

## Q3 2011 Earnings Call

### Company Participants

- Claudio Roberto Ely, CEO and IR Director
- Roberto Listik, IR Officer

### Other Participants

- Clarissa Berman, Analyst
- Guilherme Assis, Analyst
- Lucas Suemitsu, Analyst

### Questions And Answers

#### Operator

Thank you. The floor is now open for questions. (Operator Instructions). Our first question is from Joseph Giordano with Raymond James. Please go ahead.

#### Q - Guilherme Assis {BIO 16143141 <GO>}

Hi. Hello, everyone. This is actually Guilherme Assis here. My question is about the VAT tax system. We all remember that in January there were some changes in the VAT tax system. I would like to know if there's anything going on right now, any additional changes that are happening right now? And if that is the case, what are the changes then that we should expect? Any impact on sales, like we saw during the first Q of this year? That's one question.

And the second question would be regarding the same-store sales growth. I would like to understand what you're seeing in terms of the trends for the 4Q. We saw that for the mature stores you posted 5.1% same-store sales growth. I would like to know if -- what should we expect going forward on that front. That's my question. Thank you.

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

Thank you, Giordano. The first part, related to the VAT, it's true, in January 1, we start a new basis to calculate the VAT. But depends on the distribution of your sales. You have some, in our case, some little better (inaudible) affecting in generics and the other one is a complete opposite in medicines branded, in order that to have to neutralize the effect.

But to have a change now in this quarter and correct the price, especially in the middle of the February, because in -- it's normal in the end of the year, you -- by the vacation of the holidays, of the last, we make then the purchasing (event) in December. And that reflects

only in the middle of February and you have a time to correct if you have any distortion. Okay?

**Q - Guilherme Assis** {BIO 16143141 <GO>}

Thanks, Claudio. Just a follow-up, if I may, I would like -- is there any additional change? Did I understand it correctly there's something now that's going on this quarter aside from what's happened in January 1?

**A - Roberto Listik**

Guilherme, straight answer. So far, in terms of VAT, the changes that were introduced were introduced back in January, January 1, 2011. So far, anything new in this area of VAT criteria or basis of calculations change for the moment.

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

(multiple speakers) it's just an adjustment with the actual policy of the government. We don't have -- we don't expect any --.

**A - Roberto Listik**

Any change at the moment -- any change in the moment. The second question is concerning the trend for same-store sales for the Fourth Quarter. From every indicator, from the beginning of this year, already in the First Quarter, we mentioned and guided in order to understand that the same-store sales for Drogasil would be an ascending curve for this year. And really what is happening is exactly what we are delivering. As you can see already, we have 7.7% of same-store sales registered in this Third Quarter compared to only 4% that we presented in the First Quarter.

Probably we may see another ascending curve, that's a continuation of this ascending curve for the Fourth Quarter 2011 for Drogasil, speaking about Drogasil. I think that, concerning the results of Fourth Quarter, probably since it will be already consolidated figures as we approve the --- in the EGM this afternoon Raia Drogasil SA. So. But speaking about only the Drogasil operation, this is exactly what you should see and expect.

**Q - Guilherme Assis** {BIO 16143141 <GO>}

Okay. Thank you, very much.

**Operator**

Our next question is from Lucas Suemitsu with BTG. Go ahead.

**Q - Lucas Suemitsu**

Hello, Roberto, Claudio. Roberto, I'd like to understand if the -- regarding the comment that you made on the same-store sales, does it apply to the same-store of mature stores, with more than three years, if you will continue to see an acceleration on these figures.

And for Claudio, I would like to understand it better about the expenses, if there was a pressure in any particular state or it was a trend in all regions. Thank you.

### A - Roberto Listik

On first question, Lucas, thanks for joining the conference, I think that what we are seeing in terms of the mature stores is exactly what you described. It's growing. We should also note that in 2010, from 57 new stores inaugurated, 23 we dedicated to areas where we had stores, mature stores already, specifically speaking of Brasilia, Sao Paulo and Goias.

And if we may see and we may understand, we had a positive cannibalization, meaning that for a certain period of time, mainly in the First Quarter, mainly in the Second Quarter, this reduced our growth rate in the same-store sales for mature stores. And what is happening -- and although that the regions, the geographic regions, the increase in total revenue so it's a pull, was a positive. And is a positive cannibalization.

This effect is already disappearing. And that's why you see a growing rate for the same-store sales coming from mature stores. So this is the case and probably this is a trend that is already presenting for us. Second part?

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

The second part please, can you repeat?

### Q - Lucas Suemitsu

Claudio, if you saw a difference between states regarding pressures on selling expenses, if it was more stronger in Sao Paulo or it was present too in Distrito Federal and Goias, if you could comment on that please.

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

No, the only place, the only city the expenses is higher, is much more higher is Rio de Janeiro. The other one you can make a mix is almost the same. It's not so high.

In Brasilia, now we don't open any stores in this year because we're choosing to consolidation, our implementation the last year. And I hope that to have a chance to increase our sales per store because it's better. We did this to the same way in Espirito Santo. Espirito Santo, we opened 12 stores. And after one year and a half, we start to open again. It's our way to the business, is we wait to reach some average sales. And the stronger that you are, it's easier to implement the new store. Okay?

### Q - Lucas Suemitsu

Okay. Thank you, very much.

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

Okay.

## Q - Lucas Suemitsu

Thank you, very much.

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

Thank you.

## Operator

(Operator Instructions) Our next question is from Clarissa Berman with Morgan Stanley. Go ahead.

## Q - Clarissa Berman {BIO 17652852 <GO>}

Hi. I have a question regarding the inflation impact from -- on the cost and SG&A line on this quarter. So, can you please comment a little bit more on how you see personnel and lease growth going forward and what can we expect for the next quarter and 2012? Thank you.

## A - Roberto Listik

Good -- thank you, Clarissa. I think that this is not different from what took place in 2010. 2010, if we may say, we had a weighted drug average price adjustment of 4.6% on the labor adjustments, or salary adjustments of 6.4%. This year, what happened is that the salary adjustments that took place were of 8.3% against our weighted drug price adjustment of 4.8%.

Really, speaking about in it terms of trend, I think that this is the scenario that we have already faced in 2010. And now is presented to us this year.

Rentals and property taxes, we have to understand that at Drogasil they are remaining flat, flat to us is a range up to 2.5% in average of our gross revenue sales. This is very important. Some rentals, it's an expense that has been climbing more than our -- in a very, very fast pace in terms of inflation adjustments, not from now or not from 2010. If we retroact this, this has been a performance or behavior that comes back to 2009. So, this is not new and what's important in terms of understanding how we manage this expense is really to see that the ratio is being kept at this level of 2.5%.

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

The increase of rentals is a combine of inflation and the demand of the rental space. And you can (dealing) with your stores, the new stores and the old stores, in order to keep the same percentage of rentals, if you compare to the gross sales and you did this one. Now we have 2.5% of the total sales. It's almost the same number for three years.

## A - Roberto Listik

Right.

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

Okay?

**Q - Clarissa Berman** {BIO 17652852 <GO>}

Great. Thank you.

**Operator**

Our next question is from Mr. Anurag Dhanwantri from Porter Orlin. His question is, when will you talk about merger synergies in detail?

**A - Roberto Listik**

We are not planning to disclose any kind of guidance concerning the merger synergies or savings. We are still doing studies on that. We have third-party consulting companies helping us to identify exactly the synergies and savings that you arise from this merger. Hope I answer.

**Operator**

(Operator Instructions). This concludes 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>}

Thank you for attending the webcast and the conference for Third Quarter 2011 results. This was the last conference of Drogasil. And I hope to see you in the next quarter at the Drogasil -- at the Raia Drogasil conference, a new and bigger company. Thank you, very much.

**Operator**

Thank you. This does conclude today's Drogasil 3Q11 conference call. You may now disconnect your lines. Thank you.

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