

Transcript - Results Conference Call - 3Q20 and 9M20

Juliana Matthes:

Ladies and gentlemen, good afternoon! Welcome to the virtual meeting promoted by Ourofino Saúde Animal. This is an extremely important event, in which we will share a little of our organizational culture and the Company's results so far. I thank you all for your kind presence.

My name is Juliana Matthes, I am part of Ourofino's corporate communication team and I'm pleased to be here with you to conduct this meeting. At the end of the presentation, we will open for questions. Please type your name in our chat and we will release for you to ask questions to our guests.

Okay, we have a notice that I want to read to all of you right now:

This presentation contains forward-looking statements that are subject to risks and uncertainties. Such statements are based on the beliefs and assumptions of our management and information to which the Company currently has access. Forward-looking statements include information about our current intentions, beliefs or expectations, as well as those of the members of the Company's Board of Directors and Officers.

Disclaimers regarding forward-looking statements and information also include information about potential or expected operating results, as well as statements that are preceded, followed or that include the words "believes", "may", "will", "continues", "expects", "predicts", "intends", "plans", "estimates" or similar expressions.

Forward-looking statements and information are not guarantees of performance. They involve risks, uncertainties and assumptions because they refer to future events, depending, therefore, on events that may or may not occur. Future results and value creation for shareholders may differ significantly from those expressed or suggested by forward-looking statements. Many of the factors that will determine these results and values are beyond our ability to control or predict.

Well, to conduct the presentations, we had the presence of our CEO, Kleber Gomes, and also our financial and investor relations Officer, Marcelo Silva. We also thank them for their presence here. To continue, I give the floor to Kleber.

Kleber Gomes:

Hello, good afternoon everyone. To start our presentation today, the first using the videoconference tool, which I believe, is more reflective of Ourofino's way of doing things and will bring us even closer to investors. So I would like to start by thanking the entire Ourofino team, our customers, who are our reason for existing and further partners for their confidence in a new management's work that, at the end of the third quarter, had just completed six months in position. This would be a normal challenge and that challenge was even greater due to the pandemic issue, but we are happy so far with the

result of the work. Upon assuming the position of Ourofino's CEO, on April 1st, I received from our founders and also from our Board of Directors, the mission to further accelerate our company, always adopting the best management practices and we have guided all our job in this path.

As I said before, we had the initial uncertainty on the impacts of the pandemic, but we were always sure, during all this time, that our team would outperform once again. We defined two pillars: the pillar of the health of our employees and the sustainability of our business. We went to the market, created an important liquidity cushion, kept a frequent and transparent communication process with all our employees, and, together, decided to move forward with full strength. We know that the pandemic is not yet resolved, but, on the other hand, we can already say that the worst is behind us. And the good thing about looking back is seeing how strong and resilient our business is. This was proven once again.

In this period, we worked with full energy and always keeping in mind the short, medium and long term. In this period of new management, we structured very quickly a new executive board, I wanted outstanding professionals, our executive board is the best in the market, with a very interesting mix of market knowledge from some professionals who came to help us, but also from many professionals who know Ourofino very well. I also highlight the creation of the Strategic Development and New Business Department, which is responsible for thinking, together with the entire executive board, the company's future, both in the evolution of our strategic planning, which was concluded in 2019, and in alliances, partnerships and new products.

We also performed, very quickly, a work on the company's culture with the reframing of our core values. This work involved all company's levels that contributed to the process, which culminated in an event to launch the new core values on August 20, attended by our founders, our Board of Directors, in addition to the entire team, and a lecture by the best Brazilian sports coach in history, Bernardo Rezende. As broadly known, Bernardinho has a professional history that has everything to do with the values we defined.

We strongly believe that culture is what drives a company. Thus, we stick in our major purpose of reimagining animal health, leading the evolution of the sector, with the vision of being recognized as the best and most admired animal health company in Latin America and guided now by three core values: (i) **play to win**, meaning that we have an ownership mindset, we are better as a team and we only get satisfied with superior and sustainable results; (ii) **caring for people**, means that we are passionate about what we do and we go beyond to take care of people, in its widest scope; and (iii) the third core value, which is **connect with the world**, meaning that we are a technology-based company, we must be always up-to-date and in connected to what is going on around us, with open innovation, with alliances, digital connectivity and continuous learning.

So we have our three core values very well defined and since the day of launching for the company, I have felt an amazing energy from our entire team, which gives us the certainty that we are on the right track. We are also moving very strongly in the development of our leadership. In this short period

of time, we also assessed 100% of our officers, executive managers and managers, all of whom also had their individual development plan worked out. We are accelerating in digital, even with jobs that are being performed with specialized consultants and we believe that, very soon, we will also have new digital solutions for our customers and partners. We also held numerous events in our company during this period, always bringing renowned speakers who are experts in their sectors, both for the digital journey and for female leadership, inclusion, good management practices. Even next Friday, we will have our first National Leadership Meeting that will also be an important milestone in this new moment for the company.

We are advancing in our biological program, which, everyone knows, is a complex program, but we hope to have new products and launches in 2021, but products that will be launched over a longer period, but we expect to have new launches in 2021. In therapeutic products, we launched Maxicam suspension in the second quarter, which is also a product for companion animals and now, in the third quarter we launched a line of dermocosmetics, also for companion animals, dogs and cats. You can see here on the screen, this is a line of shampoos and serums, which also comes in to make up our portfolio quite well.

Regarding alliances and strategy, we have also entered into a recent partnership with a cosmetic company, which also adheres to values very close to ours and we are now launching in November two products of nutritional supplements for production animals that will also make up our portfolio. So, we continue going strong, we know that we should resume product launches. We, who have always been the company that most launched products in the market, are firmly stuck to this path.

In the financial side, we generated cash, we witnessed an important cash generation, even in this period of the pandemic, we significantly reduced our leverage, which was already relatively low, allowing us to implement new plans for the company. We extended our indebtedness in very good conditions for the current market period and we contracted a new financing in the amount of one hundred and eighty million, it is already contracted, not yet released in cash, with FINEP, for the next product development cycle of the next years. Marcelo Silva will bring more details of these transactions later.

Our result for the quarter was very positive. We are very happy with the result of this work and it shows the strength of agribusiness. Mainly, we know that the country, often has the support of agribusiness and in this pandemic, this was proved once again to be one of the pillars of our economy, right? In addition, also the strength of the companion animals segment, which, after a first period of closed stores, when veterinarians were a bit afraid, we see a very strong resumption because we understand that the pandemic brought owners even closer of their pets, because many of them are working from homes, they start to be more attentive to the pets and with that the care intensifies. So, we have seen a movement of resumption of companion animals that is also very strong and we are very happy with the strength shown by our two businesses. The same condition is also happening in international operations that have also been benefited from the foreign exchange rate, a stronger dollar.

This result was very nice. We understand that the fourth quarter will also be very positive. In fact, we see positive macroeconomic conditions for both the fourth quarter and two thousand and twenty-one. And somehow, however, we understand that the fourth quarter will bring a more normalized result, not as high as the growth seen in the third quarter. But we are sure that, even with two months to go, we are working very hard, so that we can close a really good year, considering everything that happened this year, but a year of strong results.

Well, we continue here with a lot of work, discipline and inspiration for all our employees. I now pass the floor to our Chief Financial Officer and Investor Relations Officer, Marcelo Silva, who will comment on the financial information in more detail.

Marcelo da Silva:

Thank you, Kleber, for the floor. Thanks to everyone who is attending to our results call. I will now go into more detail, the consolidated performance of the group and the business units. In 3Q20, we had net revenue of 225 million, a 46% increase compared to 3Q19. And in the year-to-date result, we have net revenue of 510 million, with a 20% increase for the nine-month period. I will go into details of the business units, but this good result, as Kleber put it well, reflects the resilience of our segment, both in production animals, but also in companion animals, added to the efforts of the management, which showed a good performance in all growth segments and also a great effort to restrict expenses, which allowed the company to grow in revenue, while also maintaining profitability. So, this is an important point of 2020. And, as Kleber said, both in the second quarter, and the third quarter brings its specific aspects. But, looking at the whole picture, the year as a whole, the expectation is for a good year of growth and a return to profitability, too.

In production animals, the growth in net revenue was 45%. We reached 174 million against 120 million last year. And in the year-to-date result, we have net revenue of 381 million, with a 20% increase versus the previous period as well. The scenario remains positive, farmers have invested in animal health, they have not discontinued their investments even in this period of pandemic. Our commercial team is very engaged, keeping the contact, the customer engagement through digital tools. It is worth mentioning, as I think this is an important, emblematic event, this year we have in August an important event in the South of the country, which is Expointer. The event was not held this year, due to the pandemic, but we managed to keep the teams engaged and achieve the expected results through meetings, webinars and business rooms. It has been a very good opportunity for the sales team to bring training, technical knowledge to customers, in order to boost sales. So, this is a point to be highlighted in the result of production animals in the third quarter, in the context of the pandemic. We also had an improvement in gross margin, both in the third quarter and in the year-to-date result. Here we have two important events: passing on prices, when compared to last year, and also a positive impact in part of the line of poultry and pork, in which the products are dollarized.

In companion animals, Kleber brought up the matter of the importance of these pets now in the crisis, with more tutors, more people adopting companion animals. I am an example that, in the crisis, I ended up also adopting a female golden to be part of the family. And we had a very good performance in sell-out, especially in September, in a recovery curve that we started to see at the end of the third quarter and we reached a 47% growth of 2Q20 net revenue, versus 20 million in net revenue in 3Q19. Year-to-date, the growth is 9%, with 68 million net revenue against 63 last year. In terms of gross margin, we had a recovery in the third quarter, mostly due to the strong volume, but year-to-date, we still carry a slightly lower gross margin result, due to the pressure of some dollarized items on the cost of inputs.

International operations continue to be a major growth driver for the Company. We kept the good performance in strategic countries, especially Mexico and Colombia, but in the third quarter we also had a very good performance in exports to other countries in Latin America, countries where we do not have local operations, but we operate through distributors. The growth was 49% and reflects both the performance of the commercial team, we gained volume in local operations, and also has the benefit of a much more favorable foreign exchange rate, which has helped in the composition of sales. For the nine-month period, growth was 43% and 60 million in net revenue against 42 last year. There was also a better gross margin, both in the quarter and year-to-date, favored by some passing on prices in the countries, mainly Mexico, Colombia, and also in the more favorable foreign exchange rate.

An important point, as I said at the beginning of the presentation, there was and is still ongoing, a great effort by the management to restrict expenses, especially non-strategic expenses, those not associated with the company's future. In this period, we saw a SG&A dilution from 38% to 31.5% comparing 3Q19 with 3Q20 and in the nine-month period, we have a decrease from 39.8% to 39.5%. Now here is a point that we have in this period: some events of expenditures with research and development projects that have been discontinued. If we consider, adjust for these events, which I understand are not recurring, we would have seen a reduction in expenses in the third quarter, of 7 percentage points, and in the nine-month period, a decrease of 4 percentage points. In the release, we provided a chart to show this variation in more details.

Combining sales growth with reduced expenses, we had a very positive impact on EBITDA, which was 57 million, an increase of 100 percent over the past result. And, more importantly, with margin improvement, that increases from 18 to 25%. Year-to-date, our EBITDA margin is 19.8%, versus 14.8% in 9M19.

Also as a positive effect, we had the reduction in financial result. We have two important factors, namely the drop in the indexes, mainly TJLP and CDI, leading to a fall in the cost of debt, in addition to the reduction in financial leverage, as Kleber said at the beginning of his presentation. Regarding income tax, we also had a lower tax assessed versus last year, because it is worth mentioning that the tax calculated was on tax bases that temporarily differ from the accounting base.

Net income for the third quarter was 46 million, a net margin of 25%, a very interesting margin, considering the recent Company's history, versus 8 in the same quarter of last year and the margin in the nine-month period of 11.3% versus 5.2% in 9M19. We reached a net income of 58 million.

I think that an important point that shows the company's management effort is cash generation, we grew while restricting expenses and, mainly, working capital investments. No extensions, postponements of terms were granted to customers to sell more. We are growing in sales, keeping the portfolio healthy. So we had operating cash generation 60% higher versus last year. We raised funds, mainly at the beginning of the crisis, in late March, early April, to set up a liquidity cushion. I will explain the extending process a little later. We had amortizations in that period as well.

CAPEX was 19 million in investments. We still have, here, the containment of projects not considered strategic, but we kept the strategic projects, and with that, we closed the cash position as of September 30, with 169 million cash, against 45 in December 2019. Regarding indebtedness, combining cash generation, investment containment, we reduced leverage from 2x EBITDA, on the base date of December, 3Q19, to 1x EBITDA now in 3Q20. A reduction in the average cost has already been commented on internally, largely due to the drop in Selic and TJLP.

This is an important point: at this time of the year, we are presenting you a revenue growth, margin improvement and reduced financial leverage, which allows, as Kleber commented, to look at new opportunities for new investments in the recovery horizon, which has also been discussed.

At the beginning of the crisis, here looking a little bit now at the first quarter, we had made a liquidity cushion, in the amount of 120 million between new money, renegotiation of terms in existing transactions. We already knew that after the first step of having the liquidity cushion, we would have to necessarily extend this debt. The extension process was completed now in the third quarter. Basically, it involved one hundred and thirty million, most of which is related to a renegotiation of transactions already contracted and which is already reflected in the balance of September at 90 million and we also had now in October, the last transaction made, amounting to 40 million, but it is already a resource allocated to settle some transactions due in December and March 2021. The complete extension process amounts to 130 million reais, with a final term of 4 years.

The important thing, looking now at the company's growth strategy, is that we were able to obtain in the third quarter the strategic funding, contracting strategic funding, for investments in innovation. The company has an innovation process, which is renewable, it depends on it to continue growing and with Finep we entered into a transaction of 180 million. We achieved this year, looking at the characteristic of our project, with great effort, in the area of biological products, a classification as a pioneering innovation, which is, for companies, the best classification level. I think that after that there is only critical innovation, which brings to the company a very adequate funding in terms of terms and costs. The total term is twelve years, with a thirty-six month grace period, and at a cost of TJLP + 0.71%. So we have a strategic funding contracted, the debt extension concluded, also with a good rate and an adequate aging. The balance that was previously seen as a more concentrated measure

in the short term has been resolved and we have an innovation funding contracted to cover investments in the coming years.

Investments in the area of research and development, looking at history, we have not changed the investment profile, 7% of revenue. So, it corroborates what we have been saying since the beginning: there was no retention of investments aimed at the future of the company.

I will now open for any questions and answers you have to ask us, and thanks again.

Juliana Matthes

Thank you too, Marcelo. I also thank Kleber for his participation. So we are open to questions. If you want to participate, I ask you to signal in the chat, inform your name and the name of your institution or company. We will ask to release the microphones. We have here the first person who will participate: Luciana Carvalho, from Banco do Brasil, and we're going to release her microphone.

Luciana Carvalho, from Banco do Brasil

Kleber and Marcelo, thanks for the opportunity, I have three questions:

In fact, I think the first one is more related to the prospect for the future, what can we expect for 4Q19. I think Kleber already mentioned that the result should be slightly below the third quarter. I just wanted to understand what changes regarding this positive result that we saw in the third quarter, any reversal of trend for some of the segments? Or we can suddenly consider that these efficiency gains, SG&A, they are not going to happen ahead, are they not sustainable? Just to understand the level of margin that we can expect ahead.

The second question would be the expected leverage, also in the coming quarters. We have seen you achieving a very favorable deleveraging, you are at a very comfortable level. Now, I believe that with this level, you will be able to return to non-strategic investments already thinking about 4Q20 and 2021.

Marcelo commented quickly on working capital gains. Please, can you give a little more details about the improvements you have seen, what happened and if they hold up forward too. Thank you.

Kleber Gomes:

Luciana, good afternoon, thank you very much for your questions. I will answer the first and second questions and then I will pass to Marcelo the third on working capital. For the prospects for the future, just as you also monitor the market, we are seeing everything very positive. We had last week our

planning event of the executive board for 2021. We brought in several market specialists to talk to us and we can see that the livestock indicators are still very favorable for 2021. We know that there is a demand for meat, Brazil has met this demand for meat through its exports in the world, the live cattle reached record prices, calf prices and there are also no calves at record prices. A little pressure on commodities, grains, but still maintaining a very positive profitability relation for farmers. So, we only see positive events, positive trends. The fourth quarter, when we actually look at the third quarter, we had a comparative growth with the quarter of 2019 that was a little weaker, so this leads to an effect of the comparison and also brought some strategies in this period. We increased the price list, we had some situations that we understand that, maybe, there was even a little anticipation of purchases. We also see the fourth quarter very positive, of course, a more normalized growth figures, not as high as this one, to end a very positive year in our view.

In our opinion, this will consolidate all the work that was done by our team here, to whom I thank every day, for the commitment to this new management and, also the company, above all.

Leverage is a reflection of the good cash management we do here, it has always been a concern of the company. We expect to maintain it, but we no longer have any impediments, we already didn't have any impediments from the investment point of view, always analyzing the best possible allocation of our capital. So, we have this daily attention here, as I can say that the company today has no restrictions, on the contrary, it is very prepared for any investment that may be necessary. We currently have fundings, including this strategic funding from FINEP, so we are very well prepared for any investment that may be necessary.

Now I will pass on to Marcelo, who will talk a little more about working capital gains. Thank you for your question, Luciana.

Marcelo da Silva

Hi Luciana, thanks for the question. Regarding working capital, the company constantly monitors the portfolio, including the average billing period is an indicator that we monitor monthly at the Company, together with the sales team. It also comprises one of the management tools in the commercial area. So we managed to grow 45%, even with the counterpoint of a slightly lower base in 3Q19, we managed to maintain a strong volume of sales without having to expand the average billing period.

We are therefore with our turnover within normality, as well as with our default rates all within normality. In relation to inventories, the Company has been constantly monitoring. At the beginning of the pandemic, there was a concern about China and India, we mitigated this risk, so we don't have issues of stock disruption, but we also don't need to raise our inventories levels, to build a very big safety cushion.

So we are growing keeping investments in working capital, basically linear. In the next four months we have to remember that there is the FMD vaccination campaign, which can put pressure on the gross

margin for the quarter, but nothing significant, taking into account the little relevance that it has today in the Company's Billing. In terms of working capital investment as well, we see no change in what we are presenting now.

Juliana Matthes:

Our next question comes from Eugênia Cavalheiro, from JP Morgan bank.

Eugenia, from JPMorgan:

I would like to try to understand a little more if there was any movement of revenue cut-off from the second to the third quarter of this year and also understand if there was this movement from the third quarter of last year to the fourth quarter. Just to better understand the basis of comparison that we have for the 4th quarter of this year. Thank you.

Kleber Gomes:

Hi Eugenia, thank you for your question. We do not have any relevant cut-off difference between these periods, we understand that we indeed had a recovery from what was left behind in the second quarter, which made up the third quarter. We had sales well below the second quarter. Remembering, in companion animals, we achieved in April, May, about 50%, 40% of what was the normal, the expected. So we are having this recovery.

In production animals we are experiencing a better year, 2019 was an excellent year, but production animals had been slightly below, so we understand that there is a recovery.

We do not have any extraordinary cut-off events, nothing that will impact differently in the other quarters. Thank you very much for your question.

Eugenia, from JPMorgan:

I understand, thank you very much.

Juliana Matthes:

Okay, next we have Guilherme from Empiricus.

Guilherme, from Empiricus:

Hi Kleber and Marcelo, how are you? My question is a little more about the future, can you detail the pipeline of product launches for the next year and I would like to understand a little more about the alliances that you have made in nutritional supplements, if there are more on the radar, and how the dynamics of operation will be. How will it be in terms of commercial team, are you going to bring it to your team, how does it work?

Kleber Gomes:

We do not disclose details of the pipeline, as there are several strategic issues involved, but it is the number one focus of the Company. We know that our growth depends on several factors and one of them is the issue of product launches. We are totally focused on that, I even said on my opening about the new board that was created, which only thinks about products and partnerships, and is already bringing some news. In the second quarter, we launched Maxicam solutions for cats and dogs, we now launched the Bris line, which is a complete line, with 6 products that make up this line, which was a development in record time. And we are very firm in the biological project, we already want to launch products next year, and some more ahead.

And partnership, alliances, is a very strong issue, I just mentioned one, and we did not address the products here because we launched yesterday. Yesterday was the launching and training event for our sales team. But we seek it, Ourofino is a company well known for its strength in the field, for its teams, we have the biggest commercial teams, and I think not only the biggest, but also the best, so we have many possibilities for partnership. In this line, we are even starting to distribute products that are nutritional supplements, which fit very well our line for cattle. So we are very focused on this type of action. We want to accelerate a lot in products on all fronts. Let's remember that I said that at Ourofino Day, that our focus was on the products. At that time, I was there in other position, I was just taking on the vice president position with products too, and that we would look a lot at open innovation, I even joked that it would not be open innovation, it would be a wide-open innovation. The world is very fast and that is why our core value of connecting with the world is focused on that. We expect that one of the characteristics of Ourofino 2.0 will be the company that launches the most products on the market.

Juliana Matthes:

Very well, thank you Kleber. Thanks also to Guilherme. Following, we have the participation of Ítalo Belmonte, from BNDESPar.

Ítalo, we're going to open your microphone for your question.

Ítalo, from BNDESPar:

Hi, good afternoon everyone. In addition to the question of the other analysts, if you could give a little more colors about these launches intended for 2021, trying to qualify a little or quantify in terms of the use of the intended biological plant, I would be grateful.

Kleber Gomes:

Hi, Ítalo. Unfortunately, I can't share this data yet, it's strategic data, related to product launches. We cannot anticipate for the market, because some of these products still face a few challenges. But I would say that we are starting to gain higher traction. We launched the Safesui vaccine, which is the vaccine for circovirus, the most up-to-date on the market, the first Pcv2b in the world, for this virus that is mutant. We also had a recent regulatory approval, that our vaccine was planned, Safesui, for treatment with two doses, and we have already achieved the advance for flexidoses, so it can be two or one, so that will also lead to a good gain. We already have a practically closed partnership for another product, and another product well underway. So, the year 2021 should be a year in which Ourofino starts again to present new solutions to the market and we hope it will be like that for all the next ones. But unfortunately I can't comment on more details than that, I'll owe you this one.

Ítalo, from BNDESPar:

Thank you, Kleber. I wish success.

Juliana Matthes:

In the face of no more questions, I want to thank you again for the kindness of all of you, for being present with us at this online event. Our company is always open to live our values with you too. Kleber, in closing, the floor is yours.

Kleber Gomes

Well I just want to thank you all. As I started by thanking you, I want to end by thanking you. I also have to thank our team, the team has done an amazing work, embracing all the strategies that are being defined, working in adverse conditions, and living up our value of taking care of people. In fact,

here we go further to take care of people, including our reason for existing, our customers. We are working very, very excited with a lot of inspiration, and we intend to continue in a very positive path, because we have a very good business in our hands, we are having all the support of our board of directors, our founders, who have participated a lot together with us in all this new management dynamics. I hope you are also seeing these changes as positive and we are always available for a more detailed conversation. We are now making a physical change, we are in a period of refurbishing our headquarters, our office, breaking all the walls, we will have no more rooms here at Ourofino. This also has a lot to do with our culture, this more innovative culture, so we are in a period of works, we are very precarious here at the moment in our headquarters, but in mid-January, we should have everything ready and it will be a pleasure to host you all here again and I wish that we can be together again. Thank you and success to all of you.