

(A free translation of the original in Portuguese)



# Earnings Release - 1Q17

- Generation of cash from operations of R\$ 44.7 million, thus reducing net debt by 10.2%
- Companion Animals increases its net revenue by 16.3% compared to 1Q16
- Increase of 5.9 p.p. in gross margin in comparison with the 2nd half of 2016

## Conference Call

**In Portuguese with simultaneous translation into English**

May 10, 2017

3:00 p.m. (BRT) / 2:00 p.m. (US EST)

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## Earnings Release - 1Q17

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## Results for 1Q17

Cravinhos, May 9, 2017 – Ouro Fino Saúde Animal Participações S.A. (the “Company” or “Ourofino”) (BM&FBovespa: OFSA3), which is mainly engaged in the research, development, production and sale of veterinary drugs, vaccines and other products for production and companion animals, announces its financial results for the period ended March 31, 2017 (1Q17).

### Message from management

In the first quarter of 2017, the Company presented positive signs such as the generation of cash from operations, increased revenues from companion animals products and improved gross margin in comparison with the second half of 2016 .

The generation of more cash from operations was possible due to the decrease in average collection terms, and 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 usual levels. In addition, our debt ceased to be pressed after the completion of the construction of the plant for biological products, and the debt indexed to the CDI was settled in the quarter, contributing to the drop of its average cost at the end of the period.

In the production animals segment, net revenue decreased, mainly due to the Company's adjustment to the natural seasonality of the industry in the first quarter. In addition, there was a less significant impact of the strategic decision taken at the end of 2016 to discontinue a portion of the poultry portfolio. On the other hand, we noticed an improvement in the gross margin in comparison with the second half of 2016.

With respect to companion animals, the increase in net revenue followed the increase in the sales of our distributors to the points of sale and we intend to continue monitoring this evolution, since this segment is the most exposed to the Brazilian macroeconomic scenario.

As regards the international operations segment, there was an unfavorable impact of the foreign exchange rates in comparison with the same period in 2016. In Colombia net revenue in local currency increased, and in Mexico revenue in local currency fell short of our expectations, but we have already introduced changes to resume the planned pace.

We remain confident in the fundamentals of our business and are working hard to deliver results that add value to the Company.

Jardel Massari  
CEO

Kleber Gomes  
CFO and Chief Investor Relations Officer



## Results for 1Q17

### Financial performance

R\$ million	1Q16	1Q17	Variation %
Net revenue	98.0	75.2	-23.3%
Cost of sales	(45.9)	(35.5)	-22.7%
<b>Gross profit</b>	<b>52.1</b>	<b>39.7</b>	<b>-23.8%</b>
<i>(gross margin)</i>	53.2%	52.8%	-0.4 p.p.
Expenses*	(50.7)	(43.9)	-13.4%
<b>Operating profit (loss)</b>	<b>1.4</b>	<b>(4.2)</b>	<b>-400.0%</b>
<i>(operating margin)</i>	1.4%	-5.6%	-7.0 p.p.
Finance result, net	(4.6)	(5.8)	26.1%
Income tax and social contribution*	1.4	4.1	192.9%
<b>Adjusted loss</b>	<b>(1.8)</b>	<b>(5.9)</b>	<b>227.8%</b>
<i>(adjusted profit/loss margin)</i>	-1.8%	-7.8%	-6.0 p.p.
<b>Adjusted EBITDA</b>	<b>6.6</b>	<b>1.2</b>	<b>-81.8%</b>
<i>(adjusted EBITDA margin)</i>	6.7%	1.6%	-5.1 p.p.

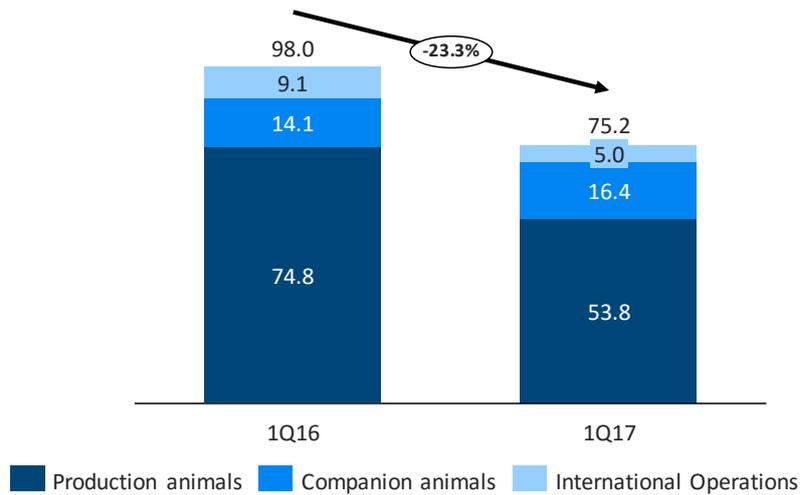
(\*) In 1Q16, does not include non-recurring expenses related to the provision for impairment of trade receivables of Venezuela and their related tax effects. In 1Q17, does not include expenses related to consulting from Falconi and the restructuring measures carried out in the quarter and their related tax effects.

### Net revenue

R\$ million	1Q16	1Q17	Variation %
<b>Net sales revenue</b>	<b>98.0</b>	<b>75.2</b>	<b>-23.3%</b>
Production animals	74.8	53.8	-28.1%
Companion animals	14.1	16.4	16.3%
International operations	9.1	5.0	-45.1%



## Results for 1Q17



The Company presented net revenue of R\$ 75.2 million in 1Q17, a decrease of 23.3% in comparison with 1Q16, which presented significant figures. Please find below our comments on the performance of the segments in which we operate:

- The **Production Animals** segment presented a net revenue of R\$ 53.8 million in 1Q17, which represented a decrease of 28.1% in comparison with 1Q16. This decrease was mainly due to the loss of volume in comparison with 1Q16, as we are again following the seasonality observed in the animal health industry. In addition, there was a smaller impact of the volume of discontinued products in the poultry line. These drops were partially offset by price increases in the cattle line.
- The **Companion Animals** segment presented a net revenue of R\$ 16.4 million in 1Q17, an increase of 16.3% in comparison with 1Q16. This reflects the increase in revenues of distributors to the points of sale.
- The **International Operations** segment presented a net revenue of R\$ 5.0 million in 1Q17, which represented a decrease of 45.1% in comparison with 1Q16. This decrease followed the decrease in revenues in pesos in Mexico, loss of volumes in spot sales in other countries which was partially offset by the increase in revenues in pesos in Colombia. It is important to note that the segment was negatively impacted by the foreign exchange rate in comparison with 1Q16.



## Results for 1Q17

### Gross profit and gross margin

<i>R\$ million</i>	1Q16	1Q17	Variation %
<b>Gross profit</b>	<b>52.1</b>	<b>39.7</b>	<b>-23.8%</b>
<i>(gross margin)</i>	53.2%	52.8%	-0.4 p.p.
<b>Gross profit - production animals</b>	<b>36.3</b>	<b>25.1</b>	<b>-30.9%</b>
<i>(gross margin - production animals)</i>	48.5%	46.7%	-1.8 p.p.
<b>Gross profit - companion animals</b>	<b>10.3</b>	<b>11.6</b>	<b>12.6%</b>
<i>(gross margin - companion animals)</i>	73.0%	70.7%	-2.3 p.p.
<b>Gross profit - international operations</b>	<b>5.5</b>	<b>3.0</b>	<b>-45.5%</b>
<i>(gross margin - international operations)</i>	60.4%	60.0%	-0.4 p.p.

Gross margin in 1Q17 was 52.8%, in comparison with 53.2% in 1Q16.

- The **Production Animals** segment presented a gross margin of 46.7% in 1Q17, a decrease of 1.8 p.p. in comparison with 1Q16. The decrease in the margin was mainly due to the impact of the provisions for inventory losses. It is important to note an increase of 2.6 p.p. in gross margin in 1Q17 in comparison with the 2<sup>nd</sup> half of 2016, which is in line with the efforts for improving the Company's margins.
- The **Companion animals** segment presented a gross margin of 70.7% in 1Q17, a decrease of 2.3 p.p. in comparison with 1Q16. This decrease resulted from a poorer product mix. However, there was an increase of 6.1 p.p. in the gross margin in comparison with the 2<sup>nd</sup> half of 2016.
- The **International Operations** segment presented a gross margin of 60.0% in 1Q17, a decrease of 0.4 p.p. in comparison with 1Q16. This decrease reflects the impact of a less favorable foreign exchange rate.



## Results for 1Q17

### Selling, general and administrative expenses

R\$ million	1Q16	1Q17	Variation %
<b>Selling, general and administrative and other expenses</b>	<b>(50.7)</b>	<b>(43.9)</b>	<b>-13.4%</b>
<i>Percentage on net revenue</i>	<i>51.7%</i>	<i>58.4%</i>	<i>6.7 p.p.</i>

In 1Q17, selling, general and administrative expenses totaled R\$ 43.9 million, a decrease of 13.4% in comparison with 1Q16, already reflecting management efforts to reduce the Company's expenses.

### EBITDA and EBITDA margin

R\$ million	1Q16	1Q17	Variation %
<b>Adjusted loss</b>	<b>(1.8)</b>	<b>(5.9)</b>	<b>227.8%</b>
(+) Non-recurring expenses, net of IRPJ/CSLL*	(1.6)	(1.0)	-37.5%
<b>Loss for the period</b>	<b>(3.4)</b>	<b>(6.9)</b>	<b>102.9%</b>
(+) Finance result, net	4.6	5.8	26.1%
(+) Income tax and social contribution	(2.2)	(4.6)	109.1%
(+) Depreciation and amortization	5.2	5.4	3.8%
<b>EBITDA</b>	<b>4.2</b>	<b>(0.3)</b>	<b>-107.1%</b>
(+) Non-recurring expenses*	2.4	1.5	-37.5%
(+) Other			
<b>Adjusted EBITDA</b>	<b>6.6</b>	<b>1.2</b>	<b>-81.8%</b>
Net sales revenue	98.0	75.2	-23.3%
<b>EBITDA margin</b>	<b>4.3%</b>	<b>-0.4%</b>	<b>-4.7 p.p.</b>
<b>adjusted EBITDA margin</b>	<b>6.7%</b>	<b>1.6%</b>	<b>-5.1 p.p.</b>

(\*) In 1Q16, does not include non-recurring expenses related to the provision for impairment of trade receivables of Venezuela and their related tax effects. In 1T17, does not include expenses related to consulting from Falconi and the restructuring measures carried out in the quarter, and their related tax effects.

Adjusted EBITDA in 1Q17 totaled R\$ 1.2 million with adjusted EBITDA margin of 1.6%, a decrease of 5.1 p.p. in comparison with 1Q16. This result was mainly influenced by the reduction in net revenue with loss of dilution in selling, general and administrative expenses.



## Results for 1Q17

### Finance result

R\$ million	1Q16	1Q17	Variation %
<b>Finance result, net</b>	<b>(4.6)</b>	<b>(5.8)</b>	<b>26.1%</b>

Net finance costs in 1Q17 totaled R\$ 5.8 million, an increase of 26.1% in comparison with 1Q16. This increase reflects the increase in bank debt as a result of the investments made in 2016, substantially in the new plant for biological products. It is important to note the reduction of 9.4% in net finance costs in relation to 4Q16, as a result of the decrease in net debt between the two periods.

### Income tax and social contribution

R\$ million	1Q16	1Q17	Variation %
<b>Income tax and social contribution</b>	<b>1.4</b>	<b>4.1</b>	<b>192.9%</b>
<i>Percentage on profit before income tax and social contribution</i>	<i>-43.8%</i>	<i>-41.0%</i>	<i>2.8 p.p.</i>

In 1Q17, income tax and social contribution was positive by R\$ 4.1 million against R\$ 1.4 million in 1Q16. The effect determined in 1Q17 is the result of lower profitability, combined with the impact of temporary tax differences.

### Profit (loss)

R\$ million	1Q16	1Q17	Variation %
<b>Adjusted loss</b>	<b>(1.8)</b>	<b>(5.9)</b>	<b>227.8%</b>

Adjusted loss for 1Q17 was R\$ 5.9 million against an adjusted loss of R\$ 1.8 million in 1Q16. These results reflect the drop in adjusted EBITDA and increase in net finance costs, which were partially offset by the effect of income tax and social contribution.



## Results for 1Q17

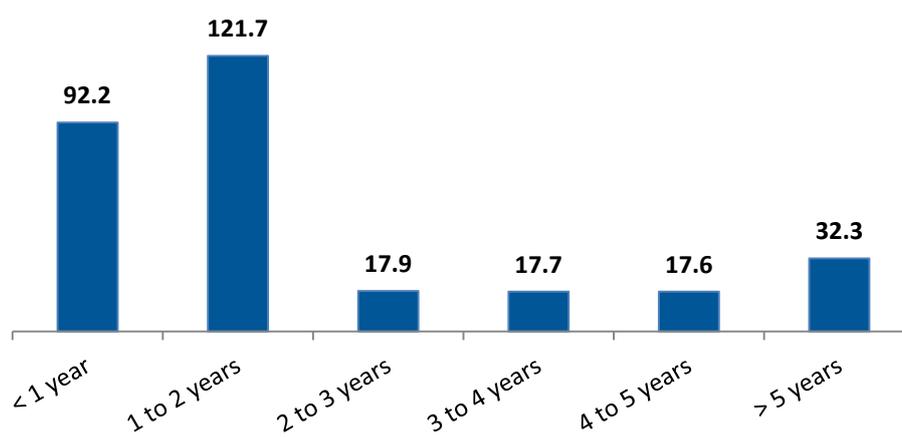
### Indebtedness

In R\$ million	March 31, 2016	December 31, 2016	March 31, 2017
Current	66.7	73.6	84.6
Non-current	151.4	241.9	199.5
<b>Gross debt</b>	<b>218.1</b>	<b>315.5</b>	<b>284.1</b>
(-) Derivative financial instruments, net	(7.9)	(19.4)	(15.2)
<b>Derivatives net debt</b>	<b>226.0</b>	<b>334.9</b>	<b>299.3</b>
(-) Cash and cash equivalents	43.1	70.3	61.8
<b>Net debt</b>	<b>182.9</b>	<b>264.6</b>	<b>237.5</b>
<b>Average cost of debt (year)<sup>1</sup></b>	<b>8.98%</b>	<b>8.80%</b>	<b>7.93%</b>
<b>Net debt/Adjusted annual EBITDA<sup>2</sup></b>	<b>1.64</b>	<b>5.96</b>	<b>6.09</b>

<sup>1</sup> Net bank debt considering related derivative instruments

<sup>2</sup> Adjusted annual EBITDA is the accumulated total for the last 4 quarters combined and it has been strongly penalized by the worsened results of 2016

### Bank debt aging

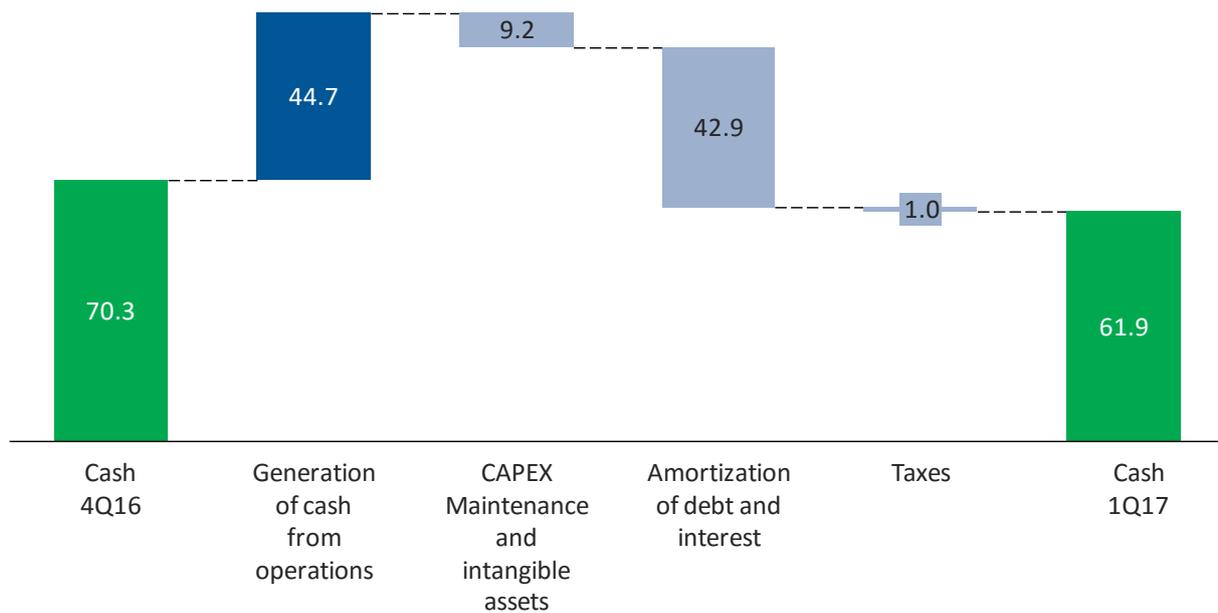


Debt aging considers the period between April 1 and March 31 and debt plus derivatives.



## Results for 1Q17

### Cash position



During 1Q17, operating cash generation totaled R\$ 44.7 million, in line with the Company's efforts to reduce average collection terms, which decreased to 123 days, in comparison with 163 days in 1Q16.

We would also point out the amortization of debt of R\$ 42.9 million, with an impact on the average cost of debt, which decreased from 8.80% in 4Q16 to 7.93% in 1Q17, mainly due to the settlement of contracts linked to the CDI interest rate.



## Results for 1Q17

### Launches in 2017

Under the R&D open innovation model we have established strategic partnerships. In this context, we launched the products of the Gallipro line, which resulted from the partnership with Danish Chr. Hansen.

#### Products based on strategic partnership

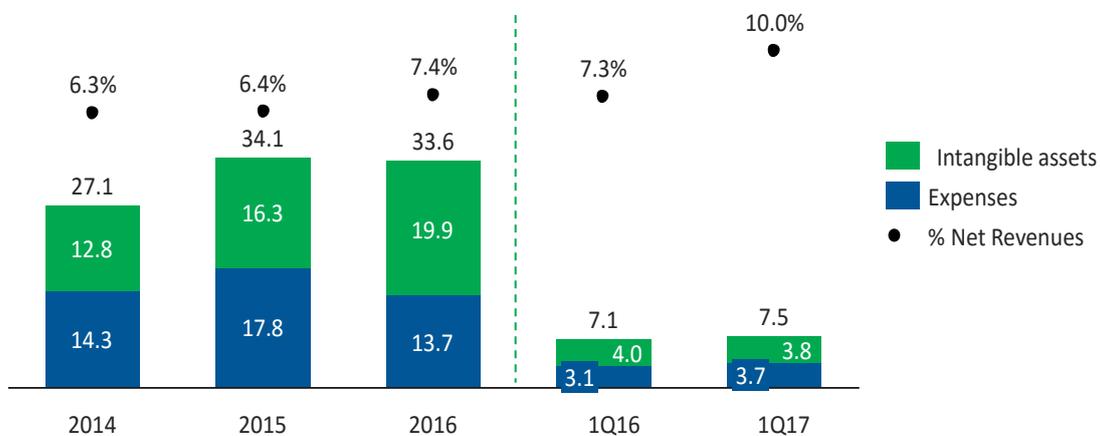
	Name	Description	Therapeutic class	Segment	Launched in
	<b>Gallipro Max</b>	Probiotic additive ( <i>Bacillus subtilis</i> ) that helps to maintain the equilibrium of the intestinal flora of animals. For weight gain and improvement of the feed efficiency of broilers and breeding chickens. For improvement of the egg production of layers.	Nutritional	Production animals	Jan/17
	<b>Gallipro Tect</b>	Probiotic additive ( <i>Bacillus licheniformis</i> ) that helps to maintain the equilibrium of the intestinal microbiota of animals. For weight gain and improvement of the feed efficiency of broilers and breeding chickens.	Nutritional	Production animals	Jan/17
	<b>Gallipro Tect Concentrado</b>	Probiotic additive ( <i>Bacillus licheniformis</i> ) that helps to maintain the equilibrium of the intestinal microbiota of animals. For weight gain and improvement of the feed efficiency of broilers and breeding chickens.	Nutritional	Production animals	Jan/17



## Results for 1Q17

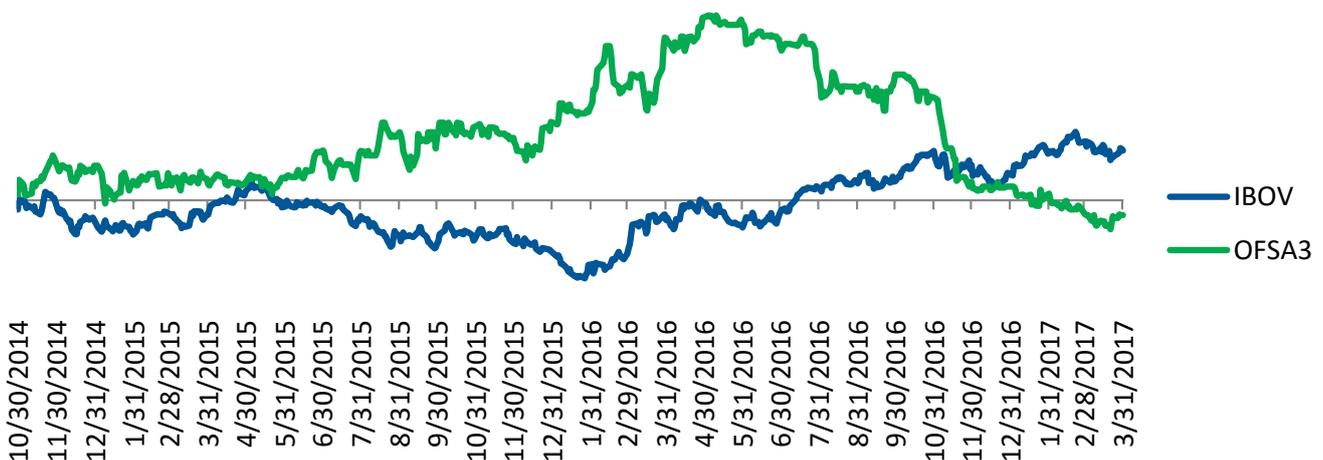
### Investments in research and development

In 1Q17, 10.0% of the net revenue was invested in R&D, totaling R\$ 7.5 million. The chart below shows the Company's total investments in R&D from 2014 to 2017.



### Performance of the shares

Ourofino shares started to be traded on the São Paulo Stock Exchange (BM&F Bovespa) on October 21, 2014, under the ticker OFSA3, at the initial price of R\$27.00. The chart below shows a comparison of the performances of Ibovespa and Ourofino share (base value: 100), between the first trading day (10/21/2014) and the last trading day in 1Q17 (3/31/2017).





## Results for 1Q17

Statement of operations (R\$ thousands)	1Q16	1Q17
Revenue	98,030	75,186
Cost of sales	(45,881)	(35,453)
<b>Gross profit</b>	<b>52,149</b>	<b>39,733</b>
Selling expenses*	(41,140)	(35,207)
General and administrative expenses*	(9,430)	(9,104)
Other income (expenses), net	(185)	444
<b>Operating profit (loss)</b>	<b>1,394</b>	<b>(4,134)</b>
Finance income	875	1,298
Finance costs	(2,641)	(4,063)
Derivative financial instruments, net	(10,594)	(5,702)
Foreign exchange variations, net	7,722	2,610
Finance result	(4,638)	(5,857)
<b>Loss before income tax and social contribution</b>	<b>(3,244)</b>	<b>(9,991)</b>
Current and deferred income tax and social contribution*	1,435	4,082
<b>Adjusted loss for the quarter</b>	<b>(1,809)</b>	<b>(5,909)</b>

(\* ) Does not consider non-recurring expenses and their related tax effects.

Statement of operations - without adjustments (R\$ thousands)	1Q16	1Q17
Revenue	98,030	75,186
Cost of sales	(45,881)	(35,453)
<b>Gross profit</b>	<b>52,149</b>	<b>39,733</b>
Selling expenses	(43,499)	(35,207)
General and administrative expenses	(9,430)	(10,639)
Other income (loss), net	(185)	444
<b>Operating loss</b>	<b>(965)</b>	<b>(5,669)</b>
Finance income	875	1,298
Finance costs	(2,641)	(4,063)
Derivative financial instruments, net	(10,594)	(5,702)
Foreign exchange variations, net	7,722	2,610
Finance result	(4,638)	(5,857)
<b>Loss before income tax and social contribution</b>	<b>(5,603)</b>	<b>(11,526)</b>
Current and deferred income tax and social contribution	2,237	4,604
<b>Loss for the quarter</b>	<b>(3,366)</b>	<b>(6,922)</b>



## Results for 1Q17

Statement of cash flows (R\$ thousands)	1Q16	1Q17
<b>Cash flows from operating activities</b>		
<b>Loss before income tax and social contribution</b>	<b>(5,603)</b>	<b>(11,526)</b>
Adjustments for:		
Provision for impairment of trade receivables	3,336	49
Provision for inventory losses and write-offs	920	5,063
Changes in the provision for sales returns		(370)
Changes in bonuses to customers	1,798	(211)
Reversal of the discounts on sales of vaccines against foot-and-mouth disease	(509)	(920)
Depreciation and amortization	5,216	5,430
Provision for impairment of intangible assets	111	
Gains/losses on sale and write-off of PP&E	(53)	34
Gains/losses on sale and write-off of intangible assets	481	1,361
Interest and monetary and exchange variations, net	(6,229)	1,616
Derivative financial instruments	10,594	5,702
Provision for contingencies	32	225
Share options granted	432	358
Changes in working capital		
Trade receivables	37,132	61,042
Inventories	(20,541)	(21,142)
Taxes recoverable	(2,188)	(1,214)
Other assets	1,957	695
Trade payables	(467)	836
Taxes and charges payable	(1,370)	(830)
Other liabilities	1,531	(1,539)
<b>Cash from operations</b>	<b>26,580</b>	<b>44,659</b>
Interest paid	(3,857)	(4,047)
Income tax and social contribution paid	(1,873)	(1,026)
<b>Net cash provided by operating activities</b>	<b>20,850</b>	<b>39,586</b>
<b>Cash flows from investing activities</b>		
Investments in intangible assets	(3,555)	(3,713)
Purchase of property, plant and equipment	(7,804)	(5,780)
Proceeds from sale of property, plant and equipment	387	288
<b>Net cash used in investing activities</b>	<b>(10,972)</b>	<b>(9,205)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	42,402	
Repayment of borrowings	(29,485)	(28,993)
Derivative financial instruments (realized)	(2,259)	(9,858)
<b>Net cash provided by (used in) financing activities</b>	<b>10,658</b>	<b>(38,851)</b>
<b>Increase in cash and cash equivalents, net</b>	<b>20,536</b>	<b>(8,470)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>23,380</b>	<b>70,325</b>
<b>Exchange losses on cash and cash equivalents</b>	<b>(789)</b>	<b>(50)</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>43,127</b>	<b>61,805</b>



## Results for 1Q17

Balance Sheet (R\$ thousands)	12/31/2016	3/31/2017
<b>Assets</b>		
<b>Current assets</b>	<b>379,922</b>	<b>322,264</b>
Cash and cash equivalents	70,325	61,805
Trade receivables	162,478	102,666
Inventories	131,303	143,127
Taxes recoverable	4,877	3,989
Income tax and social contribution recoverable	5,107	5,089
Related parties	303	301
Other assets	5,529	5,287
<b>Non-current assets</b>	<b>395,654</b>	<b>410,047</b>
<b>Long-term receivables</b>	<b>62,695</b>	<b>74,680</b>
Taxes recoverable	42,643	44,719
Deferred income tax and social contribution	17,081	22,426
Related parties	165	
Inventories		4,995
Other assets	2,806	2,540
<b>Permanent assets</b>	<b>332,959</b>	<b>335,367</b>
Intangible assets	87,158	87,001
Property, plant and equipment	245,801	248,366
<b>Total assets</b>	<b>775,576</b>	<b>732,311</b>
<b>Liabilities and equity</b>		
<b>Current liabilities</b>	<b>142,959</b>	<b>151,455</b>
Trade payables	23,316	24,897
Derivative financial instruments	8,820	7,609
Borrowings	73,550	84,597
Salaries and social charges	17,299	19,582
Taxes payable	4,053	3,227
Income tax and social contribution payable	1,056	669
Related parties	355	187
Commissions on sales	6,070	4,395
Other liabilities	8,440	6,292
<b>Non-current liabilities</b>	<b>256,322</b>	<b>211,234</b>
Derivative financial instruments	10,584	7,639
Borrowings	241,888	199,507
Provision for contingencies	3,850	4,088
<b>Total liabilities</b>	<b>399,281</b>	<b>362,689</b>
<b>Total equity</b>	<b>376,334</b>	<b>369,692</b>
Non-controlling interests	(39)	(70)
<b>Total liabilities and equity</b>	<b>775,576</b>	<b>732,311</b>