

OUROFINO SAÚDE ANIMAL
RESULTS CONFERENCE CALL
2Q2020

OPERATOR - Ladies and gentlemen, thank you for holding and welcome to the Ourofino Saude Animal for the 2Q2020. Today we have with us Mr. Kleber Gomes, CEO, and Marcelo Silva, the CFO and IRO. We would like to inform you that this event is being recorded and simultaneously translated and that all participants will be in listen-only mode during the company presentation, and soon in this we will have the question and answer 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 at ir.ourino.com. The webcast 2Q20 banner will be there. Once again, the slide presentation is also available for downloading. 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 cause results to differ materially from those expressed in such forward-looking statements. I would now like to turn the floor over to Mr. Kleber Gomes. Mr. Gomes, you may proceed sir.

KLEBER GOMES - Good afternoon to all of you and thank you very much for participating in our 2Q20 conference call. The commitment with the execution of our strategic planning remains a priority for the company and employees, despite the challenges brought about by the pandemic. The close relationship with our broad and diversified customer base and owners of companion animals has enabled the 6.0% year-on-year growth and net revenues for the first half of the period. Gross margin showed a 1.0pp improvement to 50.0% and adjusted EBITDA improved 27.0%, BRL44.0 million. Now, despite the restraint and postponement of non strategic investments, control of default, we had a strong operating cash generation and raising funds that increased our cash to a BRL133.0 million.

At the end of the 1S our net debt by 21.0%, with a net debt/EBITDA leverage of 1.6% in the quarter, in line with what was expected by the company. We had a net revenue recorded a 3.0% decrease. Now, on the positive side all of the initiatives carried out by our commercial team that have acted since the very first moment to activate and maintain remote service, allowed lower impacts on revenue and the quarter and a stronger recovery experience since June. In production animals farmers remained encouraged to invest in animal health and to search for productivity, given the scenario of positive prospects in the animal protein market. The restrictions did not discourage our sales team, that remained in contact with customers during the period, whether remotely or in person, as the easing measures took place. Thus, in the quarter net revenue was only reduced by 2.0% accruing of 4.0% growth in the semester highlighting the recovery in sales volume in May and June. In the companion animal segment we witnessed a 23.0% reduction in net revenue in the quarter, and 9.0% in the six months of 2020 even with the resumption of the expected sales volume. On the positive side, we highlight a double-digit growth in sell out in the half period, maybe due to the continued work of our team, serving more than 4,500 veterinaries. Additionally, there was an increase in demand and adoption of companion animals with positive impacts in the search for veterinary products and drugs. In international operations, net revenues increased 20.0% in the quarter and recorded a 40.0% growth in the semester. We highlight the positive impact of the foreign exchange rate and the outstanding performance of exports to Mexico and Colombia. In the latter the company saw more significant impacts on sales because of the restrictions due to the pandemic, even though there were price gains and an improve in the gross margin. In the 2Q the provision for losses on intangible assets was recorded at BRL19.0 million. We had an adverse effect on the animal and the products that we were researching was not feasible, now even due to commercial reasons the company chose not to launch another product that makes up for this. These are decisions that will not change our growth plan for the coming years that is based on biologicals as we have mentioned in our strategic plan. We remain confident on the company's ability to adapt and offer solutions to customers and partners, creating innovative solutions for the care, production and for companion animals. We will be recognized as the best animal health company in Latin America.

I would now like to give the floor to Marcelo to speak about our financial data.

MARCELO SILVA - Thank you Kleber. Regarding the financial results, we begin with the company's net revenue. The consolidated net revenue for the company was a BRL173.0 million, a reduction of 3.0% and the growth was 6.0% in terms of consolidated

figure [06:59] BRL284.0 million. We had a BRL136.0 million for the 2Q, a reduction of 2.0% vis-à-vis the 2Q2019, and the semester revenues grow 4.0%, reaching BRL284.0 million. Now, the commercial area maintain remote contact with the clients even in the more severe conditions. We also perceive that despite this economic drop, producers had to increase their productivity to service the animal segment, increasing volumes and prices. In companion animals net revenues were BRL18.0 million with a reduction of 23% vis-à-vis the 2Q2019. For the semester, the reduction was 9.0% reaching BRL39.2 million. The impact was mainly due to the restriction in circulation in Rio de Janeiro and Sao Paulo, and fear of pet shop owners to operate, although these services were deemed to be essential especially in April and May. In June we saw a resumption of expected volume and this had a positive impact. We had a two digit growth for the semester and a historical record in June. And we may have an increase in demand for companion animals and for veterinary products. And we also continue serving more than 4,500 veterinarians monthly in order to generate demand. In international operations net revenue was BRL18.6 million, a growth of BRL20.0 million vis-à-vis the 2Q19. For the period the growth was 40.0%. Excluding the positive impact of the foreign exchange rate, we would have reached 22.3%. We had an increase in volume and price gains, especially in countries where we do not operate with subsidiaries. In Colombia, the growth of the net revenue for the 1S2020 was of 10.0%, as a result of positive impact of foreign exchange. In Mexico, net revenue showed a 17.4 reduction with price and foreign exchange rate [09:31] that did not offset the volume losses. All of these countries were affected by more severe restrictions and movement of people but have started to show a recovery in June. In [09:47] Q2019, and in May this percentage increased to 50.0%. We had a gross margin increase in production animals and international operation segments and in companion animals. In production animals, we had a gross margin of 40.0% for the 2Q, a 3.0pp increase and we had a margin of 44.0%. And with the sub-segment of poultry and pigs, we still have a good performance, thanks to the positive effect of exchange and it allowed for a slight improvement in the margin for the half-year period. In companion animals, the gross margin was 70.0% in the 2Q2020, a decrease of [10:41]pp compared to the 2Q2019. In the 1S20 the reduction was 2.0pp to 68.0%. Price gains were not enough to fully offset the increase in costs. In international operations the gross margin was 67.0%, an increase of 10.0pp vis-à-vis the 2Q2019. In a half year period gross margin increased 64.0%, and this is due to a favorable foreign exchange rate, but also is the result of a price increase.

We continue the comments speaking about EBITDA. Expenses with SG&A amounted to BRL77.0 million, a growth of 29.0% vis-à-vis the 2Q2019. In a half year period the

growth was of 19.0%. When it comes to the percentage growth of expenses on net revenue, it should be highlighted that we amounted to BRL19.0 million substantially in terms of provisions, relating to the development of some products. It was necessary to strategically and technically make adjustments. Now this decision does not alter our growth plan for the coming years. We continue with our biological [12:09] cash. In fact, the percentage with SD&A, compared to net revenues had a dilution thanks to the growth in revenues. The adjusted EBITDA for the 2Q was at BRL39.0 million, a growth of 12.0% vis-à-vis the 2Q2019. In the 1Q adjusted EBITDA grew 27.0% compared to the same semester in 2019. Now, this increase is due to a gross margin improvement in both a quarter and the semester dilution of selling SG&A when adjusted referring to the intangible assets project.

I would now like to speak about financial results, income tax, social contribution. The net finance result recorded a negative amount, a reduction of 82.0% vis-à-vis 2Q19. There was a 70.0% reduction reaching a negative amount of BRL2.1 million. The reduction is due to the lower cost of capital following indicators such as CDI and TJLP. Now, income tax and social contribution was BRL3.0 million positive and BRL9.3 million negative in the 2Q19. In the 1S income tax and social contribution was BRL3.0 million positive. It should be noted that this is done based on tax basis. In adjusted net profit we had a reduction of BRL15.0 million. We reached... This result reflects an increase in gross margin and income tax and social contributions that offset our expenses. When it comes to the company indebtedness in the 2Q net debt over EBITDA ended up at 1.6x time. It was 1.9x in the former period. Now, besides this we have a strong cash generation and associated to the SG&A we were able to reduce the net debt to a BRL138.0 million. The average cost of debt was based on TJLP and although 70.0% of our debt is in the short term, we do have some operations that were taken both in March and April to strengthen our cash position. We have already initiated negotiations to extend this debt.

We will now speak about the company's cash generation. In the 1Q the company had a BRL133.0 million [15:20] raising and favorable conditions and these were done at the beginning of the crisis, and this contributed positively to our cash. We had cost contention, we had BRL5.0 million additional for the semester and this contributed to our cash position in the 2Q.

We made investments, totaling BRL20.0 million in the 2Q2020 equivalent to 20.0% of our net revenues. This reinforces our guidance for innovation and the consequent

sustainable growth besides of course strategic expenses due to the pandemic. We had the launch of Maxicam and this has been carried out to complement the Maxican line.

Question and answer session.

OPERATOR - Thank you. We will now go on to the question-and-answer session. Should you have a question, please, press *1. Mrs. Luciana Carvalho from Bank of Brazil would like to pose a question. You may proceed ma'am.

LUCIANA CARVALHO - A good afternoon to all of you. Kleber, Marcelo. Thank you for taking my question. I would like to have a bit more color in terms of your sales. If you could give us more detail, especially in terms of the sequential sales, you mentioned that the greatest impact was in April and May, and that there is a resumption in June. If you could explain to us how this recovery has taken place and what we can expect going forward. You already have the information for June and July and if you could perhaps remark on the mix of prices. Your margins, I think were under pressure because of a less favorable environment, especially in production animals. Now, in companion animals and in international operations, you seem to have a price gain. So once again, if you could give us greater details in terms of what we could consider for volumes and prices going forward.

KLEBER GOMES - Luciana, thank you very much for your question. You're always following up on our results. We will begin speaking about the issue of sales in the context of the pandemic. What we had expected happened at the very beginning of the pandemic. We still were not very sure what would happen, but we perceive that the worst moment was April, everything was closed, all the stores were closed, the distributors for companion animals were close, the pet shops have closed down. So April was a month where there were adjustments being made to see what would happen with the situation. It was definitely the worst month and we talk this more on companion animals, from that time onwards. If we speak about production animals, April was not a good one, May as part of what we expected was within budget. June was above our budget, as well as July, which means that we have observed that in production animals, the pandemic has been left behind it something of the past, and there's a need for the production of protein. We know that there has been a reduction in internal consumption. And once again, this is also going back to normal levels and all of this was offset with a record of export, simultaneous exports, especially due to the exports being made to China with high mid prices in a certain way. In production animals, we can already foresee that we will no longer have any

impact, quite the contrary. Of course, there will continue to be challenges in the 2S. We have the month of a very significant fair for the business that is carried out in Rio Grande do Sul. But the company of course knows that this fair will not take place and what will happen is the fair will be held virtually and we will continue on with negotiations. Once again, June was better than May, July was better than June, and the results have been above the budget which gives us a positive outlook going forward. In terms of companion animals, the first stronger impact was in April and May, stronger of course in April, a slight recovery in May, and in June and July we do observe some very positive recoveries. What does draw our attention is what was happening in the previous months. We see that the distributor, the store owners were ridden with anxiety. Now we have now returned to more normal levels, and we are somewhat more hesitant with this segment because it does depend greatly on economy. What has affected us positively is that during this moment of crisis we have intensified that tie, that link that exists between the owners and their pets. especially when people were in lockdown and quarantine and did not have too many other alternatives. We believe that this has increased the care for animals and it forecasts a more positive market going forward. Therefore our outlook is also positive. In terms of international operations, we did have a stronger impact and restrictions. Colombia remained for quite sometime under lockdown, this required specific work. We of course have had this work ongoing for many years. We were increasing the number of people changing some people, we have to hold back some time. But we have already begun to observe an improvement, and June and July have been more positive months. And in a certain way the exchange rate has been of help in this. So, the summary of this story is that the worst is over in terms of the pandemic, and in the present day scenario we see that the general conditions of Brazil seem to be somewhat calmer. Now, if we speak about our price makes and if we compare the first quarter, well, the first quarter was much weaker with lower margins, it's what we have perceived during the 2Q is that trade has offset this. Sales campaigns have been resumed. And once again, we seem to have a better margin market with our team, we have been able to also improve our margin. Now going forward, we do know that the exchange rate is going to help us in terms of purchases. We have conversed with several companies that believe that there will be a price increase and this is what we expect to see in the 2S. Of course, to offset the exchange rate.

LUCIANA CARVALHO - Great. Thank you. Very clear. Thank you Marcelo. Thank you for your response.

OPERATOR - Our next question is from Eugenia Cavalheiro, from JP Morgan.

EUGENIA CAVALHEIRO - Hey, good afternoon. I hope you are well. We just heard an overview of your sales expectations in the short term. I would like to know if you could refer to the medium and long term. And if you have observed something very different due to the pandemic, if there has been a very drastic change because of the pandemic. Thank you.

KLEBER GOMES - Thank you. Eugenia for your question and please greet all of the people there at your bank. Now, back now for the medium and long-term, our outlook is positive. We do have drivers that will be reinforced and of course the part of nutrition is very important, despite the fact that we have a global pandemic and of course, this enhances the need of production for protein for the entire world and Brazil is one of the great players in Latin America and our suppliers. So we have these drivers that will be enhanced. Now if we look at companion animals, I think we can say the same. This is a segment that was causing enthusiasm about everybody. Several companies were beginning their IPOs and we saw a great deal of enthusiasm in the segment and the pandemic has not done away with this. There are several people in the team that of course have reinforced their links with their pets simply because they have remained home more and we believe that we will not have an enormous change, but there will be a change of habits. People have understood that they need to remain more at home, that this enhances their quality of life. And we heard the conversation of a company president that mentioned that people once again are cooking their own meals at home. There has been a strong increase in this. And in terms of relationships, I think we're going to have ever more companion animals, more pets and we look upon this very positively. We have a good outlook on the markets of Latin America, especially Mexico and Colombia. There has been a great deal of land cultivated. This makes possible production and, of course, production will be important for our operation. So the outlook for the medium and long term is positive. I can look upon this in a different way. In terms of M&A, of course, we're very well structured company. This does not apply to the smaller companies. And of course there may arrive an opportunity in the market because of the pandemic but this is simply a feeling of [27:56] sure that we have of how the crisis may have impacted some companies. I don't have any effective information in this sense.

EUGENIA CAVALHEIRO - Thank you. Thank you very much.

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

Mr. Lucas, from Safra Bank would like to ask a question.

LUCAS - A good afternoon, Kleber. First of all, congratulations for the company results. I would like to ask two questions, Kleber. The first referring to that special reserve that you created in May. If you're going to be paying out this profit in the future and which is the company's driver to pay out this amount. The second question refers to sustainability. During this period we were highly concerned with the presentation of the Amazon region, the pasture lands and confinement. How will this change anything for Ourofino and will it lead to an increase in the confinement of production animals?

KLEBER GOMES – Lucas, thank you very much for your question. Very generally the company has always fully honored the distribution of dividends and we're going to continue to pay them out in a regular fashion, as the pandemic has had a lesser impact than we had imagined initially. So we are going to be paying out or dividends frequently. When it comes to sustainability, one of the great concerns of the company and we have just disseminated our sustainability report to show our commitment with this issue. If we look upon this as the sector ecosystem, of course, there are some things that may change but I would like to highlight that Brazil is a highly sustainable country. Often times the information is distorted and there's a video that showed how Brazil has grown in terms of activity without exploring some areas and without deforesting, and we truly believe in this. It is our understanding that we no longer have a single additional meter of area for production. Productivity will be based on a combination of three pillars: animal genetics; sanitation, that we work on; and nutrition. And I think Brazil is a privileged country because it is able to work with a very good production without having to explore additional area and because of the crops and the cattle raising models, we're highly committed with this. And what is it that we whatever we can do to help the sector we will do, but we would also like to clarify things and tell the truth, that the Brazilian production is highly sustainable.

LUCAS - Thank you. Thank you very much.

KLEBER GOMES – Lucas, I think I skipped part of your question referring to the confinement of animals. We believe that confinement is ever growing and presently we're working with a minor fraction of this and in the medium and long term, we don't foresee any change in the Brazilian cattle raising system. We do think there will be an increase in the confinement of animals. Now, what confinement does is to alter the type of sanitation

that is required. You will have more dewormers. It will also require more treatment. This is something growing in Brazil, but it still represents a very small parcel, and it will take a long time for this to change because of the characteristics of our cattle raising.

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

One once again, should you wish to pose a question, please, press *1.

At this moment, we would like to end the Q&A session. We will return the floor to Mr. Kleber Gomes for the closing remarks.

KLEBER GOMES - Thank you all and first of all, I would like to convey some confidence that company is extremely well structured. We have recently signed a debt lengthening for the coming four years. So we're very well structured in terms of financial terms. And our team is extremely motivated with its work, especially the commercial team and this of course is bringing in good results. Our goal of course is to become the best animal health company in Latin America and we're working pursuing this goal. We continue to be very positive in terms of both the sector and our company. Thank you very much for your participation.

OPERATOR - The 2Q20 conference call for Ourofino ends here. We would like to thank all of you for your participation. Have a good afternoon.