

**Transcript – 3Q14 Conference
Call Results
Ourofino (OFSA3 BZ)
November 17, 2014**

Operator:

Good Afternoon, ladies and gentlemen. At this time we would like to welcome everyone to Ourofino Saúde Animal 3Q14 results conference call. Today with us we have Mr. Dolivar Coraucci Neto, CEO and Mr. Fábio Lopes Júnior, 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's presentation. After Ourofino's remarks, there will be a question and answer section. At that time further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

We have a simultaneous webcast that may be accessed through Ourofino's website at ir.ourofino.com, 'Webcast 3Q14' banner. The slide presentation, which will be presented by the management today, is also available for downloading on the website.

Before proceeding, let me mention that forward-looking statements will be made under the Safe Harbor of the Securities litigation reform act of 1996. Forward-looking statements are based on the beliefs and assumptions of Ourofino's management and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events, and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Ourofino, and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to the CEO, Mr. Dolivar Coraucci Neto, who will begin the presentation. Mr. Dolivar, you may begin your conference.

Dolivar Coraucci Neto:

Thank you. Good afternoon everyone. First, I would like to mention that I'm very happy with the listing of Ourofino, and I would also like to thank you all for participating in our first earnings conference call. My special thanks to investors and analysts from the trust that their place in our business, in spite of an adverse microeconomic scenario and of political uncertainties. Thank you very much.

In this new phase of our relationship with the market, I think it is important to start that our business has very strong support pillars. First, our leadership position in the Brazilian animal health market; second, a unique combination of a recognized brand, a diversified client base and a very wide footprint that we have, as well as the most up-to-date industrial plants that comply with the best practices for manufacturing of these products, a very big expertise in P&D with our own team and local development; and entrepreneurial and agile culture, and our management is also commitment with the best practices of corporate governance and with the success of our business.

I would like to reaffirm my commitment as CEO of executing our business plan, seeking to increase our business portfolio, including a new line of biological products, vaccines and the expansion of our international operations, mainly in Latin America.

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We believe in a growing scenario of more and more technology in the Brazilian cattle breeding, and a strong growth in the companion animal market, driven by the increase in the population's income and by the humanization, so to say, of pets.

We intend to create stronger ties for the development of the main business themes of our Company. Thank you very much.

Now, I would like to give the floor to our CFO and Investor Relations Officer, Mr. Fábio Lopes, who will be talking about the results of the 3Q, and also of the results year-to-date until September 30th.

Fábio Lopes Júnior:

Good afternoon everyone. As Dolivar had said, we have a major responsibility vis-à-vis the investors that place their trust on our Company. Thank you very much. We will make our best endeavours in order to reward this trust with good results achieved over the next few years.

Starting our presentation, I would like to say that our results are in line with our planning and also in line with our expectations for the year, also taking in to account the usual seasonality of our sales, which are historically stronger in the last quarter.

As you can see on page three, we have the recent events where we show you a summary of the offering information. We would like to highlight that the sale or trading of our stocks started on October 21st, R\$27 per share. The distribution amount of the base offer was R\$363 million, corresponding to 13.4 million common shares.

Our current capital is made of 51.923.077 shares, distributed as such: founding shareholders 57.14%, management 3%; and free float 39.78%.

I would like to inform that the green shoe has been fully exercised, so our equity capital will be 53.942.307 shares, corresponding to a supplementary capital increase of R\$54 million.

Now, let us talk about the main indicators for our Company. On page number four, we highlight the growth of our net revenues from sales of 10% on 3Q, going from R\$94.3 million on 3Q13 to R\$103.7 million on 3Q14, and also a 20% growth in the year-to-date figure, going from R\$247 million in the 9M13 to R\$296 million in the 9M14.

We would also like to highlight, on the same slide, the contribution from the livestock segment, the companion animals segment and also our international operations to our net revenues from sales. On 3Q14, the livestock segment represented 82% of our net revenue vis-à-vis 80% year-on-year, and companion animals represented 14% vis-à-vis 12% year-on-year, and international operations represented 4% in 3Q14 vis-à-vis 8% in the same period of last year.

The year-to-date contributions from segments to our net revenues from sales are practically in line with the two periods analysed, with a slight reduction in the participation of internet operations that will be explained on the next slide.

So, for the year-to-date figures, livestock represented 81% of our net revenue from sales, companion animals 14%, and international operations 5% of the totals.

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It is important to highlight that the companion animals segment has been showing an increase in share of the total net revenue, because this market has been historically growing at rates higher than the livestock market, mainly because of the increase in income of Brazilian and also the trend to humanize, so to say, pets.

On slide number five, we show the net revenue from sales in each one of the business segments for the period we are analysing here. Revenue from livestock or production animals grew by 13.1% at the quarter, posting R\$85.3 million in 3Q14, and for the 9M14, livestock revenue grew by 20.9%, going to R\$240 million. This growth is substantially explained by the better performance of the product line for assisted reproduction and anti-parasitic products.

Companion animals, net revenue for 3Q growing by 25.2%, representing R\$13.9 million, and for the 9M13, there was a 35.3% growth, going to R\$41.8 million on 9M14. This growth is substantially explained by the consolidation of the anti-parasitic line launch in 2013, and for the launch of two new anaesthetics products, launched in 2014.

International operations had a drop in its shares in the net revenue from sales, mainly due to the fact that the Company is more restrictive in terms of selling to Venezuela, due to the economic instability of this country. I would like to highlight that the demand for our products in Venezuela continues to be quite high, and that this restriction was a decision made by Ourofino, according to its credit policy.

The other countries delivered growth in this period. Thus, in 3Q, revenues from international operations went to R\$4.5 million, and for the 9M, revenues from this segment went down by 15.7%, to R\$15 million. The Company has, in its strategic plan, the expansion of international operations in Latin America, and we are starting these actions already in 2015.

Now, slide number six, in which we analyze the growth profit and the SG&A for the Company. In the quarter, gross profit grew by 10.3%, amounting to R\$66 million. In the year-to-date, the growth was 14.5%, amounting to R\$182 million. SG&A had a nominal growth in the quarter of 13.8%, going from R\$40.5 million in 3Q13 to R\$46 million in 3Q14. In the year-to-date, there was a nominal growth of 15.7%, going to R\$129 million for the 9M14. I would like to highlight that the dilution vis-à-vis net revenues from sales, of 1.7 p.p., in the year-to-date figure.

Now, slide number seven, adjusted EBITDA went up by 6.1% in the quarter, going from R\$23.1 million to R\$24.5 million in 3Q14, and increased by 16% in the 9M, going from R\$56 million in the 9M13 to R\$65.7 million for the 9M14, which, in our opinion, is a very good growth and this shows we are on the right track. In the year-to-date, adjusted EBITDA margin was 22.1% in the 9M14, and 22.9% in the 9M13.

On page number eight, we show the net financial expenses, the expenses with the income tax and social contribution and the net income from continued operations. Net financial expenses grew more significantly, going from R\$2.3 million to R\$5.3 million in the quarter, and from R\$6.2 million to R\$10.3 million in the 9M14.

In general terms, the increase in the net financial expense is driven by the decrease in the average balances of cash investments, the increase of the indebtedness back to the CDI, besides the increase of approximately 3 p.p. in the CDI.

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I would like to highlight that as the offering was finalized after we closed our financial statements, the cash in the financial results was not yet affected by the capital increase and, as we said in the prospective, part of the funds will be used to settle financing with respect to CDI, before the end of this year and beginning of next year. Cost of capital was 7% a year for the Company.

The expenses with income tax and social contribution decreased by 10% in the quarter and for the 9M increase was 65%, going from R\$5 million to R\$8.6 million. This increase is driven mainly by the fact that in 2013 there was a higher offsetting of discontinued operation losses, with an effective tax rate, in relation to profit before income tax of 20% in the 9M14 vis-à-vis in the 9M13.

In the quarter, the income from continued operations went from R\$14 million in 3Q13 to R\$12 million in 3Q14. For the 9M, R\$35.9 million in the 9M13, going to R\$33.9 million in the 9M14, a decrease of 5.6%. This decrease, and in the net income from continued operations stems mainly from the increase in net financial expenses and the expenses having to do with income tax and social contribution, as I have already explained in the two previous charts.

Operating income went up from R\$47.4 million in the 9M13, to R\$53 million in the 9M14, this means an 11.8% increase. Also, as said in the previous slides, our revenue grew by 20%, and our EBITDA grew by 16% in the 9M.

Now, let us go to slide number nine, where we would like to talk about the seasonality of our operations, because the distribution of our revenues from sales and our results and our earnings is not linear in our business, because this is impacted mainly by the management of the cattle.

We live in a country of large dimensions, where we have extensive cattle farming, and the producers in general choose specific moments of the year to use certain veterinary products, such as vaccination against foot-and-mouth disease, and concentrating the sales at this time of the year.

Just for illustration purposes, the net revenue from sales in 2013 have the following composition per quarter: 1Q13, 14.4%; 2Q13, 25.4%; 3Q13, 24.6%; and 4Q13 representing 35.6% of the total sales of 2013, which means that 4Q historically is much stronger than the other three.

Thus, the net income and the EBITDA of 4Q also have a bigger weight, and also for illustration purposes, net income and EBITDA of 4Q13 represented 37.8% and 33.5%, respectively, in the total for the year.

On page ten, we would like to highlight one of the main pillars of our business, which is the investments in research, development and innovation. Ourofino invests over 6% of its revenues in PDI, and the accumulated investments from 2011 to 2013 amounted to R\$62 million, and for the 9M, ended September 30th 2014, R\$18 million, also corresponding to 6% of the net revenue of this period.

These investments seek the launch new products in subsequent years, as well as the investments made in previous years, resulting in the launch of 20 products from 2011 to 2013 and six new products already launched in the 9M14.

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On page 11, we show the daily performance of our shares in the 24 first days of activities. On the 14th, it closed at R\$29, a 7.4% increase vis-à-vis the initial pricing.

Before closing my presentation, I would like to highlight, once again, the growth of our net revenues from sales of 20%, of our EBITDA 16% in the 9M, and I would like to highlight that the year-to-date results is in line with our planning and our expectations for the year, considering the usual seasonality of sales that historically are stronger in the last quarter.

So, I would like to end my presentation. Thank you all for your attention, thank you very much, and now we would like to open for questions.

Joseph Giordano, JPMorgan:

Good afternoon, everyone. Congratulations for the IPO and the first good months of results. In the release you say that you have 52 products in your pipeline, development pipeline.

In the prospective, you said that despite this you have some products that are being analyzed and seven also waiting for the final approval. What is the pipeline at the end of September? Because you mentioned the end of June on the release, so, could you please talk about the September figures?

Dolivar Coraucci Neto:

On the release you see that we had an estimate of six for 2014. And we are already certainly in line in September. And because of the process of R&D this is something ongoing, this is continuous.

Regarding the decision and implementation of new products and the products that should be launched now in the next few months, as we have already mentioned. And we already have some products in the pipeline for the next year, and we are totally according to our plan and to the release.

Joseph Giordano:

I would like to know if you have any other products, because you placed some in the perspectives. You were talking about seven products that were already in the final approval phase, so I would like to know if you have something new to tell us about that.

Dolivar Coraucci Neto:

Our IPO is very recent, as you know. And what I can tell you so far is that we are exactly in line with what we have already mentioned and inform you, and of course the making of that endeavor is to exceed your expectations, but now we are in line with our plan and with what we informed you already.

Joseph Giordano:

One second question. What about the time schedule for the vaccine plant, has anything changed in this regard? Because you were going to start construction around this time of the year. So, could you give us an update?

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Dolivar Coraucci Neto:

Exactly this week we have a workshop to align all the construction points of our new operations. Exactly this current week we are about to close everything that is necessary to begin implementing our brand.

So, we have not started construction yet because we have to the executive projects and the final projects in our budget, everything is being decided. Most decisions are being made this current week.

Joseph Giordano:

Thank you.

Rodrigo Coelho, Bradesco:

Good afternoon, everyone. I would like to ask a question about seasonality. Not so much about sales, because you have already talked enough about that during the call. But is there any seasonality regarding commercial expenses like marketing, for instance? Or is the allocation of your resources more or less uniform over the years?

Fábio Lopes Júnior:

Thank you for participating in our call. Thank you for your question. Commercial expenses will vary when you analyze each quarter. And there is no seasonality impacting any analysis significantly, because you have the revenues that go up, and you also have the corresponding increase in expenses. So, it is in line with what we have in our plan.

Rodrigo Coelho:

Regarding revenues in the 1H14, it grew about 15% vis-à-vis last year, and this quarter we saw a slowdown in this regard, so how do you see 4Q? Do you expect a stronger quarter? And in a comparison with 2013 as well.

Fábio Lopes Júnior:

This is strongest in the year, and it was also very strong in 2013. So, our expectation is to reach the same level of growth that we expect, and we know that the growth in the 1H was rather strong, and we expect to have a slightly lower growth than in the 1H, because from the last quarter to the last quarter of 2013 this was also very strong. So, we are maintaining our growth expectation, as we mentioned to the market already.

Rodrigo Coelho:

Thank you. Congratulations for the results.

Giovanna Araújo, Itaú BBA:

Good afternoon, everyone. About SG&A. we would like to better understand the trend for this year and last year and the increase vis-à-vis the 3Q13. Do you think this 150b.p. would be a trend? Could you describe what trend you expect?

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Fábio Lopes Júnior:

Good afternoon. Thank you for the question. We always expect a dilution of the SG&A when we analyze a longer period than just one or two quarters. When we look at our dilution, we always consider three years, for instance, ahead.

In 2014 we expected a percentage of SG&A very much in line with what it was last year, or slightly lower than last year, but not an increase of 1.5 p.p., neither a dilution such as happened in the year to date that was 1.7 p.p. We believe in the dilution of the SG&A but when we analyze a longer period than just one quarter.

Giovanna Araújo:

Regarding 2015, what do you expect?

Fábio Lopes Júnior:

We believe there will be a dilution of SG&A, but not with a high percentage, a gradual dilution, as we see our sales increasing.

Giovanna Araújo:

And the second question has to do with the outlook for the market for next year, looking at production animals or livestock. Cattle is more expensive and exports are stronger.

So, looking at companion animals, do you believe that the recent situation in Brazil, do you think it impacts the performance of this segment in your view?

Fábio Lopes Júnior:

When we analyze live stock or production animals, we believe that the price of cattle, of course, everybody is very encouraged by that, but as we always say, the higher technology used by cattle breeders and the trend of cattle farmers using more drugs and the adequate handling of the animals etc., increase productivity, and this is a need on the part of cattle farmers so that they make the business more profitable.

Regarding companion animals, we see that retail is under some pressure, but in our projections we have already factored in this situation. And we believe that our projections already reflect the market. And when we analyze pets specifically, there is a lot of room for growth in this market.

Giovanna Araújo:

I would like to ask one more question, if you allow me. What about the sale of the assets of R\$12.5 million that is sold in your cash flow?

Fábio Lopes Júnior:

Specifically, it was the sale, because we had an aircraft, Ourofino had an aircraft and we sold to another Company in the group, and we left only the operational assets and those that had to do with the code of animal health, and this represents R\$6 million, R\$7 million of the total, and the other R\$3 million or R\$4 million in sales assets have to

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do with the discontinued operations in 2013 that had to do with cattle, and we sold these assets to the controlling shareholders at the end of 2013, in line with what we have always made very clear to the market, to leave just the operational assets under the umbrella of this Company.

Giovanna Araújo:

Thank you.

Operator:

Thank you very much. The question and answer session is closed. Now I would like to give the floor back to Mr. Fabio Lopes Júnior for his closing remarks.

Fabio Lopes Júnior:

Thank you very much for your presence and for participating in our call. Our investor relations website and our telephones are available at all times. So, this was the first earnings conference call by Ourofino, and we will try to streamline and to improve this further and further at every quarter. So, we would love to have your suggestions about how to improve this communications with you. Once again, thank you very much for placing your trust on the Company. Thank you very much.

Operator:

Thank you very much. Ourofino's earnings conference call of the 3Q14 is closed. Please, disconnect your lines and we wish you all a very good afternoon.

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