



RaiaDrogasil S.A.

People,
Health and
Well-being

**INSTITUTIONAL
PRESENTATION:**

4Q17

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



March, 2018

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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 196 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\$ 13.9 billion, EBITDA of R\$ 1,130 MM and adjusted net income of R\$ 512.5 MM in 2017. Launched ADR Level 1 in the NYSE.

More than 1,600 stores in 20 states of Brazil, which represent 94% of the Brazilian pharmaceutical market, and a national market share of 12.0%

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 2011 and 2017 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

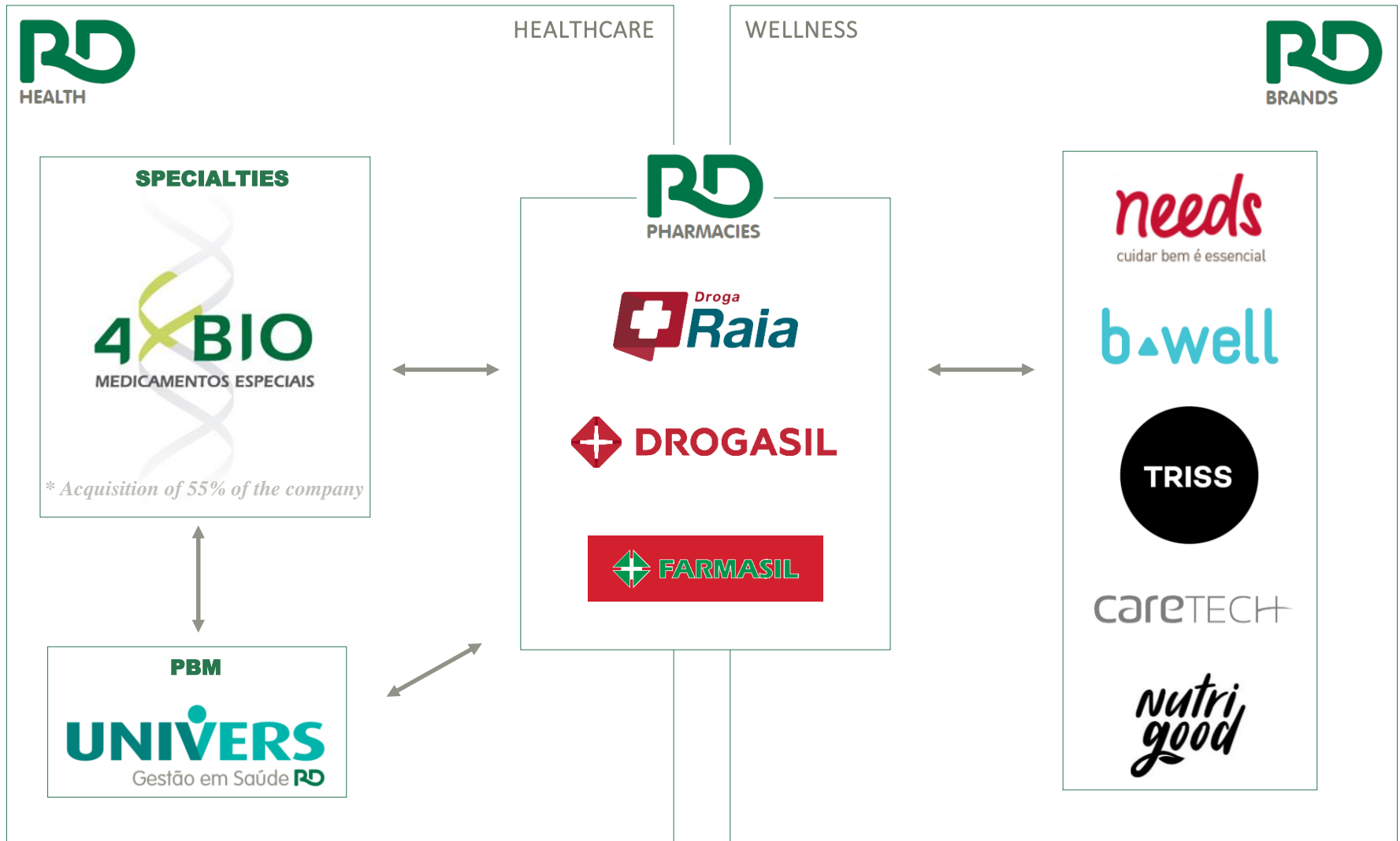
Long-Term View



UNIQUE PORTFOLIO



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



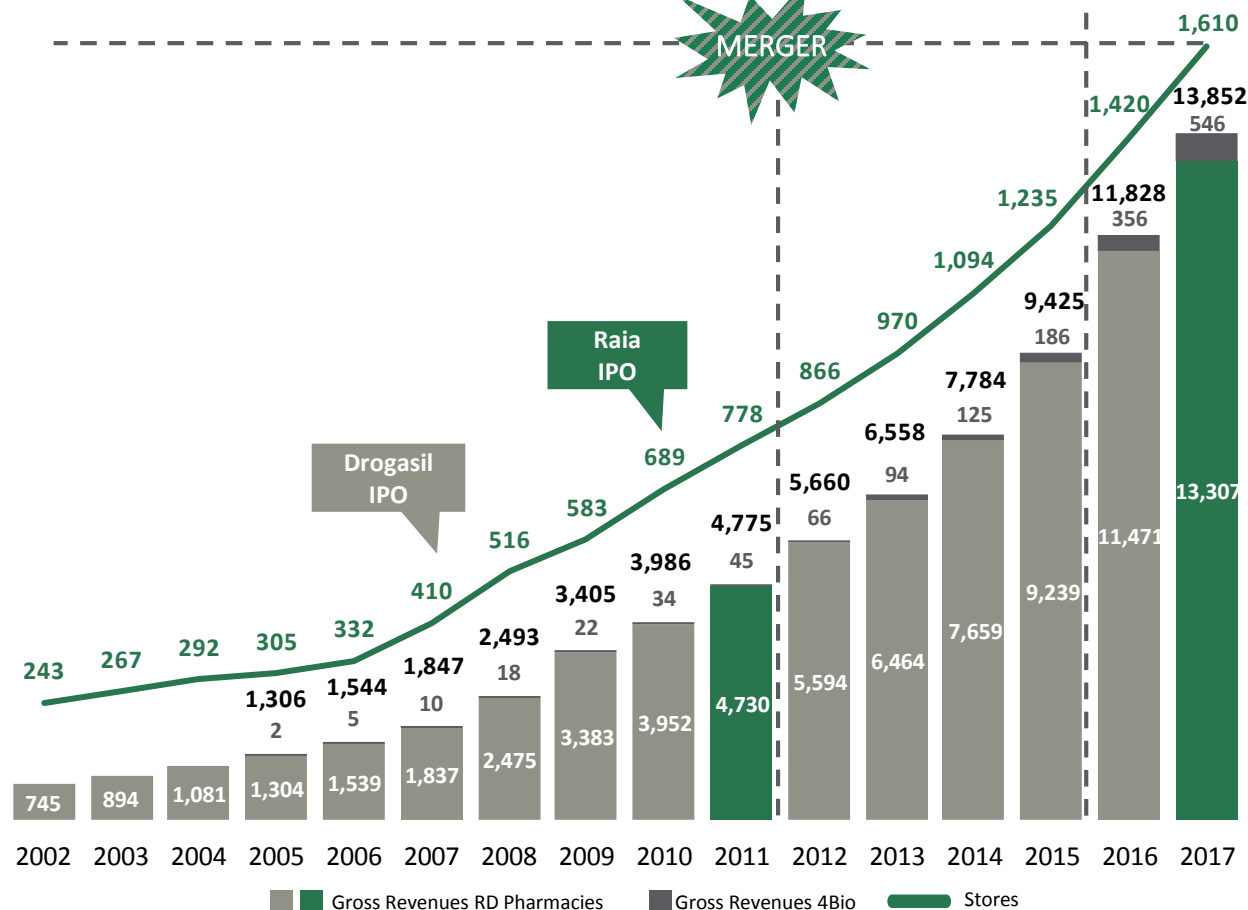
MULTIPLIED STORES BY 2X, SALES BY 3X AND EBITDA BY 4X FROM 2011 TO 2017



Unique track-record of accelerated organic growth with margin expansion

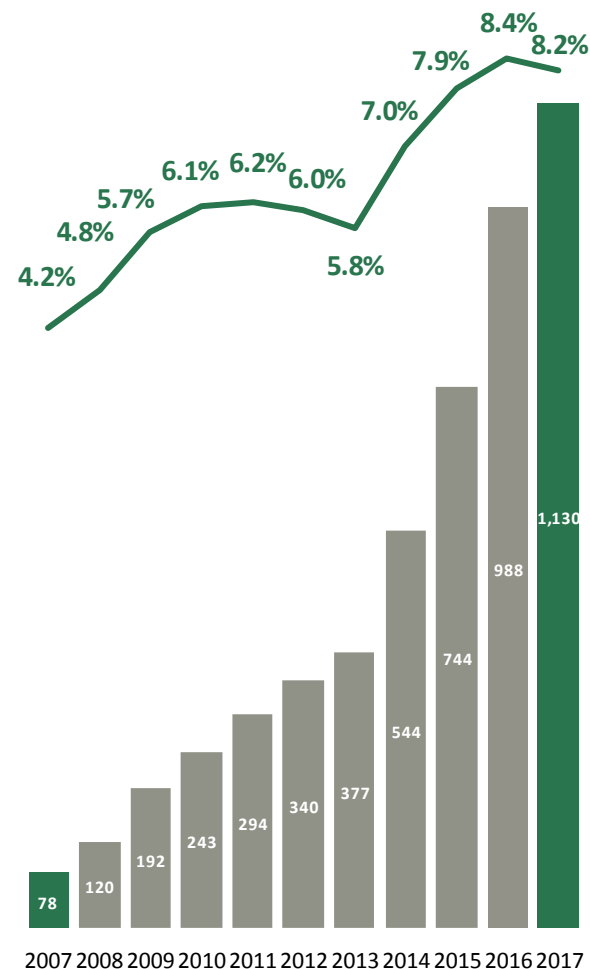
Combined Gross Revenues & Store Count

R\$ million, Stores



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

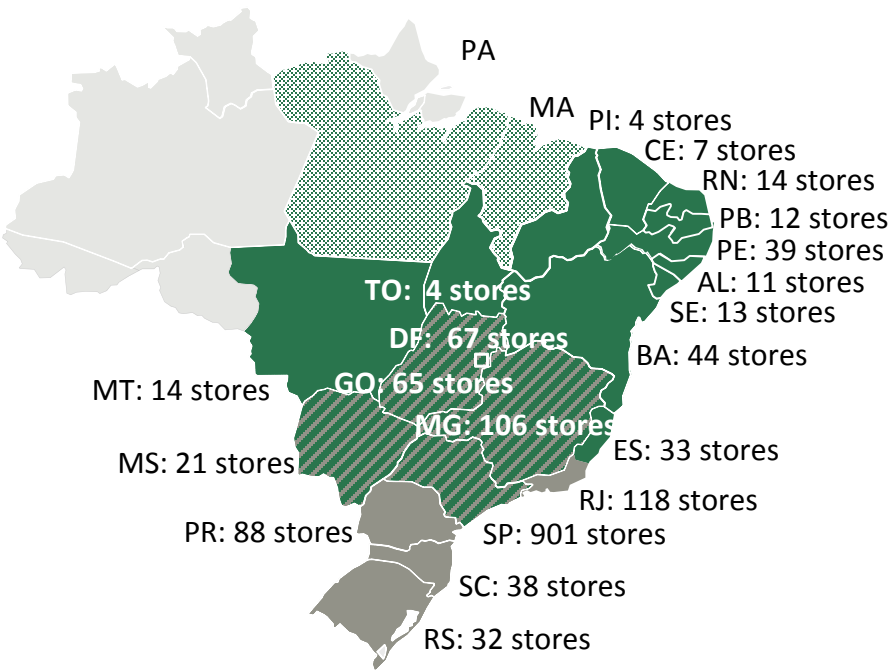
Source: Companies, Brazilian Supermarket Ranking: Supermercado Moderno, 2016 and Valor Economico Newspaper
Only considers retailers which operate with own stores.
As of 2016.

* Panvel Gross Revenues do not consider wholesale operations

STRONG MARKET SHARE GROWTH DRIVEN BY ORGANIC EXPANSION

RD is positioned in 20 states that account for 94% of the Brazilian pharmaceutical market

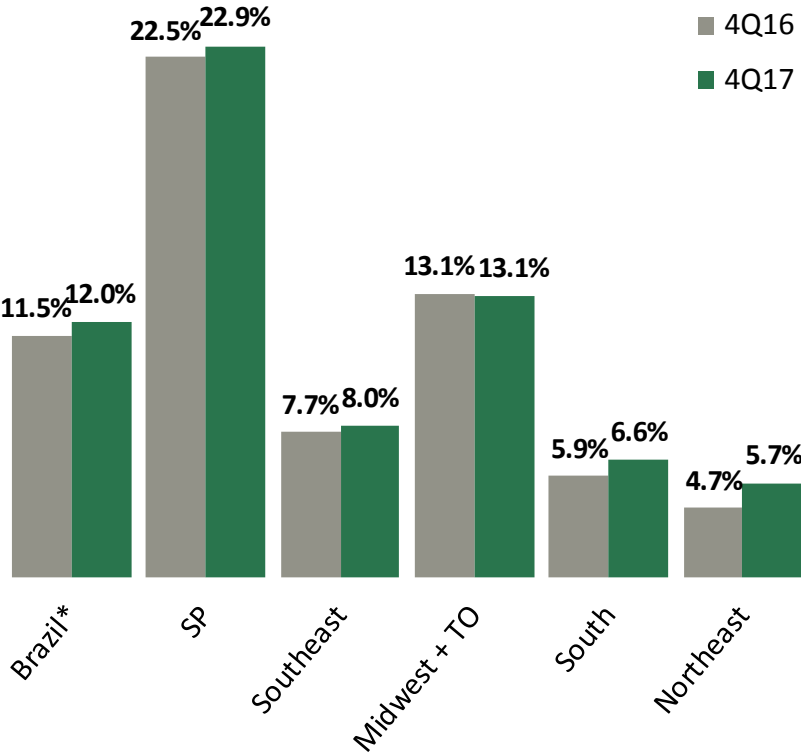
Geographic Presence – March 1, 2018



Total: 1,631 stores

- Raia: 745 stores
- Drogasil: 848 stores
- Future markets
- * Farmasil: 24 stores
- * 4Bio: 3 stores

Market Share



PHARMACEUTICAL MARKET BREAKDOWN BY REGION (%)

Brazil*	SP	Southeast	Midwest + TO	South	Northeast
100.0%	26.6%	24.4%	9.8%	16.2%	18.6%

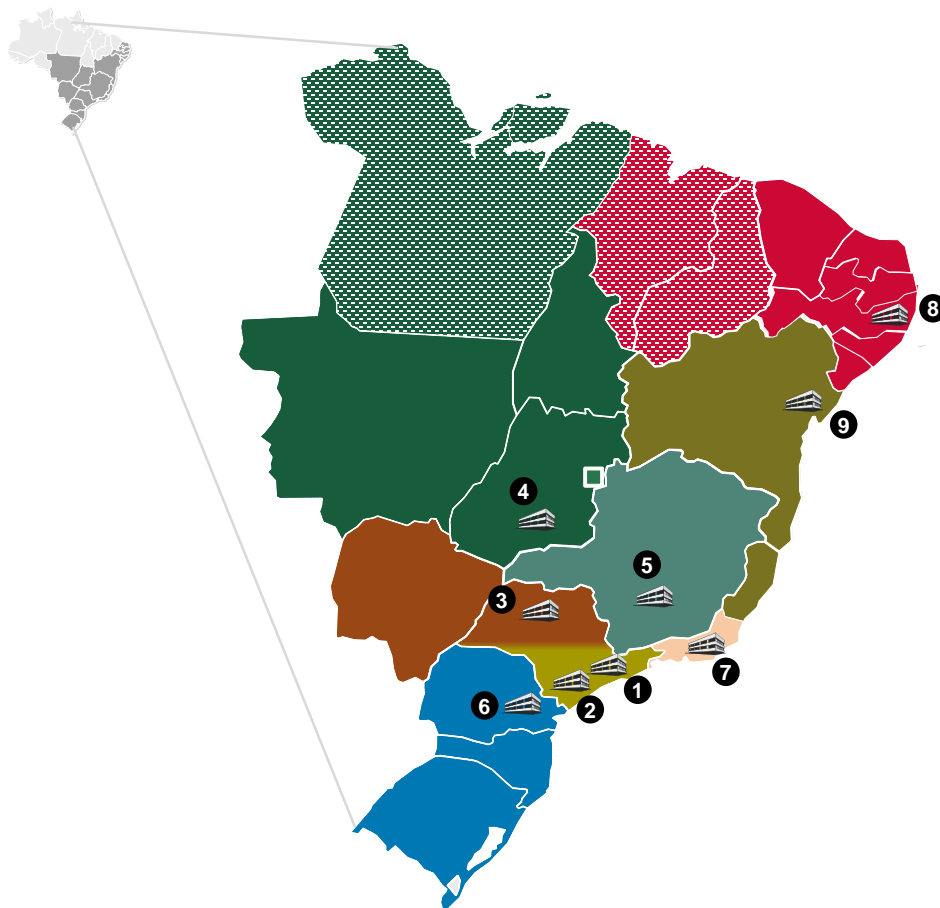
Source: IMS Health
 * Includes 4Bio only for Brazil total.

DISTRIBUTION INFRASTRUCTURE



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

DISTRIBUTION CENTERS



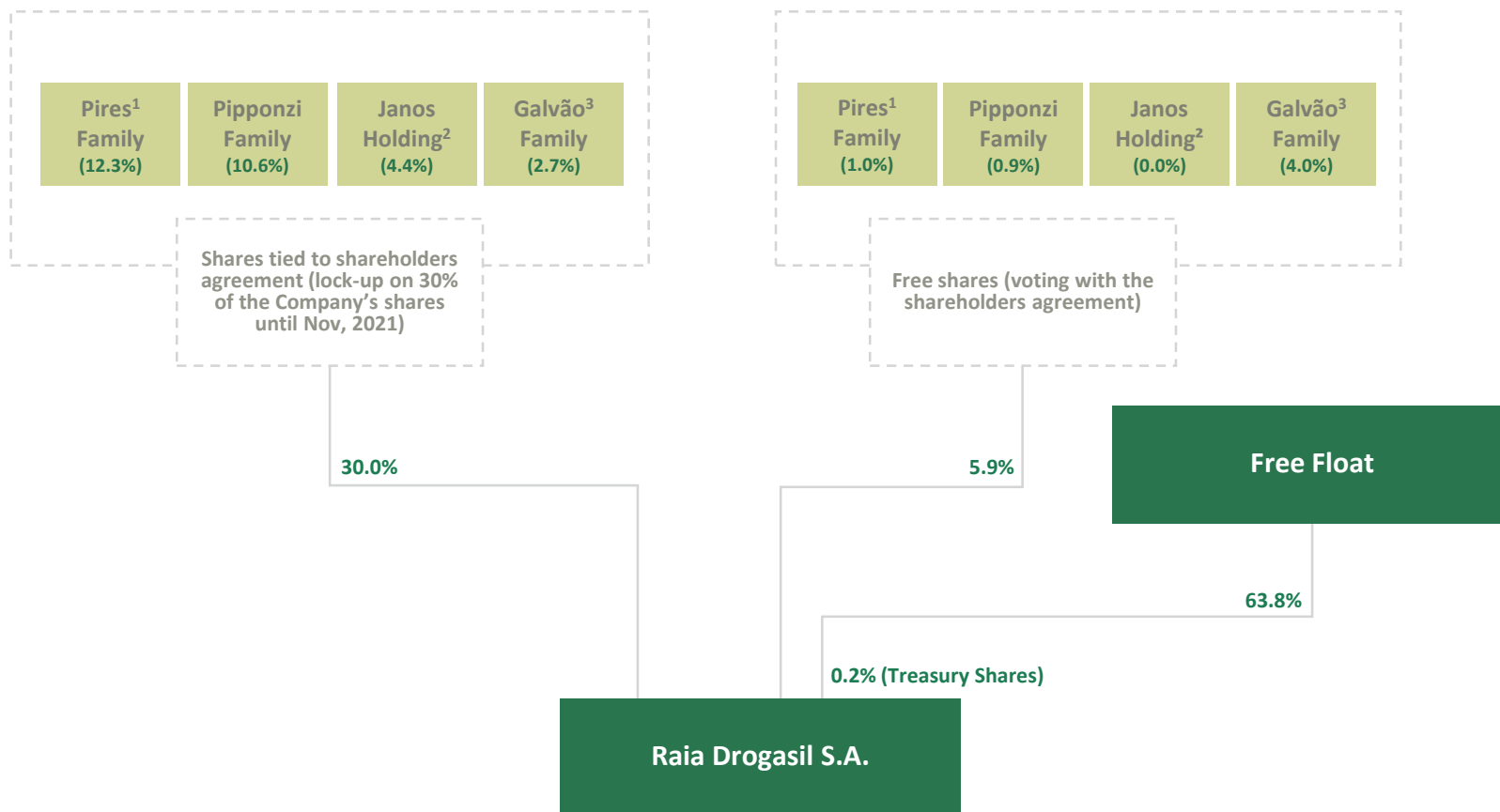
Ribeirão Preto DC

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

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, 84% of the current controlling shareholders' shares will remain under lock-up. Controllers own 6% in free shares that were not sold.



¹ Carlos Pires Oliveira Dias and Regimar Comercial S.A.

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

³ GL Participações Ltda and Paulo Galvao Shares

STRONG VALUE CREATION SINCE THE MERGER



Combined Operational Highlights	2011	2017	Var. %
Store Count	778	1,610	106.9%
Sales Area (sqm)	109,095	235,749	116.1%
Geographic Presence	9 states 78% of the Brazilian Market	20 states 94% of the Brazilian Market	+11 states +16% of the Brazilian Market
Employees	17,244	32,265	87.1%
Combined Financial Highlights (R\$ MM)			
Gross Revenues	4,775	13,852	190.1%
Gross Profit (% of Gross Revenues)	1,241 26.0%	3,988 28.8%	+221.4% +2.8 p.p.
EBITDA (% of Gross Revenues)	294 6.2%	1,130 8.2%	284.5% +2.0 p.p.
Net Income (% of Gross Revenues)	152 3.2%	513 3.7%	237.2% +0.5 p.p.
ROIC	12.7%	19.7%	+7.0 p.p.
Market Cap (billion)*	4.3	30.3	607.8%



**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

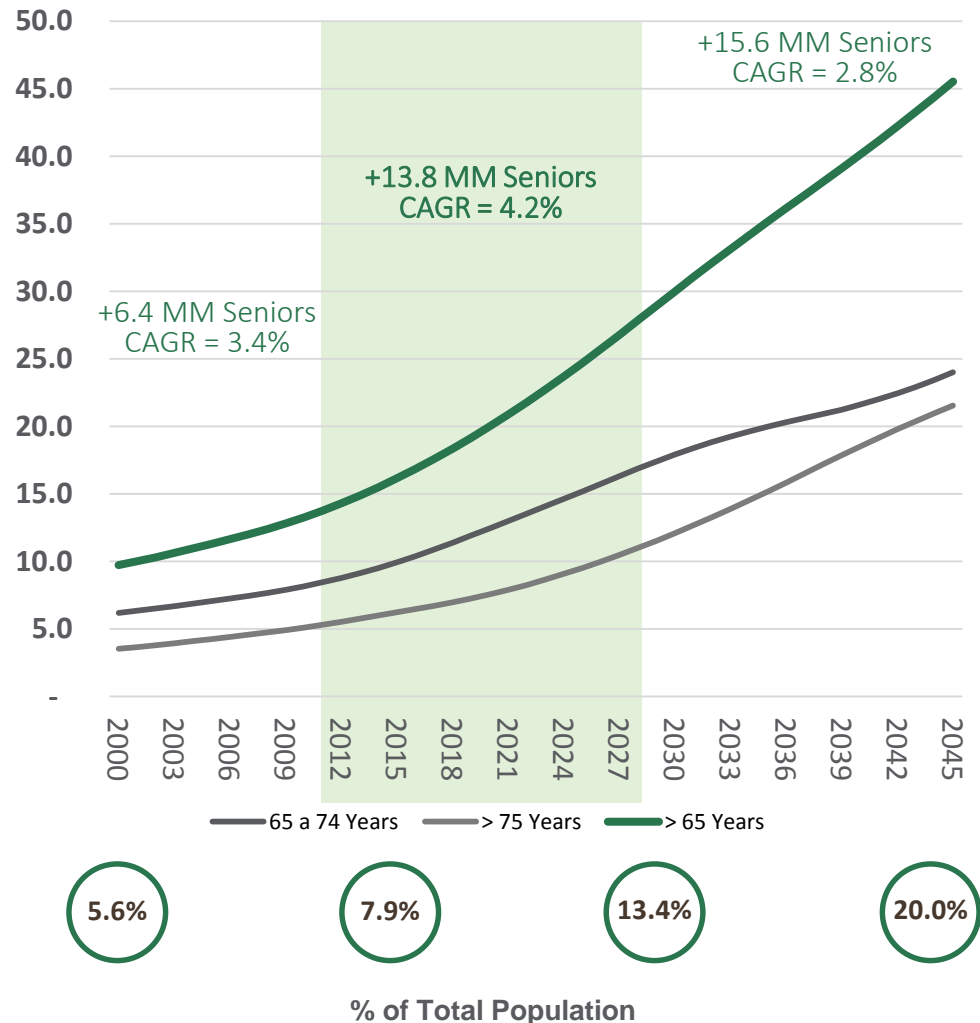
Speed of Population Aging

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



Brazilian Population Above 65 Years Old

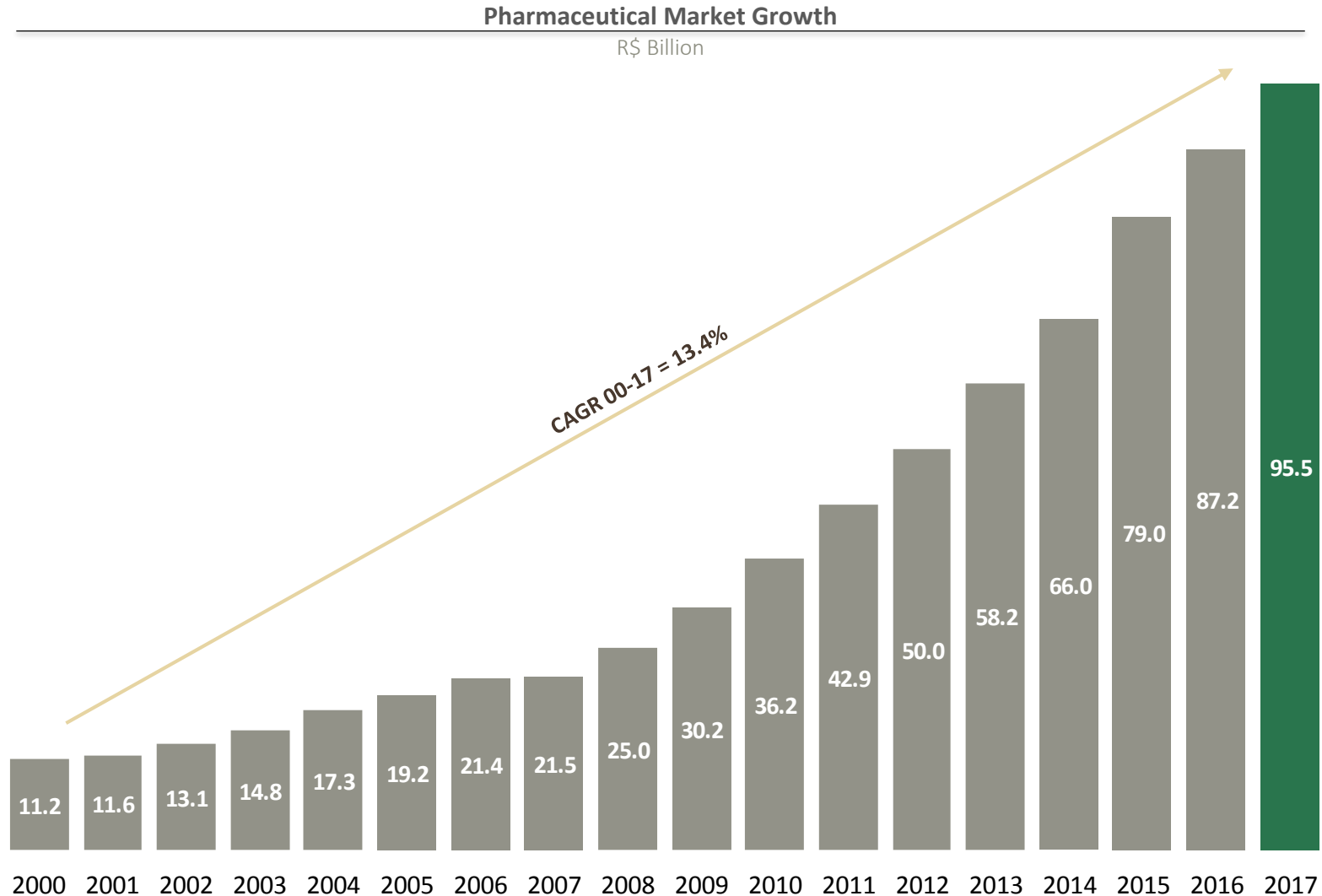
Million People



AS A RESULT...



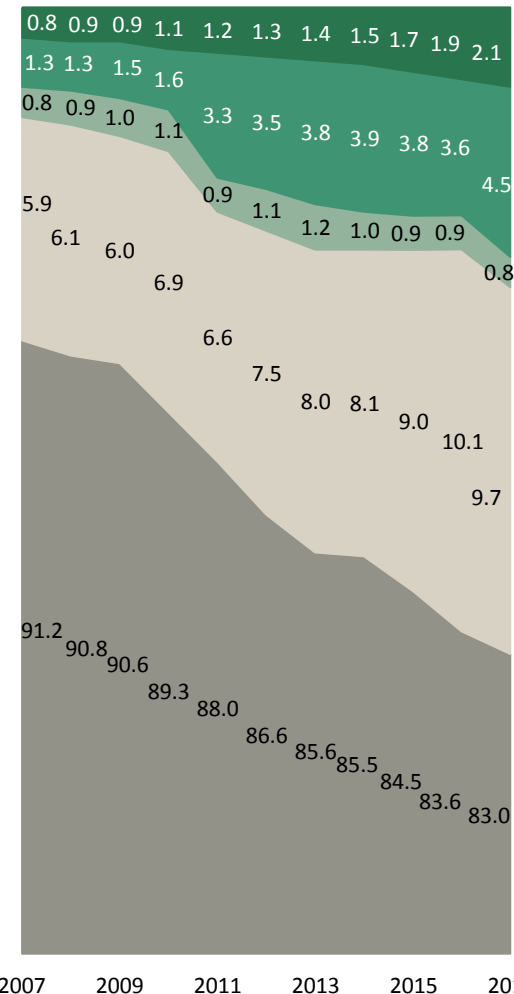
The pharmaceutical market, which grew significantly over the last 15 years, shall sustain a strong growth pace for another 15 years.



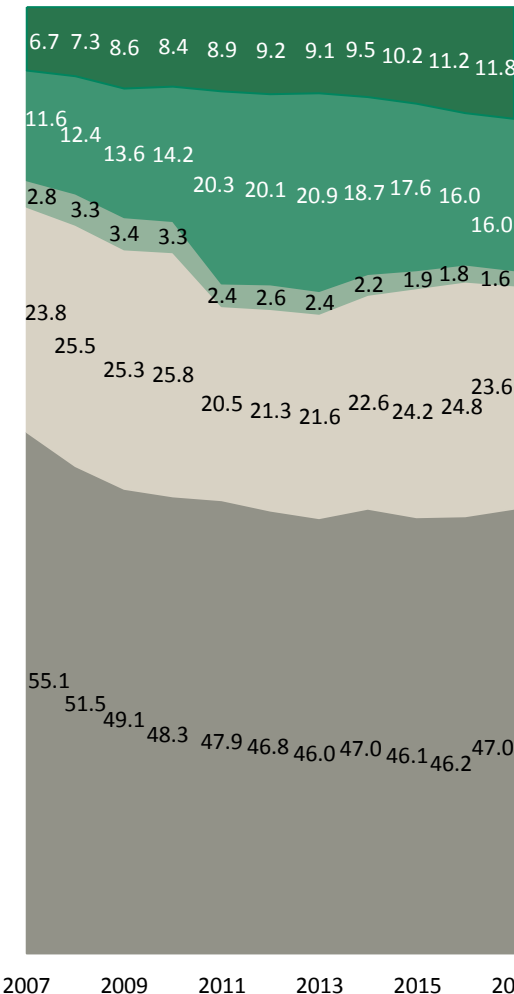
THE DRUGSTORE MARKET REMAINS VERY FRAGMENTED

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

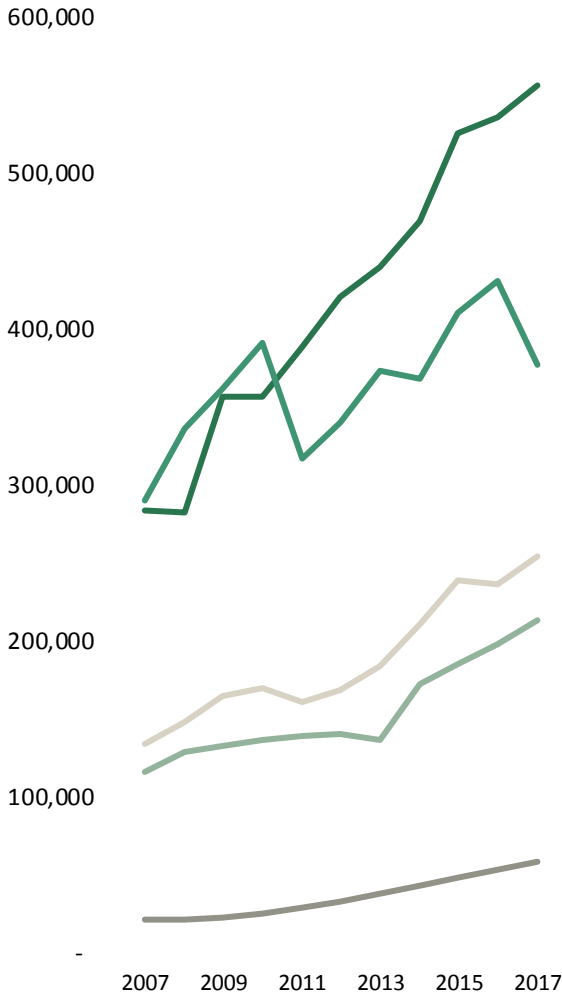
% of Stores



% of Pharma Revenues



Pharma Revenues per Store (R\$/Month)

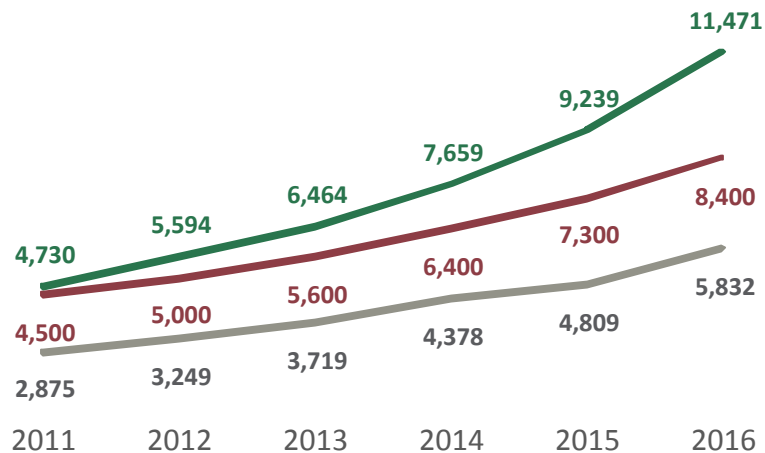


DECOUPLING FROM OUR PEERS



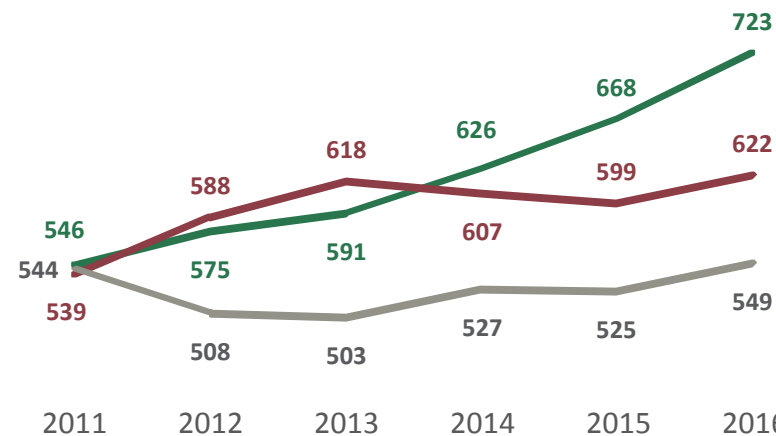
Gross Revenues

R\$ Million



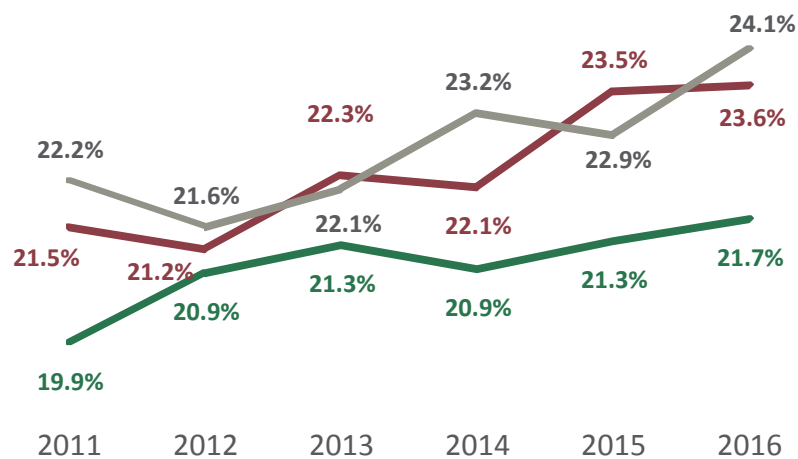
Gross Revenues per Store (Monthly)

R\$ Thousand



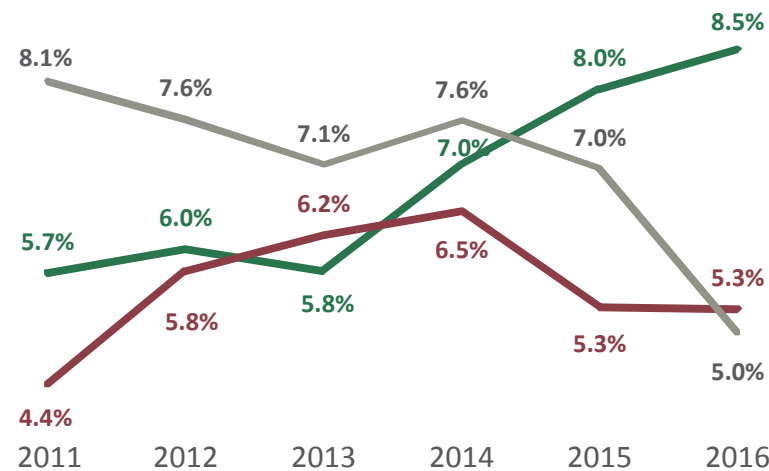
Operating Expenses

% of Gross Revenues



Adjusted EBITDA

% of Gross Revenues



RD* DPSP Pague Menos

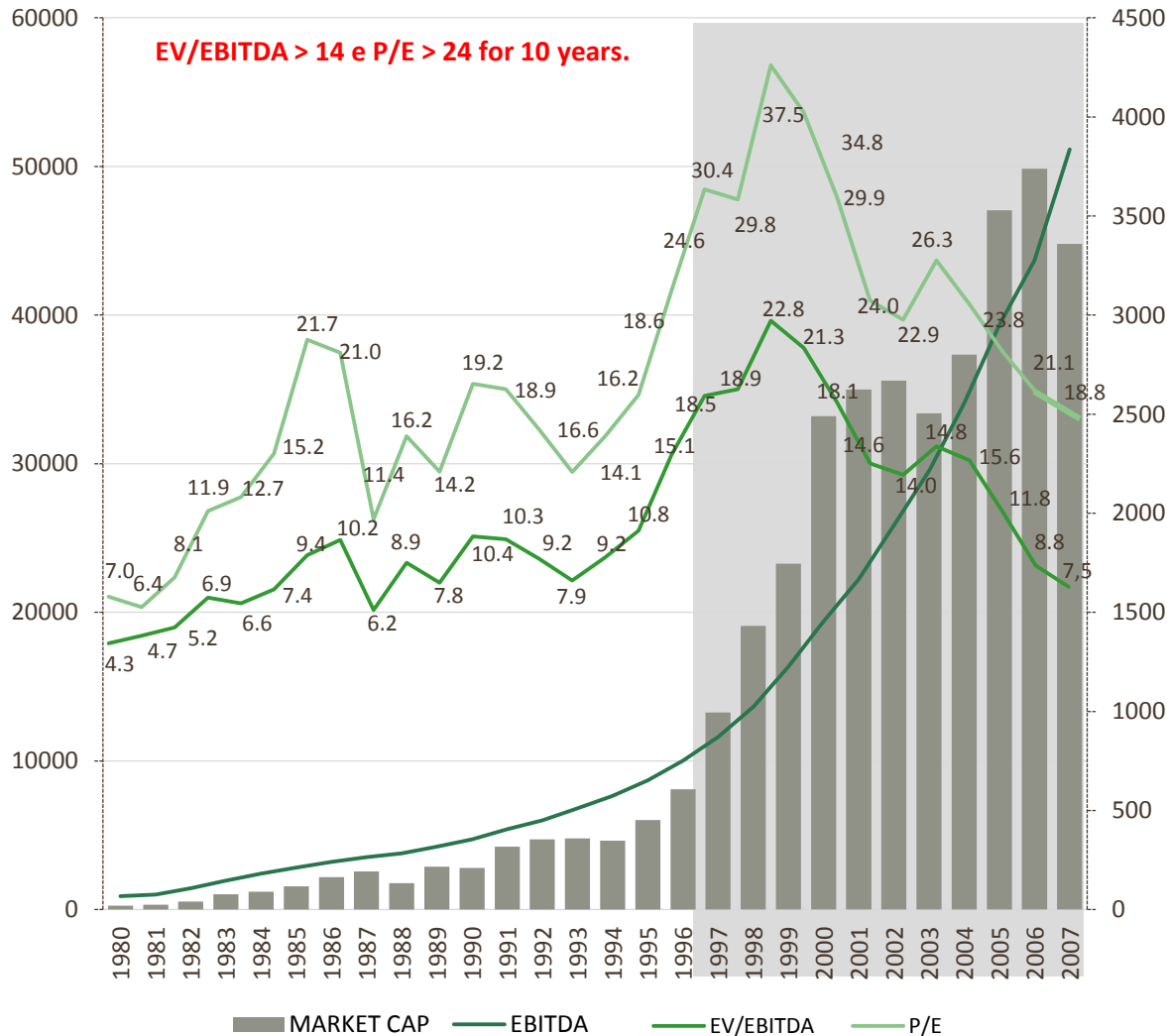
* RD figures do not include 4-bio.

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

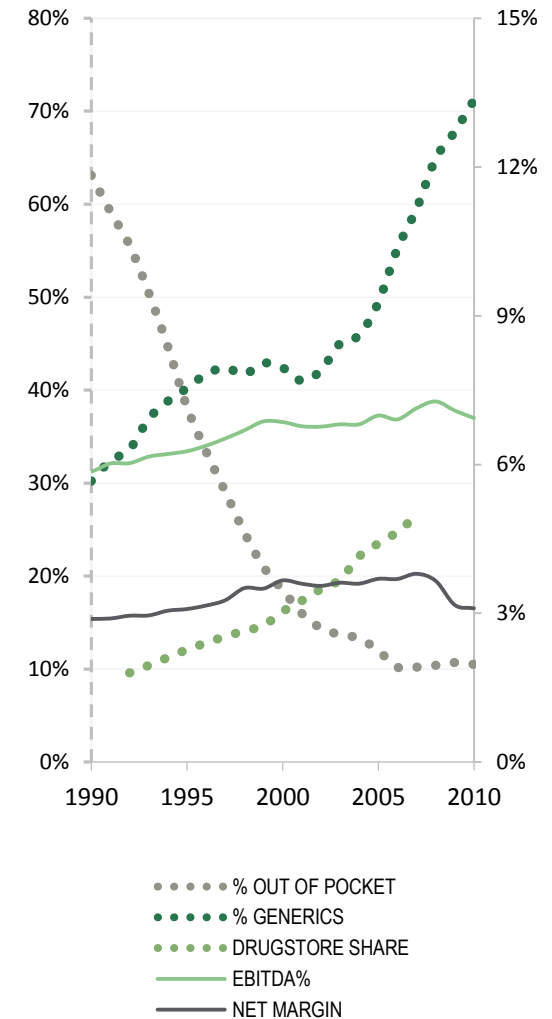


Similar real growth opportunity but larger margin expansion potential

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

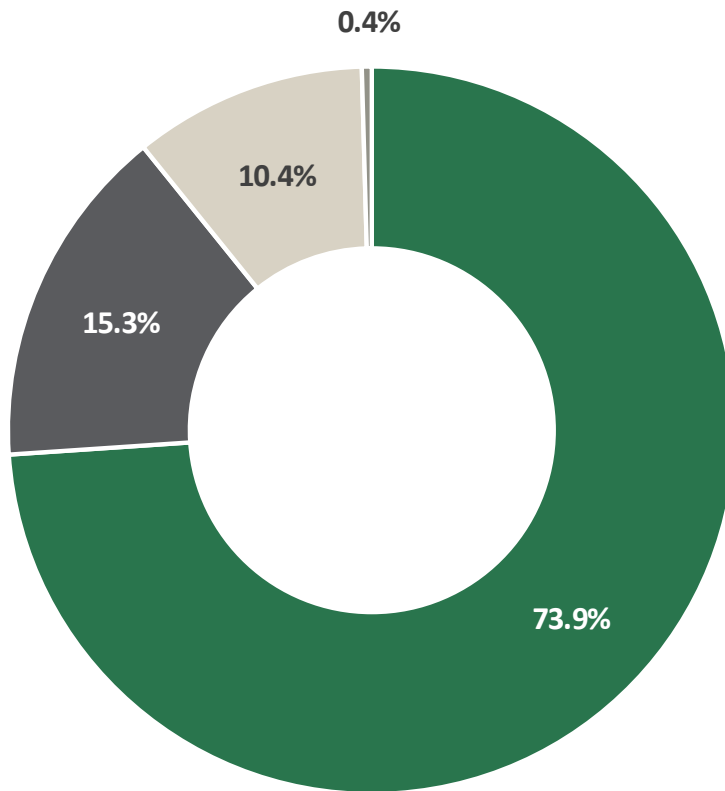


PRIME LOCATIONS



Brazil's top corners, streets and commercial centers

Location Profile



Madalena, Recife (PE)



Savassi, Belo Horizonte (BH)



Shopping Leblon, Rio de Janeiro (RJ)



Itaú HQ Store, São Paulo (SP)

Stores with Parking

Pedestrian Stores

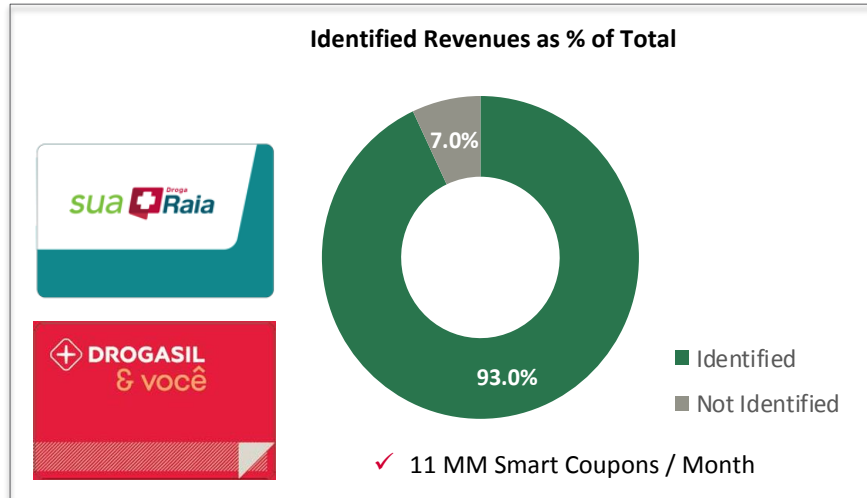
Shopping & Commercial Centers

Corporate Stores

PROPRIETARY PLATFORMS

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

1. Enroll



2. Shop

MARCELO
OFERTAS ESPECIAIS PARA VOCÊ.

oportunidade
gasta R\$ **5,00**
na compra acima de R\$20,00 em produtos de higiene oral da marca GOGATE.
aproveite!

20% DE DESCONTO
você ganha nos seus produtos favoritos

20% DE DESCONTO
Escovas dentais Oral B, Colgate, Clini 10, Sunlit

Colgate Creme Dental Refrescância Confiantemente Melhor Gel 900 Sabor Menta Hortela (Cod 12345)
R\$ 5,15 **Por R\$ 4,75** EM CADA UNIDADE

CAMILA
as vantagens são os benefícios de ter uma DROGA RAIA só sua?

NOVIDADES
25% de desconto
Colgate Creme Dental Refrescância Confiantemente Melhor Gel 900 Sabor Menta Hortela (Cod 12345)

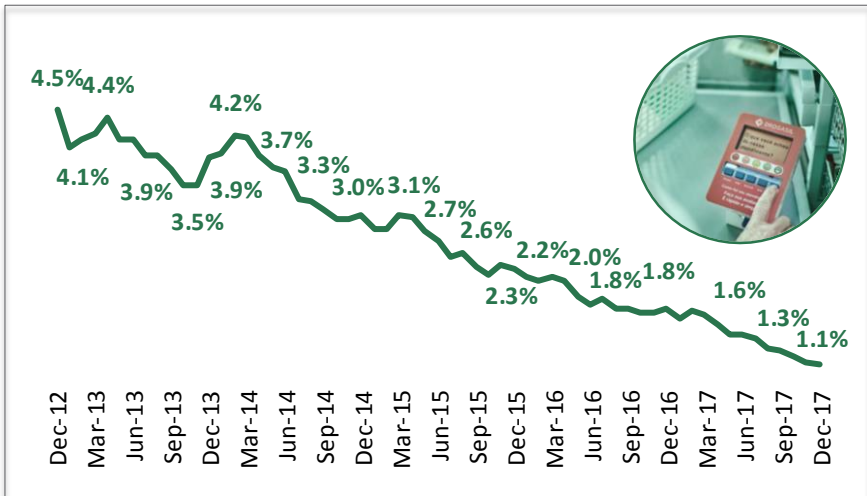
Seus produtos favoritos em ofertas para você
20% DE DESCONTO
Colgate Creme Dental Refrescância Confiantemente Melhor Gel 900 Sabor Menta Hortela (Cod 12345)

Escovas dentais
20% DE DESCONTO
Oral B, Colgate, Clini 10, Sunlit

DE R\$ 5,15 Por R\$ 4,75
EM CADA UNIDADE

Mais ofertas para você experimentar.

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

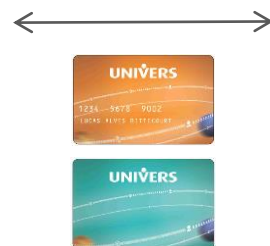
32 MM beneficiaries, over 1,100 institutions



UNIVERS
Gestão em Saúde RD



Processing & Eligibility Check



PBM System



Preferred Retail Network

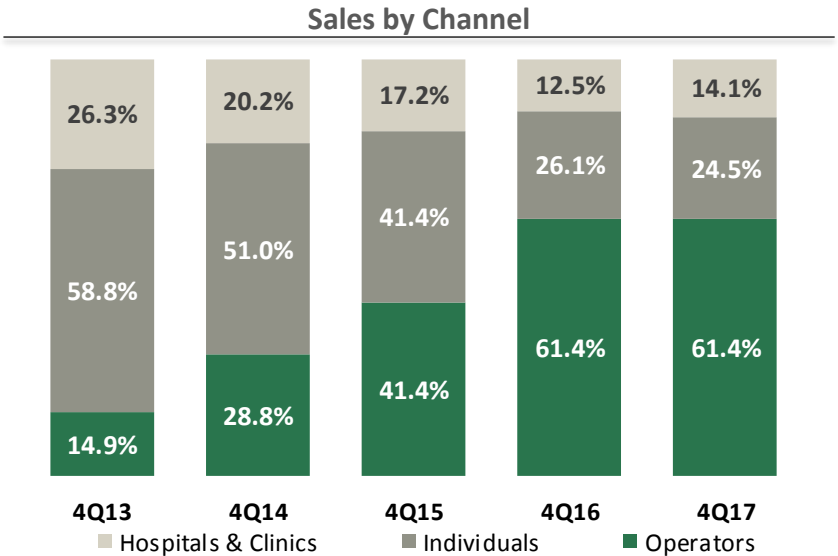
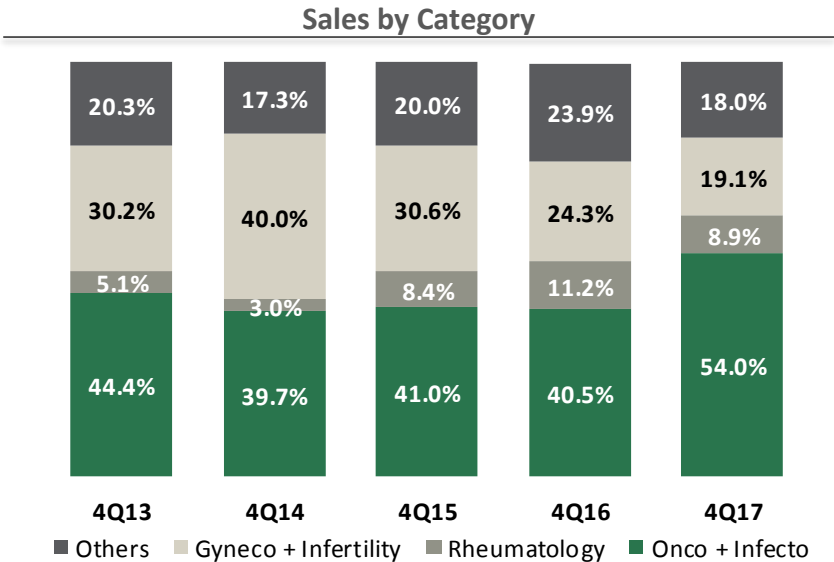
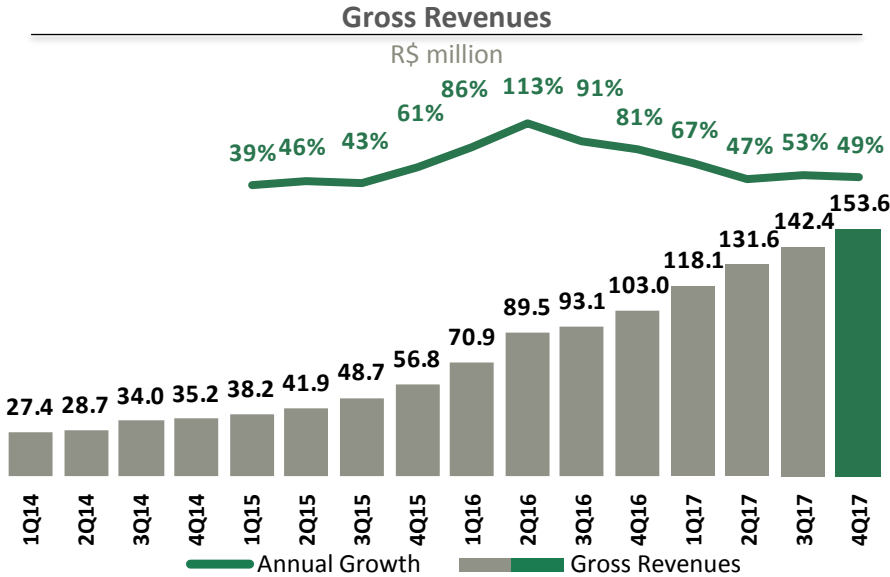
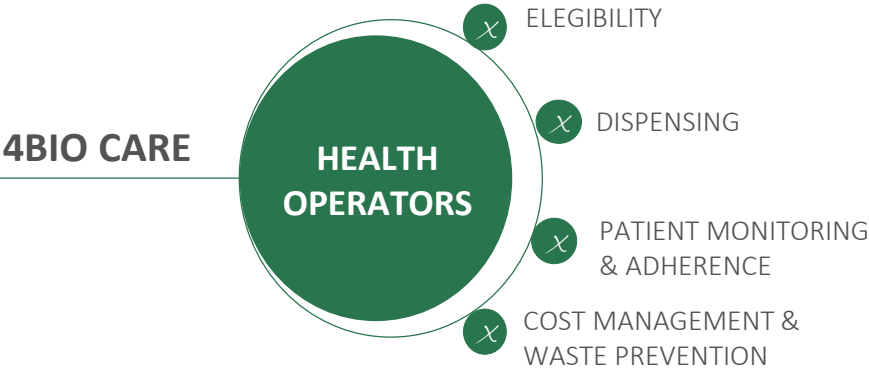


Specialty Pharmacy

700 third-party pharmacies

4BIO HAS BECOME THE LEADER IN SPECIALTY RETAILING

Strong growth due to managed care expertise and a focus in Oral Oncology and Hepatitis C





... WITH HIGH MARGINAL RETURNS ON INVESTED CAPITAL



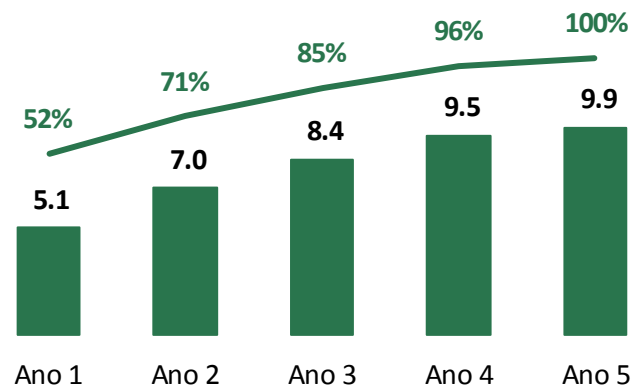
Average Mature Store Contribution Margin ⁽¹⁾

Income Statement (Mature Store) 2017	
(R\$ 000)	
Gross Revenues	9,862
Gross Profit	2,940
% of Gross Revenues	29.8%
Store Expenses	(1,588)
% of Gross Revenues	16.1%
Store Contribution Margin	1,352
% of Gross Revenues	13.7%
NPV Effect	(48)
Depreciation	(347)
Income Tax (34%)	(325)
Depreciation	347
NOPAT (a)	978
% of Gross Revenues	9.9%
Capex	1,733
Pre-Operating Expenses	183
Operating Working Capital	692
Total Investment (b)	2,609
ROIC (a/b) ⁽²⁾	37.5%

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

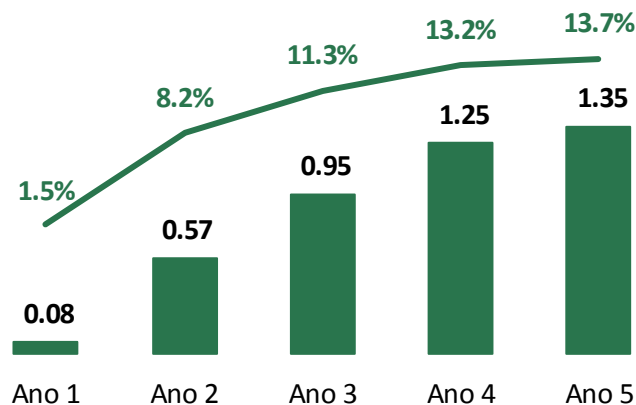
(2) ROIC calculation includes the full CAPEX (gross PP&A instead of Net PP&A), and therefore no depreciation in the NOPAT

Gross Revenues Ramp-Up (as % of sales: in R\$ million per store/year)



Contribution Margin Ramp-Up

(% of gross revenues: in R\$ million per store/year)



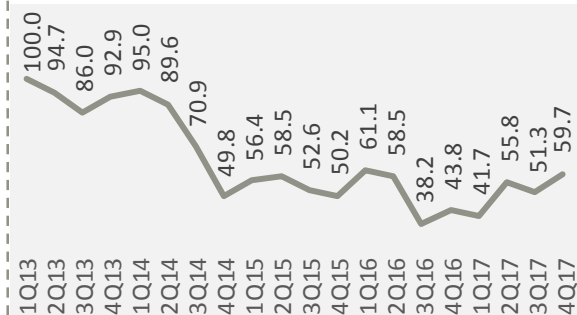
Source: Company internal estimates

IMPROVED EXECUTION DRIVING PRODUCTIVITY GAINS

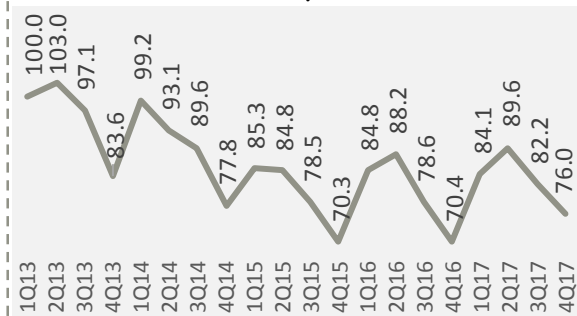


Improved Supply Chain Management

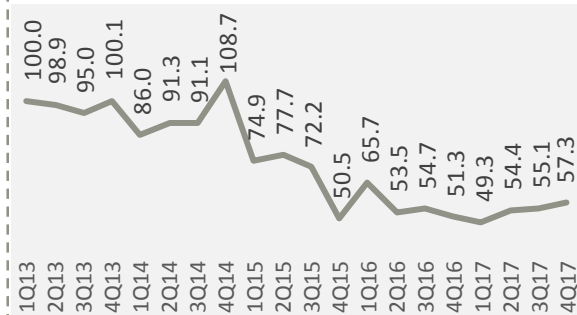
Stock-Outs



Cash Cycle

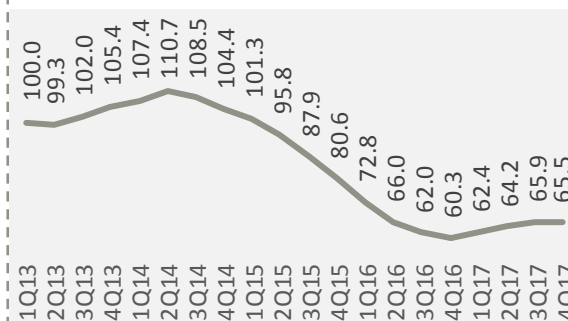


Inventory Losses

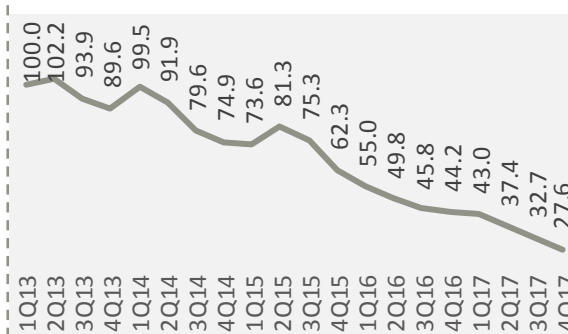


Improved Service

Employee Turn-Over (LTM)

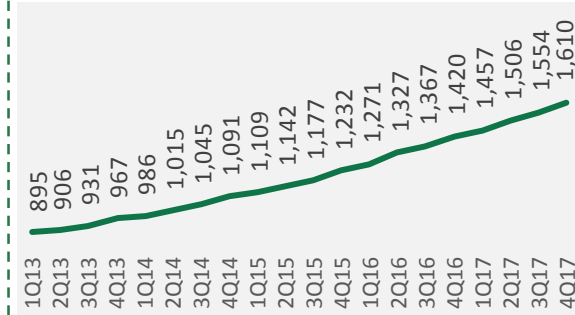


Customer Insatisfaction (%)

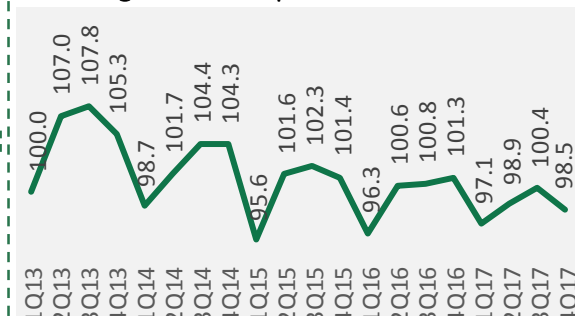


Accelerate Growth & Improved Productivity

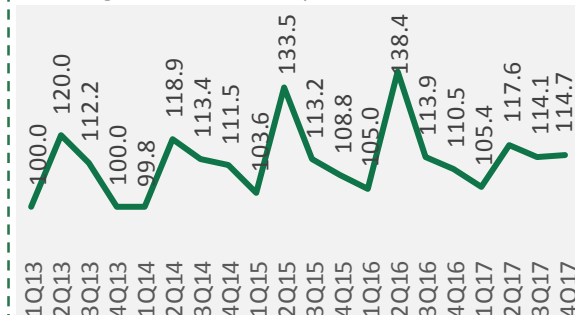
Stores



Avg. Revenues per Mature Store



Avg. Store EBITDA per Mature Store

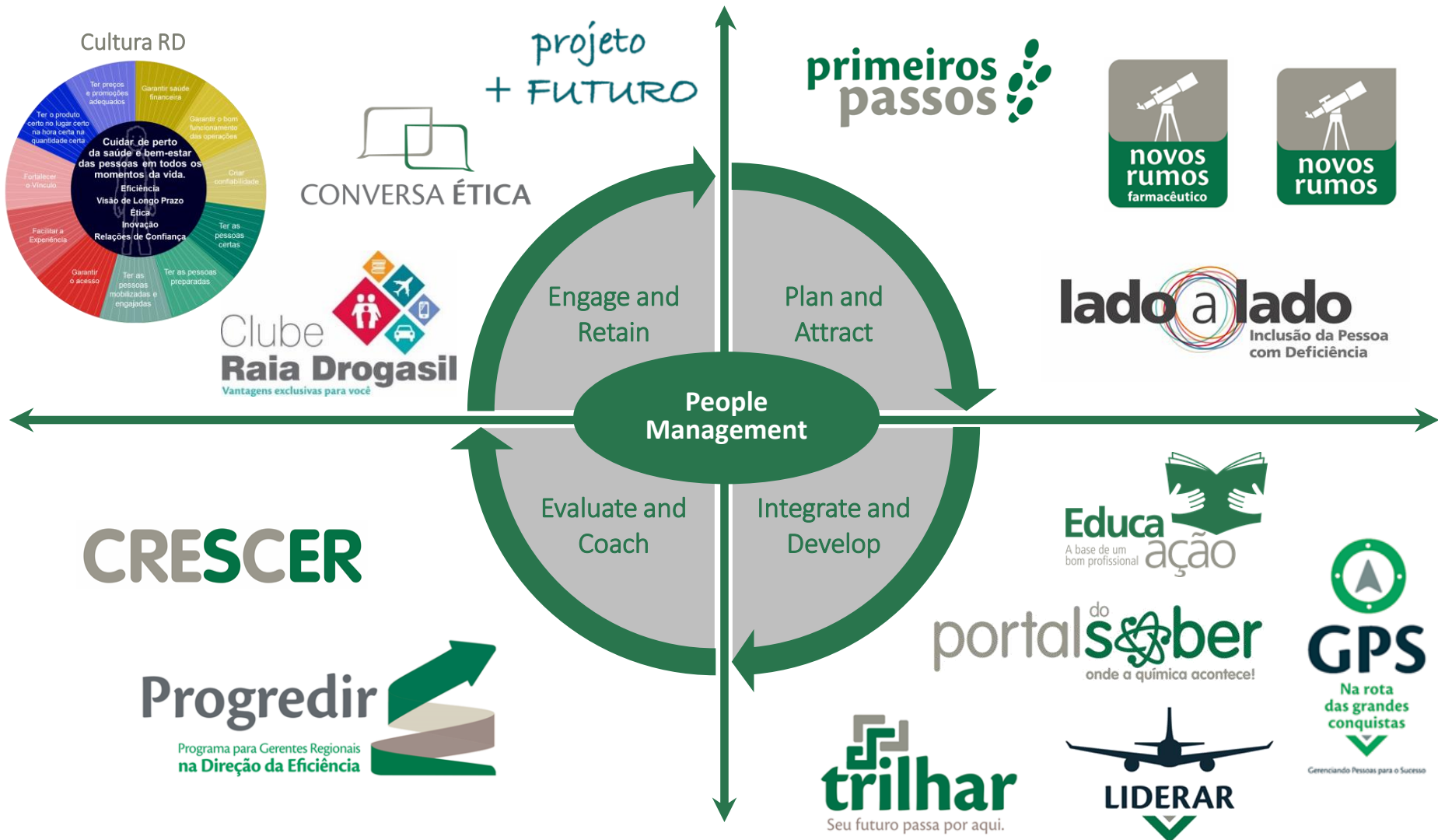


* 1Q13 = 100 Index. Figures do not include 4-bio. Cash cycle adjusted to a comparable basis due to the old tax regime that reduced inventories up to the 3Q13 (equivalent to +4.5 days). Mature Store Revenues and EBITDA were adjusted to 1Q13 CPI levels.

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

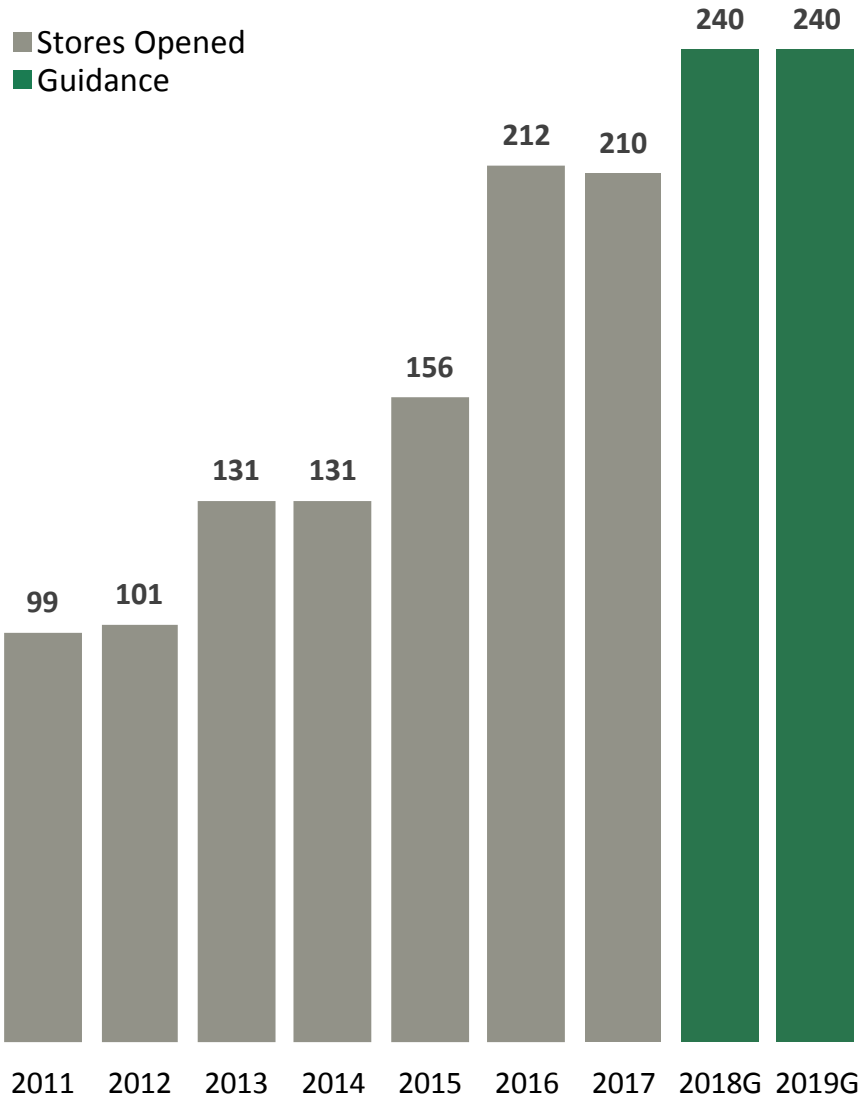


7. Leverage & Improve Platforms

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

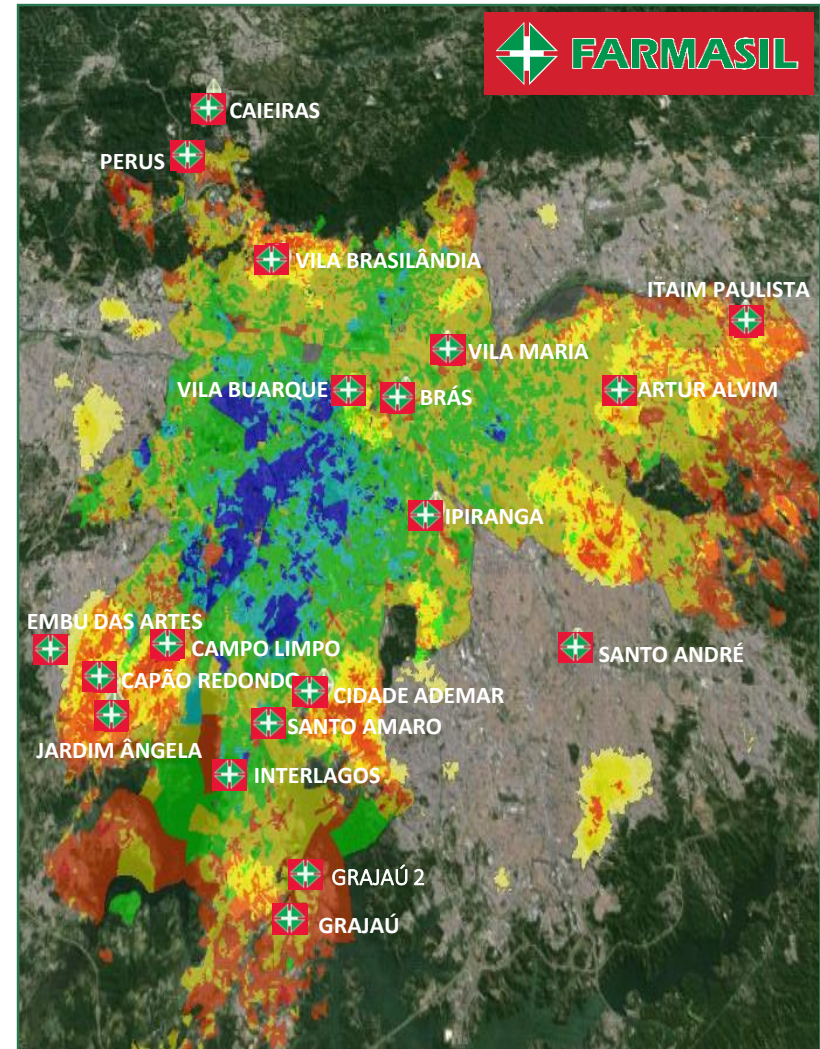
Differentiated and innovative store format

Low operating cost

Competitive prices and focus on generics

Higher gross margin and lower working capital

São Paulo Metropolitan Region



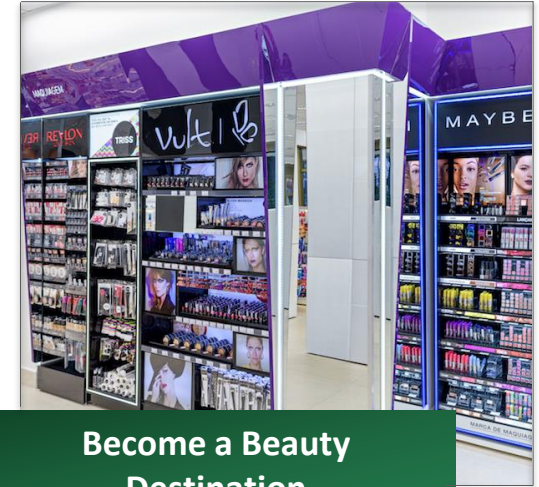
3 – ENHANCE CATEGORY MANAGEMENT & SHOPPING EXPERIENCE



**Customer-Centric
Category Management**



**Implementing a New
Pricing Platform**



**Become a Beauty
Destination**

Primary Care



Specialty Drugs



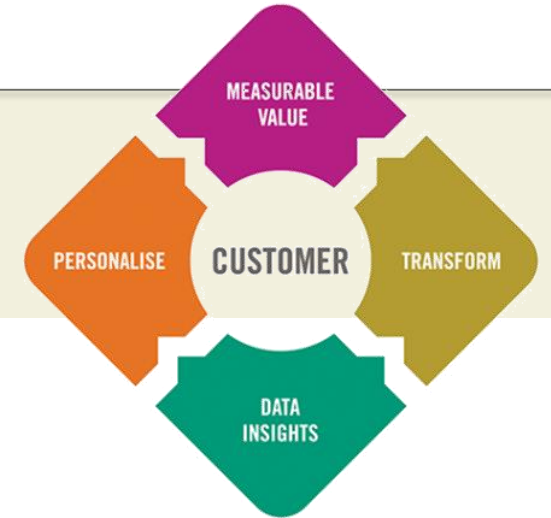
+

**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



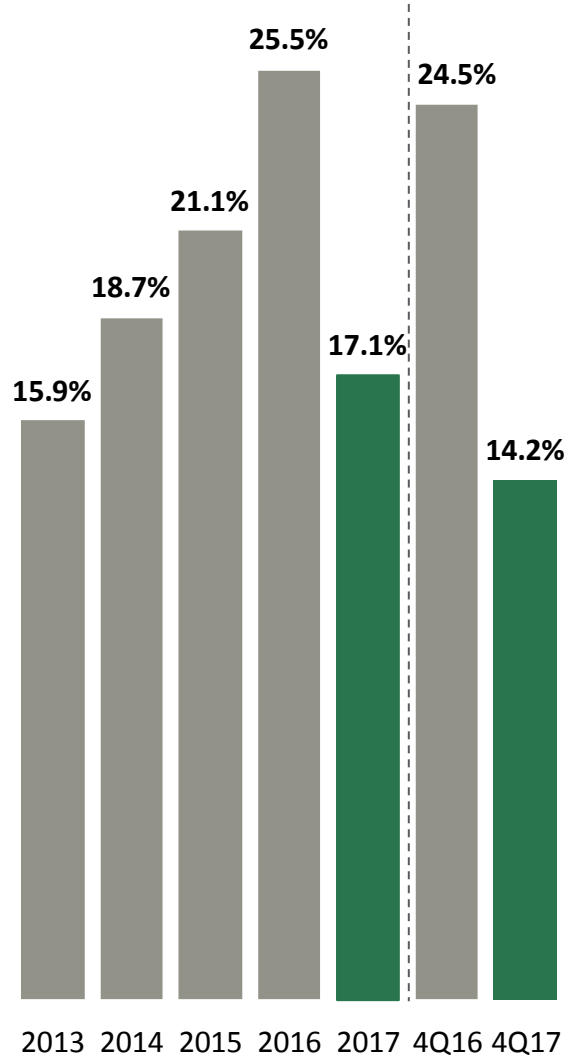
PROVEN TRACK
RECORD IN
DELIVERING HIGH
GROWTH WITH
MARGIN EXPANSION



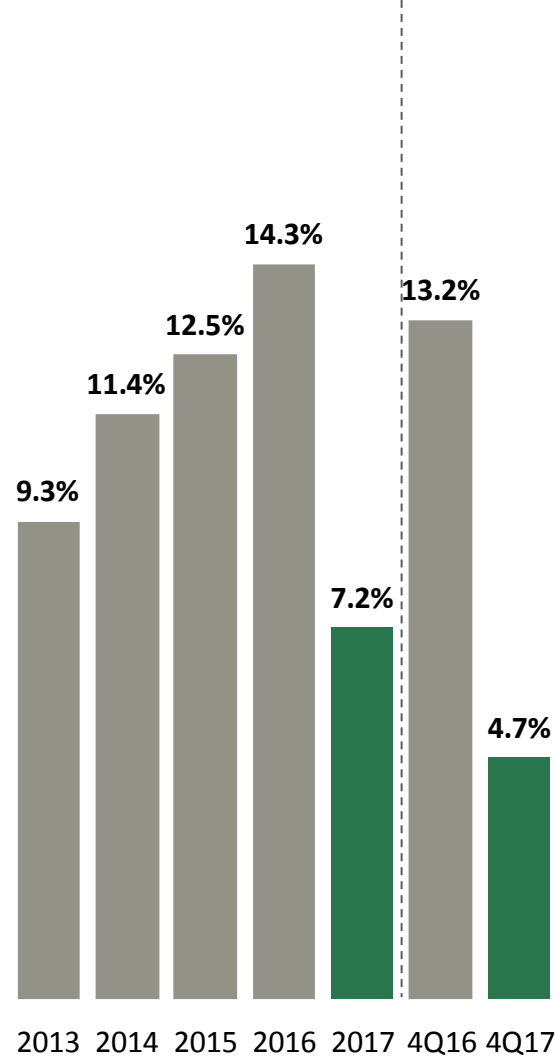
STRONG REVENUE GROWTH



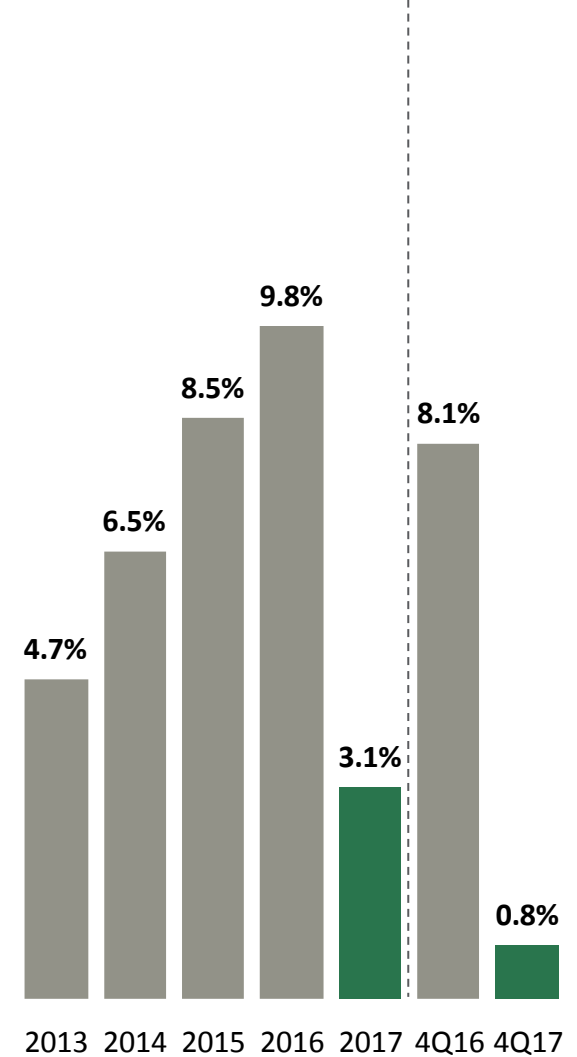
Consolidated Revenue Growth



Same Store Sales Growth*



Mature Stores Growth*



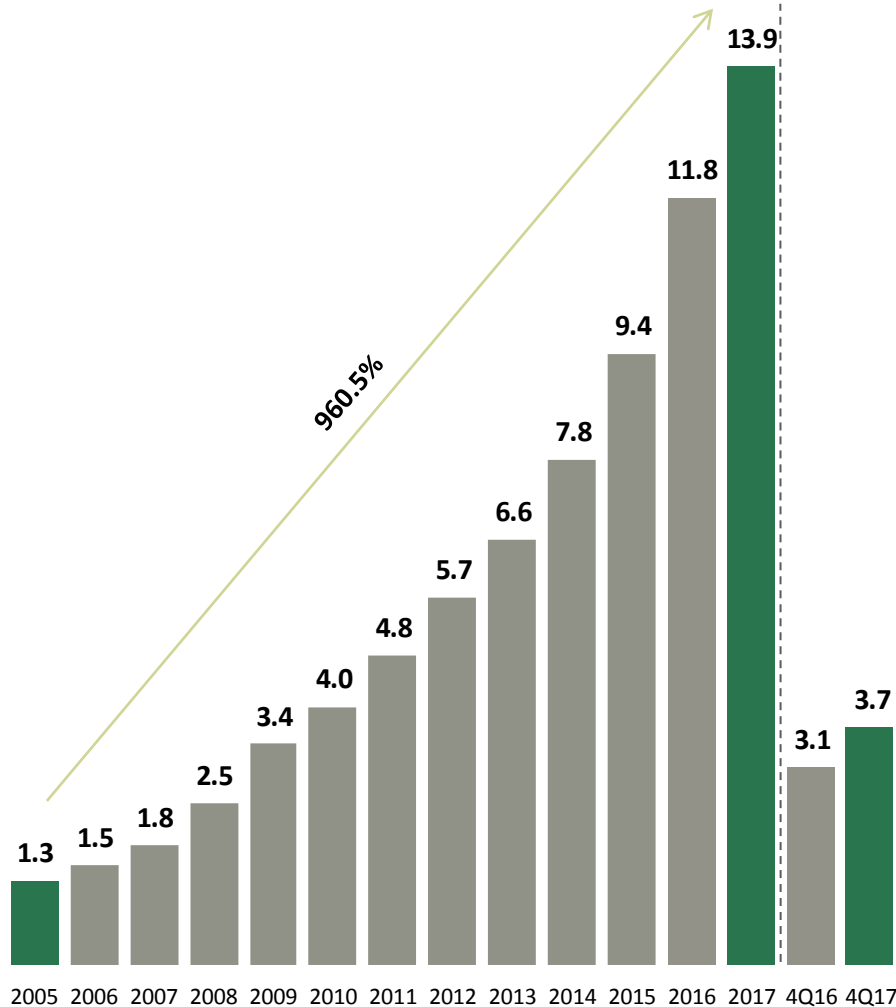
* Only considers retail.

PHARMACEUTICAL PRODUCTS HAVE BEEN THE HIGHLIGHT

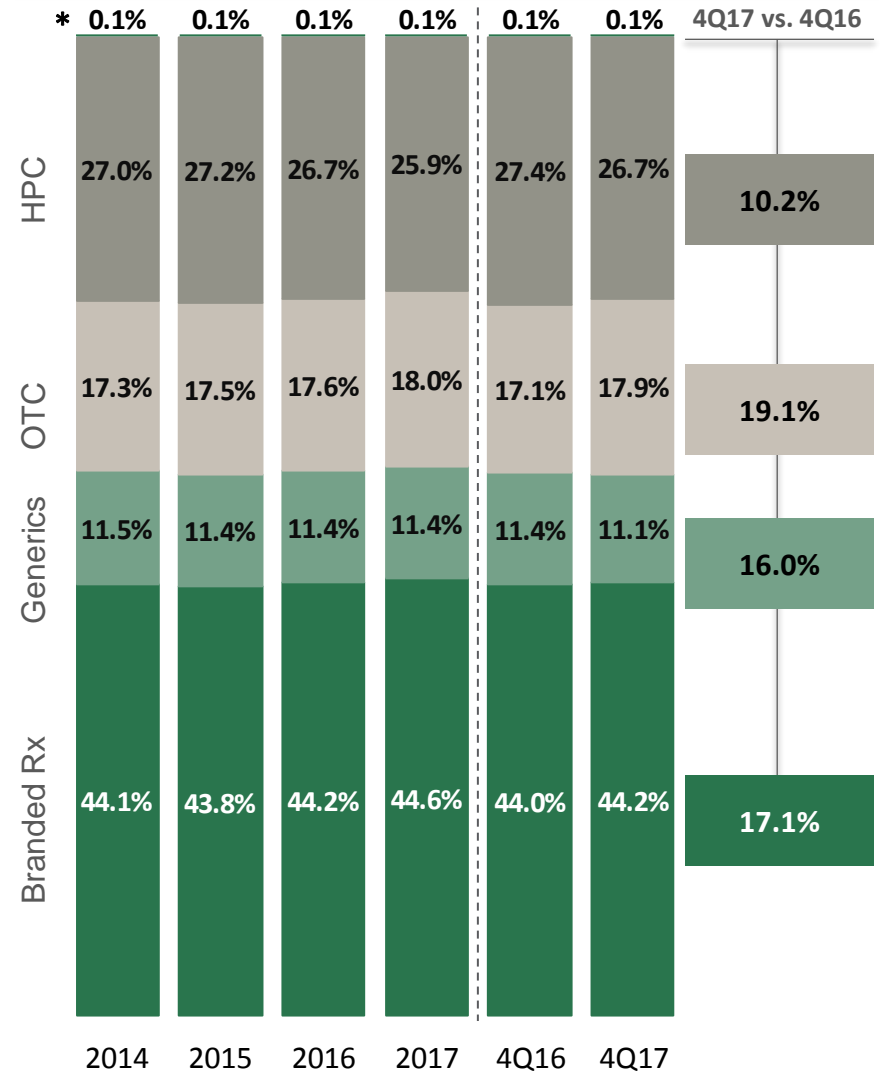
Maintaining a very strong growth pace in an unfavorable macro scenario

Consolidated Gross Revenue

R\$ million



Retail Sales Mix

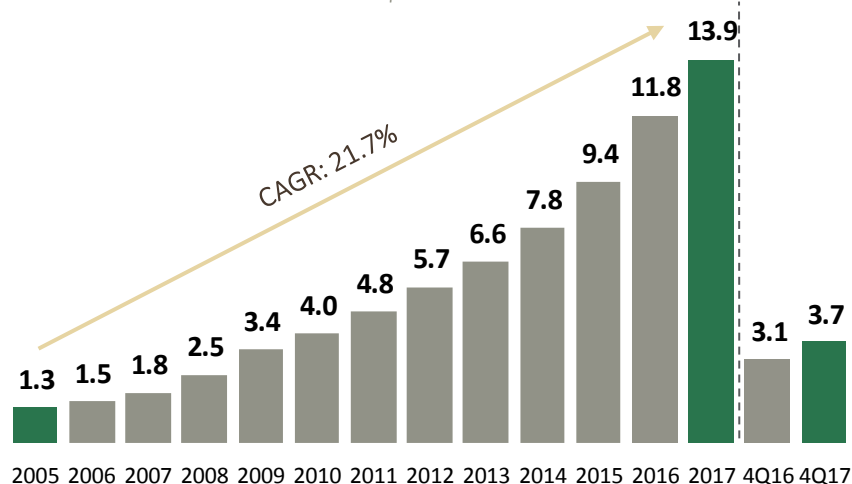


DELIVERING ACCELERATED LONG-TERM GROWTH WITH MARGIN EXPANSION*



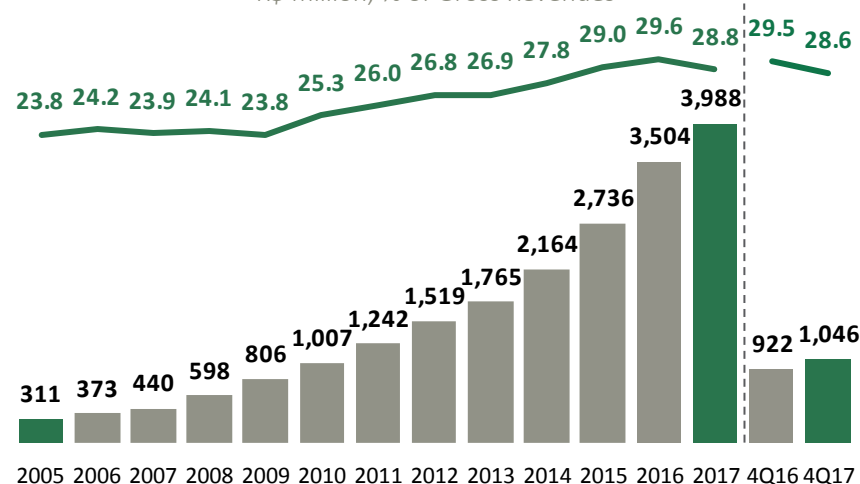
Gross Revenues

R\$ billion



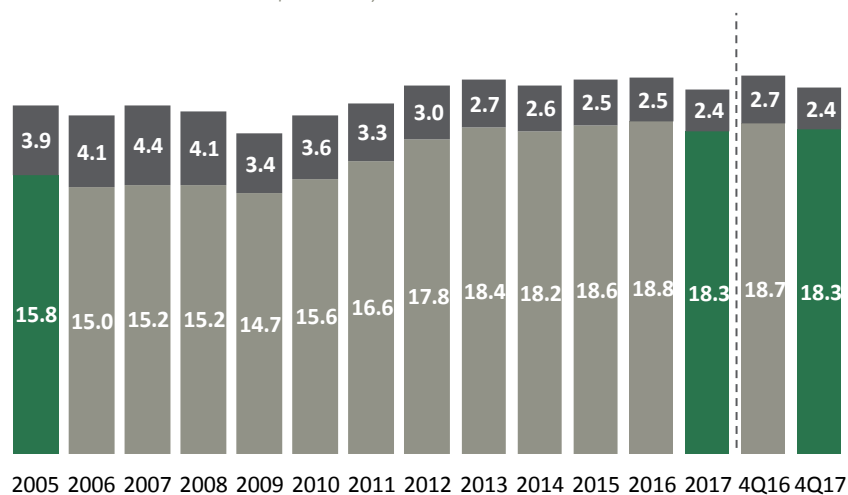
Gross Profit

R\$ million, % of Gross Revenues



Operational Expenses

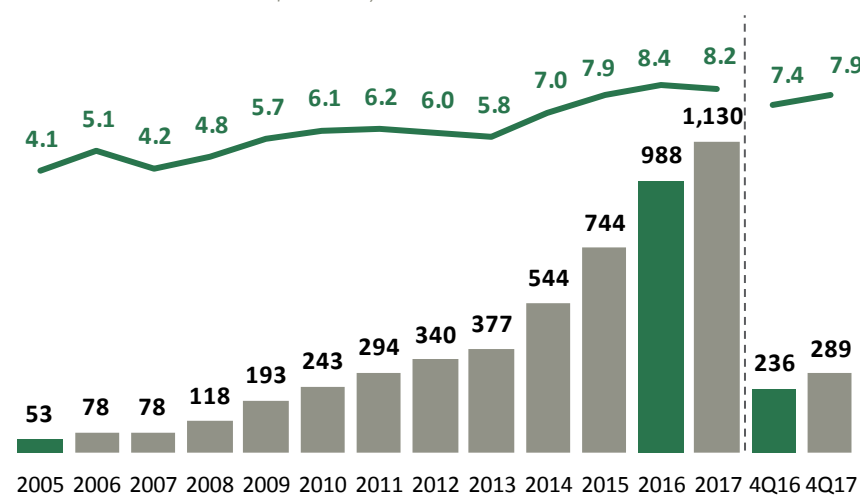
R\$ million, % of Gross Revenues



■ Sales Expenses ■ G&A

EBITDA

R\$ million, % of Gross Revenues

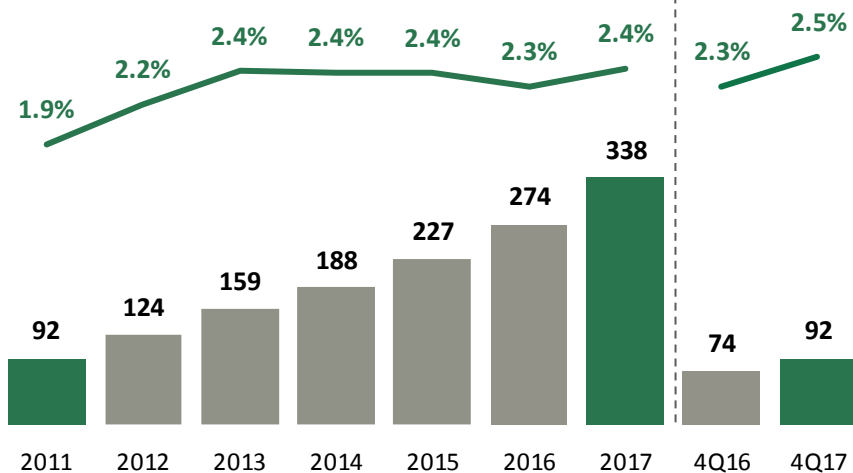


EXPANDING NET MARGIN*



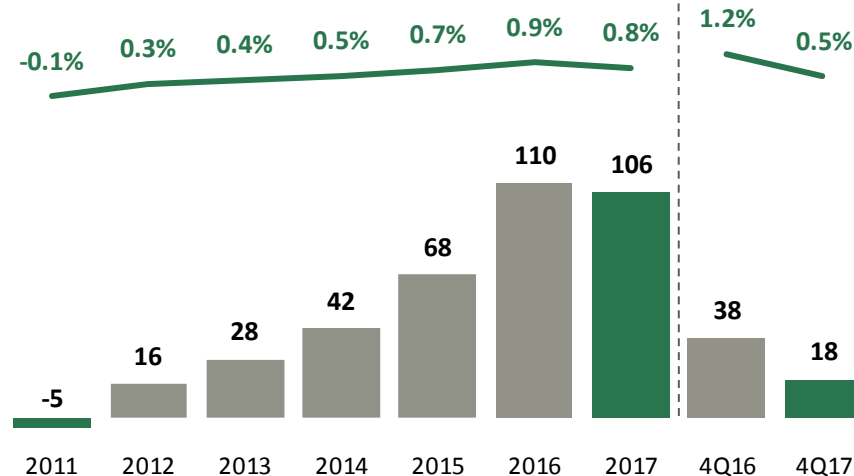
Depreciation

R\$ million, % of Gross Revenues



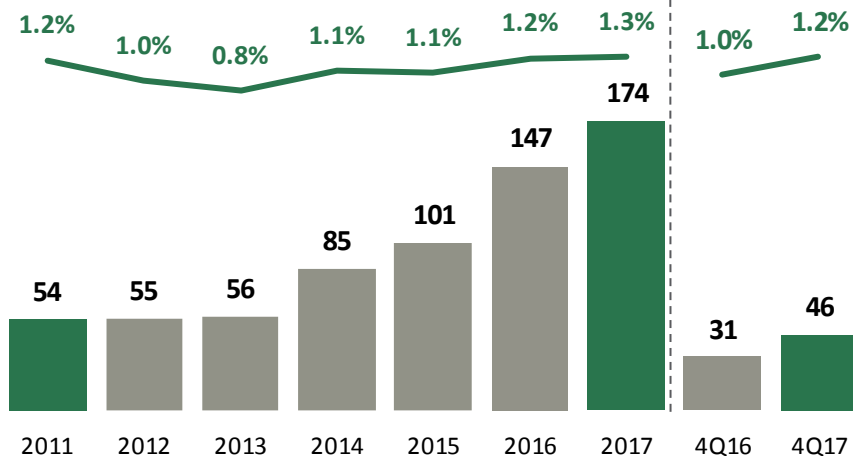
Net Financial Expenses

R\$ million, % of Gross Revenues



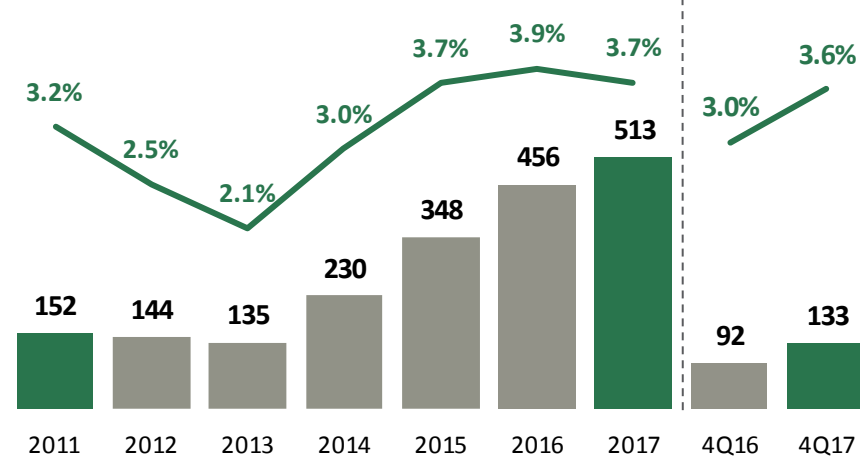
Income Tax

R\$ million, % of Gross Revenues



Adjusted Net Income

R\$ million, % of Gross Revenues



STRONG OPERATING CASH FLOW GENERATION TO FINANCE INVESTMENTS



Cash Flow

Cash Flow (R\$ million)	2014	2015	2016	2017
Adjusted EBIT	356,7	516,5	713,2	792,4
NPV Adjustment	(33,6)	(53,2)	(67,3)	(63,9)
Non-Recurring Expenses	(9,5)	(10,0)	(7,7)	0,2
Income Tax (34%)	(106,6)	(154,1)	(217,0)	(247,8)
Depreciation	187,8	227,1	274,4	337,9
Others	8,4	(3,5)	12,9	32,2
Resources from Operations	403,2	522,7	708,6	851,0
Cash Cycle*	(116,6)	(90,6)	(257,5)	(337,0)
Other Assets (Liabilities)**	38,7	28,2	59,3	75,5
Operating Cash Flow	325,3	460,3	510,4	589,5
Investments	(271,2)	(388,7)	(489,1)	(639,2)
Free Cash Flow	54,2	71,6	21,3	(49,7)
Interest on Equity	(41,5)	(121,3)	(153,3)	(170,8)
Income Tax Paid over Interest on Equity	(10,6)	(25,3)	(27,0)	(28,5)
Net Financial Expenses***	(8,5)	(10,9)	(42,1)	(46,8)
Share Buyback	(20,9)	-	-	-
Income Tax (Tax benefit over financial expenses and interest on equity)	28,3	64,6	80,5	84,8
Total Cash Flow	0,9	(21,3)	(120,6)	(211,0)

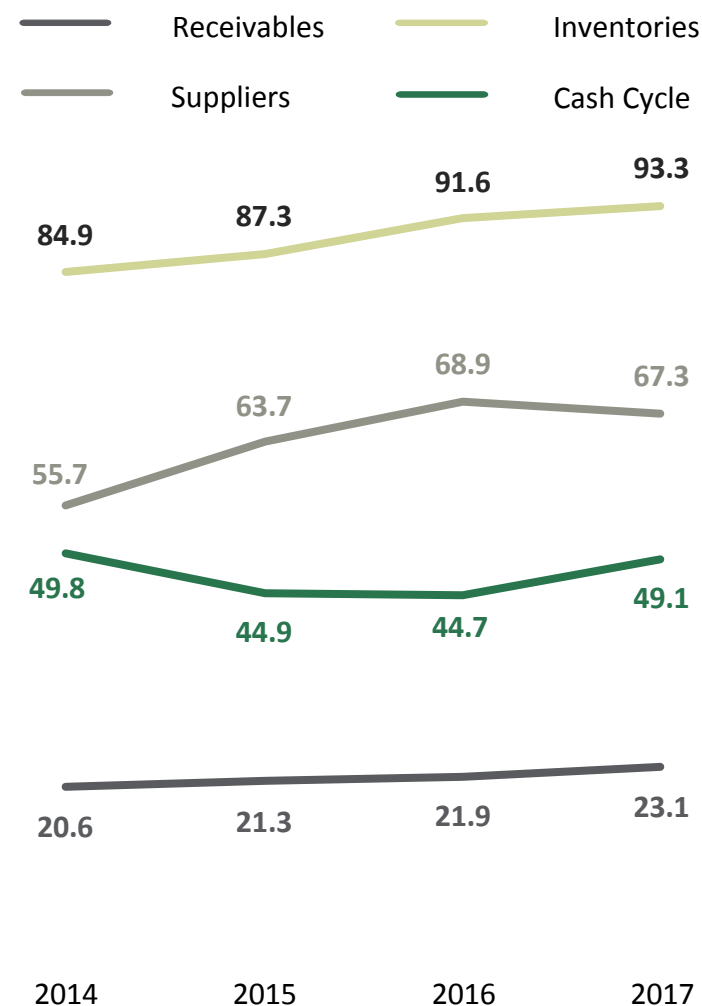
* Includes adjustments to discounted receivables.

** Includes tax shield from goodwill amortization and NPV adjustments.

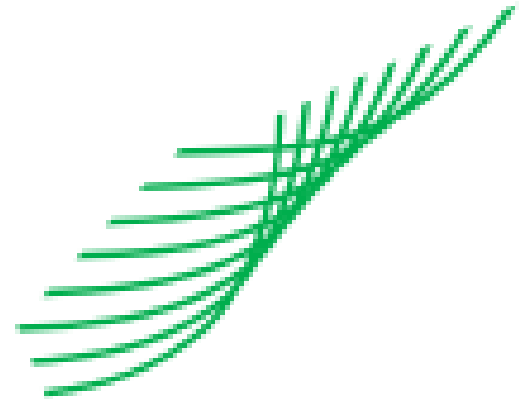
*** Excludes NPV adjustments.

Cash Cycle*

COGS Days, Gross Revenues Days



IBOVESPA



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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