



Leading the Consolidation of the Drugstore Industry in Brazil

Institutional Presentation
May, 2013

RaiaDrogasil 



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Eugênio De Zagottis

*Investor Relations and
Corporate Planning VP*

- Shareholder and Alternate Board Member of RaiaDrogasil
- Former Commercial and IR VP of Droga Raia, with 13 years of industry experience. Worked previously as a consultant for McKinsey and for Arthur Andersen
- MBA from the University of Michigan, BBA from FGV-SP

Gabriel Rozenberg

*Investor Relations and
Corporate Planning Director*

- Worked previously at Ford Motor Company in Brazil as a manager in the Treasury and Corporate Planning departments
- Graduate Degree in Finance at Insper (IBMEC-SP), BBA from UFMG

RaiaDrogasil S.A.



- Brazil's largest drugstore chain in revenues and in store count, according to Abrafarma. R\$ 5.7 billion in revenues, R\$ 330.6 MM of adjusted EBITDA and R\$ 149.4 MM of adjusted net income in the last 12 months;
- Merger between Raia S.A. and Drogasil S.A., two leading Brazilian drugstore chains with 186 years of combined history, with shared control by majority shareholders who are members of the founding families;
- More than 900 stores in 12 states of Brazil, which represent 83% of the Brazilian pharmaceutical market, and a national market share of only 9%. Recent entry into 3 new states (MS, MT and BA);
- Differentiated business model with a dual brand strategy and high marginal returns on invested capital;
- Unique growth track record in the Brazilian drugstore industry: more than doubled our store base since the end of 2007 while relying primarily on organic growth.





1 RaiaDrogasil – Leading the Consolidation of the Drugstore Industry in Brazil

2 Fragmented Market, in the Process of Consolidation

3 Dual Brand Strategy, with High Marginal Returns and Growth Potential

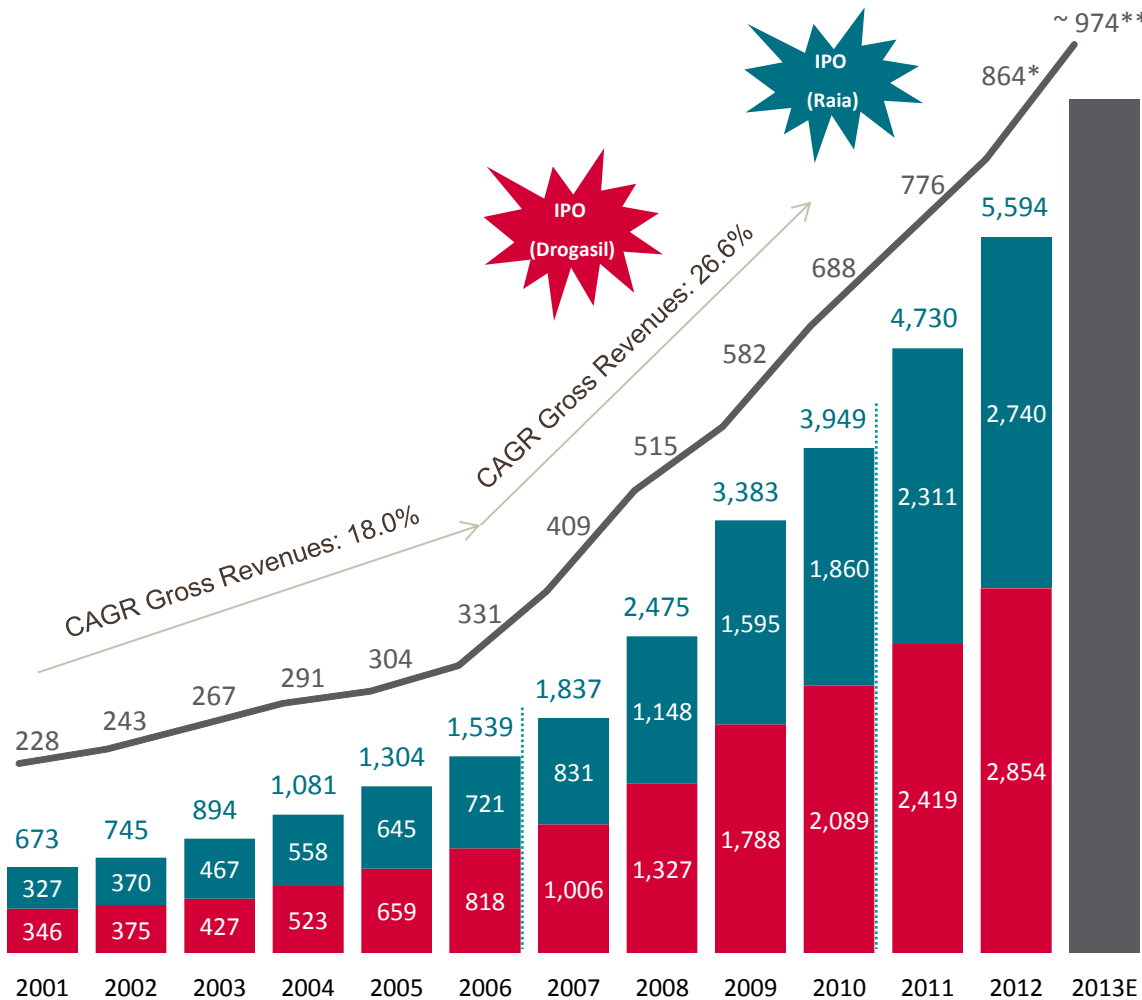
4 Proven Track Record in Delivering High Growth with Margin Expansion

Leading the Consolidation of the Drugstore Industry in Brazil ...



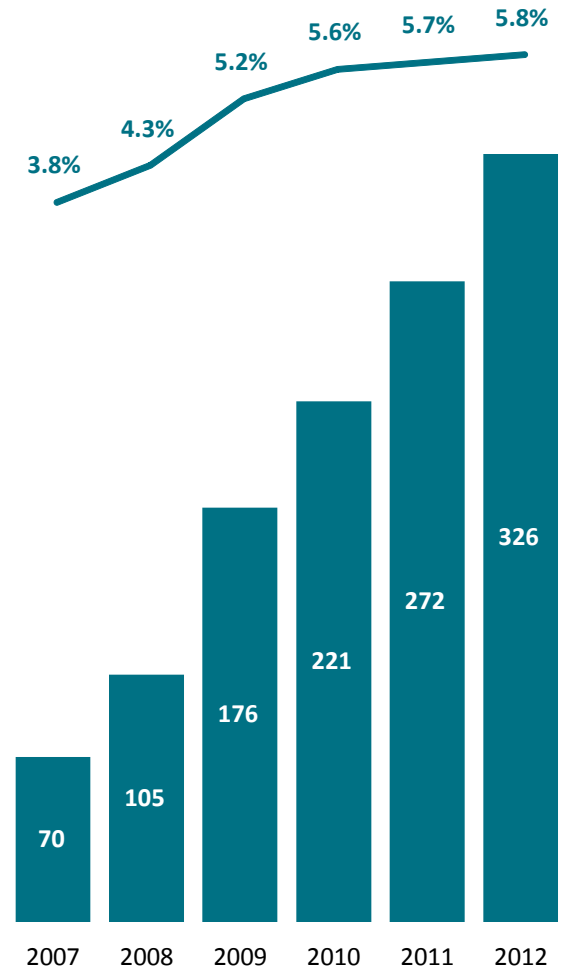
Gross Revenues & Store Count

(R\$ million, Units)



Adjusted EBITDA

(R\$ million, % of Gross Revenues)

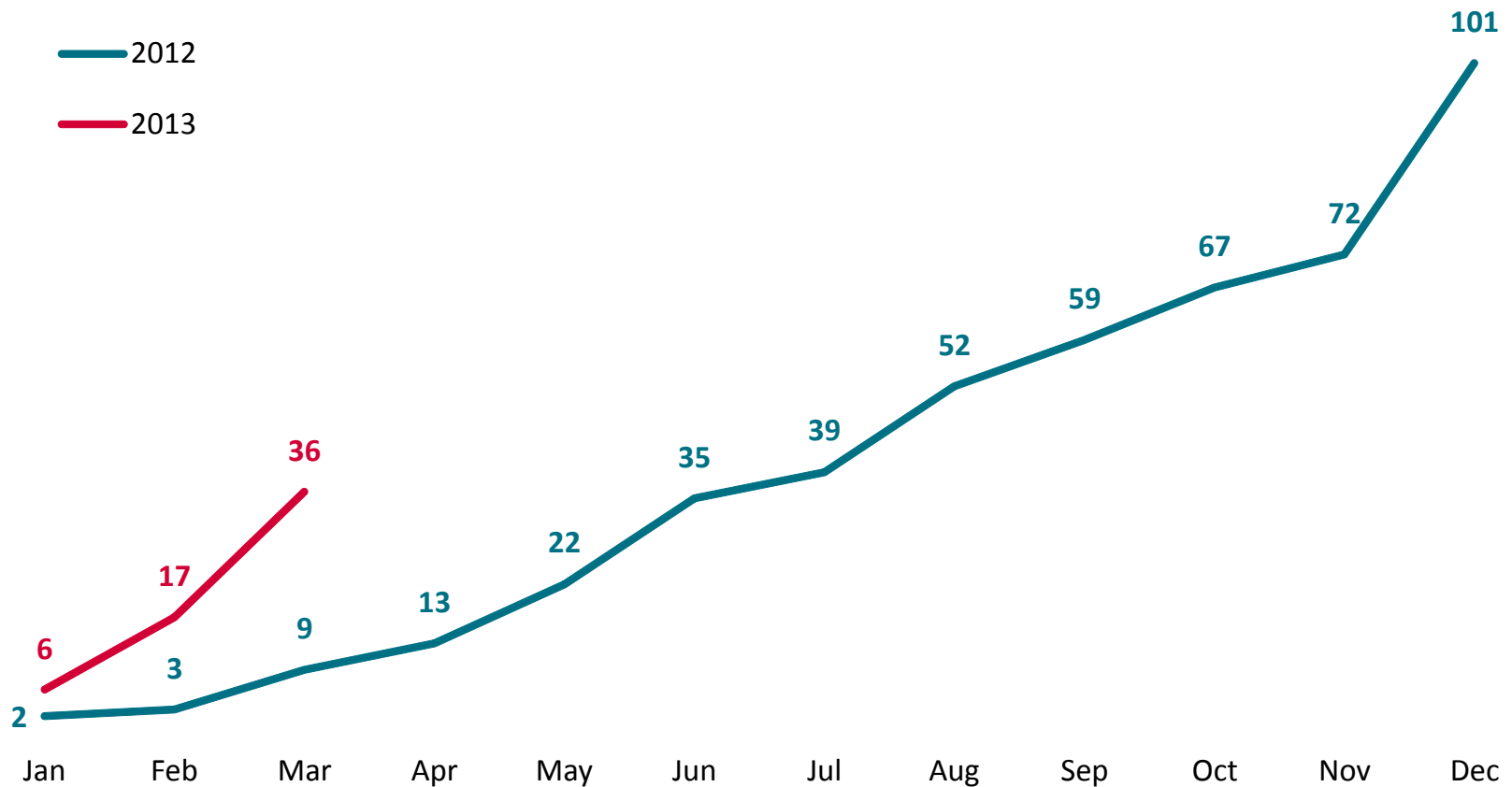


Gross Revenues Droga Raia
Gross Revenues Droga Raia
Stores

* Opening of 101 new stores and closure of 13 stores in the year

** Assumes 130 new store openings and 20 closures in 2013

... With a Strong Organic Growth Program: Guidance of 130 New Stores in 2013

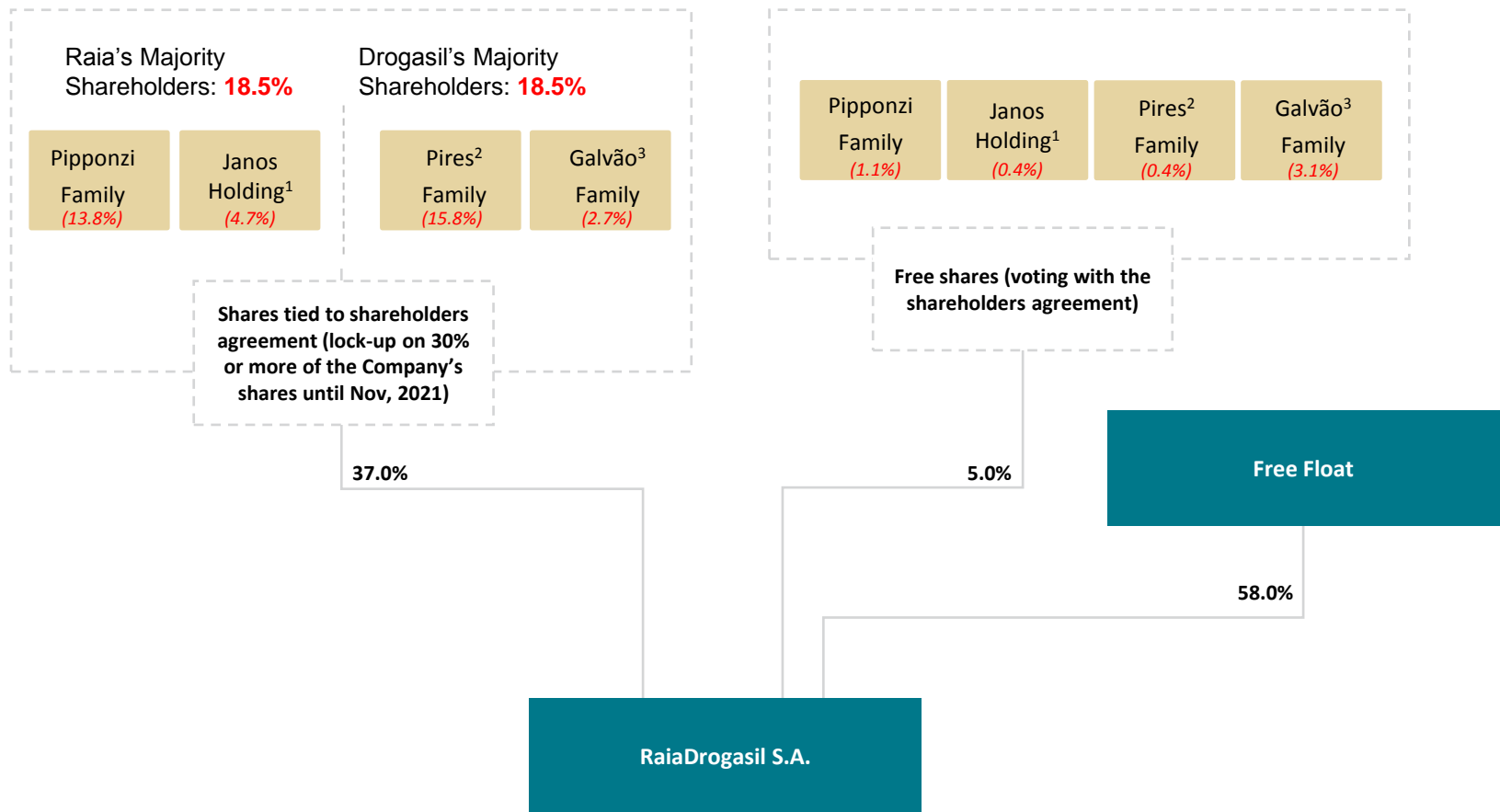


Undisputed Industry Leader in terms of Revenues, Store Count and Profitability



2012 Ranking		Gross Revenues	Stores
1 st		R\$ 5.6 billion	864
2 nd		R\$ 5.0 billion	708
3 rd		R\$ 3.2 billion	585
4 th		R\$ 2.9 billion	708

Controlled by Shareholders who are Members of the Founding Families



- ▶ Joint control by the original majority shareholders of Raia and Drogasil, who will always have an identical number of shares tied to the shareholders agreement. Such shares will remain locked up during the whole term of the agreement;
- ▶ The number of locked-up shares will decrease from 37% to 30% of the stock capital by Nov, 2016, and will remain constant until Nov, 2021. Therefore, over 68% of the current controlling shareholders' shares will remain locked-up for the next nine years.

¹ Pragma's carve-out, Janos Holding is the long-term strategic investment group of Guilherme Leal, Luis Seabra and Pedro Passos, founders of Natura.

² Carlos Pires Oliveira Dias and Regimar Comercial S.A.

³ Tantra Participações Ltda



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The Brazilian Drugstore Value Chain



High-growth pharma market, with increasing penetration of Generics



Commoditized wholesale market, with operations driven by tax incentives



Fragmented retail, with competition based on brand, location, services & prices



Aging consumers, with rising income and paying out-of pocket for Pharma



High growth HPC market, with shifting share to drug chains due to better convenience and shopping experience

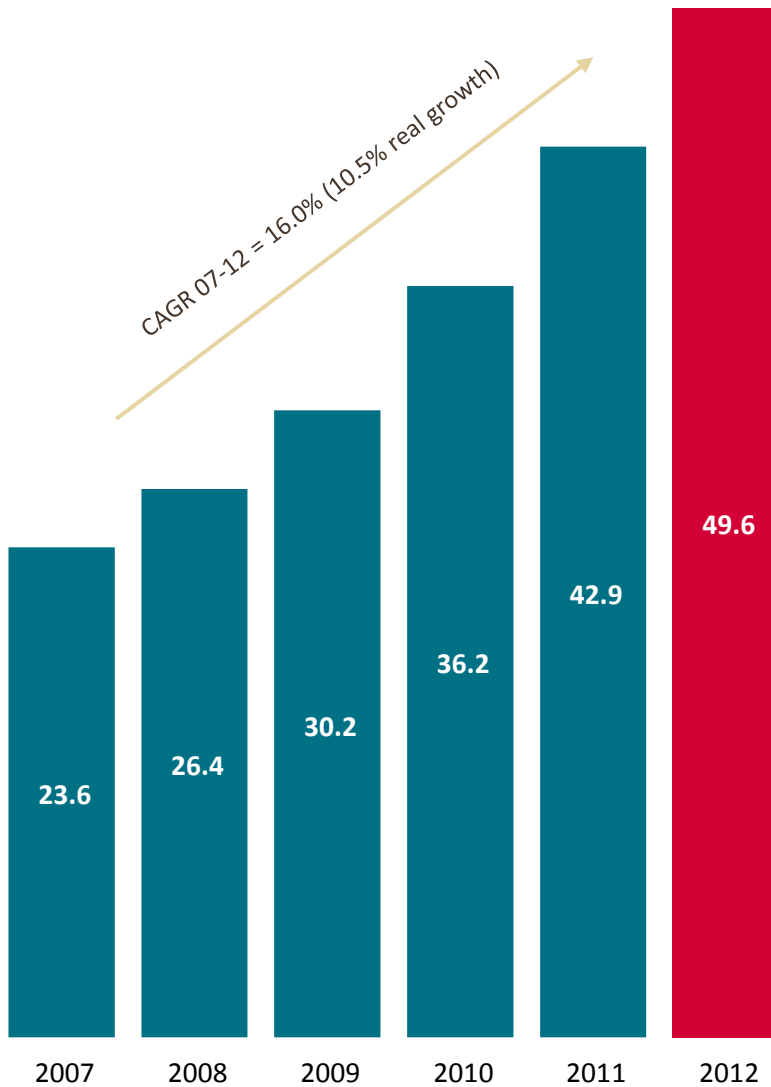


High Growth Industry, with Demand Outgrowing Supply ...



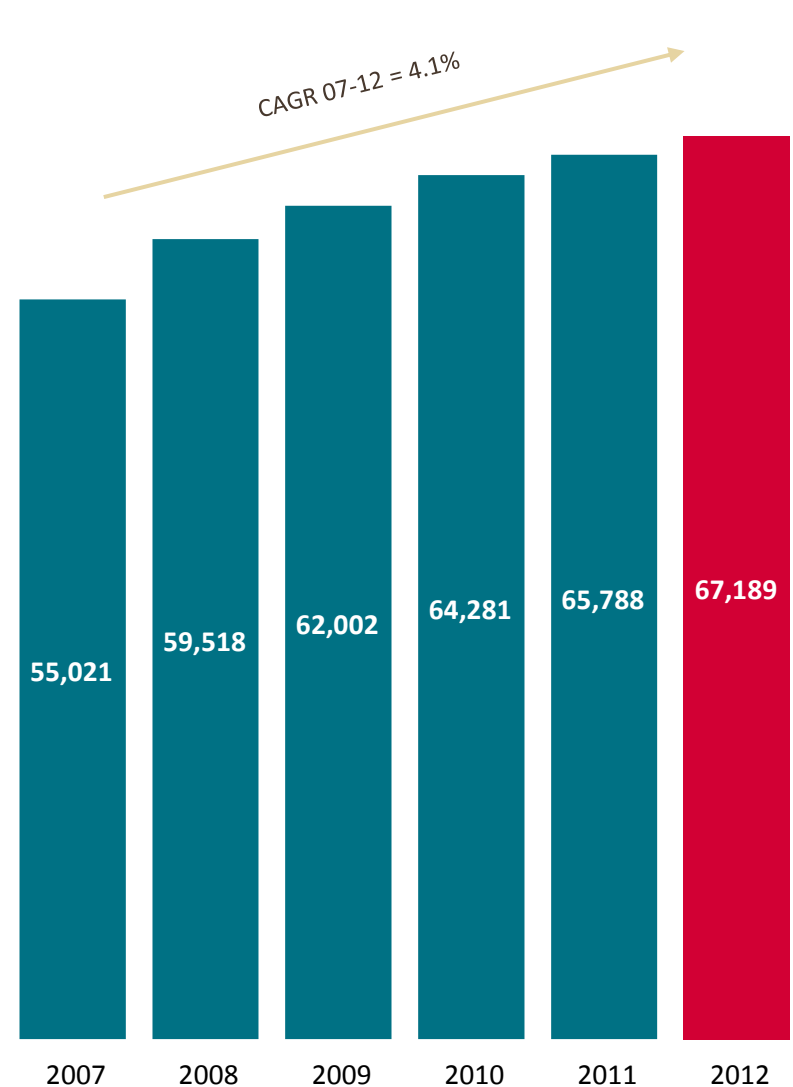
Demand: Pharmaceutical Market

(R\$ billion)



Supply: Number of Drugstores

(Units)

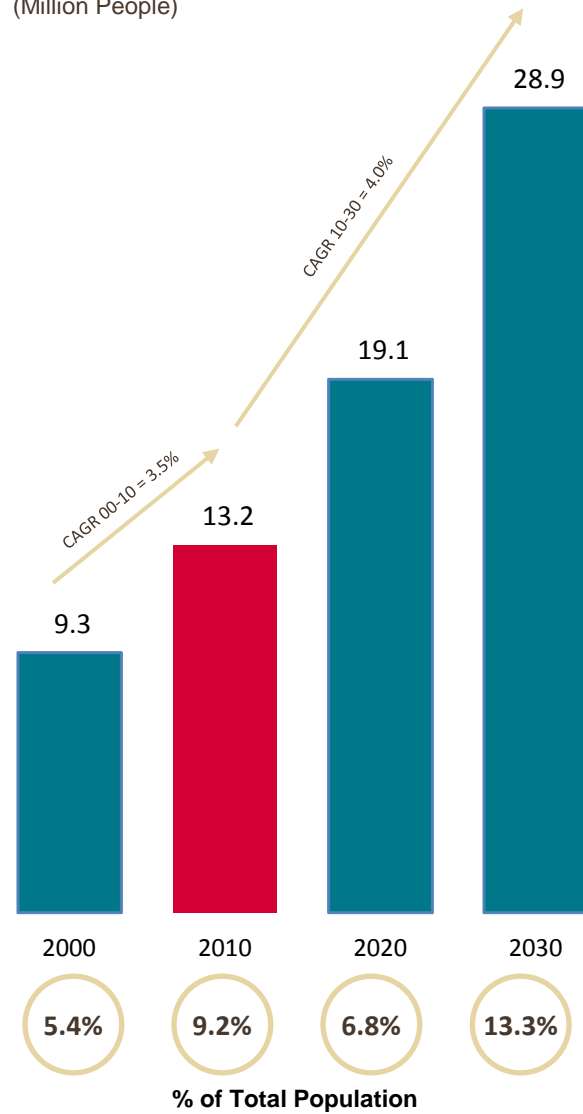


... Driven by Favorable Demographic and Macroeconomic Trends ...



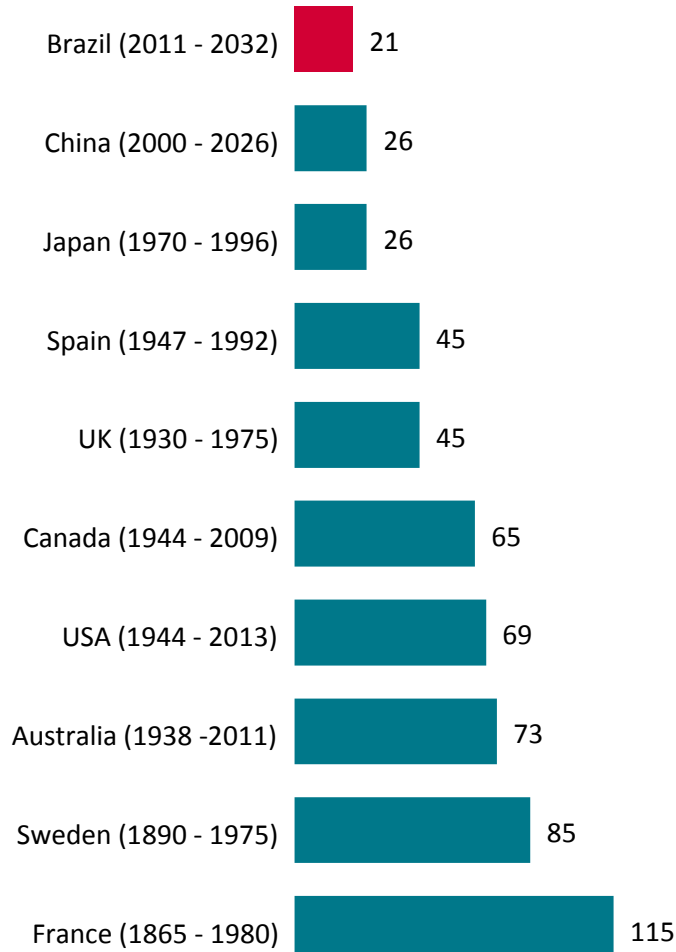
Brazilian Population above 65 years old

(Million People)



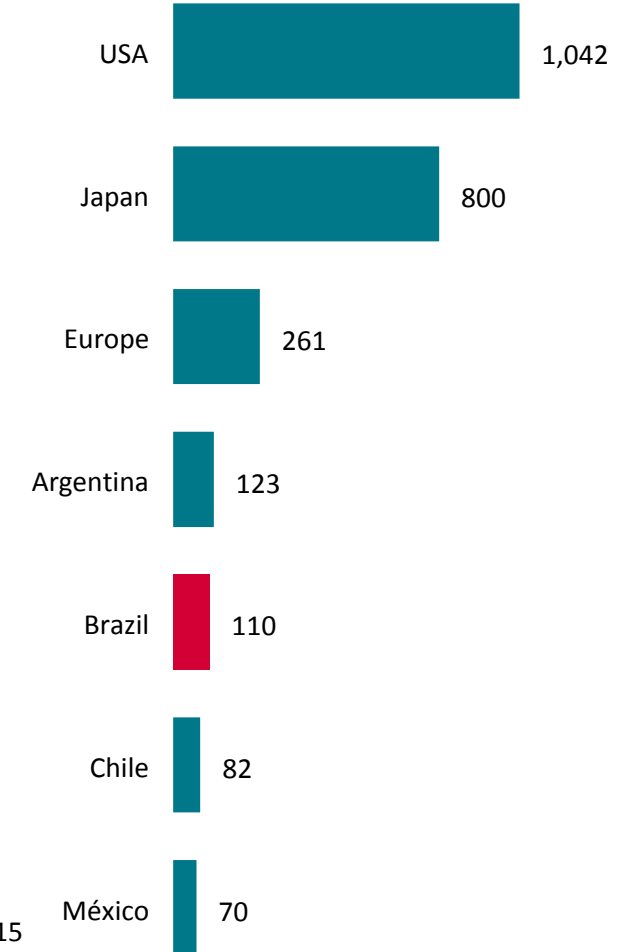
Speed of Population Aging

(Years for population 65+ to increase from 7% to 14% of total)



Annual per Capita Pharma Spending

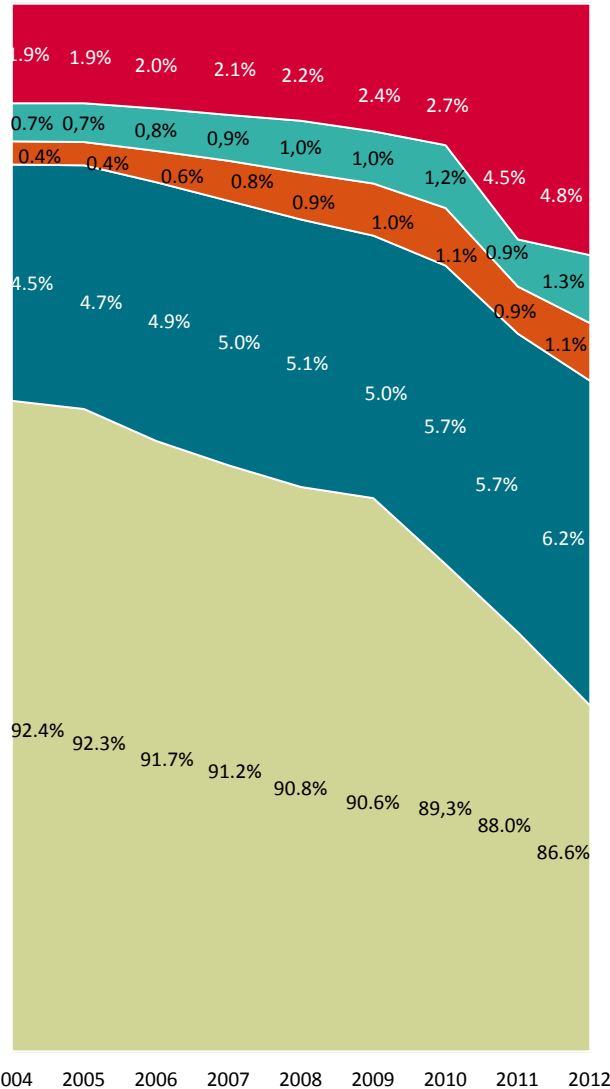
(US\$ LTM Mar 2012)



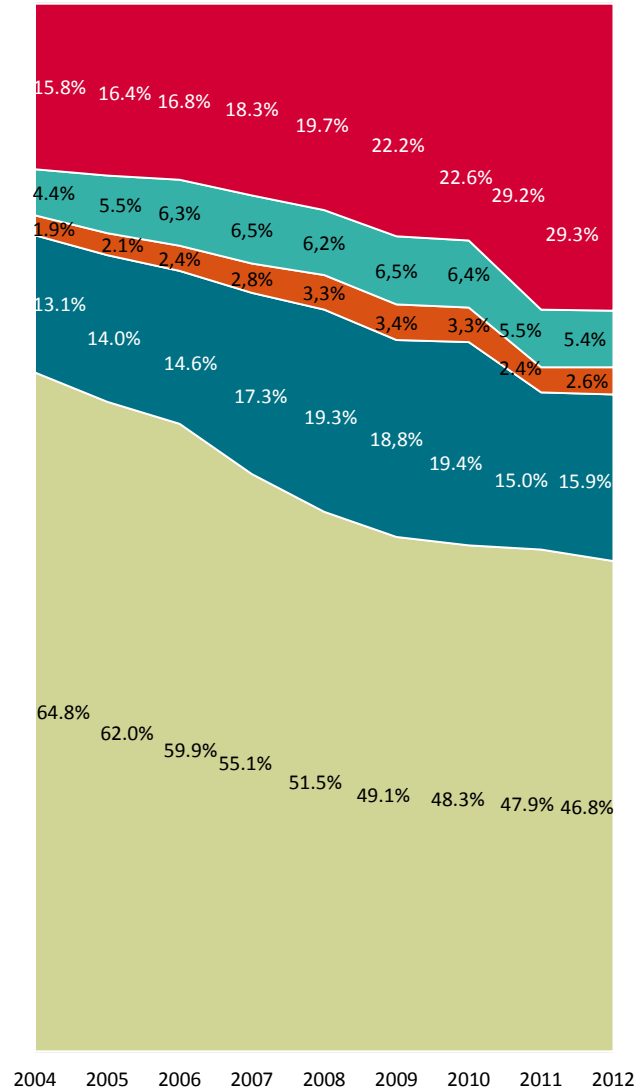
... Allowing the Leaders both to Consolidate the Industry and to Enhance Productivity



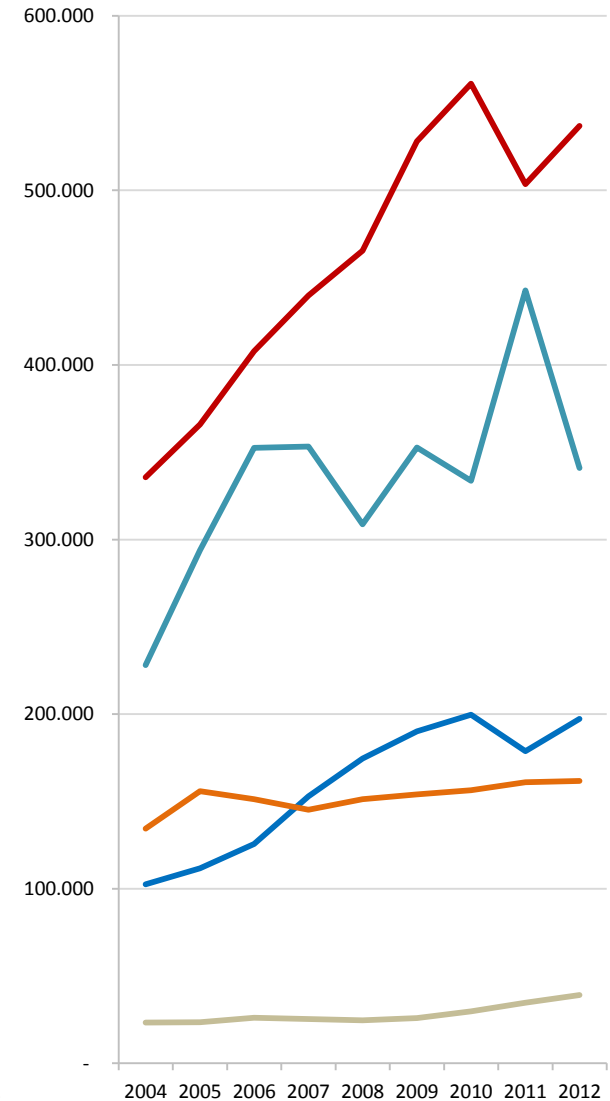
% of Stores



% of Pharma Revenues



Pharma Revenues per Store (R\$/Month)



Accelerated Growth also in HPC, with Shifting Share Towards Drugstore Chains



HPC Market

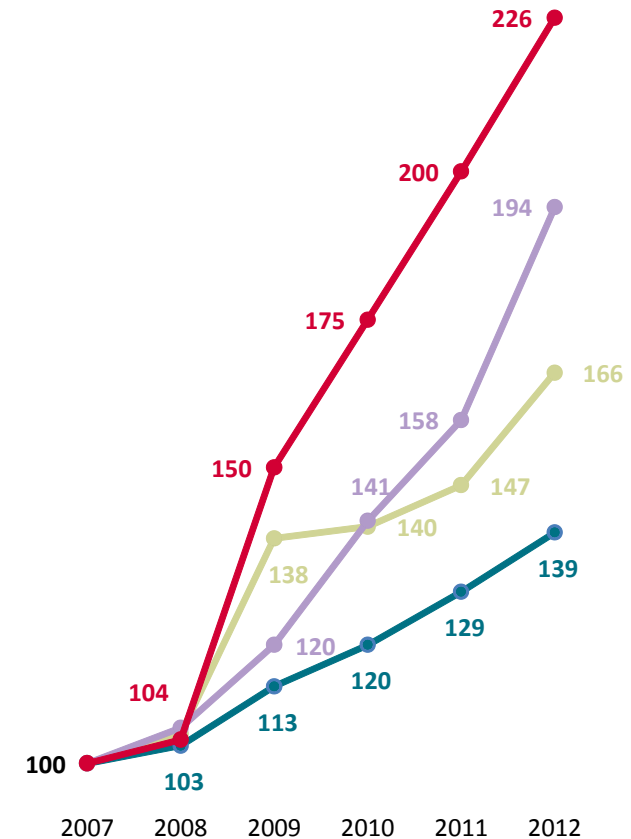
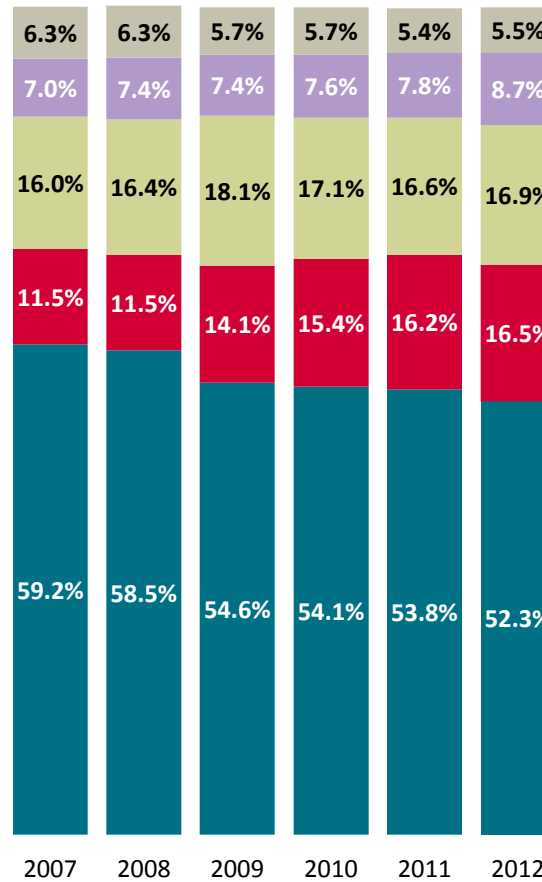
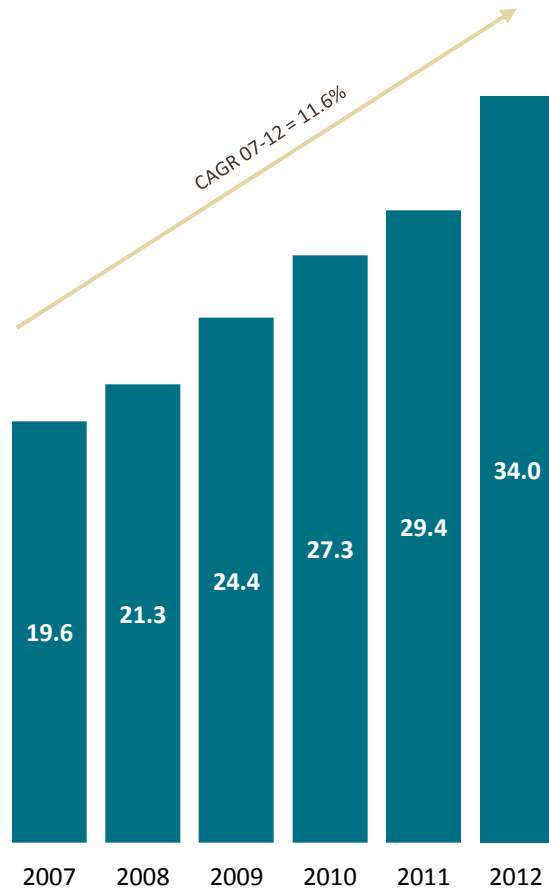
Market Share by Channel

Cumulative HPC Growth by Channel – R\$

(R\$ billion)

(R\$ %)

(Index: 2007 = 100)



■ Supermarkets ■ Drugstore Chains ■ Independent Pharmacies ■ Beauty Stores ■ Traditional



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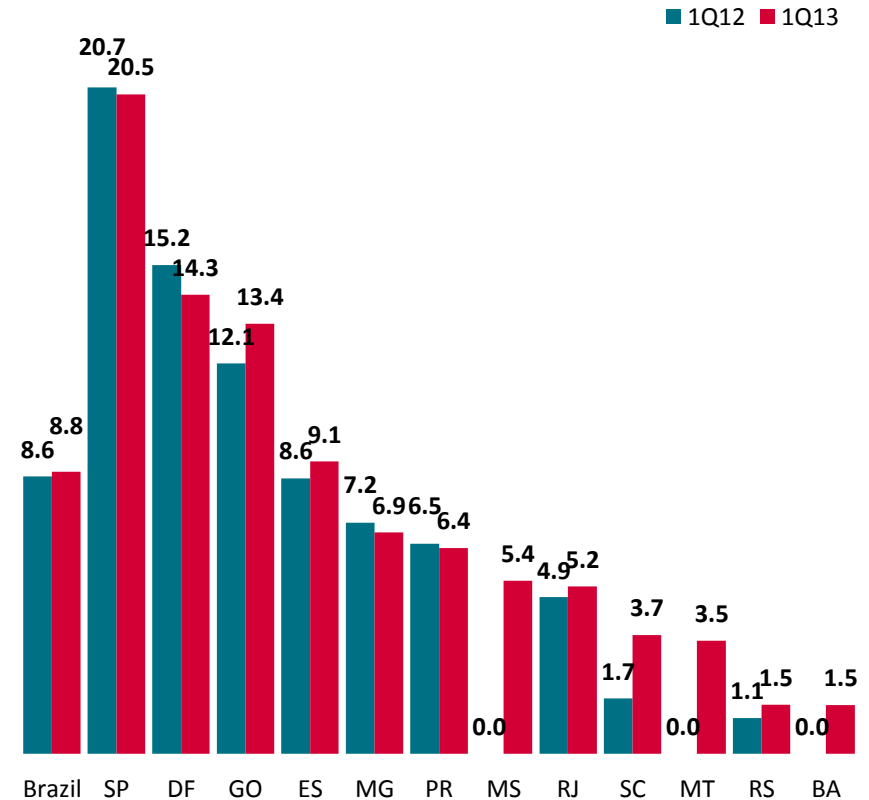
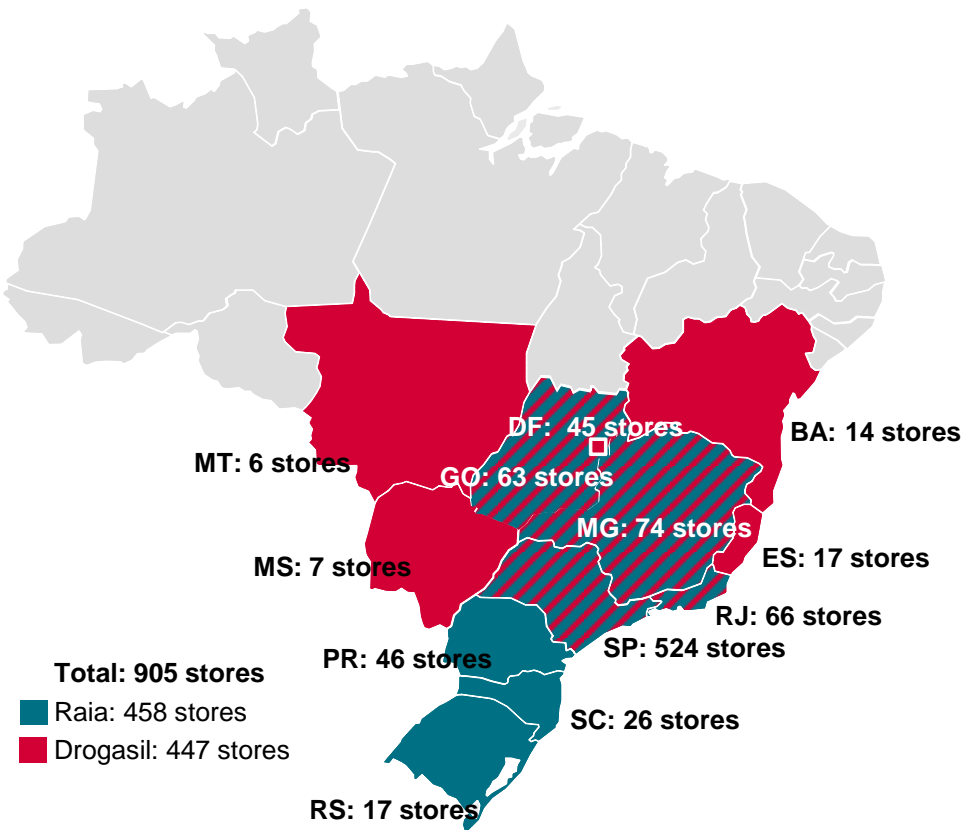
4 Proven Track Record in Delivering High Growth with Margin Expansion

Leading Brands with Strong Geographic Presence and High Growth Potential ...



Geographic Presence (May 10th, 2013)

Market Share (March '13)



PHARMACEUTICAL MARKET DISTRIBUTION BY STATE (LAST 12 MONTHS)

Brazil	SP	DF	GO	ES	MG	PR	MS	RJ	SC	MT	RS	BA
100.0%	27.5%	2.7%	3.5%	2.0%	10.4%	6.0%	1.1%	13.0%	3.8%	1.1%	7.3%	4.6%

- Presence in states that comprise 83% of the Brazilian pharmaceutical market
- Established platform to grow into new markets

... and High Marginal Returns on Invested Capital



Average Mature Store Contribution Margin⁽¹⁾

Income Statement (Mature Store)		2012
<i>(In R\$ 000)</i>		
Gross Revenues		7,421
Gross Profit		1,981
% of Gross Revenue		26.7%
Store Expenses		(1,140)
% of Gross Revenue		15.4%
Store Contribution Margin		841
% of Gross Revenue		11.3%
Regional /Freight Expenses		(112)
Depreciation		(196)
Income Tax (34%)		(181)
Depreciation		196
NOPAT (a)		548
% of Gross Revenue		7.4%
Capex ⁽²⁾		979
Pre-Operational Expenses ⁽³⁾		125
Operating Working Capital ⁽²⁾		494
Total Investment (b)		1,598
ROIC (a/b)		34.3%

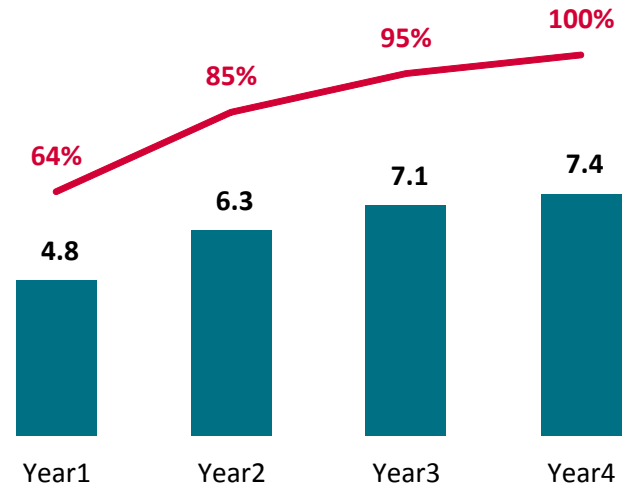
(1) Does not consider G&A and DCs expenses and uses Droga Raia's figures as a proxy for marginal returns

(2) Based on 2012 monthly average

(3) Estimated figures

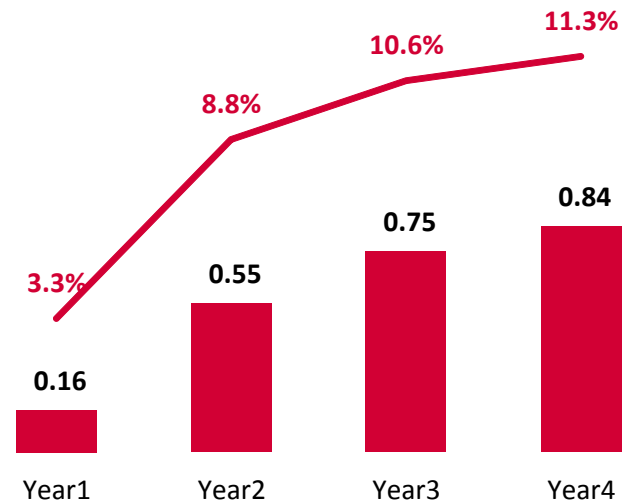
Gross Revenues Ramp-Up

(% of sales: in million Reais per store/year)

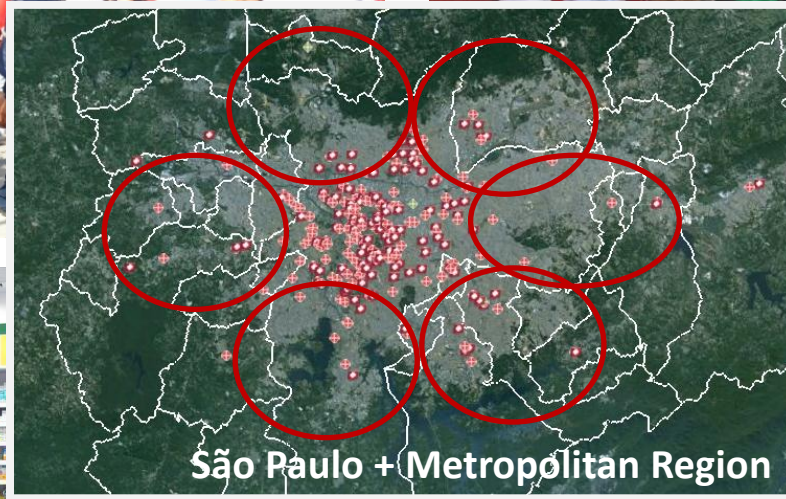


Contribution Margin Ramp-Up

(% of gross revenues: in million Reais per store/year)



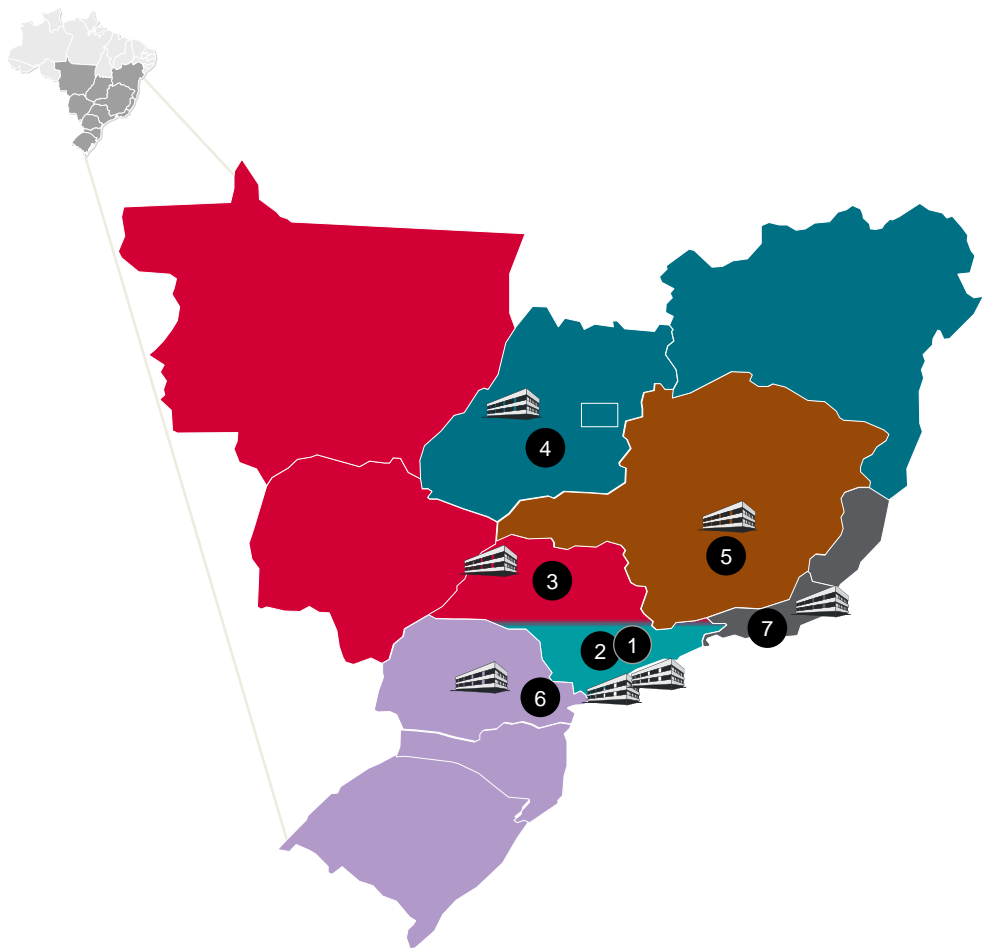
FARMASIL: Piloting a Store Format for Popular Regions



Decentralized Distribution Structure to Support Future Growth



Distribution Centers*



1

- ▶ São Paulo (SP)
- ▶ Area: 17,000 sqm

2

- ▶ Embu (SP)
- ▶ Area: 19,000 sqm

3

- ▶ Ribeirão Preto (SP)
- ▶ Area: 20,000 sqm

4

- ▶ Aparecida (GO)
- ▶ Area: 12,600 sqm

5

- ▶ Contagem (MG)
- ▶ Area: 6,200 sqm

6

- ▶ Curitiba (PR)
- ▶ Area: 6,000 sqm

7

- ▶ Barra Mansa (RJ)
- ▶ Area: 8,400 sqm



Distribution Center

* Considers the planned distribution structure after integration

Developing a Portfolio of Exclusive Brands, with High Margins and Strong Growth Potential





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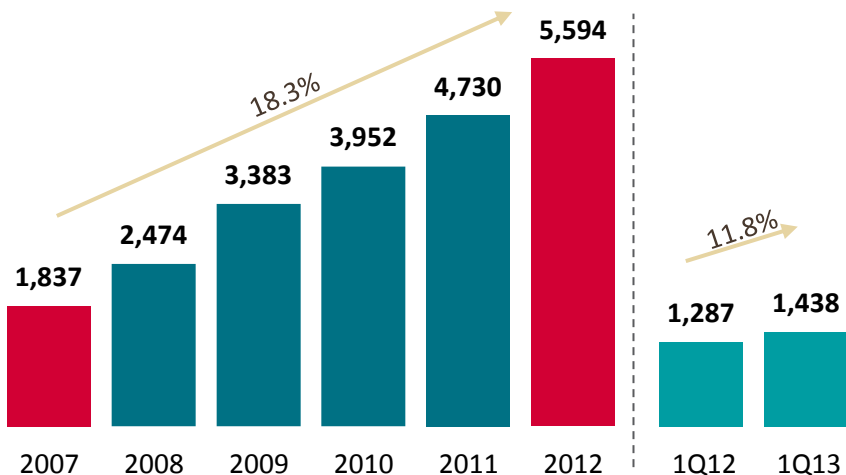
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Delivering High Growth with Margin Expansion

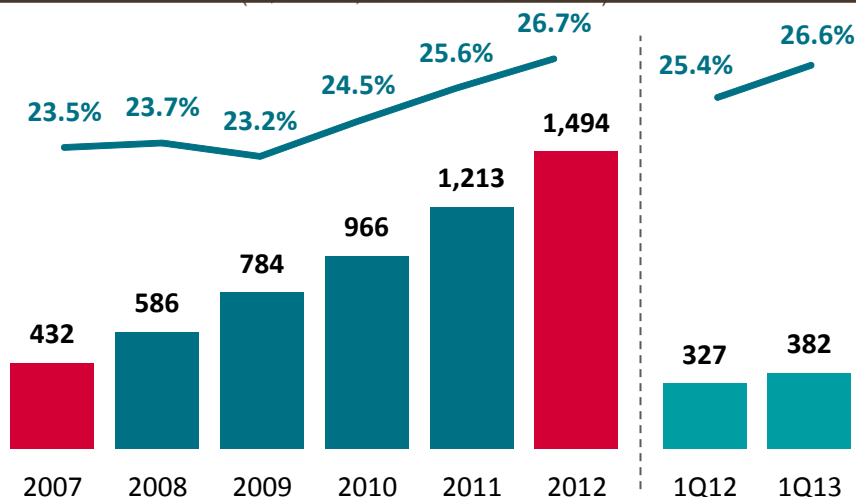


Gross Revenues



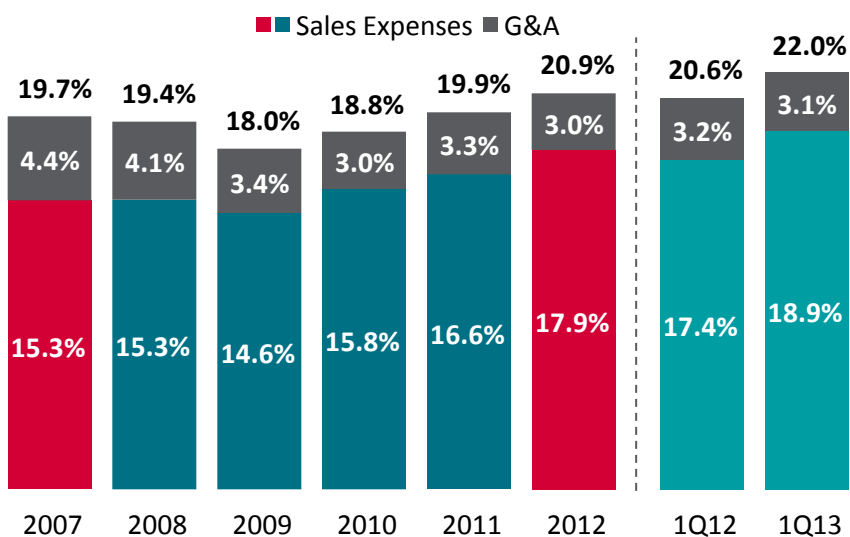
Gross Profit

(R\$ million, % of Gross Revenues)



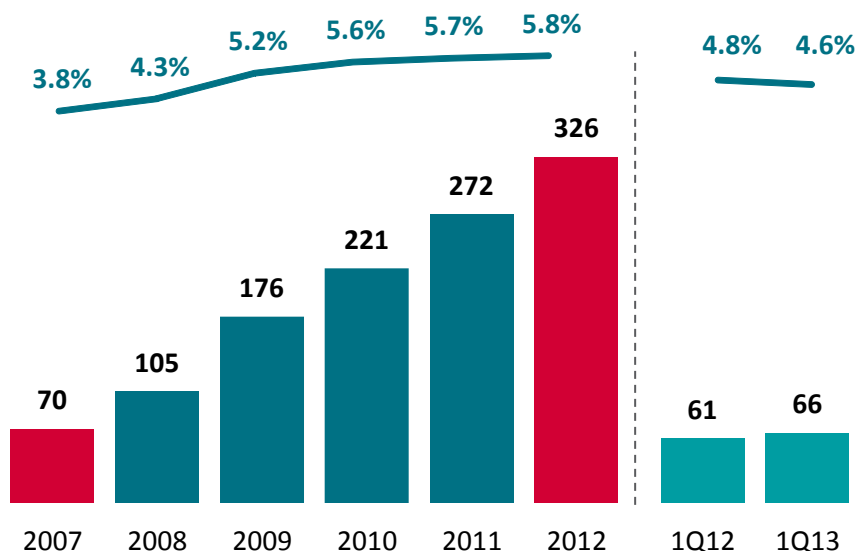
Adjusted Operating Expenses

(% of Gross Revenues)



Adjusted EBITDA

(R\$ million, % of Gross Revenues)

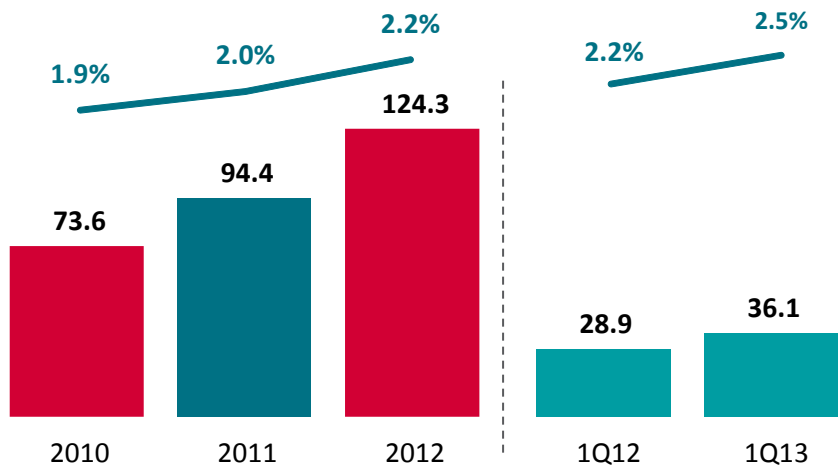


The Tax Shield from Goodwill Amortization Allowed Us to Maintain a Constant Net Margin of 1.8% in the 1Q13



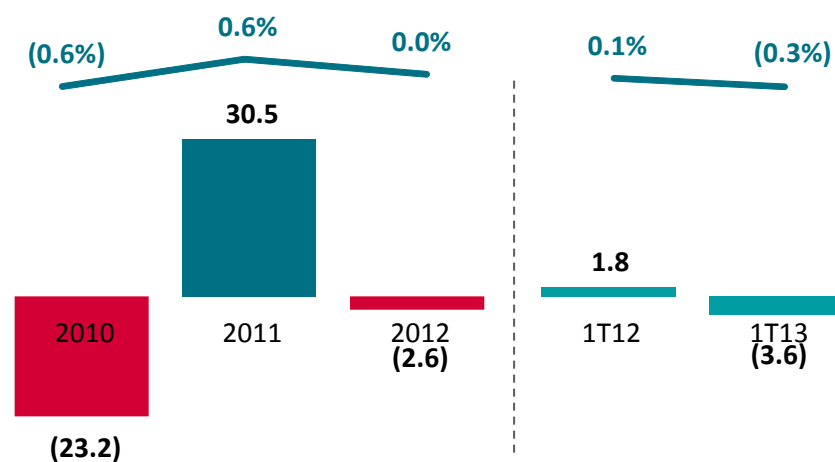
Depreciation

(R\$ million, % of Gross Revenues)



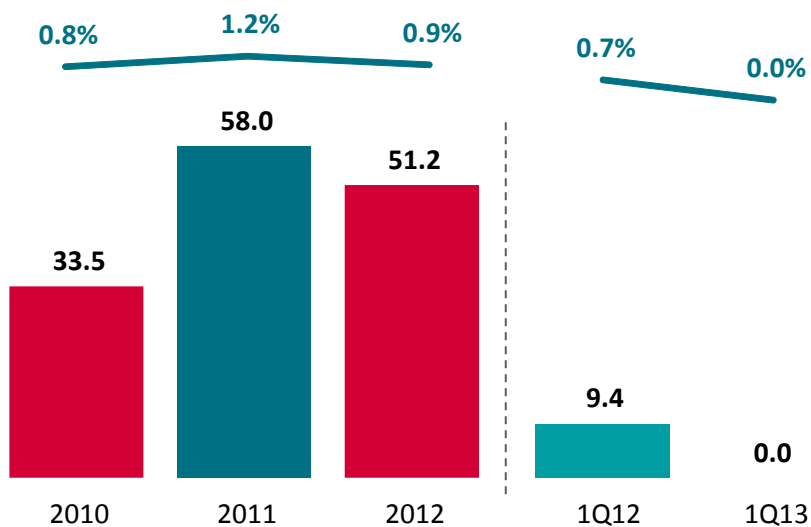
Net Financial Income/(Expenses)

(R\$ million, % of Gross Revenues)



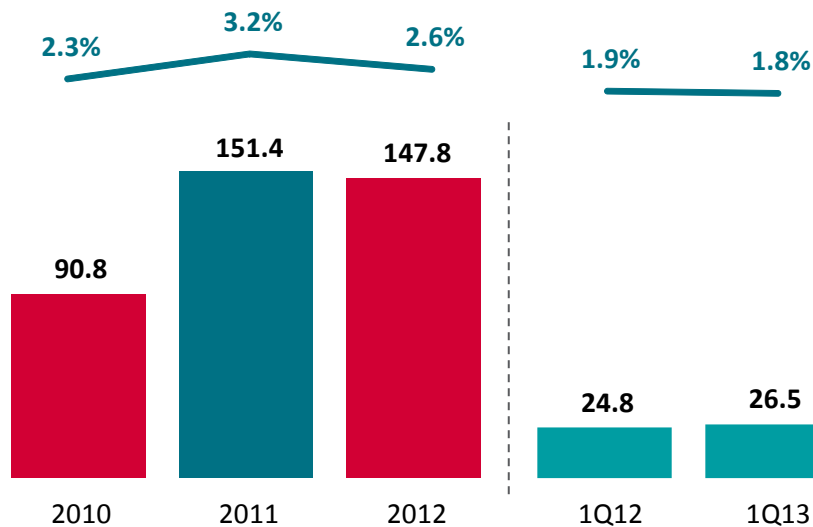
Income Tax

(R\$ million, % of Gross Revenues)



Adjusted Net Profit

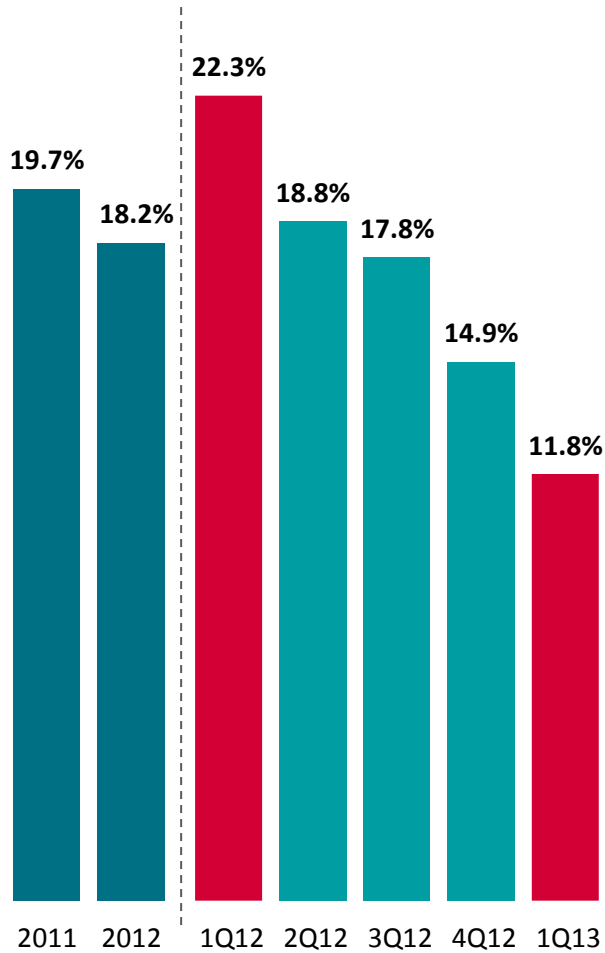
(R\$ million, % of Gross Revenues)



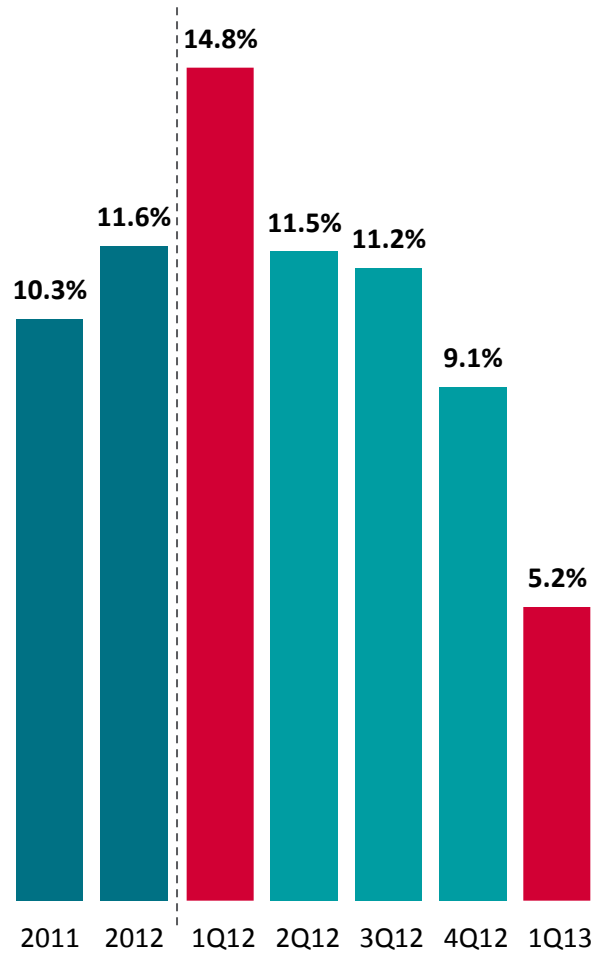
Strong and Resilient Revenue Comps. Unfavorable Calendar (210 bps) and Huge Comp Base of the 1Q13 Penalized 1Q13 Growth



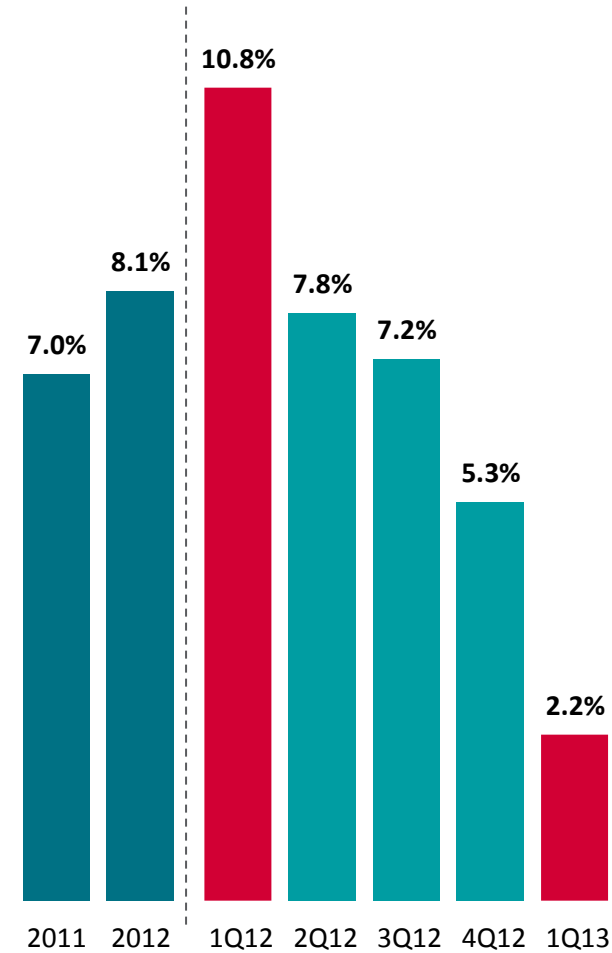
Growth – Total Sales



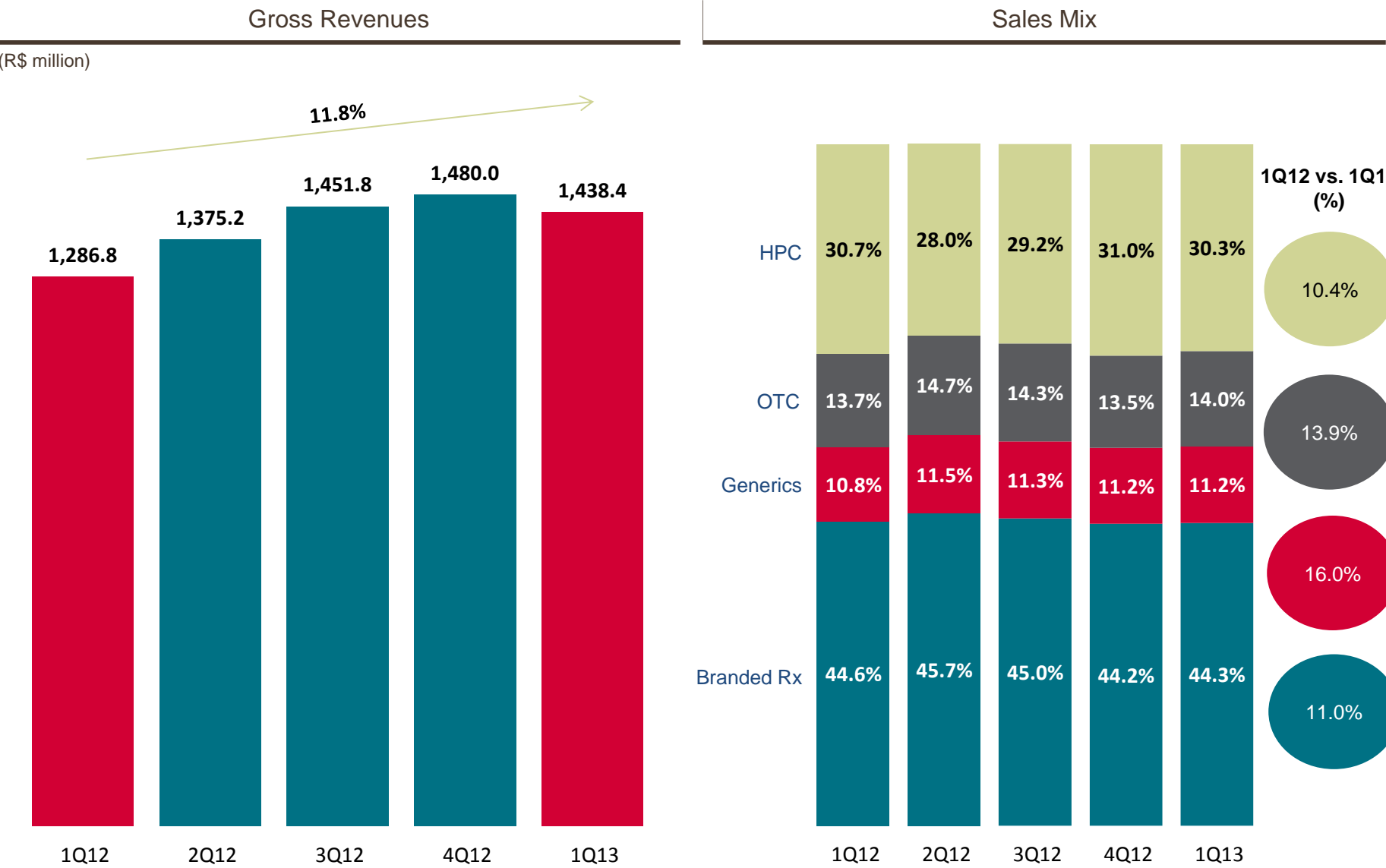
Growth – Same Store Sales



Growth – Mature Stores



Generics and OTC have Increased their Participation in the Sales Mix in the 1Q13



Our Neutral Cash Cycle has Significantly Reduced Cash Consumption to Fund our investment Program



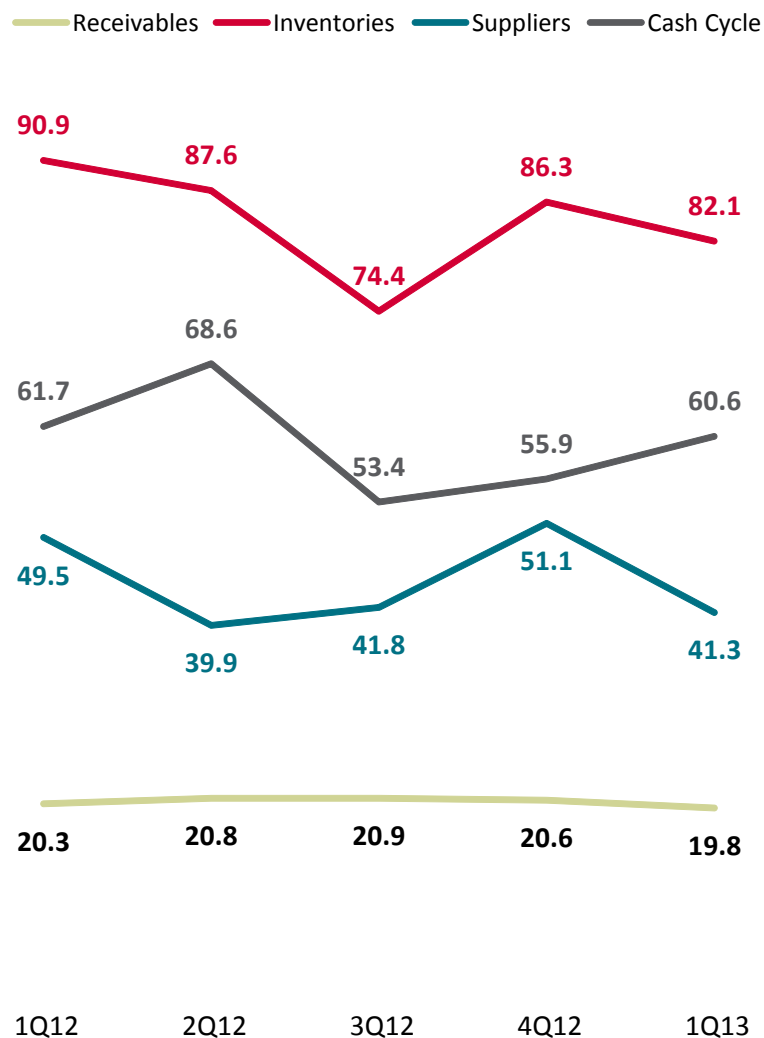
Cash Flow

<u>Cash Flow</u>	<u>1Q13</u>	<u>1Q12</u>
<i>(R\$ million)</i>		
Adjusted EBT	26.5	34.3
(-) Non-Recurring Expenses	(5.7)	(8.2)
(-) Income Tax	(11.3)	(2.6)
(+) Goodwill Cash Effect	3.6	-
(+) Depreciation	36.1	28.9
(-) Other Adjustments	4.8	1.6
Resources from Operations	53.9	53.9
Cash Cycle*	(55.4)	(149.2)
ICMS Recovery	18.5	-
Others	(14.8)	(31.1)
Cash Flow Before Investments	2.2	(126.3)
Investments	(51.9)	(38.5)
Total Cash Flow	(49.7)	(164.9)

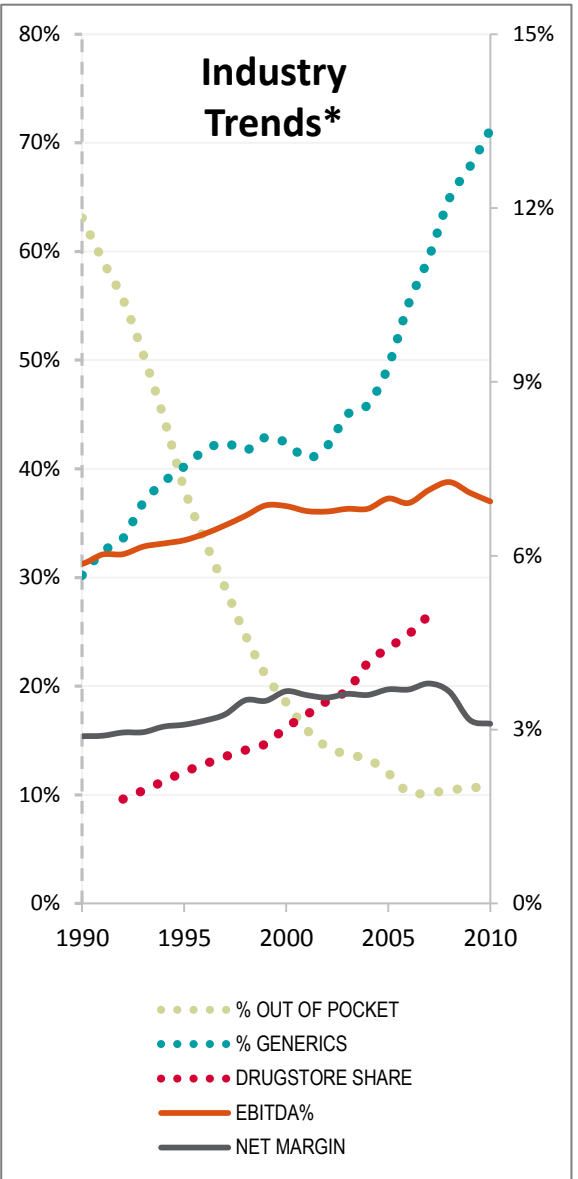
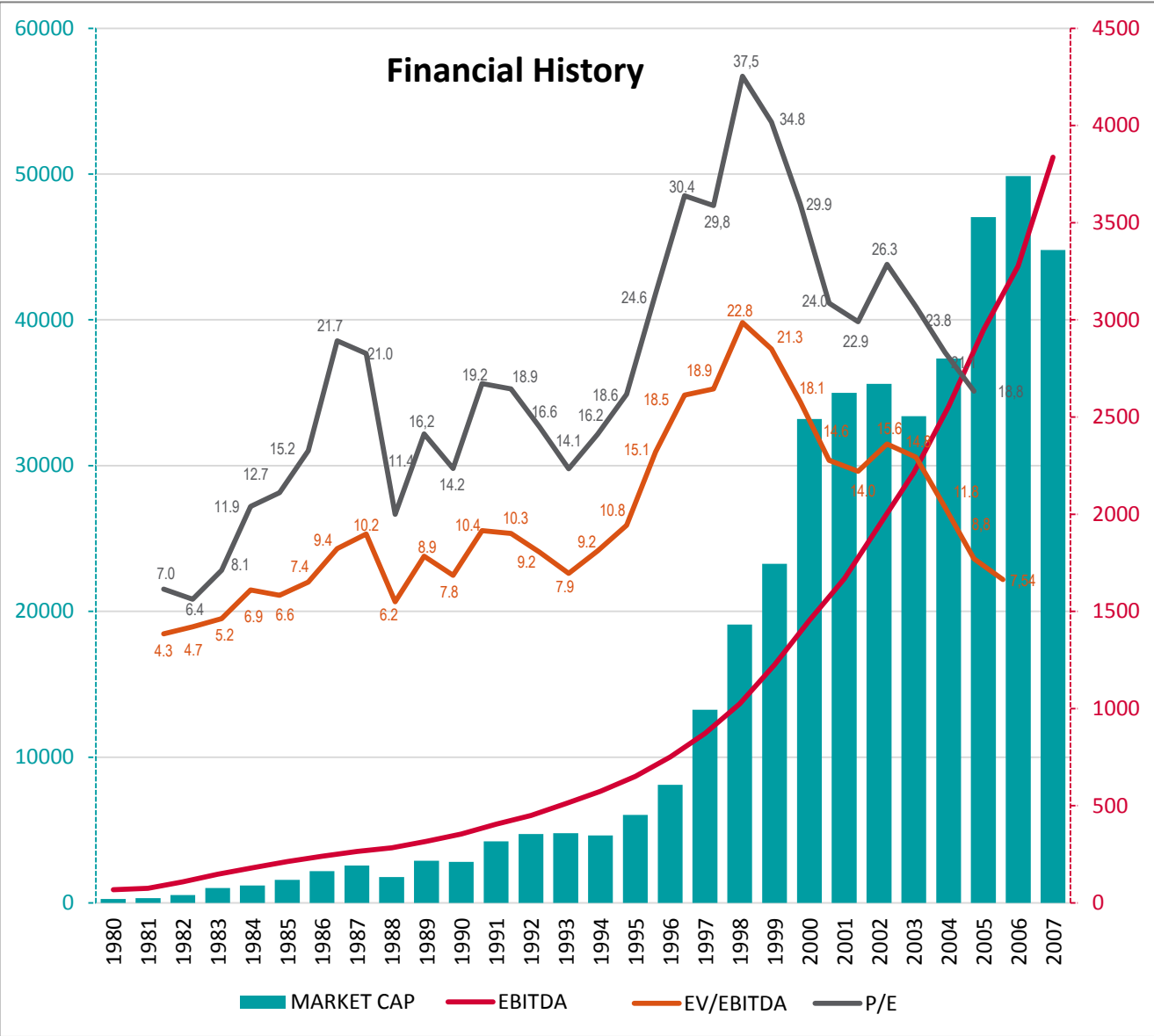
* Cash cycle includes variation in accounts receivables, inventories and suppliers

** Does not include financing cash flow

Cash Cycle



Walgreen's Long-Term Benchmark



* WAG's financial performance in lieu of its market share increase and of industry trends (generics increase and out of pocket payment substitution by third-party payors)

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