

OUROFINO
EARNINGS
CONFERENCE CALL
1Q2019
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OPERATOR – Ladies and gentlemen, thank you for holding and welcome to the Ourofino Saude Animal 1Q2019 earnings result conference call. Today we have with us Mr. Jardel Massari, CEO, and Kleber Gomes, CFO and IR officer. We would like to inform you that this event is being recorded and simultaneously translated and all participants will be in listen-only mode. And soon in this 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 this address you will find the Webcast 1Q2019, where you can find the slide presentation. Before proceeding we would like to mention that forward-looking statements made during this conference call referring to the projections and operational and financial goals of Ourofino are based on beliefs and assumptions of Ourofino's management and on information currently available to the company. They involve risks, uncertainties and assumptions as they refer 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 lead to results that differ materially from those expressed in the forward-looking statements. I would now like to turn the floor over to Mr. Massari. You may proceed, sir.

JARDEL MASSARI – Good afternoon to all of you and thank you once again for participating in our earnings results conference call for the 1Q2019. We are extremely satisfied with the 2018 ranking information that was disseminated

throughout the first quarter. The animal health association released its data for the year 2018 and we are proud to inform you that once again we have achieved the third place in the general ranking of revenues for companies in Brazil. In Mexico, the Infamed also released its ranking and we were the second company with the most growth in 2018. The same happened in Colombia, where Aprovet also stated that we were the second company with the greatest growth. These important milestones are the result of work with focus on sustainable growth that has been carried out by our teams in the last few years. With a view through the future, the biologicals project is already beginning to generate revenues that come from the recently launched SafeSui vaccine, this is a product with a great technical differential as it immunizes animals with a completely novel technology against the circovirus, a relevant challenge for swine breeding worldwide. We are confident that this product will bring productivity gains for the swine breeders. The other vaccines in our pipeline continue to be developed and will help us to seek one of the greatest coverages of the products in the market. For production animals, the 1Q was weaker in terms of revenues due to the typical seasonality of the animal health industry. And for this first period of 2019 we do observe a reduction vis-à-vis 1Q2018. We highlight that the variation observed in the revenues of this segment was negatively impacted by a greater concentration of sales at the end of March not acknowledged in accounting terms during the quarter simply due to lack of time to deliver the merchandise to the clients. The sales have already been delivered and recognized at the beginning of the month of April and will appear in the results of the 2Q.

In companion animals net revenues were of BRL20.0 million, a growth of 3.0% vis-à-vis 1Q2018 and in line with our budgeting for the quarter. It is important to underscore our confidence in the performance of the coming quarters.

In international operations revenue grew 48.0% in BRL and 36.0% in local currency, attaining BRL12.0 million. Mexico and Colombia were responsible for 90.0% of this amount with the largest quarterly share registered in the segment. The focus on these two countries with the work of registering the new programs

has been carried out in the last few years along with the expansion of the client portfolio. In the 1Q we had a scheduled stopdown and a platform overhauling in some segments. And with this the costs that would be absorbed by products in inventory were directly allocated to the results in an amount of BRL7.5 million impacting the gross margin in a non-recurring fashion and without which the gross margin for the quarter would have been 57.0% in line with 1Q2018.

The robust operating cash generation deserve highlighting, it was BRL41.0 million, a growth of 64.0% vis-à-vis 1Q2018. Additionally, net debt maintains itself at the level of 1.7x net debt/EBITDA.

I would now like to give the floor to our CFO and IR Officer Kleber Gomes, who will comment on the details of the period.

KLEBER GOMES - Good afternoon to all and thank you Jardel. We're going to speak about the Company's net revenues. The Company presented net revenues of BRL91.0 million in 1Q2019, a slight drop of 1.0% vis-à-vis the same period of 2018. In April the accumulated gross revenues for the 1Q2019 had a growth of 6.0% more vis-à-vis the 1Q2018. The production animals segment the revenue was BRL60.0 million for the 1Q, a drop of 8.0% when compared to 1Q2018, and the main impact is the loss of volumes for deliveries carried out in April after the closing of the 1Q. The companion animal segment had net revenues of BRL20.0 million in 1Q2019, a growth of 3.0% vis-à-vis 1Q2018, reflecting the price raises. I would like to underscore that we are very confident in the results of the coming quarters and in our activities that generate demand and followed the visits carried out to veterinarians.

International operations segment had net revenues of BRL12.0 million in 1Q, an increase of 48.0% vis-à-vis the same quarter in 2018. In local currency the increase was 36.0%. This is due to an increase of volumes in Mexico and Colombia, and a positive exchange rate that was already mentioned when speaking about the local currency.

We will now speak about our gross margin. The gross margin in the 1Q was 48.0%, a drop of 9.0pp. vis-à-vis 1Q2018. The main impact was the scheduled shutdown of the plant for maintenance, with an impact of BRL7.5 million. This is a non-recurring impact of 8.0pp. in gross margin. Production animals segment had a gross margin of 40.0% in the 1Q, a drop of 13.0p.p. vis-à-vis the 1Q2018, with the impact due to the scheduled shutdown of BRL6.6 million that ended up impact of 12.0pp. on the gross margin. The companion animal segment had a gross margin of 69.0% with a reduction of 2.0pp. vis-à-vis the same period in 2018, with impact of the scheduled shutdown of the plant. Now international operations segment had a gross margin of 56.0% in 1Q, with a decrease of 6.0pp. vis-à-vis the same quarter in 2018. Once again due to the scheduled shutdown of the plant of 3.0pp. impact on gross margin.

When it comes to our SG&A and EBITDA, we would like to highlight that SG&A added up to BRL49.0 million, including the collective bargaining for 2018. Besides this the non-recognition of revenues that have been invoiced and delivered at the beginning of April already stopped contributing to the dilution of expenses during the quarter. EBITDA in 1Q2019 stood at zero, a decrease of 13.0pp. vis-à-vis the same quarter in 2018, reflecting a lower gross margin for the reasons explained previously and the loss of the dilution of expenses with SG&A due to revenues not recognized in the quarter.

When it comes to income tax and social taxes the 1Q2019 added up to BRL4.0 million, an increase of 13.0% vis-à-vis the same quarter in 2018. This result shows the stabilization of net debt, that stands at 1.7x net debt/EBITDA since 1Q2018. Income tax and social contribution in 1Q2019 was at BRL3.0 million compared to BRL200.0 thousand in the 1Q2018. The result of the 1Q presented a tax rate of 30.0% more aligned with our tax rate but you should measurement of income tax and social contribution is done based on fiscal basis.

Net loss for the 1Q2019 added up to BRL6.0 million, reverting the profit that we have presented in 1Q2018. This is due to a moving back of the EBITDA due to the

loss of the gross margin and the scheduled slowdown. Once again in the sale of merchandise where the tax were not recognized.

We would now like to speak about the Company indebtedness. In 1Q2019, the net debt/EBITDA ratio was 1.7x. This indicator has remained stable since 1Q2018. The average cost of debt was at 7.0% a year upon the close of the quarter. Compared with the historical indicator throughout the last quarter. Three quarters of our debt is in the long term and we do have short term debt amortizations.

When it comes to the Company's cash generation we would like to highlight that in the 1Q there was the amortization of debt totaling BRL2.0 million, CAPEX of BRL15.0 million and the payment of taxes more more than offset by the operational cash generation of BRL20.0 million. This figure was 64.0% above the operating cash generation in 1Q2018.

We will continue making investments in new developments and launches in 2019. Investments represented BRL11.0 million representing 11.0% of our net revenue. This is above our historical average if we consider the lower revenues for the quarter impacted by the non-recognition of revenues; excluding this would be more aligned with our historical results.

In 2019 we began to invoice our new vaccine SafeSui that is a pioneer in the three [13:41] of circovirus and represent a significant cross-immunization for PCV2A and PCV2B. This is one among the many products that are being developed and we are very proud to be able to be in the biological market.

With this we hope that 2019 will continue to be very important when it comes to our long-term planning.

I would like to return the floor to the operator to now go on to the question and answer session.

OPERATOR - Thank you. With this we will go on to the question and answer session. Should you have a question, please press *1.

Ms. Olivia Petrolino of JP Morgan would like to pose a question.

OLIVIA PETROLINO - Good afternoon and thank you for taking my question. In truth I have three questions. The first refers to the impact on the revenues that you had. Now when we look at the trend for companion animal revenues, which is your outlook? Will there be an increase or a more normalized trend in the 2Q already? My second question refers to the gross margin. When we look at the line items and the impacts of the plant shutdown are these figures that we should base ourselves going forward? or will you have some sort of operational leverage and expect higher margins going forward? The third question refers to the launch that comes from your biological plant and this gives you greater visibility. What can we expect in terms of new launches in that plant?

KLEBER GOMES – Olivia thank you very much for your questions. If I don't fully answer, please. We haven't given you the figure of CAPEX but it was one of the highest in history. We don't normally like to speak about the CAPEX, but once again there were strong investments made, and once again in the revenues that have already ended for April we do expect that there will be a growth. When it comes to companion animals in fact we did have a somewhat weaker quarter, we are carrying out a very stringent inventory control, this is something we always tend to do and this is how we control our volumes. Nevertheless [16:35] we have a continuous demand and we hope that this will return very strongly in the coming quarters. Once again we are very confident when it comes to companion animals. When it comes to the gross margin, we very openly have spoken about what happen. We do have a very [16:53] plan we needed to carry out the shutdown to expand some of our areas. We also carried out several different maintenances and of course this observed pressure on the margin which had already been expected. So throughout the year we do believe that we will come to levels that are very close to what we had in 2018. We do not think we will have either a very low or a very high margins. As I mentioned previously, we are somewhat deleveraged in terms of these operations because we are expanding our new vaccine plant, we still have very small volumes, we are just introducing the circovirus vaccine and this is a vaccine that will be sold mainly to the swine market and the change in vaccine has to be done in a very careful and surveyed fashion. What we do expect

to have a boost because of this new biological plant. And in terms of our other plants we will have an increase in our production volume and perhaps allows us to become less deleveraged. As we get to the end of the year I believe that we'll have attained results very similar to 2018 or perhaps somewhat higher. We are working in a very strategic fashion, we have not thrully disseminated this launch very much but we do have a very important plant for companion animals and for swine breeding for the coming 5 years and we're working to be able to confirm our future launches. This is a response to your question Olivia?

OLIVIA PETRONÍLIO – Yes, thank you very much.

KLEBER GOMES – Thank you for your questions.

OPERATOR - Catherine from Banco do Brasil, would like to pose a question.

CATHERINE – Good afternoon and thank you for taking my question. When it comes to international operations segment specially Colombia, especially when it comes to the challenges in those countries. What is happening with distribution and which is your outlook going forward?

KLEBER GOMES – Catherini, thank you very much for your questions. We are highly confident in our international operation and we are recurring to Mexico which is the second largest market out Latin America, and Colombia which is the third largest market. If you look at our performance since 2017 the greatest growth was in Mexico. In 2017 we were also the second company with the greatest growth in Colombia. And now we have been able to reiterate this performance. We were the second company with the greatest growth in both of these markets. Of course, we began very small, we have been working during the last few years to complement our portfolio in those markets and to create commercial and marketing teams in both countries. We see that Mexico advances somewhat more slowly because of the different structure that they have. In Mexico we are working more focused on the training of the team, based on the culture, we're trying to move away from the distribution culture in Mexico and go straight into re-sell. This work has been quite promising but in our view it is a slower process than we had imagined. And we are

certain nevertheless that we'll be very successful as we have been up the present. When it comes to Colombia, the outlook is highly positive. After a period of difficulties that the country underwent, we see that there has been significant growth and the people in Colombia tend to be very proactive, they work hard and this has helped us a great deal in terms of our business in that country. Therefore this year we had a pleasant surprise. And all of this thanks to our work in terms of products. Once again we're highly confident in terms of both of these international operations.

CATHERINE – Thank you very much.

OPERATOR – We would like to remind you that should you wish to ask a question please press *1.

Mr. Pedro from CTI would like to ask a question.

PEDRO FERRONI -Good afternoon to all of you. To continue speaking about international operation I would like to know which was the cost of the volume for Mexico and Colombia? Does Mexico have specific products or does it have specificity?

KLEBER GOMES - Good afternoon, Pedro and thank you once again for your question. Into our penetration into a market first of all we had to set up a team and we set up a very strong team, specially in Mexico where we're working more on generation demand. We now have technicians and vets that visit the clients generating greater demands for the products. Once again we're not a very well known brand in that market so this represents a very important work for us. And we do have a concentration of specific products. One of the lines that we've been working with more recently in Colombia is our pet line. These are smaller markets but markets with very strong growth. And what we are doing is to offer these countries products that they have not previously and the portfolio is not complete but we are slowly adding to it. And we might be missing one or two products at the most.

OPERATOR – Catherine from Banco do Brasil, would like to pose another question.

CATHERINE – If you allow me one more question. If you could give us a more details in terms of the non-recognition of the sales of the sales that you carried out in the 1Q.

KLEBER GOMES - Catherine, our animal health segment has had a sales concentration in the 1Q. This is a very old practice that we have attempted to change but in practice we still have not been able to change the market. The market does have a concentration of sales in the last days of the month. As we are a company that works in a different way from our competitors, we go straight to the cattle raising stores to carry out our sales. We have a more difficult operation. We work in the Northeast, we work in several sections of the country and we can only invoice once we deliver the product to the client. Now at the end of March we had a very high concentration, a very high volume, but we were unable to fully invoice and send everything to the clients during in those days. Now has this not been the case we would have been very aligned with our budget and this is what allows us confidence in terms of the coming quarters of the year. The figure does seem to be worse and it truly is. Still to the concentration that we have in the market and that issues that we had we do not have a distributor which would be easier in terms of the logistics and we'd go directly to the cattle raising stores to serve a great number of clients per month.

CATHERINE – Now, which is your outlook for the coming quarters and the year as a whole?

KLEBER GOMES – When it comes to outlooks we're quite confident specially in terms of production animals we think that this is a very good period, there is a good price for milk and other products. We have a swine flu in China and we also sell protein to the more substitute of protein. We also sell them a great deal of poultry. And of course this benefits the Brazilian breeders. We also have the production of grains which is very relevant for China. There might be a drop in this and this will of course affect the price of some of our components used in our products. if we add

all of these factors and if we think about our work for the entire year the demand and the marketing that we carry out on television and in certain channels now the work we carry out with that scenarios in companion animals we think that this will be a very productive year, very similar to what we saw in 2018. This is what we expect.

CATHERINE – Thank you.

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

Once again should you wish to pose a question please press *1.

Mr. Pedro Ferroni from CTI Investments would like to pose a question.

PEDRO FERRONI – I confess that I did not hear the response to the first question. But I'll listen to the recording subsequently. I have another question simply out of curiosity. Which is your outlook of the situation of China with the virus and all the other factors. Is there any study, any research or investigation that you carry out? What is happening there?

KLEBER GOMES - Pedro, excellent question. I gave [28:57] but I will underscore what I said. From the viewpoint of the animal market what is happening in China is a very lamentable situation. The animals had to be sacrificed and there's truly nothing else that can be done. When we look at this from the Brazilian viewpoint there are two aspects that favour the cattled raising market that could also give a boost to the agricultural market. When it comes to cattle raising the population of swines that ended up being sacrificed in China is a very large population. Once again there will be a scarcity in the market and they will need to have to supply protein. Brazil, of course is one of the greater protein exporter and this will have to be done in a very rapid fashion but this is a natural path and we will have to sell substitute proteins or meat to China. Now, when it comes to agricultural, when it comes to grain production in general this is a destination for corn and soybeans for the feed of swine as a swine population has had a severe decline, and perhaps there will also be a drop in the exports of grains from Brazil.

But the end can be positive for cattle raising as a whole. There will have to be a price adjustment because of this new demand and this could help the cost of the production in Brazil who will perhaps have to sell the grains at a more lower price. In China the drop is of a 150 or 200 million heads, that is a significant drop. We don't have the right figure. Of course there has to be a good sanitary control for the disease in Brazil as well, and cattle raising which is our main segment is now going into a very productive cycle. It did have a low cycle sometime ago. There were less animals in the field but it will go now into a more productive cycle. And for the coming three years I think we will be very productive in terms of cattle raising. And we should have very good milk prices, very good beef prices. We do work with some market consultants that help us with business intelligence at the company and what we're looking on is a production of cattle raising that should have an increase during the coming years.

PEDRO FERRONI – Very well. Thank you very much.

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

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

At this moment we would like to close the question and answer session. We will return the floor to Mr. Massari for his closing remarks.

JARDEL MASSARI – To conclude we continue working arduously following our goal which is to reimagine animal health, always in the quest for the better solutions to service all of our clients in Brazil and abroad. We would like to thank the shareholders for their trust for the work that we carry out. Our investor relations team continues to be at your entire disposal should you require any clarifications. Have a good afternoon.

OPERATOR - The conference call for the 1Q2019 for Ourofino Saude Animal ends here. We would like to thank everybody for their participation and have a good afternoon.

