



OUROFINO - INGLÊS 10/08/2016

OPERATOR: Good afternoon, ladies and gentlemen. Welcome to the conference call for the 2Q2016 results for Ourofino Saude Animal. Today, we have with us Mr. Dolivar Coraucci Neto, CEO and Mr. Kleber Gomes, CFO and IR Officer. We would like to inform you that this event is being recorded and simultaneously translated. All participants will be in listen-only mode during the company presentation in summing this, we will go on to the Q&A session, at which time, further instructions will be given. Should any participant require assistance during this call, please press *0 to reach the operator. The simultaneous webcast are being presented through internet at the address ir.ourofino.com. At this address you will find a banner written Webcast 2Q2016 and you can also download the presentation at this site. Before proceeding we would like to mention that forward-looking statements made during this conference call are based on the beliefs and assumptions of Ourofino's management and on information currently available to the company. They involve risks, uncertainties and assumptions as 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 will now turn the conference over to Mr. Dolivar Coraucci Neto, who will begin the presentation. Mr. Coraucci, you may proceed with your presentation.

DOLIVAR CORAUCCI NETO - Hey. Good afternoon to all of you. And thank you for your presence at our conference call for the results of 2Q and 1H2016. During the 2Q, the company continued to implement its strategic projects and to take actions with the aim of regaining its historical profitability level. We had some initiatives in the segments of companion animals and international operations. And a reduction in the production animal segment in this context



consolidated revenue in the 2Q2016 was of R\$ 134.6 million, an increase of 1.4%. During the quarter we grew 5.9%, reaching R\$ 232,6 million in net revenue. In terms of production animals, there was an increase in the line of pharmaceutical products for cattle but adverse conditions in the vaccine market against the foot and mouth disease in poultry and swine, resulted in a decrease in the net revenue for the segment. Despite this, we remain confident in the strong market fundamentals, and believe that the marketing situation involving the foot and mouth vaccine for poultry and swine will improve in the coming period. The animal companion segment, despite being more sensitive to the macroeconomic situation, has had significant growth, relating to a reversal in the decline of [04:01] in 1Q2016. In international operations, strategic actions, aimed at increasing our presence in the markets of Mexico and Colombia, which accounts for more than half of our exports, has been very successful and have boosted a significant growth in this segment. In line with our planning and investments in research and development, we have launched two important products in the quarter. For production animals, we have Evol, an endectocide created from an unprecedented partnership between albendazole sulfoxide and ivermectin. to tackle external and internal parasites with excellent market acceptance for companion animals, Nulli an analgesic for dogs and cats recommended for clinical and surgical use for the control of acute and cronic pain. With these two new projects we had a total of four launches in 2016. Our activities are focusing on portfolio expansion and have been very intense, with several opportunities being developed by our R&D department with a new business team. The construction of our new plant and the development of biological products have been proceeding as planned. Over the past quarter, we have observed a reduction in our profitability and historical margins, which has made us redouble our efforts to reduce cost and improve our operational efficiency. With this, we believe that we will experience a recovery in the second semester, which is also a higher sales period. We remain confident in the success of our strategic planning and in the



growth of business performance fundamentals and will continue to invest in the company's sustainable development, focused on creating value for our stockholders. I would now like to give the floor to our CFO and IR Officer, Kleber Gomes, who will remark on the results for the quarter.

KLEBER GOMES – Thank you, Dolivar. And a good afternoon to all of you. It is a great pleasure with a new position in the company. I will devote myself to add even greater value for the stockholders.

The slide on page 3, shows you our total net revenue, that had a growth of 1.4% in the 2Q, reaching R\$ 134.6 million, vis-a-vis, R\$ 132.0 million for the 1Q2015. For the semester, revenues grew 5.9%, reaching R\$ 232.6 million, vis-a-vis, R\$ 219.7 million for the same period in the previous year.

On slide number 4, we speak about net revenue by business segment. In production animals, the net revenue for the 2Q was R\$ 105.8 million, with a negative result of 5.5% compared to the second semester of 2015. This drop is due to adverse situations in two lines: the vaccines against the foot and mouth disease and the production for poultry and swine. In terms of the vaccine, the market has been impacted due to low prices. The poultry and swine market has had greater cost and difficulties in transferring prices to the domestic market, leading to greater competition among laboratories. Losses were offset by a good growth in the other therapeutic line. During the quarter, net revenue was of R\$ 180.6 million with a growth of 0.2%. In companion animals, net revenue for the 2Q, were R\$ 17.6 million, with an increase of 15.8%, vis-a-vis the 2Q2015. We would like to highlight growth of our therapeutic line with the launch of Evol. We have an important recovery after the results of the other quarter. And this is aligned with our pet shop performance in the first semester. Revenues were R\$ 31.7 million, with a growth of 5.3%. As mentioned in the 1Q, in March we announced the sale of a new model in São Paulo. International operation's net revenues for the 2Q was



R\$ 11.2 million with an increase of 103.6% compared to the same quarter in 2015. Revenues were up 20.3% for the 2Q, with an increase of 116.0% compared to the previous period. This reflects our investments for an increase in sales in Mexico and for beginning of operations in Colombia. Both of which represent 50.0% of our international operations.

On the slide, on page 5, we will analyse gross profit and SG&A. Gross profit was 72.9% and production animals, as mentioned, the reduction in margin was due to price losses in the vaccine against foot and mouth disease and in projects for poultry and swine. In companion animals, there was a slight decrease in margin. In international operations, we observe an improvement in the market, because of the favourable exchange rate during the semester. Gross profit totalled 62.8% compared to 56.8% for the same period of 2015. The SG&A for the 2Q totalled R\$ 54.4 million compared to R\$ 49.7 million in the second semester 2015. During this semester, SG&A of was R\$ 105.1 million vis-a-vis R\$ 91.4 million for the same period in the previous year. This growth is due to an increase in our commercial structures in Mexico and Colombia, and because prices have been pressured by inflation. You will observe a greater dilution when compared to the 1Q2016, because of a greater representativity of the invoice in the 2Q. This, along with measures to optimise expenses have begun in the 1Q. Historically, the second semester is the most representative of the year and, during this period, we hope to have greater dilution of the SG&A.

On slide number 6, we show you the adjusted EBITDA. In the 2Q, it represented R\$ 20.2 million with a margin of 16.0%. It dropped 6 percentage points. In the first semester, adjusted EBITDA was R\$ 26.8 million with a margin of 11.5%, and a decrease of 7.6 percentage points. The main factors influencing the result were reductions in gross profit and increase in SG&A, as we have just explained. We hope a recovery in the second semester, as it is more representative and because we will recover growth in companion



animals, and also because we are optimising expenses. This is something that is under way.

And slide number 7, we present to you the net financial expenses, tax expenses and net profit. Net financial expenses, for the 2Q, remained at R\$ 3.8 million compared to R\$ 1.8 million for the 1Q2015. During this semester net expenses were R\$ 11.4 million compared to R\$ 2.5 million for the same period in 2015. The increase in expenses is due to the lower level of debt indebtedness in 2015, because of the IPO resources. IPO that was held in June 14th, and also due to the financial charges index CDI, as we saw in the 1Q2015. For the second semester, we hope to have a new tranche of the Finep that was contracted. This will contribute to a better rate. The social expenses represented R\$ 1.5 million compared to R\$ 2.4 million in the 2Q2015, because of a lower profitability during the period. The adjusted net profit for the 2Q2016 was R\$ 6.3 million with a reduction of 66.7% compared to the 2Q2015. In the 1Q2016, profit represented R\$ 4.5 million with a drop of 83.0% compared to the same period of previous year. These results reflect the drop in adjusted EBITDA with an increase in expenses, as we have already explained.

On slide number 8, we present to you information on the company's indebtedness. During the 2Q2016, the net debt of our EBITDA was of 2x compared to 1,63x for the same period in the previous year. The average cost of the debt was of 9.52% a year as the close of the 2Q2016, compared to 5.75% a year for the 2Q2015. As it has been highlighted, we are waiting for a new tranche for the Finep that will have pre-fixed charges. We would also like to highlight that on June 30th, the company closed with a cash of R\$ 23.6 million.

On page 9, we present to you the R&D investments in the first semester of 2016. Investments totalled R\$ 14.8 million, representing 6.4% of the net



revenues for the period, in line with the annual percentages that we usually practise.

On page 10, we show you the launch of products in the first semester 2016. There were three new products for production animals and one product for companion animals. We highlight the launches for product in animals evolve a broad spectrum endectocide based on ivermectin and albendazole sulfoxide with an oversight power. For companion animals, we have Nulli. This is for analgesic and surgical use for the control of chronic and acute pain, in dogs and cats.

On page 11, we would like to show you the share returns since the IPO until June 30th 2016. You can see that the curves are quite different. During this period, the company share gave a return of 60.6%, including dividends. Comparatively, iBOVESPA, during the same period, presented a negative return of 5.1%. I would now like to give the floor back to our CEO, Mr. Coraucci, who will summarise the highlights of the period.

DOLIVAR CORAUCCI – To conclude, on slide number 12, we would like to highlight the revenue growth for companion animals, with an increase of 16 points on the 2Q. The growth of our international operations, thanks to the investments in Mexico and Colombia. The good performance of production animals, isolating the effects of the foot and mouth disease in the poultry and swine products, the launch of additional four products during the first semester, in accordance to our plan. And, once again, the biological plants, that is proceeding as planned. We would now like to invite you for the Q&A session. Thank you very much for your attention.

OPERATOR – Thank you. We will now go on to the Q&A session. Should you have a question, please press *1 on your touch tone phone. If, at any point, your question has been answered you may remove yourself from the queue by



pressing *2. Question will be taken in the order that they are received. Please hold, while we pull the questions.

Mr. Joseph Giordano, from JP Morgan, would like to pose a question.

GIORDANO – A good afternoon to all of you and thank you for allowing us to make questions. I have some questions to further explore the growth in the production animal segment. I would like to understand the issue of the foot and mouth disease. The price is 25.0% below what we have seen when you had a campaign for the first semester I would like to understand what will happen if it represents 10.0% of the revenues. Which was the impact during the quarter? And secondly, do you believe that this price will continue under pressure during the second semester? Third, what has happened to your volumes? We believe that the price drop is due to an excess in supply. And I would also to understand the dynamic, in terms of swine. We have observed some issues in the industry, in terms of cost, affecting the entire chain. Why has there been a break in demand? Is it due to volumes? Or did you have to reduce prices to help your final client? And, looking at the rest of your portfolio, poultry, swine and the vaccine, which are your expectations for volume and revenues? Because the list of prices is 10.0% higher for the 3Q.

DOLIVAR CORAUCCI – Thank you for the question. As we mentioned, in the 1Q we were faced with a rather complex scenario, because of an excess of supply in the market. And we worked on efforts in the production sector, which generated even greater competitiveness and, because of this, a drop in prices, additionally, we have some player that are quite different from Ourofino and, once again, the situation of these other players is quite different from that of Ourofino. These are some companies that work with very short delivery terms, and they are able to get to the market very quickly, especially in the stock market. During the second semester we do not believe in a price recovery and, because of this, we have made an adjustment in our expenses, so that we can

continue with a development of our production animals, and our companion animals. In terms of the issue in poultry, the problem arose because of a problem in commodities. We attained historical prices, and this increased the cost became unbearable compared to what we had had in the past. Consequently, it became very difficult to increase production. And, as you know, the poultry segment is undergoing a moment of losses and is no longer making investments in the field of medication. Now, poultry is doing somewhat better than poultry in the foreign market. We are faced with a rather interesting situation, if you can call this interesting. The Brazilian crisis has allowed us to having greater number of poultry and this has enabled us to, somewhat, increase our prices. But, once again, the market is being very pressured because of the cost of commodities. Now, your last question refers to the topic of growth, especially in the vaccines segment, I believe, and poultry and swine. We had a significant share of growth when it comes to price transfers. This is important for our company. It has allowed us a price consolidation and this results from the increase of cost, because of the increase in inflation. All the cost have increased, the use of water and others. And that is why we have also had to increase our prices. We have a growth in volume but lower than the increase in prices. There is an issue of liquidity in the market and we need to take this into account. Our business channels have difficulty in obtaining credit because, once again, because of the situation of prices.

GIORDANO – Thank you very much, Dolivar. A question for Kleber. I am now looking at the company balance. You still have another tranche from Finep, but when I look at the debt of the company, about 1/3 is about to mature in the coming months. I would like to understand if this tranche from Finep will cover the R\$ 80.0 million that you have in the short term. I believe that you still have CAPEX but a plant that is under construction. And if this does not cover the debt that is about to mature, do you have the intention of contracting a debt with CDI?

KLEBER – Thank you for your question. In truth we still have three different tranches from Finep, that will still be released. We have had a delay because of the internal problems at Finep. Their system is not operating properly, and they are having problems in terms of the release. We have another R\$ 60.0 million, that should be released from that financing. We will have the release of one of the tranches very soon and the second tranche should be released until the end of December of this year, which means that we are quite calm when it comes to our short term indebtness, because of these tranches that we are about to receive. There has been a substitution, during this period, of the resources that should have come from Finep, we ended up obtaining the resources from the market.

GIORDANO – Thank you very much.

OPERATOR – Mr. Antônio Barreto from Itaú BBI would like to pose a question. BBA, I am sorry.

BARRETO – A good afternoon. My first question refers to the poultry issue and the issue of the vaccines. How much did this represent in terms of the revenue for the 2Q? I know that the foot and mouth disease is very representative. It may have been higher. And what did this represent in terms of your revenue for poultry and pigs? If you could give us an outlook on historical margin compared to what you obtained in the 2Q for the foot and mouth disease and for poultry and pigs to give a better understanding of the impacts it has had in the 2Q.

KLEBER – Antônio, this is Kleber. Thank you for the question. Poultry and swine represent 15.0% of our invoice in production animals. The foot and mouth disease have somewhat greater representativity, that also depends on the price. As the price was the lowest during the semester, so was our share. It normally represents 9-10.0% of our revenues. When it comes to margin, the

foot and mouth disease and swine during the quarter, yes, they did have a greater impact.

BARRETO – But can you give us an idea of which was the magnitude? Or how much lower the margins were, compared to your historical average?

KLEBER – I am sorry. We do not have that information available. This is a rather competitive sector and we have not broken down this information by therapeutical class.

BARRETO – My second question, this refers to your initiatives in terms of cost and initiative for the second semester. Which are the main actions? So that we can, perhaps, carry out an analyses, cost and efficiency.

DOLIVAR – We have made several adjustments in our operations at this very difficult point in time, with macroeconomic downturn. We always had a special macroeconomic situation but, as all of you know, our economy has suffered a downturn. And because of this, we have had to make important optimisations. We have carried out optimisations in terms of headcount, in reduction of expenses. Once again, all of which are being put into practice going forward. These are the normal actions that relate to cost control, to a reduction in expenses and enhancement of our operational efficiency. To complement what was said by Dolivar, we have carried out several actions, Antônio. For example, we are seeking greater synergy among the areas, we have had the merge of some departments. We are analysing outsourcing non-core positions. And we have also had to lay out some of our headcount, to be able to reduce costs.

BARRETO – Thank you very much.

OPERATOR – Mr. Márcio Montes from Banco do Brasil would like to pose a question.



MARCIO MONTES – A good afternoon, Dolivar and Kleber. Thank you for the opportunity. In terms of the financial spread rates. What is it that has triggered these investments in Mexico and Colombia? And how will this impact the company going forward?

KLEBER – Márcio, thank you very much for your question. We don't foresee a significant impact because of the growth of operations in Mexico and Colombia. Our financial cycle and deadlines are shorter than those in Brazil. These operations, at present, are relatively small as part of our group and we do not foresee any problem, quite the contrary, we do foresee the export operations as a hedge, in general. So, we are not foreseeing any problem and we truly have no concern in terms of the financial situation of these two countries.

MÁRCIO MONTES – Thank you very much.

OPERATOR – We would like to remind you that, if you wish to pose a question, please press *1. The Q&A session ends here. We would now like to give the floor to Mr. Coraucci Neto for his final remarks.

DOLIVAR CORAUCCI – I would like to thank all of you for your participation at our results conference call. We remain focused on our strategic planning and very attentive to opportunities to improve our profitability. We reaffirm our commitment with the sustainable growth of our businesses. We wish Kleber a great deal of success in his new position and we thank all of you for the trust that has been given to us and we truly hope to be able to add value to our shareholders. Thank you very much.

OPERATOR – Thank you. The conference call for the 2Q2016 results of Ourofino ends here. Please, disconnect your line.