure.

We're going to use the same structure we have today, which is one of our strengths. We have one of the best structures to visit stores to market to do medical visits. As we've done last year, so we're just adding the Takeda brands and also using the same infrastructure to promote the prescription brands that are coming through the Sanofi portfolio.

So, besides these Sanofi acquisition and integration, there are some other factors that have been contributing towards our margins. The main one is higher prices, which we are expecting in early April, and also the higher demand that we started seeing last year and that will continue throughout the first quarter, especially for OTC and Consumer Health brands and also prescription brands. This is a part of our portfolio that has above average margins. So, there were a number of factors that gave us confidence in the guidance we gave you. And margins should continue to be higher than what we delivered in 2021.

Q - Analyst

Great. Thank you for that answer.

Operator

The next question will be asked by Mauricio Cepeda from Credit Suisse.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Hi, everyone. Good morning. Thank you for taking my question. I have a couple of questions. Of course, within what you can say, but if you could tell us a bit about how your agreement with the general prosecutors have been going on the past investigations? We just like to get some perspective on that?

FINAL

And I also have a question about your receivables. You're at a very good moment when it comes to sell out. Your working capital seems to be stable, but if wouldn't this opportunity -- that wouldn't this be an opportunity to reduce your inventory levels, and could that help you to have greater bargaining power with your suppliers?

I have another question about the ecosystem. You are developing several new products in retail and some institutional ones. And then I just like to ask what percentage of the retail market is still untouched by your generic. So, how much space do you still have in retail, and considering that in the last few years, many of your innovations have been in the institutional space. I'm just wondering if there's a lot of opportunity in retail. And I'll stop at that. Thank you.

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

Hi, Cepeda. This is Breno. So, I'm going to answer your questions in reverse order. If I understood it, right? You're asking after all of our new launches. How much wide space there still is in the generics market or in the retail market that we can work with.

Today, we're at about 60% of generic molecules. So there's still a potential of 40% that we can work on. We've mapped that, we've been developing and trying to get higher coverage besides the markets that will still be created in Brazil, as patents are broken. There are some categories that don't have any generics yet. So, that will provide us with a lot of opportunities for growing in the next years.

You asked about if there's any opportunities to reduce receivable levels? And we are operating at a higher inventory level than the average in the pharma industry. That was significantly reduced when we made some adjustments in 2019, and our goal is to keep it the way it is.

We know there's an investment in working capital. But we believe that the benefits outweigh the costs. So having some more inventory with your clients does not come at a higher cost for the company nowadays. There is some working capital cost, but when it comes to margins, that doesn't come at any cost for the company.

And it gives us an advantage just as we recently saw with the demand boom for anti-flu medication, painkillers, fever medication. So, we had a high level of demand since December. And we were able to perform better, and I think part of our success in gaining market share in these categories was due to the fact that we had products available when there was a sudden spike in demand on the short-term. So we will continue with that strategy, and again, that doesn't have any additional costs besides our working capital for the company.

So, to answer your question on a possible agreement. Again, I'll repeat what I've said during the last calls. The company is focusing on that. We have been working on it. It is a priority for us. We want to solve it as soon as we can. But unfortunately, we have no news to share on that end. What I can say is that, we are much further along than we were three or four months ago when we had our last call.

Bloomberg Transcript

FINAL

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Great. So, just to ask something else in the 40% potential is the number of molecules, right? And how much is it worth in the retail market?

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

No, when I said 40%, I meant market value. The number of molecules I don't know, but it's probably similar, but I was referring to market value when I said 40%.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

And are there any big opportunities besides the one that to add to that?

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

Yes, there are several other great molecules. Apixaban is going to have its patent broken, and it's similar to Rivaroxaban. And I think it will be broken in September. So there are several other markets that really picked up steam with patents being broken. And we intend to be the first few to go into those areas. Adalmario can add some more information to that.

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

Yeah, we mentioned that during the hype day. But there is a very significant market for anti-diabetes molecules, and several of these molecules will be -- will have their patents broken later this year.

And we have many of them under development in our pipeline. And it's a huge market that will also start seeing some patents being broken this year and next year. So we really expect that this market will take off. We're talking about Generics and other brands that are prescription that will be added to the market.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Okay. Thank you.

Operator

The next question will be asked by Vinicius Strano from Bank of America [ph].

Q - Vinicius Strano {BIO 20854812 <GO>}

Good morning, everyone. This is actually from UBS. But thank you for taking my question. Again, congratulations on your results. If you can tell us a bit more about your guidance. What gross margins are you expecting, and what level of foreign exchange rates that you consider for the guidance? And considering Melatonum, can you tell us what is the addressable market? And what market share do you expect to get in that segment? That's all. Thank you.

A - Unidentified Speaker

Sure. I'll take your question. Gross margins should be at a similar level to what we had in 2021. Probably no major changes there. Foreign exchange as I said, 60% of our expected purchases from the next months are locked at around 130, and we've been making use of this reduction in the last few days to increase our exposure. So, it should be below 130. But our projection was 5.3 for the guidance.

Considering the Melatonum, I think everyone knows, but this is a huge market in the US and in other countries in Europe. And it only began in Brazil in October when it was approved by the authorities. So, we were the first company to launch a Melatonum product in the Brazilian market. And we basically launched it across all of our categories. So, we have one brand that is prescription that has a different formula in our Vitasay line, we also launched it and under Neo Quimica as well.

So, we were not only the first, but the company that also most launched different products since it was approved. And we see that this market will expand quickly. There are several indications for Melatonum, not only moderate and light insomnia, but also some other indications that were exploring.

And it can also be associated to other ingredients. So it's a promising market and we hope to explore it or explored the strength that Hypera has of being in several market segments. So that we can make melatonin available to several targets under several indications.

Q - Vinicius Strano {BIO 20854812 <GO>}

Great. Thank you.

A - Unidentified Speaker

Thank you.

Operator

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

Q - Joseph Giordano {BIO 20154008 <GO>}

Hi. Good morning, everyone. Thank you for taking my question Adalmario. I'd like to talk again about synergies. We've seen that operational efficiencies have been gained in operational areas and marketing. So when you look at your portfolio expansion strategy across all brands, how is that line going to behave?

We also would like to hear more about R&D. We see that you have invested more in R&D because of the market opportunities that you've been seeing. And within those opportunities, have you been looking at any potential partnerships for certain products with outside companies that already have, I already have some experience with that pipeline? Thank you.

FINAL

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

Hi, Joe. So, concerning reduced expenses in SG&A, I think you should expect it to dilute, of course, less than what we saw in the last year. But when we have any acquisitions, basically, what we're buying is especially gross profits. We announced some deals, and we were basically buying gross income. Of course, the structure has increased, but it's a very small share of the revenues brought in by the business.

Basically, we have Takeda results, practically incorporated in our business, it was only in January -- the January figures that weren't, and Sanofi will be of course smaller this year, and we don't expect to have to add any infrastructure to add these new brands to our portfolios.

Considering R&D, we don't expect any relevant increase in R&D expenses right now. We have basically reached our capacity in the retail market. Our R&D will remain the same. So, those are the levels will continue with. There should be some slight increases considering the institutional or hospital market, but they are not so relevant yet. They might grow over some time, but they will probably not grow as a percentage of the revenue. I think we've reached a peak of our R&D investments as a percentage of revenue.

Yeah, and to answer your next question, concerning partnerships. We have been developing that area business development in the last few years, we've had great partnerships and great launches for the next years. We have over 50 partners currently with Hypera, many of them. Well, we've launched over 10 products with some of them.

So, We hope to continue to expand the number of products that we have with our partners and maybe start new partnerships, especially with technologies and pharmaceutical formula that we don't have in Brazil. I think that's our major focus. And considering the hospital or institutional segment, our growth will be based on partnerships initially as Breno said.

We're still going to develop our R&D, our pilot plant, so that we can develop our own products in home. But we want to get a higher share of the market through our partners at least initially. So it should go up from the 50 partners we have now, it will definitely go up. That's exactly the same strategy we used when we began, when we began focusing on innovation in 2016 or 2017. It was exactly the same. We started our first steps through partnerships, and then over time, we put our portfolio together having our own products.

Q - Joseph Giordano {BIO 20154008 <GO>}

Great. If I can refer back to R&D. When you say that there should not be major increases, are you talking about nominal terms or as a percentage of your revenue?

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

So both in nominal terms as well as a percentage of our revenue. Probably, nominal on the short-term and on the medium term as a percentage of revenue.

Bloomberg Transcript

Q - Joseph Giordano {BIO 20154008 <GO>}

Great. Thank you.

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

No problem, Joe.

Operator

The next question will be asked by (inaudible) from Citibank.

Q - Analyst

Hi, good morning, everyone. Thank you for taking my question. I think most of my questions have already been answered. But I just like to know if you can tell us a bit about sell-out growth in the beginning of the year. You've answered a previous question. But if you could give us some more color on what's leading that growth? And also, I'd like to ask about your leverage, which was a 2.5. If you still believe that you have space for bigger acquisition, if you're looking at anything at that level you had in the last months? Thank you.

A - Unidentified Speaker

Hi. So, to tell you about our sell-out, we've been seeing a positive moment since last year. A big difference we saw in the market was that previously, especially with the new COVID wave, people started treating COVID as it were just a flu, which is very different from what we saw in the past and the beginning of the pandemic, where we had a very negative impact to our portfolio, especially in the second quarter of 2020.

And it was different this time, but besides the additional demand that we've been seeing due to the spike in COVID and flu cases, we're also seeing some other categories taking off supplements and also been growing strong in 2021, but in the beginning of the second quarter, it had a slightly lower growth since it had already been growing so much in 2020, and then it accelerated again at the end of 2021. That demand on vitamins for immunity, vitamin B, vitamin C as well as a market that we just got into last year. So that also had a higher demand. And our entire portfolio are summer portfolio, performed very well. So all of our brands such as Epocler, Tamarine, (inaudible) has also been very successful since we launched the angle of after product.

So we had a generalized spike in demand, and the only segment that we still have some potential to grow in our biosimilars. We're leaders in that category and we have several initiatives so that we can have greater demands in that area. But besides that, all other categories we work in have been growing above average and we've been gaining market share in the fourth quarter and earlier this year.

In considering the acquisition strategy with leverage on the short-term, we're not focusing on new acquisitions. So leverage is relative because it depends on your interest. If it's six times with a low level of interest rates, it's very different from if interest rates were higher.

So, we are focusing on how we're investing on our business, organic growth, investments in R&D, CapEx to expand our capacity and deleveraging. And also, keeping compensations for our shareholders or payouts. So, this year, I don't think that we'll see anything relevant when it comes to acquisitions.

Q - Analyst

Great. Thank you.

Operator

Our next question will be asked by Caio Moscardini from Santander Bank.

Q - Caio Moscardini {BIO 20856018 <GO>}

Hi, everyone. Thank you for taking my question. I'd like to hear a bit more about your initiatives in the institutional market. And how -- what we're expecting from the pilot plant? What investments will you need to make to finish that plant? Just to see if you had any revenue in 2021 from it. And, what was it as a percentage of your revenue? Just to give you an idea of your potential growth to reach 15% by -- well in five years? That's all. Thank you.

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

Hi, Caio. So, this new area starts with R&D. So, until the end of this year, we'll have R&D working, and it's all done in stages one right after the other. So, the first step is R&D, developing products, and then later on we'll have a pilot plant ready. And probably for 2023 -- late 2023 or early 2024, the plant will be ready, and that's when we will really need to go into the product development process. So it's within schedule. This year, we should see some investments around BRL100 million to BRL150 million, but that's within our CapEx plan for the year.

Concerning sales, I think we mentioned it, but we were working in the institutional market, but very slowly without a dedicated structure for it. Basically by using the products, we already had in our portfolio, retail and the products that were best suited for the institutional segment, but we've already doubled our sales in 2021.

In 2020, we had about BRL80 million. In 2021, we had about BRL160 million, and we also hope to continue growing to BRL300 million in 2022 in the institutional segment. So it's been growing and now we have a dedicated portfolio, a dedicated team. So we're confident that this is a great growth path for the company for the next year's.

Q - Analyst

Great. Thank you, Breno.

Operator

FINAL

Bloomberg Transcript

(Operator Instructions) Thank you. That concludes our questions-and-answer session. I will pass it over to Mr.Breno Oliveira for his closing remarks.

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

Well, thank you, everyone. Thank you for being here and listening to our call. We're very happy about the results that the company has been having that it had in 2021, and we're very excited about 2022. If you have any other questions, our investor relations team is available, so you can contact us. Thank you once again. Have a great day and a great Carnival. Goodbye.

Operator

Thank you. That concludes Hypera's conference call. Thank you for listening. Have a great 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.

FINAL

Bloomberg Transcript