

# Earnings Presentation – 2Q16



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- **Drugstores:** 1,330 stores in operation (58 openings and two closures)
- **Gross Revenue:** R\$ 2.9 billion, 26.1% of growth (14.5% retail same-store sales growth)
- **Gross Margin:** 31.6% of gross revenue, a 1.3 percentage point margin increase
- **EBITDA:** R\$ 304.8 million, a 10.4% margin, 1.0 percentage point margin increase
- **Adjusted Net Income:** R\$ 167.8 million, a 5.7% margin and an increase of 40.6%
- **Cash Flow:** R\$ 1.6 million negative free cash flow, R\$ 79.7 million total cash consumption
- **Store Opening Guidance:** from 165 to 200 new store openings in 2016 and from 195 to 200 in 2017

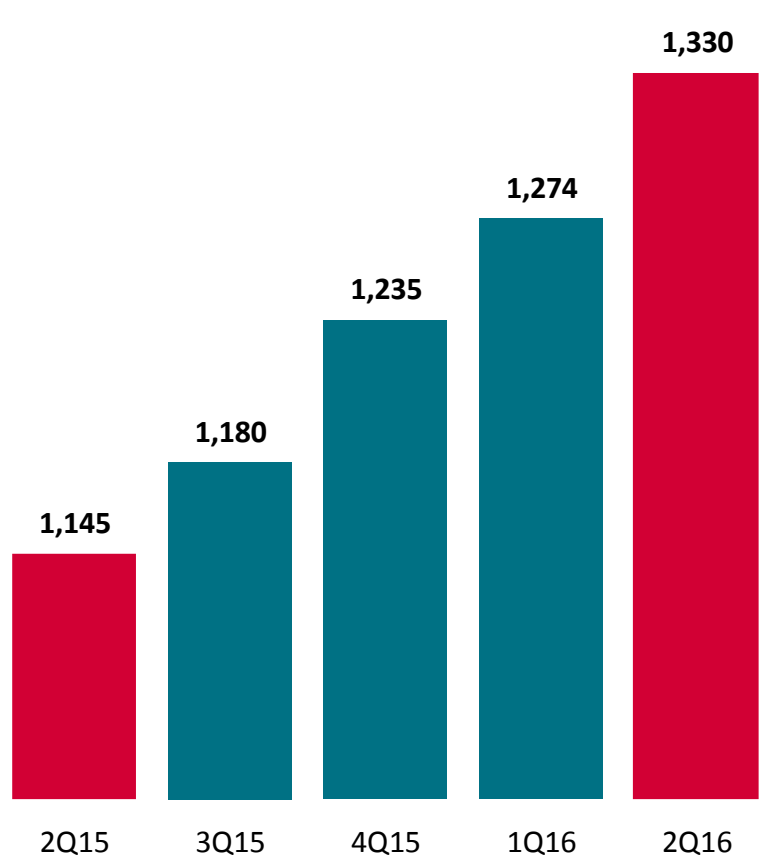


We opened 58 stores in the 2Q16, 97 stores YTD and 196 stores in the LTM. Revising guidance to 200 in both 2016 and 2017. Maturing stores represent 33.9% of the base, with 14.8% in year 1.



Store Count\*

Age Structure of Store Portfolio



■ MATURE ■ YEAR 3 ■ YEAR 2 ■ YEAR 1



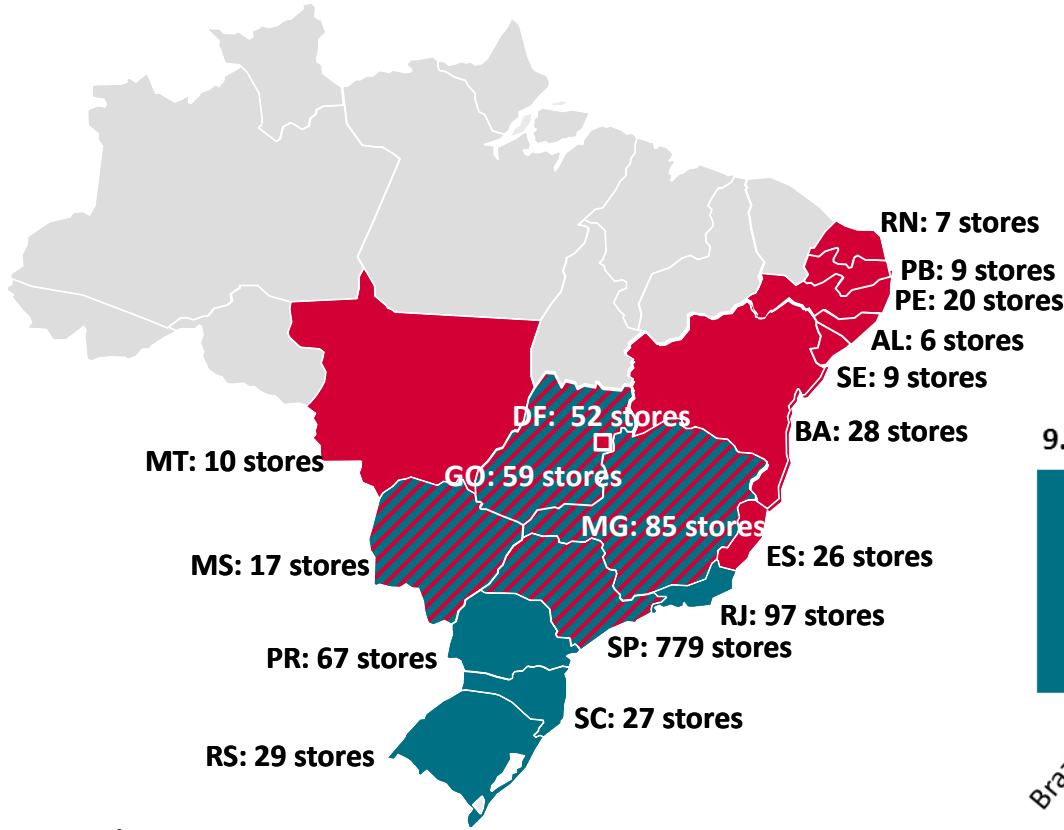
|        | 2Q15 | 3Q15 | 4Q15 | 1Q16 | 2Q16 |
|--------|------|------|------|------|------|
| Opened | 38   | 37   | 62   | 39   | 58   |
| Closed | (5)  | (2)  | (7)  | 0    | (2)  |

\* Includes three 4Bio stores



We gained market share in all regions and reached 11.5% of comparable market share in Brazil, a 1.6 percentage point increase versus the previous year.

### Geographic Presence - Retail

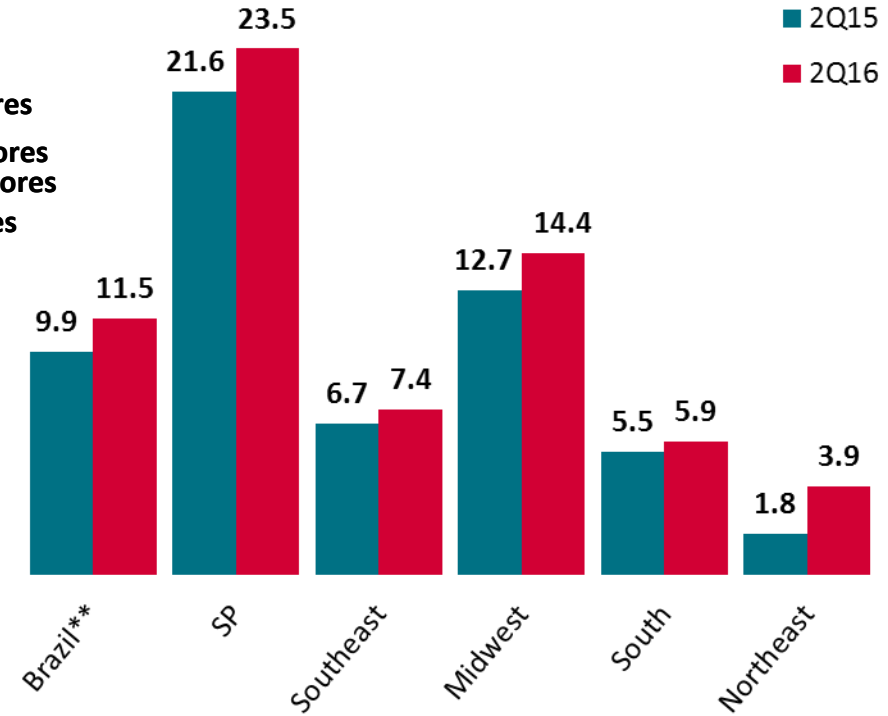


**Total: 1.327 stores**

**Raia: 642 stores**

**Drogasil\*: 685 stores**

### Market Share\*\*\*



### PHARMACEUTICAL MARKET DISTRIBUTION BY REGION (%)

|  | Brazil** | SP   | Southeast | Midwest | South | Northeast |
|--|----------|------|-----------|---------|-------|-----------|
|  | 100.0    | 26.9 | 24.6      | 8.9     | 16.2  | 19.6      |

Source: IMS Health

\* Includes Farmasil stores

\*\* Includes 4Bio only for Brazil

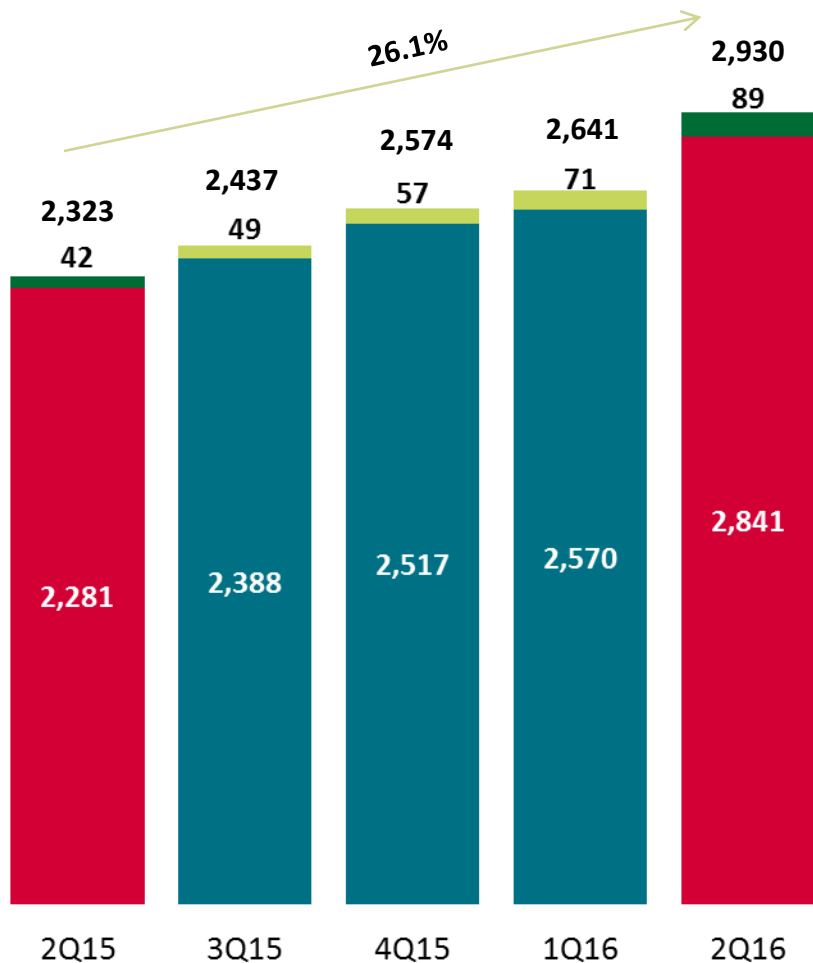
\*\*\* Comparable Market Share, excluding new informants added to the panel during the last twelve months. Our national market share including the full panel was of 11.1%

Gross revenues grew by 26.1% (24.5% for retail and 113.4% for 4Bio). HPC was the highlight (+ 0.2 p.p. in the sales mix), while Generics was penalized by price reduction in SP (- 0.2 p.p.).

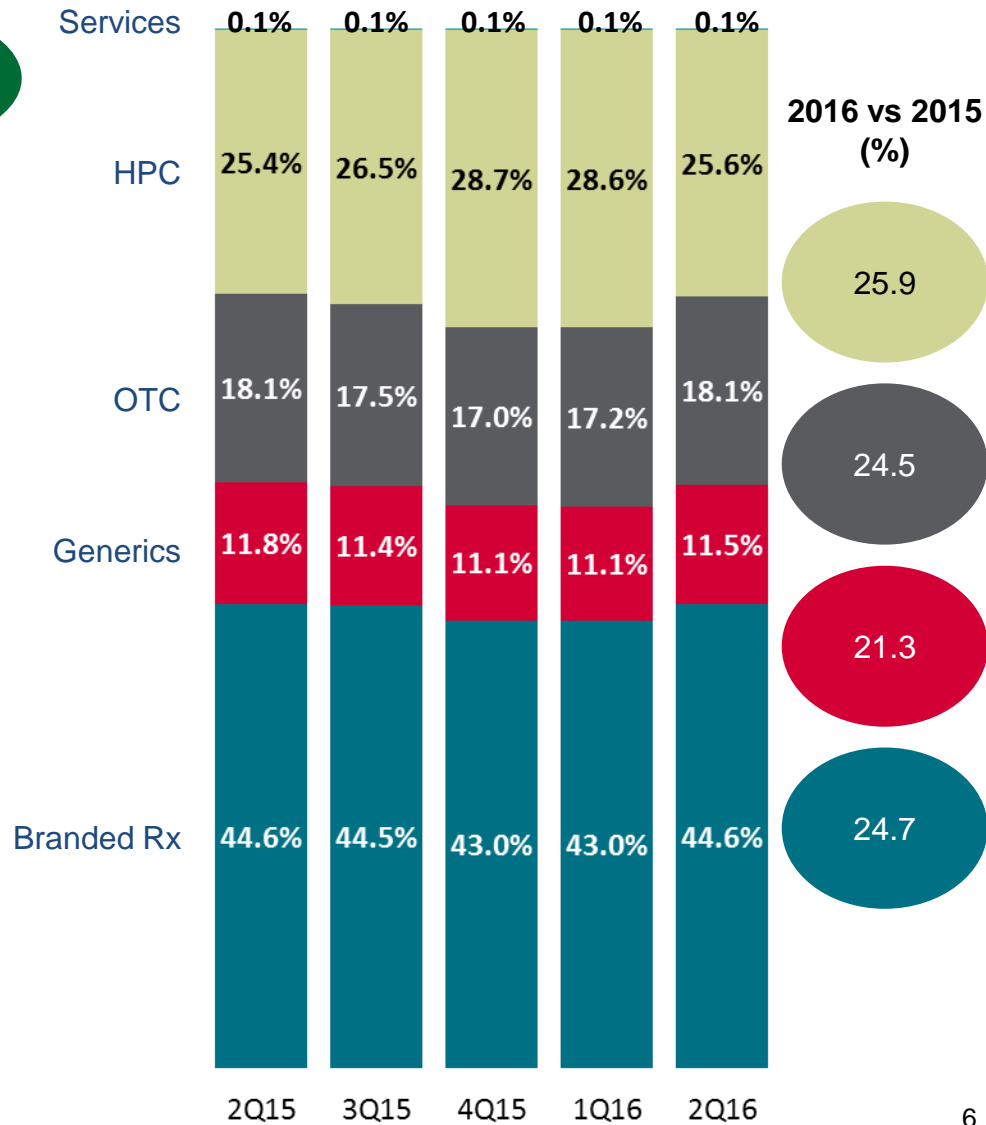


### Consolidated Gross Revenue

2016 vs 2015 (%)



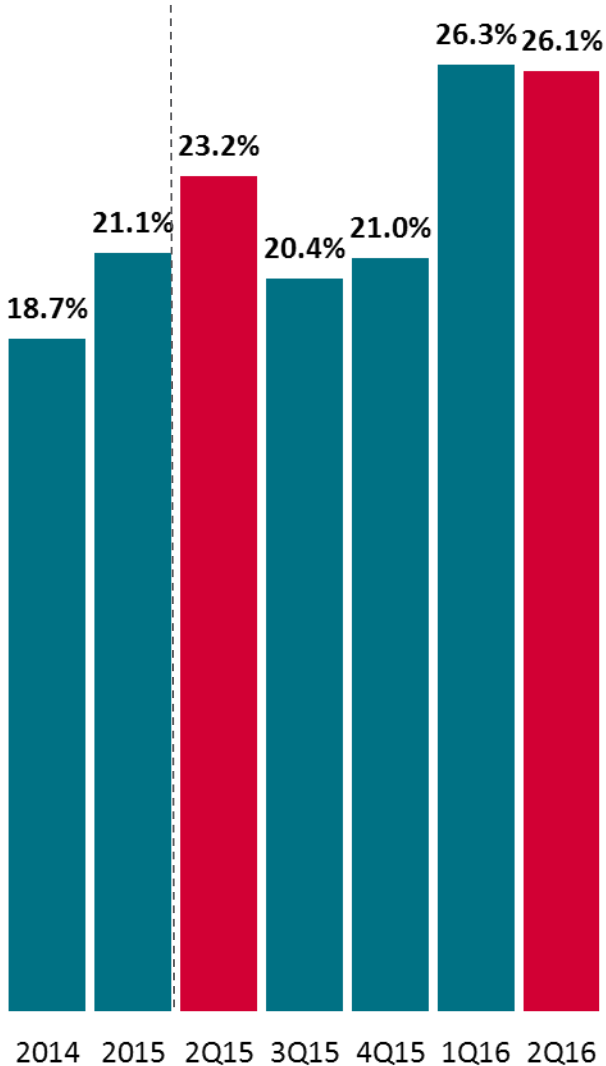
### Retail Sales Mix



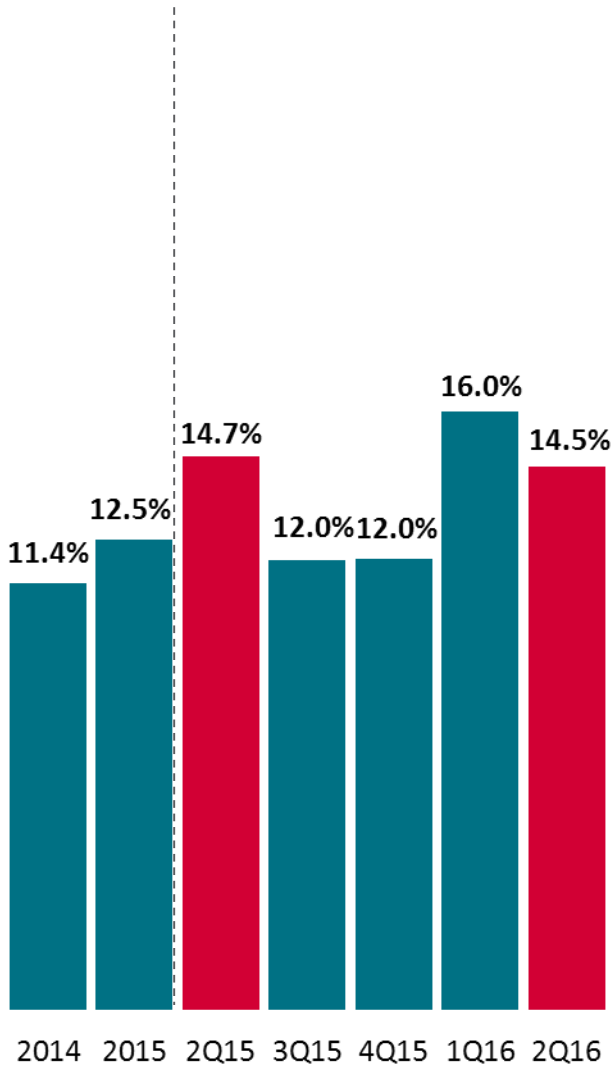
We recorded revenue growth of 10.1% for mature stores and 14.5% for same-store sales, helped by a positive calendar effect of 0.9%.



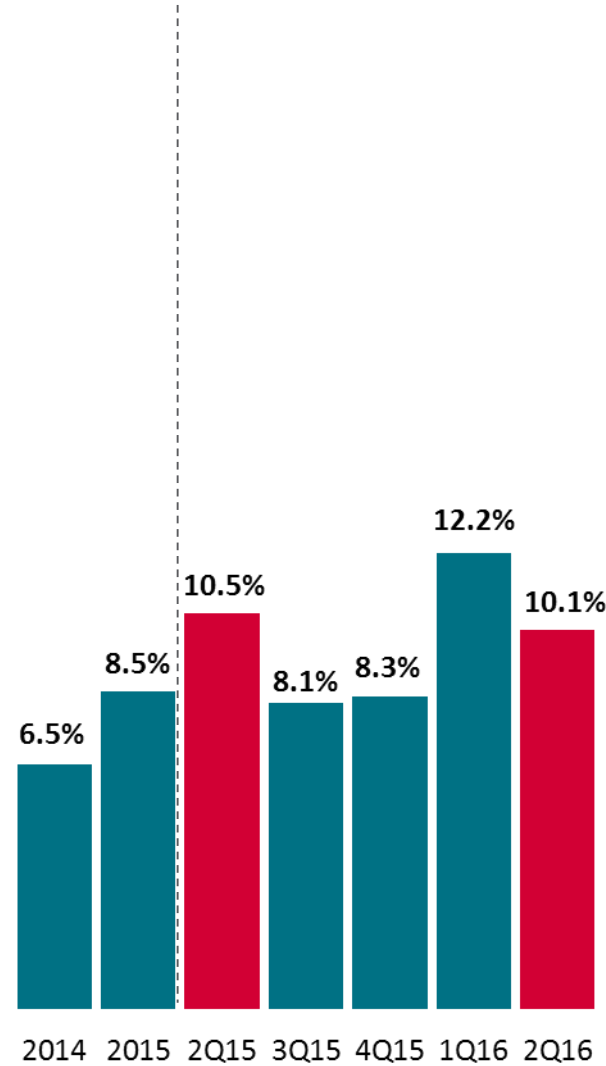
Consolidated Revenue Growth



Same Store Sales Growth\*



Mature Stores Growth\*



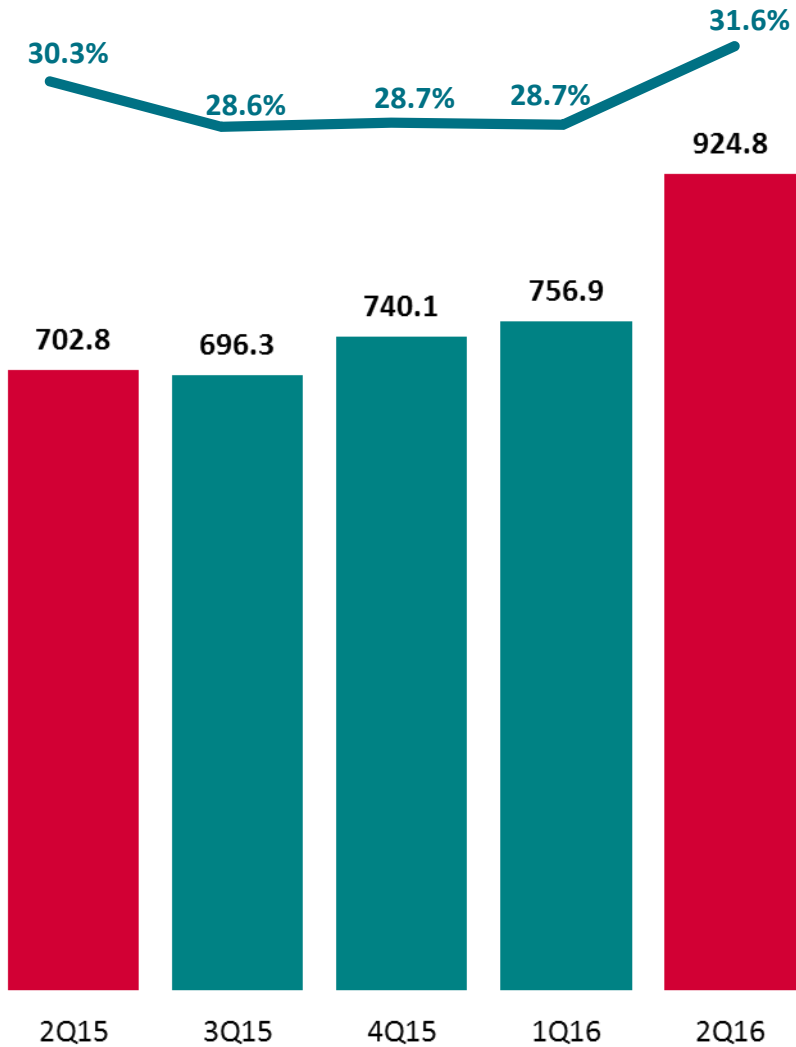
\* Only considers retail



Gross margins increased by 1.3 p.p. due to a price cap increase of 12%, significantly higher than 2015. Higher level of forward buying and new DC pressured Cash Cycle by 2 days.

### Gross Margin

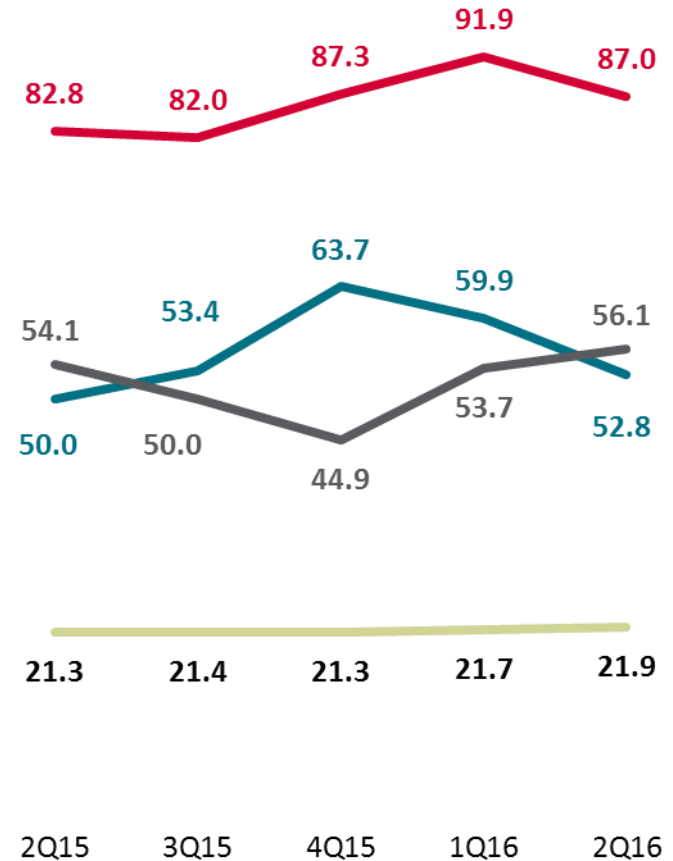
(R\$ million, % of Gross Revenues)



### Cash Cycle

(COGS Days, Gross Revenues Days)C

Receivables Inventories Suppliers Cash Cycle



\* Jun/16 receivables was adjusted to reflect discount of R\$ 3.3 million (representing 0,1 day)





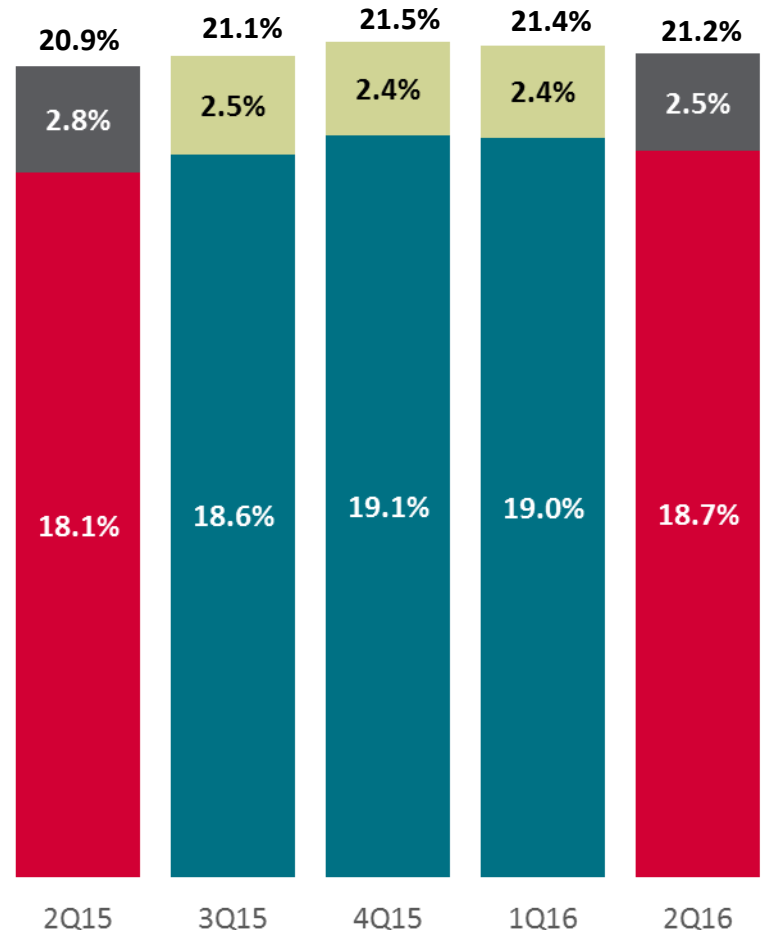
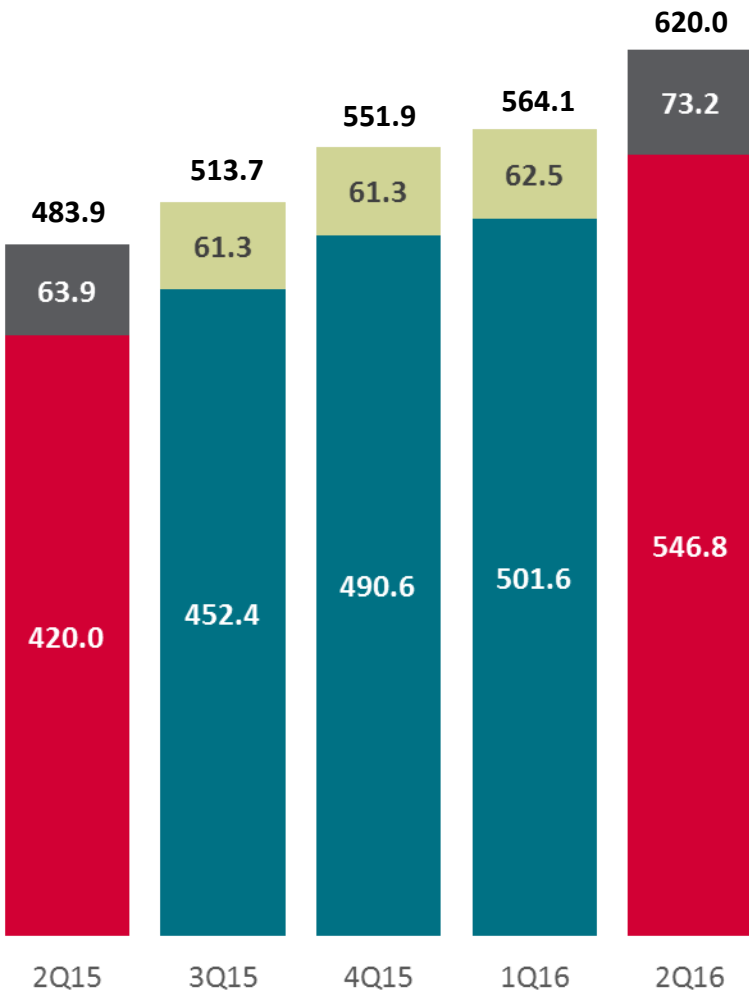
SG&A increased by 0.3 p.p., with higher marketing (0.2 p.p.), asset write-off (0.2 p.p.), electricity (0.1 p.p.) and store openings (0.1 p.p.) expenses partially offset by G&A and 4Bio dilutions.

Sales, General & Administrative Expenses

(R\$ million)

Sales, General & Administrative Expenses

(% of Gross Revenues)



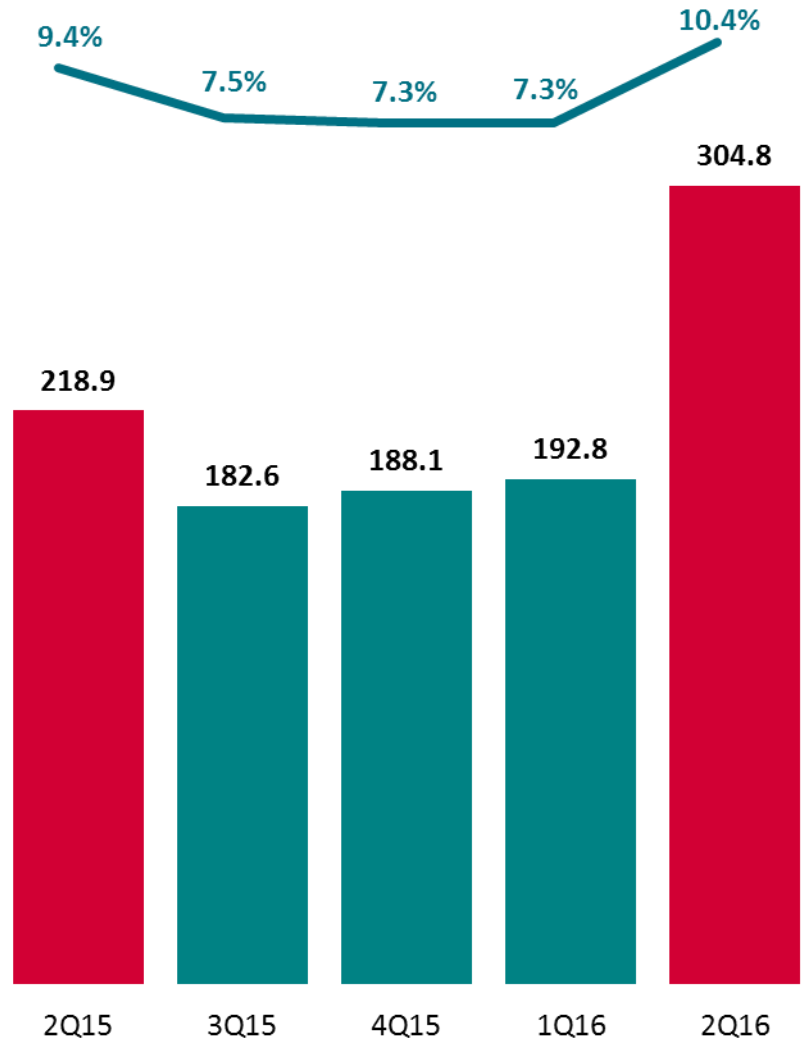
■ Sales Expenses ■ General & Administrative Expenses



The consolidated EBITDA totaled R\$ 304.8 MM, a 10.4% margin. EBITDA margin of 10.5% for Raia Drogasil and of 8.4% for 4Bio. New stores penalized the consolidated EBITDA by R\$ 11.8 MM.

### EBITDA

(R\$ million, % of Gross Revenues)



**1,235 stores operating since 2015:**  
*(performance in the 2Q16)*

- R\$ 2.9 billion of Gross Revenues
- R\$ 316.6 million of EBITDA
- EBITDA margin of 11.1%

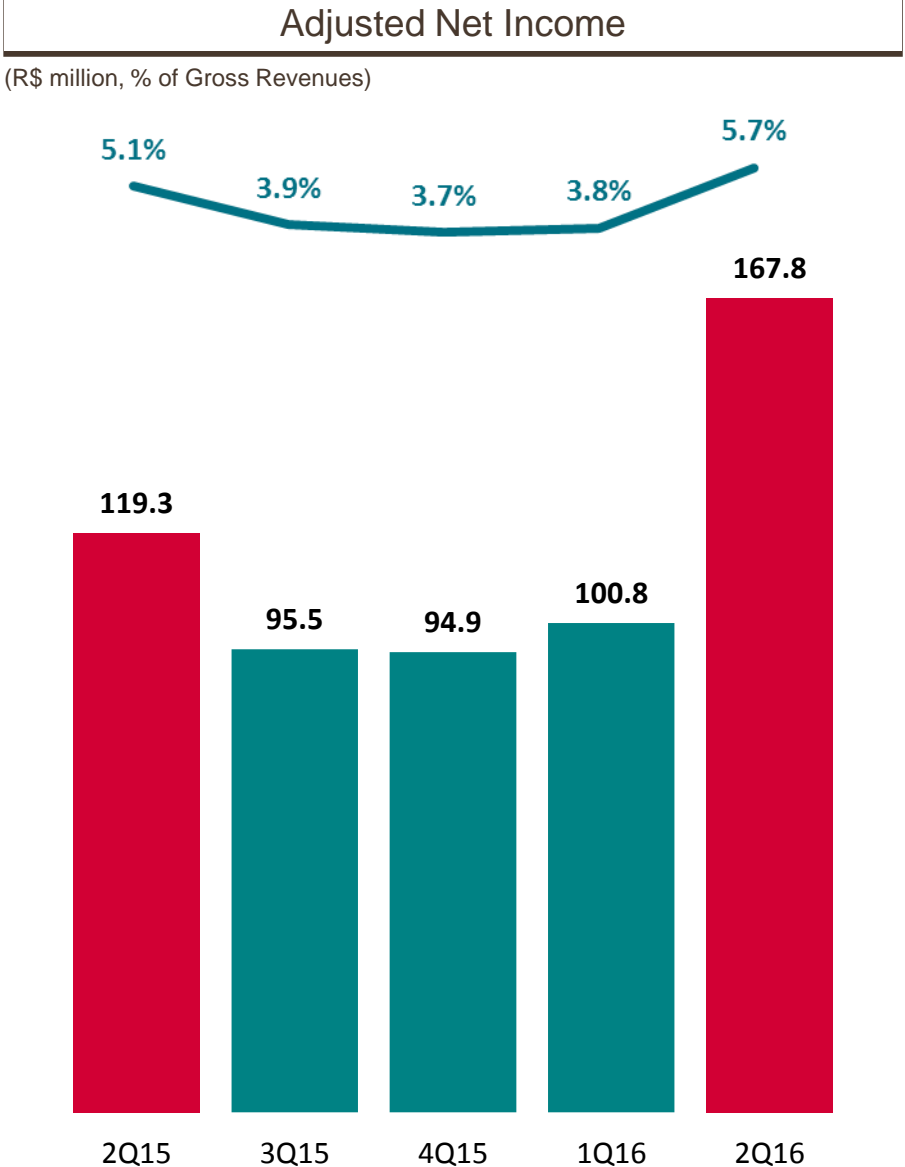
**Raia Drogasil**

- R\$ 297.3 million of EBITDA
- EBITDA margin of 10.5%
- EBIT margin of 8.2%

**4Bio**

- R\$ 7.5 million of EBITDA
- EBITDA margin of 8.4%
- EBIT margin of 8.3%

We reached an adjusted net income of R\$ 167.8 MM in the 2Q16, an increase of 40.6%. Reported net income grew 44.6% vs previous year.



**Negative Free Cash Flow of R\$ 1.6 MM and Total Cash Flow of R\$ 79.7 MM in the 2Q16 driven by the unfavorable cash cycle seasonality and by a higher cash cycle.**



| <b>Cash Flow</b>  | <b>2Q16</b>    | <b>2Q15</b>   | <b>6M16</b>    | <b>6M15</b>    |
|---|----------------|---------------|----------------|----------------|
| <i>(R\$ million)</i>  |                |               |                |                |
| <b>Adjusted EBIT</b>  | <b>238.2</b>   | <b>163.3</b>  | <b>368.1</b>   | <b>263.6</b>   |
| Income Tax (34%)  | (81.0)         | (55.5)        | (125.2)        | (89.6)         |
| Tax Shield from Goodwill Amortization                                   | 10.7           | 10.7          | 21.4           | 21.4           |
| Depreciation  | 66.6           | 55.6          | 129.5          | 109.2          |
| Others  | 20.0           | 13.3          | 17.4           | 0.5            |
| <b>Resources from Operations</b>  | <b>254.5</b>   | <b>187.4</b>  | <b>411.3</b>   | <b>305.1</b>   |
| Cash Cycle*   | (163.5)        | (96.3)        | (370.1)        | (158.4)        |
| Other Assets (Liabilities)  | 19.2           | 28.0          | 6.5            | 5.7            |
| <b>Operating Cash Flow</b>  | <b>110.2</b>   | <b>119.1</b>  | <b>47.7</b>    | <b>152.4</b>   |
| <b>Investments</b>  | <b>(111.8)</b> | <b>(81.4)</b> | <b>(210.7)</b> | <b>(145.8)</b> |
| <b>Free Cash Flow</b>   | <b>(1.6)</b>   | <b>37.8</b>   | <b>(163.0)</b> | <b>6.7</b>     |
| Interest on Equity  | (71.5)         | (63.6)        | (71.5)         | (64.0)         |
| Income Tax Paid over Interest on Equity                                 | (6.6)          | (4.6)         | (6.6)          | (8.8)          |
| Net Financial Expenses  | (24.6)         | (15.7)        | (41.8)         | (30.9)         |
| Income Tax (Tax benefit over financial expenses and interest on equity) | 24.6           | 17.4          | 46.7           | 43.4           |
| <b>Total Cash Flow</b>  | <b>(79.7)</b>  | <b>(28.7)</b> | <b>(236.3)</b> | <b>(53.6)</b>  |

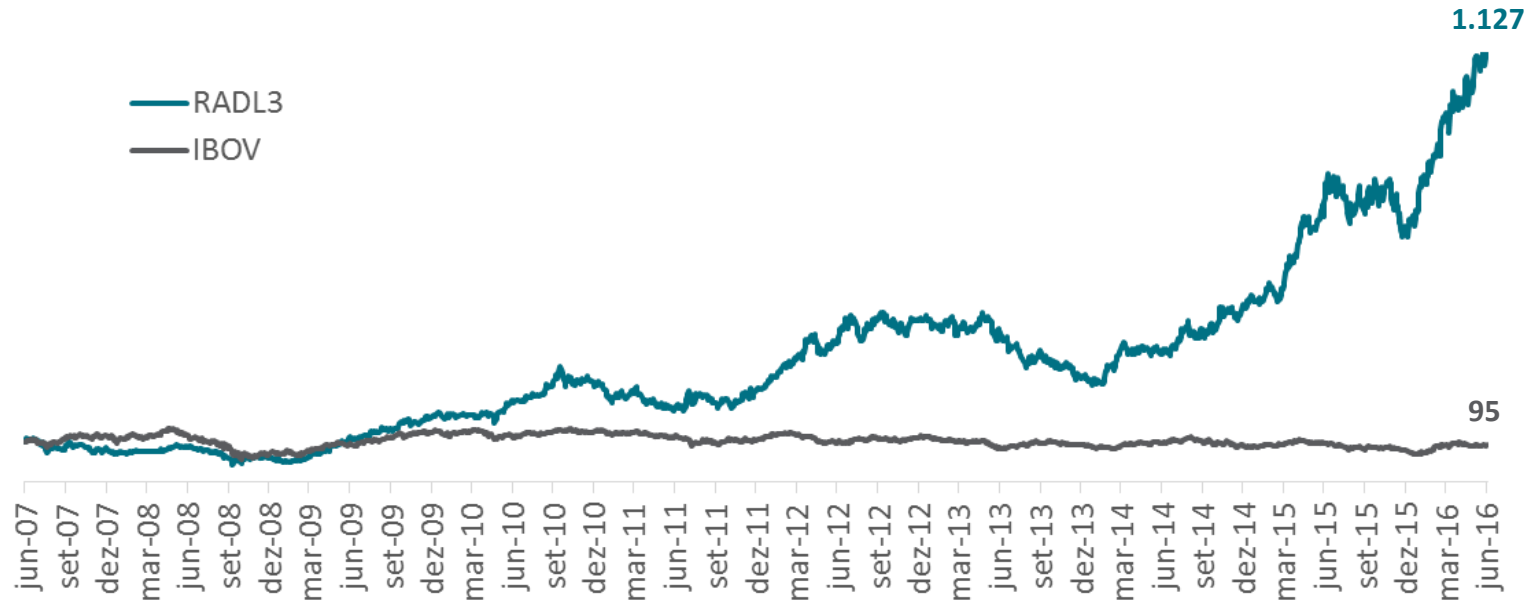
\* Cash cycle includes variation in accounts receivables, inventories and suppliers

\*\* Does not include financing cash flow

We generated a Total Shareholder Return of 78.0% YTD with an average annual return of 30.8% for Drogasil's IPO investors since 2007 and of 38.3% for Raia's IPO investors since 2010.



Share Appreciation



**Performance 2Q16**

**RADL3: 78.0%**  
**BOVESPA: 18.9%**  
**Alpha: 59.1%**  
**Average Trading Volume RADL3: R\$ 56.4 M**



## 2Q16: A Record Quarter Achieved Through **Inflation Management & Customer Centricity** under a **Long-Term View**

### ▪ **Inflation Management**

- Ability to boost the inflationary gain through a huge forward buying: **Building an Inflationary Hedge for the Year**
- High mature store growth has so far absorbed expenses increases: **SG&A has been flat since 3Q15**

### ▪ **High Price Increase Changed Customer Behavior**

- High price increase: **Average of 11.8%**
- Strong mix change: shift to cheaper products within Branded and Generics: **Negative 2% to 3% mix effect**
- Inflationary gains triggered higher promotional activity in the industry: **Localized price pressures**
- Customers became more price sensitive: **Increased price comparisons**
- Intelligence generated by Dunnhumby paying off: **Great understanding of shopping trends**

### ▪ **Partially Reinvesting Gains to Defend & Attack**

- Closely monitoring promotional activity – **Tends to fade away over time**
- Tactical price reductions where needed – **Defending our market share**
- Increased marketing spending at specific markets – **Attacking in specific markets**



### ■ **Increasing Opening Guidance to 200 stores in 2016 and 2017**

- Increased the contract pool since 2015
- Pace of store openings has progressively accelerated and become more linear
- Opened 97 stores YTD, 196 stores in the LTM
- New stores presenting outstanding performance, consistently ahead of targets
- Opened DC in the Northeast, removing an important bottleneck for expansion

### ■ **Building Efficiency Gains for 2017 and 2018**

- Labor: **Reducing Turnover and Absenteeism, Enhancing Training, Optimizing Staffing**
- Rentals: **Renegotiating Contracts back to market prices**
- Electricity: **Several initiatives to increase energy efficiency**
- Logistics: **Extending the network, increasing shipping frequency at lower cost and upgrading automation in SP**
- Category Management: **Evolving with Dunnhumby**
- CRM: **Strengthening the loyalty programs**



- **2016 Earnings Releases**

- **3Q:** October 27<sup>th</sup>, 2016

- **Raia Drogasil Day**

- November 25<sup>th</sup> in the morning
- Hotel Unique

- **Scheduled Investor Conferences**

- August 16<sup>th</sup>: **17<sup>th</sup> Annual Conference**, Santander (São Paulo)
- August 23<sup>rd</sup>: **Brazil Consumer & Healthcare Check-up**, JP Morgan (São Paulo)
- September 12<sup>nd</sup> to 14<sup>th</sup>: **19<sup>th</sup> Annual Latin America Conference**, Morgan Stanley (London)
- September 21<sup>st</sup>: **UBS XII Consumer Round Table**, UBS (São Paulo)