OUROFINO – INGLÊS 09/05/2018

OPERATOR - Ladies and gentlemen, thank you for holding and welcome to Ourofino Saude Animal 1Q2018 results conference call. Today with us we have Mr. Jardel Massari, CEO, and Mr. Kleber Gomes, CFO and investor relations officer. We would like to inform you that this event is being recorded and simultaneously translated and that all participants will be in listen-only mode during the company's presentation. After the company's remarks are completed there will be a Q&A session, when further instructions will be given. Should any participant need assistance during this call, please dial *0 to reach the operator. We have a simultaneous webcast that may be accessed through Ourofino's website at ir.ourofino.com, Webcast 1Q18 banner. The slide presentation which will be presented by the management today is also available for downloading on the website. Before proceeding let me mention that forward-looking statements will be made under the safe harbor of the Security Litigation Reform Act of 1996. Forward-looking statements 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 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 could cause results to differ materially from those expressed in such forward-looking statements. Now I would like to turn the floor over to Mr. Jardel Massari.

Please Mr. Massari you may proceed.

JARDEL MASSARI - Good afternoon, everyone. I would like to thank everyone for listening in to our conference call on our 1Q2018 results. We are staying strong in executing our strategy. The animal health industries union, Sindan, disclosed market data for veterinary medication in 2017, and Ourofino placed 4th on their rank. Small difference regarding the 3rd place we had. We were in third place since the 2Q2017. It reaffirms the sustainability of the adjustments made to retake the historical levels that we have had for growth and profitability. In international operations we were the company that grew the most in 2017, in Mexico, according do InforVets ranking. And the third highest growing in Colombia, according to AperVets ranking. They are the respective unions in each country. In the 1Q2018, which is seasonably weaker in net revenue and EBITDA margins. Our revenue grew by 22.0%, reaching BRL 92.0 million. Gross margin of 57.0% in comparison to 53.0% in the 1Q2017. The company still is attentive to its expenses, and it has reached a dilution of 9.0% over its revenue in comparison to the same period last year. Which takes our EBITDA margins to grow 12.0% in total of BRL 12.0 million, in comparison to BRL 1.0 million that we had in the 1Q2017. Net profit came to BRL 4.0 million, reverting a loss of BRL 6.0 million that we had in the same period of 2017. Operational cash generated was BRL 25.0 million. And net debt reached 1.7x EBITDA. It was 6x in the 1Q2017. In livestock or production animals, net revenue grew by 21.0%, reaching BRL 65.0 million, with a gross margin of 53.0%, in comparison to 47.0% in the 1Q2017. And this is fully in line with our plan. Our field staff continues to be very driven to reach the sustainability and profitability goals we had set for 2018, focusing on drivers such as need to adopt technology and the vocation they have to produce animal protein in Brazil. In the pets or company animals sector, our net revenue was BRL 19.0 million, a growth of 16.0% in comparison to the 1Q2017, with a gross margin of 71.0%, that is 0.4% higher than the previous quarter. For the segment we are expanding our own staff of technical consultants, and we are visiting more veterinarians, which is aligned to our driver to intensify pet care, which is something that is more significant for millions of Brazilians. Pets will have longer life expectancies. But size it is important to see a gradual re-uptake of the macroeconomic scenario in Brazil, which has had a positive impact on the market. It was growing before by 19.0% a year. So this allows us to see that we have a good year ahead of us. In international operations, revenues grew

58.0%, reaching BRL 8.0 million, with a gross margin of 62.0%; 2.0% above the 1Q2017. This reflects the company's execution of its strategical plan in Mexico and Colombia, with new clients and introducing new products to our portfolio, and also increasing our sales. This quarter we have also had a ceremony to launch a movement we call Productivity, in which all employees were encouraged to reflect on their role and permanently seeking process improvement. Because there is always something to do to increase our competitiveness. We should be guided by purpose of re-imagining animal health and this means making the company always more efficient, quickly and simply. And, especially, helping to transform the efficiency and competitiveness of the sector in the markets in which we work. We would like to thank you for your trust and we are still focused in permanently finding productivity to add value to the company. I would now like to give the floor to our Financial Director and Investor Relations Director, Mr. Kleber Gomes, who is going to talk about the results we have for this quarter.

KLEBER GOMES - Thank you, Jardel. Good afternoon, everyone. The company had a net revenue of BRL 92.0 million in the 1Q2018, which was a growth of 22.0% in comparison to the same quarter 2017. The production animal segment added net revenue of BRL 65.0 million in the 1Q2018, up 21.0% from the 1Q2017. Positive impacts were increased volumes and prices in the sector, especially anti-parasite and anti-microbial lines. Pets or company animals segment had a net revenue of BRL 19.0 million in the 1Q2018, growing 16.0% in comparison to the 1Q2017, which reflects increases in volume and price. The international operations segment had a net revenue of BRL 8.0 million in the 1Q2018, 58.0% up from the 1Q2017. This result had a positive impact from increased volumes of Mexico, Colombia and other countries, besides exchange rates being positive. Now we comment on gross margins. Our gross margins for the 1Q2018 were 57.0%; 4.0% higher than the 1Q2017. The production animal segment had a gross margin of 53.0% in the 1Q2018, up 6.0% in comparison to the 1Q2017, which reflects price gains.

Furthermore, the 1Q2017 had an impact of provisions for inventory losses. The company animal segment had a gross margin of 71.0% for the 1Q18; 0.4% higher than the 1Q2017. It received an impact from price gains in different lines. International operations had a gross margin of 62.0% in the 1Q2018, up 2.0% in comparison to 1Q2017, due to price gains and exchange rates differences. Expenses with SG&A in the 1Q came up to BRL 46.0 million, a dilution of 9.0% in comparison to the 1Q2017, and this reflects the continuous attention to expenses that the company included in this quarter. Of course, along with increase to net revenues. EBITDA in 1Q2018 came to BRL 12.0 million, a margin of 13.0%, up 12.0% since the 1Q2017. It reflects expanded growth, excuse me, revenues, gross margins and a dilution of SG&A expenses. Some comments on net financial expenses, income taxes and social contribution and net profits. So our net financial expenses in the 1Q was BRL 3.0 million, down 40.0% in comparison with the 1Q2017, and this was due to continued cash generation since 2017, and a reduction of net debt of BRL 196.0 million in March 31st 2018. After reaching BRL 265.0 million in December 31st 2016 and BRL 200.0 million in December 31st 2017. Income tax and social contribution in the 1Q2018 was BRL 0.2 million vs what we had in the 1Q2017, which was BRL 4.0 million. The net profit in the 1Q2018 were BRL 4.0 million, offsetting a loss that we had in the 1Q2017. This is a reflection of our EBITDA growth, due to the factors I mentioned before, added to the reduction with our net financial expenses. About the company's indebtedness. In the 1Q our net debt vs EBITDA ratio was 1.7x in comparison to 6x in the 1Q2017. Our average debt cost was 7.0% this quarter, and it was 8.0% in the 1Q2017. This includes our connected derivatives. Our cash reached BRL 126.0 million and along with the cash generated that is expected for the next quarters is enough for our short-term debt of BRL 163.0 million, which is focused on the 3Q2018. In the 1Q2018 we had operational cash generation of BRL 25.0 million, which goes in line with our improved gross margin and dilution of expenses. Highlight was that amortization and interest payments totalling BRL 53.0 million. Our investment in R&D were BRL 8.0 million representing 9.0% of our net revenue. This percentage is in line with its historical average and showed that we are continuing to invest in our [13:28] sustainability. I now would like to give the floor for the operator so we can continue with the Q&A session.

OPERATOR - Thank you. The floor is now open for questions. If you have a question, please dial *1.

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Mrs. Olivia Petronilha from JP Morgan has a question.

OLIVIA PETRONILHA - Good afternoon, everyone. Thank you for taking my question. I have actually two questions. The first is if you can give us an update on the biological's plant. How production is going there? And when we'll we see these new products coming into the market? The second question is that you are going to be stronger in some fronts, especially, internationally. So if you give us an update on what we can expect from now on. Thank you.

KLEBER GOMES - Hi Olivia. This is Kleber. I will start with your second question. You were probably talking about the report that came in Valor Magazine. We actually don't have any M&A activities right now. We are assessing them because there was a significant reduction in our debt and with that we would have opportunities for the company to look at other opportunities, but there haven't been any activities in that sense. Nothing that would be a highlight right now. Regarding our biological's plant, we continue to develop it. The plant is running. It has been concluded and products are being developed right now, normally. We don't have anything for the short term but it is well within our expectations for production.

OLIVIA PETRONILHA - OK. Thank you. I just have a follow-up question. You mentioned a better pricing scenario, that you had better prices. How do you see the inventory levels for retailers? Does that allow you to pass on prices or is it because of the re-uptake of the economy?

KLEBER GOMES - Actually prices are something that we have been talking about publicly. A situation in China. China due to environmental reasons has been having a lot of changes in their production system. And everyone knows that we buy a lot of medications from China as well. And we have also been passing on prices because the market is accepting higher prices. So we have been trying to do this, just like any other affected industry. So we see improvements on that, and also the macroeconomics scenario is becoming better. So we have to pass some of the price on to the final customer. But Ourofino usually looks at its price tables at the beginning of the year to review them. But this, of course, was boosted by higher cost for some Chinese products.

OLIVIA PETRONILHA - OK. Thank you.

OPERATOR - Our next question comes from Mr. Marcio Montes from Banco do Brasil.

MARCIO MONTES - Good afternoon, Mr. Jardel and Mr. Kleber. Thank you for the opportunity. I have three questions. One continues the one Olivia asked about price ranges. If you can tell us on average what your reach [17:54] and your price tables. Is there any other expectations for the rest of the year? And what about the situation with loans? Should they be paid earlier to make use of the better rates that the market has been paying? Can the company make use of this situation? The last one is about international operations. That is one of the factors that the company has, it has been very productive in international operations because of the hedge it had. Now since the dollar has higher value with comparison to the BRL, I am wondering how that affects our hedging. And what are your expectations for margins of the 2Q, because of the foot and mouth disease vaccination season? What other perspectives do you have to improve the situation in the 2Q?

KLEBER GOMES - Thank you for your questions. About prices, we really haven't disclosed this information openly, so unfortunately we can't tell you the percentage that we are using right now. Regarding liquidation of loans, we simulated this and we know that the base interest rate is variable, but Ourofino, to our understanding, has a very low rate. It's a gross rate of about 7.0% with debt. So we did assess it, we thought it could be an opportunity for some of our working capital to have different financing lines, credit lines, but since we have some debts to pay in the 2Q, it wouldn't be enough for prepayments, according to our contracts. So we decided not to do this, but naturally it will happen because of more expensive loans. Well, not expensive for us but, in many ways they were under the market levels. You mentioned that international operations hedging and so on. International operations had some growth, not due to hedging in itself, but the expansion in our staff since we are now reaching these other countries, and the effort to making in Mexico and Colombia. With the exchange rate, if we look at the first month, exchange rate was getting in the way of our business but now, exchange rates are favoring our business. Most of the growth, definitely, is due to the successful implementation of our controlled [21:12] in Mexico and Colombia. Your last question was very interesting. Considering that we have the sale of Chinese materials over a small percentage, we have a natural hedge, which are our exports. And also sales for poultry and pork, which has prices listed in US dollars. We look at this in the company and we are having a very balanced production, so we are gaining anything but we are not losing anything. There is balance and this month we should see [21:55] hedging operation to balance it, but it hasn't been necessary so far. So the US dollar doesn't concern us that much, considering we have our natural hedge for it. You also asked, from what I understood, about management issues with the FMD vaccination campaign. In fact, the campaign will be during this quarter, the 2Q. It is a product that is demanded in the market but we don't have a bad feeling about it. We hope that this campaign will be similar to what we had in the past, but we have to [22:37] and see how it will be when it comes. Thank you for your question.

MARCIO MONTES - Thank you.

OPERATOR - This concludes our Q&A session. I would like to turn the floor over to Mr. Jardel Massari for his final considerations.

JARDEL MASSARI - Well, we would like to thank you all for your attention and we are convinced that 2018 will be very robust year for us, in line with our budget and with our figures. It will definitely be better than 2017. Thank you for your attention.

OPERATOR - Thank you. Ourofino's 1Q2018 results conference call is concluded. Have a nice day.