RaiaDrogasil

Earnings Presentation – 2Q15

July 31st, 2015

Disclaimer

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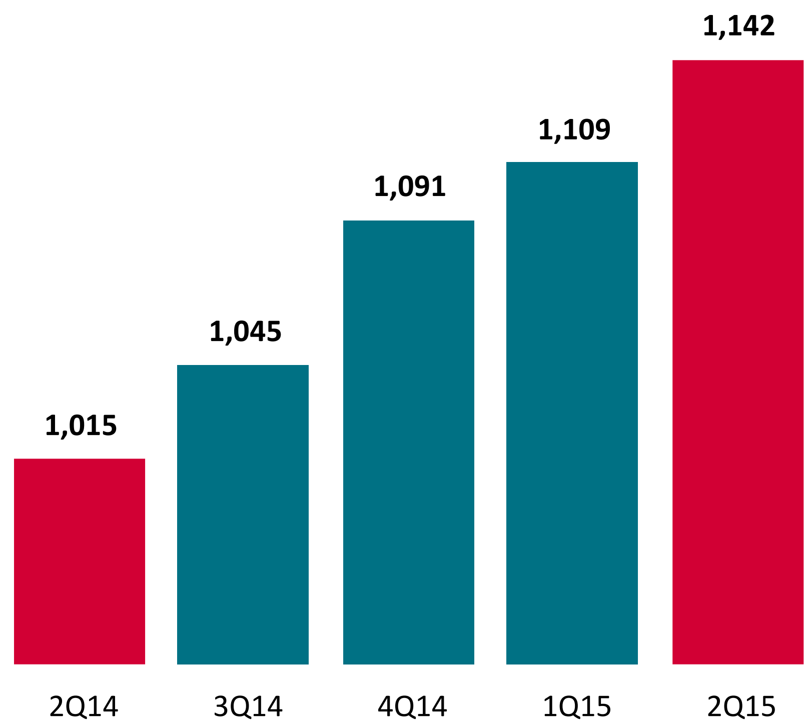
Highlights

- **Drugstores:** 1,142 stores in operation (38 openings and five closures)
- **Gross Revenues:** R$ 2.3 billion, 22.9% of growth (14.7% for same-store sales)
- **Gross Margin:** 30.5% of gross revenues, a 1.9 percentage point margin increase
- **EBITDA:** R$ 217.2 million, a record margin of 9.5%, a 2.0 percentage point margin expansion
- **Adjusted Net Income:** R$ 118.9 million, a record margin of 5.2% and an increase of 61.1%
- **Cash Flow:** R$ 36.9 million free cash flow, R$ 28.8 million total cash consumption
- **4-Bio:** Entry into Specialty Retailing by acquiring 55% of the Company

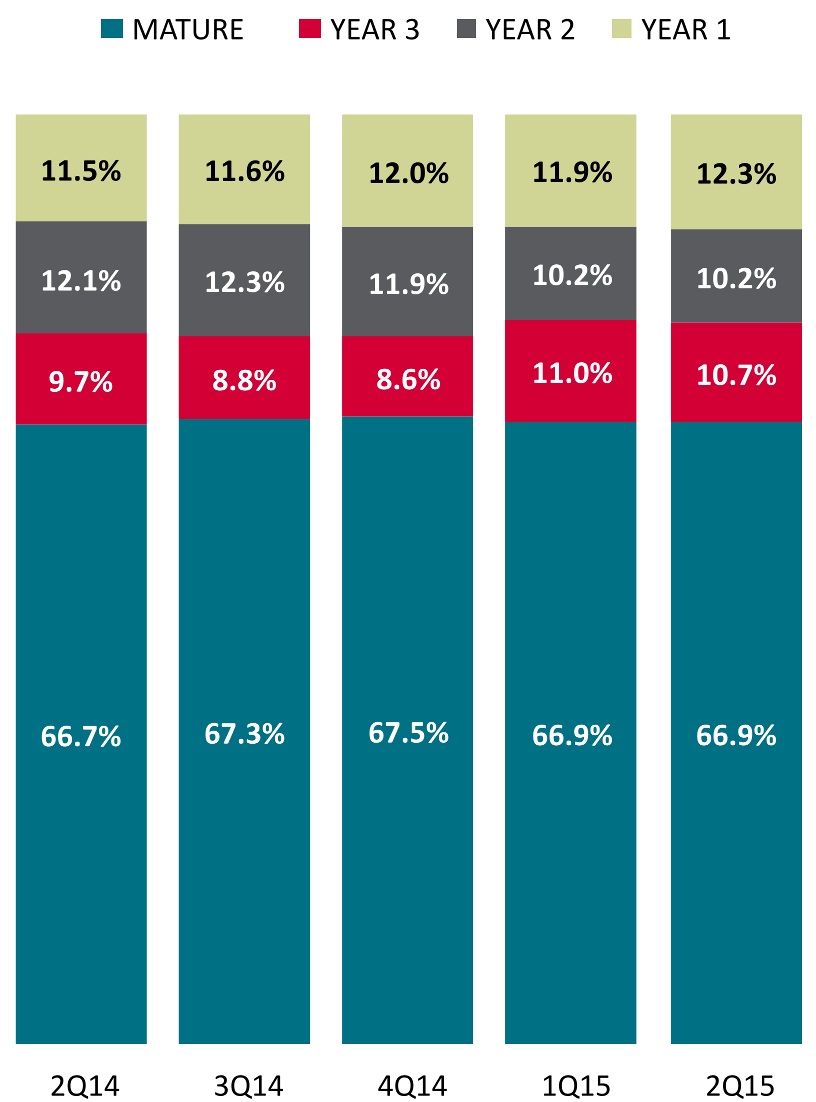
Getting ready to accelerate the expansion from 2016. We opened 57 stores in the 1H15 and 141 in the LTM. 33.1% of stores still undergoing maturity.

Store Count*



	2Q14	3Q14	4Q14	1Q15	2Q15
Opened	29	33	51	19	38
Closed	(2)	(3)	(5)	(1)	(5)
Reopenings/(Suspentions)	2	0	0	0	0

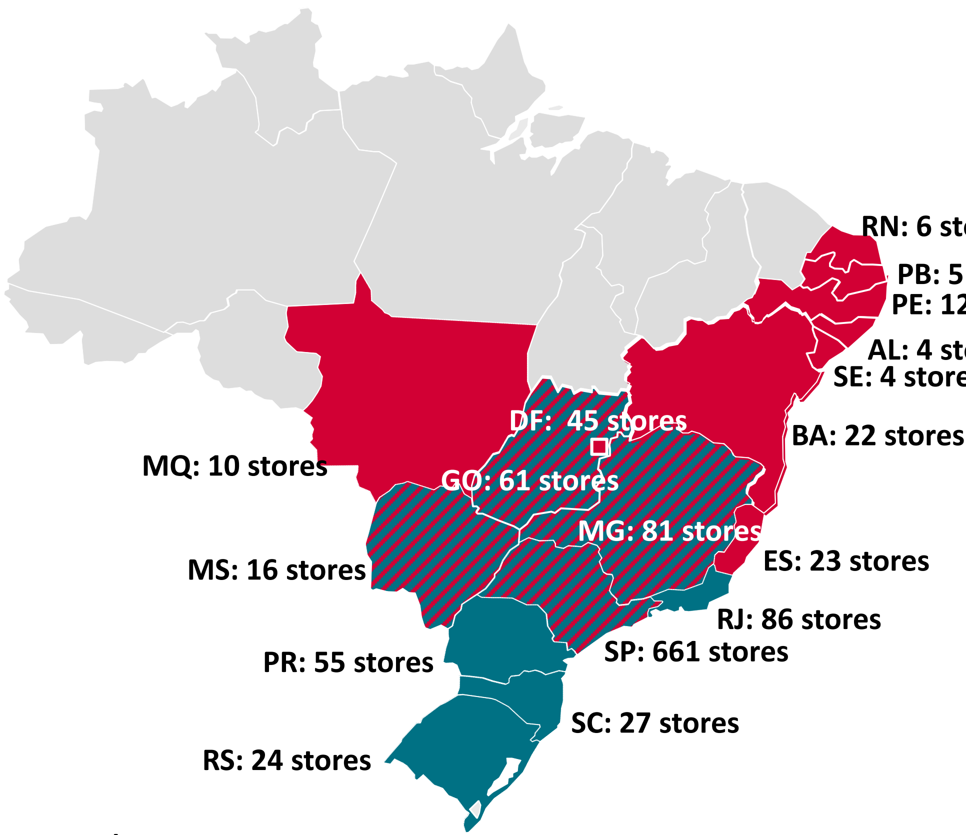
Age Structure of Store Portfolio



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

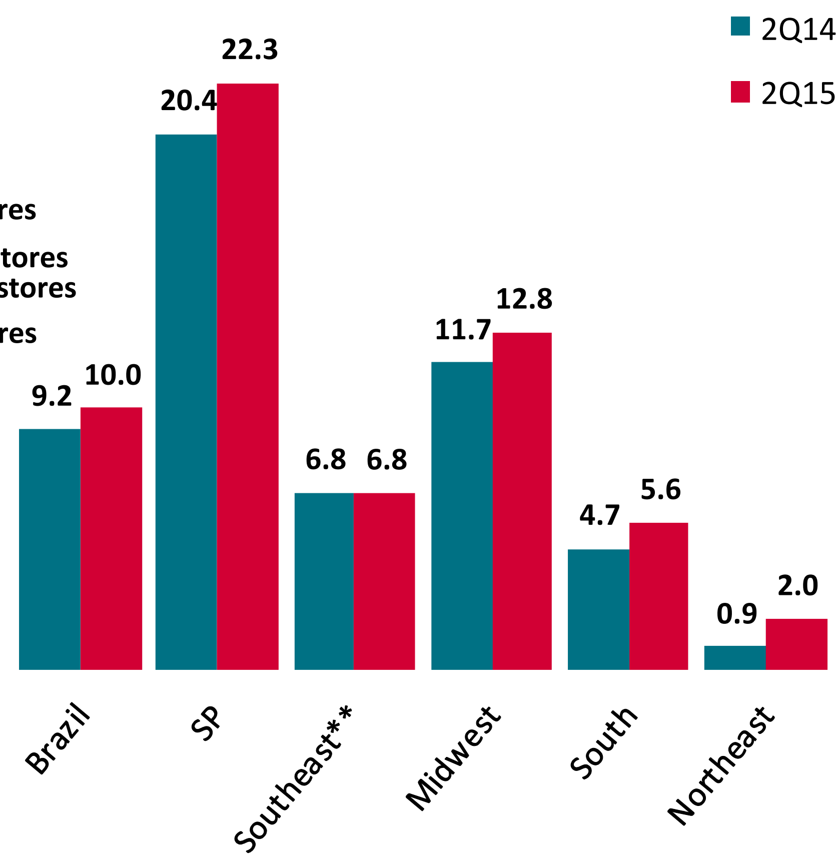
We gained substantial market share nationally (+ 0.8 pp) and we were able to increase or maintain our participation in all regions where we operate.

Geographic Presence



Total: 1,142 stores
Raia: 554 stores
Drogasil*: 588 stores

Market Share***

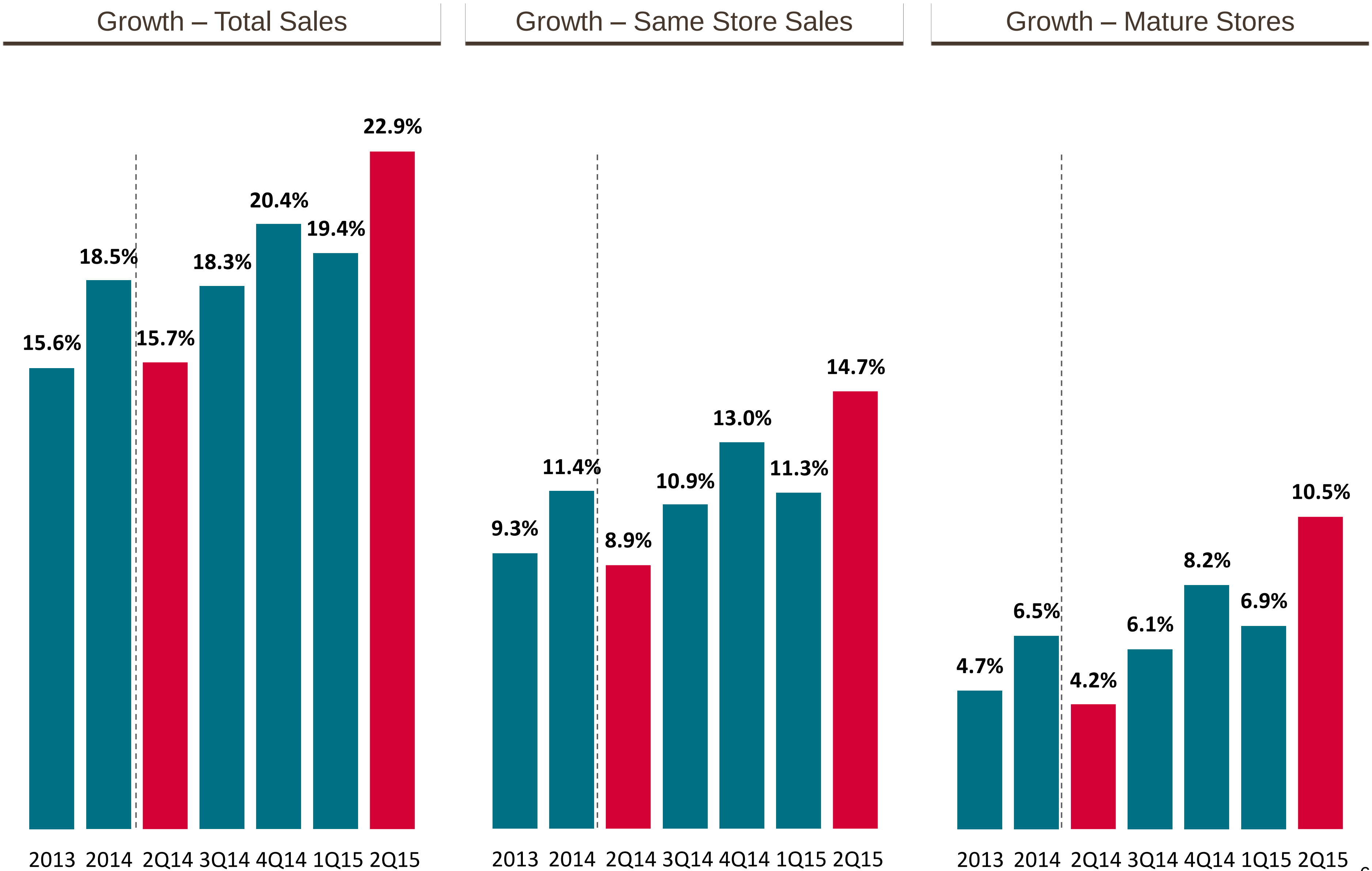


PHARMACEUTICAL MARKET DISTRIBUTION BY REGION

Brazil	SP	Southeast**	Midwest	South	Northeast
100.0%	26.4%	24.4%	9.1%	15.9%	18.9%

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 9.7%

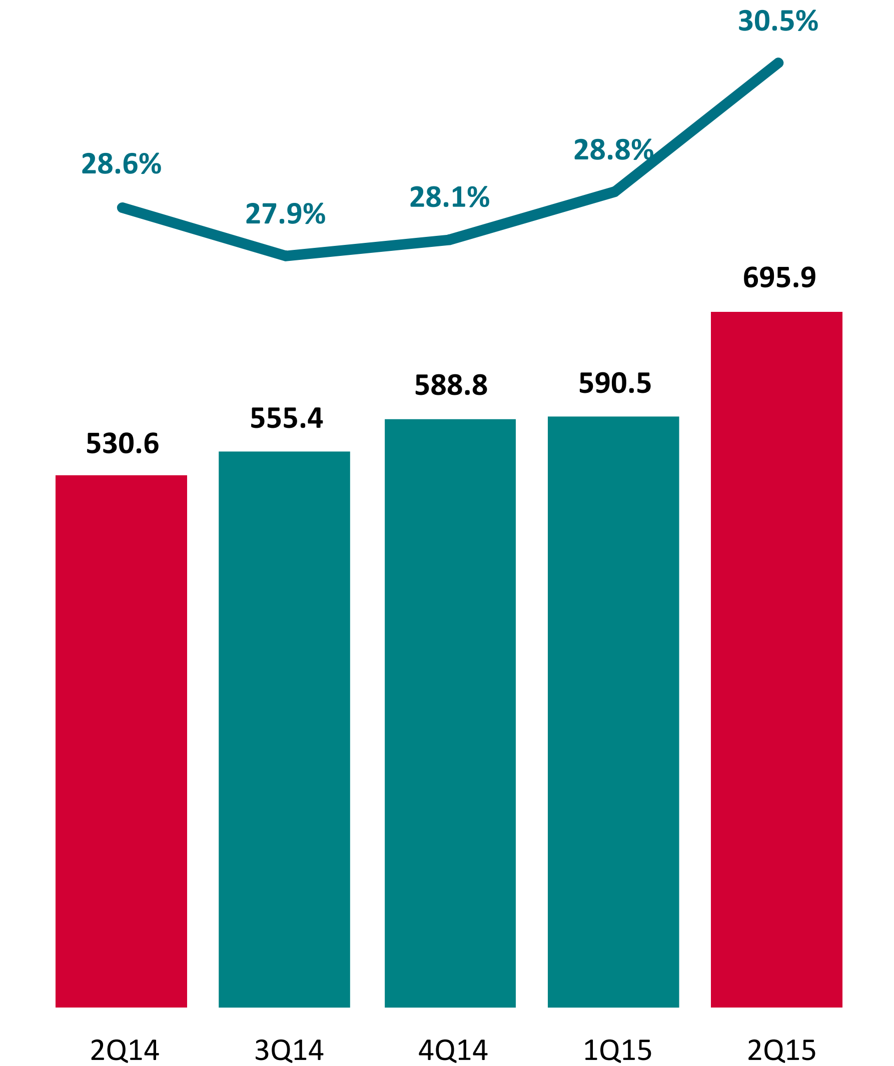
Our revenues increased by 22.9%. Same store sales grew by 14.7% while our mature stores recorded an increase of 10.5%. Easy comps in the 2Q14, with World Cup impact of 1.3%.



Gross margin increased 1.9 pp due to improvements in commercial terms, annual price increase, forward buying, opportunistic purchases and inventory losses. Cash cycle reduction of 5.3 days.

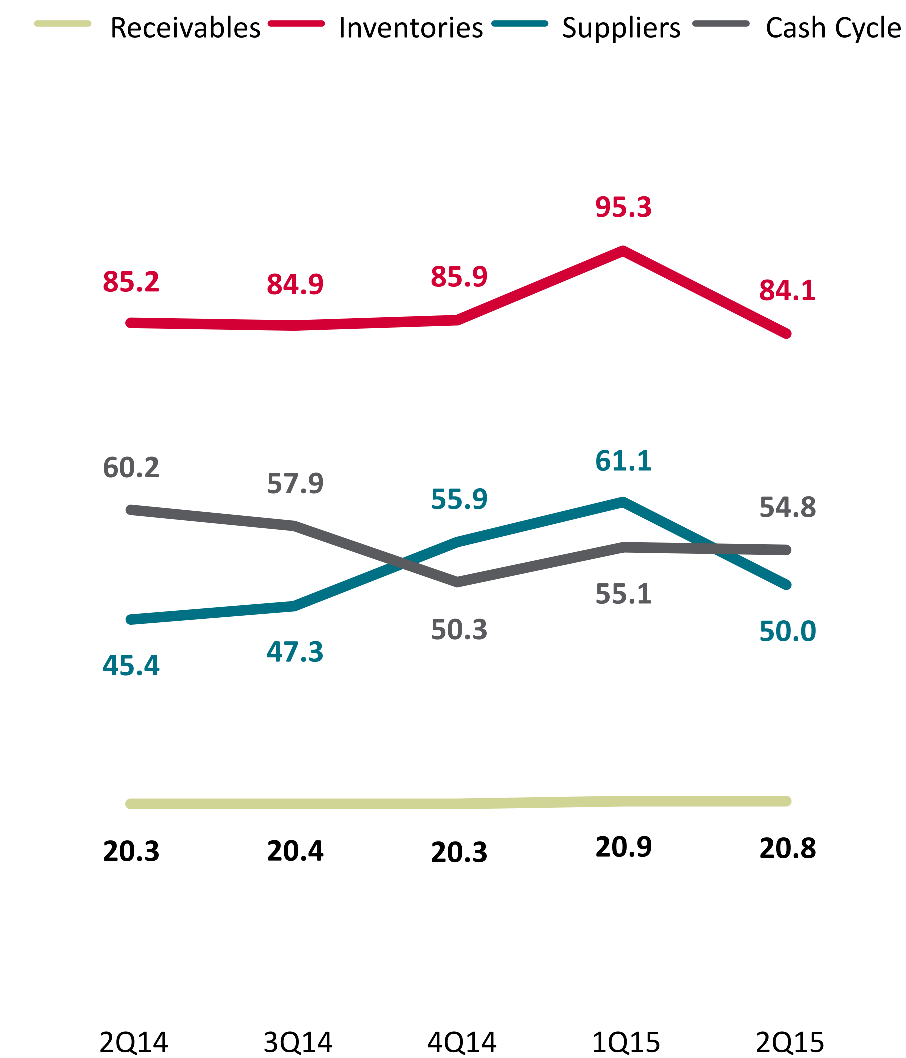
Gross Margin

(R$ million, % of Gross Revenues)



Cash Cycle

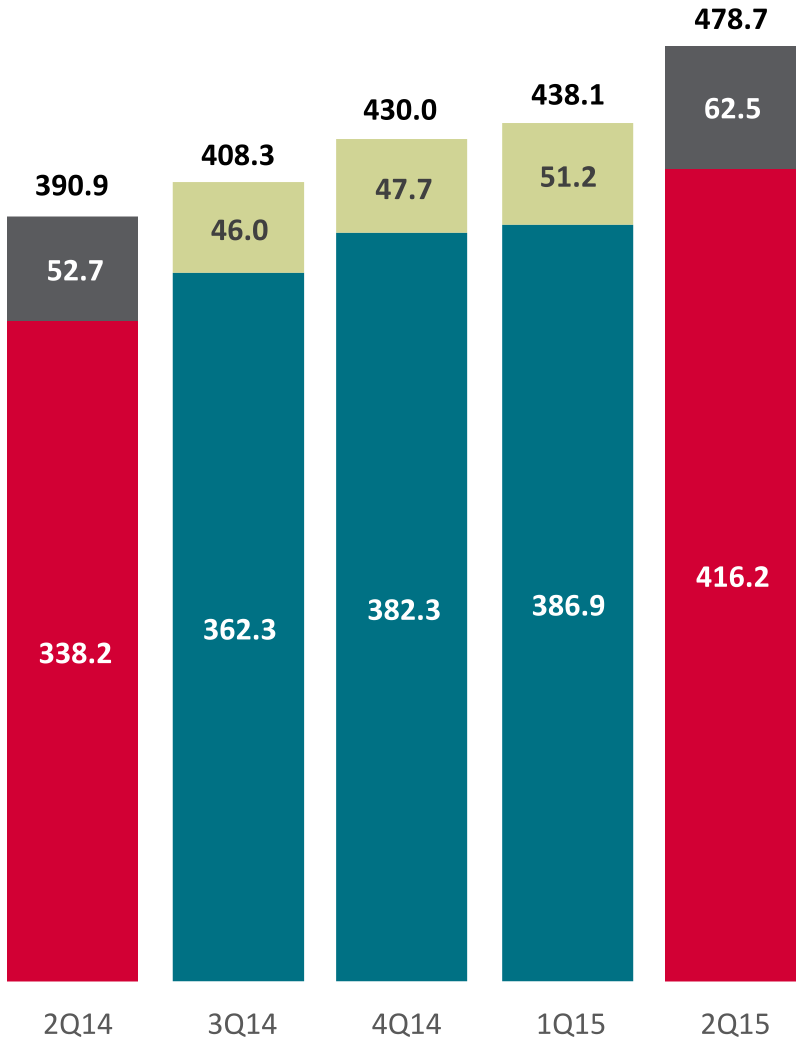
(COGS Days, Gross Revenues Days)



G&A dilution of 0.1 pp. 2Q15 expenses inflated by 0.2 p.p. due to allowance increases, while 2Q14 impacted by the excess provisioning of variable compensation of the same magnitude.

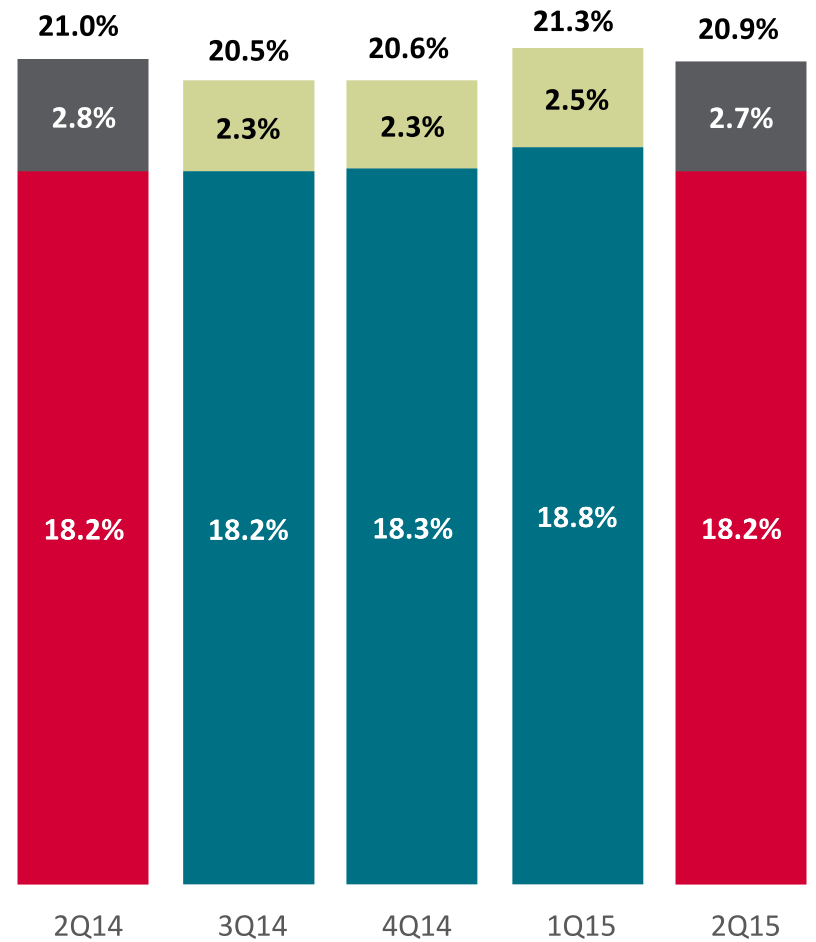
Operating Expenses

(R$ million)



Operating Expenses

(% of Gross Revenues)

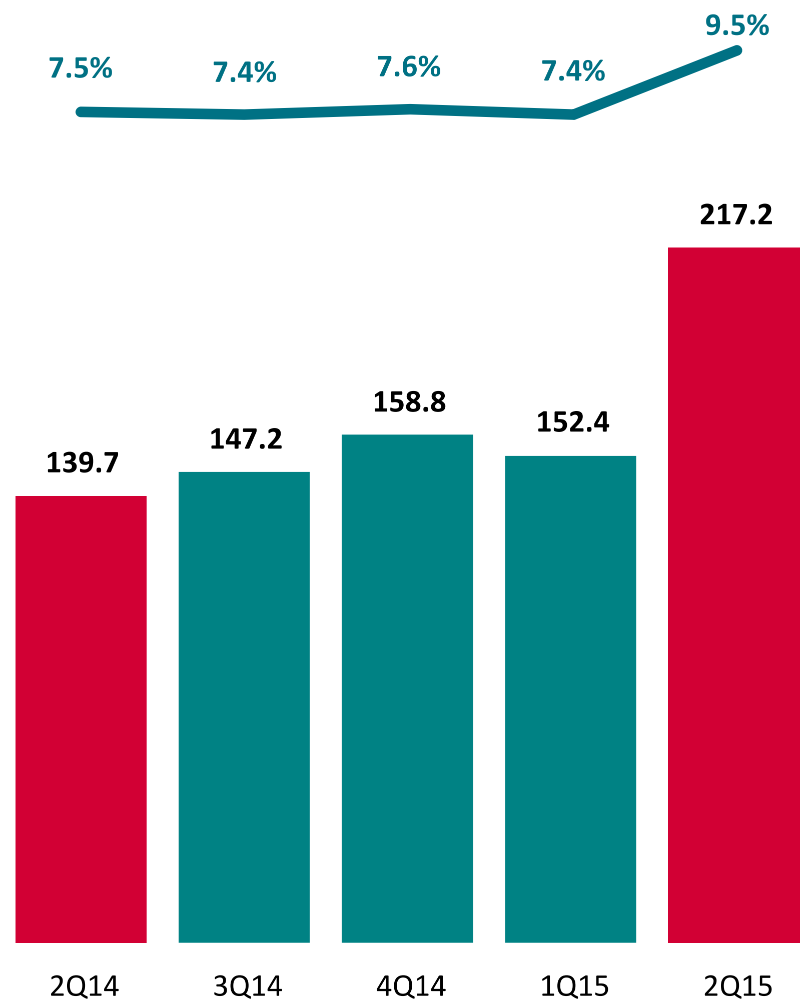


Sales Expenses General & Administrative Expenses

We reached an EBITDA of R$ 217.2 million, a 9.5% record margin, driven by gross margin increase and SG&A dilution. Store openings penalized EBITDA by R$ 9.6 million.

EBITDA

(R$ million, % of Gross Revenues)



1,085* stores operating since 4Q14:
(performance in the 2Q15)

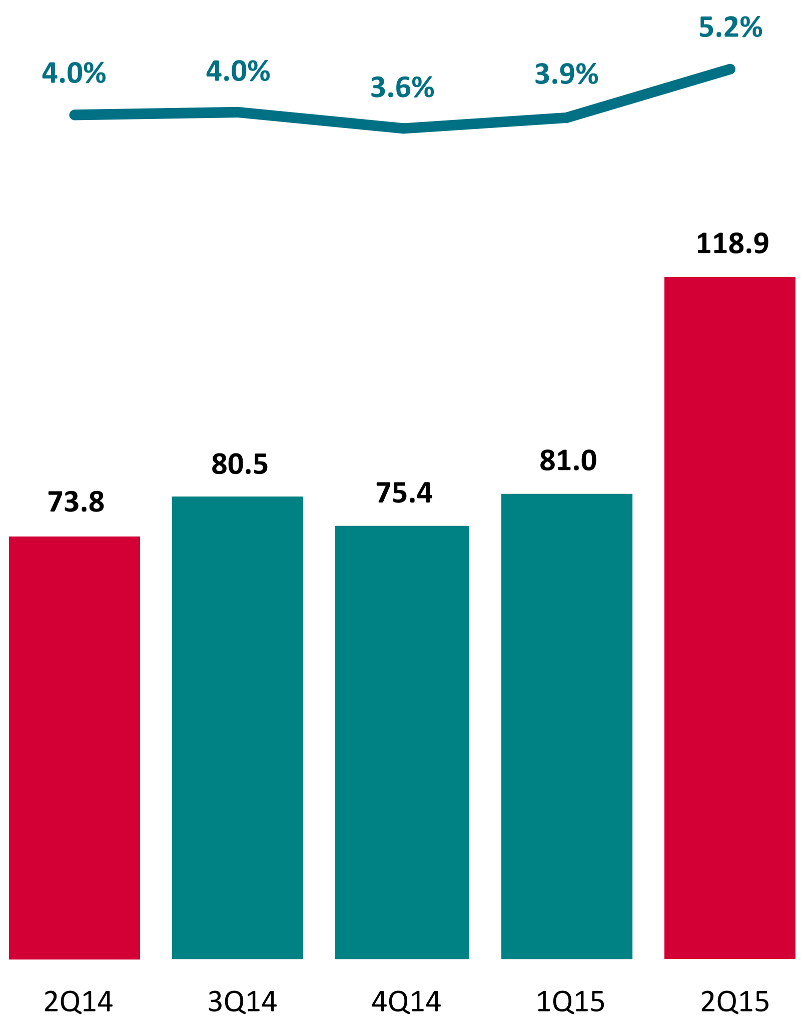
- R$ 2.2 billion of Gross Revenues
- R$ 226.8 million of EBITDA
- EBITDA margin of 9.9%

* 1,091 stores at year-end less six stores closed

The adjusted net income grew 61.1%, driven by an increase in the EBITDA margin, partially offset by an increase in income tax. Reported net income grew 74.2%.

Adjusted Net Income

(R$ million, % of Gross Revenues)



Free cash flow of R$ 36.9 million and negative total cash flow of R$ 28.8 million. Operating cash flow fully funded the investments undertaken in the 2Q15.

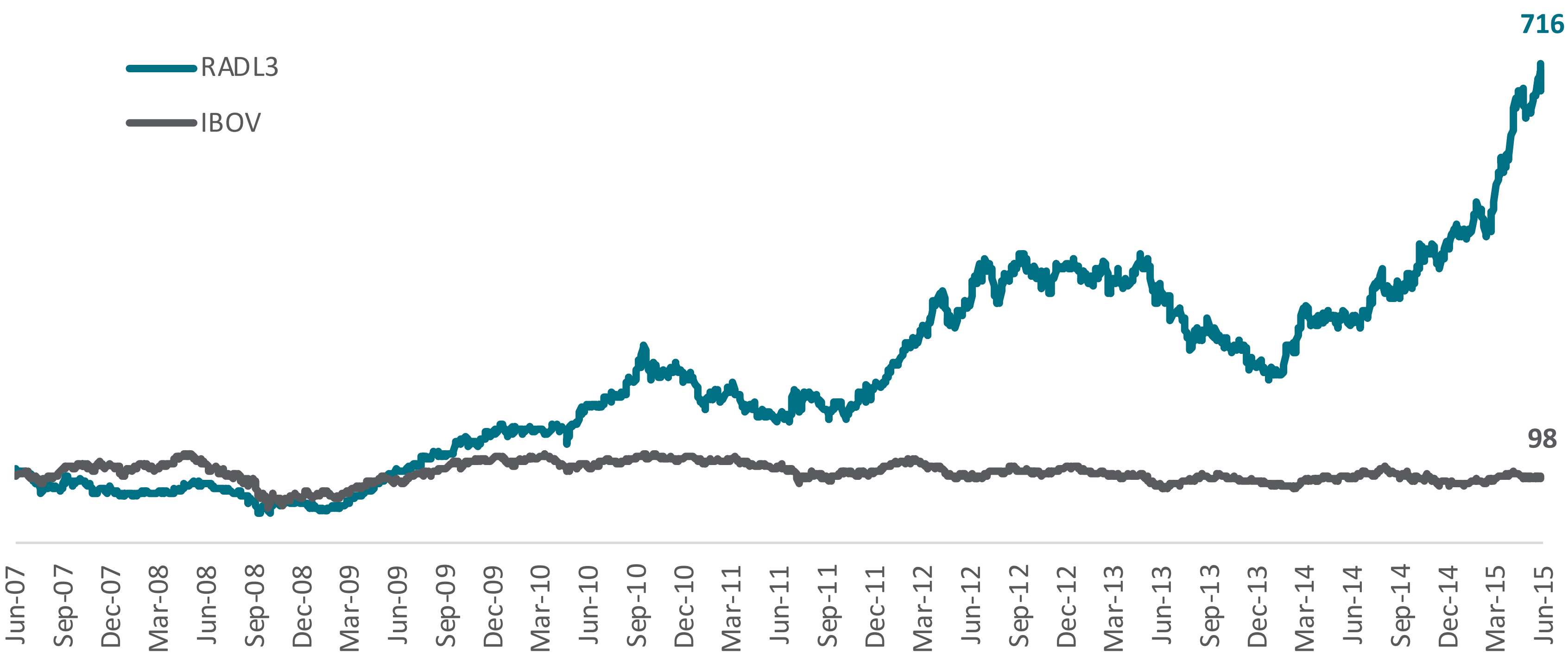
Cash Flow *(R$ million)*	**2Q15**	**2Q14**	**6M15**	**6M14**
Adjusted EBIT	**161.6**	**95.6**	**260.4**	**146.1**
Non-Recurring Expenses	-	(1.5)	-	(2.9)
Income Tax (34%)	(54.9)	(32.0)	(88.5)	(48.7)
Tax Shield from Goodwill	10.7	10.7	21.4	21.4
Depreciation	55.6	44.0	109.1	87.7
Others	13.4	9.9	0.6	3.4
Resources from Operations	**186.4**	**126.7**	**303.0**	**207.0**
Cash Cycle*	(96.0)	(13.8)	(161.2)	(142.9)
Other Assets (Liabilities)	27.9	15.4	5.0	2.2
Operating Cash Flow	**118.2**	**128.4**	**146.8**	**66.4**
Investments	**(81.3)**	**(70.3)**	**(140.7)**	**(122.8)**
Free Cash Flow	**36.9**	**58.1**	**6.1**	**(56.4)**
Interest on Equity	(63.6)	(16.6)	(64.0)	(17.0)
Income Tax Paid over Interest on Equity	(4.6)	(1.1)	(8.8)	(1.1)
Net Financial Expenses	(14.7)	(11.0)	(29.1)	(19.4)
Share Buyback	-	(20.9)	-	(20.9)
Income Tax (Tax benefit over financial expenses and interest on equity)	17.1	11.0	42.8	16.5
Total Cash Flow	**(28.8)**	**19.5**	**(52.9)**	**(98.3)**

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

** Does not include financing cash flow

We generated a Total Shareholder Return of 58.9% YTD. Average annual return since Drogasil's IPO of 28.4% and of 34.8% since Droga Raia's IPO.

Share Appreciation



Performance 2015

RADL3: 58.1%
BOVESPA: 6.1%
Alpha: 52.0%
Average Trading Volume RADL3 : R$ 46.1 MM

2Q15: A Record Quarter Achieved Through Inflation Management, Discipline and Execution

- **Inflation Management**
  - Ability to boost the inflationary gain through a huge forward buying: **Building an Inflationary Hedge for the Year**
  - High mature store growth has so far absorbed expenses increases
  - Tight cost management
- **Cash Discipline**
  - Strong cash cycle management
  - Opportunity purchases have been self financed
  - Positive free cash flow generation
  - Increased payout to shareholders
  - Ability to keep investing and exploiting competitive weaknesses in a crisis
- **Strong Execution**
  - Reducing employee turnover, low stock-outs, improving customer satisfaction
  - IT and Logistics integration have been key to support efficiency and large forward buying
  - Finishing POS unification at Drogasil: More than 400 stores already rolled-out

Preparing for the Future

- ## Short Term

  - Inflation increases margin differences from second quarter to second semester
  - Increased inflationary pressures on the 2H15: Labor + Energy
  - Increased expenses as a percentage of revenues are certain
  - Ongoing cost discipline is crucial
  - High growth will be crucial to mitigate expense increase
  - Maintain gross margin momentum

- ## Long Term

  - Preparing the acceleration of the organic growth from 2016: **Faster Prospection, Higher Buffer, Better Process**
  - Strong Focus on the 4 strategic pillars: **Expansion**, **Formats**, **Category Management** and **CRM**
  - Strong Focus on the 3 enablers: **People**, **Processes** and **Platforms**
  - 4 Bio: Long-Term opportunity, tight fit within the strategic pillars: **New Category, Same Customer**

Specialty Retailing and 4-Bio Overview

- **Specialty Retailing**
  - High-cost, high-tech, high-touch medicines used in the treatment of high-complexity diseases
  - Require special storage, handling, transportation and administration, as well as service support
  - Products are centrally dispensed and delivered to the patient, they are seldom found at drugstores
  - Demand generation through the patient, physician and/or payer
  - In Brazil the cost is paid either by the patient (assisted reproduction, gynecology, endocrinology, etc.) or by a third-party payer (Oncology and Immunobiology)

- **4-Bio Overview**
  - Established in 2004 in São Paulo by André Kina, former finance executive of Procter & Gamble in Brazil
  - Second largest Specialty Retailer in Brazil, with gross revenues of R$ 126 million in 2014 and of R$ 80 million in the 1H15, expected EBITDA of R$ 5.5 million in 2015 and net debt of 13,3 Million (Mar 31,2015)
  - Specialty retailing market leader in Oncology, Assisted Reproduction, Immunobiology and Gynecology
  - Only focused, pure play specialty retailer among the Top 3, without any exposure either to wholesaling or to government sales
  - Great expertise in patient services, including adherence monitoring, waste prevention, auto refill, etc.
  - Highly recognized brand among specialty physicians and payers
  - Well structured and managed company : audited by Big 4, ISO 9001, Great Place to Work and other awards

Rationale for the Association: Reinventing Specialty Retailing in Brazil

- **Leading the consolidation of the specialty retail market, the fastest growing and a highly complementary segment within the pharmaceutical industry**
- **Overcoming high entry barriers and minimizing distractions by partnering with a well-structured, high-growth company managed by a strong leader, with proven know-how, management capacity and shared values**
- **Becoming the only full service drugstore chain that can provide patients, physicians and payers with all their pharmaceutical needs**
- **Reinventing the relationship with manufacturers by becoming the only drugstore chain who can serve them in all their needs, including high-cost, high-growth, high touch, patent-protected specialty products**
- **Leveraging our brands, locations and customer relationships, as well as our strategic, financial and operational capabilities, on a proven specialty platform to reinvent specialty retailing in Brazil**
  - Leveraging our brands and locations to capture specialty product demand and fulfill through 4-Bio
  - Exploiting the existing Raia Drogasil PBM relationships to increase 4-Bio´s penetration with companies, health insurers and other payers
  - Leveraging our national presence and capillarity to provide on-site patient services and product access in selected stores across the Country, fulfilling unmet manufacturer, physician, payer and patient needs

Transaction Summary

- **1st Tranche: Corporate Control**
  - Acquisition of 55% of the shares of 4-Bio
  - Capital increase of R$ 13,0 MM
  - Acquisition of existing shares for R$ 11,0 MM: 50% cash, 50% RADL3 shares: 5 year lock-up, annual release of 20%
  - Price adjustment based on the 2015 EBITDA, subject to caps and floors, pursued in RADL3 shares

- **2nd Tranche: Acquisition of Remaining Shares**
  - Call and Put options from January 1st, 2021
  - Valuation based on a pre-defined multiple applied over average EBITDA from 2018 to 2020 and on the net debt or net cash position in 2020

- **Closing & Governance**
  - Partnership governed by shareholder agreement
  - André shall remain the CEO at least until the second tranche, while Raia Drogasil will have board majority
  - Closing subject to certain precedent conditions, including CADE approval

IR Calendar

- **2015 Earnings (after market)**
  - **3Q:** October 29th, 2015
  - **4Q:** February 18th, 2016

- **Raia Drogasil Day**
  - December 4th in the morning
  - Hotel Unique

- **Next Conferences**
  - August 18th: **Brazil Consumer & Healthcare Check-up**, JP Morgan (São Paulo)
  - September 14th to 16th: **18th Annual Latin America Conference**, Morgan Stanley (London)
  - September 22nd: **UBS III Healthcare Day**, UBS (São Paulo)
  - November 17th: **Citi Consumer and Retail Conference**, Citi (São Paulo)