International Conference Call
Ourofino
Third Quarter 2017 Results
November 22nd, 2017

Operator: Ladies and gentlemen, thank you for holding, and welcome to the conference call for the third quarter 2017 of Ourofino Saúde Animal. Today we have with us **Mr. Jardel Massari, CEO,** and **Mr. Kleber Gomes, CFO and Investor Relations Officer.**

This presentation is being recorded and simultaneously translated. All participants will be in listen-only mode during the company presentation and doing this we will go on to the question-and-answer session, when further instructions will be given. Should any participant require assistance during this call, please press star 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 a banner with the title "webcast third quarter 2017", this will lead you to the platform of the presentation.

Before proceeding we would like to mention that forward looking statements made during this conference call referring to the business outlook, projections and financial and operating goals are based on beliefs and assumptions of Ourofino's management and on information currently available to the company.

This future looking state words are not guaranteed as they involve risks and uncertainties and assumptions, and therefore depend on circumstances that may or may not occur. 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.

I would now like to turn the floor over to Mr. Jardel Massari, Mr. Massari, you may proceed, Sir.

Mr. Massari: A good afternoon to all of you. Thank you for participating in our earnings conference call for the third quarter 2017.

Based on the results achieved in this quarter, we are confident that 2017 will be the year when we resume the historical levels of profitability. Our gross margin reached 55% with an adjusted Ebitda margin and net margin of 23 and 10% respectively, showing an improvement in our indicators.

The cash generation from operations remain strong and totaled 95 million in accumulated figures for the nine-month period of 2017, virtually growing twofold compared to the same period in the previous year.

In terms of Production Animals, the gross margin of 52.5% reached its highest level since the third quarter of 2015 thanks to the work that we have been carrying out focusing on increasing profitability. However, the growth of revenues in this segment was adversely affected by a significant concentration of sales that the end of September, which were now recognized in the quarter due to the lack of time to deliver goods to customer within the period.

These sales have already been delivered and recognized at the beginning of October and will of course be included in the results for the fourth quarter.

As regards Companion Animals, we highlight the increase, a significant increase, of 40% in net revenue and an increase of 54% in the gross margin, going to 11 million; an increase of 6.6% in gross margin vis-à-vis the third quarter of 2016.

We remain attentive to the Brazilian macroeconomic situation and have monitored our inventory levels to ensure sustainable growth.

In terms of our International Operations, gross margin increased 3 percentage points and reached 56% with an increase of sales in Colombia and Mexico, which partially offset a reduction of sales in other countries now withstanding this significant exchange loss that has been taken place throughout the year.

In the 3Q selling general and administrative expenses were reduced by 10% for the budget that had been approved with a dilution over net sales revenue of 5 percentage points. In the accumulated figures for the 9 months there was a reduction of 13% and a dilution of 4 percentage points, once again, in line with the efforts that have been deployed to optimize our numbers and optimize expenditures.

In this quarter our net debt decreased even more acute to the cash generation from operations and the repayment of our debt indexed to the CDI rate, as we have been anticipating since the beginning of the year and communicated to the market. Consequently, the cost of debt was reduced to 7% a year in local currency and our leveraging level has returned to 3.2 times Ebitda accumulated figure for the 12 months.

We expect to further improve this indicator the next quarter.

We remain confident in delivering positive annual results that are compatible with our initial expectations, as well as generating value for shareholders based on the company and market exceptional growth drivers.

I would now conclude my presentation, I would like to turn the floor over to our CFO and IR officer Mr. Gomes, who will remark on the results of the quarter.

Mr. Kleber Gomes: Thank you Jardel. A good afternoon to all of you. Ourofino presented net debt of 130 million in the third quarter; a growth of 4% of vis-à-vis the third quarter 2016. In the 9 months, the net revenues were of 343 million; a drop of 4 percent compared to the same period in 2016.

In the Production of Animal segment, the net revenue reached 104 million with a growth of 2% vis-à-vis the third quarter 2016. For the 9 months net revenues were of 264 million; a drop of 7% compared to the same period in 2016.

The period was impacted by revenues not recognized during the quarter because there was not enough time to deliver the goods to customers (the cutoff effect), along with a decrease in the volumes in poultry and other products.

In Companion Animal segment, we obtained net revenues of 60 million in the third quarter 2017; a growth of 40% vis-à-vis the third quarter 2016. In the 9 months of 2017, net revenues were of 46 million with a growth of 8% of vis-à-vis the same period in 2016.

These results reflect the resumption of the market with healthy inventory levels.

International Operations presented net revenues of 10 million in the third quarter; a drop of 13% vis-à-vis the same quarter in 2016.

There was a significant sale of vaccines for foot-and-mouth the disease to Paraguay and Bolivia that was not recurring.

For the 9 months, net revenue was of 32 million; a 1% increase compared to the same period in 2016. Now withstanding the growth of revenues in local currency in Mexico and Colombia there was a significant impact in the exchange losses.

Growth margin for the third quarter was of 55%; an increase of 5 percentage point vis-à-vis the third quarter 2016. In the 9 months of 2017 gross margin reached 53%; a 2%-point increase vis-à-vis the same period in 2016.

The Production Animal segment had a gross margin of 52.5%; an increase of 4 percentage points vis-à-vis the third quarter in 2016 despite the continuous increase in gross margins through the last quarters with a recovery of 14 percentage points.

For the 9 months of 2017 gross margin was up 50%; an increase of 3 percentage point vis-à-vis the same period in 2016. Margin expansion should be the best in the line of cattle with the reduction in swine and volumes for poultry that have been interrupted at the beginning of the year.

In Companion Animals the gross margin was 69% in the 3Q 2017, with an increase of 6 percentage point vis-à-vis the third quarter in 2016 due to a better mix. In the 9 months of 2017 gross margin was of 70%; a drop of 1 percentage point vis-à-vis the same period in 2016 because of provisions for loss of inventory.

In International Operations the gross margin was of 56% with an increase of 3 percentage point vis-à-vis the third quarter 2016, once again due to a better mix.

For the 9 months of 2017 gross margin was of 53%; a drop of 9 percentage point vis-à-vis the same period in 2016. This drop is due to exchange losses during the period, which we have mentioned previously.

SG&A and Ebitda. Expenses with sales general and administrative for the third quarter 2017 amounted to 47 million; down 10% vis-à-vis the third quarter 2016. For the 9 months 2017 they reached 137 million; a drop of 13% vis-à-vis the same period in 2016.

Additionally, there is a dilution of 5 percentage points in the quarter and 4 percentage points in the accumulated for the 9 months continuing to reflect the efforts to optimize expenditures in the company.

Adjusted Ebitda totaled 30 million with a 23% margin; a 10-percentage point increase vis-à-vis the third quarter 2016. In the 9 months of 2017 adjusted Ebitda was of 63 million with an 18% margin; an increase of 6 percentage points vis-à-vis 2016.

The increase in gross margin and a dilution of sales… SG&A are responsible for the improvement of Ebitda, despite the impact due to the non-recognition of revenues at the end of the third quarter due to the cutoff effect.

Net financial expenses, income tax and social contribution and net income. Net financial expenses in the third quarter of 2017 stood at 4 million; a drop of 9% compared to the same quarter in 2016. For the 9 months it was 13 million; a drop of 20%.

These results occurred due to a greater cash generation accumulated in the 9 months due to an adjustment in the policies for the terms to receive sales and lower level of expenses along with lower pressure of Capex. The net debt reached 265 million in the fourth quarter 2016, and now 205 million in the third quarter of 2017.

Income tax and social contribution was of 7 million. For the 9 months it was of 10 million. This effect is due to greater profitability.

Adjusted net profit for the third quarter was of 13 million; and 85% increase vis-à-vis the third quarter in 2016. In the 9 months of 2017 adjusted net profit was of 22 million; a 91% increase vis-à-vis the same period in 2016.

These results reflect the growth of the adjusted Ebitda and the other factors mentioned previously along with the net financial expenses.

The company indebtedness in the 9 months of 2017. The net debt over Ebitda the ratio was of 3 times and this indicator was affected by the results of the fourth quarter 2016 for the calculation of accumulated Ebitda. Our expectation is that this indicator will be normalized at the end of the year thanks to the expected improvement in Ebitda.

The average cost of debt was of 7% at the close of the 9 months of 2017 compared to 9.6 for the same period in 2016 and lower to the equity percent at the close of the fourth quarter 2016.

Our cash reached 112 million with a new line from FINEP of 70 million. All of this is sufficient for our short-term debt that is of 162 million with payments that concentrate on the third quarter 2016 without taking into account cash generation for future periods.

We would now like to speak about cash generation in the company in the 9 months of 2017. Operating cash generation was of 95 million; in line with the company to reduce the average term for sales receivables the have dropped to 101 days compared to 148 days in the same period 2016, along with a reduction of expenses at the company.

We also have debt amortization and interest payment totaling 76 million and fundraising for 40 million.

We now present the investments and Research and Development for the 9 months. Investments totaled 22 million representing 6% of the net revenues. This percentage is in line with a historical average and shows that we continue to invest in our growth and sustainability.

Thanks to our Research and Development exercise we have now launched Regepil that comes in a larger packaging. It is indicated for general wounds in areas that have difficulty in scarring, and they also reduce the index of the opening of stiches and this also helps in the healing of animals with physiological compromise.

And we have another product for bovines that is indicated for strategic control of ticks, horn flies and for treatment.

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

Question & Answer Session

Operator: Thank you. We will now go on to the question-and-answer session. Should you have a question, please press star one.

Mrs. Olívia Petronílio from J.P. Morgan would like to pose a question.

Mrs. Petronílio: A good afternoon, Jardel and Kleber. My first question refers to the revenue levels that you have remarked on. If you could explain to us how much has been transferred to the fourth quarter, when this will be normalized and perhaps speak somewhat about your inventory levels, if you believe that your levels at present our ideal.

Mr. Gomes: Good afternoon, Olívia. We don't normally speak about Capex or revenues, but this month we had amounts that are higher than usual. In the past, the company set forth efforts to ensure that the revenues could be recognized very quickly and were, of course, looking for the best values for the company.

We haven't been working with our normal logistics level, as you know. 10% of our revenues for the period go to logistics, we do believe that the Capex result has been very good for the period and quite in line with what was expected, and we see a strong trend towards recovery in the first quarter and the second quarter of the coming year.

So, this has taken the shine away a bit from our performance, but the figures are still very good.

In terms of our inventory levels, we carried out a very strong sale during this quarter and this is something that we follow up very closely. We began this movement in September of 2016, we had inventory levels that were quite high, on the average we had 6 months of stock, at present we are at a level of 4 months of inventory; very close to what we believe as being a conservative figure. The ideal situation would be 3.5 months.

We are fully aligned with this, this will enable us to guarantee our sales and not have any stock outs.

When we look at the cattle chain, it is our understanding that there was a strong reduction in September of 2016. The market so far is not the way it was in the past, perhaps due to the macroeconomic restrictions, but we have no problem in simply stocking of our products for the time being.

I hope that answers your question.

Mrs. Petronílio: Yes, thank you very much, Kleber.

Mr. Gomes: Thank you, Olívia.

Operator: Mr. Rafael Somer from Bradesco bank would like to pose a question.

Mr. Somer: A good afternoon, Jardel and Kleber. We see a better working capital during the quarter and I would like to better understand your working capital, especially in terms of receivables, and what you expect for the next quarter.

Mr. Gomes: Thank you for your participation and for the question. We have made a significant adjustment in working capital, I think that this is reflected in the results so far. We do not have great expectations that this figure will improve in the 4Q. We are very close to what would be deemed ideal, and of course this is not our main focus.

We believe that the fourth quarter will show an improvement in revenues, this is the main driver, this will allow us to accommodate the second campaign of the year in terms of vaccination that we are looking for, including an enhancement in revenues, because the fourth quarter tends to be one of our strongest and this is what we are specifically focusing on for the fourth quarter.

Mr. Somer: Thank you, thank you very much.

Operator: We would like to remind you that should you wish to ask a question, please, press star one.

With this we would like to end the question-and-answer session. I will now return the floor to Mr. Massari for his closing remarks.

Mr. Massari: Once again, I would like to thank all of you for your participation and have a good afternoon. We are looking forward towards the 4Q to continue complying with our commitments and offering good results to shareholders.

Operator: The conference call for Ourofino for the third quarter 2017 ends here. Thank you all for your participation and have a good afternoon.