RaiaDrogasil S.A.

People, Health and Well-being

# EARNINGS PRESENTATION:

2Q19


*Taking Close Care of People´s Health and Well-Being during all Times of their Lives*

# DISCLAIMER

This presentation contains statements that are forward-looking within the meaning of Section 27A of the Securities Act of 1933 (the “Securities Act”) and Section 21E of the Exchange Act of 1934. Such forward-looking statements are only predictions and are not guarantees of future performance. Investors are cautioned that any such forward-looking statements are and will be, as the case may be, subject to many risks, uncertainties and factors relating to the operations and business environments of the Company that may cause the actual results of the companies to be materially different from any future results expressed or implied in such forward-looking statements.

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.

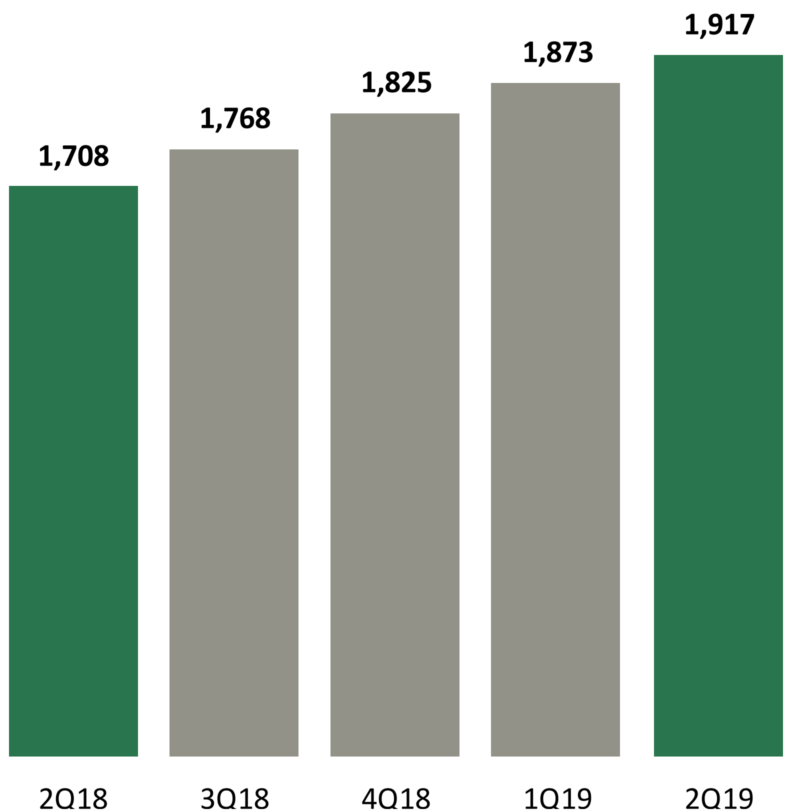
## CONSOLIDATED QUARTERLY HIGHLIGHTS:

- **Drugstores:** 1,917 stores in operation (47 openings and 3 closures)
- **Retail Market Share:** 1.6 percentage point national increase, with 2.0 gain in São Paulo
- **Gross Revenue:** R$ 4.4 billion, a 17.1% growth (4.0% mature-store sales growth)
- **Gross Margin:** 29.0% of gross revenue, a 0.1 percentage point decrease
- **EBITDA:** R$ 363.7 million, an increase of 14.9% and a margin of 8.2%
  R$ 514.9 million, an increase of 16.7% and a margin of 11.6% **(IFRS 16)**
- **Net Income:** R$ 160.5 million, an increase of 13.2% and a 3.6% net margin
  R$ 149.4 million, an increase of 16.1% and a 3.4% net margin **(IFRS 16)**
- **Cash Flow:** R$ 42.9 million free cash flow, R$ 52.9 million of cash consumption

# WE OPENED 47 STORES AND CLOSED THREE IN THE QUARTER.

We have already opened a total of 109 new stores in 2019 and closed 17. At the end of the period, 34.7% of our stores were still maturing.

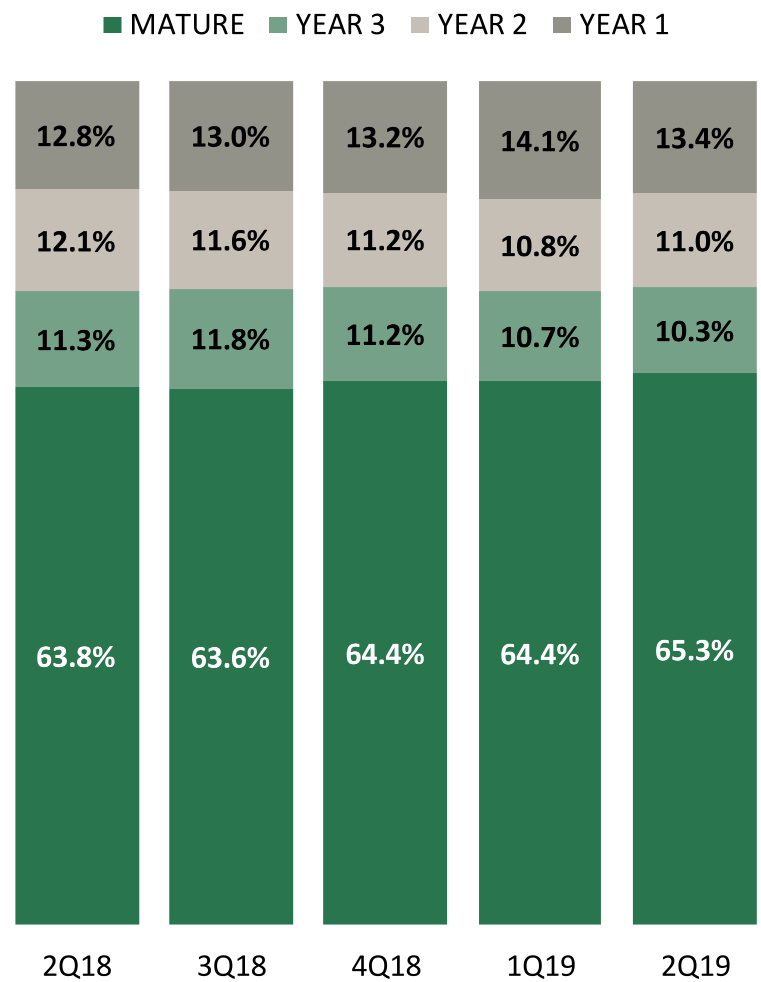
**Store Count***




| | 2Q18 | 3Q18 | 4Q18 | 1Q19 | 2Q19 |
|---|---|---|---|---|---|
| Openings | 62 | 64 | 70 | 62 | 47 |
| Closures | (5) | (4) | (13) | (14) | (3) |

* Includes three 4Bio stores.

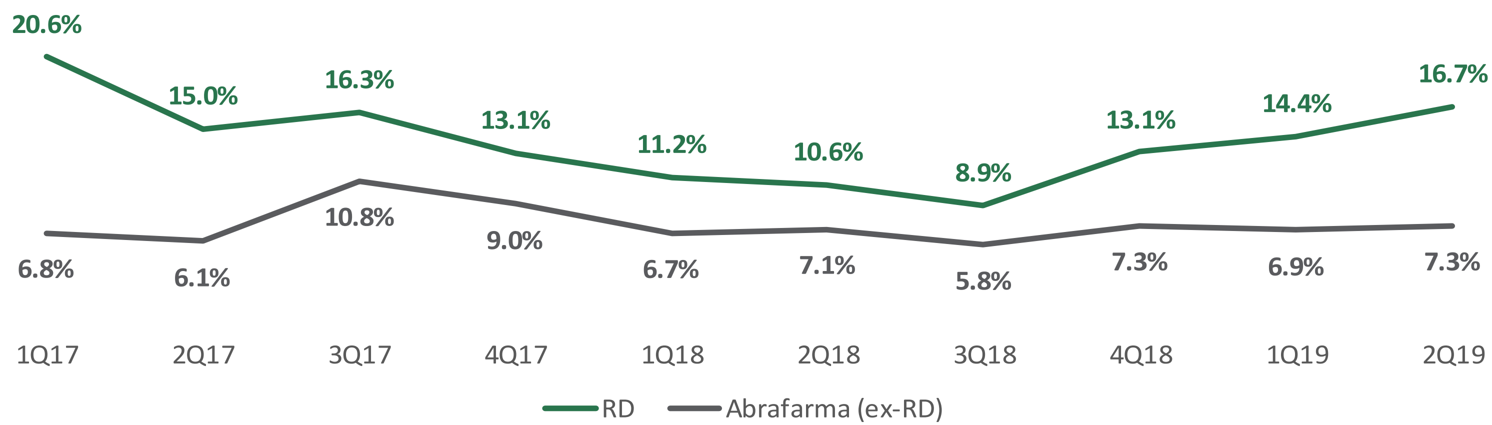
**Age Structure of Store Portfolio**



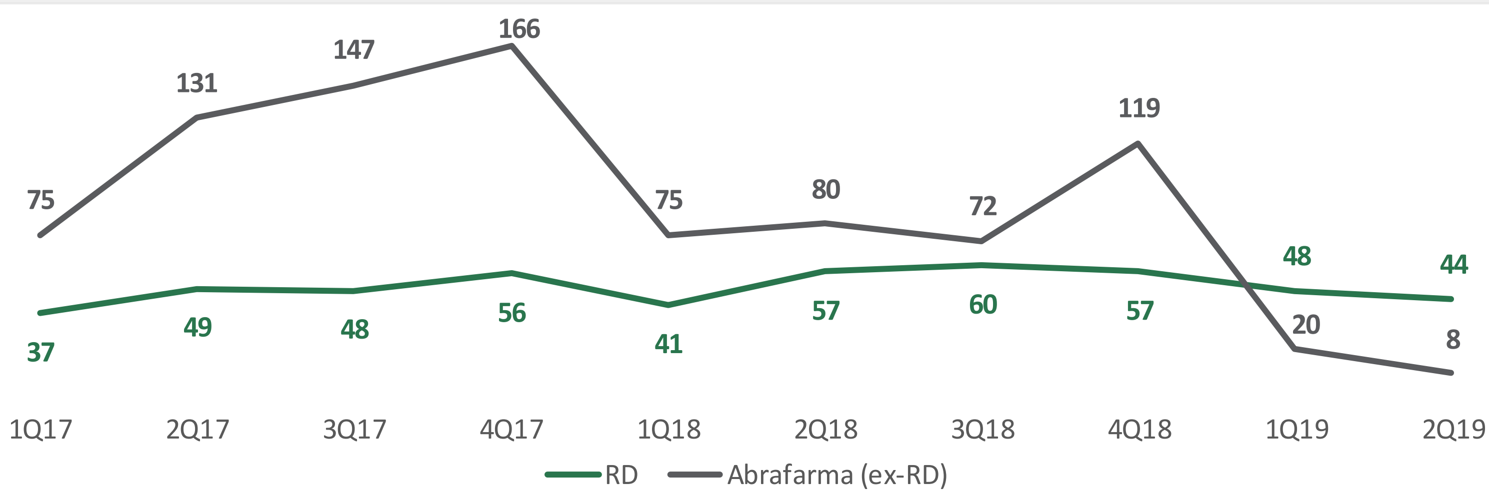
# OUR REVENUE GROWTH AND STORE OPENING PACE HAVE DECOUPLED FROM INDUSTRY PEERS.

The total of net openings in the industry has sharply decelerated, reverting the strong capacity addition cycle verified in recent years in the industry.

**Retail Gross Revenue – Nominal Growth Y/Y (%)**




**Net Store Addition (Q/Q)**

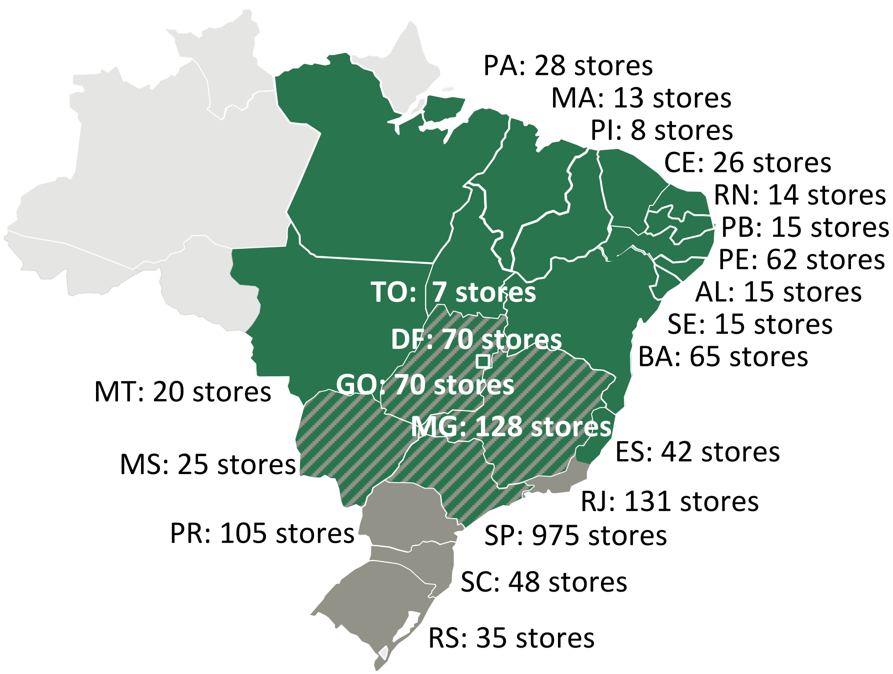



**Note: Data adjusted to exclude the effect of players entering/leaving the database.*

# WE RECORDED A RECORD MARKET SHARE GAIN IN THE QUARTER, WITH SIGNIFICANT INCREASES IN EVERY REGION.

We reached 13.0% of national market share, an increase of 1.6 p.p., the largest share gain ever reported by RD since the merger. Increase of 2.0 p.p. in São Paulo, in spite of the recent decentralization of our expansion.

**Geographic Presence**




Total: 1,917 stores

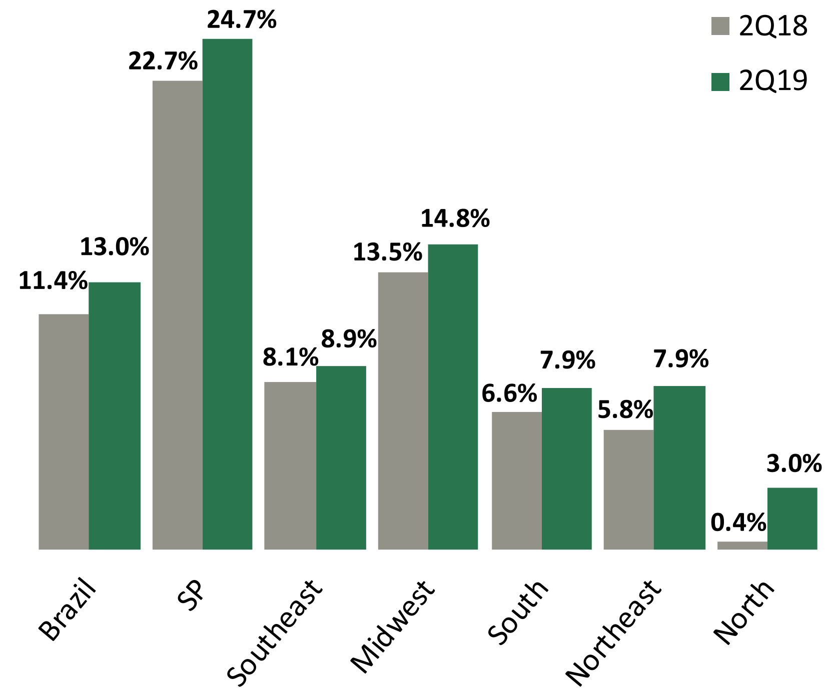
Raia: 846 stores

Drogasil: 1,066 stores

* Farmasil: 2 stores

* 4Bio: 3 stores

**Market Share (Retail)**



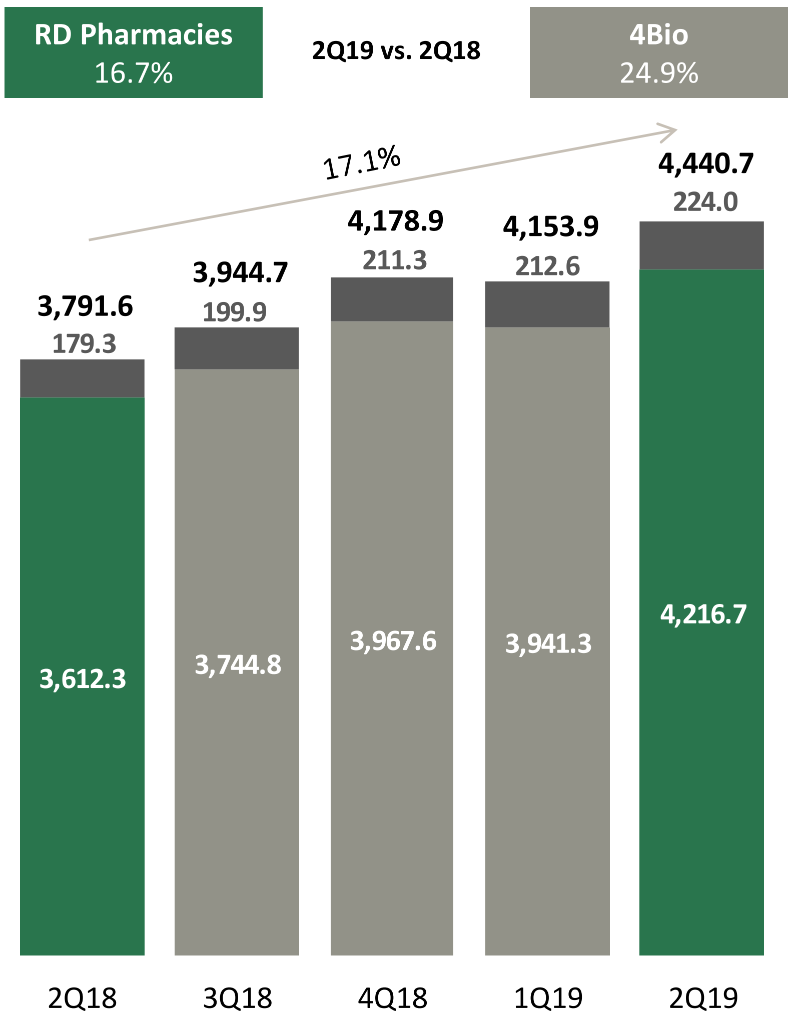

| LTM Openings | 1Q17 | 2Q17 | 3Q17 | 4Q17 | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q19 | 2Q19 |
|---|---|---|---|---|---|---|---|---|---|---|
| São Paulo | 101 | 89 | 93 | 82 | 75 | 79 | 76 | 73 | 76 | 67 |
| Other States | 114 | 122 | 119 | 128 | 137 | 141 | 154 | 167 | 182 | 176 |
| Total | 215 | 211 | 212 | 210 | 212 | 220 | 230 | 240 | 258 | 243 |
| *São Paulo %* | *47.0%* | *42.2%* | *43.9%* | *39.0%* | *35.4%* | *35.9%* | *33.0%* | *30.4%* | *29.5%* | *27.6%* |

Source: IQVIA.

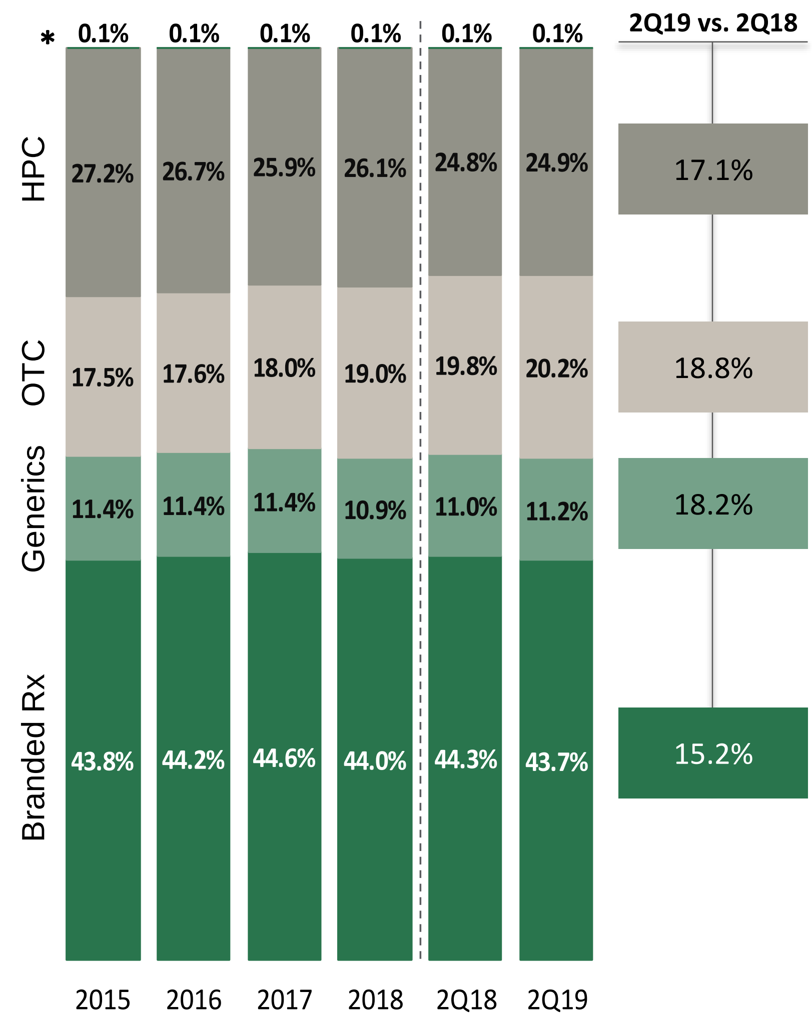
# GROSS REVENUE INCREASED 17.1%, WITH 16.7% FOR RETAIL AND 24.9% FOR 4BIO.

We posted a strong recovery in Generics, which grew 18.2% and gained 0.2 p.p. in the sales mix driven by significant volume growth as a result of our investments in pricing.

**Consolidated Gross Revenue**



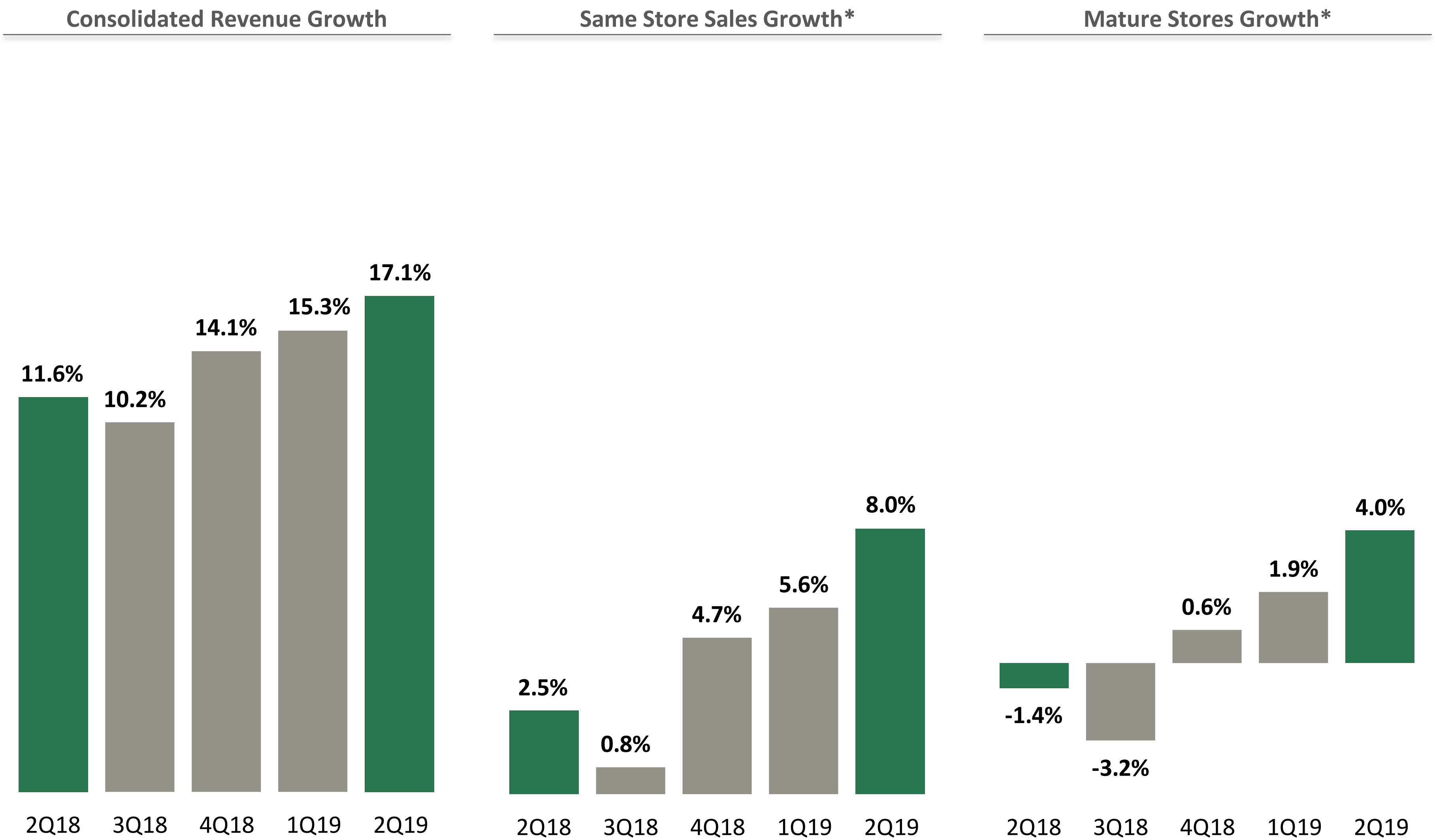

**Retail Sales Mix**




* Services.

## SAME-STORE SALES GROWTH OF 8.0%, WITH 4.0% FOR MATURE STORES.

Mature stores' growth accelerated to 4.0%, posting 0.6% of real growth in the period. We had a 0.6% positive impact from easier comps in 2Q18 due to the World Cup and a negative calendar effect of 0.1%.

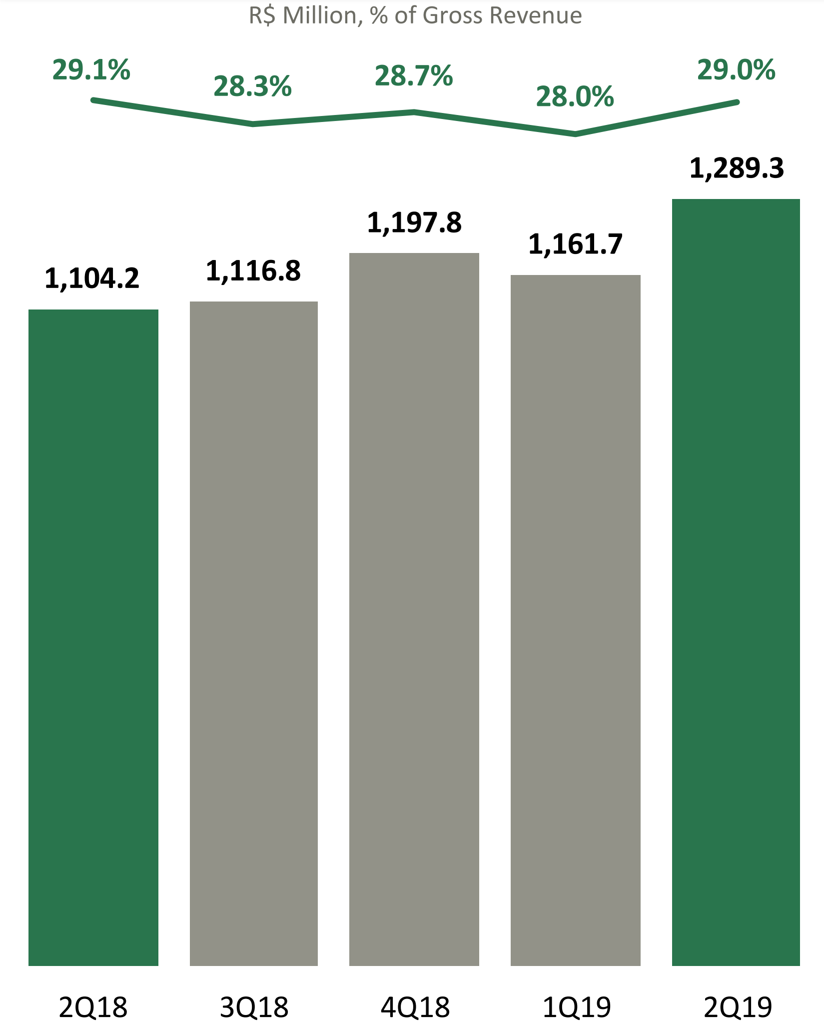



* RD Pharmacies only.

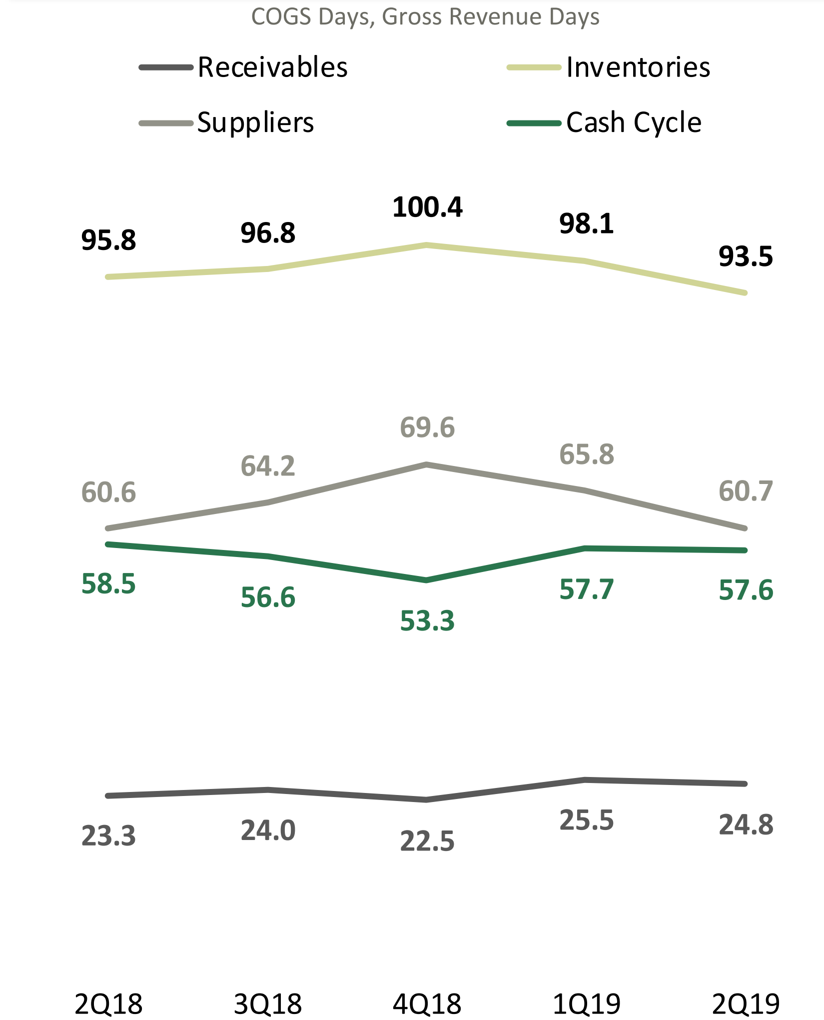
# SOLID GROSS MARGIN PERFORMANCE, DRIVEN BY INFLATIONARY GAINS ON INVENTORIES, AND CASH CYCLE REDUCTION.

Gross margin pressure of 0.1 p.p. Flat retail margin driven by inflationary gains on inventories, which fully offset commercial (0.3 p.p.) and NPV adjustment (0.1 p.p.). 4Bio pressured 0.1 p.p.

**Gross Profit**



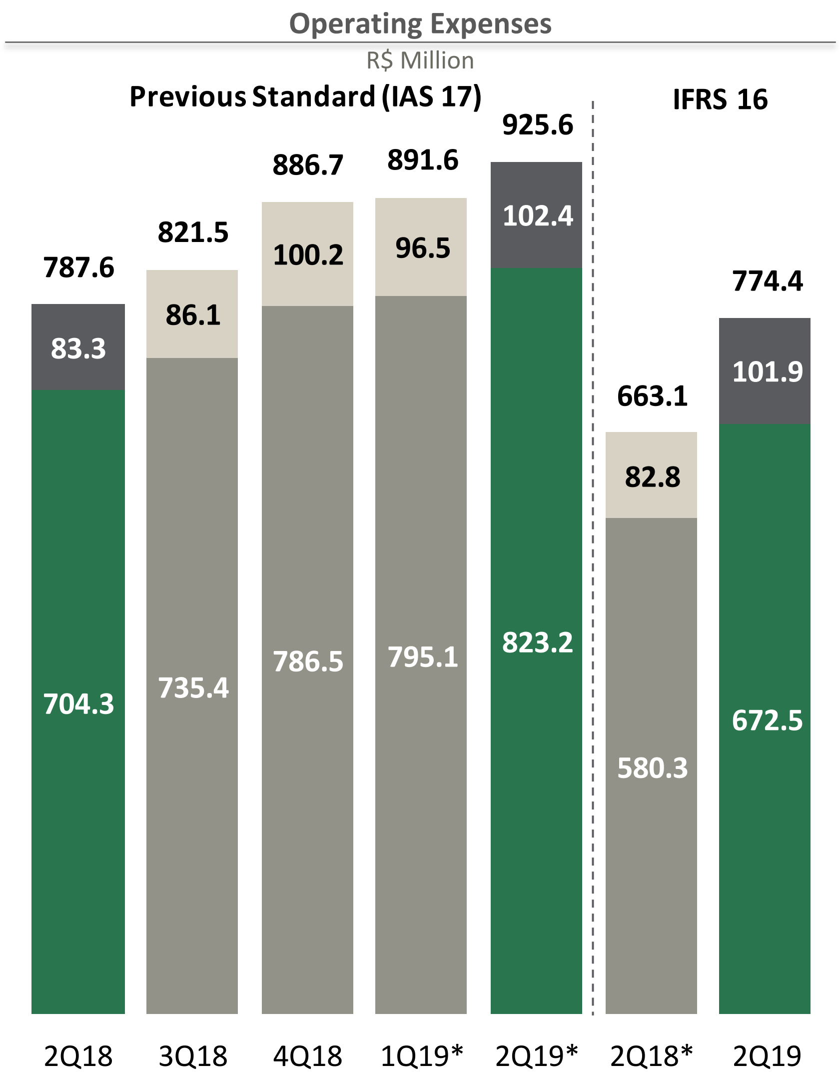

**Cash Cycle***

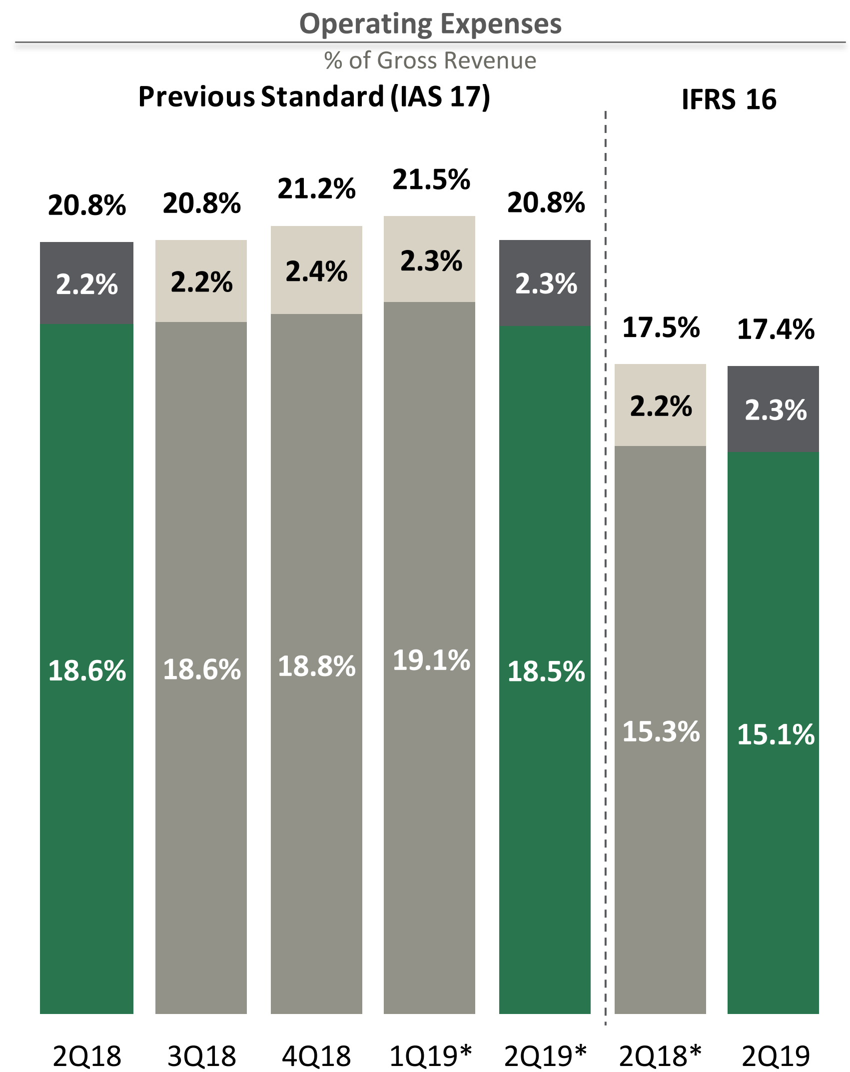



* Adjusted for discounted receivables.

# SG&A EXPENSES IN LINE WITH 2Q18.

Rentals and logistics pressured by 0.2 p.p each while personnel, acquiring fees, pre-operating, 4Bio and other expenses recorded a dilution of 0.1 p.p each. G&A pressured by 0.1 p.p. due to higher consulting expenses.




*Pro-forma.

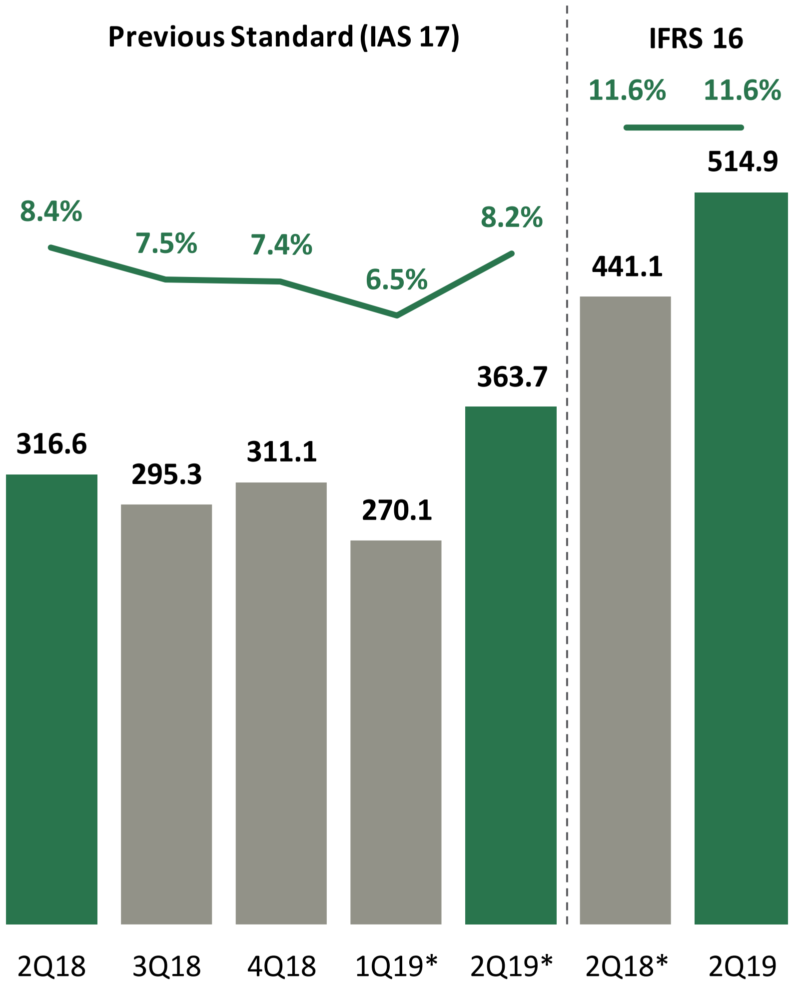
Selling Expenses   General & Administrative Expenses

# EBITDA TOTALED R$ 363.7 MM, WITH AN ANNUAL GROWTH OF 14.9%.

EBITDA margin of 8.2%, a pressure of 0.2 p.p when compared to 2Q18. New stores opened in the year penalized the EBITDA by R$ 5.8 MM.

**Adjusted EBITDA**

R$ Million, % of Gross Revenue




*Pro-forma. ** 1,825 stores by the end of the 4Q18 less 17 stores closed.

**1,808** stores operating since 2018:**
*(performance in the 2Q19)*

- R$ 4.3 billion of Gross Revenue
- R$ 369.5 million of EBITDA
- EBITDA margin of 8.5%

**RD Pharmacies**

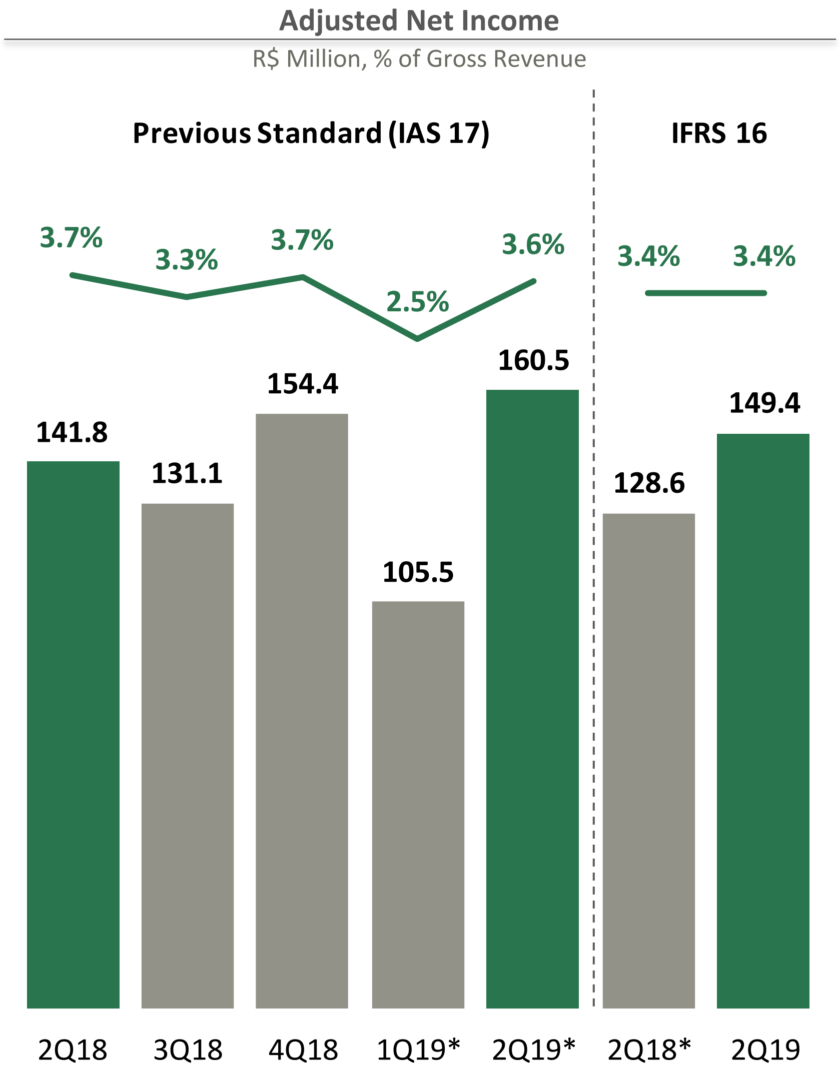
- R$ 358.4 million of EBITDA
- EBITDA margin of 8.5%

**4Bio**

- R$ 5.3 million of EBITDA
- EBITDA margin of 2.4%

# NET INCOME TOTALED R$ 160.5 MILLION IN THE 2Q19, AN INCREASE OF 13.2%.

Net margin of 3.6%, a pressure of 0.1 percentage point versus the 2Q18.




*Pro forma.

# FREE CASH FLOW GENERATION OF R$ 42.9 MILLION.

Total cash consumption of R$ 52.9 million versus 154.1 million in the 2Q18.

| | IAS 17 | | IFRS 16 | |
|---|---|---|---|---|
| **Cash Flow** | **2Q19** | **2Q18** | **2Q19** | **2Q18** |
| *(R$ million)* | | | | |
| **Adjusted EBIT** | **239.2** | **216.4** | **249.2** | **221.5** |
| NPV Adjustment | (10.7) | (12.6) | (10.7) | (12.6) |
| Non-Recurring Expenses | (13.9) | (6.2) | (13.9) | (6.2) |
| Income Tax (34%) | (73.0) | (67.2) | (76.4) | (68.9) |
| Depreciation | 124.4 | 100.3 | 265.7 | 219.6 |
| Rental Expenses | - | - | (151.9) | (124.5) |
| Others | (2.3) | (0.2) | 1.8 | 1.6 |
| **Resources from Operations** | **263.8** | **230.5** | **263.8** | **230.5** |
| Cash Cycle* | (133.5) | (169.9) | (133.5) | (169.9) |
| Other Assets (Liabilities)** | 71.2 | 37.8 | 71.2 | 37.8 |
| **Operating Cash Flow** | **201.6** | **98.4** | **201.6** | **98.4** |
| **Investments** | **(158.7)** | **(166.1)** | **(158.7)** | **(166.1)** |
| **Free Cash Flow** | **42.9** | **(67.7)** | **42.9** | **(67.7)** |
| Interest on Equity | (92.4) | (87.1) | (92.4) | (87.1) |
| Income Tax Paid over Interest on Equity | (8.5) | (7.1) | (8.5) | (7.1) |
| Net Financial Expenses*** | (19.8) | (14.2) | (19.8) | (14.2) |
| Income Tax (Tax benefit over financial expenses and interest on equity) | 24.9 | 22.0 | 24.9 | 22.0 |
| **Total Cash Flow** | **(52.9)** | **(154.1)** | **(52.9)** | **(154.1)** |

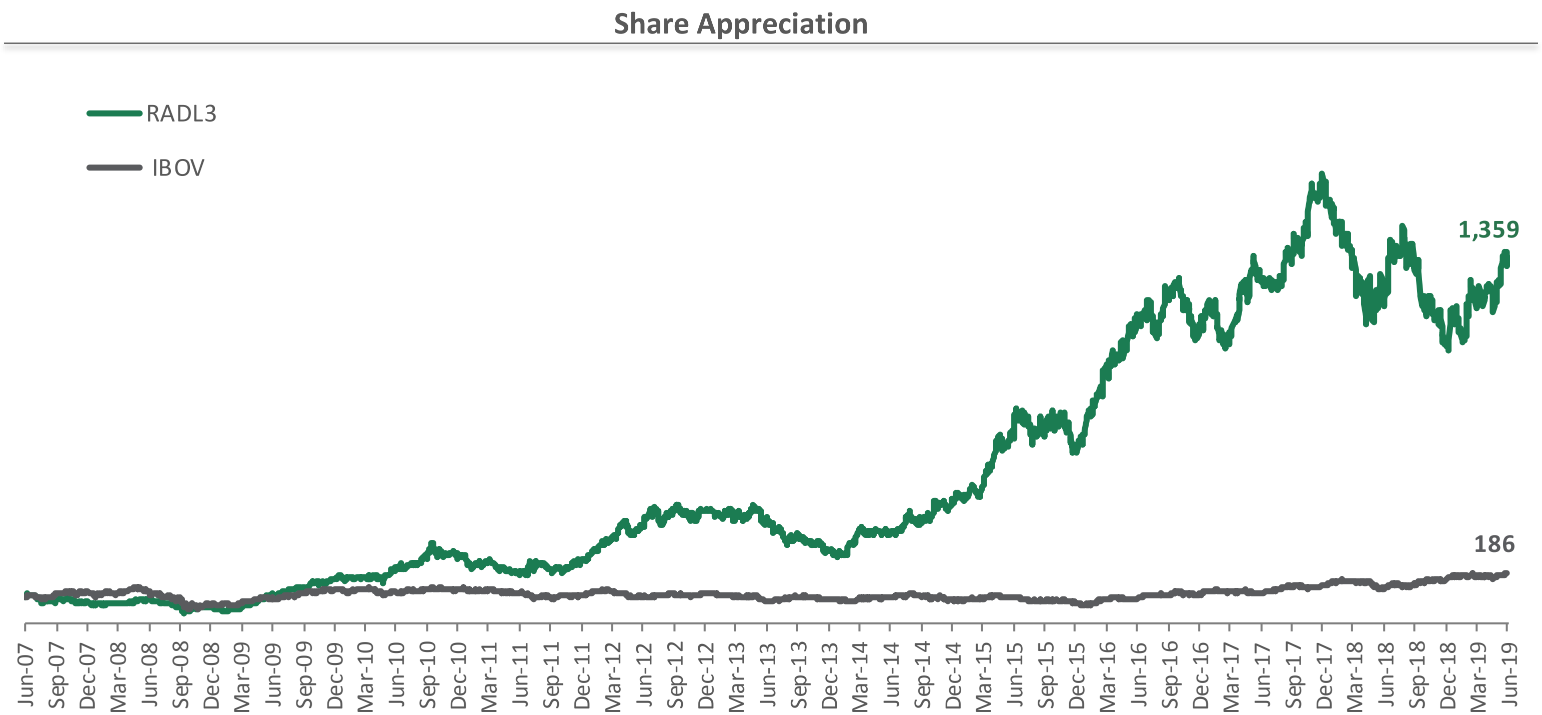
*Includes adjustments for discounted receivables.

**Includes tax shield from goodwill amortization and NPV adjustments.

***Excludes NPV adjustments and Interest over Leases.

# HIGH LONG-TERM SHAREHOLDER RETURNS.

Since our IPO we achieved a cumulative share appreciation of 1,258.9% with an average annual return of 26.2%.




**Performance in 2019**

**RADL3: 33.2%**
**BOVESPA: 14.9%**
**Alpha: 18.3%**
**Average Trading Volume RADL3: R$ 76.9 MM**

# WHAT WE ACCOMPLISHED IN THE 2Q19.

## Solid revenue and record market share growth, with positive momentum:

- Mature-stores performance continues to accelerate faster than our expectations, already delivering real LTM growth;
- Gained a record 1.6 p.p. of national market share, with a 2.0 p.p. increase in SP due to a solid mature-store performance. Strongest market share growth happened in Generics, driven by our new competitive strategy;

## Inflationary gains on inventories and reversion of operating leverage loss led to nearly flat retail margins:

- Flat retail gross margin, driven by an inflationary gain on inventories of 0.4 percentage point which offset the net cost of our pricing investments and NPV adjustment pressure;
- Strong mature store sales growth allowed us to revert the loss of operating leverage observed in recent quarters;
- Significant pressures on rental expenses, driven by the high LTM IGP-M, and in logistics due to the opening of 3 new DCs and the expansion in the North, which were offset by gains in productivity (labor, acquiring fees and new store openings).

## We remain very optimistic and focused on long-term value creation:

- We expect the strong momentum to continue given the bold reversion in the industry's store opening cycle, the robustness of our expansion, which has sustained marginal IRRs in-line with historical standards, and, the success of our pricing strategy;
- Our Digital strategy is already showing promising results, which will translate into a strong competitive advantage;
- We expect relevant dilutions in freight by relocating the RJ DC, which will ship to 131 stores from the metropolitan region and not from the countryside, and by opening the Ceará DC, which will reduce shipping costs to the North and Northeast;
- Relevant expected savings in utilities, as we migrate up to 1,700 stores to distributed and renewable energy generation, with expected savings around 20% in those stores.

# ACQUISITION AND INTEGRATION OF ONOFRE.

*On July 1st, 2019, we concluded the acquisition of Onofre. On August 1st, 2019, Onofre was legally incorporated. As a result, Onofre's financial statements will be consolidated in July and will be part of RD's statements from August onwards.*

## Integration Strategy:

- Migration of all Onofre's operations to our exiting platform (IT, supply chain, corporate structure, etc.);
- Store portfolio optimization and rebranding of the Onofre stores to Droga Raia or Drogasil;
- Onofre will operate as pure-play digital brand, becoming a price leader with local deliveries on a national level.

## Projected Integration Schedule:

- July 1st: Consummation of the transaction;
- July 7th: Closing of 8 underperforming and/or redundant stores;
- August 1st: General assembly and legal incorporation of Onofre into RD;
- August 1st: Migration of all the 42 remaining physical stores to RD's platform and structure;
- August 1st: Absorption of Onofre's store staff, who were blended into our teams;
- August 1st: Rebranding of 8 stores to Raia or Drogasil (average Capex of ~ R$ 250,000 per store);
- August – October: Closure of selected stores, rebranding of the remaining ones to Droga Raia and Drogasil;
- August – October: Preparation of RD's e-commerce system and logistics to integrate Onofre's;
- October: Migration of Onofre's digital business into RD's e-commerce platform and fulfillment network;
- November: Full shut down of Onofre's sites (DC and fulfillment centers), systems and operation.

# ONOFRE'S ECONOMIC OUTLOOK AND EXPECTED SYNERGIES.

*We expect Onofre to break-even by the end of 2019. Cash consumption from operations and integration will be more than offset by existing assets, resulting in an expected surplus. Integration expenses and P&L of stores and e-commerce before integration will be adjusted by RD.*

## Economic Outlook:

- **EBITDA:** Projection of ~R$ 100 million negative, to be reversed through the integration synergies;
- **Acquisition Price:** No payment was made to the seller;
- **Working Capital:** R$ 124.5 million, including excess cash, with significant release potential;
- **Financial liabilities:** none;
- **Commercial properties**: circa R$ 30 million in market value (company-owned headquarters and stores);
- **Other assets and liabilities**: existing tax assets exceed projected contingencies;
- **Fixed assets:** reallocation from DC, headquarter, fulfillment centers and closed stores will minimize RD's future CAPEX;
- **Arbitration proceeding**: no economic upside or downside, potential payments are fully collateralized by the seller.

## Main Synergies: Increasing store revenue and profitability to RD's standards, leveraging the e-commerce business

- **Revenue Increase**: leveraging the Raia and Drogasil brand awareness, our retail execution and *Univers* contracts;
- **Gross margin expansion**: improvement by leveraging our superior buying terms;
- **Expense dilution**: integration into RD's existing logistics and IT infrastructures, as well as corporate support;
- **E-Commerce** : become a pure-play national player and price leader by leveraging RD national presence, capillarity and scale;
- **Reverse synergies*:** digital marketing, health services, manufacturer services, store signaling solutions, call center and team to absorb.

* Gains that Onofre is expected to generate for RD.

# CAPITAL MARKETS HIGHLIGHTS

## Fourth Issuance of Debentures

- Raised R$ 300 mn in a single tranche emission with an 8-year maturity (amortization in the last two years)
- Average cost of 106.99% of the CDI

## 2019 Earnings

- **3Q:** October 29th, 2019

## Scheduled Investor Conferences

- August 13th: **20º Conferência Anual,** Santander (São Paulo)
- September 9th:and 10th: **22nd Latin America Conference**, Morgan Stanley (London)
- November 19th and 20th: **9th Annual CEO Conference,** Bradesco (New York)