

OUROFINO
EARNINGS
CONFERENCE CALL
3Q2018

OPERATOR – Good afternoon, ladies and gentlemen, and thank you for holding. At this time we'd like to welcome you to the conference call for Ourofino Saude Animal. Today we have with us Mr. Jardel Massari, CEO, and Mr. Kleber Gomes, CFO and investor relations officer. We would like to inform you that this event is being recorded and simultaneously translated. All participants will be in listen-only mode during the company presentation. And soon we will go on to the Q&A 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.ourofino.com, at the Webcast 3Q2018 banner. The slide presentation will be also presented there. Before proceeding we would like to mention that any forward-looking statements made during this call refers to beliefs and assumptions of Ourofino's management and are based 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 causing results to differ materially from those expressed in such forward-looking statements. We would now like to turn the floor over to Mr. Jardel Massari. Mr. Massari you may proceed.

JARDEL MASSARI - Good afternoon to all of you and once again we'd like to thank all of you for participating in our earnings conference call for the 3Q2018. In this 3Q the Company has continued to show consistency in its results with the growth in revenue, the increase in gross margin and dilution of expenses thus achieving higher performance indicators such as adjusted EBITDA margins of

26.0% and an adjusted net margin of 15.0%. In addition, financial leverage continues at low levels of net debt, adjusted EBITDA 1.7x. As a result of good cash generation from operations in the year, despite the strategic decision to maintain higher levels of inventories, specially raw materials and also the resumption of the calculation of adjusted EBITDA for 12 months which totaled BRL136.0 million. With respect to gross margin we had a 50.0% increase vis-à-vis 9M before and compared to 2017. with respect to the production animal segment the net revenue increased 22.0% and reached BRL127.0 million with a gross margin of 55.0%, an increase of 2.0p.p. vis-à-vis same quarter in 2017. These results show better product prices as well as our successful participation in 2018 in Expointer, one of the most important fairs in the sector. We would also like to mention the excellent work of our sales team which has been crucial for this achievement and the improvement of our demand generation program, including visits of our team of veterinarian to farms throughout Brazil. As regards the companion animal segment operations were performed as planned and net revenues reached BRL18.0 million in the quarter, an increase of 12.0% vis-à-vis 3Q2017. Despite the macroeconomic conditions in Brazil that are still in a phase of recovery, our team of technical advisers continues making this through veterinarians which has proved be important to foster dealer sell out thus helping to maintain the inventories at healthy levels. In terms of international operations net revenues totaled BRL16.0 million, an increase of 52,0% vis-à-vis 3Q2017, in line with the company's growth plan and product launches. Mexico and Colombia already represent more than 2/3 of revenues from international operation which shows the execution of our strategic internationalization plan. It is important to underscore that the growth presented to play substantially in local currency and also resulted from a favorable foreign exchange rate. Thanks to all of this we remain constantly in the generation of value along with the strong growth driver in the animal health market which has been materializing. Additionally I would like to emphasize that our entire team is very committed to continue implementing the company business plan in the coming period. We would like to thank all of you for your competence in our work. I would

now like to pass the floor to our IRO and IFO Kleber Gomes who will comment on the results for the period. Thank you.

KLEBER GOMES - Thank you, Jardel. Good afternoon to all of you. The company posted a net revenue of BRL160.0 million in the 3Q2018, a growth of 23.0% vis-à-vis the same quarter 2017. And the 9M of the year net revenues were BRL414.0 million with an increase of 21.0% vis-à-vis the same period in 2017. The animal production segment had net revenues of BRL130.0 million, an expansion of 22.0%, vis-à-vis 2017. And the 9M2018 net revenues were of BRL322.0 million, a growth of 22.0%. This growth was due to increase in volumes and in price gains in the entire line. In the companion animal segment the net revenue was up BRL18.0 million in the 3Q, a growth of 12.0% vis-à-vis the same quarter 2017. In the 9M net revenues for companion animals was a BRL56.0 million, a growth of 20.0% vis-à-vis same period in 2017. This once again was due to volume increases and price gains throughout the lines. The international operation segment had net revenues of BRL16.0 million in this quarter, an increase of 51.0% vis-à-vis same quarter 2017. In the 9M2018 net revenue was at BRL36.0 million a growth of 13.0%, with the impact of the sale of vaccines against foot-and-mouth disease in Bolivia and Paraguay amounting to BRL5.0 million and that did not occur into 2018. Once again the growth of revenues in local currency was fundamental for our results.

Now, comments on gross margin. In the 3Q2018 gross margin was 57.0% an increase of 2.0p.p. vis-à-vis the same quarter 2017. In the 9M the gross margin was 56.0% once again with the growth of 2.0p.p. vis-à-vis the same period in 2017. The production animal segment had a gross margin of 55.0% in the 3Q with an increase of 2.0p.p. compared to the 3Q2017. In the 9M2018 gross margin was 52.0%, once again it was an increase of 2.0p.p. These results reflect price gains in the period specially in the anti-parasite line. In the companion animal segment the gross margin was 67.0% in the 3Q, moving back 2.0p.p. vis-à-vis 3Q2017, because of a less favorable mix. In the 9M2018 gross margin was 71.0% a growth of 0.5p.p. with the price gain during the year. The international operation segment had a gross margin of 63.0%, with a growth of 6.0p.p. vis-à-vis 3Q2017. For

9M2018 gross margin was 64.0% a growth of 12.0p.p. These results reflect a better mix in the period and gains due to a favorable exchange rate.

We will now speak about SG&A and EBITDA. SG&A during the 3Q2018 amounted to BRL56.0 million with a dilution of 1.0p.p. vis-à-vis 3Q2017. In 9M of the year expenses amounted to BRL154.0 million, a dilution of 3.0p.p. vis-à-vis the same period in 2017. These results reflect the strategy of expense optimization adopted by the company during the last 2 years along with the continuing expansion of revenues in the last 5 quarters. Adjusted EBITDA totaled BRL42.0 million with a growth of 41.0% vis-à-vis 3Q2017, with a margin of 26.0%, an increase of 3.0p.p. compared to the same period the previous year. In the 9M2018 adjusted EBITDA was of BRL95.0 million, an increase of 50.0% compared to the 9M2017 and a margin of 23.0%, a growth of 5.0p.p. compared to the same period in 2017. These results reflect the growth of revenues with an increase in gross margin along with the dilution of expenses in SG&A.

We will now speak about net financial expenses, income tax, social contribution and net income. Financial expenses in the 3Q amounted to BRL3.0 million a reduction of 22.0% vis-à-vis 3Q2017. In the 9M2018 financial expenses amounted to BRL10.0 million, a reduction of 17.0% compared to 2017. The average cost of debt was at 7.2 at the close of the 3Q and went to 7.0% upon the close of the quarter in 2018. Income tax and social contribution amounted to BRL7.0 million nominally in line with the same period of 2017, but less representative vis-à-vis profit before taxes. In the 9M2018 IR and SC were of BRL60.0 million compared to BRL10.0 million in the 9M2017. And once again there is a discrepancy in our accounting results but it reflects increase in profitability. Adjusted net profit in the 3Q amounted to BRL25.0 million, a growth of 84.0% vis-à-vis 3Q2017 with a net margin of 15.0%, an increase of 5.0p.p. vis-à-vis 3Q2017. In the 9M2018 net income was at BRL49.0 million, an increase of 120.0% vis-à-vis 9M2017, with a net margin of 12.0% and a growth of 5.0p.p. vis-à-vis same period 2017. This because of the growth of EBITDA for the reasons mentioned previously along with

a reduction in net financial expenses and the payments of income tax and social contribution during the period.

We would now like to refer to indebtedness in the company. Net debt/EBITDA stood at 1.7x compared to 3.0x in the 3Q2017. The average cost of the debt was 7.0% a year at the closing of the quarter vis-à-vis 7.2 a year for the 3Q2017. These values incorporate bank guarantees in some lines and also the derivative values our cash attain BRL66.0 million thanks to the amortizations in financing carried out during the quarter.

We would now like to speak about company's cash generation. And we underscore that in the 9M2018 the cash generation was BRL53.0 million because of an increase in our inventories specially of raw material purchases from China and Thailand that for the new foot-and-mouth disease vaccine in the 2.0ml format. We also amortized debt paid and interest totaling BRL166.0 million. Fundraising amounted to BRL105.0 million with a roll over of debt improving indebtedness profile in the long term. The average cost of debt on September 30th was of 6.99% accounting the cost of derivative and associated guarantees.

Finally we'd like to highlight the investments in R&D that totaled BRL28.0 million representing 7.0% of net revenue for the period. This percentage is aligned with our historical average and shows that we continue to invest in our growth and sustainability.

I would like to return the floor to the operator to continue on to the Q&A session.

OPERATOR - Thank you. We will now go on for the Q&A session. Should you have a question, please press *1.

Mr. Joseph Giordano from JPMorgan would like to pose a question.

JOSEPH GIORDANO - Good afternoon to all of you, thank you for taking my question. There are two. The first refers to the competitive environment, which is your outlook of this environment? The second refers to prices. It seems that the foot-and-mouth disease campaign in the 1S with the change of device might have

cost a displacement in volume and what is happening with the price environment? Is the framework better? Is the interest rate framework better? And what is happening with your inventory, we do know you have increased inventory and I would like to know if they are now normalized.

KLEBER GOMES – Thank you for your question. Let's just begin with the competitive environment, we tend to say it is not at all easy. The market has large multinational players with high quality products as well. But Ourofino tries to set itself aside, for example, we work straight with distributors, with farmers, we have a very focused marketing with several initiatives including a TV channel, a generation demand program, which is one of the largest in Brazil, so we try to set ourselves aside and based on the results we have presented we think we're on the right path. This is the 5th quarter of growth with double digit growth and that shows the strength of Ourofino and how we have set ourselves aside in the market. When it comes to prices, what we have been saying since 2017 is that we had a more difficult positioning in China because of the environmental issues that has an impact on raw materials and our strategy is to try to transfer this to the clients. We have done this throughout the entire year and throughout the channels production we have been successful. Our prices are quite aligned with what we budgeted. Now this year, this is the last year for the marketing of the 5.0ml vaccines, what we expected in our budget was to have a somewhat more complicated year. Because of the 5.0ml we would have to have changes in the industry and resale. We began conservative outlook because of this. The first campaign that was launched between April and May was very positive for Ourofino. In fact, some of the market players, specially the public sector, had their vaccines that were not validated because of the certification of the government to validate the quality of the vaccine. And because of this the first campaign was somewhat tight in terms of volume and we had a better semester than expected at Ourofino. Part of the volume destined for the second campaign had to be shifted to the first campaign. We now might have a stronger demand, in the second campaign we had lower volumes for the second campaign, but everything is proceeding normally, we haven't stayed very differently situation and this was a positive point for the year. In terms of

inventories and channels I think this is something of the past, it's something we discussed into 2016. 2017 was a year where we underwent adjustments. So we have left this in the past. We're working with the distributor, with the petline, monitoring indicators month after month and we have a very close control of our distributor inventories, we are at plant level very welcome front level and in production animal channel which is somewhat more difficult, we have been able to grow which shows that the channels do have normal inventory levels. We don't expect any problems in this. I hope I have responded to your question.

JOSEPH GIORDANO – Thank you very much. And finally, to take advantage of the fact I am on the line, in terms of your biological plant for new products I would like to know what you are thinking of in terms of short term launches and what is happening with the ramp up of your production capacity?

KLEBER GOMES – The plant is ready, we have already remarked on this since the end of the 2Q. We have already run several pilot phases and we will have a surprise on Ourofino Day, I don't want to ruin this surprise. The expectation is to begin with a low contribution in the coming year and continue on with the ramp up. But why don't we leave this for Ourofino Day? you'll have a good surprise.

JOSEPH GIORDANO – Thank you very much. And have a good afternoon.

KLEBER GOMES – I'm looking here and it seems we have a question from Pedro Ferreira who came through the site speaking about the new plant. No, we don't have any contribution for biologicals through 2018 and another question: if you could remark on your international cooperations in greater details, structure and sales, and what do you expect in terms of results? I'll refer to the second question: since our IPO we mentioned that one of our pillar approach would be our internationalization. Initially we worked in our backyard which is Latin America. Very naturally we went to Mexico which is the second largest market which is in animal health. And Colombia, the 3rd largest market in Latin America, is our recent operation. We manufacture everything in Brazil and have sales and marketing teams that are local. In Mexico and Colombia this markets have considerable potential, the best market of course in Latin America is Brazil, but these markets

had a huge growth potential and we are the 3rd company with the greatest growth in Colombia in 2017, and the second company with greatest growth in Mexico, the growth is 50.0% and we think we're on a good path in these countries. What is important is that our portfolio was not registered, it was reinforced in Colombia and Mexico beginning in 2017 and to 2018 opening up the markets for companion animals products.

OPERATOR - We will end the Q&A session. I'll return the floor to Mr. Jardel Massari for his final remarks.

JARDEL MASSARI – We're in the 3Q2018 with excellent results, we are also heading towards the closing and 4Q with a year of robust results according to our expectations. We would like to thank all of you for your attention and have a good afternoon.

OPERATOR – The 3Q2018 conference call for Ourofino ends here. We would like to thank all of you for your participation. Have a good afternoon.