

Earnings Presentation – 2016

February 17th, 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

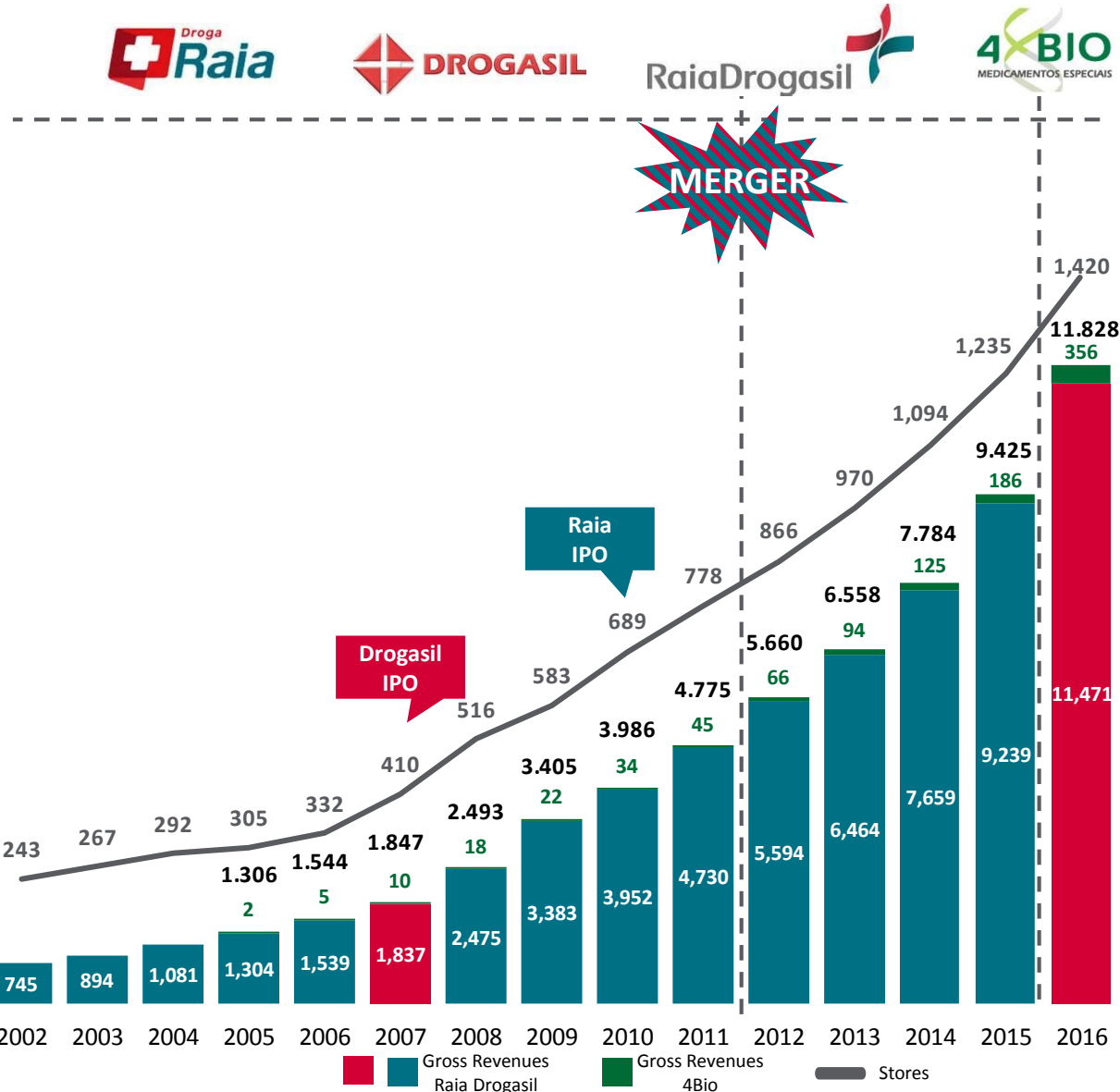


Another Year of Strong Growth with Value Creation



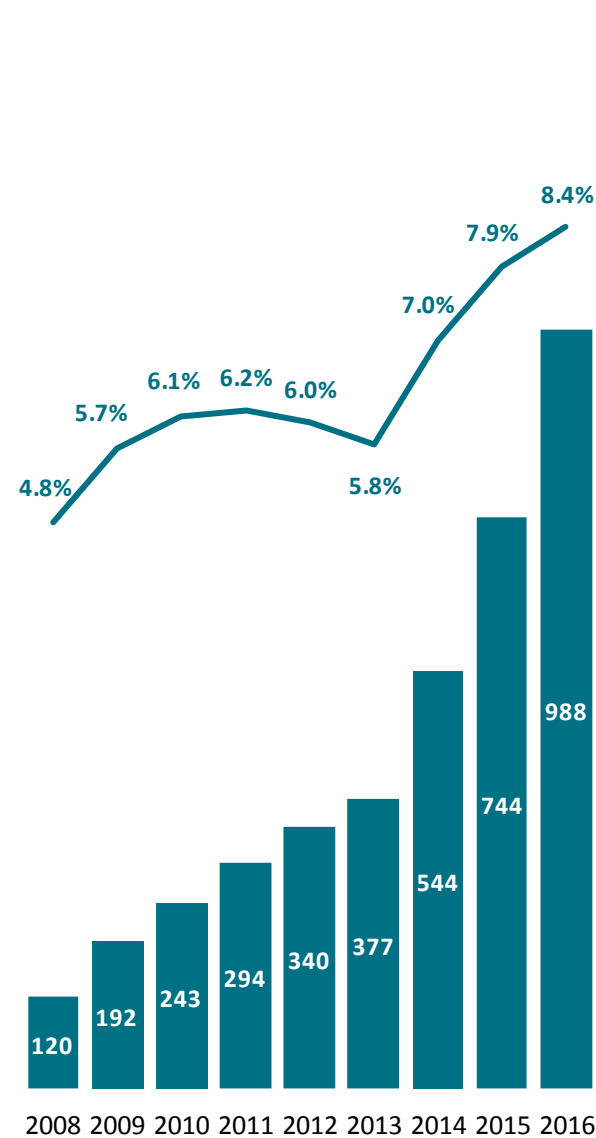
Combined Gross Revenues & Store Count

(R\$ million, Units)



Combined EBITDA

(R\$ million, % of Gross Revenues)



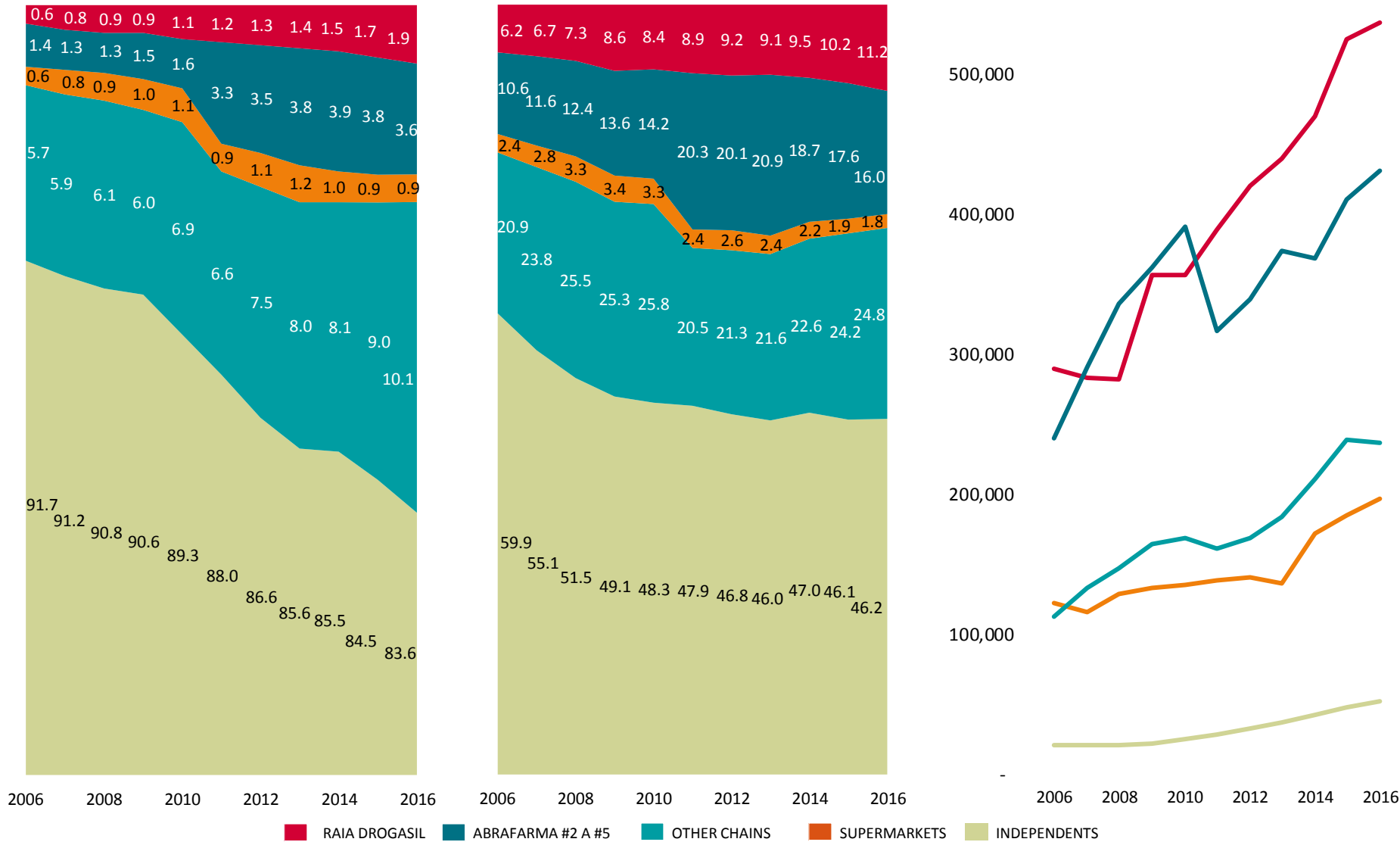
Leading the Consolidation of the Drugstore Industry in Brazil



% of Stores

% of Pharma Revenues

Pharma Revenues per Store (R\$/Month)



Source: IMS Health and Abrafarma.

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.

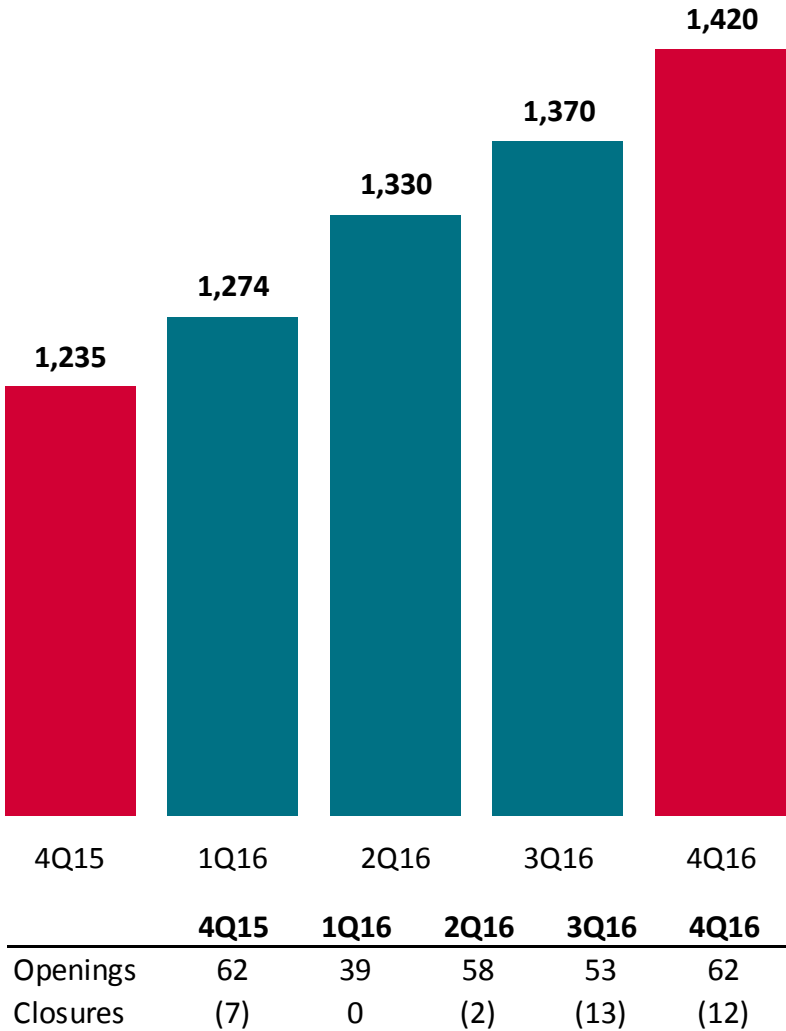


| Combined Operational Highlights | 2011 | 2016 | Var. % |
|---|---|--|---|
| Store Count | 778 | 1,420 | 82.5% |
| Sales Area (sqm) | 109,095 | 214,965 | 97.0% |
| Geographic Presence | 9 states 78% of the Brazilian Market | 18 states 90% of the Brazilian Market | +9 states +12% of the Brazilian Market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

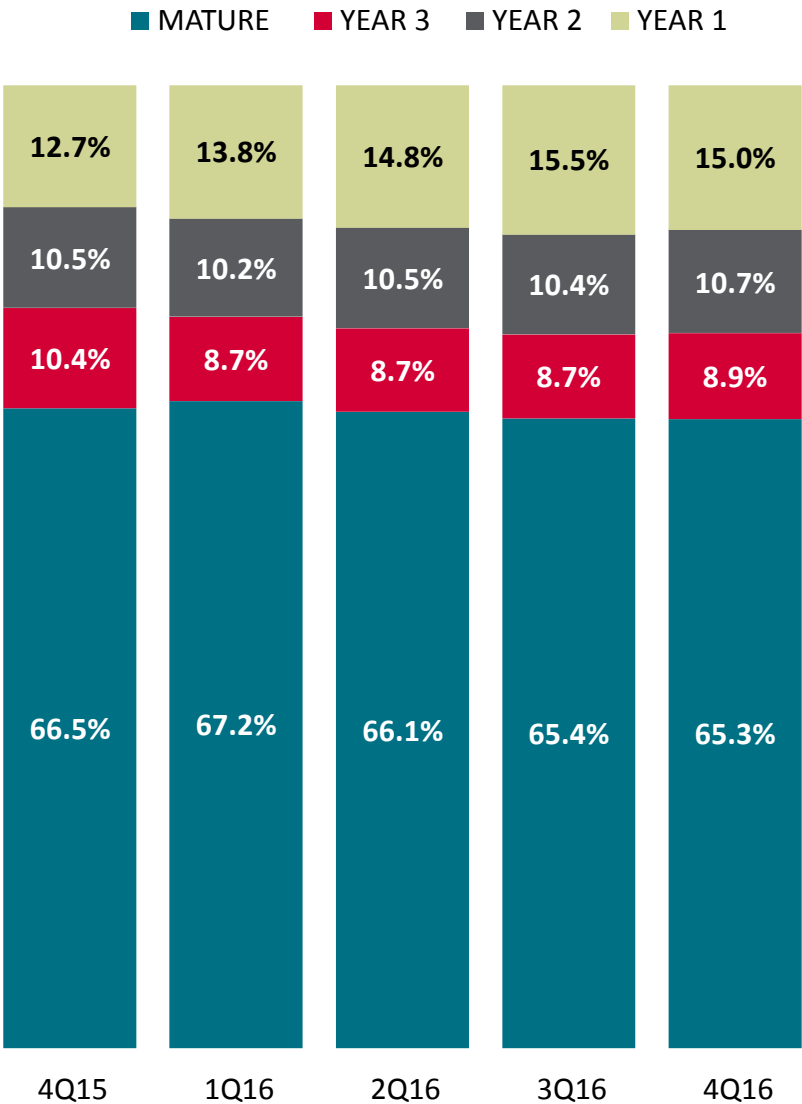
We opened in 2016 a total of 212 stores and closed 27. In the 4Q16, we opened 62 stores and closed 12. At the end of the period, 34.7% of our stores were still maturing.



Store Count*



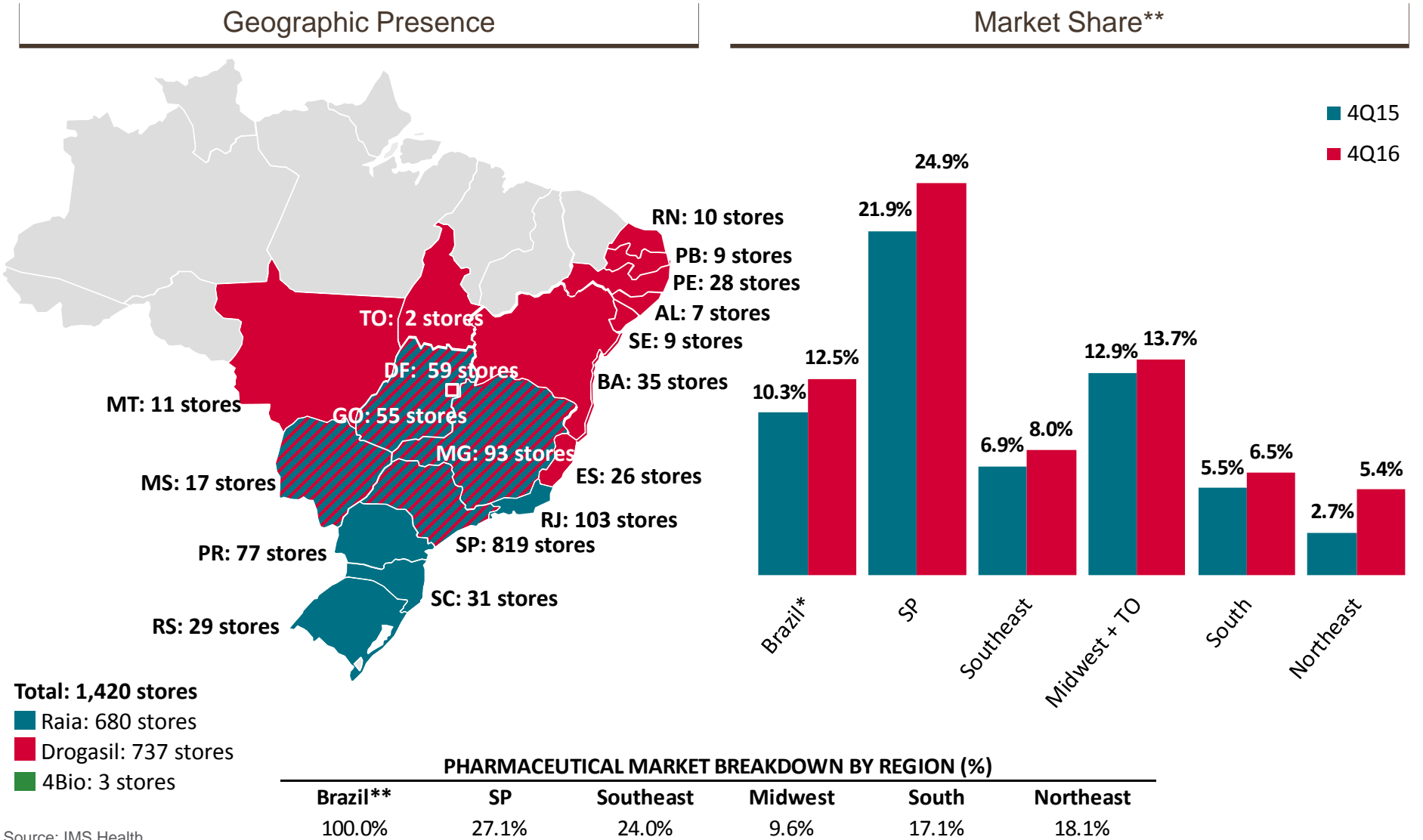
Age Structure of Store Portfolio



* 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.





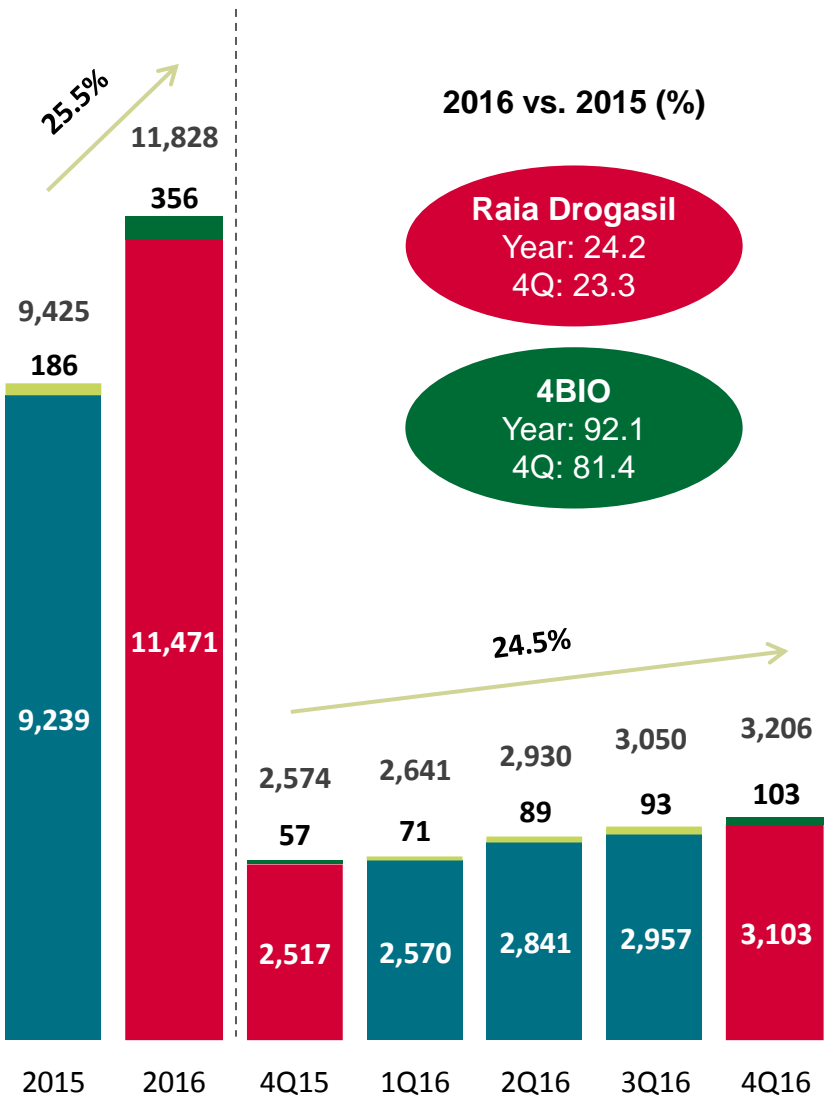
Source: IMS Health

* Includes 4Bio only for Brazil

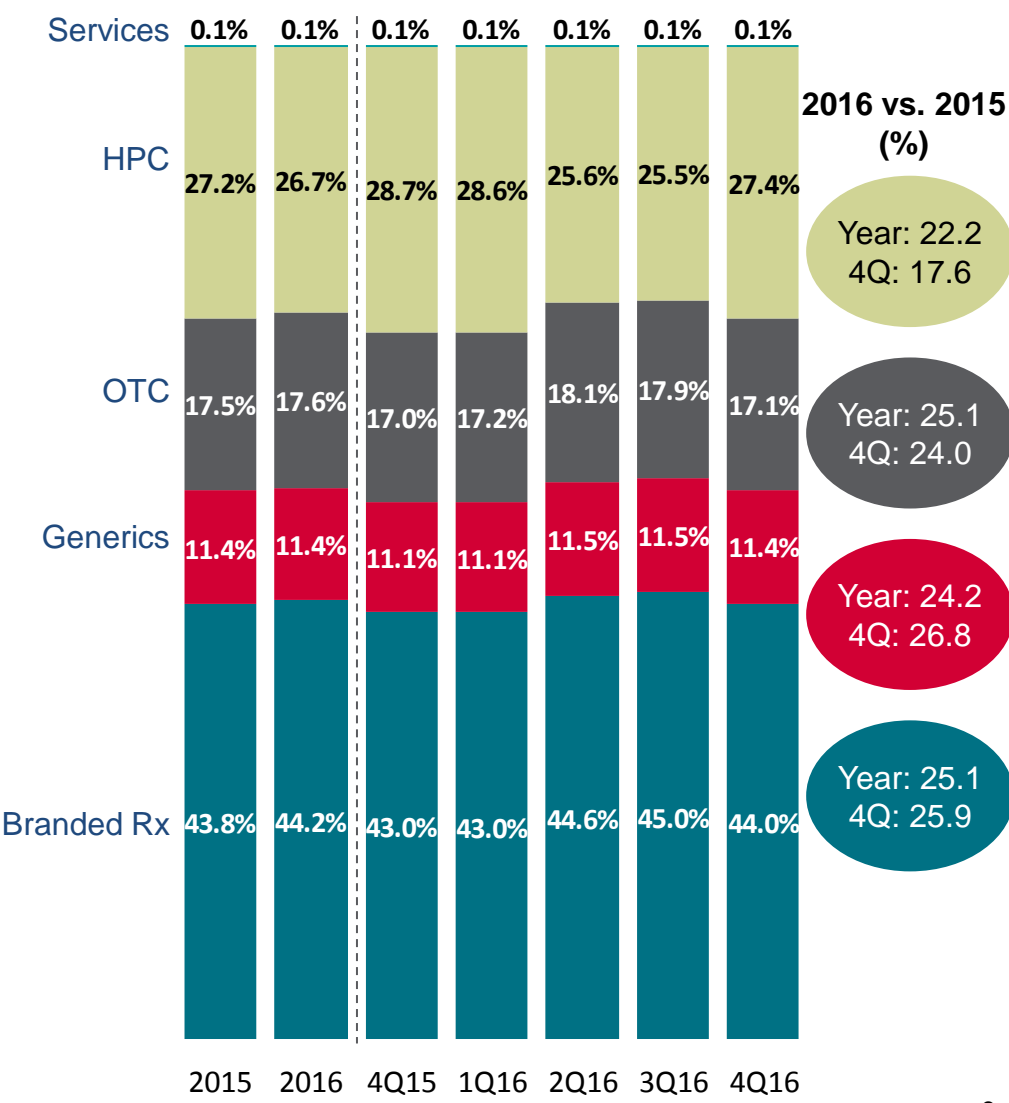
** Comparable Market Share, excluding new informants added to the panel during the last twelve months. Our national market share including the full panel was of 11.8%

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%.

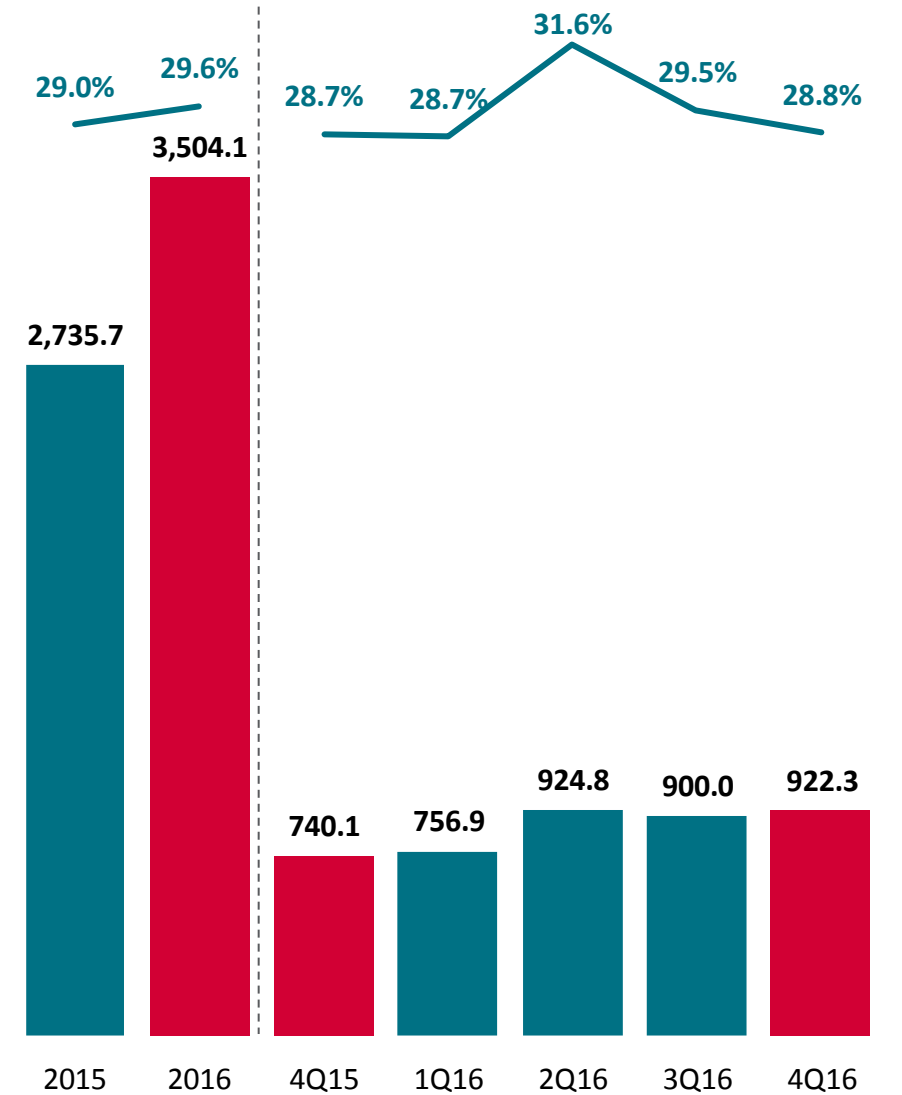




Gross margin increased +0.6 p.p. driven by inflationary gains in pharmaceuticals arising from the annual price cap increase. Annual cash cycle reduction of 0.2 day.

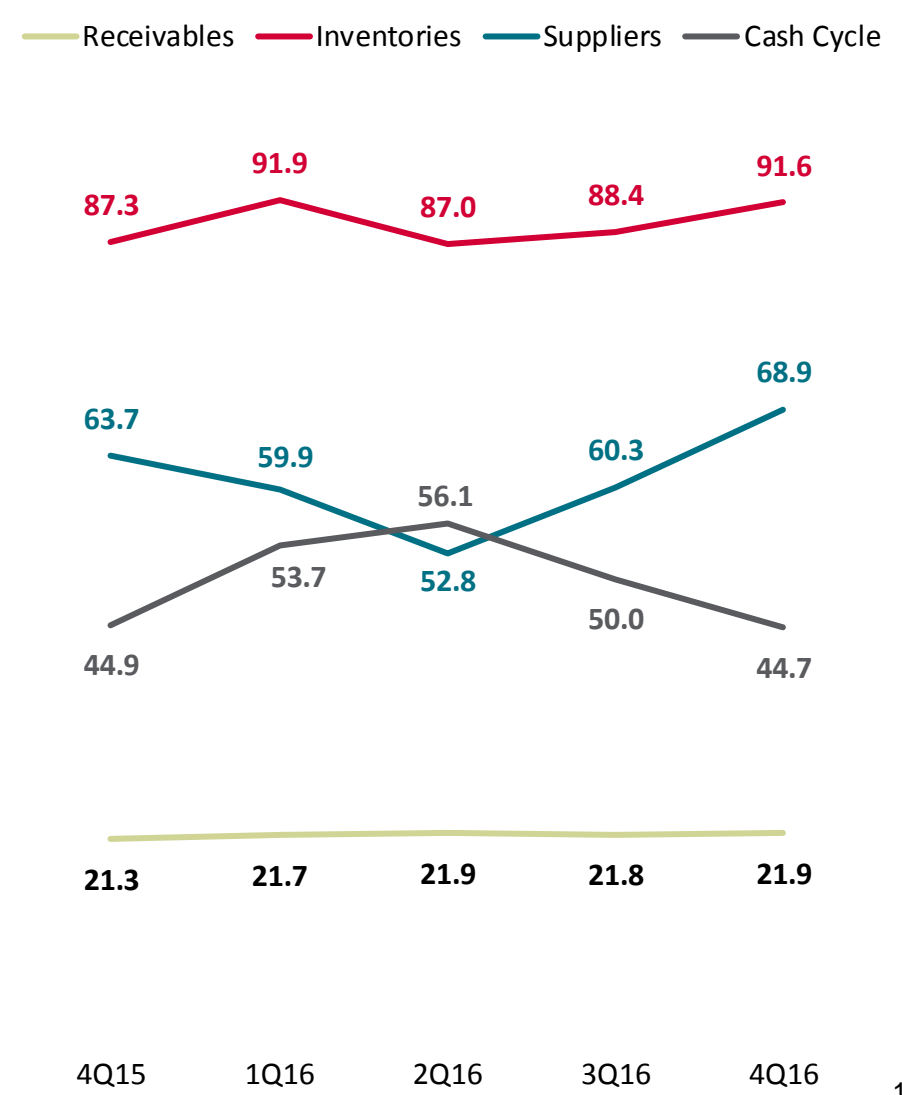
Gross Margin

(R\$ million, % of Gross Revenues)



Cash Cycle

(COGS Days, Gross Revenues Days)

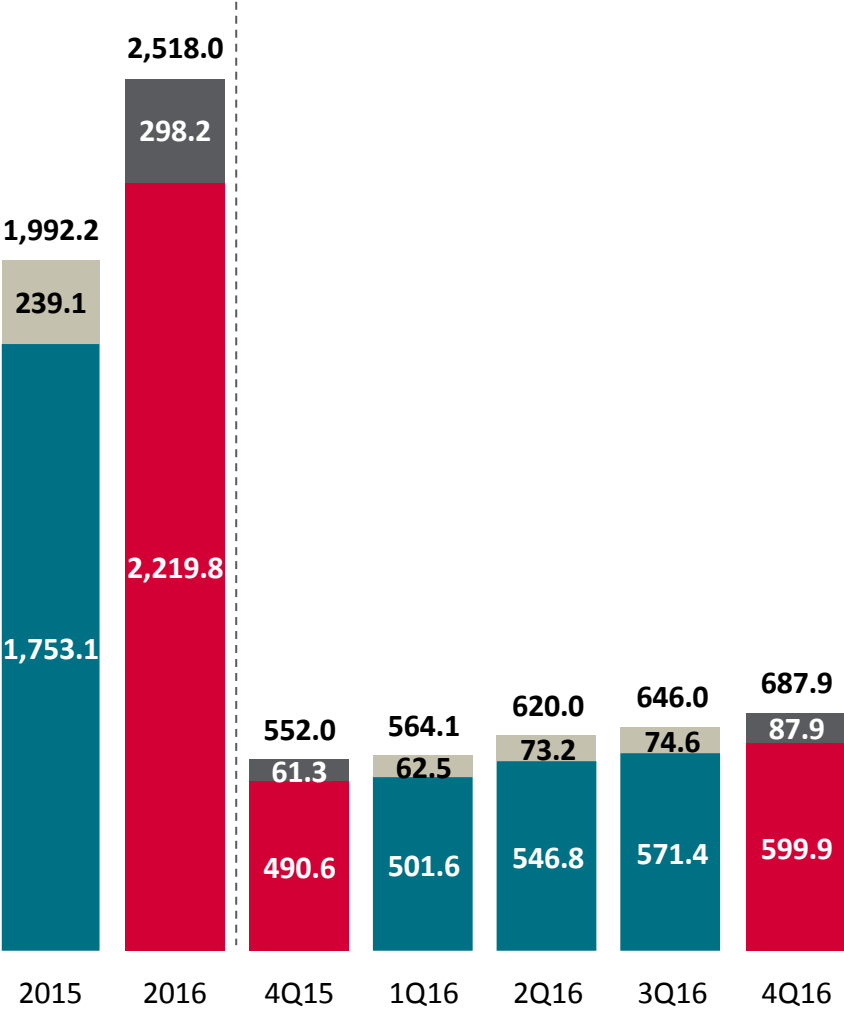




SG&A increased by 0.2 p.p. in 2016 and by 0.1 p.p. in the 4Q16. G&A increased by 0.3 pp in the 4Q16 due to transitory pressures in variable remuneration (0.2 pp) and contingencies (0.1 pp).

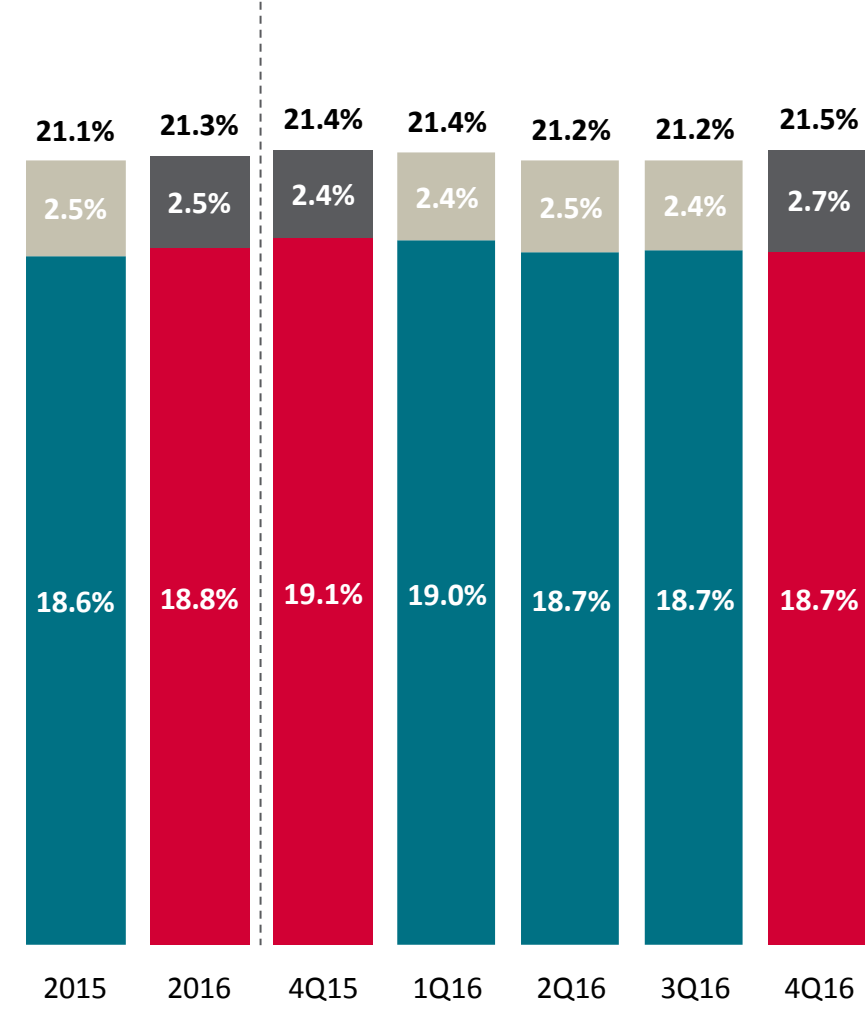
Operating Expenses

(R\$ million)



Operating Expenses

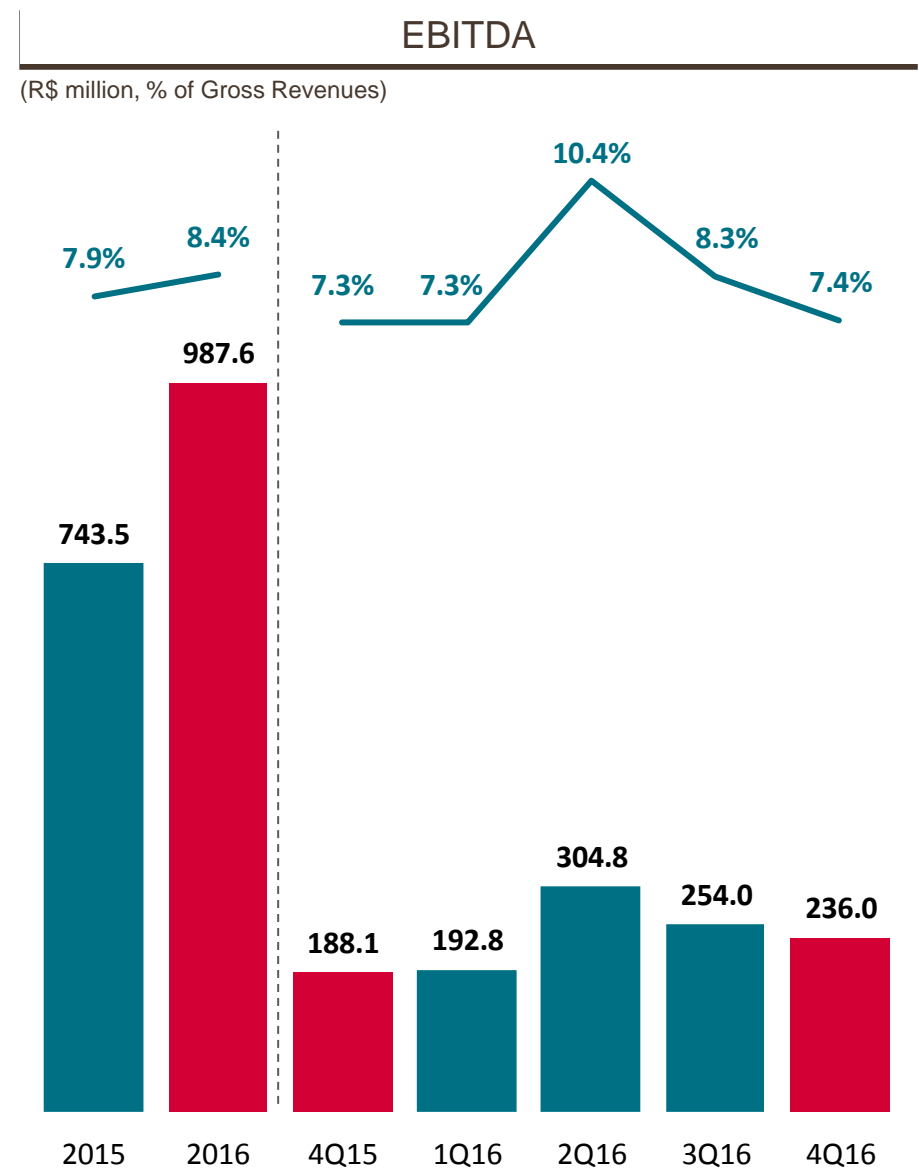
(% of Gross Revenues)



■ 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.



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%

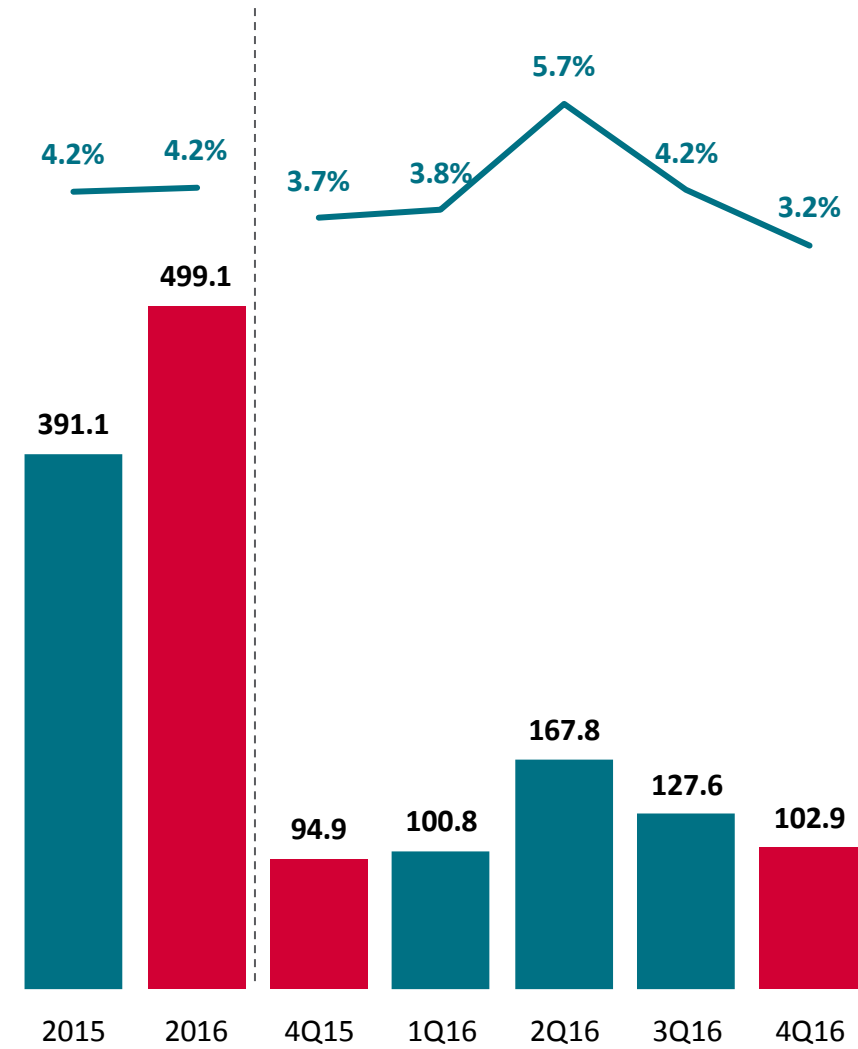
* 1.235 stores at year-end less 27 stores closed

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 |
| Total | (7.7) |

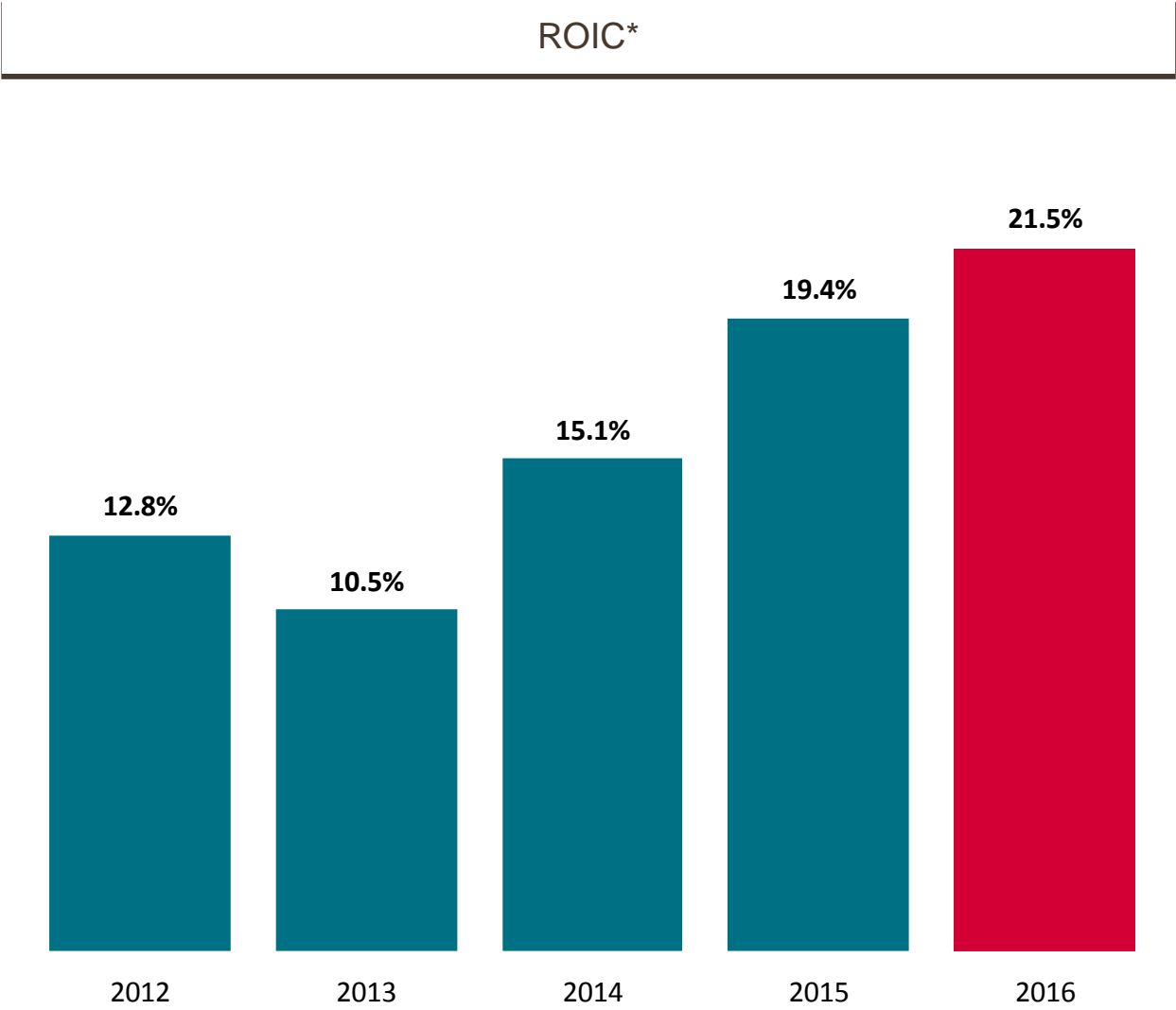
Positive Free Cash Flow (R\$ 34.9 MM) for the 4th consecutive year. Total Cash Flow was negative in R\$ 107.0 MM. Operating Cash Flow of R\$ 524.0 MM funded CAPEX of R\$ 489.1 MM.



| Cash Flow | 2016 | 2015 | 4Q16 | 4Q15 |
|---|----------------|----------------|----------------|----------------|
| <i>(R\$ million)</i> | | | | |
| Adjusted EBIT | 713.2 | 516.5 | 161.6 | 128.0 |
| 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) |
| Resources from Operations | 751.4 | 565.5 | 178.6 | 132.4 |
| Cash Cycle* | (258.4) | (92.8) | 28.2 | 54.1 |
| Other Assets (Liabilities) | 31.0 | (10.2) | (16.6) | (18.6) |
| Operating Cash Flow | 524.0 | 462.5 | 190.2 | 167.9 |
| Investments | (489.1) | (388.7) | (134.7) | (144.3) |
| Free Cash Flow | 34.9 | 73.8 | 55.6 | 23.5 |
| 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 |
| Total Cash Flow | (107.0) | (19.9) | (33.1) | (32.5) |

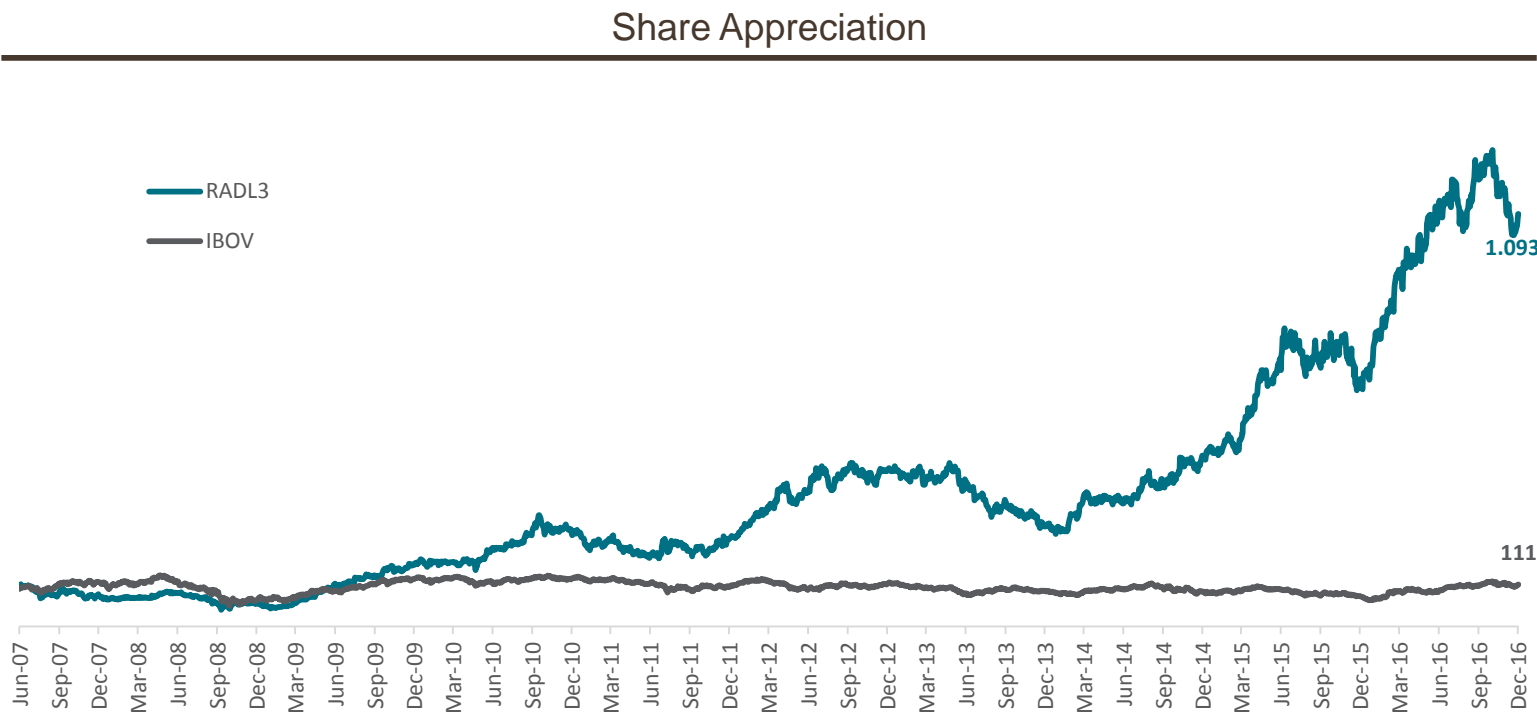
* Includes variation in accounts receivables, inventories and suppliers. Excludes NPV effects.

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.



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 27th, 2017
- **2Q:** July 27th, 2017
- **3Q:** October 26th, 2017

■ Next Investor Conferences

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