

OUROFINO
EARNINGS
CONFERENCE CALL
4Q2019
12/02/2020

OPERATOR – Ladies and gentlemen, thank you for holding and welcome to Ourofino Saude Animal 4Q2019 conference call. Today we have with us Mr. Jardel Massari, CEO; and Mr. Kleber Gomes, project and finance vice president 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 presentation. And soon in this 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 may be accessed through Ourofino’s website: ir.ourofino.com, Webcast 4Q2019 banner. The slide presentation is also available for downloading. Before proceeding we would like to mention that forward-looking statements made during this conference call are based on beliefs and assumptions of Ourofino’s management and 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 to results that differ materially from those expressed in such forward-looking statements.

We would now like to turn the floor over to Mr. Jardel Massari. You may proceed Mr. Massari.

JARDEL MASSARI – A good afternoon to all of you and thank you all for participating in our 4Q2019 conference call. In 2019 we concluded the review of

the company's strategic planning ended a new cycle of growth and continuity of our businesses. Reinforcing the purpose of reimagining animal health as the company with broad and multispecies portfolio and operating in Latin America. We set forth several initiatives geared mainly at excellence in execution, as a result we remain confident in the drivers of growth in the market in which we operate and the consequent generation of value for the stakeholders. In the consolidated results net revenue grew 5.0% in 2019 vis-à-vis 2018, reaching BRL620.0 million. As highlighted, the companion animals and international operation segment, both attained annual growth of 17.0%, while production animals segment grew 2.0%. The consolidated gross margin decreased 5.0p.p. standing at 50.0% in 2019 due to a lower dilution of manufacturing costs which along with a greater allocation of R&D expenditures as expenses in different research phases resulted in a reduction of adjusted EBITDA to BRL107.0 million. It is worth mentioning that we have a positive environment and this in the 4Q had a growth of 12.0% in the consolidated revenues vis-à-vis the same period the previous year, reaching BRL197.0 million, the highest quarter in the company [04:13] with an adjusted EBITDA margin of 23.0% and an adjusted profit margin of 13.0%. The production animal segment this year proved challenging, with revenues falling shorter of our expectations and our projections. In 2019 we did not see a positive scenario in the price of animal proteins reflecting the expansion of production animal health market. However the trend of the increasing farm productivity associated with the fact that Brazil is still incipient in the use of animal health products are facts which will support the future growth in the market. It is our understanding that our demand generation program, brand recognition and products in the field and the differentiated access through the resellers compared to our competitors will lead to more positive results in this segment. Additionally in the 4Q2019 it was already possible to observe a slight improvement in the market with a reported growth of 9.0% in the segment revenues. In companion animals there was an increase in customer [05:40] and a continuity of the plan for the team of technical consultants who work with veterinarians to influence the purchase of products in the segment. With a success of this work of consultants these actions will be reinforced in 2020. Thus we

understand that 17.0% growth in this year and due to the company's strong presence along with the movement of humanization of pets and a respective growth of expenses on the health of these animals and of course an increase in the purchasing power of the population. Additionally as one of our strategic planning initiative we improved the segmentation of our target clients and the veterinarians aiming at excellence in our marketing and sales strategy. In the international operation segment our efforts are concentrated on enhancing access to the sales channels in countries specially Mexico and Colombia replicating the marketing program we use in Brazil. With this strategic planning we have identified new products in the portfolio of Brazil that will be registered internationally and have a potential to leverage revenues in the segment. So we'll work in with the Company and local authorities for this. The strategic management of our portfolio with another activity we revisited in our strategic planning defining well structured processes for internal product development and evaluation of external alternatives that exist in the market, with special emphasis on the open innovation model and integrating the areas of marketing intelligence, new businesses and portfolio manager. As a result of this we remain motivated to consistently seek the best results for the company.

I would now like to give the floor to our vice president of new products and IRO, Kleber Gomes.

KLEBER GOMES - Thank you Mr. Massari. We'll now go on to the financial results. We had net revenues of BRL197.0 million in the 4Q, an increase of 12.0% vis-à-vis the 4Q2018. In the 12 months of 2019 net revenues were of BRL620.0 million, a 5.0% increase compared to 2018. The animal production segment had a net revenue of a BRL149.0 million, a growth of 9.0% vis-à-vis 4Q2018. For the 12 months net revenue were BRL467.0 million, a growth of 2.0% vis-à-vis 12 months in 2018. This lower growth reflects the scenario where the animal health market still does not reflect the good moment for the animal protein sector with an increase in prices and export volume. The companion animal segment had net revenues of BRL25.5 million, a growth of 29.0% vis-à-vis the same quarter the previous year.

For the 12 months of 2019 net revenues were BRL88.0 million, an increase of 70.0% compared to 12 months in 2018, this is due to an increase in volumes and price gains. There was an improvement in the onboarding of clients, the company communication with the consumers and we created this team of technical consultants to leverage demand generation. For international operations net revenue was BRL22.0 million in the 4Q, a growth of 19.0% when compared to the same quarter 2018. In Mexico there was a 1.0% reduction in revenues, offset by a growth of 18.0% in Colombia, 39.0% in other countries due to volume gains. For the 12 months net revenue was BRL64.0 million, a growth of 70.0% with volume gains [10:09] the company by favorable exchange rate. Colombia had a growth of 24.0%, if we remove the negative impact of the exchange rate associated to an increase in sales. In Mexico the growth was 11.0% for the 12 months vis-à-vis the same period in 2018, once again due to a favorable exchange rate and price gains. To speak about gross margin for the 4Q2019 it stood at 15.0%, a decrease of 4.0p.p. vis-à-vis 2018. For the 12 months gross margin was also 15.0%, a decrease of 5.0% due to a lower dilution of manufacturing costs. In 2018 we had worked with a higher minimum inventory and this year we had lower production due to the lower sales in production animals. Production animals had a gross margin of 45.0% in the 4Q, a decrease of 5.0p.p. vis-à-vis the same quarter in 2018. For the 12 months of 2019 gross margin was 46.0%, a decrease of 6.0p.p. for the quarter in the 4 year due to the lower use and installed capacity. In companion animals gross margin was 68.0%, a loss of 1.0p.p. when compared to the 4Q2018. Gross margin was 69.0%, once again a decrease of 1.0p.p. In international operations gross margin was 62.0% in the 4Q, an increase of 0.4p.p. when compared to the same quarter in 2018. And the price increases and the effects of [12:08] offset by a favorable exchange rate. In the 12 months gross margin was 59.0%, a drop of 5.0p.p. due to the negative impact of cost dilution in the plant.

We continue on with adjusted EBIDTA, SG&A and other expenses. Administrative expenses ended up to 70.0%, a reduction of 3.0p.p. vis-à-vis 4Q2018. For the full year expenses represented increase of 1.0p.p. vis-à-vis 2018.

The allocation of research and development expenses was BRL12.0 million higher compared to the full year of 2018 with an impact on dilution of expenses vis-à-vis net revenues. Speaking about research and development, along with Lonza we have launched the active UC for companion animals that works in the repair and preservation of cartilage structure in pets. Adjusted EBITDA in the 4Q reached BRL45.0 million, an increase of 22.0p.p. vis-à-vis the same period in 2018. Adjusted EBITDA was BRL107,0 million with a 17.0% margin, a drop of 5.0p.p. The reduction in adjusted EBITDA can be attributed to the impact on gross margin due to the lower use of the plant. Speaking about net financial income, expenses of income taxes and social contribution, these expenses [13:58] EBITDA up to BRL3.0 million, a decrease of 29.0% vis-à-vis 4Q2018. For the full year 2019 financial expenses added up to BRL14.0 million, a reduction of 9.0% vis-à-vis same period in 2018. This result is related to a reduction of the average cost of debt. Income tax and social contribution for the 4Q stood at BRL1.0 million vis-à-vis a BRL1.0 million of reversion in the 4Q2018. And we would like to mention that income tax and social contribution is made on a fiscal base and is different from the accounting results. We also had an agreement of BRL197.0 to reduce the base of the calculation of the income tax and social tax. Regarding net profit for the 4Q was BRL25.0 million with a margin of 3.0%, quite stable vis-à-vis 4Q2018. For the year 2019 it totaled BRL47.0 million with a net margin of 8.0%, a decrease of 5.0p.p. I would also like to speak about the indebtedness. Net debt over EBITDA stood at 2x with a slight increase because of a reduction in cash impacting net debt and reduction of adjusted EBITDA when compared to 2018. The average cost of debt is 5.91 per year accompanying the reduction of long term index such as CDI and others. But the 12 months of 2019 the amount was BRL86.0 million with an amortization of debt, payment of interest totaling BRL132.0 million, fundraising added up to BRL32.0 million and we have 60.0% of our debt for the long term.

I would now like to return the floor over to the operator so that we can go on to the questions and answers session.

OPERATOR - Thank you. We will now go on to the question and answer session. Should you have a question, please press *1.

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Mr. Joseph Giordano would like to pose a question.

JOSEPH GIORDANO - Good afternoon, this is a question, two relatively simple questions regarding the company. Thinking about the roll out of your biologics plant I would like to know about the pipeline of new projects. You have few projects that will be placed at the plant. My second question refers to foot and mouth disease and from the viewpoint of domestic demand in the industry, and the viewpoint of project structure, I would like to gain an understanding of what we can do with this plant, with the new products; and when it comes to companion animals pet, you have created a partnership for a new product, what is that we can expect in terms of the company pipeline, if there is an expansion of this market and if you're going to go beyond the normal medication?

KLEBER GOMES – Thank you for your question. I would like to begin by your last question speaking about projects and portfolio. As Jardel highlighted in the management message, we're undergoing a strategic planning process revision which reaffirm all of the path that we were following in the company; in terms of pets where we have a very broad portfolio with a very strong action in Latin America and of course we have the future biologics, and we have reaffirmed that Brazil is Latin America greatest production of protein animals throughout the world and that this protein is greatly sought after. Therefore our planning ended up on focusing on areas where greater excellence in production are one of the critical points. What strategic planning of our portfolio to give you an idea we have some products, that were all being marketed and we hire specialists exclusively to look at our portfolio and to work with the teams in the market, they locate new trends, they take part in main congresses, they're working with [19:18] and innovation centers

along with market intelligence enabling us to be very active when working with our portfolio. And we have seen that we so have very interesting possibilities that we can connect projects within the markets where we have a foothold and therefore we're beginning a new and very strong cycle of products [19:41] always keeping in mind that our cycles are not very long, and we do have a very long registration period. We know that everything changes at a very quick pace in the world if we wanna compete with the entire world that is very difficult. We have a very robust structure in Brazil when it comes to developments and of course we are going to consider opportunities outside of Ourofino. We hope that by acting this way we will have a very strong and positive result. Now to speak about the future, going forward in foot and mouth disease, well, it is a difficult scenario due to what the government did during the year, 2019 was the first year for us with a 2.0ml vaccine. We marketed the 2.0ml and 5.0ml vaccine in 2018 and we begin with a 2.0ml vaccine in 2019 which means we have a significant offer of volume. Now, when we look forward what we have foreseen is that the vaccination will be stopped this year but the others will proceed as planned and based on public information, it's still not very clear if the government has complied with all immunization and deadlines of the government. Our plant continues to produce this vaccine for the time being. [21:48] It has a very low inventory level, it has a good portfolio and the foot and mouth disease vaccine is not the one we have a highest profit. Its contribution to our result is not considerable. And because of this we are thinking of other possibilities that could appear in the future, for example an opening of the Brazilian market for exports and of course this would depend on the approval of the ministry, but this is what we are considering now. If we speak about our biologics plant we truly do not have great novelties, vis-à-vis what we have announced during the year, the plant has been finalized, we launched the first vaccine which is the most updated ones for circavirus. This vaccine is being introduced into the market and we continue to develop our vaccines portfolio geared to pets, cattle and swine. But once again this is a rather complex and long term projects.

JOSEPH GIORDANO – Thank you very much, Kleber, for your responses.

KLEBER GOMES - Thank you for the question.

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

At this point we would like to end our Q&A session. I'll now return the floor to Mr. Jardel Massari for the Company's final remarks.

JARDEL MASSARI – We would like to thank all of you for your participation and for accompanying us during the year 2019. We work on with confidence to deliver value to our shareholders, in 2020 and in the coming years. A good afternoon to all of you and thank you very much.

KLEBER GOMES – I would like to go back to a point we received a question online asking about a material fact that we disseminated yesterday. We're still in the quiet period and because of this we cannot make any comments regarding that.

OPERATOR - The conference call for the 4Q2019 ends here. We would like to thank all of you for your participation. Have a good afternoon.