RaiaDrogasil

EARNINGS RELEASE 1Q14

São Paulo, May 8th, 2014. RaiaDrogasil S.A. (BM&FBovespa: RADL3) announces today its results for the 1st quarter of 2014 (1Q14). The consolidated quarterly information of RaiaDrogasil S.A. for the period ended March 31st, 2014 was prepared in accordance with IFRS and was reviewed by our independent auditors in accordance with Brazilian and international standards of auditing. Such quarterly information was prepared in Reais and all growth rates are related to the same period of 2013.

As a result of the creation of RaiaDrogasil, we incurred both in 2014 and in 2013 on certain non-recurring expenses related to the integration. To facilitate a better understanding and analysis of our operating performance, we are supplementally presenting adjusted results for 2014 and 2013 excluding the effects of non-recurring expenses.

In April and in May of 2013 we recorded a reduction in social charges on labor, a line which was classified as part of Taxes, Discounts and Returns since it was calculated as a percentage of revenues. In order to maintain historical comparability, we reclassified such charges to Sales Expenses.

HIGHLIGHTS:

- **Drugstores: 986 stores in operation (18 openings and one closure)**
- **Gross Revenues: R$ 1.7 billion, 19.5% of growth (12.7% for same-store sales)**
- **Gross Margin: 26.9% of gross revenues, a 0.3 percentage point margin increase**
- **Adjusted EBITDA: R$ 87.3 million, an EBITDA margin of 5.1% and an increase of 31.9%**
- **Adjusted Net Income: R$ 40.7 million, a net margin of 2.4% and an increase of 53.7%**
- **Cash Flow: R$ 119.0 million negative free cash flow, R$ 117.8 million of total cash consumption**

RADL3: **R$ 18.85/share**

Number of Shares: **330,386,000**

Market Cap: **R$ 6,228 million**

Closing: **May 7th, 2014**

IR Contacts:

Eugênio De Zagottis
Gabriel Rozenberg
Corina Steindler

Phone: +55 11 3769-7159

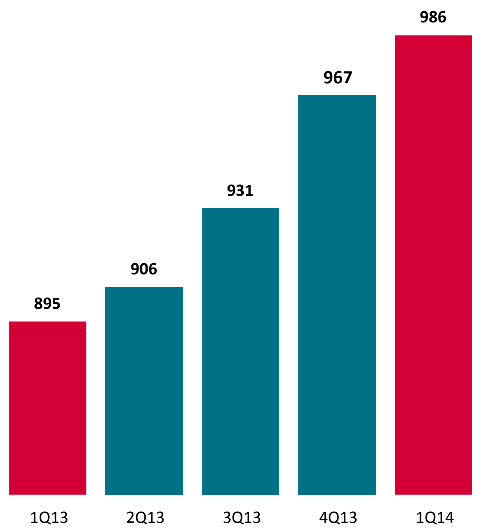
E-mail: ri@raiadrogasil.com.br

Summary	1Q13	2Q13	3Q13	4Q13	1Q14
(R$ thousand)					
# of Stores (end of period)	895	906	931	967	986
Store Openings	36	25	29	41	18
Store Closures	(4)	(10)	(6)	(4)	(1)
Net Reopenings/(Suspensions)	(1)	(4)	2	(1)	2
# of Stores (average)	879	897	920	950	977
Head Count	20,274	21,195	21,268	21,482	21,578
Pharmacist Count	3,073	3,207	3,260	3,322	3,451
# of Tickets	30,958	33,596	34,567	34,803	34,078
Gross Revenues	1,438,405	1,604,091	1,682,958	1,738,649	1,718,910
Gross Profit (Adjusted)	382,340	433,760	451,785	464,412	462,109
% of Gross Revenues	26.6%	27.0%	26.8%	26.7%	26.9%
EBITDA (Adjusted)	66,165	103,472	90,791	96,607	87,323
% of Gross Revenues	4.6%	6.5%	5.4%	5.6%	5.1%
Net Income (Adjusted)	26,486	58,634	42,623	48,067	40,720
% of Gross Revenues	1.8%	3.7%	2.5%	2.8%	2.4%
Free Cash Flow	(82,990)	(34,819)	57,736	70,849	(118,953)

STORE DEVELOPMENT

We opened a total of 18 new stores and closed one, ending the quarter with 986 stores in operation, including the net opening of two stores that had been temporarily suspended for rebranding.

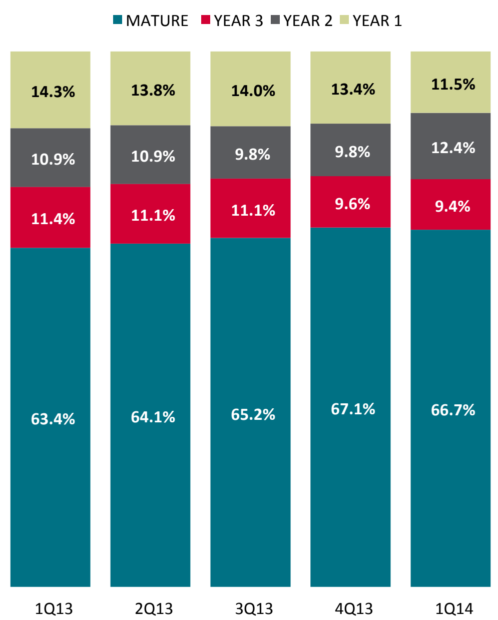
Store Count*



	1Q13	2Q13	3Q13	4Q13	1Q14
Opened	36	25	29	41	18
Closed	(4)	(10)	(6)	(4)	(1)
Reopened/(Suspended)	(1)	(4)	2	(1)	2

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

Age Structure of Store Portfolio



At the end of the period, 33.3% of our stores were still in the process of maturation, and had not yet reached their full potential in terms of revenues and profitability.

We reiterate our guidance of 130 gross openings, which will be more concentrated in the 2H14. Additionally, we are expanding further in the Northeast by entering in the state of Pernambuco already in May, with our first store in Recife, as well as in Sergipe and Alagoas, with stores in Aracaju and Maceió that shall be opened in the upcoming months.

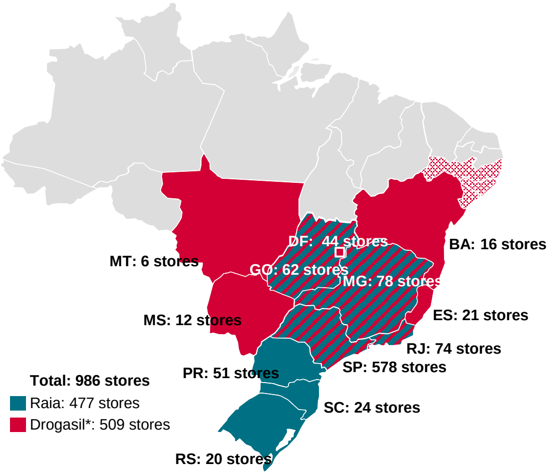
We ended the 1Q14 with a comparable market share of 9.4%, a 0.6 percentage point increase versus the previous year. Our market share figures have been adjusted by IMS Health in order to preserve historical comparability by excluding new informants who have been added to the panel during the last twelve months. Considering the inclusion of the new informants, our national market share totaled 9.1%.

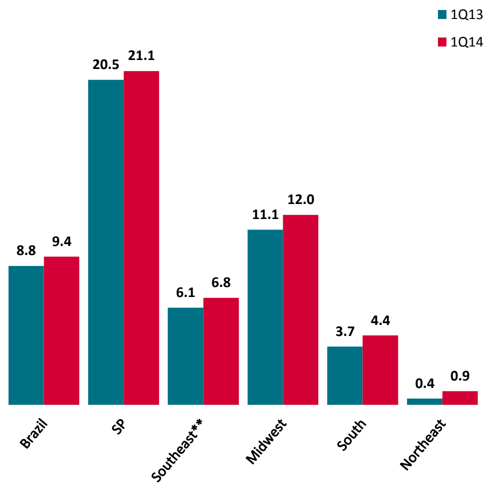
Our main highlight was the Midwest region, where we recorded a 0.9 percentage point increase leveraged by the maturation of our acquired stores in Goiás as well as by a strong performance in the Federal District, in Mato Grosso and in Mato Grosso do Sul.

We also recorded a 0.7 percentage point gain in the South due to the store maturation in Paraná and in Santa Catarina, a 0.7 percentage point gain the Southeast (not including São Paulo), leveraged by our growth in Rio de Janeiro and in Espírito Santo, and 0.6 percentage point increase in São Paulo, leveraged by our organic expansion.

Finally, we gained 0.5 percentage point of market share in the Northeast through our growth in Bahia, the only state where we currently compete.

Geographic Presence	Market Share (March '14)***





PHARMACEUTICAL MARKET DISTRIBUTION BY REGION (MARCH '14)

Brazil	SP	Southeast**	Midwest	South	Northeast
100.0%	27.3%	23.7%	8.9%	17.1%	17.9%

Source: IMS Health

* Includes Farmasil stores

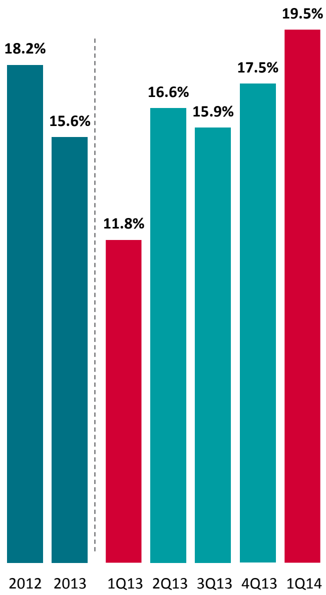
** Excludes São Paulo

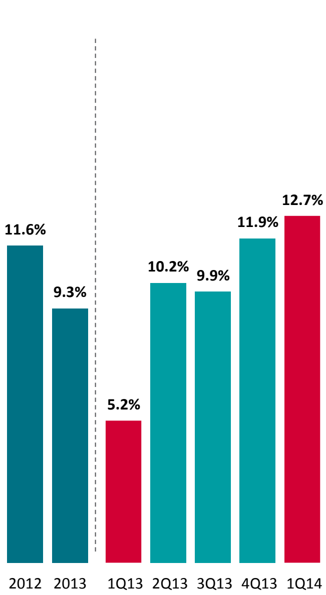
*** Comparable Market Share, excluding new informants added to the panel during the last twelve months. Our national market share including the full panel was of 9.1%

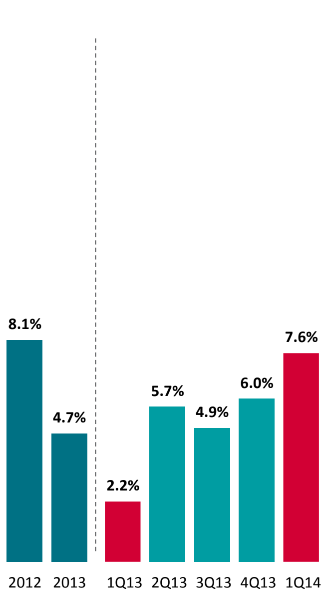
GROSS REVENUES

We ended the quarter with gross revenues of R$ 1,718.9 million, a 19.5% increase over 2013.

Growth – Total Sales	Growth – Same Store Sales	Growth – Mature Stores



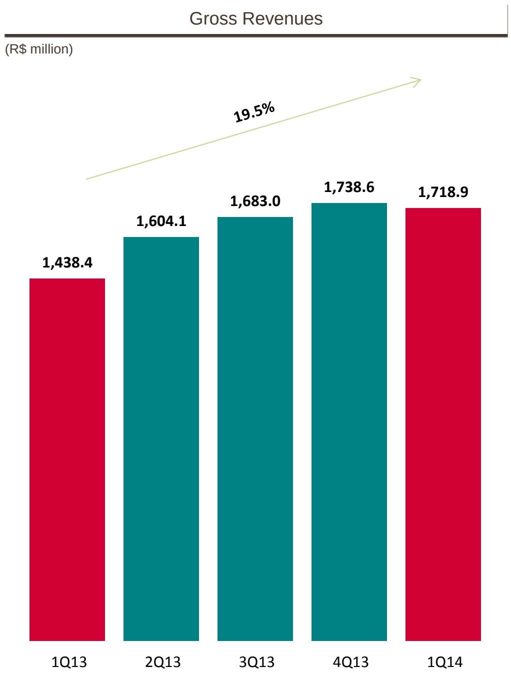


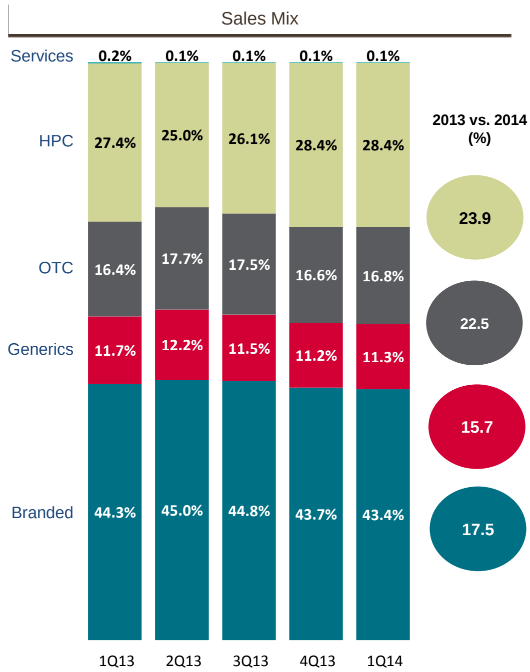


Excluding from the comp base the stores closed or temporarily suspended over the last twelve months, our revenues increased by 21.7%, an increase of 2.3 percentage points.

We had in the 1Q14 a significant improvement over the 1Q13, as we recorded a growth of 12.7% for our same-store sales and of 7.6% for our mature stores, approximately 1.4 percentage point above inflation. We experienced a positive calendar effect of 0.4% in the quarter when compared to the previous year.

It is important to mention that the growth recorded in the 1Q14 benefited from a very weak sales performance registered in the 1Q13, when mature stores had grown by only 2.2%. Additionally, we experienced the warmest January of the last 71 years, which boosted our HPC and overall sales and penalized our pharma growth.



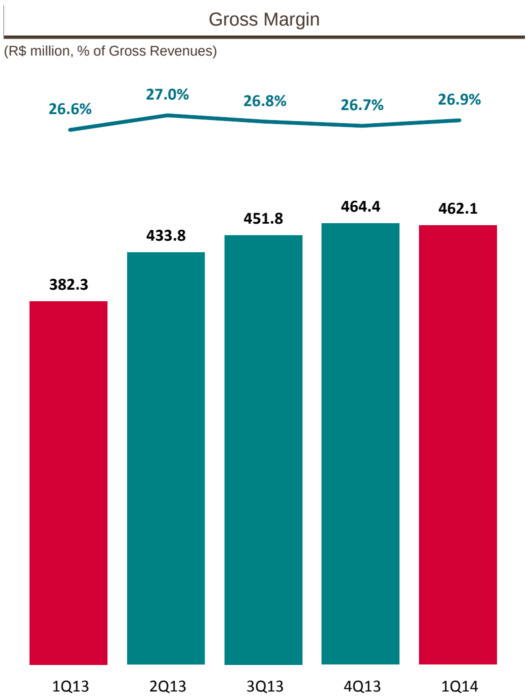


As a result, HPC was the main highlight of the quarter by growing 23.9%, which amounted to an increase in the sales mix of 1.0 percentage point. The absence of new relevant launches has penalized the participation of generics in our sales mix when compared to the 1Q13 and maintained it in line with the previous quarters.

GROSS PROFIT

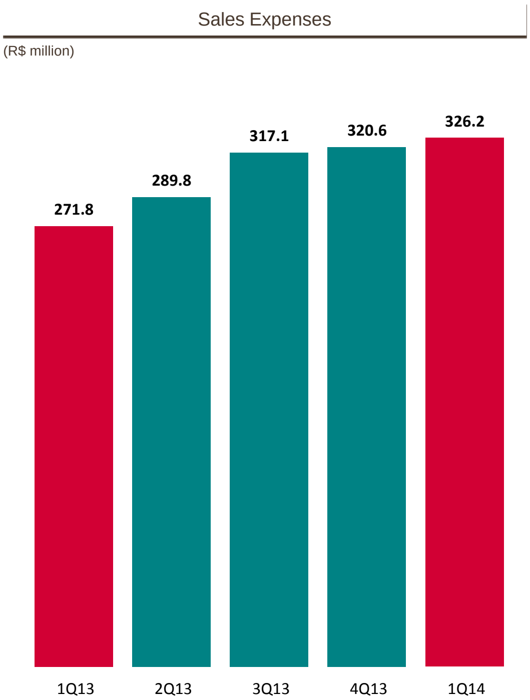
We achieved in the 1Q14 a gross margin of 26.9%, a 0.3 percentage point increase when compared to the previous year. The gross margin gain is primarily explained by a reduction in our tax burden arising from a change in tax regime that occurred in the 4Q13.

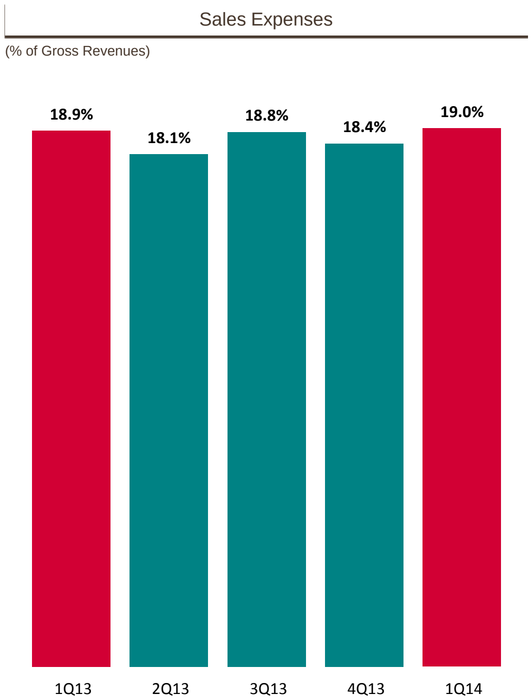
In December 2013, we returned to the tax substitution regime in São Paulo. As a result, we started to revert a gross margin loss of approximately 0.4 percentage point that had been recorded since the 3Q12, when the adoption of a special tax regime aimed at converting accumulated tax credit in excess of R$ 100 million into cash ended up increasing our tax burden. In the 1Q14, the recovery amounted to approximately 0.2 percentage point. We estimate that our gross margins will be fully recovered in the 2Q14 upon the full rotation of our inventories.



SALES EXPENSES

Sales expenses totaled R$ 326.2 million in the 1Q14, amounting to 19.0% of gross revenues.



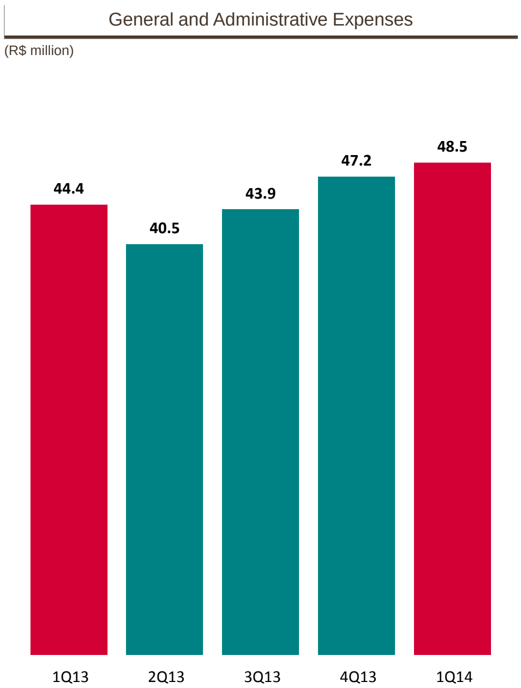


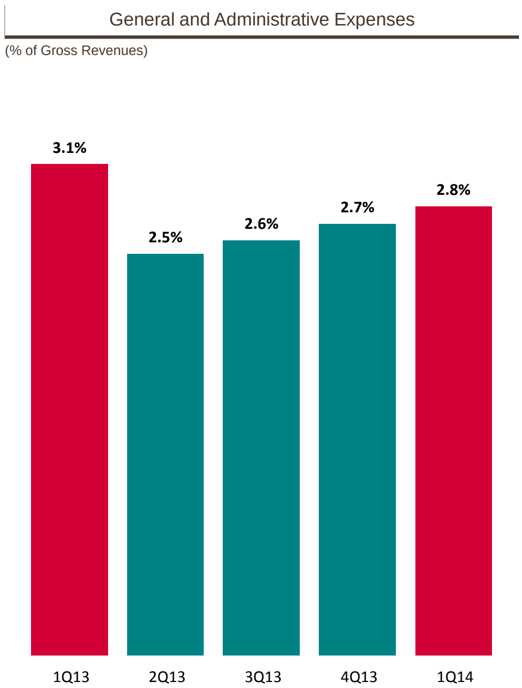
We experienced inflationary pressures of approximately 0.1 percentage point both on rentals and on labor, which were partially offset by a slower new store opening pace, which reduced the pressure from new stores by 0.1 percentage point. It is important to highlight that our mature store growth in the quarter exceeded inflation by approximately 1.4 percentage point, which had a significant impact in mitigating further inflationary pressures on sales expenses.

Finally, we opened only 18 new stores in the 1Q14 versus a total of 36 stores in the 1Q13, since 24 stores acquired in Goiás were opened in that quarter. This led to a dilution of 0.1 percentage point in the pre-operational expenses when compared to the same period of 2013 that is expected to be reverted during the year as our growth normalizes.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to R$ 48.5 million in the 1Q14, equivalent to 2.8% of gross revenues, a 0.3 percentage point dilution when compared to the previous year.

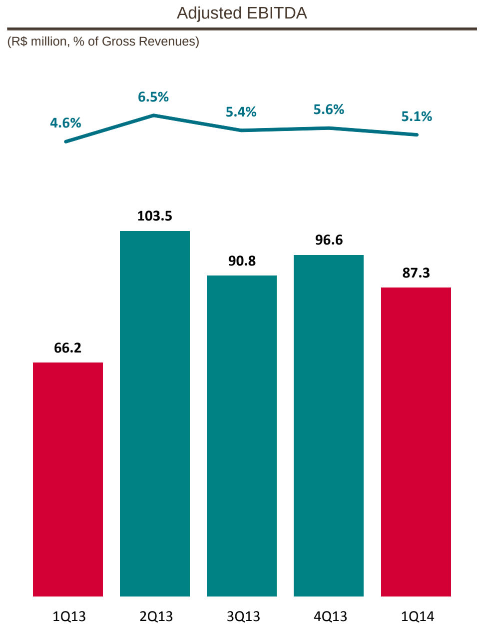




This expense dilution reflects the operating leverage achieved through the growth of our operations, which have been intensified since the formation of Raia Drogasil in the 4Q11, as our store portfolio increased by 27.1% while general and administrative expenses have remained constant in real terms due to back-office synergies achieved in our integration.

EBITDA

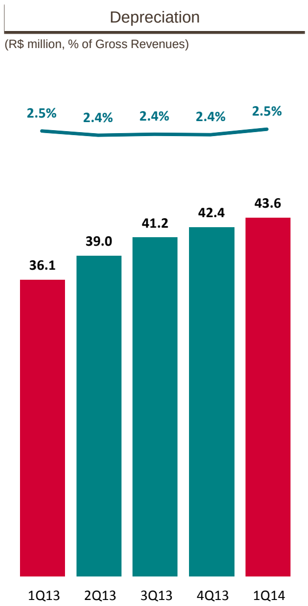
We recorded an EBITDA of R$ 87.3 million in the 1Q14, a 31.9% increase and a margin increase of 0.5 percentage point. The 0.1 percentage point increase in selling expenses was totally offset by a 0.3 percentage point increase in gross margins and by a 0.3 percentage point dilution in general and administrative expenses.

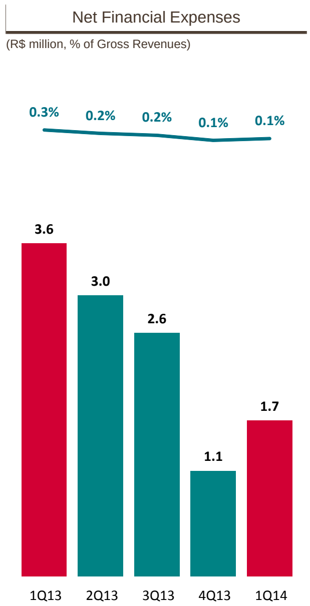


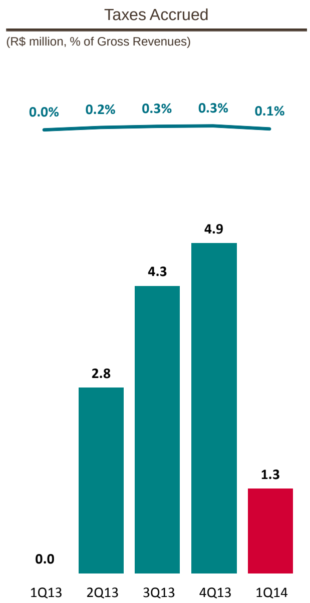
New stores opened in the year, as well as those that were already in the opening process, reduced the EBITDA by R$ 6.7 million in the 1Q14. Therefore, if we considered only the 968 stores in operation since the end of 2013 and the full absorption of logistics as well as of general and administrative expenses by such stores, our adjusted EBITDA would have totaled R$ 94.0 million, equivalent to an EBITDA margin of 5.5% over the respective gross revenues.

It is important to highlight that the EBITDA margin of the first quarter is not comparable with any other quarter, since the effects of vacation in January and of a shorter February penalizes our sales and our expense absorption.

DEPRECIATION, NET FINANCIAL EXPENSES AND INCOME TAXES







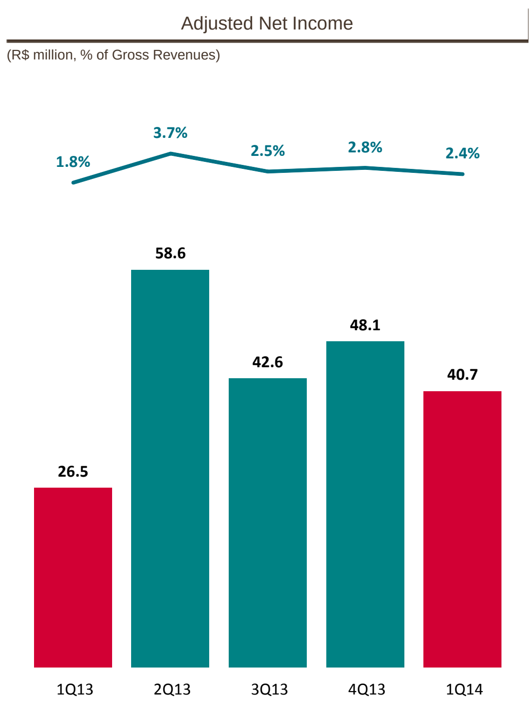
Depreciation expenses totaled R$ 43.6 million in the 1Q14, equivalent to 2.5% of gross revenues, in line with the same period of the previous year.

We recorded a reduction in net financial expenses of 0.2 percentage point due to a reduction in the quarter´s average net debt of approximately R$ 32.9 million (adjusted to reflect R$ 34.5 million of receivables discounted in the 1Q13) when compared to the same period of the previous year.

Although the tax shield from the goodwill amortization amounted R$ 10.7 million in the quarter compared to R$ 8.4 million in the 1Q13, the tax accrued was 0.1 percentage point higher, thus reflecting the improvement in our profitability when compared to the previous year.

ADJUSTED NET INCOME

In the 1Q14 we recorded an adjusted net income of R$ 40.7 million, a net margin of 2.4% and an increase of 53.6% over the 1Q13. Our lower financial expenses (0.2 percentage point) and the increase in our EBITDA margin (0.5 percentage point) have contributed to the improvement in our net margin.



Finally, our reported net income (after non-recurring expenses and not including the tax shield from goodwill amortization) increased 104.0% over the previous year.

NON-RECURRING EXPENSES

We incurred a total of R$ 1.4 million in non-recurring expenses in the quarter.

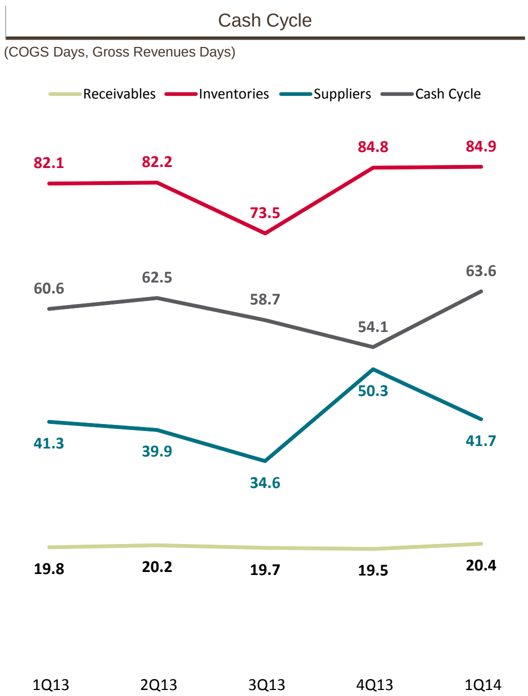
As we recovered Farmácia Popular licenses for all previously licensed Droga Raia stores and ceased to grant consumer subsidies and as we concluded our store portfolio optimization program as well as our management changes and the expenses arising from those initiatives, we achieved a significant reduction when compared to the level recorded in 2013, according to the table below:

Adjustments *(R$ million)*	**1Q13**	**2Q13**	**3Q13**	**4Q13**	**1Q14**
Integration Expenses	**(10.2)**	**(8.1)**	**(12.3)**	**(17.5)**	**(1.4)**
Legal and Accounting	(1.6)	(0.8)	(0.5)	(0.2)	0.0
Consulting	(0.7)	(1.9)	(0.7)	(3.7)	(0.7)
Store and Raia Office Closures	(2.2)	(1.6)	(4.4)	(7.3)	0.0
Farmácia Popular Program	(5.5)	(3.7)	(2.2)	(1.8)	0.0
Severance	(0.1)	(0.0)	(4.5)	(4.4)	0.0
System Integration	0.0	0.0	0.0	0.0	(0.6)
Expenses from Previous Years	**4.5**	**0.0**	**(7.8)**	**3.0**	**0.0**
Losses (Gains) from Previous Years	4.5	0.0	(7.8)	3.0	0.0
Total	**(5.7)**	**(5.7)**	**(20.2)**	**(14.5)**	**(1.4)**

In the 1Q14 we recorded R$ 0.7 million in consulting expenses related to the PMO (project management office) of our integration and R$ 0.6 million in various systems integration expenses related to the full roll-out of our corporate systems, that was concluded in February 28th, 2014.

We expect to maintain a low level of non-recurring expenses in the remaining quarters of 2014 as we plan to conclude the unification of our store IT platform by year-end.

CASH CYCLE



We ended the 1Q14 with an increase of 3.0 days when compared to the same period of the previous year. It is important to highlight that in the 1Q13 we discounted receivables to fulfill short-term financing needs, which artificially reduced our days of receivables by 2.2 days. Additionally, the return to the tax substitution regime in December, 2013 increased inventories by 4.5 days, due to the required payment of taxes on inventories.

Therefore, on a comparable basis, we recorded a reduction of 3.6 days when compared to 2013, reflecting efficiency gains in our inventory management.

CASH FLOW

In the 1Q14, we generated a negative free cash flow of R$ 119.0 million versus a negative R$ 83.0 million in the 1Q13. It is important to highlight that the first quarter always brings an unfavorable cash cycle seasonality, while the fourth quarter has the most favorable seasonality of the year, therefore resulting every year in a big cash outlay in the quarter.

Cash Flow *(R$ million)*	**1Q14**	**1Q13**
Adjusted EBIT	**43.7**	**30.1**
Non-Recurring Expenses	(1.4)	(5.7)
Income Tax (34%)	(14.4)	(8.3)
Taxshield from Goodwill Amortization	10.7	3.6
Depreciation	43.6	36.1
Others	(6.5)	(0.6)
Resources from Operations	**75.8**	**55.1**
Cash Cycle*	(129.1)	(55.4)
Discounted Receivables	-	(34.5)
Other Assets (Liabilities)	(13.2)	3.7
Operating Cash Flow	**(66.5)**	**(31.0)**
Investments	**(52.5)**	**(51.9)**
Free Cash Flow	**(119.0)**	**(83.0)**
Interest on Equity	(0.4)	0.0
Net Financial Expenses	(1.7)	(3.6)
Income Tax (Tax benefit over financial expenses and interest on equity)	3.2	2.4
Total Cash Flow	**(117.8)**	**(84.2)**

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

** Does not include financing cash flow

*** Net debt of R$ 25.2 million at the end of the 4Q12 and of R$ 109.4 million on the 1Q13, considering as debt the R$ 34.5 million of the receivables discounted

Resources from operations amounted to R$ 75.8 million, equivalent to 4.4% of our gross revenues, while working capital employed totaled R$ 142.3 million, resulting in a negative operating cash flow of R$ 66.5 million in the period.

Fixed asset investments amounted to R$ 52.5 million versus R$ 51.9 million in the same period of 2013, including R$ 35.1 million in new store openings, R$ 7.9 million in existing stores renovation, and R$ 9.5 million in infrastructure.

We employed a total cash flow, including net financial expenses and interest on own equity, of R$ 117.8 million in the 1Q14, versus a cash consumption of R$ 84.2 million recorded in 2013. We booked R$ 1.7 million in net financial expenses and paid R$ 0.4 million in interest on equity, which were offset by the respective tax shield of R$ 3.2 million in the period.

The higher cash consumption in 2014 (both for the Free Cash Flow and for the Total Cash Flow) is due to mainly to a much stronger comp base of the 4Q13 when compared to the one of the 4Q12.

Finally, we accrued R$ 7.7 million in interest on own equity in in the quarter.

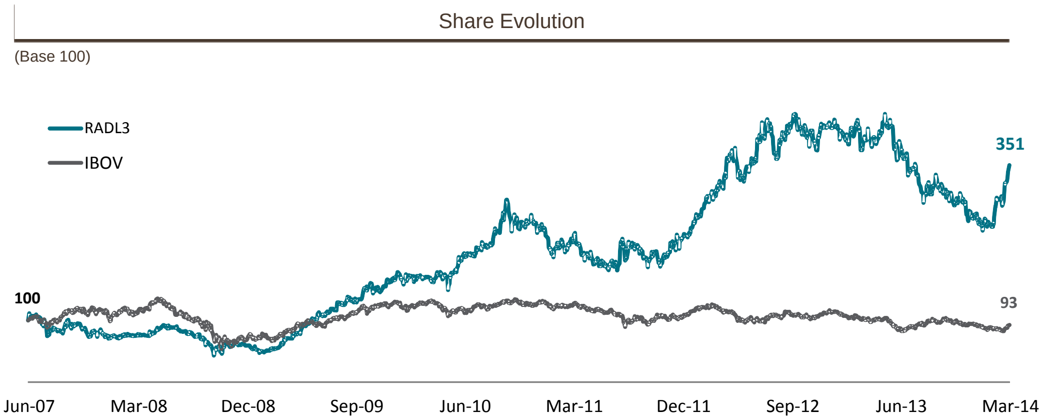
INDEBTEDNESS

At the end of the quarter our net debt amounted to R$ 120.8 million versus R$ 109.4 million in the same period of the previous year (including the receivables discounted in the 1Q13).

Our total gross debt totaled R$ 259.9 million, of which 100% is comprised by BNDES (Brazilian Economic and Social Development Bank) lines. Of our total indebtedness, 62.4% is long-term and 37.6% relates to the short-term parcels of our long-term debt. We ended the quarter with a total cash position (cash and marketable securities) of R$ 139.1 million.

CAPITAL MARKETS

Considering our share price on March 31st of R$ 19.63, we have posted a return of 32.8% in the year, 34.9 percentage points above the IBOVESPA, that was down by 2.1% over the same period.



In the 1Q14, our average daily trading volume was of R$ 24.8 million.

Since the IPO of Drogasil, we achieved a cumulative increase of 250.5% when compared to a negative return of 7.3% of the IBOVESPA over the same period, a compound annual return of 20.1% in the period.

Considering the IPO of Raia in December of 2010, the cumulative return in the period amounted to 87.4% when compared to a decrease of 25.8% by the IBOVESPA, a compounded annual return of 21.0%. These figures do not include dividends and interest on own capital paid over the period.

Adjusted Income Statement *(R$ thousand)*	1Q13	1Q14
Gross Revenues	**1,438,405**	**1,718,910**
Taxes, Discounts and Returns	(49,963)	(60,216)
Net Revenues	**1,388,441**	**1,658,694**
Cost of Goods Sold	(1,006,102)	(1,196,585)
Gross Profit	**382,340**	**462,109**
Operational (Expenses) Revenues		
Sales	(271,761)	(326,250)
General and Administrative	(44,414)	(48,536)
Other Operational Expenses, Net		
Operational Expenses	**(316,175)**	**(374,785)**
EBITDA	**66,165**	**87,323**
Depreciation and Amortization	(36,065)	(43,644)
Operational Earnings before Financial Results	**30,100**	**43,679**
Financial Expenses	(5,625)	(6,562)
Financial Revenues	2,010	4,870
Financial Expenses/Revenues	**(3,614)**	**(1,692)**
Earnings before Income Tax and Social Charges	**26,486**	**41,988**
Income Tax and Social Charges	0	(1,267)
Net Income	**26,486**	**40,720**

Income Statement	1Q13	1Q14
(R$ thousand)		
Gross Revenues	**1,438,405**	**1,718,910**
Taxes, Discounts and Returns	(49,963)	(60,216)
Net Revenues	**1,388,442**	**1,658,694**
Cost of Goods Sold	(1,007,501)	(1,196,585)
Gross Profit	**380,941**	**462,109**
Operational (Expenses) Revenues		
Sales	(266,660)	(326,250)
General and Administrative	(43,652)	(48,536)
Other Operational Expenses, Net	(10,163)	(1,350)
Operational Expenses	**(320,475)**	**(376,136)**
EBITDA	**60,466**	**85,973**
Depreciation and Amortization	(36,065)	(43,644)
Operational Earnings before Financial Results	**24,401**	**42,329**
Financial Expenses	(5,625)	(6,562)
Financial Revenues	2,010	4,870
Financial Expenses/Revenues	**(3,615)**	**(1,692)**
Earnings before Income Tax and Social Charges	**20,786**	**40,637**
Income Tax and Social Charges	(6,507)	(11,506)
Net Income	**14,279**	**29,131**

Assets	**1Q13**	**1T14**
(R$ thousand)		
Current Assets		
Cash and Cash Equivalents	127,007	139,143
Accounts Receivable	313,176	385,242
Inventories	907,468	1,116,979
Taxes Receivable	82,370	34,191
Other Accounts Receivable	138,885	121,859
Following Fiscal Year Expenses	12,578	16,574
	1,581,484	1,813,988
Non-Current Assets		
Deposit in Court	10,782	10,992
Taxes Receivable	10,223	12,552
Other Credits	1,146	872
Property, Plant and Equipment	475,099	554,050
Intangible	1,164,348	1,140,776
	1,661,599	1,719,243
ASSETS	3,243,082	3,533,231

Liabilities and Shareholder's Equity	**1Q13**	**1Q14**
(R$ thousand)		
Current		
Suppliers	456,464	548,706
Loans and Financing	61,551	97,601
Salaries and Social Charges Payable	93,267	127,748
Taxes Payable	36,772	52,800
Dividend and Interest on Equity	8,378	15,725
Provision for Lawsuits	4,396	4,835
Other Accounts Payable	79,352	61,064
	740,179	908,480
Non-Current Assets		
Loans and Financing	140,386	162,301
Provision for Lawsuits	9,765	9,526
Income Tax and Social Charges deferred	70,542	100,525
Other Accounts Payable	6,673	4,015
	227,365	276,367
Shareholder's Equity		
Common Stock	908,639	908,639
Capital Reserves	1,039,935	1,039,935
Revaluation Reserve	13,057	12,895
Income Reserves	294,720	357,169
Accrued Income	10,949	21,447
Additional Dividend Proposed	8,237	8,298
	2,275,538	2,348,384
LIABILITIES AND SHAREHOLDERS' EQUITY	3,243,082	3,533,231

Cash Flow	1Q13	1Q14
Earnings before Income Tax and Social Charges	**20,786**	**40,637**
Adjustments		
Depreciations and Amortization	36,065	43,644
P,P&E and Intangible Assets residual value	859	1,137
Provisioned Lawsuits	1,218	1,691
Provisioned Inventories Loss	3,197	(2,298)
Allowance for Doubtful Accounts	(519)	(587)
Interest Expenses	4,470	6,300
	66,076	**90,524**
Assets and Liabilities variation		
Accounts Receivable	999	(24,303)
Inventories	62,731	17,940
Other Short Term Assets	6,374	(1,120)
Long Term Assets	5,492	(20,290)
Suppliers	(119,123)	(122,748)
Salaries and Social Charges	370	11,396
Taxes Payable	(2,582)	4,189
Other Liabilities	(7,050)	(6,693)
Rent Payable	1,145	(674)
Cash from Operations	**14,432**	**(51,779)**
Income Tax and Social Charges Paid	(7,733)	(6,903)
Net Cash from (invested) Operational Activities	**6,699**	**(58,682)**
Investment Activities Cash Flow		
P,P&E and Intangible Acquisitions	(51,992)	(52,460)
P,P&E Sale Payments	43	1
Net Cash from Investment Activities	**(51,949)**	**(52,459)**
Financing Activities Cash Flow		
Funding	26,121	37,703
Payments	(16,831)	(23,142)
Interest Paid	(3,996)	(5,785)
Interest on Equity and Dividends Paid	1	(377)
Net Cash from Funding Activities	**5,295**	**8,399**
Cash and Cash Equivalents net increase	**(39,955)**	**(102,742)**
Cash and Cash Equivalents in the beggining of the period	**166,963**	**241,885**
Cash and Cash Equivalents in the end of the period	**127,008**	**139,143**

RaiaDrogasil

1Q14 Results Conference Calls – May 9th, 2014

Portuguese
at 10:00 am (Brasília) / 9:00 am (US ET)

Dial in access:
+55 (11) 2188-0155
Conference ID: RaiaDrogasil

Replay (available 'til 5/16/2014):
+55 (11) 2188-0155

English
at 12:00 pm (Brasília) / 11:00 am (US ET)

Dial in access:
+1 (646) 843-6054
+55 (11) 2188-0155
Conference ID: RaiaDrogasil

Replay (available 'til 5/16/2014):
+55 (11) 2188-0155

Live broadcast through the internet at: www.raiadrogasil.com.br/ir

For more information, please contact our Investor Relations department.

E-mail: ri@raiadrogasil.com.br