Y 2020 Earnings Call

Company Participants

- Adalmario Ghovatto Satheler do Couto, Investor Relations Officer
- Breno Toledo Pires de Oliveira, Chief Executive Officer

Other Participants

- Felipe Reboredo, Analyst
- Gustavo Oliveira, Analyst
- Gustavo Tiseo, Analyst
- Joseph Giordano, Analyst
- Mauricio Cepeda, Analyst
- Robert Ford, Analyst
- Tobias Stingelin, Analyst

Presentation

Operator

Good morning. Welcome to Hypera Pharma's Fourth Quarter 2020 Results Conference Call.

Today with us we have Mr. Breno Oliveira, CEO and Mr. Adalmario Couto, CFO and 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. (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@hypera.com.br. Today's live webcast, may be accessed through the company's Investor Relations website at hypera.com.br/ir.

We would like to inform that 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. Breno Oliveira, who will begin the presentation. Mr. Breno, you may begin your conference.

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

Good morning, everyone, and welcome to our results conference call for 2020.

Last year was very challenging for all companies in Brazil because of the COVID-19 pandemic and this was not different for Hypera. We increased our discipline in managing costs and expenses over the year, and by doing that we were able to mitigate the negative short-term impacts of the pandemic. But we preserved our investments in innovation, digital transformation and increased production capacity which are essential pillars for our long-term sustainable growth.

We had double-digit growth in Sell-out, net revenue, EBITDA and net income, which led to a record operational cash generation, a growth of over 40% in 2020. Our net revenue grew 24% in 2020 and reached BRL4.1 billion, inline with the guidance for this year. This is a consequence of our Sell-out performance, our gradual recovery in the economy over the second quarter as seen on slide 3. Sell-out grew 8.2% this year with a lower performance than what was expected for the year before the pandemic but above the estimates we had after the guidance was updated in mid-2020.

In the fourth quarter Sell-out grew by 14.6%, 1.6% higher than the average for the market. And this is the highest growth ever recorded by the company in a single quarter ever since we started concentrating our operations exclusively in the pharma market. Similars and Generics were the main highlight this year with double-digit Sell-out. Here we were boosted by our capillarity, which allowed us to capture growth in sales in this category across all of Brazil in large retailers and independent stores.

Besides that we also were boosted by new initiatives to increase brand awareness for Neo Quimica, especially the naming rights agreement with Arena Corinthians, which now became Neo Quimica Arena. This is only the beginning. We have other opportunities with physicians, with pharmacists, with clients and patients so that we can leverage our sales even more.

In Consumer Health this year's highlights were vitamin, supplements and nutritional products which were favored by the new recent launches and by the increase in healthcare concerns with the population. For prescription products we were also boosted by market share gains and chronic medication. And we are increasing our share with important launches. Some of the relevant categories for the company such as pediatric products, orthopedics and respiratory system were impacted by -- were negatively impacted by a lower amount of doctors' consultations in 2020 especially in the early part of the pandemic, but these categories had a strong recovery during the last quarter.

And this led to double-digit growth in Sell-out and gains in market share for the fourth quarter in Prescription Products. Our recent recovery in Sell-out growth which went from minus 1.6% in the second quarter to a growth of 14.6% in the fourth quarter, and also the performance we're seeing in January and February of 2021 show that the most significant negative impact of the pandemic are now behind us.

In 2020, despite the uncertainties, we maintained our investments in innovation and also our strategy to launch new products. Our Innovation Index reached 38% in the fourth quarter, the highest level ever recorded by the company in a single quarter. Over the year, the innovation level was 33%. This is another record for Hypera as we see on slide 4.

We also moved forward on the main topics related to digital transformation which I mention on slide 5, we launched our e-commerce platform in the second quarter for direct sales to consumers, and it had over 8,000 orders in 2020. Over last year, we created an exclusive team focused on digital trade marketing to work on exposure and promotions for our products on clients' digital platforms and this led to a growth of 120% in digital sales in the fourth quarter.

We also started developing our new omnichannel B2B platform which will be launched in March. This platform will start having a direct relationship with more clients, especially independent drug stores and pharmacies and this will boost our sales even more for these clients. We also increased the number of remote doctors' visits over the year and now with physical visits we've increased by 12% in the hybrid model versus what we did before the pandemic. We also increased our investments in digital media, which will be even further increased in 2021.

We are connected to the digital transformations in our industry, especially those that were accelerated by the pandemic and we want to be at the forefront, ready to take the opportunities generated in these main fronts.

Moving on to slide 6, we made important acquisitions recently to reinforce our brands and products portfolio and find new growth avenues for the company. We made our first corporate venture capital investment in the fourth quarter with the acquisition of a majority share of Simple Organic, a digitally native brand in the natural beauty industry. We see enormous potential for Simple Organic and it will strengthen our position in the cosmetics market in the next years,

During the fourth quarter, we also had the first full quarter with results from the Buscopan family. Sell-out grew by 14.4% in this family in the fourth quarter, which was a higher performance than brands had presented before the acquisition was concluded. This acceleration is already as a result of the integration of our brands in the marketing and sales platform.

We also concluded the acquisition of the Takeda brands this month. We're selling and integrating their operations now, I was impressed by the initial results that they brought, and the people that are being brought to Hypera. I'm sure that with this team and with this brand portfolio, we're going to be the leaders in the pharma industry of Brazil in 2021.

I'd also like to talk about Bionovis, which is a joint venture of four biopharmaceutical companies from Brazil where we have a 25% share. It was created in 2020, and it works in the biotech market. In 2020 it grew 86% and reached a net revenue of $945 million. We see a lot of opportunity for Bionovis in the biosimilars market in Brazil and abroad for the next years.

Finally, I would like to talk about the investments to increase production capacity, on slide 7. In 2020 we strengthened our investments in expanding our production capacity for solids and vitamins, which are essential for our sustainable middle and long-term growth. Our new vitamins plant is already running at full steam and we already started ramping up production in the new solids department, so that we can increase our capacity by 75% by the end of the third quarter of this year.

Besides that, we also joined the Global Compact, a UN initiative to encourage companies to adopt social responsibility principles and also work with sustainability. This initiative reinforces our ESG practices not only in the continuous improvement we've been implementing in the last years, concerning the company's governance, but also our commitment to environmental aspects.

Over the last year, we were able to move forward on our social responsibility agenda focusing on welfare and health for our employees and also for the -- in communities around our operations. This includes the donations we made to the State of Goias and the City of Anapolis. We also reinforced our responsibility to our consumers by maintaining production and accessibility levels. This has even more important during the pandemic. We've moved forward but -- there's still a lot to do in the ESG agenda, which is a core pillar in our medium and long-term strategy.

Finally, even despite all of the challenges that the pandemic brought, and even with the investments we made in that business, we have continued our payout policies with BRL740 million being disbursed in 2020, BRL1.7 per share, a growth of 10% versus 2019.

I'll, now pass the floor to Adalmario who will tell us about our results for the quarter and for the year in further detail.

Adalmario Ghovatto Satheler do Couto {BIO 20598860 <GO>}

Thank you, Breno. Good morning everyone. As Breno has said, 2020 was marked by several records, operational and financial records. Even despite the pandemic that brought several challenges to our business, we were able to see robust growth in our net revenue, which grew by over 24%. We managed to meet the guidance that we had issued and reviewed over 2020. The Buscopan family, which has been integrated to our business, as of September 2020 has contributed BRL100 million towards this figure. (technical difficulty)

Even despite the exchange depreciation, which had an impact of 2% on our gross margins. The growth has been our led especially by the positive impact and the mix of products sold in 2020 since in 2019, we adjusted our commercial policies with the reduction of sales in our brands portfolio, especially over the counter and prescription products. During the quarter, margins were also higher than the third quarter of 2020 -- excuse me, the fourth quarter of 2019. Historically, our gross margin in the fourth quarter is lower than the previous quarters because of the idleness we have in our plants during this period.

This gross margin level, which has dropped over the year translate the short-term reality in our business, which has a higher impact from foreign exchange, from costs and our higher growth in Similar and Generics, which have a lower gross margin, but a comparable EBITDA margin. For 2021, we still see a negative impact from the exchange rate, but it's a positive contribution from the acquisitions of Buscopan, the Takeda brands, the price adjustments we had and the expansion we're carrying out in Anapolis. This should increase or -- excuse me, this should decrease our marginal costs.

In terms of the exchange we've hedged most of our expenses by BRL5 which is an increase of about 5% of versus the foreign exchange in 2020. Last year, we also invested in our -- more in R&D which went up by 44%, total of BRL150 million. Part of this investment will also be in intangible expenses. For the first quarter of 2020, we got a tax benefit of about BRL28 million. So the company continues to invest in our innovation pipeline and also over the year, we invested to include a new raw material suppliers on our list. This should give us some more flexibility for future negotiations and it should also reduce a risk of not having enough raw materials.

Commercial expenses went down by 2% this year, because we had a low -- we had lower expenses in with travel and sales team's transportations. Regarding marketing expenses, we optimized it on several fronts in 2020 and also in the fourth quarter. Marketing expenses went from 20% to 19% in 2020. We had a reduction in expenses and campaigns, when we compare with 2019, especially because of the better contract conditions that were negotiated over the last year. We also had more medical visits and medical events in remote platforms, and in digital channels. And also a reduction in sales expenses promotional material, events and conferences and also a reduction in the number of free samples given.

For 2021, we still have some more efficiency to be captured on the marketing bracket, especially after the integration of Buscopan and Takeda brands. With our media online having a greater share of our investments, we have become more productive in conversions. In terms of general and administrative expenses, the share of the net revenue went down by more than 1% to 2020. And this is due to our initiatives to preserve the operations we had, and also the reduction in the number of trips, and administrative teams working from home.

Operational revenues reached about $237 million this year, and this had a positive impact of some tax credits received during the period and also some costs related to acquisitions and consultancies. With that our EBITDA reached $1.4 billion in 2020, a growth of 19% versus 2019, and a margin of 35%. So to summarize, we had a lot of discipline in managing operational expenses and for 2021 (technical difficulty)

Operator

Ladies and gentlemen, please hold.

Adalmario Ghovatto Satheler do Couto {BIO 20598860 <GO>}

The next slide shows our cash flow. It shows a strong operating cash flow generated of nearly BRL1.2 billion, the highest ever recorded by the company, a growth of 43% versus 2019. This cash generation has been more than enough to cover our CapEx investments, a part of our R&D investments and also reinforce our return on capital for shareholders through GCP here listed in the others category.

We had to pay BRL1.3 billion in the Buscopan acquisition and also the medication portfolio Glenmark of BRL45 million. Considering the acquisitions, the company's free cash flow would have been positive but we concluded last year with a total indebtedness of BRL5.5 billion on the long term and the middle term -- excuse me, with an average term of four years and a very attractive average cost.

The pro forma results for the Takeda acquisition, which took place this year led us to a cash position of about BRL1.3 billion which should take our leverage ratio to around two times the EBITDA by the end of 2021 with a potential of fast de-leveraging considering the company's fast cash generation expected for the next years.

Considering the main variations of the working capital lines, we had an increase of more than 20% in accounts receivable. Inventories especially raw materials which have been more than offset by an increase of 50% and suppliers, due to negotiation and extended terms. So that led to an improvement over the year in reducing our cash conversions cycle which went from 274 to 249 [ph] in 2020, a positive impact in the company's cash flow generation. Despite the lower profitability this year because of foreign exchange I'm sure that we can recover in the middle and long-term through continuous investments on our brands differentiating our portfolio through our pipeline, innovating, not only in terms of products, but also in our channels and digital platforms.

We want to be closer and closer to our clients. With that, I'm sure will be better prepared this year than we were in 2020 and the year has already started off fairly well.

I will now turn it over Breno for his closing remarks.

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

Thank you. Adalmario. 2020 has not been an easy year. So I'd like to thank all of our 8,000 employees for their effort and dedication. It was due to you that we managed to reach these results in such a challenging year. The Brazilian pharma industry in 2020, and its performance shows the resilience and high potential the market has, especially, how the population is aging, which leads to a higher consumption of medication. Although we have uncertainties about 2020 we did not move back on our investments in R&D and increased production capacity.

I'm sure that we will reap the fruits of this decision in the next years. So our performance in the fourth quarter had a growth of about 15% that we're seeing this year, considering January and February is placing us in a very favorable position to reach our goals for 2021. This year we'll continue to invest in increasing our production capacity, especially in the sterile drugs plant, which will allow us to go into a market we're not very present yet.

We continue to believe in the pharma industries' potential for growth and we're very optimistic about our performance for 2021 and the next years. Thank you. And we'll now move on to the questions-and-answer session.

Questions And Answers

Operator

The floor is now open for questions from investors and analysts. (Operator Instructions) Our first question is from Robert Ford from Bank of America. You may continue, sir. Mr. Robert, you may ask your question.

Q - Robert Ford {BIO 1499021 <GO>}

Excuse me. Good morning, everyone, and congratulations for your results. So Breno what are you thinking about sustainability for your sales, especially when you look at your vitamins and nutrients segment as you integrate Buscopan and the Takeda portfolio. How do you believe innovation will work on the power brands that you have? Thank you.

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

Hi, Bob. About profitability you asked about the vitamins market. We have been seeing accelerated growth in this market, as I said, anything related to preventive medicine, the population is much more concerned about their health during the pandemic. So we believe that this will continue in the middle term. Our portfolio has profitability that's very close to what we have with the rest of our portfolio.

So we have basically three major brands in the vitamins segment, Abaren, which has very good margins; Vitasay also, we're investing on marketing. But the gross margins are very good. And Neo Quimica vitamins, which has been re-launched recently in the beginning of this year. So we see a lot of potential for the segment and the profitability level is very close to what we have with the rest of our portfolio.

Your second question, Bob had been about Buscopan and Takeda, right. So here we see innovation for power brands. There is a lot of opportunities here, Bob, especially with our line extensions. As you know these brands had already been sold. That is the decision to sell their portfolio had already been made by the previous owners and they did not receive a lot of investment and innovation.

Now we have a lot of products in our pipelines, so that we can switch. I don't want to go into many details, but there were products in our pipeline that were going to be launched with some other brands that we were able to launch under the Buscopan, Buscofem, Neosaldina and other brands which have a lot more potential to grow than the previous brands. So this is already something that we wanted to do before we began developing products. We had several products in our pipeline that we decided to launch under a new brand name, just to potentialize their power.

Finally about injectables, does Hypera play any roles in COVID vaccines? Bob, we're looking at that. I think when steriles plant is ready -- but this is not for the short term -- then we'll be able to make vaccines. This could be an area for the company. Another option could be through Bionovis, our joint venture that I mentioned before which also has a vaccine production capacity. And this is being studied in the company.

Q - Robert Ford {BIO 1499021 <GO>}

Thank you, and congratulations once again.

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

Thanks, Bob.

Operator

Joseph Giordano from JPMorgan will ask the next question.

Q - Joseph Giordano {BIO 17751061 <GO>}

Hi, good morning everyone. Good morning Breno and Adalmario. Thank you for taking my question. I actually have a couple. We see that Buscopan has become stronger. Takeda products are now going in. So I just like to understand how you've been seeing the market for more acquisitions. We know that big pharma companies are becoming more integrated. So maybe you have some portfolios, how are you seeing these opportunities considering the potential ECM activity in this industry?

Also you mentioned Bionovis, which already has a good level of revenue. So does it make sense for Hypera to start going into this segment more directly, especially considering the number of patents that have been broken or will be broken in the next years. Thank you.

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

Good morning. To answer your first question on acquisitions. As you know this is a part of Hypera's DNA to have Acquisitions. Our company was built on acquisitions. We have the potential to capture synergies. We're very strong at that given our platform and we're always looking at opportunities. On the very short term we're focusing on integrating the two acquisitions we had. We want to extract all the synergies that we are getting geared up for and everything is going according to plan or better.

Our initial focus is to maintain our leverage so reduce our leverage on the short term but we're looking at opportunities. We see new opportunities for that, just as with Takeda and Buscopan since they were acquisitions from multinationals. We're looking at their core business. We see other opportunities also in the Brazilian market, which we're looking at. And if it makes sense from the strategic point of view for the company, then we'll continue on that front too.

So we're not ruling out any new acquisitions for Hypera. So to answer your question on Bionovis, the biosimilars market we have a shareholder's agreement where all of these opportunities with biosimilars will be taken to Bionovis. So that company focuses on these opportunities, we have no plans of going into this market directly through Hypera but rather through Bionovis.

Q - Joseph Giordano {BIO 17751061 <GO>}

Okay, thank you. Breno.

Operator

Gustavo Oliveira from UBS will ask the next question.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Good morning. Good morning, Breno and Adalmario. I have a couple of questions. First considering influenza medication, which suffered an impact last year because of the pandemic, right, there was a reduction and it seems like you're still lower than last year. So what are you considering for this category this year? Are we expecting it to remain stable from now on?

My second question is about your gross margins, which have been impacted this last quarter and last year. If you could tell us a bit about your gross margin expectations for 2021, your hedge for the year and if you continue to see input cost pressure in your business or things are normalized now? And also if you could give us an update on your CapEx plans, building new plants, what is in the pipeline, not only for this year, but for the next years. Thank you.

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

I'm going to answer your first question, and then Adalmario will talk about gross margins. So influenza medication, we see that it took a hit, especially in the second quarter, which is one of the most relevant ones, right, the beginning of winter. And it's still had an impact of during the third quarter, but for the fourth quarter, the market seems to have found stability.

And January, was actually relatively good but for the winter season, now in the second quarter we believe the market will improve as people are going back to school and so on. But I don't think it will go to the normal levels. I still believe it will be lower than the pre-pandemic levels from 2019. So this is our assumption. And that's what we're working with. If it is better we have the inventory for it and if the demand increases we can supply for it. But in our budget. We're still looking at an intermediate scenario.

Adalmario will tell you about gross margins.

A - Adalmario Ghovatto Satheler do Couto {BIO 20598860 <GO>}

Hi, Gustavo. As you know, we don't have a guidance for gross margins. So we don't supply -- excuse me, we don't give that guidance, but we're definitely working for it to be higher than it was in 2020. But as you know, there are several factors involved and I think the main one is probably foreign exchange rates. This year in the beginning of the year or rather from the end of last year, we have already decided to hedge a good share of our exposure for the year. So our hedge is about 5.3, but this level is quite higher than the average we had for 2020 which was about 4.5.

There are some other factors that will have a positive impact on this margin over the year. Price readjustments from April, which should probably be around mid to high single digits. A part of our portfolio has some prices already set. So we'll see how our competition behaves to see how much of the price increase we can pass on. There is also a mix factor. It should continue to be higher and more favorable to generics, since this is a growing category, grows above the industry average. And this is the category in which we're gaining market share as new products become more available since the end of last year. And I think besides this, there is also integration for Buscopan and Takeda, which is providing a positive contribution for this gross margin gain. But given the exchange impact that we have and the higher mix of generics, it should not be much higher than it was in 2020.

But I do think it's important to reinforce, something that we always mention in the conversations we have with you and other analysts. We're focusing on EBITDA margins. When we look at EBITDA margins there is a lot that is under our control. When we look at the business units, we have, their EBITDA margins are very similar. So the generics and similars business with a lower gross margin than the other units. When we look at the EBITDA margin they're very close since you don't have any additional marketing investments in this category.

At the end of the day, what we're seeking this year is to keep our expenses under control and try to optimize our infrastructure to the most. So we want to continue investing in marketing and media, so that we can have a better average EBITDA than we did last year. And also a strong cash generation. At the end of the day, this is what we're looking most at and this is what we can influence a lot.

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

Just to add something here to Adalmario's answer, we see this level of gross margins around 25% very cohesive with the EBITDA margins that we see in the rest of the industry. As Adalmario said, although we have challenges with gross margins in the last years we also saw a lot of opportunity to optimize marketing costs, especially media, which is our main line.

So with digital marketing, with digital channels and we're investing more and more there, we're seeing more competition and we are having a better cost in the old offline channels and also the online channel. So these expenses in marketing have become much more efficient than in the past. So with that we were able to generate this equation of about 65% gross margins and an EBITDA of about 85%. So this does make sense for the middle to long-terms. Regarding CapEx, Gustavo we should see greater investment this year. We don't provide guidances but last year was about BRL450 million. This year it should be higher than that. I'm talking about our CapEx and this will be the highest investment the company will make.

We're still concluding this plan. We're bringing in equipment for the last expansions for vitamins and solids. We're building this new sterile plant but we understand that the peak of that investment will be this year and then it will drop down to a good maintenance level that we had before $200 million, $300 million.

Q - Gustavo Oliveira {BIO 15129435 <GO>}

Okay, thank you.

Operator

Mauricio Cepeda from Credit Suisse will ask the next question. Mauricio, you may continue.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Thank you Breno and Adalmario. Thank you for your time. And I have a couple of questions here. First, congratulations on your results. Your Sell-out increase above the market average was very positive. And related to that, with this higher Sell-out, do you intend to reduce your terms with receivables still above 20 days. So your inventory seems to be a bit higher than average.

And my second question is, now talking about the COVID pandemic and the reduction in marketing expenses, will you have any impact on your traditional media expenses for the next months? I'm just wondering, if you will go back to the traditional marketing channels. And also do you intend to increase your Sell-out and even the discounts that you provide? Thank you.

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

Good morning, Mauricio. So your sound was not so good. We understood your first question about inventory levels and will confirm the other ones too. Let me start by answering your first question. We have this target here, our receivables went down significantly with our adjustment and are around 110 days before sales.

This doesn't mean that our inventory is at that level. Clients, as you know usually the industry provides credit for retail and there is some working capital, which is usually positive with retailers, but (technical difficulty) yes we've been doing Mauricio, since 2018. Our investments were concentrated in media in the past. And we did not invest a lot in commercial discounts, basically promotions at the point of sale and also the exposure to end points of sale. So this has been growing significantly in the last years.

We're being more active in point of sale promotions and sales, also in exposure, shelves checkout lines. We've been much more active in doing that. So we're better directing our marketing resources and having a better balance between media points and trade marketing.

In media, we're also going to digital channels, Facebook, Instagram versus traditional media. With traditional media, we have a package from Global, which is very good, we have a very good cost and this is much better than it was last year. But we have migrated our resources to digital. And as I said, we're going to continue in 2021.

Q - Mauricio Cepeda {BIO 21783651 <GO>}

And do you intend to sell-out on products that your competitors have? Would you intend to open that up to your investors?

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

Volume, price, yes, we usually say that during the opening. I think Adalmario mentioned our volumes and prices. We usually discuss sell-in more, right? Yes, we can think about factory prices, but there is not a lot of variation in our cost. It doesn't vary a lot from quarter to quarter.

But we can look at it. We don't see a lot of importance. But we can talk offline and understand what the advantage would be of communicating that?

Q - Mauricio Cepeda {BIO 21783651 <GO>}

Okay, thank you.

Operator

Tobias Stingelin from Citibank, will ask the next question.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Good morning, Breno and Adalmario. You inundated [ph] the market with guidance even for your profit levels. And why are you not providing a guidance this year? What is still unclear for you? Is it the pandemic, integrations? Last year you had many benefits from marketing, from promotions. And what you mentioned this will continue like. Of course this is still in your margin expectations, but since you had relevant savings last year? How do you believe that this will continue in 2021? Thank you.

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

Tobias, no, regarding our guidance, we are going to give that in our HYPE Day which is -- will be now on the 12. So the idea is to provide the guidance during that event. It's not that we're not giving it anymore. It will be given in a couple of weeks.

Regarding expenses, especially travel expenses and so on, we believe that this will probably go up in 2021, especially when we get closer to the second half of the year, but some of the savings will be permanent, especially traveling in the company, (technical difficulty) with better productivity for medical reps, as we move to this hybrid model. So we went back to the field with our reps -- they went back to the field, but we're working on a hybrid model where about 10% to 15% of the visits are being conducted remotely. And so we're getting productivity with that.

We're at a higher level of medical visits than we had in the past with a slightly lower cost than before. So these gains we believe are here to stay. Just to add something Tobias, we are also having gains and scale and synergy with the new acquisitions and they will contribute with the first quarter with two months of Takeda. In the second quarter, we'll have the full integration from Takeda and Buscopan, and this will generate synergies, not only in the physical side but also OpEx

With the contracts that we have, with media, with our visiting team, merchandising and trade we were able to get a much better exposure for these brands and that leverages sales for this portfolio.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay, one last question. I'm sorry if you mentioned this in the beginning of the call, do you have any updates on leniency what can we expect from that? Thank you.

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

Tobias, we don't have a lot of news on that, on how the independent committee investigations have been developing. But what we can say is that we are doing everything the company can to solve this issue completely as soon as we can. This is what we can say, you know, and whatever depends on the company we want to get this out of our way as soon as we can, but unfortunately we don't have anything to share on that right now.

Q - Tobias Stingelin {BIO 18290133 <GO>}

Okay, thank you.

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

Thank you, Tobias.

Operator

Felipe Reboredo from Safra Bank will ask the next question.

Q - Felipe Reboredo {BIO 21174400 <GO>}

Good morning, everyone. Thank you for taking my question. Just a quick question, you mentioned Buscopan and Takeda and made it very clear. I know that you're not going to give the guidance for 2021 yet, but I just like to see how you see it growing in 2021? Do you think it's going to be pulled by the new acquisitions?

Are we expecting organic growth closer to 2019 levels in terms of Sell-out? That's all, thank you.

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

Felipe, as I said here we saw fourth quarter growth around 15%. For the first months of the year it's also at that level. And our target and our budget is growth of that amount.

Considering our full portfolio this is the level we expect to continue working on. And we believe it's very feasible to grow that much given you know that our portfolio really suffered last year.

So as activities are recovering unless you know there is a third wave, unless there is a problem with vaccinations, we believe that in the third quarter where we had a 1.5%reduction last year we will be significantly offset during the second quarter of 2021. So this is what we're working on right now. That's the expectation we have, about 15% is a good level for Sell-out growth and the same comparison -- comparative basis as 2021.

Q - Felipe Reboredo {BIO 21174400 <GO>}

Okay, thank you.

Operator

Gustavo Tiseo from Bradesco will ask the next question.

Q - Gustavo Tiseo {BIO 21421350 <GO>}

Good morning, everyone. I have a couple of questions here on our side. First, about capturing new suppliers, it seems like you gained some space there to capture them. So can we expect any benefits from that? Will it be in middle term? Will that affect your margins? Does that make sense?

Also, you might have mentioned this before but I would like to ask some more about complete products -- or complex products, excuse me. I know that that's not your focus, just like to understand your point of view on that if you could tell us. Did the Takeda portfolio give you some more complexity? That's all.

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

No, so to answer your first question, on including new suppliers, I think the main point here was really to reduce the risk of missing or lack of raw materials. So when we include a new supplier, it's almost like developing a new product. It's very complex. There is a lot of testing to be done. A lot of protocols to follow, and given the COVID pandemic the regulatory agency has made it more flexible, in order not to have any shortages in the market. I think that's the main benefit. So as we include new suppliers our bargaining power to negotiate a better cost, a better term, will also go up.

This is almost like a side effect. This is something that we are going to be working on over some time. You had asked about complexity, do you mean our portfolio complexity?

Q - Gustavo Tiseo {BIO 21421350 <GO>}

Yes, exactly. If you're going to have more complex products in your portfolio or if you'll continue following the line that you currently are? I'd just like to understand the company's long-term vision.

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

Yes. Well, we look at our portfolio in the following way, it's very diverse. With this portfolio we can be in all categories in Brazilian, pharmaceutical, retail. So during the pandemic, we saw the benefit of having a diverse portfolio. We saw that some categories grew by much less than others, but this was offset by other categories, vitamins or drugs for chronic conditions, cosmetic products. So it's relevant that we have all of the categories. And at the end of the day this will be much more of a benefit than a problem.

So we're going to try to have a bigger presence in these categories where we are already very strong. And also look at other categories that we believe to be Interesting and that will have great growth in margins. So that's the company's strategy. When we look at innovation here, it's also important to remember that our main focus is to have incremental innovation.

We're not investing on our pipeline to develop new molecules, but rather to bring in molecules that already exist outside of Brazil that haven't been brought in so far. Or new combinations of existing molecules. So we're going to use the strength of our brand to introduce new concepts and whenever we extend our line -- our brands are already very strong. They perform much better than if we created a new brand from scratch. So I think that will remain our focus.

Q - Gustavo Tiseo {BIO 21421350 <GO>}

Okay. Thank you, congratulations.

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

Thank you.

Operator

(Operator Instructions). This concludes our questions and answer session. Now I'd like to give the floor to Mr. Breno Oliveira for his closing remarks.

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

Well, I'd like to thank you all for participating in today's call. And I'd like to reinforce our invitation to the Investor Day, the HYPE Day which will take place on March 12 at 2 Brazilian time online. I'd also like to make myself available, as well as all of the Investor Relations team to answer your questions and help show all the value and potential that we see for the company to grow in the next years. Thank you, and have a good day. This concludes the company's call. Thank you for listening and have a good day. You may disconnect now.