

## Q2 2011 Earnings Call

### Company Participants

- Claudio Roberto Ely, CEO, IR Director
- Unidentified Speaker, Company Representative

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to Drogasil's Second Quarter 2011 Results Conference Call. Today with us we have Mr. Claudio Roberto Ely, CEO and Investor Relations Director, Mr. Ricardo Castro de Azevedo, CFO. And Mr. Roberto Listik, Investor Relations Officer. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Drogasil management and on information currently available to the Company. They involve risk and uncertainties because they relate to future events. And therefore depend on circumstances that may or may not occur.

Investors should understand that conditions related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements. Now I'll turn the conference over to the CEO and Investor Relations Director, Mr. Claudio Roberto Ely, who will begin the presentation. Mr. Ely, you may begin your conference, sir.

#### Claudio Roberto Ely {BIO 15364128 <GO>}

Thank you. Good morning. Good afternoon. We thank you all for joining Drogasil webcast and conference call for the Second Quarter 2011. At this moment I would like to transfer the presentation to Mr. Roberto that -- to handle the presentation. Please, Mr. Roberto, proceed.

#### Unidentified Speaker

Thank you, Mr. Ely. Highlight to be covered in this conference call. First, we ended Second Quarter 2011 with 353 stores, inaugurated 10 new stores in the Second Quarter 2011, Drogasil presence in 90 Brazilian cities, an expansion of 14% in geographic coverage and 17.2% in drugstore chain over same period.

Second, same-store sales index growth of 5.6% in the Second Quarter 2011. Evolution compared to First Quarter with 4% in accordance to the trends guidance for the year 2011. Third, net profit of BRL27.6 million, with return on sales of 4.7%, EBITDA of BRL45.1 million that resulted in EBITDA margin of 7.6% of gross sales, or 8% of net sales.

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Please, next slide. The subject is gross sales revenue. Second quarter 2011 represented gross sales of BRL591.1 million and year-on-year growth of 15.2%, contributed future[ph] result increased on average ticket of 5.4%. And number of transactions of 9.1% year-on-year base Second Quarter 2011. By the end of Second Quarter 2011, sales value increase 16.6% over Second Quarter 2010, totaling sales value of 46,759 square meters. Drogasil drugstore chain expanded its geographic coverage to 90 Brazilian cities, an increase of 14% in comparison to Second Quarter 2010, with 79 Brazilian cities.

Please, next slide. The subject is same store sales. Same store sales growth in the Second Quarter 2011 in comparison to Second Quarter 2010 criteria, stores less than three years represented 26.8%, or variation of BRL12.3 million. Stores more than three years of operation represented 3.5%, or variation of BRL16.5 million. In the period, the compound index presented growth of 5.6% following ascending trends over First Quarter 2011 with 4%. We should highlight sales performance in the Second Quarter, with increase of 8.7% over First Quarter '11. Performance superior to 7% recorded for the same period in analysis for 2010.

Please, next slide. In this slide a static picture of new store opening and portfolio of stores per category of age. This is projected until Fourth Quarter 2012. At the end of Second Quarter '11, 69% of our stores were stores with more than three years of operation comparatively to 63% in Second Quarter '10.

Please, next slide. The subject is sales breakdown. In this slide, major segments that formed Drogasil's sales breakdown highlighting the Second Quarter '11. Drogasil once more present a nondrug segment increase in the sales breakdown and total sales of BRL169.5 million. Please note that nondrug segment increase 180 basis points in Drogasil sales breakdown for first half comparative analysis. Another highlight in the Second Quarter '11, generic drug sales increase 160 basis points in the drug sales, with total sales of BRL64.3 million in the Second Quarter '11. It represented year-on-year growth of 24.8% for this end[ph].

Please, next slide. The subject is drug market share. In the comparative match analysis June '11 over June '10, Drogasil close with a drug market share of 4.5% nationwide. We registered drug market share increase in all markets with our presence. Espirito Santo with 12 stores in operation starting as of July 10 09 registered 7.7% drug market share, increase of 120 basis points. Sao Paulo increase of 50 basis points, Minas Gerais increase of 10 basis points, Brasilia federal district that had 26 new stores inaugurated in 2010 posted drug market share increase of 180 basis points. Goias that had nine new stores inaugurated in 2010 posted drug market share increase of 90 basis points.

Please, next slide. The subject is gross margin. Gross margin in the Second Quarter '11 resulted in 24.1%, drop of 20 basis points in the year-on-year analysis. First half comparative demonstrated and an evolution in gross margin from 21.6% in the First Quarter '11 to 24.1% in the Second Quarter '11. Also, the theoregcomar[ph] accounts of VAT advance adjusted on First Quarter '11 has explained the drop of 20 basis points.

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Compounded gross margin represented by addition of gross profit, which store lease space and cash marketing stood flat at 26% of gross sales in the Second Quarter '11. It's noteworthy that we started Second Quarter '11 with eight inventory days more than in 2010. Weighted average drug price increase was 4.8% in 2011, 4.6% (inaudible) in March 2010.

Please, next slide, SG&A. SG&A, the calculation criteria is addition of selling G&A expenses and board fees. SG&A presented progressive dilution. In the First Quarter '11 represent a 19.8% of gross sales revenue. And in the Second Quarter '11 it represented 18.8%. Property tax excludes rentals stood at 2.6% of gross sales for first half comparative analysis. G&A expenses stood at 2.4% of gross sales for first half comparative analysis.

Please, next slide. The subject is net profit. Net profit totaled BRL27.7 million in the Second Quarter '11. In this quarter, interest income increased 202%, or BRL4.1 million. Year-on-year net interest result was positive, BRL3.3 million and represented an increase of 38 basis points compared to gross sales revenue. Return on sales was 4.7%, drop of 100 basis points was derived by SG&A increase of 130 basis points. We ended Second Quarter with net cash of BRL75 million and total net worth of BRL617.6 million.

Please, next slide. The subject is EBITDA. In the Second Quarter '11, EBITDA margin compared to gross sales register 7.6%, 8% of net sales. In the Second Quarter '11, other operating income total 1.9% of gross sales. In the Second Quarter 2010 it represented 1.6% of gross sales. The combined result was gross margins flat of 26% year-on-year. For the first half analysis, EBITDA margin compared to gross sales increase from 4.1% in the First Quarter '11 to 7.6% in the Second Quarter.

Please, next slide. We will cover major aspects of Drogasil working capital. The gross[ph] criteria on which you recall units in thousands. We ended Second Quarter '11 with 64 inventory days, 30 at distribution center. And 34 at store level. This represented 10 days increase compare to Second Quarter 2010 end. It's noteworthy that Drogasil pharma retail sales were 53.9% cash in the Second Quarter '11. Also in this quarter additional working capital represented BRL19.5 million, or 3.3% of gross sales.

Cash cycle represented 75 days, additional of 17 days in comparison to Second Quarter 2010. This increase is derived from inventory buildup as aforementioned of 13 days and VAT credits to recover that represented four additional days in comparison to Second Quarter 2010. It's noteworthy to say that as we started operations of the third distribution center in Apartaceta Deguianya[ph] Goias state, we expect this values to froze over the periods of time for the coming months.

Please, next slide. As major accomplishment in the Second Quarter, Drogasil was indicated for the second time to ABRASCA shareholder value creation price in retail segment. Drogasil, according to Brand Analytics institute ranks Drogasil brand in 35th position among top 50 most valuable brands in Brazil. In 2010, this represented the 39th position.

The IRMagazine awards in 2011 awarded Drogasil with honorable mention among the five finalists for largest evolution in investor relation and grand prix the best investor relation program for small and mid cap segment. Drogasil at the end of Second Quarter '11 was a company with 8,042 employees.

To shareholders in this first half '11, we accrued interest on capital of BRL16.5 million that will be credit on December 1st, 2011. This represented an increase of 47.4% over same period 2010. This represented a payout of 42.1% in this First Quarter '11. Drogasil paid last May 31 complementary dividends of BRL3.3 million. We achieved presence in (inaudible) portfolio of six indices at Brazilian stock exchange that certify the increasing liquidity of our ticker. Finally, as of August 2nd, 2011, Drogasil and Raia merge their operations to create Raia Drogasil SA. We remain available to take your questions and comments. Thank you, very much.

## Questions And Answers

### Operator

Thank you, sir. The floor is now open for questions. (Operator Instructions) It appears that we have no questions at this time. We will go ahead and conclude the question-and-answer session. At this time, I would like to turn the floor back to Mr. Ely for any closing remarks.

### A - Claudio Roberto Ely {BIO 15364128 <GO>}

We take this opportunity to mention that we are very enthusiastic and proud of the merger between Drogasil and Droga Raia. Hopefully we may see a very soon -- a very near future on single conference call to present the results of a single Raia and Drogasil SA company. All the best. Thank you, once more for joining this call. Thank you, very, very much.

### Operator

And we thank you, gentlemen. for your time. This concludes today's Drogasil's Second Quarter 2011 Results Conference Call. We thank you all for attending. You may disconnect your lines at this time. Thank you.

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