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Bloomberg Transcript

Q1 2014 Earnings Call

Company Participants

- Claudio Bergamo, CEO
- Martim Mattos, CFO

Other Participants

- Alex Robarts, Analyst
- Lore Serra, Analyst
- Robert Ford, Analyst

Presentation

Operator

Good afternoon. Welcome to Hypermarcas First Quarter of 2014 results conference call. Today with us we have Mr. Claudio Bergamo, CEO; Mr. Martim Mattos, CFO; and Mr. Breno Oliveira, IRO. We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the Company's presentation.

After Hypermarcas remarks, there will be a question and answer session for investors and analysts, when further instructions will be given. (Operator Instructions) We would like to inform that questions can only be asked by telephone. So if you are connected through the webcast, you should email your questions directly to the IR team at RI@Hypermarcas.com.br. Today's live webcast may be accessed through the Company's investor relations website at www.Hypermarcas.com.br/IR.

We also would like to inform that in statements during this conference may constitute forward-looking statements. Such statements are subject to known and unknown risks and uncertainties that could cause the Company's actual results to differ materially from those set forward in the forward-looking statements. Now I will turn the floor to Mr. Claudio Bergamo, who will begin the presentation. Mr. Bergamo, you may begin your conference.

Claudio Bergamo {BIO 16015846 <GO>}

Thank you very much, all. Welcome to Hypermarcas earnings conference call for the First Quarter of 2014. This year I will focus on the main highlights of our results without using charts. So that we can have more time for the Q&A session.

Hypermarcas' performance in the First Quarter 2014 was consistent with its strategy of sustainable profitable organic growth with debt reduction. In 2014, the Company is undergoing a transition period. With the conclusion of the restructuring program, of its operation which consisted of, among other things, the simplification of its operating platform to increase our management focus and attention to execution of the numerous improvement of opportunity initiatives, especially in three major areas: strengthening of our brands through marketing innovation, continued the search for reducing our wide spaces and improve our point of sales management. And continued improvement in our productivity and cost reduction, aiming at becoming the lowest cost producer in the industry.

In the First Quarter of 2014, Hypermarcas net revenues were BRL1.059 billion, increasing 10.5% compared to the same quarter of 2013. This expansion resulted from (two point) -- 12.5% growth in the pharma division and 7.8% growth in the consumer and division. Such growth came along with an adjusted EBITDA increase to BRL259 million, representing a growth of 14% compared to the First Quarter of 2013.

Also, there was an expansion of 88 bps or 0.8percentage points of our adjusted EBITDA margin to 24.5% of net revenues. Improvement reflects the gross margin increase of 0.4percentage points to 64.3% and our continued discipline in terms of SG&A expenses, ex-marketing, which improved 0.6% percentage points.

With this improvement, Hypermarcas was able to increase its market investments by 17.1%. Even so, we were able to increase our EBITDA margin. The Company exchanged its median investments, the exposure of its products in the point of sale. And in its medical visiting teams.

In the quarter, the Company posted a net income of BRL90.2 million and a free cash flow of (BRL186.6 million), which allow us to reduce our net debt by BRL80.8 million. In the consumer division, the net revenues reached BRL446.9 million, a 7.8% growth compared to First Quarter 2013.

On the market and innovation front, the division invested in many media campaigns such as for our brands Monange, Cenoura & Bronze, Olla e Paixao. In the quarter, also the division relaunched the Bozzano Men's Care line with new formulations, packaging. And product variants; launched a new nail polish collection called Brasil por Risque. E Campeao!. And extended the trial brand to new market segments.

On the operations front the division advanced in the consolidation of its operating platform in the Midwest of Brazil, closing Cabo de Santo Agostinho in Pernambuco state. And the Guarulhos plant in the Sao Paolo state of the disposable plants.

Since April 1, all the consumer brands are being invoiced from our distribution center in Goiania, which centralized 100% of the division's activity to all Brazilian states and clients. On the sales front, the division advanced in the definition and creation of distribution network, selecting new dedicated distributors to operate on exclusive basis the Company brands and Hypermarcas categories.

Also, the division tepid stocks are improving our sales of our brands in the direct channel, especially into key accounts and in the pharma channels. And also continue to execute our

Hyperexecution merchandising program.

In the pharma division, (the revenues) was of BRL612 million in this quarter, representing a 12.5% growth compared to First Quarter 2013. As in the consumer division, the pharma division continues to pursue its sustainable profitable organic growth plan focused on the operation, market innovation, sales and distribution fronts.

On the operating front, the division continues to transfer the production from Rio de Janeiro to Anapolis. During the quarter, the production of injectables and dermocosmetics was completely transferred now to Anapolis and ramped into new state-of-the-art facility.

The Company expanded the productivity improvement program, the lean manufacturing, with the generics and the branded generics manufacturing model in order to attend the growth of a very increasing fast demand of these products.

On marketing innovation, the division invested more than 15 media campaigns in the quarter while brands such as Engov, Estomazil, Epocler, Gelol, Maracugina, Tamarine, Lacto-Purga, Merthiolate, among others. We realized that we had launched a new institution campaign for Neo Quimica, our fast growth brand with the Brazilian soccer phenomenon, Ronaldo, which lasted through March and is already a big success.

In addition, the division expanded its medical visit team to increase the level of medical prescriptions of its RX lines. As a result as well of our innovation advancements, during the quarter, the Company launched several new products in the generics and in the branded generics market. And also launched an important line extension for our pioneer vitamin D brand in Brazil, Addera D3, among other initiatives.

On the sales front, the division expanded its merchandising team to improve the access our products to the end consumers, increasing investments and the relationship with the clients and exposure of the Company products in the point-of-sale. We believe that in the quarter the Company was able to achieve its goals and deliver a result in the line of our guidance for the year.

I pass to Martim, which will get more into the details of the numbers.

Martim Mattos {BIO 16015889 <GO>}

Hello, everyone. As we see on page 3, as Claudio discussed, we had net revenue growth of 10.5% in the quarter to BRL1.059 billion. In pharma, the organic expansion was of 12.5%, very close to the expansion observed in 2013.

In the consumer division, the growth was of 7.8% in the quarter on a base that had grown 16.2% in 1Q 2013 against 1Q 2012.

Consolidated margin increased 40 bps to 64.3% as we discussed. There was in pharma gross margin impact from the sale of the remaining inventories of the third-party production to MSD, which fully explains the 1.5percentage point decrease in the consumer division -- in the pharma division. I am sorry.

In the consumer division, we still see margin expansion mostly from the consolidation of our operations in Goiania. On the other hand, we should remark that Q1 2013 was the lowest margin quarter in the year of 2013. And that in the coming quarters, we will have (certain) comparison basis for the consumer margin.

Fixed operating expenses, which are composed of SG&A before marketing expenses, increased 7.6% compared to the First Quarter of the prior year, which allows us to see once again a 60 bps dilution in terms of net revenues 21.8%. Marketing activities, on the other hand, increased 17% with 1.1percentage points growth (to) 19.7% of net revenues. Just as in 2013 our intention is to continue to strengthen marketing activities, that is in media, in actions with consumers and clients, as well in our medical visiting to secure more sustainable long-term growth to our brands.

Flipping over to the next page, page 5, this gross margin and operating expense behavior we described, (actually when) adjusted EBITDA margin increase of 80 bps to 24.5% of that net revenues. On the other hand, net income in Q1 2014 decreased about 12% to BRL90 million. That is because, in spite of the operating results improvement, financial expenses in the First Quarter of the prior year were positively impacted by the appreciation of the real in the period, leading to a BRL20 million gain. In addition, since the conversion to of our debt to reais, its average cost increased, causing an increase of hedged financial expenses as well as off net (technical difficulty).

On page 6, we can observe that cash flow from operations in the quarter was very close to the level observed in the same quarter of the prior year, amounting to BRL171 million. In the current quarter, there were high payments of annual media purchases, while in Q1 2013 we benefited from the effects from the increase in our terms with suppliers carried out in 2012.

Free cash flow in the quarter was of BRL147 million, also in the same level as the First Quarter of 2013. That is because, in spite of higher CapEx, we received BRL36 million from the sale of nonoperating assets in the quarter.

(Net) free cash flow, as we can see on the next page, allow for a net debt reduction of BRL80 million. This fact combined to the adjusted EBITDA increase of the past 12 months, leading Q1 2014 to the lowest leverage ratio of the past nine quarters.

Thank you, all for the attention. And we can now proceed to the Q&A session.

Questions And Answers

Operator

(Operator Instructions) Robert Ford, Bank of America Merrill Lynch.

Q - Robert Ford {BIO 1499021 <GO>}

Congratulations on the quarter. I had a question with respect to pharma, actually couple of them, if that's okay. What % of sales in the quarter were the sales made to the Glaxo -- are on the Glaxo contract -- manufacturing contract? And is that all done or does this continue a little bit further?

A - Claudio Bergamo {BIO 16015846 <GO>}

Bob, it is mostly done. What we saw in the quarter were revenues up approximately BRL35 million related to those inventories, while in Q1 2013 that we were operating for them as well, this was the last one we had revenue to them of approximately BRL10 million.

Q - Robert Ford {BIO 1499021 <GO>}

That is great. Then, you had mentioned some very impressive EMS health numbers, right, in terms of sales. And they were up 23.5%, if I wrote this down correctly. Can you reconcile that with the sell-in that you are posting in pharma right now, in the First Quarter, that 12.5%? There seems to be a very big gap and I'm just trying to understand why that is.

A - Claudio Bergamo {BIO 16015846 <GO>}

Well that information is related to the sale, like I said, of the IMS based on (PMED), which is the factory price to consumer. So the way you have to see that is the growth of the demand of our products in terms of market share ex-consumer level.

When -- given that generics -- branded generics have higher discount levels, when you do loop that inside the Company, the growth is different given the weight of the branded generics and generics is lower. So there is a piece of the price that is (changing) along the chain for the distributors.

IMS now is revisiting a new methodology which is PPP, which is pharmacy-purchase-price. So they measure at the entry of the price as opposed to exit of the price as the other method. When you look at that methodology, our growth goes to -- in the quarter goes to 19.8% and the market goes to 14%.

On that methodology, that excludes the purchase price to the retailer. As I said, we already had number one in March. Still in the quarter number two. But in March we passed over the other competitors. Robert, your question (multiple speakers) the (12 against the 18) is also different. Yes, because that is pharmacy-purchase-price. Before that, you had the distributor-purchase-price. So that will be our invoice. But that is basically what it is.

Q - Robert Ford {BIO 1499021 <GO>}

And they are both sell-in metrics -- is that right, Claudio? They are not -- one is not a sellout metric.

A - Claudio Bergamo {BIO 16015846 <GO>}

You could (add about) that three types of metrics. One is our invoice to clients, which is our sales. Second is the distributors invoiced to the pharmacy, which is the PPP. And third, is the pharmacy to the consumer, which is the PMB. So it is a different type of metrics of share.

So one is a consumer level. One is an entry point to pharmacy. One is to the distributors. So you have to look at the three. But I think the most correct at this point is I think is the PPP.

Q - Robert Ford {BIO 1499021 <GO>}

Okay. And are you noticing any reduction in general inventories among wholesalers or retailers as they prepare, perhaps, for a slower remainder of the year?

A - Claudio Bergamo {BIO 16015846 <GO>}

No. Actually, as always, March there is a prepurchase from most of the distributors to take advantage of the price increase in April. What there is a discretion is that how we both, industry and the retailers and distributors, will face the workup month in June, even that we can have surprises that we cannot anticipate.

So the tendency is the opposite, is to increase the inventories in May in order to not take the risk to have stockouts during June, given that we might have some riots around the country.

Q - Robert Ford {BIO 1499021 <GO>}

Okay. But that main inventory build is not reflected in the First Quarter numbers. That is still what you expect to see in the Second Quarter. Is that correct?

A - Claudio Bergamo {BIO 16015846 <GO>}

No. We haven't seen increase of inventories above what is the normal levels. What I am saying is, during the Second Quarter, we might see in anticipation of new inventories build up in May in the order -- vis-a-vis June in order to not face the risks of the riots. But again, this is not something that -- it's something that is still a moving target.

Q - Robert Ford {BIO 1499021 <GO>}

I understand. Then, you mentioned a move to dedicated wholesale. And I was just curious if you have completed that process. And if you can comment on the differences you are seeing in execution with your dedicated wholesalers.

A - Claudio Bergamo {BIO 16015846 <GO>}

I think, let's say, the creation of the -- the definition of the assignment of the wholesalers was mostly done. For the consumer, I think we are 85% there. Still have one area or another one that we are looking at. But I think we have progressed a lot next year on that front.

As of now, around 30% of our indirect sales already are going through the distributors. Our target is to increase that to around 50% to 60%.

And the difference between the distributors and the wholesalers is very clear. The distributors carry your full mix. They work almost as an extension of our sales department, work jointly with our sales teams, looking to -- how to generate more demand at their clients in a very collaborative manner. And they sell -- so it is a more quality sale.

The other side, the wholesalers, they are more traditional and they are very strong. But they tend to focus more on the very high, best-selling items, for example, (Zero Call), (inaudible). And et cetera. So they work together and they had one sale more mix, the direction of new products, the other sells more of a (inaudible) (less) items. So that is where we are now.

Q - Robert Ford {BIO 1499021 <GO>}

That is very helpful. Thank you very much and congratulations on hitting your leadership in the industry.

Operator

Lore Serra, Morgan Stanley.

Q - Lore Serra {BIO 1506730 <GO>}

I just wanted to ask a couple of questions related to some of those topics. I guess I am a little bit confused and I just want to make sure I understand what you said. So you said that BRL10 million of the pharmaceutical sales in the quarter came from that licensing agreement, correct?

A - Claudio Bergamo {BIO 16015846 <GO>}

That is in 2013 -- First Quarter of 2013.

Q - Lore Serra {BIO 1506730 <GO>}

First quarter -- what about First Quarter 2014?

A - Claudio Bergamo {BIO 16015846 <GO>}

BRL35 million.

Q - Lore Serra {BIO 1506730 <GO>}

BRL35 million. Okay. So if we look at your revenue growth in the First Quarter in pharmaceutical, it looks like, if I am doing the numbers right -- I am not sure if I'm doing the numbers right -- it was something like 6%. Is that right?

A - Martim Mattos {BIO 16015889 <GO>}

Just a moment, Lore. About 4%.

Q - Lore Serra {BIO 1506730 <GO>}

4%. Thank you. Okay. So what I am trying to understand is, it's 4% at the Hypermarcas sell-in level. Then the receivables went up almost doubled the level of sales, now that's consolidated, because we can't see the consumer versus the pharmaceutical. But it looks like the receivables went up well more than what you have at the -- at your level.

So it looks like that the inventories -- I don't know that they were -- they were increasing at the distributor level, or your clients' level. So how do we reconcile that with, I think you said that, you think the best measure of consumer retail sales in the pharma is the PPP, which grew 20%. I don't know see how that gets -- I don't see how that data is consistent. Maybe there is just something odd about the quarter.

A - Martim Mattos {BIO 16015889 <GO>}

Sorry, Lore. Your question is about the receivables or the reconciliation between the two different metrics?

Q - Lore Serra {BIO 1506730 <GO>}

If I take -- let me make sure I understand something. If I take the RL10 million off of the First Quarter 2013 sales. And I take BRL35 million off of the First Quarter 2014, I get that your pharmaceutical revenue grew 6% in the quarter.

A - Martim Mattos {BIO 16015889 <GO>}

No. That is what I mentioned it is 4% impact. So instead of 12.5%, it is approximately 8.5%.

Q - Lore Serra {BIO 1506730 <GO>}

Is there something wrong with the math of just taking BRL10 million and BRL35 million because -- anyway, we can talk about that off-line. So 8.5%. But then your inventories grew, right? So that will make you think, at the consumer level, it was less than 8.5%. Then you are saying that it grew 20%, I think is what you said with the market data. Is that wrong?

A - Martim Mattos {BIO 16015889 <GO>}

You are talking about our own inventory, right, the inventory of Hypermarcas products, right? Because the metrics that Claudio was discussing (inaudible) not for the consumer division.

Q - Lore Serra {BIO 1506730 <GO>}

Sure. I am talking about the receivables. The receivables went up, right?

A - Martim Mattos {BIO 16015889 <GO>}

(inaudible) sorry. Go ahead.

Q - Lore Serra {BIO 1506730 <GO>}

So I guess I would think that that means that at your level -- at the Hypermarcas level that the pharmaceutical growth was at 8% or less, not 20%. So I am trying to understand how you get from 8% to 20%. What is it about -- (multiple speakers)

A - Claudio Bergamo {BIO 16015846 <GO>}

The 20% is the growth at the pharmacy-purchase-price, as I said. This is the methodology by IMS. When we sell to the client, we (sell it second) price, especially in the generics and branded generics. They resell that to the pharmacy. So there is a value added in the chain that it stays with the clients.

Then the pharmacy sells the different price to consumers, which there is another value-added of that. In Brazil, the generics and the branded generics -- the characteristics is that they have a higher discount. But that higher discount doesn't pass to the final consumers.

So there is a different growth among the chain because the part of the value-added are kept by the chain. That is why it makes branded generics and generics so favorable to the distributors and retailers, because they make more money on that. Right? So to understand that.

Q - Lore Serra {BIO 1506730 <GO>}

Okay. So I understand it is complicated. But I just wanted to try to make it simple. The reason why you think that the sales are growing at 20% -- (multiple speakers)

A - Claudio Bergamo {BIO 16015846 <GO>}

(multiple speakers) the branded generics and generics are more profitable for the clients because part of the discounts, they are not passed to the consumers. And that is why it is so attractive for them. Probably you have heard that from Drogasil and some other clients that it is a good margin markup for them. But it is good for us as well. So that is the difference between the numbers.

So that is like I said to Bob, how do you measure? Do you measure the market share at the consumer price or at the ex-factory price? And that is how you know you have to look at all the variables, like you have to look at our own growth; you have to look at -- if I didn't pass any discounts, I would be growing at 18%, 19%. But that is not how it works the branded generics and generics in Brazil.

But in reality, the consumers aren't buying that amount of goods because the chain does impact the discounts to the consumers. That is how it works. That is why the metrics are different.

Q - Lore Serra {BIO 1506730 <GO>}

Okay. Well that's helpful. So let me think about that a bit more.

A - Claudio Bergamo {BIO 16015846 <GO>}

(multiple speakers) because Nielsen data don't see so clearly, because when you suit to the consumer, the Nielsen data, they don't have a fixed price as you have it in the pharmaceutical industry in Brazil. So they cannot make that type of methodology as you see in the pharmaceutical. That is (multiple speakers)

Q - Lore Serra {BIO 1506730 <GO>}

Okay. So as we look at the First Quarter, you made it clear that the growth margin pressure in the First Quarter was because of this licensing agreement. And it wasn't because of the underlying operations. If the discounts are higher on some of the products that are probably the fastest growing in your pharmaceutical portfolio, as you look forward to the balance of 2014, do you expect gross margins in pharma to remain stable? Or do you think they might be somewhat pressured?

A - Claudio Bergamo {BIO 16015846 <GO>}

Actually, this higher discount has been happening for years. That is how the market works. And it is not something that is new specifically in the quarter. That is how the industry of branded generics and generics work in Brazil. And I said that the gross profits, yes. The gross margin is not expected to -- neither increase or improve. (multiple speakers)

Q - Lore Serra {BIO 1506730 <GO>}

Okay. So you expect it to be stable for the balance of the year.

A - Claudio Bergamo {BIO 16015846 <GO>}

Yes. But that is -- again, that is moving target. That is our best guess at this point.

A - Martim Mattos {BIO 16015889 <GO>}

Because on the pharma division, Lore, we also have some -- we are trying to become more productive there. So in other words, it helps us to compensate for this changing mix.

A - Claudio Bergamo {BIO 16015846 <GO>}

What is also important, actually, we look a lot gross profit. I mean, you look at gross profit. We look more contribution margin. And what we mean by contribution margin is what will be the next contribution of the different segments as opposed, let's say, you can argue like, okay, prescription there is a more profit -- gross profit level. But they are not at the contribution level because they have to go to the doctors. So there is a big investment that you have to make to make the sales to the doctors.

So at the net contribution level, margin level, both generic, branded generics, prescriptions, OTCs. And they are pretty similar. So that is why they are as profitable as the other one. So we are kind of neutral, in terms of contribution margin in the end. But the growth is at the generics and branded generics at this point in the industry, given that the penetration in Brazil is still very low when you compare it to other countries around the globe.

Q - Lore Serra {BIO 1506730 <GO>}

Okay. Then just one quick question. That was very helpful. So thank you for that. The receivables were up, I don't know, 18% in the quarter. Can you just explain why? Was there some issue of timing? Or why would we see the receivables come up like that?

A - Martim Mattos {BIO 16015889 <GO>}

Because of the following, Lori: we have -- when you measure the -- this is an internal measure. But when you measure the payment terms that we are giving to our clients based on First Quarter sales, they were almost exactly the same as previous quarter, as in Q3 -- Q4 2013. So it increased by one day in the consumer division and by two days in the pharma division. So it is basically the same.

But the fact is that January -- the sales in January were a lot lower than the sales of January 2013. So basically, the cash that we were supposed to receive in the First Quarter of 2014 were not received because of the sales lower than the sales of January in 2013.

So that explains why -- mostly why the accounts receivable -- the nominal amount of accounts receivable was as high as what we had ending the First Quarter of 2013. So it is not that we are changing the terms being given to the clients. But that sales were more concentrated towards the end of the quarter. And with that also we received less cash during the quarter.

Q - Lore Serra {BIO 1506730 <GO>}

Okay. So you expect that to reverse of the Second Quarter, correct?

A - Martim Mattos {BIO 16015889 <GO>}

That aspect alone, yes. When you look only at the sales of the First Quarter, yes, that cash we will receive in the Second Quarter.

Operator

Alex Robarts, Citi.

Q - Alex Robarts {BIO 1499637 <GO>}

I just had two main questions. I mean, one is more strategic and I kind of wanted to refer you to some news that came out of Europe that it does look like Pfizer has started again its negotiations with AstraZeneca. And at least our sort of view is that there is a higher probability that there is an acquisition there. But the point is, that would mean essentially in Brazil you would have Pfizer and AstraZeneca kind of getting to sixth place in the pharma industry with 5% share. I mean, you guys are around 9%.

It kind of made us think if -- about the following question. Could you comment a little bit on the consolidation potential within the industry this year in Brazil? How is either market looking at this? Local press reports in the past have talked about Ache as a potential target for you guys.

So it is kind of a two-part question. If you could comment a little bit about consolidation and what might be your role within that process in Brazil. Thanks. That's the first question.

A - Claudio Bergamo {BIO 16015846 <GO>}

Well Alex, Pfizer in Brazil based on the IMS methodology, factory price, has 2.9% market share in total Brazil. Astra is very small. So I think that is not -- I mean, for that specific purpose, there is not (multiple speakers) --

Q - Alex Robarts {BIO 1499637 <GO>}

Sorry. If I could just interrupt there. But if they come together, right, if Pfizer and AstraZeneca come together, they would have a 5% share. That is what I was referring to, not just Pfizer alone.

A - Claudio Bergamo {BIO 16015846 <GO>}

I don't have AstraZeneca here numbers because they're not in the top 10. But I would guess they are very small in Brazil. So I can get to you. But they are not that relevant for Brazilian market. Let's put it that way.

Q - Alex Robarts {BIO 1499637 <GO>}

Okay. But could you comment a little bit on --

A - Claudio Bergamo {BIO 16015846 <GO>}

(multiple speakers) say in Brazil, there are still discussions on Teuto. So that depends what they are going to do with Teuto. But Pfizer alone at this point, given that they haven't formalized the acquisition of Teuto, they're still a small part of the piece.

Out of the top 10, if I am not mistaken, around -- at least six are Brazilian companies like MS, Hypermarcas, Ache, (YodoPharma), Teuto, Biolab. So in Brazil, Brazilian in pharma is still very relevant. So despite the other movement of internationals around -- outside Brazil, I don't see at this point major impacts in our industry, certainly in Brazil.

As I said before, the markets that are growing most here are the generics and branded generics and the OTCs. They are not the patent under the regional products. Actually, the regionals packaged products in Brazil, if I'm not mistaken it's around 5% or maybe maximum 10% of the total market.

So what international has been doing in Brazil, they are focusing more on government sales as a way to sell the specialty type of -- with branded products as opposed to do to the marketplaces. So that is how are the dynamics now. So that is what it is.

Q - Alex Robarts {BIO 1499637 <GO>}

And as far as how you look at consolidation, do you think there could be some -- I mean, would you consider some non-organic growth possibilities within Brazil in pharma? Or is that something more of a medium-term concept?

A - Claudio Bergamo {BIO 16015846 <GO>}

That is very midterm concept.

Q - Alex Robarts {BIO 1499637 <GO>}

Okay. That's helpful. No. Thanks for that. The second question just has to do with the gross margin at the consumer division. Little higher than we would have thought. And I guess the press release references the fact that you finished the invoicing consolidation process of bringing -- of going into Goiania. But in fact the consolidating and transferring the manufacturing process is still ongoing.

And the invoicing kind of gives you those tax benefits. And would it be safe to assume, then, that as you finish the residual amount of the manufacturing consolidation and transferral, that we could maybe see this gross margin in the consumer division kind of trend a little higher in the coming quarters? Or are we at kind of a level that you think is more likely to be sustained that you saw in the First Quarter?

A - Claudio Bergamo {BIO 16015846 <GO>}

Well you have to take into account many, many factors. First factor is that around 2013, if you looked at the growth of the gross profit for the consumer division, we started the year with 47.6%. But at the Second Quarter, we already had some benefits from consolidation and it grew up to (51.4). And then Third Quarter 49.8% and Fourth Quarter (50.6). And we pretty much end the year with 49.9%, let's say, just to round up, it is 50%. So the consumer, it is rounding around 50%. So First Quarter is pretty much consistent with that, 49.8% vis-a-vis 49.9% for the full year last year. So that is pretty much consistent.

How that can move up, there are so many variables that we have taken account, one level that you do have gained on the productivity side. The other side you are having backlog the exchange rate, depending on how exchange rates are going to behave in the next month, especially in the (dial plus change rate) is very important. And also you have the change of mix.

So my guess now at this point, I think that 50%, it's a pretty good figure for the division. I don't see any trend -- clear trend that should imply that should move up or move down at this point. So I think that the level it is now, I think it is a good level to think about it.

Q - Alex Robarts {BIO 1499637 <GO>}

Okay. Okay. Very helpful. And the last thing, it is just a clarification. You gave us on the last call the guidance of BRL1.1 billion for EBITDA, which is roughly around 10% growth for 2014. You have come into the year strong here -- I mean, 14% in this First Quarter.

Would you consider revising or taking another look at the guidance given the strong First Quarter? Or might it be -- or perhaps the strategy would be to kind of wait to see how the next quarters evolve and stand pat with the current guidance of BRL1.1 billion with the 10% growth?

A - Claudio Bergamo {BIO 16015846 <GO>}

Well I think we have to see the next quarter, how they are going to behave, given that all the (sentences) to the (workup). And also, what we have been saying that we selectively, if we have the space in our operating income, we always look at the marketing investments to selectively support more our brands. So given those two variables, at this point I think we are in good shape. I think we have to wait Second Quarter to have that discussion in Second Quarter moving on.

Operator

(Operator Instructions) At this time, we have no further questions. The Q&A session is now closed and I would like to turn the floor back over to Mr. Claudio Bergamo for his closing remarks.

A - Claudio Bergamo {BIO 16015846 <GO>}

Thank you very much, all, for participating. We are available through our RI department if you have any other further questions. Have a nice day.

Operator

The conference is now concluded. You may now disconnect.