

Conference Call Transcript
4Q15 Results
Ourofino (OFSA3 BZ)
March 23, 2015

Operator:

Good afternoon, ladies and gentlemen and welcome to the conference call for the 4Q15 for Ourofino Saúde Animal. Today with us we have Mr. Dolivar Coraucci Neto, CEO and Mr. Fábio Lopes Júnior, CFO 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's presentation. After Ourofino's remarks, there will be a question and answer section when time further instructions will be given. Should any participant require assistance during this call, please press *0 to reach the operator.

The audio of this conference call is being presented simultaneously through internet at ir.ourofino.com, you will press on 'Webcast 4Q15' to receive the slide presentation.

Before proceeding, we would like to mention that forward-looking statements made during this conference are based on the 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, and could cause results to differ materially from those expressed in such forward-looking statements.

I will now turn the conference over to the CEO, Mr. Dolivar Coraucci Neto, who will begin the presentation. You have the floor, Mr. Coraucci.

Dolivar Coraucci Neto:

Thank you. Good afternoon to all of you. Thank you for your participation in our 4Q15 and 2015 results conference call. 2015 was a very positive year for Ourofino.

We were able to have consistent growth, although Brazil has undergone another year of recession. We grew 23.6% in revenues, 21.3% in EBITDA and 27.7% in net revenues. Additionally, we were acknowledged as the best veterinary and pharmacological company in Latin and South America in 2015 by Animal Pharma.

In the production animal segment, we launched seven new products. We would like to highlight the launch in August of Voss Performa, an endectocide based on the molecule Eprinomectin, with a focus on cattle finishing. And in November, Superhion, an ectoparasiticide that is innovative and that allies the knockout effect of Fipronil, with a long life lasting protection of Fluazuron.

In companion animals, we began in the end of 2015, the project "Ourofino distribution pets" that consists in directly servicing pet shops and clinics in the Southern and Western regions of the city of São Paulo.

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The goal is to represent a benchmark for the work of the other 42 distributors in the network as well as foster training for the enhancement and management practices for several audiences in the animal market in Brazil.

We moved forward in 2015 in the strategic internationalization process. In Mexico, we expanded our operations with an increase in the commercial team and by expanding our customer base. In Colombia, we acquired a local distributor in an operation that was closed in September.

We expanded the commercial team and began the registration of new products. We continued to work to consolidate our international presence and to show consistent results in the future periods.

We have made great strides in the construction of the new biological project plants. And we continued with a planning to obtain the licenses and begin the production of new vaccines at the beginning of 2017.

We are quite enthusiastic about our business and would like to thank all of you for the trust that you have given us. I would now like to give the floor to Fabio Lopes, our CFO, who will refer to the results for the period.

Fábio Lopes Júnior:

Thank you very much, Dolivar. Good afternoon to all of you. We closed 2015 obtaining the expected results and with consistent growth during the year, as said by the Dolivar. Our revenues increased 23.6% vis-à-vis the previous period, reaching R\$534 million. We had an increase of 21.3% of EBITDA, adding up to R\$119.1 million, and a net profit increase of 27.7%.

On page three, we highlight the growth of our net revenues per sales by 21.7% in 4Q15, reaching an amount of R\$164 million, vis-à-vis R\$135 million in the 4Q14. In 2015, the increase was 23.6%, reaching R\$534 million, vis-à-vis R\$432 million in 2014, an absolute growth of approximately R\$102 million.

On page four, we show you the net revenues in each business segment. In the animal production segment, the net revenue for the 4Q15 was R\$135.2 million, an increase of 27.3%, compared to R\$106.2 million for the same period in 2014. In 2015, the amount was R\$435.7 million, a growth of 26% compared to R\$346.2 million for 2014.

For the 4Q15 and year 2015, we have had growth in sales in our present product lines, with a share in gains, in several therapeutic processes, especially in anti-parasitic projects, an increase in sales and an increment in revenues for the seven new products launched.

In companion animals, the net revenue for the 4Q15 was R\$14.7 million, a drop of 16% compared to the R\$17.5 million in the same period in 2014. For 2015, the amount reached R\$62.4 million, a growth of 5.2% compared to the R\$59.3 million for 2014.

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This performance below our historic performance reflects the Company's decision of anticipating the project "Ourofino Distribution Pets" that will directly service pet shops and clinics in the South and West of São Paulo, with sales already carried out in the 1Q16.

In the segment of international operations, the 4Q15 net revenues were R\$14.9 million, an increase of 27% compared to the R\$11.7 million in the 4Q14. In 2015, revenues reached an amount of R\$35.9 million, a growth of 34.5% compared to 2014.

This growth is mainly due to the increase in our branch in Mexico, that had a 72% growth in Mexican pesos, vis-à-vis the previous year, reflecting the results of expanding our sales team and an expansion in our customer base. We also resumed sales in Colombia, after acquiring a former local distributor in September.

On slide five, we will refer to SG&A. At the end of 2015, gross profit reached R\$87.2 million, an increase of 12.4% with R\$77.6 million compared to 2014. In 2015, the amount was R\$297.4 million, a growth of 14.3% vis-à-vis 2014.

The reduction in gross margin in the period presented results from not fully transferring the prices of increases due to the USD appreciation and the inflation in 2015, our strategy to prioritize share gains in some products and marketing with a less favorable mix with greater participation for poultry and swine, and, of course, a worse scenario of prices for vaccines for the foot and mouth diseases.

On the other hand, the SG&A for 4Q15 was R\$53.7 million, compared to R\$49.8 million for the same period in 2014, a growth of only 7.8%, thus showing us a dilution of 4.2 p.p. on net revenues.

In 2015, the SG&A was R\$199.5 million compared to R\$179.6 million in 2014, a growth of 11%, showing us a dilution of 4.2 p.p. on net revenues, moving from 41.6% in 2014 to 37.4% in 2015.

On page six, we have the EBITDA and EBITDA margins. The 4Q15 showed an EBITDA that added to R\$39.6 million, with an EBITDA margin of 24%, and a growth of 22.2% compared to R\$32.4 million for the 4Q14.

In 2015, the EBITDA represented R\$119 million, with an EBITDA margin of 22.3%, and a growth of 21.3% compared to the R\$98.2 million in 2014. These results show the growth in revenues and the dilution of SG&A that offset the drop in gross margin.

On page seven, we show you the net financial expenses, social contributions and income taxes. The net financial expenses for the 4Q15 were R\$2.8 million compared to R\$1 million in the 4Q14.

In 2014, the net debt was lower because of the contribution of IPO resources carried out in October of that year. This contribution was used partially to settle the debts indexed to CDI and contributed to a lower financial expenses in 2015, that added to R\$10.6 million, compared to R\$11.4 million in 2014, a decrease of 7%.

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Income tax and social contribution for the 4Q15 was R\$6.9 million with a rate of 22.5%, compared to R\$6.5 million and a rate of 24.3% for the same period 2014. In 2015, the amount was R\$18.1 million with an effective rate of 20.7% compared to the R\$15.1 million and a rate of 21.8% for 2014.

Net revenue for 4Q15 reached R\$23.8 million with a net margin of 14.4%, a growth of 17.2% vis-à-vis the R\$20 million for the same period in 2014. For 2015, net profit reached R\$69.2 million with a net margin of 13%, increasing 27.7% compared to the R\$54 million for 2014. This is explained by the better performance of our business during the year.

On slide eight, we analyze the net debt. In 2015, the net debt over EBITDA was 1.62x and the index of net debt over net equity 0.5x. Compared to the average cost of debts on December 31st, 2015, the percentage was 7.98% per year.

For the contract signed with FINEP for a total line of 106 million, we have already proven the investment referring to the R\$42 million of the first tranche. And we have a remaining R\$64 million that will be released in the coming period.

On slide nine, we would like to highlight our investments and research and development in 2015 and the technological platforms. Investments in R&D totaled R\$34.1 million and represented 6.4% of net revenue for the period, in line with our historical data.

According to our planning for the biotechnological platforms, we are aligned with our civil construction schedule and, along with this, we continue with the activities to register vaccines at the Ministry of Agriculture.

On page ten, we will think about the launches for 2015. Nine products were launched, seven for production animals and two for companion animals. We highlight the launches in August of Voss Performa, an endectocide based on eprinomectin, focusing on cattle finishing, and in November Superhion, an innovative ectoparasiticide that allies with the knockout effect of Fipronil, with a long lasting protection of Fluazuron.

On page 11, we would like to show that performance of our shares since the IPO until December 30th, 2015. The share during the IPO had a price of R\$27. On December 30th, 2015, we closed at R\$34.99, an appreciation of almost 30%, while IBOVESPA dropped 20% during the period.

To conclude, on slide number 12, we would like to highlight the following: our growth in net revenues was 23.6% in 2015, reaching R\$534 million, our EBITDA grew 21.3% during the year with a total of R\$119 million. Net profit increased 27.7% during the same period for a total of R\$69 million.

We have moved forward in our international strategic planning with the acquisition of a local distributor in Colombia. We, furthermore, expanded our base in Mexico, increasing the customer base; we also launched nine products.

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In 2016, we continue to be motivated to attain our goals with determination, credibility and speed. We would like to thank you for your attention.

Joseph Giordano, JPMorgan:

Good afternoon to all of you. Some question referring to your outlook on the growth of the market, and which was the share of the Company this year. Considering you have significant growth, especially, in production of animals, as Fábio mentioned, have you felt any pressure on your margins during the year? What is your outlook in terms of price increases this year? And if we should expect a recomposition of margins this year. Thank you.

Dolivar Coraucci Neto:

The outlook that we have is for a growth of the market. We still have not stated these figures, we normally wait for the figures that are informed by SINDAN1. Our outlook is of approximately 10% or 11% in production animals and this is the benchmark we are working with.

When it comes to the recomposition of our margin, at the Company, we are always seeking to recompose our margin and to maintain our share that is already quite expressive in the Brazilian market.

Once again, all of our development plans are aligned with this. We are beginning to grow in the market for biological products, therefore, our margin should be better. It is true that, unfortunately, last year, although we made some forecasts, we were not able to fully evaluate what was happening in the market, for example, the appreciation of the USD and the increase in inflation.

It is almost impossible to fully restructure our prices so as to not lose our margin because of the factors that were mentioned previously. And this is what happened last year. Despite the agility of the Company when it comes to making decisions, the idea of transferring all of these changes to prices becomes ever more difficult. And we did have a certain loss in movement, but a guarantee of the good performance of the Company and its organization.

For the year 2016, we have, once again, worked with our mix of prices. Perhaps, this is something cultural, whenever the year changes, there is a new price list and that seems to be accepted and we have very well prepared work in terms of pricing and positioning done through our marketing, and that will allow us to have a price increased at 8% to 9% and, of course, we will see how the market will behave in the future months.

Joseph Giordano:

Thank you. If you allow me an additional question regarding your biological products, it seems that the plant is moving along very well. Will you be able to anticipate some profits and, perhaps, yield some of the idle capacity of the foot and mouth disease?

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Dolivar Coraucci Neto:

As part of our master plan, we have taken into account of all these different moves, so that we can move forward as fast as possible. We have already set this plan forth into the market and, as part of our development goals, we want to get to the final market and launch these products to the market with the approval of the market, of course, carrying out pilot tests. And all of these elements are being taken into account based on the installed capacity that we already have within our Company.

Joseph Giordano:

Thank you very much.

Daniela Eiger, Bradesco:

Hello. Good afternoon to all of you and thank you for the results. I have two questions. The first is a follow-up of your market share and this relates more to competition. I understand that the depreciation of the Real opens the door to competitors, especially, foreign competitors.

So I would like to gain a better understanding of the competitive scenario. If the international plan has been able to transfer these price costs and if you have been increasing your market share to maintain your profitability. And when it comes to the companion animals, what is your outlook for revenues? How much are you going to be distributing or paying out? Which are your goals? Thank you very much.

Dolivar Coraucci Neto:

Thank you for the question, Daniela. When it comes to market share, Ourofino has a significant production in several different segments, especially in terms of the products that we are supplying to the market, insecticides and others.

Without a doubt, with the launches of the new products that we have just sold to the market, we will have an increase in market share because we are better positioned in some segments and, once again, we are working with differentiated products, this is what we expect will happen.

When it comes to our margin, companies, in general, are all suffering because of the USD appreciation, and all of these companies have to work with the price readjustment. The situation of the Brazilian economy in the last few years has had a very strong impact on all companies, and because of this, companies will necessarily have to transfer this increase in costs to third parties and to others.

We have some products that are missing in the market or we, sometimes, depend on products that are imported. We do not have 100% national products and, of course, this will also have an impact on the price of these products.

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The second question refers to direct distribution. Ourofino has always worked in a very responsible way with its different channels. We have worked responsibly in this, and what we are doing is working with strategic planning in our business.

Besides trying to work with a sales structure that is adequate for Brazil, what we are attempting to do is to create an adequate background and training for our distributors, perhaps this is the great aim of what we have just done of trying to give that distribution to some of the regions of São Paulo.

For some years, we have already been working with the training of entrepreneurs, we have also offered the necessary training for the development of their respective businesses, but nothing better than setting the example and this is the great objective of our distribution in São Paulo. We have an excellent market benchmark in São Paulo and this is what we are doing to be able to work with 42 additional distributors in Brazil.

Daniela Eiger:

Thank you very much.

Thomas Budoia, Itaú BBA:

Good afternoon, everyone. My question refers, once again, to the companion animal segment. If you have an expectation of how quickly you will achieve your sells in companion animals. Once again, the return of these sales will appear on the 1Q, and how much of the drop in sales was due to this project? Or are you dropping sales due to a more difficult macroeconomic scenario?

My second question refers to SG&A. Is there any reason to believe that the SG&A will increase at a faster or a lower pace and which would be reasons for this? Thank you.

Fábio Lopes Júnior:

We are hoping that our tax sales will begin to have a stronger growth already this year, in 2016. As we tend to repeat, we do not tend to analyze quarters, we are going to have consistent growth during the year and we will be able to implement our strategy by deploying great efforts, by training the team, by training the costumers that offer direct services at pet shops.

Therefore, once again, this is the year of a great deal of effort to be able to prove our thesis, our strategic plan, but we do expect to have results still in 2016.

When it comes to your question about 2015, we did far below our expectation due to the decision that was made by the Company in September/October last year, making this change, and this is why we have had that drop in sales.

Regarding your second question on SG&A, what we are hoping is to have a stabilization in this item for the year 2016. Evidently, the Company will continue to make efforts to ever more dilute its expenses and to maximize what we already have.

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This is one of the constant searches at the Company. The results in 2015 were very strong, perhaps, pointing to what could happen in 2016 and 2017.

Thomas Budoia:

Thank you very much.

Marcio Montes, Banco do Brasil:

Good afternoon, everyone. Thank you very much for your results presentation. I would like to gain some more color on the cost of good solds and the strategy that was adopted that led to an increase in your values.

Fábio Lopes Júnior:

Marcio, we try to clarify this. What we wanted to do at the Company was, once again, to position ourselves in a stronger position with our customers and we did lose significant amount of share in the year 2015, as was mentioned. We also had a different mix in the share of poultry and swine. This had an increase in the year 2015 because of some market opportunities, and some national companies like Ourofino did not fully transfer the cost of this to the costumers.

Now, these three reasons, the non-transfer of the exchange rate depreciation, the different product mix of poultry and swine, and the gross margin, we also had, in 2015, an increase in the price of vaccines for foot and mouth disease, and that is why our results were somewhat lower than expected. The combination of these four factors exerted a greater pressure on our cost in 2015.

Of course, this was fully offset by the opportunity for growth in production animals. This, perhaps, was the highest historical growth that we have had in the last 10 or 15 years. The growth rate in our Company, once again, has been very strong and what we are attempting to do is to ensure that whatever we did in 2015 will enable us to recompose our margins in 2016.

And, sorry, I was not able to hear your answer completely, so it was the search for a greater share, transfer of the increase in inflation and the exchange variation, and the decrease in prices, in shares and the products mix. Once again, we did not fully transfer the increase in inflation and exchange variation; we only transferred part of these increases.

Marcio Montes:

Thank you.

Operator:

This concludes the question and answers section. At this time, I would like to turn the floor over to Mr. Dolivar for any closing remarks.

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Dolivar:

Ladies and gentleman, I would like to, once again, thank all of you for the trust that you have deposited in our work, and we reiterate our commitment with a sustainable growth of our business.

And, once again, we are undergoing a highly unfavorable situation, but we are highly focused on the development and on offering our shareholders good results. Thank you very much once again.

Operator:

Thank you very much. The conference call for the results of the 4T for Ourofino ends here. Have a good afternoon.

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