

OUROFINO - INGLÊS 08/08/2018

Operator - Ladies and gentlemen, thank you for holding and welcome to Ourofino Saude Animal 2Q2018 results conference call. Today we have Mr. Jardel Massari, CEO and Mr. Cleber Gomes, CFO and investor relations officer. We would like to inform you that this event is being recorded and simultaneously translated into English. All participants will be in listen-only mode during the company's presentation. After the company's remarks are completed there will be a Q&A session, when further instructions will be given. Should any participant need 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.ourofino.com, there you will find the Webcast 2Q18 banner. The slide presentation which will be presented by the management today is also available for downloading on the website. Before proceeding let me mention that forward-looking statements will be made under the safe harbor of the securities litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Ourofino's management and on information currently available to the company. And forward-looking statements do not ensure performances, involve risks, uncertainties and assumptions because 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. Now I would like to turn the floor over to Mr. Jardel Massari. Please Mr. Jardel Massari you have the floor.

Jardel Massari - Good afternoon. Thank you for your participation in this conference call earnings release of the 2Q2018. We are very pleased to deliver robust results in yet another quarter. We'd strong growth in our net revenue, improved gross margins, dilution of expenses and the highest

EBITDA and net margins of all time. In the history of this company our net revenues grew for the 5th consecutive quarter. Our EBITDA in the 2Q2018 equals that of the 4Q2017, the highest in our history, even considering the typical seasonality of the industry in the 2H, especially for 4Q which was the two most representative. Our EBITDA in the last 12 months is the highest in our 31 years of operations. BRL24.0 million in the livestock segment, net revenue grew 21.0% in this quarter, and totaled BRL129.0 million reflecting higher sale coupled with price increases at the beginning of 2018. It should be noted that the commercial policies reestablished in the last 2 years have been maintained ensuring sustainability of the indicators under discussions. Our commercial team was crucial for us to achieve this result. So I would like to publicly praise them for their work. Companion animals. This quarter we achieved 34.0% growth in net revenue. This growth occurred both in volumes reflecting our commercial strategy to generate demand with increases in the veterinarian visit teams and in the price of our products. In addition, gradual improvements of the macroeconomic scenario have had a positive impact on this segments and international operations in line with the company's internationalization plan. Our Mexico and Colombia operations grew 48.0% in net revenues in the quarter, a [05:22] of over 70.0% net revenue in this segment this year. We remain optimistic at our growth opportunities in these countries since there are still products in the registration phase and investments in expanding our commercial teams tend to add more results. Our improved net revenue, EBITDA and net profit clearly show us that the current management actions that were implemented and impact adding value to the company. I would like to stress that we have a great focus on improving productivity with operating excellence aiming our portfolio, generating demand with strategic planning for the next 5 years, among others that will pave the way for next growth cycle. Achievements made in the last quarters coupled with expanding markets with strong growth drivers provided us with great encouragement to keep working hard in the pursue of the goals we have set

for our future. Thank you everyone for trusting our work. I will now turn it over to our CFO and investor relations officer, Cleber Gomes, who will present his comments on the results of this quarter. Thank you.

Cleber Gomes - Thank you. Good afternoon, everyone. The company posted a net revenue of BRL162.0 million in the 2Q2018, representing 17.0% growth compared to the 2Q2017. The 1H2018, net revenue was BRL253.0 million, 19.0% higher than the 1H2017. The livestock segment had BRL129.0 million in net revenue in the 2Q2018, an increase of 21.0% compared to the 2Q2017. In the 1H2018, net revenue was BRL194.0 million, growing 21.0%. These numbers were created by volume increases and price gains across the product lines. The companion animals segment reported BRL90.0 million in the 2Q2018, up 34.0% in comparison with the 2Q2017. The 1H2018 net revenue totaled BRL38.0 million, a 34.0% from the 2Q2017. These results were due to increases in volumes and price gains. International operations segment reported net revenues of BRL13.0 million in the 2Q2018, down 24.0% year-over-year. The 1H2018 net revenue was BRL21.0 million, a 5.0% decrease. Revenue growth in Mexico and Colombia combined was 48.0% in the quarter and 51.0% in the 1H. The lower numbers were due to sales of vaccines against foot-and-mouth disease in both Bolivia and Paraguay in an amount of BRL5.0 million, which remained in 2017 and will not repeat in 2018.

Gross margin. The gross margin in the 2Q2018 was 53.0%, up 1.0p.p. over 2Q2017. In the 1H2018, the gross margin was 55.0%, a 2.0p.p. year-over-year. Analyzing segments now. Livestock. The gross margin was 49.0%, a 1.0p.p. reduction as compared to the same period in 2017, a consequence of the mix with a higher share of foot-and-mouth disease vaccines. The 1H2018 the gross margin was 50.0%, an increase of 1.0p.p. and reflecting the price gains in the 1H2018. Companion animals segment reported a gross margin of 74.0% in the 2Q2018, up 3.0p.p. year-over-year. In the 1H2018, gross margin was 73.0%, up 1.0p.p., this result shows price gains in these quarters. The international operations segment posted a gross margin at 67.0% in the

2Q2018, an increase of 19.0p.p. compared to the 2Q2017. In the 1H2018, the gross margin was 65.0%, up 14.0p.p. This result reflects the best mix, as revenues from foot-and-mouth disease vaccines appeared only in 2017, not to mention exchange rate gains.

Now comments on SG&A and EBITDA. Selling, general and administrative expenses for the 2Q2018 totaled BRL52.0 million, with 1.0p.p. dilution year-over-year. In the 1H2018 expenses totaled BRL98.0 million, with a dilution of 4.0p.p. over the same period in 2017. This result continue to reflect the company's strategy of optimized expenses over the last two years, coupled with continued expansion of revenue in recent quarters. Adjusted EBITDA in the 2Q2018 totaled BRL41.0 million, a margin of 25.0%; a 2.0p.p, year-over-year. In the 1H2018 the adjusted EBITDA was BRL53.0 million, an increase of 58.0% over the same period in 2017. This result reflects the growth in revenues, with increased gross margins coupled with a dilution in selling, general and administrative expenses.

Moving on to net financial expenses, income tax and social contribution expenses and net income. Net financial expenses for the 2Q2018 totaled BRL4.0 million in line with the net financial expenses for 1H2018, which was BRL3.5 million. In the 1H2018 financial expenses totaled BRL7.0 million, a 15.0% reduction year-over-year in line with a reduction of the average cost and debt [11:17]% a year in this period. Income tax and social contribution for the 2Q2018 was BRL9.0 million compared to BRL8.0 million to the 2Q2017. In the 1Q2018, income tax and social contributions totaled BRL9.0 million against BRL3.5 million in the 1H2017. This reflects improved profitability levels. Net income for the 2Q2018, totaled BRL21.0 million, 42.0% year-over-year. The 1H2018, net income was BRL25.0 million, 174.0% higher than the same period in 2017 and this result was reflexion of EBITDA growth for the reasons discussed above together with with a reduction in net financial expenses in 1H2018. Now going on to the company's indebtedness. The 1Q2018, the net debt/EBITDA ratio was 1.8x compared to 4x in the 1Q2017. The average cost

was 7.0% a year at the close of the quarter compared to 8.0% per year in the 2Q2017. This amount incorporate back [13:44] guarantee values in some lines in addition to related to derivative values. Our cash position is BRL135.0 million and together with the cash generation expected for the coming periods is sufficient for our short-term debt of BRL163.0 million which is concentrated in the 2H2018.

Now, we're talking about the company's cash generation. The 1H2018 operating cash generation was BRL29.0 million, which was impacted by the increase in inventory volumes due to increased purchases import of China and the production of pilot lots for the new foot-and-mouth disease vaccines of 2ml that needs to be approved by the Ministry of Agriculture. Also worth mentioning our debt amortization and interest payments, dividends and interest on [13:21] capital BRL94.0 million in addition to fund raising of BRL105.0 million. The average cost of debt was 7.0% a year accounting for the associated cost of derivatives and guarantees on June 30th 2018.

And finally, let's discuss the R&D investments. Investments totaled BRL20.0 million and represented 8.0% of net revenue for the period, this percentage is in line with our historical average and shows that we continue to invest in our growth and sustainability. I'll now turn to the operator to proceed with the Q&A session.

Operator - Thank you. We will now have our Q&A session. If you have a question, please press *1.

Tomas [14:04] of Itau BBA wants to ask a question.

Tomas - Good afternoon. Thank you for your presentation. My first question is about companion animals, we saw expressive improvement compared to May. So, for this year, considering the actions that had been taken is there an expected increase in margin in the 2H? Are you expecting to capture any

benefit from these measures? Or do you think this level will continue in the 2H? That is my first question.

Cleber Gomes – Thank you for participating. Let me just to check: your question is about companion animals or livestock?

Tomas - Companion animals. About the improved margin.

Cleber Gomes - Well, for companion animals, margin in the last two years has changed and we want to recover this. So we are expecting to keep these gross margin level. We are working hard on this, there are macroeconomic issues, of course. And we are working with our visit teams and they are doing a great job, they are visiting clinics and pet shops, so we are working hard to keep this level up.

Tomas - My second question is about working capital. You also have clear improvement in this quarter. Now inventory and imports for foot-and-mouth disease in China you'll need more working capital. So when can we expect this to be reverted? And your previous working capital level?

Cleber Gomes - That's a great question too. We've also worked hard in terms of cash generation in the last few years with very positive results in our opinion. And we have the same focus for 2018. And then there is the issue of China, of course, which now has its own regulatory problems and we're having more conservative this year. We want this inventory to be larger. China affects many industries that depend on it and as there is [16:26] end commercialization of 5ml requiring new lots this of course and entails previous preparation but then we want to go back to our regular levels. So we expect this. In China, a lot of effort was put into working capital and we don't believe this will have a great impact in the next quarters.

Tomas - Thank you.

Operator - Olivia Petronilho, of JP Morgan would like to ask a question.

Olívia Petronilha - Thank you for taking my question. I have two questions. First on international segment. There has been a lot of change in the last quarter, in the segment. So we have now a great focus on emerging economies, and how to keep growing these countries in the next 18 months? So what can we expect from the margins? My second question is about the biologicals plant. Can you give us an update on the release of this plant? What can we expect? Is it to be open next year? Thank you.

Cleber Gomes - Olivia, thank you again for asking your question. With regards to Mexico and Colombia, in our view this was clearly one of our focuses in growth. Latin America is one of the most representative areas for the increase in protein production, and Brazil is highly representative in Latin America, but Mexico is the second largest animal protein and Colombia is the third. In other words, it makes all the sense in the world for Ourofino to be working in these regions, in these two countries. And we started investing in these two countries, in these subsidiaries. A while ago they had a strong commercial focus because the production was made in Brazil so they had the commercial marketing team there that were more active in their markets. In the last few years we've also been working on the registration of products in these countries, which we didn't have. So we are now reaping the benefits of having new products registered there. So we have very good expectations of growth in these countries. In 2017 we were the company that grew the most in Mexico, in our sector. And in Colombia we are the third in growth. So we're putting a lot of effort into this and we have very high expectations about growing in these countries. As for the biologicals plant, this is also a great project of ours, a very important one. We now have a trend preventing rather than curing, so this will be a great add on, a great addition to us. And this a highly complex and bold project in this segment. We've had some delays. We've already discussed them before. The plant is ready and we are now testing, running some tests. When we are to register with the Ministry we need

to have pilots tests of the first vaccines and then we're also having more expensive product lines to be launched over the next few years. Ok?

Olivia Petronilha - Thank you.

Operator - Marcio Montes from Banco do Brasil has a question.

Marcio Montes - Good afternoon Jardel and Cleber. When we consider growth production lines have an increasingly greater share. It was 70-75 and now we have 80.0%. So what is your perspective in this segment?

Cleber Gomes - About foot-and-mouth disease vaccine. In 2H2018, we'll be launching new products, of course. The segment that generates more profitability that is the segment of companion animals and there was this slowing down of our economy in Brazil. So now we have the livestock segment is also growing.

Marcio Montes - So, food-and-mouth disease vaccine now has a lower margin, so what has being done in this sector to improve your mix?

Cleber Gomes - Good afternoon. This is Cleber. Very good questions. Livestock in Brazil always be important. What we considered the share livestock and companion this is usually 60.0% livestock and 40% companion animals. When we look at Brazil, the Brazilian market as a whole things are different, 80% livestock and 20% companion. So, this market needs to grow, companion animal market need to grow 20.0% a year. And now livestock grows 7-8.0% and this mix will change? Yes, it will. We expect it to grow but it's likely that it change but it won't never reach 60/40 because protein production in Brazil and labor issues and everything else we need livestock. Maybe we may get closer to 70/30 in the next few years, that's what we're expecting. By the way, maybe there is some confusion in our release, we sold almost the same volumes in the 2Q2017 and 2018. When we consider net revenues the amounts were virtually the same but then the configuration in 2017 we sold BRL5.0 million to Paraguay and Bolivia with better prices at the

time. So there was a lower share for livestock, because one part of our livestock was international operations. This year we sold the same volume but then return on livestock. Now if we consider this, we compensate for this difference we would have grown 20.0% this quarter. So the impact was not so great. Livestock is 21,5%, changed to 20.4. International operations there was a decrease of 24.0%. In fact we had a growth of 10.0%. So foot-and-mouth disease campaign was very positive, very good prices, but in terms of sale, it was the same share in both quarters. As for companion animals, what was your question?

Marcio Monte - It was about the growth of companion animals

Cleber Gomes - Ok, I remember it. Yes, this year what has been done, the union growth expectation publication is expecting to grow 7-8.0%, very close to its history records. And companion animals 12-15.0% that's what the market has been expecting, a little below historical levels, because this sector is more sensitive to macroeconomic issues and the second quarter... We are expecting the market to grow along these lines. Is this clear?

Marcio Montes - Yes, thank you.

Operator - Remember, if you have a question, please press *1.

Those who want to ask a question, please press *1.

Thank you. Ourofino's Q&A session is over. Now Mr. Jardel Massari will have the floor for his final remarks.

Cleber Gomes - Well, before we resume we have some other questions on line. And there is one question by Pedro Romi about foot-and-mouth disease. That was answered into Montes question. And there was another question by Luiz Azevedo about plans. We are reviewing our strategic plan and it is about our technological strategies too, so we don't have a new plan but it may change in the future. Now Jardel will have the floor. Over to you.

Jardel Massari - So thank you, everyone for attending and I would like to stress that we are working really hard to deliver our proposed results and earnings at the close of the quarter. The earnings and results were very good and we are convinced that we will continue in the same line.

Operator - Thank you very much. Ourofino's 2Q2018 results conference call is finished. Thank you very much for attending. Have a great afternoon.