

# Earnings Presentation – 1Q15

April 30<sup>th</sup>, 2015



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.

## Highlights



- **Drugstores:** 1,109 stores in operation (19 openings and one closure)
- **Gross Revenues:** R\$ 2.1 billion, 19.4% of growth (11.3% for same-store sales)
- **Gross Margin:** 28.8% of gross revenues, a 1.5 percentage point margin increase
- **EBITDA:** R\$ 152.4 million, 7.4% margin, a 1.9 percentage point margin expansion
- **Adjusted Net Income:** R\$ 81.0 million, a net margin of 3.9% and an increase of 99.0%
- **Cash Flow:** R\$ 31.0 million negative free cash flow, R\$ 24.2 million total cash consumption



Starting in 2015, our financials include the effect of NPV adjustments, a change in accounting estimates versus previous years. History is presented pro-forma.



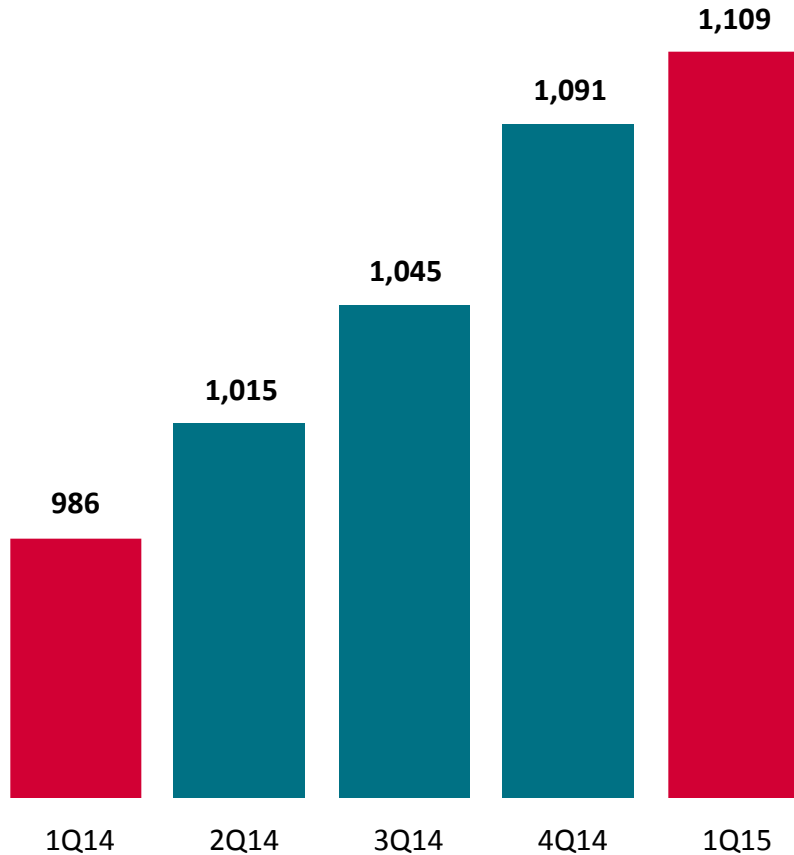
<i>(R\$ million)</i>	Reclassified (with NPV Adjustment)					1Q15	Previously Reported				
	1Q14	2Q14	3Q14	4Q14	2014		1Q14	2Q14	3Q14	4Q14	2014
<b>Gross Revenues</b>	<b>1,718.9</b>	<b>1,856.6</b>	<b>1,990.3</b>	<b>2,093.1</b>	<b>7,658.9</b>	<b>2,052.4</b>	<b>1,718.9</b>	<b>1,856.6</b>	<b>1,990.3</b>	<b>2,093.1</b>	<b>7,658.9</b>
Deductions	(68.3)	(75.2)	(79.1)	(85.0)	(307.6)	(84.9)	(60.2)	(65.8)	(68.0)	(73.3)	(267.3)
<b>Net Revenues</b>	<b>1,650.6</b>	<b>1,781.4</b>	<b>1,911.2</b>	<b>2,008.1</b>	<b>7,351.3</b>	<b>1,967.6</b>	<b>1,658.7</b>	<b>1,790.8</b>	<b>1,922.3</b>	<b>2,019.7</b>	<b>7,391.6</b>
Cost of Goods Sold	(1,181.8)	(1,250.8)	(1,355.8)	(1,419.3)	(5,207.6)	(1,377.1)	(1,196.6)	(1,268.6)	(1,374.1)	(1,442.1)	(5,281.4)
<b>Gross Profit</b>	<b>468.8</b>	<b>530.6</b>	<b>555.4</b>	<b>588.8</b>	<b>2,143.7</b>	<b>590.5</b>	<b>462.1</b>	<b>522.3</b>	<b>548.2</b>	<b>577.6</b>	<b>2,102.2</b>
<b>% of Gross Revenues</b>	<b>27.3%</b>	<b>28.6%</b>	<b>27.9%</b>	<b>28.1%</b>	<b>28.0%</b>	<b>28.8%</b>	<b>26.9%</b>	<b>28.1%</b>	<b>27.5%</b>	<b>27.6%</b>	<b>27.6%</b>
Expenses	(374.8)	(391.0)	(408.3)	(430.0)	(1,604.0)	(438.1)	(374.8)	(391.0)	(408.3)	(430.0)	(1,604.0)
<b>EBITDA</b>	<b>94.1</b>	<b>139.7</b>	<b>147.2</b>	<b>158.8</b>	<b>539.7</b>	<b>152.4</b>	<b>87.3</b>	<b>131.3</b>	<b>139.9</b>	<b>147.6</b>	<b>506.2</b>
<b>% of Gross Revenues</b>	<b>5.5%</b>	<b>7.5%</b>	<b>7.4%</b>	<b>7.6%</b>	<b>7.0%</b>	<b>7.4%</b>	<b>5.1%</b>	<b>7.1%</b>	<b>7.0%</b>	<b>7.1%</b>	<b>6.6%</b>
Depreciation & Amortization	(43.6)	(44.0)	(48.3)	(51.6)	(187.6)	(53.5)	(43.6)	(44.0)	(48.3)	(51.6)	(187.6)
Interest Expenses / Income	(8.4)	(11.0)	(8.6)	(12.4)	(40.4)	(14.4)	(1.7)	(2.6)	(1.3)	(1.2)	(6.9)
Taxes	(1.3)	(10.8)	(9.8)	(19.4)	(41.3)	(3.4)	(1.3)	(10.8)	(9.8)	(19.4)	(41.3)
<b>Adjusted Net Income</b>	<b>40.7</b>	<b>73.8</b>	<b>80.5</b>	<b>75.4</b>	<b>270.4</b>	<b>81.0</b>	<b>40.7</b>	<b>73.8</b>	<b>80.5</b>	<b>75.4</b>	<b>270.4</b>
<b>% of Gross Revenues</b>	<b>2.4%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>3.6%</b>	<b>3.5%</b>	<b>3.9%</b>	<b>2.4%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>3.6%</b>	<b>3.5%</b>

	Reclassifications				
	1Q14	2Q14	3Q14	4Q14	2014
<b>Gross Revenues</b>	-	-	-	-	-
<b>EBITDA</b>	<b>6.7</b>	<b>8.4</b>	<b>7.2</b>	<b>11.2</b>	<b>33.5</b>
<b>% of Gross Revenues</b>	<b>0.4%</b>	<b>0.5%</b>	<b>0.4%</b>	<b>0.5%</b>	<b>0.4%</b>
<b>Interest Expenses / Income</b>	<b>(6.7)</b>	<b>(8.4)</b>	<b>(7.2)</b>	<b>(11.2)</b>	<b>(33.5)</b>
<b>% of Gross Revenues</b>	<b>(0.4%)</b>	<b>(0.5%)</b>	<b>(0.4%)</b>	<b>(0.5%)</b>	<b>(0.4%)</b>
<b>Adjusted Net Income</b>	-	-	-	-	-
<b>% of Gross Revenues</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>

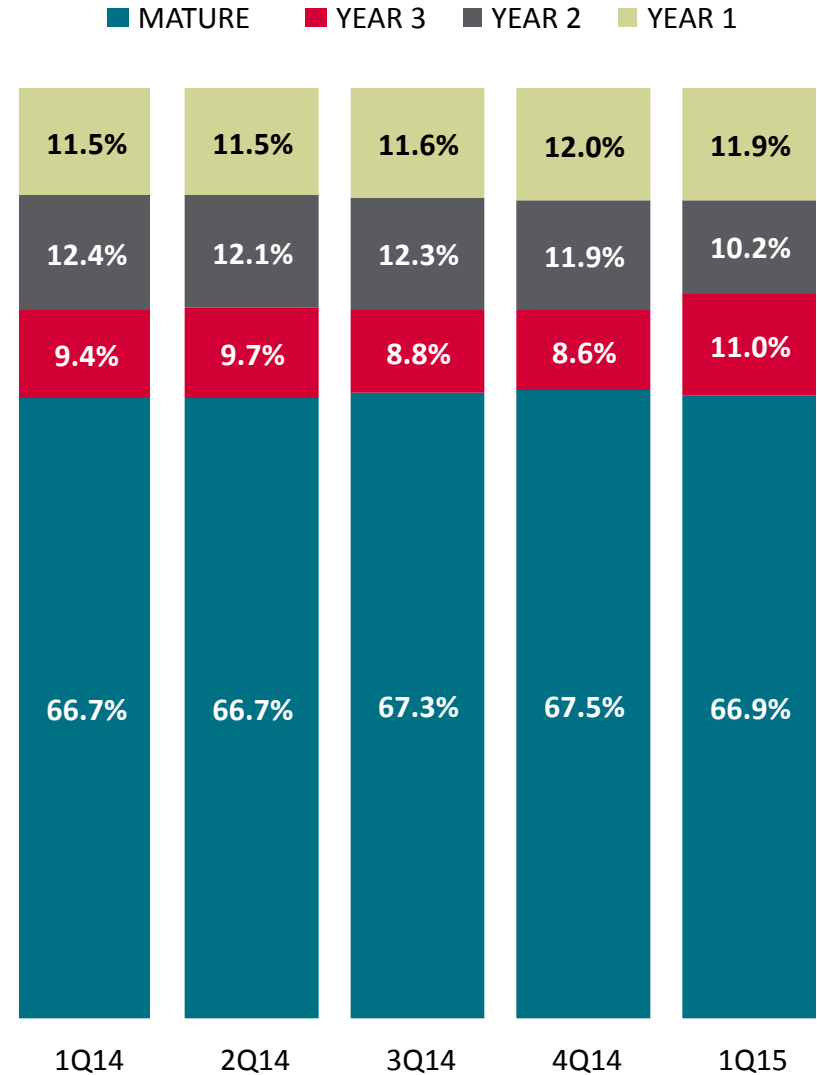


We opened 19 new stores and closed one in the 1Q15. At the end of the period, 33.1% of our stores were still undergoing maturation.

### Store Count\*



### Age Structure of Store Portfolio



	1Q14	2Q14	3Q14	4Q14	1Q15
Opened	18	29	33	51	19
Closed	(1)	(2)	(3)	(5)	(1)
Reopenings/(Suspensions)	2	2	0	0	0

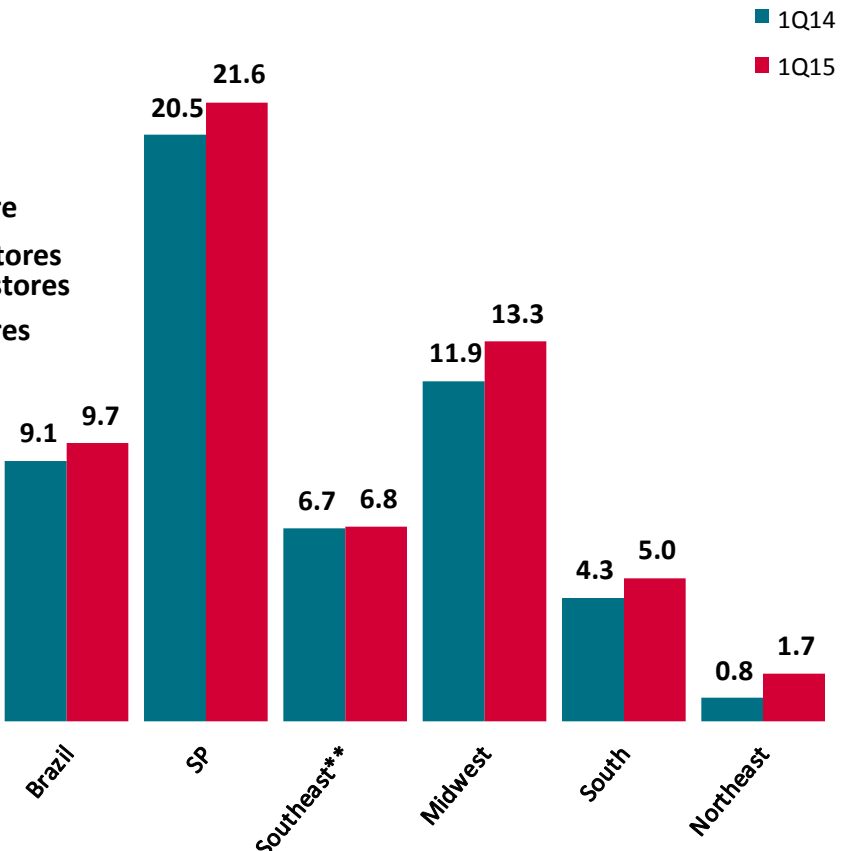
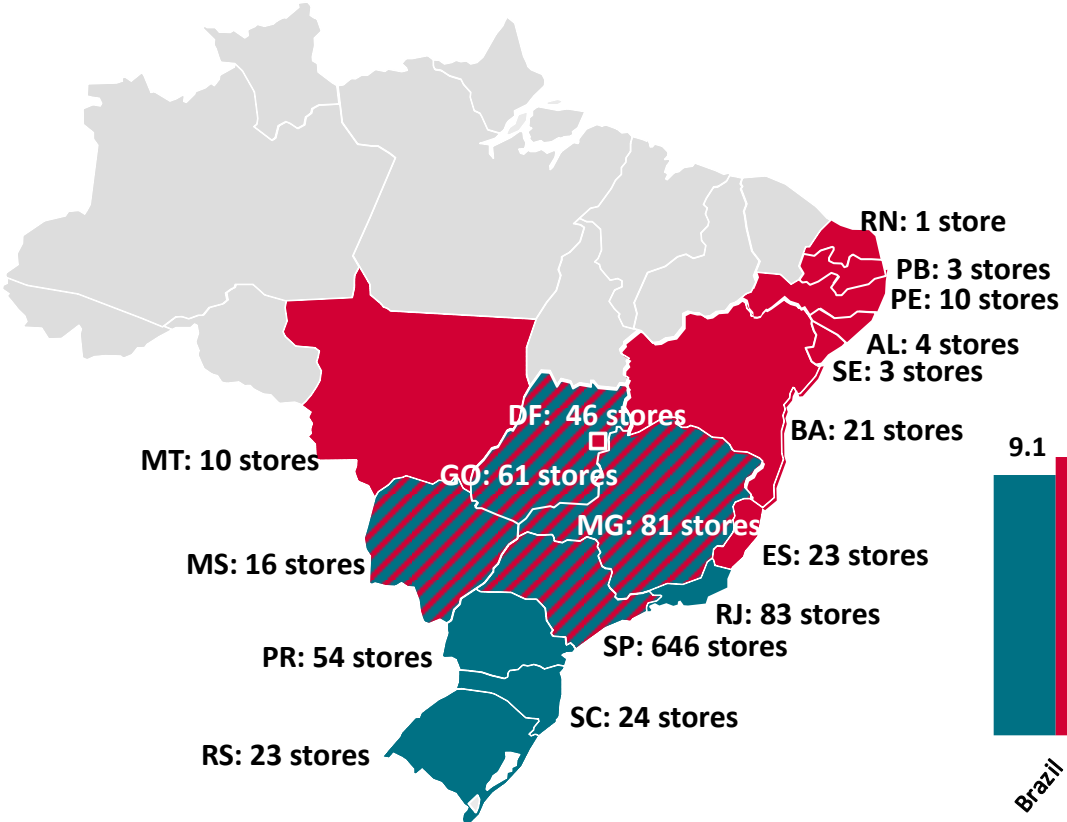
\* Does not include suspended stores, which have been temporarily closed to be rebranded.

We gained market share nationally (+ 0.6) and in all regions where we operate. We switched all 9 Drogasil stores in RJ to Droga Raia, unifying the brand and strengthening our competitiveness.



Geographic Presence

Market Share\*\*\*



**Total: 1,109 stores**  
 ■ Raia: 540 stores  
 ■ Drogasil\*: 569 stores

PHARMACEUTICAL MARKET DISTRIBUTION BY REGION

Source: IMS Health

\* Includes Farmasil stores

\*\* Excludes São Paulo

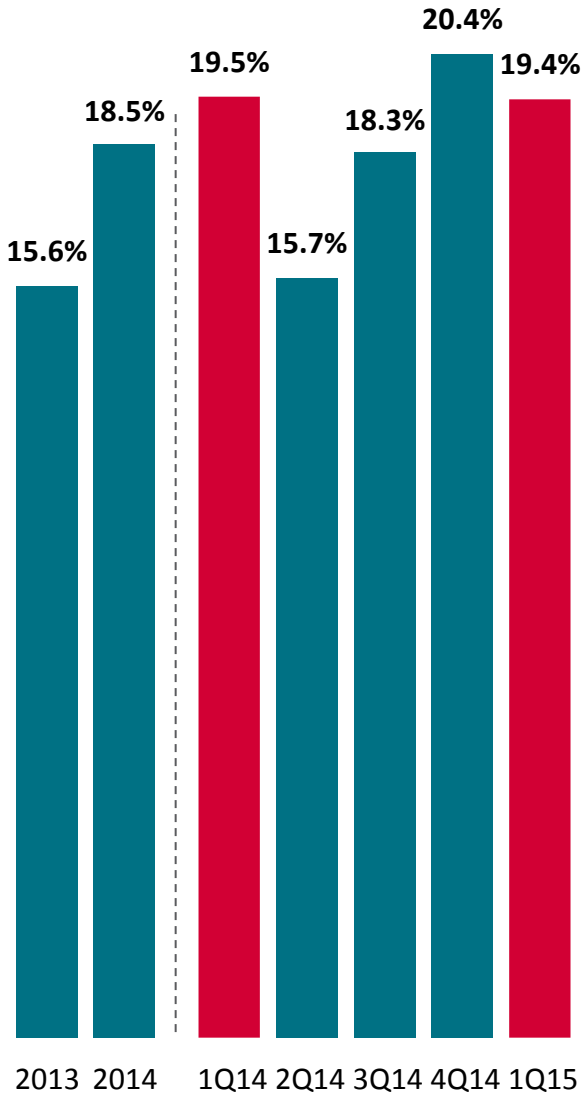
\*\*\* Comparable Market Share, excluding new informants added to the panel during the last twelve months. Our national market share including the full panel was of 9.4%

Region	Brazil	SP	Southeast**	Midwest	South	Northeast
Market Share	100.0%	26.7%	24.0%	8.7%	16.3%	19.0%

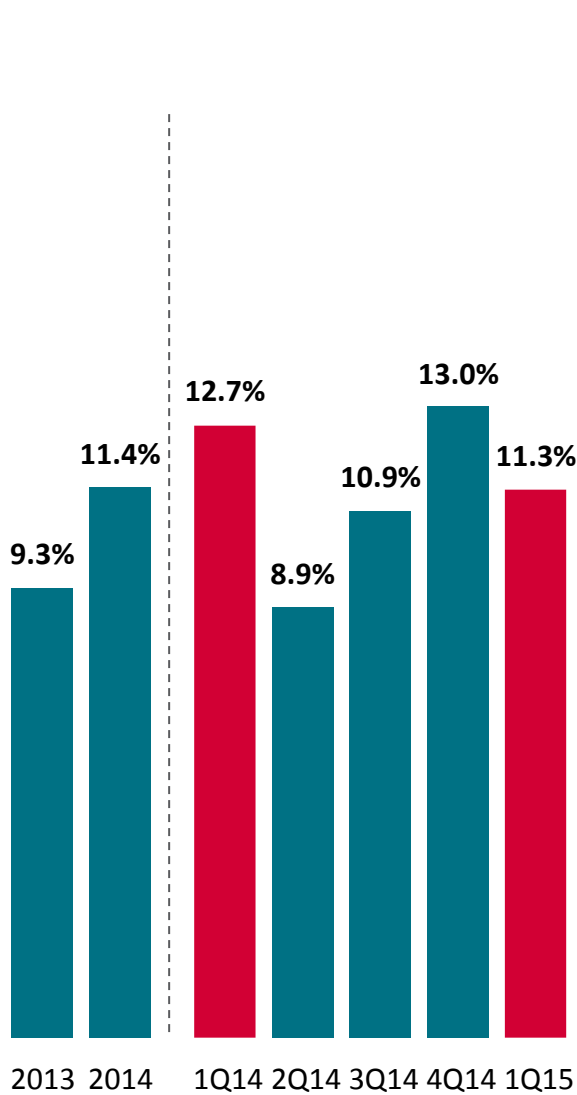
Our revenue grew by 19.4%. Same store sales grew by 11.3% while our mature stores recorded an increase of 6.9%.



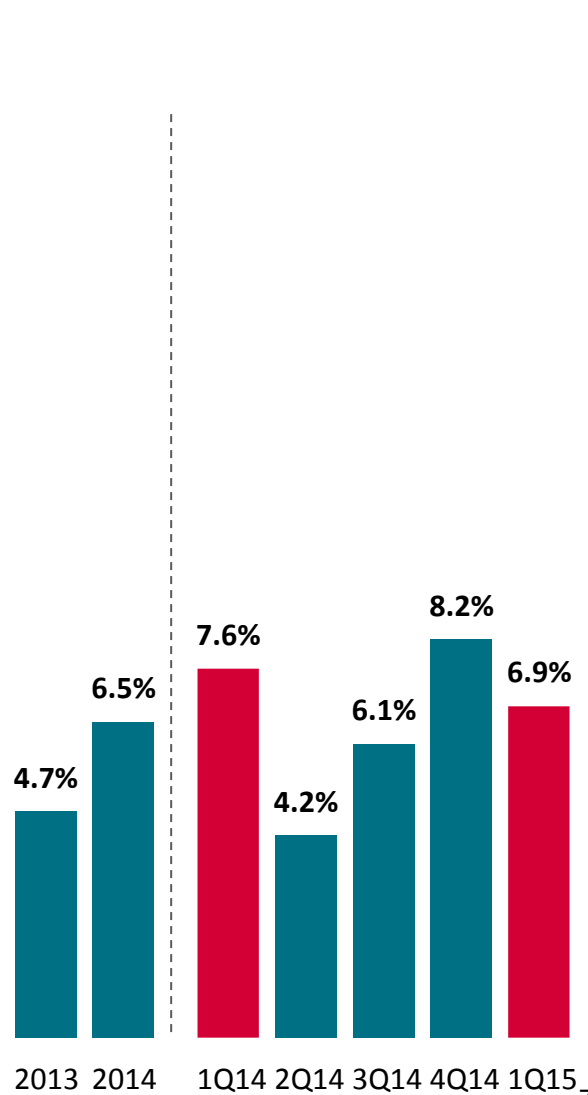
Growth – Total Sales



Growth – Same Store Sales



Growth – Mature Stores

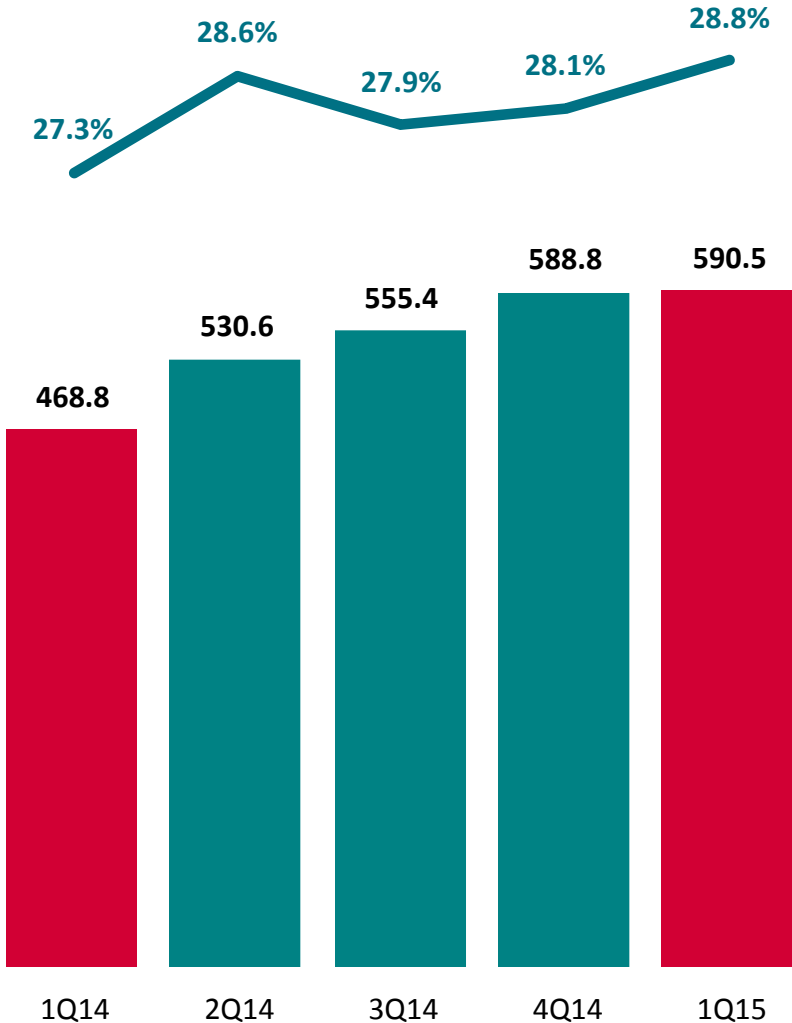


Gross margin increased +0.7 versus 4Q14 due to improvements in commercial terms, opportunistic purchases and losses. Cash cycle reduction of 9 days.



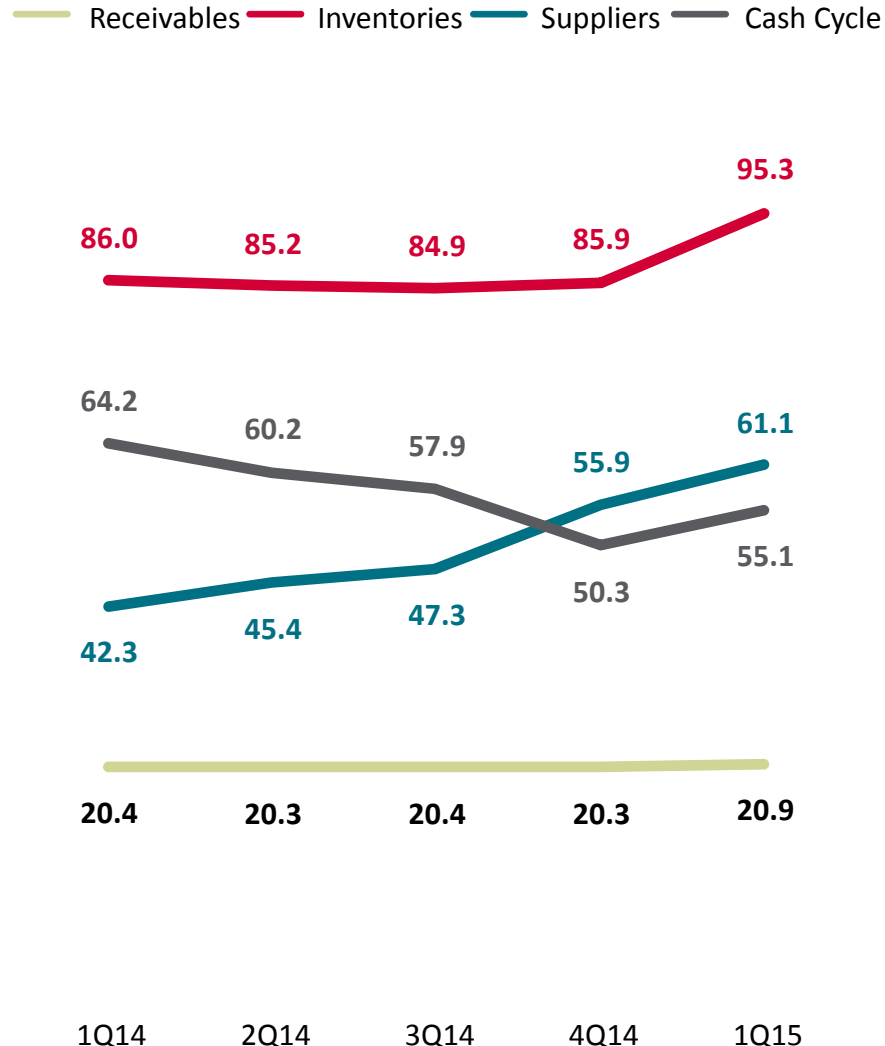
### Gross Margin

(R\$ million, % of Gross Revenues)



### Cash Cycle

(COGS Days, Gross Revenues Days)



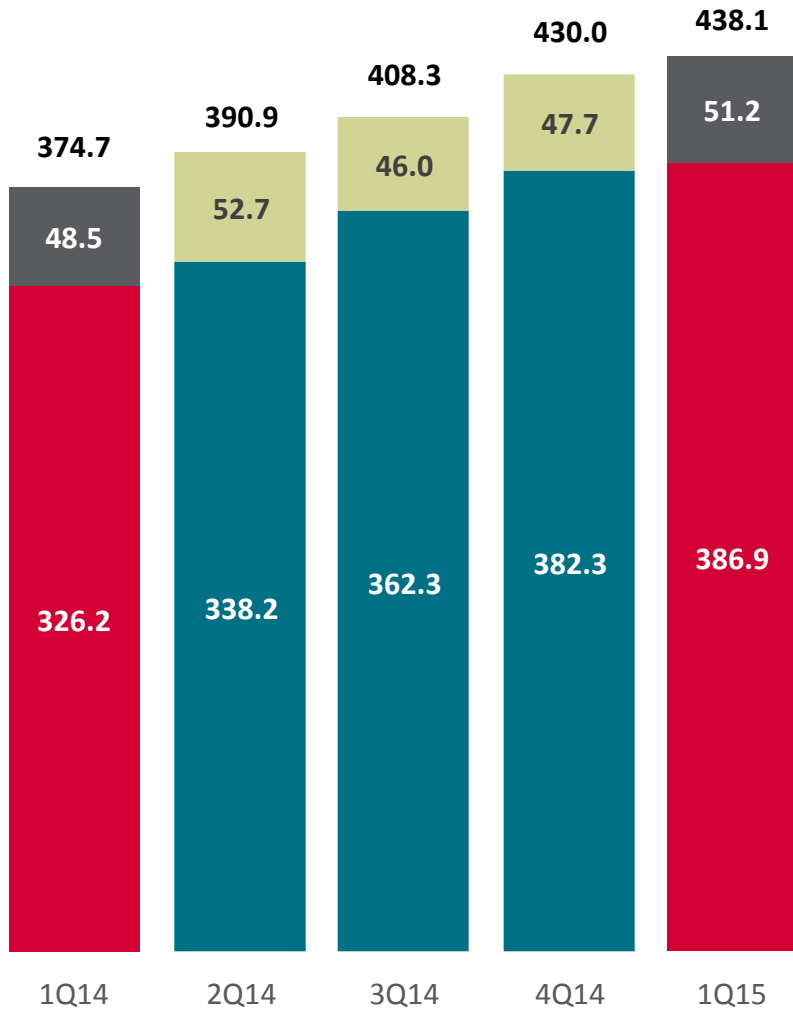




**Dilution in SG&A of 0.5 percentage point (0.2 p.p. in Sales Expenses and 0.3 p.p. in G&A). Comp base of 1Q14 pressured due to peaks in bonus allowance and in logistics expenses.**

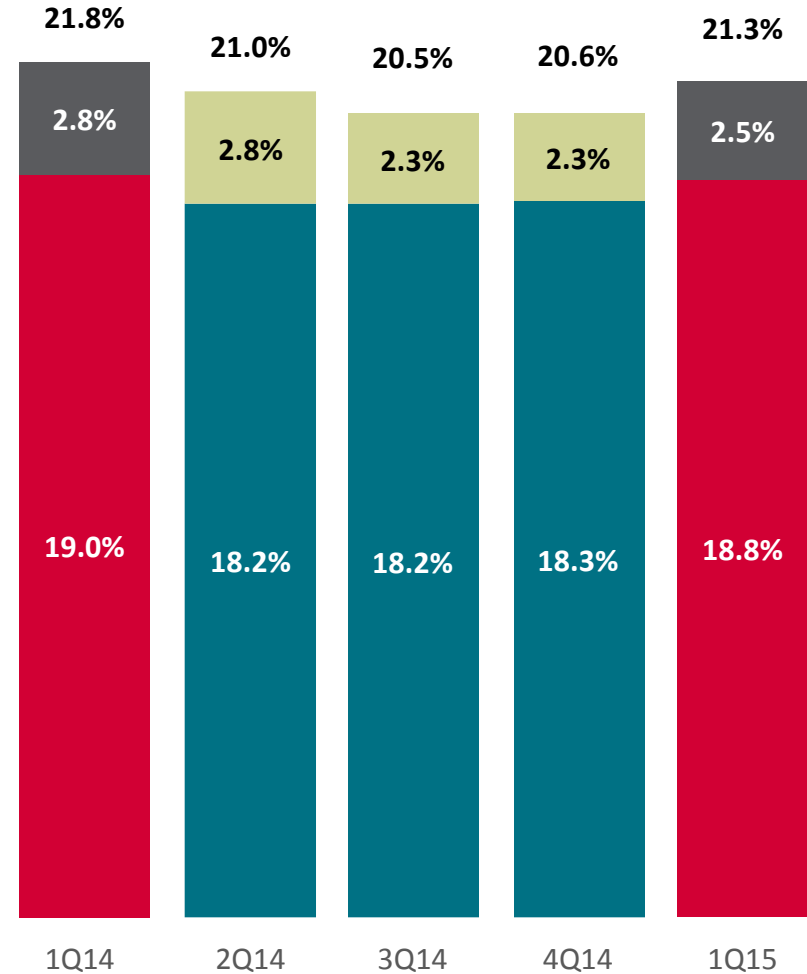
### Operating Expenses

(R\$ million)



### Operating Expenses

(% of Gross Revenues)

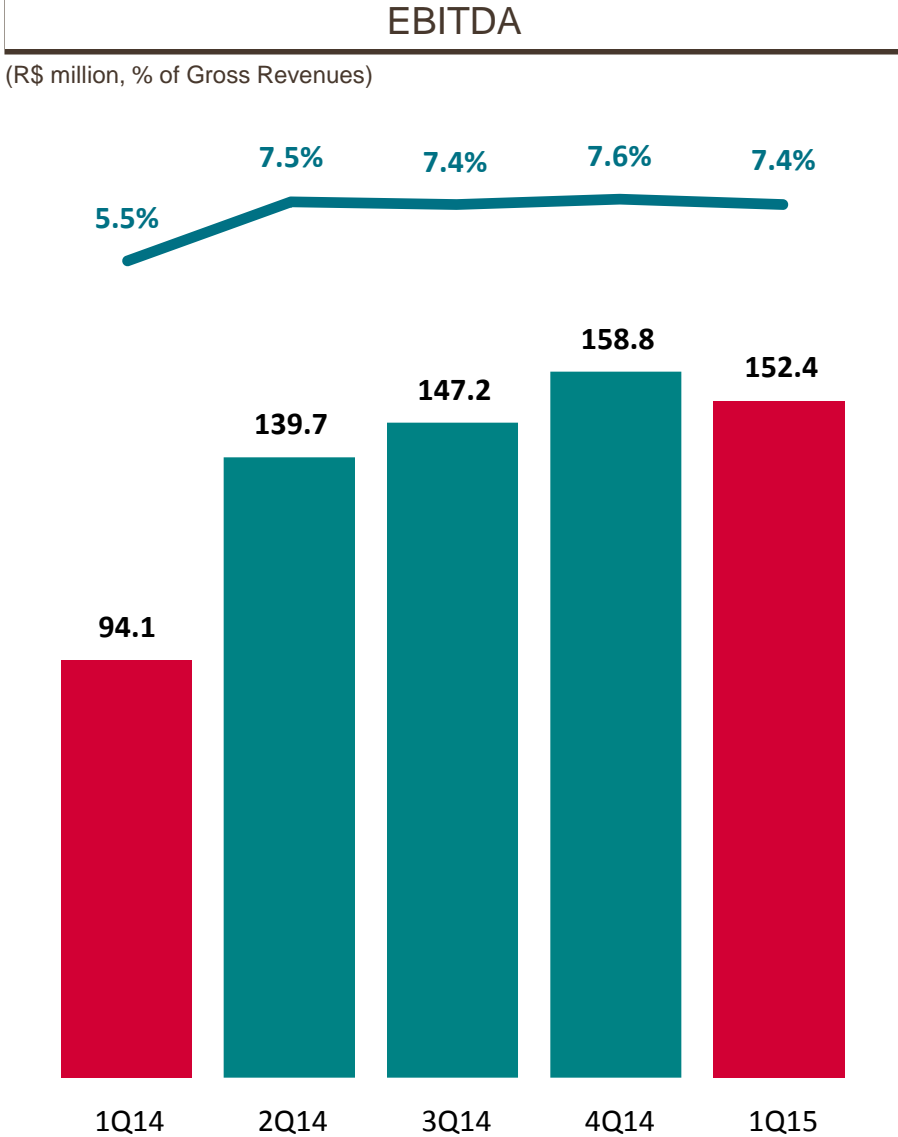


■ Sales Expenses

■ General & Administrative Expenses



We reached an EBITDA of R\$ 152.4 million, a 7.4% margin, driven by gross margin increase and SG&A dilution. Store openings penalized EBITDA by R\$ 6.8 million.

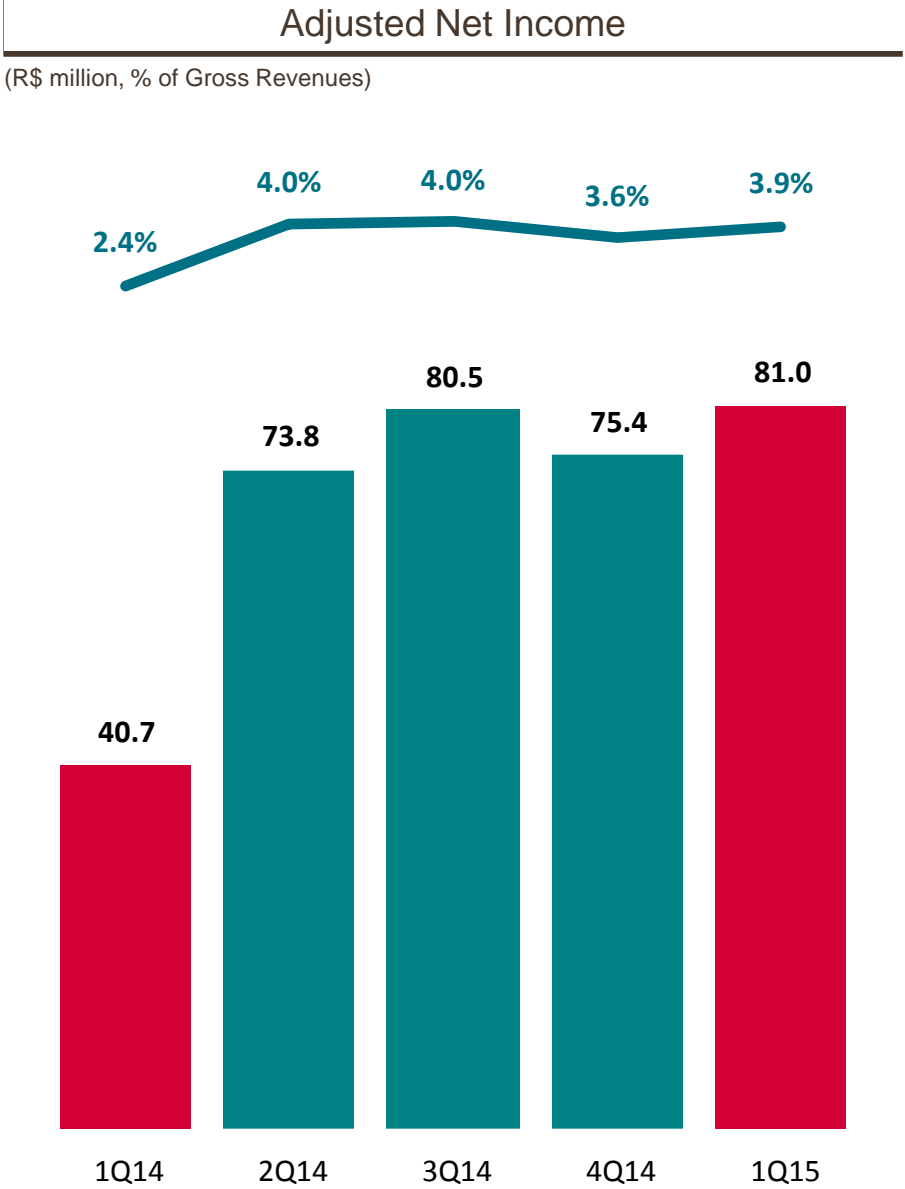


**1,090\* stores operating since 4Q14:**  
*(performance in the 1Q15)*

- R\$ 2.0 billion of Gross Revenues
- R\$ 159.2 million of EBITDA
- EBITDA margin of 7.8%

\* 1,091 stores at year-end less one store closed

The adjusted net income grew 99.0%, driven by an increase in the EBITDA margin partially offset by an increase in financial expenses and income tax. Reported net income grew 141.4%.



**Negative free cash flow of R\$ 31.0 million and total cash flow of R\$ 24.2 million. Operating cash flow partially funded the investments undertaken in the quarter.**



<u>Cash Flow</u> <i>(R\$ million)</i>	<u>1Q15</u>	<u>1Q14</u>
<b>Adjusted EBIT</b>	<b>98.8</b>	<b>50.4</b>
Non-Recurring Expenses	-	(1.4)
Income Tax (34%)	(33.6)	(16.7)
Tax Shield from Goodwill	10.7	10.7
Depreciation	53.5	43.6
Others	(12.9)	(6.5)
<b>Resources from Operations</b>	<b>116.5</b>	<b>80.3</b>
Cash Cycle*	(65.2)	(129.1)
Other Assets (Liabilities)	(22.9)	(13.2)
<b>Operating Cash Flow</b>	<b>28.4</b>	<b>(62.0)</b>
<b>Investments</b>	<b>(59.4)</b>	<b>(52.5)</b>
<b>Free Cash Flow</b>	<b>(31.0)</b>	<b>(114.5)</b>
Interest on Equity	(0.4)	(0.4)
Income Tax Paid over Interest on Equity	(4.2)	-
Net Financial Expenses	(14.4)	(8.4)
Income Tax (Tax benefit over financial expenses and interest on equity)	25.7	5.5
<b>Total Cash Flow</b>	<b>(24.2)</b>	<b>(117.8)</b>

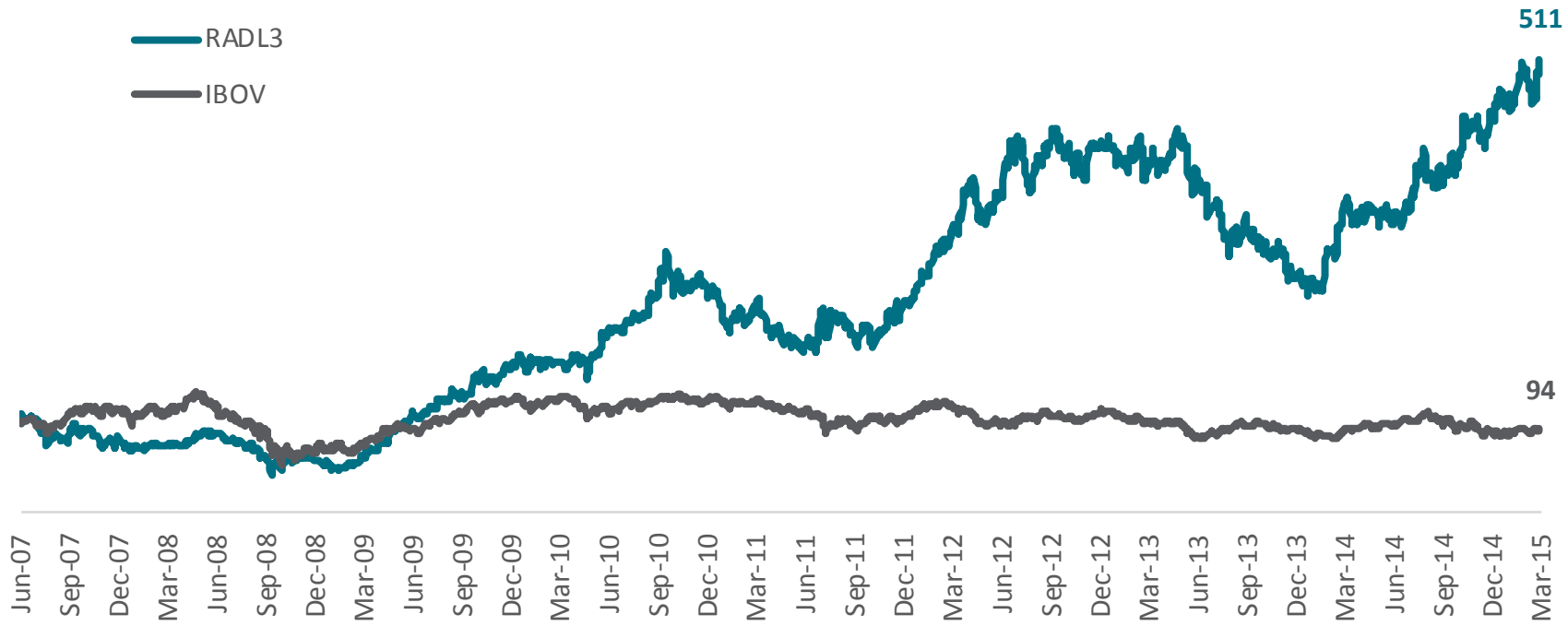
\* Cash cycle includes variation in accounts receivables, inventories and suppliers

\*\* Does not include financing cash flow

We generated a Total Shareholder Return of 13.0% YTD. Average annual return since Drogasil's IPO of 24.0% and of 26.8% since Droga Raia's IPO.



### Share Appreciation



**Performance 1Q15**

- RADL3: 13.0%**
- BOVESPA: 2.3%**
- Alpha: 10.7%**
- Average Trading Volume RADL3: R\$ 24.3 MM**



**Our improvement in execution was the main driver for achieving gross revenues of R\$ 8.0 billion with an EBITDA margin of 7.5% in the last 12 months.**

- **Reduction in Stock-outs**

- ERP Integration: unification of purchasing and inventory management algorithms
- Unification of the distribution network: increased delivery frequency
- Achieved lowest historical stock-out level
- Helped in growing revenues by 19.4% in the quarter

- **People**

- HR Restructuring: New VP, two new director positions, strengthening processes. *Virtuous Cycle*:
- Alignment of the store headcount and beginning of turnover reduction
- Achieved best historical Net Promoter Score
- Helped achieve a revenue growth of 19.4% and a dilution of the additional expenses

- **Category Management**

- Significant investment in structure: headcount increase from 4 to around 20 people
- Partnership with Dunnhumby (results expected to start in 2016)
- Ongoing optimization of assortment, layout, promotions & pricing based on customer profile
- Contributed to the gross margin increase of 1.5% in the quarter

**Long Term Focus: Investing in People, Processes & Plataforms to Boost Productivity and Customer Service. Objective: Increase Profitability & ROIC**



- **2015 Earnings (after market)**

- **2Q:** July 30<sup>th</sup>, 2015
- **3Q:** October 29<sup>th</sup>, 2015
- **4Q:** February 18<sup>th</sup>, 2016

- **Raia Drogasil Day**

- Date: December 4<sup>th</sup>
- Time and venue to be determined

- **Next Conferences**

- May 11<sup>th</sup> and 12<sup>th</sup>: **13th Santander London Conference**, Santander (London)
- May 13<sup>th</sup> and 14<sup>th</sup>: **10th Annual LatAm CEO Conference**, Itaú (New York)
- June 24<sup>th</sup> and 25<sup>th</sup>: **Citi's 8th Annual Brazil Equity Conference**, Citibank (São Paulo)