



Earnings Presentation – 3Q13

November 8th, 2013





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Although the Company believes that the expectations and assumptions reflected in the forward-looking statements are reasonable based on information currently available to the Company’s management, the Company cannot guarantee future results or events. The Company expressly disclaims a duty to update any of the forward looking-statements.



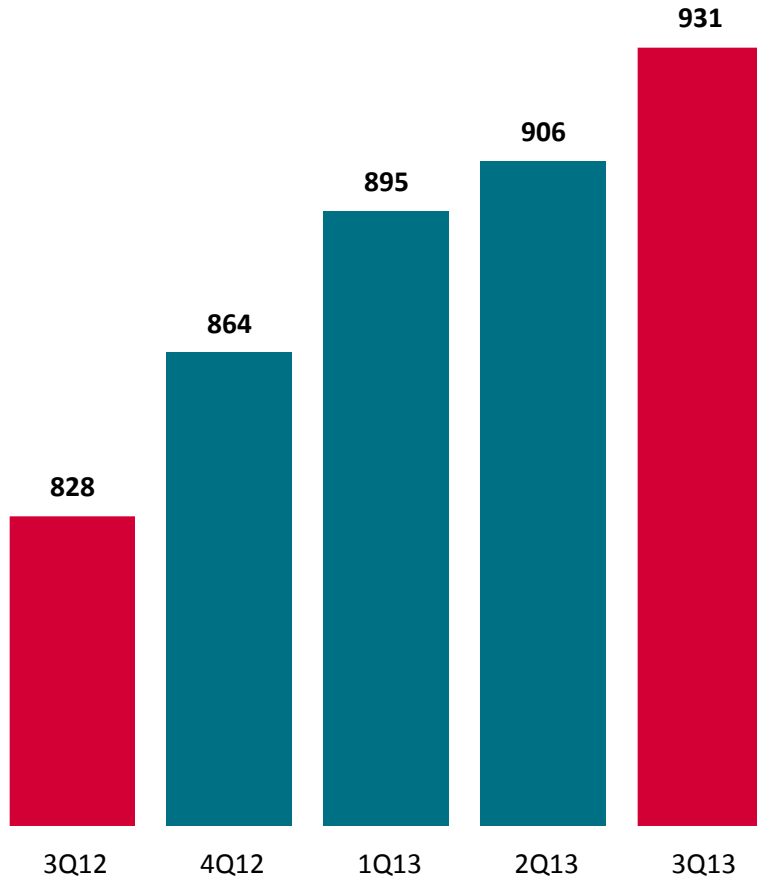
- **Drugstores:** 931 stores in operation (29 openings and 6 closures)
- **Gross Revenues:** R\$ 1.7 billion, 15.9% of growth (9.9% for same-store sales)
- **Gross Margin:** 26.8% of gross revenues, a 0.6 percentage point margin increase
- **Adjusted EBITDA:** R\$ 90.8 million, an increase of 11.9%, 5.4% of EBITDA margin
- **Adjusted Net Income:** R\$ 42.6 million, 2.5% of net margin
- **Cash Flow:** R\$ 57.7 million free cash flow, R\$ 57.9 million total





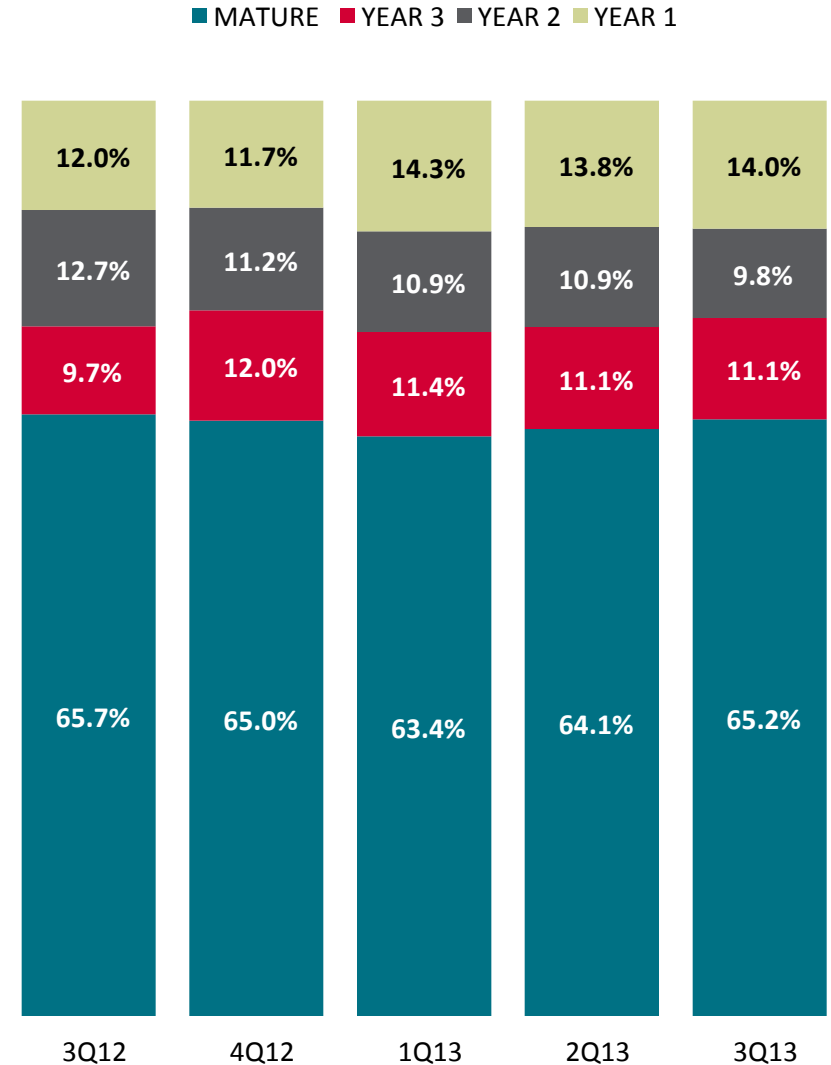
We opened 29 stores, closed 6 and suspended 2 net stores. 34.8% of our portfolio is still undergoing maturation

Store Count*



| | 3Q12 | 4Q12 | 1Q13 | 2Q13 | 3Q13 |
|-----------|------|------|------|------|------|
| Opened | 24 | 42 | 36 | 25 | 29 |
| Closed | 3 | 6 | 4 | 10 | 6 |
| Suspended | 0 | 0 | 1 | 5 | 3 |

Age Structure of Store Portfolio

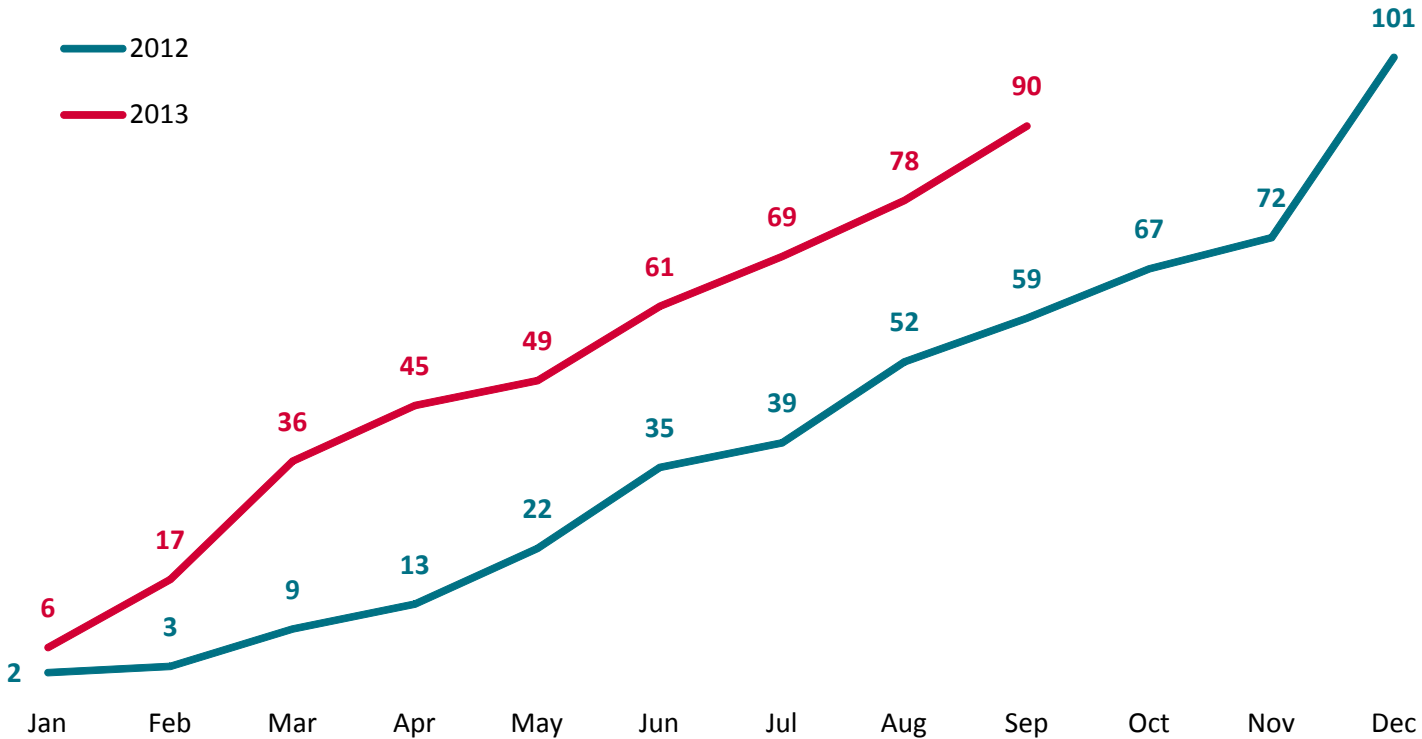


* Does not include suspended stores, which have been temporarily closed to be rebranded.

We have already opened 90 stores in the 9M13, fully on track to fulfill our guidance of 130 gross openings for 2013



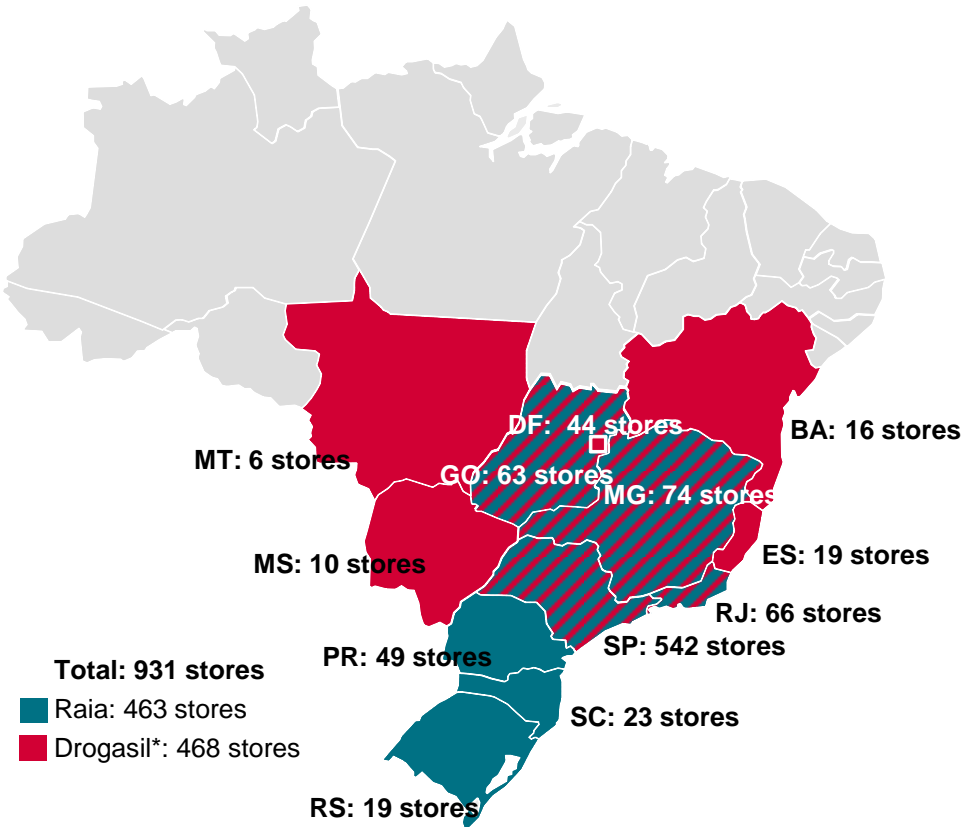
Cumulative Openings



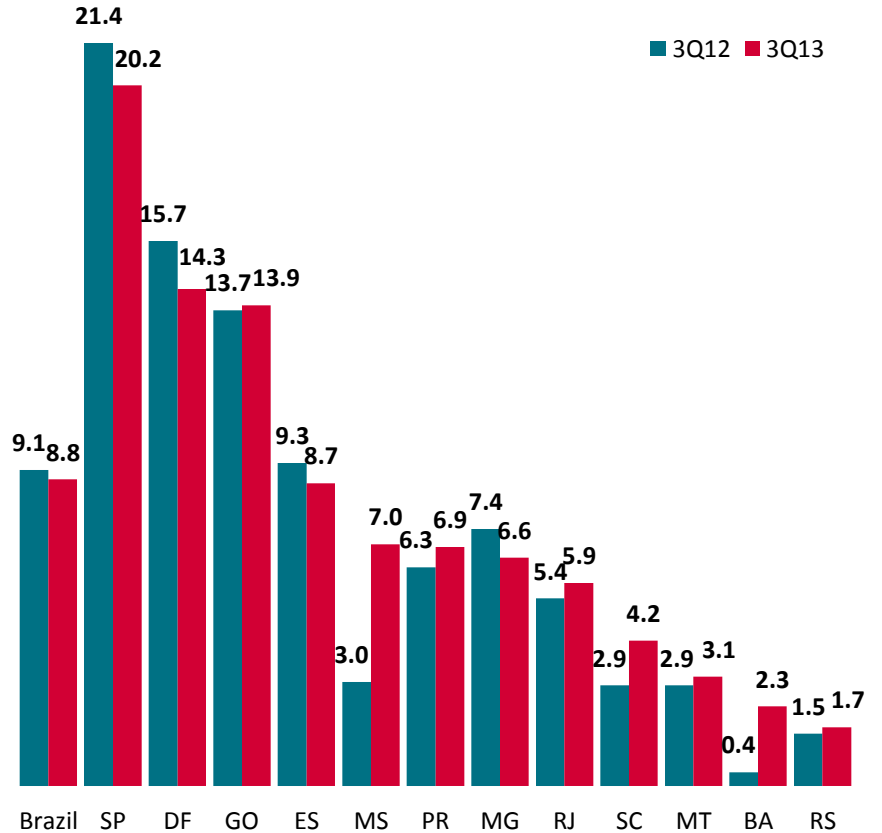


Market shares distorted by an expansion in the IMS Health informant base. Considering the comparable informants, national market share increased by 0.2 p.p.

Geographic Presence



Market Share (September '13)



PHARMACEUTICAL MARKET DISTRIBUTION BY STATE (LAST 12 MONTHS)

| Brazil | SP | DF | GO | ES | MS | PR | MG | RJ | SC | MT | BA | RS |
|--------|-------|------|------|------|------|------|-------|-------|------|------|------|------|
| 100.0% | 27.2% | 2.6% | 3.5% | 1.9% | 1.2% | 6.0% | 10.4% | 12.5% | 3.8% | 1.3% | 4.8% | 7.2% |

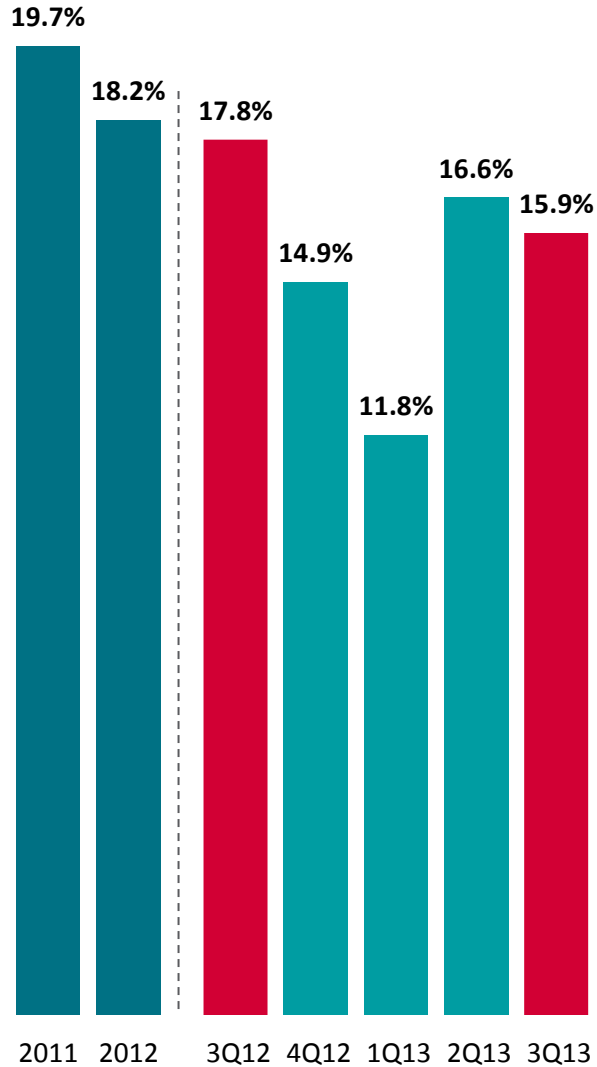
Source: IMS Health

* Considers Farmasil Stores

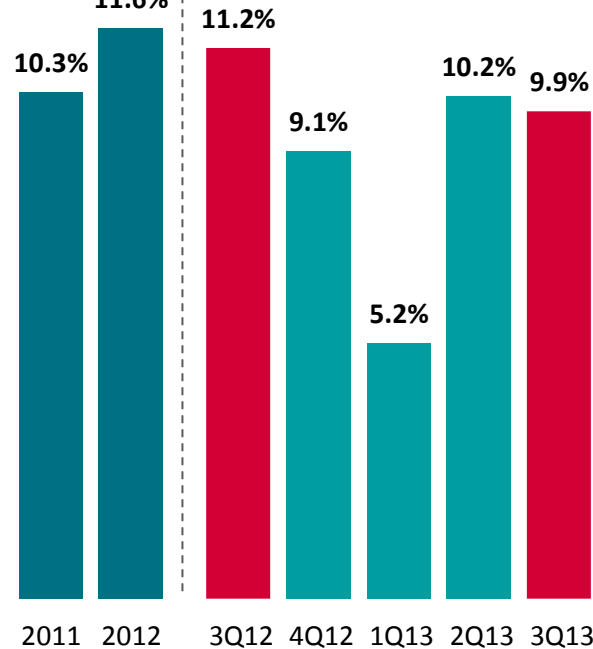


Revenues grew by 15.9%, with 9.9% for same store sales and 4.9% for mature stores. Excluding suspended and closed stores, revenue growth would have been of 18.1%

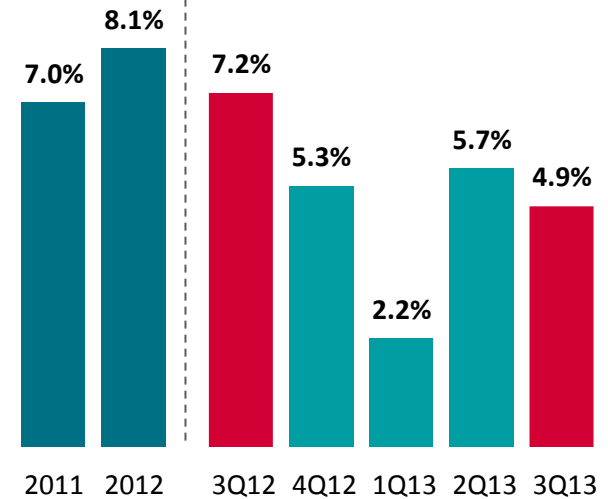
Growth – Total Sales



Growth – Same Store Sales



Growth – Mature Stores

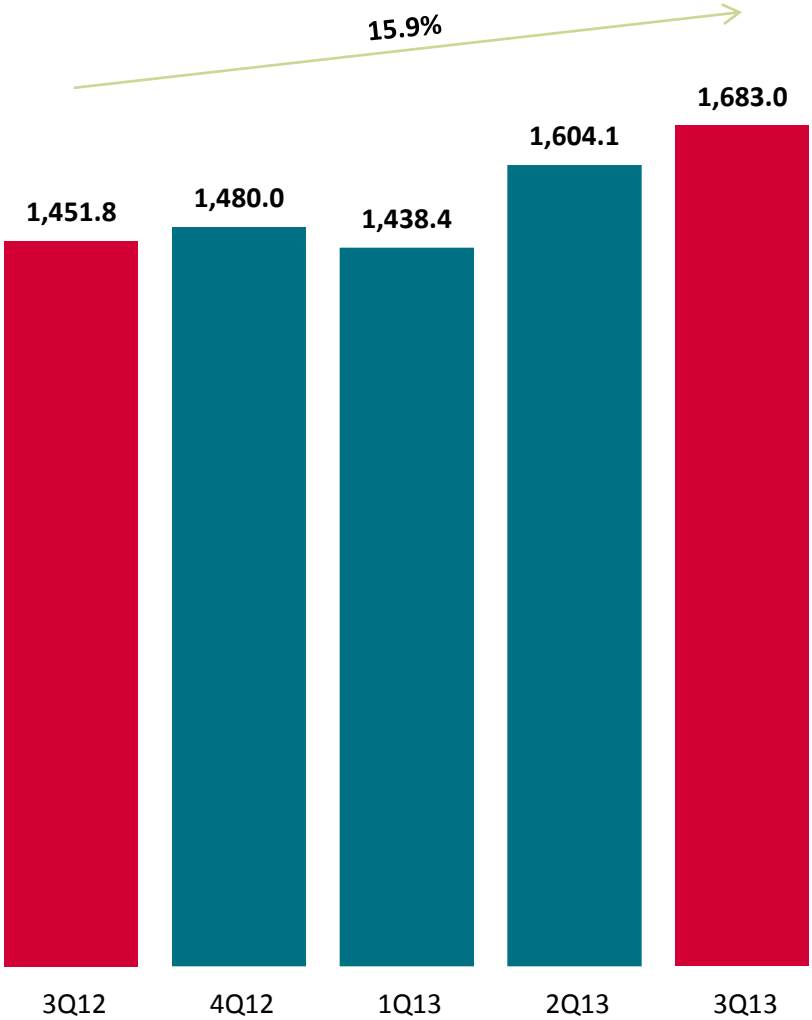




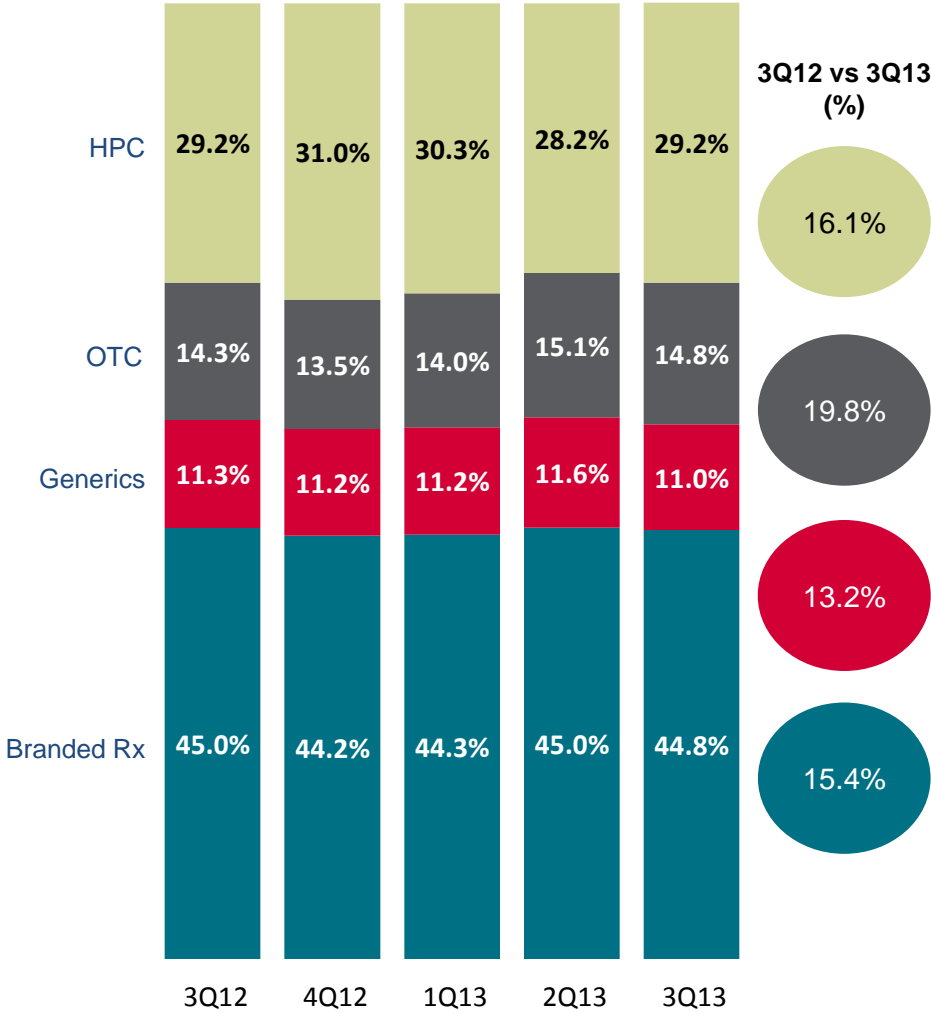
OTC was the highlight of the quarter. Generics lost 0.3 p.p. in the sales mix due to logistics problems with one of our main suppliers

Gross Revenues

(R\$ million)



Sales Mix

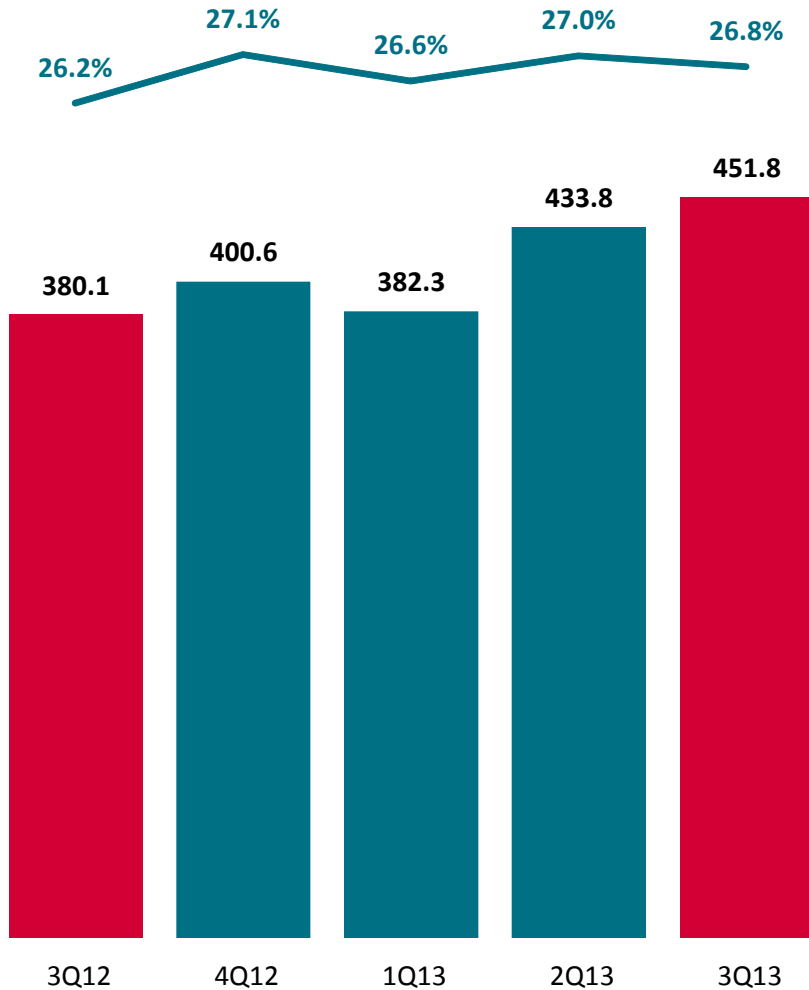




Gross margin improvement stemmed from the weak comp base of the 3Q12. Cash cycle increased by 5.3 days but reduced sharply versus the previous quarters

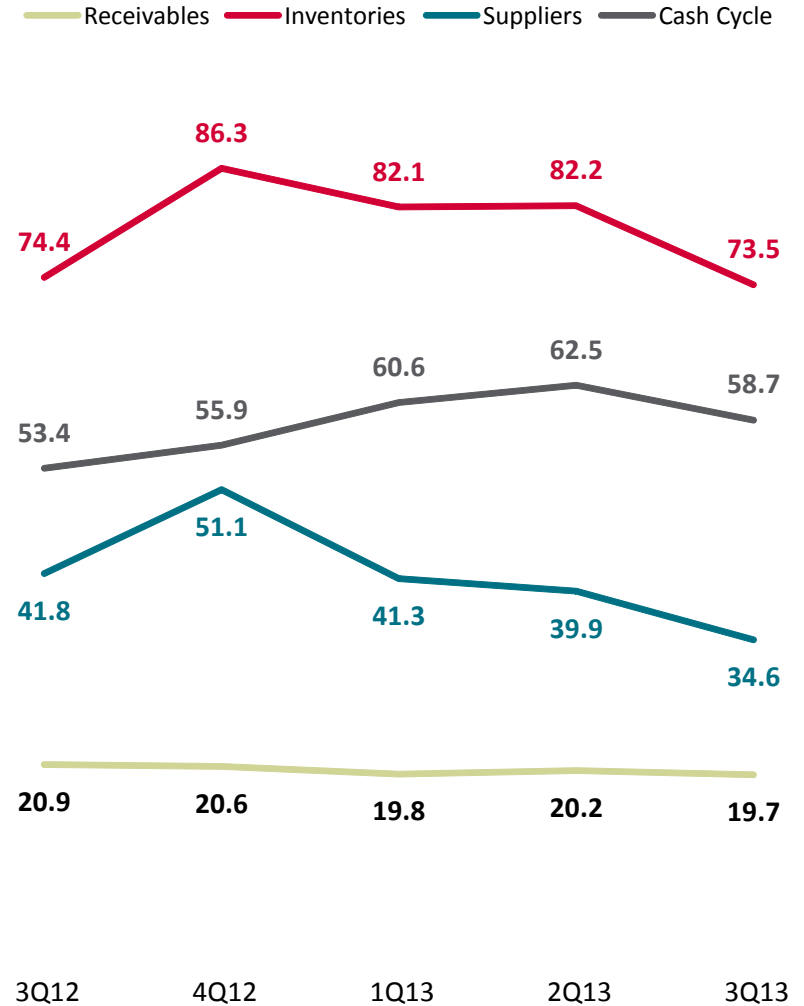
Gross Margin

(R\$ million, % of Gross Revenues)



Cash Cycle

(COGS Days, Gross Revenues Days)





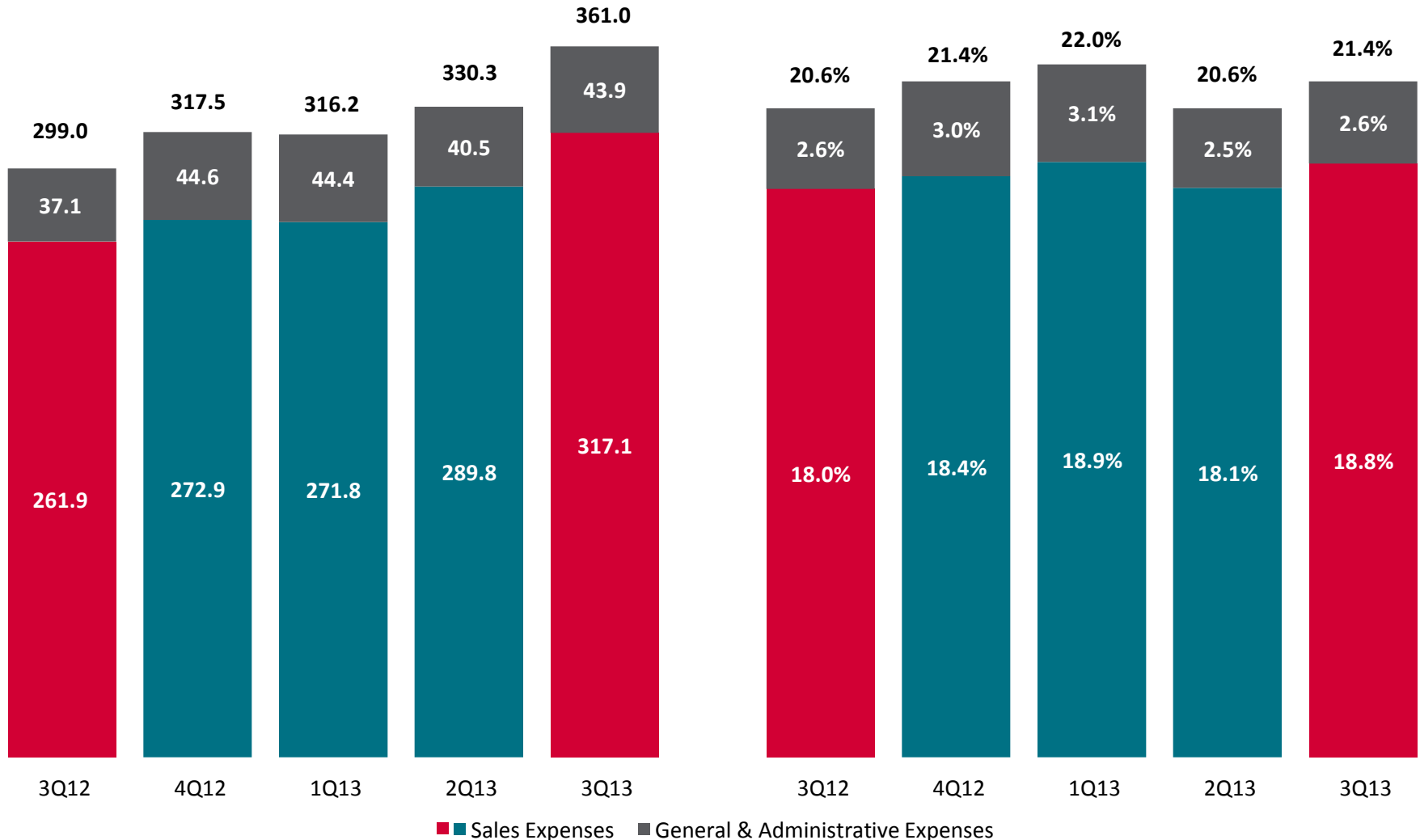
Sales expenses increased due to payroll expenses (0.2 p.p.), rental (0.1 p.p.), logistics (0.1 p.p) and marketing (0.2 p.p.). G&A remained in line with the 3Q12

Operating Expenses

(R\$ million)

Operating Expenses

(% of Gross Revenues)

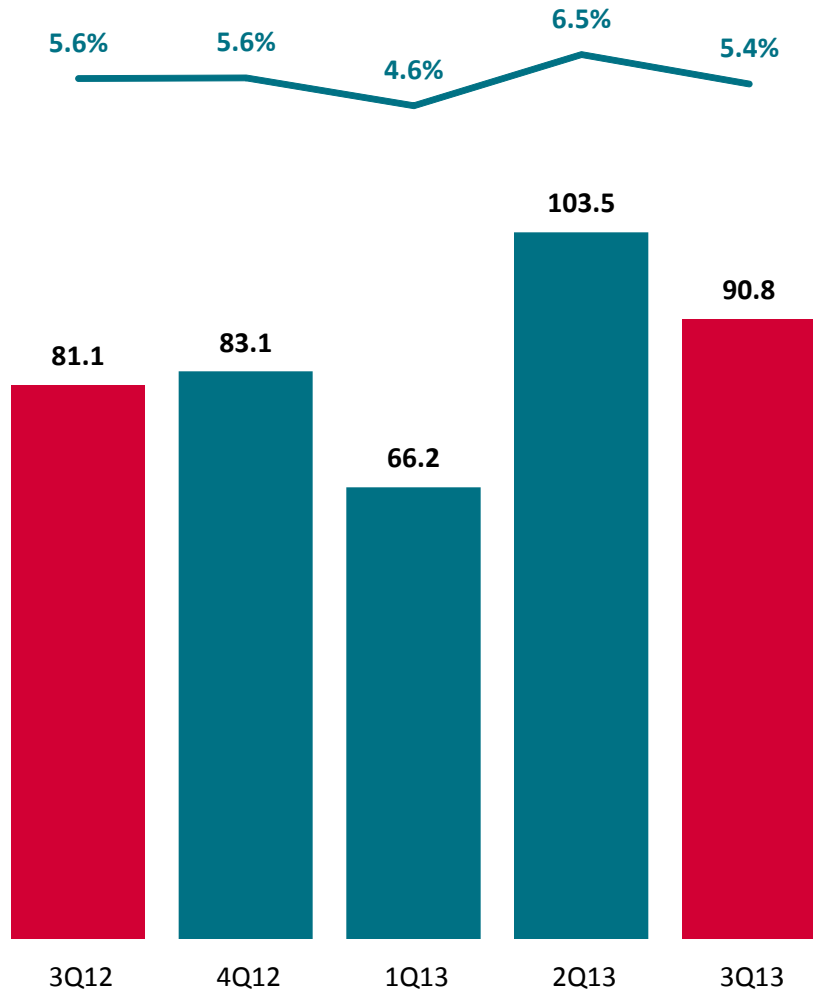




Due to the limited growth at mature stores, the increase in expenses (0.8 p.p.) exceeded the gross margin improvement (0.6p.p.), reducing the EBITDA margin

Adjusted EBITDA

(R\$ million, % of Gross Revenues)



841* stores operating since 4Q12:
(performance in the 3Q13)

- R\$ 1.6 billion of Gross Revenues
- R\$ 100.2 million of EBITDA
- EBITDA margin of 6.2%

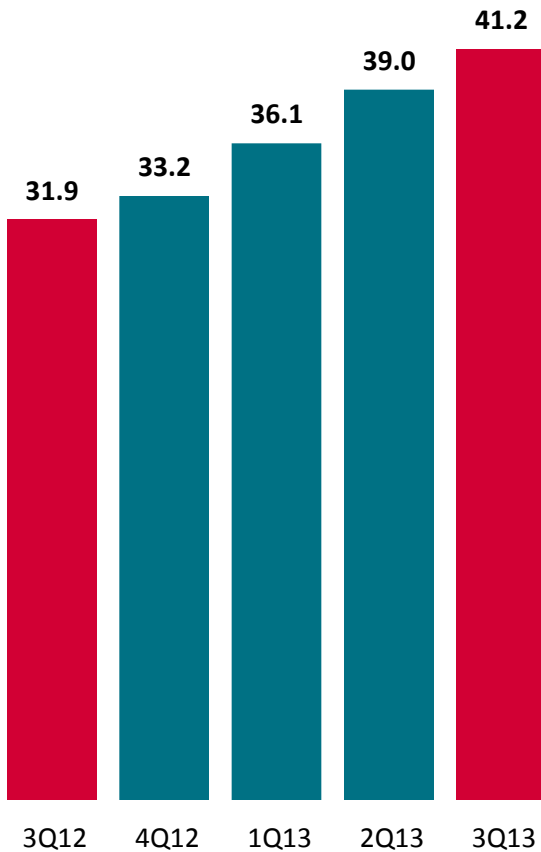
* 864 stores at year-end, less 23 stores closed or suspended



Increases in depreciation and financial expenses were offset by the tax shield from goodwill amortization

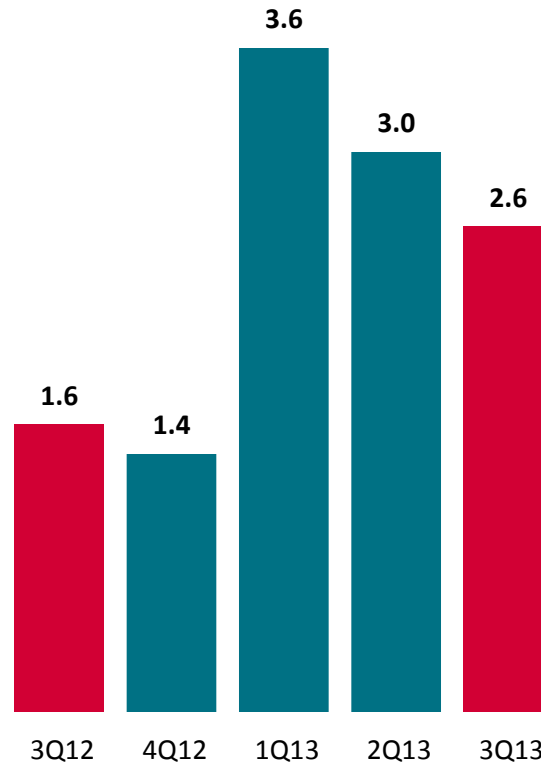
Depreciation

(R\$ million, % of Gross Revenues)



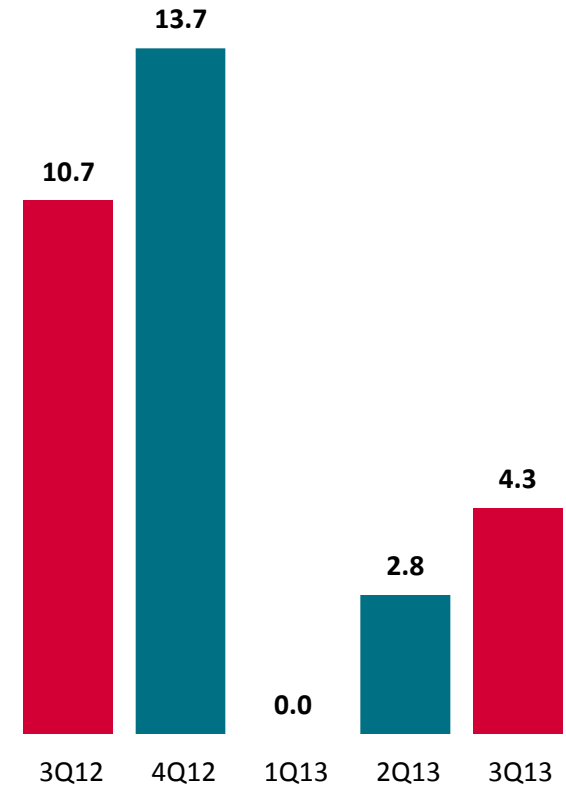
Net Financial Expenses

(R\$ million, % of Gross Revenues)



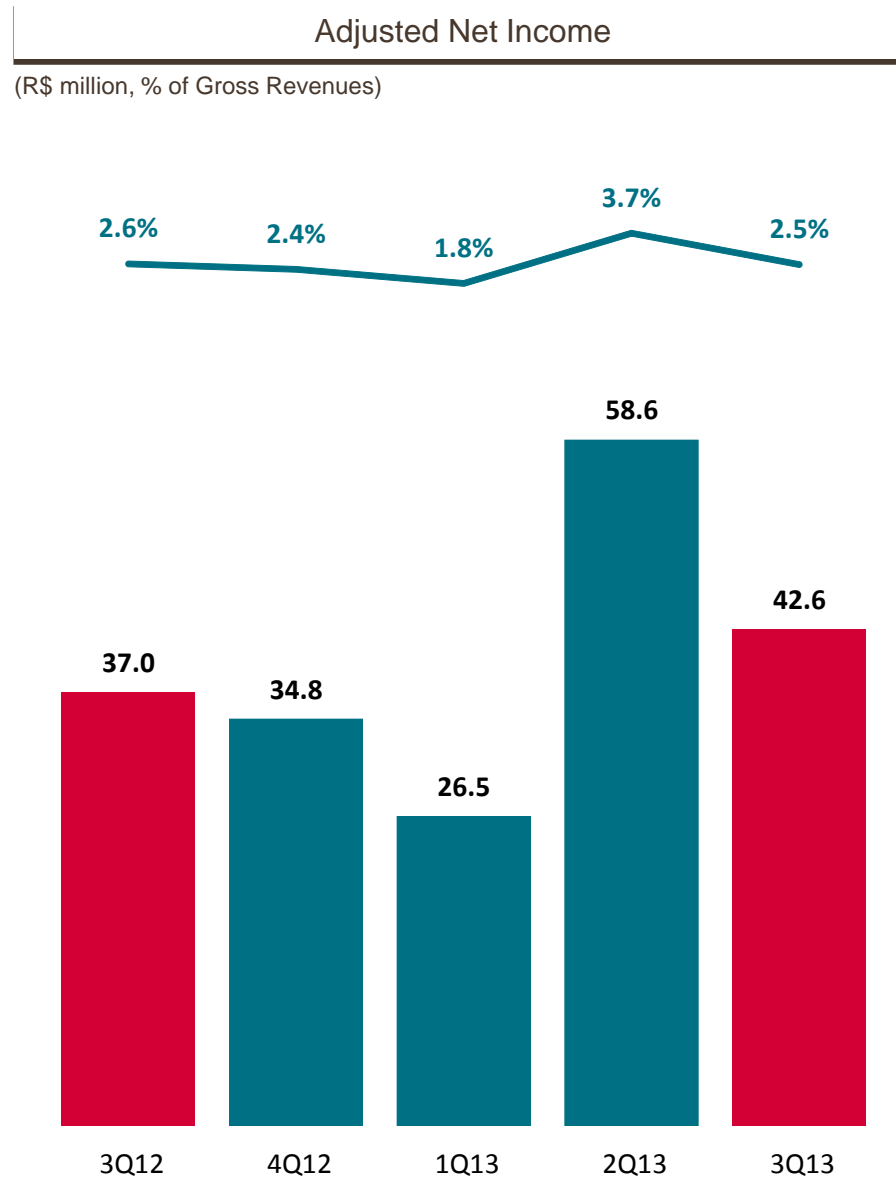
Taxes Accrued

(R\$ million, % of Gross Revenues)





The lower EBITDA margin and the increases in depreciation and in financial expenses were offset by the a reduction in income taxes





Non recurring expenses amounted to R\$ 20.2 million in the 3Q13 and generated a tax shield of R\$ 6.9 million

| <u>Adjustments</u> <i>(R\$ million)</i> | <u>Gross Profit</u> | <u>SG&A</u> | <u>EBITDA</u> | <u>D&A and Income Tax</u> | <u>Net Profit</u> |
|--|---------------------|-----------------|---------------|-------------------------------|-------------------|
| Integration Expenses | | (12.3) | (12.3) | 4.2 | (8.1) |
| Legal and Accounting | | (0.5) | (0.5) | 0.2 | (0.3) |
| Consulting | | (0.7) | (0.7) | 0.2 | (0.5) |
| Store Closures | | (4.4) | (4.4) | 1.5 | (2.9) |
| Farmácia Popular Program | | (2.2) | (2.2) | 0.8 | (1.5) |
| Severance | | (4.5) | (4.5) | 1.5 | (3.0) |
| Expenses from Previous Years | | (7.8) | (7.8) | 2.7 | (5.2) |
| Tax Charges | | (2.0) | (2.0) | 0.7 | (1.3) |
| Reversion in Payroll Taxes | | (5.9) | (5.9) | 2.0 | (3.9) |
| Total | 0.0 | (20.2) | (20.2) | 6.9 | (13.3) |

Store Closures: asset write-offs and closing expenses of 10 stores
Severance: CEO transition
Reversion in Payroll Taxes: reinstatement of the social charges allowance



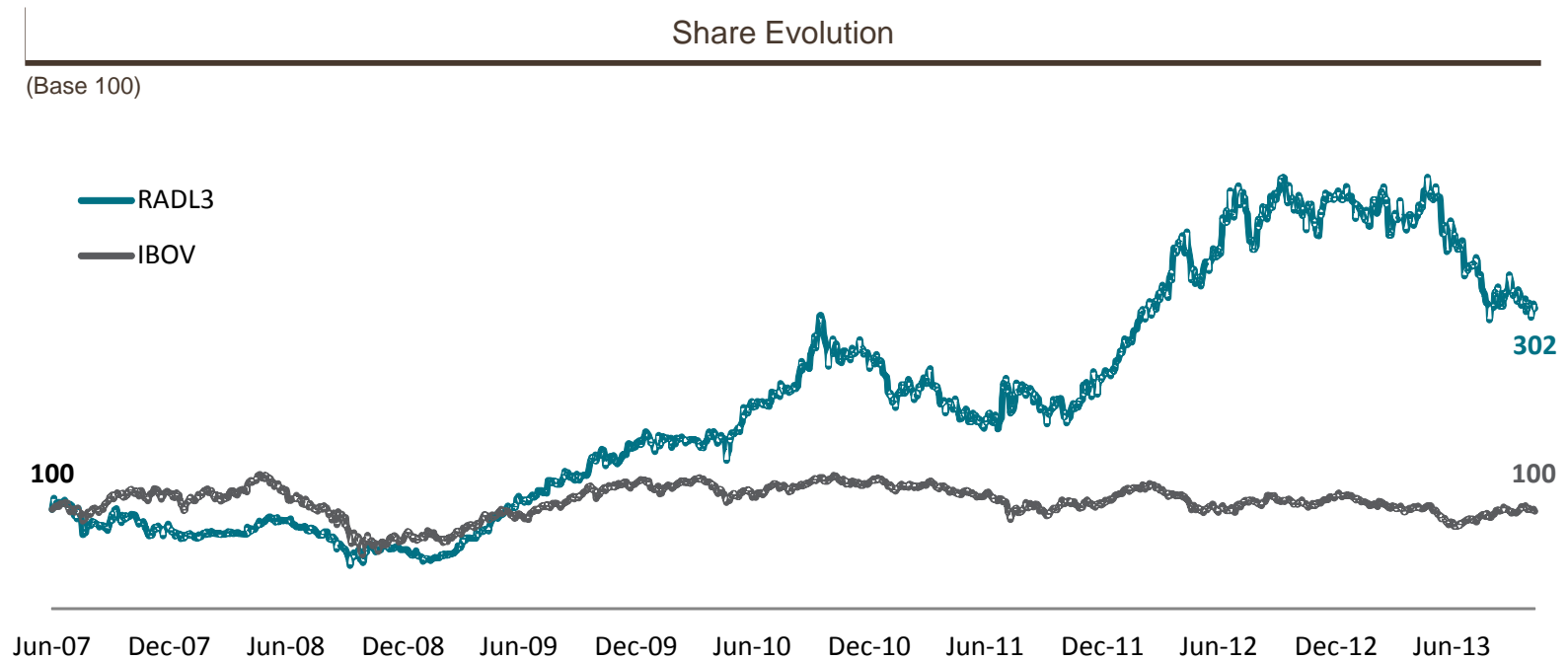
We experienced a negative free cash flow of R\$ 25.6 MM in the 9M13, with the operating cash flow nearly financing the investments of the period

| Cash Flow <i>(R\$ million)</i> | 3Q13 | 3Q12 | 9M13 | 9M12 |
|---|---------------|---------------|----------------|----------------|
| Adjusted EBIT | 49.6 | 49.3 | 144.1 | 151.6 |
| Non-Recurring Expenses | (20.2) | (3.5) | (34.0) | (14.4) |
| Income Tax (34%) | (10.0) | (15.6) | (37.4) | (46.6) |
| Taxshield from Goodwill Amorization | 10.9 | - | 19.1 | - |
| Depreciation | 41.2 | 31.9 | 116.3 | 91.2 |
| Others | (4.4) | 1.8 | 10.2 | 22.4 |
| Resources from Operations | 67.1 | 63.9 | 218.3 | 204.1 |
| Cash Cycle* | 30.4 | 103.1 | (121.4) | (158.8) |
| ICMS Recovery | 10.1 | 23.5 | 40.3 | 43.2 |
| Others | 13.5 | (29.3) | 12.5 | (51.8) |
| Operating Cash Flow | 121.1 | 161.3 | 149.7 | 36.5 |
| Investments | (63.4) | (56.6) | (175.3) | (144.9) |
| Free Cash Flow | 57.7 | 104.7 | (25.6) | (108.4) |
| Interest on Equity | - | (0.1) | (13.0) | (12.7) |
| Net Financial Expenses | (2.6) | (1.6) | (9.3) | (1.1) |
| Income Tax (Tax benefit over financial expenses and interest on equity) | 2.8 | 5.5 | 11.6 | 14.0 |
| Total Cash Flow | 57.9 | 108.5 | (36.2) | (108.2) |

* Cash cycle includes variation in accounts receivables, inventories and suppliers



Since the IPO of Drogasil we generated an average annual return of 17.0% and 18.0% since Raia's IPO



| | |
|---|---------|
| Number of Shares (thousand) | 330,386 |
| Stock Quote - November 6th (R\$) | 16.90 |
| Market Cap (R\$ billion) | 5.6 |
| Average Trading Volume 3Q13 (R\$ million) | 26.7 |