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Bloomberg Transcript

Q1 2012 Earnings Call

Company Participants

- Claudio Bergamo, CEO
- Martim Prado Mattos, CFO

Other Participants

- Celina Merrill, Analyst
- Daniela Bretthauer, Analyst
- Jose Yordan, Analyst
- Lore Serra, Analyst
- Robert Ford, Analyst

Presentation

Operator

Good afternoon, welcome to Hypermarcas First Quarter of 2012 Results Conference Call. Today with us, we have Mr. Claudio Bergamo, CEO, Mr. Martim Prado Mattos, CFO and Mr. Breno Toledo Pires de 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 results, there will be a question-and-answer session for investors and analyst when further instructions will be given. (Operator Instructions)

We would like to inform, the questions can only be asked by telephone. So if you're connected through the webcast, you should email your questions directly to the IR team at ri@hypermarcas.com.br.

We also would like to inform that statements during this conference may constitute forward-looking statements. Those 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'll 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 for participating on the call of the results of the First Quarter 2012. We will start on page five. After a period of several acquisitions between 2007 and 2010, followed by a transition year in 2011, Hypermarcas starts the period of sustainable profitable growth in 2012.

To achieve these goals, the Company will focus on three key areas. First, promoting sustainable, organic growth of its brands, second, reaching superior profitability levels. And third, very important, keeping operating cash generation which were focus on net debt reduction.

If you move to page six, what we saw in the First Quarter of 2012, that the Company managed to reach a good balance in its results in the three key areas mentioned above.

The Company grew 13.8% compared to 2011 at the same brand sales measure being 17.3% in the pharma division. And 9.2% in the consumer division. In terms of profitability, the Company ended the quarter with an EBITDA of BRL192 million representing 22.6% of the EBITDA guidance of BRL850 million for the year, slightly above the estimate of 20% for the quarter.

The Company was able to achieve these results deluding SG&A expenses by 310 bps and increasing its marketing investment by 100 bps in the period. It's important also to highlight that the Company achieved this results while generating about BRL140 million in the operating cash flow, approximately 350% above 2011.

Cash flow generation allow the Company to reduce its net debt despite the fact it invested around BRL7 million in CapEx and restructuring costs.

Moving slide number -- on page number eight, sorry, page number seven, to promote the sustainable organic growth, the Company will focus, among other factors in the improvement of distribution of its brands, opening new channels and regions, improvement of the part of sales management, leverage on its leading position in many market segments, strengthening of its brands by continuing media support and other marketing new trends. And investing in development of newest products customized for the Brazilian emerging consumer needs.

In the First Quarter, the Company finalized a series of initiatives to support these strategies. For example, in the pharma division, the Company ended the restructuring of sales and merchandizing teams for the OTC, OTX derma cosmetics and generics.

Also in the quarter, moving to slide number eight, the Company continues to expand its leading brands. And maintain many re-launches such as Jontex, the leading brand of condoms in Brazil. And Paixao, the leading brand for body oil in the country, both supported by extensive marketing campaigns.

Moving to slide number nine, also, in the pharma division, the Company launched line expansions for our four famous brands, Benegrip, Doril, Atroveran and Lacto-Purga.

Particularly with this launch, they are very meaningful because these are a very high end brand that we have. And this type of package will allow the Company to gain new consumers which are more loyal for the brand.

On page 10, additionally, federal combined actions for improving part of sale management are underway. And should improve exposure of our brands, a key factor in the Company strategy to pursue sustainable growth. As can be seen both your slide number 10 and slide number 11.

Particularly in slide number 11, this is a photo that shows the growth of our generic brand in the chain -- in the pharma chains in Brazil.

Moving to slide number 12, in order to keep growing. And achieve superior levels of profitability, the Company will focus on capturing synergies, the need to operate those operational platform focusing on consolidation of the Company's operations, the reduction in the number of production sites and distribution centers.

These initiatives will allow cost reductions, simplification of operations, reduction of complexity. And improved client services. Also, the Company plans to continue improving the productivity in several areas, making its process and the organizational interface. The centralization of the administrative and back office activities with the creation of a share service center. And focusing its investments on projects with high IRRs. And short paybacks.

As an example on page 13 of the results of these investments is the new distribution center in Goiania which will serve the consumer division. That distribution center which starts its operation now in May was due built the deployment of state of the art logistics technology. The facility will allow the operational a significant improvement at client services at low costs and high productivity.

In addition, distribution center will allow the reduction of freight cost by means of freight synergies. On page 13, this distribution center will be supplied by the (plant) company's building in Senador Canedo which should start operation as soon as July 2012.

The Company's estimates that plants should be fully operational in the Second Quarter of 2013. This plant was customized to attend the needs of the Company with sound investment in packaging verticalization. And technological upgrades. We reduce materially, the number of production sites, product and conversion costs. And we'll simplify operations while capturing several industrial synergies.

On page 15, at the same time the Company launched in May, its share service center which would cover all the back office functions of the Company such as the IT, financial operations, HR, auditing, accounting, administrative tax. And taxes. This service center will be centralized in the distribution center in Goiania. This centralization will enable a higher integration, a process. And interfaces improvements, increasing productivity and cost reduction.

Additionally to the growth and profitability on page 16, the Company will keep its strategy of growing in a balanced way, maintaining its strong cash flow generation to support these investments. And net debt reduction. With these objective, the Company will manage working capital or capital efficiency gradually reducing the average cost of debt. And maintaining the long term debt profile.

In the First Quarter as can be seen in page 17, despite the fact company reached 14% growth, the cash conversion cycle was the lowest in the last five quarters. And the Company managed as can be seen in page 18, to reduce its debt by BRL634 million or equivalent to 20% over the last three quarters.

I will pass now to Martim to talk more specifics about the results.

Martim Prado Mattos {BIO 16015889 <GO>}

Good afternoon, everyone. Starting on page 20, we see that the net debt during the quarter totaled BRL897 million, representing a same brand sales growth of 13.8% compared to the First Quarter of 2011 and a 6.6% growth compared to the Fourth Quarter of 2011 in spite of unfavorable seasonality.

The consolidated growth of 13.8% may be approximately decomposing two-thirds in volumes. And one-third in net price. That organic growth was achieved after a 17.4% advance in the net debt, in the pharma division with a high to similar in generics. And a 9.2% growth in the consumer division with a highlight to beauty and personal care.

Our feeling is that we observed in the quarter the effects of our commercial and organization initiative of 2011 which will reflect in signs of better distribution, price increases due to reduction of discounts to clients. And additional sales coming from new products.

Continuing on the next page, we see that the gross margin in the quarter totaled 62.2% representing a 2.2percentage points drop compared to the previous quarter, with an extension of 480 basis points compared to the previous quarter. That 2.2percentage points reduction is explained mostly by a 70 bps drop in pharma. And also a 540 bps in the consumer division.

Idleness plants from pharma, specially in the consumer division, is the most important factor explaining that drop. And it results from assets distributing our internal inventories of disposable products mainly. And should be used of the inventories in pharma which were prepared for the transfer of funds to (inaudible).

On page 22, you see that the adjusted EBITDA in the quarter considering the only cost in the operation was up BRL192 million or 11% lower than in the previous year. But 43% superior to Q4 '11.

The key driver for the adjusted EBITDA decrease is the fact that we had a particularly challenging basis of comparison in Q1'11, in that quarter, Hypermarcas results were incremented by an extraordinary tax benefit of BRL42 million which was reported as other expenses and revenues line. And were not observed again in Q1, 2012.

Regarding that effect, both gross profit and operating expenses before March investment contributed to a better performance this quarter.

What we can say about our adjusted EBITDA in this quarter is that it's changing line with our guidance for the year and represented, as Claudio mentioned, 23% of our BRL850 million target for 2012. Our operating expenses are under control and within expectation, while we have neat and long term opportunities to reduce the idleness levels in our plant.

Flipping the page, to comment on the net income in the quarter, we see that the net income totaled BRL41 million, a performance, 24% above Q1'11. And 46% higher if we consider continuing operations.

Despite of the fact that we had an EBIT of about BRL10 million lower in this quarter, that amount was more than offset by net financial expenses, BRL25 million lower than in the previous year as a result of higher positive effect variation. And in spite of a higher non-cash cost of the monetary adjustment of our company as you can see on the breakdown of our financial expenses on our earnings release.

Cash flow from operations, as we can see on page 23, 24, was BRL139 million in the quarter, or BRL108 million above the level reported in the previous year. That good performance is related to all of our efforts throughout 2011 in reducing the Company's cash conversion cycle, both in negotiations with our clients and suppliers and in the optimization of our inventory levels which resulted in a reduction from 228 days to 137 days of our cash conversion cycle.

Mostly because of this cash generation, we managed to reduce our net debt again, although the reduction was of only BRL45 million, we are meeting our objective of gradually deleveraging the cost.

We expect to be able to repeat this performance in the coming quarters. And in the year of 2012. And to consistently generate profitable and sustainable growth with operating cash generation as the most straight-forward way of creating value to our shareholders.

Thanks for the attendance. And the patience. And we will now proceed to the Q&A session.

Questions And Answers

Operator

Thank you. The floor is now open for question from investors and analysts. (Operator Instructions) Our first question comes from Robert Ford, of Bank of America/Merrill Lynch. Please go ahead.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you. Good afternoon everybody. And congratulations guys on the quarter. I had a comment with respect to generics in terms of the growth rates that you're experiencing. Then I had a second one, a follow up on OTC please.

A - Claudio Bergamo {BIO 16015846 <GO>}

Well can you just repeat?

Q - Robert Ford {BIO 1499021 <GO>}

Yes, Claudio, I was hoping that you could comment a little bit on generics. My understanding is that the generics were one of the big standouts in the quarter. And if you could tell us a little bit in terms of what you're doing with generics, how the pricing is in the category. And how sustainable you see these types of trends in generics please.

A - Claudio Bergamo {BIO 16015846 <GO>}

Okay. In the quarter, out of the 17.4% of the pharma, if you would split up into two pieces, one would be the value added product build to (inaudible). And then the generics, the Company grew at 36% in that segment.

That growth is coming very healthy. And expected to continue to grow both from the market perspective, where generics' expected to continue (pursuing) trading as a percentage of the total market as well as part of our strategy that we have been pursuing the last two years.

That growth doesn't count is still the many opportunities that we have at the drill chart change. Even that, at this point, most of the growth has come in from the more regional channels where we leverage on existing nail chemicals positioning.

Now, moving forward, after we created a specific sales force now for generics, we continue pursuing the improvement of our distribution in the chain. And we have seen already some results the example shown in my presentation.

Q - Robert Ford {BIO 1499021 <GO>}

That's very helpful. Thank you. Then could you comment a little bit with respect to the changes in -- possible changes to liberalize OTC sales in Brazil?

A - Claudio Bergamo {BIO 16015846 <GO>}

As you know, we have been -- our demand has been somewhat affected by the new regulation government imposed to industry about a year and a half ago where they obligated the over-the-counter to go behind the counter.

And in Sao Paulo state, there was a law that was passed through allowing the OTC to come in back to be over-the-counter. So on the consumers who had free access to our products. And we ourselves are quite optimistic about this, not only because we allow our brands to have a direct access to consumer. But also because we are quite well prepared now to execute that change even that we are accessing now 25,000 points of sales or of the universe of 50,000.

But in terms of weighted distribution, we are visiting now something around 75% of the total where the distribution for the OTCs. So we are pretty optimistic about this. And we are now waiting to see what the federal government will do. We shall have news in the next 30 days if they will roll out that change in Sao Paulo to the rest of Brazil.

If that happens I believe that will be another supporting factor for our long term strategy of sustainable growth.

Q - Robert Ford {BIO 1499021 <GO>}

Correct me if I'm wrong, Claudio. But there appears to be some legislation before Doma now that would actually liberalizes -- to be sold in supermarkets. Is that correct?

A - Claudio Bergamo {BIO 16015846 <GO>}

Yes. There is a discretion now on that. That legislation was passed through in the Congresso, in the Chamber of the Deputies. And as well as in the Senate. Sorry my English. Senato.

Then now, it's to the president to decide if she's going to veto or not. So we shall know about the next 90 days if she -- what's going to happen.

Q - Robert Ford {BIO 1499021 <GO>}

Okay great. Then the last question was one on the monetary correction that Martim reference. Martin, please comment a little bit about the possible contingencies, why you're recognizing monetary correction on possible and you know, if and when these -- you know, how big were those charges and if and when these might be reversed, please?

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

Okay, due to an IFRS rule, we had last year to recognize contingency coming from acquisitions. But not according to our standard procedure which considered only probable losses. But also in case of acquisitions also the possible contingencies.

So clearly, the risk of those materializing is much lower than the actual provisions that we have on the probable situation. In addition to that, given that those contingencies, they have to be adjusted by interest rate, we have to book also in our expenses -- in our financial expenses, the monetary adjustments of those contingencies.

During the Fourth Quarter as was shown on table nine of our earnings release, we booked BRL20 million of higher financial expenses related to debt. Looking at that rate now it's a relief to ourselves and should be considered as a positive point that if we compared the (pure) financial expenses, the pure interest expenses that we had on the Fourth Quarter of BRL72 million, we would decrease to BRL59 million in this quarter.

This is what truly reflects the cost of our net debt. The contingencies as you asked, they have -- given that the change that they materialize, is lower, we have -- we'll probably have a situation in the next quarters and years that will reverse those contingencies. When we do so, we will also reverse the financial charges that (hit) our financial expenses, we will also reverse that, because come the same way.

Q - Robert Ford {BIO 1499021 <GO>}

So the monetary adjustment just on these possible contingencies -- was that correct? It was BRL20 million in the quarter? Not the difference between the BRL72 million and BRL59 million, it was BRL20 million, right?

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

It was BRL20 million. So out of the BRL56 million that we had on net financial expenses in the quarter, net financial -- net interest expenses were up BRL59 million. And we had a positive FX effect of BRL32 million, a cost of this monetary adjustment of BRL20 million and also and expense of BRL10 million of the reversion of the net present value of our no interest bearing debt.

Q - Robert Ford {BIO 1499021 <GO>}

Okay. Great. Thank you very much.

Operator

Our next question and pardon the pronunciation comes from Lore Serra of Morgan Stanley. Please go ahead.

Q - Lore Serra {BIO 1506730 <GO>}

Thanks very much and congrats as well on the quarter. I wanted to ask a couple of questions. First, maybe I could ask, in recent press releases, you've given us kind of an indication of what market share looks like, market share trends looks like from the different data sources for pharma and consumer. And I wondered if you could just give us the market share -- the most recent market share data for the First Quarter '12 for the two different businesses please?

A - Claudio Bergamo {BIO 16015846 <GO>}

Well on pharma, the Company reached 7.9% of market share. So increasing 0.3% vis-a-vis the last quarter. And in the consumer, 9.9% which was a reduction of 0.2% of the Fourth Quarter. On average of both, we maintain stable. And I think it's important to mention that as I said in the Portuguese call, that the market share most of it not necessarily translate the results of 2012 given that they look more behind as opposed to look forward.

Q - Lore Serra {BIO 1506730 <GO>}

I'm sorry. I'm not sure I understood the last comment because the sales data would reflect your sell into the channel. And so I'm just trying to understand that you know, if the selling was low a year ago because you were destocking wouldn't it make sense then to sell out that now, you might have the opposite where your sell in is bigger than the sell out?

A - Claudio Bergamo {BIO 16015846 <GO>}

What I mentioned is that normally, the market share triggers, it's about one-quarter behind given that when you sell to the distributors and the wholesalers, they have to turn the product on them. So it's not necessarily exactly the same trend as you see in the quarter.

Q - Lore Serra {BIO 1506730 <GO>}

Well maybe I'll ask it this way then. When you look at the 13.8% growth in the First Quarter which is a really strong number, do you think that's indicative of what the end markets both in pharma and consumer are doing for you right now?

A - Claudio Bergamo {BIO 16015846 <GO>}

I think it's important, again that we understand how better it splits up. As you know in the pharma, we have a 17.4% growth, out of that, in the value added category was 13.1%, in line with the market and in the -- (invest) market, we are maintaining a market share as in the generics. And similars was well, 35.7% and we are growing above the markets. And gaining market share.

Also, out of that 17.4% in pharma, 50% was due to net prices. And 50% was due to volume. Out of that 50% in price, part of that is a result of our strategy of reducing discounts to the client last year as well as issuing new (inaudible). That is something specific to Hypermarcas given that I don't think that the overall market were reduced this cost. So you could argue that we some points above the market due to our strategy of reducing discounts in the last year.

Q - Lore Serra {BIO 1506730 <GO>}

Okay. And on the consumer side, I guess 9% is a lot higher than what my perception is your brands were growing last year. Is that from new product categories or the revival launches that you talked about?

A - Claudio Bergamo {BIO 16015846 <GO>}

In consumer, we have a 9.2%, out of that, most of it is volume. It's in a small portion of price given that last year, the Company wasn't able to issue new prices, to increase prices due to the destocking strategy as well the fact that the Company was a more in a recession mood that they expected to be this year.

So most of the growth come from volume. Out of that, it's important to mention that they cosmetics business has a better performance than the disposables, out of that. But the figures that we put in the release was related to January and February.

So it's when we included March. And we have to see because you've seen issue only every two months so we have to wait March and April to make any inference above what will be the impact of the market share. And as well as the market growth.

So I cannot tell you now if the 9.2% -- how much will be compared. So we will be a much better data point when the first four months of the (before) compare with the two (inaudible).

Q - Lore Serra {BIO 1506730 <GO>}

Okay. And just quickly on the gross margins. The fact that you had relatively stable gross margins in pharmaceuticals, despite the fact that you had idle capacities you've talked about and the fact that generics grew so much, can you help us understand what sort of offset because you observed two things against. But yet the margins were pretty stable. Is it -- I guess what's driving that. I'm just not sure.

A - Claudio Bergamo {BIO 16015846 <GO>}

The net price increases offset the losses that we had related to the idle.

Q - Lore Serra {BIO 1506730 <GO>}

Okay. Despite the shift in terms of more generics and Ensimalaris?

A - Claudio Bergamo {BIO 16015846 <GO>}

Yes.

Q - Lore Serra {BIO 1506730 <GO>}

Okay. Then just lastly, Martim, if you could just -- maybe this is a question I should know the answer to. But why are the discontinued operations still on your income statement? I'm not sure what was causing -- why aren't they -- they're sold operations. I know you're supplying them still. But from a business perspective, why are they still affecting your income statement?

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

Okay, we had two different types of business there. One it relates to the home care and food businesses, due to regulatory restrictions, we're still in charge of the production of the product related to home care and food. And we sell to the purchases of those businesses basically at zero cost, at cost.

But this situation should probably end soon. And they will take over operations completely. The other portion is due to subsidiary of small business outside of the country in Argentina that we're shutting down. And that's why that loss, that particular loss of approximately BRL10 million in discontinued operations in the quarter. And that's basically our estimate of how much it will cost us in the next quarters to shut it down

Q - Lore Serra {BIO 1506730 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Daniela Bretthauer of Raymond James, please go ahead.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Hi. Good afternoon everyone. And congrats on the results as well. I wanted to follow up on Lore's question with regards to the gross margin in the consumer division because what I was hoping to see since you saw the household cleaning and food divisions, or in other words, your non-core assets, that there was going to be like an automatic, let's say boost to the consolidated gross margin of at least 50 bps already in this quarter, just because you stripped out those lower margin division. But that didn't happen.

And related to that, was that the consumer goods margin dropped significantly both year-on-year and -- but we're up slightly on a sequential basis. So I understood from your release that there was a one off impact with the diapers production. But if you could help us guide like where should that margin stabilize going forward? Is it going back to the 50% range? Or is it going to be high 40s? That would be helpful. Thank you.

A - Claudio Bergamo {BIO 16015846 <GO>}

Okay, well first of all, when we look at this result. And also the results on the Fourth Quarter, they do not see there -- the home care and food as part of the continuing operations. So the home care and food, basically is not affecting our gross profit level in this quarter or in the Fourth Quarter of 2011.

And this quarter when we compare our performance with the First Quarter of 2011, that's already free of any impacts from the home care and food business. So if we look at the gross profit performance in consumer and this drop of 540 basis points. If you look historically, you will see that this gross profit margin on the First Quarter of 2011 was much higher than the other quarters so it was approximately 52%. And for the other quarters, we had something like 46%, 47%.

Those levels, they will represent -- they will better represent the type of margins that we can see going forward specially in the situation where we're still -- as in the First Quarter that we had a big idleness in our plants.

So if we look at the -- of how much we had as impact on the consumer business, it comes more from the disposable products, this drop in our profitability, in our gross profit level. And it's mostly, if not all explained by this (inaudible). So as soon as it's over, the margins could potentially get that.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Martim. And when would that be? Are we talking next quarter? This Second Quarter, are we talking second half? Could you give us a timing on that?

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

If everything goes right, we should see that every quarter, a little bit of improvement.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay. Thank you.

Operator

Our next question comes from Celina Merrill of Credit Suisse, please go ahead.

Q - Celina Merrill {BIO 6748233 <GO>}

Hi. Good afternoon, I had two questions actually. One is regarding your debt. Can you please discuss what your current (Titus) covenant is at the moment? And do you have any specific target for your net debt by the end of the year?

A - Claudio Bergamo {BIO 16015846 <GO>}

Out Titus covenant and the most important one will be measured now in the Second Quarter which is BRL375 million net debt to EBITDA. That's the most important one actually being disclosed.

In terms of our -- in terms of debt, given the recent operating results we feel pretty much comfortable with that covenant. For June and also for December when it will be measured again. And just clarifying that covenant to have an official breach of covenant, we have to be above the BRL375 million, we would have to be both above that level, both in June an also in December.

Going forward for the year, although we do not have a guidance for our leverage for the remainder of the year, we can see a deleveraging of the Company quarter-on-quarter. And we should still see the situation going forward. So our expectation is that the net debt by the end of the year should be lower than the BRL2.7 billion that we ended the quarter with.

Q - Celina Merrill {BIO 6748233 <GO>}

Okay, that's very helpful thank you. Then my second question was regarding your investing in various marketing campaigns. You've discussed for new products and re-launches. But you've also mentioned that you're focused on reducing the marketing expenses and SG&A, I guess in the longer term. Can you help me understand a little more, what the increase we're seeing now is for? And is that a short term increase? And when should we see that decrease over time?

A - Claudio Bergamo {BIO 16015846 <GO>}

Well when we said SG&A we exclude marketing. So actually what we are seeing as you saw in the First Quarter was a dilution of the SG&A ex-marketing of a little above 300 basis points. That protection SG&A which is mostly fixed cost is a mixed of the initiatives that we have done in terms of cost protection during 2011 as well as a dilution of the continuing of the growth.

It's important to mention that in terms of structure, the Company nowadays has an SG&A in the size that is required to grow without having to add additional structure. So any additional growth will be on the top off and there will be operational leverage given that we are now with the structure want to be.

In terms of marketing, we did increase a little bit in the First Quarter with the objectives to increase the demand for our products. And we reached 18.4% for the quarter about 100 basis point above last year. And we have an expectation to maintain our market expense around 18% to 19% throughout the year. And we believe that's enough to move forward with our strategy of sustainable growth.

Q - Celina Merrill {BIO 6748233 <GO>}

Okay, that's very helpful thank you.

Operator

Our next question comes from Jose Yordan of Deutsche Bank. Please go ahead.

Q - Jose Yordan {BIO 1496398 <GO>}

Hi. Good afternoon, everyone. Well most of my questions were answered. But I just had one more. If you could help us -- how should we think about your effective tax rate going forward? And I know last year was definitely not a good comparison. And I obviously understand that there's a big deferred component there. But how should we think about your -- just your headline number so to speak what percentage effective tax rate should we -- do you expect to be showing over the next few years now that things are coming back to normal?

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

Okay. So we have two different types of answers for that, or two different types of calculations. If we think of the accounting factors, which are mostly deferred that should trend to 34% for the fiscal period. Although it was a little bit higher this quarter. But over our medium term, this should to 34%.

But as you probably recall, those taxes, they are not related to the cash taxes that we paid which is the second calculation that I mentioned. In terms of debt, we still have on our balance sheet on the fiscal slide, at the beginning of the year, approximately BRL5.8 billion in good flow should be amortized which should offset in the short term all of our cash taxes payment in the next few years.

Q - Jose Yordan {BIO 1496398 <GO>}

Great. Thanks a lot.

Operator

This concludes the question and answer session. I'd like to turn the call back over to Mr. Claudio Bergamo for his closing remarks.

A - Claudio Bergamo {BIO 16015846 <GO>}

Thank you very much all for participating. Our RI department is open for further questions if you might have. And thank you very much. And have a nice afternoon for everyone. Thank you very much. Bye bye.

Operator

We thank the management for their time. And you, for participating today. The conference call is now concluded. You may disconnect your lines. And have a wonderful day.