

Ouro Fino Saúde Animal Participações S.A.

Voice conference Transcript – 1Q20

Speaker A: Ladies and gentlemen, thank you for standing by. At this point, we would like to welcome you for the first quarter two thousand and twenty conference call for Ourofino Saúde Animal. Today we have with us Mister Jardel Massari, the chairman of the board of directors, Mister Kleber Gomes, the company CEO, and Marcelo Silva, the CFO and IRO. We would like to inform you that this event is being recorded and simultaneously translated, and that all participants will be in listen-only mode during the company's presentation, and, so, in this, we will go onto the Q&A, when further instructions shall be given. Should any participant require assistance during this call, please, press star-zero to reach the operator. We have a simultaneous webcast that may be accessed through Ourofino's website, at ir.ourofino.com. At this address, you will find the banner, first quarter two thousand and twenty banner, the slide presentation can also be found there. Before proceeding, we would like to mention that forward-looking statements made during this conference call referring to the business, projections, operational and financial goals are based in beliefs and assumptions of the company management, as well as on information currently available. They involve risks, uncertainties, and assumptions, as they relate to future events, and, therefore, depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Ourofino and lead to results that are different materially from those expressed in the forward-looking statements. I would now like to give the floor to Mister Jardel Massari. Good afternoon, Mister Massari, you have the floor. Good afternoon and thank you very much for participating in our earnings conference call for the first quarter of two thousand and twenty. I would like to begin by thanking each of the associates for the trust, for their commitments and dedication in the construction of a common purpose, which is reimagining world health. During the entire period in which I was leading Ourofino, this dream that began thirty-three years ago with myself and Norival has now become the largest domestic animal health industry. In these three and a half years when I returned to the management of the company, I attempted to reinforce the values of the founding members to have simplicity and agility in the Ourofino processes, with a great focus in what is fundamental, the clients. And this is how the company exists, and this is how we work, since April first I've stepped down

from the position as the company CEO and, aligned with a succession process that was already underway, Kleber took on the position of Chief Executive Officer. I will continue on as the chairman of the company's board of management, supporting the mission to define the best strategy for Ourofino, and thus contribute so that the company can grow ever more, thus and with great tranquility, as I know his work, his competency and character, myself and the other members of the board elected him. Kleber joined the company thirteen years ago, has a deep knowledge of the business, has led the Financial, the IR areas and the Legal areas, the IP area and, more recently, the Product area, which encompasses Research and Development, Market Intelligence and the regulatory part, with a very active participation in the main strategic movements of the company in the last few years. And it is not that I am leaving the company, I will be in the management board with all of them, and I will continue offering support to the entire structure of the company along with Kleber. I wish everybody a great deal of success in this new period, and I would now like to give the floor to Kleber to speak about the results. Thank you very much, Jardel, and I would like to thank you for the confidence and the work carried out with much dedication as one of the company's founding members and in the resumption of the growth of the company in the last three and a half years. We are very happy to still be able to count upon your participation in the company, contributing with your knowledge, business experience, guiding and leading to greater longevity. Before I speak about the performance, I wish to desire success to the new CFO, he is an accountant from the University of São Paulo, and getting a master's degree at São João Cabral. He has been at Ourofino for thirteen years as a financial manager, controllership, and I am sure he will continue to contribute to the company in his new role. We will now speak about the results of the company in the first quarter. In the first quarter of two thousand and twenty, the company has significant net revenue increase of twenty three percent, with a dilution of seven percentage points in SG&A, and a consequent improvement in EBITDA of five million in the period. The international operations in production animal segment were the most important, with sixty-six and twenty percent increase vis-a-vis the last year. For companion animals, the increase was seven percent. The operational cash generation was forty-two million, and an improvement of forty-five days in the financial cycle. In an environment of greater volatility due to the COVID-19, the company remains motivated and confident in the visibility of Ourofino two-point-oh, with multi-species portfolio company and incremental innovation strategy, expanding its operation and guaranteeing care when it comes to companion animals, even during the period of crisis, the medium and long term drivers of growth in the markets in which we operate, even though they are negative expects,

will allow us to go forward. In production animals, we had a lesser impact, because this is an essential chain, and the sellers did not suffer penalties to maintain their business establishments. Notwithstanding the fact, some of them have decided to close temporarily, and perhaps postpone the business fairs in Brazil, the representatives of the cost of this segment is slow, and this will allow greater productivity for the rural producers, and we think that [unint] [00:08:39] will be maintained. In companion animals, one of the drivers is the availability of money among the population affected by economic factors, however, it should be noted the important role that animals play in this new context. They have a therapeutic power and a positive impact on the mental health of their owners. So, this also guarantees the purchase of drugs and veterinary products. However, we see that less owners visit pet shops, with an impact on the sales, as we have observed in the first quarter. In international operations, the company played an important role with trade associations, especially in Colombia, where the mobility restriction was stronger, and we have been able to market animal health products as this is an indispensable activity. There have also been improvements in profitability and a sustainable growth for the medium and long term in Mexico and Colombia. The customer service has been maintained, but we have adopted several of the digital content with customers, which tends to be capitalized. This includes our international operation, and we have trained our teams to create solutions for digital contact in their sales, to generate demand in animal care, training and workshops are being offered to clients through specialists to maintain our relationship and to accelerate the digital transformation in the company. Now, to ensure supply to customer, especially because of the percentage of imports from India and China, we have strengthened our inventory management and supply-chain monitoring. Inventory finished, the first quarter of two thousand and twenty was an increase of seventeen percent vis-a-vis the first quarter of two thousand and nineteen, and the inventories are appropriate for operations in Brazil, Mexico, and Colombia. From the financial viewpoint, the cash position was strengthened in the first quarter due fundraising, which totaled ninety million, with an average CDI rate by 2.4 percent for a one term year. We also have reviewed the capex and maintained only essential projects that were underway and that are essential for our portfolio, the receivable portfolio has also been intensified, and so far we remain at historical levels, especially for the protection of our employees' health, we created a risk management committee that sets forward the best practices, and we have replaced face-to-face meetings with remote ones, we have cancelled international and national trips, and the corporate group is working from home, we are also sanitizing working environments, and employees have received hand

sanitizers produced by the company. Now, we know that there will be impacts in the short-term because of a contraction in the economy, and we will continue to work to guarantee that we can mitigate these impacts. I would like to thank all of the employees, community, and our shareholders at this moment. I now give the floor for Marcelo to continue presenting our results. Thank you, Kleber, and thank you for the confidence, I also wish you much success as the leader of the company. We are going to continue speaking about the net revenues of the company. In the first quarter, the consolidated net revenue was of one hundred and twelve million, a growth of twenty three percent year on year. We are going to speak about three segments, the production animal segment had a net revenue of seventy-two million, with a growth of twenty percent vis-a-vis the first quarter of two thousand and nineteen. Because of volume gains and the favorable exchange rate, as the sales segment of poultry and swine are attached to the dollar, the commercial team has been trained to work proactively, although remotely, they are offering training online with agribusiness specialists, and, associated with social media and television, we are activating new customers. The companion animal segment had a net revenue of twenty-one million in the first quarter, with a growth of seven percent because of volume increases, especially therapeutical and antimicrobial products. Now, although remotely, we continue to have the acknowledgement of brands and products, clinics, veterinary hospitals, and pet shops have been authorized to remain open, guaranteeing the health of companion animals. The international operation segment had a net revenue of nineteen million in the first quarter, an expressive growth of sixty six percent vis-a-vis the first quarter of two thousand and nineteen. Now, if we do not consider the exchange rate impact, the growth was of fifty six percent. We had an increase in volume because of the sale of the [unint] [00:14:38] vaccine to Uruguay. In Colombia, the net revenue growth was of 9.4 percent, and there was a number, of course, a favorable exchange rate, and also some losses because of the strong quarantine due to the pandemic. In Mexico, there was a reduction of twenty eight percent in net revenues, and price gains of eight percent a year, but not offset by the losses in volume. The company activities underwent restructuring, and this includes pricing, the teams, all of which geared to improving profitability and contribution margins. Growth margin in the first quarter of two thousand and twenty was of forty six percent, a decrease of three percentage points vis-a-vis the first quarter in two thousand and nineteen. The animal production segment had a growth margin of thirty six percent, a decrease of four percentage points, because we had our work in our projects mixed. Additionally, beginning in the second quarter of two thousand and nineteen, there was a state decree in São Paulo that demanded that the ICMS of the products within the state be taken away from our credit, with

an impact on margin. The companion animal segment had a growth margin of sixty six percent in the first quarter, a decrease of three percentage points vis-a-vis the first quarter of two thousand and nineteen. The margin losses were due to an increase in production costs because the areas testing to products for pets were used less, and therefore we had a higher unit value per product. The international operation segment had a growth margin of sixty percent, an increase of four percentage points vis-a-vis the first quarter of two thousand and nineteen. The result is due to the positive exchange rate and price gains that offset the worst mix, SG&A at the first quarter of two thousand and twenty added up to fifty three million, higher vis-a-vis the same period, last year three million more, six percent. This increase reflects a higher recognition of expenses in research and development, amounting to one point five million, and the salary readjustment of employees for two thousand and nineteen. There was a dilution of expenses in seven percentage points, down to forty seven percent, adjusted at the end of the first quarter was a five point two million, reflecting the dilution of expenses with SG&A, and offsetting the drop of growth margin during the period. Regarding the net financial expenses for the first quarter, it added up to one point five million, a reduction of fifty eight percent vis-a-vis the first quarter in two thousand and nineteen, this is because of a lower cost of capital that was approximately five point seventy four percent a year, and CDI and TJLP indicators. We raised ninety million at the average cost of CDI, plus 2.42 percent a year. Once again, to help us have liquidity with this scenario of COVID-19. But this brought to an increase of financial expenses. Now, we had forty-two million in operational cash generation, the net debt remains stable, a growth of three percent, and net debt over EBITDA stood at one point eighty-nine. Now some comments on income tax and social contribution, and losses during the period. Income and social contribution on the first quarter was oh-point-three million negative, compared to the 2.7 positive in the first quarter of two thousand and nineteen. The adjusted losses in the first quarter of two thousand and twenty added to three point one million, an improvement of fifty two percent vis-a-vis the first quarter in two thousand and nineteen. This reflects the income of net revenue from the company that has offset the percentual loss of growth margin and the dilution of SG&A. Now we have some comments in terms of our dividends. In the first quarter of two thousand and twenty we invested eight percent of the net revenues in research and development, totaling nine million, vis-a-vis eleven percent in the same period in the previous year. This represents a reduction of one million during the period. This percentage is in line with our historical investment, and the essential projects in the company will be maintained. I would now like to return the floor to the Operator for the Q&A session. Very well, then, we will now go on to

the Questions and Answers session. Should you wish to pose a question, please press star-nine on your phone. The first question is from Luciana Carvalho, from Bank of Brazil. Luciana, good afternoon. Good afternoon, good afternoon Jardel, Kleber and Marcelo, thank you for taking my question, congratulations. I have two questions, the first refers to volume, you had an advance in volume in each of the segments, but in companion animals you had a drop in March because of the pandemic. I would like to understand what you are considering for production. There is the expectation that there will be less slaughter, perhaps, of animal protein, a greater supply of fall. What will happen with the volumes going forward? If the impact continues, will the impact be greater on the second quarter on your volumes? The second question refers to the mix. You said that there was an impact on your margin because of the product is mixed. I would like to gain an understanding of what happened with April, can we expect that the second quarter will also have a greater impact, or do you believe you can have an enhancement or an improvement of the mix during the year? If you could give us an idea on prices and volumes, I would be very grateful. Hello Luciana, thank you for your question, first of all. Thank you for the congratulations for myself and for Marcelo, we are quite prepared, and we are going to do our very best work. Now, our outlook on the market, in fact, we are going through an unprecedented crisis. Initially what we see for our business is that protection animals will be quite protected, we are speaking about food chain, and the food chain is less affected. Agribusiness has been deemed to be an essential activity, and we have always worked very closely with our customers, we have a fragmented customer base, we have in-house resources, we work with television in Uberaba, for example, we have an inside advertising agency, so, with great speed, we were able to offer this remote service to activate all of our customers, this was a surprise, and we're going to accelerate our digitalization process as part of our commercial model. To be more specific, I do not think we have had a very great volume reduction in this segment on the present-day condition. The crisis does not allow us to have a very clear view of its termination, but I think this segment, because of the protein, is protected, an in the protein chain, perhaps there will be a reduction of domestic demand, but this will be offset with an increase in exports. Brazil has increased exports in the last two years, especially to China, which is a very good buying market, and we believe that the purchases from China could offset a reduction in internal activity, especially food services. Now, our cost, our price of imports, the final cost of the animals is quite low, and the benefit of the processing is now [unint] [00:24:20], so I think we have protection on several sides when it comes to production animals, now, in companion animals the situation is different, we're aware of the impact of income on the growth of the market, and this

segment was also protected by that decree, considering it an essential business, the health of animals is essential. Initially, there was a close down of activities, most of pet shops were being managed by families, it is a family business, families were left without an income, and, of course, it had a significant impact. We had a significant drop in companion animal sales in March. Now, going forward, we know that April and May will be the most critical months of this crisis, and, subsequently, we should go to a reduction in our business, seventy five percent comes from production animals, and we have been able to maintain figures that are very similar to what we had historically. Now, foreign trade is very much geared on the export of protein, but there is a stronger lockdown in Colombia that hampers the operation. In Mexico, we were restructuring the model and the team, and the crisis surprised us in the middle of the process, making this change somewhat more difficult, but it is underway. When it comes to the mix, compared to the first quarter, while we know that the first quarter is always weaker, we sell more, sell little in international operations, which lowers our margin, and there's less economic activity on the side. We hope that this will be circumscribed to April and May, and we will go back to normal in the second semester, thank you, thank you very much. The next question is from Joseph Jordano, from J.P. Morgan. Joseph, you have the floor, good afternoon. Good afternoon, thank you for taking my question, and congratulations, Kleber and Marcelo. I would like to move away a bit from the discussion of COVID-19, this is going to go by in three or six months, what is important, perhaps, is to understand what is happening with the growth of the company going forward and the expansion of your product portfolio, especially when it comes to the biologic products, therefore in this reduction in capex. What is going to happen in terms of research and development within the company for those products where you have not begun the research, will they be postponed or not? And a certain curiosity that I have in terms of your biological plants, what is happening with it? And finally, if at some point in time it would be possible to transform that production for a human health vaccine, in terms of biosecurity, the plants are probably very similar, and perhaps you could use that idle capacity to produce vaccines for COVID. Joseph, thank you for the question, and also thank you for the incentives at this point in time. First of all, let me do this step by step. Now, in my new position, I have to work with three main points, first of all, the commercial supply, we want to strengthen this even more with the support of the digital transformation, we have to expand the portfolio, this is one of our great growth pillars, as we have said, and also brand streamlining, motivation for people in becoming more expeditious with our people. Now, along this path, the company of course has adopted precaution. We have greater liquidity, we have held back non-essential

investments, but we have not taken our foot of the accelerator when it comes to the portfolio expansion. Logically, based on what happened with the crisis, we carry out a sentiment, we hope that it will be terminated in one and a half or two months, that we will have a gradual resumption, but the company has not held back in investments when it comes to portfolio expansion, the plant continues to operate with biologicals and other developments, we do have work ahead of us, and, as our company is very interested, yes, we have followed up on the eventual production of vaccines throughout the world. We read news that there would be a potential vaccine, that they are seeking plants, we have two biological plants, one for traditional vaccines based on cells, and we have a new plant with recombinant vaccines, so yes, we are very aware and attentive to that, and if an opportunity comes up, we hope to make the most of it. It would be excellent to be able to have the vaccines, and we hope that we can contribute to that direction. Thank you, thank you very much, Kleber. The next question is from Gabriel Minazi from the Getúlio Vargas Foundation, good afternoon, Gabriel, you have the floor. Good afternoon, good afternoon, Kleber, thank you for taking my question. My question is very similar to the previous one. You have inaugurated that new plant of biologicals, and it allows you to produce more products, now in two thousand eighteen, two thousand nineteen, it had a revenue growth of fifteen percent. Now, despite that, in the first quarter the growth was twenty percent vis-a-vis to two thousand eighteen. Now, how has this plant grown, do you have incremental production, and what is the role that this plant is going to play in the coming years? Gabriel, good afternoon, thank you for the question. In biological products, first of all, you need to make a plant and then begin to produce vaccines, and, of course, vaccines require the existence of a plant. Now, the growth that you see during this quarter has no relationship to the plant, the plant continues to produce a single product that we launched in the beginning of two thousand and nineteen, the circovirus vaccine, the first that exists worldwide. But it is still in the ramp-up stage, there has been no growth, the growth in this quarter relates to a strong growth of volume in January and February, we felt a slight drop in March, especially in companion animals and in international operations, because of the close down of pet shops, and internationally, because of the lockdown in Colombia and the situation of Mexico. In production animals, we had figures that were very similar to the budget, somewhat higher, and we are working with the customers remotely. What we expect from this plant going forward, in the coming four or five years, is that it will have a significant contribution in the launch of biological products that would represent twenty five percent of the market as a whole. I am not saying that the company will have that market share, but that is the biologic market, so we have significant work ahead of us. Thank

you for your question. Thank you, Kleber. We would like to remind all of the guests that, should they wish to pose a question, please, press star-nine on their phone, we have the Ourofino team at your entire disposal. At this moment we conclude the Q&A session, I will now return the floor to Mister Kleber Gomes for the closing remarks, you have the floor, sir. I would like to thank all of you for the confidence and interest in the company, we continue to work arduously following this strategic planning that was structured throughout the year of two thousand and nineteen. The company has found data, it has a support of good liquidity, and we are accelerating in terms of strategic issues. We are all very motivated, the board is very motivated, Jardel will continue working closely with us, this is a positive moment as part of the context of the pandemic, I think we are protected from that situation. Thank you very much, and our IR team is at your entire disposal should you have any doubts. Thank you very much. The first quarter two thousand and twenty conference call for Ourofino ends here, we would like to thank all of you for your participation, good afternoon.