



EARNINGS RELEASE - 3Q16

São Paulo, October 27th, 2016. Raia Drogasil S.A. (BM&FBovespa: RADL3) announces today its results for the 3rd quarter of 2016 (3Q16). 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:** 1,370 stores in operation, 53 openings and 13 closures (5 location changes)
- **Gross Revenue:** R\$ 3.1 billion, 25.2% of growth (13.5% of retail same-store sales growth)
- **Gross Margin:** 29.5% of gross revenue, a 0.9 percentage point margin increase
- **EBITDA:** R\$ 254.0 million, a 8.3% margin, 0.8 percentage point margin increase
- **Adjusted Net Income:** R\$ 127.6 million, a 4.2% margin and an increase of 33.1%
- **Cash Flow:** R\$ 172.5 million positive free cash flow, R\$ 162.4 million total cash consumption

RADL3: R\$ 68.97/share

Number of Shares: 330,386,000

Market Cap: R\$ 22,787 million

Closing: October 26th, 2016

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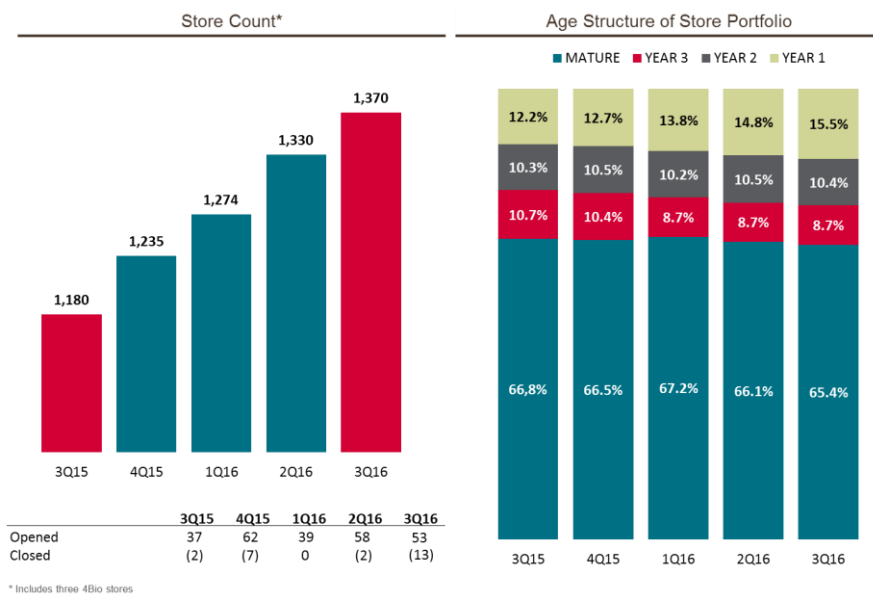
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Summary	3Q15	4Q15	1Q16	2Q16	3Q16
<i>(R\$ thousand)</i>					
# of Stores Raia Drogasil + 4Bio	1,180	1,235	1,274	1,330	1,370
Store Openings	37	62	39	58	53
Store Closures	(2)	(7)	0	(2)	(13)
# of Stores (average)	1.159	1.206	1.250	1.303	1.347
Headcount	25,529	26,520	26,720	27,767	28,661
Pharmacist Count	4,479	4,698	4,963	5,214	5,393
# of Tickets (000)	42,067	43,908	44,145	46,696	47,620
Gross Revenue	2,436,861	2,574,215	2,641,079	2,930,451	3,050,163
Gross Profit	696,319	740,084	756,940	924,825	900,034
% of Gross Revenues	28.6%	28.7%	28.7%	31.6%	29.5%
EBITDA	182,611	188,120	192,839	304,811	254,004
% of Gross Revenues	7.5%	7.3%	7.3%	10.4%	8.3%
Adjusted Net Income	95,858	94,865	100,829	167,766	127,582
% of Gross Revenues	3.9%	3.7%	3.8%	5.7%	4.2%
Net Income	83,999	78,347	90,131	157,068	116,884
% of Gross Revenues	3.4%	3.0%	3.4%	5.4%	3.8%
Free Cash Flow	68,182	35,613	(161,451)	(1,584)	172,468



STORE DEVELOPMENT

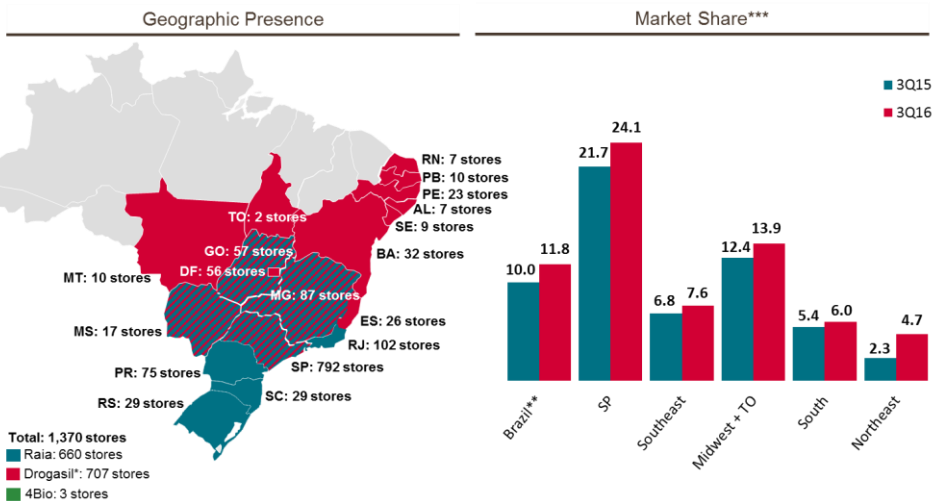


We opened 53 new stores in the 3Q16 and 150 new stores year to date, ending the quarter with 1,370 stores in operation, including three 4Bio stores. We have closed 13 stores in the quarter, including five location changes. Over the last twelve months, we have opened a total of 212 new stores, a relevant acceleration in our store-opening pace, which is a result of a more balanced opening process over the recent quarters. We reiterate our guidance of 200 gross openings per year both for 2016 and for 2017.

At the end of the period, 34.6% 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 11.8% in the quarter, a 1.8 percentage point proforma 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 11.4%.

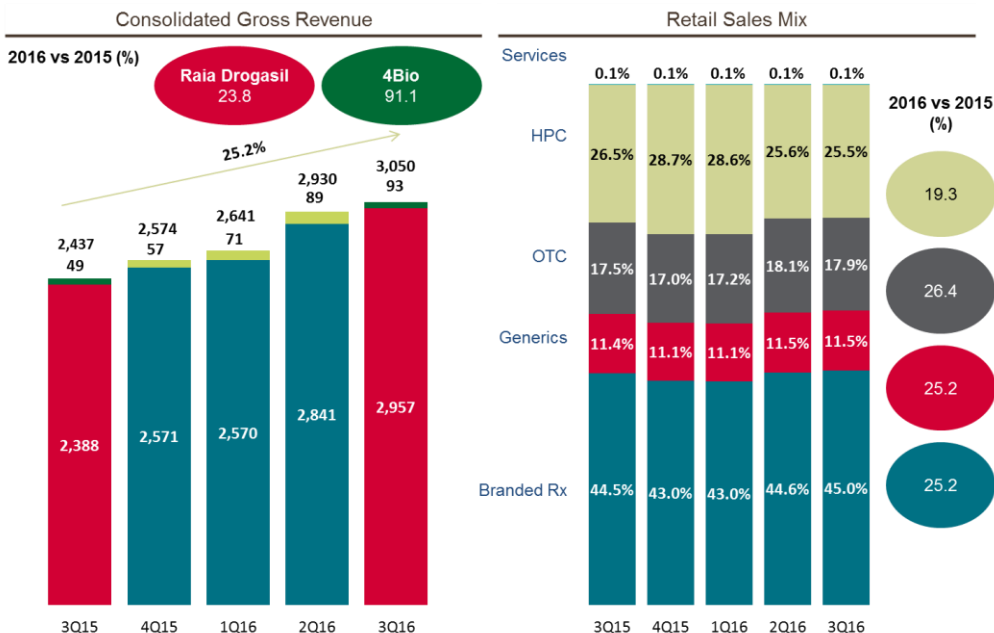
Our market share increased in every region where we operate. The Northeast was our main highlight, where we recorded a market share of 4.7%, a 2.4 percentage point increase driven by our growth in Bahia as well as by the maturation of our operations in five other states where we entered in 2014. We also recorded outstanding performances in São Paulo, where we reached a market share of 24.1%, a 2.4 percentage point increase, and in the Midwest, where our market share increased by 1.5 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 0.8 percentage point. Finally, we increased our market share in the South by 0.5 percentage point.



PHARMACEUTICAL MARKET DISTRIBUTION BY REGION (%)

Source: IMS Health	Brazil**	SP	Southeast	Midwest + TO	South	Northeast
* Includes Farmasil stores	100.0	26.6	24.4	9.4	16.2	18.8
** 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 11.4%						

GROSS REVENUES



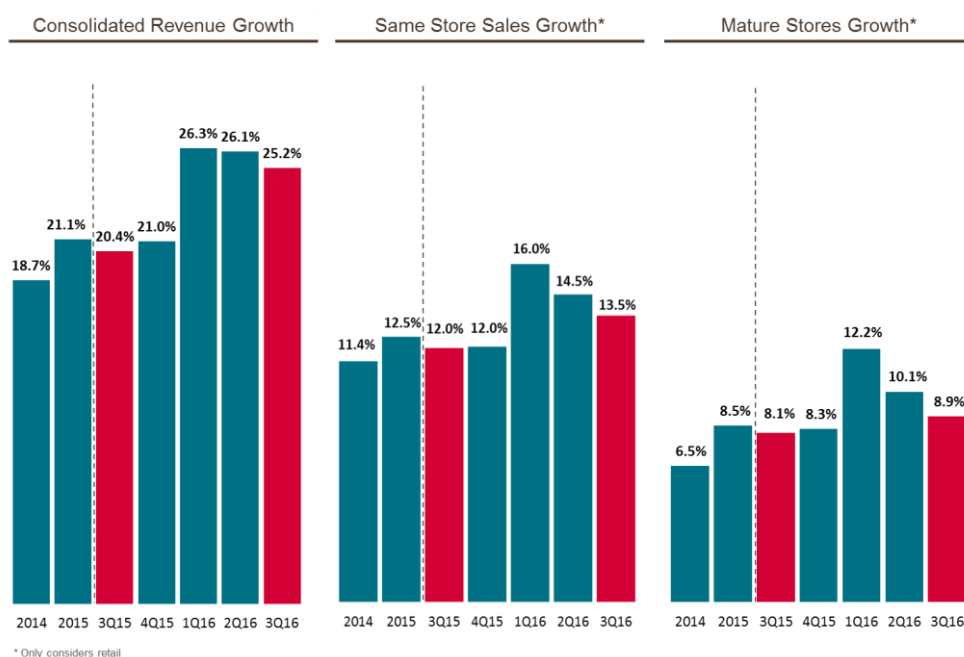
We ended the quarter with consolidated gross revenues of R\$ 3,050.2 million, a 25.2% increase over the previous year. Raia Drogasil recorded a growth of 23.8%, while 4Bio grew by 91.1% during the period.

OTC was the highlight of the quarter, recording a growth of 26.4% and increasing its participation in the sales mix by 0.4 percentage point. Branded Rx and Generics grew 25.2%, increasing its participation in the mix by 0.5 and 0.1 respectively.



HPC grew by 19.3%, reducing its participation by 1.0 percentage point. It is important to mention that we experienced much colder weather in the quarter when compared to the previous year, which boosted OTC and Prescription sales while penalizing HPC.

Same-store sales at Raia Drogasil increased by 13.5% in the quarter, while our mature stores grew by 8.9%. It is important to mention that our revenue growth was penalized by the *Rio 2016 Olympics*, which generated an estimated negative impact of 1.3 percentage point in the 3Q16. We recorded no calendar effect in the quarter.



The Brazilian pharmaceutical market recorded a nominal growth of 13.2% (5.1% in units sold) in the last twelve months ended in September, 2016, according to the IMS Health, a testament to the defensive nature of our market.

GROSS PROFIT

Our gross margin reached 29.5%, a 0.9 percentage point increase versus the 3Q15.

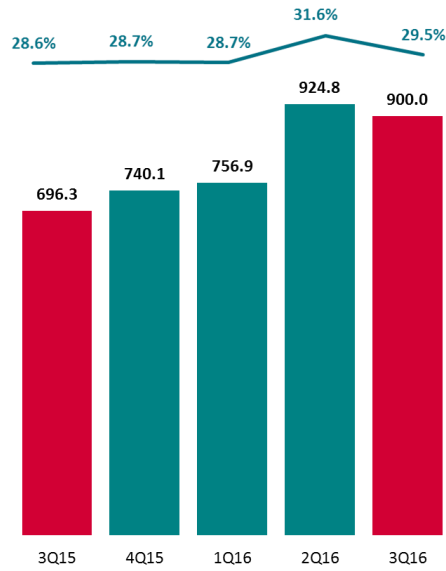
The main driver of this margin expansion was the inflationary gains on inventories arising from the annual price cap increase, which averaged 11.8%, significantly higher than the 6.0% recorded in the 2015. It is important to mention that we undertook a very significant forward buying in the 1Q16, allowing us to enter the 3Q16 still with some inventories at a lower cost base, which did not happen in previous years.

We also recorded a gross margin increase of 0.2 percentage point arising from a higher Net Present Value Adjustment, reflecting higher days of suppliers and the higher interest rates when compared to the previous year. Finally, 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.



Gross Margin

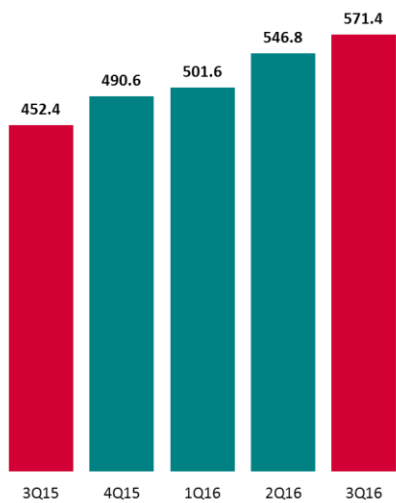
(R\$ million, % of Gross Revenues)



SALES EXPENSES

Sales Expenses

(R\$ million)



Sales Expenses

(% of Gross Revenues)





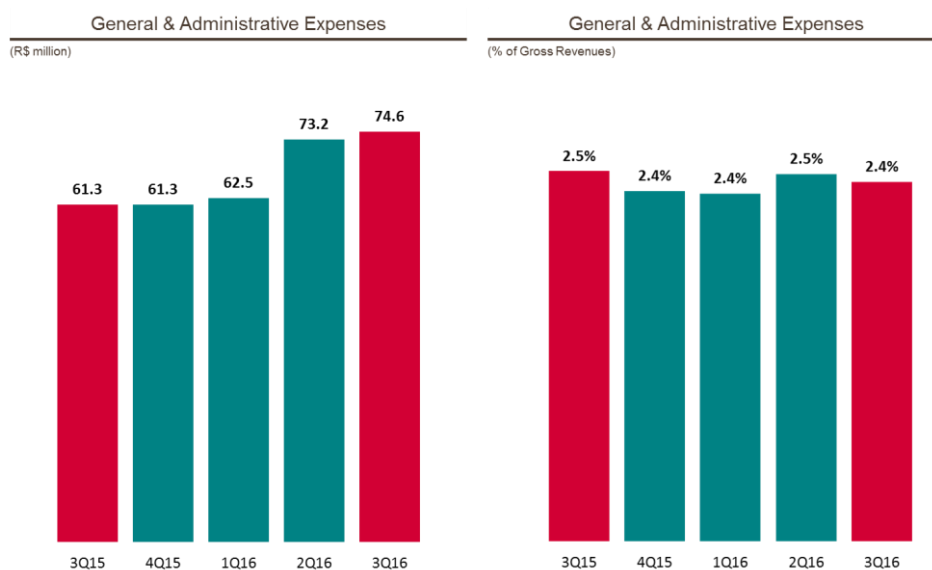
In the 3Q16, sales expenses totaled R\$ 571.4 million, equivalent to 18.7% of gross revenue, a 0.1 percentage point increase over the 3Q15.

Personnel expenses increased by 0.2 percentage point, while marketing expenses, rentals and other expenses pressured our sales expenses by 0.1 percentage point each. These increases were partially offset by a lower pressure arising from new store openings, which went down by 0.2 percentage point, and by a 0.2 percentage point dilution related to 4Bio, which has lower sales expenses and achieved significant operating leverage in the quarter.

Sales expenses remained in line when compared to the 2Q16. Personnel expenses increased by 0.3 percentage point while other expenses increased by 0.1 percentage point. These pressures were fully offset by electricity and asset write-offs related to store closures, which went down by 0.2 percentage point each.

GENERAL AND ADMINISTRATIVE EXPENSES

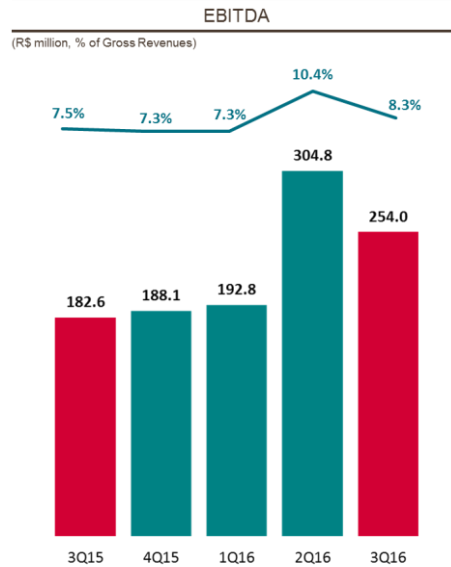
General and administrative expenses amounted to R\$ 74.6 million in the 3Q16, equivalent to 2.4% of gross revenues, a 0.1 percentage point dilution versus the 3Q15 and the 2Q16.



EBITDA

Our EBITDA reached R\$ 254.0 million, a 39.1% increase over the 3Q15. The EBITDA margin totaled 8.3%, a 0.8 percentage point margin expansion driven by a gross margin increase of 0.9 percentage point, which was partially offset by an SG&A pressure of 0.1 percentage point.

New stores opened year-to-date, as well as those that were already at the pre-operational stage, reduced the EBITDA by R\$ 6.3 million in the 3Q16. Therefore, considering only the 1,220 stores in operation since 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\$ 260.3 million, equivalent to an EBITDA margin of 9.0% over gross revenue.



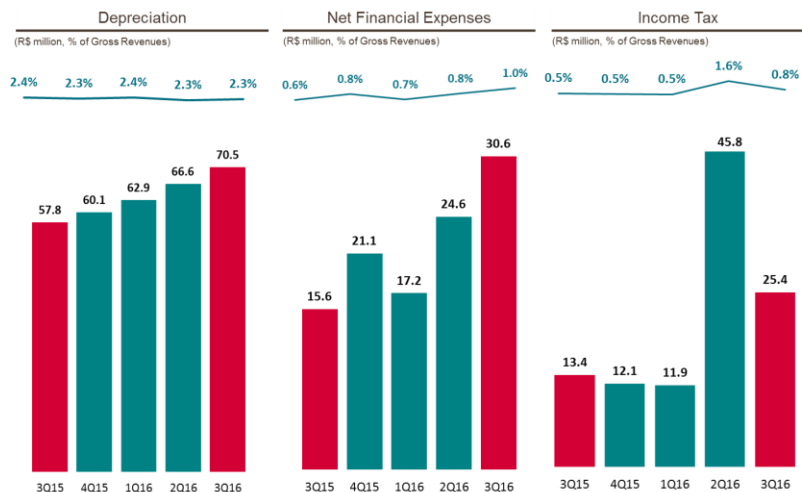
Raia Drogasil achieved a retail EBITDA of R\$ 249.5 million in the 3Q16, an EBITDA margin of 8.4%, and a 0.8 percentage point margin expansion when compared to the previous year. 4Bio reached an EBITDA of R\$ 4.5 million, and EBITDA margin of 4.8%, a margin expansion of 2.0 percentage points and an EBITDA increase of 221.4%, arising from a significant operating leverage as the Company increased its revenues by 91.1%. When comparing the EBIT, 4Bio recorded a margin of 4.7% in the 3Q16, versus 6.1% for Raia Drogasil.

It is important to highlight that in spite of its lower margin, 4Bio has an even higher capital-efficiency than Raia Drogasil, with much lower cash cycle and Capex.

DEPRECIATION, NET FINANCIAL EXPENSES AND INCOME TAXES

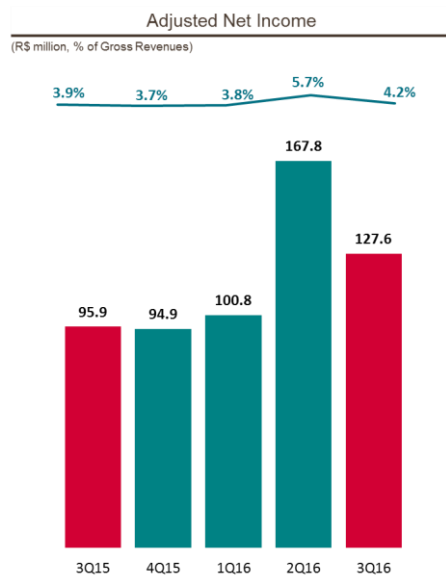
Depreciation expenses totaled R\$ 70.5 million in the 3Q16, equivalent to 2.3% of gross revenue, a 0.1 percentage point dilution when compared to the same period of the previous year.

Financial expenses represented 1.0% of gross revenues, a 0.4 percentage point increase when compared to the previous year. Excluding the Net Present Value (NPV) Adjustment, the interest accrued on debt amounted to 0.3% of gross revenues in the 3Q16. Of the R\$ 30.6 million of net financial expenses recorded in the quarter, R\$ 21.2 million refers to the NPV Adjustment, while R\$ 9.4 million refers to net interest accrued.



Finally, we booked R\$ 25.4 million in taxes, equivalent to 0.8% of gross revenue, a 0.3 percentage point increase due to the higher operating margin of the quarter.

ADJUSTED NET INCOME

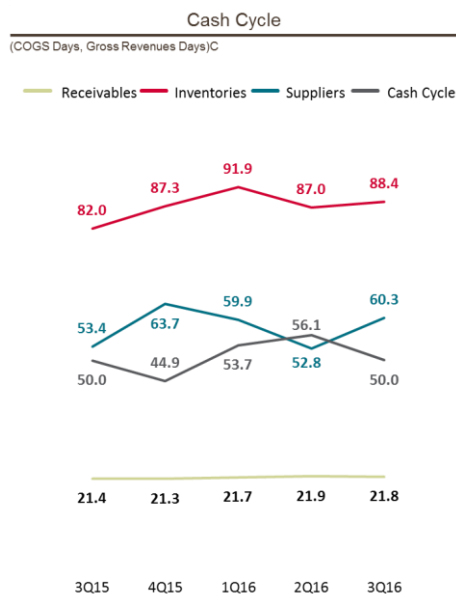


Adjusted net income totaled R\$ 127.6 million in the quarter, a 33.1% increase over the previous year. We achieved an adjusted net margin of 4.2%, a 0.3 percentage point increase. Excluding the benefit from the goodwill amortization, we recorded a reported net income of R\$ 116.9 million, a net margin of 3.8%, which represent an increase of 39.1% when compared to the previous year.



CASH CYCLE

Our cash cycle remained in line with 3Q15. Inventories increased by 6.4 days, reflecting both opportunistic purchases and the opening of our new distribution center in the Northeast, while accounts payable increased by 6.9 days and receivables increased by 0.4 day.



CASH FLOW

In the 3Q16, we generated a positive free cash flow of R\$ 172.5 million, and a positive total cash flow of R\$ 162.4 million. Resources from operations amounted to R\$ 202.3 million, equivalent to 6.6% of gross revenue, while we recorded a working capital increase of R\$ 113.8 million, amounting to a positive operating cash flow of R\$ 316.1 million.

Of the R\$ 143.7 million invested in the 3Q16, R\$ 88.0 million corresponded to new store openings, R\$ 19.6 million to the renovation of existing stores, and R\$ 36.1 million to investments in infrastructure.

Net financial expenses totaled R\$ 30.6 million, with R\$ 6.6 million of taxes retained. These expenses were partially offset by the R\$ 27.1 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 generated year-to-date a positive free cash flow of R\$ 9.4 million and a negative total cash flow of R\$ 73.9 million, which was especially due to the favorable cash cycle seasonality of the 4th quarter when compared to any other quarter.

We accrued R\$ 49.2 million in interest on equity in the 3Q16, reflecting a payout of 42.1% through the full utilization of the legal interest on equity limit.

Cash Flow (R\$ million)	3Q16	3Q15	9M16	9M15
Adjusted EBIT	183.5	124.9	551.6	388.4
Income Tax (34%)	(62.4)	(42.1)	(187.5)	(131.7)
Tax Shield from Goodwill Amortization	10.7	10.7	32.1	32.1
Depreciation	70.5	57.7	200.0	167.0
Others	(0.0)	(9.3)	17.4	(8.8)
Resources from Operations	202.3	140.9	613.6	447.1
Cash Cycle*	82.1	13.3	(288.0)	(145.0)
Other Assets (Liabilities)	31.7	12.6	38.2	18.3
Operating Cash Flow	316.1	166.8	363.8	320.3
Investments	(143.7)	(98.6)	(354.4)	(244.4)
Free Cash Flow	172.5	68.2	9.4	74.9
Interest on Equity	(0.0)	(0.0)	(71.5)	(64.0)
Income Tax Paid over Interest on Equity	(6.6)	(5.0)	(13.3)	(13.8)
Net Financial Expenses	(30.6)	(15.7)	(72.4)	(46.7)
Income Tax (Tax benefit over financial expenses and interest on equity)	27.1	18.7	73.8	62.1
Total Cash Flow	162.4	66.1	(73.9)	12.5

INDEBTEDNESS

At the end of the quarter, we recorded a net debt position of R\$ 104.3 million, versus R\$ 13.7 million in the same period of 2015, equivalent to a net debt to EBITDA ratio of 0.1 times, assuming the cumulative LTM EBITDA of 939.8 million.

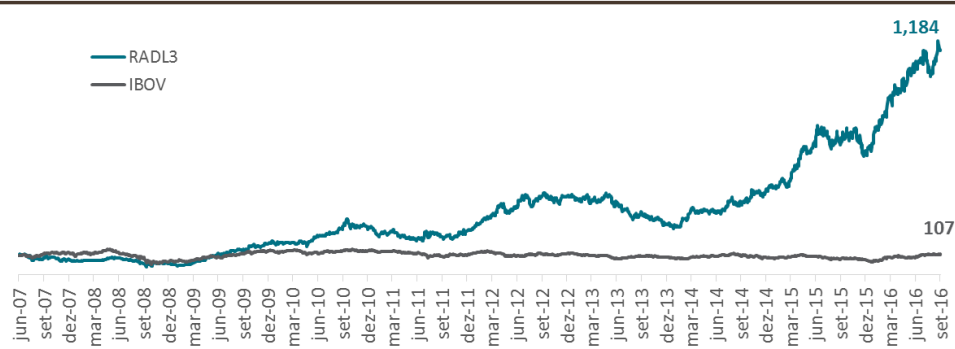
Our gross debt totaled R\$ 360.1 million, of which 99.6% corresponds to BNDES (Brazilian Economic and Social Development Bank) lines and 0.4% corresponds to the bank debt related to 4Bio. Of our total debt, 67% is long-term, while 33% relates to the short-term parcels of our long-term debt. We ended the quarter with a total cash position (cash and marketable securities) of R\$ 255.8 million.

TOTAL SHAREHOLDER RETURN

Our share price appreciated by 86.8% in 2016, 52.2 percentage points above the IBOVESPA, which increased by 34.6%.



Share Appreciation



Since the IPO of Drogasil, we achieved a cumulative share appreciation of 1,084% versus a return of 7.3% of the IBOVESPA. Including the payment of interest on equity, we generated an average annual total return to shareholders of 30.9%. Considering the IPO of Raia in December of 2010, the cumulative return amounted to 532.7% versus a decrease of 14.1% by the Ibovespa. Considering the payment of interest on equity, this resulted in an average annual total return to shareholders of 37.9%.

We recorded an average daily trading volume of R\$ 64.4 million in the quarter.

Adjusted Income Statement

(R\$ thousand)

	3Q15	3Q16	9M15	9M16
Gross Revenue	2,436,861	3,050,163	6,850,562	8,621,694
Taxes, Discounts and Returns	(105,037)	(149,233)	(288,545)	(422,125)
Net Revenue	2,331,824	2,900,930	6,562,017	8,199,568
Cost of Goods Sold	(1,635,505)	(2,000,896)	(4,566,359)	(5,617,769)
Gross Profit	696,319	900,034	1,995,658	2,581,799
Operational (Expenses) Revenue				
Sales	(452,371)	(571,423)	(1,262,484)	(1,619,897)
General and Administrative	(61,337)	(74,608)	(177,777)	(210,248)
Other Operational Expenses, Net				
Operational Expenses	(513,708)	(646,030)	(1,440,261)	(1,830,146)
EBITDA	182,611	254,004	555,397	751,653
Depreciation and Amortization	(57,760)	(70,499)	(166,973)	(200,038)
Operational Earnings before Financial Results	124,851	183,505	388,424	551,615
Financial Expenses	(42,015)	(59,842)	(109,037)	(150,589)
Financial Revenue	26,388	29,281	62,517	78,203
Financial Expenses/Revenue	(15,627)	(30,561)	(46,520)	(72,386)
Earnings before Income Tax and Social Charges	109,224	152,944	341,904	479,229
Income Tax and Social Charges	(13,366)	(25,363)	(45,243)	(83,053)
Net Income	95,858	127,582	296,661	396,176

Income Statement

(R\$ thousand)

	3Q15	3Q16	9M15	9M16
Gross Revenue	2,436,861	3,050,163	6,850,562	8,621,694
Deductions	(104,321)	(149,233)	(286,861)	(422,125)
Net Revenue	2,332,540	2,900,930	6,563,701	8,199,568
Cost of Goods Sold	(1,636,130)	(2,000,896)	(4,567,864)	(5,617,769)
Gross Profit	696,410	900,034	1,995,837	2,581,799
Operational (Expenses) Revenue				
Sales	(452,371)	(571,423)	(1,262,484)	(1,619,897)
General and Administrative	(61,337)	(74,608)	(177,777)	(210,248)
Other Operational Expenses, Net	(1,160)		(1,160)	
Operational Expenses	(514,868)	(646,030)	(1,441,421)	(1,830,146)
EBITDA	181,542	254,004	554,416	751,653
Depreciation and Amortization	(57,760)	(70,499)	(166,973)	(200,038)
Operational Earnings before Financial Results	123,782	183,505	387,443	551,615
Financial Expenses	(41,391)	(59,842)	(107,532)	(150,589)
Financial Revenue	25,672	29,281	60,833	78,203
Financial Expenses/Revenue	(15,719)	(30,561)	(46,699)	(72,386)
Earnings before Income Tax and Social Charges	108,063	152,944	340,744	479,229
Income Tax and Social Charges	(24,064)	(36,061)	(77,337)	(115,147)
Net Income	83,999	116,884	263,407	364,082



Assets <i>(R\$ thousand)</i>	<u>3Q15</u>	<u>3Q16</u>
Current Assets		
Cash and Cash Equivalents	269,860	255,827
Accounts Receivable	572,395	728,661
Inventories	1,473,533	1,944,365
Taxes Receivable	61,688	115,348
Other Accounts Receivable	111,809	94,905
Following Fiscal Year Expenses	13,173	16,961
	<u>2,502,458</u>	<u>3,156,068</u>
Non-Current Assets		
Deposit in Court	18,670	20,281
Taxes Receivable	19,637	20,856
Income Tax and Social Charges deferred	438	0
Other Credits	2,249	4,035
Property, Plant and Equipment	728,262	950,190
Intangible	1,123,010	1,168,422
	<u>1,892,266</u>	<u>2,163,783</u>
ASSETS	<u>4,394,724</u>	<u>5,319,851</u>



Liabilities and Shareholder's Equity <i>(R\$ thousand)</i>	<u>3Q15</u>	<u>3Q16</u>
Current		
Suppliers	959,353	1,325,004
Loans and Financing	105,409	117,787
Salaries and Social Charges Payable	196,881	239,457
Taxes Payable	48,629	89,000
Dividend and Interest on Equity	92,825	125,707
Provision for Lawsuits	2,996	1,396
Other Accounts Payable	<u>91,228</u>	<u>112,768</u>
	<u>1,497,321</u>	<u>2,011,119</u>
Non-Current Assets		
Loans and Financing	162,300	242,297
Provision for Lawsuits	4,542	2,722
Income Tax and Social Charges deferred	149,314	186,336
Other Accounts Payable	<u>5,117</u>	<u>38,961</u>
	<u>321,273</u>	<u>470,315</u>
Shareholder's Equity		
Common Stock	909,407	1,808,639
Capital Reserves	1,022,266	139,192
Revaluation Reserve	12,616	12,430
Income Reserves	475,420	665,820
Accrued Income	156,421	216,621
Equity Adjustments	0	(30,230)
Non Controller Interest	0	25,945
Additional Dividend Proposed	<u>0</u>	<u>0</u>
	<u>2,576,130</u>	<u>2,838,417</u>
LIABILITIES AND SHAREHOLDERS' EQUITY	<u>4,394,724</u>	<u>5,319,851</u>



Cash Flow	3Q15	3Q16	9M15	9M16
Earnings before Income Tax and Social Charges	108,063	152,944	340,745	479,229
Adjustments				
Depreciation and Amortization	57,760	70,499	166,973	200,038
Compensation plan with restricted shares, net	1,096	2,969	2,475	7,851
Interest over additional stock option	0	1,605		4,607
P,P&E and Intangible Assets residual value	1,328	5,577	3,009	6,359
Provisioned Lawsuits	262	1,344	(1,898)	4,084
Provisioned Inventories Loss	(4,354)	(1,198)	(2,745)	(6,785)
Allowance for Doubtful Accounts	154	(665)	631	187
Provisioned Store Closures	1,457	(5,756)	144	(938)
Interest Expenses	7,990	11,394	23,176	29,897
	173,756	238,713	532,510	724,529
Assets and Liabilities variation				
Accounts Receivable	(27,687)	(2,611)	(94,220)	(123,160)
Inventories	(83,127)	(166,088)	(119,817)	(287,127)
Other Short Term Assets	(11,882)	(26,782)	(30,743)	(63,059)
Long Term Assets	(2,525)	7,008	(7,186)	(675)
Suppliers	124,157	250,814	69,013	122,323
Salaries and Social Charges	18,785	29,841	54,244	74,050
Taxes Payable	9,124	20,854	(2,617)	10,274
Other Liabilities	(4,078)	(2,288)	(1,525)	10,056
Rent Payable	3,136	3,081	6,118	7,561
Cash from Operations	199,659	352,542	405,777	474,772
Interest Paid	(5,986)	(6,102)	(16,623)	(16,404)
Income Tax and Social Charges Paid	(26,939)	(35,108)	(61,672)	(92,924)
Net Cash from (invested) Operational Activities	166,734	311,332	327,482	365,444
Investment Activities Cash Flow				
P,P&E and Intangible Acquisitions	(98,603)	(143,653)	(245,292)	(354,814)
P,P&E Sale Payments	0	0	911	436
Net Cash from Investment Activities	(98,603)	(143,653)	(244,381)	(354,378)
Financing Activities Cash Flow				
Funding	24,998	61,325	64,863	141,990
Payments	(34,844)	(29,670)	(95,594)	(91,788)
Interest on Equity and Dividends Paid	(3)	(3)	(63,978)	(71,492)
Net Cash from Funding Activities	(9,849)	31,652	(94,709)	(21,290)
Cash and Cash Equivalents net increase	58,282	199,331	(11,608)	(10,224)
Cash and Cash Equivalents in the beginning of the period	211,578	56,496	281,468	266,051
Cash and Cash Equivalents in the end of the period	269,860	255,827	269,860	255,827



3Q16 Results Conference Calls – October 28th, 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