

EARNINGS RELEASE - 2Q16

São Paulo, July 28th, 2016. Raia Drogasil S.A. (BM&FBovespa: RADL3) announces today its results for the 2nd quarter of 2016 (2Q16). The quarterly information of Raia Drogasil S.A. was prepared in accordance to the Accounting Pronouncement 21 – Intermediate Statements as well as the standards issued by the Brazilian Securities and Exchange Commission – CVM and in accordance with international financial reporting standards (IFRS) and was reviewed by our independent auditors in accordance with Brazilian intermediate statements standards of auditing. Such information was prepared in thousand Reais and all growth rates relate to the same period of 2015.

On October 1st, 2015 we concluded the acquisition of 55% of 4Bio. Since the 4Q15, we have reported our earnings on a consolidated basis. In order to assure the historical comparability, the 2015 figures are combined pro-forma.

CONSOLIDATED HIGHLIGHTS:

- **Drugstores:** 1,330 stores in operation (58 openings and two closures)
- **Gross Revenue:** R\$ 2.9 billion, 26.1% of growth (14.5% of 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 in 2016 and from 195 to 200 in 2017

RADL3: R\$ 62.16/share

Number of Shares: 330,386,000

Market Cap: R\$ 20,537 million

Closing: July 27th, 2016

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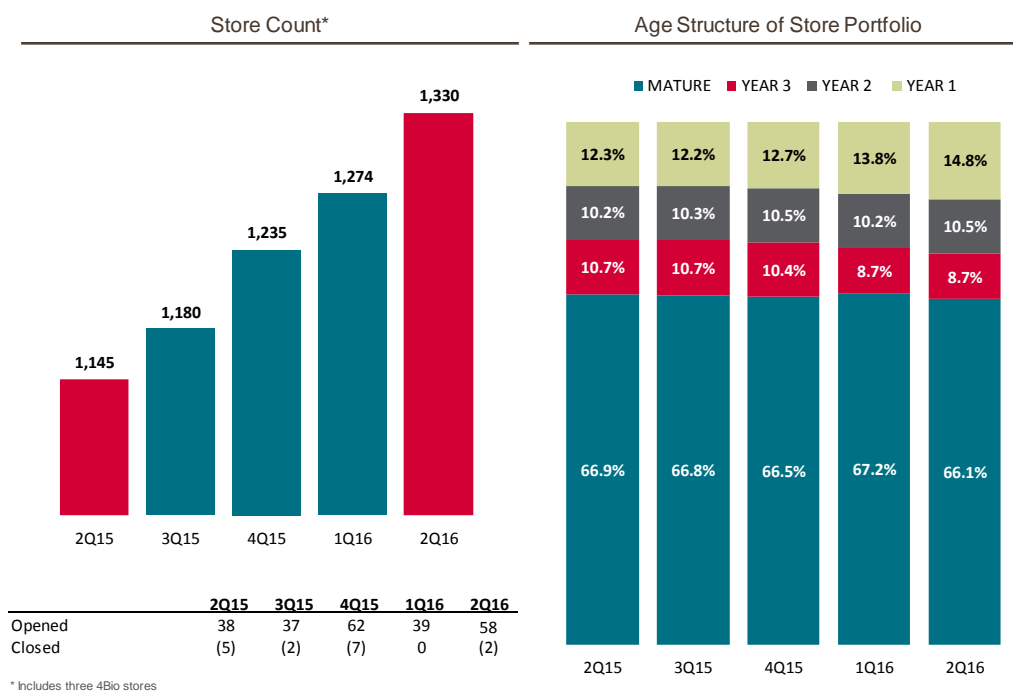
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Summary	2Q15	3Q15	4Q15	1Q16	2Q16
<i>(R\$ thousand)</i>					
# of Stores Raia Drogasil + 4Bio	1,145	1,180	1,235	1,274	1,330
Store Openings	38	37	62	39	58
Store Closures	(5)	(2)	(7)	0	(2)
# of Stores (average)	1.126	1.159	1.206	1.250	1,285
Headcount	25,010	25,529	26,520	26,720	27,767
Pharmacist Count	4,230	4,479	4,698	4,963	5,214
# of Tickets (000)	41,115	42,067	43,908	44,145	46,696
Gross Revenue	2,323,102	2,436,861	2,574,215	2,641,079	2,930,451
Gross Profit	702,775	696,319	740,084	756,940	924,825
% of Gross Revenues	30.3%	28.6%	28.7%	28.7%	31.6%
EBITDA	218,910	182,611	188,120	192,839	304,811
% of Gross Revenues	9.4%	7.5%	7.3%	7.3%	10.4%
Adjusted Net Income	119,346	95,463	94,865	100,829	167,766
% of Gross Revenues	5.1%	3.9%	3.7%	3.8%	5.7%
Net Income	108,647	83,999	78,347	90,131	157,068
% of Gross Revenues	4.7%	3.4%	3.0%	3.4%	5.4%
Free Cash Flow	37,760	68,182	35,613	(161,451)	(1,584)



STORE DEVELOPMENT



We opened 58 new stores in the 2Q16 and 97 new stores year to date, ending the quarter with 1,330 stores in operation, including three 4Bio stores. We have closed two stores in the quarter. Over the last twelve months, we have opened a total of 196 new stores, a relevant acceleration in our store-opening pace. As a result, we are increasing our store opening guidance from 165 to 200 stores in 2016 and from 195 to 200 stores in 2017.

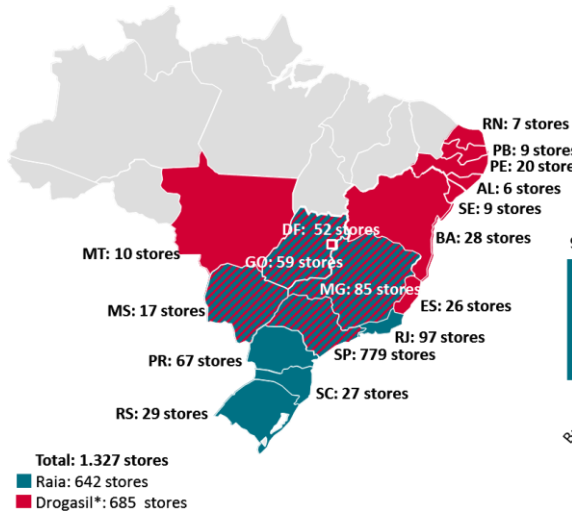
At the end of the period, 33.9% of our stores were still in the process of maturation, and had not yet reached their full potential in terms of revenue and profitability. We ended the quarter with the highest percentage of non-mature stores since the 3Q13 as well as with the highest percentage of first-year stores in the merged Company's history.

Our average comparable national market share including 4Bio reached 11.5% in the quarter, a 1.6 percentage point pro-forma increase when compared to 2015. Our market share figures were adjusted by IMS Health to exclude new informants, so as to preserve the historical comparability. Considering the inclusion of new informants, our national market share totaled 11.1%.

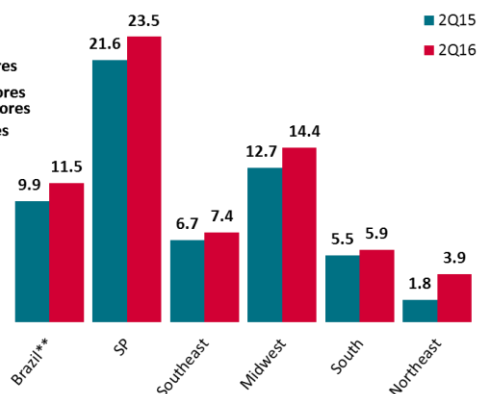
Our market share increased in every region where we operate. The Northeast was our main highlight, where we recorded a market share of 3.9%, a 2.1 percentage point increase driven by our growth in Bahia as well as by the maturation of our operations in five other states where we entered in 2014. We also recorded outstanding performances in São Paulo, where we reached a market share of 23.5%, a 1.9 percentage point increase, and in the Midwest, where our market share increased by 1.7 percentage point, driven in both markets by our organic expansion and by the solid performance of our mature stores. In the remaining states of the Southeast, we gained 0.7 percentage point. Finally, we increased our market share in the Southern region by 0.4 percentage point.



Geographic Presence - Retail



Market Share***



PHARMACEUTICAL MARKET DISTRIBUTION BY REGION (%)

Source: IMS Health

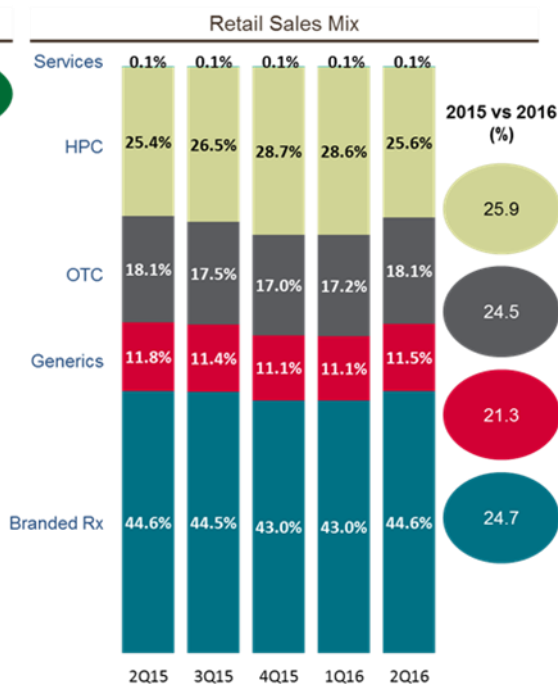
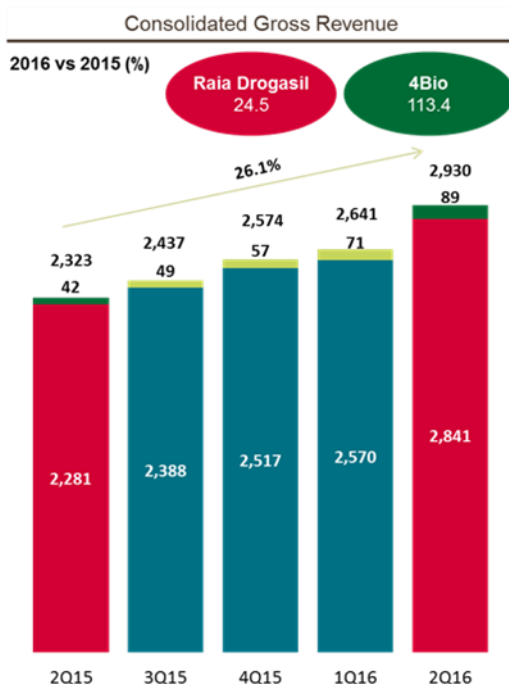
* Includes Farnasil stores

** 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%

Region	Brazil**	SP	Southeast	Midwest	South	Northeast
Market Share (%)	100.0	26.9	24.6	8.9	16.2	19.6

GROSS REVENUES

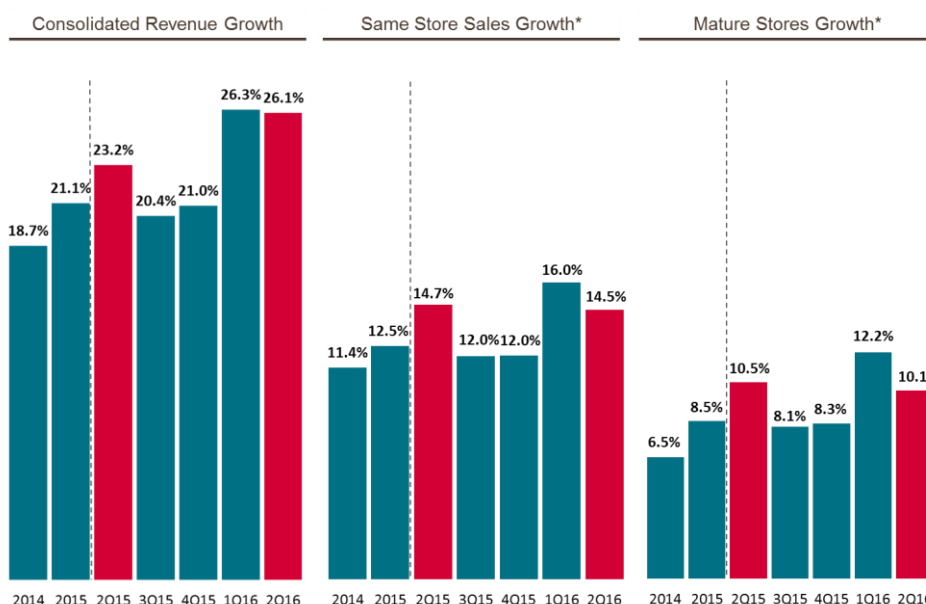




We ended the quarter with consolidated gross revenues of R\$ 2,930.5 million, a 26.1% increase over the previous year. Raia Drogasil recorded a growth of 24.5%, while 4Bio grew by 113.4% in the period.

HPC was the highlight of the quarter, recording a growth of 25.9% and increasing its participation in the sales mix by 0.2 percentage point. Branded Rx and OTC grew 24.7% and 24.5%, respectively, and maintained their participation in the mix. Generics grew by 21.3%, reducing its participation by 0.2 percentage point on the back of a generics price reduction applied in São Paulo during the 1Q16 which passed down to consumers a reduction in sales tax, thus penalizing the category growth without affecting our gross profit.

Same-store sales at Raia Drogasil increased by 14.5% in the quarter, while our mature stores grew by 10.1%. We recorded a positive calendar effect of 0.9% in the quarter.



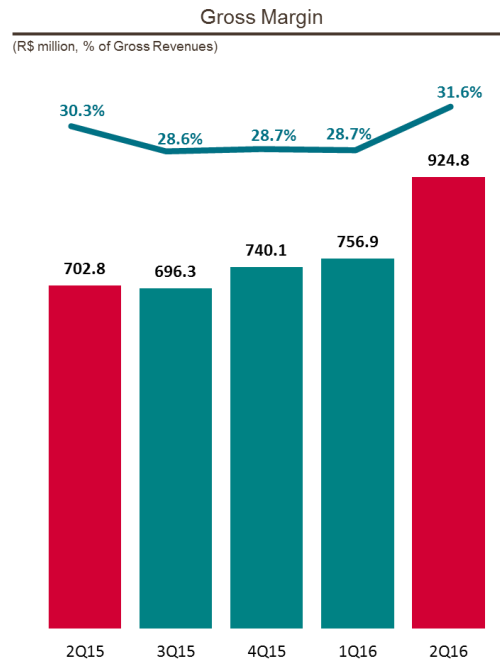
The Brazilian pharmaceutical market recorded a nominal growth of 13.3% (5.7% in units sold) in the last twelve months ended in June, 2016, according to the IMS Health, a testament to the defensive nature of our market.

GROSS PROFIT

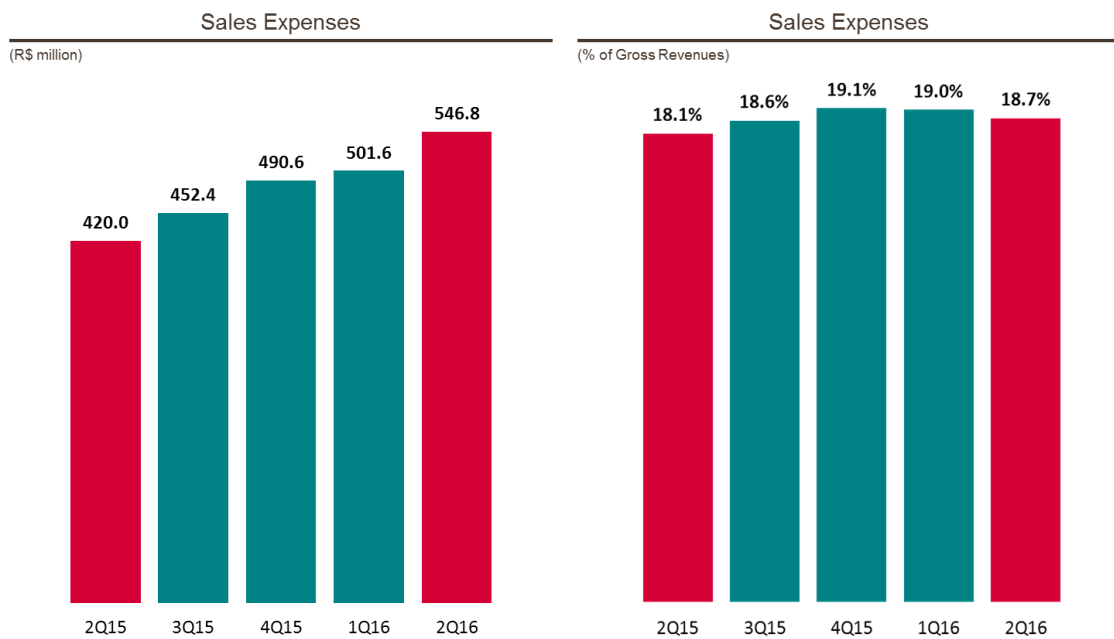
Our gross margin reached 31.6%, a 1.3 percentage point increase versus the 2Q15.

This margin expansion was driven by the inflationary gains in pharmaceuticals arising from the annual price cap increase, which averaged 11.8%, significantly higher than the 6.0% recorded in the 2Q15.

It is important to mention that the high growth recorded by 4Bio caused a negative margin mix effect of 0.2 percentage point in the quarter, since Specialty Drugs have a lower gross margin than Retail.



SALES EXPENSES





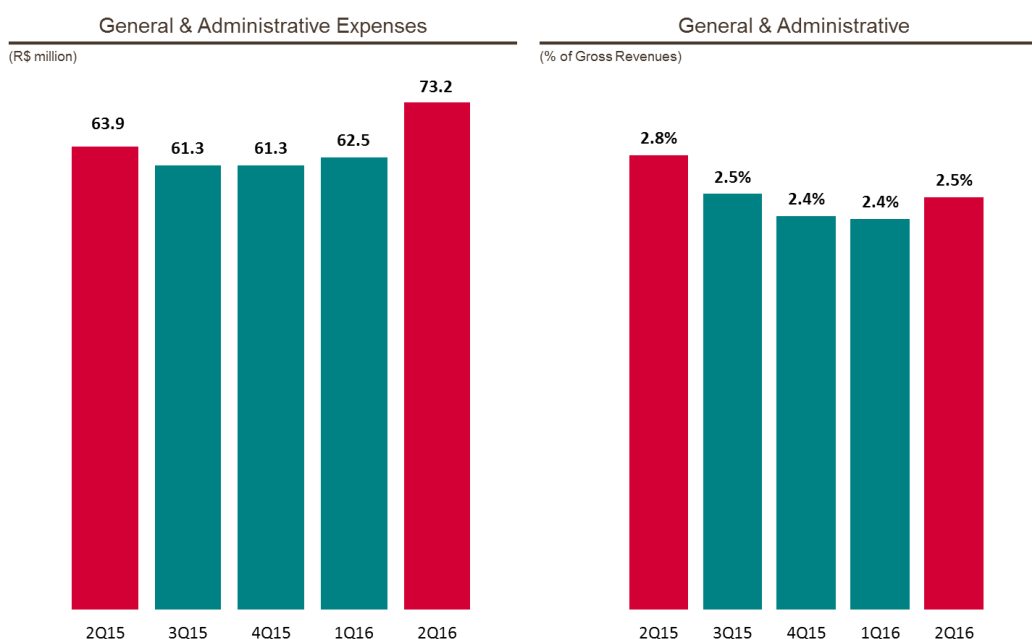
In the 2Q16, sales expenses totaled R\$ 546.8 million, equivalent to 18.7% of gross revenue, a 0.6 percentage point increase over the 2Q15 and a 0.4 dilution versus the 4Q15.

Marketing expenses increased by 0.2 percentage point, while asset write-offs related to store closures went up by 0.2 percentage point (9 defined closings booked in the quarter versus 5 in the 2Q15). Logistics expenses increased by 0.1 percentage due to the opening of our new distribution center in the Northeast, while personnel and electricity pressured our sales expenses by 0.1 percentage point each. Finally, the faster store-opening pace increased pre-operational expenses by 0.1 percentage point in the quarter. These pressures were partially offset by a 0.2 percentage point dilution related to 4Bio, which has lower sales expenses and achieved significant operating leverage in the quarter.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses amounted to R\$ 73.2 million in the 2Q16, equivalent to 2.5% of gross revenue, a 0.3 percentage point dilution versus the 2Q15. It is important to highlight that the 2Q15 comp base was inflated due to non-recurring provisions in the amount of 0.2 percentage point.

Our General and Administrative Expenses in the quarter increased by 0.1 percentage point versus the 4Q15 and the 1Q16 due to a higher level of provisioning for labor contingencies, which we believe to be transitory.

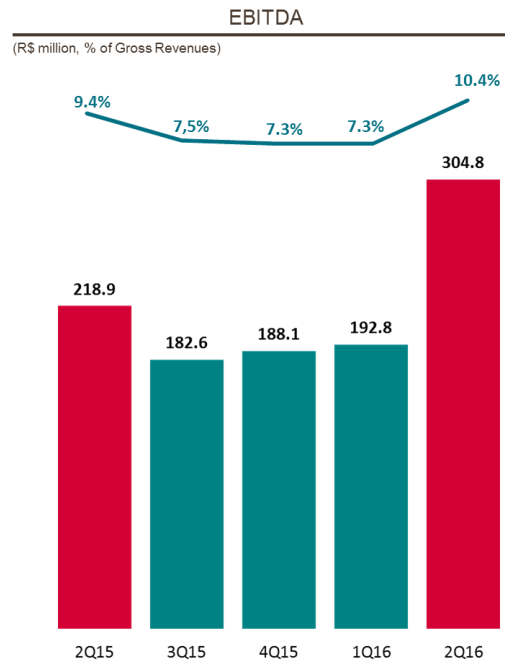


EBITDA

Our EBITDA reached R\$ 304.8 million, a 39.2% increase over the 2Q15. The EBITDA margin totaled 10.4%, a 1.0 percentage point margin expansion driven by a gross margin increase of 1.3 percentage point, which was partially offset by an SG&A pressure of 0.3 percentage point.



New stores opened in the quarter, as well as those that were in the opening process, reduced the EBITDA by R\$ 11.8 million in the 2Q16. Therefore, considering only the 1,235 stores in operation since the end of 2015 and the full absorption of logistics as well as of general and administrative expenses by such stores, our adjusted EBITDA would have totaled R\$ 316.6 million, equivalent to an EBITDA margin of 11.1% over gross revenue.



Raia Drogasil achieved a retail EBITDA of R\$ 297.3 million, an EBITDA margin of 10.5% in the 2Q16, a 1.0 percentage point margin expansion when compared to the previous year. 4Bio reached an EBITDA of R\$ 7.5 million in the quarter, an increase of 335.5% over the previous year. The EBITDA margin totaled 8.4%, a 4.3 percentage point increase driven by the inflationary gain arising from the annual drug price increase and by the operating leverage achieved as the Company more than doubled its revenues.

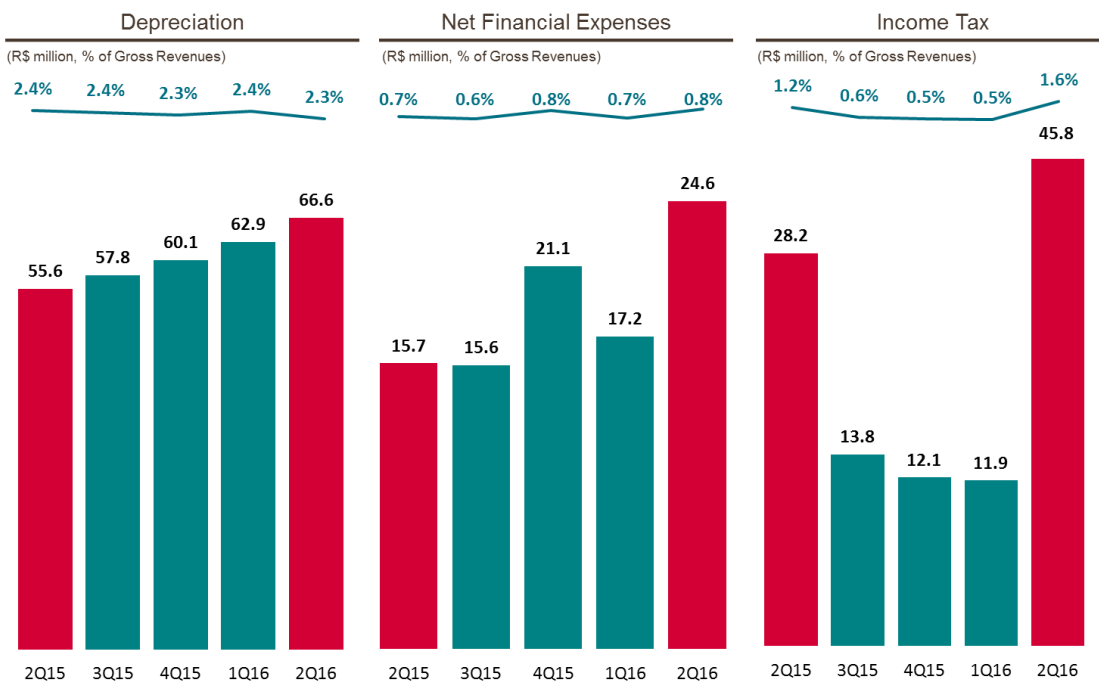
In the case of 4Bio, the inflationary gain on inventories are much more relevant than for Raia Drogasil, since the base margin is much lower and since forward buying can represent a much higher percentage of the base inventories, thus allowing 4Bio to boost its profitability.

Finally, it is important to highlight that 4Bio has higher capital-efficiency than Raia Drogasil, since its cash cycle and Capex are much lower. When comparing the EBIT, 4Bio recorded a margin of 8.3% in the 2Q16, versus 8.2% for Raia Drogasil.

DEPRECIATION, NET FINANCIAL EXPENSES AND INCOME TAXES

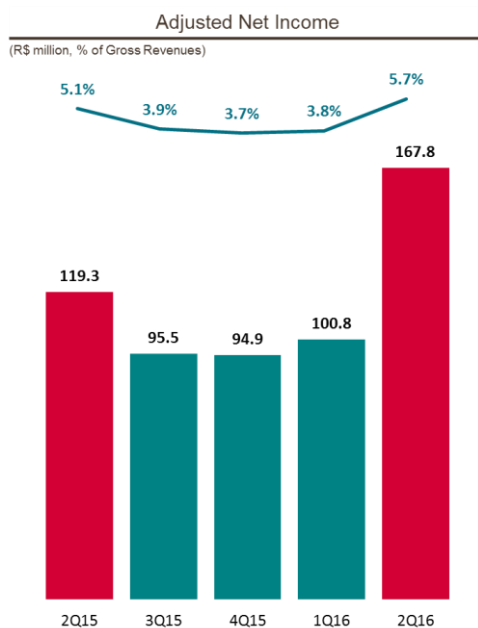
Depreciation expenses totaled R\$ 66.6 million in the 2Q16, equivalent to 2.3% of gross revenue, a 0.1 percentage point dilution when compared to the same period of the previous year.

Financial expenses represented 0.8% of gross revenues, a 0.1 percentage point increase when compared to the previous year. Excluding the Net Present Value (NPV) Adjustment, the interest accrued on debt amounted to 0.4% of gross revenues in the 2Q16. Of the R\$ 24.6 million of net financial expenses recorded in the quarter, R\$ 12.1 million refers to the NPV Adjustment, while R\$ 12.5 million refers to net interest accrued.



Finally, we booked R\$ 45.8 million in taxes, equivalent to 1.6% of gross revenue, a 0.4 percentage point increase due to the higher operating margin of the quarter.

ADJUSTED NET INCOME



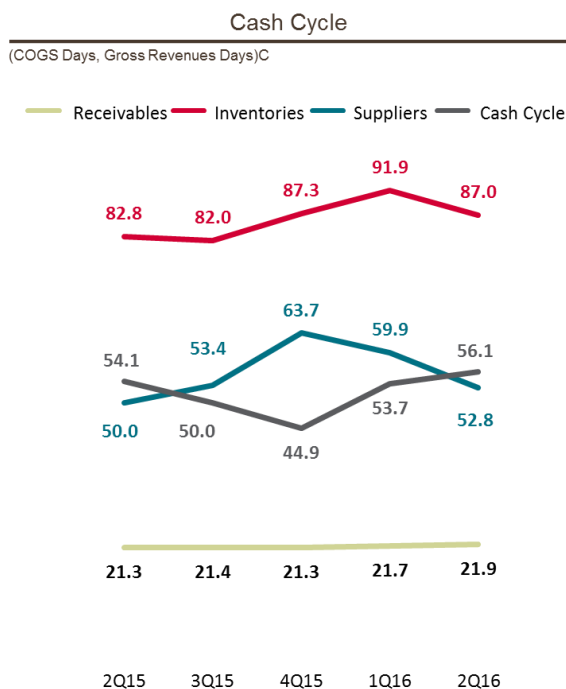


Adjusted net income totaled R\$ 167.8 million in the quarter, a 40.6% increase over the previous year. We achieved an adjusted net margin of 5.7%, a 0.6 percentage point increase.

Excluding the benefit from the goodwill amortization, we recorded a reported net income of R\$ 157.1 million, a net margin of 5.4%, which represent an increase of 44.6% when compared to the previous year.

CASH CYCLE

Our cash cycle increased by 2.0 days when compared to the 2Q15. Inventories increased by 4.2 days, reflecting both a larger forward buying and the opening of our new distribution center in the Northeast, while accounts payable increased by 2.8 days and receivables increased by 0.6 day.



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

It is important to highlight that we ended the 2Q16 with R\$ 3.3 million in discounted receivables to fulfill our short-term financing needs, which resulted in an artificial decrease of 0.1 day.

CASH FLOW

In the 2Q16, we generated a negative free cash flow of R\$ 1.6 million, and a negative total cash flow of R\$ 79.7 million.

Cash Flow (R\$ million)	2Q16	2Q15	6M16	6M15
Adjusted EBIT	238.2	163.3	368.1	263.6
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
Resources from Operations	254.5	187.4	411.3	305.1
Cash Cycle*	(163.5)	(96.3)	(370.1)	(158.4)
Other Assets (Liabilities)	19.2	28.0	6.5	5.7
Operating Cash Flow	110.2	119.1	47.7	152.4
Investments	(111.8)	(81.4)	(210.7)	(145.8)
Free Cash Flow	(1.6)	37.8	(163.0)	6.7
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
Total Cash Flow	(79.7)	(28.7)	(236.3)	(53.6)

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

** Does not include financing cash flow

Resources from operations amounted to R\$ 254.5 million, equivalent to 9.0% of gross revenue, while we recorded a working capital increase of R\$ 144.3 million, amounting to a positive operating cash flow of R\$ 110.2 million.

Of the R\$ 111.8 million invested in the 2Q16, R\$ 77.8 million corresponded to new store openings, R\$ 16.6 million to the renovation of existing stores, and R\$ 17.4 million to investments in infrastructure.

Net financial expenses totaled R\$ 24.6 million, while R\$ 71.5 million were paid in net interest on equity, with R\$ 6.6 million of taxes retained. These expenses were partially offset by the R\$ 24.6 million tax shield related to the net financial expenses and to the interest on equity accrued in the period that shall be paid at a later date.

We accrued R\$ 47.8 million in interest on equity in the 2Q16, reflecting a payout of 30.4% through the full utilization of the legal interest on equity limit.

INDEBTEDNESS

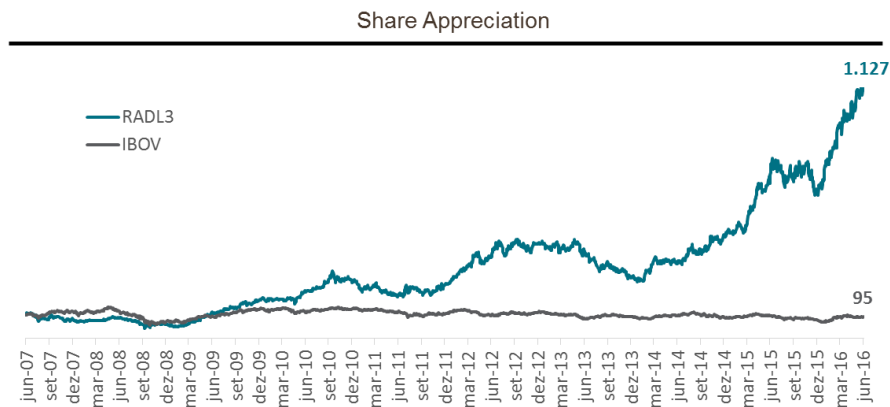
At the end of the quarter, we recorded a net debt position of R\$ 266.6 million, versus a net debt of R\$ 64.0 million recorded in the same period of 2015.

Our gross debt totaled R\$ 323.1 million, of which 99.3% corresponds to BNDES (Brazilian Economic and Social Development Bank) lines and 0.7% corresponds to the bank debt related to 4Bio. Of our total debt, 65% is long-term, while 35% 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\$ 56.5 million.



TOTAL SHAREHOLDER RETURN

Our share price appreciated by 78.0% in 2016, 59.1 percentage points above the Ibovespa, which increased by 18.9%.



Since the IPO of Drogasil, we achieved a cumulative share appreciation of 1,027% versus a negative return of 5.3% of the IBOVESPA. Including the payment of interest on equity, we generated an average annual total return to shareholders of 30.8%. Considering the IPO of Raia in December of 2010, the cumulative return amounted to 502.7% versus a decrease of 24.2% by the Ibovespa. Considering the payment of interest on equity, this resulted in an average annual total return to shareholders of 38.3%.

We recorded an average daily trading volume of R\$ 56.4 million in the quarter.

Adjusted Income Statement

(R\$ thousand)

	2Q15	2Q16	6M15	6M16
Gross Revenue	2,323,102	2,930,451	4,413,701	5,571,530
Taxes, Discounts and Returns	(96,900)	(147,240)	(183,507)	(272,892)
Net Revenue	2,226,202	2,783,211	4,230,194	5,298,638
Cost of Goods Sold	(1,523,427)	(1,858,386)	(2,930,854)	(3,616,873)
Gross Profit	702,775	924,825	1,299,340	1,681,765
Operational (Expenses) Revenue				
Sales	(419,952)	(546,842)	(810,113)	(1,048,475)
General and Administrative	(63,913)	(73,172)	(116,440)	(135,640)
Operational Expenses	(483,865)	(620,014)	(926,553)	(1,184,115)
EBITDA	218,910	304,811	372,787	497,650
Depreciation and Amortization	(55,640)	(66,609)	(109,213)	(129,539)
Operational Earnings before Financial Results	163,270	238,201	263,574	368,110
Financial Expenses	(37,060)	(47,918)	(67,022)	(90,747)
Financial Revenue	21,344	23,282	36,129	48,922
Financial Expenses/Revenue	(15,716)	(24,636)	(30,893)	(41,825)
Earnings before Income Tax and Social Charges	147,554	213,565	232,681	326,285
Income Tax and Social Charges	(28,209)	(45,800)	(31,877)	(57,691)
Net Income	119,346	167,766	200,805	268,595



Income Statement <i>(R\$ thousand)</i>	2Q15	2Q16	6M15	6M16
Gross Revenue	2,323,102	2,930,451	4,413,701	5,571,530
Deductions	(96,900)	(147,240)	(183,507)	(272,892)
Net Revenue	2,226,202	2,783,211	4,230,194	5,298,638
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Financial Expenses/Revenue	(15,716)	(24,636)	(30,893)	(41,825)
Earnings before Income Tax and Social Charges	147,554	213,565	232,681	326,285
Income Tax and Social Charges	(38,907)	(56,498)	(53,273)	(79,087)
Net Income	108,647	157,068	179,408	247,199



Assets <i>(R\$ thousand)</i>	<u>2Q15</u>	<u>2Q16</u>
Current Assets		
Cash and Cash Equivalents	211,578	56,496
Accounts Receivable	543,466	702,467
Inventories	1,386,053	1,777,080
Taxes Receivable	48,919	84,579
Other Accounts Receivable	113,169	117,503
Following Fiscal Year Expenses	15,186	20,947
	<u>2,318,371</u>	<u>2,759,072</u>
Non-Current Assets		
Deposit in Court	17,620	23,061
Taxes Receivable	18,292	25,629
Income Tax and Social Charges deferred	177	0
Other Credits	2,119	3,489
Property, Plant and Equipment	691,991	888,662
Intangible	1,122,608	1,161,858
	<u>1,852,807</u>	<u>2,102,699</u>
ASSETS	<u>4,171,178</u>	<u>4,861,771</u>



Liabilities and Shareholder's Equity <i>(R\$ thousand)</i>	2Q15	2Q16
Current		
Suppliers	836,549	1,079,108
Loans and Financing	101,856	111,741
Salaries and Social Charges Payable	178,095	209,616
Taxes Payable	41,207	73,495
Dividend and Interest on Equity	58,944	83,318
Provision for Lawsuits	3,899	942
Other Accounts Payable	92,821	108,854
	<u>1,313,371</u>	<u>1,667,074</u>
Non-Current Assets		
Loans and Financing	173,696	211,395
Provision for Lawsuits	3,658	4,928
Income Tax and Social Charges deferred	144,710	173,228
Other Accounts Payable	4,181	37,382
	<u>326,245</u>	<u>426,934</u>
Shareholder's Equity		
Common Stock	909,407	1,808,639
Capital Reserves	1,021,170	136,222
Revaluation Reserve	12,662	12,476
Income Reserves	475,420	665,820
Accrued Income	112,903	149,930
Equity Adjustments	0	(30,230)
Non Controller Interest	0	24,906
Additional Dividend Proposed	0	0
	<u>2,531,562</u>	<u>2,767,763</u>
LIABILITIES AND SHAREHOLDERS' EQUITY	<u>4,171,178</u>	<u>4,861,771</u>



Cash Flow	2Q15	2Q16	6M15	6M16
Earnings before Income Tax and Social Charges	147,555	213,565	232,682	326,285
Adjustments				
Depreciation and Amortization	55,640	66,609	109,213	129,539
Compensation plan with restricted shares, net	922	2,962	1,379	4,882
Interest over additional stock option		1,535		3,002
P,P&E and Intangible Assets residual value	1,581	619	1,681	782
Provisioned Lawsuits	(559)	2,587	(2,160)	2,740
Provisioned Inventories Loss	1,870	(1,991)	1,609	(5,587)
Allowance for Doubtful Accounts	605	201	477	852
Provisioned Store Closures	(981)	4,818	(1,313)	4,818
Interest Expenses	7,609	9,224	15,186	18,503
	214,242	300,129	358,754	485,816
Assets and Liabilities variation				
Accounts Receivable	(51,410)	(79,650)	(66,533)	(120,549)
Inventories	66,227	689	(36,690)	(121,039)
Other Short Term Assets	8,164	(6,800)	(18,861)	(36,277)
Long Term Assets	2,445	(2,801)	(4,661)	(7,683)
Suppliers	(111,138)	(84,532)	(55,144)	(128,491)
Salaries and Social Charges	35,135	45,020	35,459	44,209
Taxes Payable	(22,098)	(27,747)	(11,741)	(10,580)
Other Liabilities	2,513	8,138	2,553	12,344
Rent Payable	1,863	3,386	2,982	4,480
Cash from Operations	145,943	155,832	206,118	122,230
Interest Paid	(5,036)	(4,929)	(10,637)	(10,302)
Income Tax and Social Charges Paid	(22,094)	(43,048)	(34,733)	(57,816)
Net Cash from (invested) Operational Activities	118,813	107,855	160,748	54,112
Investment Activities Cash Flow				
P,P&E and Intangible Acquisitions	(81,938)	(112,232)	(146,689)	(211,161)
P,P&E Sale Payments	578	436	911	436
Net Cash from Investment Activities	(81,360)	(111,796)	(145,778)	(210,725)
Financing Activities Cash Flow				
Funding	35,560	52,410	39,865	80,665
Payments	(27,936)	(27,260)	(60,750)	(62,118)
Interest on Equity and Dividends Paid	(63,572)	(71,483)	(63,975)	(71,489)
Net Cash from Funding Activities	(55,948)	(46,333)	(84,860)	(52,942)
Cash and Cash Equivalents net increase	(18,495)	(50,274)	(69,890)	(209,555)
Cash and Cash Equivalents in the beginning of the period	230,073	106,770	281,468	266,051
Cash and Cash Equivalents in the end of the period	211,578	56,496	211,578	56,496



2Q16 Results Conference Calls – July 29th, 2016

Portuguese

at 10:00 am (Brasília)

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

Replay (available for 7 days):
+55 (11) 2188-0400

English

at 12:00 pm (Brasília)

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

Replay (available for 7 days):
+55 (11) 2188-0400

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