

OUROFINO - INGLÊS 07/03/2018

OPERATOR – Ladies and gentlemen thank you for holding and at this time I would like to welcome you to the 4Q2017 conference call for Ourofino Saude Animal. Today we have with us Mr. Jardel Massari, CEO, and Cleber Gomes, CFO and IRO. We would like to inform you that this event is being recorded and simultaneously translated and all participants will be in listen only mode during the company's presentation and soon we will go on to the Q&A session when further instructions will be given. Should any participant require assistance during this call, please press *0 to reach the operator. We have a simultaneous webcast that may be accessed through Ourofino's website at ir.ourofino.com, at this address you will find the banner Webcast 4Q17. At this is where you will find the presentation. Before proceeding, we would like to mention that any forward looking statements made during this call refer to the beliefs and assumptions of Ourofino's management and are based 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. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Ourofino causing results to differ materially from those expressed in such forward looking statements. I would now like to turn the floor over to Mr. Jardel Massari. You may proceed, Sir.

JARDEL MASSARI – Good afternoon to all of you and I will thank you for participation at our 4Q2017 and full-year conference call. We are very pleased with the results for 2017. As reported throughout the year we were able to regain the company's historical profit levels after facing major challenges in 2016. Net revenueS grew by 11.0% in the year and reached R\$505.0 million. Our adjusted EBITDA grew by 134.0%, reaching R\$104.0 million with a margin above 20.0%. Our adjusted profit totalled R\$45.0 million with an 9.0% margin

and we doubled the generation of cash from operations to a R\$120.0 million reducing our leverage levels below 2x net debt/adjusted EBITDA. When it comes to production animals net revenue was R\$398.0 million, with an increase of 11.0% vis-à-vis 2016 and the gross margin above 50.0%. We have reaped the benefit of our work by focusing on increase profitability which includes a reduction in the volumes of products with lower margin and price gains in the entire product lines. As we have experienced a better moment in the market for animals and vaccines. And for companion animals net revenue was R\$61.0 million, an increase of 12.0% compared to 2016. Macroeconomic conditions have improved since the beginning of the second half of 2017 and we have noted a substantial reduction in distributor inventory levels, which brings a good growth prospects for the segment in 2018. In terms of international operations net revenues increased by 10.0% and we felt a negative impact of foreign exchange effects. We also followed our product registration strategy in Mexico and Colombia which will increase our portfolio thus creating conditions to continue our growth as planned in this market. We are confident that 2018 will be a great year and the team remains enthusiastic about accelerating business growth attentive to all of the actions that we carried out in 2017, a year in which the Company's values were restored. Our processes will continue to be performed in a fast and very simple manner in line with our purpose of reimagining animal health. We would like to thank you for the trust placed on us during the restructuring process and we reaffirm our commitment to maintain value generation through sustainable growth. I would now like to give the floor to our CFO and IRO Cleber Gomes who will mention the main results for the period. Thank you very much.

CLEBER GOMES – Thank you, Jardel. A good afternoon to all of you. The company presented net revenues of R\$162.0 million in the 4Q2017, a growth of 64.0% compared with the 4Q2016. In 2017, net revenues were R\$505.0 million, an increase of 11.0% vis-à-vis 2016. The animal production has presented net revenues of R\$133.0 million in the 4Q with a growth of

74.0% compared to the 4Q of the previous year, with gains in prices and volumes specially in the bovine line. In 2017 net revenues were R\$398.0 million, an increase of 11.0% compared to 2016, reflecting the actions adopted by the new management. Companion animals achieved net revenues of R\$14.0 million in 4Q2017, a growth of 25.0% compared to 4Q2016. In 2017, net revenues were R\$61.0 million, with a growth of 12.0% vis-à-vis the previous year. These results reflect a market recovery with healthy inventories stocked in our distributors. International operations for net revenues R\$14.0 million for the 4Q2017, an increase of 39.0% compared to the 4Q2016. In 2017 net revenues were R\$47.0 million, an increase of 10.0% vis-à-vis 2016. These results felt the negative impact of foreign exchange effect. Gross margin for the 4Q2017 was at 52.0%, an increase of 9.0p.p. vis-à-vis 4Q2016. In 2017, gross margin reached 53.0% an increase of 3.0p.p. compared to the previous year. Production animals had a gross margin of 51.0% in the 4Q2017, with an increase of 13.0p.p. compared to 4Q2016. Once again showing the gains in prices. In 2017, gross margin was at 50.0%, an increase of 5.0p.p. vis-à-vis the previous year. This stands for a better mix presented in the segment. Companion animals had a gross margin of 69.0% in the 4Q2017 with an increase of 2.0p.p. vis-à-vis 4Q2016, due to the better mix. In 2017 the gross margin was 70.0% with a slight drop compared to 2016. International operations had a gross margin of 48.3% in 4Q2017 with a drop of 1.0p.p. compared to the same quarter in the previous year. Gross margin was 51.0%, with a drop of 7.0p.p. compared to 2016. This drop substantially resulted from the loss in prices due to the exchange rate during the period. If we analyse our SG&A and EBITDA, expenses with sales, general and admin expenses totaled R\$52.0 million, with a dilution of 19.0 p.p. compared to 4Q2016. In 2017, expenses added R\$190.0 million with a dilution of 8.0p.p. vis-à-vis 2016. the dilutions reflect increase in net revenues along with efforts towards optimizing the Company's expenses throughout the entire year. Adjusted EBITDA for the 4Q2017 totalled R\$41.0 million with a 25.0% margin, an increase of 24.0p.p.

compared to 4Q2016. Em 2017, adjusted EBITDA was R\$104.0 million, with a 20.0% margin and 11p.p. increase vis-à-vis 2016. The increases in gross margin and dilution of expenses with SG&A are responsible for our improvements in EBITDA. The net financial profit for 4Q2017 stands at R\$4.0 million, a drop of 34.0% vis-à-vis 4Q2016. First of all, financial expenses was R\$17.0 million, a drop of 24.0%. These results are due to a greater cash generation during 2017, there was also a reduction in net debt that has reached R\$265.0 million in the 4Q2016 reaching R\$200.0 million in the 4Q2017. Income tax and social contribution in the 4Q2017 were at R\$5.0 million and this is thanks to our greater profitability; adjusted net profit in 4Q was at R\$23.0 million, changing the losses that we had in the 4Q2017. In 2017 net profit was R\$45.0 million compared to R\$2.0 million in 2016. These results reflect the growth of EBITDA due to the factors that have been mentioned previously along with the reductions of net financial expenses.

As I would like to speak about the Company's indebtedness in the 4Q2017, net debt over EBITDA was of 2x compared to a value that was almost 6x in 2016. The average cost of debt was at 7.0% upon the closing of 2017 compared to 9.0% in 2016. These amounts will be incorporated into our values and I would like to highlight that this is linked to our derivatives. Our cash reached R\$123.0 million and it's sufficient for our short-term debt of R\$ 190.0 million, as we have a new credit line from Finep amounting to R\$70.0 million, first disbursement of R\$35.0 million took place on January 10th. The debt into 2018 has maturity that is concentrated in the 3Q and we are also taking into account cash generation for the coming period. Our cash operation in the Company was R\$120.0 million doubling the volume vis-à-vis 2016, thanks to the Company's efforts towards reducing the average terms of sales receivables that were reduced to a 116 days compared to a 130 days in 2016. We would also like to speak about the amortization of the debt and payments of interests totaling R\$95.0 million, and fundraising of R\$61.0 million. Our investments totaled R\$ 30.0 million during the year representing 6.0% of the

net revenues for the period. This percentage is in line with our historical average and shows that we continue to invest in growth and sustainability.

I would now like to return the floor to the operator so that we can go on to the Q&A period.

OPERATOR – Thank you. We will now go to the Q&A period. Should you have any question please press *1.

Mr. Marcio Montes would like to pose a question.

MARCIO MONTES – Good afternoon Massari; good afternoon, Cleber. You have talking about the improvement because you now have products with a better margin you're referring to your newer products, and I would like to know which are your expectations in terms of the bovine segment due to everything that is happening in the beef sector in the country. And what is happening with the plants of biologicals? Thank you very much.

CLEBER GOMES – Marcio, thank you very much for your question. We are going to respond to the question in parts. The first question refers to the improvements in our mix of 9.0%. Now this is due to the prices that we began to practice at the end of the 4Q2016. And we took out from our line the products with the lower margins specially the products that were doing towards poultry and they were not giving us very good margin during the period. What we have done is to work on a more productive mix. Regarding your second question, about our market expectations, due to the events of [15:34] and the problem with meat. Within the company we are always working towards enhancing the quality in the sector and of course our greater focuses has always been sanitation and we are treating our animals and enhancing their growth through medication. Now if we look at the marketing we have already implemented some improvements in the previous quarters, because of the problems that have [16:23] previous quarters and once again we believe that this is a situation of the [16:30]. It seems that now the plants that face

problems ended up being the plants with little or irrelevant when it comes to Brazilian exports, and we hope that the negative impacts will be reduced and we expect to continue expanding in the market. Referring to our biological plant we also informed the market that this would be a transformation of a project that will bring very positive results for the Company in the coming years. In the USA our competitors have some projects in Brazil and at least one of them does. Therefore this ended up being a very complex issue. For the year 2018 we still are not counting upon the production of vaccines, that means, not in significant volume. And about [17:47] we have [17:46] we have 4 years, we are going to wait for our portfolio to become somehow more mature in 2022. I think that it has responded to all of your questions.

MARCIO MONTES - Thank you very much.

CLEBER GOMES – Thank you for your questions.

OPERATOR – Mrs. Olivia would like to pose a question.

OLIVIA PETRONILIO – Thank you for taking my question. I would like to better understand the processes of restructuring that you underwent. We can see the results during this quarter and I would like to know how you consider each of the fund. Could you say that this process has been concluded, if you are now at a level of revenues that you believe is sound, if your expenses are at a level that you were hoping they would reach. Thank you very much.

JARDEL MASSARI – Olivia, thank you very much. When it comes to restructuring we have done most of the work already during the year 2017. We have changed our structure and I think that the results are becoming to appear. This is a ongoing plan we have new changes that are about to come in terms of operations and much more. Once again, as I mentioned this is an ongoing process, but the changes will be minor only in terms of expenses we have had a reduction of approximately 10.0% and of course this has allowed to increase our efficiency and consequently further reduce our expenses. And

in the year 2018 we are going to continue working to further reducing our expenses. We're also planning to focus evermore on those products that are for us greater gains in terms of prices and otherwise, but at present I think that were very pleased with all of our product lines. And with this of course our gross margin will continue to improve with productivity gains. We expect to have even further improvements. I hope to have responded to all of your questions.

OLIVIA – Yes, that was excellence, thank your very much. If you could take an additional question: that company has begun to speak more about a new issue into international market and the products you are going to sell in those international markets.

JARDEL MASSARI – We're always attentive to new opportunities in international markets. In 2017 we achieved several of our goals in Colombia and Mexico, and we also obtained additional registration. We are working with very good planning in the sector and of course our focus is on the pet market. I think that we are going to achieve substantial gains during this year in both of these countries and what we're hoping it's an increase of 30.0% in our international operations.

OLIVIA – Thank you.

JARDEL MASSARI – Thank you very much.

CLEBER – While we're waiting for additional questions, we have a question that has come from another communication channel and is asking about the pipeline of our plant. What I can say is that if we look at the results of our pipeline and the announcements that we have made in the market we are going to end up having a very complex portfolio. We tend to say that the important market are the biological market. We already have this market since 2010 and through our pipeline we're attempting to cover all of the other additional sectors. We of course have planned for the [22:57] market, for

companion animals and we are going to be releasing these products along this year and we hope to be able to obtain a significant market share precisely throughout this year. And of course, as I mentioned before these markets are following a very fast pace of growth. Thank you for your question.

OPERATOR – We would like to remind you that should you wish to pose a question please press *1.

With this we would like to end the Q&A session. I will now return the floor to Mr. Massari for his closing remarks.

JARDEL MASSARI – Once again we would like to thank all of you that participated in this call and once again we reiterate that we're highly optimistic regarding the year 2018. Once again we have very stringent planning, for this year we have already observed, find a market resumption in 2018. We're highly confident and once again we are going to try to achieve all of our goals. Thank you very much for your participation.

OPERATOR – The conference call for the 4Q2017 for Ourofino is finished. We would like to thank all of you for your participation. Have a good afternoon.