



RaiaDrogasil S.A.

People,  
Health and  
Well-being

**EARNINGS  
PRESENTATION:**

**2Q18**

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



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## QUARTERLY HIGHLIGHTS:

- › **Drugstores:** 1,708 stores in operation (62 openings and 5 closures)
- › **Gross Revenues:** R\$ 3.8 billion, a 11.6% growth (2.5% retail same-store sales growth)
- › **Gross Margin:** 29.1% of gross revenues, a 0.3 percentage point decrease
- › **EBITDA:** R\$ 316.6 million, a margin of 8.4%, an increase of 5.2%
- › **Net Income:** R\$ 141.8 million, 3.7% of net margin, an increase of 2.8%
- › **Cash Flow:** R\$ 67.7 million negative free cash flow, R\$ 154.1 million of total cash consumption
- › **Expansion:** Entered the Pará state with three stores in Belém

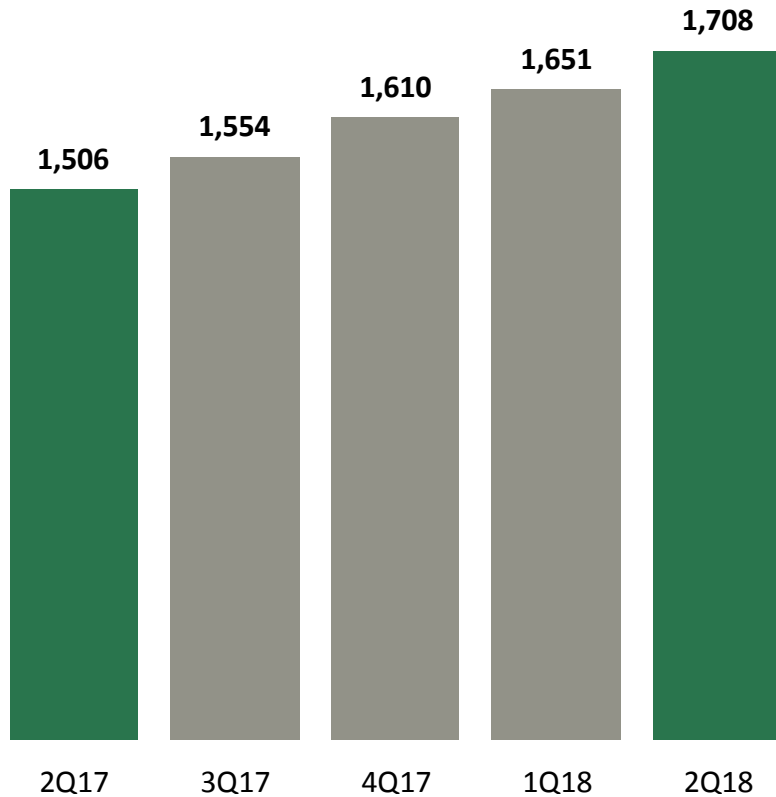




## STORE DEVELOPMENT

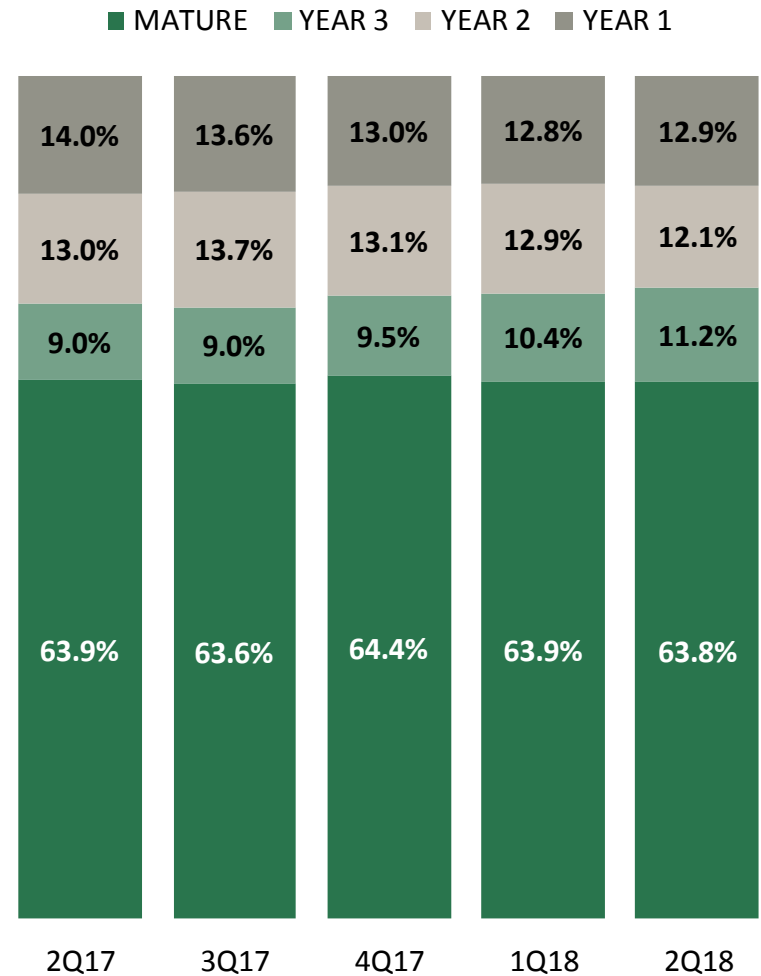
In the 2Q18, we opened 62 new stores and closed 5. At the end of the period, 36.2% of our stores were still maturing. We reiterate the guidance of 240 new stores per year for both 2018 and 2019.

Store Count\*



	2Q17	3Q17	4Q17	1Q18	2Q18
Openings	54	54	60	44	62
Closures	(5)	(6)	(4)	(3)	(5)

Age Structure of Store Portfolio



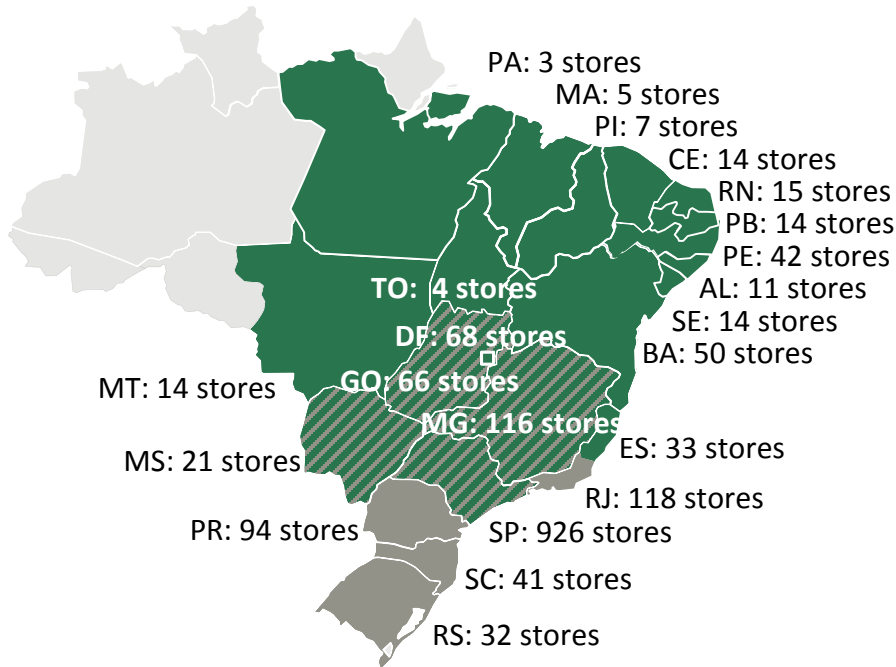
\* Includes three 4Bio stores.



# WE HAVE GAINED MARKET SHARE

We reached 11.8% of national market share, an increase of 0.1 p.p. Entry in Pará, extending our presence to 22 states. Expansion in SP reduced from 125 LTM stores in 2Q16 (10.9% expansion share) to 79 in 2Q18 (5.7% share)

Geographic Presence



Total: 1,708 stores

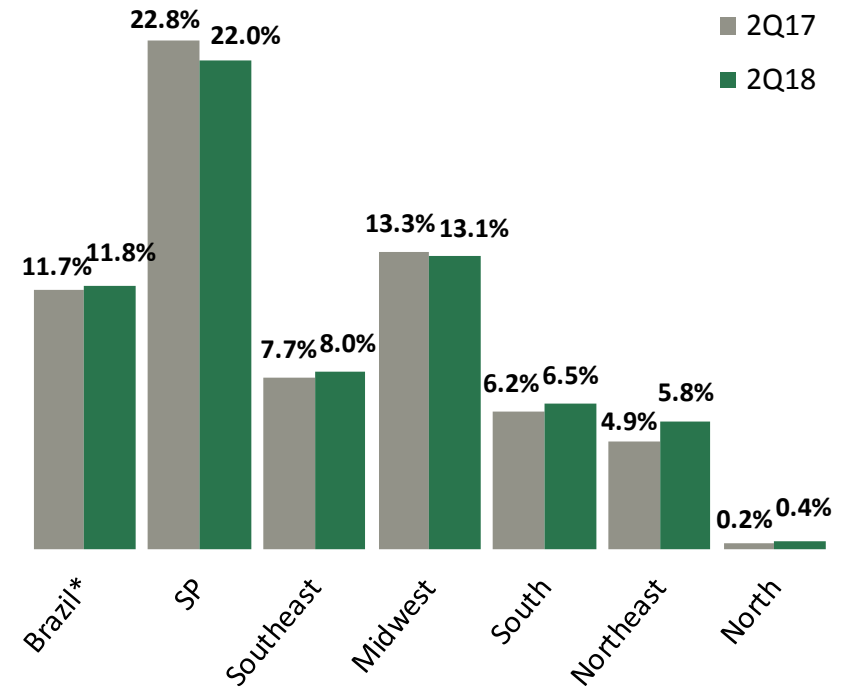
■ Raia: 779 stores

■ Drogasil: 902 stores

\* Farmasil: 24 stores

\* 4Bio: 3 stores

Market Share



LTM Openings	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
São Paulo	125	122	107	101	89	93	82	75	79
Other States	71	90	105	114	122	119	128	137	141
<b>Total</b>	<b>196</b>	<b>212</b>	<b>212</b>	<b>215</b>	<b>211</b>	<b>212</b>	<b>210</b>	<b>212</b>	<b>220</b>
<i>São Paulo %</i>	<i>63.8%</i>	<i>57.5%</i>	<i>50.5%</i>	<i>47.0%</i>	<i>42.2%</i>	<i>43.9%</i>	<i>39.0%</i>	<i>35.4%</i>	<i>35.9%</i>

Source: IMS

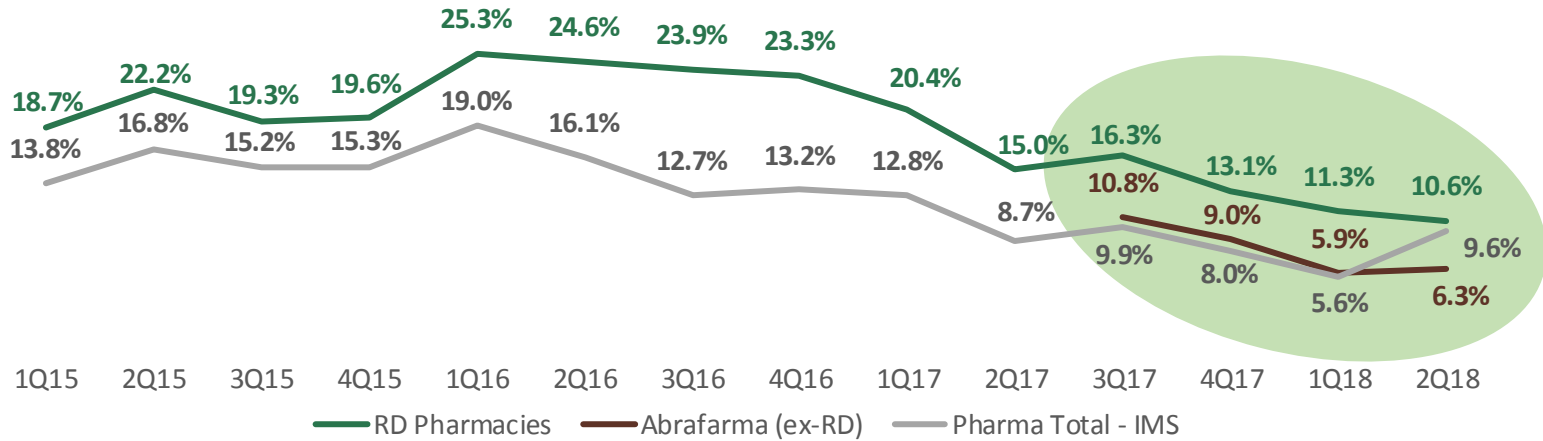
\* Includes 4Bio only for Brazil total.



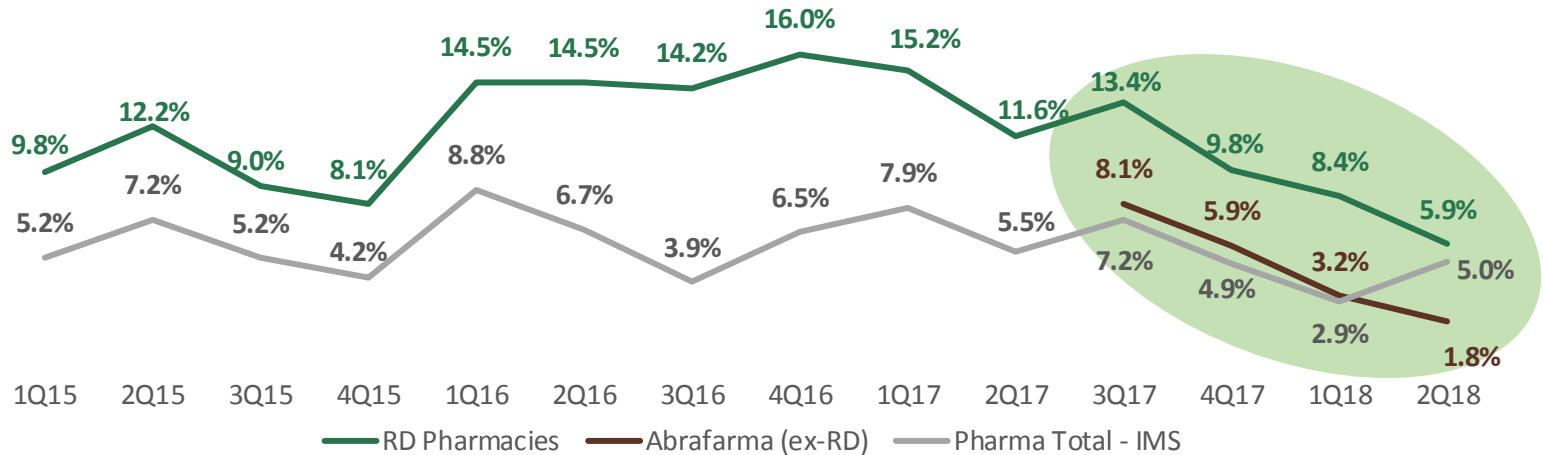
# INDUSTRY ACCELERATION WAS LIKELY BOOSTED BY SELL-IN PEAK IN APRIL

Market was growing in-line with Abrafarma until 1Q18, but accelerated to 9.6% in the quarter (17% in April), which was driven by small chains and independents who report sell-in data to IMS instead of real demand.

RD vs. Pharma Industry – Nominal Growth Y/Y (%)



RD vs. Pharma Industry – Real Growth Y/Y (%)



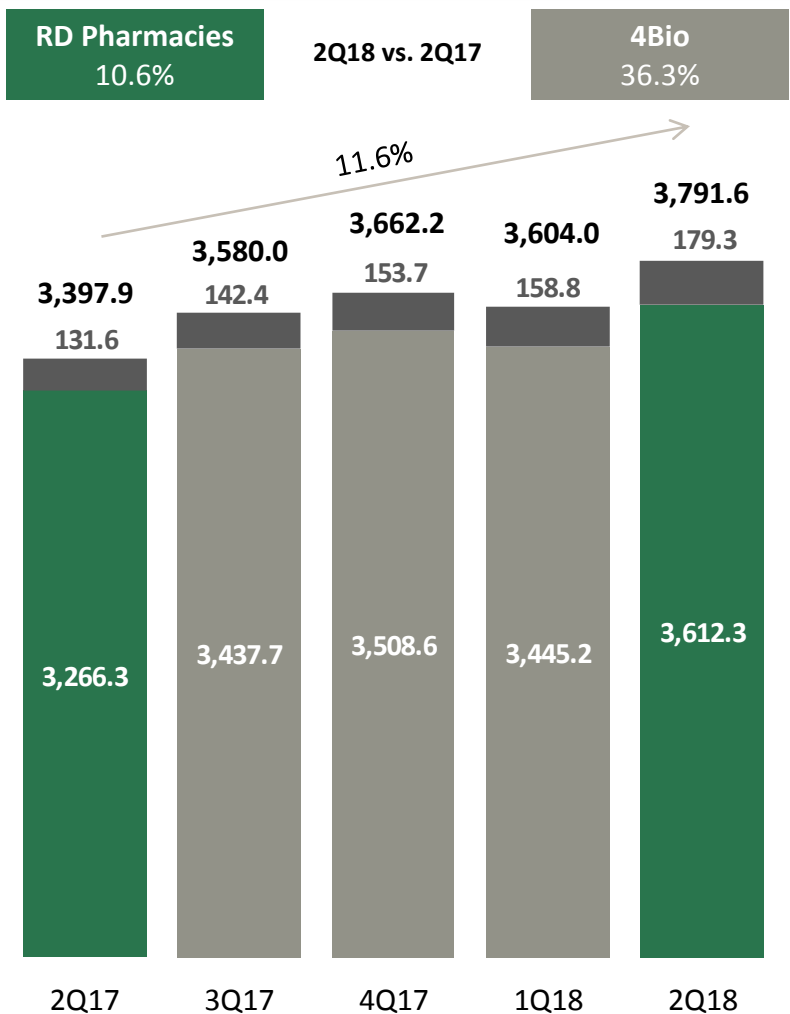
\* The Abrafarma data is only available for the last twelve months due to a change in the reporting base, which makes previous data non-comparable.

# GROSS REVENUES INCREASED 11.6%, WITH 10.6% FOR RETAIL AND 36.3% FOR 4BIO

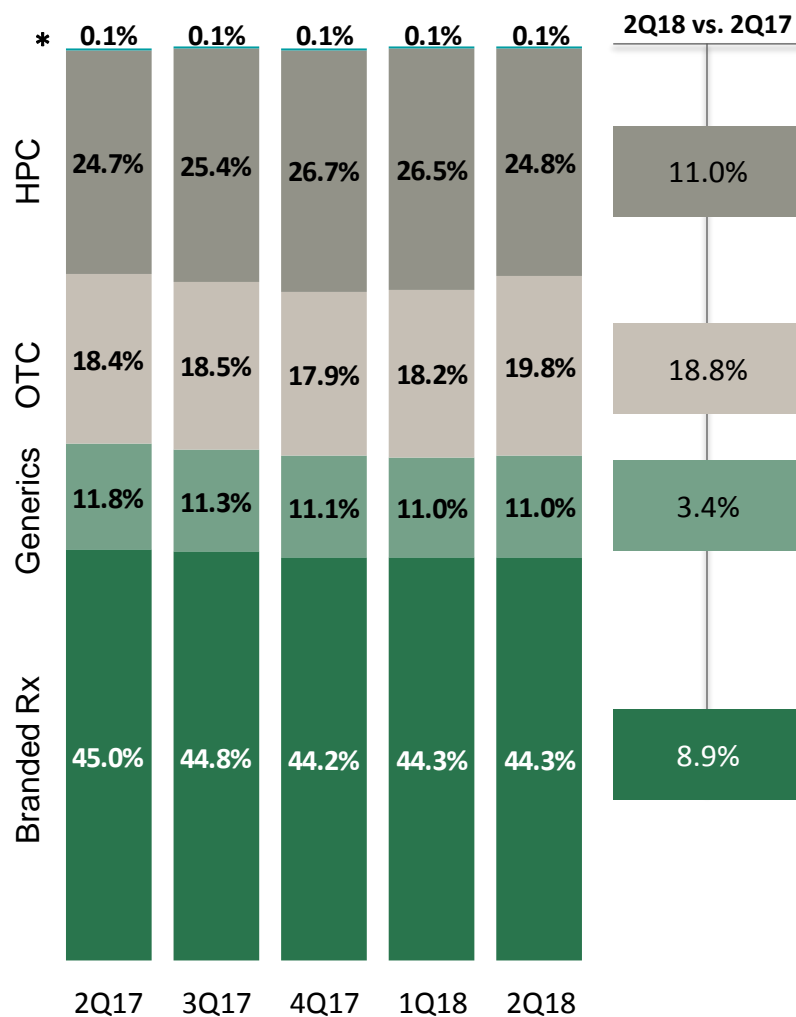


OTC was the highlight (1.4 p.p. mix increase), benefitting from Branded Rx switches (0.4 p.p.). Generics lost 0.8 p.p. due to a change in our pricing and mix strategy that penalized average ticket (13.7% volume growth)

Consolidated Gross Revenues



Retail Sales Mix



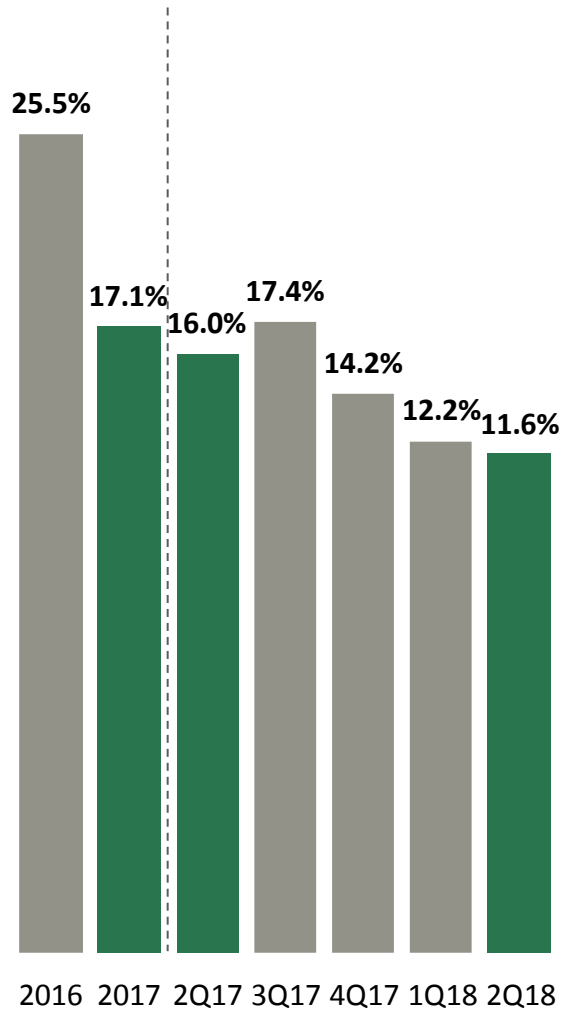
\* Services



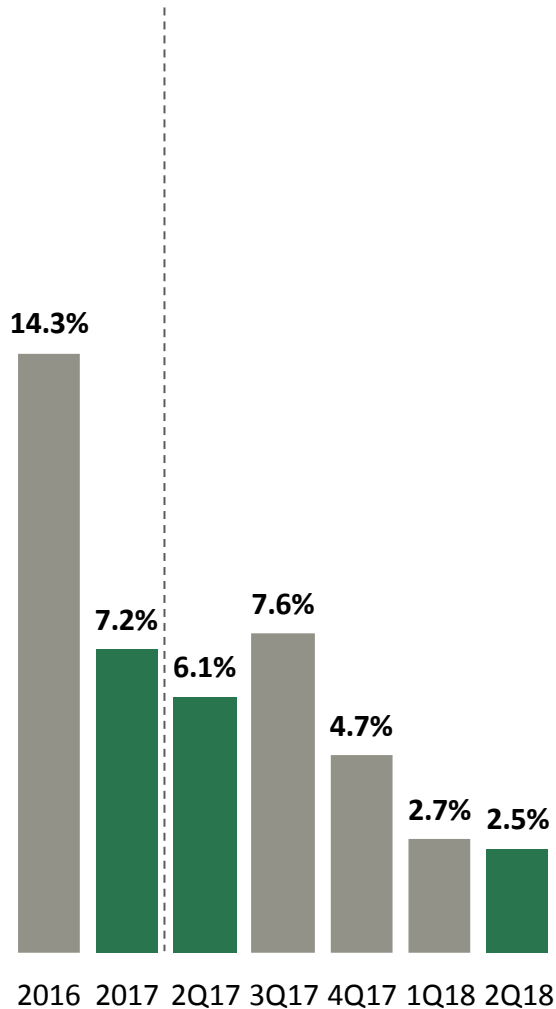
## REVENUE GROWTH OF 11.6%, WITH -1.4% FOR MATURE STORES

Mature stores declined 1.4%, considering a positive calendar effect of 0.6%, which was fully offset by the adverse impact of the FIFA World Cup in June.

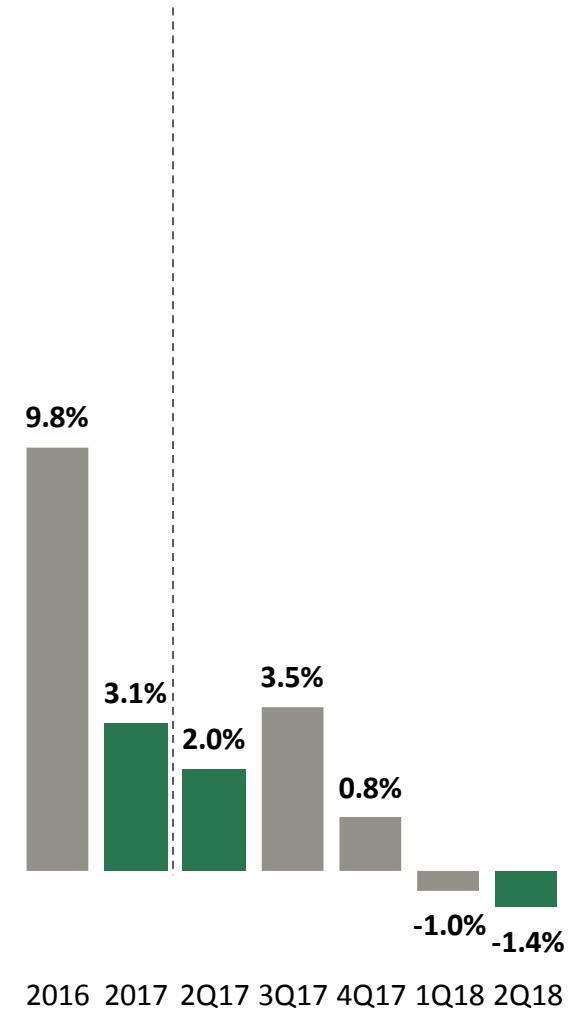
### Consolidated Revenue Growth



### Same Store Sales Growth\*



### Mature Stores Growth\*



\* RD Pharmacies only

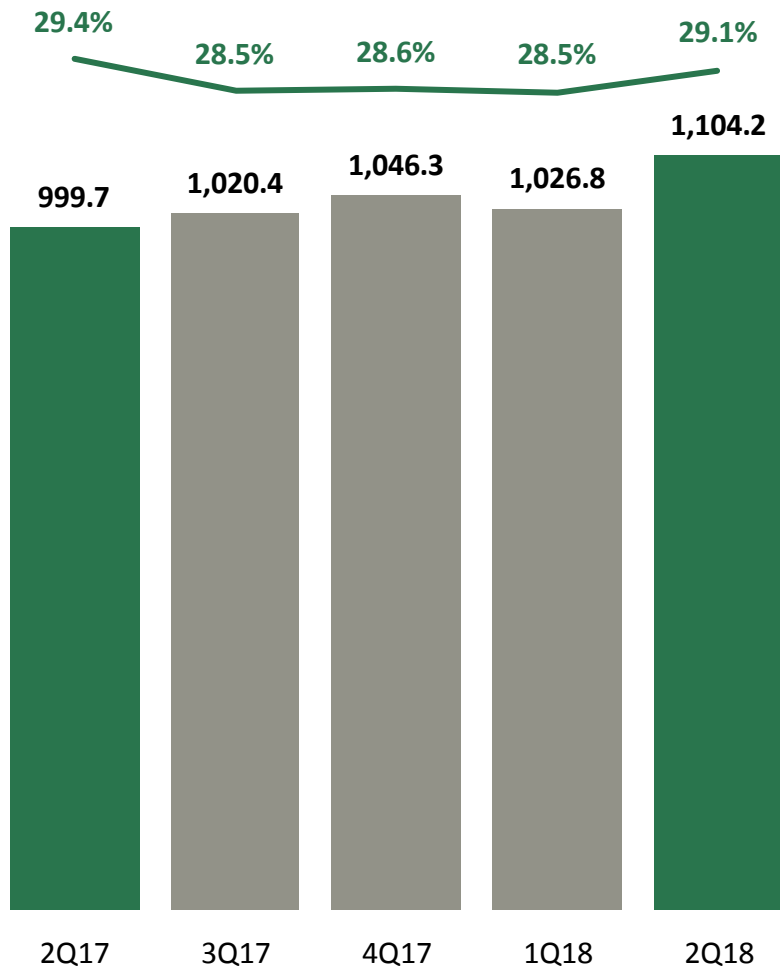


## GROSS MARGIN AND CASH CYCLE

Gross margin pressure of 0.3 p.p. in 2Q18 due to lower gains on inventories (0.2 p.p.), and to a 0.2 p.p. pressure from 4Bio, partially offset by commercial gains (0.1 p.p.). Cash cycle pressure driven by calendar effect in June.

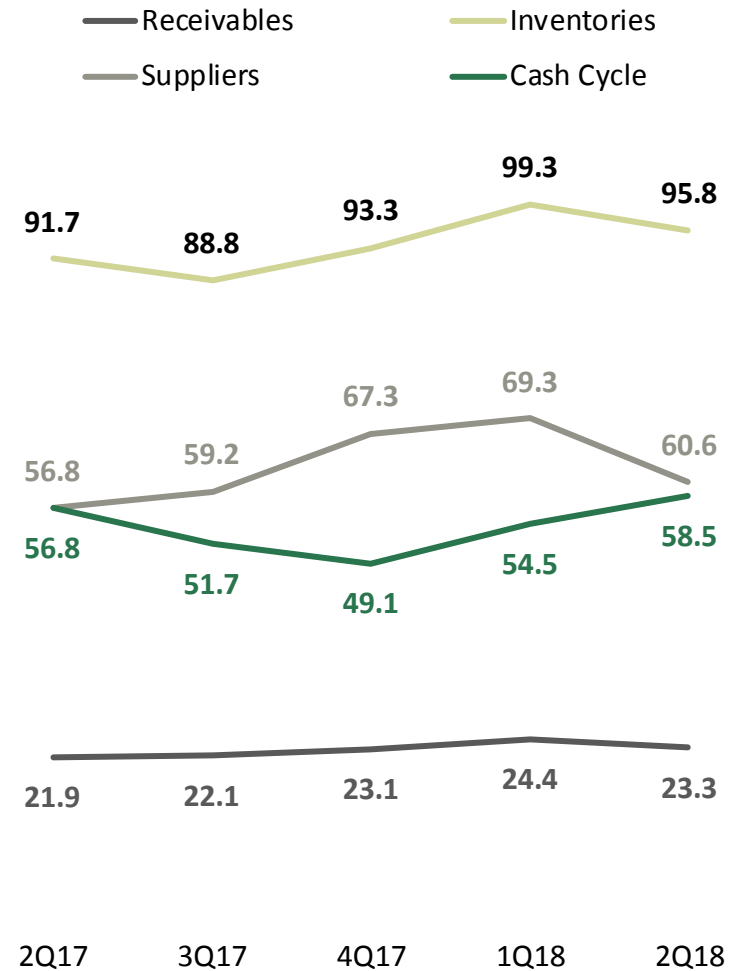
### Gross Margin

R\$ Million, % of Gross Revenues



### Cash Cycle\*

COGS Days, Gross Revenues Days



\* Adjusted to discounted receivables.

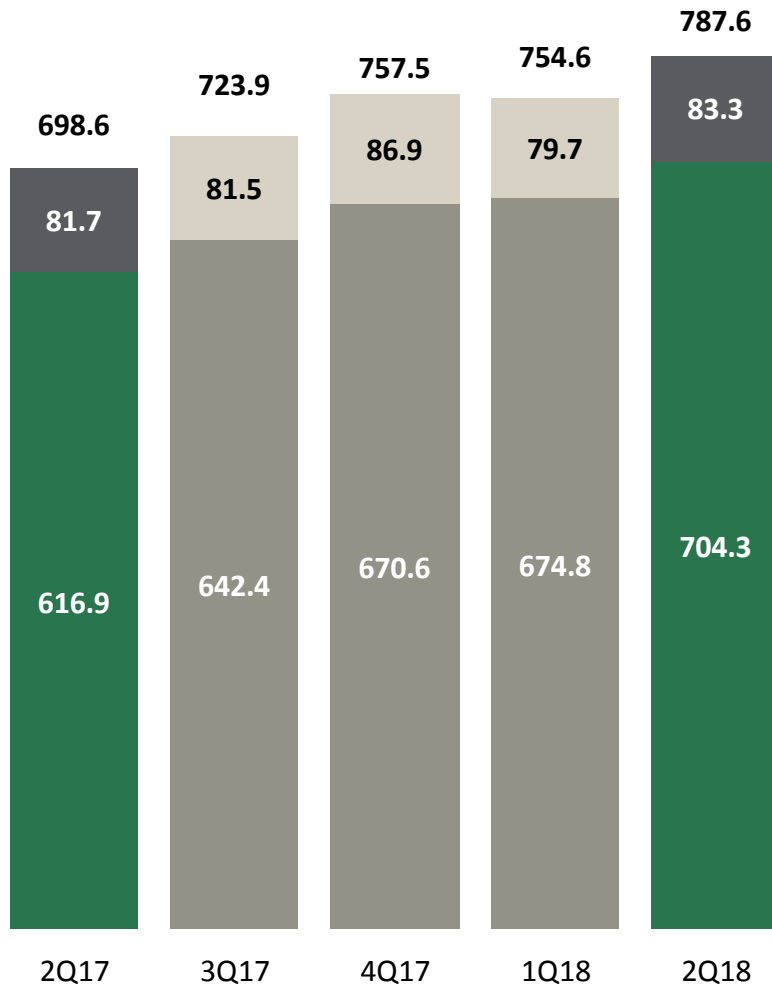
## SELLING EXPENSES PRESSURED BY 0.4 P.P. WHILE G&A DILUTED BY 0.2 P.P.



Personnel expenses pressured by 0.3 p.p., while rentals and logistics pressured by 0.1 p.p. each, partially offset by 0.1 p.p. dilution from 4Bio. New stores pressured by 0.1 p.p. G&A diluted by 0.2 p.p. due to lower variable compensation.

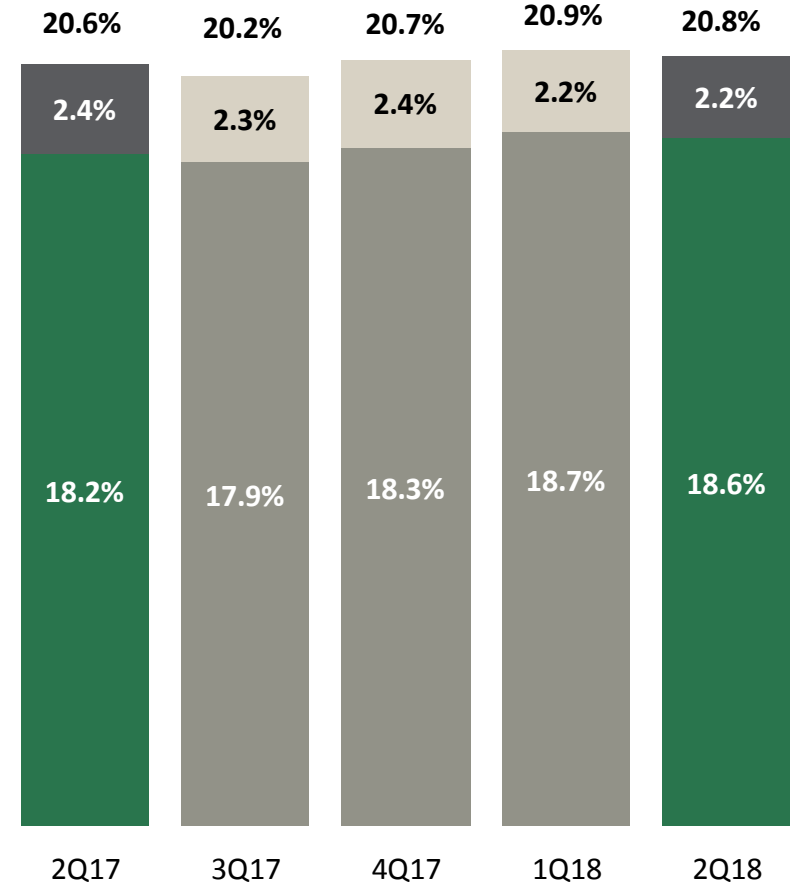
Operating Expenses

R\$ Million



Operating Expenses

% of Gross Revenues



■ Selling Expenses ■ General & Administrative Expenses

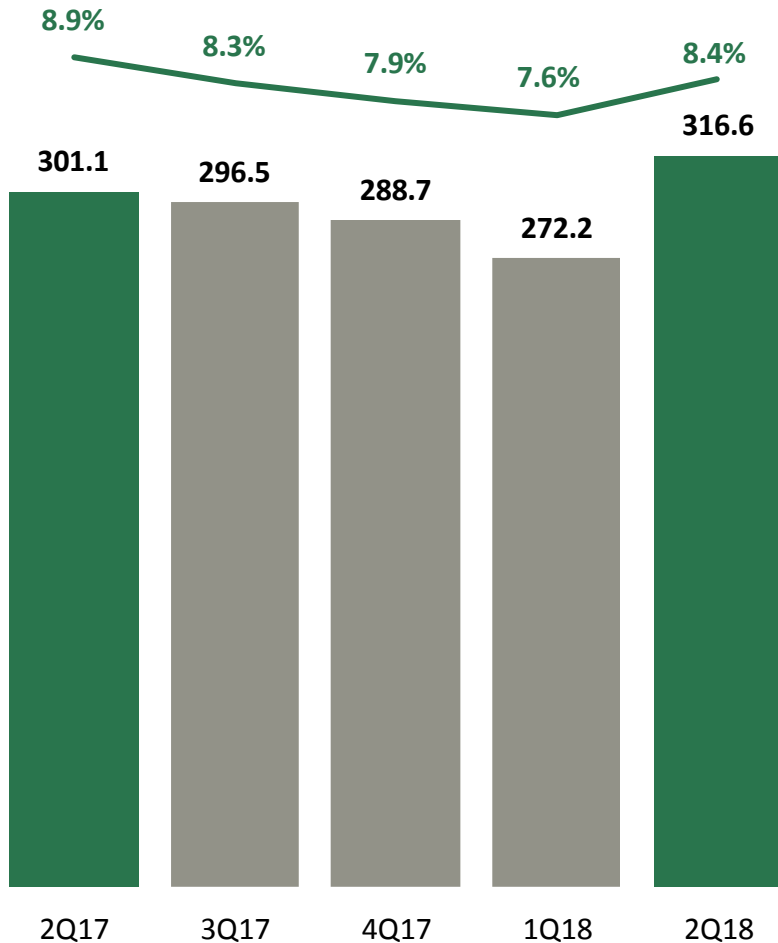


## EBITDA TOALED R\$ 316.6 MM, WITH 8.4% MARGIN AND 5,2% GROWTH

EBITDA margin pressure of 0.5 p.p. Gross margin pressured by 0.3 p.p. and selling expenses pressured by 0.4 p.p. on weaker sales growth, partially offset by G&A expense dilution. New stores penalized EBITDA by R\$ 14.4 MM.

### Adjusted EBITDA

R\$ Million, % of Gross Revenues



1,602\* stores operating since 2017:  
*(performance in the 2Q18)*

- > R\$ 3.7 billion of Gross Revenues
- > R\$ 331.1 million of EBITDA
- > EBITDA margin of 8.9%

### RD Pharmacies

- > R\$ 311.1 million of EBITDA
- > EBITDA margin of 8.6%

### 4Bio

- > R\$ 5.5 million of EBITDA
- > EBITDA margin of 3.1%

\* 1610 stores by the end of the 4Q17 less 8 stores closed.

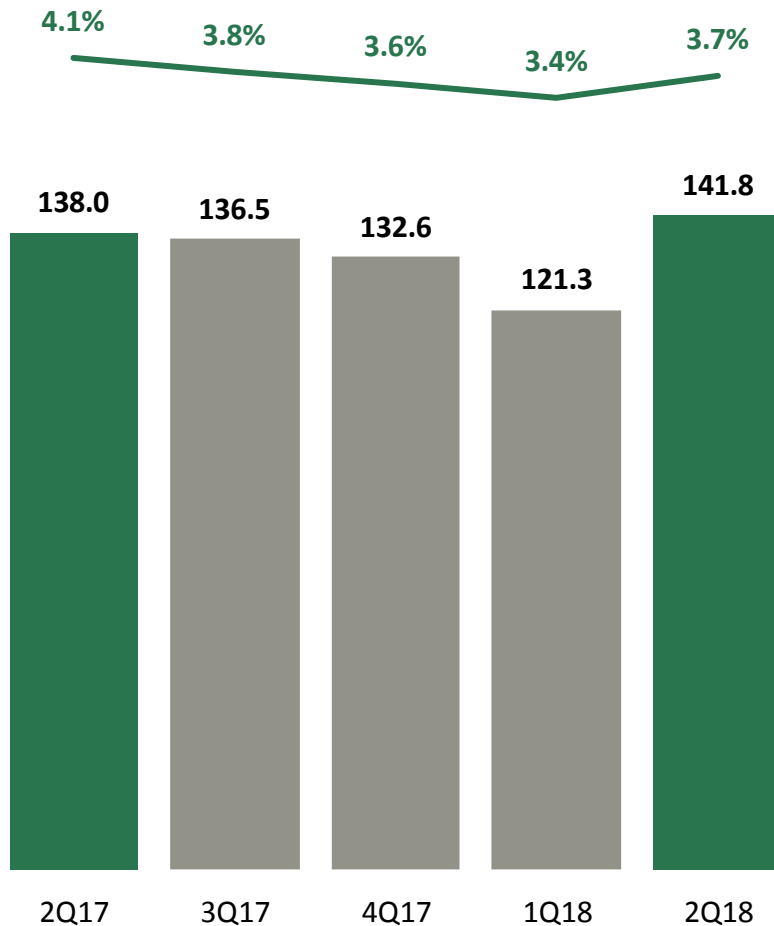


## NET INCOME TOTALED R\$ 141.8 MILLION IN THE 2Q18

Net margin of 3.7%, an increase of 2.8% over the 2Q17. We recorded R\$ 6.2 MM in non-recurring net expenses, which included R\$ 9.6 MM related to consulting expenses for our Strategic Planning and 3.3 MM in tax credits.

### Adjusted Net Income

R\$ Million, % of Gross Revenues



### Non-recurring Revenues / Expenses

R\$ Million

Non-Recurring Revenues / (Expenses)	2Q18
<i>(R\$ million)</i>	
Expenses related to the Strategic Planning	(9.6)
Tax credits from previous years	3.3
<b>Total</b>	<b>(6.2)</b>

## NEGATIVE FREE CASH FLOW OF R\$ 67.7 MILLION



Total cash consumption of R\$ 154.1 million versus 134.0 million in the 2Q17

<b>Cash Flow</b>	<b>2Q18</b>	<b>2Q17</b>	<b>YTD '18</b>	<b>YTD '17</b>
<i>(R\$ million)</i>				
<b>Adjusted EBIT</b>	<b>216.4</b>	<b>219.6</b>	<b>392.5</b>	<b>386.1</b>
NPV Adjustment	(12.6)	(11.1)	(21.1)	(32.2)
Non-Recurring Expenses	(6.2)	-	(6.2)	(2.2)
Income Tax (34%)	(67.2)	(70.9)	(124.2)	(119.6)
Depreciation	100.3	81.5	196.3	159.0
Others	(0.2)	3.9	2.0	20.2
<b>Resources from Operations</b>	<b>230.5</b>	<b>223.0</b>	<b>439.4</b>	<b>411.3</b>
Cash Cycle*	(169.9)	(149.2)	(323.2)	(395.9)
Other Assets (Liabilities)**	37.8	31.9	4.5	52.7
<b>Operating Cash Flow</b>	<b>98.4</b>	<b>105.7</b>	<b>120.6</b>	<b>68.1</b>
<b>Investments</b>	<b>(166.1)</b>	<b>(153.2)</b>	<b>(290.3)</b>	<b>(288.3)</b>
<b>Free Cash Flow</b>	<b>(67.7)</b>	<b>(47.5)</b>	<b>(169.7)</b>	<b>(220.2)</b>
Interest on Equity	(87.1)	(85.1)	(87.2)	(85.2)
Income Tax Paid over Interest on Equity	(7.1)	(7.0)	(7.1)	(7.0)
Net Financial Expenses***	(14.2)	(16.7)	(19.5)	(27.7)
Share Buyback	-	-	(46.9)	-
Income Tax (Tax benefit over financial expenses and interest on equity)	22.0	22.3	41.2	43.4
<b>Total Cash Flow</b>	<b>(154.1)</b>	<b>(134.0)</b>	<b>(289.3)</b>	<b>(296.7)</b>

\*Includes adjustments to discounted receivables.

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

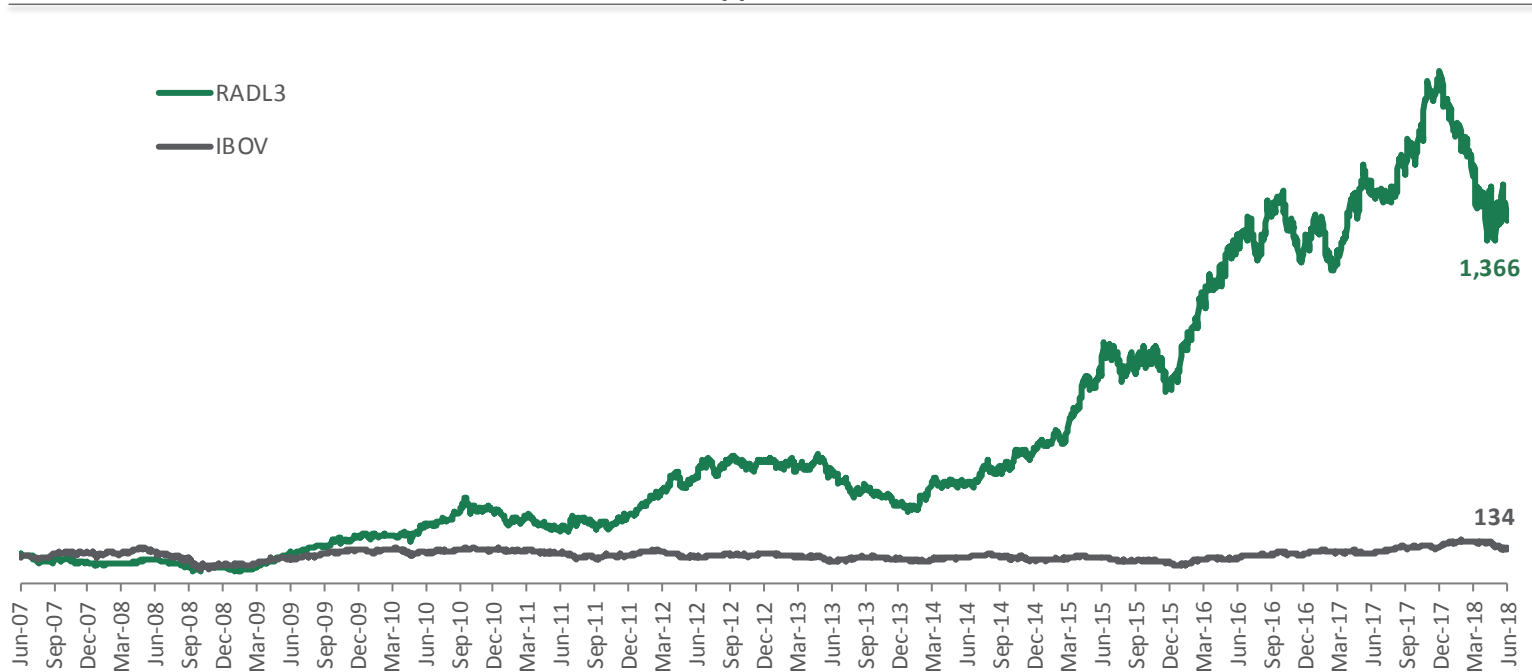
\*\*\*Excludes NPV adjustments.

# SHAREHOLDER RETURN



Since the IPO of Drogasil, we achieved a cumulative share appreciation of 1,266.3% with an average annual return of 27.3%. Considering the IPO of Raia, the average annual return was 28.1%.

### Share Appreciation



### Performance in 2018

RADL3: -27.4%

BOVESPA: -4.8%

Alpha: -22.6%

Average Trading Volume RADL3: R\$ 108.9 MM

### Short Term Achievements

- › Successful entry in Pará, with very strong initial results and great growth opportunities (20 other locations already signed). Aspiration to become a large #2 player in the state and the reference for A/B class;
- › New generics pricing strategy driving high volume growth while preserving total gross margin;
- › Accelerating our digital strategy with the full roll-out of *Click & Collect* (completing the roll-out to 100% of the store base today). Same day delivery services already deployed in 15 capital cities.

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

- › National growth platform allow us to rely less in store openings in SP (one third of the plan) in a moment of higher aggregate capacity increase;
- › Increased store addition by some competitors may be cyclical and non-sustainable;
- › New stores posting strong performance, with high marginal IRR in-line with historical standards;
- › The combination of market trends towards cheaper Generics (lower gross profit per unit), with increased store addition will accelerate industry consolidation, disrupting companies facing high leverage, significant local competition and/or low-quality expansion.



### 2018 Earnings

- › 3Q: October 30<sup>th</sup>, 2018

### RD Day 2018

- › October 11<sup>th</sup>, 2018
- › Vila Bisutti, São Paulo

### Scheduled Investor Conferences

- › August 22<sup>nd</sup>: **Brazil Consumer and Healthcare Check-Up**, J.P. Morgan (São Paulo)
- › September 10<sup>th</sup> to 12<sup>th</sup>: **21<sup>st</sup> Latin America Conference**, Morgan Stanley (London)
- › November 13<sup>th</sup> and 14<sup>th</sup>: **Annual CEO Conference**, Bradesco (New York)