

(A free translation of the original in Portuguese)

Results - 1Q20



(A free translation of the original in Portuguese)



Our Purpose

Reimagining
animal health

Highlights

Net revenue from the production animals segment increased by 20% in the quarter

Net revenue from the international operations segment increased by 66% in the quarter

Generation of cash from operations of R\$ 42 million, with an improvement of 45 days in the financial cycle

Cash position strengthening through the raising of R\$ 90 million

Conference Call

In Portuguese with simultaneous translation into English

May 13, 2020

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

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Cravinhos, May 12, 2020 – Ouro Fino Saúde Animal Participações S.A. (the “Company” or “Ourofino”) (B3: 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, 2020 (1Q20).

Message from Management

In the first quarter of 2020, the Company had a significant increase in net revenues (23% YOY), with a dilution of 7 p.p. in selling, general and administrative expenses and a resulting improvement in Adjusted EBITDA of R\$ 5 million in the period. The international operations and production animals segments showed the most significant increases in net revenues in comparison with the previous year: 66% and 20%, respectively. The companion animals segment increased by 7%. The generation of cash from operations totaled R\$ 42 million and there was an improvement of 45 days in the financial cycle.

In an environment of greater volatility due to the coronavirus disease (Covid-19), the Company remains motivated and confident in its strategic feasibility plan of Ourofino 2.0, a broad, multispecies portfolio company, with an incremental innovation strategy, and mainly focused on performing and expanding its operations that are essential for the supply and productivity of the agribusiness chain and to ensure the care of companion animals. Therefore, even during the crisis period, the medium and long-term drivers of growth in the markets in which we operate are reinforced, even though negative effects may be experienced in the short term.

As regards the production animals segment, a lesser impact was felt due to the pandemic, since the protein chain has been considered as essential and resellers have not been imposed penalties if they maintain their business establishments open to the public. Notwithstanding the fact that the segment may likely be affected by the situation, when the circulation of people in these establishments is required to be avoided - some establishments have even decided to close their businesses temporarily -, it is important to note that the proportion of animal health expenses in raising production animals is not significant. We believe that investments in veterinary drugs and products, which are fundamental to increase productivity and profitability, will be maintained by farmers.

With respect to companion animals, one of the drivers of the segment is the availability of funds of the population, at first affected by economic factors. However, it should be noted the important role that animals play in this context in which people mobility has been restricted, due to their therapeutic power and positive impact on the mental health of their owners, so that the well-being of these animals, also ensured by drugs and veterinary products, will remain as a priority. On the other hand, the pandemic resulted in less visits by owners and their pets to pet shops, with an effect on sales, which had already been noted at the end of the quarter.

As regards international operations, the Company played an important role with trade associations, especially in Colombia, which had a stronger mobility restriction in the second half of March, to have government officials recognizing that the production and sale of animal health products is an essential activity. Also in line with our strategic planning, the structure, customer segmentation and pricing model were reviewed, aiming at improving profitability and maintaining a sustainable growth in the medium and long terms in Mexico and Colombia.

In order to maintain customer service, we have adopted several changes to adapt to the transformations involving digital contact with customers, which tend to be catalyzed. Customer service teams have been trained to use digital contact solutions in sales, in the demand generation process, and in animal care. Online training and workshops with specialists have been offered to customers, thus maintaining the relationship and accelerating the use of digital technologies in the Company.

Still with respect to ensuring the supply to customers, especially due to the percentage of inputs coming from India and China, we have strengthened inventory management and supply chain monitoring. Inventories of finished products at the end of 1Q20 increased by 17% in comparison with those at the end of 2019, and are considered by the Company to be appropriate for our operations in Brazil, Mexico and Colombia.

From a financial point of view, the cash position was also strengthened in the 1st quarter of 2020 through the raising of funds that totaled R\$ 90 million, bearing on average the CDI rate + 2.4% p.a. with a term of one year. Also, the Company's CAPEX budget was reviewed, and only the essential projects that were already in progress and portfolio expansion projects were maintained. Monitoring of the receivables portfolio was also intensified, and it is important to state that so far default has remained at its historical levels.

Specially for the protection of employees' health, a Risk Management Committee was created in order to propose the best practices for reducing personal contact, and the adoption of measures such as the replacement of face-to-face meetings with remote ones, cancellation of international and national trips, and having corporate activities developed by the employees working from home. Hygiene procedures were intensified in the workplace and employees have received alcohol-based hand sanitizer produced by the Company.

We will continue to work tirelessly to preserve the health of our employees, support the links in our chain and mitigate the financial impacts in the short term, resulting from the contraction of economic activity. We thank the trust, commitment and partnership of all employees, suppliers, shareholders and the community at this time.

Kleber Gomes
Chief Executive Officer

Marcelo da Silva
Chief Financial Officer and
Investor Relations Officer

Financial Performance

R\$ million	1Q19	1Q20	Variation %
Net revenue	91.0	111.9	23.0%
Cost of sales*	(47.0)	(60.6)	28.9%
Gross profit	44.0	51.3	16.6%
(gross margin)	48.4%	45.8%	-2.6 p.p.
Net expenses*	(49.5)	(52.6)	6.3%
Operating loss	(5.5)	(1.3)	-76.4%
(operating margin)	-6.0%	-1.2%	4.8 p.p.
Finance result, net	(3.6)	(1.5)	-58.3%
Income tax and social contribution	2.7	(0.3)	-111.1%
Adjusted loss	(6.4)	(3.1)	-51.6%
(adjusted loss margin)	-7.0%	-2.8%	4.2 p.p.
Adjusted EBITDA	0.0	5.2	
(adjusted EBITDA margin)	0.0%	4.6%	4.6 p.p.

(*) Does not include extemporaneous tax credits related to prior years in both periods presented. Also, in 1Q20, does not include non-recurring expenses related to consulting services by EY and follow-on expenditures. These events gave rise to their related tax effects.



Net revenue

R\$ million	1Q19	1Q20	Variation %
Net sales revenue	91.0	111.9	23.0%
Production animals	59.7	71.5	19.8%
Companion animals	19.6	21.0	7.1%
International operations	11.7	19.4	65.8%

The Company's consolidated net revenue in 1Q20 totaled R\$ 111.9 million, an increase of 23% YOY. Please find below our comments on the performance of the three segments in which we operate:

Production Animals: the segment presented net revenues of R\$ 71.5 million in 1Q20, an increase of 19.8% in comparison with 1Q19, mainly reflecting increases in volume and favorable foreign exchange rates. The effect of changes in exchange rates were felt because part of the sales of the poultry and pig subsegments to integrators are linked to the U.S. dollar. Also, in the environment including restrictions on the movement of people due to the COVID-19 pandemic, the sales team was trained to act on a proactive basis, even if remotely, to be aware of the needs of its wide and dispersed customer base. Therefore, online training courses with specialists in agribusiness are offered, which, associated with other media initiatives on social networking websites and television channels, also aim at activating new customers.

Companion Animals: the segment had net revenue of R\$ 21.0 million in 1Q20, an increase of 7.1% in comparison with 1Q19, due to increases in volume, especially of therapeutic and antimicrobial products, and, to a lesser extent, price gains. The technical consultant team continues to build brand and product recognition with veterinarians, albeit remotely, in line with the demand generation program. It is important to note that, because of being considered as essential, veterinary clinics, offices and hospitals, and pet shops have been authorized to operate, thus ensuring health for companion animals.

International Operations: the segment presented a net revenue of R\$ 19.4 million in 1Q20, a significant increase of 65.8% in comparison with 1Q19. Not taking into account the positive effect of the foreign exchange rates, the increase was 55.9%. There was a significant increase in volume related to the sale of vaccines against foot-and-mouth disease in Uruguay, in addition to price improvements in Consolidated.

In Colombia, net revenue increased by 9.4% in 1Q20 in comparison with 1Q19. The increase in sales in the first two months of the year, together with the improvement in foreign exchange rates (6% YOY) and in prices (5% YOY), have compensated for losses incurred in the last fortnight of the quarter, in which the country experienced a severe quarantine period due to the pandemic.

In Mexico, net revenues decreased by 27.7%, with price gains (8% YOY) and a positive impact of foreign exchange rates (14% YOY), but which did not compensate for the decrease in volumes. The Company's activities in the country underwent a restructuring, including changes in the pricing model and the team, aiming at improving profitability and the contribution margin, in addition to sustainable growth in the medium / long term.

Gross Profit and Gross Margin

R\$ million	1Q19	1Q20	Variation %
Gross profit	44.0	51.3	16.6%
(gross margin)	48.4%	45.8%	-2.6 p.p.
Gross profit - production animals	23.9	25.8	7.9%
(gross margin - production animals)	40.0%	36.1%	-3.9 p.p.
Gross profit - companion animals	13.5	13.8	2.2%
(gross margin - companion animals)	68.9%	65.7%	-3.2 p.p.
Gross profit - international operations	6.6	11.7	77.3%
(gross margin - international operations)	56.4%	60.3%	3.9 p.p.

In 1Q20, gross margin was 45.8%, a decrease of 2.6 p.p. in comparison with 1Q19. In Consolidated, margin was mainly affected by the reduction in the gross margin of production animals and companion animals, which was partially compensated by an increase in international operations, according to the factors detailed below:

Production Animals: the segment presented a gross margin of 36.1% in 1Q20, a decrease of 3.9 p.p. in comparison with 1Q19, mainly reflecting an imbalance in the Company's product mix, as a result of a higher share of the poultry and pig subsegments and the sales of vaccines against foot-and-mouth disease (lower margins). Additionally, as from 2Q19, there was a state decree in São Paulo that required the reversal of ICMS credits on inputs whose final products are sold within the state itself, recognizing them as cost, and resulted in effects on margins.

Companion Animals: the segment presented a gross margin of 65.7% in 1Q20, a decrease of 3.2 p.p. in comparison with 1Q19. Substantially, the margin losses occurred due to the increase in production costs, as a result of less use of some factory areas dedicated for pet products and consequent higher unit value per product.

International Operations: the segment presented a gross margin of 60.3% in 1Q20, an increase of 3.9 p.p. in comparison with 1Q19. This results from the effect of foreign exchange and price gains, which compensated for the imbalance in the product mix.

Selling, general and administrative expenses

R\$ million	1Q19	1Q20	Variation %
Selling, general and administrative and other expenses	(49.5)	(52.6)	6.3%
Percentage of net revenue	54.4%	47.0%	-7.4 p.p.

In 1Q20, selling, general and administrative expenses totaled R\$ 52.6 million, an increase of R\$ 3.1 million or 6.3% in comparison with 1Q19. This increase mainly reflects an increase of R\$ 1.5 million in R&D expenditures recognized as expenses, and the salary increase of employees in comparison with 2019.

Expenses on net revenue were diluted by 7.4 p.p. to 47%.

EBITDA and EBITDA Margin

R\$ million	1Q19	1Q20	Variation %
Adjusted loss	(6.4)	(3.1)	-51.6%
(+) Non-recurring results*	1.0	1.0	0.0%
Loss for the period	(5.4)	(2.1)	-61.1%
(+) Finance result, net	3.6	1.5	-58.3%
(+) Income tax and social contribution	(2.7)	1.0	-137.0%
(+) Depreciation and amortization	5.5	6.4	16.4%
EBITDA	1.0	6.8	580.0%
(+) Non-recurring effects*	(1.0)	(1.6)	60.0%
Adjusted EBITDA	0.0	5.2	
Net sales revenue	91.0	111.9	23.0%
EBITDA margin	1.1%	6.1%	5.0 p.p.
Adjusted EBITDA margin	0.0%	4.6%	4.6 p.p.

(*) Does not include extemporaneous tax credits related to prior years in both periods presented. Also, in 1Q20, does not include non-recurring expenses related to consulting services by EY and follow-on expenditures. These events gave rise to their related tax effects.

Adjusted EBITDA in 1Q20 was R\$ 5.2 million. The increase is due to the dilution of selling, general and administrative expenses, due to the increase in net revenue, which compensated for the drop in consolidated gross margin in the period. There were effects of PIS and COFINS tax credits totaling R\$ 2.0 million, which, because they are extemporaneous, were not included in Adjusted EBITDA. Also with respect to the exclusion of extraordinary events, non-recurring consultancy expenses and expenses with the intention of carrying out follow-on arrangements totaling R\$ 0.4 million, were not recognized in this indicator.

Finance result

R\$ million	1Q19	1Q20	Variation %
Finance result, net	(3.6)	(1.5)	-58.3%

In 1Q20, net finance costs totaled R\$ 1.5 million, a decrease of 58.3% in comparison with 1Q19. The reduction is due to the lower cost of capital, which was approximately 5.74% in the year, following indicators such as CDI and TJLP. It should be noted that the borrowing made by the Company in 1Q20, aiming at ensuring liquidity in the environment resulting from COVID-19, took place at the end of the period. Thus, the increase in gross debt, with no significant impact on net debt since the amount raised strengthened the cash position, did not result in a significant increase in finance costs in the quarter.

Income tax and social contribution

R\$ million	1Q19	1Q20	Variation %
Income tax and social contribution	2.7	(0.3)	-111.1%
Percentage of profit before IRPJ and CSLL	-29.7%	10.7%	40.4 p.p.

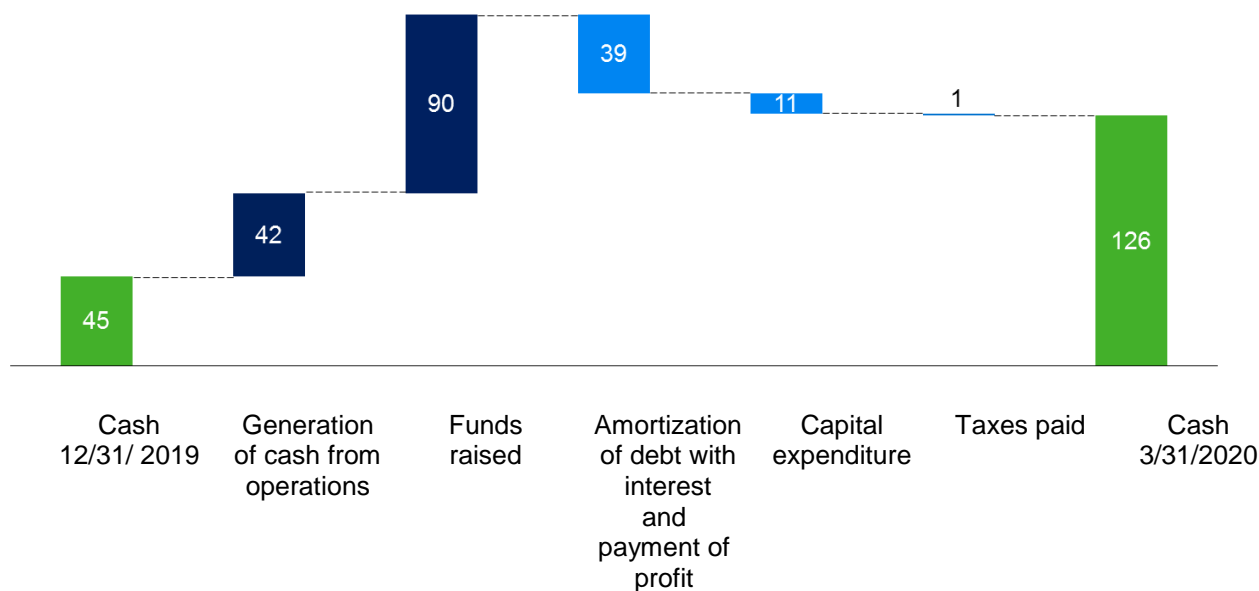
In 1Q20, income tax and social contribution amounted to a R\$ 0.3 million negative balance in comparison with a R\$ 2.7 million positive balance in 1Q19. It should be noted that the calculation of IRPJ and CSLL is carried out on tax bases that differ from the accounting profit or loss.

Adjusted Profit / Loss

R\$ million	1Q19	1Q20	Variation %
Adjusted loss	(6.4)	(3.1)	-51.6%
margin	-7.0%	-2.8%	4.2 p.p.

In 1Q20, adjusted profit totaled R\$ 3.1 million, an increase of 51.6% in comparison with 1Q19. This result reflects the increase in the Company's net revenue, which compensated for the percentage loss on gross margin and diluted selling, general and administrative expenses, in addition to minimizing the effect of higher income tax and social contribution amounts on profit or loss.

Cash Position and Financial Cycle



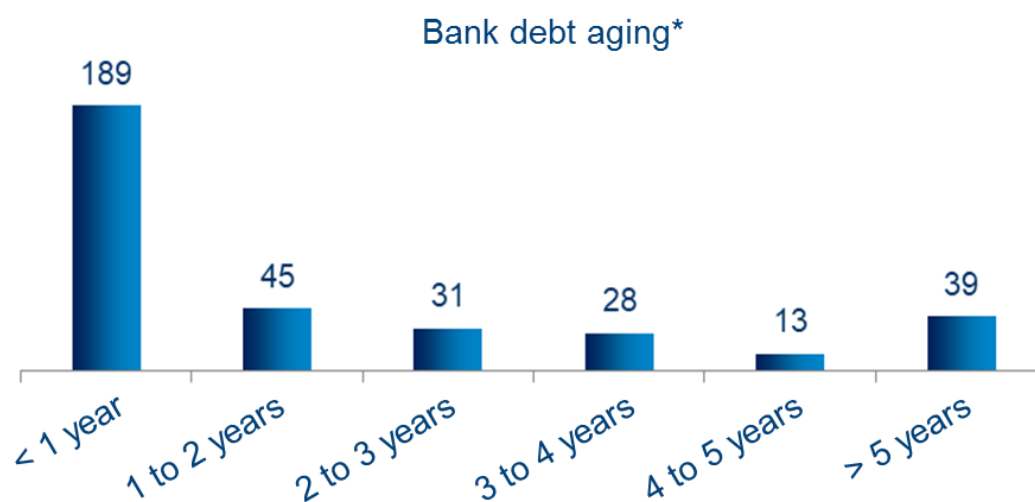
In 1Q20, cash generated from operations was R\$ 42 million, an increase of 2.6% in comparison with 1Q19. The Company obtained funds from banks totaling R\$ 90.0 million, bearing an average cost of the CDI rate + 2.42 p.a. and maturing in March 2021, in order to ensure funds and liquidity during the current period of instability. The funds enabled the cash position at March 31, 2020 to be 2.8 times higher than that at the end of 2019.

Also, resulting in an improvement in the Company's cash generation capacity, the financial cycle decreased by 45 days, by reducing the average collection and storage period, while the average payment period to suppliers increased.

Indebtedness

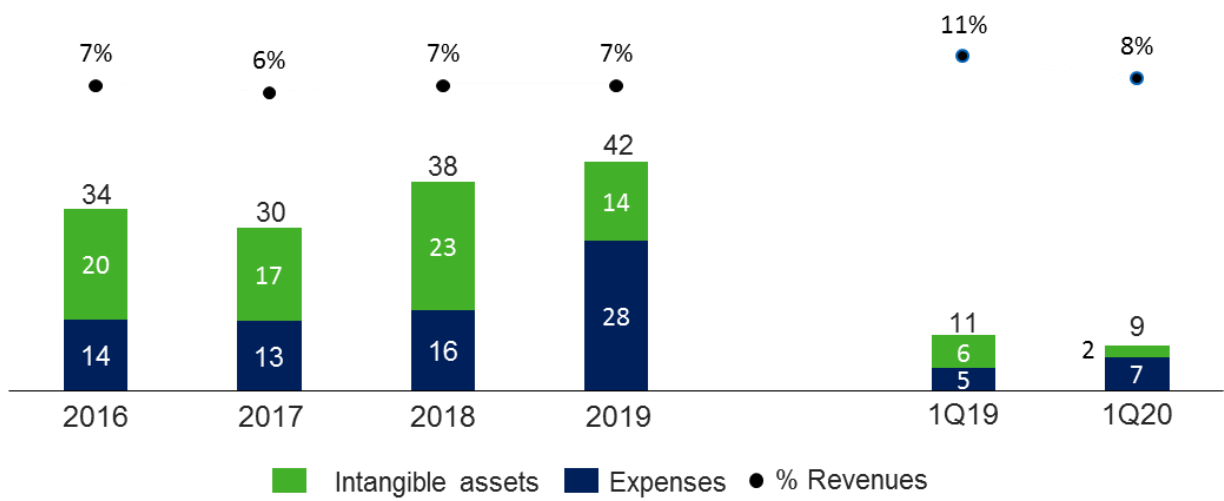
In R\$ million	March 31, 2019	March 31, 2020
Current	71.0	188.8
Non-current	205.1	155.1
Gross debt	276.1	343.9
Related derivative financial instruments	-	(6.3)
Gross debt considering related derivatives	276.1	337.6
(-) Cash and cash equivalents	71.2	125.7
Net debt	204.9	211.9
Average cost of debt (year) ¹	7.27%	5.74%
Net debt/Adjusted annual EBITDA (LTM)	1.72	1.89

¹ Net bank debt considering related derivatives and bank guarantee costs.



Investments in Research and Development

In 1Q20, 8% of net revenues were invested in R&D, totaling R\$ 9.3 million in comparison with 11% in the same period of the previous year. The reduction is due both to the increase in net revenue, with a resulting dilution of investments, and to the reduction of approximately R\$ 1.1 million in the period. The percentage remains in line with the history, as can be seen below:



Adjusted Statement of Operations

Statement of operations (R\$ thousands)	1Q19	1Q20
Revenue	90,978	111,879
Cost of sales	(47,014)	(60,576)
Gross profit	43,964	51,303
Selling expenses	(40,644)	(42,274)
General and administrative expenses*	(8,817)	(10,098)
Other expenses, net*	(96)	(140)
Operating loss	(5,593)	(1,209)
Finance income	1,093	310
Finance costs	(4,176)	(2,746)
Derivative financial instruments, net	(405)	13,681
Foreign exchange variations, net	(109)	(12,730)
Finance costs	(3,597)	(1,485)
Loss before income tax and social contribution	(9,190)	(2,694)
Current and deferred income tax and social contribution*	2,734	(459)
Loss for the period, adjusted	(6,456)	(3,153)

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

Corporate Statement of Operations

Corporate statement of operations (R\$ thousands)	1Q19	1Q20
Revenue	90,978	111,879
Cost of sales	(47,014)	(60,576)
Gross profit	43,964	51,303
Selling expenses	(40,644)	(42,274)
General and administrative expenses	(8,817)	(10,537)
Other income, net	944	1,854
Operating profit (loss)	(4,553)	346
Finance income	1,093	310
Finance costs	(4,176)	(2,746)
Derivative financial instruments, net	(405)	13,681
Foreign exchange variations, net	(109)	(12,730)
Finance costs	(3,597)	(1,485)
Loss before income tax and social contribution	(8,150)	(1,139)
Current and deferred income tax and social contribution	2,734	(1,023)
Loss for the period	(5,416)	(2,162)

Statement of Cash Flows

Statement of cash flows (R\$ thousands)	1Q19	1Q20
Cash flows from operating activities		
Loss before income tax and social contribution	(8,150)	(1,139)
Adjustments for:		
Provision for impairment of trade receivables	125	9
Provision for inventory losses and write-offs	1,119	1,821
Provision for sales returns	292	13
Reversal of the provision for bonuses to customers	(355)	(367)
Depreciation and amortization	5,597	6,416
Reversal of the provision for impairment		(21)
Result on disposal of property, plant and equipment	(62)	(63)
Result on disposal of intangible assets		21
Interest and monetary and foreign exchange variations, net	4,655	16,061
Derivative financial instruments	405	(13,681)
Provision for risks	188	152
Stock option expenses	162	37
Changes in working capital		
Trade receivables	59,079	52,536
Inventories	(23,495)	(11,572)
Taxes recoverable	(4,963)	(2,335)
Other assets	(1,397)	(2,839)
Trade payables	13,739	(2,055)
Taxes payable	(1,066)	672
Other liabilities	(5,252)	(2,005)
Cash from operations	40,621	41,661
Interest paid	(3,379)	(2,478)
Income tax and social contribution paid	(2,974)	(1,481)
Net cash provided by operating activities	34,268	37,702
Cash flows from investing activities		
Investments in intangible assets	(5,013)	(2,596)
Purchases of property, plant and equipment	(10,376)	(8,188)
Proceeds from sale of property, plant and equipment	162	184
Net cash used in investing activities	(15,227)	(10,600)
Cash flows from financing activities		
New borrowings		90,000
Repayment of borrowings	(12,519)	(42,185)
Realized derivative financial instruments	(581)	5,170
Net cash provided by (used in) financing activities	(13,100)	52,985
Increase in cash and cash equivalents, net	5,941	80,087
Cash and cash equivalents at the beginning of the period	65,183	45,009
Exchange losses on cash and cash equivalents	97	590
Cash and cash equivalents at the end of the period	71,221	125,686

Balance Sheet

Balance Sheet (R\$ thousands)	12/31/2019	3/31/2020
Assets		
Current assets	425,035	476,745
Cash and cash equivalents	45,009	125,686
Trade receivables	189,076	140,038
Derivative financial instruments		6,259
Inventories	165,294	175,367
Taxes recoverable	12,478	15,053
Income tax and social contribution recoverable	6,657	5,400
Related parties	393	912
Other assets	6,128	8,030
Non-current assets	444,501	450,792
Long-term receivables	71,567	73,434
Taxes recoverable	51,277	51,048
Deferred income tax and social contribution	15,441	16,507
Inventories	4,342	5,020
Other assets	507	859
Permanent assets	372,934	377,358
Intangible assets	93,295	93,994
Property, plant and equipment	279,639	283,364
Total assets	869,536	927,537
Liabilities and equity		
Current liabilities	210,519	277,892
Trade payables	40,381	41,851
Derivative financial instruments	2,252	
Borrowings	118,230	188,797
Salaries and social charges	20,151	22,115
Taxes payable	4,993	4,267
Income tax and social contribution payable	87	653
Dividends and interest on capital	10,991	10,991
Related parties	172	143
Commissions on sales	4,816	3,435
Other liabilities	8,446	5,640
Non-current liabilities	166,536	158,942
Borrowings	162,852	155,051
Provision for risks	3,684	3,891
Total liabilities	377,055	436,834
Total equity	492,447	490,675
Non-controlling interests	34	28
Total liabilities and equity	869,536	927,537

