Operator:

Good afternoon, welcome to Hypermarcas 1Q09 results conference call. Today with us we have Mr. Claudio Bergamo, CEO; Mr. Alexandre Olivieri, CFO; and Mr. Martim Prado Mattos, Investor Relations Officer.

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. Should any participant need assistance during this call, please press *0 to reach the operator.

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 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 forwards in the forward-looking statements.

Now, I will turn the floor to Mr. Claudio Bergamo, CEO, who will begin the presentation. Mr. Bergamo, you may begin your conference.

Claudio Bergamo:

Hello everyone. Thank you very much for participating in our call for the announcements for the 1Q09. We would like to start on page three, talking about the macroeconomic environment in Brazil. Those are the trick variables of the economy that we can look, and we see that we believe that the worst period of the crisis has passed on in Brazil.

As we can see the real average earnings for the population is still on a very good shape in March, it has not gone down since the last year, in the opposite it is a little higher than the previous quarter of last year and as I used to say, the key aspects of the average earnings in Brazil is really the inflation control and on that respect, Brazil has been quite successful in controlling the inflation and we expect a very good control of inflation for this year with a reduction in interest rates.

This is really a moment in our economy, it is a historical moment where we have been able both at the same time have control of inflation, reduction in interest rate and at the same time increase in trade balance surplus with the valuation of the Real. This is really a moment in our history and also with the reserves we have above US$200 billion in the Central Bank really puts us a in a really good position both to face the crisis and to see the next future of this year and 2010.

If we look to the unemployment rates, as we can see the unemployment has gone up and this is pretty much correlated with the industrial production decline at the bottom and as you can see, we have a sharp drop in the industrial production especially regarding the durable goods, which has gone down sharply and that provoke the increase in the unemployment rates.

Despite that, as you can also see, the months of January, February and March have slowly coming back and we expect that unemployment rate should stabilize now and might go down in the next months.

Given that we believe we are pretty comfortable now with the macroeconomic situation in the Country and we are also very proud to announce again a very good quarter in the middle of this crisis as I will say in the next pages.

Before I do that, I would like just to recap, on page four, the Hypermarcas strategic agenda for the last semester and for the 2009. In the last semester, 2H08, as several of you know, we have been focused pretty much on the integration of the acquisition that we have made last year, with a major focus on maintaining market share and sales for the companies acquired and at the same time reducing SG&A costs through the merge of admin areas, commercial areas, sales force areas, merchandise force and etc.

We believe we have been able to accomplish our mission for that semester and being able to really do all the reductions we promised in a very timely manner, and without jeopardizing results. That is in a way for phase one was accomplished, but that does not mean that there are not other integration acquisition opportunities we are pursuing in 2009 which are now in the areas of consolidation of plants and the consolidation of our logistics structure, reduction of raw materials packaging and costs, and gains of distributions.

That activities and initiatives will be happening along the year of 2009, but addition to that, in the 1H, we are pretty much focusing on generating cash flow, operating cash flow. And that clearly was a reaction to the situation that the world faced in terms of the economic crisis and also we, as I will show later, delivered in the 1Q very substantial generation of free cash flow and that was in a way resulted of our focus on reduction of our securities stocks levels and a reduction of terms of payments with the clients and an increase in the terms of payments with the suppliers, and also a very tight control on expenses and on raw material costs that enabled us to really have a very good operating cash flow which already reduced our leverage level for the quarter and we believe we will continue on that track along the year of 2009.

But, adding to that, also that the crisis has smoothed down, we will focus now on the 2H on the organic growth initiatives, additionally to the ones we have pursuing already and those organic growth initiatives will be mainly in joining some of the retail channels where we have been strongly present in the past such as in the key accounts as Wal-Mart, Carrefour, CBD and other major regional chains.

Another aspect that we will be focusing strongly is in gaining in geographical distribution for some of the brands that we have been acquiring, leveraging on our strong bargaining power with the wholesalers through the brand mix that we have been established. And we will also be in a semester of very intense activities of launching new products and brand expansions.

So we believe that all these initiatives combined, which are the continues capturing of the synergies from acquisitions, adding to the strong focus on the operating cash flow, and a focus on the organic growth initiatives will enable Hypermarcas during 2009 to continue delivering good results, reduce the leverage levels and be able to have a position in terms of capital structure to come back to the acquisition strategy as we have done in 2009.

So, we go to page five just to give the results highlights for the quarter, we have a net revenue of close to R$385 million, which represented a 72% growth over last year's quarter. EBITDA for the quarter was above R$100 million, it was R$102.1 million, above the last quarter which was R$97.2 million, representing a 26.5% over net sales, above the last quarter which was 21.3% and above of our mid target which is 25%.

The net income for the quarter was R$76.3 million, which is a very good outstanding results, representing approximately 20% of net sales. The net cash balance generation was above R$100 million, of R$105.8 million for the quarter.

So, as I said, a good selling top line results, good operational results, good net profit results and good cash flow generation.

If we go to the next page, page six, which will open the top line results for Hypermarcas, we will see that the 1Q09 we had a total R$385 million net revenues and out of that R$255 million was related to Hypermarcas previous business, before last year's acquisitions, and the rest was R$57 million related to Farmasa, R$22 million related to Bozzano NY Looks, and R$51 million related to the Niasa acquisition.

It is important to point out that for the business, the model of Hypermarcas before the IPO and before the acquisitions we have grown at 14% on a same-basis comparison and again, we believe this was a pretty good quarter and a pretty good results given the environment we were facing for the quarter.

In terms of the business breakdown, out of the R$385 million, 41% is related to pharma business, 32% to personal care business, and the rest related to home care and food. This again is in line with our strategy to grow in the pharma and in the personal care as we said during 2007 and it is pretty much in a very good mix of the different business as we say we have now.

If we go to page seven, I will pass on to Alexandre Olivieri, the new CFO of the Company, who will go through the results of the income statement balance sheet and the cash flow evolved.

Alexandre Olivieri:

Good morning, everybody. On the next page I will give a color and detail about the income statement, cash flow, and net debt of the Company. Regarding income statement, we are basically comparing our current 1Q09 with the same period of 2008 and with the last quarter of 2008.

By doing so we understand that we can basically show the effects of our growth strategy comparing with the 1Q08, organically and inorganically, and comparing with the 4Q08, basically we can understand the improvement of our profitability, as well as the synergies that we have captured through this process of acquisitions.

So, talking about the net revenues, first, as Claudio mentioned, we increased our net revenues by 72%, 58 p.p. coming from acquisitions and 14 p.p. coming from the growth of the business that we already had.

In terms of gross profit, we had a gross profit of R$222 million in the 1Q09, this representing an increase of 52% comparing to the 1Q08, however our gross margin had a slight decrease of 1.3 p.p. comparing the gross margin of the 4Q08, and this basically comes from what we consider two non-recurring effects, it is a combination of the devaluation of the Brazilian currency together with a high price of commodities that we feel in the end of the last year and the beginning of this year.

Going down, talking about the expenses we can understand what the impact was of our synergies though the acquisitions. When we look at the sales expenses, we noted that our sales expenses had an increase of R$5.7 million comparing to the 4Q08 and this basically represents 1.5 p.p. net sales of the 1Q09. This we can really consider as synergies that have been captured in the sales expenses of the Company.

In the same, if we look at the admin expenses, we had an increase of R$9 million comparing to the last period of 2008, meaning 2.3 p.p. of net sales decrease when you consider net sales of the 1Q09. These two effects are basically effects from the synergies that we have captured through this whole process of acquisitions.

In terms of marketing expenses, we had R$53 million in the 1Q09, it means 40% higher than the 1Q08. In terms of percentage points, it is 13.7% of net sales, a little bit lower than the 1Q08 but basically here we are considering a more conservative budget given the economic crisis scenario that we had in the end of the year and at the beginning of this year.

Adding up all these effects, we ended up with a net income of R$76.3 million, almost 20%, 19.3% or 20% of net sales, and a three-digit EBITDA of R$103 million that means 26.5% of net sales, again, it is more than 3% of the EBITDA margin of the 4Q08.

On page eight, next page, in terms of cash flow, we managed to generate cash flow of R$106 million and basically the composition of this comes from an operating cash flow of R$126 million, CAPEX of R$4 million and payments of financial expenses, financial activities of R$17 million. This is much higher than the 1Q08, we had R$45 million of cash flow.

Coming then to the net debt, in the next page, the last page of the presentation, we managed to decrease our net sales from R$1.166 billion to R$1.073 billion of net debt. It is a R$95 million decrease, what brought us to a exposition in terms of currency of 49%, this at the end of March. If we consider the end of April, the exposition decreased from 49% to 36% and our net debt EBITDA index here comes from 3.3% to 2.8% at the end of March.

So this was basically the resume of the figures, and now we are open for your questions.

Melissa Byun, Merrill Lynch:

Hi, everybody. I just had two questions. first one is on your organic growth, it was very impressive in the quarter, particularly with the lower rate marketing investments; I just wondered if you could provide a little bit more color on what is driving the improvement, if you can talk a little bit about pricing, innovation, competitor behavior. I will wait your response and then go into the three other questions.

Claudio Bergamo:

Regarding the organic growth, if we structure up the growth into the business, we have the pharma business, we had a growth of 15% for the pharma business, we had 27% for the personal care, 9.6% for cleaning, and 8% for food. So, clearly the business which had the highest growth rate was the personal care, of 26%.

But that business specifically we had to make an observation, which is that even now from this year on we will be announcing on a net sales figure 1/3 of that was pretty much related to the improvement in terms of fiscal planning that is going to be able to do through the outsourcing of the production for third parties along 2007.

But despite that, still the personal care has gone to 15% rate. And most if it is related to growth of volume, and not growth of price.

In terms of pharma business, also the 15%, which most of it is related to volume, given that the price increase for this business last year was pretty timid, was approximately 3% for the year, meaning that out of that 15%, 3% is price and 12% is volume. In the other business, both cleaning and food, most of it also is related to volume and not price.

So, again, that was a quarter that really was on a very good sales performance. It was above our mid target of 7% on average. And that in a way is, in our perception, correlated to the aspect that we have been seeing, that the type of business that Hypermarcas has is more resilient to economic cycles that we have been facing.

Melissa Byun:

Great. What has been the behavior of competitors in terms of their pricing and marketing investments? Have they also sailed back some of the investments? And what do you expect for the remainder of the year? It sounds like you are going to be able to be more aggressive with the new launches, so I suspect that the marketing investment will increase constantly.

Claudio Bergamo:

The behavior has been quite similar to the past, no major change of behavior form the competitors. In general, it is more in the traditional sectors, such as personal care, cleaning and food. It is not a year that you can really make price increases, and what we have been looking is more an increase, a slight increase in promotional activities on the points of sales.

And as we have been also following back that trend that is pretty much what has been going on there.

On pharma business, on the contrary, it is a year that the Government allows a 5.91% price increase from April on, and all the companies have followed that increase without major increase in competition among the companies.

So, what we look for the future, we expect that some of our competitors, then we have to look into two sides of that story; the modern multinationals, the formal competitors, and the informal competitors. We believe that the informal competitors will continue to face challenges along 2009 and 2010, given the credit constraints, and the increase of Government control over informality, especially regarding the implementation of the electronic invoice and also the tax system in São Paulo, the *substituição tributária*.

So, we believe that the level of informality will reduce in the next quarters, and that will benefit the formal companies such as Hypermarcas and the multinationals. From the multinational front, we have seen much more a defensive position from the multinationals, given that most of them have a leading brand, and a very strong chunk of market shares of specific sectors, so they are pretty much facing a pressure from the market, given that this year the market is more towards smart choice position such as what Hypermarcas has.

So, we believe we are in a very good position for the year, given the position of the brand we have. In terms of product launches, you are correct, we should see an increase in market activities in the 2H, but we have now a very strong pipeline of launches, which we can choose each one we will launch at what specific time, given that we have a kind of slowdown in the 2H of launches to focus on cash flow generation, so we have matured several of the initiatives we have been working, and now we are choosing selectively which ones we will do, at what pace, in the next months.

And we are choosing the ones which we believe will have the highest probability of success.

It is also important to mention that we have been investing in new talent in the trade marketing areas, and we have been bringing people from the competition, some of them are coming from the multinationals, given the multinationals are firing people down here, and good talents.

And we are hiring these people, so this will also bring new dynamics in our trade marketing activities, because we believe there is a really good value generation in increasing the distribution of several of the brands we have in several of the clients, especially in the key accounts and the regional retailers.

Melissa Byun:

And then if I can just ask about the gross margin, and which commodities have been a source of pressure for you, and what do you expect in terms of your commodity cost over the remainder of the year?

Claudio Bergamo:

Those were not specific factors on the saccharine price, because saccharine was facing a challenge since the end of 2006, and the price has really skyrocketed from US$7 to US$35 during 2007. And we have been able to manage that during 2007 because we acquired a very large stock in the beginning of 2007 for US$14.

So, at the end of 2007 we made an acquisition of a stock to produce in the 1Q for Zero-Cal for US$35; now the price has gone down already to US$13, to US$14, but we had this specific non-recurring effect for that business, because also the USD was high in the 1Q, which we will not see from the 2Q moving on, given that both the price in USD has gone down, and now the exchange rate, the Real has evaluated.

So, that was specific for saccharine and the powder detergent sulfonic and chemicals, which we will import directly from China and Uruguay. This effect of these raw materials represents approximately a 2.4% of impact in our gross profits level. Without that, our gross profit would have been 59%.

Melissa Byun:

OK. So you will be, you would have worked to your existing saccharine inventories by the 2Q, and you will be retained more of the spot rate?

Claudio Bergamo:

Now that the stocks have already turned, and we are now sending already products with the new costs, already in the 2Q.

Melissa Byun:

Great. And you will have the price increase from the pharma business as well.

Claudio Bergamo:

Yes. We had the pharma price increase for that, which also will be valid for April on.

Melissa Byun:

OK. Thank you very much.

Jose Yordan, Deutsche Securities:

Good morning, everyone. My first question I guess is related to what Melissa was asking, just on a higher level, what is the percentage of your raw materials, which are denominated in USD more or less?

And then my second question just relates more to your acquisition process. When you look at a company to acquire, I would be interested in seeing what the formal process just from looking at it? What are the criteria that you use for evaluating how much to pay and whether or not to buy?

Claudio Bergamo:

Our USD denominated is approximately 10% of total raw material, and that is pretty much focused on 45 major materials. In terms of the acquisition process, what normally we look at is acquisitions that have a very strong synergy with the operating platform, existing operating platform. So, our acquisition strategy, we never look into business not correlated, I am not sharing the same type of operating base.

For example, you are not likely to see us entering a frozen distribution channel, because that would have lots of costs, some other type of channels. So, all the time we look at opportunities that can leverage our operating platform, which we can extract synergies from the costs of raw material, cost of packaging, cost of buying media, on distribution, also leverage on the bargaining power with the wholesales and supermarket chain etc.

That said, we will then look into the arena where we will compete, and then in that business we compete, what we would like to have is to make new acquisitions in segments which we are not present still. But we see the scope of the business that we had. And that is exactly what we have done last year in several of the acquisitions we made. Also what we look is that when we see a good consolidation opportunity for a specific and certain segment that is also something we consider.

That said, we also look at business which generate a good margin, and which we can invest into marketing. So, we do not look at a commodity type of segment. In terms of federal rate, what we look is to have from approximately 5x to 6x EBITDA after synergies but before goodwill, which generally translates into 4x after goodwill.

That has been historically the entry multiples we have been able to generate during our acquisition process.

Jose Yordan:

That is great. Thanks a lot.

Operator:

We have no further questions at this time. The Q&A session is now closed. I would now like to turn the floor back to Mr. Claudio Bergamo for closing remarks.

Claudio Bergamo:

Everyone, thank you very much again for participating in our call regarding the results. Have a nice day, and thank you very much. Bye-bye.