Q2 2019 Earnings Call

Company Participants

- Adalmario Couto, Chief Financial Officer and Investor Relations Officer
- Breno Oliveira, Chief Executive Officer

Other Participants

- Fred Mendes, Analyst
- Gustavo Oliveira, Analyst
- Joe Giordano, Analyst
- Ruben Couto, Analyst
- Thiago Macruz, Analyst
- Tobias Stingelin, Analyst
- Unidentified Participant

Presentation

Operator

Good morning. Welcome to a Hypera Pharma's Second Quarter of 2019 Earnings Conference Call. With us are Mr. Breno Oliveira, CEO, and Mr. Adalmario Couto, CFO and Investor Relations Officer. We would like to remind you that this event will be recorded and during the company's presentation, all participants will be on listen-only mode during the conference call. Soon after, we will hold a Q&A session only for analysts and investors when further instructions will be provided. (Operator Instructions)

We would like to remind you that questions may only be made over the phone. If you are connected via the webcast, your question should be sent directly to the IR Team at ri@hypera.com.br. The audio version is being presented simultaneously in the Internet at the company's Investor Relations website, www.hypera.com.br/ir, and we would like to inform that the information conveyed in this conference call may contemplate projections or forward-looking statements regarding future expectations. Such information is subject to known and unknown risks and uncertainties that could cause such expectations start to materialize or to be substantially different from what was expected.

Now we would like to give the floor to Mr. Breno Oliveira, who will start the presentation. Mr. Breno, you may proceed.

Breno Oliveira {BIO 17215392 <GO>}

Good morning, everyone, and welcome to our earnings conference call for the second quarter of 2019. Before beginning my comments on the operating performance of the quarter, I would like to talk about the efforts made by the independent committee. We have no major news beyond what was reported in the last call. Our efforts are underway, but we do not have a deadline for the completion of the committee's work.

As I mentioned in the first quarter call, as we completed the working capital optimization process during the first quarter of 2019, we began to focus our efforts on sell-out growth. And in this quarter, we can already see the result of the initiatives we have put in place since the beginning of the year and have been intensified since the beginning of the quarter. Our sell-out grew 10.4% during the second quarter of 2019 or 1.8 percentage points above the growth of the market. Our growth was higher than the market growth in the quarter, proving the strength of our brands in all business units.

In Consumer Health, the main highlight was the gain in market share in anti -- in influenza, driven mainly by our two main brands, Benegrip and Coristina. In addition to the market share gains, the anti-flu market grew during this quarter, reversing the drop registered in the first quarter of 2019. In prescription products, we are already seeing the positive results of the increase in the medical sales reps since last year and the reorganization of the medical panel and the performance of recent launches. These initiatives contributed to the gradual improvement in sell-out growth in the recent months in practically all categories with the exception to the vitamin D market, which fell 6% during the quarter and continues to be negatively impacted by the drop in prescription.

In Similar and Generics, we grew above the market for the second consecutive quarter, mainly due to good performance in our similar brands such as Neosoro, Flavonid, Doralgina and Histamin. This performance reinforces our position as the company that is better prepared to capture the diverse opportunities of the Brazilian pharmaceutical market. We are leaders in the OTC and similar category with the most relevant brands in the market and we are amongst the main prescription and generic players with Mantecorp and Neo Quimica brands. We will continue focus on growing the sell-out of our leading brand investment in innovation pipeline, marketing medical rep team and point-of-sale, especially in a more competitive market environment.

This July, we increased our medical rep force, increasing our staff by over 100 people or approximately 15%. We will continue focus on the sell-out of our leading brands. Now, in the second quarter, we began the expansion of our Anapolis plant, which is expected to double our solid production capacity and should start operating in early 2021. We invested BRL57 million in research and development this quarter. This amount is almost 6% of our net revenue or 20% of our EBITDA, plus a record for the company. With these growing investments in innovation, we are creating the conditions for long-term sustainable growth for the company.

We also launched 25 new products during this quarter, highlighting consumer health and prescription products, as you can see on slide four. In Consumer Health, the main releases were Benegrip Day and Benegrip Night and Vitasay 50+, a re-launch of the traditional Vitasay brand with the complete line of multivitamins formulated for men and women in the age group above 50, now competing in vitamin market of BRL4 billion turnover market, the largest OTC and growing above the market average. In prescription products, we launched Ofolato drops, an Ofolato brand line extension in addition to the line extension of Episol, a dermocosmetic brand.

In this quarter, we began to capture the operational and financial benefit of the process of reducing inventory levels with customers, which was successfully completed in the first quarter of 2019. In the second quarter, our average collection period was 95 days vis-a-vis 128 days last year.

Finally, I would like to point out that during this quarter, we achieved the Great Place to Work certification, the leading global certification on workplace quality. We are a company based on people who innovate, produce and sell our products every day, and this certification gives us the certainty that we have a motivated and engaged team in pursuit of our medium and long-term goal.

Now, I give the floor to Adalmario who will comment on the quarter's results.

Adalmario Couto {BIO 15110002 <GO>}

Thank you, Breno, and good morning to everyone. Let's start talking about net revenue on slide five. Our net revenue grew approximately 6%. This growth, which is lower than the sell-out growth, is mainly due to the difference in the sell-out and the sell-in and sell-out base from last year when the company did not practice the current commercial policy that seeks to align revenue growth with sell-out. It is important to mention that the nominal amount of the company's sales during this quarter to sell-in was similar to the sell-out.

Now, talking about our margins, we had an impact of approximately 450 bps in gross margin, which led to a drop of 68.3%. This drop is due to some factors that impacted our costs during this quarter, including amongst them, the provision for losses in finished product inventories due to reduced shelf life as well as overdue, time-consuming and obsolete inputs, which in aggregate have represented a cost of BRL30 million, above represented cost of normal level of BRL10 million we had in the second quarter of 2018 and generated 170 bps drop in gross margin. This effect is mainly a reflection of the change in commercial policy and the working capital optimization process that changed our sales and production planning. Excluding this effect, the margin this quarter would be close to 70%. However, it is noteworthy that we should still have an impact regarding the disposal of products in the third quarter of 2019, which will be above normal levels.

In addition, we also had the impact of the devaluation of the BRL. In the last quarter, the average exchange rate that was at our cost of 3.75 vis-a-vis an average exchange rate of 3.29 during the second quarter of 2018, and this was a drop of 120 bps. Two other effects with minor impacts were the US dollar price readjustment of some APIs, which impacted gross margin by 90 bps, and the payroll expenses since the beginning of the year, which impacted 70 bps.

These three factors are slightly out of our control and impact all companies in the industry, including the fact that we saw a reduction in gross margins in all our competitors throughout 2018, and the issue of product disposal that is more under our control. And we should reduce over the upcoming years and coming quarters with more assertive sales and production planning.

Now, during this quarter, the product mix was very similar to that of the second quarter of 2018. So, we had no impact on the mix effect. Now, regarding the EBITDA margin, it was 29% this quarter compared to almost 37% during the second quarter of 2018. Much of this reduction can be explained by the lower level of gross margin as well as the acceleration of investments, especially in medical visits and research and development.

Marketing expenses represented approximately 23% of net revenue during the second quarter of 2019, slightly above the second quarter of 2018. This variation as a result of the increase in expenses was medical rep visits because of the increase of our team since July last year as well as the greater number of marketing actions carried out at the point of sales with the goal of driving sell-out growth.

Now, SG&A expenses increased the share of the net revenue of the second quarter of 2019 by 1.5 percentage point. This increase was mainly due to the increase in R&D expenses. In this quarter, we did not have the benefit of labor day, which in the second quarter of 2018, we presented BRL8.5 million. Excluding the impact of (inaudible), R&D growth was around 20%. With these two investments, it is worthwhile to highlight that we are the company that is leading in investments and innovations in the Brazilian pharmaceutical industry. We are the company that invest the most and launches the most new products, but there are still plenty of opportunities for us to develop our innovation process both at the pipeline level prioritization and go-to-market speed.

Other operating expenses, which had been positively affected by the compulsory loan returned by Electrobras in the second quarter of 2018 were negatively affected by the increase in the provisions for labor contingencies during this quarter. Net income grew approximately 21% in this quarter and totaled BRL337 million. This performance is mainly due to the reduction in the actual income tax rate due to the JCP statement of approximately BRL161 million, as well as BRL91 million of tax liabilities reversal in the mandatory update of the tax credits related to the exclusion of the ICMS in the PIS/COFINS calculation basis, which was recorded in the first quarter of 2019.

Now, going back to cash flow and debt. Operating cash flow was BRL195 million during the second quarter and was negatively impacted by a lower sales-related cash receipt as a result of lower net revenue in the previous quarter. Now, the free cash flow was affected in addition to the reduction in operating cash flow by additional investments in the expansion of the Anapolis plant and in research and development. The plant expansion began this quarter with the purchase of state-of-the-art equipment to expand production lines, especially in solid and the preparation of the area that will receive new equipment to expand the production line.

Finally, net cash position ended the second quarter at BRL664 million and was impacted by the net buyback of shares at the amount of BRL42 million. And interest rate on our own capital that was BRL161 million or BRL0.26 per share, which added to the first quarter of 2019 distribution already totaled BRL322 million, which will be paid by January 2020 and reinforces our commitment to continue paying out to our shareholders.

In summary, even with the drops in sales in the first quarter, the increase in investments and CapEx and R&D and the share buyback in the company generated free cash flow in the quarter and maintained its net cash position. As commented by Breno, the average payment term decreased to 95 days during the quarter. This level is consistent with our strategy to optimize working capital investments with our new commercial policy. We are focused on improving productivity of our working capital investments.

Now, with regard to accounts receivable, much of the process is already done, but there is still room for improvement in our inventory reduction and increase supplier deadlines.

Now, I give the floor to Breno for his closing remarks.

Breno Oliveira {BIO 17215392 <GO>}

Thank you, Adalmario. The initiatives that have been implemented to increase didn't increase. Demand for our products have already begun to show results in the second quarter and we believe that they will continue to drive our sell-out growth during the second half. These initiatives are mainly related to greater investments in innovation, marketing and medical rep staff, which pose an additional challenge to preserve margins in the very short-term, especially in the current economic scenario. However, these investments should be offset by the increased contribution from launches on our top line initiatives to gain operational and administrative efficiency and lower working capital investments, which should benefit margins in the medium-term and mainly our generating of operating cash. We believe in the growth potential of the Brazilian pharmaceutical market and Hypera Pharma is the best positioned company to capture opportunities in this market. We will continue investing in marketing, research and development and production capacity expansion to ensure sustainability, sustainable profitable growth over the next five to 10 years.

We now open to our Q&A session.

Questions And Answers

Operator

Thank you very much. We will initiate our Q&A session for investors and analysts. (Operator Instructions) Mr. Giordano from J.P. Morgan would like to pose a question.

Q - Joe Giordano {BIO 17751061 <GO>}

Good morning to everyone, good morning, Breno, Adalmario. Thank you for taking my question. I have two questions here. When I see the top line there, you have a robust pipeline since last year, lots of launching especially during the second quarter. I would like to understand how these products contribute to the growth of your revenue that would be since the middle of 2018. And my second question is regarding when you match sell-in and sell-out, so when should we expect the top line figure to converge together with the sell-out? And what about marketing? We see that the company is investing in a number of fronts. So I would like to know if this new level will be the normal from here on.

A - Breno Oliveira {BIO 17215392 <GO>}

Okay. This is Breno speaking. I am going to answer, and Adalmario can piggyback on my answer if he would like to answer something. Regarding your first question, regarding our launching, we showed it in our release, and I also mentioned. We improve the innovation, this was 33% during this quarter, but the index of new products launched for the five past years and we saw the product that we launched since the middle of last year. They are contributing with great part of the growth in the quarter and also for the year with great part of the growth. So, this is a result of the products that were launched since July last year. And this offsets also mature products like Vitamin D that dropped a little bit in our portfolio.

Now, regarding your second question, when you talk about sell-in and sell-out as Adalmario stated during his presentation, but I would like to strengthen that this matching is because of the comparison base with the second quarter of last year. So in nominal terms at face value, I believe we are very close. But in the past, wast year, when we did and operate this way, the comparison base was different. So in the upcoming quarters third and fourth, normally we will have some type of matching results in terms of growth. But in nominal terms, they will be very close. And as time goes by, we will correct this comparison base and they will converge. We believe that the sell-in will grow aligned with the sell-out. But this quarter and the next quarters, we will see a slight mismatch in terms of growth.

Now, your last question, could you please repeat your last question again?

Q - Joe Giordano {BIO 17751061 <GO>}

It would be marketing, you are strongly focused on the point of sale. And you said you hired more medical reps. So, is this is something normal or do you believe that -- will you have stronger promotional campaigns or what we have now is what will be normal?

A - Breno Oliveira {BIO 17215392 <GO>}

Yes, we are investing more. Yeah, medical rep visits in the short term as a percentage of the net revenue of the second quarter, I think this is going to grow more. And this offsets as this team generates more demand for the products. But in the short-term, I believe that the impact will be negative when we see the expense line and the net revenue line. Now, marketing in the point of sale, yes, we grew during the quarter, mainly because we are more aggressive in anti-flu products, but what we see this semester, well, this is highly aligned with what we had last year. Well, we have been investing more. We are being more aggressive in the point of sale and also in the promotional side that is in line gross revenue and net revenue.

In the last semester, there wasn't a great impact because we are driving our sell-in funds to the sell out that would be the promotions for that is giving us good results and the figures in the second quarter show exactly the good results we had. I believe that the main point from here on, what really affected the margin this quarter with the gross margins were all the factors that Adalmario mentioned that there was more aggressiveness from the commercial side and the student result. This didn't impact the result. And in the second quarter, we expect to receive some pressure on the gross margin. And this is something that we saw now in the second quarter.

Q - Joe Giordano {BIO 17751061 <GO>}

Thank you very much Breno.

Operator

Mr. Tobias from Citibank would like to pose a question.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Good morning, Breno, Adalmario. I would like to better understand the nominal or sell-in equal to sell-out. So we're talking about a business of BRL3.9 billion in revenue, could you please explain what this has -- you said that you had a problem from the base, but this isn't clear to me. How should I interpret this? If you could elaborate a little bit about this.

A - Breno Oliveira {BIO 17215392 <GO>}

So, it's basically the following. Let's see the second quarter. During the second quarter of 2018, we weren't operating the way we operate today. Sell-in equal to sell out from the nominal point of view. So, when you see the second quarter of last year as the sell-out here grew more than 10% then the sell-in is growing around 6%, what does this mean that during the second quarter of 2018, the sell in grew above the sell out. So it's not that it grew, it was higher than the sell-out. So, the growth of -- it doesn't mean that the growth of the sell in is lower than the sell out. So basically is the effect of the base of comparison. So as time goes by when we go to the second quarter of 2020, when the base is equal, the trend is that the growth will be around the same, and it will be around the same.

Of course, I understood that the result is better. But it's very difficult to see the sell-in equal to the sell-out. So you're saying that in practice that should be very similar. You should have very liberal gap. So this is what we're going to observe next year sell-in similar to sell-out. Of course, you will have some factors like seasonality. Sometimes you have launching of a product, then you have the sell-in before the sell-out. But by and large, I believe they shouldn't be very different. I didn't understand your comment about other industries.

Other industries have sell-in and sell-out and they talk about matching, but they're not the same. This is the same thing, especially when we see short periods of time. But when you see a semester or a year, the trend is for them to be very similar. And you said that your mix was practically the same. Some times we had the idea that the pressure on margin was because of mix. So, the margin pressure is only because the APIs and the exchange rate, but specifically regarding the facts that you have to be more aggressive in terms of your mix is not the case. So your mix is improving. So you're growing in innovation. So I believe that you should have a better margin with all of these actions.

A - Adalmario Couto {BIO 15110002 <GO>}

This is Adalmario speaking now. Yes, the mix during this quarter was it relevant. The main factors that affected was disposal of product that we're in. For the disposal of products, our margin would be close to 70% that this is the margin with which we ended the last quarter of last year. So, as I mentioned, we're already working to reduce the amount of disposal products during the third quarter. The level will be above what we expect. But as the next quarters go by, we will reduce this margin and go to 70%.

Nevertheless, what is more relevant is that we had new launches. The current review with the gross margin above the company's average gross margin, nonetheless we have Generics. That is the segment that grows most. So, yes, there were two effects that in average, what we talk about mix didn't impact us. And our idea is to continue participating in the growth of generics in the market. So, yes, we have increased the productivity level in our plants because of generics.

Q - Tobias Stingelin {BIO 18290133 <GO>}

What is your CapEx guidance for this year?

A - Adalmario Couto {BIO 15110002 <GO>}

We don't have a formal guidance in terms of CapEx, Tobias. But due to all of our investments to expand our plant, the CapEx should be BRl300 million, BRL350 million without considering untangibles like research and development.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Thank you.

Operator

Mr. Kyle Mosgargini [ph] from Morgan Stanley would like to pose a question.

Q - Unidentified Participant

Good morning. What about your relationship with suppliers? What about the prices, the APIs, and have you undergone a new negotiation because there was a major drop in supplier days?

A - Breno Oliveira {BIO 17215392 <GO>}

Kyle, I will answer the first question. This is Breno. Regarding negotiation, yes, there was an increase in prices since 2017. I believe since 2017 until the middle of 2018, so basically our suppliers are from China and they are undergoing problems in terms of production and their capacity has also dropped. But since the end of last year, there was no great price variation, and Adalmario will talk about -- will answer your second part of your question. And he will explain why the supply days dropped. In reality, the payment deadline -- the payment term, it's a bit misleading and it doesn't represent reality. In terms of payment terms, there have been no changes, no relevant changes actually. What happened basically during this quarter is that there was a drop in the purchase level.

We had been working with higher stock during the past quarters, now during the first quarter, as we mentioned, the plant did not stop. We continued buying, producing and creating an inventory of products. And this quarter, there was a drop in the value of purchases. And there was a drop of 30% when you compare the second quarter of '19 with '18. And also, the calculation is that the CPV, we had a 20% increase, when we compare it to the second quarter of 2018, then these two effects, we present a drop of 30% in suppliers term, but this is not exact. We maintained our deadlines with suppliers, and we had a good negotiation to increase these terms.

Operator

Mr. Ruben Couto from Santander would like to pose a question.

Q - Ruben Couto {BIO 20636571 <GO>}

Good morning. Although it still haven't been approved, it hasn't been approved to sell certain products in supermarket, but this is an ongoing debate right now. How do you see this if it is approved? And a more objective question, what about your tax credits? We should not expect this profit to -- we can't expect it to improve the guidance for this year. Thank you.

A - Breno Oliveira {BIO 17215392 <GO>}

Starting by your second question. Our guidance is net income, okay, of continuous operations and these are recurrent, non-recurrent. This was a non-recurrent gain that we had, but we also have non-recurrent expenses that we do not exclude from our base, like it would be labor contingencies,lawyers, and this is the guidance of the net income of our continuous operation.

Now, regarding the sales from provisional [ph] measure of selling medications in supermarkets, this is a very early debate. It's too early to start talking about results. But this is something that we're following closely. We are not considering this within our short-term projections.

Q - Ruben Couto {BIO 20636571 <GO>}

Okay. Thank you.

Operator

Mr. Fred Mendes from Bradesco would like to ask a question.

Q - Fred Mendes {BIO 17221617 <GO>}

Good morning. I have two questions. The first -- this is along with the other questions, what about visibility and the trend of the sell-out for the rest of the year? Let's say, is the interest rate aligned with this when we see promotions? I would like to know the level that you have achieved now is the level that you budgeted in the beginning of the year? Thank you very much.

A - Breno Oliveira {BIO 17215392 <GO>}

Fred, the sell-out is what we expect for the second semester. This still remain in these levels. Now, this is very clear in our budget and constantly in our guidance, it is the growth at the levels that we saw during the second quarter. And here we have preliminary data from July, but they're driving towards this situation.

And the second part of your question was regarding promotions. If your promotions are in accordance with the budget that you created in the beginning of 2019 or if you believe that you will have a greater demand? Well, in the beginning of the year, if we compare ourselves to the beginning of the year, we're being more aggressive than we originally calculated because of the macro scenario in the country are consumers now are a bit more focused on prices, on cheaper products, the generics market is growing a lot, similar products are growing a lot. So we were more aggressive in visibility and promotion, especially for the third quarter, but nothing different from what we had calculated originally.

Q - Fred Mendes {BIO 17221617 <GO>}

Thank you very much. This is very clear.

Operator

Mr. Gustavo Oliveira from UBS would like to ask a question.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Breno and Adalmario, good morning. One question would be regarding the Vitamin D decision and the trade marketing for anti-flu medications. You said that anti-flu and Vitamin D represented 20% of your income. And I believe you increased the trade marketing and anti-flu, but you haven't done anything with Vitamin D. This is what you intend to do now or you believe that there is not a great deal of space for Vitamin D or the margin doesn't really pay off? This is my first question.

A - Breno Oliveira {BIO 17215392 <GO>}

Vitamin D, well, I believe that the dynamic is a bit different. The demand generation comes because of doctors that prescribe it. So, the promotions really don't impact. Of course, we adjusted the prices during the first quarter. Vitamin D in the market is insensitive to promotions like the anti-flu, like flu medication. Now, one of the alternatives of last year and the beginning of this year, that takes some time to mature. Therefore, we hired more medical reps to promote Vitamin D. We launched new SKUs, but this takes some time to impact the business. So what we've seen is, the maintenance of the levels in market share that we have with Vitamin D, this would be around 40% and this is something that we have since the beginning of last year here in the prescription share that is an indicator of demand.

So there is a slight improvement in the prescription level, but the market -- Vitamin D market is dropping. During the quarter, there is 6% drop, and this is mainly to the drop because we have less prescription. There was a change in the guideline last year, and this shows when person have deficiency in Vitamin D. So this is an impact from the market. And this is not competitiveness, it's because the market had shrunk. But I believe that we will stabilize ourselves at the level we are today. I believe we will see no further drops in this market.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Now, research and development, you said that there was an increase in cost of R&D because you couldn't take advantage of (inaudible) during the second quarter. What is the prospect to make use of this act from this law from hereon? Will a change be needed for you to make use of this law?

A - Adalmario Couto {BIO 15110002 <GO>}

Gustavo, this is Adalmario. Well, in our budget, we have an impact of BRL20 million during the second semester, and this is something that we will see during the third and fourth quarters. This is a negative impact, right? No benefits, we will be able to achieve a BRL20 million benefit during the second semester, okay. So we will start observing this as of the second semester.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

And my last question would be regarding working capital. I would like to understand because you were very clear explaining all the levels, but there are still opportunities regarding your suppliers. When we see a normal result, what would be the intensiveness of working capital? Today it's 30% last year was 39%, how much is this going to drop?

A - Adalmario Couto {BIO 15110002 <GO>}

Well, our target when we carried out the adjustment during the first quarter is to go back to the levels of 2016. That was 35% of our working capital over net revenue. We rather see it this way that in terms of days. A we are talking about high margins it doesn't make it, does it make sense to see it in days. So we see 30%, 35%.

Operator

Mr. Thiago Macruz from Itau would like to pose a question.

Q - Thiago Macruz {BIO 16404924 <GO>}

Good morning. This is Macruz speaking. Our question is regarding your generic pipeline, the launching of generics, and we're talking about the industry as a whole. How do you see the pipeline to larger generics in the industry as a whole? And do you believe that we will have a weaker pipeline in the future? What is the impact on the competitive environment and what will be the price of generics analyzing the upcoming two, three years? What kind of scenario can we expect in a weaker generic pipeline?

A - Breno Oliveira {BIO 17215392 <GO>}

Macruz, as we mentioned in Hype Day, our pipeline is more focused on brand products than on generics. So 80% of our pipeline is from our consumer health business unit and prescriptions. That being said, we also have generics and we have a highly defined processes, molecules were going to sell according to the size of the market, and we have to see how many competitors we have in the market. Of course we have to focus on those that have greater potential for growth and some of them are molecules that the patent has expired. So we are already developing products when -- of molecules that have their patterns already expired in the market. But I believe that we shouldn't expect nothing very relevant in the short-term when we think about new molecules in the generic line.

Q - Thiago Macruz {BIO 16404924 <GO>}

Just a follow-up here. So, we have a launching pipeline that is smaller than the past. Do you believe that you will receive pressure -- price pressure in the upcoming two, three years or it really doesn't make sense to have pressure on prices?

A - Breno Oliveira {BIO 17215392 <GO>}

We see that the generic market is growing more than the market average in volume, and in price or in value. Going back to the beginning of your question, although we're not talking about new molecules, we see a potential of growing in the markets with the molecules that we already have. So we already mentioned in the past that there were capacity production limitations and the portfolio that suffered most was that of generics because it had a lower margin. As we have greater capacity since last year and will improve next year, I believe that the market that will benefit most will be the generics market, that thinking about our portfolio.

Now just adding something here, you were talking about the number of launches. As I mentioned in the beginning of my speech, what we're trying to do is to prioritize which are the best molecules in number of launches. Perhaps they will not be very high, but there is a great market potential, greater than the launches we have already had since there are molecules that we don't have many competitors and we're still not present in this market. I think we could work with these molecules.

A - Adalmario Couto {BIO 15110002 <GO>}

So, yes. As Breno said, there is a potential of working with molecules that we already have because of the increase of productivity that we have, and we can work with molecules with which we do not work with right now. Less than 50% of -- we are in the pipeline, and I believe that we will have very relevant launches.

Q - Thiago Macruz {BIO 16404924 <GO>}

Thank you. Very clear.

Operator

(Operator Instructions) I would like to give the floor to Mr. Breno Oliveira for his final comments.

A - Breno Oliveira {BIO 17215392 <GO>}

I thank all of you for participating in our conference call. And as always, our Investor Relations team is at your disposal to answer any questions you should have. Thank you very much.

Operator

The Hypera conference call has come to an end. We would like to thank all of you for your participation and have a very good day.