

**OUROFINO**  
**EARNINGS**  
**CONFERENCE CALL**  
**3Q2019**  
**11/08/2019**

**OPERATOR** – Ladies and gentlemen, thank you for standing by and welcome to the Ourofino Saude Animal 3Q2019 conference call. Today we have with us 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 all participants will be in listen-only mode during the company presentation. And soon in this we will go on to the question and answer session when further instructions will be given. Should any participant require assistance please press \*0 to reach the operator. The audio is being presented through our site [ir.ourofino.com](http://ir.ourofino.com) where you will find the Webcast 3Q2019 banner. Before proceeding we would like to mention that forward-looking statements made during this conference call referring to the outlooks, operation, financial goals represent the assumptions and beliefs of the company and are based on information currently available to the Company. They are no guarantee of performance as they involve risks, uncertainties and assumptions, and depend on circumstances that may or may not occur in the future. Investors should understand that general economic condition, 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 statements. I would now like to give the floor to Mr. Massari. You may proceed sir.

**JARDEL MASSARI** – A good afternoon to all of you and thank you for participating in our Earnings conference call for 3Q2019. The Brazilian animal health market, more specifically the production animal segment, has its potential reaffirmed in light of the context of historically higher beef prices and lower grain prices along with a positive impact for the Brazilian agricultural sector, due to the challenging

scenario of the African swine fever which continues to devastate pigs herds in China. According to the FDA, the US Department of Agriculture, Chinese production is estimated to be 36,0% lower in 2020 vis-à-vis the year 2018, providing opportunities for Brazil to significantly increase protein production and exports which is something that has already been happening at considerable speed in terms of volume. We understand that this scenario will operate as a catalyst for the growth of the animal health market considering that to meet this additional demand farmers tend to intensify the search for technologies that may increase the productivity of their livestock. Notwithstanding this, during the 3Q2019 the animal health market did not achieve his potential which we believe is due to a possible insecurity of farmers regarding the macroeconomic scenario, which has also impacted the results we expected from the typical trade fairs in the sector. Accordingly, the production animal segment presented net revenues of a BRL120.0 million, a decrease of around 6.0% when compared to the 3Q2018. Results were also impacted by the concentration of sales at the end of September exceeding BRL9.0 million when compared to the same period of the previous year. And revenue recognition was done at the beginning of October. In the company's consolidated accounts for the quarter sales revenues decreased by 4.0%; the companion animal segment increased 11.0% thanks to...but there was a decrease of 6.0% in the production animal segment, and international operation segment had a decrease of 5.0%. Results of the international operation segment would have remained stable were not for the exchange rate. Adjusted EBITDA reach BRL28.0 million, a decrease of 8.0pp in the margin, which also was the result of the 5.0pp impact on the gross margin due to the increased idle cost at the plant. On the positive side the generation of cash from operations remain strong thus totaling BRL81.0 million for the 9M2019. That is to say 53.0% higher than the same period of 2018, as well as the good revenue growth for both companion animals and international operations segment. Regarding the future and always in the quest for continuous improvement, for our company, we have completed the diagnosis based on the definition of our strategy in the context of a new strategic planning cycle for Ourofino for the coming 5 years in partnership with EY Parthenon consulting firm. At this point we reaffirm our position for reimagining

animal health as a comprehensive portfolio company with accelerated international expansion in Latin America and a close business relationship with our partners to deliver productivity to farmers and the reassurance of good care for companion animals to pet owners. We have defined a strategy for expanding our portfolio in the production animal segment as well as for increasing our presence in the companion animal segment by increasing the coverage of the animal health market with the entry into and strengthening of the brand in certain sub segments. In this context the project for consolidation of the platform of biological product is under development with investment in research and development. Following the open innovation model as regards international operations we will consolidate our presence in Mexico and Colombia, including a broader portfolio in those countries which when combined represent about half of the Brazilian market. Our team is committed in implementing our strategic planning process across all of its transformation [07:14] and to find initiative so that in a sustainable way we can deliver value to our stockholders, customers, employees and suppliers. I would now like to give the floor to Kleber Gomes, who will speak about the financial results for the quarter.

**KLEBER GOMES** - Thank you Jardel. We will now go on to the financial results. The company had net revenues of a BRL154.0 million in the 3Q2019, a reduction of 4.0% vis-à-vis 2018. For the nine months there was a growth of 2.0% reaching BRL423.0 million. In production animals the net revenue was a BRL120.0 million, a reduction of 6.0% vis-à-vis 2018. In the nine months, net revenues reached BRL318.0 million, with a decrease of 1.0%. There was a loss of volume offset by price gains. Additionally the concentration of sales at the end of September with an additional BRL9.0 million had an impact on the quarter result. Now, otherwise, the net revenues would have been a BRL129.0 million in the quarter. The companion animal segment had net revenues of BRL20.0 million with a growth of 11.0% vis-à-vis 3Q2018. This was due to an increase in volume along with an increase in prices. For the consolidated results of 9M net revenues stood at BRL63.0 million with a growth of 12.0% vis-à-vis the same 9M the previous year. For international operations net revenue reached BRL15.0 million with a reduction of 5.0% due to exchange losses. In the 9M2019 net revenues were a BRL42.0 million with a growth

of 16.0% with a gain in volume and price and a favorable exchange rate. If we don't consider the exchange impact, Mexico had a growth of 12.0%, Colombia an expressive 26.0%, while the revenue of other countries remain stable vis-à-vis the same period 2018.

I would now like to speak about the gross margin for the 3Q2019. The consolidated margin was 52.0% with an increase of 5.0pp vis-à-vis the same period 2018. For 9M, gross margin was 50.0% with a reduction of 5.0pp vis-à-vis 2018. Generally this reduction of margin is due to a greater idleness at the plant. Last year we had a revision and an increase in the level of finished products representing a total of BRL24.0 million enabling us to enhance our gross margin. Production animals has a gross margin of 49.0% a decrease of 6.0pp when compared with the 3Q2018. For the 9M gross margin was 46.0%, with a 6.0% drop. Once again, the lower use of our production capacity was the cause of this. Additionally, there was a new state decree that made it impossible to accumulate the ICMS taxes. Companion animals had a gross margin of 69.0% in the 3Q, a gain of 2.0pp vis-à-vis 2018, reflecting the price gains for the period. In the 9M2019 gross margin was 70.0%, a decrease of 1.0pp. And once again, this was partially offset with price gain. International operations had a gross margin of 57.0% in the 3Q with a drop of 6.0pp, and it also reflects the lower use of our production capacity and exchange losses in Mexico. We also had a significant sale of the foot and mouth disease to other countries impacting the margin in the segment. We had a drop of 7.0pp for the 9M. Once again due to the lower volume produced at the plant with a partial offset by price gains. We will continue with comments on SG&A. Investments in research and development, and adjusted EBITDA. Sales expenses added up to BRL59.0 million equivalent to 38.0% of our net revenue, an increase of 3.0pp vis-à-vis 2018. For the 9M, we obtained a BRL169.0 million, equivalent of 40.0% of the net revenue an increase of 3.0pp vis-à-vis the same period in 2018. These results reflect our expenses with research and development, BRL9.0 million higher vis-à-vis 9M2018, and an increase of 4.0% in expenses, not diluted due to an increase that we expected in revenues. And we also have a provision of profits and results that had been provisioned throughout 2019. Now, once again, we continue investing 70.0%

of our net revenues in research and developing totaling BRL31.0 million. Adjusted EBITDA for the quarter was at BRL28.0 million with an 18.0% margin, a decrease of 6.0pp vis-à-vis 2018. For the 9M adjusted EBITDA totaled BRL63.0 million, a decrease of 8.0pp. These results reflect the losses of gross margin as mentioned, besides the factor referring to an increase in sales, general and administrative expenses.

I would now like to speak about our net financial expenses for 2019 that amounted to BRL3.0 million, a variation of 10.0% vis-à-vis the same period in the previous year. For the 9M it stood at BRL10.0 million. Regarding the average cost of debt, there was a reduction of 7.0% a year, reaching 6.6% per annum for 3Q2019. Income tax on social contribution was a BRL5.0 million, and BRL12.0 million for the 9M with the tax rate of 35.0%. I would like to remind you that the Ourofino pet company was taxed based on the deemed profit until to 2018, but then we also had the impact of losses in international operations of [14:31] that are not deducted from the profit before income.

Regarding adjusted net revenue for the 3Q, it was BRL13.0 million with a net margin of 9.0%, a decrease of 7.0p.p. for the 9M, at total of BRL22.0 million with a reduction of 7.0pp.

I would now like to speak about the indebtedness and tax generation of the company. The net debt over EBITDA ratio for the last month was up 2x. This increases due to the decrease of EBITDA and we had BRL220.0 million in September, 30<sup>th</sup>, 2019, compared to BRL229.0 million for 2018. 60.0% of our debt is a long-term debt. For the nine months there was an amortization of debt and the payment of interest totaling BRL78.0 million, CAPEX, BRL34.0 million and tax payments of the BRL11.0 million, offset by a robust operating cash generation of BRL81.0 million, 53.0% higher than the 9M2018.

I would now like to turn the floor over to the operator for questions and answers.

**OPERATOR** - Thank you. We will now go on for the question and answer. Should you have a question, please press \*1.

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

**ANTONIO BARRETO** - Hey, good afternoon to all of you and thank you for taking my question. I would like to understand what happened with the performance of companion animals that is somewhat below expected which are the product lines that are weaker. In your initial address you stated you had optimism due to the African swine fever, but that did not contaminate the market, but we saw greater weakness compared to the 1Q. If you could elaborate on this and the performance of production animal. And as a second question still referring to the same topic. As we think about your direct customers, you have the store of farmers and farmers themselves. If you could remind us which is the mix with these two audiences and what happens when you have a drop in access to credit for these two different customers, and if these impacts are different.

**KLEBER GOMES** - Good afternoon and thank you for your question. The first question refers to the reduction in the consumption of veterinary products. Well this year specifically most of the companies have a sales volume that is below what was desired or expected, and as Ourofino, there is a specificity, our product line for ruminants, for example, works with concentrated products and others and this is our own production. We didn't have significant drop in the region, where we have [18:07] incident of disease. I'm referring to tick disease, one of the most profitable products that we have and I think that this drop was caused to the mix our anti-inflammatory therapy, for example, that gave us a much lower margin, and we did not have a great incident this year because of the lack of rainfall. The rainfall is just beginning and of course this should lead to an improvement for the end of the year, and the year 2020. In terms of your second question the different audiences, the agricultural stores and farmers, there are no great differences. And what happens is due to the macroeconomic expectation of farmers and producers. There still haven't been significant changes in the government policy. This decree in interest rate will take some time to have an impact and stores were quite stocked up. They are decreasing their stocks, they're holding back capital and I think that eventually all this will return to normalcy in the coming days.

**KLEBER GOMES** - Simply to complement your question on our mix of customers, our direct sales to farmers practically do not exist. We know that the volume is quite small, except for the very large farmers that we work with, and this is due to the logistic that we have, and the policy that we have of privileging the channel. In production animal, when it comes to concentrated fees we sell these in stores and in large cooperative and if we look at pigs and birds we have the B2B, which is how we sell our products to farmers. At present we have a great market access, the greatest perhaps, and every month we invoice to 4,500 people when it comes to production animals.

**ANTONIO** - Thank you. Thank you very much.

**OPERATOR** - Mrs. Luciana Carvalho, Banco do Brasil, would like to pose a question.

**LUCIANA CARVALHO** - Good afternoon to all of you and thank you for taking my question. Still referring to production animals, you mentioned that at the end of September you had BRL9.0 million in sales. Now how much of this represents volume? how much of this is due to price? if you could break down this figure and tell us what will happen in October if this trend continues. Thank you.

**KLEBER GOMES** - Thank you. Luciana simply to clarify this, to make sure I understood the question correctly. What we mentioned was that the invoiced sales that had not in the recognized were higher by BRL9.0 million during the period and all of this was delivered and in October we believe that our invoicing will be somewhat lower. When it comes to prices we have been suffering for some years with an increase in costs and this happened last year because of the situation in China and we are attempting to go and work with prices that are somewhat above inflation. This has been possible and the main variations are probably due to volume.

**LUCIANA – CARVALHO** - Thank you. And when it comes to the competitive environment, if you put a remark on what you believe will happen going forward in the 3Q, there have been some changes, you have made changes in your portfolio to gain more strength and you have an offer and group that is acquiring a laboratory



in Minas Gerais, which are your movements and what did your outlook going forward?

**KLEBER GOMES** - This question of course is always very pertinent. We know that the competitive environment in animal health in Latin America is extremely strong. Latin America is the great supplier protein worldwide and this grows and grows when we look forward and when we think about the proportional increases that we should have on the meat consumption in emerging countries. All of the large companies have settled in Brazil. We know that all of these companies together represent a large majority in the market and because of this Ourofino is the only local company that has been able to position itself and to compete on an equal footing with these large companies in the sector. We offer a full portfolio, we have a differentiated assistance to producers, we have a broader geographic coverage, extremely good processes and much more. In this context competitiveness is extremely harsh, but we have been able to maintain a very strong position as you mentioned. We do observed a segment with a great deal of business combinations. You mentioned a merge of Elanco and Bayer representing US\$7.0 billion dollars placing Elanco as the second most important company worldwide. We're following up on this and what we have is a strategic plan. This was mentioned at the beginning. And we understand that we do not have sufficient size to carry out a similar transaction. But of course we can increase our innovation model, our open Innovation model, we can seek additional partnerships, we can acquire companies and products and this is an area that we are reinforcing through this new project so that we can continue on because of the positive points that we have in Latin America, and ensure that we continue our enhancement processes and make the most of the market opportunities.

**LUCIANA CARVALHO** - Thank you. Thank you very much.

**OPERATOR** - Mrs. Eugenia Cavalheiro, from JP Morgan would like to pose a question.

**EUGENIA CARVALHEIRO** - Good afternoon. And thank you for taking my question. In truth, I have two. The first refers to the biological products. They should



be coming into the market in a year or two. And secondly, the margin for production animals. We observe an expressive drop in that margin and what is it that we can expect going forward? or will this market continue to be contracting?

**KLEBER GOMES** – Eugenia, thank you very much for your question. I would like to begin by the last question. Throughout the year, and last year at Ourofino, our vision was that we would begin this year under greater pressure. When it comes to the plant results, we know that we are running a new biological plant with a single product, which of course does have an impact but we have always been very transparent as always. We had greater expectations for this year that did not materialize and, of course, is represented at a lower volume of production and higher inventories. This led to a lower dilution of cost. Our secret here is quite obvious to see growth, to see sustainable growth, growth that will be constant and above the market. But unfortunately this year this did not materialize up to the moment, and we are still attempting to better understand the market data that we have at hand. We have data only for the first semester showing that the production animal segment is not advancing as expected, and perhaps the producers are awaiting to see what will happen in Brazil. All the conditions are positive. We see that other companies are doing business, the market is positive and the condition of the producers is positive. Unfortunately the market continues to await to show a certain retraction and all of this cause pressure on the plant due to the lower volume and lower revenues. When it comes to the biological project, we do have a plan. It's a very complex plan. The plant is ready. The first project has been launched, we have other products under development as part of our pipeline. For the year 2020 we don't expect to have too many products. These products are being prepared in a four to five year time frame and foresee.

**EUGENIA CAVALHEIRO** - Thank you. Thank you very much for your response.

**OPERATOR** - Antonio Barreto, from Itau BBA would like to pose a question.

**ANTONIO BARRETO** – Thank you for taking yet another question. I would like to ask a more direct question in terms of that more optimistic environment in terms of swine fever. I think that the prices of herd have reached historical level. Can you still

take advantage of this in the period of confinement? I think that the prices should increase quite a bit. Will you have sufficient time for this and if you still have positive outlooks for the animal health market this year, or do producers already have a ready stock to increase their productivity? if you could please comment on this.

**KLEBER GOMES** - This issue of the African swine fever is being followed up by everybody. But I would like to highlight here is the following: we do understand that we have a very good market and we have always attempted not to become attached to any market condition, even though we have been discussing this lately, we would like to remind you that the cost of veterinary medication is 1-3.0%. Now, we're in a market that has low technology that will have to produce more protein for the world, and what we understand in terms of the African swine fever is that it is the cherry of the cake in the sense that we will be able to sell more pig herds to China, the Chinese will continue to eat more protein. The other countries have supplied its demand as you know, and Brazil is beginning to surf this wave just now with the possibility of having a release for the sale of other meats to China. I don't think it will have an impact this year. We have very little time for this but it could be the cherry of the cake for the coming 2-3 years. If we think about the protein market and the excellent level of cooperation that exists between the raw protein market and the animal health market.

**EUGENIA CAVALHEIRO** - Allow me to ask the question in a different way now, which is the relation between the animal health market and confinement, if confinement has a growth of 10-15%, well this have a positive influence in the animal health market? And another question regarding confinement: if there still this demand for confinement this year I understand that you believe you will not be participating with this increase that this could be passed on to the coming year. So if you're still are related to confinement, this is my question, basically.

**KLEBER GOMES** - I would like to complement your question on confinement. Confinement is an activity and there are very few projects that are used during that period, we still have some anti-tick medication and other, but the impact will not be very great. Now, this is a trend that is merely beginning now. And this is a reflex that

is beginning to appear and bovine cattle and pig herd there was a record in the month of October. There is a trend but there are other factors, as we do not sell directly we depend a great deal on distributor. Now as we believe that this will begin happening in 2020 we are going to make the most of the sale of these veterinary products.

**EUGENIA CAVALHEIRO** - Thank you very much.

**OPERATOR** - We would like to remind you that should you wish to ask a question, please press \*1.

Once again, should anybody have an additional question, please press \*1.

At this point we would like to conclude our question-and-answer session. We'll return the floor to Mr. Massari to his closing remarks.

**JARDEL MASSARI** – I would like to take this opportunity to invite all of you for Ourofino Day. This is the great market meeting that will be held on December 8<sup>th</sup>, Friday, in Vila Olimpia at 11 o'clock. And at this venue we will present our strategic planning that has been done in partnership with the consulting company. We will continue to deliver value to our stockholders and once again should you have any questions our IR team is at your entire disposal. Thank you very much and have a good afternoon.

**OPERATOR** - The 3Q2019 conference call for Ourofino ends here. We would like to thank all of you for your participation. Have a good afternoon.