

Y 2010 Earnings Call

Company Participants

- Claudio Bergamo dos Santos, Chief Executive Officer
- Martim Prado Mattos, Administrative-Financial Executive Officer and Investor Relations Officer

Other Participants

- Analyst
- Andrea Teixeira
- Gustavo Piras Oliveira
- Irma Sgarz

Presentation

Operator

Good afternoon. Welcome to Hypermarcas Fourth Quarter 2010 Results Conference Call. Today with us we have Mr. Claudio Bergamo CEO, and Mr. Martim Prado Mattos, CFO and Investor Relations Officer. We will like to inform you that this event is being recorded and all participants will be in a listen-only mode during the company's presentation. After Hypermarcas' remarks there will be a question-and-answer session for investors and analysts and further instructions will be given. [Operator Instructions] Today's live webcast maybe accessed through the company's Investor Relations website at www.hypermarcas.com.br/ir. Everyone connected to the webcast, please press control plus F5 to visualize the presentation.

We would also like to inform that statements from this company 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 over to Mr. Claudio Bergamo, who'll begin the presentation. Mr. Bergamo, you may begin your conference.

Claudio Bergamo dos Santos {BIO 16015846 <GO>}

Thank you very much. Thank you very much all for participating for the conference call for the results for fourth quarter 2010, which actually marks the end of the 2010, the year of 2010.

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So, we would basically split up the presentation in to two pieces. One, we will talk about the highlights, I'll give you that myself and talking a little bit about the overall things that happened in the company in 2010, and then my Martim will talk about the strategic results for the quarter and for the year, and then we will open for Q&A.

So, if you come to page five just to give a brief overview of the highlights for Hypermarcas. I thank everyone -- we want to convey for 2010 that was a year with a very strong profitable growth, which we will show later. We've got very strong growth in term of revenues, both in -- total metric as well as trends of the organic same brand sales metrics. In terms of competitive position, there was a very good year for Hypermarcas where Hypermarcas basically -- activities and have done search in terms of traditions organic and operations and the company became the largest and we most complete the woman player for the consumer healthcare products in the country.

In the fourth quarter, the company which took historical performance results, both in terms of revenues as well as EBITDA and as well as cash earnings. In terms of -- I think it's very important to mention that despite cyclical economic downturn that we the company has many upsides ahead -- looking ahead.

So, if you go to page six, just to give a brief overview on results. The company reached 2010 at R\$3.2 billion in revenues, 734 million in EBITDA and 558 in cash earnings. In terms of metrics, what that translates into? The company grew in the year 61% -- both our targets of 60% for the year. In terms of organic growth, the company ended the year with 17% organic growth -- In terms of gross margin also the company ended in a very good level of gross margin in spite of the diligent effects of the mix in the of which close to 58% at the top of our bank of our target.

In terms of EBITDA, the company ended with 32, slightly below our target of 24 and 25, and we'll talk about that later. And in terms of net cash earns, the company ended close to 18% also at the low -- of the back. So basically, if you look around our metrics, the company ended up with a pretty good year with the -- year plan activities in -- we are very glad but we ended up in a good shape and we are able to deliver the results that we expected and we promised for many of you guys.

We have also talk in more details about what we have performed year-over-year and frame work that we used to summarize our actions. We have -- actions in all the strategy, both in terms of strategic acquisitions as we all in terms of organic growth, as well as in terms of revenue platform.

We are announced -- in the year which is close to R\$4 billion in total enterprise value of the recognition. For acquisition as we always promised since the IPO and in focus on the two key business units, the pharma, beauty and personal business units. All acquisitions will perform and very large fleets, the distribution platform, both strategic and operational, -- of our platform, which creates the competitive position. And also we must - - our discipline in terms of -- multiples and most of these acquisitions was -- multiples inline with our historical levels close to seven times EBITDA after Phase I and Phase II initiatives.

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In terms of organic growth was also very successful year. We launched over 400 items in the year, but more than one item per day in the year, both in the consumer sectors, as well in the pharmaceutical sectors. We were able to deliver many certifications in the launching -- brands such as Monange Bozzano -- among others. We have been to develop a very -- products -- consumers we have been back to the -- improved our point of sale management and distribution for many of our brands. In terms of operational platform as well the year was very we intense. We had integrated most of the company's -- which is the first 180 days -- benchmark with the IBN and the -- actually integrating hyper market with the world class benchmark -- and that we have been able to meet such a large amount of integrations.

We had to issue many cost reduction initiatives for the all requirements of scale and increase our gross profit margins and the same brand sales for the year we gained close to 6% on a same basis comparison with the many of these initiative among the year. As well, we have been able to deliver many productivity names, many of the production sites we acquired. We are pursuing and have pursued plant consolidation program, especially for the pharma sector, which we -- all the sites into -- and develop the largest the production from our site of Latin America. And we have also pursued many improvements in our logistics also in terms of the network as well in terms of productivity of our houses As well in terms of service to the clients. If you go to page eight, and very important in the year Hypermarchas was able to strengthen it's competitive position to many of these activities. And decline and most company Brazilian company for the consumer healthcare practice and products.

If you stick with in the pharma, we ended the year as the largest national player and only behind Sanofi-Aventis which is the number one, the number one largest domestic player and number two is the Total. The company has the largest offer business segment coverage to participate in many of the most important management segments in the market due to a superior brand portfolio and leadership positions in many segments. The company now is the number one OTC player, number one OTX, the number one in Similaris, the number two in National RX, number two in Dermocosmetics, the number two Dermocosmetics, number one at condoms and the number one in Sweeters

So I think it is very important that results, because that was part of our strategy which was to be able to gain coverage and enter a new segment due to the since the IPO, because that's what you will call near the horizontal growth as well in many of our initial themes which was focused to have vertical growth synergies which will become the new operating segment.

Since we are happy that we are able to implement our strategy during 2010 and to achieve such an important position.

In the Beauty and Personal Care, I think as far as in that sense. The company was able to end the year as the largest domestic player in the health service market and on behind, which competes in the block and even on more on the nationals on the on behind in the and larger that many of other players in the country.

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The company has the largest business segment as well, so we are present in the most of the, the most important segments of especially the factor in the future. It has the best brand portfolio as many many brands in many of the segments.

And until which are very important leadership positions in many of these segments. Number one Moisturizes, number 1 Nailpolish, number 1 Men'sCare, number 1 Diapers, and number 1 # 1 BodyOil, number one in number one in Men's care another number one. That's very important to become number one, because once we are the number one, the largest player there are many synergies that you can get out from the business and in the mid and long term.

Going to page nine. And I think in the fourth quarter the company reaches it's historical peak operational results. I think we had start the results the IPO in April 2020 where you can see the company started at the second quarter at R266 million in revenues for the quarter and we ended the year now with 943. The fourth quarter of 2008 was 456, fourth quarter 2009 was 103 and fourth quarter 2010 was 9.3. Basically if you take the fourth quarter of 2008 over the fourth quarter of 2010 we reached the comfort level to this year.

Again that of the strategy performance. And we are happy that you were able to do that. It's more importantly that we you have been able to do that and continue delivery net profits accordingly during this year. And as you can see on the right side of this chart, the company reaches R234 million for the quarter which more than two times the fourth quarter of 2008.

So that's not a immediate fact, but we are very happy that we have made it to -. And if you go to page 10, another important and seen a little bit behind over the future and at the end of the second semester I remember when we did our turnaround before half of the year, we did the formal one would go to 45% of proceeds or at hand or we said that our objective was to continue in our strategy because there were many, many opportunities for further consolidation and further strengthening of the businesses. And people were very skeptical and I think that's fine, because I think that how it works. But I think now we'll be behind as you can see we are able to perform quite the acquisitions in the second half mainly the proceeds of the follow on accordingly. The first three was already announced in the third quarter and what was this Pom Pom soap, very important to make Pom-Pom a brand as we had done for former and which has basically transformed the brand into a generalistic brand for baby care, the strengthening of the positioning in the year and the position on diapers what we have done for Monange of human care and Bozzano for Men's Care.

The performance is very good perspective for Pom Pom probably will become a brand with over R100,00 million in revenue in a very short time of the year. To be truthful, our position was important in the perspective of the previous acquisition had done forth in , very complementary. We proved our acquisition in oral care and that was the segment will factor into the year which a very strong position and that was a assets.

We are fortunate to also acquire three important practice on some of these Aventis, because of the target the had to sell. This is very component to our . Objective because

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we can basically on our other products. So by the end of the year we announced the larger position for the year, which will by the end of the we close the year in the fourth quarter, but we announced in the fourth quarter which was my business to review. A very important acquisitions, because it enables Hypermarcas to become the largest player in the diapers business as well to allow the company to have wide from this not on the baby care where we used to have these falls, but as well for the diapers. So at the end we explore the growth in baby care growth will be also the business would make a grand as a Genéricos brand not only for diaper, but as well for the baby care as a whole. And the life company the recognition as which as a company set of brands in the OTc, OTx and the cosmetics, which we know is a very fraction and a very dynamic market in Brazil. So that acquisition will make enable Hypermarcas to become the largest in most complete -- pharmaceutical player in the country.

Going to page 11 and talk a little bit about the prospects as many of you have been. By the end of fourth quarter and the beginning of the year, we had a -- of macroeconomic -- given that the inflation has pick up in the year last year, the company is moving very strongly. And because of that -- to increase rate. So, on our opinion, we are leaving at cyclical -- which is we believe should settle down by the second half or by the end of 2011. But the fact is that for 2011, we will see some an impacts on our businesses. The main impact that will be... I'd like the -- Portuguese power, given the increase of inflation. The increase of and consumers, the increase of working capital cost and I -- investment levels for the company.

That -- was typically for us, Hypermarcas that will probably likely impact a reduction of short demand and a probable reduction of -- and credit. We will follow that among the year, which is utilized in our quarters and we will monitor that very closely to see that what's the size of this potential likely impact in our business.

For the time being, -- that has been a major change in our tradition, also because we had many internal initiatives that we believe more than offset these impacts that can add up to market. Because of that we are -- our guidance and we will continue to monitor very close that --

Going to page 12, I'm talking about the websites, as you probably all have been following, in all the acquisitions we have made -- 2009, 2010 and many infinitives we have been pursuing, the company has many upside ahead which we are working very, very closely, very thoroughly and we are very disciplined -- new chapter in our performance. And also some comments talking about the utility we will be capturing among 2011, we will be following that -- very closely but the fact is that we have many, many opportunities now expanding the Hypermarcas which we are working on.

To summarize that in the pharma business, we have a very extensive pipeline of niche products for the next three years. Especially for 2011, we have been working very closely and in 2009 and '10 and we will see results of that. We have already seen already seen results in 2010 and the continuation of such results for 2011. Just to give you an idea, the next -- of the 50 acquire, we used to have 50% -- of the top 50 drugs and probably close to 95% of so that's what the target that we set up and we will be able to achieve the target, we are launching many, many products every quarter.

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That's part of the second point here, which we believe the continued growth of Neo Química Genéricos -- segment which is very fast. We believe we continue to growing very fast. And we already became the number three player in the -- And we believe that we become a very solid player third in 2011 behind all --

We have all set up chapter on Mantecorp which will give many, many opportunities for improvement in the company, both with the client given that we are bargaining power with -- the has increased substantially and with the position to become the largest player in the -- drug stock channels of the globe. And that will help us in many of the initiatives of being better sales distribution, gaining better -- space and many types of numerical and -- distribution for many of our brands as well strength of our doctor visiting business for us with Mantecorp, as well the planned consolidation -- which we believe we will be able to move up that by the end of the year or eventually even before. We're working very thoroughly to be able to be operating that plant from October. In terms of -- already have been selling. We are able to give the new ware house in the -- plant 197 days -- and we developed a new warehouse with over a -- that the largest warehouse -- in Latin America.

In the personal care, we will continue seeing new launches of -- brands -- the process of -- We really developed a fantastic and we had new work -- close to one and a half of the year we launch and we had -- developed a very good relative position for consumers. You'll start seeing that from April on and then as well as other brands that we are in the process of launch as we had brands -- which cleared the and as part of that strategy, we will continue to see many new product launches this year in --. As we know, we have been investing in the innovation center in -- and that was ready by the end of the year, in the fourth quarter. And that innovation center from a huge amount of -- innovation center for the type of products of -- as well improvement. We continue to see improvement in our management at the point of sale. And we will consolidate the -- that will be last acquisitions. So, you will see consolidations around the year, which will reduce our costs and improve our productivity.

So, guys that's what I had to say. And sorry for my English, it's --. Martim to Q&A. Thank you very much.

Martim Prado Mattos {BIO 16015889 <GO>}

Good afternoon, everyone. If you can speak each of the 14, go through the main highlights of our financials -- and then we'll open to Q&A. So, as we've seen the net revenues, total net revenues for 2010 were of R\$3.2 billion, a growth of 51% under IFRS range. And if we look -- the organic base of that 3.2 billion, meaning -- billion in net revenues, we had a growth for the year of 17%. For the quarter, we reached almost R\$950 million in net sales or 34% growth comparing to the fourth quarter of 2009. But if you where we call is a very strong quarter with new on the portfolio of 2009 over 35% organically. But looking only at the organic base of the fourth quarter 2010 meaning 785 million in net sales. We had an organic net growth of 12% during the quarter.

If we disregard the negative impact that are coming from schools and home care, the organic growth would have been a 0.6% on the for the year of 2010 and 21% for the fourth quarter. So again here we focus on our initiatives. In the company we had a very,

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very strong organic growth well ahead our own expectations. And the highlights for both of this meaning pharma and also meaning personal care, we can again comment on healthcare performance, more managed, more general which were that we highlighted I'll around the year, but also we cannot disregard the very good impacts that we had through the year coming from the the brands related to Pharma. That should be in prescriptions drugs and also in OTx and it's being OTC and prescription drug.

These are Bozzano, Lisador, Rinosoro, Tamarine, Epocler, Biocolor also OTC brand coming from Risqué, or Farmasa, that also had very good performance through the year. Beside that Biocolor was also a highlight amount highlight of Beauty and Personal Care brand.

Going to the next page, page 15, we can see that the average gross profit for the company for the year of 2010 at the end of the IFRS already is of 57.2% and this margin was a little bit higher than the gross margin of 56.3% that we saw in the year of 2009 that proves the same methodology comparing the gross profit margin of the same businesses we've had last year. The same brand that we has for 2009. The gross profit was almost 62%, so a margin accretion of almost 600 basis points, which is quite positive.

So this would be a great improvements that we had both for the quarter in terms of our organic base that's because of acquisitions gone through the years with businesses that structurally that you have a lower gross profit margin than the businesses we had especially generics, and also diapers and especially diapers that MIX calls an impact of 4.7 percentage points for the whole year. So that's why the gross profit margin increased only by 0.9 percentage points through the year. So in general spotlight for the quarter. So we had an average profitability of gross profit of 55%, operative 53.2% in the fourth quarter of 2009. The improvements caused a positive impact of 5.2 percentage points and the dilution the mix dilution coming from again Diapers and generics and caused an impact of 3.2 percentage points for the quarter

On the next page, page 16, we have the EBITDA for the year reached R734 million, a growth of 46% compared to the EBITDA we had for the year of 2009. For the quarter we reached of 45%.

In terms of margin for the year 2010 we reached a figure of 23.2 a margin dilution of 2.4% points, but in the quarter we reached 23.7, compared to 0.02% that we had through the fourth quarter of 2009. So our margin so a margin increase of 1.7 percentage points.

It's important to highlight that especially for the year, this dilution of 2.4% points is highly effected by all the synergies that we still have, has yet to the captured in all the acquisitions that we did through the year of 2010. The base of acquisition as Claudio mentioned is very strong. It is higher than -. So that made us accumulate more inefficiencies from the business we acquire.

Going to the next page cash earnings of net income adjusted by non-cash events that affects our P&L, that figure reached R560 million in 2010 from a 8% and R169 million for the quarter growth of 26%. In terms of cash earnings per share we see that in 2010 we see that we had a cash earnings of 1.06 per share, a growth of \$0.02 per share and for

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the quarter of \$0.31, a growth of \$0.01 per share. This figure I think it's quite important to comment because without the inefficiency that effect the dollar EBITDA that I mentioned previously. With all of the dilutions we had through the year with some stock issue related to the follow on the acquisition of clinical and through the acquisition of Mabesa. Even with all these dilution effect, we had a growth of our cash earnings per share.

If we move to the next page, 18, talking again about our leverage as we can do we enter the quarter with R\$1.8 billion in net debt. We are considering the acquisitions now provide does not to reflect it on our figure, because they are being closed by 2010. So on a pro forma basis our net debt was of R\$2.8 billion. And that R\$2.8 billion is a breakdown into a gross debt of R\$4.8 billion that you may see on the chart on the right side of the slide here almost R\$3 billion loans and financing especially the accounts payable of R\$1.4 which is back to the figure of companies acquired in the last three years.

By the end of quarter on pro forma basis as well on our cash position too were solid close to R1.6 billion, which comprise of R2.8 billion of net debt in the quarter.

So, without any further delay, I would like to go to the hearing session.

Questions And Answers

Operator

Thank you. [Operator Instructions.]. Your first question comes from the line of Rob Ford with Merrill Lynch.

Q - Analyst

Hey, good afternoon everybody and thanks for taking my call and congratulations to the on various successes in the quarter. It was very impressive. You have mentioned Claudio that the environment might have to impact in terms of declining inventories and credit availability.?

And in addition I was curious I was wondering if you can give us a sense of how that's growing? My understanding was it at least the administrative consolidation processes could actually be rapid in terms of that development?

And than if you could also please comment on pricing and volume trends that we see so for. You mentioned innovation, but so far you are launching two items per day so the pace of innovation even though it's up against more than 400 from the prior year looks is if it would be twice that rate?

And than lastly if you could just touch on some of the struggling operations. It looks as if at least the part of 2011 the - business is bouncing back somewhat, but you expect some difficulty in detergent and steel wool? I know that's a lot and I am happy to repeat it if you missed any of that laundry list. Thank you

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A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

Well it's a long set of questions so let me see [Inaudible]. In terms of economic environment, we are not seeing still directly to our -- but we are seeing some perhaps all the business of our brands. So to what extent -- specially some levels that our clients is likely increasing a little bit that nobody wonder happens. Clients tend to be a more little more conservative in terms of credits or -- distributors and -- sellers. So, they tend to be more conservative in terms of giving credits for the mom and pop shops. But the liberty -- on that if that continues, would be a reduction of inventories for our distributors and consequently we could see any reduction of our orders. But we don't see that on a large scale, this is very see small and we believe that government is taking the right actions. In the beginning the government I think was very good I think government very clear that giving very clear message that -- tax situation, which is at the end is the major disease that no one want to see in the view. I mean, I myself had appears and I must say that's the thing that we should not see again. So that is the major risk. And I believe that government is taking the right actions in terms to offset that.

Talking a little bit about the second chapter, which is I think Mantecorp. I think Mantecorp, just to give a beautiful highlight, we are -- to be we're seeing more good news than bad news to be frank. I think we are seeing the thing that we haven't seen before I mean on the good side. I think we will probably be able to implement Phase I and II ahead of the timing we announced by the end of the year. And that will be very good time. I think we'll be able to anticipate close to six months the timing. So, our target now is that we have at least 65% to 70% of the initiatives done by the end of March and other rest done by the end of June. I think the good news in the case of month across is that Most of the short-term synergies are say one type of synergies. So that means it's just question of decent cost. And that extend our control --.

Don't forget -- we haven't, we -- four month -- and 270 million of gross profit -- all the needs for structure to conduct it the business we have. And also we had seen, I searched there which is far larger than we expected even before that which we have to reduce the cost faster than we expected. -- products So, it's not a very complex, very small but is very profitable. So, we're very pleased that all the cost side.

On the revenue side, obviously -- the cost, we're gaining distribution, we're conservative. Even the family was much more looking for dividends and as oppose to growth. So, we expect that again we haven't anticipated that, we including our projections that We think that probably the for Mantecorp might be larger than we anticipated before.

Talking about now, I think the third question was what happening about I think...

Q - Analyst

Yeah, innovations and I was also curious with respect to pricing. I know you were going to take some pricing earlier on the year. And I was curious as how that's being received by the marketplace, by the consumer, by retailers and wholesalers and your competition and if you're volume turns, I mean you're very optimistic or you sound very confident in terms of your volume trends. And I was wondering if you could talk about that within the context

of some of the pricing you're taking, as well as the pace of innovation, which again appears to be double the rates of a very high rate last year?

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

Yeah. I think the pricing are shaping good in the good announced before from a businesses. The largest price increase -- from the last years is up to 6% and that's a good news, because the pharmaceutical piece of the business really question that and we will be able to make them implemented by April 1st. The good side of that is that we haven't seen major cost increases in that proportion so far. So we might see some margin improvements because of that. In terms of the consumer sectors, especially in the home and beauty and personal care, also we have been pursuing there a price increase from April on. And we haven't seen major difficulty in doing that. Many of the players have been defending. So, we believe we'll be able also to implement the price increase by April.

And again, so far the cost haven't increased at the same pace. So, I think it's a good news on the price, also it is the volume side, so far we haven't a major impact in our segment. Again, don't forget that we have been Hypermarchas in the segments, which are less penetrated than the segments in the market. What that means that means that normally that segments, which is the consumer healthcare segment, they are the first to grow and the last to drop. So that's a good news. There are the segments which is not in that trend. As you know with the -- and the home care and food, which unfortunately is the opposite in the segments, which are more penetrated and they tend to be the first to drop and the last to grow. So fortunately, that business now represents -- percent of our business. And we have dropped a lot last year. So, I believe that we might see some stabilization --

In terms of innovation, you are right. As you probably, you have been following us since the beginning, you know that we have been investing in infrastructure for innovation for the last two years in the company. And that infrastructure was by half of last year and that investments are coming out now through the utilization of innovation and which believe that's the good part of that will probably offset some downturn on economic side and new product we will introduce. Okay?

Q - Analyst

Great. That's fantastic. Thank you very much, Claudio.

Operator

Your next question comes from the line Andrea Teixeira with JP Morgan.

Q - Andrea Teixeira {BIO 1941397 <GO>}

Good afternoon, everyone. I just wanted to -- if possible Claudio and Martim, the... first of all, will you've... it's more of a more the strategic question regarding your synergies. And I appreciate that you put the details there. But you mentioned about 150 million on annualized basis. And I wanted to reconcile that with Mantecorp, which I believe you had said, total synergies of plus 100 million, I believe 140 million I can recall, 115 in the first two phase and then an additional 30 million later. I wanted to reconcile that. I know one is

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annualized, the other one is -- But even when we calculate the margin, the increased margin -- it's mostly Mantecorp, should we think about that as mostly Mantecorp? In other words Neo Química and the acquisitions are mostly done? That's one... my first question. And then the second one is a more technical question, A question regarding the quarter. We saw the 45 million, the other operating results which is included in your EBITDA. So I was wondering if part of your guidance of 24% to 25% EBITDA margin include some of those non-recurring items, and how non-recurring items and of the recurring ? I mean should we consider should we continue to see those coming in and what is the rate because there have been very erratic and I understand its tax credit. And on that technical note should we see more what is considered non-recurring for your lawyers assuming that you're not going to do any major acquisitions going forward? Thank you. Sorry for so many questions.

A - Martim Prado Mattos {BIO 16015889 <GO>}

No problem. Hi Andreas this is Martim. So in the fact of the synergies we have some points on a quarterly basis going forward is the potential as from our annual basis you are talking about a R150 million of additional EBITDA. And that figure as, we try to include that explanation that you may see on our note. That potential is only for the acquisitions finalized by the end of 2010. So it does not include, the cost of the business in it. Right so if you go to the acquisitions of Mantecorp, Mabesa, you will have to add the synergies of by the time of those acquisitions to the R150 million. So in all the figures of the year, we mentioned the year. It's all figures that the increase is already done. There is no net present value of it.

Q - Analyst

So on top of that we would include Mabesa and Mantecorp. I mean Mantecorp basically?

A - Martim Prado Mattos {BIO 16015889 <GO>}

Yeah correct. That's it.

Q - Analyst

Okay. And then..

A - Martim Prado Mattos {BIO 16015889 <GO>}

That's a cost target. As we know it's a 245 billion annualized at the beginning of next year which then as I said we might anticipate that's probably it's not. But as by the end of the first quarter we will give you a very strong highlight on that. And given that many initiatives that happened in that. So we have much more good means and bad means from the cost. And we might see typically even the factor. And the of 2010 . So we are very very engrossed in terms of it and extremely with our. As I said because of the initiatives depends on cost efficiency. It all depends on outcome. It depends basically in the business class. And we know how to review this class. So we know how to keep this.

We will probably we will keep this stable with the. But the figure that we mentioned at the time of AT 120 million annual synergies on our annual basis for Mantecorp and across for

Mabesa, so the potential would reach almost R250 million.

Q - Analyst

R250 million.

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

Yeah

Q - Analyst

Okay. Great. And on the other question regarding the nonrecurring items, the tax-credit and also the lawyers and fees form from the acquisitions if you can comment how much of that we should be seeing going forward and if your guidance adjust for that?

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

Yeah. I think one way to look that and just if you do well. If you enter the year with a 22.7% in terms of the EBITDA and we are not saying that is very transparent between that we have over the last years in terms of because of the speed acquisitions was faster than the speed of projection of the structure especially in the commercial sections. And that's from one hand good news, because we are very cautious not to try to make it too fast and put that risk the market share of the companies we acquire. So normally when we reduce cost by we're stocking at new franchise and we manage through the serious section so that's the one. So there is acceptance that we have to do with in order to no prove that's the basis. But if you do and say well as said with all the synergies that we have included now and we that position of synergy not including Marbesa and Mantecorp through the base. They would at 3.2% over net sales for 2010.

And so if you add this 97.7 and then you add 2.2 then you would get to 26.9. Then at sense you would end up far from anyone, because many people will only have some submissions regarding the concept of OpEx, but it's verdict that a part of our budget is likely or not, because, especially because of the generics that you had the and as well as the momentum of the year. So that's for the year awards the R55 million and again if you consider that as a model that we would have about a 2.1% that which we add that into 2.2 of the company would get 29%.

But that is well, but when the auto makers, they are net attracts they are not and should not account them and they should reduce the amounts for the year which is 2.2 I wonder what is 26.8. So basically if you have zero left and including the things, including the amounts that we will not be able to - the potential will decline 6.8.

Coming to your point they are next for the - perform not talking about month of the in the business. And if you are talking about Euronet and Martim can give more the technical information for the quarter itself, but most of that amounts for the year which is the R70 million, which is tax and the synergy in taxes. We will continue to have. We will continue having now with Mantecorp, because when you put bundles of business together you will start seeing ways certain type of creditors distribute business couldn't capture before

they didn't have the conditions to -. Why would it have together, because they are quite capable of capturing certain credit. And that's why we probably continue seeing for 2011 and then we think half of the distributor to 24 to 25%.

Q - Analyst

And Claudio, I appreciate all the comments and how you have broke that down. But, is that most ways. So in one way we're going to see as you incorporate those companies together and we are going to see that slowing into your top-line right, I mean I would probably seeing that's going to be part of your operating cash flows and not detached from your numbers or should we continue to see those numbers as other operating revenues?

A - Martim Prado Mattos {BIO 16015889 <GO>}

Most part of this tax synergies as mentioned they will be inclusive on other operating income and expense especially for the recent acquisitions. Going forward I think probably the trend is that we had the two effects one both as Claudio mentioned one if the synergy is being captured and the other one so that it's effecting our P&L and the other one is those tax events not occurring anymore, they start becoming... occurring events for the company instead of being credits that we booked after these acquisitions.

Q - Analyst

And result of that is excise tax or duty?

A - Martim Prado Mattos {BIO 16015889 <GO>}

It depends on the acquisition, but usually we see this type of opportunity, both in federal taxes as well as in state taxes. I think you know that tax which is very -- review on the change as well. But with the bigger company, I think what Claudio mentioned is with the bigger company, we have bigger flexibility in terms of how we can operate the company, what are the distribution centers we can use or what's the company we can meet to produce our distribute our product. And once we see that, once we change those variables... in a lot of cases end up having lower taxes for the entire company.

Q - Analyst

Okay. But....

A - Martim Prado Mattos {BIO 16015889 <GO>}

-- trying to -- but basically that's what happens, that's why you So, we are improving the operations of the company once we acquire. Then and having that possibility, in a lot of cases, we can start having more credit, more tax credit than we have before.

Q - Analyst

Right. And so, we should continue and there are mostly sales taxes, right? That's why you included EBITDA, because otherwise you would be doing below the line, right?

A - Martim Prado Mattos {BIO 16015889 <GO>}

Right.

Q - Analyst

And we should be seeing... there are also -- you also had at the end of the year, so we should see that happening as you flow for the year, you calculate those tax benefits and we should be seeing that in the fourth quarter of '11 and going forward, right?

A - Martim Prado Mattos {BIO 16015889 <GO>}

Yes.

Q - Analyst

Okay, perfect. Thank you very much.

Operator

Your next question comes from the line of Gustavo Oliveira with UBS.

Q - Gustavo Piras Oliveira {BIO 15129435 <GO>}

Hi. Just... good morning, everyone and Claudio and Martim, everyone. I had one follow-up on the R\$45 million in the sales tax. It has been around 2.2% of your total sales. Going forward with your tax planning calculations or your estimates, what would be a fair number, you think that it would go up to 3%, 4%, how we can forecast that number going forward as a percentage of your sales?

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

I think they start... the number for the year 2.2, as an average, it's probably the good metric.

Q - Gustavo Piras Oliveira {BIO 15129435 <GO>}

Okay. So, we wouldn't expect any... although we're going to capture more, you won't to expect it to change as a percent of your total business?

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

Yeah.

Q - Gustavo Piras Oliveira {BIO 15129435 <GO>}

Okay.

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

I think percentage would 2.2. But again, on quarter-over-quarter basis, you might see some downs. But I mean this is a line, you've to look at a longer. So that will be... on

moving average, something around 2.2.

Q - Gustavo Piras Oliveira {BIO 15129435 <GO>}

Okay. Then I have another question on your home care and food business. You mentioned in the past that you could eventually be interested in sending those businesses -- from the businesses. Because now, you are focusing your company as a consumer healthcare company. And obviously, the home care and food business are -- fairly part of this strategy advantage. However, your same brand sales are not stabilizing. And when you think that could stabilize, and do you think that would be important for you to sell that business or it doesn't matter? I wanted to understand, what would be the strategy on that? And also as you could -- that perhaps your competitors are lowering prices aggressively and you are not following, because your gross margins are improving in those two business. So, perhaps you could give us some more visibility on what's happening there?

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

Well, of course it's a strategic side. At this point clearly, home care and food become like local business for Hypermarcas. Given that we have look at natural -- that value that more than as Hypermarcas basis. And movement, we see possibility be accretive for shareholders. -- right, we probably would continue to operating the business at the price that we should have enabled the that we will probably trade off the business --.

In terms of continue operating business, the initiative of the segment themselves, which segments were less attractive as when you compare to the other segments with consumer healthcare, because in the -- these segments develop for than the other segments.

So, even there, we had a higher penetration levels. And -- than segment that you have in the other... our the Hypermarcas -- innovation and focusing -- branding as oppose to these businesses.

So, given that these business -- we have a lower perspective in terms of growth. But they can become a good cash cost. And that might be in our second option of all the strategy, which we don't cash --.

These are that we have a secure don't forget that 2009 was an excellent year for these businesses, especially for the -- the part of that last year was not so good. So, I think we stuck this year in a situation that thing that happened, maybe but what basically we don't 5 to 7% which is the basic organic growth of the year. As we -- higher than the -- than we expected for the year. So, the -- is basically more managing business -- and if you do that basically, it is not also jeopardize the growth of other business as a whole. So that is what situation.

And -- important also to mention that the specific happened in the three key segments of which are the -- business, -- business, -- specifically the bought the business from so the So, I think it's very, very positive. And as we expect, we are some difference in utilization in

terms of behavior of the market of these business. And also the lower or which was And I believe low price behavior used to have.

So, I think on the the trend is very positive. On the I think the trend is not so positive, but I think the calm down, -- as well I think that receive -- good sign as well. So in summary, it's the company, which is means the managing as a cash -- is that the -- good signs -- will see good signs and -- I think will at least not seeing such a bad sign, which is --.

Q - Gustavo Piras Oliveira {BIO 15129435 <GO>}

Okay. Thank you.

Operator

Your next question comes from the line of -- with Santander.

Q - Analyst

Yes. Thank you very much. I think most of my questions have been asked. Just a quick follow-up on the tax issue, given that you're transferring a lot of your production to And you have a new distribution center. It is because of that you had some additional tax incentives because is known for providing a lot of tax incentive or is it part already of the 2.2% of net sales guidance that you gave for the year?

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

Yeah you are correct. Some levels of means going to that you give the certain part of the business which we be said, but it's not part of that line, bad debt means the value of the synergies that you have out of the 115. As small portions as part of that around R10 million out of that is already accountable for the --. [Inaudible].

Q - Analyst

Okay. But is it on the EBITDA or the lower EBITDA, but it can be on earnings type of speakings, but you have the tax benefits right?

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

That is not on account of the tax between the sales in that phase.

Q - Analyst

Okay. And just to make sure that, I understood what you spoke about the economy what we are seeing basically seen that your clients are starting to order a little less. There are some small inventory view that in some of your clients just, because they are trying to set what has happened in the market. And you haven't seems specifically any change to your outlook at the stage, but you are monitoring this changes taking places with some of your clients, right?

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

Exactly. One of the crisis in 2009, which are zero crisis compared to that. But if that zero crises continues then can become a bit crises. So it all depends on long that trends goes.

Q - Analyst

Okay, perfect. But you haven't change anything regards to the budget that you've early finalized at the beginning of the year, something like that. You have your real 50%. At this stage you're really nothing that we'll make you about the mark conservative stands?

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

No.

Q - Analyst

Okay. Claudio Thank you so much.

Operator

Your next question comes from the line of Irma Sgarz with Goldman Sachs.

Q - Irma Sgarz {BIO 15190838 <GO>}

Yes. Hi, good afternoon. I am just two follow up questions. On your working capital I saw that's your receivables days and the inventory days went up quite significantly year-over-year somewhat offset by longer payable periods. No I imagine that a part of that would be from acquisitions that you are now integrating. If you could just provide us little bit of an outlook in terms of once the integration of acquisitions is completed and once see start up of the new distributions centers also same to underway or integrated where we could see these numbers going?

And then second question, you mentioned in terms of free launches for 2011 you were looking to relaunch if you understood you correct your Pom Pom by around April, but correct me if I'm wrong here. And I was wondering if you could just shed some light on any other relaunch this year you were planning, you have in the pie plan for 2011? Thank you

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

The second question is with the pipeline of launches. Is that correct?

Q - Analyst

Yes so it's wondering. If you could just confirm that Pom Pom is being relaunched by April of this year. And in terms of any other brand that you've recently acquired or already acquired in the past that you are planning to relaunched and have pushed in terms of commercial relate initiative in 2011? Thanks.

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

Okay. So I'll begin with the first question about. So I think through the year and also on the fourth quarter what we seen it's a - problem but volume in three major steps. One if you right usually fourth quarter is what we've seen in we can probably break that down in three major aspects. One is using for because of the seasonal effects that you usually have for the fourth quarters. It is usually the stronger quarter among all of them. There are working capital level increase by the fourth quarter.

We tried the second effect will be because of , because of our strong pace of efforts with 70% that obviously tends to increase our working capital levels and especially I terms of you can for our accounts receivable. And the impact is because of what usually happens as you look back is that acquisitions that we did at the levels of working capital that the potential usually not the message to our working capital levels to sit for -. So we have usually working capital for the company. So, the combination of all of those three is that is what called the effect of on our operating cash flow for the year and also for the quarter.

Okay. Now talking about the second question about the margins, we as I said, as we've said, as you know that our process of synergies integration we're launching more amount of as you know we have been working very strongly and you could see the impact of margin over the year which is a year for the first quarter we launched We needs to do that becoming to a new concept, completely new concept for the product agents for the moment would you your like or new more format or learn new more and then pick all the highlights on that one. And that of have give you have any very money the some of the and just you launch it's some new becoming power. So we through that the vitamin throughout the here and then very very nice we launched also that concludes on we have to and that you launched. We also really launched I think the first quarter we do not explain needs to be right top of my --

And then Unilever has brand in the Europe, Procter & Gamble has just recently launched Head & Shoulders and the market has gone a lot, which is very good news. And for the market. So, we're taking our ride on that on the re-launching our brand in the market, which again which of concepts, further concept different from both Unilever and Procter, which is more suitable of the humans. So, that's just to give you of the fourth quarter that we already are in the market. -- I explained to you and you have other ones that at the right time we will say that believe me, we have --

Q - Analyst

Okay That's great. Thank you.

Operator

And your final question comes from the line of Lewisia of Morgan Stanley.

Q - Analyst

A couple of quick questions. And thanks for taking the questions. And so, I'll ask them quickly. Just to get back to what you said at the start of the Q&A session about you're

seeing some increase in bad debt from clients. I just want to make sure I understood. Is that from your distributors or is that from your distributors bad debt from their clients, meaning the smaller mom and pop pharmacies or grocery stores?

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

Clients. Actually we're seeing in the papers, everyone in this field, we see... -- mom and pops and consumer some increase of bad debt. But it's for their clients not for our clients. Our clients any problem.

Q - Analyst

Okay. And then on Mantecorp just two quick things. Can you confirm that the 2.8 billion of net debt you published includes Mantecorp? And could you give us any guidance or indication whether that second set of shares of the Mantecorp family is a few of any indications that they will hold those shares for next month any period of time when the lock-up I guess expires next month. Any indication on that?

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

Well, very important to say, if they decide to do anything, we have to do it through Hypermarcas in the first year. And then we would do probably a structure, we we'll view the structure right? But our indication is that they stay long in the shares.

Q - Analyst

Okay.

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

And so just clarifying the lock-up expires on April the 24th. And if they decide to modify or -- in the reading -- we would have additional 90 base structure appropriate to total shares in the market.

Q - Analyst

Okay. But they've indicated that they will hold on to the shares?

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

Yeah, they... I mean informally, they indicated that they will stay long, but we cannot affirm that.

Q - Analyst

Okay. And then my last question. As you mentioned in the call, you committed a number of acquisitions at the end of the year. Do you think about 011, 012, can you give us a sense of what we should expect on acquisitions if any, I am assuming what we should expect? And if you think about when you're ready to do more acquisitions, should we think about new segments in the personal care business, or is really a lot of growth looking out over

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the next span in the two years going to come from launchings in your existing portfolios as oppose to acquisitions? I guess it's a sort of a philosophical question.

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

Yeah. Now, there is our much more in stabilize and consolidating, all the acquisitions have done. So, that's the main focus of the company for 2011 from the beginning of the year and probably towards the second half of the year. So, we're really, our major focus and commitment now is to deliver all the results and the synergies that we have promised in acquisitions. So, that, which we used and to have additional acquisitions, probably this would be continuation of consumer healthcare sectors -- there are many opportunities there. We believe we should -- few good target out there. But the objective then would be to increase our relative market share -- segment -- to see prior to Mantecorp, we will close to 11% market share, -- 9% market share after Mantecorp -- around 14.5 close to 15% market share. So, our relative market share increased to -- 1.20 to 1.5, 1.6. And -- number one, 15%. So, that's idea, the amount of segmentation is to have around that market. But for 2011. our main focus is consolidate the acquisition we have done so far.

Q - Analyst

Great. Thank you very much.

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

Just to your first question -- 2.8 includes Mantecorp.

Q - Analyst

Terrific. Thank you.

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

Thank you.

Operator

Thank you. The Q&A session is now close. I will now like to turn the floor back over to Mr. Claudio Bergamo for his closing remarks.

A - Claudio Bergamo dos Santos {BIO 16015846 <GO>}

Yeah. Thank you very much you all. Sorry for my English, I know it's a little -- But we are more than open to answer further questions whenever you may have it. Okay. Thank you very much all. And we have --. So, if anybody want more insight and the understand Portuguese, please feel free to participate on that then, where we are just starting --. Thank you very much. Bye, bye.

Operator

Thank you for participating in today's conference call. You may now disconnect.

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