



RaiaDrogasil S.A.

People,
Health and
Well-being

**EARNINGS
PRESENTATION:**

3Q19

*Taking Close Care
of People's Health
and Well-Being
during all Times
of their Lives*



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.

ADJUSTED QUARTERLY HIGHLIGHTS:

- › **Drugstores:** 1,995 stores in operation (52 organic openings, 42 Onofre stores and 16 closures)
- › **Retail Market Share:** 1.7 percentage point national increase, with 2.5 gain in São Paulo
- › **Gross Revenue:** R\$ 4.8 billion, a 21.0% growth (7.7% mature-store sales growth)
- › **Gross Margin:** 27.7% of gross revenue, a 0.6 percentage point decrease
- › **EBITDA:** R\$ 359.4 million, an increase of 21.7% and a margin of 7.5%
R\$ 519.5 million, an increase of 21.0% and a margin of 10.9% **(IFRS 16)**
- › **Net Income:** R\$ 152.5 million, an increase of 16.3% and a 3.2% net margin
R\$ 135.6 million, an increase of 12.5% and a 2.8% net margin **(IFRS 16)**
- › **Cash Flow:** R\$ 120.7 million free cash flow, R\$ 113.8 million of total cash generation



COMPLETED THE INTEGRATION OF ONOFRE'S STORES IN AUGUST AND OF THE E-COMMERCE IN OCTOBER. CORPORATE SITE AND DC WILL CLOSE BY DECEMBER



Onofre's unintegrated operations have been adjusted. Stores were adjusted for July, while e-commerce, corporate and logistics have been fully excluded. We have also adjusted the negative goodwill gains and the integration expenses.

Income Statement (R\$ million)	IAS 17			IFRS 16		
	Ajusted Income Stat.	Onofre Exclusions	Consolidated Income Stat.	Ajusted Income Stat.	Onofre Exclusions	Consolidated Income Stat.
Gross Revenue	4,771.3	72.1	4,843.4	4,771.3	72.1	4,843.4
Gross Profit	1,321.3	15.1	1,336.4	1,321.3	15.1	1,336.4
Gross Margin	27.7%	20.9%	27.6%	27.7%	20.9%	27.6%
Selling Expenses	(851.8)	(15.0)	(866.8)	(692.1)	(13.5)	(705.5)
G&A	(110.1)	(10.1)	(120.2)	(109.8)	(10.1)	(119.8)
Total Expenses	(961.9)	(25.1)	(987.0)	(801.8)	(23.6)	(825.4)
as % of Gross Revenue	20.2%	-0.2%	20.4%	16.8%	-0.2%	17.0%
Adjusted EBITDA	359.4	(10.0)	349.4	519.5	(8.5)	511.0
as % of Gross Revenue	7.5%	-13.9%	7.2%	10.9%	-11.8%	10.6%
Depreciation and Amortization	(127.4)	(4.3)	(131.8)	(284.9)	1.4	(283.5)
Financial Results	(40.9)	0.9	(40.0)	(68.8)	0.6	(68.3)
Income Tax	(38.6)	4.6	(34.0)	(30.2)	2.2	(28.0)
Adjusted Net Income	152.5	(8.9)	143.6	135.6	(4.3)	131.3
as % of Gross Revenue	3.2%	-12.3%	3.0%	2.8%	-6.0%	2.7%
Non-Recurring (Expenses) / Revenues*	(9.4)	272.9	263.5	(8.9)	273.4	264.4
Income Tax (34%)	3.2	(92.8)	(89.6)	3.0	(92.9)	(89.9)
Income Tax one-time effects	0.0	156.8	156.8	0.0	156.8	156.8
Net Income	146.3	328.0	474.3	129.7	332.9	462.6
as % of Gross Revenue	3.1%	n.m.	9.8%	2.7%	n.m.	9.6%

ONOFRE'S NET CASH, PLUS EXPECTED PROCEEDINGS FROM PROPERTY SALES, WORKING CAPITAL REDUCTIONS AND TAX RECOVERIES, NET OF CONTINGENCIES, NEGATIVE INITIAL RESULTS AND INTEGRATION EXPENSES, SHOULD GENERATE A SURPLUS IN EXCESS OF R\$ 150 MILLION

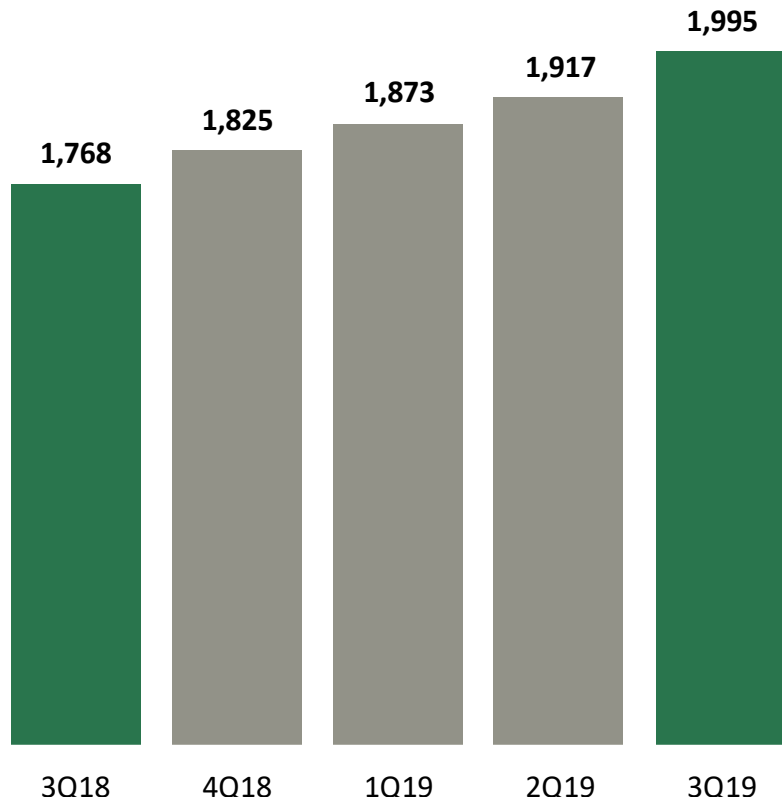
* Please check EBITDA reconciliation on page 13 for more details.

WE OPENED 52 STORES, ADDED ANOTHER 42 FROM ONOFRE AND CLOSED 16, 3 OF WHICH ON A TEMPORARY BASIS FOR REBRANDING

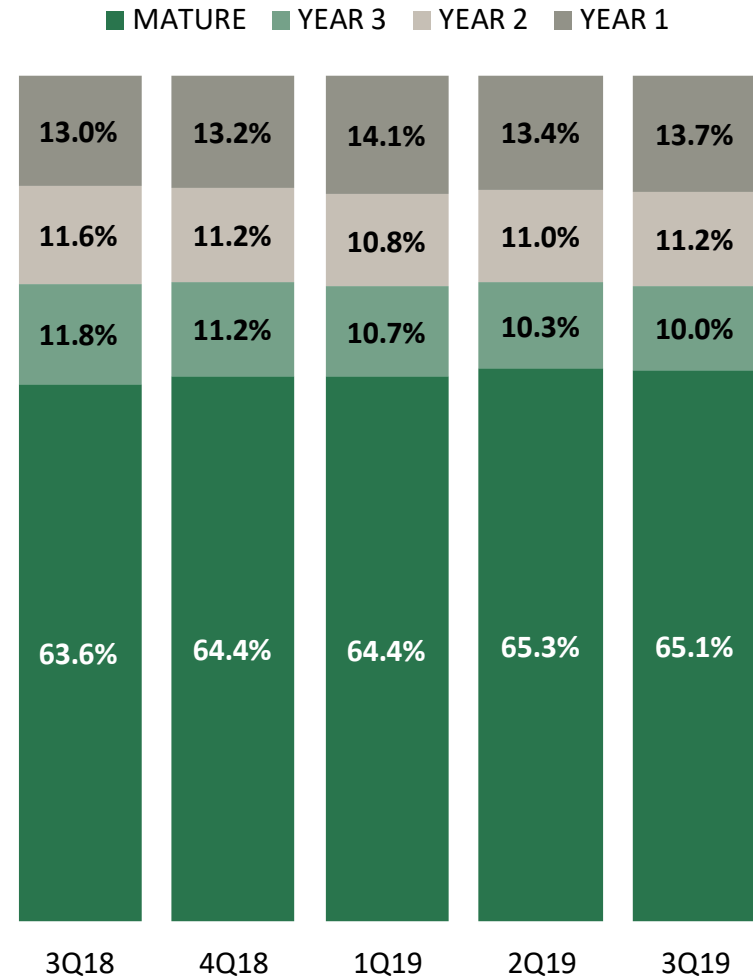


We reiterate our guidance of 240 openings per year for both 2019 and 2020. At the end of the period, 34.9% of our stores were still maturing.

Store Count*



Age Structure of Store Portfolio**



	3Q18	4Q18	1Q19	2Q19	3Q19
Openings	64	70	62	47	52
Onofre					42
Closures	(4)	(13)	(14)	(3)	(16)

*Among the 16 closures registered in the 3Q19, 3 were temporary. Includes three 4Bio units.

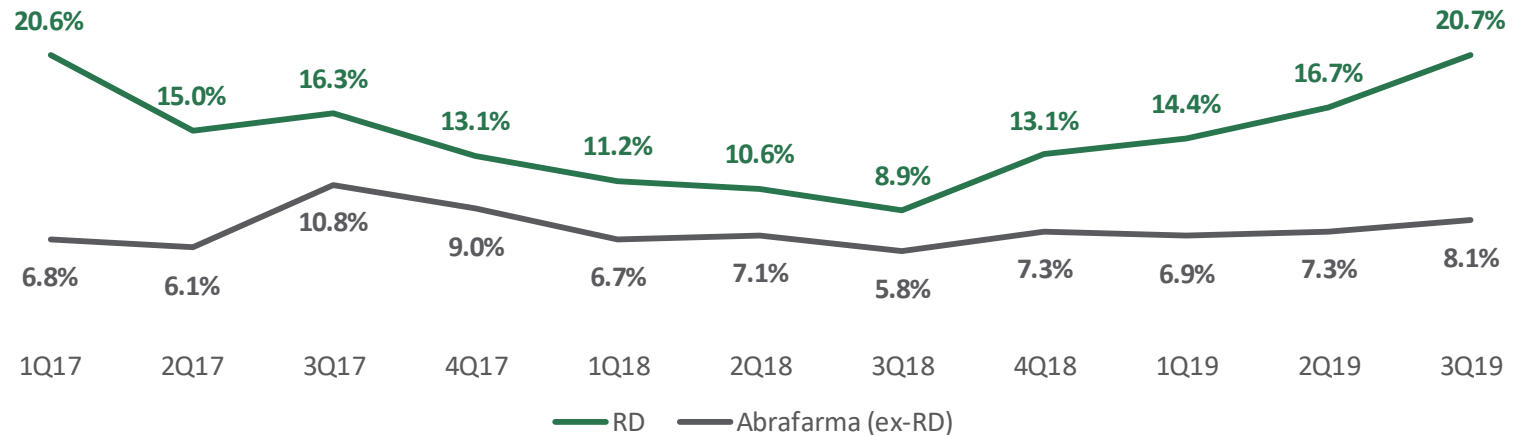
**Stores acquired from Onofre were added to our base as Year 1.

OUR REVENUE GROWTH AND STORE ADDITION PACE HAVE DECOUPLED FROM OUR MAIN INDUSTRY PEERS

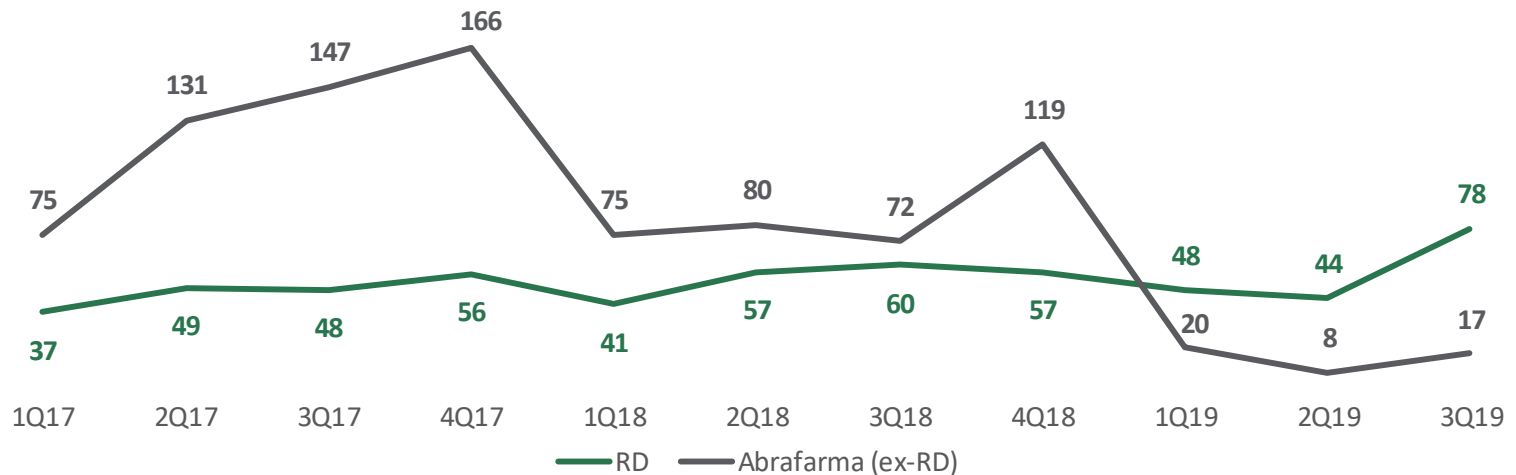


The total of net openings in the industry has sharply decelerated, reverting the strong capacity addition cycle verified in recent years in the industry.

Retail Gross Revenues – Nominal Growth Y/Y (%)



Net Store Addition (Q/Q)



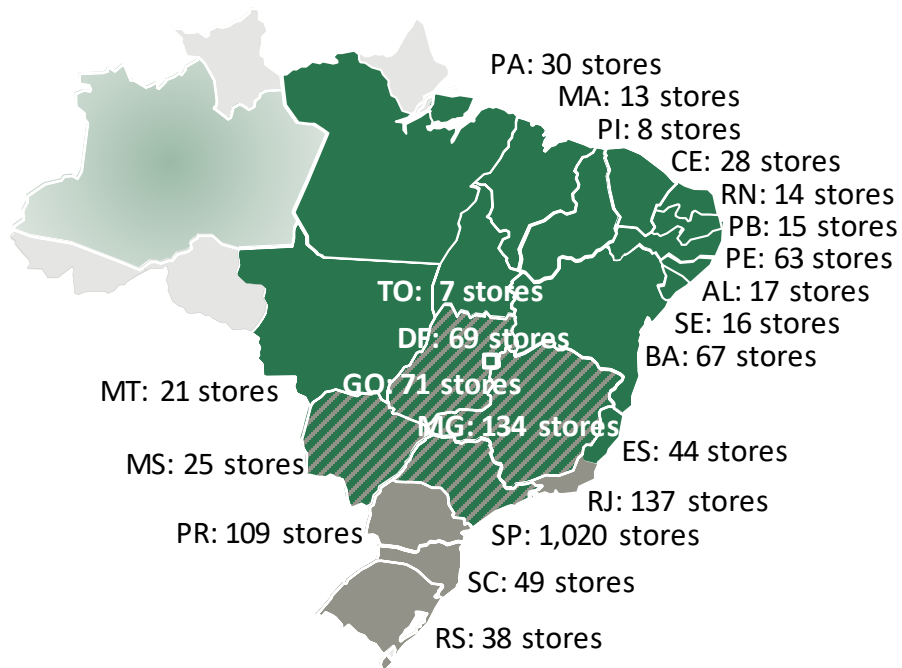
*Note: Data adjusted to exclude the effect of players entering/leaving the database.

WE HAVE GAINED MARKET SHARE IN ALL SIX REGIONS WHERE WE OPERATE, WITH A VERY SIGNIFICANT INCREASE IN SÃO PAULO



We reached 13.3% of national market share, an increase of 1.7 p.p., with an increase of 2.5 p.p. in SP. Our share growth was driven by our strong investments in generics and the reversal of the industry's store addition cycle.

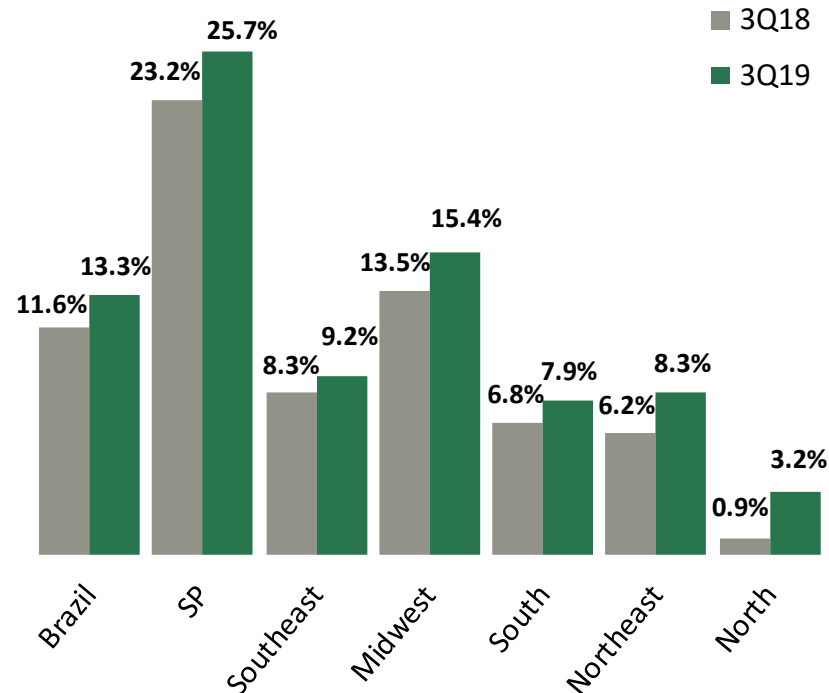
Geographic Presence



Total: 1,995 stores

- Raia: 885 stores
- Drogasil: 1,107 stores
- * 4Bio: 3 stores

Retail Market Share*



LTM Openings	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
São Paulo	93	82	75	79	76	73	76	67	107
Other States	119	128	137	141	154	167	182	176	166
Total	212	210	212	220	230	240	258	243	273
<i>São Paulo %</i>	<i>43.9%</i>	<i>39.0%</i>	<i>35.4%</i>	<i>35.9%</i>	<i>33.0%</i>	<i>30.4%</i>	<i>29.5%</i>	<i>27.6%</i>	<i>39.2%</i>

Source: IQVIA.

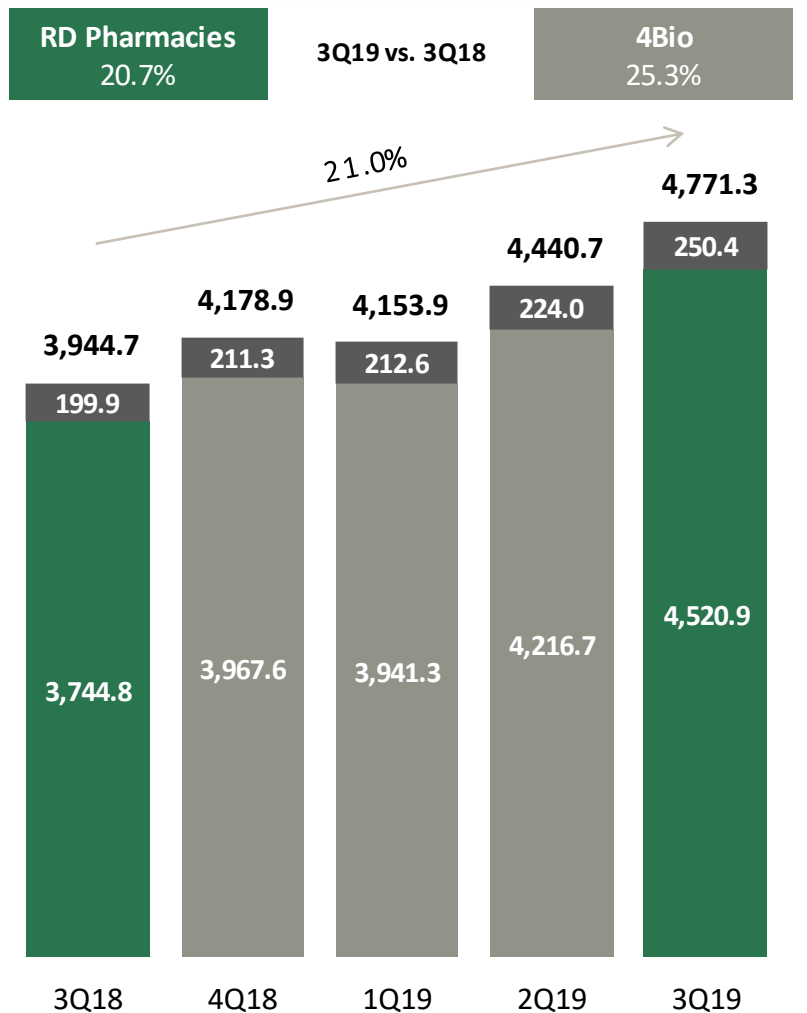
* Market share calculation includes Onofre's store revenues for August and September.

GROSS REVENUE INCREASED 21.0%, WITH 20.7% FOR RETAIL AND 25.3% FOR 4BIO

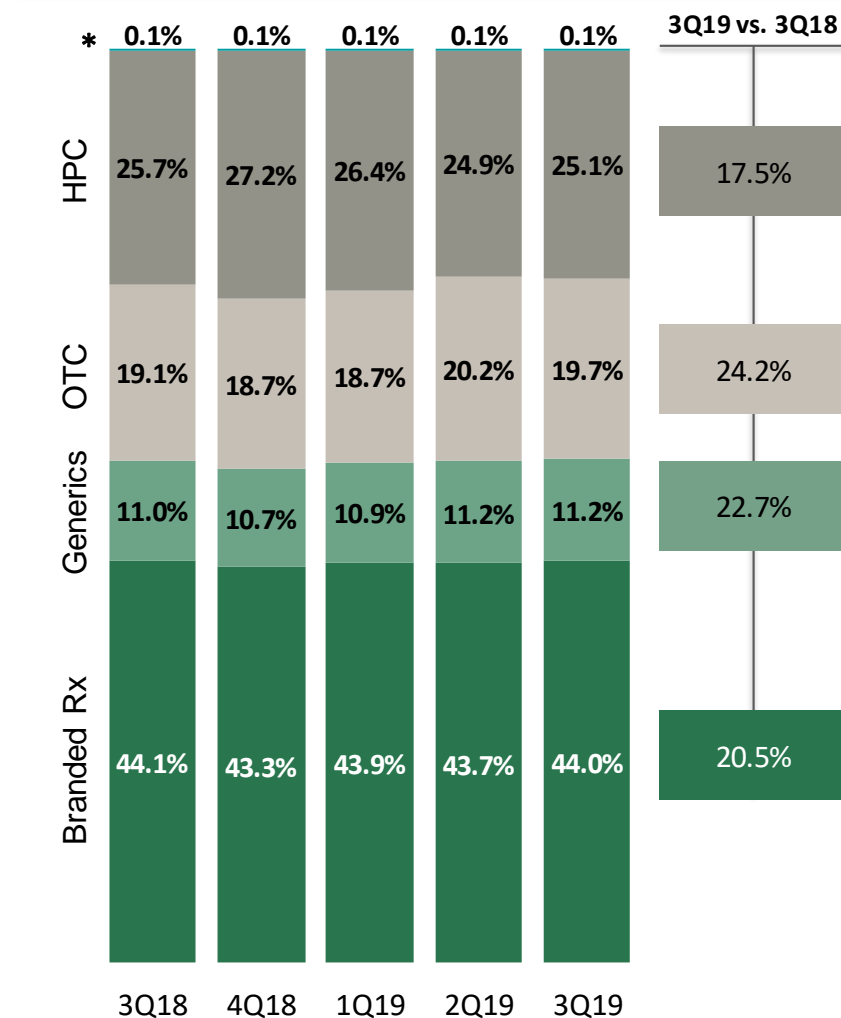


OTC grew 24.2% and gained 0.6 p.p. in the mix, driven by a stronger winter season and new product launches, while Generics grew 22.7% and gained 0.2 p.p., driven by strong volume growth reflecting our investments in pricing.

Consolidated Gross Revenue



Retail Sales Mix



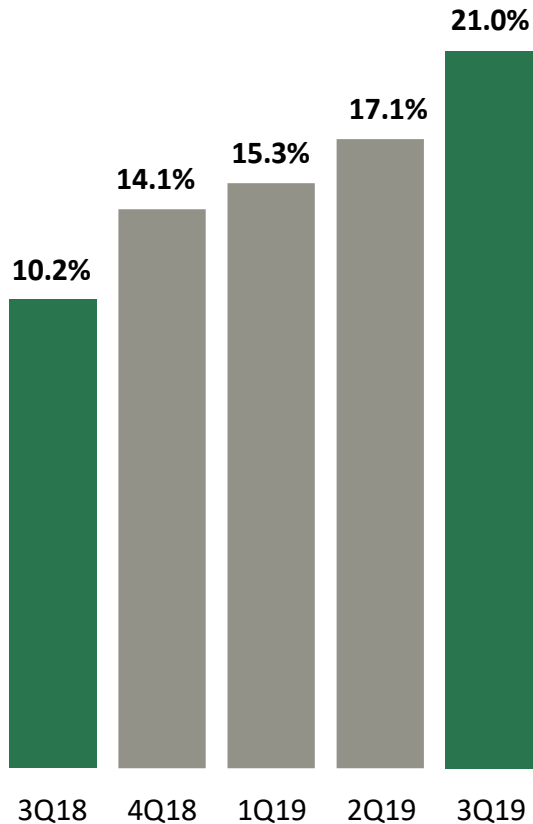
* Services.



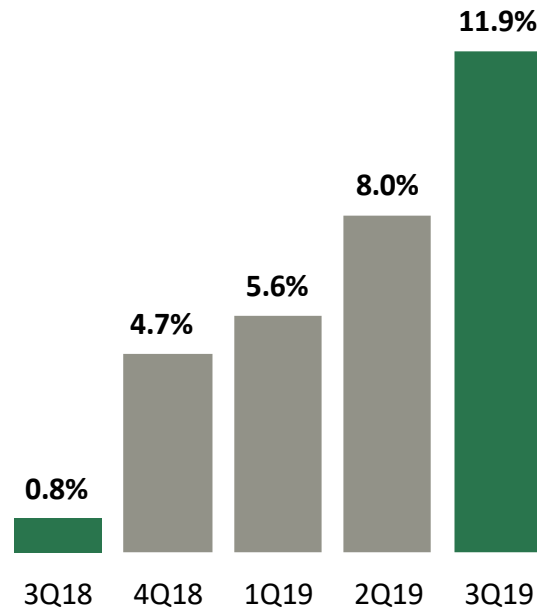
SAME-STORE SALES GROWTH OF 11.9%, WITH 7.7% FOR MATURE STORES

Mature stores' growth accelerated to 7.7%, posting 4.8% of real growth in the period. We recorded a positive calendar effect of 0.4% in the quarter.

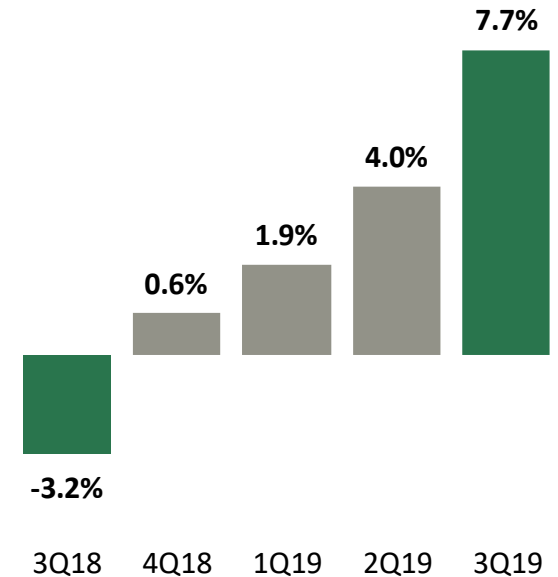
Consolidated Revenue Growth



Same Store Sales Growth*



Mature Stores Growth*



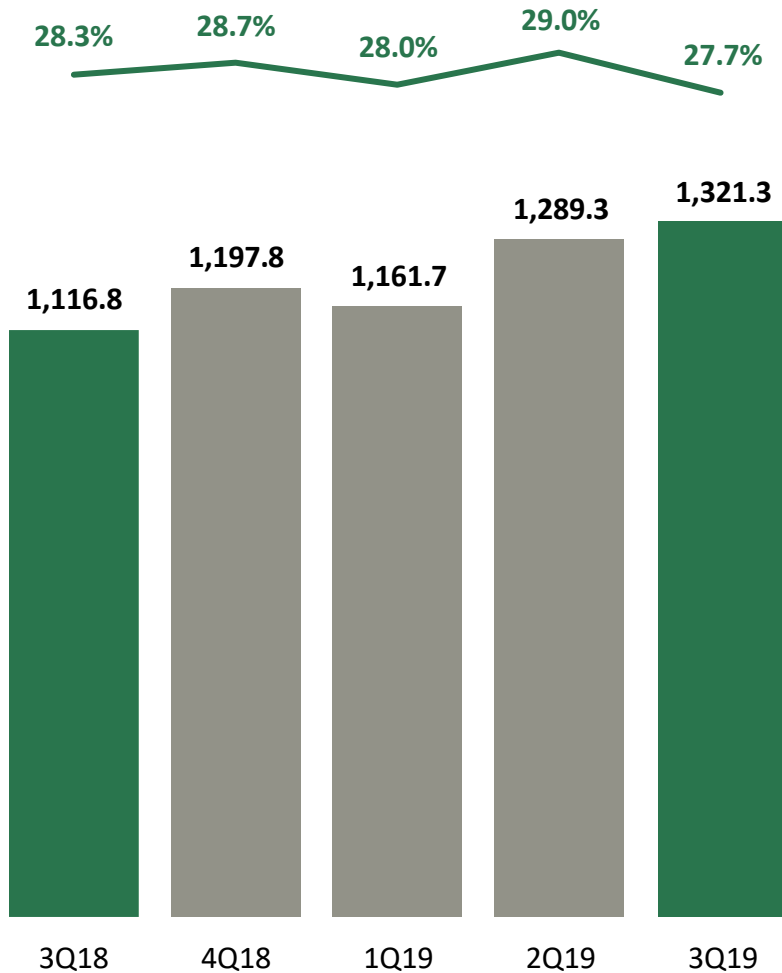
* RD Pharmacies only. Does not include Onofre, as the stores entered our base as Year 1.

GROSS MARGIN PRESSURE DRIVEN BY THE NORMALIZATION OF OPPORTUNITY BUYS

Gross margin went down by of 0.6 p.p. due to the normalization of opportunity purchases, which had partially offset the significant price investments pursued in 2018. Cash cycle decreased by 0.5 day.

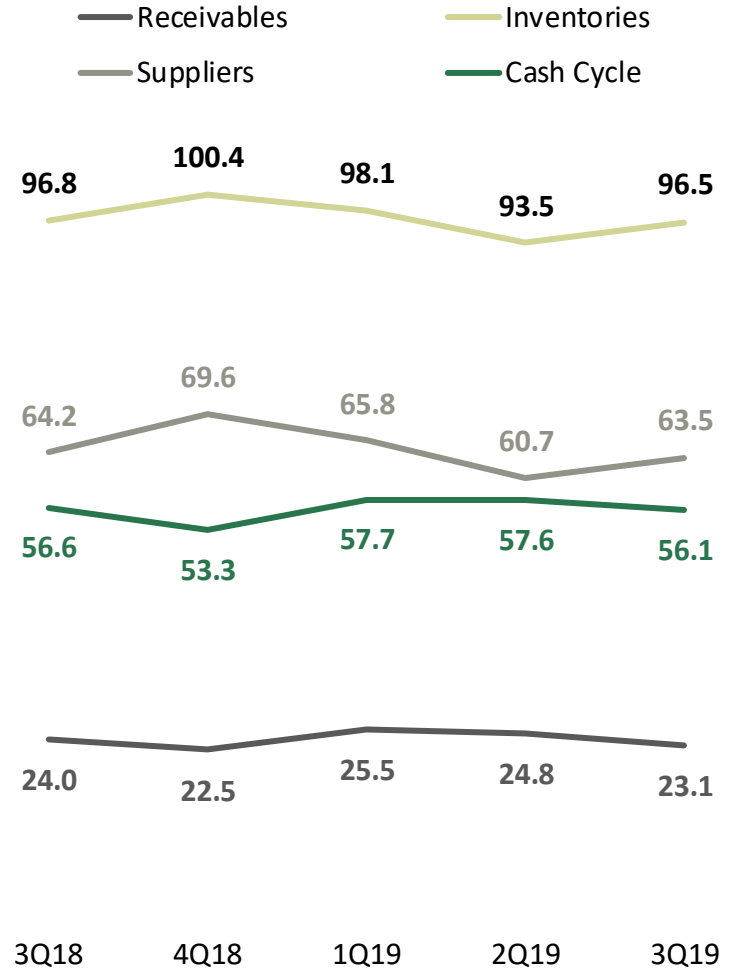
Gross Profit

R\$ Million, % of Gross Revenue



Cash Cycle*

COGS Days, Gross Revenue Days

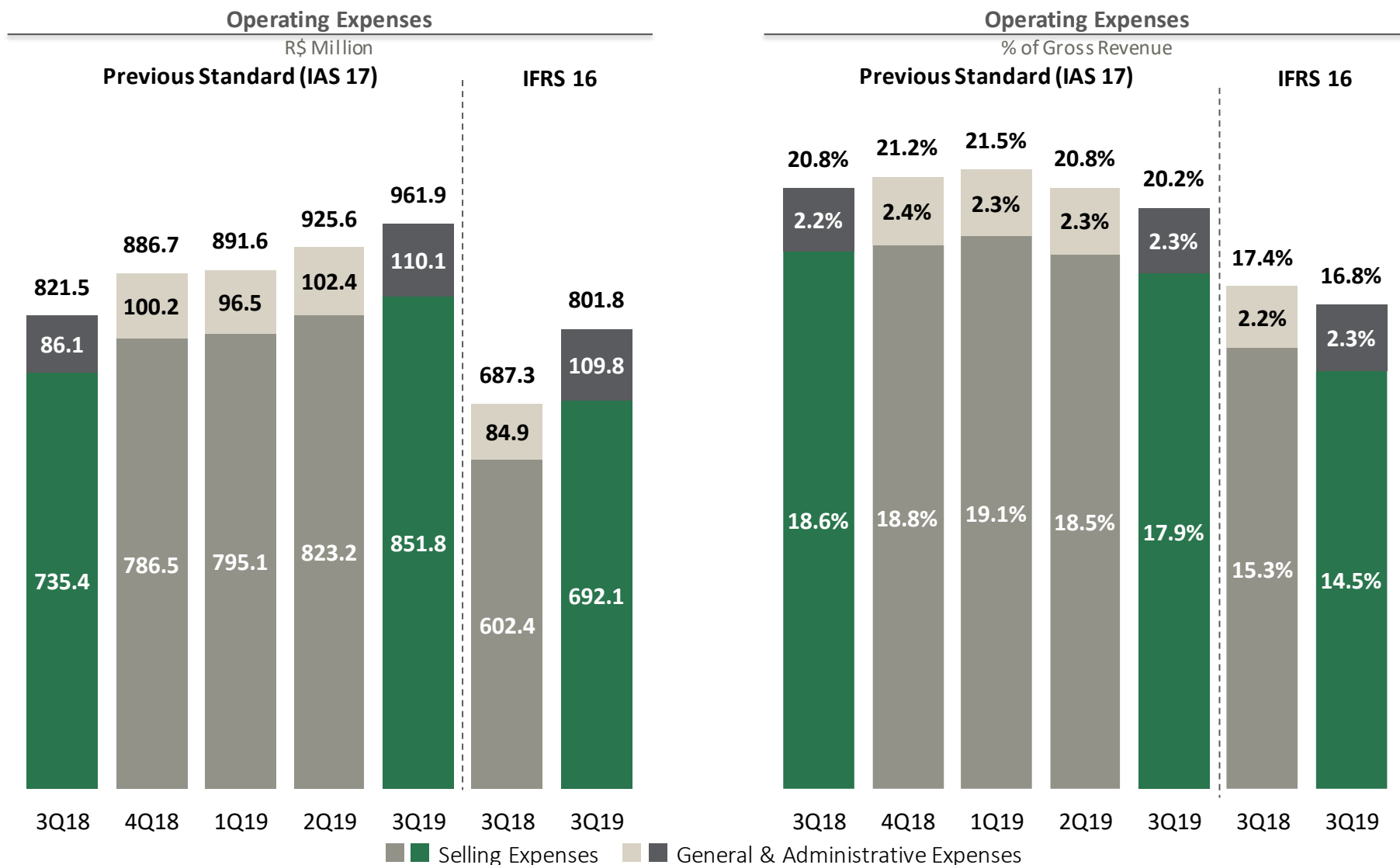


* Adjusted for discounted receivables.

SG&A DILUTION, DRIVEN PRIMARILY BY THE INCREASE IN OPERATING LEVERAGE



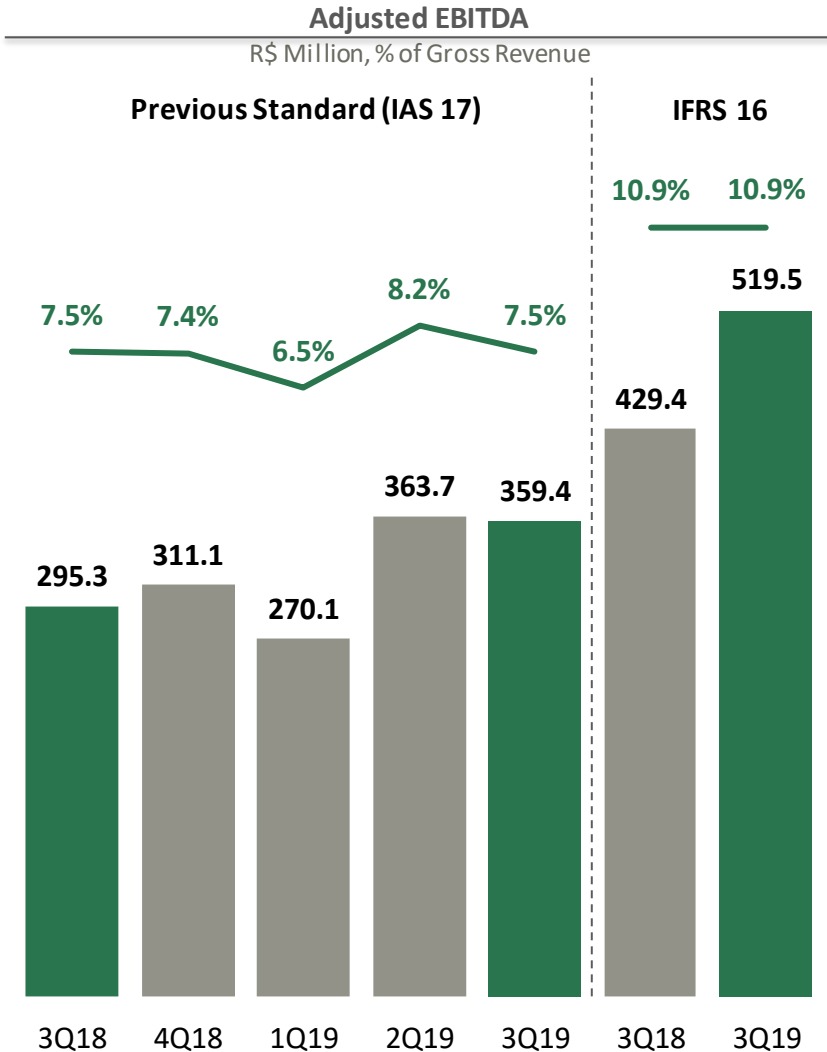
Sales expenses went down by 0.7 p.p., while G&A pressured by 0.1 p.p. due to a lower comp base. Strong revenue growth absorbed additional investments in the corporate structure, including 131 retentions from Onofre.





EBITDA TOALED R\$ 359.4 MM, WITH 7.5% MARGIN, AN INCREASE OF 21.7%

SG&A dilution, driven by the gains in operating leverage, has fully offset the gross margin pressure faced in the quarter. New stores have generated a positive contribution of R\$ 0.8 million to our EBITDA.



RD - Consolidated

- › Revenues: R\$ 4.8 billion, 21.0% growth
- › EBITDA: R\$ 359.4 million, 7.5% margin
- › EBITDA growth of 21.7%

RD Pharmacies

- › Revenues: R\$ 4.5 billion, 20.7% growth
- › EBITDA: R\$ 352.6 million, 7.8% margin
- › EBITDA growth of 21.1%

4Bio

- › Revenues: R\$ 250.4 million, 25.3% growth
- › EBITDA: R\$ 6.8 million, 2.7% margin
- › EBITDA growth of 62.1%

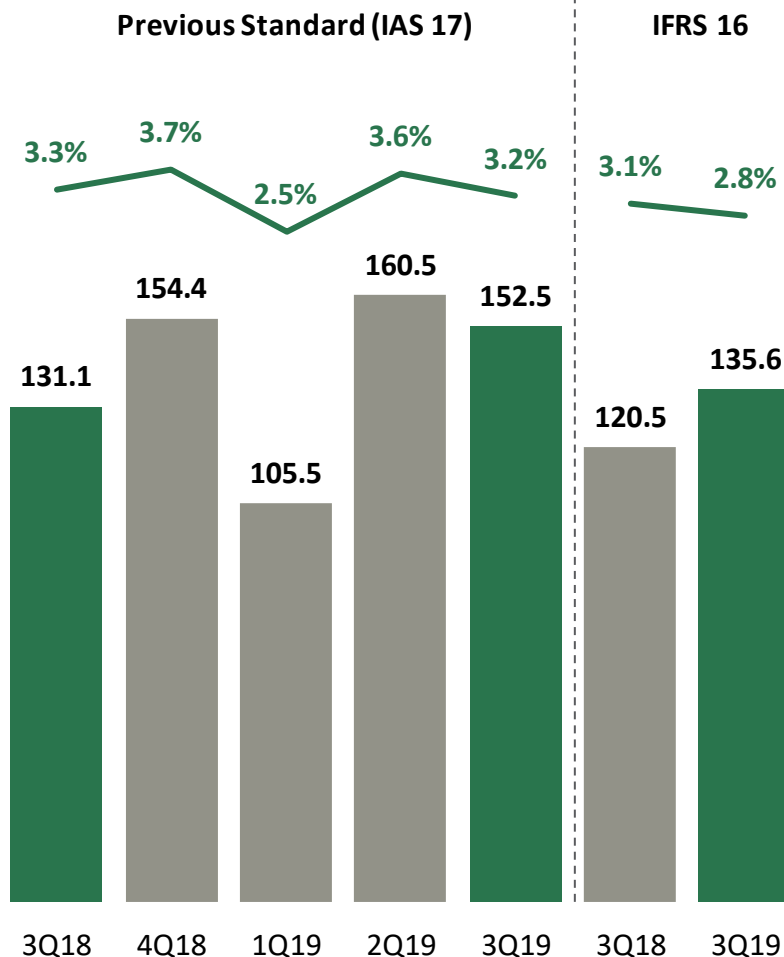
NET INCOME TOTALED R\$ 152.5 MILLION IN THE 3Q19, AN INCREASE OF 16.3%



Net margin of 3.2%, a pressure of 0.1 percentage point versus the 3Q18. We recorded R\$ 9.4 MM in non recurring net expenses in RD and R\$ 272.9 MM in gains related to the Onofre incorporation and integration.

Adjusted Net Income

R\$ Million, % of Gross Revenue



Non Recurring Revenues / Expenses

R\$ Million

3Q19 Non-Recurring / Non-operating Result	IAS 17	IFRS 16
<i>(R\$ million)</i>		
Asset Write-off	(6,3)	(6,3)
Restructuring Expenses	(4,5)	(4,5)
Distribution Center Closure - Barra Mansa	(3,3)	(2,8)
INSS credits from previous years	4,6	4,6
Non-recurring / non-operating Expenses - RD	(9,4)	(8,9)
Negative Goodwill Gain	357,7	357,7
Other Net Operating Losses	(84,8)	(84,3)
Non-recurring Net Revenues - Onofre	272,9	273,4
EBITDA non-integrated operations	(10,0)	(8,5)
Total Adjustments	253,4	255,9

- ✓ R\$ 67.8 million in asset write-offs (non-cash)
- ✓ R\$ 17.0 million in integration expenses

FREE CASH FLOW GENERATION OF R\$ 120.7 MILLION



Total cash generation of R\$ 113.8 million versus 1.4 million in the 3Q18.

Cash Flow	IAS 17		IFRS 16	
	3Q19	3Q18	3Q19	3Q18
<i>(R\$ million)</i>				
Adjusted EBIT	217.6	189.7	234.6	199.4
NPV Adjustment	(17.4)	(12.7)	(17.4)	(12.7)
Non-Recurring Expenses	263.5	(3.5)	263.5	(3.5)
Income Tax (34%)	(157.7)	(59.0)	(163.4)	(62.3)
Depreciation	131.8	105.5	283.5	230.1
Rental Expenses	-	-	(169.6)	(137.7)
Others	1.9	4.5	8.5	11.3
Resources from Operations	439.7	224.6	439.7	224.6
Cash Cycle*	(38.9)	(39.1)	(38.9)	(39.1)
Other Assets (Liabilities)**	(138.5)	6.9	(138.5)	6.9
Operating Cash Flow	262.2	192.4	262.2	192.4
Investments	(141.5)	(191.7)	(141.5)	(191.7)
Free Cash Flow	120.7	0.7	120.7	0.7
Income Tax Paid over Interest on Equity	(7.9)	(7.1)	(7.9)	(7.1)
Net Financial Expenses***	(25.2)	(14.8)	(25.2)	(14.8)
Income Tax (Tax benefit over financial expenses and interest on equity)	26.3	22.7	26.3	22.7
Total Cash Flow	113.8	1.4	113.8	1.4

*Includes adjustments for discounted receivables.

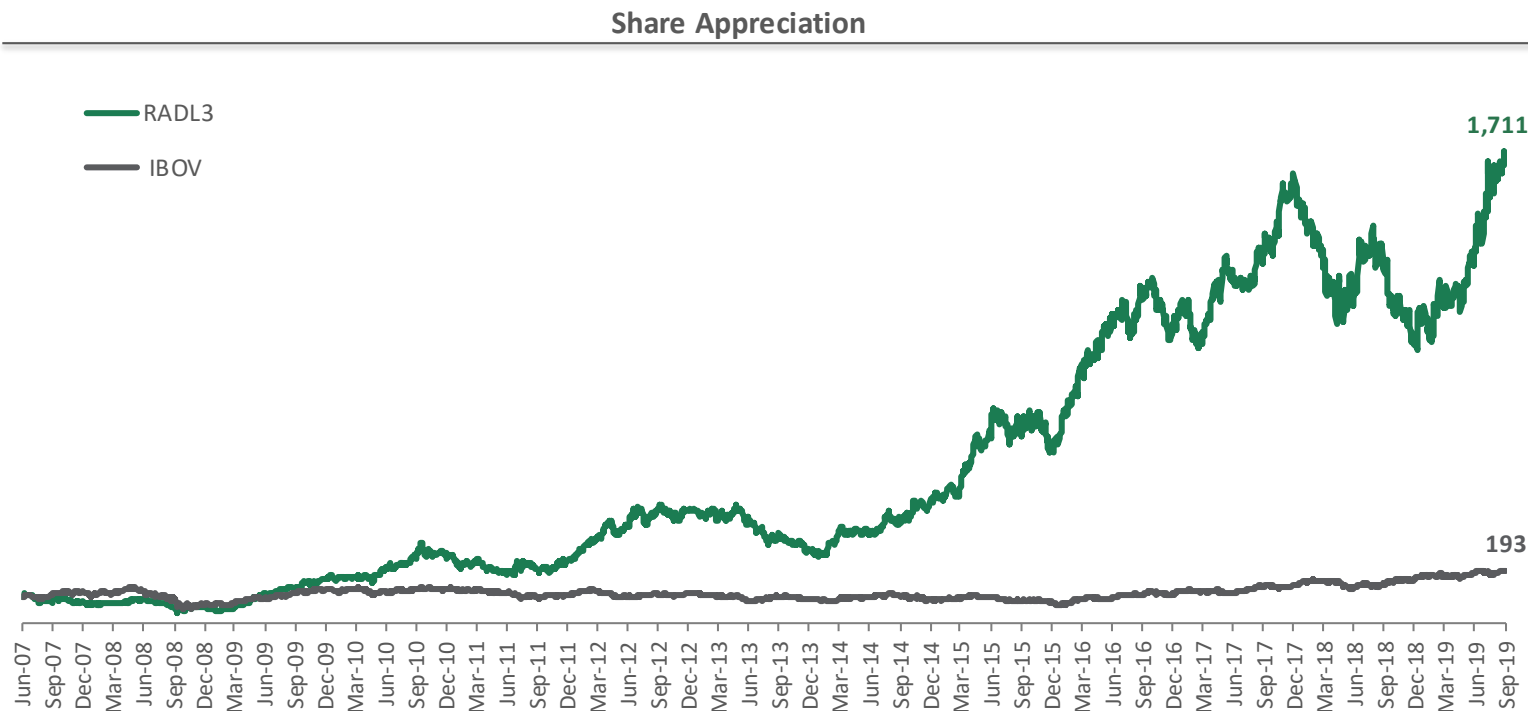
**Includes adjustments for the incorporation of Onofre's assets and liabilities.

***Excludes NPV adjustments and Interest over Leases.

HIGH LONG-TERM SHAREHOLDER RETURNS



Since our IPO we achieved a cumulative share appreciation of 1,610.9% with an average annual return of 27.9%.



Performance in 2019

RADL3: 67.6%

BOVESPA: 19.2%

Alpha: 48.4%

Average Trading Volume RADL3: R\$ 89.1 MM

Delivered record real mature store growth, with solid market share gains in all regions:

- › Accelerated our comps, with mature stores reaching a growth of 7.7% (4.8% in real terms);
- › Gained a record 1.7 p.p. of national market share, with a 2.5 p.p. increase in SP due to a solid mature-store performance
- › Achieved significant share gains in Generics, driven by strong volume growth as result of our price and mix strategy.

Achieved operating leverage gains that fully offset the gross margin pressure, defending the EBITDA margin:

- › Gross margin pressured by 0.6 p.p. mainly due to the normalization of opportunity buys, which had nearly neutralized the margin pressure in 2018 arising from the significant price investments that we had pursued in that year;
- › However, strong operating leverage gains due to a solid mature-store performance led to a dilution of 0.6 p.p. in SG&A expenses, regardless of the pressure in logistics expenses due to the opening of 3 new DCs and the expansion in the North.

Accelerated our Omnichannel strategy:

- › Launched the new Droga Raia and Drogasil apps that include the exclusive offers program, where the customer can activate the same offers previously available only in-store
- › Completed the integration of Onofre.com, our new pure-play e-commerce brand
- › Rolled-out 4-hour delivery in São Paulo and in 11 other cities.
- › Expanded Click & Collect, which is present in every store since 2018, to include controlled medicines.

Reached 2,000 stores in October and entered Amazonas state:

- › We opened our 2,000th store at the Shopping Iguatemi mall, in São Paulo
- › We also opened our two initial stores in Manaus, entering our 23rd Brazilian state

2019 Earnings

- › 4Q: February 20th, 2020

Scheduled Investor Conferences

- › November 19th and 20th: **9th Annual CEO Forum**, Bradesco (New York)
- › December 4th and 5th: **Brazil Opportunities Conference**, J.P. Morgan (São Paulo)
- › January 13th:and 14th: **Annual Healthcare Conference**, J.P. Morgan (San Francisco)
- › January 15th and 16th: **Annual LATAM Conference**, Santander (Cancun)