

**Conference Call Transcript**  
**4Q14 Results**  
**Ourofino (OFSA3 BZ)**  
**March 26, 2015**

**Operator:**

Good afternoon, ladies and gentlemen, and welcome to the conference call to analyze results concerning the 4Q14 for Ourofino Saúde Animal. Today, with us, we have Mr. Dolivar Coraucci Neto, CEO and Mr. Fábio Lopes Júnior, CFO and IR Officer.

We would like to inform you that this event is being recorded, and simultaneously translated into English and all participants will be in listen-only mode during the Company's remarks. After that, we will start the Q&A session when more information will be provided. Should you need assistance during the call, please press \*0 to reach an operator.

The audio and slides of this conference are being presented simultaneously on our website at [ir.ourofino.com](http://ir.ourofino.com). At this URL, you will identify a banner under the title webcast 4Q14, which will take you to the platform with the presentation.

Before moving on, we would like to mention that forward-looking statements made during this conference call concerning the Company's business outlook and also operating and financial goals are based on the Company's assumptions and also on information currently available.

Forward-looking statements are no guarantee of performance. They involve risks and uncertainties and because they refer to future events. And those circumstances may not materialize. Investors should have in mind that general economic conditions, industry conditions and other operating factors may affect the Company's future performance and therefore affect the results presented in these forward-looking statements.

I will now turn the conference over to Mr. Dolivar Coraucci, who will start the presentation. You have the floor, sir, please carry on.

**Dolivar Coraucci Neto:**

Good afternoon, ladies and gentlemen. I would like to thank you all for participating in our conference call to analyze the results for the 4Q14 and the year 2014, and a special thanks to investors and analysts who believe in our business. Thank you very much.

The year 2014 was without a doubt one of the most important in the history of Ouro Fino. It represented a consolidation of several efforts from the management, operating improvements and also advances in corporate governance. All of that culminated in the IPO in October, the only IPO to take place in Brazil in the year.

Among the main efforts and advances, we may highlight the launch of 10 new products. The go live of SAP in the beginning of the year, the spin-off which resulted in a new organizational structure for animal health and the creation of several committees, including audit, statutory, innovation and human resources.

With resources coming from the IPO we are prepared for the development of a new growth cycle. We believe in a scenario of growing acceptance to technology to increase

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productivity of production animals, and a strong growth in the industry of companion animals, boosted by a strengthening of the emotional character in the relationship with those animals.

We will carry on executing our strategic plan and we will always be focused on environmental changes and possible opportunities that might add value to our business. Our team is highly motivated and committed to this new growth cycle.

I will now turn the floor over to our CFO and IRO, Fábio Lopes, who will comment on the results for the 4Q, and the year 2014.

**Fábio Lopes:**

Thank you, Dolivar. Good afternoon, everyone. Just to enforce Dolivar's words, in what concerns the relationship with the market, the Company reinforces its commitment to make a credible work, to meet the expectations and solidify a close relationship with our investors and clients.

In 2014, our results were in line with our plan. We managed to reach our goals growing in sales, in EBITDA and also getting an increase in EBITDA margin.

On slide number three, we show the growth of our net revenue from sales by 12.6% in the year, from R\$384 million in 2013 to R\$432 million in 2014. The 4Q saw a net revenue of R\$135 million, practically flat when compared to R\$136 million in the 4Q13.

On that slide, we also show a contribution coming from segments from production animals, companion animals and international operations. In the year, the segment of production animals accounted for 80% of our net revenue in 2014, as compared to 82% in 2013. Companion animals accounted for 14% in 2014, as compared to 12% in 2013 and the segment under international operations accounted for 6% both in 2013 and 2014.

It is worth mentioning that the contribution coming from companion animals has its growth in line with our strategic expectations, which are to reach a higher number of sales points through our vendors and also an increase in our portfolio of products.

On slide number four, we have a breakdown of the net revenue for each one of our business segments. Under production animals, our net revenues moved from R\$315 million in 2013 to R\$346 million in 2014, an increase of 9.8%, which reflects the Company's capacity to grow despite the impact of the suspension starting May 2014 of sales of avermectins based products from the Ministry of Agriculture, which affected the market as a whole.

In response, the Company repositioned products of that line and expanded its portfolio with seven new products, which were launched in the 2H of last year.

In the 4Q14, our net revenue was R\$106 million, a 9.2% drop when compared to the same period of 2013, when we had a very strong quarter. As for companion animals, net

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revenues for the 4Q grew 16%, moving from R\$17.5 million. Besides, the accumulated numbers for 2014 showed a strong growth of 29.2%, moving from R\$45 million to R\$59.3 million.

As it was said, that level of growth reflect the Company's strategy to expand in the segment with a focus on sales points reinforced by the launch of new products of the antiparasitic line at the end of 2013, and at the end of 2014.

Under the international operations segments, we had an increase of 139% in revenue in the 4Q, 2014 when compared to the same period of last year, reaching R\$11 million. In the year, there was a growth of 17%, moving from R\$22 million in 2013 to R\$26.7 million in 2014, mainly driven by a growth in the Mexican and Columbian, markets also in line with our growth strategy.

On slide number five, we will see a breakdown gross profit in SG&A. In the 4Q14, gross profit grew 2.9%, reaching R\$77.6 million, with a margin gain of 2.2 p.p. over net revenue, as a result of an increase in sales in companion animals and external market.

In 2014, gross profits reached R\$260.3 million, up 10.8% when compared to 2013, when it was at R\$234.9 million. Gross margin in the same period reached 60.2%, a drop of 1 p.p. when compared to the margin seen in 2013, which was 61.2%. That reduction can be attributed to a less favorable product mix in the production animal segments which was partially offset by the strong growth in sales in the companion animals segment.

As for SG&A, we saw a drop of 2.2% when we analyze quarters, moving from R\$50.9 million in the 4Q13 to R\$49.8 million in the same period in 2014. In the year, SG&A reached R\$179.6 million, an increase of 10.7%. When we compare to the increase of 12.6% in net revenue, we can see a 0.8% dilution.

On slide six, as we analyze the 4Q, we see a growth of 13.3% in adjusted EBITDA, moving to R\$32.4 million. Adjusted EBITDA margin increased 3 p.p., reaching 23.9%. Those results arise from an increase in gross profit and a dilution in SG&A, as seen before.

The adjusted EBITDA increased 15.4% in the year, evolving from R\$85.1 million in 2013 to R\$98.2 million in 2014. The adjusted EBITDA margin grew 0.5 p.p., reaching 22.7% in the yearly results. Those margins reinforced the results of our initiatives throughout the year.

On slide number seven, we see the net financial expense, IR and social contribution expenses and the adjusted net profit from continued operations. Financial expenses had an important reduction of 58.3% in the 4Q14 when compared to the same period of last year 2013, which can be explained by the volume of resources in cash and the IPO.

In the year 2014, there was an increase in financial expense by 31%, the volume reached R\$11.4 million due to an increase in the working capital indexed to CDI; besides, there was an increase of 3 p.p. throughout 2014 in the CDI. Those indexed lines are being eliminated 2015 with a part of the funds captured during the IPO.

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As for income tax and social contribution, they were higher in 2014 because in 2013 there were compensations of losses for discontinued operations. Our effective rate concerning to profit before taxes was 22% in 2014, as compared to 9% in 2013.

In the 4Q14, profits from continued operations dropped 5.1% moving to, down to R\$20.3 million. In the year 2014, the adjusted profit for continued operations dropped 5.4% reaching R\$54.2 million. Net profit was impacted by a higher net financial expense and also a higher rate for income tax and social contribution, as explained above.

On slide eight, we see our deleveraging with the funds from the IPO. In 2014, the net debt represented 0.43x the equity as compared to 0.9x in 2013. Net debt over EBITDA dropped from 2.2x in 2013 to 1.46x in 2014.

As for debt aging, we still have a reflection of the lot of the short-term debt of R\$53 million, which is indexed to CDI, which is being settled in 2015 as explained in the previous slide. Besides, there are R\$107 million in new funds from FINEP, contracted in December 2014 and which have a grace period of three years, on top of six years for amortization with prefixed interests at 4% a year. The first installment took place in March 2015.

On slide number nine, we see the CAPEX for 2014. The Company finished its biotech research center in line with the strategic plan for growing in the biological market. It also finalized the second wave of investment in SAP, besides investing in research for new products. And as for the maintenance CAPEX, investments were kept in line with the Company's track record.

On page ten, we see our investments in R&D. In 2014, Ourofino continued investing the equivalent of 6% of its net revenue in R&D, amounting to R\$27 million, out of that total, R\$12.8 million make up the CAPEX previously mentioned.

On page 11, we highlight the results of those investments in R&D, listing the launches for 2014. We are talking about ten new launches, more than the six we had planned and in several therapeutic classes, which shows a diversification of our portfolio.

On page 12, we see the daily performance of our shares since the IPO and until the end of 2014. The IPO was at R\$27 and then on December 31, we closed the day at R\$30.68, a growth of 13.6%. As a comparison, the Ibovespa dropped 7.1% in the same period.

On slide 13, we have the recent events section present a summary of information for the green shoe exercise, which took place in November 18, 2014. 2.02 million common shares were issued, so our capital is now displayed off in 53,942,307 shares, an increase in supplementary capital in green shoe amounted to R\$54.5 million.

The Company's distribution now is the following: founding shareholders 55%; administrators 3%, and free float at 42% stake.

Another recent event which was also noteworthy was the legal decision to suspend the

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IN13. On March 24, 2015, a court decision anticipated the effects of the action proposed by SINDAN, to the extent of annulling the application of the IN13. Because of that decision, we will now be able to produce and sell the following products: Master LP, Aba LA and Iver LA. We are still trying to measure the possible impact of that in the Company's result.

In closing, on page 14, we would like to emphasize our annual growth in net revenue, which was up approximately 13%, our growth in adjusted EBITDA of more than 15% and the launch of the new products.

Besides emphasizing what was said by Dolivar, we have the go live of SAP, we promoted a spin-off of the Company which resulted in a new structure for the Company under the animal health, and conducted IPO. All of those projects were conducted with success and were influenced by important events, such as the World Cup, the Presidential Elections and other factors which provoked instability in the economy.

For 2015, we are still motivated to continue looking forward goals with determination, credibility and agility to keep on carrying our strategy of being ever closer to our clients, identifying their needs and creating products and providing solutions which will increase their productivity in terms of production animals and that will protect companion animals.

Thank you all for your attention, and thank you for your trust.

**Joseph Giordano, JPMorgan:**

Good afternoon, Fábio, Dolivar. Thank you for the call. In terms of markets, what do you see going forward, especially considering the high foreign exchange rate for the strong USD? What do you see in terms of transferring price to the industry? I imagine that now, your competitors are importing a big part of their portfolios. So what kind of impact will the foreign exchange have for the domestic market and the exports, please? Thanks.

**Fábio Lopes:**

In January and February 2015, we transferred our products at an average of 8%, 6% in terms of exports and 2% because of the foreign exchange rate. We will be paying attention in the coming months to those fluctuations, if we have to, we will conduct a new adjustment in this beginning of the 2H.

We are monitoring our competitors, most of them are multinationals as you said, and they are also transferring their prices to try to recover their margins because of the fluctuation of the USD.

**Joseph Giordano:**

Thank you. Do you have any idea of the magnitude of the increase from the competitors?

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**Fábio Lopes:**

Between 8% and 10%.

**Joseph Giordano:**

Looking at the beginning of the year, what do you see in terms of demand for the products in this beginning of the year? Farmers, cattle growers, are they more prudent and more cautious or would you say that the foreign exchange rate is helping them in terms of the exports?

**Fábio Lopes:**

We are now closing the data for the 1Q, and we do not see a decrease in demand for our products. Farmers, as you said, they are also being favored on the export front. So we have not identified anything that would challenge our expectations in terms of the beginning of the year.

**Joseph Giordano:**

Thank you. Fábio.

**Giovana Araújo, Itaú BBA:**

Good afternoon, Fábio. Congratulations on your results. I would like you to give us some more color concerning the year 2015, on how do you see growth perspectives by line of business, margins, contribution, the comeback of those three products which have been suspended, if you could talk about your pipeline as well for 2015. That is basically what I have to ask.

**Fábio Lopes:**

Good afternoon, Giovana, we have an expectation to keep growing both sides of the business above market. We have positive expectations for 2015.

As you said, we have those products coming back to our portfolio, those are important products for the Company, but we made important decisions as of June, when that first happened, we repositioned several products, we will offer new treatment products for cattle breeders, but, of course, when we have those products back, in special the Master LP, that is of course very important for 2015 and that reinforces our expectations of having a good year in 2015.

In other words, we plan to continue growing above market.

**Giovana Araújo:**

OK. And could you talk a bit about innovation pipeline? What you expect for 2015, any



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new products?

**Dolivar Coraucci Neto:**

We begin our innovation plan, we have for this year about seven new products, seven, two connected to pets and companion animals, and five for production animals. Those are aimed at sealing a few gaps that we have in some areas where we operate.

And that is totally in line with our plan. To give an idea, in this 1Q, we have launched three new products already for large animals.

**Giovana Araújo:**

OK, thank you. Thank you, Dolivar.

**Rodrigo Coelho, Bradesco:**

Good afternoon, Dolivar, Fábio. I would like you to please talk a little bit about avermectin. I understand you have not measured the impact, it is a recent decision. My question is: do you still have that product in inventory? And if you have any initial estimate of when you could actually resume sales, is it on an immediate action or response, and you also mentioned that part of the concentrated avermectin was replaced by the diluted version.

So the question is, should we expect a reaction from cattle breeders to go back to using the concentrated products, will it be more interesting for farmers to use the concentrated products or not? Thank you.

**Fábio Lopes:**

Ourofino's management, the supply people and the marketing people, everybody is working to be able to resume sales of concentrated avermectin as soon as possible. We have already started selling that product this month, we have re-directed part of the inventory we had to the international market to meet our local demand.

So, in April and May, we should expect those sales to increase. I will give the floor to Dolivar now.

**Dolivar Coraucci Neto:**

As for the replacement of the concentrated form by the diluted form, what we did was we conducted a program where we repositioned the use, fostering the responsible use of avermectin. The idea was to eliminate parasites in a responsible way.

So that is what we recommended, to use of the diluted avermectin when it was needed. Now that we are going to resume the concentrated version, the idea is to provide a more comfortable position for the farmer to use the product in a more intelligent adequate way.

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**Rodrigo Coelho:**

A second question. Could you explain a bit how have you benefited from the price of cattle in the previous months? Do you see an additional demand for your products, especially in the reproductive front, since farmers want to increase their productivity of meat?

**Fábio Lopes:**

Yes. We believe there will be a faster adoption of technology, and, as you said, the reproductive line is where we see a larger growth that happened in 2014, and we believe that will be replicated in 2015 and 2016.

The price of meat, as we say, of course helps companies which innovate. So, when we have the farmer using more products, and we have a faster cycle, it all points to a growth in demand for our products as the price of meat goes up.

**Rodrigo Coelho:**

OK, thank you and congratulations on your results.

**Márcio de Carvalho Montes, Banco do Brasil:**

Good afternoon, Dolivar, Fábio. Thank you for the opportunity. Congratulations on your results. If foot-and-mouth disease, is it part of the mix of products of the Company?

**Fábio Lopes:**

Foot-and-mouth disease represents about 8% of our sales. 8% of our revenue comes from products to fight foot-and-mouth disease.

**Márcio de Carvalho Montes:**

When you have the suspension of that legal decision, do you expect to expand your market share and how do you see that going forward? Can you expand and give the market share for that product, as you have been doing with other products in your portfolio?

**Fábio Lopes:**

Márcio, we do not believe in expansion of market share. The production cycle for that product is very long and the productive capacity of Ourofino is to put out from 36 million to 40 million doses a year. We do not aim at increasing the capacity of that product. Our growth drive is for biologicals, but for other products, not for the products to fight foot-and-mouth disease.



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**Márcio de Carvalho Montes:**

OK, thank you. As for antibiotics, you had a launch of a new product from the competition with natural oils; does it compete directly with any of your products?

**Dolivar Coraucci Neto:**

That type of product is used as adjuncts or additive for the agro industry. So, those are products which are more sustainable if you will, but when we introduced that type of product, you need time for people to accept it, so results also take a long time to emerge when compared to the consolidated technology that we have.

That is a front we are paying close attention to. We are working towards including that in our pipeline, the idea is to have increasingly more sustainable products, with more natural characteristics, of course.

**Márcio de Carvalho Montes:**

So, as I understand right now, that is under development. And this product I mentioned does not directly affect your expectations, am I correct?

**Dolivar Coraucci Neto:**

Yes, you are correct.

**Márcio de Carvalho Montes:**

Thank you.

**Operator:**

Thank you. This concludes the Q&A session. At this time, I would like to turn the floor over to Mr. Dolivar Coraucci for his closing remarks.

**Dolivar Coraucci Neto:**

First of all, I would like to thank you all for participating in this conference call. Thank you all for your attention, your trust in our work and I emphasize that we are focused on delivering increasingly higher results. It is a competitive market, but we are proud to be part of such a successful Company. Thank you, everyone.

**Operator:**

Thank you. The conference call for Ourofino's 4Q results is now over. You may now disconnect your lines.

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