

OUROFINO - INGLÊS 10/05/2017

OPERATOR: Good afternoon ladies and gentlemen and welcome to the earnings conference call for Ourofino Saude Animal for the 1Q17. Today we have with us Mr. Jardel Massari CEO, and Mr Cleber Gomes, CFO and investor relations officer. We would like to inform you that this event is being recorded and simultaneously translated and all participants will be on listen only mode during the company presentation. After Ourofino's remarks, there will be a Q&A session at which time further instructions will be given. Should any participant require assistance during the call, please press *operator to reach the operator. The audio and simultaneous webcast may be accessed through Ourofino's website at ir.ourofino.com with a banner webcast 1Q17. Before proceeding, I would like to mention that the forward looking statements made during this conference call are based on the beliefs and assumptions of the Ourofino's management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Ourofino and cause results to differ materially from those expressed in such forward looking statements. I would now like to turn the conference over to Mr. Jardel Massari who will begin the presentation. Mr Massari you may proceed.

JARDEL MASSARI - Good afternoon to all of you and thank you for participating at the earnings call to release results for the 1Q2017. In this 1Q2017 the company presented positive signs such as cash generation from operations, increased revenues from companion animal products and improved gross margin, these are the 2H2016. The generation of more cash from operations was possible due to the decrease from average collection terms that resulted in a reduction in net debt. With the gradual improvement of

EBITDA and the generation of cash throughout 2017 our leverage ratio is expected to return to the usual level. In addition, our debt has ceased to be pressed after the completion of the construction of the plant for biological products and the debt index to the CDI was set off in the 1Q thus contributing to the drop of the average cost at the end of the period. In the production animal segment, net revenue decreased mainly due to the company's adjustment to the natural seasonality of the industry in this 1Q. Additionally there was a less significant impact of the strategic decision taken at the end of 2016 to discontinue a portion of the poultry portfolio, one that was no longer feasible. On the other hand we noticed an improvement in the gross margin in comparison with the 2H2016 with respect to companion animals. The increase in net revenue, followed the increase in the sale of our distributor's points of sale and we intend to continue monitoring this evolution. Since this segment has greater exposures to the Brazilian macro-economic scenario which was rather unfavorable to our segment in the year 2016 with a sign for improvement in 2017. As regards the international operation segment, there was an unfavorable impact on the foreign exchange rate vis-à-vis the same period in 2016. Net revenue in Colombia in local currency increased, while the revenue in Mexico fell short of our expectations, however, we have already introduced changes to withdraw the plant [05:38] especially in Mexico and we hope to once again withdraw our [05:47] for the year 2017. We remain confident in the fundamentals of our business and we are working arduously, very hard to deliver results that add value for the company. And these results for the quarter are in line with the budget for the year 2017. To conclude, I would like to thank all of you for your continuous support. I would now like to pass the floor over to our CFO and IRO who will remark on the results of the 1Q. Thank you very much for your attention.

CLEBER GOMES – Thank you Jardel. Good afternoon to all of you. On slide number 3, we present to you the notes on the revenues of the company of R\$ 75.2 million in the 1Q2017. A drop of 23.3% compared to the 1Q2016 which

was a strong quarter. In the following slide, we speak about the revenues and margins per segment. The production animal segment presented net revenues of R\$ 53.8 million in the 1Q with a fall of 28.1% vis-à-vis the 1Q2016. This drop occurred substantially due to a loss of volume compared to the 1Q2016, as we followed up on the natural seasonality observed in this industry. Furthermore there were lower volumes because of the discontinued products in the poultry line. These were partially offset with price hikes in beef. The companion animal segment received a net revenue of R\$ 16.4 million in this quarter with an increase of 16.3% vis-à-vis the 1Q2016. This reflects an increase of revenues of distributors to point of sale and as mentioned by Jardel, it is important to continue monitoring this evolution as this segment has greater exposure to the Brazilian macro-economic segment. The international operation segment showed net revenues of R\$ 5.0 million, a drop of 45.1% compared to 2016. This is due to the drop in revenues in Mexican Pesos and stock sales volumes in other countries that were partially offset by an increase in revenue in Pesos in Colombia. In the 4Q2016 we also had sale of vaccines for foot and mouth disease to Paraguay and the Real was more appreciated than in the 1Q2017. On slide number 5, we show you our gross profit. Gross profit for the 1Q2017 was a 52.8%, a slight drop of 0.4 percentage points compared to the 1Q2016. We would like to highlight that there was an improvement of 5.9 percentage points compared to the 2S2016.

On slide number 6, we show you the gross margin in each of our business segments. In the production animals segment, we had a gross margin of 46.7% for the 1Q2017 with a drop of 1.8 percentage point vis-à-vis the 1Q2016. This margin reduction is due to the impact of inventory log provisions. There has been an increase of 2.6 percentage points in gross margin in the 1Q17 compared to the 2S2016 aligned with the efforts made by the company. The companion animal segment presented gross margin of 70.7% with a drop of 2.3 percentage points vis-à-vis the 1Q2016. The drop reflects a less favorable mix, nevertheless there was an increase of 6.1 percentage points

compared to the 2S2016. The international operation segments presents a gross margin of 60.0% in the 1Q2017 with a drop of 0.4 percentage points vis-à-vis the 1Q2016. This drop reflects a less favorable exchange rate offset by an improvement in the mix because there were no sales of foot and mouth disease vaccines.

On slide number 7, we will analyze SG&A. In the 1Q2017, it amounted to R\$ 43.9 million with a decrease of 13.4% vis-à-vis the 1Q2016, already reflecting our efforts to reducing the company expenses. There was a drop of 12.5% vis-à-vis the 4Q2016.

On slide number 8, we present the adjusted EBITDA for the 1Q2017 totaling R\$ 1.2 million with an adjusted EBITDA margin of 1.6%, a drop of 1.1 percentage points in comparison to the same quarter in the previous year. This is due to a reduction in net revenue with a loss of dilution with SG&A expenses.

On slide number 9, we present our net financial expense, tax expenses and net profit. The net financial expense in the 1Q2017 was R\$ 5.8 million, an increase of 26.1% vis-à-vis the 1Q2016. This increase reflects a rise in indebtedness with banks arising in 2016 because of the new biological product plant. There was a reduction of 9.4% in net financial expenses compared to the 4Q2016 because of the decrease of net debt between the two periods. Income tax and social contribution was positive in R\$ 4.1 million compared to a positive value of R\$ 1.4 million in the 4Q2016. The effect measured in the 1Q2017 is a result of lower profitability along with temporary fiscal differences. Adjusted net loss for the 1Q2017 was a R\$ 5.9 million vis-à-vis net adjusted loss of R\$ 1.8 million for the 1Q2016. These results reflect a drop in adjusted EBITDA, an increase in the net financial expenses partially offset by the income tax and social contribution effects.

On slide number 10, we present information on the company indebtedness. In the 1Q2017 the net debt rate over EBITDA was a 6.09 change however, this indicator was quite affected by the results of the prior three quarters in 2016. The average cost of debt was of 7.93% up on the end of the 1Q2017 compared to 8.98% in the 1Q2016. Also lower to the 8.8% for the 4Q2016. This indicator was positively impacted by debt amortization linked to the CDI that took place in the 1Q2017. We would also like to highlight that the CAPEX for the construction of the new plant is practically concluded relieving our indebtedness pressure.

On page 11 we speak about cash generation for the company. At the end of 2016, cash was R\$ 70.3 million with a positive impact of the outlay of R\$ 43.0 million of the last installment for the payment of FINEP that took place in December. In the 1Q2017 our operating cash generation was of R\$ 44.7 million, sufficient to pay amortization, interest totaling R\$ 42.9 million during the period. Pre tax for maintenance in PPE amounted to disbursement of R\$ 9.2 million plus R\$ 1.0 million in disbursement with taxes. Our cash was R\$ 61.9 million therefore.

On page 12 we present investments in research and development for the 1Q2017. Investments totaled R\$ 7.5 million representing 10.0% of net revenues for the period. These are higher than the historical values because of the retraction in net revenue presented during the period.

On page 13 we present the launch for the 1Q2017. As part of our R&D model, we have set up strategic partnerships. In this context we have launched the GalliPro line product with the Danish Christian Hansen. These are probiotics that contribute to the intestinal flora of animals, increasing their feed efficiency and the reproduction of layers. These are probiotics additives that are aligned with the [15:47] of the company.

On page 14 we show the performance of our share since the IPO on March 21st 2017, you can see that the curves are based on 100. During this period the company had a negative return of 5.11% including dividends, comparatively i-Bovespa during the same period presented the return of 19.7%. I return the floor to the operator so that we can go on to Q&A session.

OPERATOR – Thank you. We will now go on for the Q&A session. Should you have any question, please press *1 on your phone. If, at any moment you would like to, your question has been answered please press *2. The questions will be answered as they are received. Please wait, while we pull the questions.

Mr. Antonio Barreto from Itau BBA, would like to pose a question.

BARRETO – A good afternoon to all of you and I have a question on your working capital which has drawn attention significantly. You have already mentioned the receivables in the company. After a very quick calculation I see that your receivable is at a lowest historically. I would like to know if this is sustainable and if the conditions in the Company will remain steady or if we can expect improvement in the coming semesters with new production on your receivables.

CLEBER – Good afternoon and thank you very much for your question. We do understand that the figures are quite low. We have done several adjustments in the Company to a very direct follow up. And yes, it is our understanding that this is sustainable, that we will be able to overcome these difficulties, specially in terms of payment terms. The 1S historically is a weaker semester, we have sales that are highly concentrated. We have had an increase in logistics costs when it comes to distribution. But once again this is an accordance with our partners during the year and we still need to take up two additional steps to improve our payment terms. If there is any different situation we will have to make the necessary changes. Once again the Company is a very sound

position and we will continue on reviewing significantly improvement our working capital.

BARRETO – Another very quick question. When you come here this drop in payment term, does this mean that you are decreasing the days for receivables or is there a complete detachment of these with market conditions?

CLEBER – We were out of the curve in the past and at this point in time we are following what the market is doing, we're not trying to bring the market down, quite the contrary, we are trying to go back to our previous payment trend.

BARRETO – Thank you very much. That has been very clear. In terms of production animals?

CLEBER – We understand that 1Q tends to be weaker historically

BARRETO – And how do you imagine that the sales recovery will be? do you have anything to highlight, the interruption of your poultry line? Would anything happen with your production line? And which are the areas that have already shown an improvement and will have a sustainable impact?

CLEBER – When it comes to interruption or discontinuity of products this tends to have a lesser impact on our accounts. Once again the issue was seasonality, it is something that is very typical. This 1Q always is weaker and the other quarters tend to be much stronger but we could highlight something positive. The month of April is a very strong month because we follow a campaign. We know that April and September tend to be stronger months and we have included this in the figures that are part of our budget. Now April is aligned with with our expectations specially in terms of EBITDA and profit. Now if we look at the subsequent quarters we begin to see some movements

and when it comes to animals we will have to monitor the situation of the economy. We are facing some more difficulties in Rio de Janeiro and Espirito Santo, in Espirito Santo perhaps due to the issue with public security, so once again I think that we have been able to overcome this quite successfully. Yes, I can see that April apparently has been a stronger month and we see it has been going back to normalcy. Our first campaign that begun in April was quite positive, we signed a typical compared to the normal market situation, we were selling out on a first very good campaign we will have to follow up on the results. Once again, this first campaign has been quite positive.

BARRETO – Thank you.

CLEBER – Thank you for your question.

OPERATOR – Mr. Gabriel Lima, from Bradesco bank would like to pose a question.

LIMA – A good afternoon to all of you, to Jardel and Cleber. Regarding that provision for inventory losses and the animal production line, I would like to gain a better understanding of what this represents. Is there any impact of this from Venezuela? What is going to happen in the coming quarters?

CLEBER – Gabriel, good afternoon. Thank you for your question. We at the end of last year had a drop in our inventory and we had a highly typical year of course. This had impact on us and we will have an inventory recovery during the year. Once again, this will not hamper the normal operation of the Company. We will have to come up with some provisions that we did during this quarter and perhaps there will be some changes in our production and in some of the products.

LIMA – But this should now become a problem at the rest of the year?

CLEBER – This is has been carefully monitored.

LIMA – And perhaps you have some products that are ready for sales or are about to expire. Does this explain inventory losses?

CLEBER – Yes. And the mix with companion animal.

LIMA – If we could go back to something. The amount of your provisions I don't recall having seen this, I'm sorry, I don't know if you explained that.

CLEBER – It has a relative impact on gross margin but nothing trully significant.

LIMA – OK, thank you for the explanation. My last question reffers to the mix in companion animals, I believe you mentioned this, that had an impact on gross margin. Could you speak more about your recovery? you have a weakness on improvement and the consumption structure already in this 1Q, so which is your forecast for the mix for companion animals which is such an important line during the year?

CLEBER – Well, this is one of the positive points we have had. We had a growth in the segment of 16.0%. Once again, this was a rather complicated segment in the company but we have had a rather steady growth specially if we take into account our economic situation. Now we had a minor loss in margin but I think it's something that can be adjusted throughout the year without a doubt. Compared to other segments were having our sell out and our sales to distributors, we see some positive movements. Once again we continue to be cautious. We're following up on this very closely, we're expecting a consolidation specially because of the size of improvement in the economy. This continues to be positive signs and with our role which is to continue monitoring what is happening.

LIMA – A last question? You have talking about your biological project plant. When will it be fully concluded or will this change the mix significantly, or are you expecting this for the coming year?

CLEBER – The construction part have been concluded, the plant has gone through a first inspection by the Ministry of Agriculture, we are now going to a set up stage obtaining the more formal license specially in terms of [28:04] and we're beginning to operate the plant. This year we have not included any biological product in our budget because we expect to have very limited sales, we are not considering this as part of our forecast and 2018 we will enter that segment, I hope we have a better consolidation until the year 2019.

LIMA – Thank you very much for your answers.

OPERATOR – Mr. Marcio Moncios, from Banco do Brasil, would like to pose a question.

MONCIOS – We have observed that it is a good moment for the food and mouth, this is vaccines, and I would like to know if this [29:10] have post problems for the company. If there exists an opportunity perhaps to resume the sales? In terms of companion animals are the problems there due to the economic situation or is it due to the Company restructuring? Once again, we would like to know which is your forecast in this field.

CLEBER – Sorry, we were not able to hear one of your questions. If you could repeat it please? If you could repeat your second question about companion animals.

MONCIOS – If it is due to the restructuring or due to the macroeconomic situation?

JARDEL – Good afternoon. Thank you for your question. The entire Banco do Brasil personnel was here last week. Now, there has been no interference

whatsoever, perhaps a minor discomfort, the government adopted the necessary measures in a very expeditious way and therefore there was no interference whatsoever. So much so that our relationship nowadays is much better than before. The price of the beef has been [31:11] and this year will be much better for cattle breeders than last year. Once again, this year will represent an advantage. I believe that this year there will be no drop in the price for beef. According to specialists we will have a shortage of beef in 2018-2019 and we believe that the forecast will be excellent in the future and once again the measure has not hampered our situation at all, and price of the [32:07] beef is still a very good one.

CLEBER – Now, to complement what Jardel has said, we're speaking about having more demand when it comes to the quality of beef and this is the market that we qualify for. We have good quality beef, we have perhaps good quality genetics and what we observe is that this is a movement that requires an enhancement in terms of the techniques that we use.

JARDEL – In terms of your second question, the companion animals, once again the reason perhaps is due to the consumer. Because of the financial constraint last year many of our consumers stop buying companion animals. We stopped to sell but at present we are going back to have in our inventories perhaps at a slightly lower level but with more normalized sales. Are there any doubt in terms of our responses?

MONCIOS – You see macroeconomic environment is improving as a whole?

CLEBER – What we had last year the distributors were practicing very high prices, the situation we faced last year was rather painful, we now have a better situation in terms of our inventory. We are able to sell because of the economic improvement. Our terms have become more adequate specially in terms of companion animals. What was happening is that our distributors were left with very high inventory and that is why we took the initiative to make some

adjustments. We've had very positive signs in Colombia. Colombia has had good sales and what we see during this quarter is perhaps the drop in terms of forex of the different currencies. As Jardel mentioned we're also implementing some actions there. Once again, we gain that is [35:03] we believe a great deal in the international market, it is one of our strengths.

MONCIO – And another question regarding your leverage and the terms of the [35:27].

CLEBER – Marcio, we are quite aware of our indebtedness, it is relatively high. On the other hand this is an indebtedness with very good quality. We have a strong component of FINEP, we're also obtaining new financing and we know that in the coming years the company will not need additional financing. We won't have this additional pressure of CAPEX and that refers to new product launches. Our debt is completely updated and we truly believe in our cash generation, we have attained very good figures in this 1Q which will be sufficient for the payment of our debt. Once again, we do not foresee any difficulties in the future when it comes to ruling our debt. Our receivables portfolio is quite sound, we can make some adjustments as necessary but we fully believe in our potential for cash generation as of the coming quarters.

MONCIO – Thank you very much for your answers.

OPERATOR – A question from JPMorgan Bank, Mrs. Olivia Petranili.

OLIVIA – Good afternoon Jardel. I have two questions. In truth, the first refers to your pipeline. When we look at your strategy we see that you are going to continue on with some of your projects. You will doubtlessly change your pipeline going forward. A question about your indebtedness. What are you going to do with your indebtedness with this readjustment in FINEP?

KLEBER – Thank you Olivia. Thank you for your question. When it comes to our present day pipeline we are not going to have a great change in direction. We have made more operational readjustments specially in terms of our comercial policy, we have a more expeditious personnel. So we are not going to change this direction. We're working strongly in the pet market, we're looking at a foreign market and we have a very robust pipeline specially with the launches that we have just mentioned to you. We are not foreseeing any significant changes in this field. Your second question refers to the cost of our debt. Yes, on the one hand we do see a movement that will bring together the FINEP and BNDES rates to the market rate but still below what we are paying. We're going to continue working to bring the cost of our debt to a cost that is below the market as we have done in previous years. We are monitoring it very closely and we never know where we are going to end up in Brazil, but on the one hand we see that our rate are coming closer to those of the market and that the market rates are also dropping.

OLIVIA – Thank you very much.

CLEBER – We thank you for your question.

OPERATOR – We would like to remind you that should you have a question please press *1 on your phone.

Thank you. With this the question and answer session ends here. I would like to return the floor to Mr. Massari for his final remarks.

JARDEL – Once again thank you very much for participating in this call and without a doubt we will have a very good year at Ourofino. We observe that the market trends are very positive, we will have gains and without a doubt Ourofino will have much better results than it had in 2016. Once again thank you very much and we hope to see you in our next call. Thank you.



OPERATOR – Thank you. The conference call to release results for the 1Q2017 for Ourofino ends here, you can now disconnect your line.