

OUROFINO – INGLÊS 09/08/2017

OPERATOR: Ladies and gentlemen thank you for holding and welcome to the Ourofino Saude Animal 2Q2017 results conference call. Today we have with us Mr. Jardel Massari, CEO, and Mr. Cleber Gomes, CFO and IRO. 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 presentation and soon we will go on to the Q&A session when further instructions will be given. Should any participant require assistance during this 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, here you will find the webcast 2Q17 banner that will lead you to the presentation. Before proceeding, I would like to mention that forward looking statements made during this call refer to the 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 causing results to differ materially from those expressed in such forward looking statements. I would now like to turn the floor over to Mr. Jardel Massari. You may proceed, Sir.

JARDEL MASSARI – A good afternoon to all of you and thank you for your participation at our results conference call to the 2Q2017. Ourofino continues to follow the road of recovery and the 2Q2017 which was very positive. Historical profitability levels were resumed with an EBITDA margin of 23.0%, an increase of 8.0 p.p. vis-à-vis 2016, and 2.0 p.p. compared to 2016. The net margin was 11.0%, an increase of 6.0 p.p. compared to the 2Q2016. This result is a reflection of the strategy adopted which was included a review our trade policy offering our frontline sales team more authority for negotiation

seeking to discreet discount and bonuses, taking hard decisions for decrease inventory levels of the channels with a [03:20] impact on results by the end of 2016. Removing the less profitable part from the portfolio, jointly with efforts to reduce expenses and generate cash through shorter average billings terms. In the production animal segment what we observed was a slight increase in net revenues with an improvement in gross margin, as a result of better sales prices for cattle products including vaccines against foot and mouth disease for the first campaign that began in may, and because of a better mix of plant products. With respect to companion animals, there was a decrease in net revenue due to the very challenging macro-economic environment specially in Rio de Janeiro where we decided to adopt a more rational inventory strategy for the channel as well as in other state decreasing once again our inventory, because of the current economic scenario. In spite of this, the gross margin continues to recover compared to the last three quarters and we have full confidence that we'll have a better recovery in the 2S. In the international operation segment there was a revenue growth that was in line with our expectations. Besides of strenghtening of the BRL compared to other currencies and the exports of vaccines against of foot and mouth disease, which resulted in reduced margins for the segments. During this quarter we also had celebrations to mark the 30th anniversary of Ourofino. On this very important date we lauched our branding project which conveys our purposes and the Reimagining Animal Health. Since that [05:39] company have thought to adopt different practices that bring about greater added value such as a commercial model of making direct sales to resell of agricultural products which resulted in rethinking the common practices of selling through distributors by the veterinary pharmaceutical industry. The challenge throughout 2017 has not been different and this attitude of rethinking continues to guide our action. Once again we remain confident that we'll achieve improved results in the 2H of the year as we know that this is the most important sales period for the company, there is a significant seasonality in the

2 semester normally, and we hope to achieve more significant results in terms of profitability. We fully rely on the commitment and motivation of our intire team. Having said this I would now like to give the floor to our IRO and CFO Cleber Gomes who will remark on the results for the period. Thank you very much.

CLEBER GOMES – Thank you Jardel. A good afternoon to all of you. Ourofino presented a net revenue of R\$ 138.0 million in the 2Q2017, a growth of 2.0% vis-à-vis 2Q2016. In the 1H2017 net revenues were of R\$ 213.0 million, a drop of 8.0% vis-à-vis same period in 2016. The animal production segment had a net revenue of R\$ 106.0 million, with a growth of 2.0% compared to the 2Q2016. Net revenue for the 1H were R\$ 160.0 million, a drop of 11.0%. In general there was the impact of lower sales for poultry and the strategy to discontinue products with less profit and ousted by better prices and for the foot and mouth disease vaccines because of the exchange rates [08:06] we would have had a growth of 4.0% based on comparison the animal companion segment had a net revenue of R\$ 14.0 million in the 2Q, a drop of 18.0% vis-à-vis 2Q2016. This result reflects [08:25] situation such as the case of Rio de Janeiro and the choice the company made of rationalizing the inventory for the channel. The international operation segment had R\$ 70.0 million as net revenue. For the 1H2017 net revenues were R\$ 22.0 milion, an increase of 8.0% vis-à-vis the same period, 2016. the increment of this are due to an increase in volume with Colombia with the advance of this unit and the sale of foot and mouth disease vaccines to Paraguay. We had a growth of 53.0% in the quarter and 21.0% in the semester, gross margin was 52.0%, an increase of 1.0 p.p. compared to 2016. In the 1S2017 gross margin reached 52.0% an increase of 0.2 p.p. vis-à-vis the same period in 2016. Production animal segments had gross margin of 50.0% in the quarter with an increase of 5.0 p.p. compared to the 2Q2016. For the 1H2017 gross margin was 49.0%, an increase of 2.0 p.p. Margin growth is due to better vaccine prices and cattle line in general a better mix in [09:58] products and a reduction in the volume of

lower margin products and some products have been discontinued. Companion animals segment had a gross margin of 71.0%, a drop of 3.0 p.p. vis-à-vis the same quarter 2016. In the 1H2017 gross margin was 71.0%, a drop of 3.0 p.p., once again compared to the same period the previous year. This drop was a reflection of a less [10:29] mix along with a forecast for the inventory. There was an increase of 6.0 p.p. in gross margin compared to the 2H2016, reinforcing our road to recovery. The international operation segment had gross margin of 48.0% in the 2Q2017, with a drop of 22.0 p.p. vis-à-vis the same quarter 2016. For the 1H gross margin was 51.0% a drop of 50 p.p. compared to the same period in 2016. These drops reflect the impact of vaccines in sales against foot and mouth disease for Paraguay besides the drop in the exchange rate. SG&A reached R\$ 46.0 million with a drop of 15.0% vis-à-vis 2Q2016. For the 1S2017 it attained R\$ 90.0 million with a drop of 14.0% vis-à-vis same period in 2016. We observed a dilution of 7.0 p.p. in the quarter on 3.0 p.p. for the semester, a reflection of our efforts to optimize expenses in the company. We continue to be determined to optimize our [11:53] without compromising our growth drivers. Adjusted EBITDA in the 2Q2017 totalled R\$ 32.0 million with an adjusted margin of 23.0%, an increase of 8.0 p.p. vis-à-vis 2Q2016, showing a strong recovery and the resumption of historical profitability levels. In the 1H2017 adjusted EBITDA was R\$ 33.0 million with an adjusted margin of 16.0%, an increase of 4.0. p.p. vis-à-vis same period 2016. The increases in gross margin and SG&A dilution such as [12:36] for the improvement of EBITDA reflects the work carried out at the company. Net financial expenses stood at R\$ 3.0 million, a drop of 59.0% vis-à-vis 2Q2016. In the 1H2017 it was at R\$ 9.0 million, a drop of 25.0%. These results are due to a greater cash generation in the semester because of the adjustment in our term policies and a lower level of expenses, along with lower CAPEX pressure. With this there was a reduction in net debt which is certainly at R\$ 250.0 million associated to the segment of [13:23] to the CDI and the reduction of financial costs. Income tax and social contribution for the 2Q was

R\$ 1.0 million compared to 1.5 in the 2Q2016. In the 1H2017 it was R\$ 3.0 million vis-à-vis R\$ 0.1 million in the same period 2016. This is a result of greater profitability and the impact of temporary fiscal differences. Adjusted net profit attained R\$ 50.0 million, an increase of R\$ 136.0 million vis-à-vis 2Q2016. In the 1H adjusted net profit was at R\$ 9.0 million, an increase of a 100.0%. These results are the reflection of a growth of adjusted EBITDA along with the factors already mentioned and the reduction in our financial expenses. We now would like to speak about the Company indebtedness. In the 1H2017 the net debt/EBITDA ratio was 4.2x, however this indicator continues to be impacted by the results of the last three quarters and the calculation of accumulated EBITDA. Our expectation is to normalize this index at the end of the year. The average cost of debt was at 7.7% at the close of the year compared to 9.5% for the 1H2016, although lower than the 8.8% for the 1Q2016. This indicator was positively impacted by amortization of [15:06] CDI which took place in the 1H. The CAPEX for the construction of the newplant has been concluded relieving pressure of indebtedness. Our cash reached R\$ 110.0 million which is potential for a short term debt which is a R\$ 104.0 million. Once again we believe that we will continue to generate cash going forward. If we look at cash generation in the 1H we would like to highlight that we achieved R\$ 74.0 million in line with the efforts of the Company to reduce the average receivings term, were reduced 98 days from a 148 days. The amortization of debt and payment of interest totalled R\$ 62.0 million. We also raised R\$ 40.0 million with the impact of the average cost of debt aligned to debt amortization indexed to CDI. We would now like to speak about our investments that reached R\$ 50.0 million, representing 7.0% of net revenues. This percentage is aligned with the historical average. I would not put aside the growth and sustainability of the Company. As a result of our investigation and development efforts there has been some launches and in our pipeline. We have Regepil for chronic scars that are difficult to heal. They also contribute to the scaring process and this specially in physiologic impaired

animals. Additionally, as part of our R&D models, we set up strategic partnerships. We launched the GalliPro line, a result of the partnership with the Danish company Christian Hansen as mentioned in the previous quarter.

The performance of our share was 6.4 including dividends, compared to 15.8 for the same period last year, this after IPO. I would now like to return the floor to the operator so that we can go on to the question and answer session.

OPERATOR – Thank you. We will now go on for the Q&A session. Should you have a question, please press *1.

Mr. João Soares would like to pose a question.

SOARES – A good afternoon Jardel and Cleber, good afternoon for all of you. Thank you for the call and congratulations for the results. I think you have had a significant improvement. As part of production animal I would like to gain a better understanding of the granularity of this business. How much of your improvement was due to the site improvement in the foot and mouth disease vaccines and when we speak about this disease do you believe that its price level will be sustainable? And it's the [18:30] the supply once again will continue as you expected. If you could give us some more color on this?

CLEBER – João, thank you very much for your question. Thank you for the congratulation for the semester, we are quite satisfied and we believe that this is proof of our recovery. What we had planned to speak about the gross margin and production animals. We did have a positive impact during the quarter, we are not going to offer you that breakdown. We did have an improvement in terms of prices and what I can say now is that prices are quite balanced with the rest of our products for cattle, specially with the discontinuation of the poultry products that we have that were not profitable. Once again we're in a situation of balance. In terms of the foot and mouth disease for the 2H, evidently we expect to maintain our results, the scenario

continues to be some of uncertain, but the expectation is that we will maintain our results, I'll be working with rather conservative forecast, when it comes to the scenario in general, again quite stable, there is a great deal of discussion in terms of some of the problems that have generated abscesses in meat, the Ministry had officially mentioned that the foot and mouth disease vaccine is a safe product but through a agreement with the ministry and our R&D and industry, we have made changes in the formulation basically the vaccine will go from 5ml to 1ml, there will be the exclusion of one of the ingredients in the [20:57] vaccine, this type of virus and once again we do have a substance that offers a reaction to the vaccine to leverage the power of the vaccine. Quality [21:13] have been carefully measured, and what we seek at the end, of course, is to offer greater confidence to the segment, through the minor changes.

SOARES – Thank you for the response.

OPERATOR – Mrs. Olivia Petronilha would like to pose a question.

PETRONILHA – Jardel and Cleber, thank you for the presentation. In thruth, I have two questions regarding the impact of the foot and mouth disease, what is going to happen for the prices going forward? My second question refers to your biological plant, when can we expect a growth in revenue due to the operation of this plant when it comes to your portfolio review, you have had a growth of 4.0%, despite the products that you have discontinued, when are we going to have more harmonious base of products or will any further product be discontinued as well?

MASSARI – Regarding the foot and mounth disease this is the result of the efforts that were set forward through the campaign. We believe that the vaccine and [22:42] has a very low price, it has a low price for the producer as well as for the industry and this should increase the profit [22:55] of the company and we will only know this by October. Regarding your second

question, the biological plant, we're almost at the end of the validation of this process and we should begin to have from imports in beginning in 2018. And to conclude, the issue of the discontinued products, in my opinion we have eliminated all of the products that were not profitable for the Company. We have gone back to a situation of normalcy, it is our poultry and some [23:42] products that were discontinued and in the products that have remained we had a significant increase. We carried out a good identification, we should not discontinue any further products and in the future we would go back to the situation of normalcy in our portfolio. Are there any further doubt, question?

OPERATOR – We have a question from Mr. Godoi.

GODOI – Good afternoon. Thank you for the call. My first question refers to cash generation. We have a lower working capital as we can see and I would like to know if we have come to a sustainable level of receivables, if there are any further gains that you could capture going forward. And in quality if there is anything else you could capture to release your [24:48] considering the efficiency projects that the Company has implemented. My second question refers to your new commercial structure and your new sales efforts, as was mentioned, a great deal of improvement has a result of what you have done commercially. Will you have any further gains coming from commercial sector?

GOMES – Thank you Tomas for your question. When it comes to cash generation we're quite satisfied with this period. It shows you the work that was initiated in September 2016 to match our terms to account receivables, and the result has been very positive. For the time being we have a very comfortable level, I don't believe that in terms of receivables there will be any change, we're also going to softer sales, where I do believe we can capture additional gains in cash generation is in our inventory, because of the situation that we underwent last year, a drop what we are doing at present is leveraging the Company. I trully believe in the potential of increasing working capital by

working better with our inventories. We can also speak about cash generation because of the lower level of expenses. We have rationalized this process and this is something that we're going to continue to work on diligently in future period. We will never compromise, once again, our sustainability or growth. Regarding our sales efforts, perhaps this is one of the great motivation, one of the reasons for the recovery that we observed in this quarter, we still be hiring our sales team by qualitative basis on indicators. We have several discounts that we had to work with, this is all part of our team, with a focus on the portfolio with a very clearly stablished commercial strategy without a change in direction, that is to say following in an aligned way, this is one of the great motivators of our gross margin and our expenses when we speak about cutting down on expenses, this happens because of the rationalization of our sales team. In the 2H we hope that this will lead to a growth in revenues because as a Company we have already observed a significant improvement in the sell to distributors to clinics and petshops, sometimes have been more impacted by the economic scenario which is the case of Brasilia, for example, but we continue to be very aware, working seriously and we'll not allow our distributor to have very high inventories. This is a work that we will carry out in the future.

OPERATOR – Mr. Marcio Montes would like to pose a question.

MONTES – A good afternoon and thank you very much for the call, once again congratulations for the results this quarter. In terms of results and sales we can clearly see the efforts that were set forth to improve the prices of your products specially if we compare what happened with 2015. My question is the following: how do you expect to resume gains to go back to the levels you had in 2015, considering that we have had going backwards in terms of production, if we consider the evolution of prices and in referring more specifically to Rio de Janeiro, which was one of your highlights, it seems that there are perhaps there is the possibility of still having problems during the 2H and in terms of

your international operations we have the issue of Paraguay. Therefore what is going to happen in the 3Q and at the end of the 4Q. I would like to gain a better view of what is about to come when it comes to your production [30:24].

GOMES – Thank you, Marcio. Two questions in one, I will try to respond in parts. Thank you for the questions and thank you for congratulating us for our results. If we compare the results of this quarter 2017 with 2015 I can foresee several positive aspects. Although the revenues are 2.5% above 2015, gross margin remains the same, but all of our other indexes are positive even with a discontinuation of products when we compare [31:05] with 2015, even by eliminating bonus quality that were significant in 2015, that allowed us just lower margins, we can see that we were able to have a growth during the semester. Our expenses are lower which means that our management have greater quality and [31:33] with the confidence to continue along these lines during the 2H and then we will obtain results very close to those we we had in 2015. These results will come from more rational sales in our poultry product line, including the international operations that has had significant growth. In the 3Q the Company will be stronger as we have carried our all of the work in the channel during the 1H and we will have financial improvement due to our efficiency which will bring about results in EBITDA, perhaps very close to those we had in 2015. Once again this is how we compare this quarter to 2015 and as Jardel has already mentioned the 3Q tends to be strong, very seasonal which means we will attain even better results. If we go back to your third question, we have an improvement in sell out that is already happening in several parts in the country. The fact, what is happening in Rio de Janeiro does not hold through to the west and southeast side, the performance there is quite low, our pet management is making investments in sell out, working jointly with distributors to improve that situation and we hope that this will lead to better results in the 2H. In terms of international operations we're following our plan to grow in Mexico and Colombia. Evidently these plans are subject to initial adjustment. It is our understanding that we're doing well, we had a very

strong impact due to forex but the plan continues for [33:51] strenght based on the potential of the site specially in Colombia where we have had expressive growth and in Mexico, it is our second largest market in Latin America, and Colombia the third largest market in Latin America. These markets were great potential.

MONTES – Thank you very much.

OPERATOR – We would like to remind you that should you wish to ask a question please press *1. We will now end the Q&A session. I would like to return the floor to Mr. Jardel Massari for his closing remarks.

JARDEL MASSARI – To our investors I believe in Ourofino. We're convinced we have made all of the necessary structural changes to resume our historical results. I would like to affirm once again that in the 2H we will have excellent results and a closure of the year very robust results and return to normalty of the Company. I would like to thank all of you for your attention and have a good afternoon.

OPERATOR – The conference call for the 2Q2017 for Ourofino ends here We would like to thank all of you for your participation and have a good afternoon.