

# Earnings Presentation – 2016

February 17<sup>th</sup>, 2017



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- **Drugstores:** 1,420 stores in operation (212 openings and 27 closures)
- **Gross Revenues:** R\$ 11.8 billion, a 25.5% growth (14.3% retail same-store sales growth)
- **Gross Margin:** 29.6% of gross revenues, a 0.6 percentage point margin increase
- **EBITDA:** R\$ 987.6 million, a 8.4% margin, 0.5 percentage point margin expansion
- **Adjusted Net Income:** R\$ 499.1 million, a 4.2% margin and an increase of 27.6%
- **Cash Flow:** R\$ 34.9 million free cash flow, R\$ 107.0 million total cash consumption

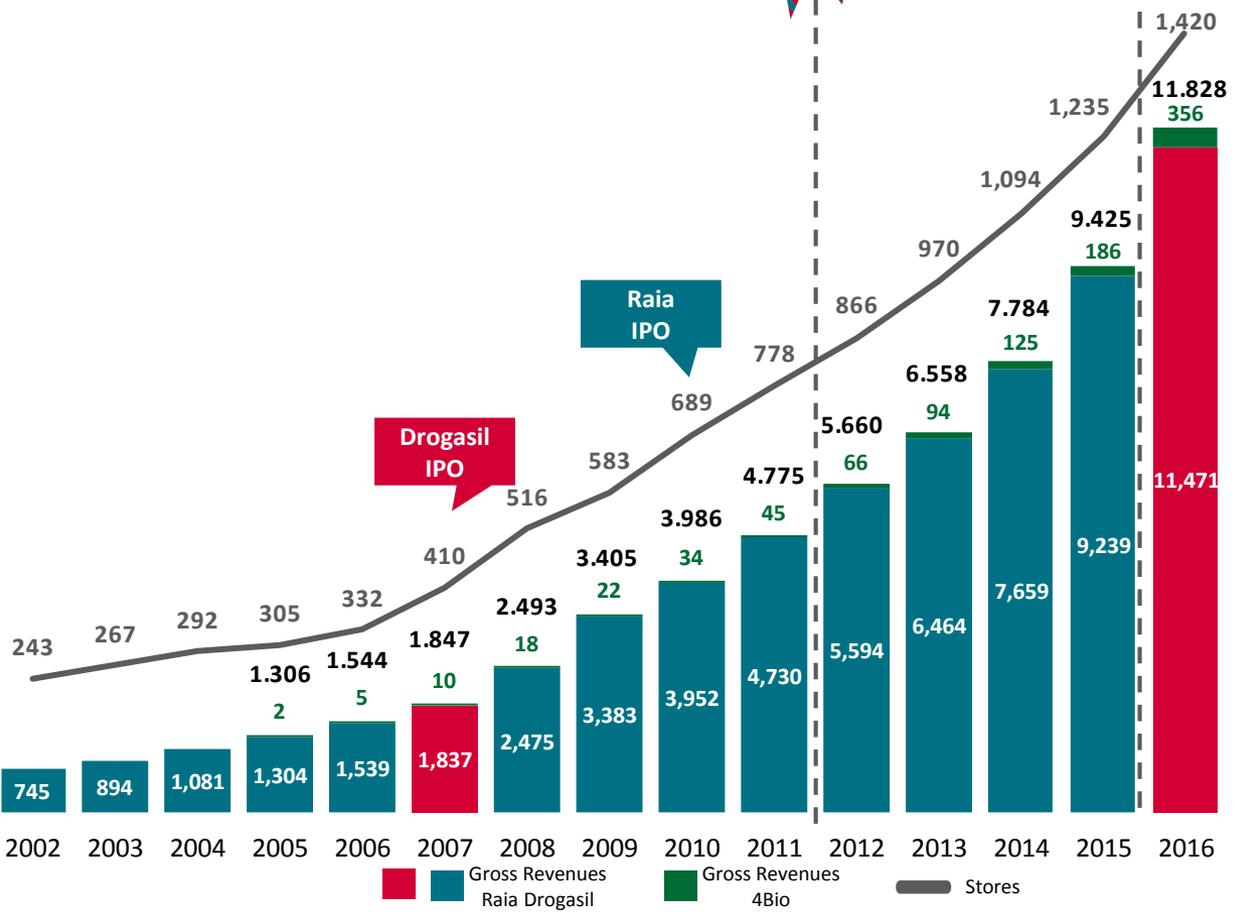


# Another Year of Strong Growth with Value Creation



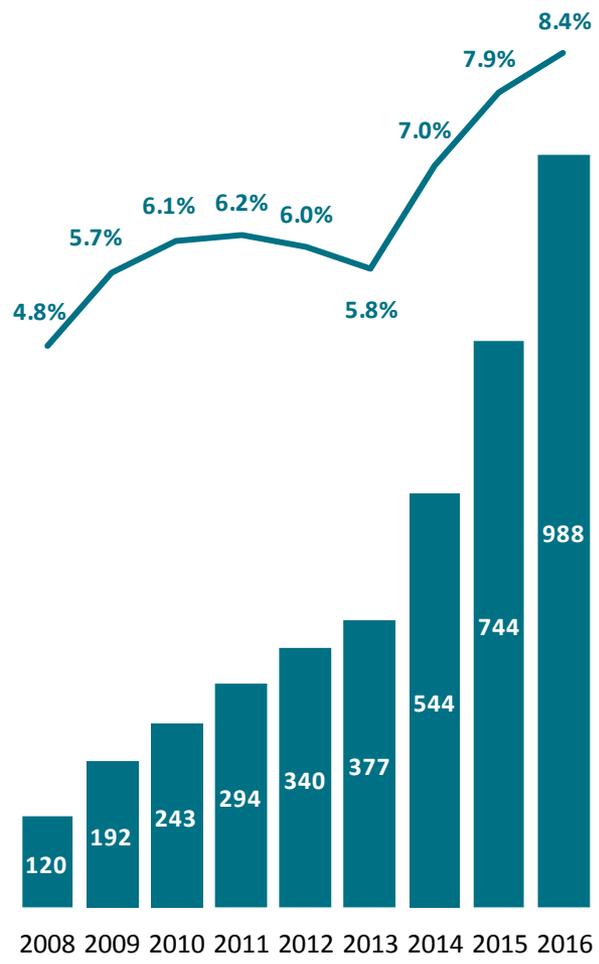
Combined Gross Revenues & Store Count

(R\$ million, Units)



Combined EBITDA

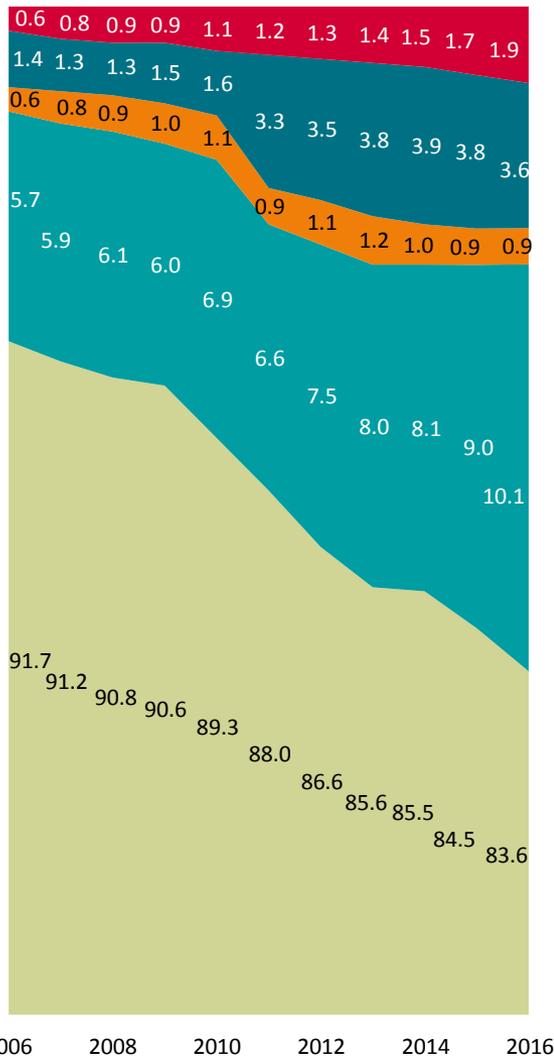
(R\$ million, % of Gross Revenues)



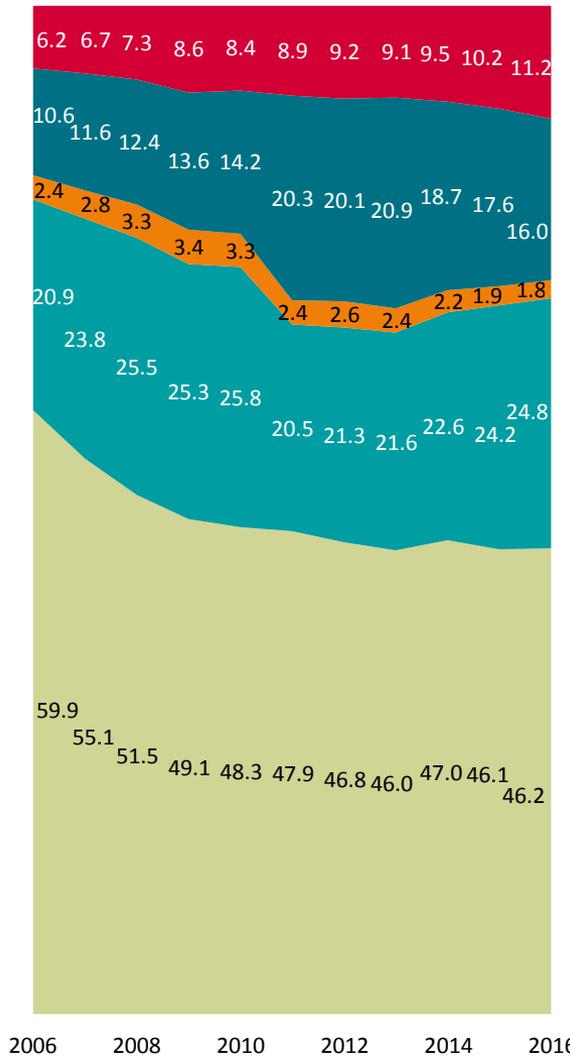
# Leading the Consolidation of the Drugstore Industry in Brazil



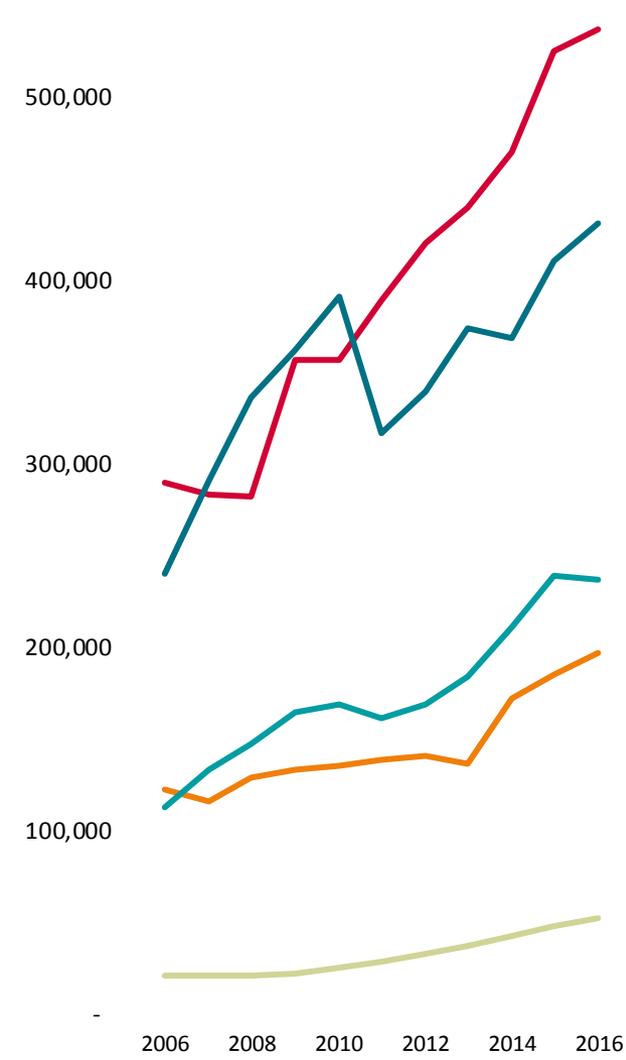
% of Stores



% of Pharma Revenues



Pharma Revenues per Store (R\$/Month)



■ RAIA DROGASIL ■ ABRAFARMA #2 A #5 ■ OTHER CHAINS ■ SUPERMARKETS ■ INDEPENDENTS

In the five years since the merger, store count increased by 79.9%, Gross Revenues by 147.7%, EBITDA by 236.0% and Net Income by 228.4%, with a ROIC expansion of 8.8 p.p.

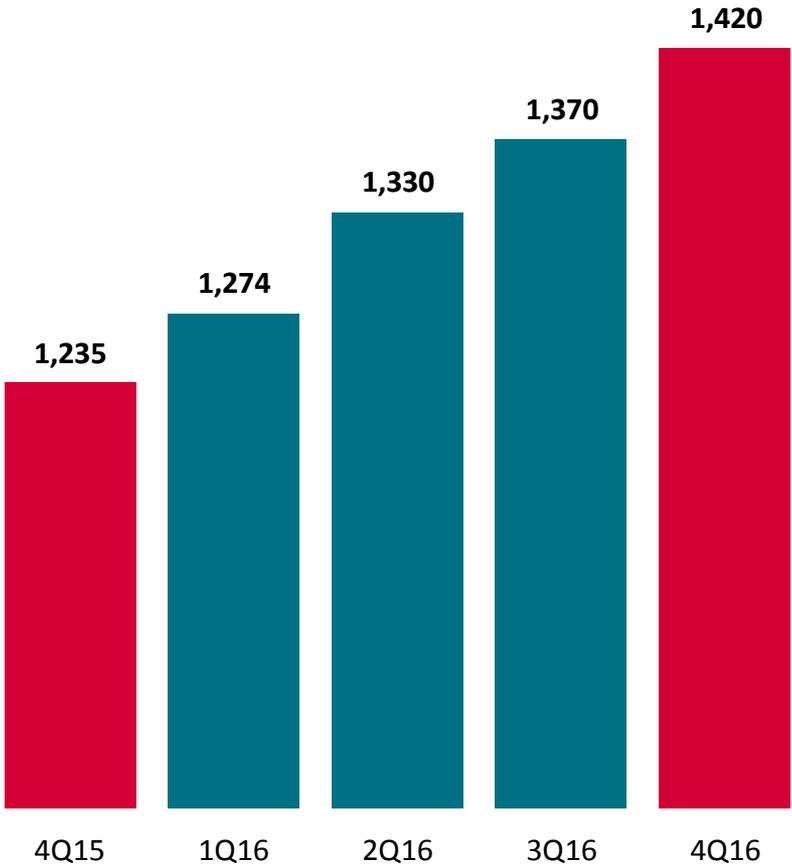


| <b>Combined Operational Highlights</b>        | <b>2011</b>                             | <b>2016</b>                              | <b>Var. %</b>                             |
|---|---|--|---|
| Store Count                                   | 778                                     | 1,420                                    | 82.5%                                     |
| Sales Area (sqm)                              | 109,095                                 | 214,965                                  | 97.0%                                     |
| Geographic Presence                           | 9 states<br>78% of the Brazilian Market | 18 states<br>90% of the Brazilian Market | +9 states<br>+12% of the Brazilian Market |
| Employees                                     | 17,244                                  | 28,878                                   | 67.5%                                     |
| <b>Combined Financial Highlights (R\$ MM)</b> |   |  |   |
| Gross Revenues                                | 4,775                                   | 11,828                                   | 147.7%                                    |
| Gross Profit<br>(% of Gross Revenues)         | 1,241<br>26.0%                          | 3,504<br>29.6%                           | +182.4%<br>+3.6%                          |
| EBITDA<br>(% of Gross Revenues)               | 294<br>6.2%                             | 988<br>8.4%                              | 236.0%<br>+2.2%                           |
| Net Income<br>(% of Gross Revenues)           | 152<br>3.2%                             | 499<br>4.2%                              | 228.4%<br>+1.0%                           |
| ROIC  | 12.7%                                   | 21.5%                                    | +8.8%                                     |
| <b>Market Cap (billion)</b>                   | <b>4.3</b>                              | <b>20.2</b>                              | <b>369.8%</b>                             |

We opened in 2016 a total of 212 stores and closed 27. In the 4Q16, we opened 62 stores and closed 12. At the end of the period, 34.7% of our stores were still maturing.



Store Count\*



|          | 4Q15 | 1Q16 | 2Q16 | 3Q16 | 4Q16 |
|----------|------|------|------|------|------|
| Openings | 62   | 39   | 58   | 53   | 62   |
| Closures | (7)  | 0    | (2)  | (13) | (12) |

Age Structure of Store Portfolio

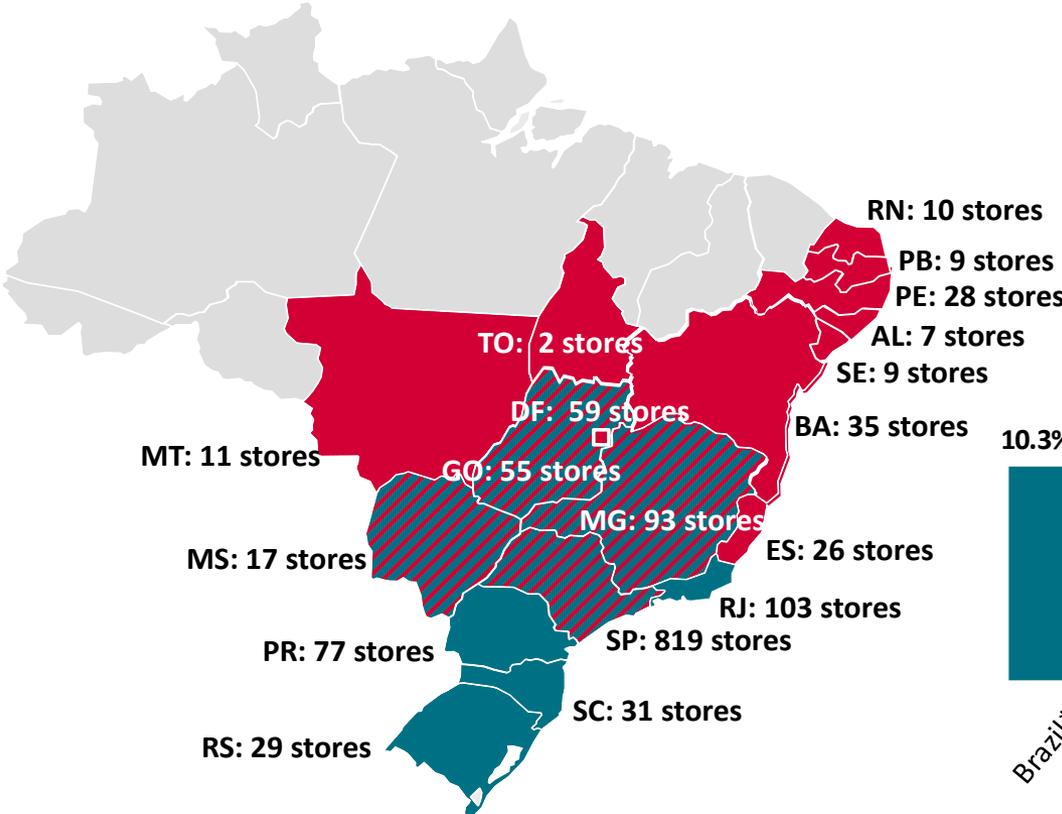


\* Includes three 4Bio stores



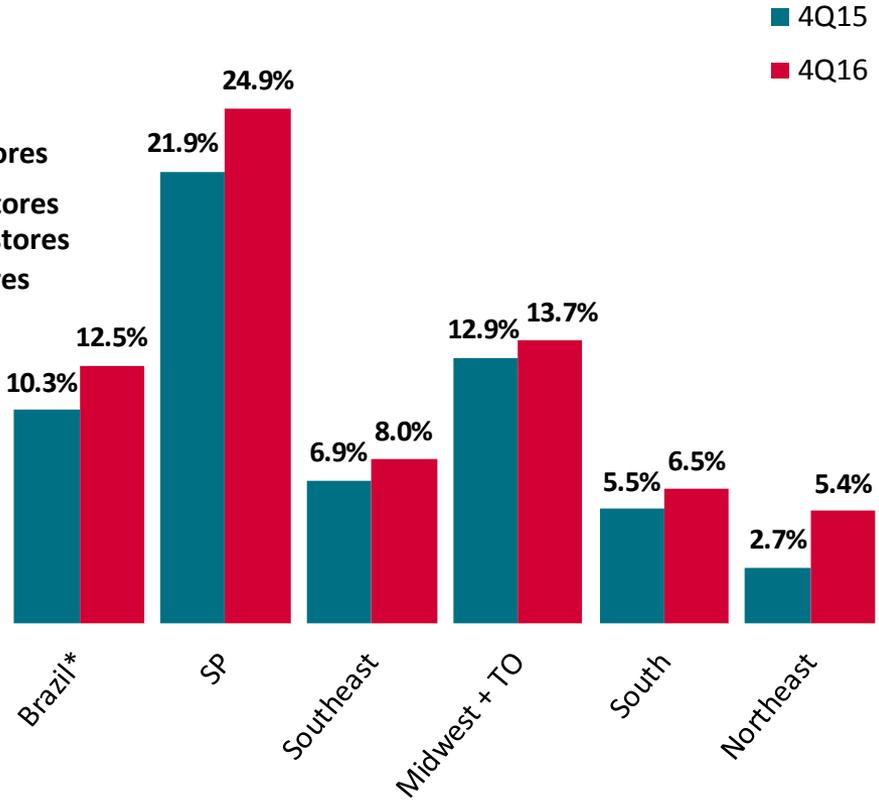
We have gained share in all regions, achieving 12.5% of comparable market share in Brazil, an increase of 2.2 percentage points compared to the previous year.

Geographic Presence



**Total: 1,420 stores**  
 Raia: 680 stores  
 Drogasil: 737 stores  
 4Bio: 3 stores

Market Share\*\*



PHARMACEUTICAL MARKET BREAKDOWN BY REGION (%)

| Region    | Percentage (%) |
|-----------|----------------|
| Brazil**  | 100.0%         |
| SP        | 27.1%          |
| Southeast | 24.0%          |
| Midwest   | 9.6%           |
| South     | 17.1%          |
| Northeast | 18.1%          |

Source: IMS Health

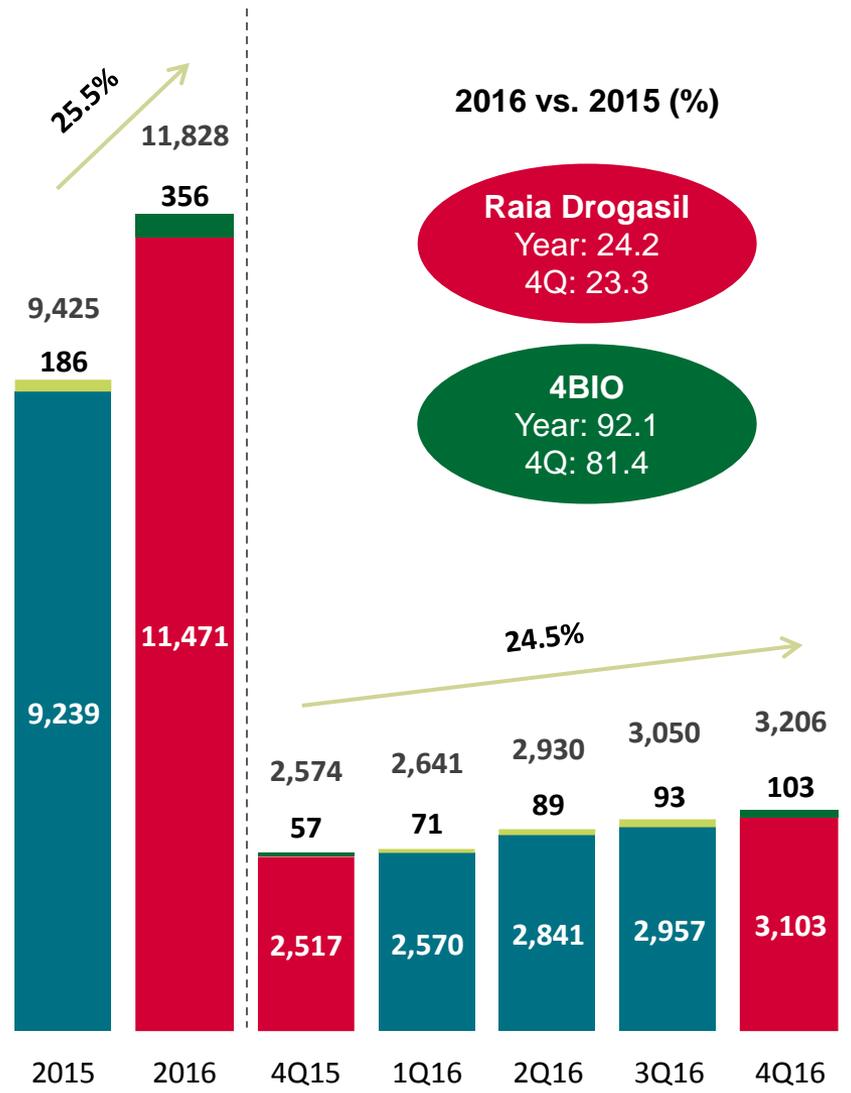
\* Includes 4Bio only for Brazil

\*\* 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 11.8%

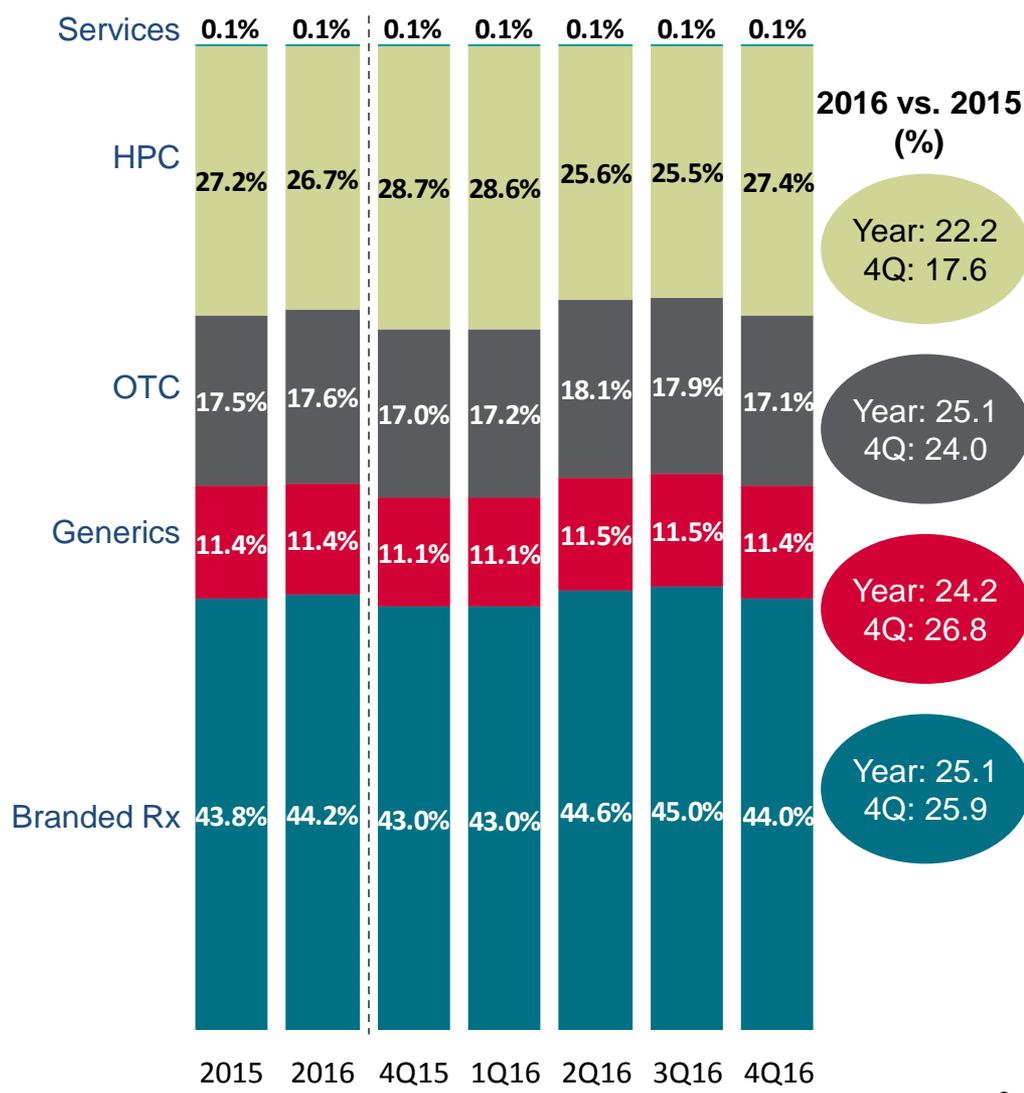
Branded Rx was the highlight of 2016 (growth of 25.1%), while Generics was the highlight of 4Q16 (growth of 26.8%). 4Bio grew by 92.1% in 2016 and 81.4% in the quarter.



Consolidated Gross Revenues



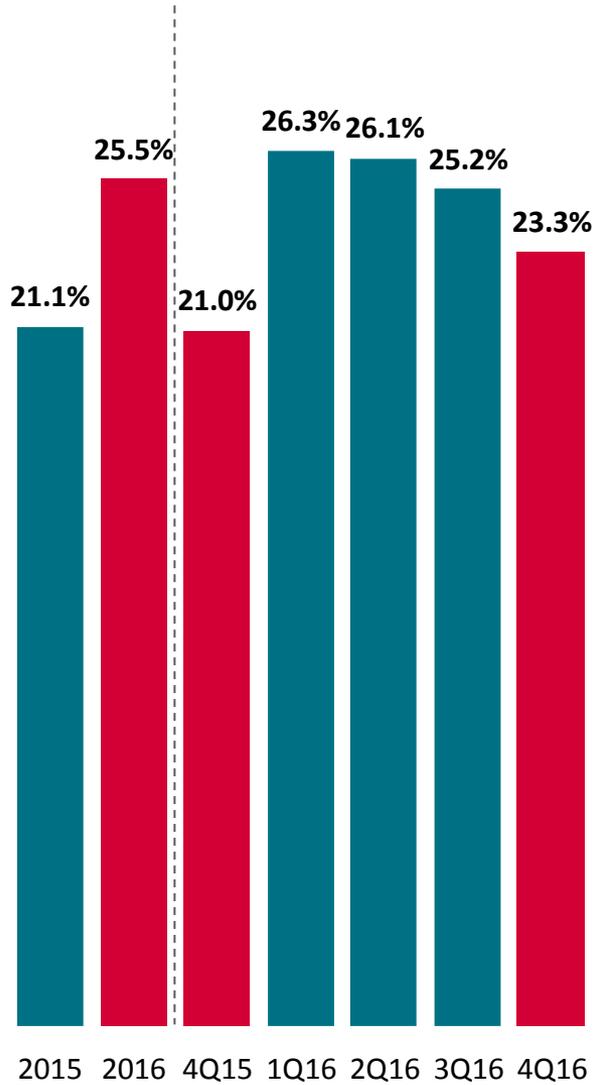
Retail Sales Mix



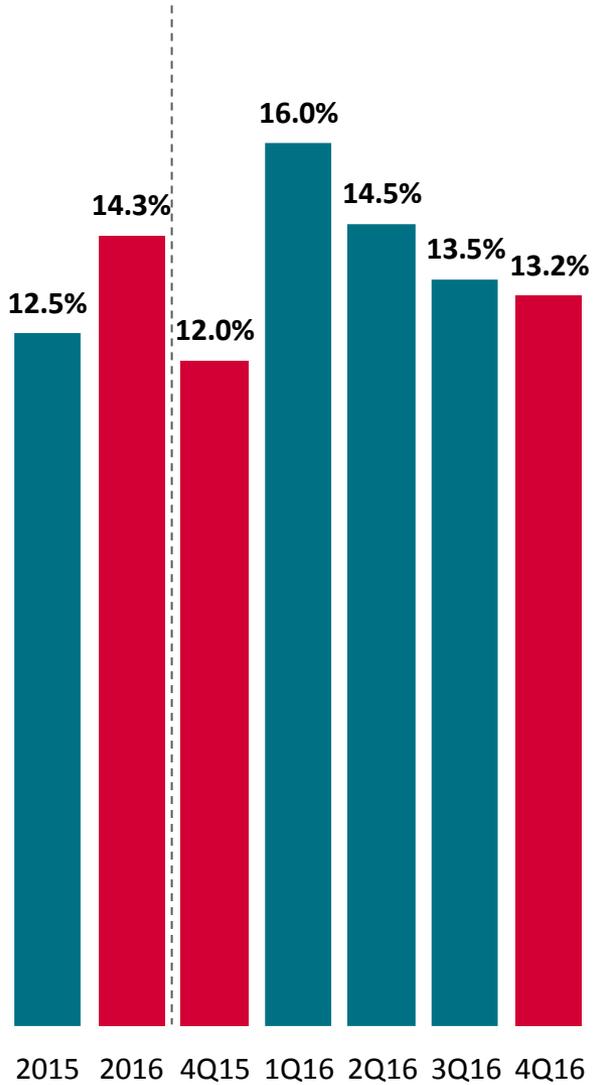
Our revenues grew by 25.5% in 2016, with 9.8% growth for mature stores. In the 4Q16, revenues increased by 23.3% with 8.1% for mature stores, including a positive calendar effect of 0.3%.



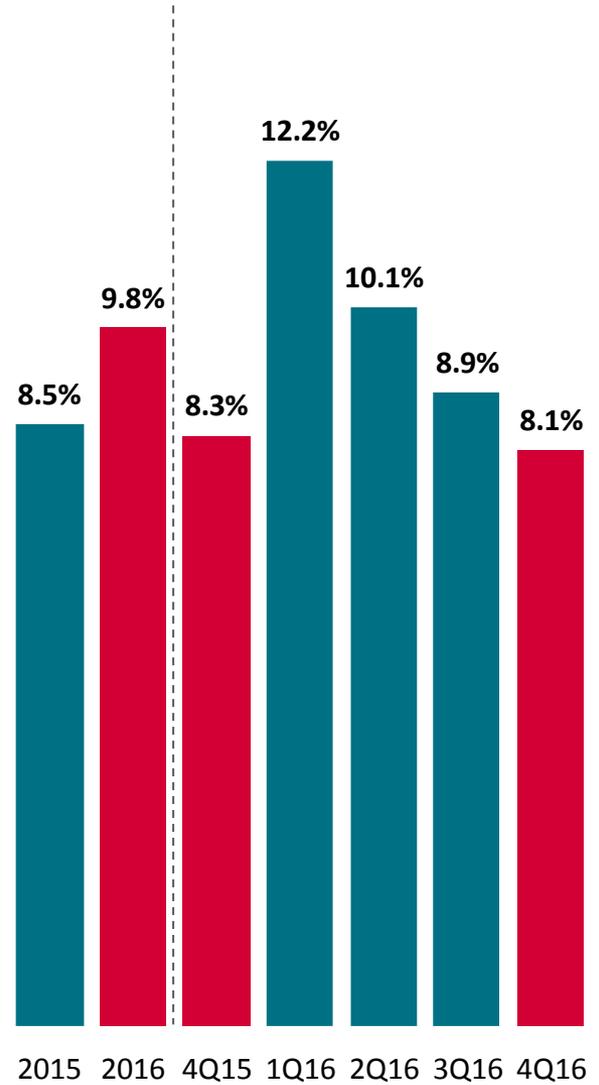
Consolidated Revenue Growth



Retail Same-Store Sales Growth



Retail Mature Stores Growth

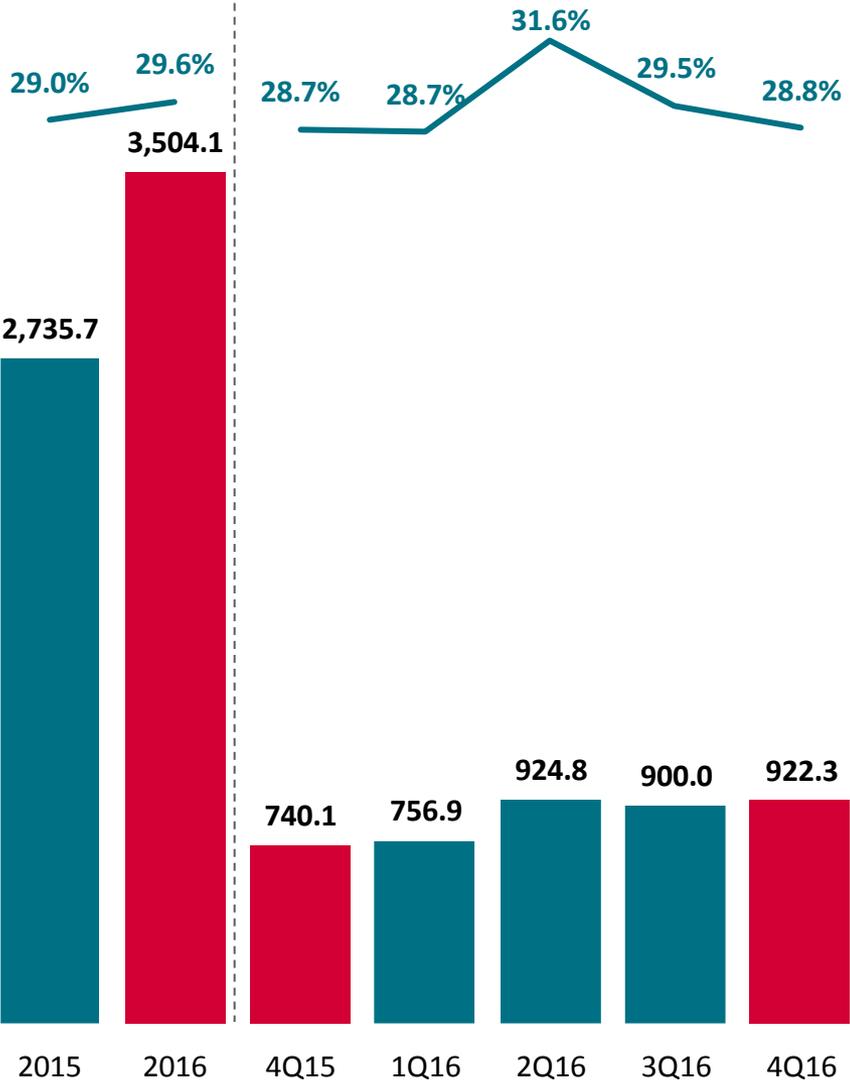




Gross margin increased +0.6 p.p. driven by inflationary gains in pharmaceuticals arising from the annual price cap increase. Annual cash cycle reduction of 0.2 day.

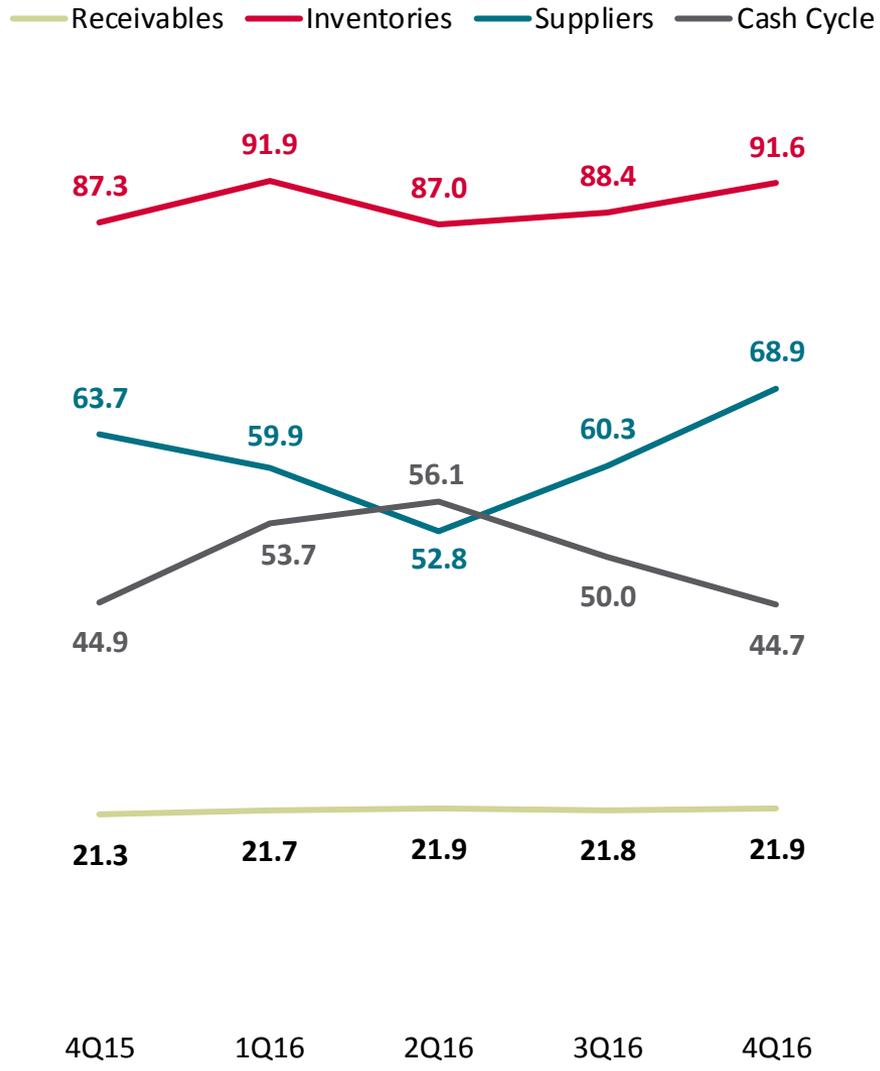
### Gross Margin

(R\$ million, % of Gross Revenues)



### Cash Cycle

(COGS Days, Gross Revenues Days)

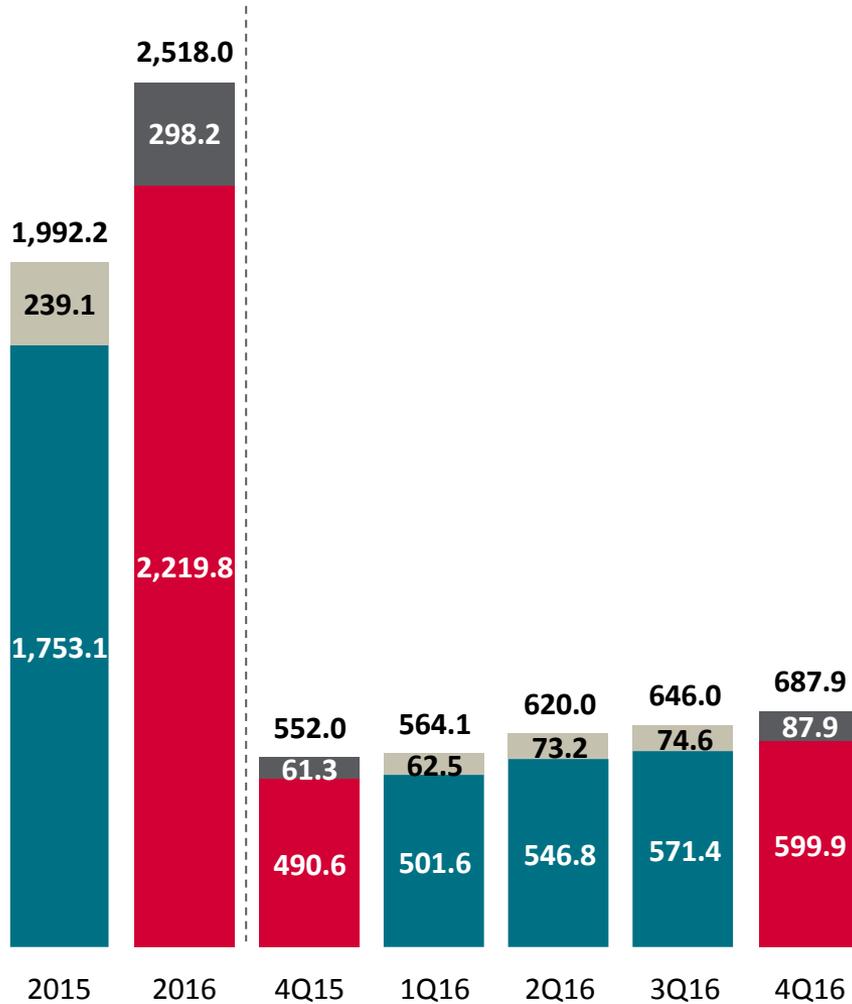




SG&A increased by 0.2 p.p. in 2016 and by 0.1 p.p. in the 4Q16. G&A increased by 0.3 pp in the 4Q16 due to transitory pressures in variable remuneration (0.2 pp) and contingencies (0.1 pp).

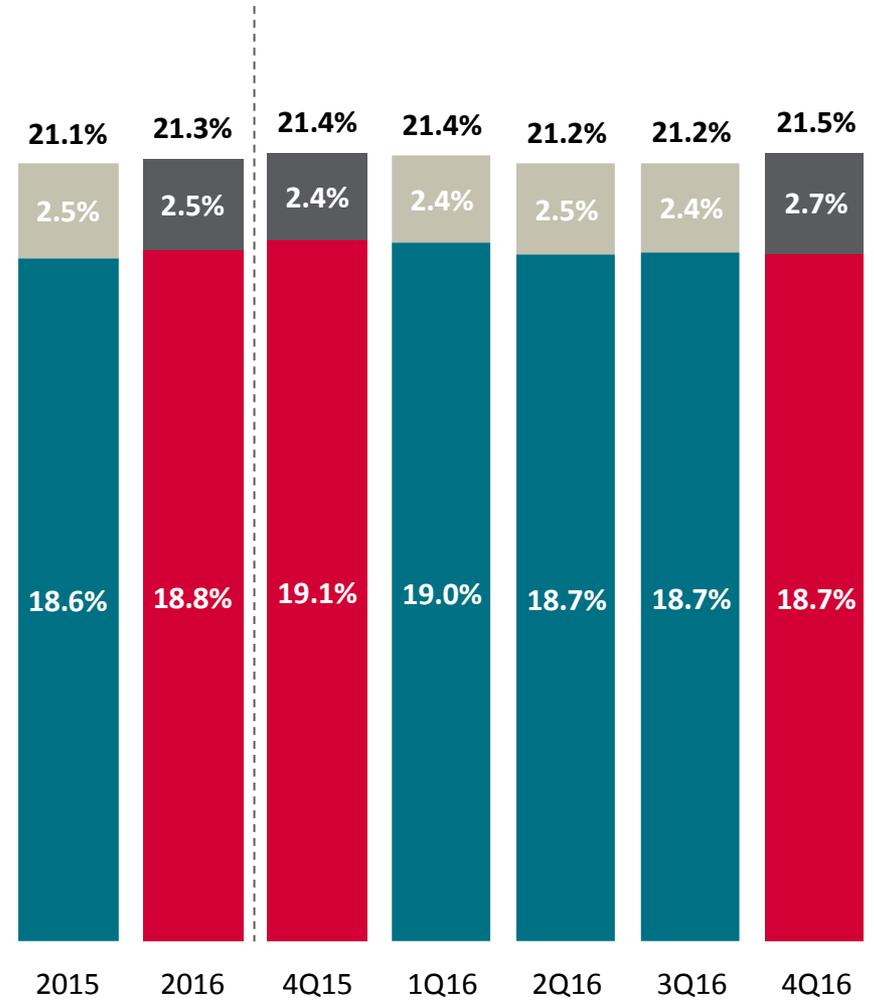
### Operating Expenses

(R\$ million)



### Operating Expenses

(% of Gross Revenues)



■ Sales Expenses

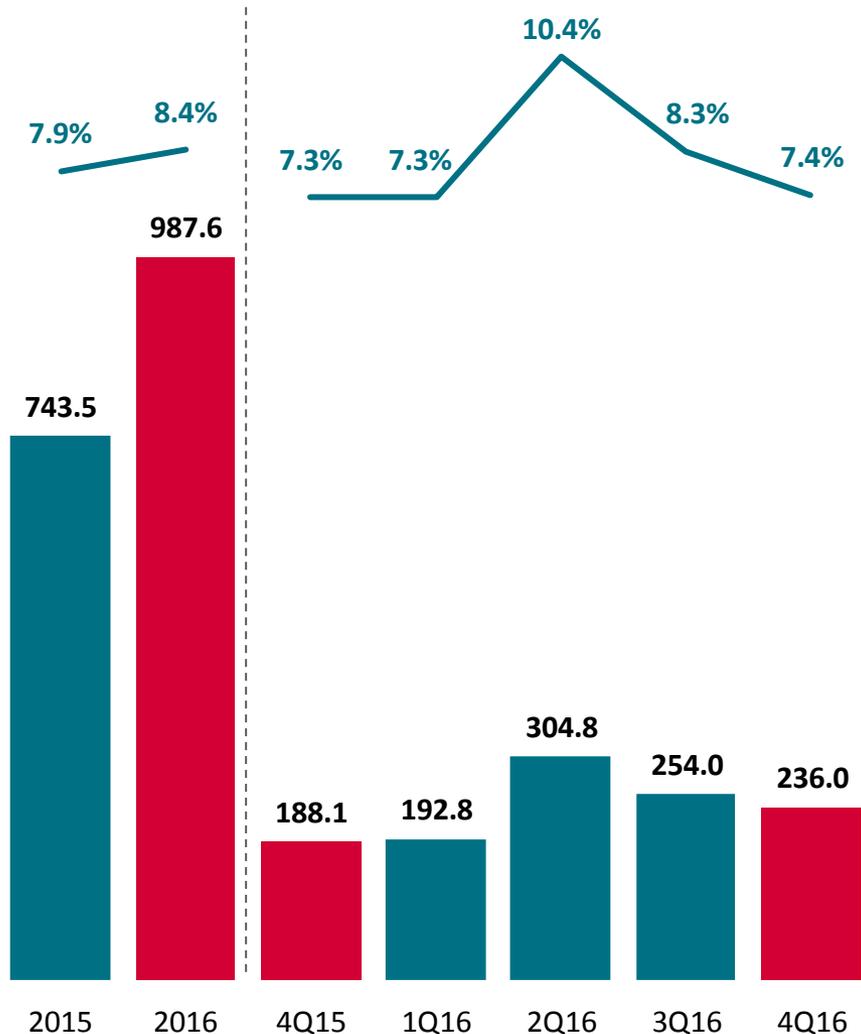
■ General & Administrative Expenses



The annual EBITDA totaled R\$ 987.6 MM, with a margin of 8.4% (7.4% in the 4Q16). New stores penalized EBITDA by R\$ 29.2 MM. EBITDA margin of 8.5% for Raia Drogasil and of 4.8% for 4Bio.

### EBITDA

(R\$ million, % of Gross Revenues)



#### 1,208\* stores operating since 2015: (performance in 2016)

- R\$ 11.4 billion of Gross Revenues
- R\$ 1,016.8 million of EBITDA
- EBITDA margin of 8.9%

#### Raia Drogasil

- R\$ 970.4 million of EBITDA
- EBITDA margin of 8.5%
- R\$ 702.3 million of EBIT
- EBIT margin of 6.1%

#### 4Bio

- R\$ 17.3 million of EBITDA
- EBITDA margin of 4.8%
- R\$ 17.0 million of EBIT
- EBIT margin of 4.8%

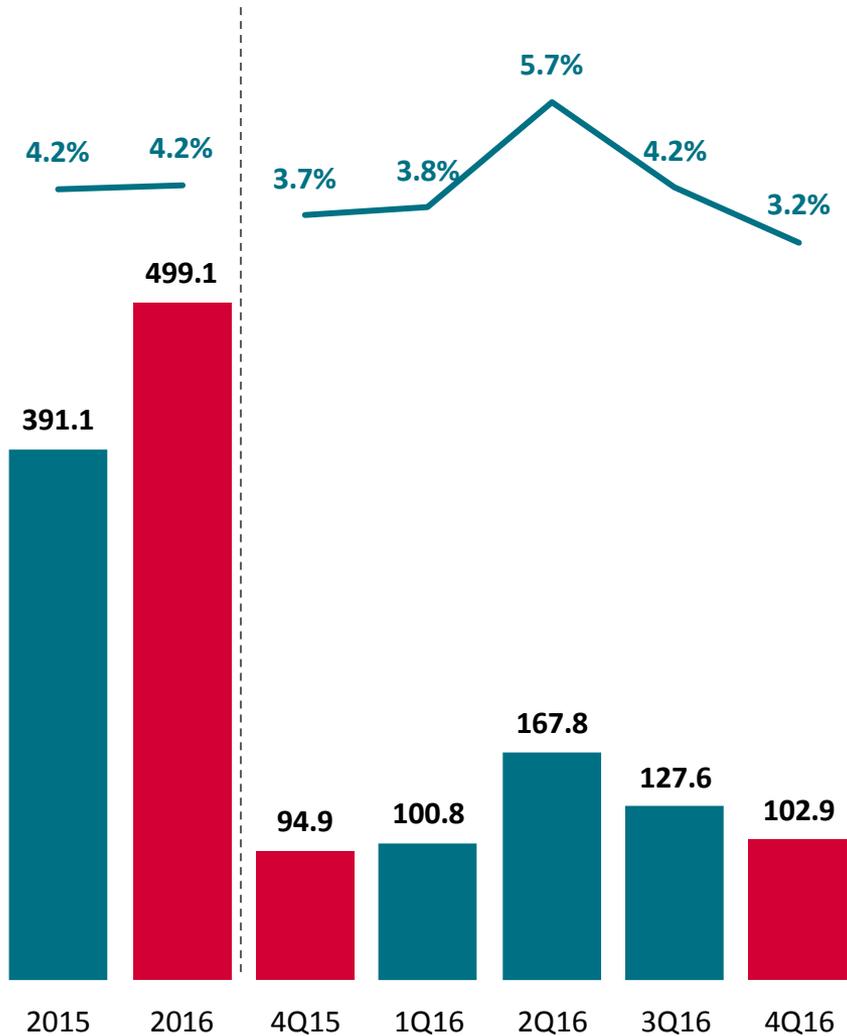
\* 1.235 stores at year-end less 27 stores closed



We reached an adjusted net income of R\$ 499.1 MM in 2016, a growth of 27.6%. Reported net income grew 32.0% vs. 2015. We had R\$ 7.7MM of non-recurring expenses in the 4Q16.

### Adjusted Net Income

(R\$ million, % of Gross Revenues)



### Non-Recurring Expenses

#### Non-Recurring Expenses

4Q16

(R\$ million)

|  |              |
|--|--------------|
| Restructuring of the Career Program                            | (7.7)        |
| Restructuring of the Store Portfolio: Santa Marta and Farmasil | (3.9)        |
| Loyalty Program Transition Allowance                           | (3.8)        |
| Net Recoveries from Previous Years                             | 7.8          |
| <b>Total</b>   | <b>(7.7)</b> |

**Positive Free Cash Flow (R\$ 34.9 MM) for the 4<sup>th</sup> consecutive year. Total Cash Flow was negative in R\$ 107.0 MM. Operating Cash Flow of R\$ 524.0 MM funded CAPEX of R\$ 489.1 MM.**

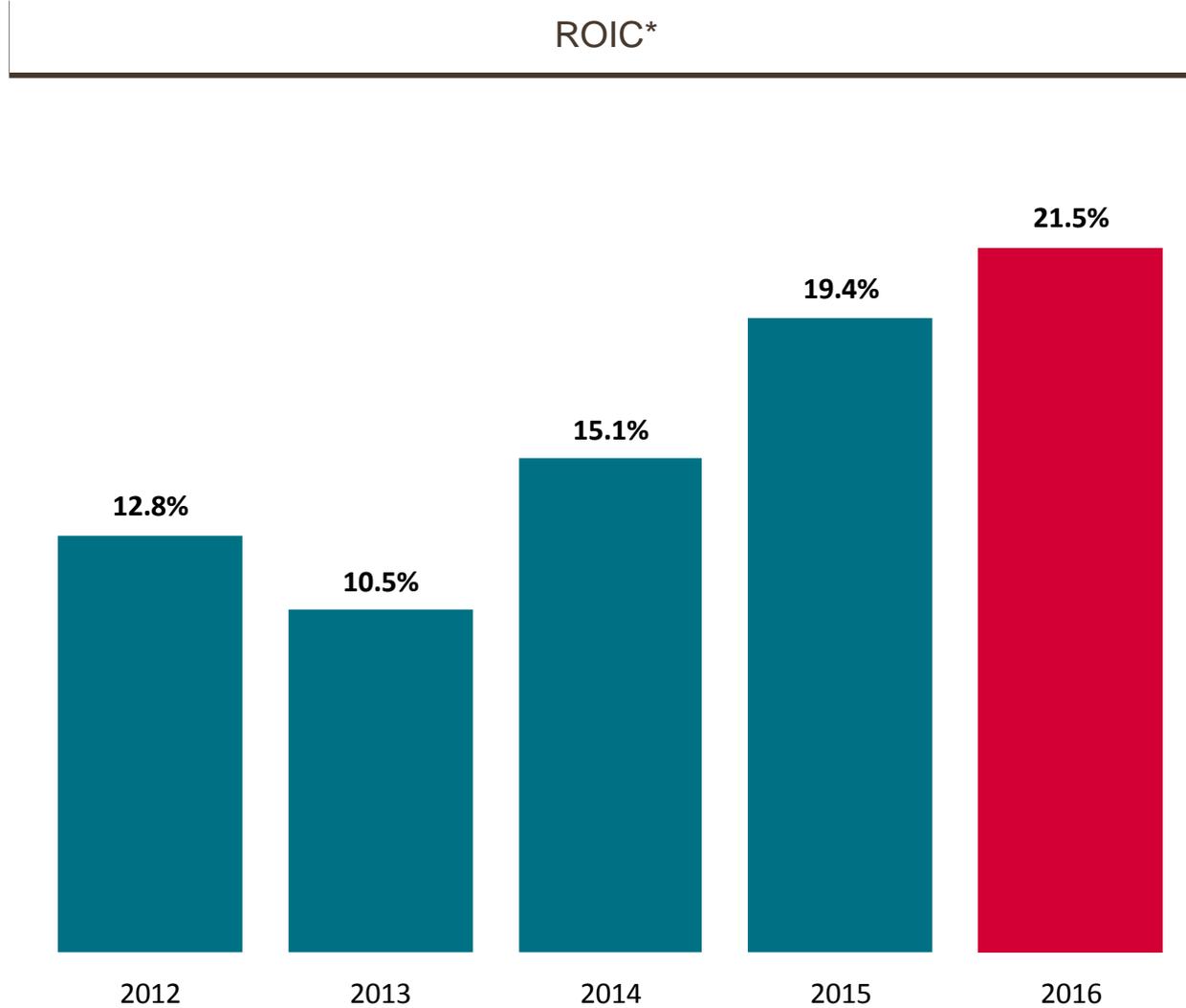


| <b>Cash Flow</b>  | <b>2016</b>    | <b>2015</b>    | <b>4Q16</b>    | <b>4Q15</b>    |
|---|----------------|----------------|----------------|----------------|
| <i>(R\$ million)</i>  |                |                |                |                |
| <b>Adjusted EBIT</b>  | <b>713.2</b>   | <b>516.5</b>   | <b>161.6</b>   | <b>128.0</b>   |
| NPV Adjustment  | (67.3)         | (53.2)         | (20.4)         | (18.2)         |
| Non-Recurring Expenses  | (7.7)          | (10.0)         | (7.7)          | (8.8)          |
| Income Tax (34%)  | (217.0)        | (154.1)        | (45.4)         | (34.4)         |
| Tax Shield from Goodwill Amortization                                   | 42.8           | 42.8           | 10.7           | 10.7           |
| Depreciation  | 274.4          | 227.1          | 74.4           | 60.1           |
| Others  | 12.9           | (3.5)          | 5.4            | (5.1)          |
| <b>Resources from Operations</b>  | <b>751.4</b>   | <b>565.5</b>   | <b>178.6</b>   | <b>132.4</b>   |
| Cash Cycle*   | (258.4)        | (92.8)         | 28.2           | 54.1           |
| Other Assets (Liabilities)  | 31.0           | (10.2)         | (16.6)         | (18.6)         |
| <b>Operating Cash Flow</b>  | <b>524.0</b>   | <b>462.5</b>   | <b>190.2</b>   | <b>167.9</b>   |
| <b>Investments</b>  | <b>(489.1)</b> | <b>(388.7)</b> | <b>(134.7)</b> | <b>(144.3)</b> |
| <b>Free Cash Flow</b>   | <b>34.9</b>    | <b>73.8</b>    | <b>55.6</b>    | <b>23.5</b>    |
| Interest on Equity  | (153.3)        | (121.3)        | (81.9)         | (57.3)         |
| Income Tax Paid over Interest on Equity                                 | (27.0)         | (25.3)         | (13.7)         | (11.5)         |
| Net Financial Expenses  | (42.1)         | (12.2)         | (15.2)         | (2.6)          |
| Income Tax (Tax benefit over financial expenses and interest on equity) | 80.5           | 65.1           | 22.2           | 15.4           |
| <b>Total Cash Flow</b>  | <b>(107.0)</b> | <b>(19.9)</b>  | <b>(33.1)</b>  | <b>(32.5)</b>  |

\* Includes variation in accounts receivables, inventories and suppliers. Excludes NPV effects.



**ROIC increased by 2.1 percentage points versus 2015, reflecting a higher margin and an increased capital efficiency.**

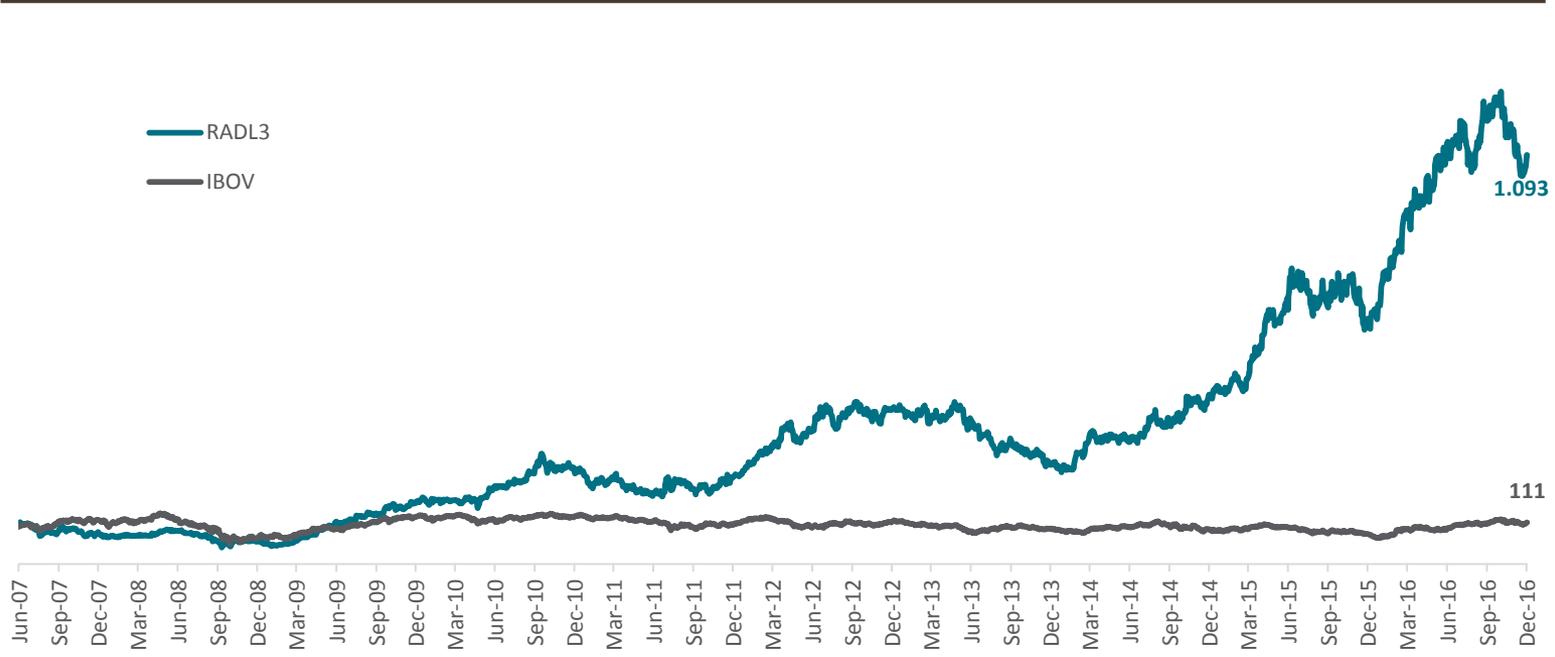


\* Raia Drogasil recorded a ROIC of 21.3%, an increase of 2.0 percentage points versus 2015, while 4Bio recorded a ROIC of 37.3%, an increase of 8.7 percentage points versus the previous year.

We generated a Total Shareholder Return of 74.1% with average annual returns of 29.1% for Drogasil IPO investors and of 34.5% for the Raia IPO investors.



### Share Appreciation



**Performance 2016**

**RADL3: 72.5%**  
**BOVESPA: 38.9%**  
**Alpha: 33.5%**  
**Average Trading Volume RADL3: R\$ 66.7 MM**



# What We Accomplished in 2016

- **Delivered High Quality Organic Growth**
  - Accelerated openings to 212 New Stores
  - Well-balanced expansion throughout the year with improved execution
  - Better than expected return on new projects
  
- **Maintained our Focus on Execution**
  - Lowest cash cycle, inventory losses and stock-out index in the company's history
  - Record customer satisfaction level
  - Improved HR processes (employee turnover reduction and restructuring of the career program)
  
- **Consolidated the New Formats**
  - Development of the Big Store format
  - Validation of Farmasil
  - New store identity for Drogasil
  
- **Leveraged Inflationary Gains on Inventories**
  - Increased forward buying in lieu of a 12% price cap increase



# Challenges and Opportunities for 2017

## ▪ **Advance with the Implementation of our Strategic Plan**

- Accelerate organic growth
- Develop new formats
- Enhance category management and shopping experience
- Engage, analyze and potentialize customers

## ▪ **Expand our Market Share**

- Still challenging environment for 2017 should worsen execution of several players
- Strong balance sheet and consistency of execution will allow us to continue gaining market share

## ▪ **Dilute Expenses**

- Concrete possibility of expense dilution driven by the deceleration of inflation
- Energy expenses falling sharply and several initiatives undertaken to rationalize personnel costs
- Increased automation of our main DC in São Paulo as well as efficiency projects in all of our DCs

## ▪ **Engender a Cultural Transformation**

- In 2016 we undertook an internal soul-searching initiative to understand and document our identity
- In 2017 we will boost employee engagement and relationship with customers through an inspirational purpose



- **2017 Earnings**

- **1Q:** April 27<sup>th</sup>, 2017
- **2Q:** July 27<sup>th</sup>, 2017
- **3Q:** October 26<sup>th</sup>, 2017

- **Next Investor Conferences**

- February 21<sup>st</sup> and 22<sup>nd</sup>: **XVIII CEO Conference**, BTG Pactual (São Paulo)
- March 13<sup>th</sup> and 14<sup>th</sup>: **5th LatAm Consumer Event**, (London)
- March 29<sup>th</sup> and 30<sup>th</sup>: **X Brazil Conference**, Merrill Lynch (São Paulo)
- April 4<sup>th</sup> and 5<sup>th</sup>: **4th Brazil Investment Forum**, Bradesco (São Paulo)