



# Leading the Consolidation of the Drugstore Industry in Brazil

Institutional Presentation  
January, 2012

**RaiaDrogasil** 

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# RaiaDrogasil S.A.



- Brazil's largest drugstore chain in revenues and in store count, according to Abrafarma. R\$ 5.4 billion in revenues, R\$ 318.9 MM of adjusted EBITDA and R\$ 164.3 MM of adjusted net income (LTM ending in Sept. 12);
- 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 860 stores in 12 states of Brazil, which represent 84% of the Brazilian pharmaceutical market, and a national market share of only 9.1% (Sept. 12). 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

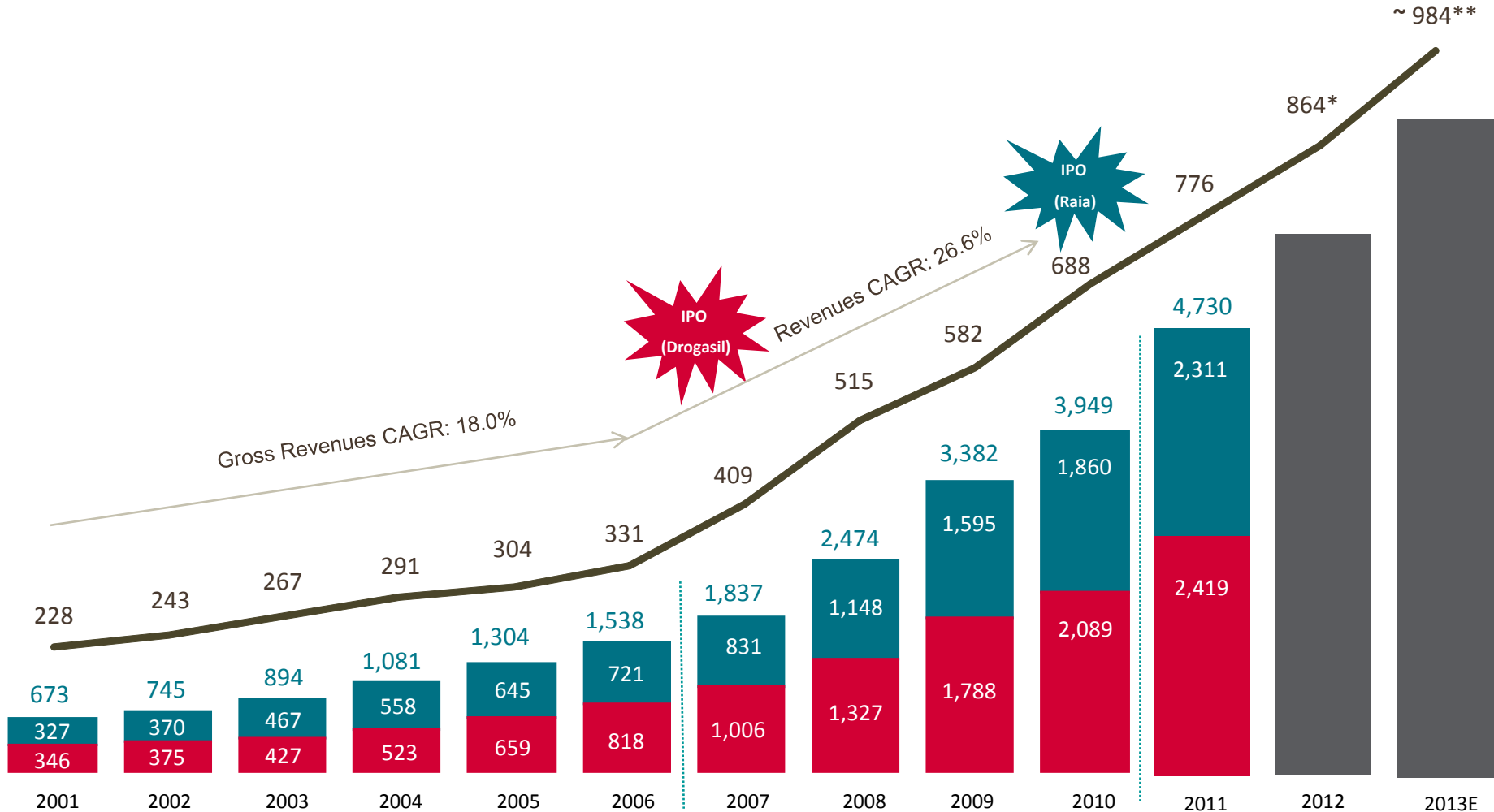
# Leading the Consolidation of the Drugstore Industry in Brazil



Foundations for Growth

Accelerated Growth

Merger







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

\*\* Assumes 130 new stores openings and 10 closures in 2013

■ Gross Revenues Drogasil   
 ■ Gross Revenues Droga Raia   
 — Stores

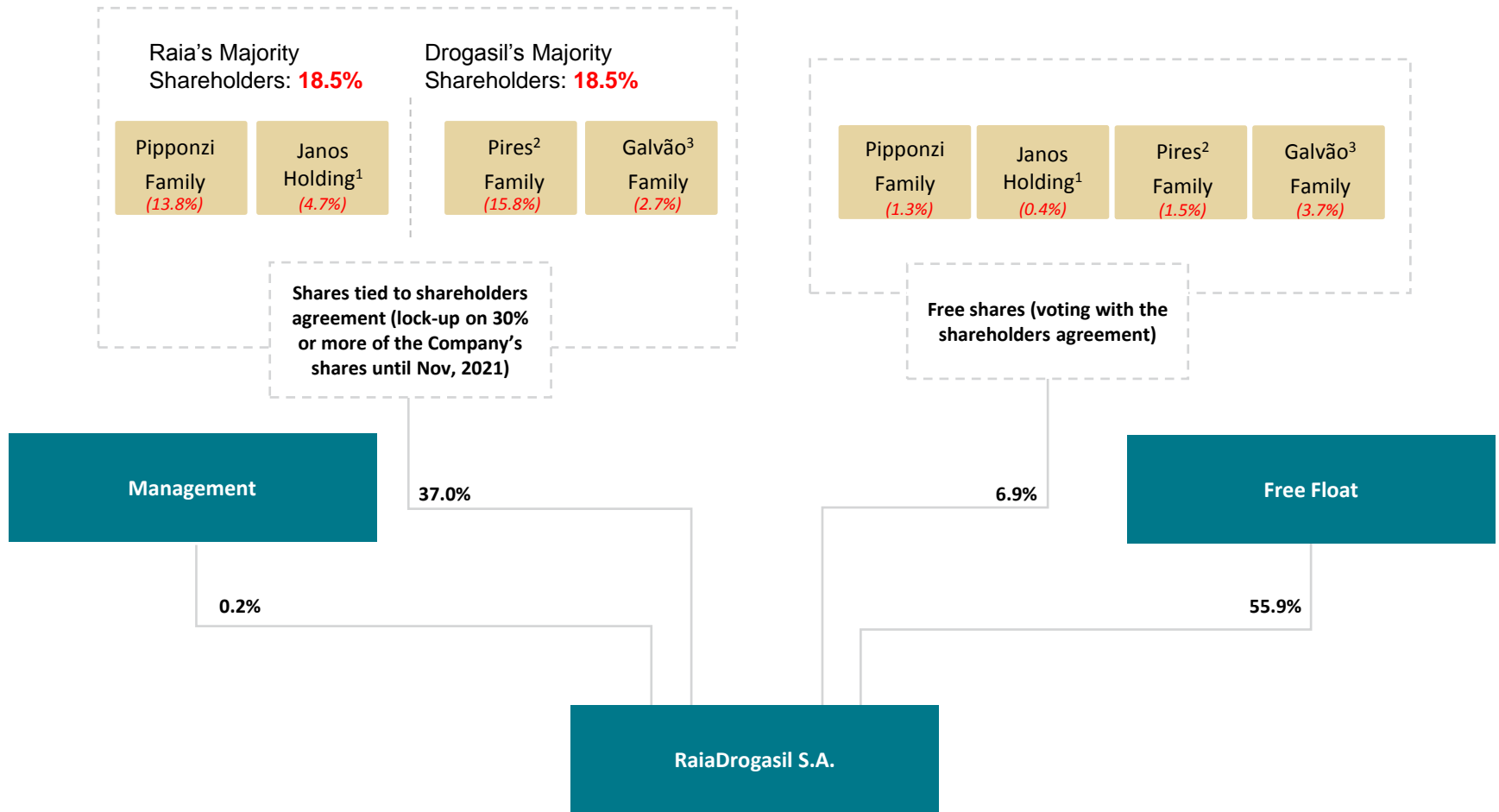
# Undisputed Industry Leader in terms of Revenues, Store Count and Profitability



2011 Ranking	Gross Revenues	Stores	EBITDA
<b>1<sup>st</sup></b> 	R\$ 4.7 billion	776	R\$ 271.5 MM
<b>2<sup>nd</sup></b> 	R\$ 4.6 billion*	710*	R\$ 179.3 MM*
<b>3<sup>rd</sup></b> 	R\$ 2.9 billion	489	R\$ 232.3 MM
<b>4<sup>th</sup></b> 	R\$ 2.6 billion	651	R\$ 155.4 MM

Source: ABRAFARMA Ranking, 2011. M&As undertook in 2011 and in early 2012 (purchase of Big Ben and Santana by Brazil Pharma) are reflected pro-forma in 2011  
 \*Estimated

# 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

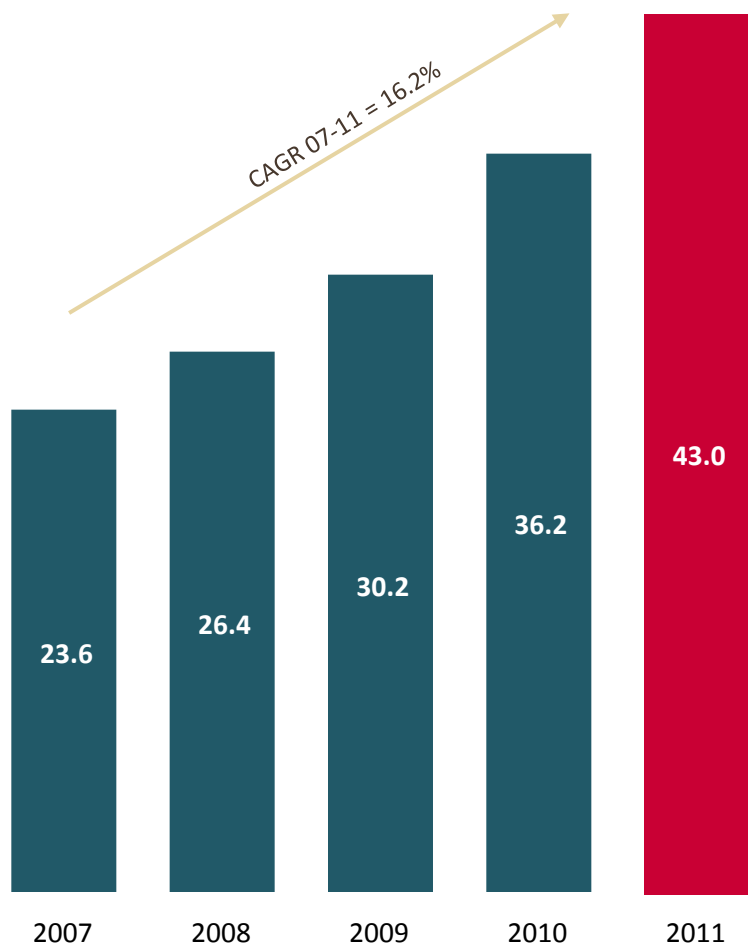


# Accelerated Pharmaceutical Market Growth



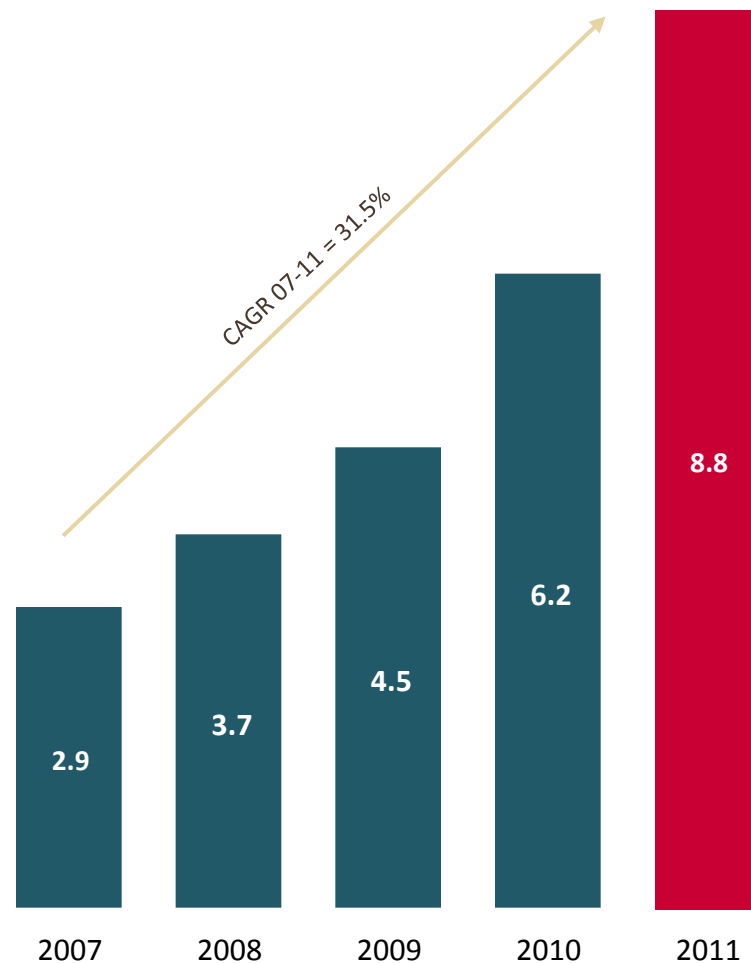
## Pharmaceutical Market

(R\$ Billion)



## Generics Market

(R\$ Billion)

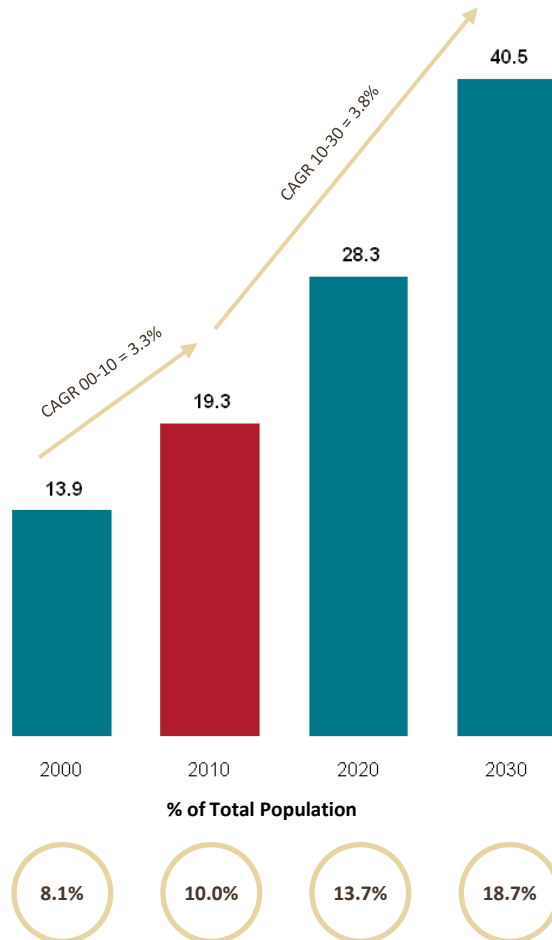




# Favorable Demographic, Macroeconomic & Industry Trends

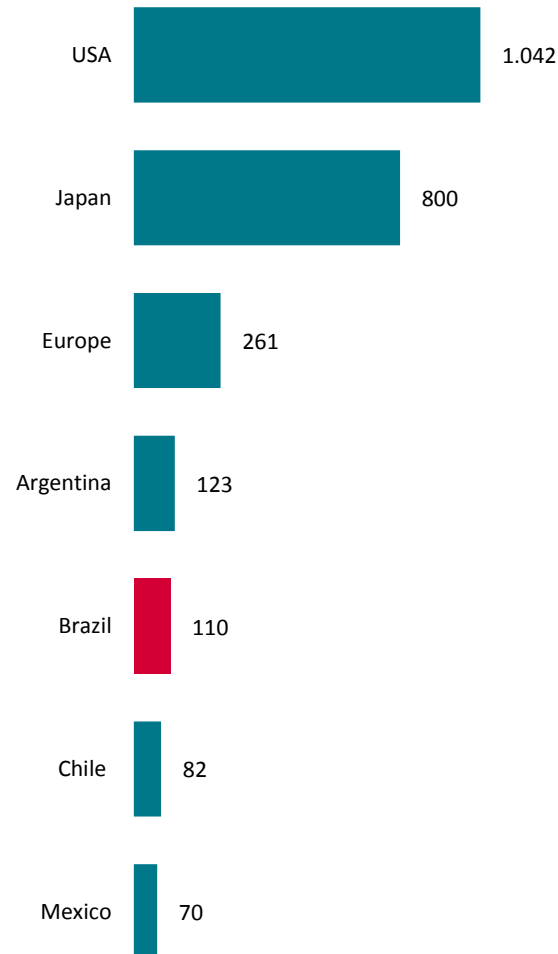
## Brazilian Population above 60 years old

(Million of people)



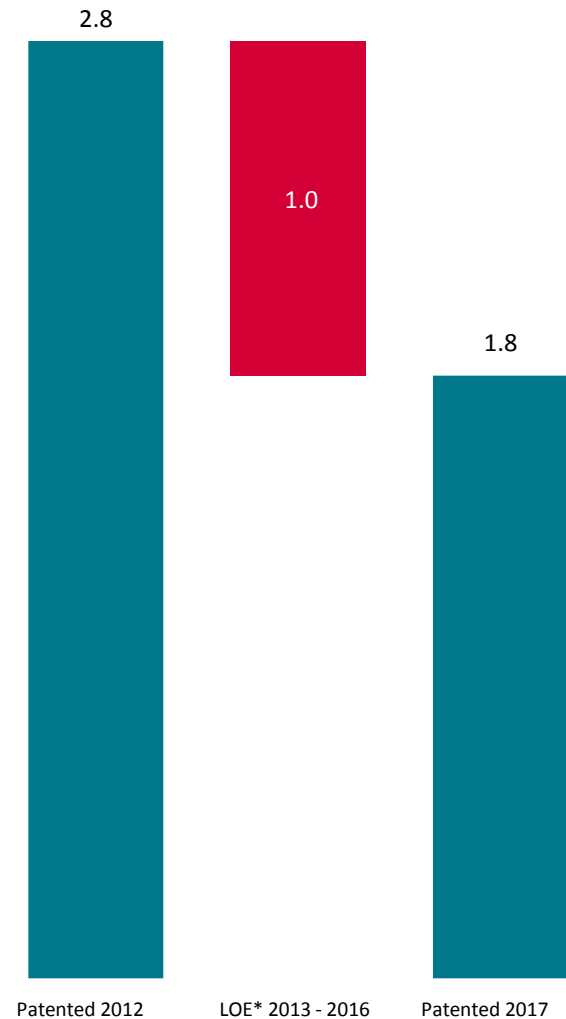
## Annual per Capita Pharma Spending Selected Countries

(US\$ LTM Mar 2012)



## Products Losing Patents\* 2012 to 2017

(R\$ Billion)

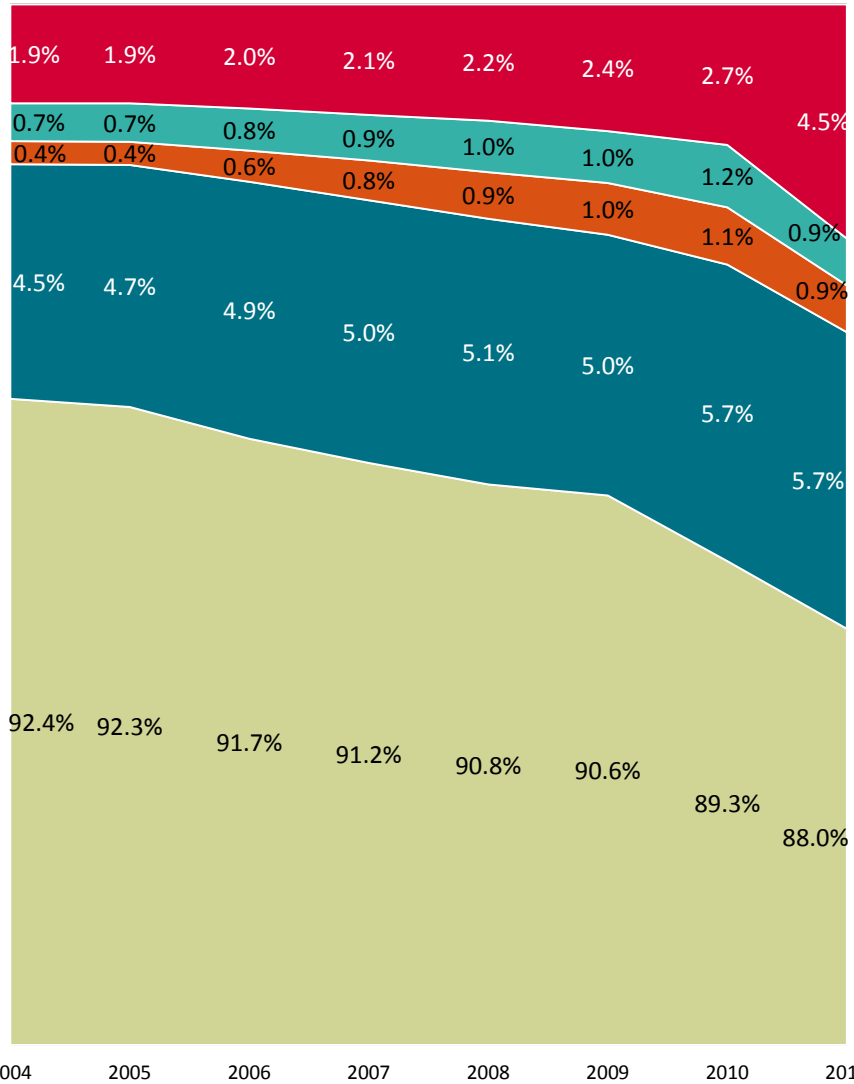


\* Loss of Exclusivity

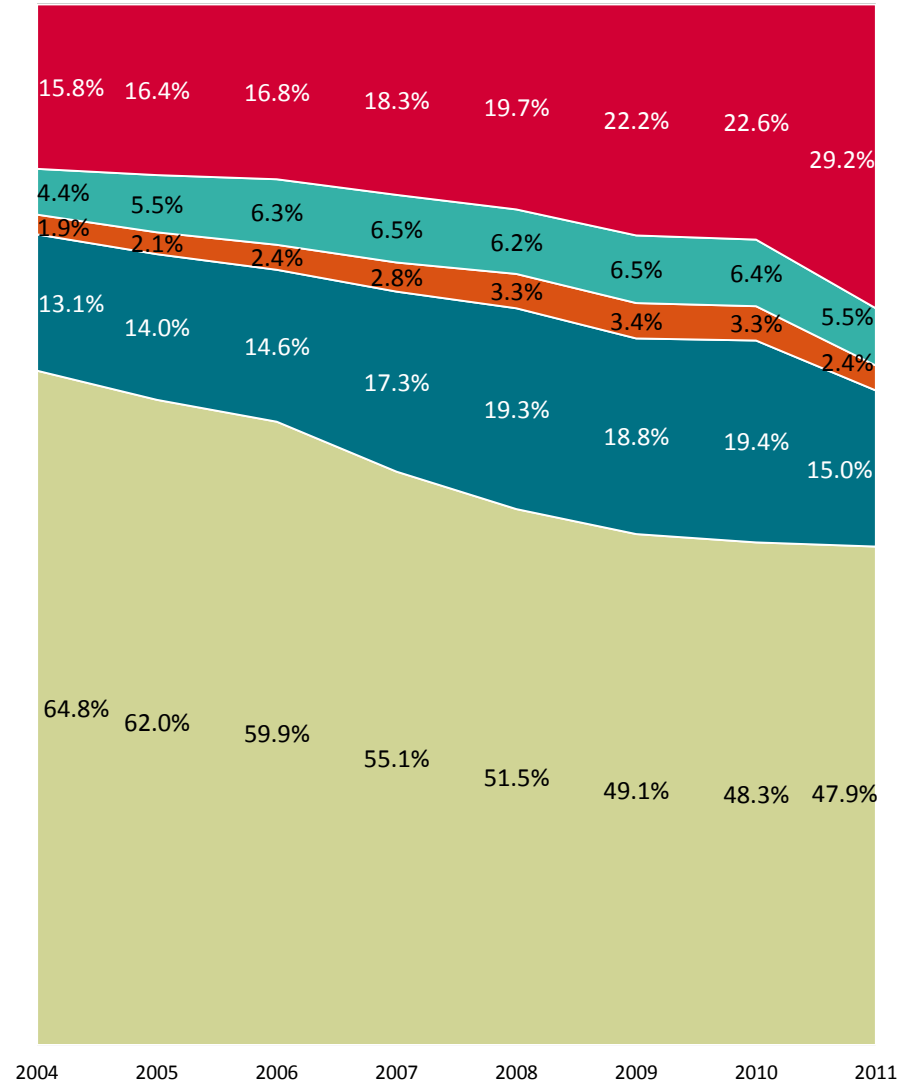
# Fragmented Market, in the Process of Consolidation



% of Stores



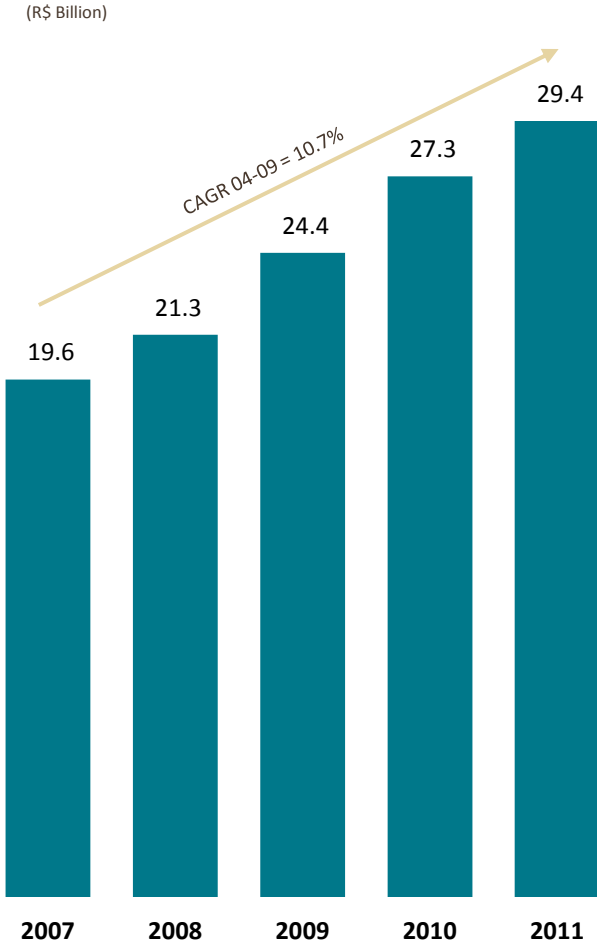
% of Revenues



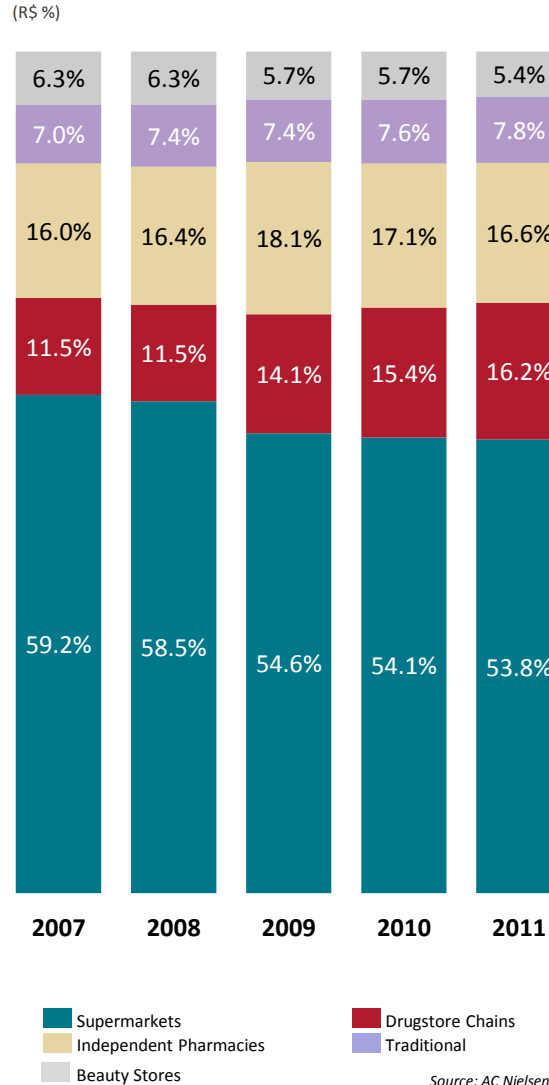
# Accelerated Growth in HPC, with Shifting Share Towards Drugstore Chains



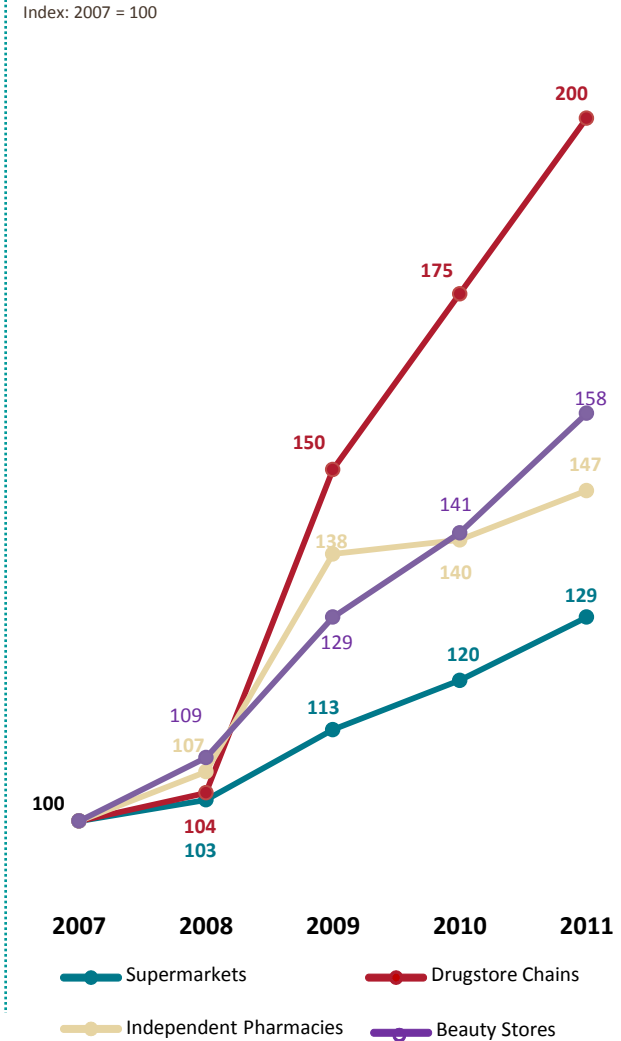
### HPC Market



### Market Share by Channel



### Cumulative HPC Growth by Channel – R\$





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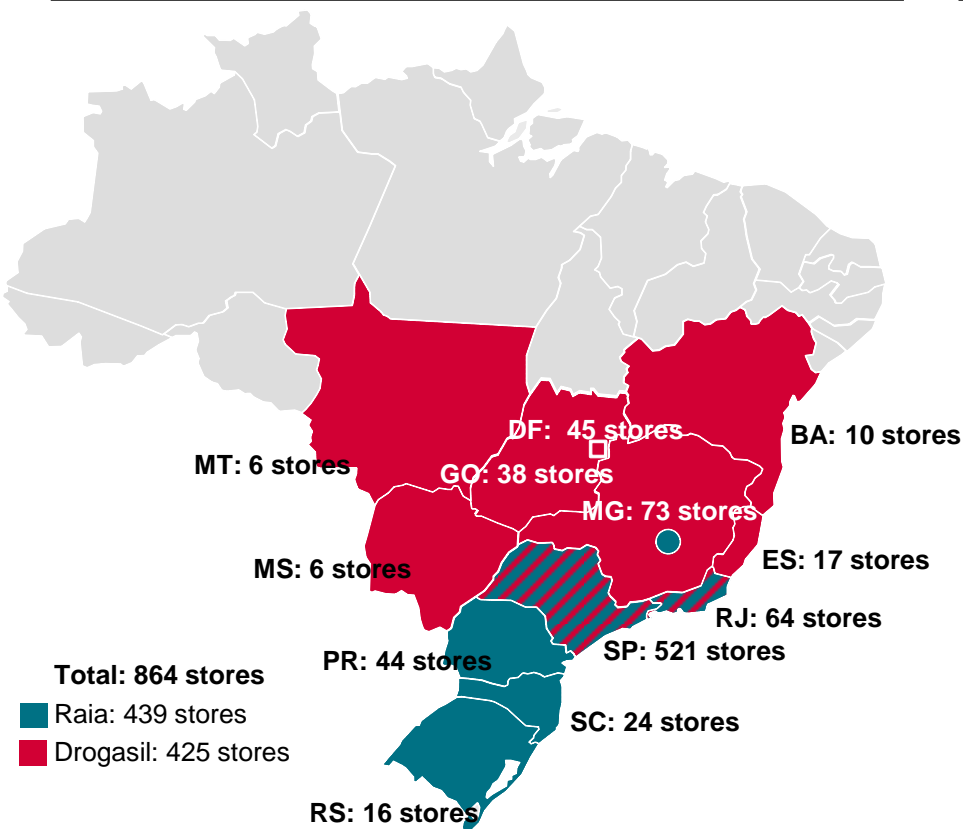
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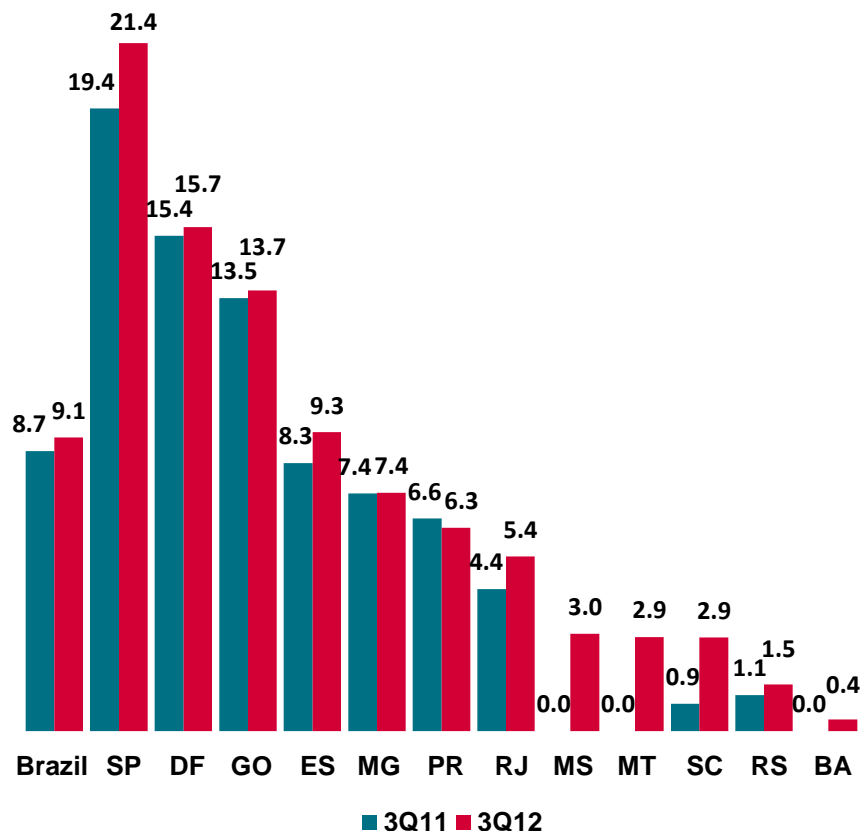
# Leading Brands with Strong Geographic Presence and High Growth Potential



Geographic Presence (Dec. 31<sup>st</sup>, 2012)



Market Share (September, 2012)



PHARMACEUTICAL MARKET DISTRIBUTION BY STATE (LAST 12 MONTHS)

Brazil	SP	DF	GO	ES	MG	PR	RJ	MS	MT	SC	RS	BA
100.0%	28.2%	2.7%	3.3%	2.0%	10.2%	6.0%	13.2%	1.1%	1.1%	3.8%	7.4%	4.5%

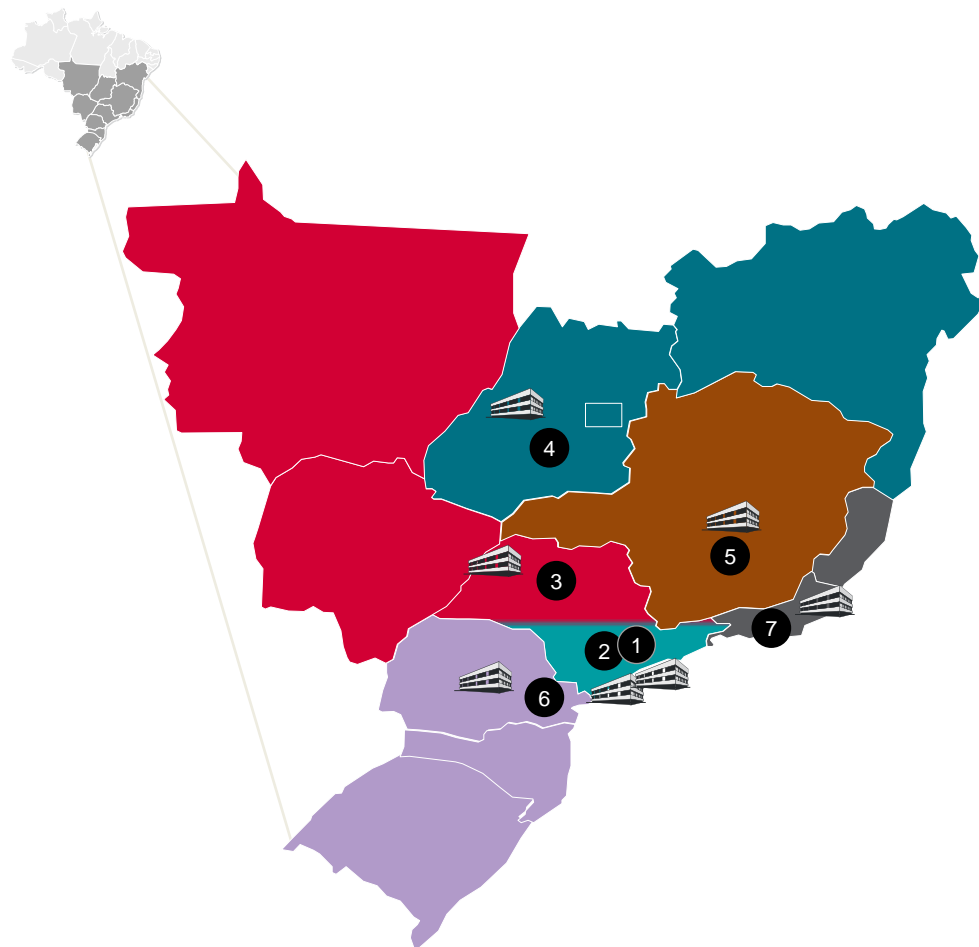
- ▶ Presence in states that comprise 84% of the Brazilian pharmaceutical market
- ▶ Established platform to grow into new markets

<sup>1</sup> Note: Market share according to IMS Health, for the month of September, 2012

# Decentralized Distribution Structure



## Distribution Centers\*



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

**2** ▶ Embu (SP)  
▶ Area: 19,000 sqm

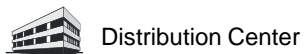
**3** ▶ Ribeirão Preto (SP)  
▶ Area: 20,000 sqm

**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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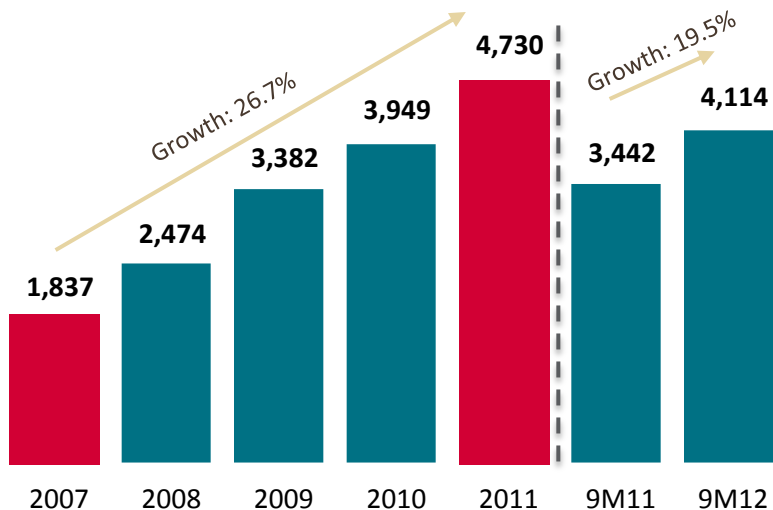
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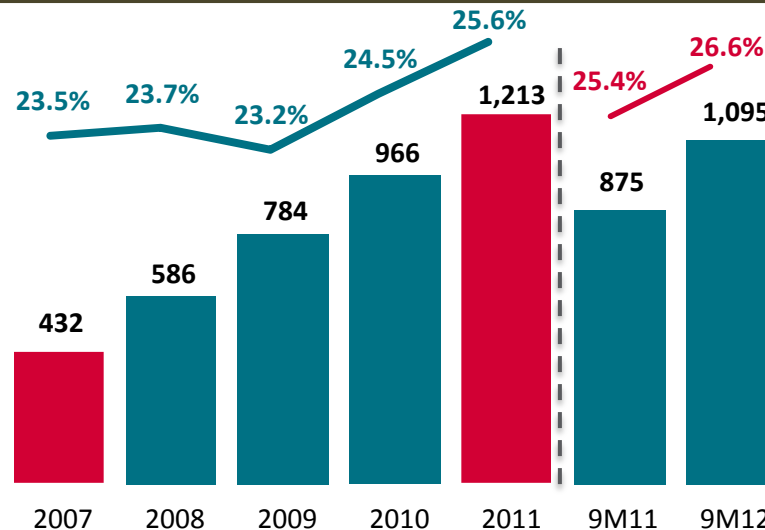
# Delivering High Growth with Margin Expansion



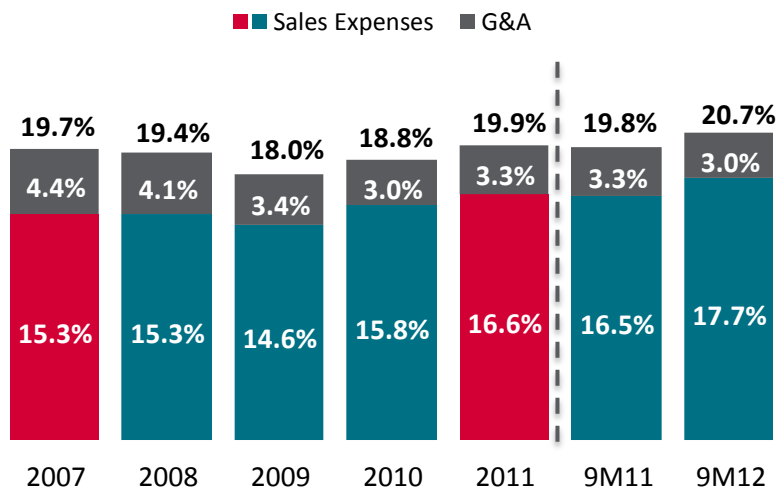
**Gross Revenues**  
(R\$ Million)



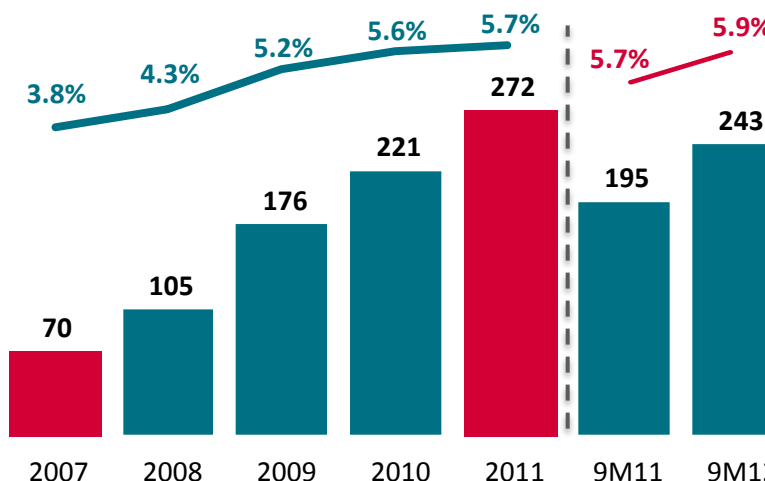
**Gross Profits**  
(R\$ Million, % of Gross Revenues)



**Adjusted Operating Expenses**  
(% of Gross Revenues)



**Adjusted EBITDA**  
(R\$ Million, % of Gross Revenues)

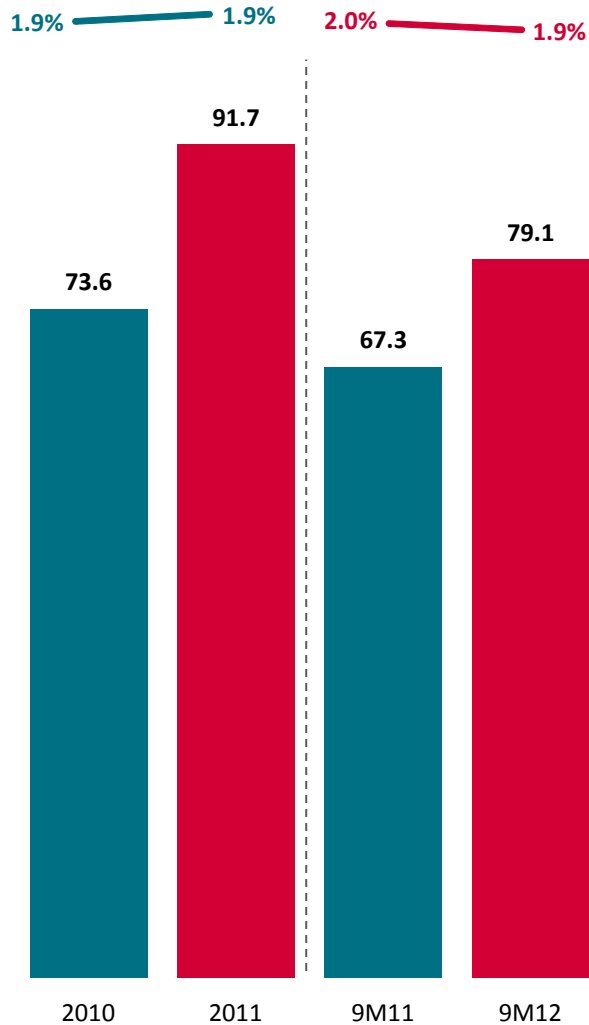


# Consistent Earnings Growth



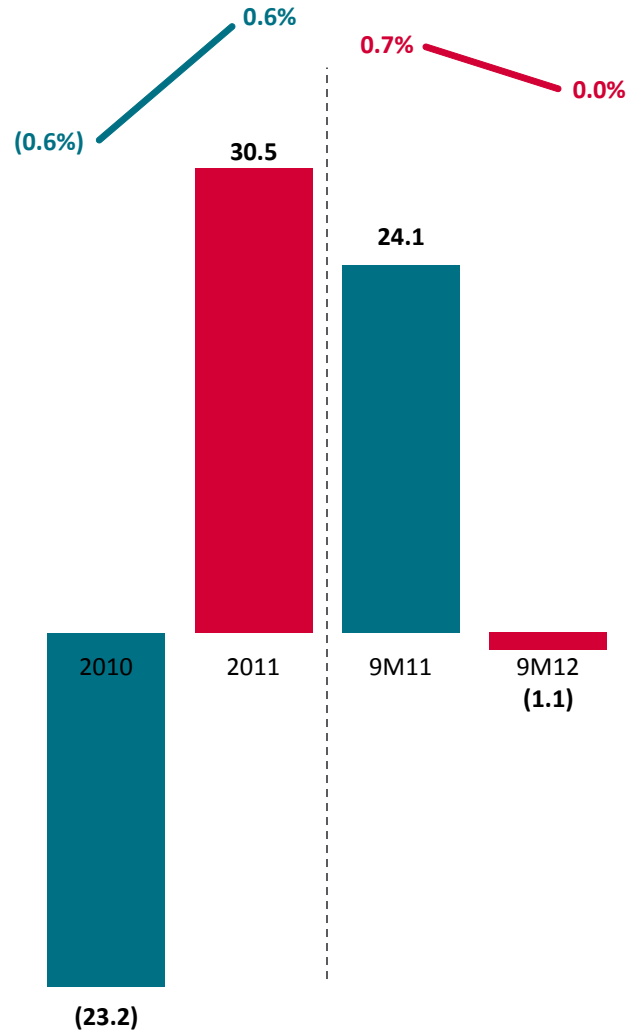
## Depreciation

(R\$ million, % of gross revenues)



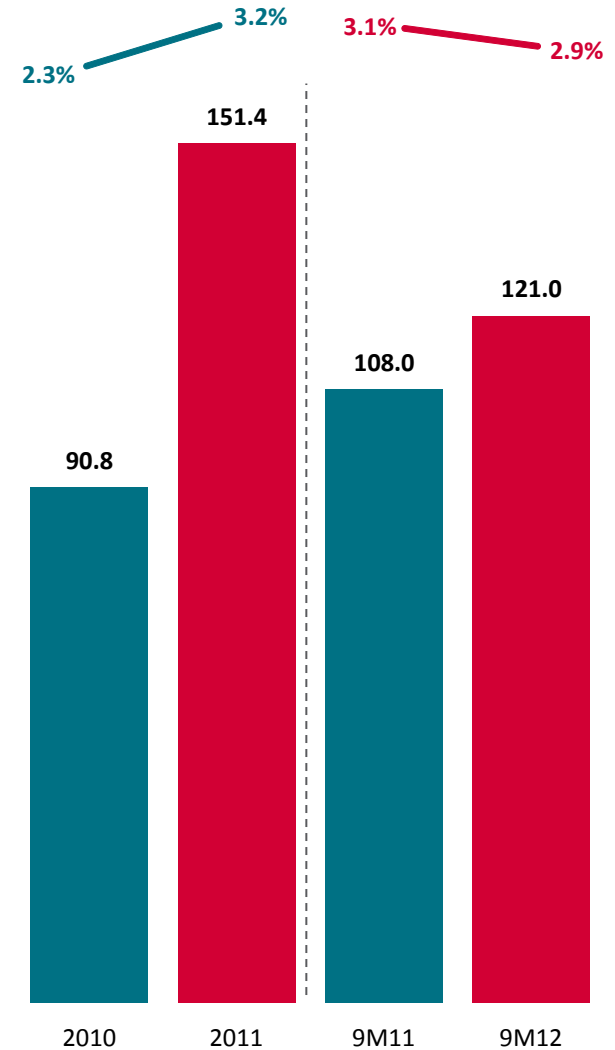
## Net Financial Income/(Expenses)

(R\$ million, % of gross revenues)



## Adjusted Net Income

(R\$ million, % of gross revenues)



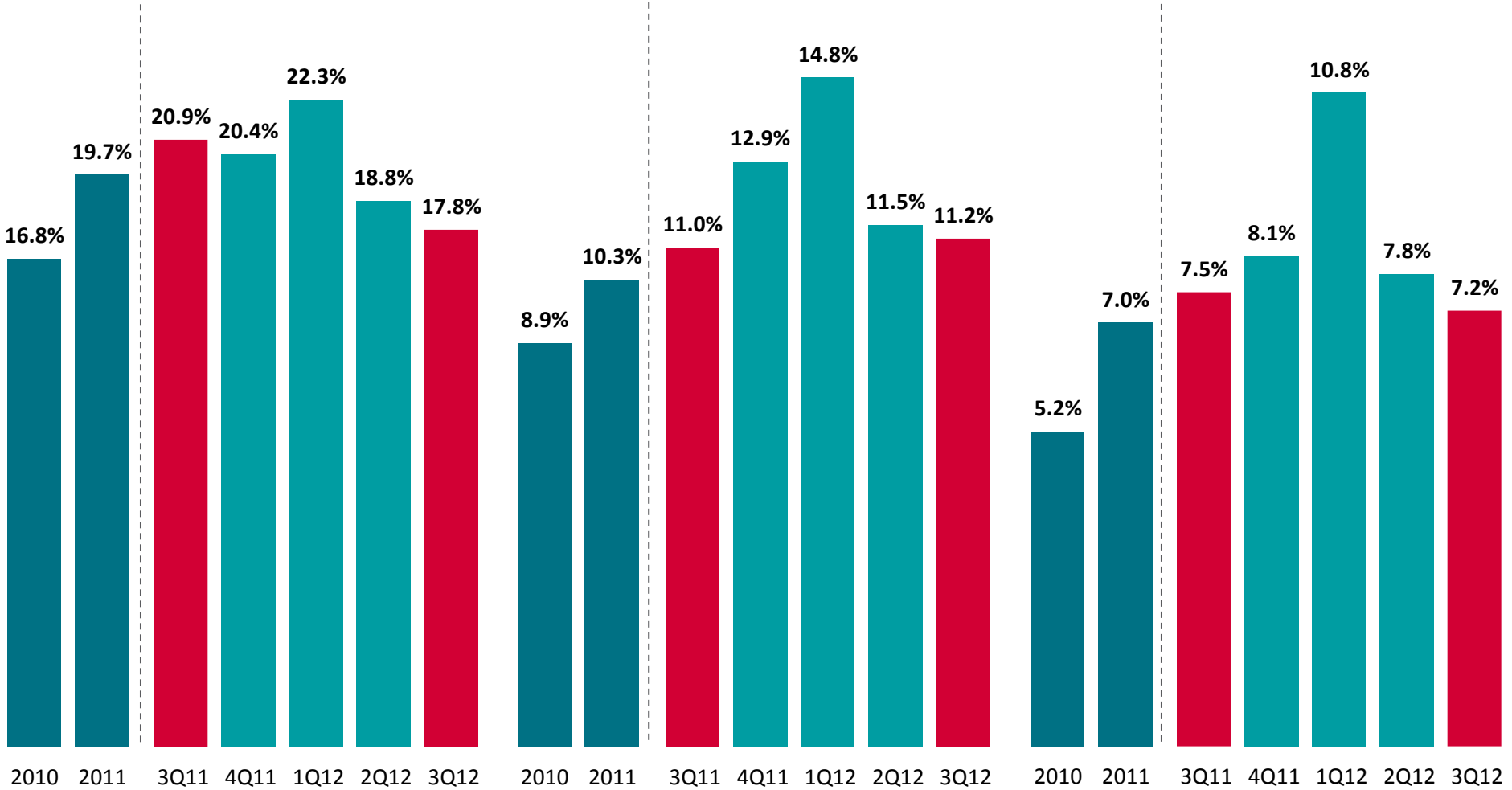
# Strong and Resilient Revenue Comps



Growth – Total Sales

Growth – Same Store Sales

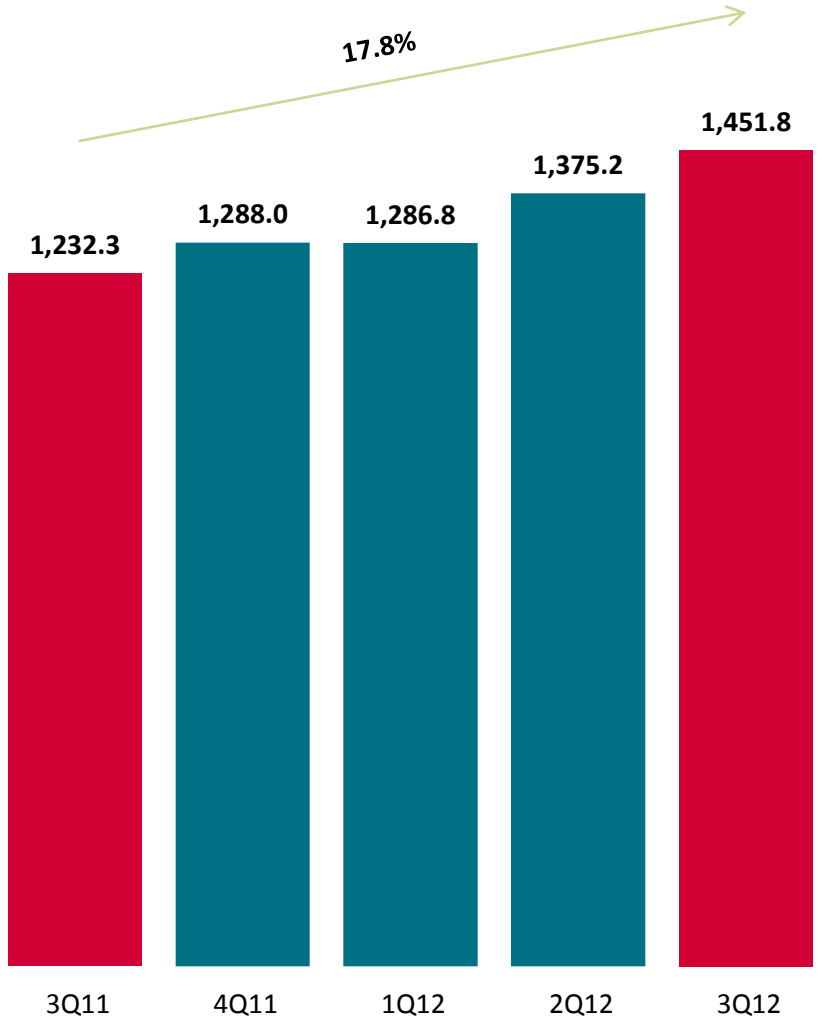
Growth – Mature Stores



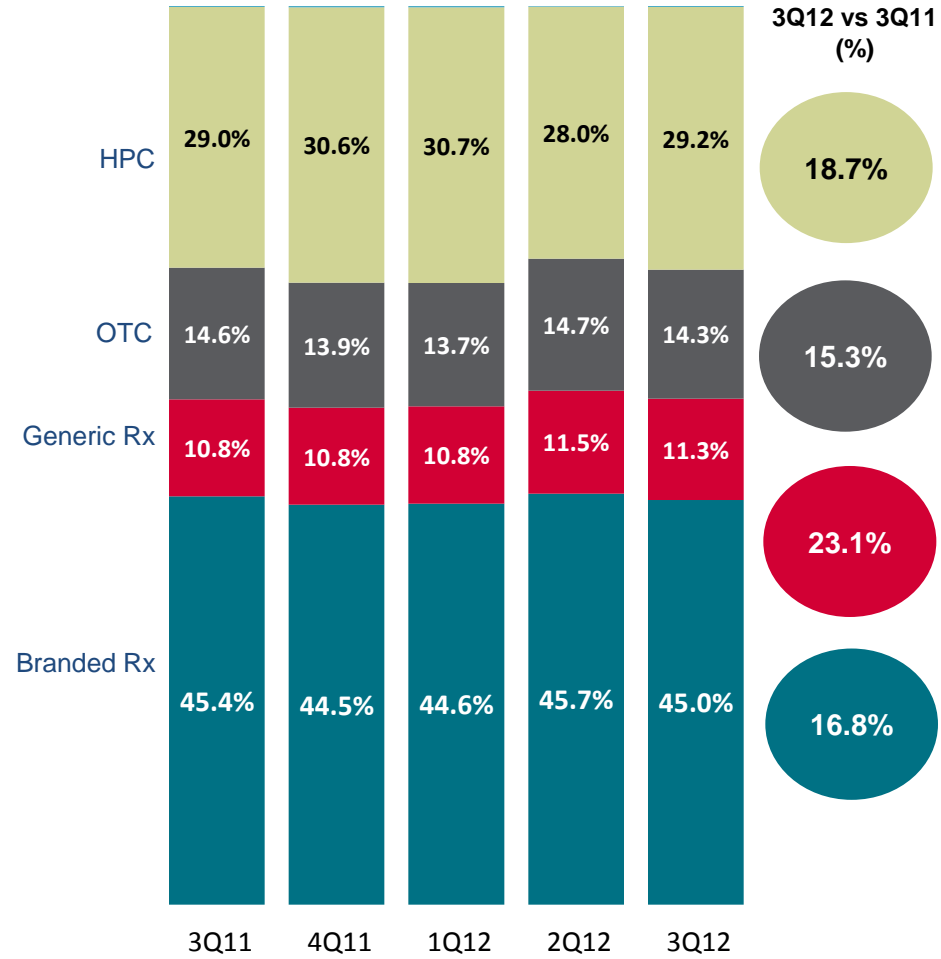
# Generics and HPC have Increased their Participation in the Sales Mix



Gross Revenues  
(R\$ million)



Sales Mix





## Our Investment Program and Working Capital Requirements led to a Cash Consumption of R\$ 119.2 million in the LTM ended in September, 2012

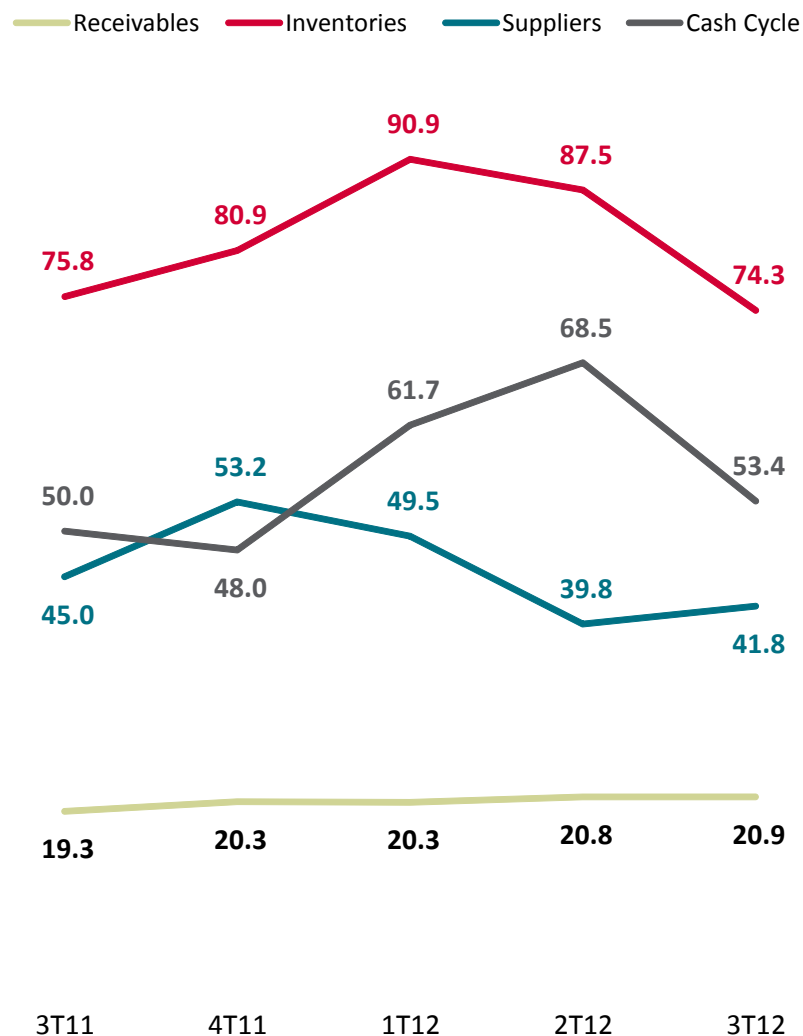
Cash Flow

<b>Cash Flow</b>	<b>4Q11</b>	<b>1H12</b>	<b>3Q12</b>	<b>LTM</b>
<i>(R\$ million)</i>				
<b>EBT</b>	<b>3.4</b>	<b>91.8</b>	<b>44.2</b>	<b>139.4</b>
(-) Income Tax	(17.2)	(6.2)	(12.1)	(35.5)
(+) Depreciation	27.2	59.3	31.9	118.3
(-) Other Adjustments	(1.8)	11.7	7.5	17.4
<b>Resources from Operations</b>	<b>11.5</b>	<b>156.5</b>	<b>71.6</b>	<b>239.6</b>
Cash Cycle*	0.7	(261.5)	103.1	(157.7)
ICMS Recovery	-	19.6	23.5	43.2
Others	5.5	(22.5)	(29.2)	(46.2)
<b>Operations</b>	<b>17.7</b>	<b>(107.8)</b>	<b>169.0</b>	<b>78.9</b>
<b>Investments</b>	<b>(53.2)</b>	<b>(88.3)</b>	<b>(56.6)</b>	<b>(198.1)</b>
<b>Total Cash Flow</b>	<b>(35.5)</b>	<b>(196.2)</b>	<b>112.4</b>	<b>(119.2)</b>

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

\*\* Does not include financing cash flow

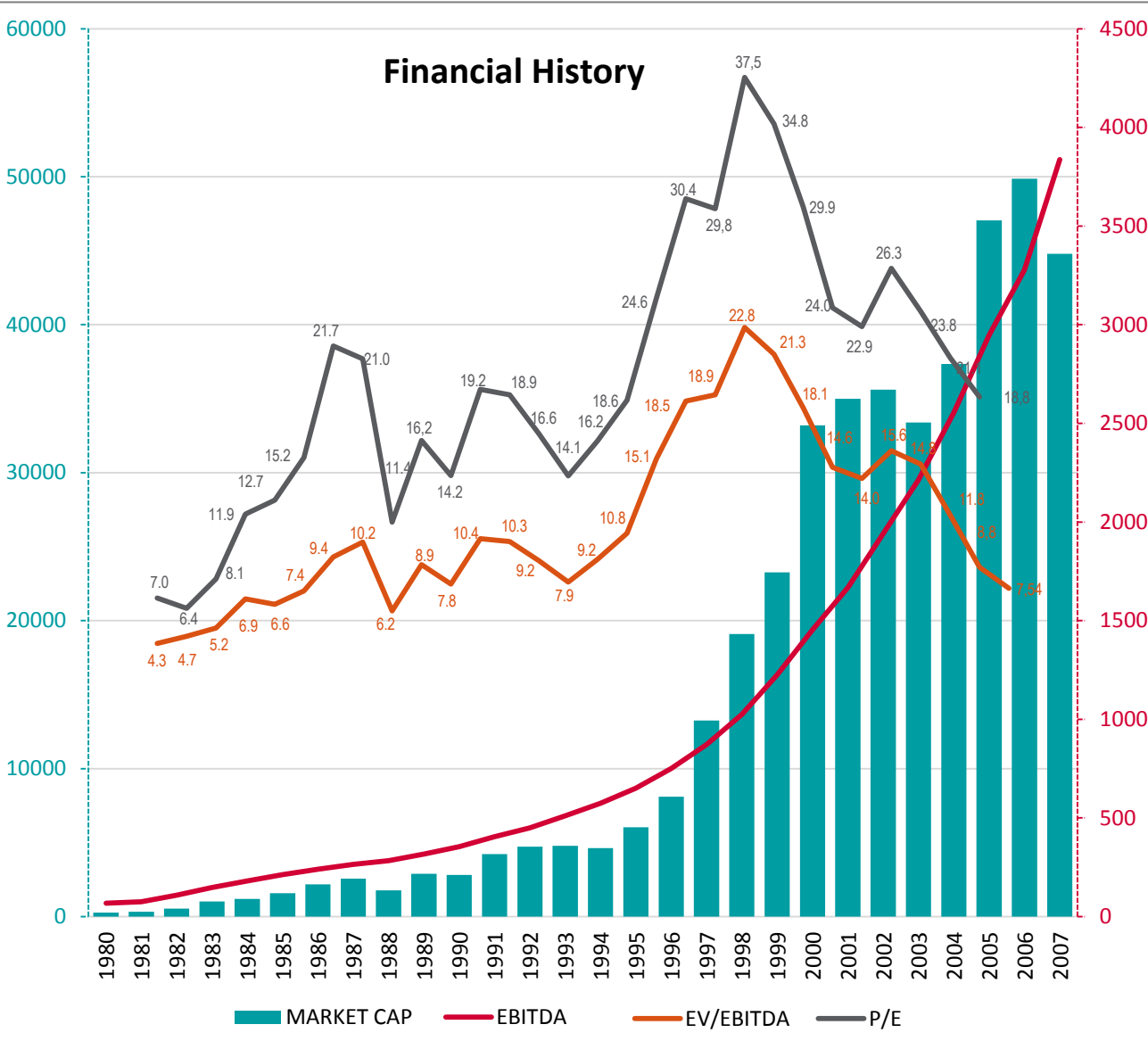
Cash Cycle



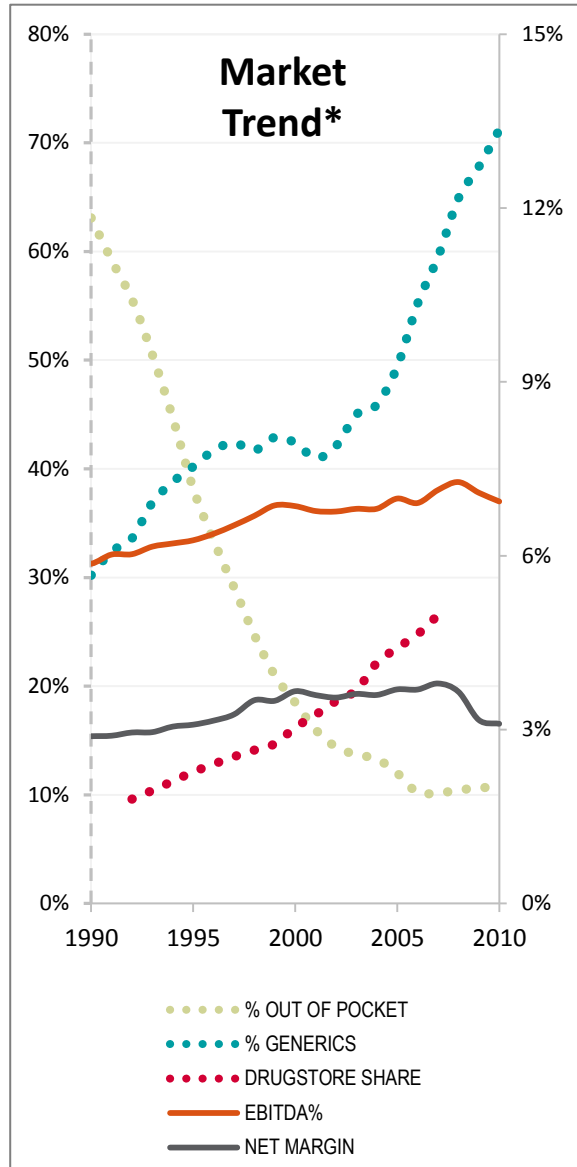
# Walgreen's Long-Term Benchmark



## Financial History



## Market Trend\*



\* 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)