

OUROFINO
EARNINGS
CONFERENCE CALL
4Q2018
02/27/2019

OPERATOR – Ladies and gentlemen, thank you for holding and we would like to welcome you to the Ourofino Saude Animal 4Q and full year 2018 conference call. Today we have with us Mr. Jardel Massari, the Company's CEO, and Mr. Kleber Gomes, CFO and investor relations officer. We would like to inform you that this event is being recorded and simultaneously translated. All participants will be in listen-only mode during the company presentation. And soon in the company remarks there will be Q&A session when further instructions will be given. Should any participant require assistance during the call, please press *0 to reach the operator. We have a simultaneous webcast that can be accessed through Ourofino's website at ir.ourofino.com. At this address you can find the banner Webcast 4Q2018, this will lead you to the presentation platform. Before proceeding we would like to mention that forward-looking statements that will be made during this conference call refer to beliefs and assumptions of Ourofino's management and are based on information currently available to the company. They involve risks, uncertainties and assumptions as 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 leading results to differ materially from those expressed in such forward-looking statements. We would now like to turn the floor over to Mr. Jardel Massari. Mr. Massari you may proceed.

JARDEL MASSARI - Good afternoon to all of you and it's a pleasure to have you participating in our 4Q2018 and 2018 results conference call. First of all I

would like to underscore that we're extremely satisfied with Ourofino's results in 2018. We delivered figures above budget the highest net revenues in the history of 30 years of Ourofino with almost BRL600.0 million, an EBITDA of more than a BRL130.0 million and adjust profit of over BRL70.0 million, the highest ever in our history. We generated cash and further reduce leveraging allowing for greater growth opportunities both in the short and long run. It is our understanding that the main actress in this results that were presented in 2018 are our employees and that we should continue to motivate them to attain our growth goals for the coming years. Because of this we have decided to reward all of the Company employees with an additional bonus salary for the excellent year of 2018. The bonus led to an extraordinary effect of BRL6.0 million in the 4Q that was more than offset by the dilution of expenses throughout the year. Our commercial team was successful and carried out robust sales and also generated demand with a consequent increase in volume and prices, both in production animals and in companion animals. They continue to be motivated to seek the results for 2019. In international operations we continue on with our project to internationalize via Mexico and Colombia mainly with volume increases in both countries and a growth reported that was mostly posted in local currency. In the year of 2018 both countries accounted for almost 70.0% of our total revenues from international operation, a percentage that shows results that are consistent in terms of growth as part of the internationalization strategy of the Company working with teams in both countries, teams that are working arduously with Brazil. The biological plant brought its first fruits with the circovirus vaccine that is called Safesui. We held the technical launch in November of last year with experts throughout Brazil explaining the competitive edge. This vaccine is the first vaccine with the attention from invoicing the biological project against the strain PCV2D for circovirus. With this product we kick off the beginning of an era vaccines with greater added value for the future of Ourofino. Besides, since the beginning of February we already begun selling the first batches to farms throughout Brazil. I would now like to turn the floor over to our CFO and IRO Mr. Kleber Gomes, who will comment on the results for the period. Thank you very much.

KLEBER GOMES - Thank you, Jardel. Good afternoon to all of you. We will begin by remarking on the net revenues the Company. Ourofino presented net revenues of BRL175.0 million in the 4Q2018, a growth of 8.0% vis-à-vis the 4Q2017. During 2018 net revenue was BRL589.0 million, an increase of 17.0% compared to the same period in 2017 and the best in the Company history as mentioned by Jardel. The production animal segment had net revenues of a BRL137.0 million in the 4Q with an expansion of 3.0% compared to the 4Q2017. We have our share of foot-and-mouth disease in the 4Q that had a lower volume in the 4Q given us that feeling that we had less growth. In 2018 net revenues were BRL459.0 million with a growth of 15.0% and impacted by the increase in volume and prices during the year, in line with the work of our teams that generated demand. The companion animals segment had net revenues of BRL20.0 million in the 4Q with a growth of 36.0% vis-à-vis 4Q2017. During the year net revenues were BRL76.0 million with a growth of 24.0% compared to same period in 2017. This is due to volume increases aligned with several of the [08:12] carried out by our team that carried out businesses with veterinary doctors throughout the country. The international operation segment had net revenues of BRL90.0 million in the 4Q2018 an increase of 30.0% vis-à-vis 4Q2017. In 2018 net revenues were BRL55.0 million with a growth of 18.0% results to a [08:36] because of a growth in local currency and because we had a increase of sales to other countries, specially the foot-and-mouth vaccines that occurred in 2017 and will not repeat into 2018. Ourofino's gross margin in the 4Q was 54.0%, a 1.0pp increase vis-à-vis the 4Q2017. During the year gross margin was 55.0%, a growth of 2.0pp vis-à-vis the 4Q2017. The animal production segment had a gross margin of 50.0% in the 4Q with a decrease of a little less than 2.0pp vis-à-vis 4Q2017, with an impact on the [09:24] because of the bonus awarded to the entire industry team representing BRL2.0 million. Gross margin for 2018 was 52.0%, an increase of 1.0pp reflecting price gains accrued throughout the year. In the companion animals segment the gross margin was 69.0% in the 4Q2018 maintaining the same results as 4Q2017. Gross margin during the year was 70.0%, an increase of 0.5pp reflecting price gains. In the international operating segment gross margin was 62.0% in the 4Q

with a growth of 13.0pp compared to the 4Q2017. Gross margin for 2018 was 63.0%, a growth of 12.0pp. This reflects a better mix during the period and a favorable exchange rate.

We continue with our comments on SG&A and EBITDA. Expenses with SG&A in the 4Q2018 amounted to BRL67.0 million with an increase of 6.0pp compared to the 4Q2017. During the year expenses amounted to BRL223.0 million maintaining the same percentage on revenues as in 2017. This is due to the decision of awarding the team because of the results during the year amounting to BRL4.0 million, provision for impairment, BRL5.0 million, along with the negotiation with the employees that was 2.0% lower than what we saw in 2018. Adjusted EBITDA totalled BRL36.0 million with a 21.0% margin, a decrease of 4.0pp vis-à-vis a 4Q2017. Due to our SG&A in 2018 adjusted EBITDA was a BRL132.0 million, the highest in the company's history, as mentioned by Jardel, an adjusted EBITDA margin of 22.0%, a growth of 2.0pp vis-à-vis the same period in 2017. because of the gains in gross margin throughout 2018.

We will now speak about net financial expenses and income tax and social contribution. Our net financial expenses into 2018 amounted to BRL5.0 million, an increase of 14.0%, a rise vis-à-vis 2017. The reduction was 9.0% vis-à-vis the same period in 2017 for financial expenses. The average cost of debt was 7.2% in the 4Q, compared to 6.8% in the 4Q2017. And this reflects the disbursement for the funds to finance studies and projects. Income tax and social contribution in the 4Q posted a credit of BRL1.0 million vis-à-vis an expense of BRL5.0 million in the 4Q2017. In 2018 income tax and social contribution was BRL16.0 million vis-à-vis 16.0 million for the year 2017. Once again, these figures differ from the accounting results. Adjusted net revenues for the 4Q amounted to BRL21.5 million with a net margin of 12.0%, a decrease of 2.0pp vis-à-vis 4Q2017. In the year 2018 adjusted net profit was BRL71.0 million, also the highest in the history of Ourofino with a net margin of 12.0%, a growth of 3.0pp compared to the same period in 2017. These results reflect gains in adjusted EBITDA margin along with a lower percentage of taxes on profit before taxes. We continue on with the indebtedness of the company

in the 4Q2018. The net debt/EBITDA was 1.7x compared to 1.9 in the 4Q2017. The average cost of debt was 7.2% during the year upon closing compared to the 6.8% in the 4Q2017. As mentioned in financial expenses the cost of debt of the net was higher but now the terms are much higher compared to the normal credit in the market and in accordance with our product development cycle. These values incorporated the values of bank guarantees and related derivatives. Our cash reached BRL65.0 million thanks to amortizations throughout the year.

We will now refer to 2018 operational cash generation of BRL82.0 million impacted by an increase in inventory volumes due to greater purchases of imports from China. And once again the vaccine of foot-and-mouth disease of 2.0ml we also paid debts amounting to BRL152.0 million during the year. Fundraising allowed us to lengthen our debt reaching 3/4 of our total gross debt. Investments and development into 2018 totaled BRL39.0 million representing 6.5% of net revenues for the period. The percentage is in line with our historical average and shows that we are investing in our growth and sustainability. As mentioned by Jardel, in 2018 we launched the first vaccine in our biological plant and this is the first result among several that we have in this project. This is an important commitment to improve animal health in Brazil and throughout the world. We have a commitment towards the development of products and this will enable us to be more innovative in the long term. The biological market represents 1/3 of the total animal health market. We hope that 2019 will be another important year for the history of Ourofino and we have results that are aligned with our planning for the long term.

I would now like to return the floor to the operator to go on to the question and answer session.

OPERATOR – Once again, should you wish to pose a question, please press *1.

Mrs. Olivia Petronilio from the JPMorgan would like to pose a question. You may proceed madam.

OLIVIA PETRONILIO - Good day to all of you. Thank you for taking my question. I have three in total. The first refers to the results during this quarter. I think we're looking at a full commercial restructuring that has taken place in the Company and I would like to know which is the outlook going forward, if you're expecting a greater remuneration for the sales team and if you could give us a greater color as part of the 4Q in terms of the foot-and-mouth disease. We thought the margin would be lower, and we see that the margin posted was somewhat higher. And what is that we can expect for the next 3 or 6 months and the potential growth in revenues.

KLEBER GOMES – Olivia, good afternoon. Thank you very much for your question. When it comes to our results [17:46] who have followed up on us for some time we have undertaken a very harsh restructuring as you know and well, initially everybody came out losing including the shareholders. We have been working on the recovery, we're working in the very [18:10] way efficiency, productivity, and rationalizing expenses. If we look at 2018, and if we look at 2019 and 2020 it is our understanding that 2018 was an important year to offer gains to everybody seeking a better foundation for the coming years. We jointly deliberated between the board and the management to think about the reward that we decided to offer to more than a 1000 employees that we have with a bonus salary, once again, to reward them for the excellent year that we had in 2018, and because of the efforts that everybody deployed to attain these results. Once again this is an additional bonus because of the recovery work that was very well done. Evidently we mentioned that on the beginning it is our understanding that the employees are essential to the company, they are the ones who attain the results and we hope to be able to reward them more times going forward if they achieve this positive results. This is what happened in 2018. Going on to your second question, the gross margin for production, as we had anticipated in the first campaign we attained a lower volume in the second campaign and it was natural to expect an improvement in the gross margin for production animal. On the other hand this reward also had an impact on the industry as a whole. BRL6.0 million, BRL2.0 million remained in the industry and that was last minute decision we ended up

going to the CPD and this effect was offset by the potential improvement in gross margin that we could have had in the second campaign. We were able to see the enhancement expected. When it comes to our pipeline we don't disseminate this but we do know that the vaccine product is a very significant project, the great price from the market is based on the vaccines and we try to set ourselves aside with an extremely [21:04] carried out technical launch. And not referring only to the technical part, but this vaccine is one of the most updated one for a disease that has a severe impact and I think that we're going to recover and make the difference in the market going forward. For the coming years we do have other vaccines in the pipeline but unfortunately we cannot disseminate this. Now, the vaccine market is one of the main markets specially if you put aside the foot-and-mouth disease vaccines.

OLIVIA PETRONILIO – Thank you very much for your response.

OPERATOR – Luciana Carvalho from Banco do Brasil would like to pose a question.

LUCIANA CARVALHO – Good afternoon Jardel and Kleber, thank you for the presentation. I would like to speak about the foreign market. You have a growth of 55.0% in Colombia and Mexico. How much room do you still have to grow in the foreign market, what is the expectation for 2019 and if you could speak a bit about your CAPEX, if you have a target for 2019.

CLEBER GOMES – Luciana, we have very good outlook for the year 2019 and in both countries Colombia and Mexico. We firmly believe in those countries and we are working there with our own team, with our training and with all of the IT tools that have been developed for market and in 2018 we announced to work with a pets market for both markets. Once again this is a market that continues to be small but with a great deal of potential for growth specially in the year 2019. Luciana, to add to this, and this I believe it's your first participation to give you more qualitative information. The Latin American market for protein is the best market in the world, it moved 17.0% as a the protein throughout the world and by far Brazil has a higher share in this market. Now the market in Mexico and Colombia are the

second largest markets after Brazil. They have an enormous growth potential and as mentioned we have our own team working with a benchmarking, we've come on a commercial basis beginning with a small foundation. We have a full portfolio in these countries and until 2018, we had several product launches that allowed us to grow, and 2017 we were the company with the greatest growth in 2017 and then Colombia reward a 3rd company with the greatest growth. The growth is approximately 50-55.0% and once again we will be among the first companies to have growth in this country with significant room for more growth. Now, when it comes to pay tax we have not disseminated the details of this but we are going to make investments and plans besides all of the [25:17] we spent 67.0% of our net revenue in research and development. All of this is also capitalized the part of product development. So, yes, we do have some investments going forward, nothing too novel nor great projects.

LUCIANA CARVALHO – Thank you very much Kleber and Jardel for your responses.

OPERATOR - We would like to remind you that should you wish to pose a question please press *1.

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At this moment we would like to end the Q&A session. We return the floor to Mr. Jardel Massari for his closing remarks.

JARDEL MASSARI –To conclude our conference call today I would like to say that we continue working arduously to re-imagine animal health, we're coming up with solutions for all of our customers. I would like to thank all of you for your confidence in our results and for supporting our work. Our IR team is at your entire disposal to clarify any doubt that you may still have. With that I would like to wish you a good afternoon and thank you very much for your participation.

OPERATOR – The 4Q2018 and full year 2018 conference call for Ourofino ends here. We would like to thank everybody for their participation. Have a good afternoon.