

(A free translation of the original in Portuguese)

# Results for 4Q18 and 2018

(A free translation of the original in Portuguese)



# Our Purpose

Reimagining  
animal health

(A free translation of the original in Portuguese)

- Best year in net revenues for the Company and also increasing its profitability
- Net revenue increased by 17% and reached R\$ 589 million
- Adjusted EBITDA for the year increased by 27% and reached R\$ 132 million, with a margin of 22%
- Adjusted profit increased by 56% in 2018 and totaled R\$ 71 million, with a margin of 12%

## **Conference Call**

### **In Portuguese with simultaneous translation into English**

February 27, 2019

3 p.m. (BRT) / 1 p.m. (US EST)

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Cravinhos, February 26, 2019 – 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 and year ended December 31, 2018 (4Q18 and 2018).

## Message from management

The year 2018 was the best in Ourofino’s history and it presented a significant increase in figures and indicators, on an annual basis, even compared with the strong year of 2017. Our net revenues increased by 17% and totaled R\$ 589 million. Adjusted EBITDA reached R\$ 132 million, with an increase of 27% and margin of 22% and adjusted profit increased by 56% and totaled R\$ 71 million, the highest level ever achieved by the Company, with a net margin of 12%. Leverage at year-end was 1.7x the adjusted EBITDA with cash generated from operations of R\$ 82 million.

With respect to the production animals segment, net revenue increased by 15% in the year and totaled R\$ 459 million, with a gross margin of 51% and an increase of 1 p.p. in comparison with 2017. These results reflected the success of our pricing strategy combined with volume increases resulting from the excellent work of our sales team, by implementing our demand generation program including visits to farms throughout Brazil.

As regards the companion animals segment, we had an exceptional year with an increase of 24% in net revenues, which totaled R\$ 76 million, as a result of the investments in demand generation by the expansion of veterinary visitation teams which also perform various marketing actions in the points of sale, leading to an impact on volumes and prices. In addition, our team has continued to follow very closely the inventory levels of our distributors, which have remained at proper levels and in line with their sell-out volumes.

With regard to international operations, net revenues totaled R\$ 55 million in 2018, an increase of 18% in comparison with 2017. Mexico and Colombia had an increase of 55% in the year and reached R\$ 37 million in revenues, representing 68% of the total revenues in the segment. It is important to highlight that the growth presented took place substantially in local currency.

In the biologicals project front, an important milestone was reached in November as we did the technical launch for our circovirus vaccine called Safesui, which is the first vaccine of its kind to protect against the strain PCV2b. Circovirus is an important challenge for swine farmers across the country in Brazil. Additionally, at the beginning of February the first commercial batches were sold by our sales team.

Due to the excellent results presented by the teams, management rewarded all Ourofino employees with a bonus salary, which had a significant impact of R\$ 6 million on expenses in the 4<sup>th</sup> quarter. We believe that people are the most important element to achieve results as those presented in 2018, and that we should motivate them to reach our growth targets in subsequent years and to engage them for 2019. We continue to work hard bearing our purpose "Reimagining animal health" in mind, always looking for the best solutions that meet the expectations of all our customers. We thank the stockholders for their confidence in our work.

Jardel Massari  
CEO

Kleber Gomes  
CFO and IRO

# Financial Performance

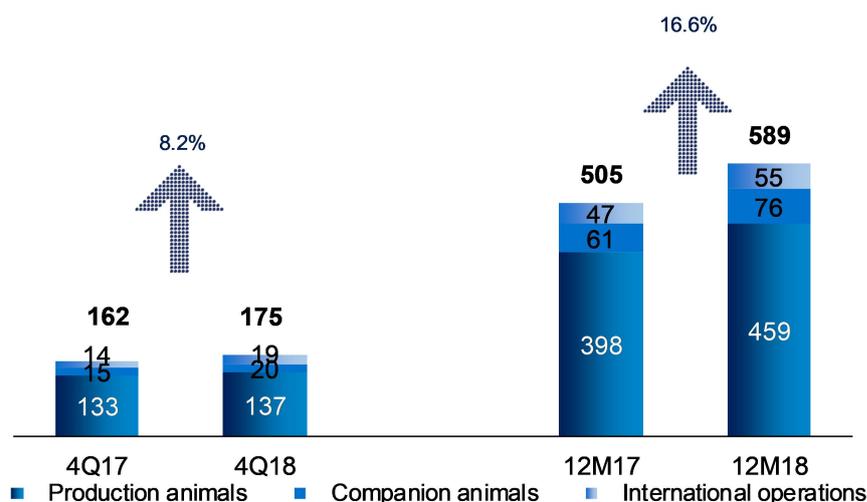
R\$ million	4Q17	4Q18	Variation %	12M17	12M18	Variation %
Net revenue	162.0	175.3	8.2%	505.3	589.2	16.6%
Cost of sales	(75.9)	(81.2)	7.0%	(236.5)	(265.1)	12.1%
Gross profit	86.1	94.1	9.3%	268.8	324.1	20.6%
(gross margin)	53.1%	53.7%	0.6 p.p.	53.2%	55.0%	1.8 p.p.
Expenses*	(53.7)	(68.6)	27.7%	(191.0)	(222.7)	16.6%
Operating profit	32.4	25.5	-21.3%	77.8	101.4	30.3%
(operating margin)	20.0%	14.5%	-5.5 p.p.	15.4%	17.2%	1.8 p.p.
Finance result, net	(4.2)	(4.8)	14.3%	(16.8)	(15.2)	-9.5%
Income tax and social contribution*	(5.3)	0.8	-115.1%	(15.6)	(15.2)	-2.6%
Adjusted profit	22.9	21.5	-6.1%	45.4	71.0	56.4%
(adjusted profit margin)	14.1%	12.3%	-1.8 p.p.	9.0%	12.1%	3.1 p.p.
Adjusted EBITDA	40.7	36.5	-10.3%	103.7	131.7	27.0%
(adjusted EBITDA margin)	25.1%	20.8%	-4.3 p.p.	20.5%	22.4%	1.9 p.p.

(\*) In 2017, does not include non-recurring expenses related to consulting services by Falconi, settlement of a tax assessment notice for previous years and restructuring costs. In 2018, does not include the provision for contingencies and extemporaneous tax credits related to prior years. These events gave rise to their related tax effects.



# Net revenue

R\$ million	4Q17	4Q18	Variation %	12M17	12M18	Variation %
Net sales revenue	162.0	175.3	8.2%	505.3	589.2	16.6%
Production animals	133.2	137.0	2.9%	397.7	458.6	15.3%
Companion animals	14.5	19.7	35.9%	61.0	75.6	23.9%
International operations	14.3	18.6	30.1%	46.6	55.0	18.0%



In 4Q18, the Company presented net revenues of R\$ 175.3 million, an increase of 8.2% in comparison with 4Q17. In 12M18, net revenue was R\$ 589.2 million, an increase of 16.6% in comparison with 12M17.

- The production animals segment presented net revenues of R\$ 137.0 million in 4Q18, an increase of 2.9% in comparison with 4Q17, with an impact from less sales of vaccines against foot-and-mouth disease during the 2<sup>nd</sup> campaign of 2018. In 12M18, net revenue was R\$ 458.6 million, an increase of 15.3%, with impacts from the increases in volumes and prices in 2018.
- The companion animals segment presented a net revenue of R\$ 19.7 million in 4Q18, an increase of 35.9% in comparison with 4Q17.

In 12M18, net revenue was R\$ 75.6 million, an increase of 23.9% in comparison with 12M17. These increases were mainly due to increases in volume.

- The international operations segment presented a net revenue of R\$ 18.6 million in 4Q18, an increase of 30.1% in comparison with 4Q17. In 12M18, net revenue was R\$ 55.0 million, an increase of 18%. These increases resulted mainly from the increase in figures in local currency and favorable foreign exchange rates, and were affected by the decreases in sales to other countries, mainly the sales of vaccines against foot-and-mouth disease in 2017.

## Gross profit and gross margin

R\$ million	4Q17	4Q18	Variation %	12M17	12M18	Variation %
Gross profit	86.1	94.1	9.3%	268.8	324.1	20.6%
(gross margin)	53.1%	53.7%	0.6 p.p.	53.2%	55.0%	1.8 p.p.
Gross profit - production animals	69.2	69.1	-0.1%	202.2	236.0	16.7%
(gross margin - production animals)	52.0%	50.4%	-1.6 p.p.	50.8%	51.5%	0.7 p.p.
Gross profit - companion animals	10.0	13.6	36.0%	42.7	53.2	24.6%
(gross margin - companion animals)	69.0%	69.0%	0.0 p.p.	70.0%	70.4%	0.4 p.p.
Gross profit - international operations	6.9	11.5	66.7%	23.9	34.9	46.0%
(gross margin - international operations)	48.3%	61.8%	13.5 p.p.	51.3%	63.5%	12.2 p.p.

In 4Q18, gross margin was 53.7%, an increase of 0.6 p.p. in comparison with 4Q17. In 12M18, gross margin was 55.0%, an increase of 1.8 p.p. in comparison with 12M17.

- The production animals segment presented a gross margin of 50.4% in 4Q18, a decrease of 1.6 p.p. in comparison with 4Q17, with an impact of R\$ 2 million on costs due to the bonuses granted to the industry teams. In 12M18, the gross margin was 51.5%, an increase of 0.7 p.p., reflecting price gains in the segment in the year.

- The companion animals segment presented a gross margin of 69.0% in 4Q18, remaining at the same level in comparison with 4Q17. In 12M18, the gross margin was 70.4%, an increase of 0.4 p.p., reflecting price gains in 2018.
- The international operations segment presented a gross margin of 61.8% in 4Q18, an increase of 13.5 p.p. in comparison with 4Q17. In 12M18, gross margin was 63.5%, an increase of 12.2 p.p. These results show a better mix in the periods and gains from favorable foreign exchange rates.



## Selling, general and administrative expenses

R\$ million	4Q17	4Q18	Variation %	12M17	12M18	Variation %
Selling, general and administrative and other expenses	(53.7)	(68.6)	27.7%	(191.0)	(222.7)	16.6%
Percentage of net revenue	33.1%	39.1%	6.0 p.p.	37.8%	37.8%	0.0 p.p.

In 4Q18, selling, general and administrative expenses totaled R\$ 68.6 million, an increase of 6.0 p.p. in comparison with 4Q17. In 12M18, these expenses totaled R\$ 222.7 million, remaining at the same percentage level on revenues as 12M17. The increase in 4Q18 expenses is mainly due to management's

decision to reward the teams for their excellent results in the year translated to a R\$ 4 million impact and the R\$ 5 million provision for impairment of intangible assets, combined with the collective labor agreement of 2017, which established a lower percentage of increase in the employees' salaries than that of 2018.

## EBITDA and EBITDA Margin

R\$ million	4Q17	4Q18	Variation %	12M17	12M18	Variation %
Adjusted profit	22.9	21.5	-6.1%	45.4	71.0	56.4%
(+) Non-recurring results, net of IRPJ/CSLL*	(0.3)	(2.5)	733.3%	(7.5)	(2.2)	-70.7%
Profit for the period	22.6	19.0	-15.9%	37.9	68.8	81.5%
(+) Finance result, net	4.2	4.8	14.3%	16.8	15.2	-9.5%
(+) Income tax and social contribution	5.1	(2.1)	-141.2%	11.7	14.0	19.7%
(+) Depreciation and amortization	7.0	6.2	-11.4%	24.9	25.5	2.4%
EBITDA	38.9	27.9	-28.3%	91.3	123.5	35.3%
(+) Non-recurring effects*	0.5	3.8	660.0%	11.4	3.4	-70.2%
(+) Other	1.3	4.8	269.2%	1.0	4.8	380.0%
Adjusted EBITDA	40.7	36.5	-10.3%	103.7	131.7	27.0%
Net sales revenue	162.0	175.3	8.2%	505.3	589.2	16.6%
EBITDA margin	24.0%	15.9%	-8.1 p.p.	18.1%	21.0%	2.9 p.p.
Adjusted EBITDA margin	25.1%	20.8%	-4.3 p.p.	20.5%	22.4%	1.9 p.p.

(\*) In 2017, does not include non-recurring expenses related to consulting services by Falconi, settlement of a tax assessment notice for previous years and restructuring costs. In 2018, does not include the provision for contingencies and extemporaneous tax credits related to prior years. These events gave rise to their related tax effects.

In 4Q18, adjusted EBITDA totaled R\$ 36.5 million, with a margin of 20.8%, a decrease of 4.3 p.p. in comparison with 4Q17, reflecting a decrease in the dilution of general and administrative expenses, as mentioned in the

previous paragraph. In 12M18, adjusted EBITDA was R\$ 131.7 million, with a margin of 22.4%, an increase of 1.9 p.p. in comparison with 12M17, reflecting gross margin gains in 2018.

## Finance result

R\$ million	4Q17	4Q18	Variation %	12M17	12M18	Variation %
Finance result, net	(4.2)	(4.8)	14.3%	(16.8)	(15.2)	-9.5%

In 4Q18, net finance costs totaled R\$ 4.8 million, an increase of 14.3% in comparison with 4Q17. In 12M18, net finance costs totaled R\$ 15.2 million, a decrease of 9.5% in comparison with 12M17. The average cost of debt was

7.22% p.a. in 4Q18 against 6.84% p.a. in 4Q17, which reflects the disbursements with the Fund for Financing of Studies and Projects (FINEP) program, with costs more in line with those adopted in the market.

## Income tax and social contribution

R\$ million	4Q17	4Q18	Variation %	12M17	12M18	Variation %
Income tax and social contribution	(5.3)	0.8	-115.1%	(15.6)	(15.2)	-2.6%
Percentage of profit before IRPJ and CSLL	-18.8%	3.9%	22.7 p.p.	-25.6%	-17.6%	8.0 p.p.

In 4Q18, income tax and social contribution totaled R\$ 0.8 million in comparison with R\$ 5.3 million in 4Q17. In 12M18, income tax and social contribution totaled R\$ 15.2 million against R\$ 15.6 million in 12M17. It should be noted that

the calculation of Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL) is carried out on tax bases that differ from the accounting result.

## Profit

R\$ million	4Q17	4Q18	Variation %	12M17	12M18	Variation %
Adjusted profit	22.9	21.5	-6.1%	45.4	71.0	56.4%
profit margin	14.1%	12.3%	-1.8 p.p.	9.0%	12.1%	3.1 p.p.

Adjusted profit in 4Q18 totaled R\$ 21.5 million, with a net margin of 12.3%, a decrease of 1.8 p.p. in comparison with 4Q17, reflecting the decrease in adjusted EBITDA margin, but compensated by tax effects. In 12M18, adjusted

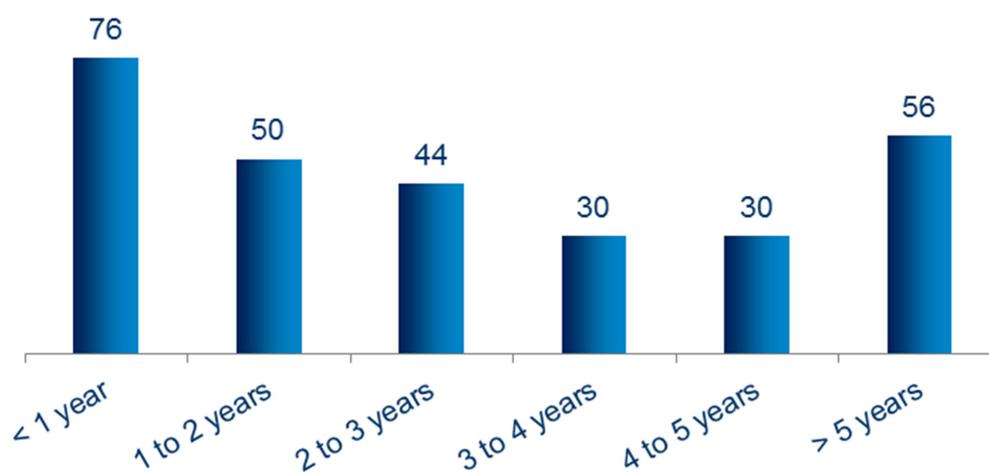
profit was R\$ 71 million with a net margin of 12.1%, an increase of 3.1 p.p. in comparison with 12M17, reflecting gains in adjusted EBITDA margin, combined with a lower percentage of taxes on profit before IRPJ and CSLL.

## Indebtedness

In R\$ million	December 31, 2017	December 31, 2018
Current	190.2	76.4
Non-current	122.9	211.1
Gross debt	313.1	287.5
Related derivative financial instruments	10.5	-
Gross debt considering related derivatives	323.6	287.5
(-) Cash and cash equivalents	123.4	65.2
Net debt	200.2	222.3
Average cost of debt (year) <sup>1</sup>	6.84%	7.22%
Net debt/Adjusted annual EBITDA (LTM)	1.93	1.69

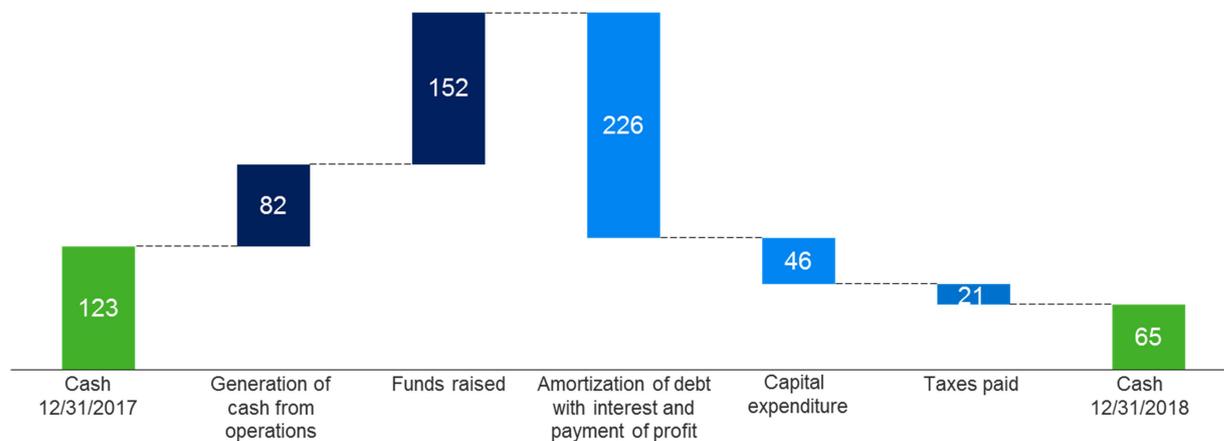
<sup>1</sup> Net bank debt considering related derivatives and bank guarantee costs.

### Bank debt aging\*



\*Considers the period between January 1 and December 31 and debt plus derivatives.

## Cash position



In 12M18, there was a generation of cash from operations of R\$ 82 million, which was impacted by an increase in the volume of inventories due to higher purchases of inputs in China. We would also emphasize the amortization of debts, payment of interest, and profit totaling R\$ 226

million. Funds raised totaled R\$ 152 million with extension of debt and improvement of its profile with long-term indebtedness reaching 3/4 of total gross debt. At December 31, 2018, the average cost of debt was 7.22% p.a., including the costs of derivatives and related guarantees.



## Launches in 2018

### Pareun

Indications: Prescribed for the treatment of bacterial infections and joint problems that affect the horses. Available in 100ml packages. This innovative product represents a big technological leap for the market.



The first Amikacin for veterinary use in Brazil.

Therapeutic class:  
Antimicrobial

Segment:  
Horses

Launched in:  
February 2018

Under the R&D model in accordance with the open innovation approach we established strategic partnerships. In this respect, we launched SiloSolve MC, resulting from the partnership with the Danish company Chr. Hansen.

### SiloSolve® MC

Science-based, research-proven bacterial inoculant formulated to improve fermentation, leading to:  
Reduced pathogenic microorganisms in silage;  
Improved recovery of dry matter;  
Increased palatability of silage;  
Increased efficiency of milk or meat production.



Therapeutic class:  
Nutritional

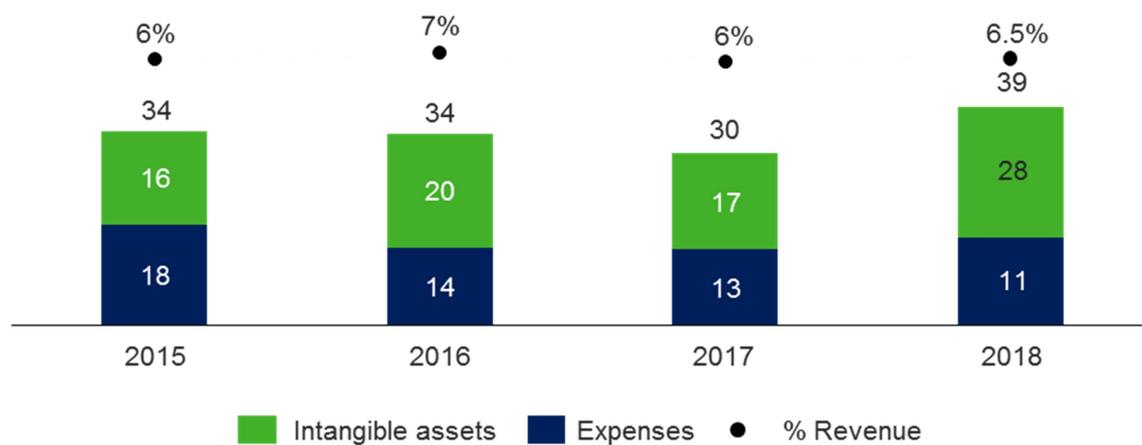
Segment:  
Cattle

Launched in:  
June 2018

Keeps silage fresher and profits on the rise for longer.

## Investments in research & development

In 12M18, 6.5% of the net revenue was invested in R&D, totaling R\$ 39 million. The chart below shows the Company's total investments in R&D from 2015 to 2018.



Adjusted statement of income (R\$ thousand)	4Q17	12M17	4Q18	12M18
Revenue	162.025	505.281	175.318	589.215
Cost of sales*	(75.875)	(236.512)	(81.163)	(265.085)
Gross profit	86.150	268.769	94.155	324.130
Selling expenses*	(41.854)	(155.634)	(50.584)	(173.528)
General and administrative expenses*	(9.661)	(35.256)	(13.307)	(43.259)
Other income (expenses), net*	(2.207)	(104)	(4.828)	(5.966)
Operating profit	32.428	77.775	25.436	101.377
Finance income	2.227	7.916	1.011	6.021
Finance costs	(5.351)	(18.185)	(5.237)	(20.959)
Derivative financial instruments, net	2.110	(5.680)	(1.176)	4.562
Foreign exchange variations, net	(3.226)	(844)	692	(4.774)
Finance result	(4.240)	(16.793)	(4.710)	(15.150)
Profit before income tax and social contribution	28.188	60.982	20.726	86.227
Current and deferred income tax and social contribution*	(5.257)	(15.541)	894	(15.114)
Adjusted profit for the period	22.931	45.441	21.620	71.113

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

Statement of income - corporate (R\$ thousand)	4Q17	12M17	4Q18	12M18
Revenue	162.025	505.281	175.318	589.215
Cost of sales	(75.875)	(237.504)	(81.163)	(265.085)
Gross profit	86.150	267.777	94.155	324.130
Selling expenses	(41.854)	(155.634)	(50.584)	(173.528)
General and administrative expenses	(10.157)	(39.872)	(13.307)	(43.259)
Other income (expenses), net	(2.207)	(5.920)	(8.627)	(9.369)
Operating profit	31.932	66.351	21.637	97.974
Finance income	2.227	7.916	1.011	6.021
Finance costs	(5.351)	(18.185)	(5.237)	(20.959)
Derivative financial instruments, net	2.110	(5.680)	(1.176)	4.562
Foreign exchange variations, net	(3.226)	(844)	692	(4.774)
Finance result	(4.240)	(16.793)	(4.710)	(15.150)
Profit before income tax and social contribution	27.692	49.558	16.927	82.824
Current and deferred income tax and social contribution	(5.089)	(11.657)	2.186	(13.957)
Profit for the period	22.603	37.901	19.113	68.867

Statement of cash flows (R\$ thousand)	2017	2018
<b>Cash flows from operating activities</b>		
Profit before income tax and social contribution	49.558	82.824
Adjustments for:		
Provision for impairment of trade receivables	987	419
Provision for inventory losses and write-offs	11.055	11.798
Reversal of the provision for sales returns	(2.221)	(453)
Changes in the provision for bonuses to customers	451	(303)
Depreciation and amortization	24.859	25.532
Provision for impairment and write-off of intangible assets	990	4.839
Reversal of the provision for discounts on sales of vaccines against foot-and-mouth disease	(2.443)	
Result on disposal of property, plant and equipment	(277)	13
Result on disposal of intangible assets	(1.456)	(73)
Interest and monetary and exchange variations, net	16.657	25.656
Derivative financial instruments	5.679	(4.562)
Provision for contingencies	62	4.094
Stock options granted	1.053	662
Changes in working capital		
Trade receivables	9.052	(12.818)
Inventories	5.696	(57.422)
Taxes recoverable	(6.522)	(8.052)
Other assets	901	1.426
Trade payables	3.886	(842)
Taxes payable	(897)	(467)
Other liabilities	2.769	9.801
<b>Cash from operations</b>	<b>119.839</b>	<b>82.072</b>
Interest paid	(13.640)	(18.806)
Income tax and social contribution paid	(6.696)	(20.458)
<b>Net cash provided by operating activities</b>	<b>99.503</b>	<b>42.808</b>
<b>Cash flows from investing activities</b>		
Investments in intangible assets	(17.649)	(23.697)
Purchases of property, plant and equipment	(14.197)	(24.627)
Proceeds from sale of property, plant and equipment	729	1.699
Proceeds from sale of intangible assets	5.876	220
<b>Net cash used in investing activities</b>	<b>(25.241)</b>	<b>(46.405)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	59.950	151.879
Repayment of borrowings	(66.534)	(189.943)
Payment of dividends and interest on capital		(10.847)
Realized derivative financial instruments	(14.633)	(5.861)
<b>Net cash inflow (outflow) from financing activities</b>	<b>(21.217)</b>	<b>(54.772)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>53.045</b>	<b>(58.369)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>70.325</b>	<b>123.360</b>
<b>Exchange losses on cash and cash equivalents</b>	<b>(10)</b>	<b>192</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>123.360</b>	<b>65.183</b>

Balance Sheet (R\$ thousand)	12/31/2017	12/31/2018
<b>Assets</b>		
<b>Current assets</b>	<b>407.296</b>	<b>413.107</b>
Cash and cash equivalents	123.360	65.183
Trade receivables	160.663	174.694
Inventories	108.578	153.159
Taxes recoverable	4.748	5.840
Income tax and social contribution recoverable	4.177	8.295
Related parties	256	636
Other assets	5.514	5.300
<b>Non-current assets</b>	<b>402.931</b>	<b>432.900</b>
<b>Long-term receivables</b>	<b>69.343</b>	<b>78.469</b>
Taxes recoverable	49.664	56.368
Deferred income tax and social contribution	12.412	15.963
Inventories	5.137	5.422
Other assets	2.130	716
<b>Permanent assets</b>	<b>333.588</b>	<b>354.431</b>
Intangible assets	86.721	93.799
Property, plant and equipment	246.867	260.632
<b>Total assets</b>	<b>810.227</b>	<b>846.007</b>
<b>Liabilities and equity</b>		
<b>Current liabilities</b>	<b>276.517</b>	<b>170.836</b>
Trade payables	27.915	27.100
Derivative financial instruments	9.179	28
Borrowings	190.233	76.439
Salaries and social charges	22.180	32.890
Taxes payable	4.153	5.097
Income tax and social contribution payable	578	763
Dividends and interest on capital	9.051	16.351
Related parties	168	145
Commissions on sales	4.931	5.446
Other liabilities	8.129	6.577
<b>Non-current liabilities</b>	<b>128.074</b>	<b>219.204</b>
Derivative financial instruments	1.272	
Borrowings	122.867	211.090
Provision for contingencies	3.935	8.114
<b>Total liabilities</b>	<b>404.591</b>	<b>390.040</b>
<b>Total equity</b>	<b>405.879</b>	<b>455.936</b>
Non-controlling interests	(243)	31
<b>Total liabilities and equity</b>	<b>810.227</b>	<b>846.007</b>

