# Q4 2017 Earnings Call

## Company Participants

- Breno Toledo Pires de Oliveira, Chief Financial Officer & Investor Relations Officer
- Claudio Bergamo dos Santos, Chief Executive Officer & Director

## Other Participants

- Guilherme Assis, Analyst
- Joseph Giordano, Analyst
- Luciano Campos, Analyst
- Robert Ford, Analyst
- Thiago Macruz, Analyst
- Tobias Stingelin, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning, and welcome to Hypera Pharma's Fourth Quarter and Full Year 2017 Results Conference Call. Today with us, we have Mr. Claudio Bergamo, CEO; and Mr. Breno Oliveira, CFO and IRO.

We would like to inform you in addition that this event is being recorded and that all participants will be connected in listen-only mode during the company's presentation. After the company's remarks, we'll start the Q&A session only for investors and analysts and then further instructions will be provided.

We'd also like to inform you that questions can only be asked by telephone. So if you are connected through the webcast, please send your e-mail directly to our IR team at ir@hypera.com.br. Today's live webcast can also be accessed through the company's Investor Relations website at www.hypera.com.br/ir.

In addition, we'd like to inform that some statements made during this conference call may represent forward-looking statements based on the company's future expectations. Such statements are subject to both known and unknown risks and uncertainties, which might lead the company's expectations not to materialize or to be considerably different from those expected.

Now, I'll turn the floor over to Mr. Bergamo, who will begin the presentation. Mr. Bergamo, you have the floor.

## Claudio Bergamo dos Santos {BIO 16015846 <GO>}

Good morning, everyone, and welcome to our conference call to discuss results for the fourth quarter 2017 and also the full year 2017. The year 2017 was marked by a transition in the company. We have moved to a company, which is pure pharma. To celebrate this new phase, we changed our corporate brand, which is now called Hypera Pharma.

It's worth remembering that Hypera Pharma emerges as a leading company international pharmaceutical market with something close to 10% of market participation, and retail, which is the company's focus. It's also worth mentioning that in 2017, the company was awarded the prize of the largest pharma company by (03:03) also by Valor news. We're also awarded the best company in pharma marketing and the largest advertiser in the pharma media.

Hypera Pharma is the only company in the industry, which is present in a relevant manner across all pharma markets, including OTC, prescription product, food supplement, nutraceuticals, derma cosmetics and generic products.

In 2017, we also implemented a series of changes with objective of maintaining a new growth cycle for the company. Among those initiatives, we can highlight. We have finalized the segmentation of our organization and there's three large business units which are, Consumer Health, Branded Prescription products (04:07) and Generics. They are now fully autonomous in all their strategic and innovative functions and also marketing and sales, and they are responsible for their own respective results.

We started the operation of our new innovation center called Hynova, which is equipped with the most state-of-the -art technologies available and also count on highly specialized professionals.

We have also improved our business development area, having concluded new partnerships with several companies both internally and abroad. We have also started a program to increase our production capacity as it refers to our operation in our Anápolis site, which should boost our production capacity by 50% in the coming two to three years.

We also launched several new products for different markets, which allowed us to increase our innovation index to a record historical level. We have also increased our sales, marketing, training and medical visitations areas with new field teams. We (05:39) have improved, therefore, our execution, which led to productivity gains.

We once again increased our marketing investment with an increase in our participation in digital media among others. At the same time, the company continues to invest heavily in developing its pipeline for new products across all business lines. That includes several launches scheduled for 2018 and for the years to come. All those changes aim at strengthening our business platform in the mid to the long run so that we will have the necessary conditions to continue to grow sustainably, profitably and generating cash.

Still, the company has already started reaping the benefits of the actions, which we have implemented. As an example, we have now rejuvenated market portfolios, we have improved our executions and we have already several success cases to show. We closed the year with a growth in demand on the same basis at around 14.7% when we use the PPT criteria. That accounts for 3.4 percentage points above the market level, which grew in our segments 11.3% in 2017.

All of that is in line with our objective, which is to grow from 2 percentage points to 3 percentage points above the market base in the mid to long run. In the fourth quarter, that growth pace was kept (07:38) an increase in demand of 13.8% as opposed to 10.4% as seen in the market, accounting for a difference of 3.4% when we compare ourselves with the market, despite this growth having occurred in a very horizontal (08:02) across all our areas.

It's worth mentioning our exceptional performance in our Prescription products (08:10) and Consumer Health divisions. For Prescription products (08:14), for example, I can highlight the continued success of Addera D3, which is a leading market for the D vitamin market, which reached something close to BRL 300 million in demand, a growth of 26% in the year. Another example coming from the same division was our Alivium brand. We launched this year the (08:39) version, which also grew by 24%, reaching BRL 110 million in terms of demand throughout the year.

As for Consumer Health, it's worth mentioning the growth of our leading brand, Benegrip, which grew 34% in 2017, reaching over BRL 200 million in demand. Another example still was our flu medicine, (09:06), which grew 32% in the year, reaching a demand of something close to BRL 100 million 2017. As we can see, we have gathered several success cases due mainly to better execution, due to our focus on business and other initiatives we have implemented across all business divisions.

In terms of financial results, we had a good year as well. The company's sales reached BRL 3.6 billion, accounting for an increase of 12.7% when compared to the previous year. We closed the year with an EBITDA of BRL 1.232 billion, very much in line with our guidance for the year, which was around BRL 1.2 billion. We closed the year with a net income of BRL 1.1 million (10:13) in continued operations, which accounted for 30.5% of our net revenues.

In terms of cash generation, the company generated throughout the year BRL 932.6 million. Shareholders received BRL 1.8 billion throughout the year, which represents BRL 2.87 per share. That number already accounts for the interest on capital which was paid out early this year in January. Even after that payout, the company started the year with a net cash, which is positive of BRL 265 million. For 2018, the company intends to continue on its payout policy.

The company remains firm in its growth path, but without putting aside profitability and cash generation concerns. Given the historical moment we're going through now, and we believe in a transparent communication with the market, for 2018, the company will add to its guidance for EBITDA in continued operations. Also a guidance for net income for continued operations just as we have in other more mature markets.

In that respect, given the current conditions, we believe that for the company's continued operations, we'll be able to close the year 2018 with an EBITDA of around BRL 1.350 billion (12:05) and a net income of BRL 1.1 billion.



Thank you very much. I'll now give the floor over to Breno Oliveira, who will be detailing our figures for the fourth quarter. Thank you again.

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

Good morning, everyone. Before we move on to the numbers, I'd like to say that starting this quarter, we have improved our accounting practices in terms of acknowledging sales receivables. So, we start accounting that as they receive the payment, not as before.

That has not impacted the company's results significantly, but there is a shift in revenues across the different quarters. On Table 19, we see that our income statement would have dropped in quarter because of our new accounting practice. This will serve as a comparison basis for 2018 and also the income statement for 2017 based on the previous accounting practice. So, there's a difference there in terms of comparison.

If we move now to page number 3, we see that the growth in net revenue for continued operations was 17.6%, with the highlight for (13:21) for Consumer Health and prescription products. Based on the previous practice, that revenue would have grown 100% in the quarter. The gross margin set at 74.5%, an increase of 1.6-percentage points when compared to the fourth quarter of the previous year, maybe due to a better sale performance with a higher concentration on branded products.

Operating expenses contributing 1.4-percentage points for the growth of the EBITDA margin with gains coming from marketing and sales increase. With that, the company's EBITDA reached BRL 365 million, a growth of 35.3% – a margin of 35.3% or an increase of 2.7% when compared to the fourth quarter of 2016.

In the fourth quarter of 2016, we saw tax impact relative to interest on capital, which led us to file a positive number of BRL 112 million in the income line – income tax line. This way, our net income from continued operations reached BRL 462 million, 118% above last year. Discontinued operations presented a net result, which was negative BRL 3.9 million (14:51) in the quarter, due mainly to non-cash expenses with the write-off of assets, which were not included in the sales of some products. So, the net income for the company reached BRL 445 million in the quarter.



On the next slide, for 2017, the growth in net revenue was 12.7%, due mainly to the growth in volume. The highlight for the business units concerning Consumer Health and prescribed prescription products. Based on the previous accounting practice, the growth would have been up 10.4%. Gross margin moved up 0.6% when compared to last year due to a more favorable sales mix.

Commercial expenses increased 0.2%, due mainly to an increase in the R&D expenses and higher corporate expenses after we sold our Disposable Products unit. So, the company's EBITDA for continued operations reached BRL 1.200 billion, a growth of 12.9% when compared to the previous year, and a gain of 0.1-percentage point in terms of margin. Based on the previous accounting practice, the EBITDA would have been BRL 1.224 billion, and in both cases, reaching the guidance of BRL 1.2 billion, which was set for 2016.

Financial result was positive at BRL 53 million and leading net income to reach BRL 1.112 billion, a growth of 72% when compared to the previous year. In the year, the company's results for discontinued operations was negative at BRL 147 million, leading the total company's net income to finish the year at BRL 964 million.

Moving to page number 5. We have our cash conversion cycle based on the new accounting practice, which is approximately 10 days shorter than before. In the fourth quarter 2019 (sic) [2017] (17:04), the cash conversion cycle finished at 147 days, the same level of the previous year. And the working capital as a percentage of net revenues closed the year at 33% as you can see on both graphs on the slide.

On the next slide, slide 6, the cash flow reached BRL 208 million in the fourth quarter, a growth of about 16% when compared to the previous year. In the year, cash generation reached BRL 960 million (17:32), a growth of 6% when compared with previous year, impacted by an anticipation of media expenses, which in 2017 was BRL 80 million (sic) [BRL 81 million] (17:43) above what we had in 2016, is mainly due to the payment of our football broadcast advertisement. Without considering that, our growth would have been [ph] 15% (17:59) in 2017.



The free cash flow before the sale of assets was BRL 720 million in the year, a growth of 8%, impacted mainly by advancements which was made and was mentioned before. If we exclude that effect, we'd have seen a growth of 20%. And the free cash flow saw a drop of 53%, mainly due to fewer (18:25) receivables coming from the sale of assets.

On page 7, we see our company's cash position closing at a net cash level of BRL 846 million, if we consider interest on capital, but in January, we closed at BRL 581 million, in line with the company's strategy of keeping a cash position slightly positive.

On page 8, income on capital paid in January, BRL 0.92 per share, represented a payout of approximately 60%, a growth of 42% when compared to dividends paid out in 2017 and an average growth of 36% if we include 2016 when we started paying out dividends. And our strategy is to continue to pay out dividends to our shareholders at those levels.

Moving on to the next slide, the growth of our profitability and the reduction in capital, which occurred last year, our return on equity doubled reaching a level of 14% in 2017.

Lastly, as Claudio has already mentioned, we are introducing a new guidance for net income for their continuing operations, that's why (19:47) for 2018, our guidance is for – in the around BRL 1.350 billion and for net income for continuing operations around BRL 1.1 billion.

The guidance for net income is close to the net income we filed in 2017 because of a lower cash balance and also because of reductions in capital that we saw in 2017 and also a better interest rates expected for this year when compared to last year. And also due to a better tax incentive, because again of the capital reduction and also because of better TGLP rates. Without those effects, the net income would grow approximately 10% when compared to 2017, if we consider the same basis of comparison.

I'd like to thank you all for your attention. And we can move on to the Q&A session.

# Q&A

## Operator

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

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

Good morning, everyone. Thank you for taking my questions. Claudio, why did you change the way you recognize the revenues? And also, you were more – seemed to have been more conservative in that period in the fourth quarter when we see the numbers in comparison to having more conservative. What can you tell us about that?

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

Well, Breno is going to be talking about the recognition of revenues and I'll address your second question.

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

Bob, thank you. As this changing accounting practices, that is an improvement we're always seeking to implement. In this particular case, we have been discussing this for some time. We have been looking for an opportunity to improve our practices, and also in 2018, a new CPC, CPC 47 will be enforced. And so we decided to anticipate our change and implement that now. So that you can be better prepared for when the change is really enforced, the changing CPC.

So, we already have an idea of how those numbers compare when you work with different comparison basis. So, that's basically the driver for that change. As I said, no major impacts were filed in our statements. It was basically a reallocation of revenues throughout or across the quarters. In the mid-run, no major effect will be felt.

So, I give the floor now back to Claudio.

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

Thank you. As for the fourth quarter, Bob, it's worth mentioning that as I mentioned in my initial remarks in terms of the sell-out demand, we still see a very positive trend going forward. In the quarter, we saw a growth of 13.8% in the quarter, which was relatively horizontal, if I may, when we compare the different divisions. Now, within that quarter on the one hand, we chose by selling commercial policy, which was more moderate, if you will, in the fourth quarter given the trend that we saw to our business.

And in the specific case of Neo Química, we had a lack of products. In other words, demand was higher than the offer or undersupply. And that kept us from selling something around BRL 35 million within that quarter, because there was a drop in capacity basically. Had it not been for that effect, we would have seen a growth of around 10%, which would be more in line with what we had for the remainder of the year. And of course, I'm talking about the previous accounting practice, right?

We are already working in terms of increasing our capacity in the short run. We have several initiatives in place, so that we can improve our production levels. We also have a new management at the plant, which took over three months ago. So, we are now very optimistic in terms of resuming higher levels of production in the short run. So, as I said, those initiatives should impact productivity levels very positively. At the same time, we are working on an expansion program. We are building a new site, and we will plan within our Anápolis Complex (25:25), which will, of course, lead to an increase in production in the mid to long run.

Now, again, it's important to remember that we have a positive trend in our sell-out front that's driven, as I said, by several initiatives we have implemented before. And this will allow us to, as I said, grow sustainably looking forward.

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

Okay. Claudio, Thank you.

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

Still on the fourth quarter, we are working hard, Bob, to continue with the good results. Since this is a production problem, not a demand issue, unfortunately for this quarter, we had the collective vacation period, then maintenance shut-down period. We had, of course, kind of holidays that of course brings the number of working days down of course. So – and it's a shorter quarter, because according to the new methodology, we have to place the order by the 10th of the month to be able to include them in the quarter. So, it's a shorter quarter as this is the first one in the new methodology.

So, because of all that, we are working hard to maintain those numbers up, but we'll have to wait and see the end of the quarter. But, in any event, throughout the year, I remain quite optimistic that we will be able to meet demand, making supply in the case of Neo Química. It is – and we can look at it as a good problem to have, right?

Neo Química, of course, has shown – it has grown to be a very solid robust brand. We have also improved our distribution system for that. And so, there is also good news. As I said, it's a good problem for us to try and solve.

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

And Claudio, could you talk to us about your efforts to establish new partnerships in terms of licensing? What products do you have in your horizon? How is that being played out? And how is your pipeline for additional business, if you will?

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

We have a very large range of partnerships, which have come up since we started to invest in our Business Development Units, and those partnerships are really important for us. That will give us enough leverage to grow in the short term, of course. So, there is a very – I could say, very positive combination in that respect.

I'd say that about a third of our current pipeline – I think I mentioned in a previous call, today our pipeline, considering the projection for the fifth year, we're talking about BRL 3.9 billion, which is now in development phase, of which about BRL 1.3 billion, about a third is what I call the short-term pipeline. In other words, pipeline which is about to be launched or which has been already filed at the National Agency, the ANVISA, and just sitting and waiting for the Federal approval.

In 2018, where we have more than 20 launches, and in 2017, where we can already anticipate numbers. The launch, for example of Trinidad (30:18), which is similar to ANVISA (30:28), which will be the first product in the market after the ANVISA (30:33). We will be the first one to use – to launch that product in the market, take it to doctors, the doctors' community. We have been working intensively with the doctors.

We, of course, (30:49) to challenge the fact and (30:50) we managed to prove that the patent could be challenged, and we won that in court. And we'll be the first company to be able to launch that work (31:00) ahead of every other competitor. So, that's one example of work conducted by the Business Development Unit. Along with a number of fronts (31:15), they have to work together, of course, and that is a good example of what we're doing. And it is, of course, great news that I can share. There are others, but this is one which is worth mentioning and highlighting.

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

Okay. Thank you, Bergamo, and congratulations.

## Operator

Mr. Thiago Macruz from Itaú has a question.

## Q - Thiago Macruz {BIO 16404924 <GO>}

My question is a follow up from Bob's question. Could you tell us your expectations about Innovation Index? What would be reasonable to expect? How far can that Innovation Index go? It could stay around 28% or would you say that through the next years we could have even higher figures, so that you can have a better idea in terms of looking at your pipeline and looking forward?

## A - Operator

Thiago, as I said, we have been working to continuously renew our pipeline. The Innovation Index has a very strong correlation with our above market growth. What I can tell you now is that in our budget for 2018 everything happens according to plan. We would be taking that index up to 31%, from 28% to 31%. From 2016, 2017, we gained 4%. From 2017 to 2018, again if everything goes according to plan, we're expecting to improve another 3%. As I said, we're talking about another 20 launches, very good launches, talking about products which are quite distinguishing the market, so we could expect that number to go up to 31%.

## Q - Thiago Macruz {BIO 16404924 <GO>}

Excellent. Very good. Thank you for your answer.

## Operator

Mr. Tobias Stingelin from Credit Suisse has a question.

## Q - Tobias Stingelin {BIO 18290133 <GO>}

Good morning, Claudio and Breno. In terms of the capacity expansion, Claudio you mentioned 50% in the next three years. In terms of CapEx, could you give us a break down? You also were considering selling a property. In other words, how can we expect CapEx to play out in the next three years? This problem you had in the fourth quarter for capacity, you had that before. So, that has happened and that could happen again. So, the CapEx expansion will be addressing that problem? Am I right in my understanding?

## A - Operator

Hi, Tobias. Yes, every now and again, we faced the issue as you mentioned, but I think that this problem we had in 2017 is being addressed with the new management at the plant, and we are focused on capacity building in Anápolis, but based on the current assets that we have, with this new management work, I think – I believe we should improve our level, I'd say at about 10% throughout 2018. That's the target, an improvement of 10% with the current asset base.

Now, we have to recognize that while 2017, we saw several changes in the plant's leadership, of course, that also hinders growth. But now, we have a new management in place that will remain in place in the (35:20). So, I do believe that that 10% target, in terms of production gain throughout the year, is a good feasible target.

At the same time, we are also closing the final details for the expansion project. We have hired (35:49), which is a renowned company to help us in this expansion. We are now, as I said, detailing the project. We are advanced in that project as it happens with any new factory, new plant. We're talking about complex issues. I said I was going to bring figures, but I'd like to ask you for your patience to bear with us for another quarter, but I'd say that we are talking about BRL 500 million top for two to three years for a new plant. That's a number we see as a limit, BRL 500 million.

And when the time comes, this will amortize with the sale value of our (36:40) Warehouse, which estimate now at BRL 250 million, give or take, depending on the market at the time. We are not going to sell it without having a clear idea of what the market is situating itself at that time. So, – but again, we're talking about BRL 250 million for that warehouse. That's an additional CapEx we're talking about, which is quite reasonable.

## Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay. Thank you. One more question. Remember that for the year – (37:20) you've already mentioned the sell in and the sell out for the quarter. But for the year, how do you see your different categories performing? Where do you need to improve? Where you are faring well?

## A - Operator

Well, in terms of categories, they're not categories, divisions, right? Prescription products (37:46), Consumer Health, Generics. As we've seen the numbers, I think, the Prescription products (37:56) division and Consumer Health division, they are doing well. They do not depend so much on production. They depend on demand generation and they also depend, of course, on the success of future launches.

Just to give you a better idea, today, one-third of our production is dedicated to those two business units and two-thirds is dedicated to Neo Química. Neo Química is a higher volume front. So again, a third of available revenues come from Neo Química (38:35) and two-thirds the other way around. And also, of course, we prioritize brands of course, so that – how can I put it, to gain better efficiency on both fronts.

We don't want to harm (39:10) Neo Química. So there's new production increasing program. We want all fronts to benefit. So 10% of that target will be of course directed to Neo Química. The idea is to better associate demand and supply. In other words, they are used to address the bottleneck that we now see at Neo Química.

## Q - Tobias Stingelin {BIO 18290133 <GO>}

So as you said, the demand for Generics is really good. That's why you have this demand capacity, right?

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

Exactly, exactly. It's not enough. It's not an isolated fact. It is a trend. We are doing well in Generics. And throughout 2017, we worked well with our inventories, but when our inventories finished, we are not able to replace the safety or the security inventory at the base we needed. But when you have a very low safety inventory, you are subject to short-term contingencies.

## Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay, Claudio. Thank you.

## Operator

Mr. (40:31) from Bradesco BBI would like to post a question.

## Q - Luciano Campos {BIO 16181710 <GO>}

Good morning, Claudio, Breno. Actually, this is Luciano speaking actually. My first question is the following. You mentioned interesting number of launches that you have going forward, important launches. Could you give us some more color in terms of what might happen in terms of investment in marketing, in point of sale to support all those launches? What kind of breakdown in terms of percentage can you share with us, of course, that growth on it (41:14) and support? That's the first question. Thank you.

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

Luciano, very good question. Thank you. Actually as we launch new product and as we move from a level to another investments in marketing and sales, of course we need to follow suit. And we, as managers, we need to be able to do that in a way to minimize the effects or possible effects on our income, on our statements.

So you're right. It is a constant challenge for us. Throughout the year, we increase gradually some sales efforts. We increased our marketing teams so the impact is not that important, that high. And the same thing will happen in 2018. We've invested at global – (42:28) the TV network. The idea is not to see a very high impact as a one-off investment. The investment in global is very good and we expect of course great returns from that. And for Prescription products (42:50), we are planning an increase in terms of our medical visits, teams. We want to do it in a way that the impact is minimum.

## Q - Luciano Campos {BIO 16181710 <GO>}

Thank you, Claudio. Just one more question in terms of the capacity. You have already mentioned that before, but just a refresher. You have talked about having a specific site or plant to make Hynova even more efficient than it was over the years, but without affecting the Goiás plant. Do you have a timing for this new plan for Hynova? And how does that affect your prevention capacity in Goiás for the next two years if it affects at all? You talked about (43:47) that you mentioned just now in the other question.

## A - Operator

Luciano, are you talking about our pilot plant?

## Q - Luciano Campos {BIO 16181710 <GO>}

Yes, exactly. Yes, the pilot plant.

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

The pilot plant has no influence or effect whatsoever in production. That's something totally separate. It is part of this new investment program that I mentioned to Tobias. We are trying to decide where to put that pilot plant, but we already have a pilot plant in Anápolis, right. It doesn't have the best possible technology, but it already serves our purposes satisfactorily in the short run. Of course, our objective is to have a plant just to meet our objective in the long run and that is part of our investment package going forward, we are now talking about the details of the plant, as I mentioned before, to be able to do that.

## Q - Luciano Campos {BIO 16181710 <GO>}

Okay, Claudio. Thank you.

## Operator

Mr. Joseph Giordano from JPMorgan has a question.

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

Good morning, everyone. I'd like to talk about demand a little bit. Last year, we talked about the need to finance clients or to fund clients. We're talking about small and mid-sized retail chains. How you see that market today in terms of credit?

And a second question, do you see effects of a more normal seasonality going forward in terms of inflation or vis-à-vis the inflation? How do you see that market going forward?

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

Hi, Joseph. As for credit, it remains in historical levels. In the fourth quarter, we were trying to expose to pharma (46:10) and some other clients for generics with some isolated effects, but nothing major. I'm talking about isolated issues that will emerge (46:24). But it's worth mentioning that one of the strategies that the company has is to increasingly have control of the sales at the other end. When we started this process back in 2011, we were talking about 15% to 20% of the control of the sales in retail. Today, we are moving to 65% of this control level. And this year, part of our investment in sales and trade is to increase even further our OL teams (47:09) so that we can have even more control So the tendency is for us to increase that every year little by little, so that we'll have increasingly more control at the end.

Of course, you know that we will sell directly to larger chains. And in the regional channel, we have a system where we have a semi-direct sales that once (47:42) we have sales people for regional retail, they pay fee (47:46) orders, and those orders are channeled to larger distributing companies, which in turn take care of the logistics and delivery.

For that mid-sized segment, we already have 50% of our demand. So the tendency is to have higher numbers on that front. We are increasing those sales forces in the market.

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

Okay. Thank you. Thank you, Claudio.

## Operator

Mr. Guilherme Assis from Brasil Plural has a question.

## Q - Guilherme Assis {BIO 16143141 <GO>}

Good morning. Thank you for taking my question. I have a question about the growth you've been showing. I think it's clear that you've been successful in some efforts in terms of expansion and other products. Claudio mentioned really well this 20% to 30% growth. I'd like to try and match that to the question which was asked before.

My impression is that there was or there are some specific brands, which are super brands, but when you look at the company's growth more in line with the market or if we talk about a year's growth, it seems that there are some categories performing really well such as Generics. But I'd like to know from you if only the Generics are able to do that? Since we have other assets growing above market ever, so what kind of categories can we see performing well? Thank you.

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

Guilherme, I said that today the main driver is the competitiveness in the market vis-à-vis the restriction in capacity we have as Neo Química for Generics. We're talking about on that segment where competitiveness is much more dynamic if you will. We have kamikaze (50:43) competitors. And in this case, in this segment we have more kamikaze (50:52) competitors than in the others. So it's slightly more tense if you will market, but still we have higher demand than supply. But once we normalize that, we will have Generics performing as well as the other categories.

## Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. Thank you. And any other category, Claudio, that you could mention that is now seeing a drop in performance or you only talk about Generics that's showing a poor performance?

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

We know pharmaceutical portfolio. We have products which are more mature than others and has to do with the cycle of the products. So it's important to know, to realize the average age of your portfolio. That's an important piece (51:52) of information. So as you have younger or newer portfolios, you will have higher amounts of brand, products, which still have room to grow till they reach maturity. And of course, for older portfolios, it's the opposite. You have brands declining. That's very clear in the Pharmaceutical segment. Depending on the category that time period goes from 5 to 10 years.

It's important to realize that the brand is one thing, but the portfolio is another. When you have a strong brand, you may have a mature product, but not a mature market. Doril, for example, we had a demand of around 35 (52:54) million, which was dropping year-on-year. When we launched Doril Enxaqueca for migraine, we tripled our demand. We reached something close to 90 (53:06) million. That means that that rationale works because the brand is important, the brand is robust. So we need to understand the dynamics to be able to invest in marketing and sales correctly. Today, looking forward, I have five years of pipeline for Doril and that's the period we work on.

## Q - Guilherme Assis {BIO 16143141 <GO>}

Okay. Okay. Thank you.

## Operator

Thank you. The Q&A session is now closed. I'd like to turn the floor back over to Mr. Bergamo for his final remarks. Mr. Bergamo, you have the floor.

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

Once again, thank you all for participating in our call. Our IR area remains available if you have more questions, more comments, feel free and have a nice day, everyone.

## Operator

Hypera Pharma's conference call is now over. Thank you all for participating. Have a nice day.