



RaiaDrogasil S.A.

People,  
Health and  
Well-being

**INSTITUTIONAL  
PRESENTATION:**

3Q17

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



November, 2017

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## COMPANY HIGHLIGHTS





## DIFFERENTIATED BUSINESS MODEL



**RD has a differentiated business model, superior scale, efficiency and geographic presence, which has resulted in an unique organic growth track-record in Brazilian retail**

Merger between Raia S.A. and Drogasil S.A., with 194 years of combined history, with shared control by shareholders who are members of the founding families. Rated AAA-Br by Fitch;

Brazil's largest drugstore chain and 5th largest retailer: Revenues of R\$ 13.4 billion, EBITDA of R\$ 1,078 MM and adjusted net income of R\$ 472.1 MM in the LTM. Launched ADR Level 1 in the NYSE.

More than 1,550 stores in 19 states of Brazil, which represent 93% of the Brazilian pharmaceutical market, and a national market share of 11.7%;

Unparalleled business model, based on an unique portfolio of Healthcare and Wellness assets: RD Pharmacies (Raia, Drogasil, Farmasil), RD Services (4Bio and Univers) and RD Brands (Needs, B-Well, Triss, Caretech and Nutrigood)

Unique growth track record in the Brazilian retail market: more than doubling our store base between 2010 and 2016 while relying on organic growth.



# ESSENCE



## Belief

People Taking Care of  
People

## Purpose

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

## Values

Efficiency

Ethics

Innovation

Relationships of Trust

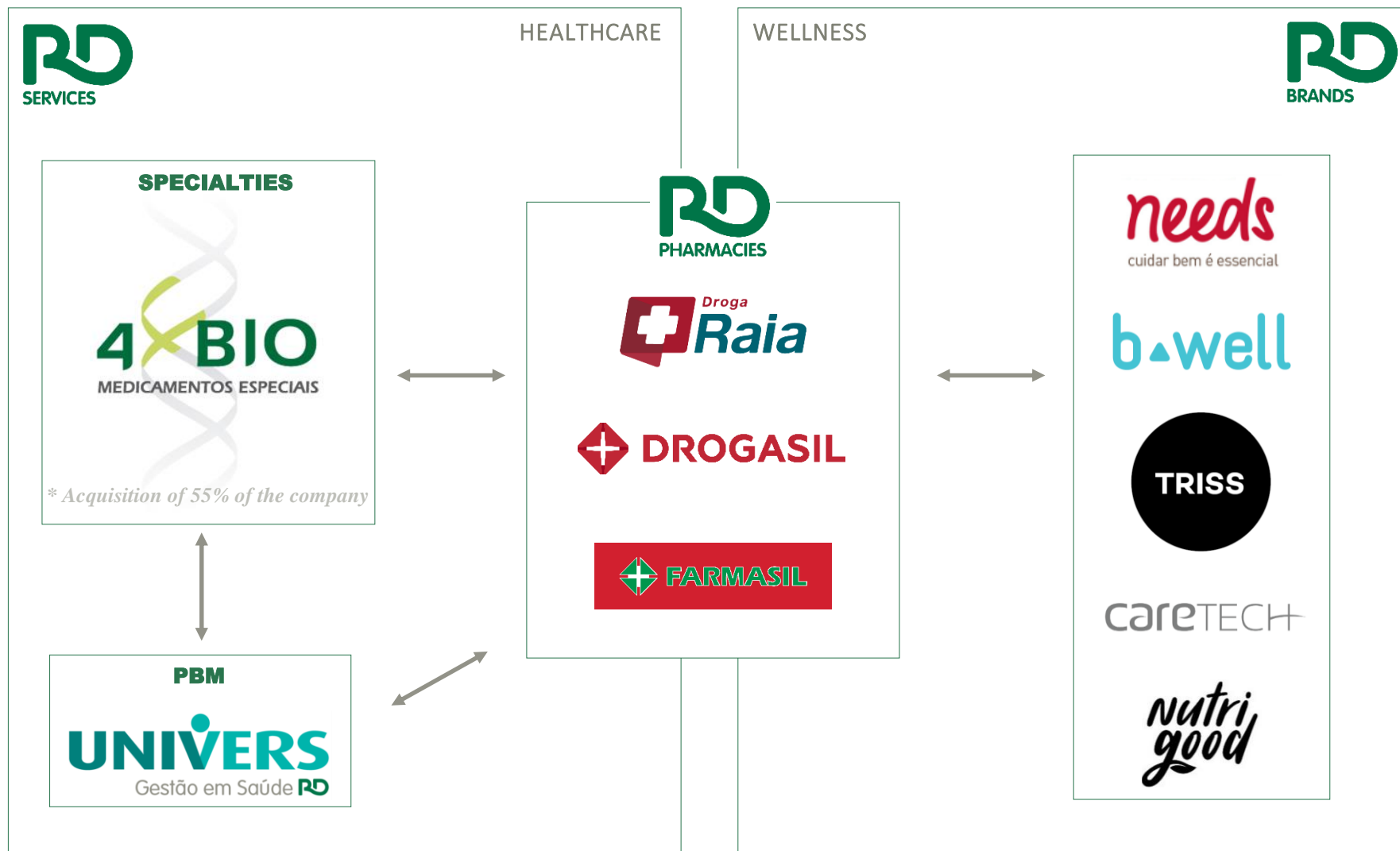
Long-Term View



## UNIQUE PORTFOLIO



Our business model is based on a unique portfolio of integrated healthcare & wellness assets



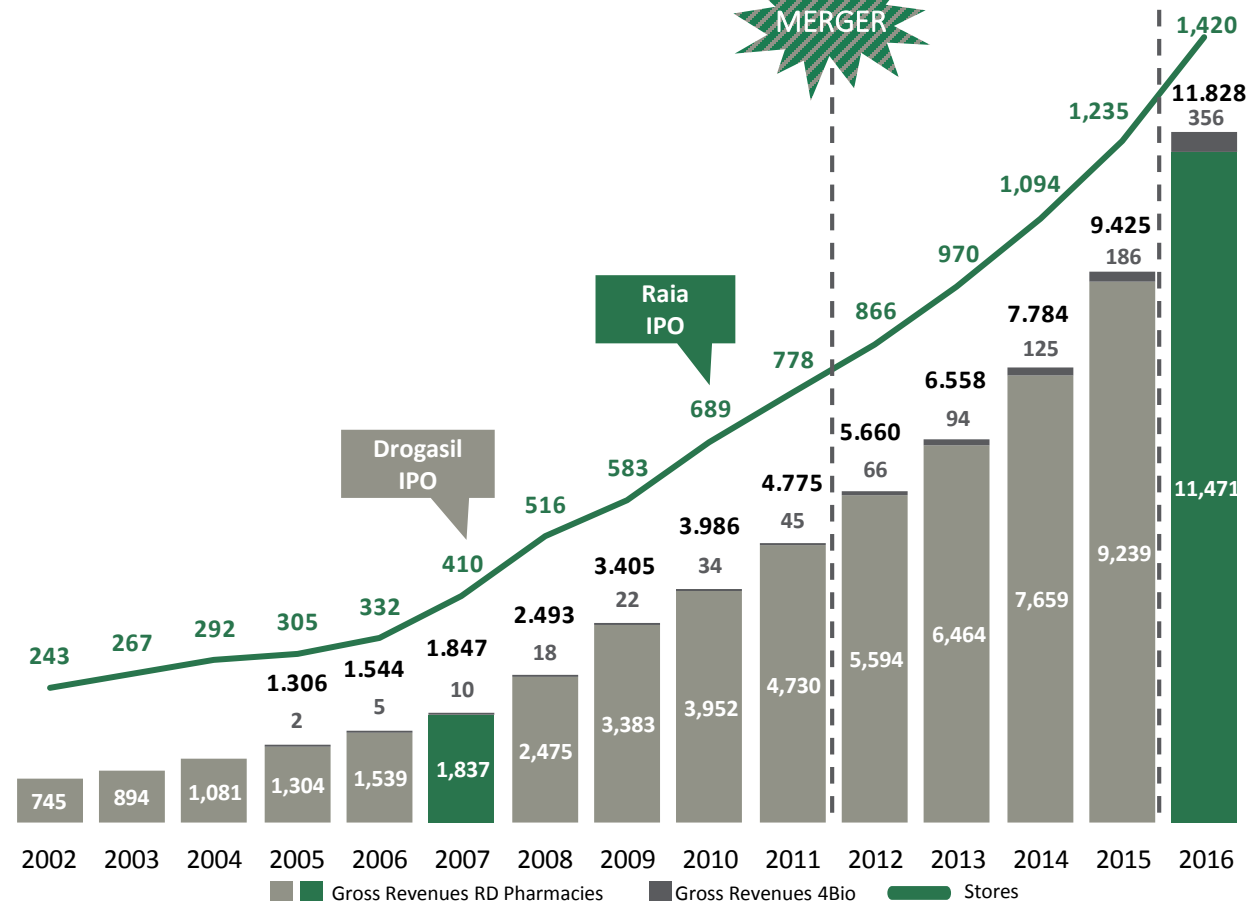
# MULTIPLIED STORES BY 3X, SALES BY 6X AND EBITDA BY 13X FROM 2007 TO 2016



Unique track-record of accelerated organic growth with margin expansion

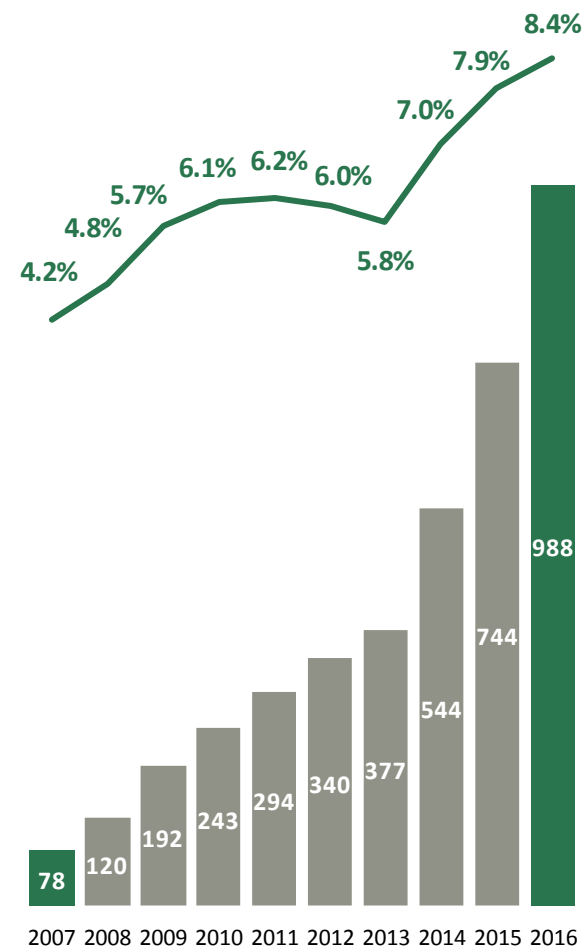
## Combined Gross Revenues & Store Count

R\$ million, Units



## Combined EBITDA










R\$ million, % of Gross Revenues



# LARGEST, FASTEST-GROWING AND MOST EFFICIENT DRUGSTORE CHAIN IN BRAZIL



Ranks as the 5th largest retail group in Brazil

Brazil Ranking		Gross Revenue (billion)	Stores	EBITDA (million)	EBITDA (million)	Brazil Ranking	Gross Revenue (billion)	Stores
1 <sup>st</sup>	 Gente, Saúde e Bem-estar. RiaDrogasil S.A.	R\$ 11.8 +25%	1,420 +15%	R\$ 988 +33%	8.4% + 1.5 p.p.	1 <sup>st</sup>		R\$ 67.3 +8% 2,110 -3%
2 <sup>nd</sup>		R\$ 8.4 +15%	1,171 +9%	R\$ 445 +15%	5.6% - 0.1 p.p.	2 <sup>nd</sup>		R\$ 49.1 +15% 370 +15%
3 <sup>rd</sup>		R\$ 5.8 +21%	952 +15%	R\$ 292 -13%	5.0% - 2.0 p.p.	3 <sup>rd</sup>		R\$ 29.4 +1% 499 +3%
4 <sup>th</sup>		R\$ 1.8 +16.7%	369 +6%	R\$ 125 +15%	5.5% - 0.3 p.p.	4 <sup>th</sup>		R\$ 21.4 +3% 1,127 +8%
						5 <sup>th</sup>	 Gente, Saúde e Bem-estar. RiaDrogasil S.A.	R\$ 11.8 +25% 1,420 +15%

Source: Companies, Brazilian Supermarket Ranking: Supermercado Moderno, 2016 and Valor Economico Newspaper  
Only considers retailers which operate with own stores.

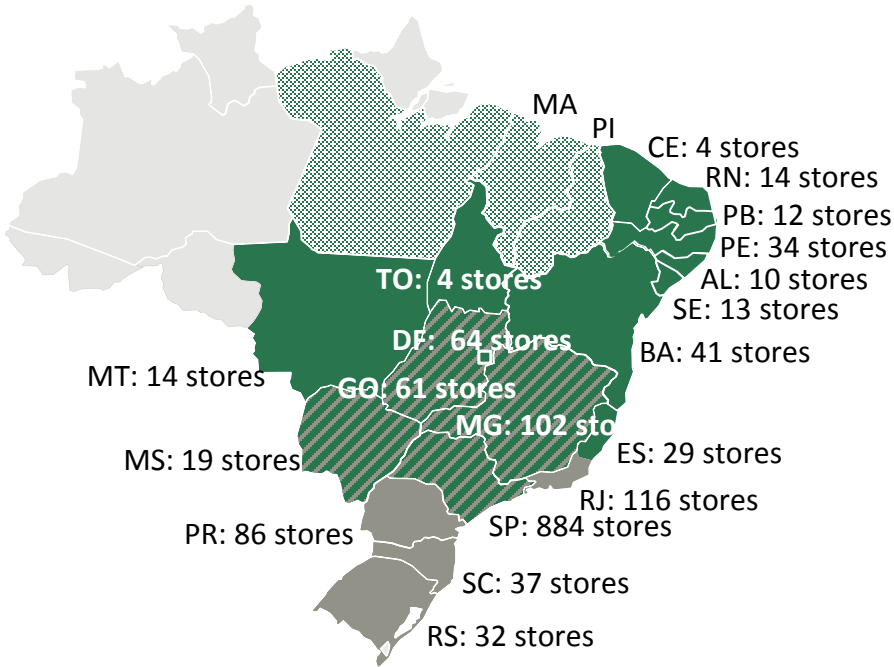
\* Panvel Gross Revenues do not consider wholesale operations



# STRONG MARKET SHARE GROWTH HISTORY AND POTENTIAL

RD is positioned in 19 states that account for 93% of the Brazilian pharmaceutical market

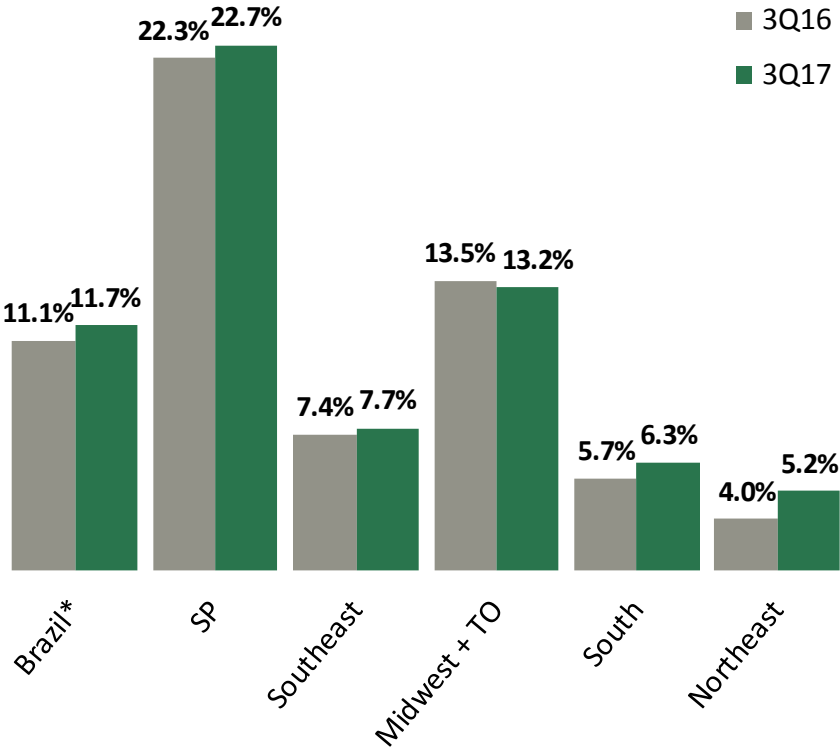
Geographic Presence – October, 31, 2017



**Total: 1,575 stores**

- Raia: 741 stores
- Drogasil: 809 stores
- Future markets
- \* Farmasil: 22 stores
- \* 4Bio: 3 stores

Market Share



PHARMACEUTICAL MARKET BREAKDOWN BY REGION (%)

Brazil*	SP	Southeast	Midwest + TO	South	Northeast
100.0%	26.6%	24.5%	9.6%	16.4%	18.6%

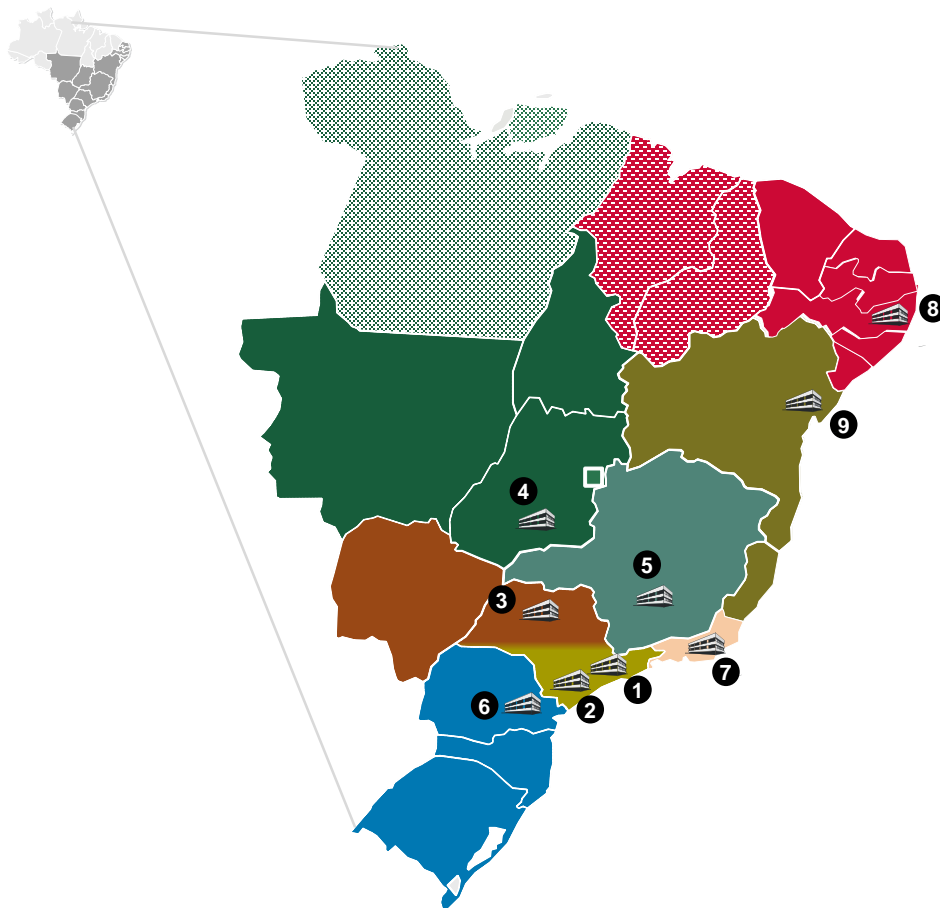
Source: IMS Health  
 \* Includes 4Bio only for Brazil total.

## DISTRIBUTION INFRASTRUCTURE



Unified, decentralized and scalable distribution infrastructure, with state of the art supply chain management driven by proprietary platforms

### DISTRIBUTION CENTERS



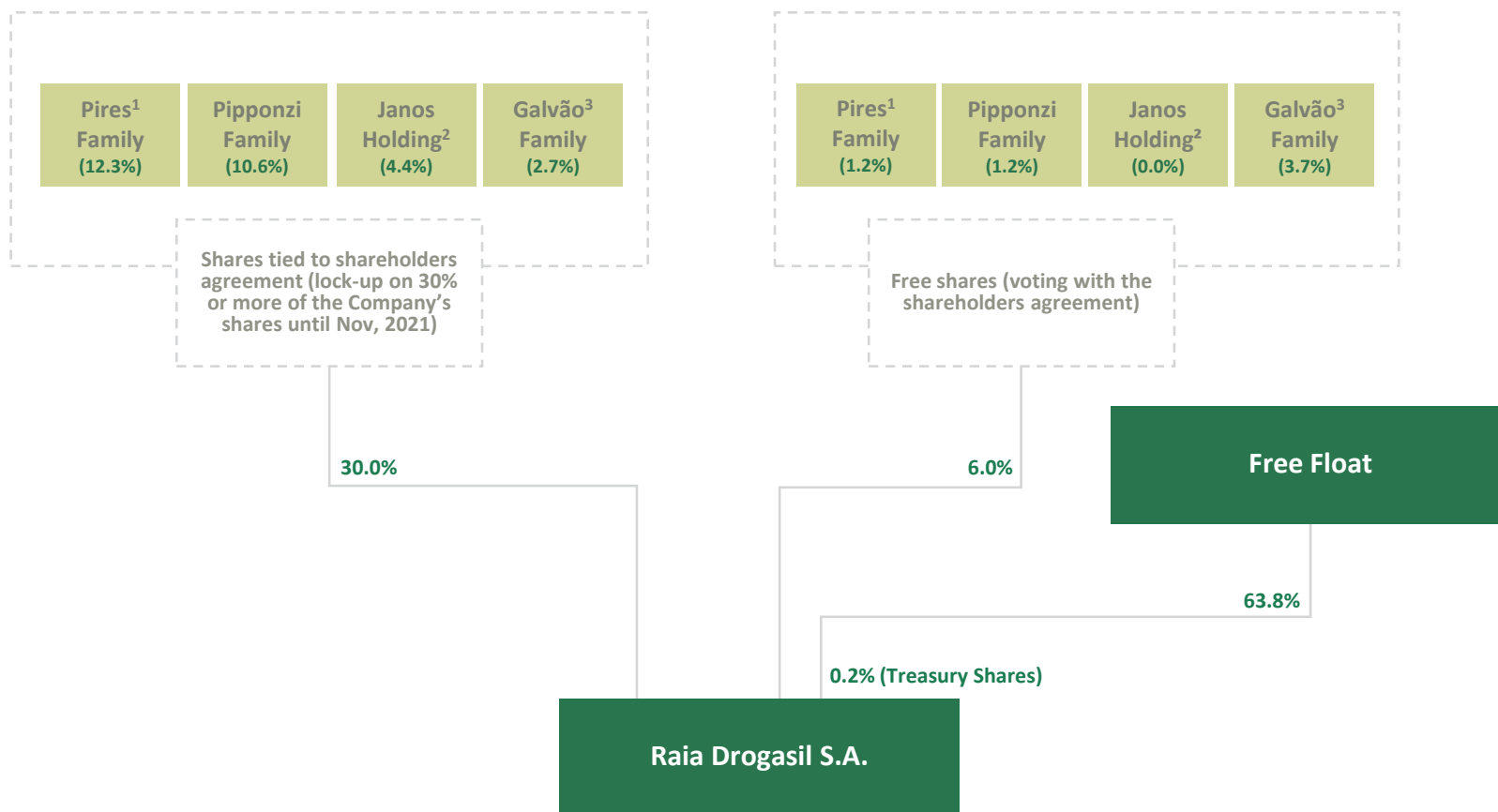
Embu Distribution Center

- |   |   |
|---|---|
| 1 | › São Paulo (SP)<br>› Área: 18,000 m <sup>2</sup>         |
| 2 | › Embu (SP)<br>› Área: 22,700 m <sup>2</sup>              |
| 3 | › Ribeirão Preto (SP)<br>› Área: 18,500 m <sup>2</sup>    |
| 4 | › Aparecida (GO)<br>› Área: 15,000 m <sup>2</sup>         |
| 5 | › Contagem (MG)<br>› Área: 8,500 m <sup>2</sup>           |
| 6 | › S. J. dos Pinhais (PR)<br>› Área: 12,900 m <sup>2</sup> |
| 7 | › Barra Mansa (RJ)<br>› Área: 10,400 m <sup>2</sup>       |
| 8 | › Jaboatão (PE)<br>› Área: 10,300 m <sup>2</sup>          |
| 9 | › Salvador (BA)<br>› Área: 8,500 m <sup>2</sup>           |

## HIGH STANDARDS OF CORPORATE GOVERNANCE



Members of the founding families of both Raia and Drogasil as long-term majority shareholders



The number of locked-up shares is presently 30% of the stock capital and will remain unchanged until Nov, 2021. Therefore, 83% of the current controlling shareholders' shares will remain under lock-up. Controllers own 6% in free shares that were not sold.



<sup>1</sup> Carlos Pires Oliveira Dias and Regimar Comercial S.A.

<sup>2</sup> Pragma's carve-out, Janos Holding is the long-term strategic investment group of Guilherme Leal, Luis Seabra and Pedro Passos, founders of Natura.

<sup>3</sup> GL Participações Ltda and Paulo Galvao Shares

## STRONG VALUE CREATION SINCE THE MERGER



COMBINED OPERATIONAL HIGHLIGHTS	2011	3Q17 LTM	Var. %
Store Count	778	1.554	99.7%
Employees	17.244	31.363	105.5%
Geographic Presence	9 states 78% of Brazilian Market	19 states 93% of Brazilian Market	+10 states +15% of Brazilian Market
Sales Area (sqm)	109.095	224.235	81.9%
COMBINED FINANCIAL HIGHLIGHTS (R\$ MM)			
Gross Revenues	4.775	13.396	180.5%
Gross Profit (% of Gross Revenues)	1.241 26.0%	3.864 28.8%	211.4% +2.9 p.p.
EBITDA (% of Gross Revenues)	294 6.2%	1.078 8.0%	266.5% +1.9 p.p.
Net Income (% of Gross Revenues)	152 3.2%	472 3.5%	210.6% +0.3 p.p.
ROIC	12.7%	19.7%	+7.0 p.p.
Market Cap (billion)	4.3	24.8	478.3%





**HIGH GROWTH  
INDUSTRY, IN THE  
PROCESS OF  
CONSOLIDATION**



# BRAZIL IS UNDERGOING AN UNPRECEDENTED DEMOGRAPHIC TRANSFORMATION



The senior population will escalate from 16 million to 30 million over the next 15 years

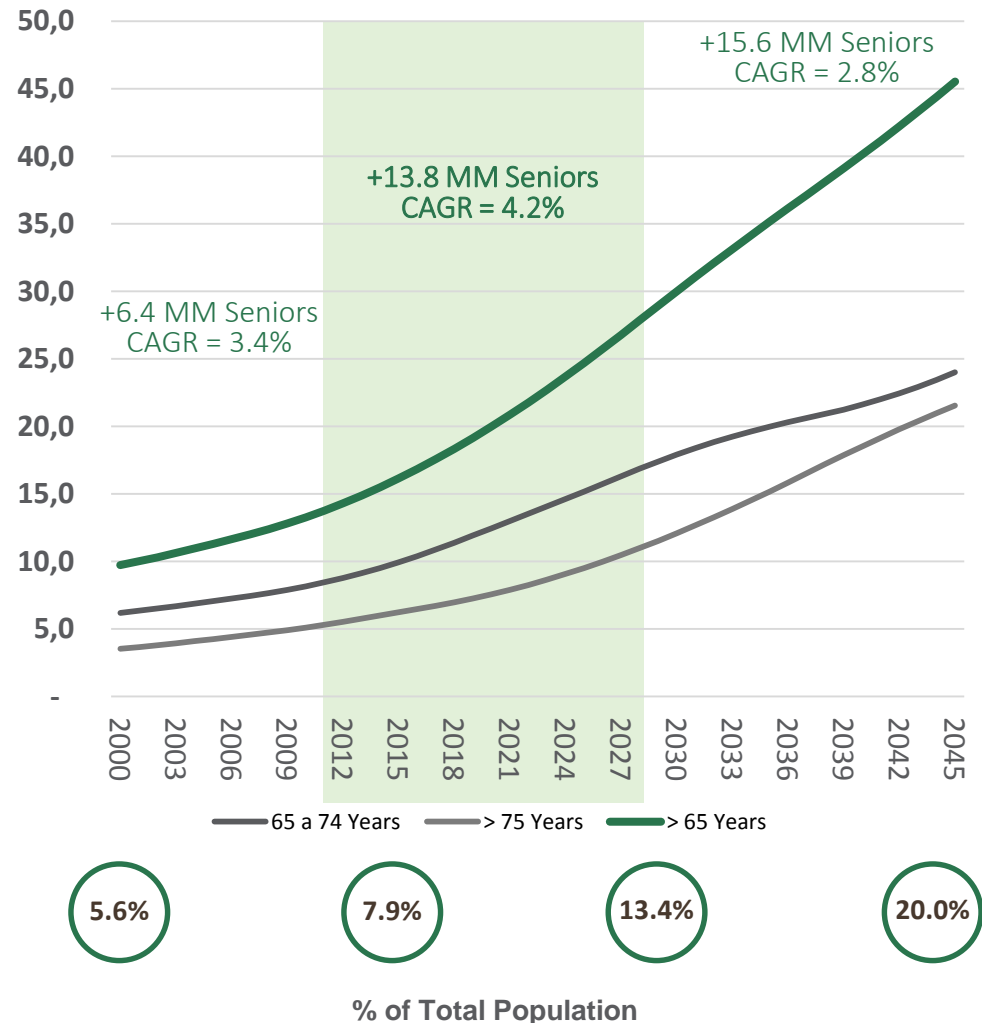
## Speed of Population Aging

Number of years to the 65+ population increase from 7% to 14%



## Brazilian Population Above 65 Years Old

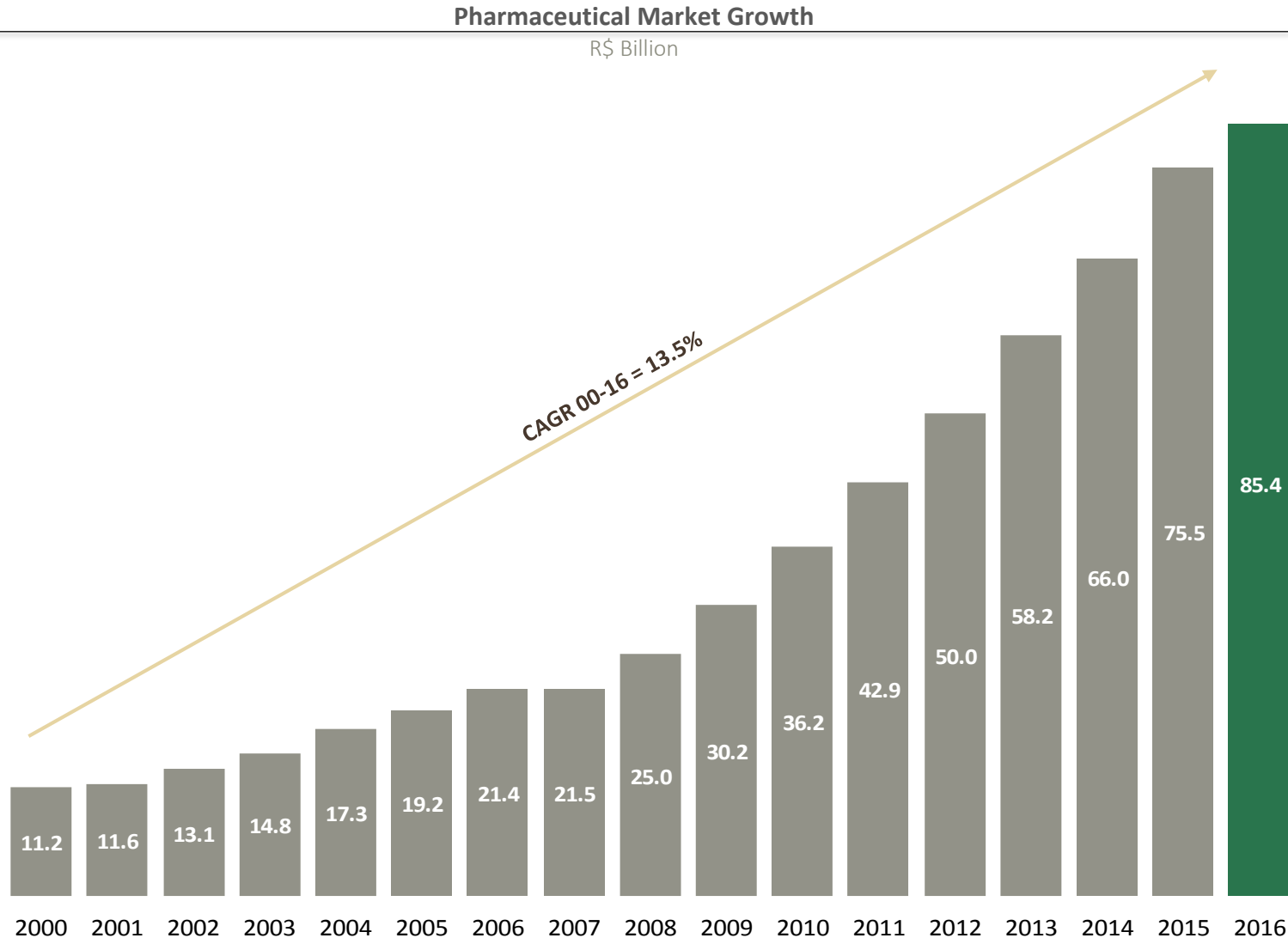
Million People



## AS A RESULT...

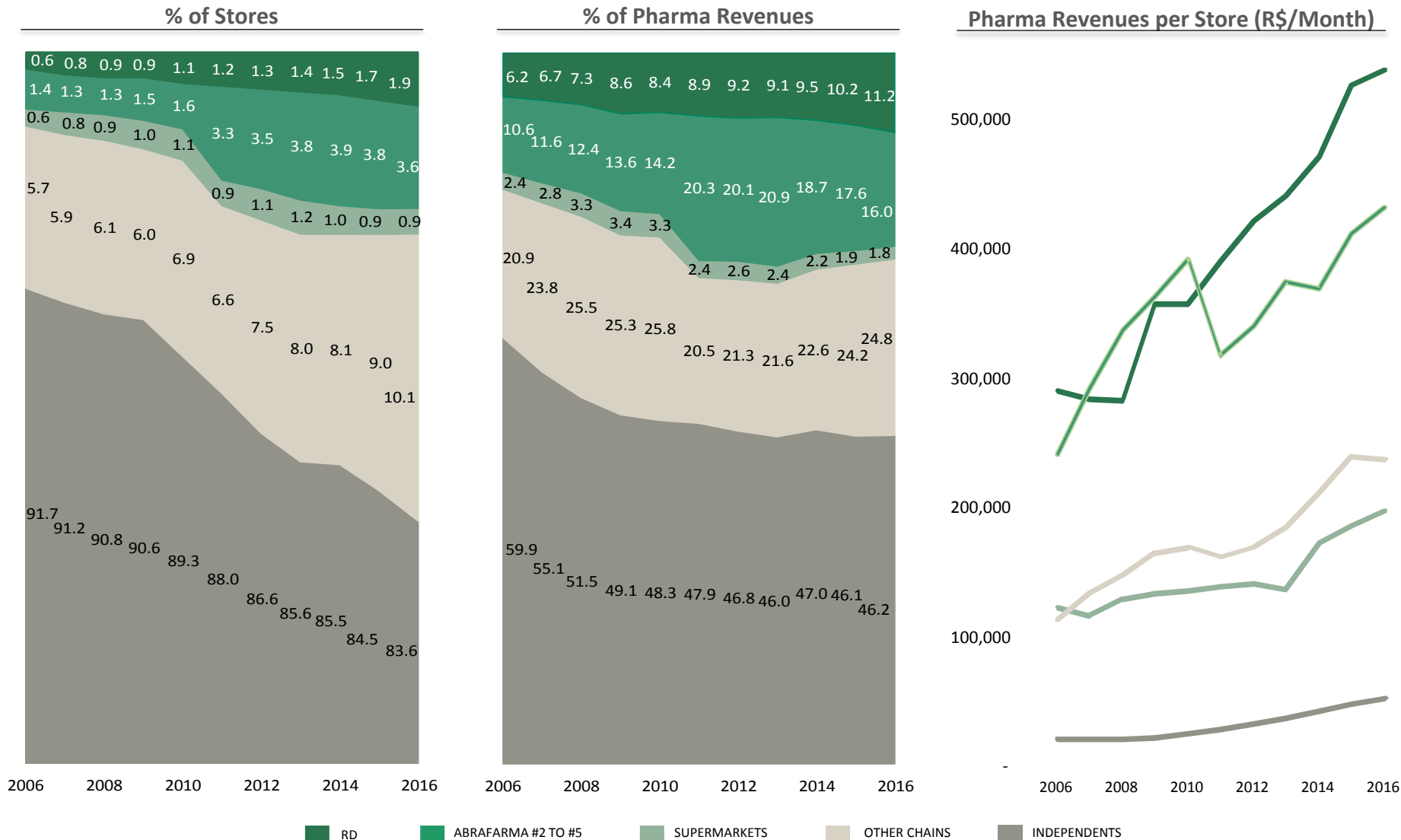


The pharmaceutical market, which grew significantly over the last 15 years, shall sustain double digit growth for another 15 years.



# THE DRUGSTORE MARKET REMAINS VERY FRAGMENTED

This allows RD to lead the industry's consolidation & enhance the productivity edge versus our Peers



Source: IMS Health and Abrafarma. To preserve comparability, does not include new informants added to the panel over the last 12 months.

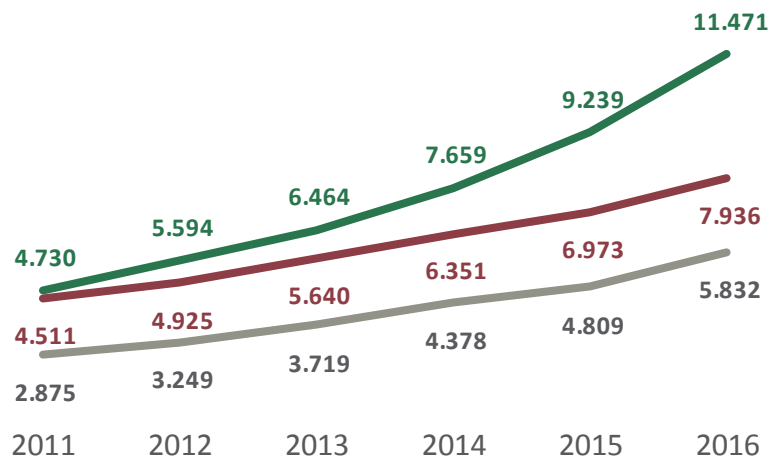


# DECOUPLING FROM OUR PEERS



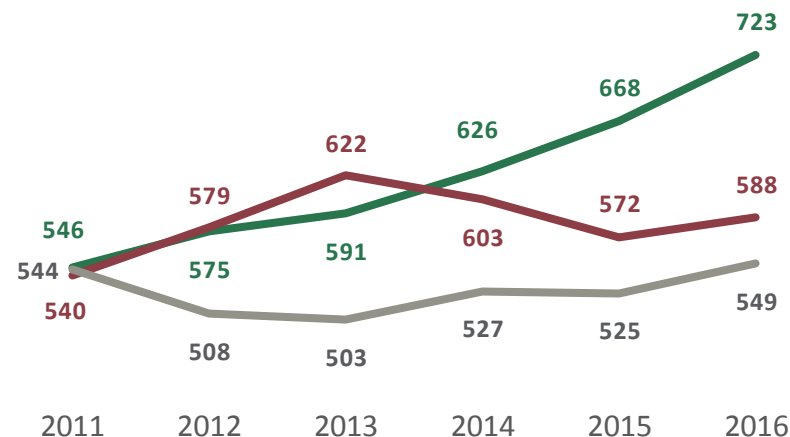
## Gross Revenues

R\$ Million



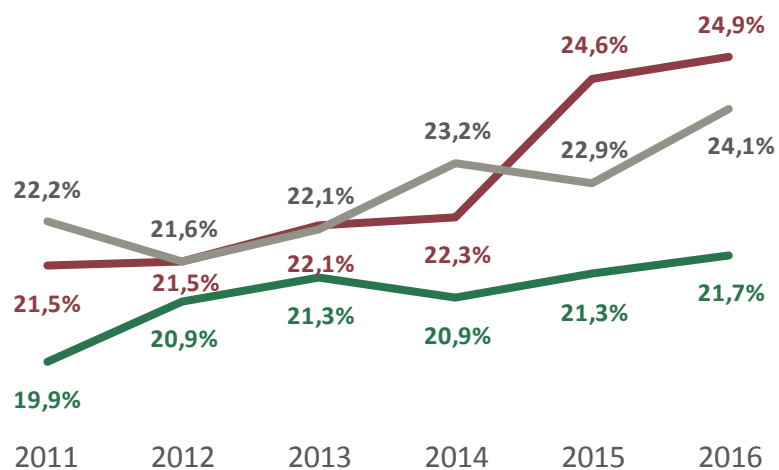
## Gross Revenues per Store (Monthly)

R\$ Thousand



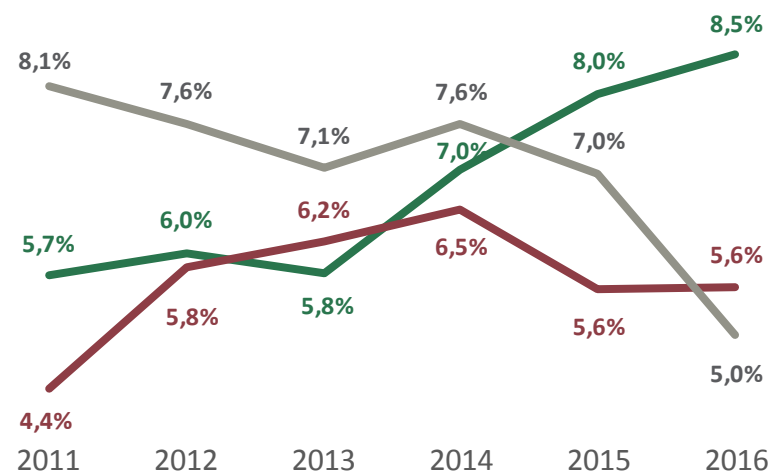
## Operating Expenses

% of Gross Revenues



## Adjusted EBITDA

% of Gross Revenues



RD\* DPSP Pague Menos

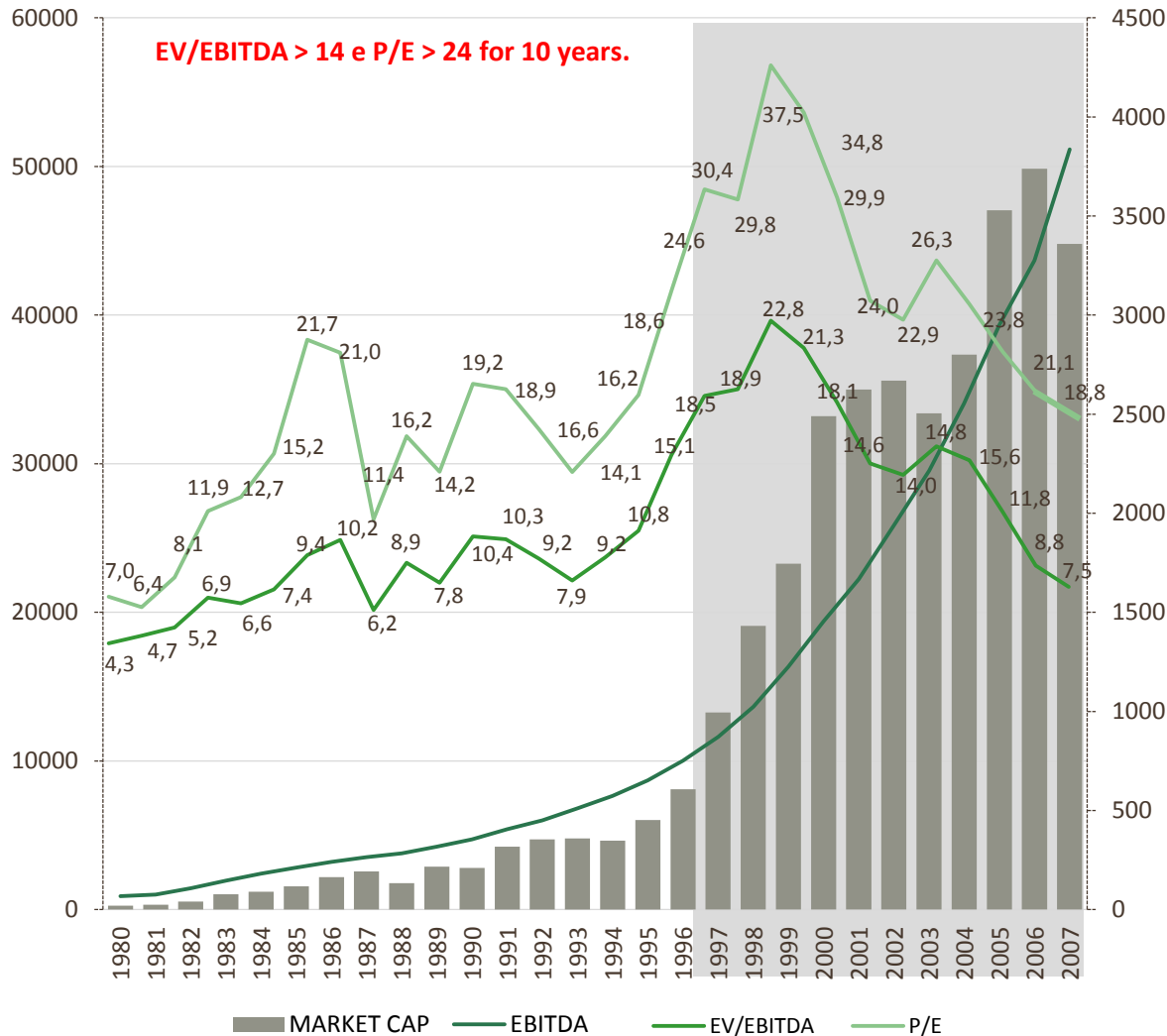
\* RD figures do not include 4-bio.

# THE BRAZILIAN DRUGSTORE INDUSTRY RESEMBLES THE US MARKET IN THE 90S

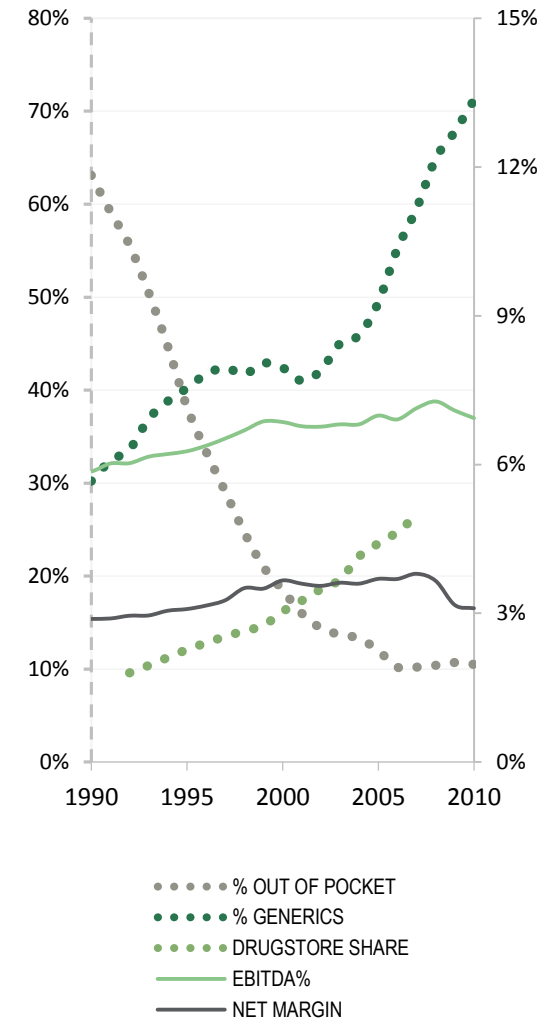


Similar real growth opportunity but larger margin expansion potential

Walgreens Long-Term Benchmark



Industry Trends\*



\* 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)



**Differentiated  
Assets &  
Competencies  
Driving an Unique  
Execution**



# WE HAVE A UNIQUE SET OF ASSETS AND COMPETENCIES



That constitute a very significant entry barrier both against local and global new entrants





## OUR RETAIL BRANDS ARE ICONIC ...



DROGASIL: Traditional Drugstore Brand, with Higher Focus on Seniors and Pharma



## ... WITH DIFFERENTIATED & COMPLEMENTARY POSITIONING



DROGA RAIA: Upscale Wellness Format, focused on Women and on Families



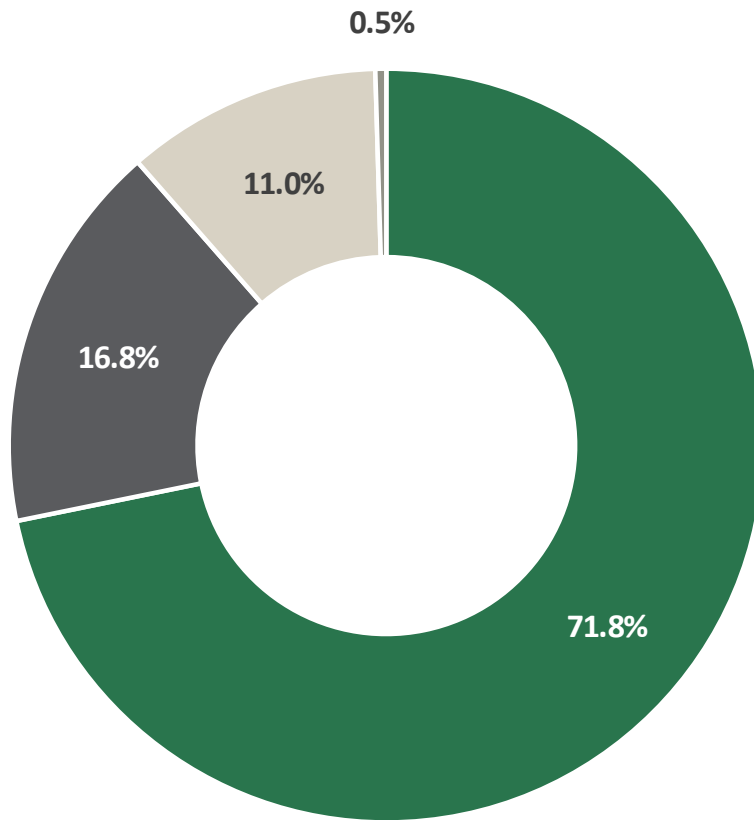


## PRIME LOCATIONS



Brazil's top corners, streets and commercial centers

Location Profile\*



\* As of June 2017.



Madalena, Recife (PE)



Savassi, Belo Horizonte (BH)



Shopping Leblon, Rio de Janeiro (RJ)



Itaú HQ Store, São Paulo (SP)

Stores with Parking

Pedestrian Stores

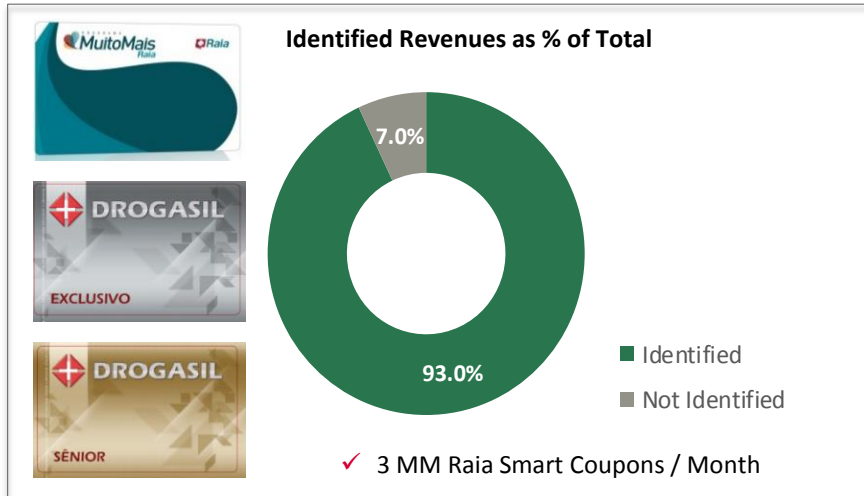
Shopping & Commercial Centers

Corporate Stores

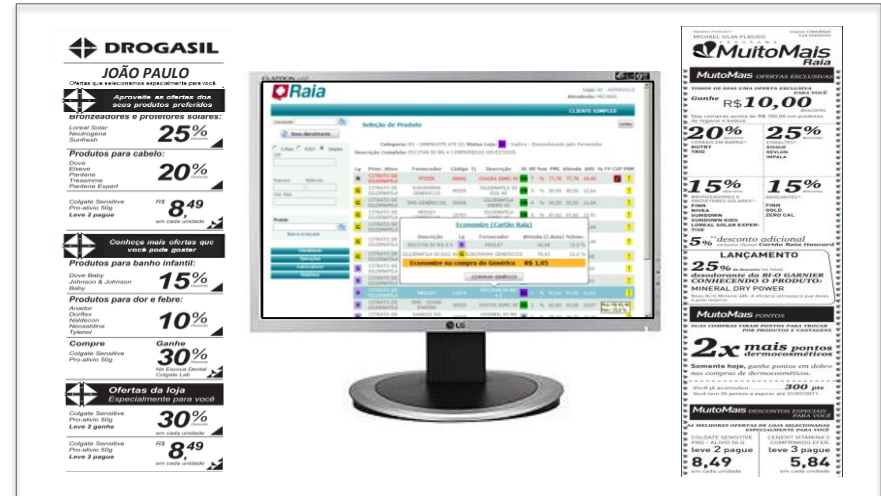
## PROPRIETARY PLATFORMS

Proprietary, cutting-edge platforms, with CRM-driven retail execution

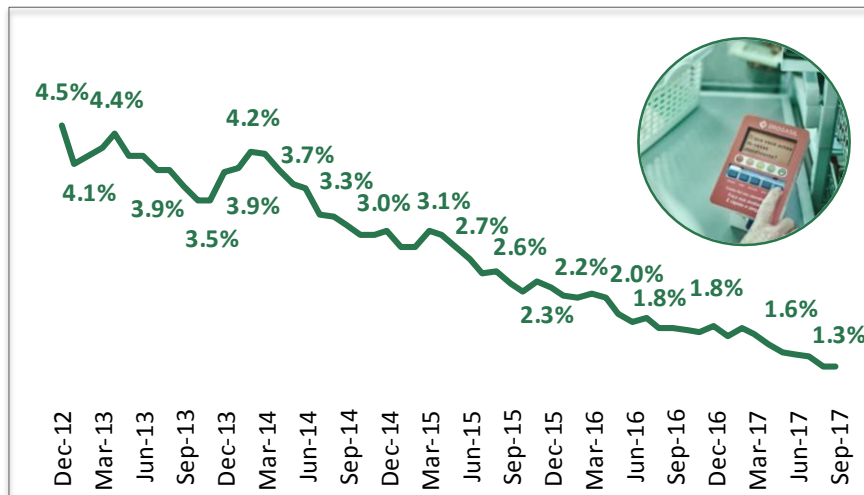
## 1. Enroll



## 2. Shop



### 3. Pay & Evaluate



#### 4. New Loyalty Program

- › Focus on Surprise and Delight
- › Higher focus in up-sell instead of cross-sell
- › Higher accuracy and relevance for the Exclusive Offers
- › Measurement of the loyalty level by store



# PROPRIETARY PBM

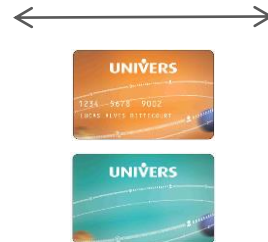
32 MM beneficiaries, over 1,100 institutions



**UNIVERS**  
Gestão em Saúde RD



Processing & Eligibility Check



PBM System



Preferred Retail Network



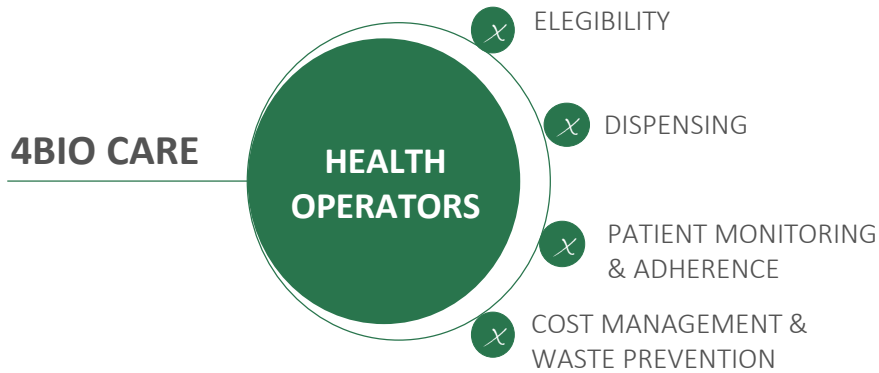
Specialty Pharmacy

700 third-party pharmacies

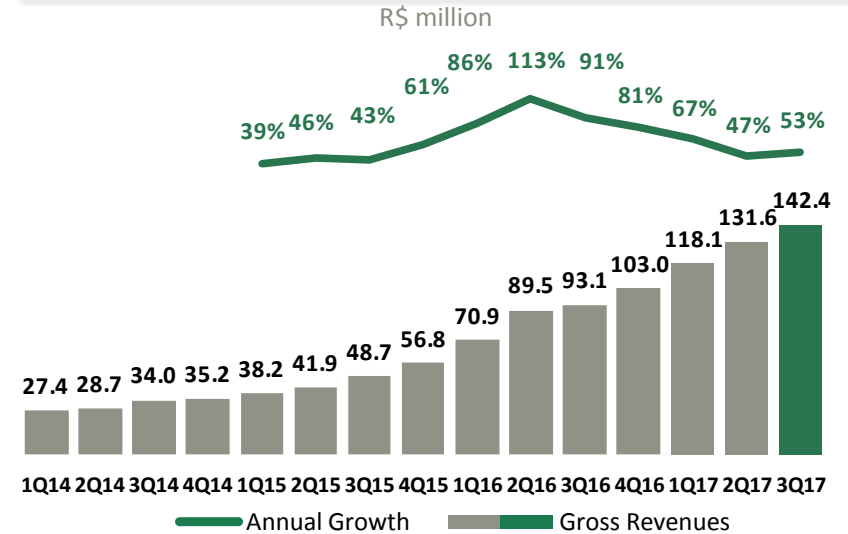
# 4BIO DOUBLED ITS REVENUES TO BECOME BRAZIL'S SPECIALTY RETAILING LEADER



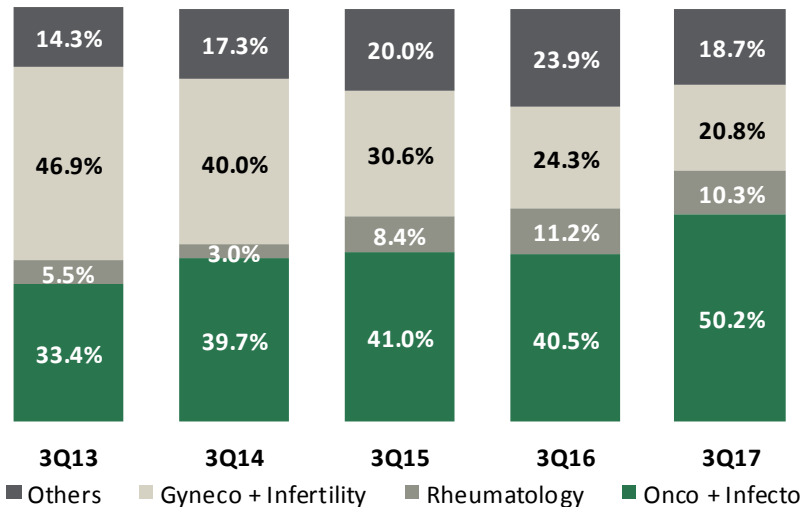
All this due to a strong managed care expertise and a focus in Oral Oncology and Hepatitis C



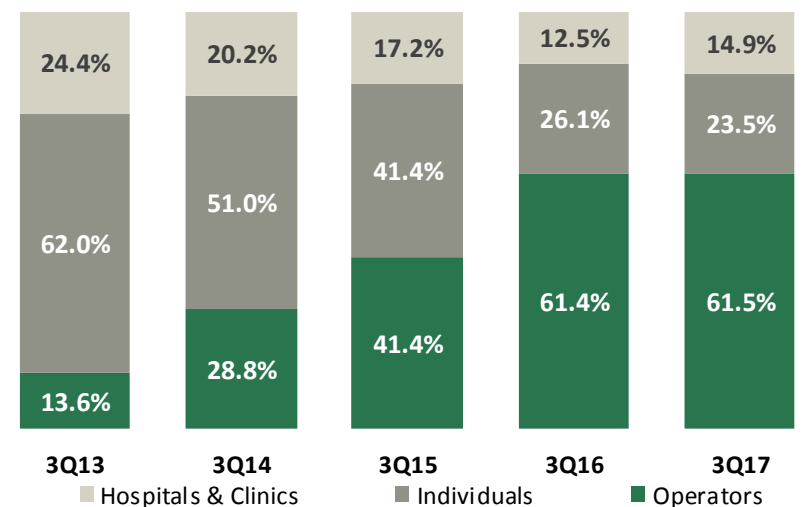
## Gross Revenues



## Sales by Category



## Sales by Channel







## ... WITH HIGH MARGINAL RETURNS ON INVESTED CAPITAL



### Average Mature Store Contribution Margin <sup>(1)</sup>

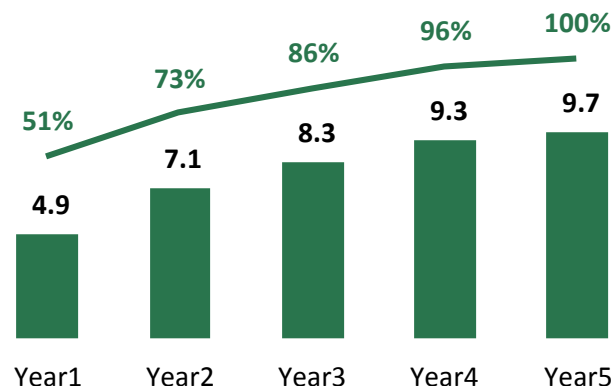
Income Statement (Mature Store)		2016
<i>(In R\$ 000)</i>		
Gross Revenues		9,692
Gross Profit		2,975
% of Gross Revenue		30.7%
Store Expenses		(1,597)
% of Gross Revenue		16.5%
<b>Store Contribution Margin</b>		<b>1,378</b>
<b>% of Gross Revenue</b>		<b>14.2%</b>
NPV Effect		(58)
Depreciation		(304)
Income Tax (34%)		(345)
Depreciation		304
<b>NOPAT (a)</b>		<b>975</b>
<b>% of Gross Revenue</b>		<b>10.4%</b>
Capex		1,521
Pre-Operational Expenses		229
Operating Working Capital		633
<b>Total Investment (b)</b>		<b>2,383</b>
<b>ROIC (a/b) <sup>(2)</sup></b>		<b>40.9%</b>

(1) Does not consider G&A and DCs expenses.

(2) ROIC calculation includes the full CAPEX (gross PP&A instead of Net PP&A), and therefore no depreciation in the NOPAT

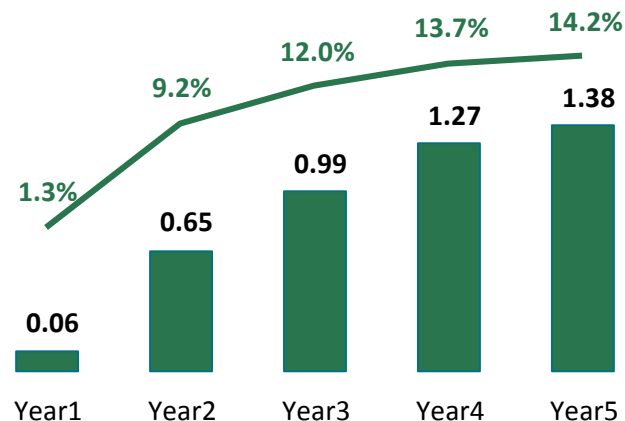
### Gross revenues Ramp-Up

(as a % of the sales: in million of Reais per stores/year)



### Contribution Margin Ramp-Up

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

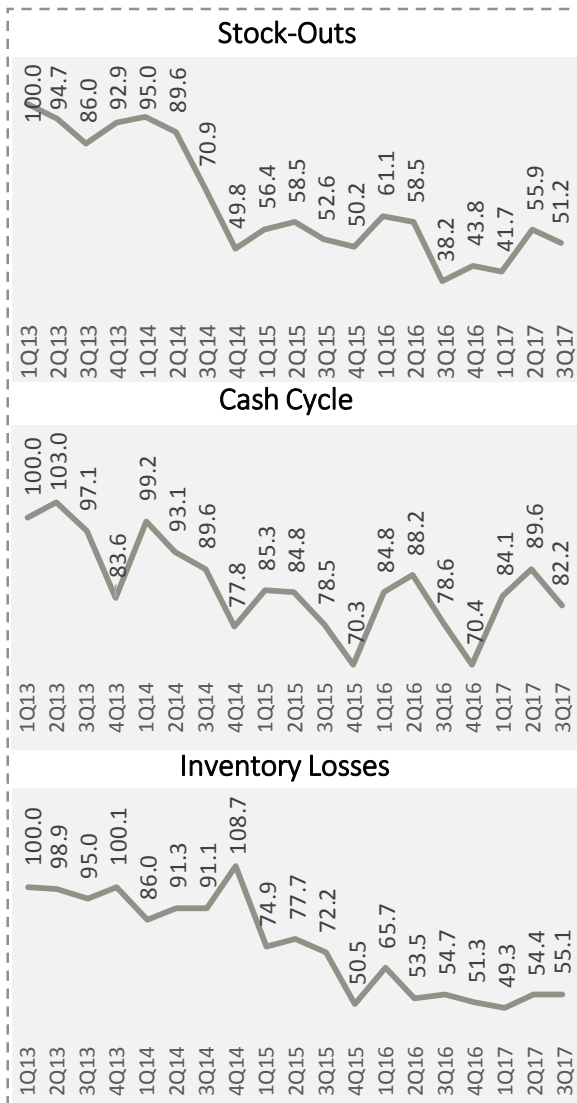


Source: Company internal estimates

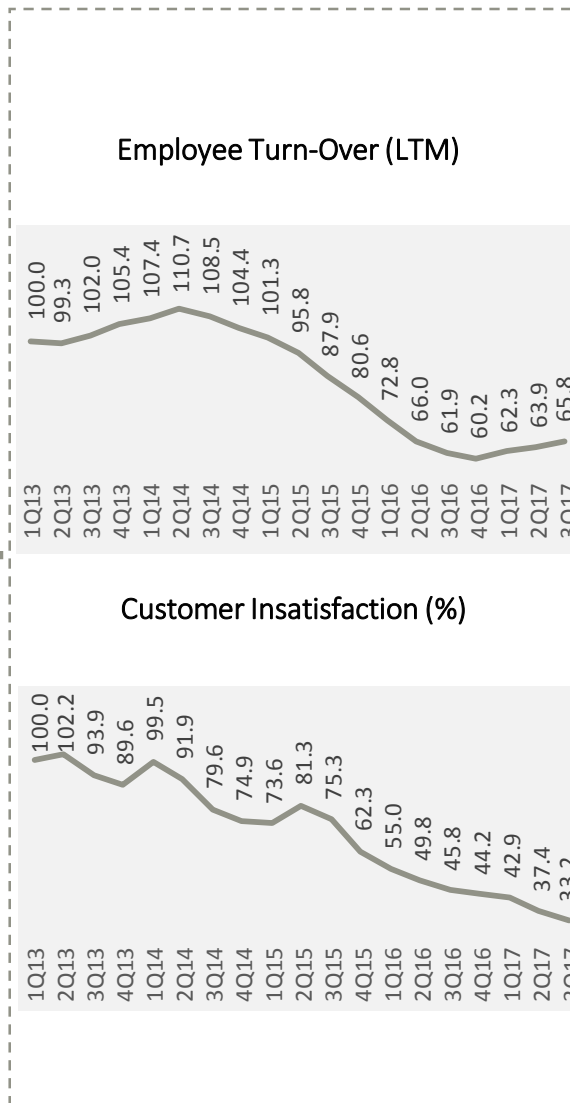
# IMPROVED EXECUTION DRIVING PRODUCTIVITY GAINS



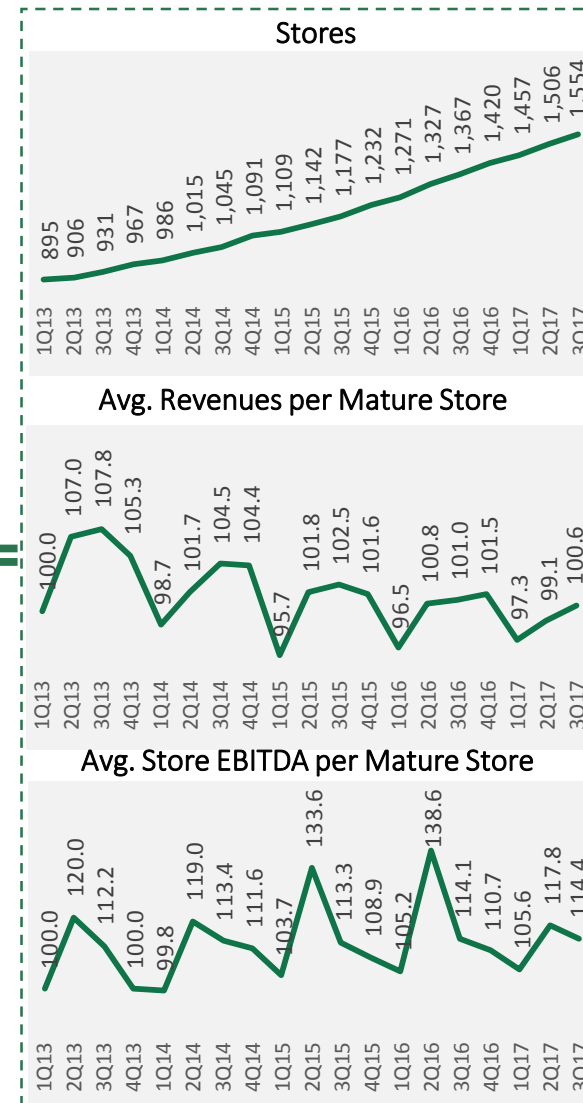
## Improved Supply Chain Management



## Improved Service



## Accelerate Growth & Improved Productivity



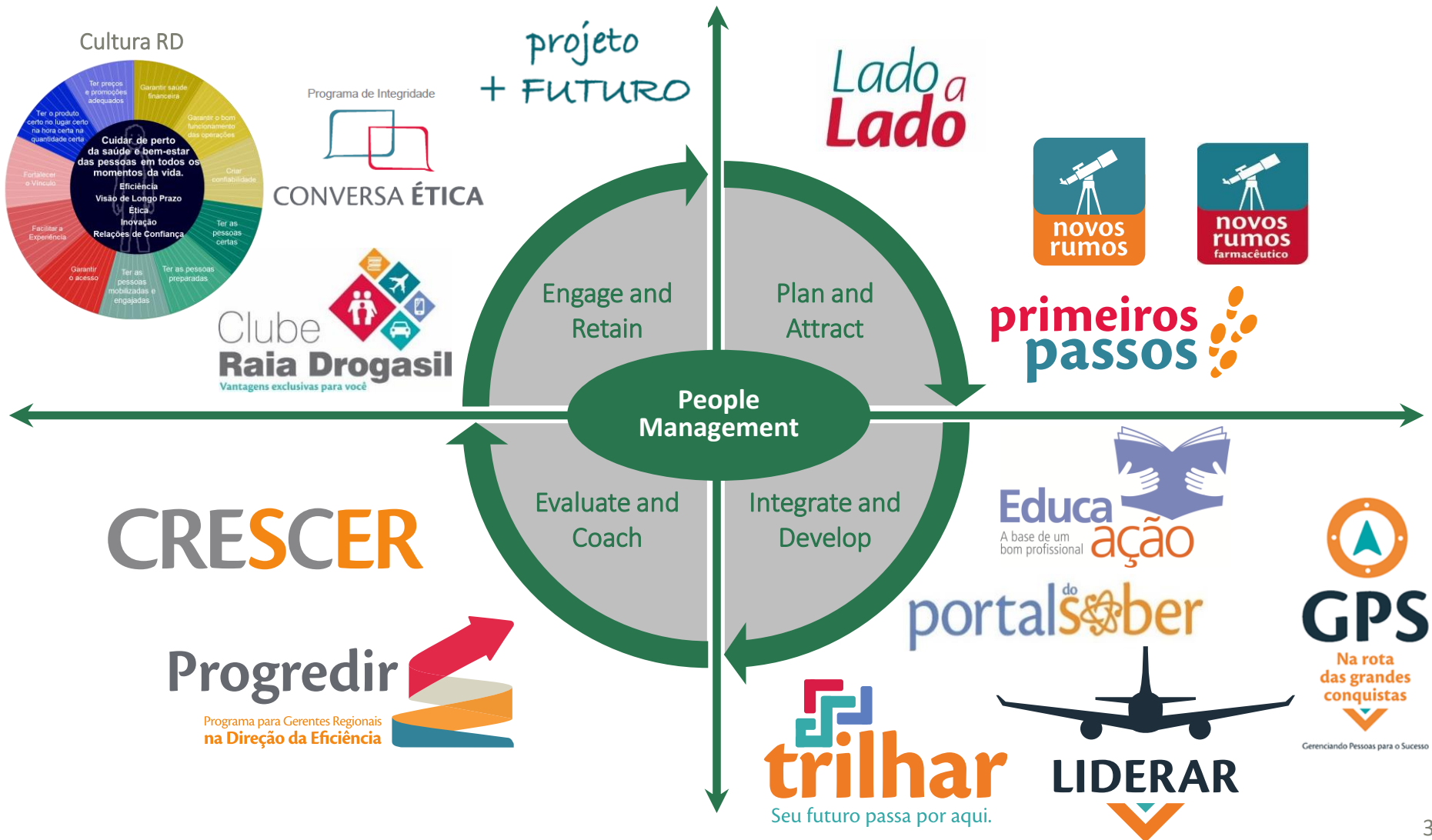
\* 1Q13 = 100 Index. Figures do not include 4-bio. Cash cycle adjusted to a comparable basis due to the old tax regime that reduced inventories up to the 3Q13 (equivalent to +4.5 days). Mature Store Revenues and EBITDA were adjusted to 1Q13 CPI levels.



# QUALIFIED AND MOTIVATED PEOPLE, DEVELOPED AND PROMOTED INTERNALLY



We have structured 15 programs in 3 years to promote the People Management Cycle and strengthen the RD Efficiency Culture





**REINVENTING  
THE EXECUTION  
FOR THE NEXT  
15 YEARS**



## MAIN STRATEGIES

We have established four main strategies and three core enablers to deliver on them

### MAIN STRATEGIES



1

*Accelerate the Organic Expansion*



2

*Introduce New Formats*



3

*Enhance Category Mgmt. & Shopping Experience*



4

*Involve, Understand & Potentialize Customers*

### CORE ENABLERS



5. Attract, Develop, Engage & Retain People



6. Integrate, Streamline & Reinforce Processes

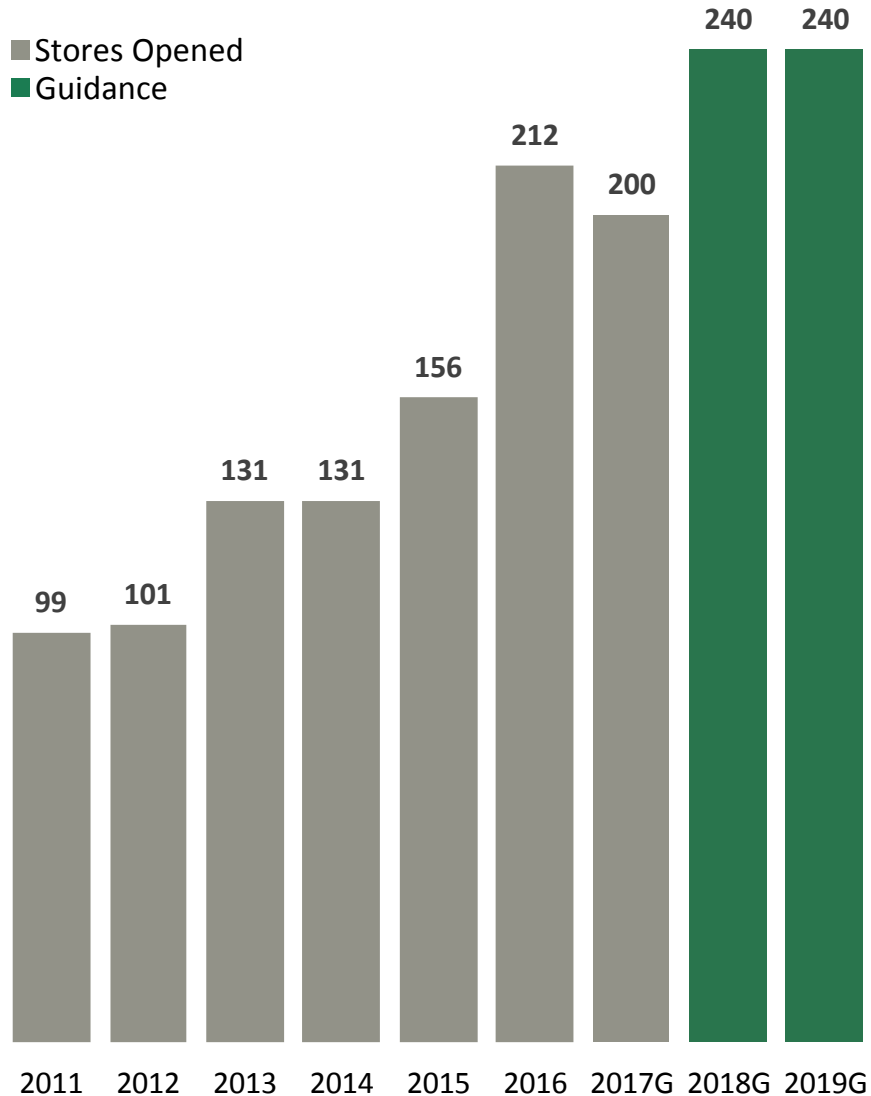


7. Leverage & Improve Platforms

## 1 – ACCELERATE ORGANIC EXPANSION



### New Store Openings



### Main Challenges

- › Accelerating Prospections
- › Tougher Licensing Requirements
- › Excessive 4Q Opening Concentration
- › Developing New Managers

### Main Solutions

- › Expanded the Real Estate Team
- › Increasing Contract Buffer
- › Implementing PMO to Align Functional Areas & Streamline Process
- › Enhancing Training Programs & Turnover Reduction



## 2 – INTRODUCE NEW FORMATS

Farmasil (Low Cost Format)



Droga Raia "Big Store"



New Drogasil Store Identity





# INTRODUCING NEW FORMATS



Farmasil

## Farmasil Model



Pedestrian and low income public

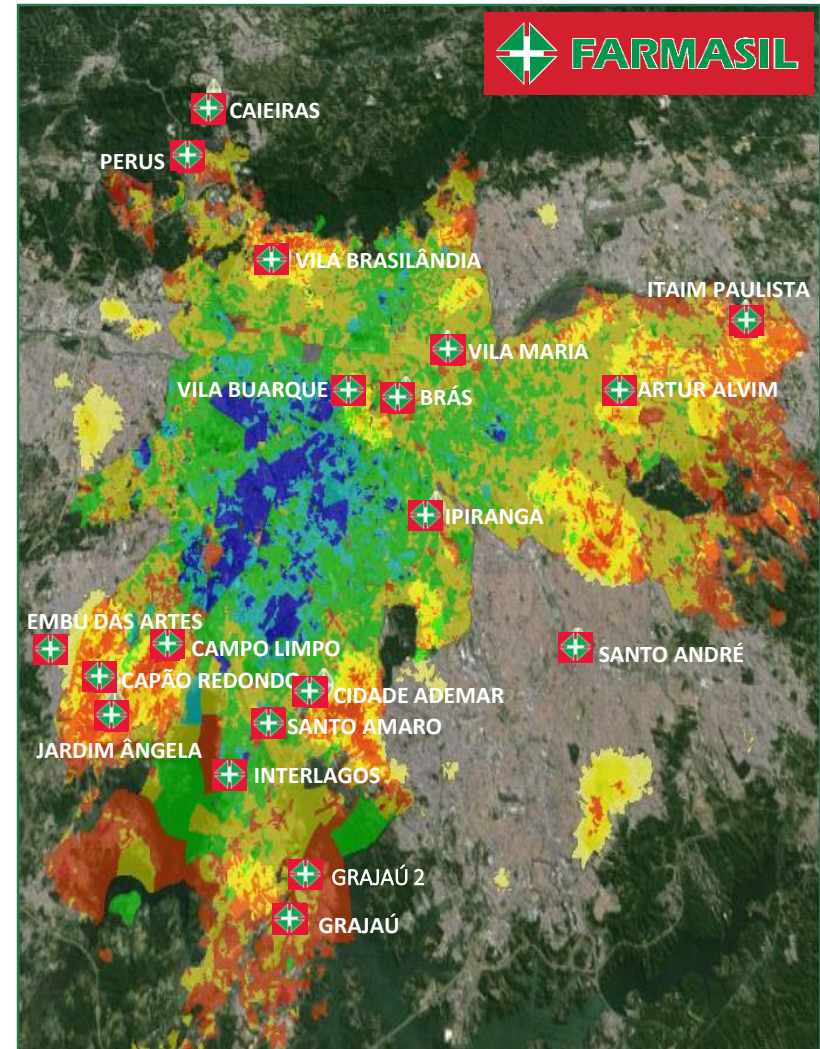
Differentiated and innovative store format

Low operating cost

Competitive prices and focus on generics

Higher gross margin and lower working capital

## São Paulo Metropolitan Region



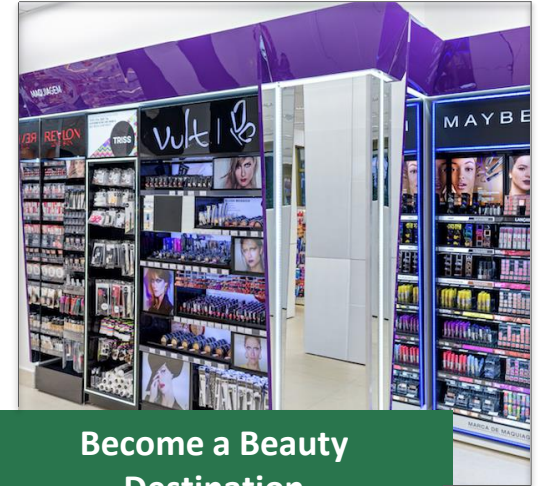
### 3 – ENHANCE CATEGORY MANAGEMENT & SHOPPING EXPERIENCE



**Customer-Centric  
Category Management**



**Implementing a New  
Pricing Platform**



**Become a Beauty  
Destination**

**Primary Care**



**Specialty Drugs**



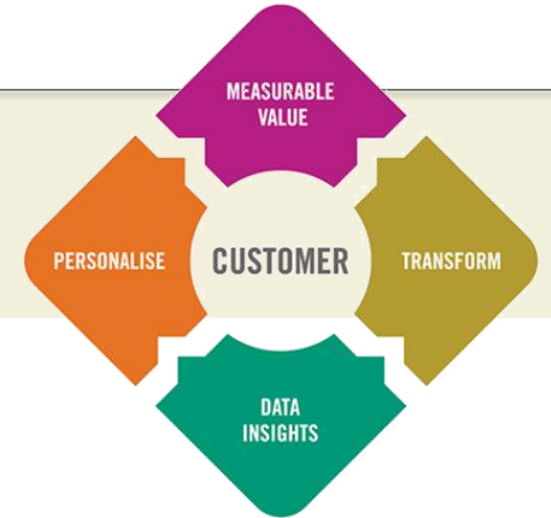
+

**Become a Full-Service  
Pharmaceutical Provider**



**Increase Private Label  
Range & Penetration**

### Data + Science = Delight + Loyalty



#### Dunnhumby

- › Global leader in Customer Science and Personalization
- › Long term partnerships with global retail leaders such as Tesco, Kroger, Casino and Macy's

#### Partnership Terms

- › Long term partnership
- › Fully dedicated team and cutting-edge platforms
- › RD has exclusivity in the Brazilian drugstore market

#### New Loyalty Program

- › Focus on Surprise and Delight, in substitution for the current Earn and Redeem points scheme
- › Enhance customer experience in all phases of the shopping cycle, in and out of store
- › Higher focus in up-sell instead of cross-sell

#### Personalization

- › Complex algorithms allowing higher accuracy and relevance for the Exclusive Offers
- › Reduced time of service for controlled medicines through client registration
- › Measurement of the loyalty level by store and improved tracking of the customer profile
- › Opportunities of leveraging adherence to treatments through industry partnerships





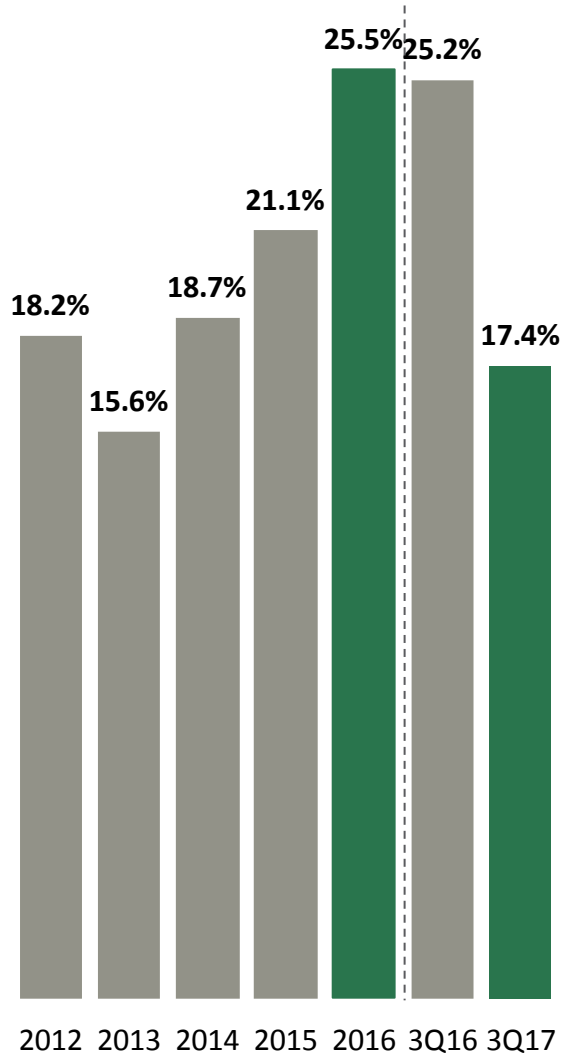
PROVEN TRACK  
RECORD IN  
DELIVERING HIGH  
GROWTH WITH  
MARGIN EXPANSION



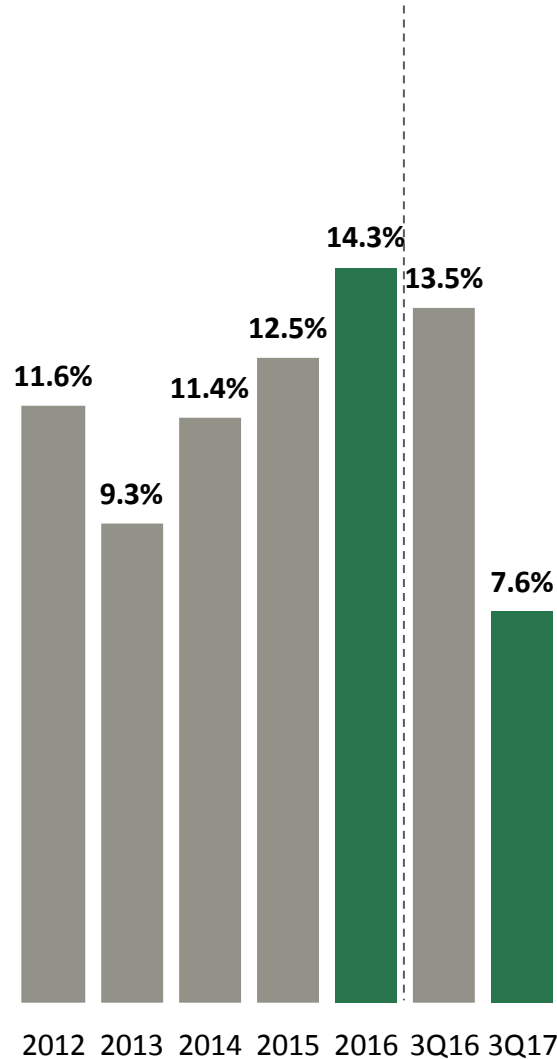
## STRONG REVENUE GROWTH



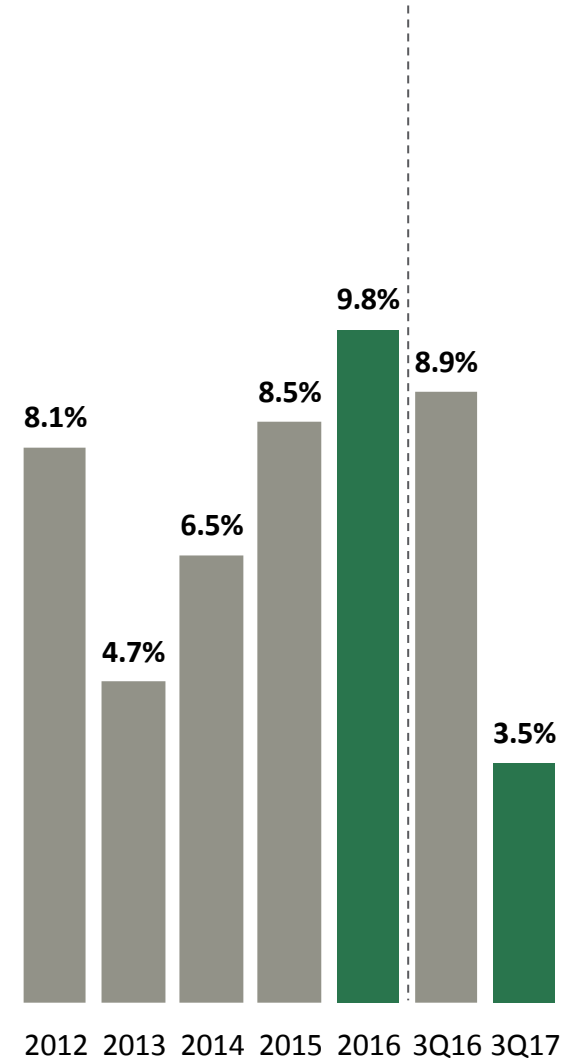
Consolidated Revenue Growth



Same Store Sales Growth\*



Mature Stores Growth\*



\* Only considers retail.



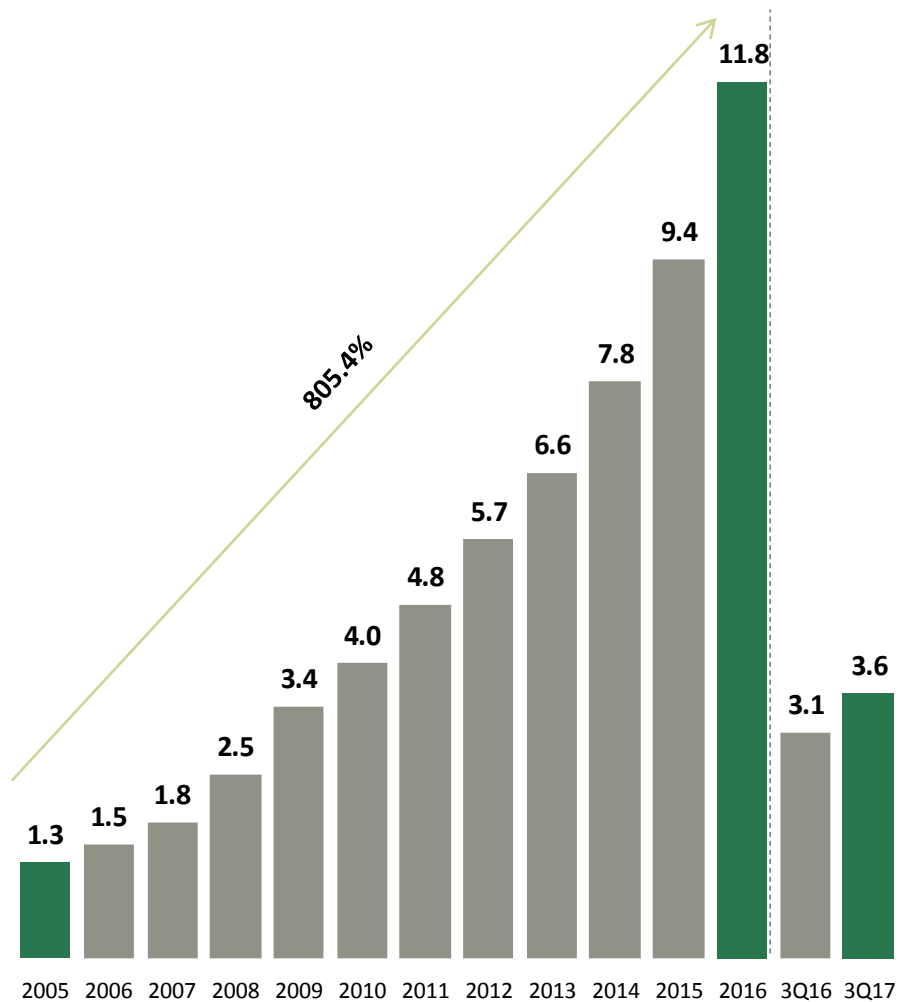
# PHARMACEUTICAL PRODUCTS HAVE BEEN THE HIGHLIGHT



Maintaining a very strong growth pace in an unfavorable macro scenario

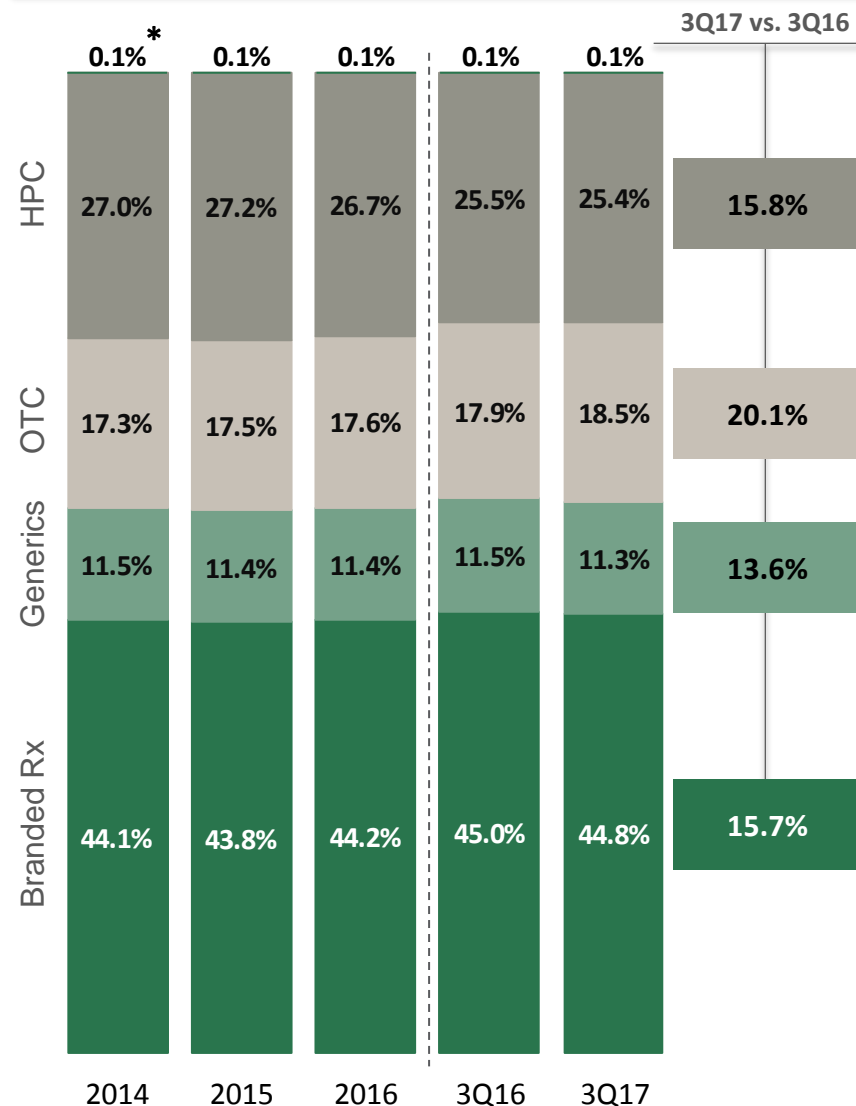
## Consolidated Gross Revenue

R\$ million



\* Services

## Retail Sales Mix

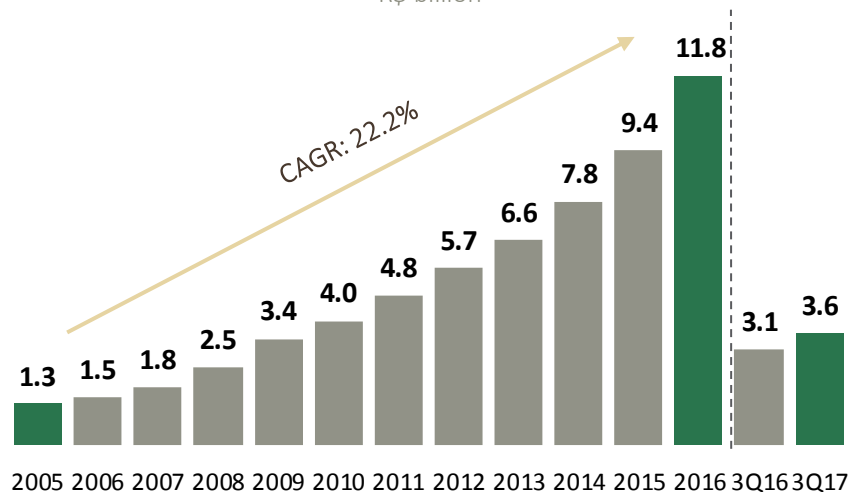


# DELIVERING ACCELERATED LONG-TERM GROWTH WITH MARGIN EXPANSION\*



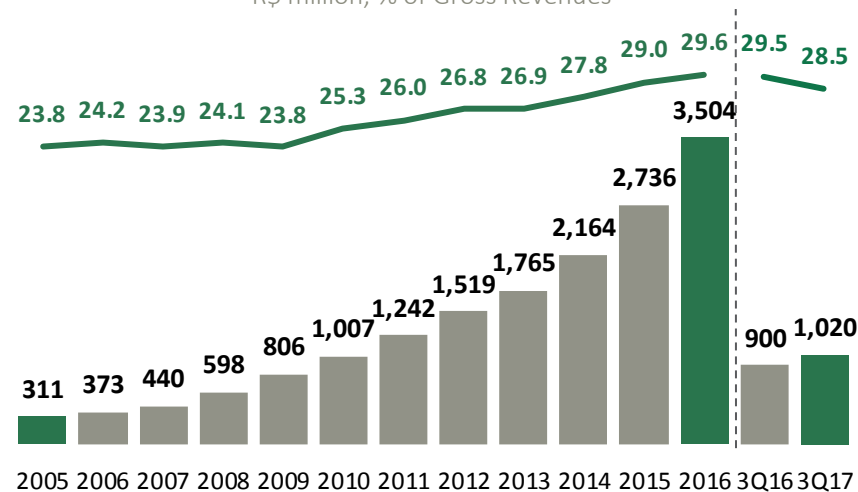
## Gross Revenues

R\$ billion



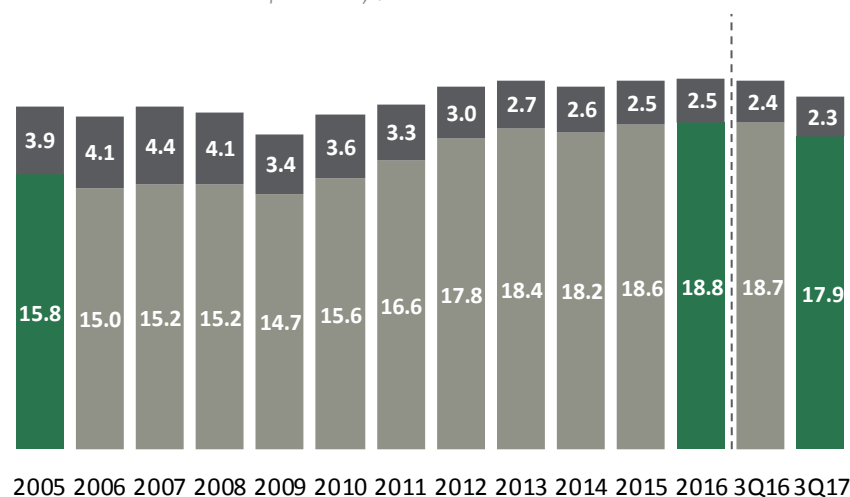
## Gross Profit

R\$ million, % of Gross Revenues



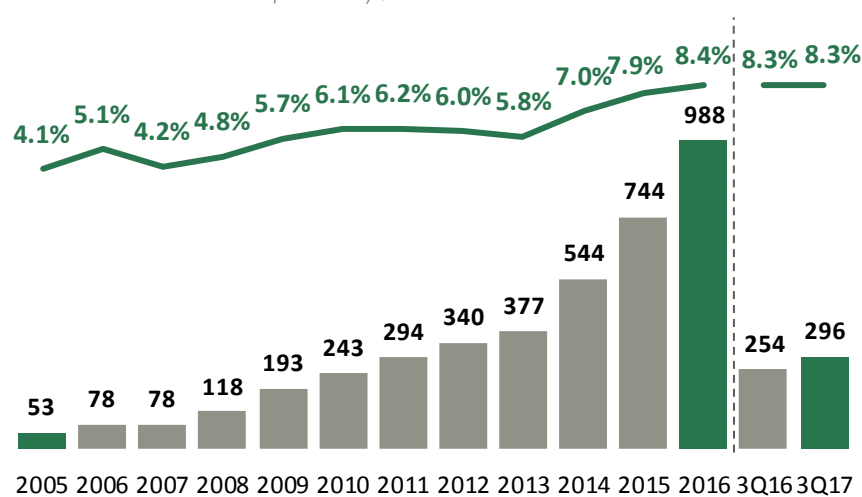
## Operational Expenses

R\$ million, % of Gross Revenues



## EBITDA

R\$ million, % of Gross Revenues



■ Sales Expenses ■ G&A

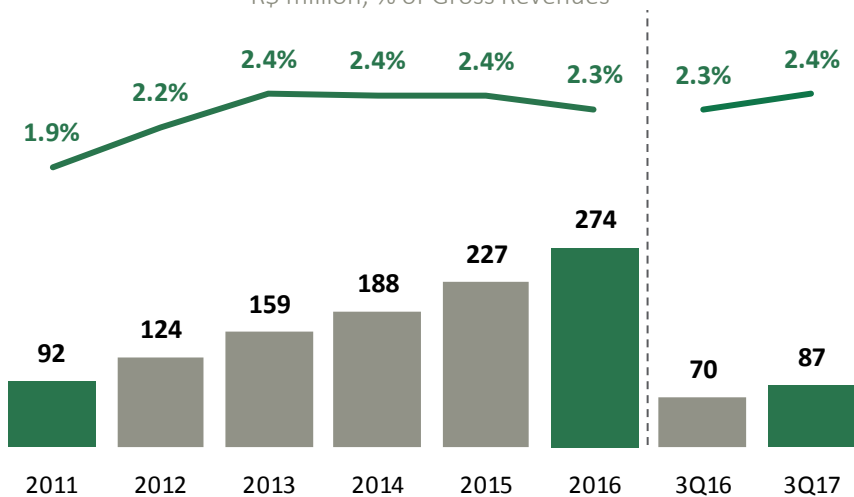
\* Considers 4Bio on a Pro-forma Basis.

## EXPANDING NET MARGIN\*



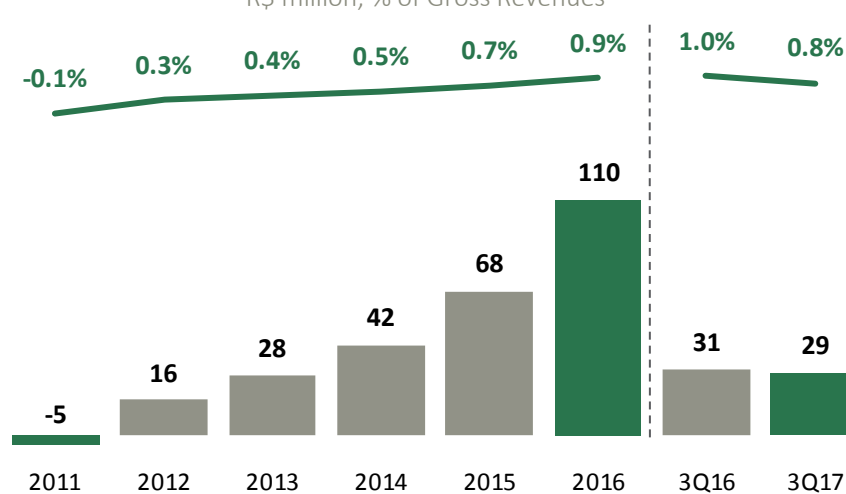
### Depreciation

R\$ million, % of Gross Revenues



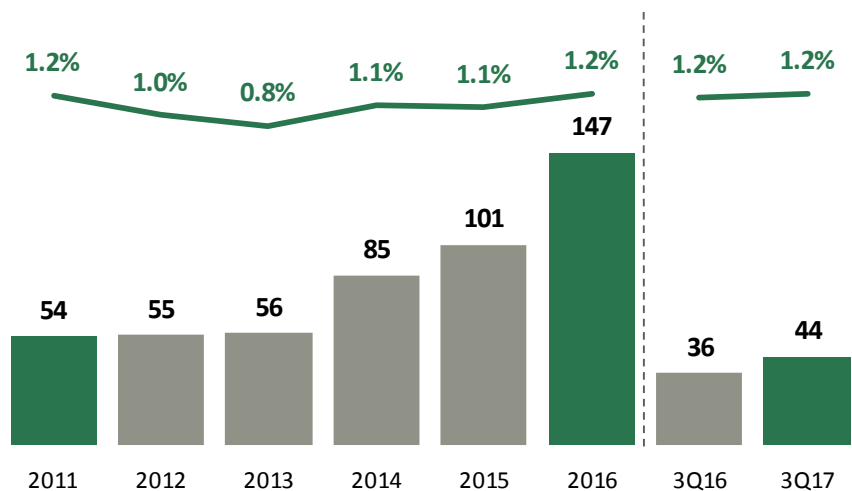
### Net Financial Expenses

R\$ million, % of Gross Revenues



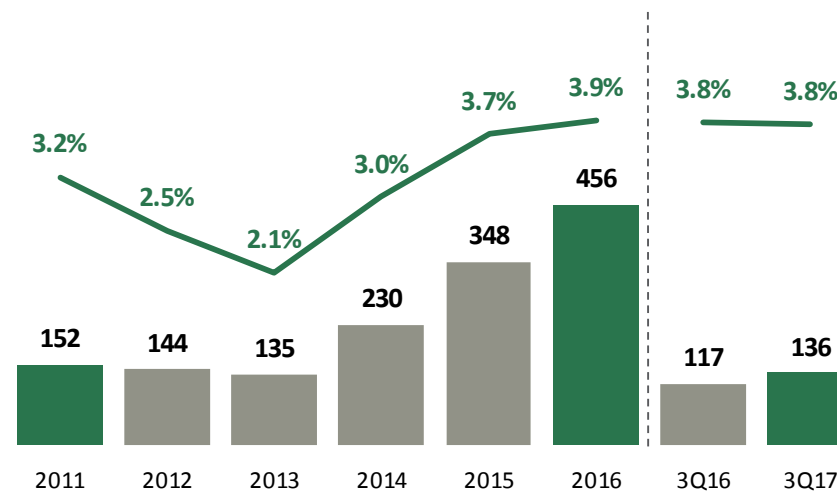
### Income Tax

R\$ million, % of Gross Revenues



### Adjusted Net Profit

R\$ million, % of Gross Revenues



\* Considers 4Bio on a Pro-forma Basis.

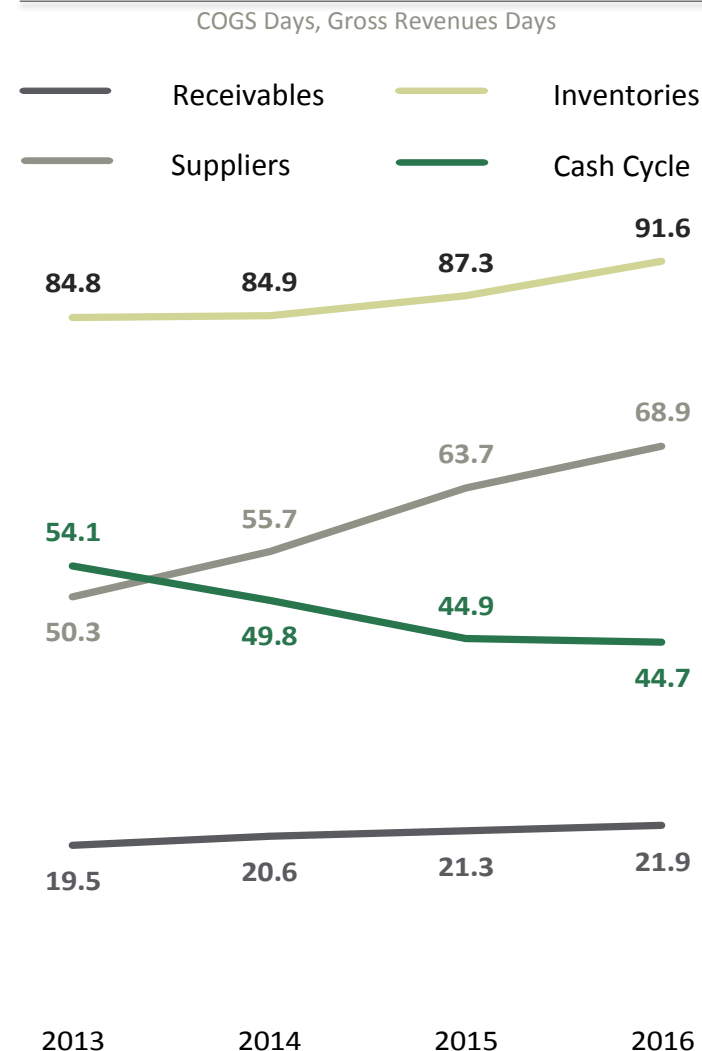
## POSITIVE FREE CASH FLOW EVERY YEAR SINCE 2013



### Cash Flow

<b>Cash Flow</b> (R\$ million)	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Adjusted EBIT</b>	<b>218.0</b>	<b>356.7</b>	<b>516.5</b>	<b>713.2</b>
NPV Adjustment	(15.7)	(33.6)	(53.2)	(67.3)
Non-Recurring Expenses	(48.5)	(9.5)	(10.0)	(7.7)
Income Tax (34%)	(52.3)	(106.6)	(154.1)	(217.0)
Tax Shield from Goodwill Amortization	22.3	42.8	42.8	42.8
Depreciation	158.9	187.8	227.1	274.4
Others	24.7	8.4	(3.5)	12.9
<b>Resources from Operations</b>	<b>307.4</b>	<b>446.0</b>	<b>565.5</b>	<b>751.4</b>
Cash Cycle*	(110.6)	(116.6)	(92.8)	(258.4)
Other Assets (Liabilities)	85.2	(4.1)	(10.2)	31.0
<b>Operating Cash Flow</b>	<b>282.1</b>	<b>325.3</b>	<b>462.5</b>	<b>524.0</b>
<b>Investments</b>	<b>(237.1)</b>	<b>(271.2)</b>	<b>(388.7)</b>	<b>(489.1)</b>
<b>Free Cash Flow</b>	<b>44.9</b>	<b>76.4</b>	<b>73.8</b>	<b>34.9</b>
Interest on Equity	(29.3)	(41.5)	(121.3)	(153.3)
Income Tax Paid over Interest on Equity	(5.3)	(10.6)	(25.3)	(27.0)
Net Financial Expenses	(12.2)	(8.5)	(12.2)	(42.1)
Share Buyback	-	(20.9)	-	-
Income Tax (Tax benefit over financial expenses and interest on equity)	22.7	28.3	65.1	80.5
<b>Total Cash Flow</b>	<b>20.8</b>	<b>0.9</b>	<b>(19.9)</b>	<b>(107.0)</b>

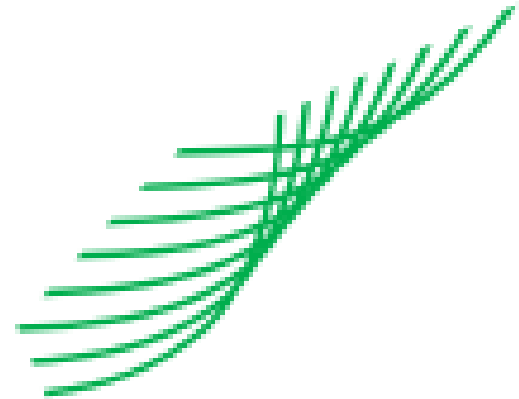
### Cash Cycle\*



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



***IBOVESPA***



***Índice  
Brasil 50*** ***IBRX 50***

- 1 Largest, Fastest Growing and Best Positioned Player in the Industry
- 2 Transformational Market Growth for 15 Years Driven by the Aging of the Population
- 3 Leading the Drugstore Industry's Consolidation
- 4 Unique Assets and Competencies: Brands, Locations, Platforms, Formats & People
- 5 Reinventing the Execution for the Next 15 Years
- 6 Proven Track Record of Accelerated Organic Growth with Margin & ROIC Expansion