

(A free translation of the original in Portuguese)



# Results

## 3Q17 and 9M17



(A free translation of the original in Portuguese)

# Our Purpose

Reimagining  
animal health

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- Resuming historical profitability levels
- Generation of cash from operations of R\$ 95 million in accumulated figures for 2017

## **Conference Call**

**In Portuguese with simultaneous translation into English**

November 10, 2017

3:00 p.m. (BRT) / 12:00 p.m. (US EST)

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## CONTENTS

Message from management .....	5
Financial performance.....	6
Net revenue .....	7
Gross profit and gross margin .....	8
Selling, general and administrative expenses.....	9
EBITDA and EBITDA margin .....	9
Finance result.....	10
Income tax and social contribution .....	10
Profit.....	10
Indebtedness .....	11
Cash position.....	12
Launches in 2017.....	13
Statement of income .....	15
Statement of cash flows.....	16
Balance sheet.....	17

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Cravinhos, November 9, 2017 – Ouro Fino Saúde Animal Participações S.A. (the “Company” or “Ourofino”) (B3: OFSA3), which is mainly engaged in the research, development, production and sale of veterinary drugs, vaccines and other products for production and companion animals, announces its financial results for the period ended September 30, 2017 (3Q17 and 9M17).

## Message from management

Based on the results achieved in the quarter, we are confident that in 2017 the Company will resume its historical levels of profitability. Our gross margin reached 55%, with adjusted EBITDA margin and net margin of 23% and 10%, respectively, showing improvement in our indicators. The generation of cash from operations remains strong and totaled R\$ 95 million in accumulated figures for the nine-month period of 2017, that is, virtually twice the amount for the same period in the previous year.

With respect to production animals, the gross margin of 52.5% reached its highest level since the 3<sup>rd</sup> quarter of 2015, as a result of the work that has been made focused on increasing profitability. However, the growth in revenues in this segment was adversely affected by a significant concentration of sales at the end of September, which were not recognized in the quarter due to lack of time to deliver goods to customers within the period. We emphasize that these sales have already been delivered and recognized in the beginning of October and will be included in the results for the 4<sup>th</sup> quarter.

As regards companion animals, we highlight the increase of 40% in net revenue and an increase of 6.6 percentage points in the gross margin in comparison with the 3<sup>rd</sup> quarter of 2016. We remain aware of the Brazilian macroeconomic situation and have monitored channel inventory levels to maintain sustainable growth.

With respect to international operations, gross margin increased 3 percentage points and reached 56%, with increased sales in Colombia and Mexico, which partially offset a reduction in sales in other countries, notwithstanding the significant exchange loss that has been taking place throughout the year.

Selling, general and administrative expenses were reduced by 10%, with dilution over net sales revenue of 5 percentage points in the quarter. In the accumulated figures for the nine-month period there was a reduction of 13% and a dilution of 4 percentage points, which is in line with the efforts that have been made by the Company to optimize expenditures.

In the quarter, our net debt decreased even more due to the generation of cash from operations and repayment of debt indexed to the CDI rate, as we have been anticipating since the beginning of the year and have communicated to the market. As a result, the cost of debt was reduced to 7% in local currency and our leverage level returned to 3.2x EBITDA (accumulated figure for the 12 months). We expect to improve this indicator even more in the next quarter.

We remain confident of delivering annual results that are consistent with our initial expectations, as well as generating value to stockholders based on the Company and markets' exceptional growth drivers

Jardel Massari  
CEO

Kleber Gomes  
CFO and IRO

# Financial Performance

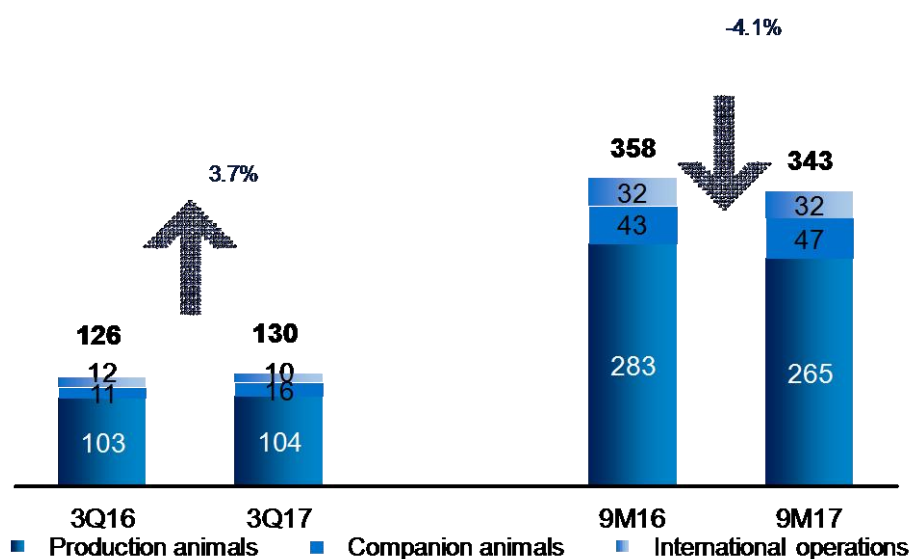
R\$ million	3Q16	3Q17	Variation %	9M16	9M17	Variation %
Net revenue	125.5	130.2	3.7%	358.1	343.3	-4.1%
Cost of sales	(62.9)	(58.9)	-6.4%	(174.4)	(160.6)	-7.9%
Gross profit	62.6	71.3	13.9%	183.7	182.7	-0.5%
(gross margin)	49.9%	54.8%	4.9 p.p.	51.3%	53.2%	1.9 p.p.
Expenses*	(52.0)	(47.0)	-9.6%	(157.1)	(137.3)	-12.6%
Operating profit	10.6	24.3	129.2%	26.6	45.4	70.7%
(operating margin)	8.4%	18.7%	10.3 p.p.	7.4%	13.2%	5.8 p.p.
Finance result, net	(4.4)	(4.0)	-9.1%	(15.8)	(12.6)	-20.3%
Income tax and social contribution*	1.1	(6.8)	-718.2%	1.0	(10.3)	-1130.0%
Adjusted profit	7.3	13.5	84.9%	11.8	22.5	90.7%
(adjusted profit margin)	5.8%	10.4%	4.6 p.p.	3.3%	6.6%	3.3 p.p.
Adjusted EBITDA	16.6	29.8	79.5%	43.4	63.0	45.2%
(adjusted EBITDA margin)	13.2%	22.9%	9.7 p.p.	12.1%	18.4%	6.3 p.p.

(\*) In 9M16, does not include non-recurring expenses related to the provision for impairment of trade receivables of Venezuela and termination of statutory officer. In 9M17, does not include non-recurring expenses related to consulting from Falconi, settlement of the tax assessment notice of the previous year and restructuring expenditures, substantially terminations involving positions that will not be replaced, net of the related tax effects.



## Net revenue

R\$ million	3Q16	3Q17	Variation %	9M16	9M17	Variation %
Net sales revenue	125.5	130.2	3.7%	358.1	343.3	-4.1%
Production animals	102.5	104.2	1.7%	283.1	264.5	-6.6%
Companion animals	11.2	15.7	40.2%	42.9	46.5	8.4%
International operations	11.8	10.3	-12.7%	32.1	32.3	0.6%



The Company presented net revenue of R\$ 130.2 million in 3Q17, an increase of 3.7% in comparison with 3Q16. In 9M17, net revenue was R\$ 343.3 million, a decrease of 4.1% in comparison with 9M16. Please find below our comments on the performance of the segments in which we operate:

- The Production Animals segment presented net revenue of R\$ 104.2 million in 3Q17, an increase of 1.7% in comparison with 3Q16. In 9M17, net revenue was R\$ 264.5 million, a decrease of 6.6% in comparison with 9M16. The periods were impacted by the non-recognition of revenues, as discussed above.
- The Companion Animals segment had net revenue of R\$ 15.7 million in 3Q17, an increase of 40.2% in comparison with 3Q16.

In 9M17, net revenue was R\$ 46.5 million, an increase of 8.4% in comparison with 9M16. These results show market recovery with proper inventory levels at distributors.

- The International Operations segment presented net revenue of R\$ 10.3 million in 3Q17, a decrease of 12.7% in comparison with 3Q16. We would point out that in 3T16, there were significant non-recurring sales of vaccines against foot-and-mouth disease to Paraguay. In 9M17, net revenue was R\$ 32.3 million, an increase of 0.6% in comparison with 9M16. Foreign exchange losses had a significant impact on prices, in spite of the increased volume in the accumulated figures for the nine-month period.

## Gross profit and gross margin

R\$ million	3Q16	3Q17	Variation %	9M16	9M17	Variation %
Gross profit	62.6	71.3	13.9%	183.7	182.7	-0.5%
(gross margin)	49.9%	54.8%	4.9 p.p.	51.3%	53.2%	1.9 p.p.
Gross profit - production animals	49.3	54.7	11.0%	133.5	133.0	-0.4%
(gross margin - production animals)	48.1%	52.5%	4.4 p.p.	47.2%	50.3%	3.1 p.p.
Gross profit - companion animals	7.0	10.8	54.3%	30.5	32.7	7.2%
(gross margin - companion animals)	62.5%	68.8%	6.3 p.p.	71.1%	70.3%	-0.8 p.p.
Gross profit - international operations	6.3	5.8	-7.9%	19.7	17.0	-13.7%
(gross margin - international operations)	53.4%	56.3%	2.9 p.p.	61.4%	52.6%	-8.8 p.p.

In 3Q17, gross margin was 54.8%, an increase of 4.9 p.p. in comparison with 3Q16. In 9M17, gross margin reached 53.2%, an increase of 1.9 p.p. in comparison with 9M16.

- In 3Q17, the Production Animals segment presented gross margin of 52.5%, an increase of 4.4 p.p. in comparison with 3Q16. In 9M17, gross margin reached 50.3%, an increase of 3.1 p.p. in comparison with 9M16. Increase in margins resulted from higher prices of cattle products in general, a better mix of pig products and the reduction in volumes of poultry products with lower margin, which were discontinued.
- In 3Q17, the Companion Animals segment presented gross margin of 68.8%, an

increase of 6.3 p.p. in comparison with 3Q16, due to the impact of the better mix. In 9M17, gross margin was 70.3%, a decrease of 0.8 p.p. in comparison with 9M16, with effects of the provision for inventory losses.

- In 3Q17, the International Operations segment presented gross margin of 56.3%, an increase of 2.9 p.p. in comparison with 3Q16, as a result of the better mix. In 9M17, gross margin was 52.6%, a decrease of 8.8 p.p. in comparison with 9M16. This decrease resulted substantially from price losses arising from foreign exchange effects in the period.





## Selling, general and administrative expenses

R\$ million	3Q16	3Q17	Variation %	9M16	9M17	Variation %
Selling, general and administrative and other expenses	(52.0)	(47.0)	-9.6%	(157.1)	(137.3)	-12.6%
Percentage on net revenue	41.4%	36.1%	-5.3 p.p.	43.9%	40.0%	-3.9 p.p.

In 3Q17, selling, general and administrative expenses totaled R\$ 47.0 million, a decrease of 9.6% in comparison with 3Q16. In 9M17, these expenses amounted to R\$ 137.3 million, a decrease of 12.6% in comparison with 9M16.

Also, there was a dilution of 5.3 p.p. in the quarter and 3.9 p.p. in the accumulated figures for the nine-month period, thus reflecting the continuous efforts to optimize the Company's expenses.

## EBITDA and EBITDA Margin

R\$ million	3Q16	3Q17	Variation %	9M16	9M17	Variation %
Adjusted profit	7.3	13.5	84.9%	11.8	22.5	90.7%
(+) Non-recurring expenses, net of IRPJ/CSLL*	(1.6)	(4.3)	168.8%	(5.0)	(7.2)	44.0%
Profit for the period	5.7	9.2	61.4%	6.8	15.3	125.0%
(+) Finance result, net	4.4	4.0	-9.1%	15.8	12.6	-20.3%
(+) Income tax and social contribution	(1.9)	4.6	-342.1%	(2.6)	6.6	-353.8%
(+) Depreciation and amortization	5.5	5.5	0.0%	16.2	17.9	10.5%
EBITDA	13.7	23.3	70.1%	36.2	52.4	44.8%
(+) Non-recurring expenses*	2.4	6.5	170.8%	6.6	10.9	65.2%
(+) Other	0.5	0.0	-100.0%	0.6	(0.3)	-150.0%
Adjusted EBITDA	16.6	29.8	79.5%	43.4	63.0	45.2%
Net sales revenue	125.5	130.2	3.7%	358.1	343.3	-4.1%
EBITDA margin	10.9%	17.9%	7.0 p.p.	10.1%	15.3%	5.2 p.p.
Adjusted EBITDA margin	13.2%	22.9%	9.7 p.p.	12.1%	18.4%	6.3 p.p.

(\*) In 9M16 does not include non-recurring expenses related to the provision for impairment of trade receivables of Venezuela and termination of statutory officer. In 9M17, does not include non-recurring expenses related to consulting from Falconi, settlement of the tax assessment notice of the previous year and restructuring, substantially terminations involving positions that will not be replaced, net of the related tax effects.

Adjusted EBITDA in 3Q17 totaled R\$ 29.8 million with margin of 22.9%, an increase of 9.7 p.p. in comparison with 3Q16. In 9M17, adjusted EBITDA was R\$ 63.0 million, with margin of 18.4%, an increase of 6.3 p.p. in comparison with 9M16. Increases in gross

margin and dilution of selling, general and administrative expenses were responsible for improving EBITDA, despite the impact of non-recognition of revenues at the end of the 3<sup>rd</sup> quarter (cut-off).

## Finance result

R\$ million	3Q16	3Q17	Variation %	9M16	9M17	Variation %
Finance result, net	(4.4)	(4.0)	-9.1%	(15.8)	(12.6)	-20.3%

In 3Q17, net finance costs totaled R\$ 4.0 million, a decrease of 9.1% in comparison with 3Q16. In 9M17, these costs totaled R\$ 12.6 million, a decrease of 20.3%. This was due to a higher generation of cash in the nine-month period, resulting from the adjustment in the policies

related to the term of receivables and lower levels of expenses, combined with lower pressure from capital expenditures (CAPEX). As a result, there was a reduction in net debt, which reached R\$ 264.6 million in 4Q16 and totaled R\$ 205.2 million in 3Q17.

## Income tax and social contribution

R\$ million	3Q16	3Q17	Variation %	9M16	9M17	Variation %
Income tax and social contribution	1.1	(6.8)	-718.2%	1	(10.3)	-1130.0%
Percentage on profit before IRPJ and CSLL	17.7%	-33.5%	-51.2 p.p.	9.3%	-31.4%	-40.7 p.p.

In 3Q17, income tax and social contribution totaled R\$ 6.8 million. In 9M17, it amounted to

R\$ 10.3 million. This increase resulted from higher profitability.

## Profit

R\$ million	3Q16	3Q17	Variation %	9M16	9M17	Variation %
Adjusted profit	7.3	13.5	84.9%	11.8	22.5	90.7%
Net margin	5.8%	10.4%	4.6 p.p.	3.3%	6.6%	3.3 p.p.

In 3Q17, adjusted profit reached R\$ 13.5 million, an increase of 84.9% in comparison with 3Q16. In 9M17, adjusted profit was R\$ 22.5 million, an increase of 90.7% in comparison with 9M16.

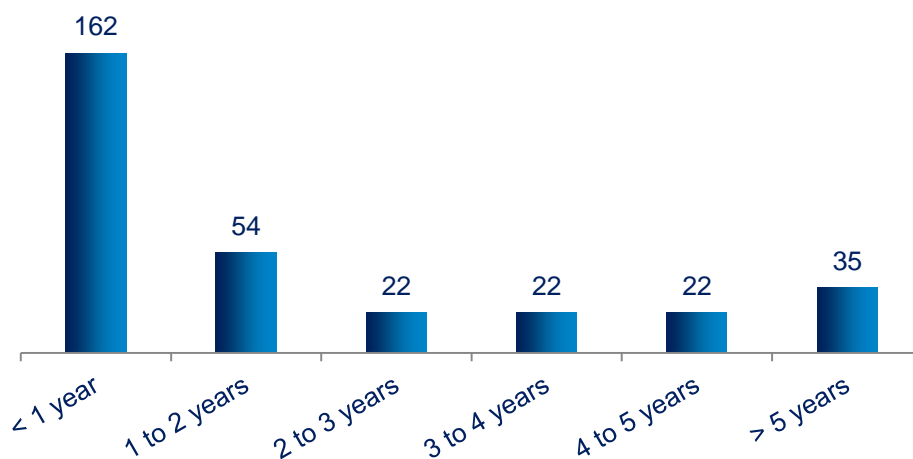
These results reflect an increase in EBITDA adjusted by the factors mentioned above, in addition to the decrease in net finance costs.

## Indebtedness

R\$ million	September 30, 2016	December 31, 2016	September 30, 2017
Current	78.7	73.6	151.1
Non-current	202.5	241.9	150.8
Gross debt	281.2	315.5	301.9
Related derivative financial instruments	17.0	19.4	15.1
Gross debt arising from related derivatives	298.2	334.9	317.0
(-) Cash and cash equivalents	60.8	70.3	111.8
Net debt	237.4	264.6	205.2
Average cost of debt (year) <sup>1</sup>	9.61%	8.80%	7.02%
Net debt/Adjusted annual EBITDA (LTM)	2.86	5.96	3.21

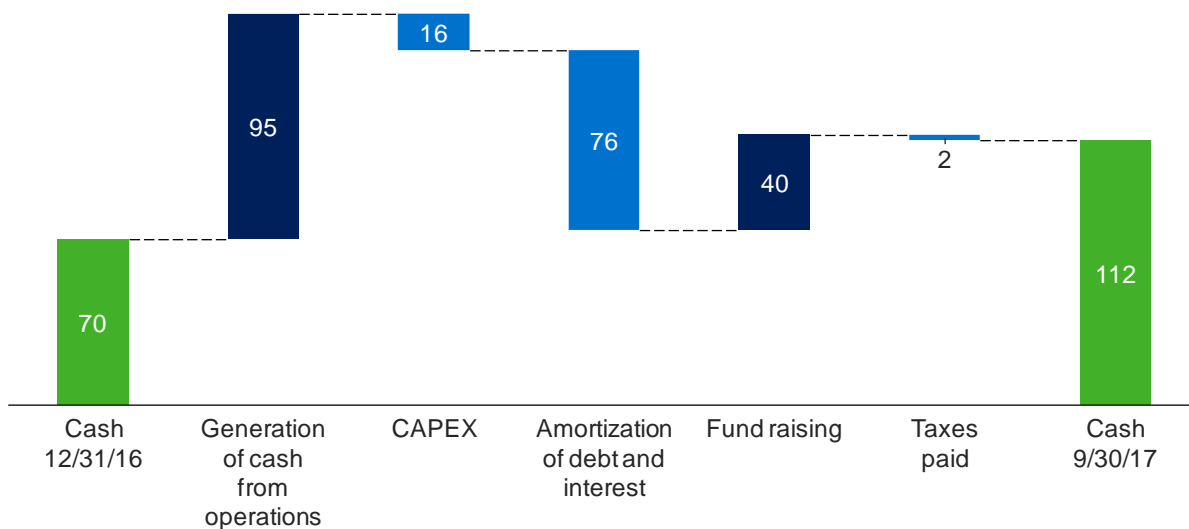
<sup>1</sup> Net bank debt considering related derivatives

### Bank debt aging\*



Debt aging considers the period between October 1 and September 30 and debt plus derivatives.

## Cash position



In 9M17, cash from operations amounted to R\$ 95.0 million, in line with the Company's efforts to reduce the average term of receivables from sales that decreased to 101 days, in comparison with 148 days in 9M16.

We would emphasize the repayment of debt and payment of interest totaling R\$ 75.6 million, plus funds of R\$ 39.9 million raised, with impact on the average cost of debt that decreased from 8.80% at December 31, 2016 to 7.02% at September 30, 2017.



## Launches in 2017

As a result of our R&D efforts, there were launches in line with our pipeline, such as that of

Regepil, for companion animals, and Superhion in 5-liter containers for production animals.

### Regepil

Indications: General and chronic wounds in areas of difficult healing;  
Surgical wounds helping reducing dehiscence rate;  
Contribute and accelerate the healing process in animals with physiological impairment as a result of a preexisting sickness.



Therapeutic class:

Skin product

Segment:

Companion animals

Launched in:

June 2017

### Superhion 5L

Indication: Superhion is a pour-on ectoparasiticide for cattle, composed by the association between Fipronil and Fluzaron, recommended for the strategic control of ticks and horn flies and for the treatment against botflies and myiasis.



Therapeutic class:

Ectoparasiticide

Segment:

Production animals

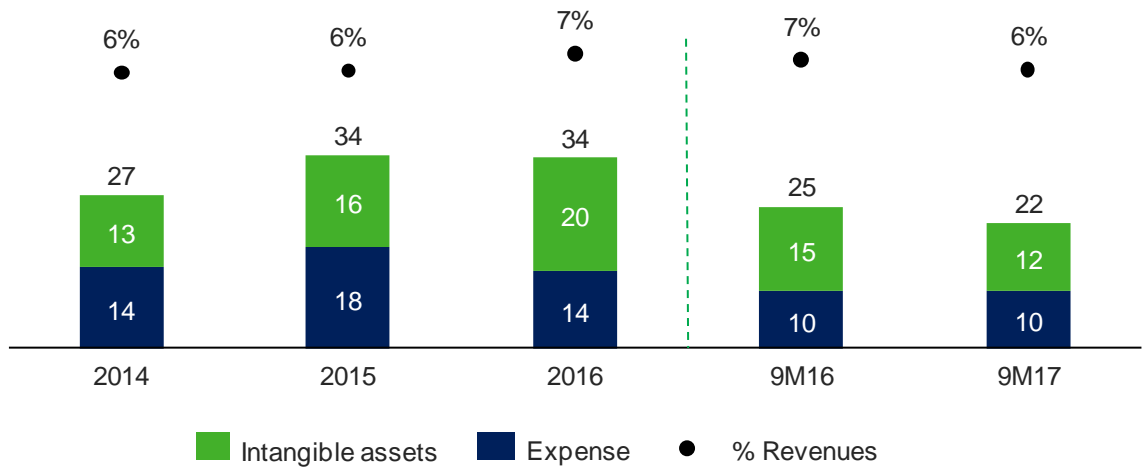
Launched in:

August 2017

## Investments in research and development

In 9M7, 6% of the net revenue was invested in R&D, totaling R\$ 22 million. The chart below

shows the Company's total investments in R&D from 2014 to 2017.



Adjusted statement of income (R\$ thousands)	3Q16	3Q17	9M16	9M17
Net revenue	125,460	130,138	358,081	343,256
Cost of sales*	(62,878)	(58,907)	(174,418)	(160,637)
Gross profit	62,582	71,231	183,663	182,619
Selling expenses*	(42,084)	(38,399)	(126,898)	(113,780)
General and administrative expenses*	(8,570)	(8,241)	(28,480)	(25,595)
Other expenses, net*	(1,297)	(371)	(1,764)	2,103
Operating profit	10,631	24,220	26,521	45,347
Finance income	1,541	2,586	3,163	5,689
Finance costs	(3,276)	(4,401)	(8,566)	(12,834)
Derivative financial instruments, net	(2,651)	(4,729)	(25,005)	(7,790)
Foreign exchange variations, net	69	2,614	14,645	2,382
Finance result	(4,317)	(3,930)	(15,763)	(12,553)
Profit before income tax and social contribution	6,314	20,290	10,758	32,794
Current and deferred income tax and social contribution*	1,043	(6,825)	981	(10,284)
Adjusted profit for the period	7,357	13,465	11,739	22,510

(\*) Does not consider non-recurring expenses and their related tax effects.

Statement of income - corporate (R\$ thousands)	3Q16	3Q17	9M16	9M17
Net revenue	125,460	130,138	358,081	343,256
Cost of sales*	(62,878)	(58,907)	(174,418)	(161,629)
Gross profit	62,582	71,231	183,663	181,627
Selling expenses	(43,074)	(38,399)	(130,247)	(113,780)
General and administrative expenses	(9,975)	(8,917)	(31,650)	(29,715)
Other expenses, net*	(1,297)	(6,187)	(1,764)	(3,713)
Operating profit	8,236	17,728	20,002	34,419
Finance income	1,541	2,586	3,163	5,689
Finance costs	(3,276)	(4,401)	(8,566)	(12,834)
Derivative financial instruments, net	(2,651)	(4,729)	(25,005)	(7,790)
Foreign exchange variations, net	69	2,614	14,645	2,382
Finance result	(4,317)	(3,930)	(15,763)	(12,553)
Profit before income tax and social contribution	3,919	13,798	4,239	21,866
Current and deferred income tax and social contribution	1,857	(4,617)	2,597	(6,568)
Profit for the period	5,776	9,181	6,836	15,298

Statement of cash flows (R\$ thousands)	9M16	9M17
Cash flows from operating activities		
Profit before income tax and social contribution	4,239	21,866
Adjustments for:		
Provision for impairment of trade receivables	6,739	431
Provision for inventory losses and write-offs	5,252	5,898
Reversal of the provision for sales returns		(3,073)
Changes in bonuses to customers	1,777	(379)
Reversal of the discounts on sales of vaccines against foot-and-mouth disease	(2,517)	(2,443)
Depreciation and amortization	16,178	17,945
Changes in the provision for impairment of intangible assets	609	(279)
Gains/losses on sale and write-off of PP&E	(100)	(6)
Gains/losses on sale and write-off of intangible assets	481	(1,472)
Interest and monetary and exchange variations, net	(8,704)	9,504
Derivative financial instruments	25,005	7,790
Changes in the provision for contingencies	(242)	(185)
Stock options granted	1,219	854
Changes in working capital		
Trade receivables	23,217	41,338
Inventories	(39,214)	(4,596)
Taxes recoverable	(7,335)	(6,518)
Other assets	5,446	(2,035)
Trade payables	15,481	2,257
Taxes and charges payable	(2,659)	(158)
Other liabilities	2,162	8,253
Cash from operations	47,034	94,992
Interest paid	(7,517)	(10,287)
Income tax and social contribution paid	(5,726)	(2,263)
Net cash provided by operating activities	33,791	82,442
Cash flows from investing activities		
Investments in intangible assets	(17,040)	(12,339)
Purchase of property, plant and equipment	(38,963)	(9,532)
Proceeds from sale of property, plant and equipment	1,168	656
Proceeds from sale of intangible assets		5,711
Net cash used in investing activities	(54,835)	(15,504)
Cash flows from financing activities		
Capital increase	218	
Proceeds from borrowings	138,726	39,950
Repayment of borrowings	(55,397)	(53,201)
Realized derivative financial instruments	(7,529)	(12,133)
Dividends and interest on capital paid	(16,433)	
Net cash provided by (used in) financing activities	59,585	(25,384)
Increase in cash and cash equivalents, net	38,541	41,554
Cash and cash equivalents at the beginning of the period	23,380	70,325
Exchange losses on cash and cash equivalents	(1,164)	(84)
Cash and cash equivalents at the end of the period	60,757	111,795



Balance Sheet (R\$ thousands)	12/31/2016	9/30/2017
<b>Assets</b>		
<b>Current assets</b>	<b>379,922</b>	<b>381,307</b>
Cash and cash equivalents	70,325	111,795
Trade receivables	162,478	127,918
Inventories	131,303	125,988
Taxes recoverable	4,877	4,687
Income tax and social contribution recoverable	5,107	3,878
Related parties	303	232
Other assets	5,529	6,809
<b>Non-current assets</b>	<b>395,654</b>	<b>402,966</b>
<b>Long-term receivables</b>	<b>62,695</b>	<b>70,801</b>
Taxes recoverable	42,643	48,694
Deferred income tax and social contribution	17,081	14,850
Related parties	165	
Inventories		4,913
Other assets	2,806	2,344
<b>Permanent assets</b>	<b>332,959</b>	<b>332,165</b>
Intangible assets	87,158	86,708
Property, plant and equipment	245,801	245,457
<b>Total assets</b>	<b>775,576</b>	<b>784,273</b>
<b>Liabilities and equity</b>		
<b>Current liabilities</b>	<b>142,959</b>	<b>233,445</b>
Trade payables	23,316	26,070
Derivative financial instruments	8,820	10,999
Borrowings	73,550	151,141
Salaries and social charges	17,299	26,990
Taxes payable	4,053	3,902
Income tax and social contribution payable	1,056	1,183
Related parties	355	234
Commissions on sales	6,070	4,477
Other liabilities	8,440	8,449
<b>Non-current liabilities</b>	<b>256,322</b>	<b>158,490</b>
Derivative financial instruments	10,584	4,062
Borrowings	241,888	150,770
Provision for contingencies	3,850	3,658
<b>Total liabilities</b>	<b>399,281</b>	<b>391,935</b>
<b>Total equity</b>	<b>376,334</b>	<b>392,555</b>
Non-controlling interests	(39)	(217)
<b>Total liabilities and equity</b>	<b>775,576</b>	<b>784,273</b>

