

Raia Drogasil S.A.

An Industry Leader with an Unparalleled Combination of Scale, Efficiency and Financial Flexibility

Morgan Stanley Latin America Executive Conference – January 4th-6th, 2012

Disclaimer

This presentation has been prepared for internal use only in order to allow a better market understanding regarding the details of the association between Raia S.A. and Drogasil S.A. (“Transaction”), and was based on assumptions made by the management of Raia and Drogasil, as well as on evidences that make these the most likely scenarios.

Future expectations related to this presentation shall consider the risks and uncertainties that involve any activities and transactions, and that are beyond the control of the companies involved in this Transaction (including, but not limited to, political and economic changes, volatility in the exchange and interest rates, technological changes, inflation, financial disintermediation, competitive pressure over products and prices, changes in corporate and tax regulation, and also the approval of the Transaction by Raia and Drogasil’s Shareholders’ Meetings, and/or by relevant authorities). Therefore, any forward-looking statements or projections contained herein may materially differ from the actual future results of the companies and their businesses.

This material is not intended to be the basis for assessing the performance of Raia and/or Drogasil in connection with the Transaction, nor is it intended to contain all the information necessary for such assessment. It does, however, reinforce Raia and Drogasil’s strong commitment to transparency and the cementing of close investor relations.

This presentation does not substitute or alter any information available in the terms of the current legislation and applicable law.

Presenters

Eugênio De Zagottis

IR VP – Raia Drogasil

- **Former IR & Commercial VP of Droga Raia, with 11 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**

Leonardo Corrêa

Investor Relations

- **Former Corporate Planning Director and IR at Droga Raia. Worked previously at Johnson & Johnson, Pfizer and Kraft Foods**
- **MBA from Insper (IBMEC - SP), B.S. in Economics from UFRJ**

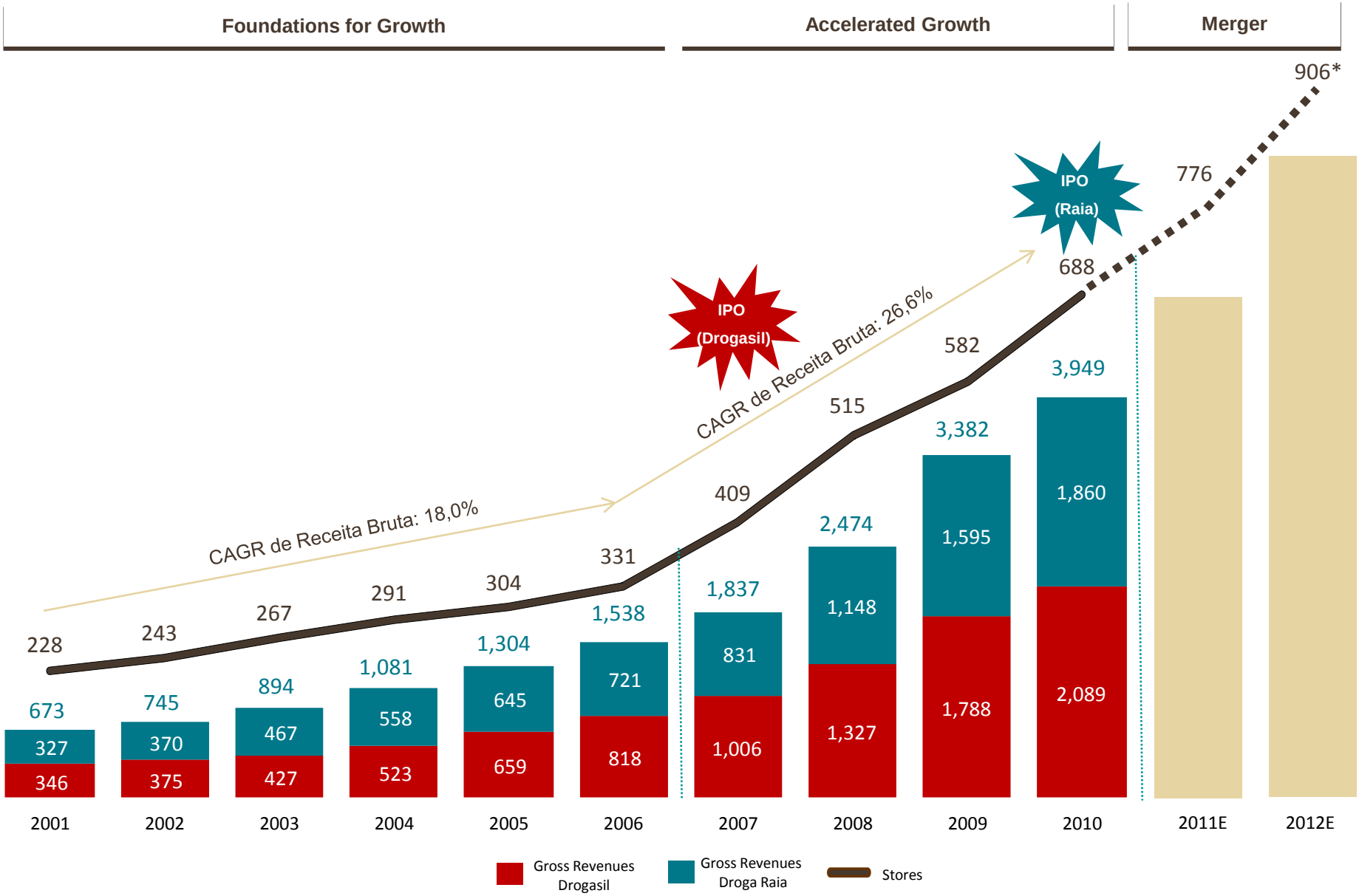
Raia Drogasil S.A.

- Merger of equals between Raia S.A. and Drogasil S.A., two leading Brazilian drugstore chains with 181 years of combined history, with shared control by majority shareholders who are members of the founding families;
- 776 stores in 9 states of Brazil, which represent 80% of the Brazilian pharmaceutical market, and a national market share of only 8.7% (Sep'11);
- R$ 4.5 billion in revenues, R$ 248 MM of EBITDA and R$ 129MM of net income (Sep'11 - last twelve months);
- Differentiated business model with a dual brand strategy, high returns on invested capital, and strong potential synergies and economies of scale to be captured;
- Strong organic growth & acquisition track record, with a combined net addition of more than 445 stores since 2007, a significant increase over the 331 stores at the end of 2006;
- Unparalleled combination of scale, efficiency and financial flexibility in the Brazilian drugstore industry.





Proven Growth Track Record



* Assumes our gross store opening guidance, disregarding eventual store closings that may happen until the end of the year.

Contents of the Presentation

1 Raia Drogasil S.A. – Creating an Industry Leader with an Unparalleled Combination of Scale, Efficiency and Financial Flexibility

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4 Proven Track Record in Delivering High Growth with Margin Expansion

Largest and Most Profitable Player in the Industry

Number of Stores (2010)		Stores
1°	**Raia Drogasil**	**689**
2º	Pacheco São Paulo	682
3º	Brazil Pharma[1]	438
4º	Pague Menos	400

Gross Revenue (Pro-Forma – 2010)		Revenue (R$ million)
1º	Pacheco São Paulo	4,166
2°	**Raia Drogasil**	**3,949**
3º	Pague Menos	2,235
4º	Brazil Pharma[1]	1,633

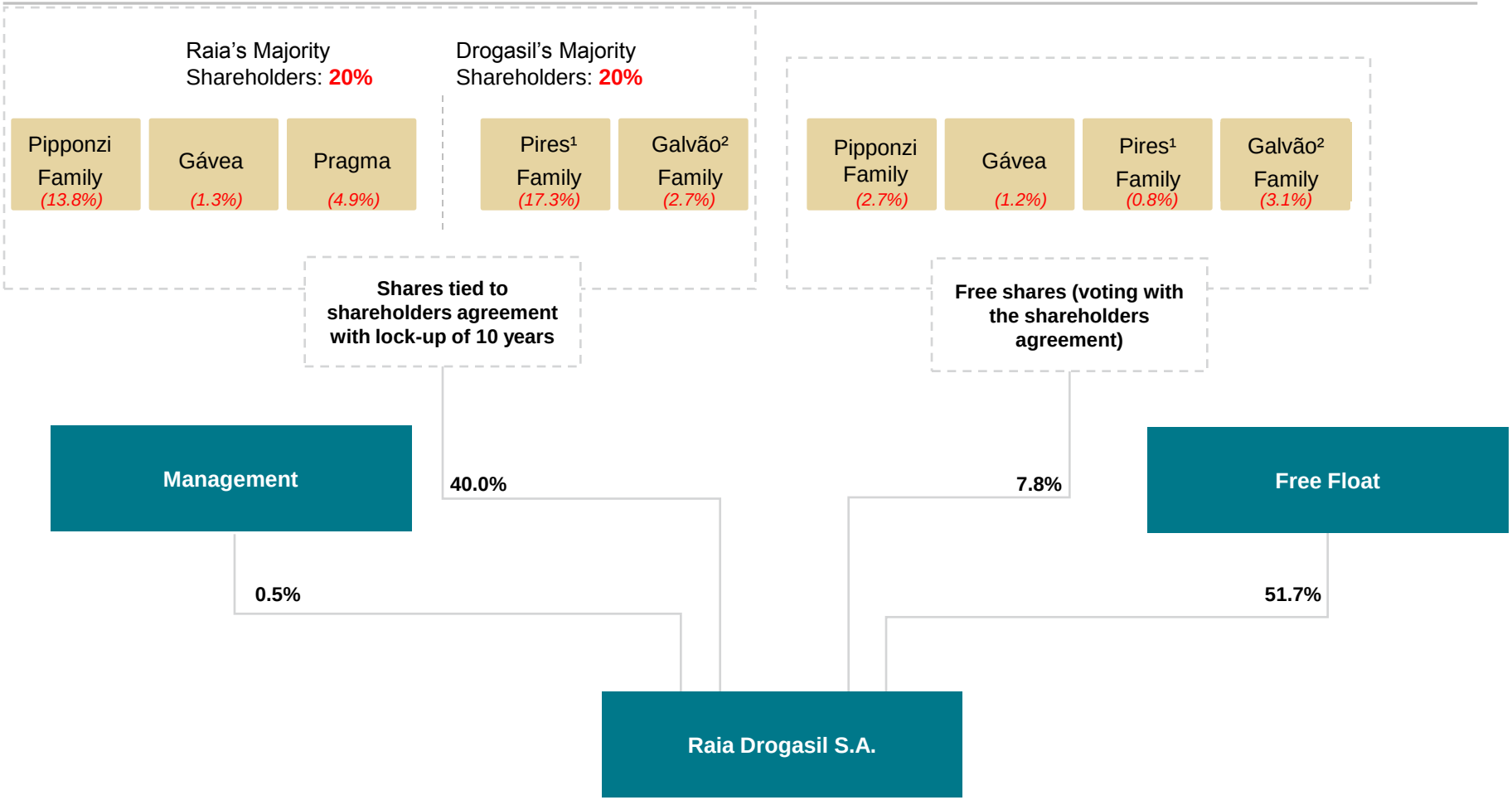
EBITDA (Pro-Forma – 2010)		EBITDA (R$ million)
1°	**Raia Drogasil**	**219**
2º	Pacheco São Paulo	166
3º	Pague Menos	145
4º	Brazil Pharma[1]	84

Source: Companies, ABRAFARMA and Exame Maiores e Melhores 2011 magazine
Note:
1 According to research reports and the management presentation on Big Ben
2 According to Revista Exame Maiores e Melhores 2011 magazine

Unparalleled Combination of Scale, Efficiency and Financial Flexibility

Operational Highlights (Sep/11)	Raia	Drogasil	Raia Drogasil
High Scale			
Number of Stores (Sep/11)	384	359	**743**
Gross Revenue (R$ millions, LTM[1])	2,187	2,320	**4,507**
Geographic Presence (Sep/11)	MG, RJ, SP, PR, SC, RS	DF, ES, GO, MG, RJ, SP	**SP, RJ, MG, PR, RS, SC, DF, GO, ES**
Number of employees (Sep/11)	8,316	7,962	**16,278**
Sale Area (m2 – Sep/11)	56,766	47,876	**104,642**
High Operating Efficiency			
Gross Profit (% of Gross Revenue, LTM)	564 25.8%	593 25.6%	**1,157** **25.7%**
EBITDA (% of Gross Revenue, LTM)	106 4.8%	142 6.1%	**248** **5.5%**
Net Income (% of Gross Revenue, LTM)	45 2.1%	84 3.6%	**129** **2.9%**
High Financial Flexibility			
Equity (Sep/11)	636	634	**1,270**
Cash and Equivalents (Sep/11)	230.1	170.2	**400.2**
Net Cash (Sep/11)	151.0	91.5	**242.5**

Controlled by Shareholders who are Members of the Founding Families



- Joint control by the majority shareholders of both companies, who will always have the same number of shares tied to the shareholders agreement during its whole term (10 years)
- Tied shares are subject to a 10-year lock-up, which will be progressively reduced to represent 30% of the current stock capital after the fifth anniversary of the agreement.

Note:
1 Carlos Pires Oliveira Dias and Regimar Comercial S.A.
2 Tantra Participações Ltda

Strong Management Team and Corporate Governance Standards

Strong Governance, Aligned Management Incentives

- Active Supervisory Committees (Operations, Expansion, Human Resources and Audit) reporting to the Board
- Stock-option plan for Senior Executives

Qualified Management Team

Name *Position*	Age	Past Experience	Years in the Industry
Cláudio Roberto Ely *CEO*	62	Drogasil, Banco Ger. Com, Grupo C. Correa	14
Eugênio De Zagottis *VP – Investor Relations*	41	Droga Raia, McKinsey,	12
Ricardo Castro Azevedo *VP - Finance*	63	Drogasil, Banco Multiplic	15
Fernando Kozel Varela *VP - Operations*	41	Droga Raia, Arthur Andersen	16
Marcello De Zagottis *VP – Commercial*	36	Droga Raia, Borders Bookstores	8
Rosangela Lutti *VP – Human Resources*	56	Droga Raia, Contax, Bunge, Camargo Correa	2
Antonio Carlos de Freitas *VP – Retail*	61	Drogasil, Unibanco	13

Board Members

Name *Position*	Experience
Antonio C. Pipponzi ***Executive Chairman***	• Former Chairman and CEO of Raia S.A. (1984 – 2011), 35 years of industry experience
Plinio Musetti *Board Member*	• Partner of Pragma Patrimônio and former Chairman of Raia S.A. • Former partner of J.P. Morgan Partners
Franco Pipponzi *Board Member*	• Former Director and executive of Raia S.A. • Former Director of Zambelletti Pharmaceutical Company
Carlos Pires de O. Dias *Board Member*	• Former Chairman of Drogasil • Director of several companies of the Camargo Correa Group
Renato Pires de O. Dias *Board Member*	• Former Director of Drogasil S.A.
Paulo Sérgio C. Galvão *Board Member*	• Former Director of Drogasil S.A. • Director of Klabin S.A.
José Paschoal Rossetti *Independent Board Member*	• Director of Grupo Fleury and Boticário • Professor of Fundação Dom Cabral • Consultant on Strategy and Governance
Itamar Correia Silva *Independent Board Member*	• Former Director of Raia S.A. • Director of J. Macedo, former executive of Natura and Unilever
Jairo E. Loureiro *Independent Board Member*	• Director of Planibank Investimentos and of Hypermarcas • Former director of Drogasil S.A.

Post Merger Integration with Support of Reputable Consulting Companies

Integration Office	• Coordination of the activities and of the timetable for the PMI • Communication, culture & change management • Synergy mapping and tracking • ***Advised by McKinsey & Company***
System Selection	• Assessment of the existing IT platforms of Raia and Drogasil • Definition of the systems to be adopted • ***Advised by McKinsey & Company***
Definition of the Organizational Structure and Processes	• Assessment of the current organizational structures and processes • Definition of the new organizational structure and processes • ***Advised by McKinsey & Company***
Purchasing & Trade Marketing Integration	• Alignment of the existing purchasing and trade marketing terms • Definition of a win-win commercial policy to improve our purchasing terms by incentivizing high margin & high performance suppliers • ***Advised by McKinsey & Company***
Branding Strategy	• Assessment of the current brand essences, identities and customer profiles • Definiton of the new brand positioning for Droga Raia & Drogasil • Definition of the the new corporate essence, identity & brand • ***Advised by Thymus Branding***
Compensation Alignment	• Assessment of the existing career and compensation programs • Development of a new career program and compensation policy • Realignment of allemployees under the new career program and compensation policy • ***Advised by the Hay Group***

Source: Companies

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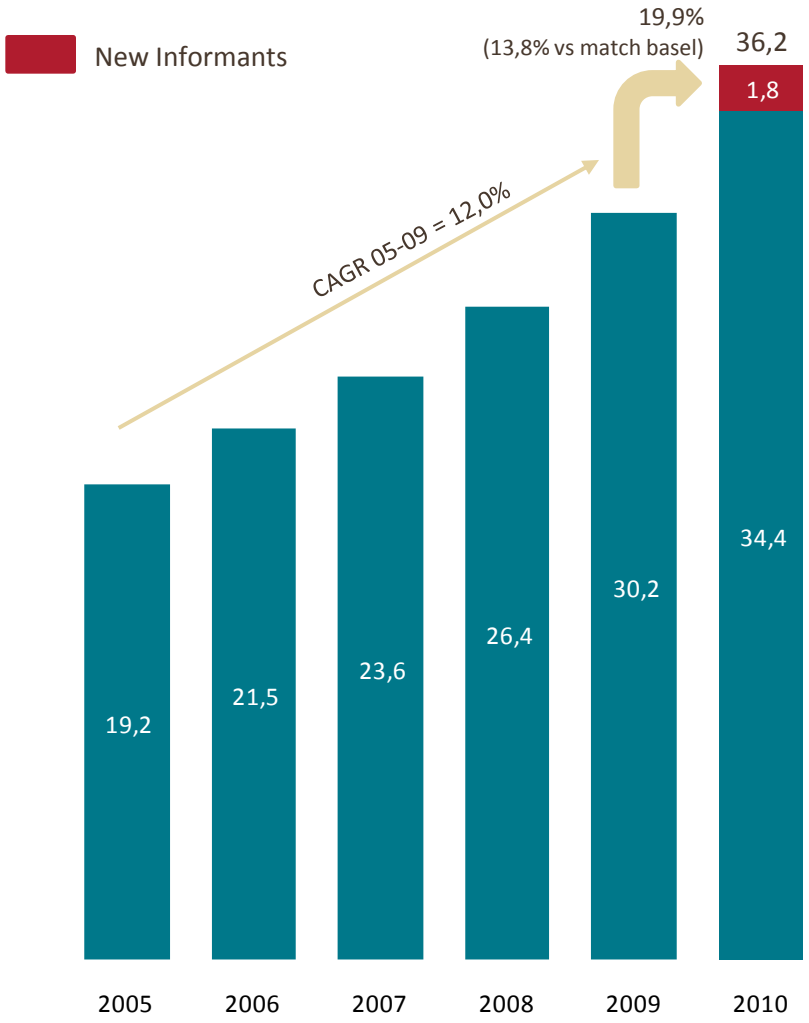
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Accelerated Pharmaceutical Market Growth

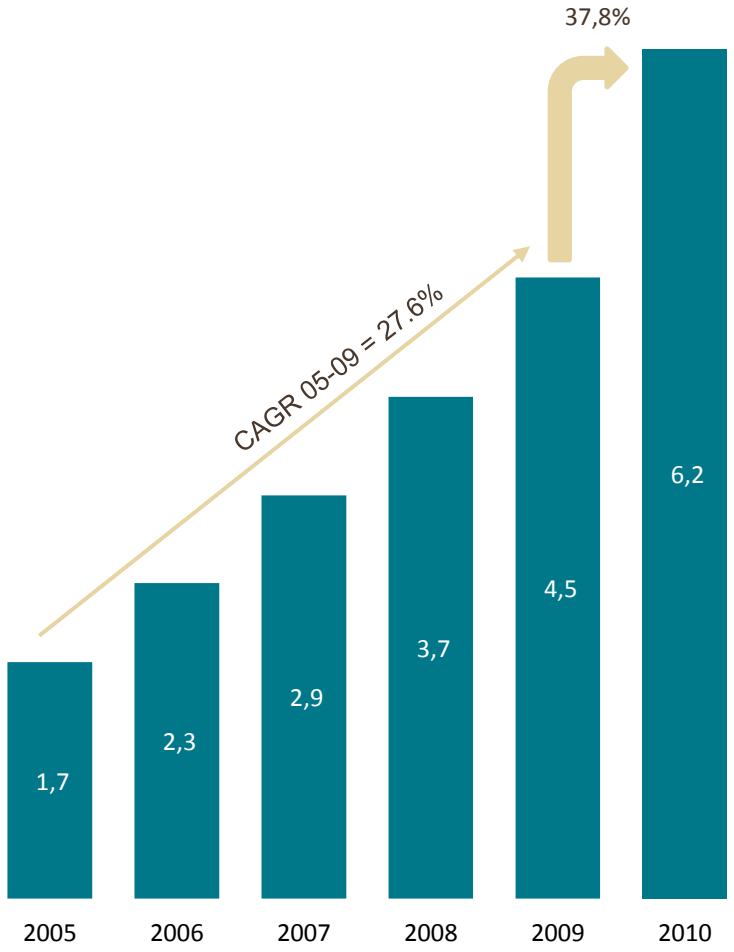
Pharmaceutical Market

(R$ Billion)



Generics Market

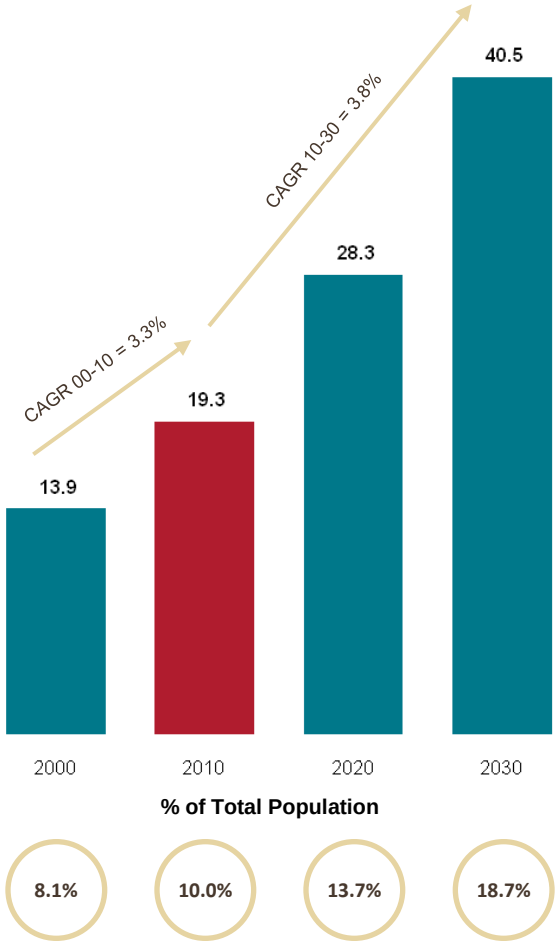
(R$ Billion)



Favorable Demographic and Macroeconomic Trends

Brazilian Population above 60 years old

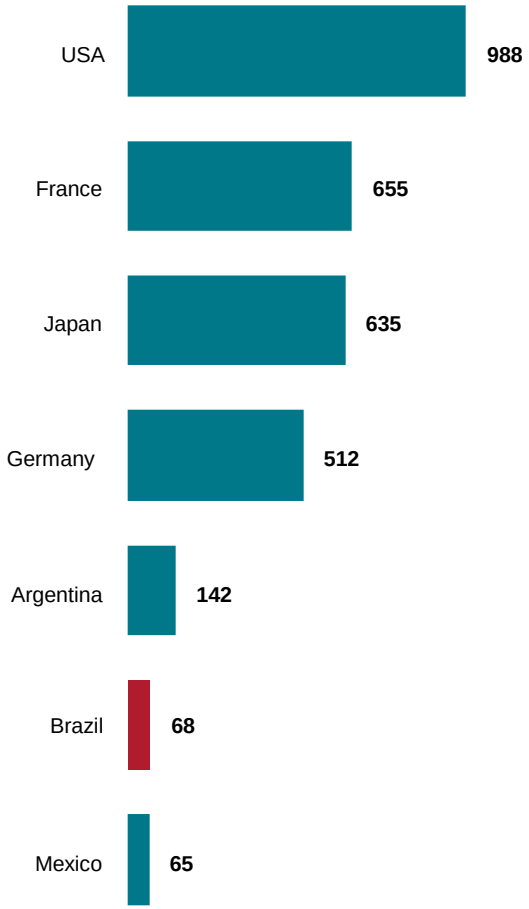
(Million of people)



Source: IMS Health

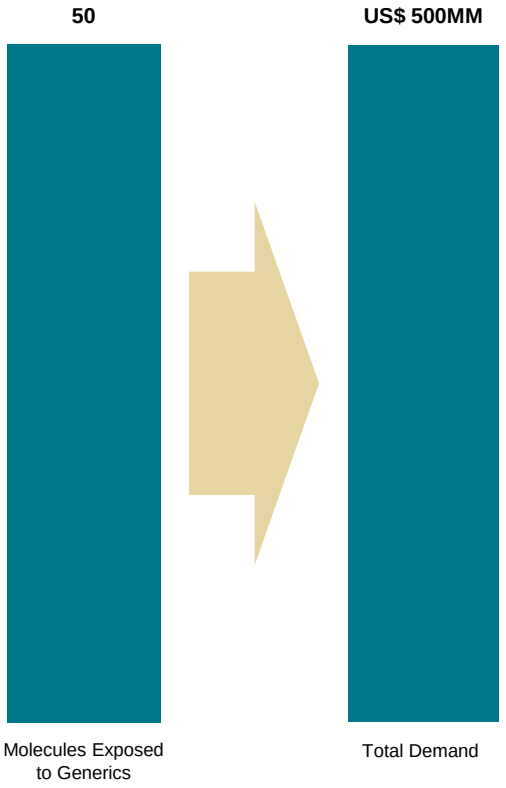
Annual per Capita Pharma Spending Selected Countries

(US$ in 2009)



Source: IMS Health, Population Reference Bureau 2009

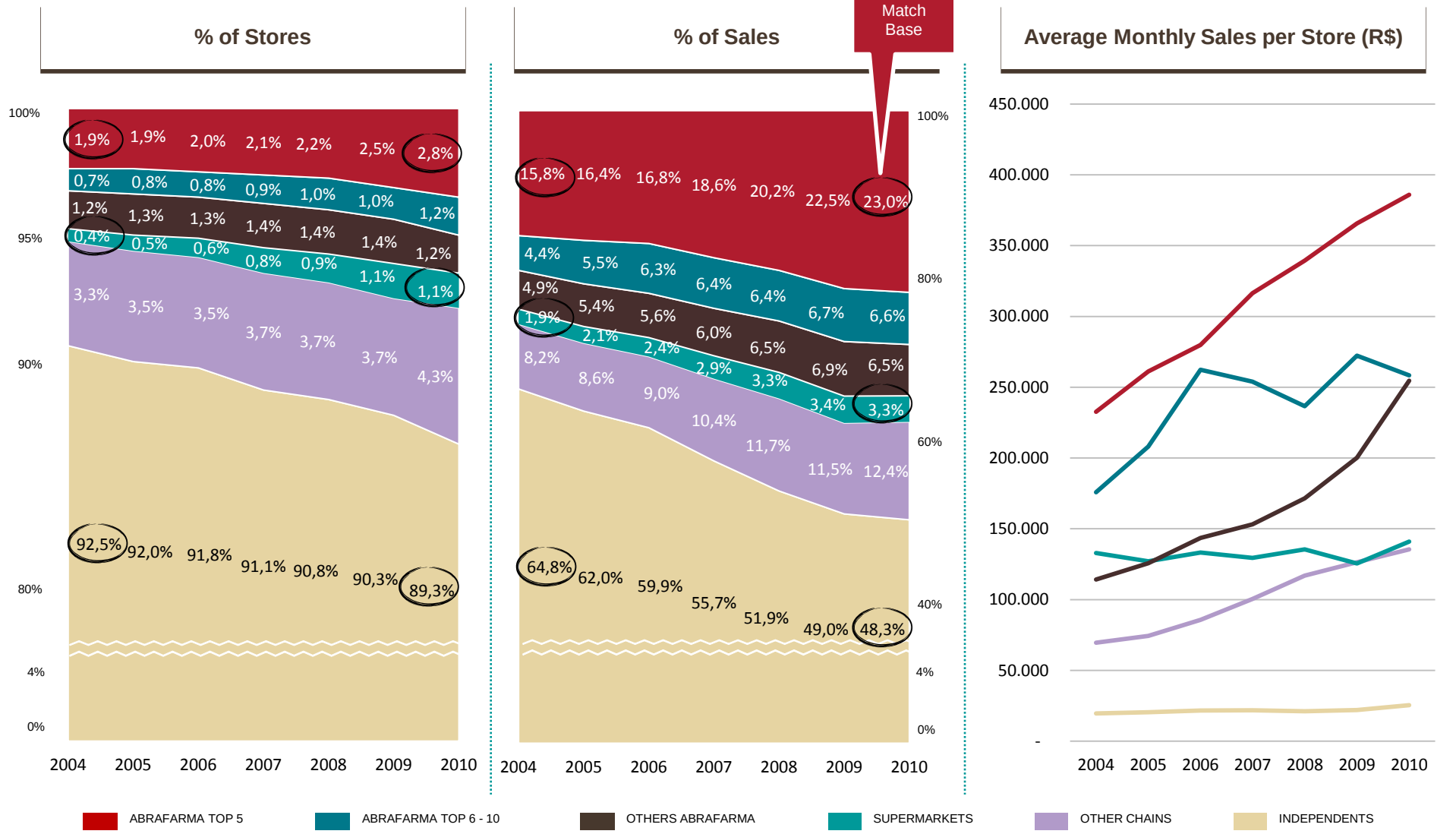
Products Losing Patents* 2010 to 2012



* Lipitor (Pfizer), Viagra (Pfizer), Diovan (Novartis), Crestor (Astra Zeneca), Atacand (Astra Zeneca), Zyprexa (Lilly), Seroquel (Astra Zeneca), Singulair (MSD), Micardis (Boehringer), Benicar (Sankyo), Aprozide (Sanofi), Aprovel (Sanofi), Others

Source: IMS Health

Fragmented Drugstore Market

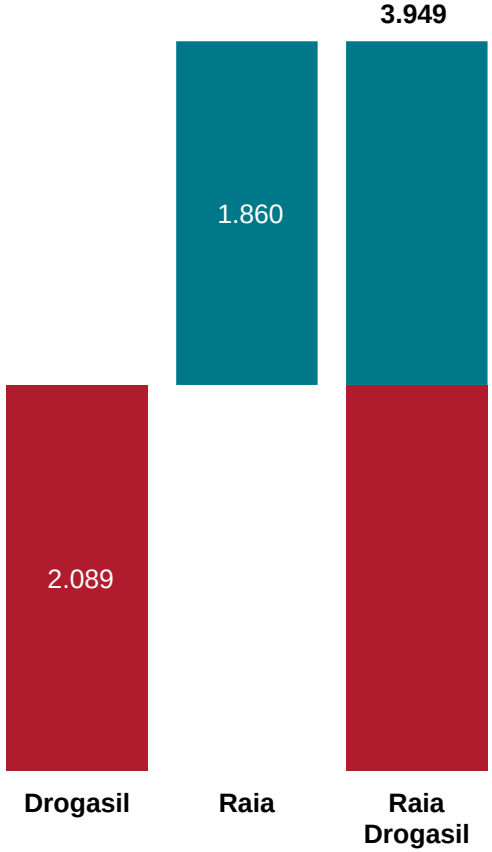


Source: IMS Health and Abrafarma

Recent Industry Consolidation

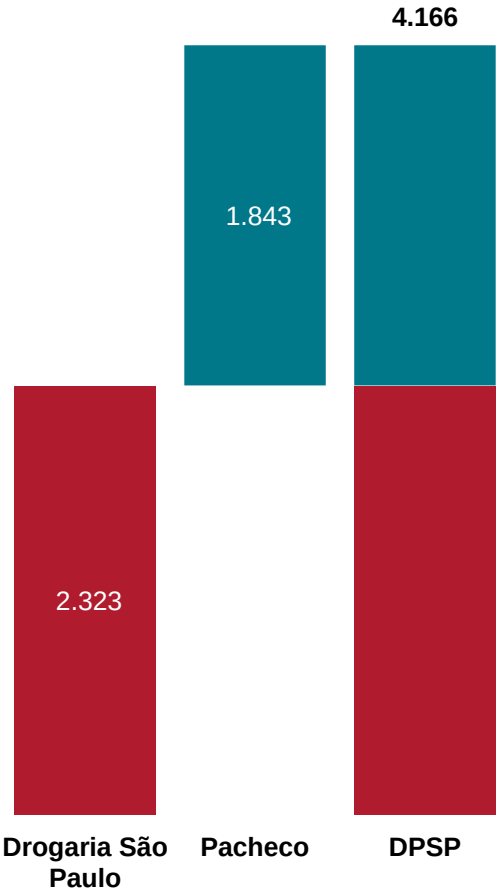
Raia Drogasil S.A.

(Pro Forma Gross Revenues - 2010)



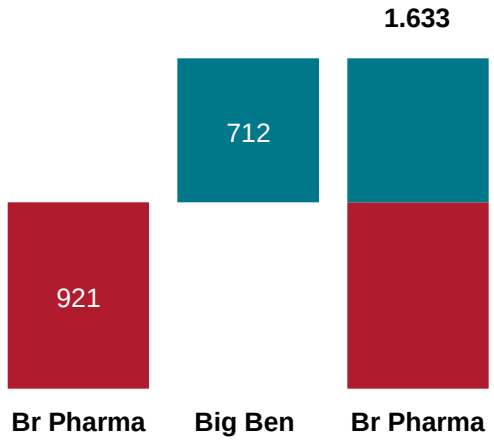
Drogarias DPSP S.A.

(Pro Forma Gross Revenues - 2010)



Brazil Pharma S.A.

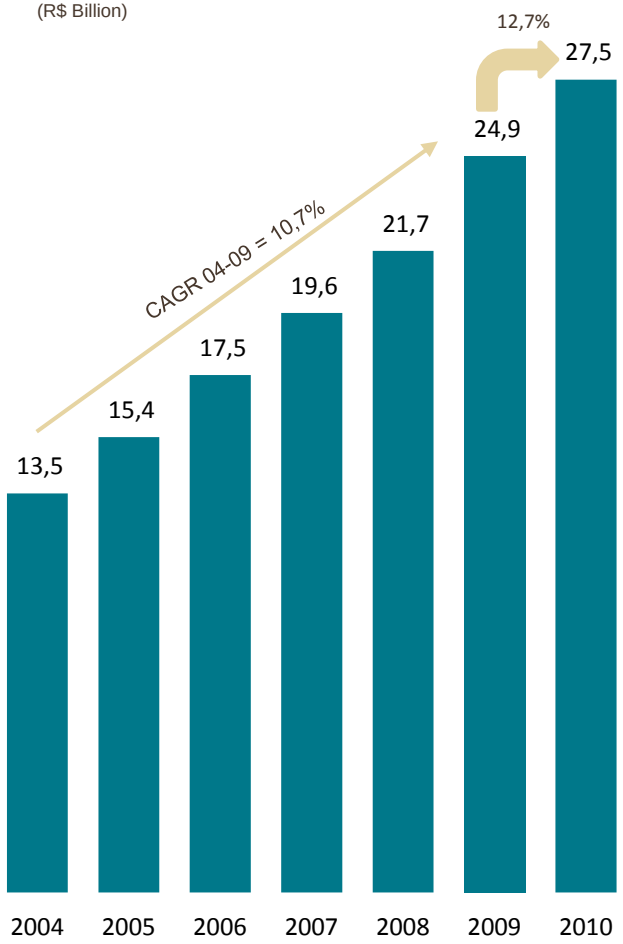
(Pro Forma Gross Revenues - 2010)



Accelerated Growth in HPC, with Shifting Share Towards Drugstore Chains

HPC Market

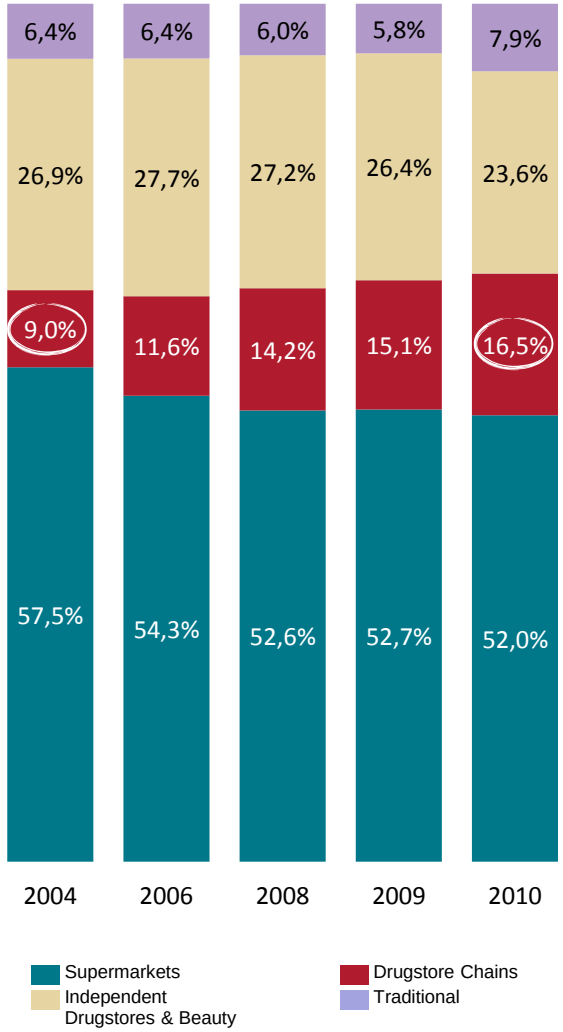
(R$ Billion)



Source: ABIHPEC

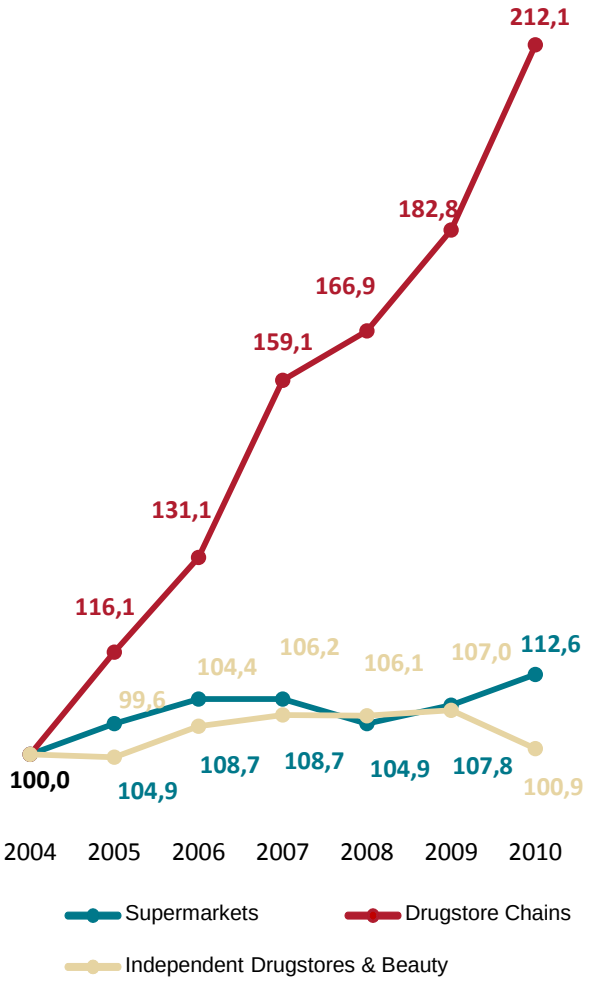
Market Share by Channel

(% of Weighted Volumes)



HPC Growth by Channel – Weighted Volumes

Index: 2004 = 100



Source: AC Nielsen, Company analysis

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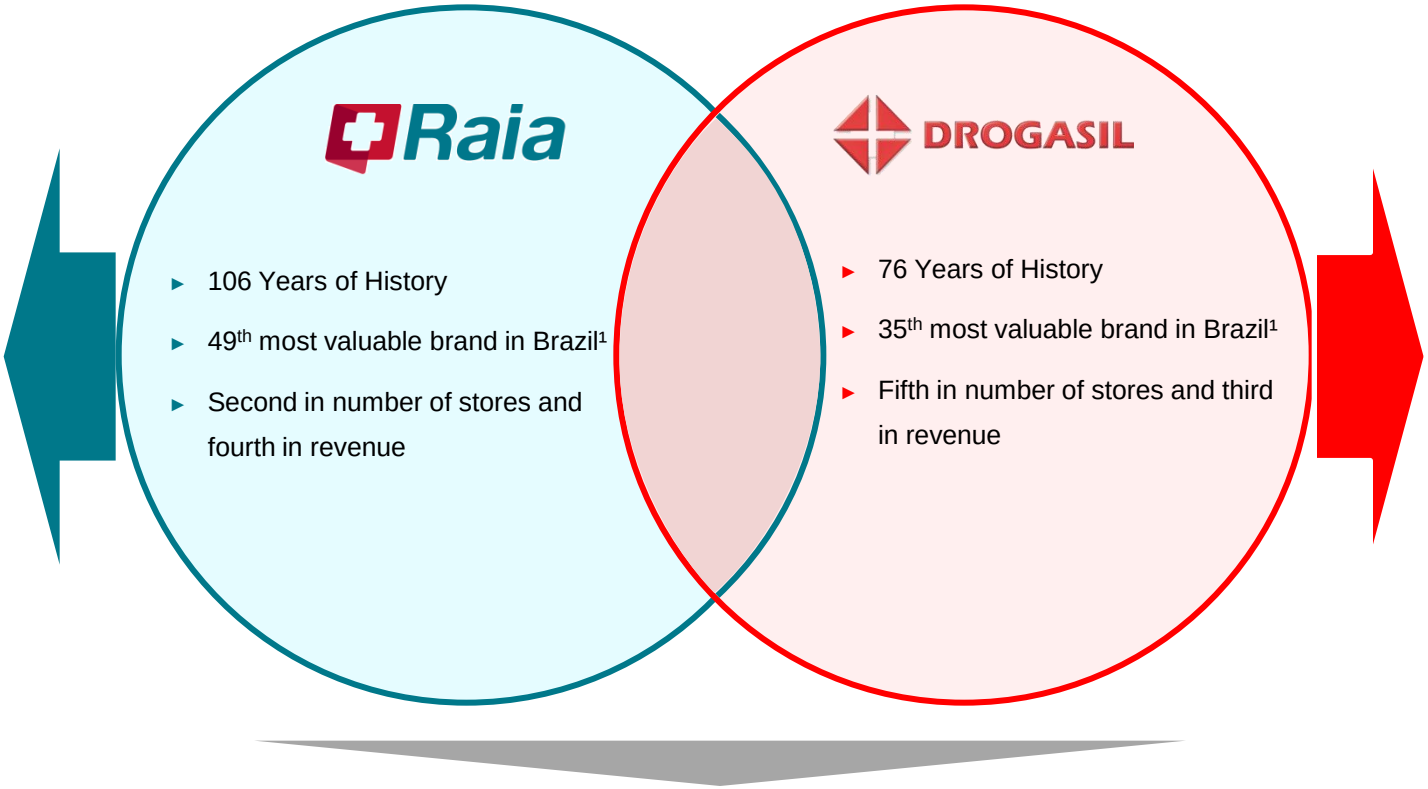
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Leading Brands with Strong Identities and Coordinated Strategies

Coordinated brand strategies: differentiation of consumer targets and store formats



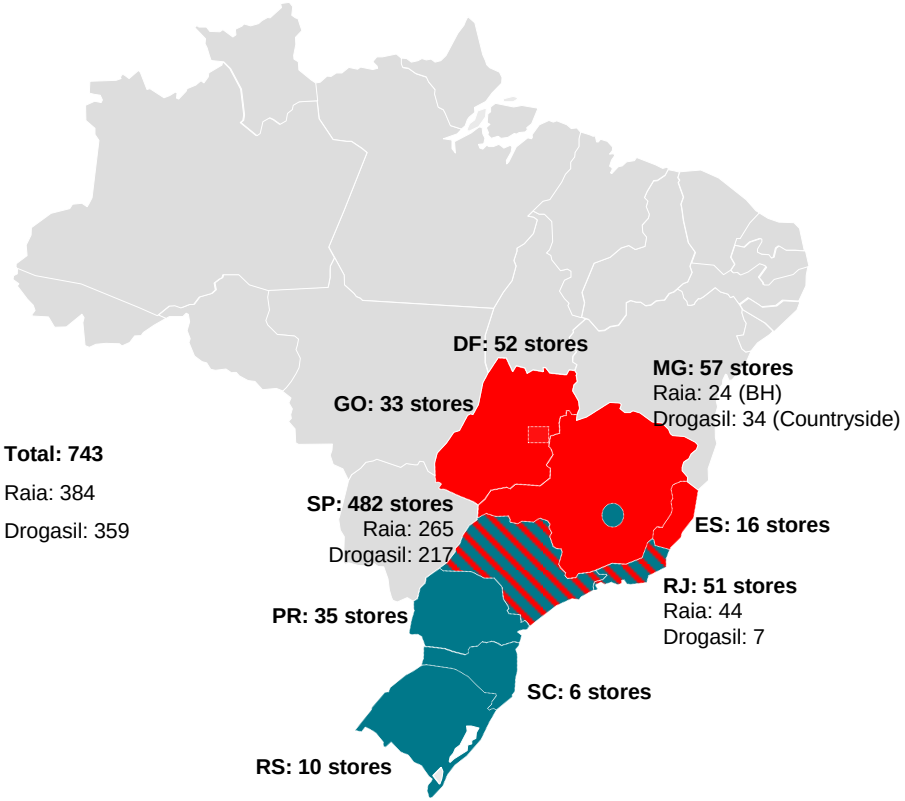
✓ Maintenance of existing customers who have a preference for a specific brand

✓ Addition of new customers by differentiating the value proposition of the brands

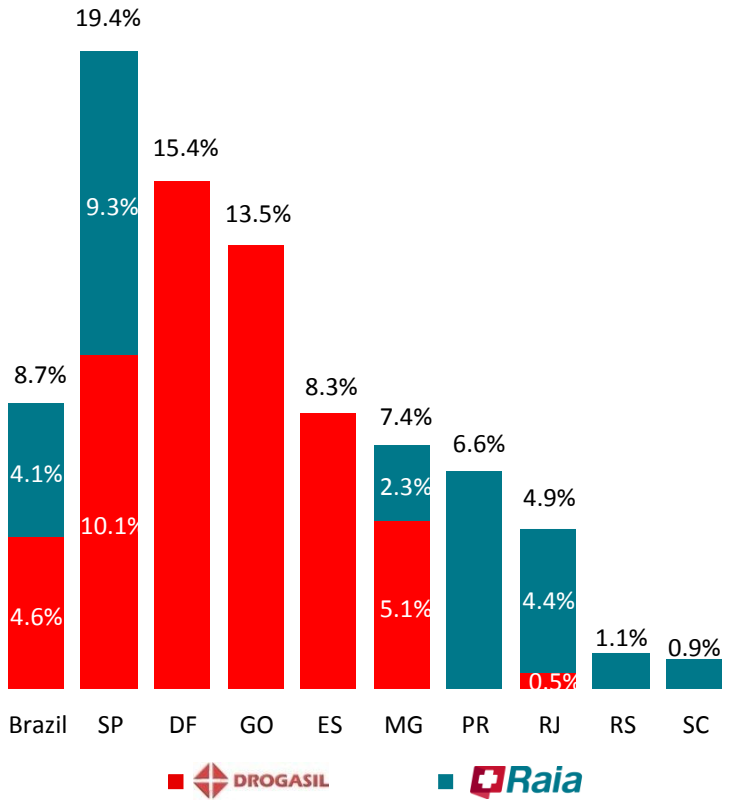
Note:
1 Joint survey by ISTOÉ DINHEIRO and BrandAnalytics/Millward Brown, in 2011

Strong Geographic Fit with High Growth Potential

Geographic Presence (Sep/2011)



Market Share by State (Sep/2011) [1]



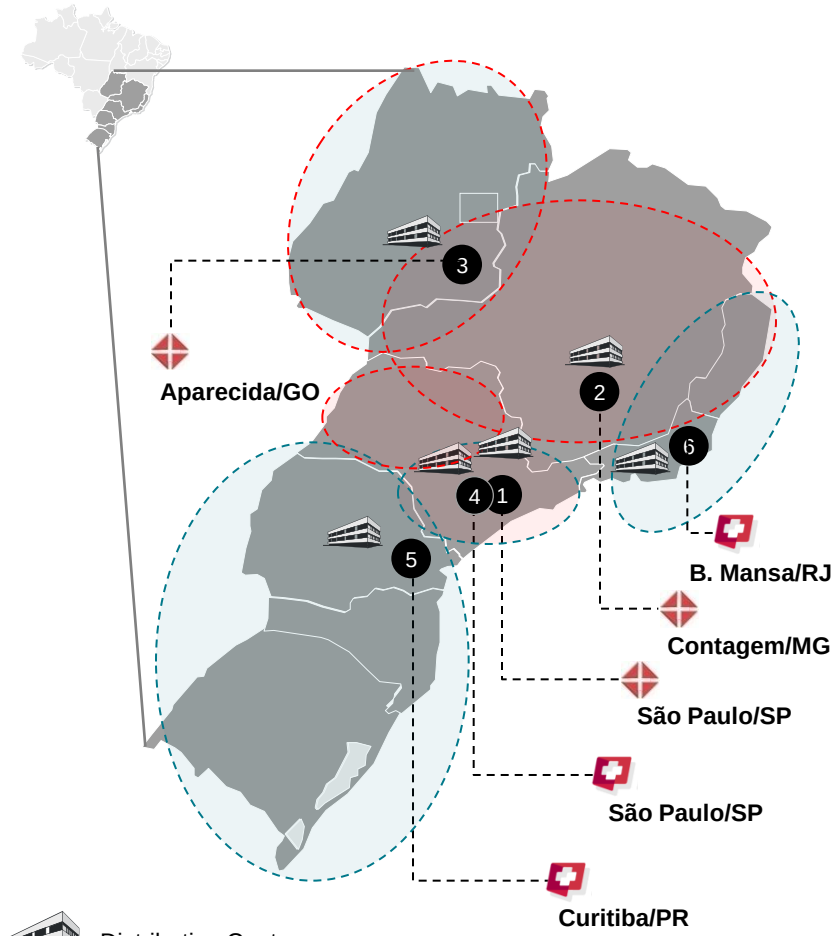
- Presence in states that comprise 78% of the Brazilian pharmaceutical market
- Established platform to grow into new markets

Source: Companies

[1] Note: Market share according to IMS Health, for the month of September, 2011

Decentralized and Complementary Distribution Structure

Distribution Centers



Source: Companies

1
- Drogasil DC in São Paulo (SP)
- Area: 17,000 m²

2
- Drogasil DC in Contagem (MG)
- Area : 6,200 m²

3
- Drogasil DC in Aparecida (GO)
- Area : 12,600 m²

4
- Raia DC in São Paulo (SP)
- Area : 19,000 m²

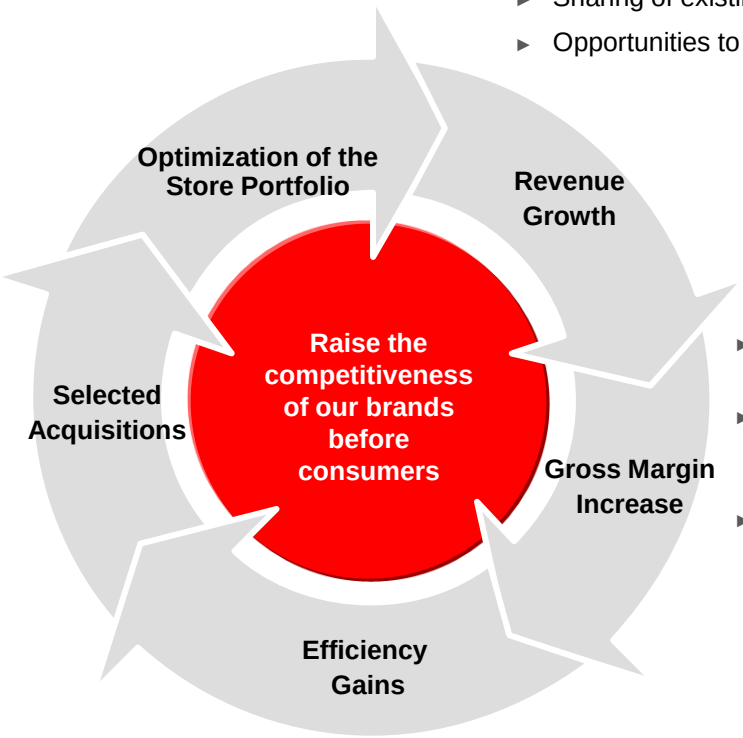
5
- Raia DC in Curitiba (PR)
- Area : 6,000 m²

6
- Raia DC in Barra Mansa (RJ) – to be opened
- Area : 8,000 m²

Competitive Gains by Capturing Hard and Soft Synergies

- Coordinated growth in existing markets
- Accelerated entry into new markets
- Gains from the selective closure of redundant stores

- Adoption of best practices in sales
- Proprietary PBM leveraging the existing corporate and institutional contracts of each company and obtaining new clients
- Sharing of existing product and promotional agreements
- Opportunities to develop a joint e-commerce platform



- Solid and flexible capital structure
- Potential use of shares, with enhanced liquidity, as a currency for acquisitions
- Experience in acquisitions and post-merger integration
- Leveraging of acquired assets by choosing from two brands in the absorption of each store

- Adoption of the best purchasing conditions and gross margin policies
- Enhancement of trade allowances by applying best practices and revaluing promotional spaces
- Introduction of private label products by leveraging the combined scale

- Strengthening of the management team and of the combined management structure
- Logistics optimization through complementary DCs and by increasing the shipping density
- Integration of systems and processes, and application of best practices
- Dilution of corporate expenses and elimination of redundancies

Launching our Main Private Label Platform, with Premium Prices & Margins

pluii

BLU MARINO

Um mergulho aromático no azul



VERDE ERVA

O movimento do verde



VIBRE GENGIBRE

A força da vitalidade





LIMA LIMÃO

O frescor da cor

BRILHA BAUNILHA

O cheiro da sensação





AMORA ROSA

O perfume do brilho

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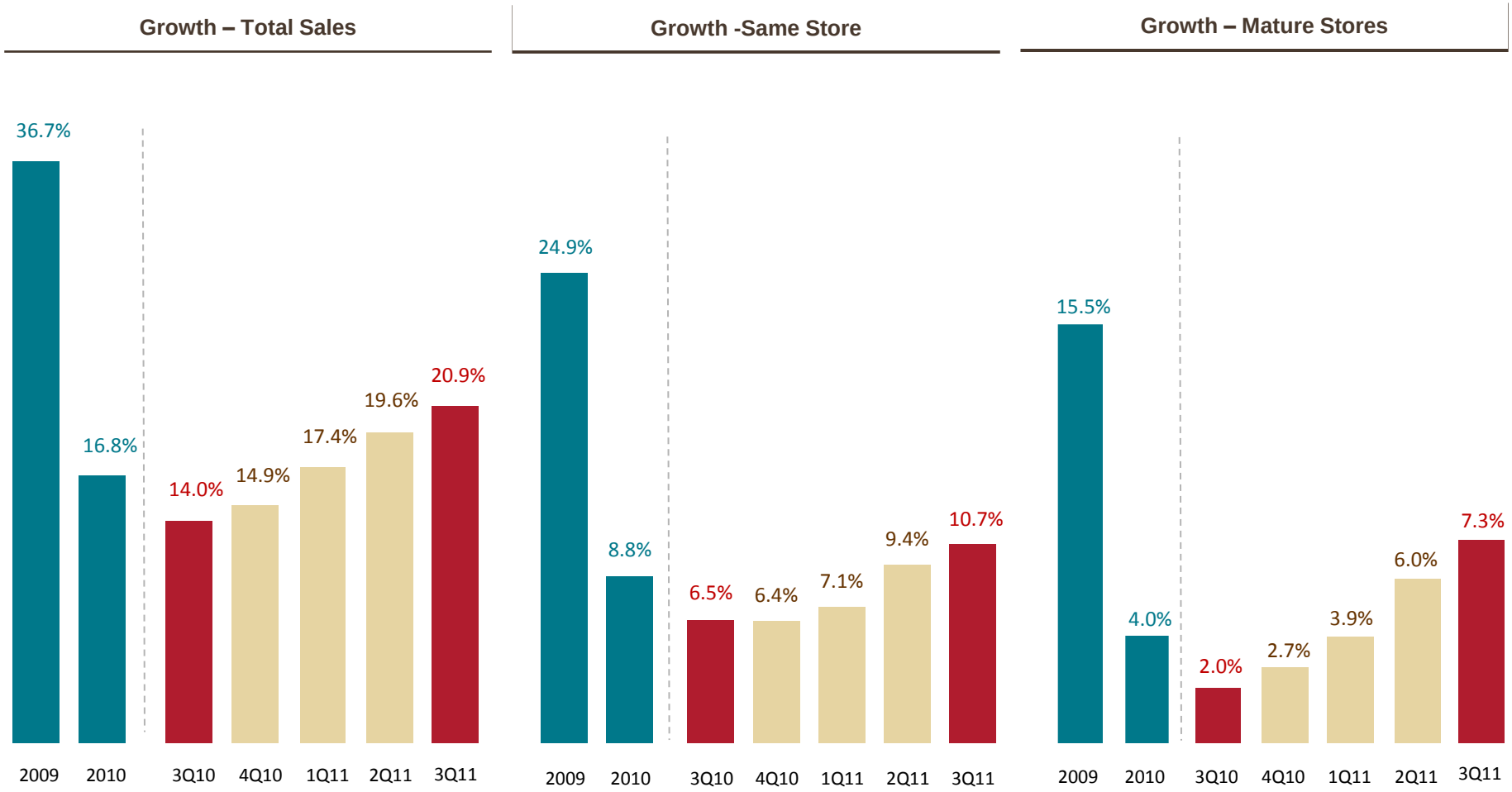
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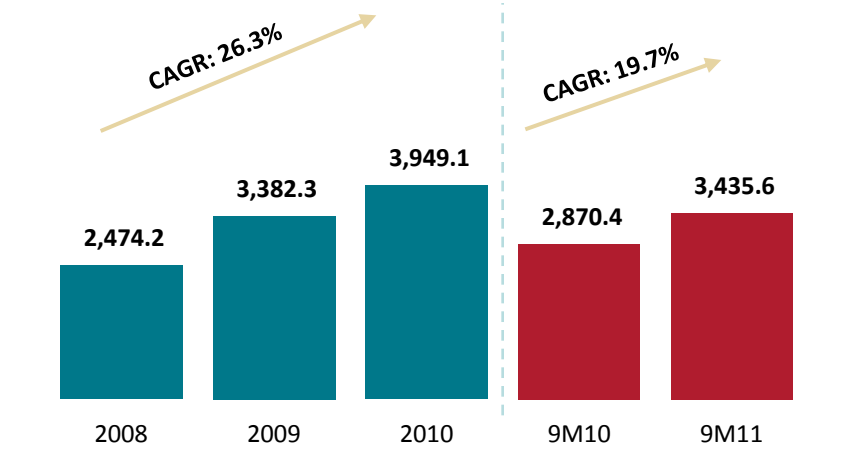
Accelerating Sales Comps



Delivering High Growth with Margin Expansion

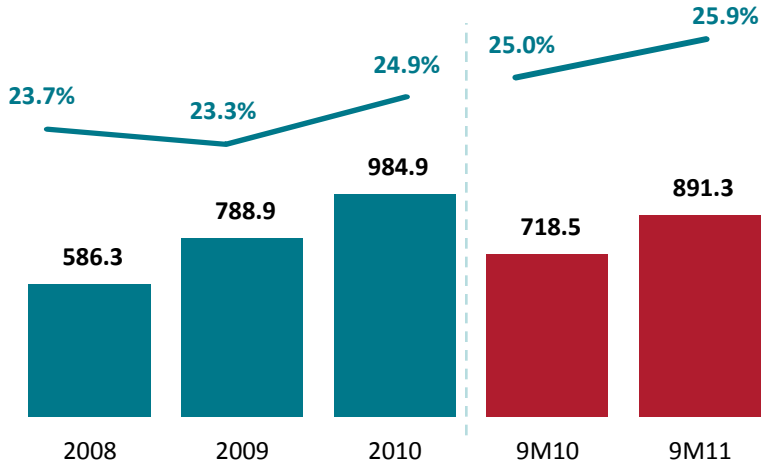
Gross Revenues

(R$ million)



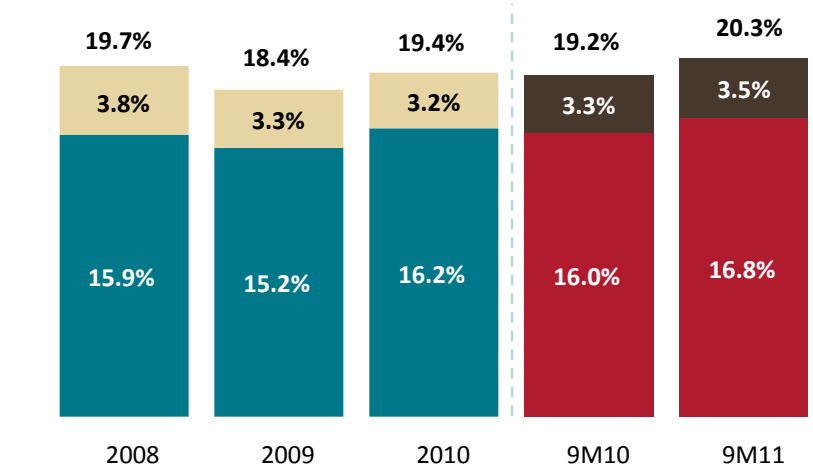
Gross Margin

(R$ million. % of Gross Revenues)



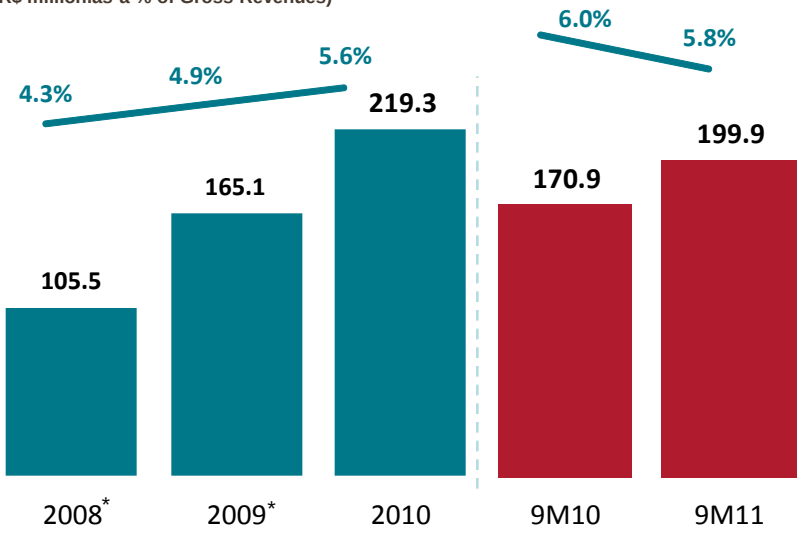
Operational Expenses

(% of Gross Revenues)



Adjusted EBITDA

(R$ million.as a % of Gross Revenues)

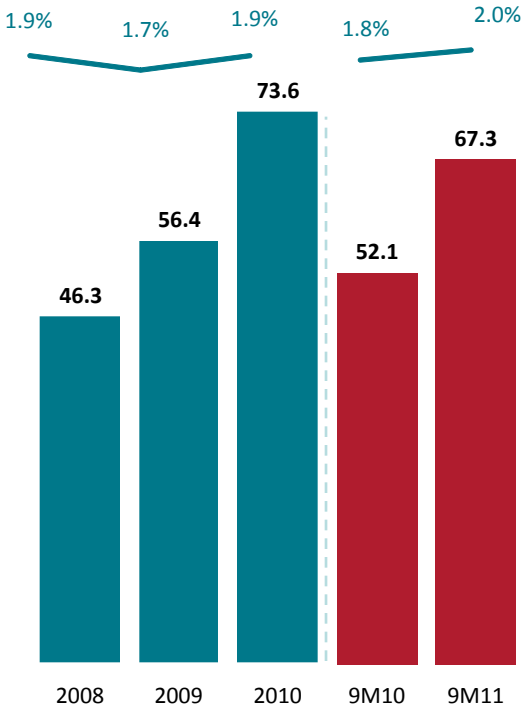


* Adjusted for non-recurring events

Consistent Earnings Growth

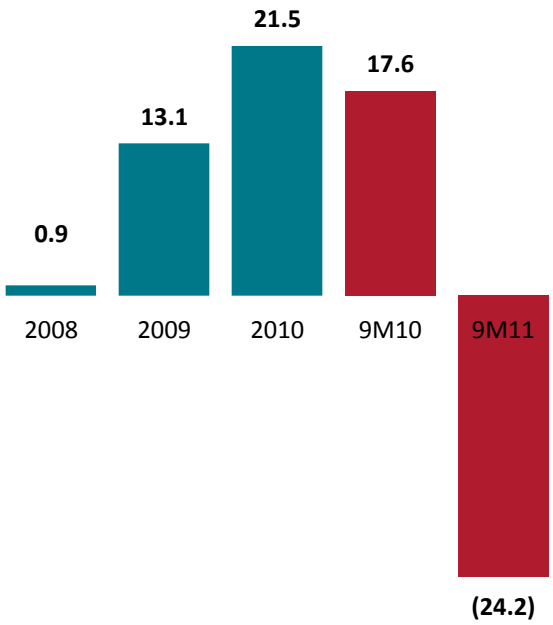
Depreciation

(R$ million, as a % of Gross Revenues)



Net Financial Expenses

(R$ million, as a % of Gross Revenues)



Net Profit

(R$ million, as a % of Gross Revenues)

