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Team 19

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Raia Drogasil S.A.

Just what the doctor ordered

Recommendation: BUY | **Target price:** BRL 123 | **Upside potential:** 16.5%

Valuation as of
October 21st, 2019

The largest drugstore chain in Brazil: Initiating with a BUY

We issue a BUY recommendation on **Raia Drogasil S.A. (RADL3; RD)**, the largest drug retailer in Brazil, with a 1-year DCF-based target price of BRL 123 per share, presenting 16.5% upside to the closing price of October 21st, 2019. We believe **i)** RD is well-positioned to benefit from both sluggish and sound economic environments, **ii)** consistent execution leads to a deserved premium for high and stable growth and **iii)** potential growth is not fairly priced-in.

Growing even without growth

Being the market leader with national scale (yet, with a friction-free market share) in a highly diluted sector puts RD in a unique position to grow in both accelerated and slow macro landscapes. The first through mix improvements, faster ramp-up of stores and enhanced operational leverage, while the latter out of market share expansion over small players. Furthermore, the company enjoys long-term secular growth drivers, such as populational aging, that act as significant levers to its operation.

Premium management leads to premium execution

Supported by an experienced management team, RD manages to place and expand its network of stores the best amongst its peers. With standard store formats and meticulous store placing process, RD's stores are exposed to better demographics, such as higher income and age levels, which leads to higher SSS growth, improved profitability and returns over time (we estimate unlevered store's IRR stands around 21.9% with a 6-year payback). Backed by its ongoing digital transformation, network consolidation and strong brand equity, SSS growth should reach a peak of 6% by 2020.

Growth is not yet priced-in

A 52.4x implied PE ratio for 2020 is definitely not a bargain. However, we believe a premium is justifiable once **i)** operational leverage and maturation of stores should sustain increasing returns under a decreasing interest rate environment in Brazil (we see spread between ROIC and WACC widening from 4.8% in 2017 to 13.5% in 2022), **ii)** improving trends for SSS growth in mature stores might intensify in upcoming quarters and drive a price action on the stock, as RADL3's valuation has been highly correlated to SSS performance and **iii)** investors are both looking and willing to pay a premium for growth companies, as PEG ratio for RADL3, domestic and global retailers and healthcare peers is surpassing historical average. We expect RD to reach an EPS CAGR$_{'19-'25}$ of 24.6%, slightly above the historical average of 24.5% between 2012 and 2018, for a ROE of 19.2% in 2020.

Main risks to our assumptions

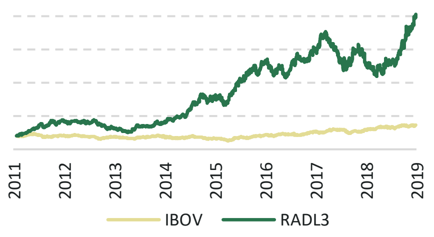
Main downside risks to our analysis include the continuously aggressive pricing coming from low-end competitors (which can gain relevance while the economy lags to react to structural reforms and income increases) and difficulties operating frontier markets such as North and Northeast of Brazil, as it has happened before. Also, we recognize the regulatory risk inherent to being a drugstore chain related to government-regulated prices and the exclusivity of sales of drugs in pharmacies. However, we believe there is a low probability of the latter to materialize as price adjustments have been historically in line with inflation and the end of pharmacies drug monopoly already suffered resistance when discussed by legal authorities.

Exhibit 1: Market snapshot

Industry	Retail
Sector	Consumer Discretionary
Ticker	RADL3
Stock Exchange	B3
Currency	BRL
Current Price	**BRL 105.55**
Market Cap	BRL 34.872bn
52w high/low	BRL 105.55/55.74
ADTV	BRL 99.2mn
Rating	AAA.bra

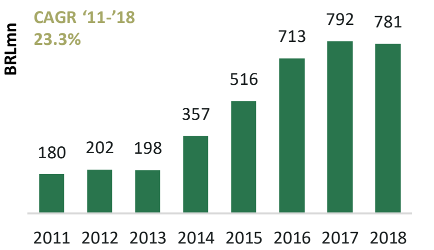
Source: Bloomberg

Exhibit 2: RADL3 vs. IBOV relative performance



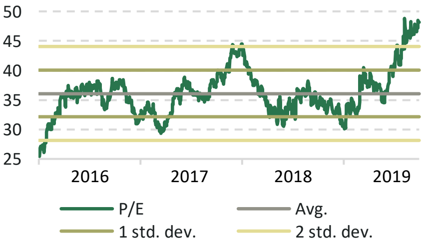
Source: Bloomberg

Exhibit 3: Operating profit evolution



Source: RaiaDrogasil's IR

Exhibit 4: Historical 12m fwd P/E



Source: Bloomberg

Exhibit 5: Estimates summary

	2014A	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E
Gross Sales	7,784	9,425	11,828	13,852	15,519	18,204	21,681	25,642	29,917	34,369	38,915
Adjusted EBITDA	**544**	**744**	**988**	**1,130**	**1,195**	**1,361**	**1,692**	**2,092**	**2,558**	**3,072**	**3,568**
Adj. EBITDA Margin	7.0%	7.9%	8.4%	8.2%	7.7%	7.5%	7.8%	8.2%	8.6%	8.9%	9.2%
EPS	0.70	1.05	1.38	1.55	1.66	1.89	2.35	3.05	3.94	4.97	6.02
% growth YoY	30.6%	51.7%	31.0%	12.3%	7.1%	14.0%	24.3%	29.7%	29.0%	26.3%	21.0%
Operating Cash Flow	215	299	281	290	296	300	606	838	1,136	1,436	1,781
Net Debt/EBITDA (IAS 17)	**0.02x**	**0.04x**	**0.14x**	**0.31x**	**0.50x**	**0.59x**	**0.41x**	**0.21x**	**0.04x**	**-0.13x**	[illegible]
ROE	9.6%	13.6%	16.3%	16.6%	16.3%	17.1%	19.2%	21.7%	24.3%	26.8%	28.2%
ROIC	10.3%	14.5%	17.4%	16.6%	13.9%	12.8%	16.7%	19.4%	22.6%	26.0%	29.0%

Source: Team 19 estimates

BUSINESS DESCRIPTION

The main player for a reason

Raia Drogasil S.A (RADL3; RD) is the largest drugstore chain and 6th largest retail group in Brazil. The company was established in 2011 through the merger of Raia and Drogasil, well-established brands with almost 200 years of experience combined (see Appx. 15-16). Both brands hold distinctive but complementary positioning in terms of sales mix, customer profile and geographic distribution. Apart from the traditional retail, the company entered into the specialty retailing market with 4-Bio acquisition.

Dominant player with a strong brand equity and massive scale

Since the IPO in 2011, the company managed to expand its drugstore chain to 1,917 from 776 pharmacies (~50% located in São Paulo) and distribution center area to 114.4k from 63.4k sqr. meters. During this period, RD not only expanded its market share in regions it already operated, but also bolstered its exposure to 13 new states, now positioned in 22 out of 27 which accounts for ~98% of the market. In this sense, it strengthened its national presence and ultimately improved the purchase conditions with suppliers, namely pharmaceutical companies and distributors (see Appx. 14).

Premium portfolio of products; tougher dynamics on Generics

RaiaDrogasil generates revenues through four categories of products: **i)** Branded Rx, which comprises prescription medicines identified by a specific pharmaceutical brand, **ii)** Generics, which are related to drugs that contains the same active ingredients as brand-name medicines, but are not identified by any brand, **iii)** Over-the-counter (OTC) drugs, which consists of medicines available for the general public without seeking any prescription and **iv)** Hygiene & Personal Care (HPC), which includes any non-drug products such as diapers, shampoos and sunscreen (see Appx. 7 to 11). Despite the higher average ticket, Branded Rx is the lowest margin segment. Conversely, generics provide lower tickets but attractive margins. In terms of strategy, RD currently offers a vast HPC portfolio, but posted a significant loss in generics in favor of the associations in recent years (see Appendix 23).

High-quality management with premium organic execution

RD has an experienced management team with a vast knowledge of the industry. Since the merger, the management pick up the pace of openings, posting a net openings of 1,141 drugstores until 2Q19. In a highly fragmented sector (+78k pharmacies in Brazil), Raia and Drogasil's unique positioning and value proposition allows RD to further consolidate the market with virtually no acquisitions.

Omnichannel journey: RD's ongoing digital transformation

With a well-established network in terms of capillarity and reach, RD aims to improve customer experience in and outside the stores. On top of that, the company now seeks to integrate multiple sales channels, delivery options and its own logistics in order to provide a fully integrated experience of purchase.

Proprietary PBM and CRM to enhance customer purchase journey

RD developed Univers, a proprietary PBM that integrates the institutional sales programs of its brands. Univers enables RD to loyalty and retain existing clients and increase the share of wallet of these customers. Supported by mobile apps, credit cards and an in-house CRM, the company is able to gather information of roughly over 30 million customers, which represents almost 91% of sales (see Appendix 18 and 25).

Latest acquisitions strengthens RaiaDrograsil's competitive positioning

In 2015, RD entered into the specialty pharmacy market with 4-Bio acquisition (see Appendix 19). This is the fastest growing segment in the pharmaceutical, with a focus on patented medicines used in the treatment of high-complexity diseases. Differently from the traditional retailing, those medicines are usually sold for HMOs. Additionally, RD recently acquired Onofre (see Appx. 17), a leading e-commerce brand, with no cash disbursement made in the transaction. Although the company still reports negative EBITDA, it should accelerate the ongoing digital transformation as more than doubles RD's digital revenues.

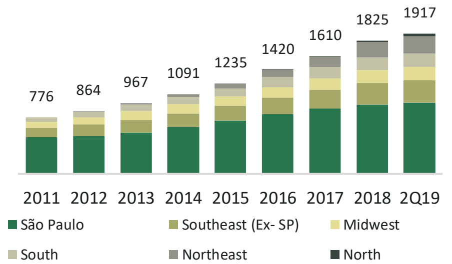
CORPORATE GOVERNANCE

Example of high-quality management

Founding families still play a major role

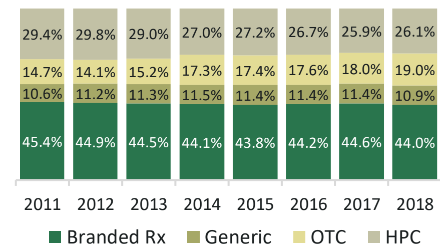
Since the merger, the previous controlling shareholders and founding families of Raia S.A. and Drogasil S.A. hold the largest stake on the new company. This should not change in the short-term as **i)** 30% of those shares will remain tied to a lock up

Exhibit 6: Drugstores Evolution



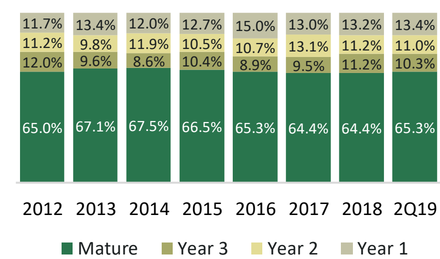
Source: RaiaDrogasil's IR

Exhibit 7: Sales Mix Evolution



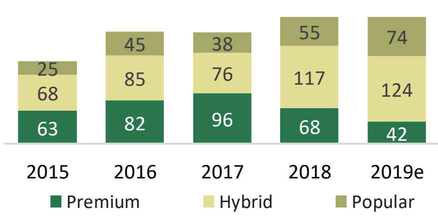
Source: RaiaDrogasil's IR

Exhibit 8: Age Structure of Store Portfolio



Source: RaiaDrogasil's IR

Exhibit 9: Store openings by type of store



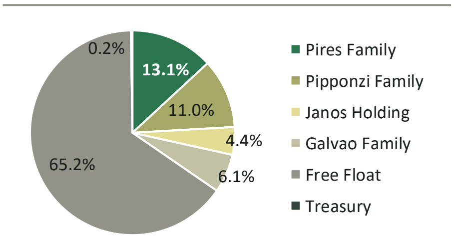
Source: RaiaDrogasil's IR

Exhibit 10: Corporate Governance assessment

	Score	Max.	Rating	Weight	Wtd. avg.
Board of Directors	5.7	8.0	72%	30%	22%
Management	5.5	5.5	100%	12%	12%
Committees	3.5	5.5	64%	15%	10%
Compensation	5.0	5.5	91%	18%	16%
Shareholder Rights	5.3	6.0	87%	25%	22%
Total	**25.0**	**30.5**			**81.3%**

Source: Team 19 analysis

Exhibit 11: Shareholder structure



Source: RaiaDrogasil's IR

agreement until Nov/21 (see Appx. 32) and **ii)** a tender offer is required to acquire +20% of RD's interest. Out of 9 Board members, there are 3 related to Raia, 3 to Drogasil and 3 independents, including former CEOs of both chains. According to our analysis, RD's corporate governance is ranked as excellent (see Exh. 10 and Appx. 37).

Seasoned management team: execution to perfection

RaiaDrogasil is indeed well positioned in a defensive and high-growth retail segment with clear secular drivers, but its premium execution can be mainly attributable to one key factor: its experienced management team (see Appx. 30). Out of 7 members of the Executive Committee, 5 came either from Raia or from Drogasil. Additionally, Marcílio Pousada, who joined RD as CEO in 2013, was able to fully combine Raia and Drogasil business models to RD integrated systems of sales and logistics. On top of that, the management team plays a major role by **i)** strategically selecting store locations, **ii)** defining straightforward goals and expansion plans, **iii)** designing standard formats of stores with the adequate in-store mix according to its local customers and **iv)** evaluating sustainable paths of growth, as store openings are primarily based on IRR.

How to align management interests with shareholders'?

In order to retain these highly-qualified team, the company developed a long-term equity-based compensation program. According to the proposed plan for 2019, variable compensation should represent 72% of total compensation for the year. This policy is positive to better align interests between Executive Officers and shareholders (see Appendix 35).

INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

Brazil is getting older, drugstores are not

Inefficiency is an opportunity to major chains

The drugstore market in Brazil has been experimenting a period of high and sustained growth since 2009, with an annual growth rate of 12.3% (reaching USD 28bn in 2018). On spite of that, the industry is still very inefficient. Compared to the US, Brazil has almost twice the number of stores, yet only ~1/10 of its total market (see Exhibit 13), which reveals inefficacy in terms of revenue generation.

We see this as an opportunity to major drugstore chains since growth won't come from overall store expansion (once Brazil already has too much), but by the increase of returns in the existing ones. This should come with **i)** market consolidation over independents, **ii)** higher sales per store and **iii)** mix improvement moving towards higher margins and diversity of products.

There is still plenty of room for consolidation…

This high level of growth, however, was under a very fragmented market that reached ~52k stores in 2018: the largest player is RaiaDrogasil, with only 3.2% of the drugstores in the country (though ~12% of the revenues). Analyzing the HHI Index (see Appendix 22), commonly used as a market concentration measure by competition defense agencies (higher HHI, higher concentration) Brazil's drug retail sector has one of the lowest concentration levels in the world (see Exhibit 14).

We expect market share consolidation to happen over the next years, coming mostly from major chains over independents and associations (see Appendix 23). And this has already begun. Since 2013, market share in terms of stores of those small players (less than 300 stores) has consistently decreased from close to 94% to 91%.

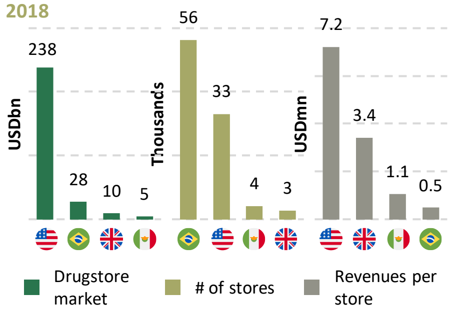
… although overall market share isn't all there is

The large extent of the Brazilian territory is one of the main factors entailing its lower drugstore market concentration. That is also why regional competition beats overall market share, as distance and different demographics create barriers dividing markets. RD faces stronger competition from other major chains mostly in the South, Southeast and Northeast regions, namely from **Pague Menos** (in the Northeast and Southeast), **DPSP** (in the Southeast), **Extrafarma** (in the Northeast), **Panvel** and **São João** (in the South, see Exhibit 16 and Appendix 21).

Regulated, but competition wins

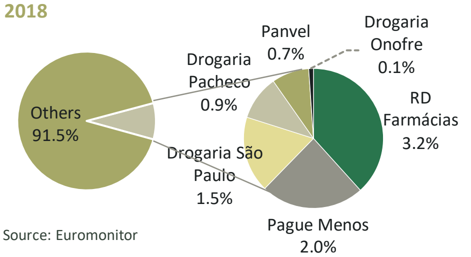
Most consumers don't even know drug prices are government-regulated. This happens because drugstores can give discounts in the final products. Since then, competition has won according to IQVIA, the average discount on drugs to the final consumer has been above 39% since 2015. We believe regulation shouldn't be a concern for investors as recent adjustments have been roughly in line with inflation and major drugstores still have margins to give discounts. Also, new regulations have been moving towards liberalization of prices, starting with OTCs (see Appx. 24).

Exhibit 12: Brazil's drugstore sector is inefficient



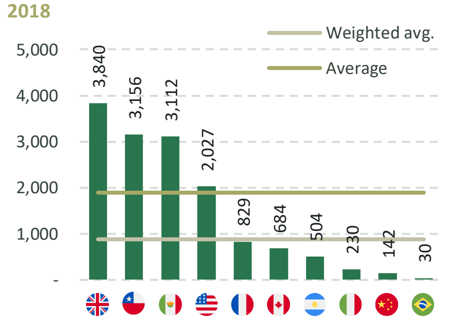
Source: Euromonitor

Exhibit 13: Market share per store in Brazil



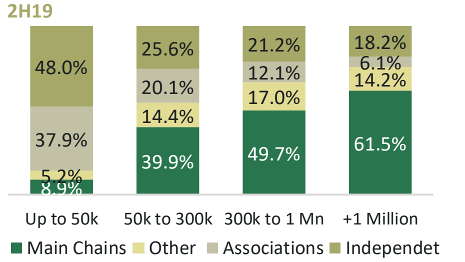
Source: Euromonitor

Exhibit 14: Herfindahl-Hirschman for drugstores



Source: Euromonitor, Team 19 calculations
(*) Based on market share per store

Exhibit 15: Market share by city size



Source: IQVIA

Exhibit 16: Main regional competitors

2019

Source: Companies data, Team 19 analysis

Secular mid-to-long term drivers

Brazilians will get older faster and it is happening now

The Brazilian population is still young, with about 13.5% of its population aged above 60 years. Yet, its aging process shall be faster than in other countries such as France, US and Chile: by 2050, more than 21% of the population will be older than 65 years (see Exhibit 17). Moreover, this process started to gain traction in 2012, so in the next few years the population should experiment a period of fast and continuous aging.

The health sector is bound to see higher demand from aging as health spending increases significantly with age: people aged 65+ expend ~4x to ~9x more in healthcare than the ones younger than 18 (see Exhibits 18 and 19). Drugstores are strongly benefitted from this trend as drug consumption is intensified with maturity: 77-89% of the elderly use at least one drug for acute or chronic diseases vs. only 31-48% figure for teenagers and young adults (10 to 29 years, including birth control pills).

Class migration to boost health expenditure

As social security and tax reforms are approved easing the Brazilian government's liabilities (see Appendix 40), activity should see some improvement (on more investments) and, therefore, also should income levels, even if not in the short-term. Increase in remuneration is an important tailwind for the healthcare sector, considering the marginal benefit of avoiding the public system of low quality, which drives the willingness to spend as disposable income enlarges. In Brazil, individuals belonging to class A (avg. monthly income of BRL ~23k) spend 8x more in medicines and 10x more in hygiene and beauty (see Exhibit 20) than individuals of classes D and E (avg. monthly income of BRL ~800).

Generics penetration should enhance margins

Brazil remains underpenetrated on generics (see Appendix 11) vs. other countries with only ~34% of drugstore sales represented by non-branded drugs in terms of volume and ~14% in terms of value when OECD27 countries show an average of ~25% and ~51% respectively. Yet, with competitive prices for consumers and even better margins for retailers, generics are to gain space in the drugstore market.

The main advantage for consumers is the price at least 35% (according to federal regulation) lower than the branded peer, which has contributed to increased share in pharmacies along with awareness of bioequivalence (based on studies and higher levels of usage) and the growing number of therapeutic classes those medicines can be used in. On the other hand, drugstores stimulate sales of generics on sharper discounts as margins for those drugs are much higher vs. branded, offsetting its lower prices (according to RD, gross margins for generics are close to 55% vs. ~20% for branded; see Appendix 7).

Patent expirations in the coming years should enter the market as new generic options to treat a wider range of diseases, creating a diversity of options to consumers. Moreover, government efforts to increase the use of generic equivalents in the public healthcare system through drug-access programs (which accounts for ~33% of total health spending in the country, see Appendix 24) should also continue to boost demand for those drugs.

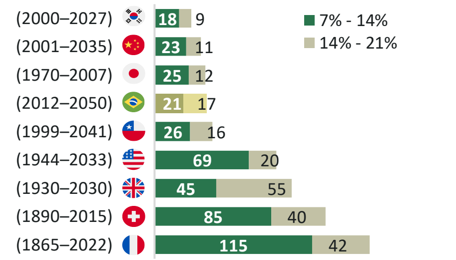
Bargaining power to drive HPC sales

The greatest barrier for drugstores penetration in the hygiene and personal care market (see Appx. 9) is the higher perceived prices versus other channels such as supermarkets and beauty-focused retailers. We estimate prices for a determined basket of HPC products in drugstores are 8.6% greater than in its competitors (see Appx. 39). This is mostly related to the lower bargain power of drugstores over cosmetic and hygiene producers when compared to major supermarket chains.

Therefore, the expansion of drugstore chains with the market moving towards concentration is bound to contribute with the equalization of prices related to peers as bargain power over H&B suppliers increases. This entails HPC mix expansion (in the sense of a higher number of SKUs), on lower costs allowing larger store size (the average Brazilian store is 64% and 76% smaller than its German and American peers, with revenues per cubic meter even lower).

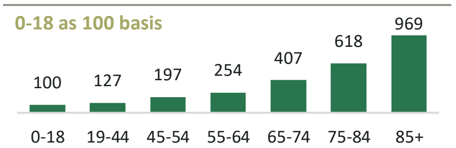
It is already possible to see market penetration of drugstores increasing in spite of supermarkets (see Exhibit 23): from 2014 to 2018 drugstores gained 0.8p.p. market share when supermarkets lost -3.6p.p. in the same period. Moreover, pharmacies should benefit from natural market growth: since 2010, H&B spending as a % of total GDP has been consistently increasing. That way, an increase in national income should more than proportionally strengthen the hygiene and personal care markets.

Exhibit 17: Yrs for % aged 65+ to go from 7 to 21%



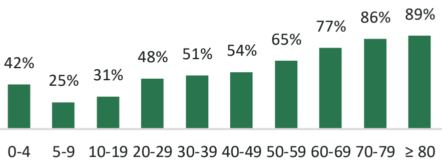
Source: US Census Bureau

Exhibit 18: Health expenditure per age group



Source: ANS

Exhibit 19: Drug usage prevalence per age group



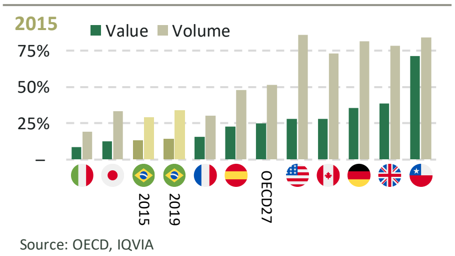
Source: PNAUM 2014

Exhibit 20: Beta for spending groups per inc. class

	C	B	A
Culture	2.5	9.1	42.9
Apparel	2.7	7.5	24.3
HPC	**2.0**	**4.3**	**10.6**
Medicines	**2.1**	**3.8**	**8.4**
Beverages	2.0	3.0	6.8
Food at home	1.9	3.2	6.7
Family Income*	**2,268**	**6,437**	**23,345**

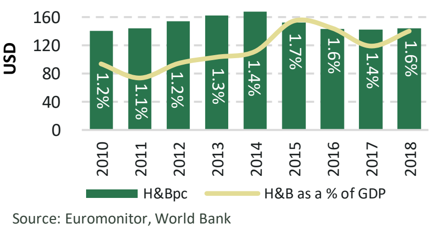
Source: IPCBR Maps, Team 19 calculations * In BRL/month

Exhibit 21: Share of Generics in pharma market



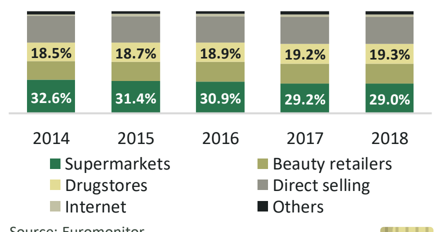
Source: OECD, IQVIA

Exhibit 22: H&B spending vs. GDP



Source: Euromonitor, World Bank

Exhibit 23: H&B sales per channel



Source: Euromonitor

All eyes on growth

The best of both worlds

Being the leader (with a still friction-free market share) in a diluted market puts RD in a privileged position to grow without necessarily GDP growth. With consistent execution leading to market share expansion (both through inorganic, but mostly organic growth), the company manages to develop in a sluggish macro environment while the economy lags to react to structural reforms (see Appendix 40). This is how RD has behaved since 2011: even during Brazilian economic slowdown (since 2014), it managed to maintain both drugstore basis expansion and same-store sales growth in mature pharmacies. Yet, in addition to the secular long-term growth drivers, RD remains benefitted from the scenario once economic growth happens higher levels of income in the population should push for better mix and, therefore, better margins.

Investors keep watching for growth... and it will come

We ran a stock screening, analyzing RADL3's performance through volatility and accounting measures from its merger, in 4Q11 (see Appendix 41). Since then, RD has behaved most times as a "growth" stock, which we define as EPS growth above IBX100's median with net debt to EBITDA below 2.5x. This was true until mid-2017, when the company faced a uniquely troubled competitive environment: during the peak of the economic slowdown, associations captured some market share on the back of lower prices (as consumers downgraded their consumption behavior). RD started then to screen as "defensive" (leverage below 2.5x, beta <1 and 360 days volatility in the 1st quartile of IBX100).

At this moment, RD's price to earnings and EV to EBITDA ratios became highly correlated to SSS growth (~86.7% for P/E and ~89.2% for EV/EBITDA) as investors are likely watching for when growth comes back. In the second quarter SSS for mature stores reached 4.0% on softer competition after 3.1% and -1.3% in 2017 and 18, respectively. Moreover, we expect SSS growth to reach a peak of 6.0% for mature stores by 2020 on increasing brand awareness supported by network consolidation, digital transformation and data analytics, which we believe should sustain a higher valuation on a higher growth level.

Execution at its best

The sustainable SSS growth from mature stores is the result of a highly-focused store planning. Looking from geographic and demographic perspectives, RD manages to place its stores the best among peers: both Droga Raia and Drogasil stores are **i)** located in regions with the highest available income versus peers and, at the same time, with the oldest population (here we should consider this specially difficult for RD and its +1,900 stores versus smaller peers as the marginal quality of stores is always descending, see Appx. 26); and **ii)** has a distance between stores lower than average (including cross brands, Raia and Drogasil), generating a whole network available to clients ready to increase brand awareness (see Appendix 27). On that, we believe that the higher income associated with older public is translated into higher returns to each store which allows for a closer distance between RD stores, creating a broader reach of brand awareness. Moreover, the close distance between Droga Raia and Drogasil stores reveals its complementarity in terms of customer profile and logistics.

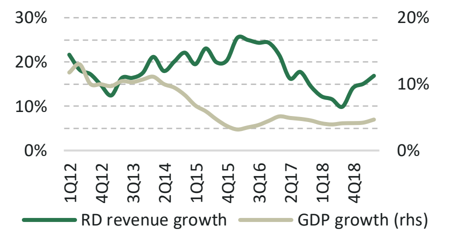
As a result from logistics efficiency and meticulous store placing, we expect real IRR from marginal stores to reach ~21.4% (i.e. assuming no extra DC space or administrative costs for RaiaDrogasil), while ROIC approaches ~40%, this would represent an increasing spread versus RD's cost of capital (see Appendix 38). We understand the company not only manages to keep a continuous expansion rhythm, but, more importantly, makes this expansion profitable based on quality execution.

Exhibit 28: Average demographics for each store

Brand	N	NE	CO	SE	S	Avg. Age	% above 60	Total Income (BRLmn)	Avg. Family Income	Med. Family Income
Drogasil	3%	21%	12%	63%	-	35.5	10.9%	4,418	3,637	1,923
Droga Raia	-	-	1%	76%	23%	36.5	12.3%	4,399	3,859	2,160
DPSP	-	6%	3%	90%	1%	36.2	12.0%	5,701	3,856	2,044
Pague Menos	9%	52%	8%	26%	5%	33.9	9.9%	2,044	2,985	1,545
São João	-	-	-	-	100%	36.6	12.9%	416	3,035	1,881
Panvel	-	-	-	1%	99%	36.8	13.1%	1,251	3,720	2,148
Extrafarma	32%	53%	-	15%	-	33.4	9.2%	2,323	2,545	1,297
Araújo	-	-	-	100%	-	36.4	11.7%	2,357	4,028	2,075
Nissei	-	-	-	8%	92%	35.5	10.9%	1,375	3,735	2,244

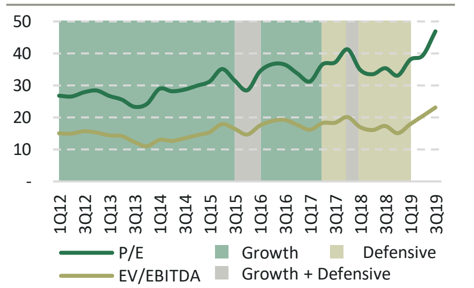
Source: Company data, Censo 2010 IBGE, Team 19 calculations, Google Maps API

Exhibit 24: RD revenue growth vs. GDP (ltm)



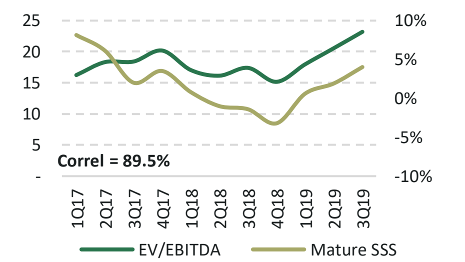
Source: Company data, Ipea data

Exhibit 25: Fwd. multiples vs. screening periods



Source: Bloomberg, Team 19 calculations

Exhibit 26: SSS growth vs. EV/EBITDA



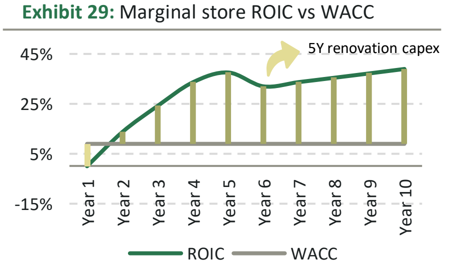
Source: Company data, Bloomberg
*SSS lagged 1 quarter

Exhibit 27: Avg. distance between stores

São Paulo	DPSP	Droga Raia	Drogasil	Pague Menos
DPSP	12.5	11.0	12.1	11.1
Droga Raia	11.0	9.1	10.5	9.3
Drogasil	12.1	10.5	11.8	10.7
Pague Menos	11.1	9.3	10.7	9.5
Salvador	**Droga Raia**	**Drogasil**	**Extra farma**	**Pague Menos**
Droga Raia	4.4	7.6	5.5	7.1
Drogasil	7.6	11.0	8.9	10.4
Extrafarma	5.5	8.9	6.3	8.2
Pague Menos	7.1	10.4	8.2	10.0
Campo Grande	**Ultra Popular**	**Droga Raia**	**Drogasil**	**Pague Menos**
Ultra Popular	7.2	5.6	5.9	6.5
Droga Raia	5.6	1.7	2.5	3.9
Drogasil	5.9	2.5	3.4	4.5
Pague Menos	6.5	3.9	4.5	5.7

Source: Company data, Google Maps API, Team 19 calculations

Exhibit 29: Marginal store ROIC vs WACC



Source: Company data, Team 19 calculations

Not exactly a bargain, but fundamentals win

We issue a BUY recommendation on RD with a 12-month DCF-derived target price of BRL 123.0 per share, which implies 16.5% upside potential. In order to better capture RD's long term fundamentals and different stages of growth, we opt to base our target price on a 10-year Discounted Cash Flow to Firm model. Other valuation methodologies, such as Adjusted Present Value (APV), also support our BUY rating.

Top-line assumptions: higher SSS ahead

RaiaDrogasil's revenues are estimated based on **i)** number of store openings, **ii)** SSS for mature stores and **iii)** historical maturation curve for non-mature stores. The company already disclosed its guidance for store openings for next year, expecting 240 new drugstores. In our view, RD should maintain its diversified expansion, in terms of geographical presence and stores' format, with the same pace of openings until 2022.

When it comes to SSS of mature stores, we see softening headwinds from competition, omnichannel strategy and mix optimization as solid growth levers for the upcoming years. On top of that, we estimate SSS reaching 6% in 2021, then gradually converging to 4%, or 0.5% real terms, which reflects secular demand growth drivers (see Exhibit 31). For non-mature stores, we estimated top-line growth accordingly to RD's maturation curve, as stores with 1 to 3 years of operations have historically posted gross sales of 55%, 69% and 83% in comparison to mature stores, respectively.

Moreover, we separately forecasted 4-Bio revenues growing at a CAGR'19-'25 of 20%, driven by the expansion of 4Bio Care (follow-up program for patients) and expected higher incidence of complex diseases in population. Altogether, our forecasts lead to a gross revenues CAGR'19-'25 of 15.6%.

Margin expansion on mix changes and operational leverage

In recent years, increasing bargaining power of associations was translated into a fierce price war on generics which, coupled with additional costs related to new DCs opened by RD, took a toll on margins. We see, however, positive market conditions and strong fundamentals in RD's execution for the coming years, thus expecting +169bps Adj. EBITDA margin expansion between 2019 and 2025 (see Exhibit 33). These gains are mainly attributable to **i)** increasing share of high margin products, such as generics (+100bps share on sales mix between 2019 and 2025) vs. Rx branded drugs (-260bps), **ii)** bargaining power gains over suppliers, as RD further expands its network of stores, capillarity and regional presence and **iii)** fixed costs dilution and operational leverage stemming from maturation of stores (see Exhibit 32), as we estimate RD's sales and marketing expenses on a store basis.

Interest on equity and tax benefits

In Brazil, companies can distribute earnings to shareholders either through dividends or IoE. Although both mechanisms are similar from an economic perspective, the latter is deductible for income tax purposes. Historically, RD has shown a preference of IoE over dividends payments, which explains the company's lower effective tax rates: RD posted an average tax rate of 23% during the last 4 years vs. Brazilian corporate tax rate of 34%. We do not expect any disruption on RD policy regarding earnings distribution or regulatory changes on the tax benefits granted by IoE. On top of that, we estimate a 40% payout for accrued IoE, in-line with historical levels, which leads to a tax rate of 23.6%. As a conservative approach, we derived our discount rate based on Brazil's corporate tax rate, thus not perpetuating such tax shield.

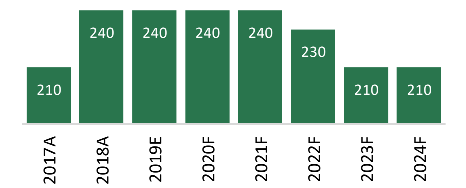
Working Capital: looking for days of inventories improvements

In our view, there is a large room for improvements from a cash cycle perspective. During the last 2 years, when more than 400 stores and 3 distribution centers were opened, RD posted increasing days of inventories outstanding (DIO), which stood at 97 in 2018 in comparison to historical levels of roughly 85 days. As the ramp up of new DCs occurs and the proportional pace of store openings reduces, we may expect RD to operate with lower working capital needs. For both days of payables and days of sales outstanding, we do not assume any significant changes going forward.

Capex: conservative, but still accelerating

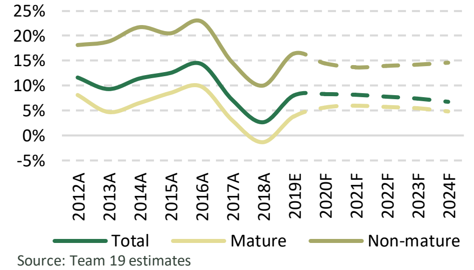
We split our capital expenditures estimates into expansion and maintenance. For the former, we forecast a capex of BRL 1.8 million per store, real terms as of January 2019. We believe this is a conservative assumption, given RD's strategy to accelerate the expansion of its popular stores, a new format with smaller floor space and lower construction costs. Additionally, we expect maintenance capex to remain in-line with historical figures, standing at 0.7x consolidated depreciation.

Exhibit 30: Gross openings evolution



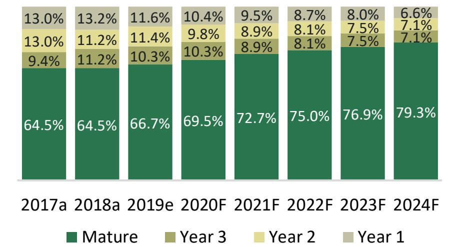
Source: Team 19 estimates

Exhibit 31: Same-Store Sales growth



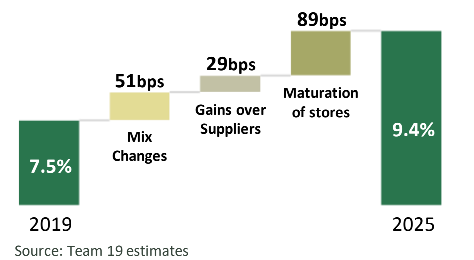
Source: Team 19 estimates

Exhibit 32: Age structure of store portfolio



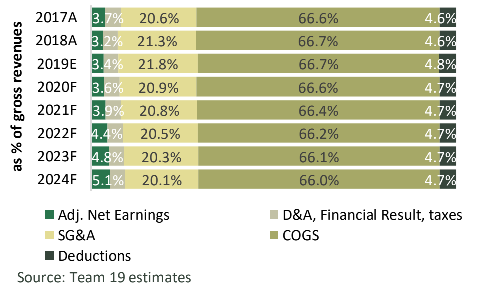
Source: Team 19 estimates

Exhibit 33: Adj. EBITDA margin expansion



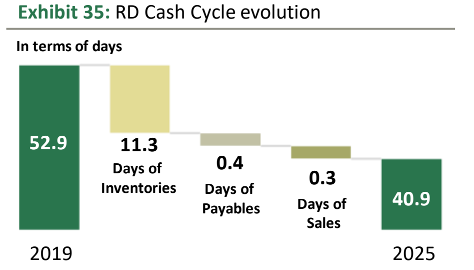
Source: Team 19 estimates

Exhibit 34: P&L breakdown



Source: Team 19 estimates

Exhibit 35: RD Cash Cycle evolution



Source: Team 19 estimates

Surfing on a lower cost of capital

We calculated our discount rate based on the Capital Asset Pricing Model for a mature market (United States) and adjusted to country risk (Brazil). This approach is consistent with academic researchers, since historical data for equity risk premium in emerging markets are limited and volatile.

The 10Y US Government Bond rate was used as risk-free rate. For better adherence of beta, we reckon the average of the industry peers as an ultimate metric to capture the business idiosyncratic risk (see Appx. 42). Market risk premium was defined as the excess return of S&P500 since 1928. For the country risk premium we used EMBI+ Brazil of 12 months median. Finally, to convert the discount rate to Brazilian Reais, we added the inflation spread between U.S. and Brazil, arriving at a Ke of 10.12%. In order to derive WACC, cost of debt was based on the company's weighted cost of debt (see Appx. 43). With a long-term target leverage of 25%, we estimated a WACC of 9.11%. We acknowledge that our discount rate is slightly below historical levels, but this fully relies on structural lower interest rates in Brazil.

Our terminal growth is composed of Brazil's Central Bank long-term inflation target of 3.5% and a 0.5% of real growth based on supportive long-term secular drivers in the healthcare industry.

APV methodology confirms our BUY rating

We performed RD valuation with the Adjusted Present Value method to cross-check our DCF valuation. The APV method is used to assess a company as the sum of the value of the tax benefits and its unlevered value, calculated using the unlevered Ke as the proper discount rate. Thus, this model abstracts the value of the company tax shield profile. With APV, we reached a target price of BRL 126.0 per share, in line with BRL 123.0 from DCF model, reinforcing our buy recommendation (see Appx. 47).

Relative valuation: historically at a premium against its peers

RaiaDrogasil lacks comparable peers in domestic market, as major drugstores chains in Brazil are either not publicly-listed or have reduced liquidity, such as Pague Menos and Dimed (Panvel). Additionally, global drugstore chains are, in general, at a more mature growth stage and exposed to a totally different market structure (i.e markets where health care operators play a major role in covering its beneficiaries' expenditures with medicine), thus not entirely comparable with RD. In this sense, we opt to compare RD with a basket of Brazilian peers from traditional retailing and healthcare (HC) industries, which in our view operates under a comparable market structure and is exposed to similar long-term secular drivers.

RD has historically traded at a premium to retail and HC peers (see Exh. 37 and Appx. 41), which in our view reflects a powerful combination of stable and solid earnings growth, robust BS and an outstanding management with proven track record and unparallel execution. On top of that, we believe RD's strong fundamentals should support its premium valuation, specially assuming better earnings momentum.

Currently, RD is trading at an EV/EBITDA and PE ratio for 2020 of 23.5x and 48.0x, above the overall peer average of 12.5x and 22.0x, while with our DCF-based valuation we arrived at an implied EV/EBITDA and PE for 2020 of 24.4x and 52.4x, respectively. When compared to its 5Y average multiples, RD's valuation is definitely not a bargain. In our view, however, a premium is deserved given that **i)** operational leverage should sustain increasing returns under a decreasing interest rate environment (see Exh.39) and **ii)** solid ST earnings momentum has led us with an implied PEG ratio for 2020 of 2.2x, above 5Y average of 1.6x, but below historical premium of 45% against its HC peers (now at 10%). In our view, this trend shows that investors are now willing to pay a higher premium for growth, as current PEG ratios are above 5Y average (see Exh. 38).

SENSITIVITY ANALYSIS

Stressing our assumptions

High equity duration brings additional upside from easing cycle

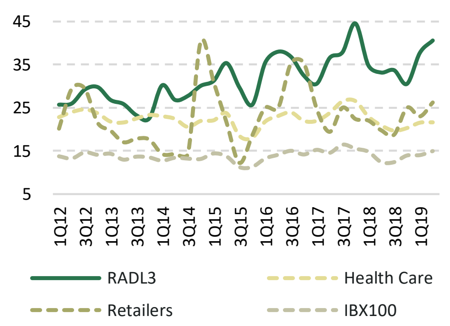
In order to evaluate the impacts of the discount rate and terminal growth rate on our target price, we performed a sensitivity analysis (see Exhibit 40) and derived RD's implied equity duration. As a low-beta and high-growth stock with a premium thesis, we estimated an implied duration for RD of 24 years. Equity duration measures the sensitivity of an equity stock price to changes in the discount rate. Moreover, a 100bps change on RD's discount rate may be translated into an impact of 20% in our target price. In our view, RD might further benefit from an easing cycle in Brazil under structural lower interest rates brought by crucial reforms (i.e pension reform).

Exhibit 36: WACC Breakdown

Assumption	Rate
Risk-free rate	1.7%
Equity risk premium	6.3%
Unlevered beta	0.58
Levered beta (Target D/E of 25%)	0.68
Country risk	2.5%
Inflation differential	1.5%
Cost of equity	**10.1%**
Cost of Debt	7.7%
Brazil statutory tax rate	34.0%
WACC	**9.1%**

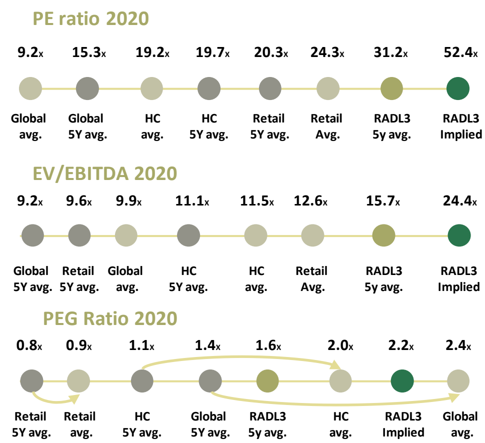
Source: Team 19 estimates

Exhibit 37: RADL3 vs. sector peers forward PE



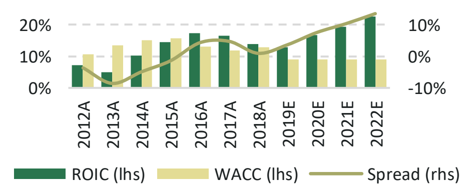
Source: Bloomberg, Team 19 analysis

Exhibit 38: Multiple analysis



Source: Bloomberg, Team 19 estimates

Exhibit 39: Spread between ROIC and WACC



Source: Bloomberg, Team 19 estimates

Exhibit 40: Sensitivity analysis

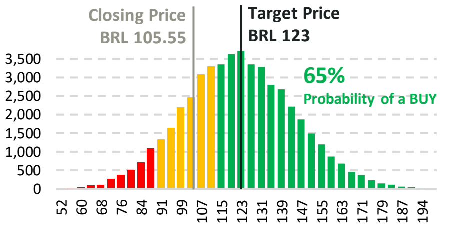
	Terminal Growth Rate (nominal terms)				
WACC	**3.0%**	**3.5%**	**4.0%**	**4.5%**	**5.0%**
8.1%	26%	36%	49%	66%	88%
8.6%	13%	21%	31%	44%	59%
9.1%	2%	9%	17%	26%	38%
9.6%	-7%	-2%	5%	12%	21%
10.1%	-15%	-10%	-5%	1%	8%

Source: Team 19 analysis

Monte Carlo simulation

A Monte Carlo simulation was performed to test the sensitivity of our model to some of the key assumptions (see Appx. 48). On the operational front, we stressed our assumptions for SSS performance, net store additions, costs, changes on sales mix and working capital needs (days of receivables, inventories and suppliers). Also, we tested some WACC components: spread on debt, leverage, risk free rate and country risk. After running the simulation 50.000 times, we observed a 65% probability of obtaining a target price above 10% upside while only 7% of the scenarios would yield a sell recommendation.

Exhibit 41: Monte Carlo Simulation



Source: Team 19 Analysis

FINANCIAL ANALYSIS

Looking up numbers

High organic growth supported by a premium execution

RaiaDrogasil has a consistent track record of store openings and historically posted robust revenues growth (CAGR'11-'18 at 18.5%). During the last two years, however, increasing bargaining power of associations and independents was translated into higher discounts for the end consumer chiefly through entry-level generics. Pressure from these pricing cutter players negatively impacted RD, which has established a price war to sustain its leading position in each regional market. In our view, the worst is already behind for RD, as discounts seem to have reached a bottom and the company retuned to report market share expansion in all state it has exposure.

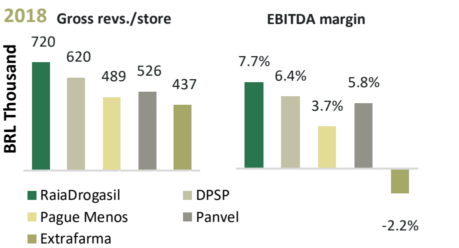
Unique customer profile: High-income segment

When looking to RD's main operational figures per store (see Appx. 52), we can clearly identify the company's strategy: target high-income segments. This is mainly reflected in a higher average ticket and sales per store, but also in additional costs related to a more sophisticated look and feel, innovative IT solutions to retain its customers, create a distinctive purchase experience and offer more comprehensive portfolio of products. Over time this strategy has proven successful: between 2011 and 2018 monthly revenues per store rose from BRL 546 thousand to BRL 720 thousand, while adj. margin EBITDA expanded +200bps on the back of more efficient logistics, operational leverage with broader capillarity and higher bargaining power with suppliers.

Seasonality impacts QoQ

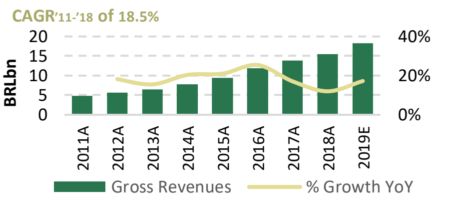
RD operates a business with distinctive seasonality patterns between quarters: **i)** in the 1Q, sales are lower due to school holidays and margins are compressed as a result of limited fixed cost dilution; **ii)** on the other hand, improvements on margins in the 2Q may be mainly attributable to government's annual drug adjustment, as RD is able to sell its products bought in the previous price; **iii)** in the 3Q, margins are negatively impacted by compensation adjustments for employees located in São Paulo; **iv)** and in 4Q, consumption anticipation before holiday season leads to higher sales (see Exh. 44).

Exhibit 42: Monthly gross revenues per store and adj. EBITDA margin comparison



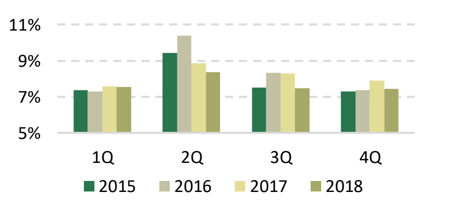
Source: Euromonitor

Exhibit 43: Historical gross revenues



Source: RaiaDrogasil's IR, Team 19 estimates

Exhibit 44: EBITDA margin seasonality



Source: RaiaDrogasil's IR, Team 19 analysis

Exhibit 45: Key financial indicators

	2012A	2013A	2014A	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E
Value creation and profitability analysis													
Sales growth	17.8%	15.8%	20.4%	20.7%	24.8%	17.4%	12.0%	17.1%	19.2%	18.3%	16.7%	14.9%	13.2%
EBITDA margin	6.0%	5.8%	7.0%	7.9%	8.4%	8.2%	7.7%	7.5%	7.8%	8.2%	8.6%	8.9%	9.2%
Net income margin	2.6%	2.7%	3.0%	3.7%	3.9%	3.7%	3.2%	3.4%	3.6%	3.9%	4.4%	4.8%	5.1%
Cash Cycle Analysis													
Days receivables	20.4	19.6	20.5	21.1	21.6	22.1	22.7	22.7	22.5	22.4	22.4	22.4	22.4
Days payables	45.5	41.4	47.1	56.4	59.8	60.9	65.2	64.4	64.5	64.6	64.7	64.8	64.8
Days inventory	84.6	80.5	83.5	85.6	88.8	91.1	97.0	94.5	92.5	90.5	88.5	86.5	84.5
Cash Conversion Cycle	**59.6**	**58.7**	**56.9**	**50.3**	**50.5**	**52.2**	**54.5**	**52.8**	**50.5**	**48.3**	**46.2**	**44.1**	**42.1**
Leverage analysis													
Leverage D/E	0.08x	0.11x	0.12x	0.11x	0.14x	0.19x	0.24x	0.32x	0.24x	0.25x	0.25x	0.25x	0.25x
Leverage D/(D+E)	7.8%	9.5%	10.6%	10.0%	12.4%	15.8%	19.3%	24.3%	19.6%	19.9%	20.0%	19.9%	19.9%
Debt coverage	0.07x	0.01x	0.02x	0.04x	0.18x	0.35x	0.61x	0.62x	0.43x	0.23x	0.05x	(0.12x)	(0.30x)
Interest coverage	12.46x	6.33x	8.23x	7.49x	6.40x	7.47x	8.73x	6.19x	9.83x	10.51x	12.49x	15.54x	20.37x
Liquidity analysis													
Current ratio	2.0x	1.9x	1.7x	1.6x	1.6x	1.6x	1.6x	1.6x	1.5x	1.6x	1.6x	1.7x	1.7x
Acid test	0.4x	0.5x	0.5x	0.5x	0.6x	0.6x	0.5x	0.6x	0.6x	0.8x	0.9x	1.1x	1.3x
Profitability analysis													
Gross margin	26.9%	26.9%	27.8%	29.0%	29.6%	28.8%	28.6%	28.6%	28.7%	28.9%	29.1%	29.2%	29.3%
Operating margin	3.6%	3.1%	4.6%	5.5%	6.0%	5.7%	5.0%	4.8%	5.2%	5.7%	6.2%	6.7%	7.0%
Interest burden	98.7%	94.7%	88.2%	86.9%	84.5%	86.6%	89.4%	86.4%	89.8%	90.5%	92.0%	93.6%	95.1%
Tax burden	74.3%	93.6%	73.0%	77.6%	75.7%	74.7%	78.6%	83.6%	76.4%	76.4%	76.4%	76.4%	76.4%
Net margin	2.6%	2.7%	3.0%	3.7%	3.9%	3.7%	3.2%	3.4%	3.6%	3.9%	4.4%	4.8%	5.1%
Asset turnover	1.9x	1.9x	2.0x	2.2x	2.3x	2.3x	2.2x	2.3x	2.4x	2.5x	2.5x	2.5x	2.4x
Return on Assets	4.9%	5.2%	6.0%	8.0%	8.8%	8.4%	7.2%	7.8%	8.6%	9.7%	10.7%	11.8%	12.5%
Financial leverage	1.5x	1.5x	1.6x	1.7x	1.8x	2.0x	2.1x	2.2x	2.2x	2.2x	2.3x	2.3x	2.3x
ROE	**7.1%**	**7.6%**	**9.6%**	**13.6%**	**16.3%**	**16.6%**	**16.3%**	**17.1%**	**19.2%**	**21.7%**	**24.3%**	**26.8%**	**28.2%**
ROIC	**8.4%**	**6.1%**	**10.5%**	**14.8%**	**17.6%**	**16.6%**	**15.1%**	**15.3%**	**16.7%**	**19.4%**	**22.6%**	**26.0%**	**29.0%**
ROIC (Ex Goodwill)	**17.0%**	**9.3%**	**15.6%**	**21.1%**	**24.0%**	**21.5%**	**18.8%**	**18.5%**	**19.8%**	**22.7%**	**26.0%**	**29.6%**	**32.8%**
Shareholder Indicators													
EPS	0.45	0.53	0.70	1.05	1.38	1.55	1.52	1.89	2.35	3.05	3.94	4.97	6.02
EPS growth	-2.4%	19.0%	30.6%	51.7%	31.0%	12.3%	-2.1%	24.7%	24.3%	29.7%	29.0%	26.3%	21.0%

From bargain power to shift of mix

Alike other traditional retailers, purchase of goods is the main cost related to RD's operations, as represented almost 67% of total sales in 2018. Substantial changes in gross margin were usually associated to better negotiations with suppliers and sales mix. When it comes to RD, the +175bps gross margin expansion between 2012 and 2018 was primarily driven by improving bargaining power as a result of broader scale. For the coming years, though, we expect margin expansion prompted by higher penetration of generics and HPC products (see Exhibit 46).

Moreover, operational expenditures accounted in 2018 for 21.3% of sales, comprising salaries and social charges (roughly 10% of sales), rent (~4%) and logistics expenditures (~3%) as the main components. We note that, over time, expenses per store increased in-line with inflation, which reflects RD's successful cost efficiency initiatives.

Just enough leverage to thrive

RD has an underleverage profile (0.24x D/E in 2018) and a strong cash balance. Historically, RD has been able to expand organically by using its own cash generation. Over the years, the company used subsidized credit for working capital financing and a few credit lines from private loan market. With the development of the Brazilian corporate bond market, spreads dropped substantially, and the issuance process became easier and rapid. RD seized the opportunity to raise part of its capital needs with cheap credit through bonds (see Exhibit 47 and 48). On top of that, RD has increased indebtedness to 0.67x Net Debt to EBITDA, above its historical levels, but still bellow the bulk of retail and drugstore peers. RD cost of debt plummeted to 108.8% of CDI, mostly due to bond issuance (roughly 83% of its debt). Cash position should not be a concern for RD's expansion; we estimate a D/E ratio of 25% going forward with a weighted cost of debt of 110% of CDI (see Appx. 43).

Cash Cycle and Working Capital needs

In order to fulfill customers' demand with a wide portfolio of products, the fast-paced expansion of RaiaDrogasil, in terms of both store openings and new distribution centers, required a higher levels of inventories and, consequently, working capital needs. We note, however, that the negative impact of days of inventories, which rose from 84.6 in 2012 to 97 days in 2018, in cash cycle has been partially offset by increasing bargaining power with suppliers (days of payables moved from 45.5 to 65.2 in the same period) as RD expand its network, reach and capillarity. When compared to a pool of selected peers, RaiaDrogasil outperform every domestic player but still lags global ones, which can be explained by the growth stage of each company (see Appx. 53). As a matter of comparison, RD net store openings in 2018 represented 13.3% of its initial store base in that year, vs. 1.2% for CVS.

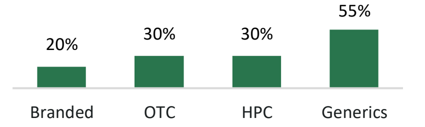
Double-digit EPS growth and superior cash conversion

Historically, RD delivered a strong EPS CAGR'12-'18 of 24.5% coupled with enhancing levels of profitability, as net margin moved from 2.6% to 3.5% between 2012 and 2018. This solid bottom line performance is mainly attributable to in-store operational improvements and an increasing pace of store openings, that on the other hand, hurt cash conversion levels in the near-term (EBITDA conversion to operational cash flow declined from 57.6%, in 2013, to 24.8% last year). As the base of store enlarges, the marginal impact of new openings on cash generation should reduce, reaching a 40% level by 2022.

Return indicators suggest healthy operational leverage

RD's return on equity improved from 7.1% in 2012 to 16.3% in 2018 on the back of **i)** better asset utilization through scale gains and enhanced operational leverage, **ii)** increasing profitability on a store basis and **iii)** capital structure optimization. We expect maturation of stores, network consolidation and capital structure enhancement to sustain company's ROE above domestic peers and its cost of equity (see Appx. 54).

Exhibit 46: RD's mix gross margin differential



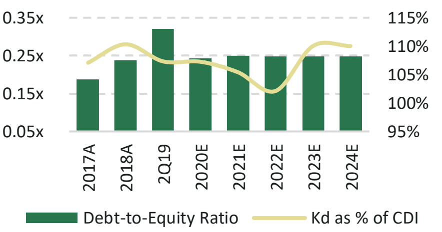
Source: RaiaDrogasil's IR

Exhibit 47: Debentures issued by RaiaDrogasil

Debentures	Interest Rate % CDI	Maturity	Amount (R$ Mn)
1st Issuance	104.75%	2022	300
2nd Issuance	104.50%	2023	400
3rd Issuance*	98.5%	2026	250
4th Issuance	106.99%	2026	300

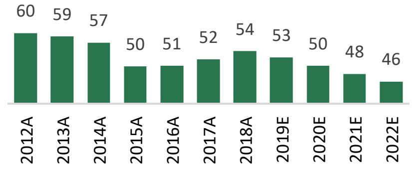
Source: Team 19 analysis, *Certificate of Real Estate Receivables

Exhibit 48: RD's debt profile



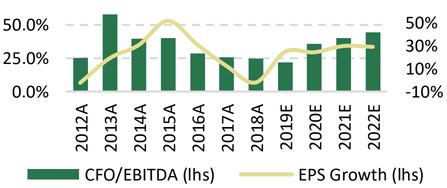
Source: Team 19 estimates

Exhibit 49: Cash Cycle evolution



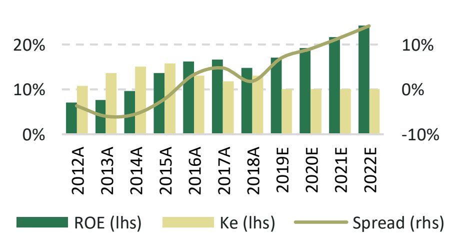
Source: Team 19 analysis

Exhibit 50: EPS growth and CFO conversion



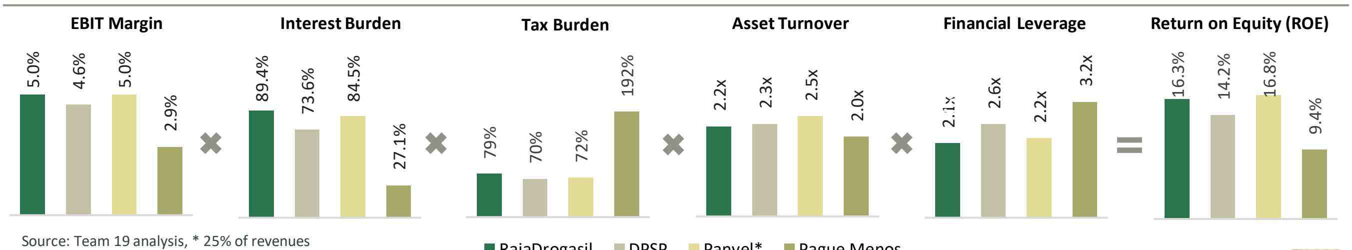
Source: Team 19 estimates

Exhibit 51: Spread between ROE and Ke



Source: Team 19 estimates

Exhibit 52: DuPont Analysis



Source: Team 19 analysis, * 25% of revenues related to distribution operations

Main risks to our analysis

Market Risks

MR 1 | Absence of economic reaction to structural reforms

Probability: Low | Impact: Medium

Even with structural reforms removing bottlenecks to investment and activity, the economy may not react as fast as the market expects. The country has already been through years of crisis and a sluggish recovery with income levels under pressure, which could limit upside from mix improvement (especially when it comes to HPC) and may strengthen competition from lower-income players as consumers downgrade their consumption habits.

MR 2 | Associations' aggressive pricing

Probability: High | Impact: Medium

Aggressive pricing competition had a relevant impact in RaiaDrogasil's business during the peak of the crisis and the associations, when independents became able to reach lower purchase prices and, therefore, increase discounts in order to increase sales. However, we believe that now those discounts may have reached their maximum sustainability levels and those individuals shouldn't be able to decrease prices further. Yet, as we believe there is a low probability of economic slowdown, consumer behavior downgrade shouldn't be a problem.

Operational Risks

OR 1 | Implementing stores in frontier markets has once been proven hard

Probability: Medium | Impact: High

With more than 1.9k stores over the country occupying higher flow, income and population density regions, RD has now to expand to frontier markets where human concentration is lower (and so are income levels). This kind of operation has once been proven difficult (as per the example of Farmasil, see Appendix 12) for a company specialized in operating premium drugstores.

OR 2 | Integration of Onofre into RD's business

Probability: Low | Impact: Medium

Integrating two brands and, especially two different operations (a mostly-online and a mostly-physical one) should place some initial pressure into RD's margins and increase cash consumption in the short term. Returns in terms of cash generation and margin expansion depend on plain and efficient integration. Even though it was at a small value, the cash consumption and a possible execution failure may put investors in a more cautious position towards RaiaDrogasil.

Regulatory Risks

RR 1 | Price regulation strengthening

Probability: Low | Impact: Medium

As price cap adjustments are regulated, a defining part of the company's business is subject to government's decisions, which could turn into downward pressure in prices in order to expand population access to drugs. Although, the trend has been for some time going on the opposite side, with price adjustments in line with inflation and drugstores practicing an average of ~40% discounts to regulated prices in the last five years.

RR 2 | Liberalization of drug sales on other types of businesses

Probability: Low | Impact: Medium

The sale of OTC drugs in supermarkets was part of the so called "Economic Liberty" project supported by the government and approved in the Senate in September, but without this clause. The matter was under pressure from healthcare industry members, drug retailers and pharmacist unions mostly alleging unfair competition, until it was removed from the project by its own rapporteur, in July. It could come back into discussion, but should have a hard time passing through.

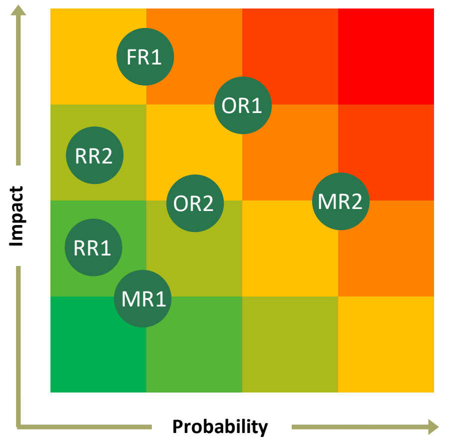
Financial Risks

FR 1 | IoC prohibition to reduce tax benefit

Probability: Low | Impact: High

Currently, interest on equity distributions are deductible for corporate income tax purposes, which means that companies are allowed to reduce its taxable profit at a certain proportion to the interest paid to their shareholders. Any disruption in the IoE regime in Brazil would increase RD effective tax rate and likely reduce equity distributions and returns to shareholders in the short term.

Exhibit 53: Risk matrix



Source: Team 19 estimates

Exhibit 54: Mitigants of market and operational risks

Risks	Mitigating Factors
Market Risks	
Absence of economic reaction to structural reforms	Possibility of arranging the sales mix according to income levels
	Third party consultants to evaluate market risks and develop plans to mitigate them
Associations' aggressive pricing	Maintenance of a good relationship with suppliers
	Ability to decrease prices if necessary
Operational Risks	
Implementing stores in frontier markets has once been proven hard	In-depth demographic, cost, and demand analysis before deciding to expand to a frontier market
	High quality internal controls and market team to capture changes in the demand profile
Integration of Onofre into RD's business	Tracking every step of the integration, avoiding loss of business synergy

Source: Team 19 analysis

Exhibit 55: Altman Z Score

	2012	2013	2014	2015	2016	2017	2018
Z Score	6.48	4.61	5.66	6.18	7.34	8.63	5.88

According to Z Score results, the risk of RD getting into bankruptcy is really low

Source: Team 19 analysis

Appendix

Click to go to the page

APPENDIX 1

Glossary

AUM	Assets under management
AVP	Adjusted present value
BCB	Banco Central do Brasil (Brazilian Central Bank)
bps	Basis points
Branded Rx	Branded prescription drugs
CAGR	Compound Annual Growth Rate
CDI	Certificado de Depósitos Interbancários (Certficate of Interbank Deposits)
COPOM	Comitê de Política Monetária (Monetary Policy Committee)
CRM	Customer Relationship Management
D/E	Debt to Equity ratio
DIO	Days of inventories outstanding
EMBI	JP Morgan's Emerging Markets Bonds Index
EV	Enterprise Value
Focus	Bi-weekly report with market consensus expectations for main economic figures
fwd	Forward
HC	Healthcare
H&B	Health and Beauty
HHI	Herfindahl-Hirshman Index
HMO	Health Maintenance Organization
HPC	Hygiene and Personal Care
IAS	International Accounting Standards
IBX100	Indice Brasil 100 (Brazil 100 Index), selection of 100 most relevant companies listed in B3
IT	Information Technology
Ke	Cost of equity
lhs	Left-hand side
LT	Long-term
LTM	Last twelve months
MG, ES, GO	Minas Gerais, Espirito Santo and Goiás states
N, NE,CO,SE,S	5 macrorregions of Brazil, respectively North, Northeast, Mid-west, Southeast and South
OECD	Organization for Economic Co-operation and Development
Omnichannel	Type of retail that integrates the different methods of shopping available to consumers
OTC	Over-the-Counter are non-prescription drugs
PBM	Pharmacy Benefit Management
PE	Price-to-earnings ratio
PPP	Pharmacy Purchase Price
PVA	Present Value Adjustment
RADL3, RD	Raia Drogasil S.A.
rhs	Right-hand side
ROE	Return on Equity
ROIC	Return on Invested Capital
Selic	Sistema Especial de Liquidação e Custodia (Special Clearance and Escrow System) is the basic Brazilian interest rate
SKU	Stock keeping unit
SSS	Same-store sales
ST	Short-term
WACC	Weighted average cost of capital

APPENDIX 2

Revenue build-up assumptions

In BRLmn	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Droga Raia and Drogasil									
Stores BoP	**1420**	**1610**	**1825**	**2040**	**2264**	**2488**	**2702**	**2896**	**3090**
(+) Openings	210	240	240	240	240	230	210	210	180
(-) Closings	-20	-25	-25	-16	-16	-16	-16	-16	-16
Stores EoP	**1610**	**1825**	**2040**	**2264**	**2488**	**2702**	**2896**	**3090**	**3254**
1 Year	209	240	236	236	236	226	206	206	180
2 Year	210	204	233	224	224	224	214	194	206
3 Year	152	204	210	233	224	224	224	214	178
Mature Stores	1039	1177	1361	1571	1804	2028	2252	2476	2690
Total	**1610**	**1825**	**2040**	**2264**	**2488**	**2702**	**2896**	**3090**	**3254**
Monthly Revenue per Store									
Gross Revenue	13,306.7	14,769.8	17,265.7	20,555.0	24,313.3	28,349.0	32,566.1	36,841.2	41,113.9
% Growth YoY	16.0%	11.0%	16.9%	19.1%	18.3%	16.6%	14.9%	13.1%	11.6%
Gross Revenues per Month	1,108.89	1,230.82	1,438.81	1,712.92	2,026.11	2,362.42	2,713.84	3,070.10	3,426.16
Avg. # of Stores	1532	1738	1953	2171	2395	2612	2814	3008	3183
Monthly Revenue per Store	**723.94**	**708.18**	**736.62**	**789.00**	**845.98**	**904.54**	**964.49**	**1020.73**	**1076.31**
% Growth YoY	2.1%	(2.2%)	4.0%	7.1%	7.2%	6.9%	6.6%	5.8%	5.4%
# of Equivalent Stores	1,331.08	1,516.01	1,712.40	1,929.73	2,153.57	2,375.09	2,586.42	2,790.35	2,980.17
Monthly Revenue per Mature Store	833.1	811.9	840.2	887.6	940.8	994.7	1049.3	1100.3	1149.7
SSS Mature	**3.1%**	**-1.3%**	**3.9%**	**5.6%**	**6.0%**	**5.8%**	**5.5%**	**4.9%**	**4.5%**
SSS Non-mature	**14.7%**	**10.0%**	**16.4%**	**14.4%**	**13.7%**	**14.0%**	**14.2%**	**14.6%**	**13.2%**
SSS Total	**7.2%**	**2.7%**	**8.0%**	**8.3%**	**8.1%**	**7.8%**	**7.4%**	**6.8%**	**6.0%**
Stores									
% Mature	64.5%	64.5%	66.7%	69.4%	72.5%	75.1%	77.8%	80.1%	82.7%
% Non-mature	35.5%	35.5%	33.3%	30.6%	27.5%	24.9%	22.2%	19.9%	17.3%
4-Bio									
Gross Revenues	545.8	749.3	938.3	1,125.9	1,328.6	1,567.7	1,802.9	2,073.3	2,351.1
% Growth YoY	53.3%	37.3%	25.2%	20.0%	18.0%	18.0%	15.0%	15.0%	13.4%

APPENDIX 3

Income Statement

In BRLmn	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Gross Revenues	**13,852.5**	**15,519.1**	**18,204.0**	**21,680.9**	**25,641.9**	**29,916.8**	**34,369.0**	**38,914.5**	**43,465.0**
% Growth YoY	17.1%	12.0%	17.3%	19.1%	18.3%	16.7%	14.9%	13.2%	11.7%
Deductions	(640.0)	(717.7)	(867.4)	(1,019.0)	(1,205.2)	(1,406.1)	(1,615.3)	(1,829.0)	(2,042.9)
% Gross Revenues	(4.6%)	(4.6%)	(4.8%)	(4.7%)	(4.7%)	(4.7%)	(4.7%)	(4.7%)	(4.7%)
Net Revenues	**13,212.5**	**14,801.4**	**17,336.6**	**20,661.9**	**24,436.7**	**28,510.7**	**32,753.6**	**37,085.5**	**41,422.1**
% Growth YoY	17.4%	12.0%	17.1%	19.2%	18.3%	16.7%	14.9%	13.2%	11.7%
Cost of Goods Sold (COGS)	(9,224.5)	(10,355.9)	(12,136.8)	(14,429.5)	(17,019.0)	(19,811.6)	(22,708.5)	(25,685.4)	(28,659.5)
Gross Profit	**3,988.0**	**4,445.5**	**5,199.8**	**6,232.5**	**7,417.7**	**8,699.1**	**10,045.1**	**11,400.1**	**12,762.7**
% Gross margin	28.8%	28.6%	28.6%	28.7%	28.9%	29.1%	29.2%	29.3%	29.4%
Sales and Marketing Expenses	(2,529.1)	(2,901.0)	(3,408.3)	(4,028.0)	(4,707.3)	(5,419.2)	(6,144.2)	(6,893.3)	(7,645.3)
General and Administrative Expenses	(328.7)	(349.3)	(430.4)	(512.7)	(618.4)	(721.5)	(828.8)	(938.4)	(1,048.1)
Non-recurring expenses	0.2	(59.5)	(138.4)	–	–	–	–	–	–
EBITDA	**1,130.5**	**1,135.6**	**1,222.5**	**1,691.8**	**2,092.1**	**2,558.3**	**3,072.1**	**3,568.5**	**4,069.3**
% EBITDA margin	8.2%	7.3%	6.7%	7.8%	8.2%	8.6%	8.9%	9.2%	9.4%
Adjusted EBITDA	**1,130.3**	**1,195.2**	**1,361.0**	**1,691.8**	**2,092.1**	**2,558.3**	**3,072.1**	**3,568.5**	**4,069.3**
% Adj. EBITDA margin	8.2%	7.7%	7.5%	7.8%	8.2%	8.6%	8.9%	9.2%	9.4%
Depreciation and Amortization	(337.9)	(414.1)	(494.6)	(558.7)	(632.9)	(706.4)	(773.1)	(831.8)	(884.9)
Operating profit	**792.6**	**721.5**	**728.0**	**1,133.1**	**1,459.2**	**1,852.0**	**2,299.0**	**2,736.7**	**3,184.4**
% Operating margin	5.7%	4.6%	4.0%	5.2%	5.7%	6.2%	6.7%	7.0%	7.3%
Financial result	**(106.0)**	**(82.7)**	**(117.7)**	**(115.3)**	**(138.9)**	**(148.3)**	**(148.0)**	**(134.3)**	**(116.7)**
EBT	**686.5**	**638.9**	**610.3**	**1,017.8**	**1,320.3**	**1,703.7**	**2,151.0**	**2,602.4**	**3,067.7**
% EBT margin	5.0%	4.1%	3.4%	4.7%	5.1%	5.7%	6.3%	6.7%	7.1%
Income Tax and Social Charges	(173.9)	(131.7)	(109.7)	(240.3)	(311.7)	(402.3)	(507.9)	(614.4)	(724.3)
% Effective tax rate implied	25.3%	20.6%	18.0%	23.6%	23.6%	23.6%	23.6%	23.6%	23.6%
Net Income	**512.5**	**501.9**	**625.7**	**777.5**	**1,008.6**	**1,301.4**	**1,643.2**	**1,987.9**	**2,343.4**
% Net margin	3.7%	3.2%	3.4%	3.6%	3.9%	4.4%	4.8%	5.1%	5.4%
Earnings per share	1.55	1.52	1.89	2.35	3.05	3.94	4.97	6.02	7.09

APPENDIX 4

Balance Sheet — Assets

In BRLmn	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Assets	**6,464.2**	**7,352.0**	**8,541.5**	**9,628.5**	**11,275.7**	**13,043.1**	**14,932.8**	**17,049.2**	**19,234.2**
Current Assets	**3,928.2**	**4,529.8**	**5,434.2**	**6,224.8**	**7,573.5**	**9,055.7**	**10,712.2**	**12,586.7**	**14,600.9**
Cash and cash equivalents	264.9	241.6	402.1	350.8	783.0	1,324.8	2,015.7	2,956.1	4,010.3
Accounts receivable	930.1	937.4	1,184.0	1,396.8	1,638.2	1,898.7	2,172.5	2,445.5	2,718.0
Inventories	2,517.6	3,087.3	3,535.4	4,111.4	4,729.1	5,350.5	5,973.1	6,564.8	7,183.3
Taxes Receivable	78.8	84.9	100.6	119.8	141.2	163.7	187.3	210.8	234.3
Other Accounts Receivable	119.0	156.8	186.0	215.0	245.6	275.7	315.4	355.1	394.6
Anticipated Expenses	17.9	21.9	26.0	30.9	36.4	42.2	48.3	54.4	60.5
Non-Current Assets	**2,536.0**	**2,822.2**	**3,107.3**	**3,403.7**	**3,702.2**	**3,987.5**	**4,220.5**	**4,462.6**	**4,633.3**
Judicial deposits	29.2	25.8	26.0	26.0	26.0	26.0	26.0	26.0	26.0
Taxes Receivable	34.3	44.6	52.9	63.0	74.2	86.0	98.4	110.7	123.1
Other Credits	5.2	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Property, Plant and Equipment	1,276.3	1,547.0	1,820.6	2,096.4	2,381.0	2,651.8	2,869.8	3,096.8	3,252.5
Intangible	1,191.0	1,202.4	1,205.8	1,216.3	1,219.0	1,221.6	1,224.3	1,227.0	1,229.7

APPENDIX 5

Balance Sheet — Liabilities and Stockholders' Equity

In BRLmn	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Liabilities and Stockholders' Equity	**6,464.2**	**7,352.0**	**8,541.5**	**9,628.5**	**11,275.7**	**13,043.1**	**14,932.8**	**17,049.2**	**19,234.2**
Current Liabilities	**2,493.8**	**2,913.4**	**3,500.2**	**4,131.7**	**4,829.5**	**5,535.0**	**6,284.2**	**7,206.8**	**8,157.6**
Suppliers	1,815.7	2,141.3	2,525.9	3,003.9	3,535.0	4,093.9	4,676.8	5,262.8	5,847.3
Loans and financing	196.2	272.9	274.7	274.7	243.1	168.7	119.2	243.0	393.0
Salaries and social charges	202.8	237.5	279.8	341.0	410.9	487.0	555.9	625.2	694.1
Tax liabilities	130.4	93.0	110.3	131.3	154.7	179.3	205.2	231.0	256.7
Dividend and Interest on Equity	37.5	24.8	132.3	158.4	210.0	270.1	344.0	414.9	489.7
Provision for lawsuits	2.7	2.5	9.6	9.6	9.6	9.6	9.6	9.6	9.6
Other accounts payable	108.4	141.4	167.7	212.8	266.2	326.4	373.5	420.4	467.3
Non-Current Liabilities	**720.1**	**903.8**	**1,290.7**	**1,202.1**	**1,495.8**	**1,842.0**	**2,160.9**	**2,360.7**	**2,540.5**
Loans and financing	414.7	570.2	927.2	771.6	987.7	1,248.1	1,493.1	1,619.3	1,725.5
Provision for lawsuits	8.2	48.9	37.0	37.0	37.0	37.0	37.0	37.0	37.0
Income tax and social charges payable	228.7	237.8	282.0	348.9	426.6	512.3	586.2	659.9	733.4
Other accounts payable	68.5	46.9	44.5	44.5	44.5	44.5	44.5	44.5	44.5
Stockholder' equity	**3,250.4**	**3,534.8**	**3,750.5**	**4,294.8**	**4,950.3**	**5,666.1**	**6,487.7**	**7,481.7**	**8,536.2**
Common Stock	1,808.6	1,808.6	2,500.0	2,500.0	2,500.0	2,500.0	2,500.0	2,500.0	2,500.0
Capital Reserves	151.2	116.4	122.8	122.8	122.8	122.8	122.8	122.8	122.8
Revaluation Reserve	12.2	12.0	11.9	11.9	11.9	11.9	11.9	11.9	11.9
Income Reserves	1,228.1	1,522.1	1,106.8	1,651.0	2,306.6	3,022.4	3,843.9	4,837.9	5,892.4
Accrued Income	–	–	–	–	–	–	–	–	–
Equity Adjustments	(30.2)	(30.2)	(30.2)	(30.2)	(30.2)	(30.2)	(30.2)	(30.2)	(30.2)
Non-Controlling Interest	27.9	34.9	39.2	39.2	39.2	39.2	39.2	39.2	39.2
Additional Dividend Proposed	52.6	71.0	–	–	–	–	–	–	–

APPENDIX 6

Cash Flow and Balance Sheet restatement analysis

Cash Flow restatement

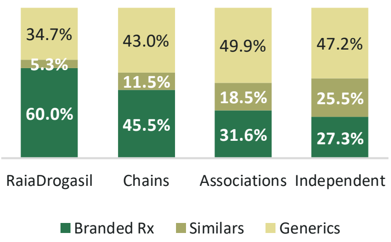
In BRLmn	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Earnings before Income Tax and Social Charges									
EBIT	792.6	721.5	728.0	1,133.1	1,459.2	1,852.0	2,299.0	2,736.7	3,184.4
(Operational taxes)	(200.5)	(148.9)	(130.3)	(267.5)	(344.5)	(437.3)	(542.8)	(646.2)	(751.9)
Depreciation and Amortization	337.9	414.1	494.6	558.7	632.9	706.4	773.1	831.8	884.9
Gross cash flows	**930.0**	**986.7**	**1,092.3**	**1,424.3**	**1,747.5**	**2,121.1**	**2,529.3**	**2,922.3**	**3,317.4**
Change in WC	(248.5)	(229.9)	(242.2)	(179.7)	(172.2)	(146.6)	(179.4)	(144.8)	(172.9)
Capex	(624.5)	(696.2)	(771.6)	(845.1)	(920.1)	(979.9)	(993.8)	(1,061.4)	(1,043.3)
FCFO	**56.9**	**60.7**	**78.5**	**399.5**	**655.1**	**994.6**	**1,356.1**	**1,716.1**	**2,101.2**
Tax shields	26.6	17.3	20.5	27.2	32.8	35.0	34.9	31.7	27.6
Interest income	106.9	71.8	74.4	85.7	109.7	153.9	207.6	272.9	344.9
Interest expenses	(212.9)	(154.4)	(192.0)	(200.9)	(248.6)	(302.2)	(355.6)	(407.2)	(461.7)
Change in gross debt	208.5	219.6	466.2	(129.5)	236.1	246.2	269.3	320.9	331.0
Change in surplus assets	0.4	(15.3)	(2.2)	–	–	–	–	–	–
FCFE	**186.5**	**199.5**	**445.4**	**181.9**	**785.2**	**1,127.5**	**1,512.4**	**1,934.4**	**2,343.0**
Interest on capital	(202.5)	(209.5)	(257.1)	(311.0)	(403.4)	(520.6)	(657.3)	(795.2)	(937.4)
Other movements in Group Equity	2.6	(20.3)	(32.0)	77.7	50.4	(65.1)	(164.3)	(198.8)	(351.5)
Change in minorities	1.7	7.1	4.3	–	–	–	–	–	–
Change in cash	**(11.8)**	**(23.3)**	**160.6**	**(51.3)**	**432.2**	**541.9**	**690.8**	**940.5**	**1,054.2**

Balance Sheet restatement

In BRLmn	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Accounts receivable	930.1	937.4	1,184.0	1,396.8	1,638.2	1,898.7	2,172.5	2,445.5	2,718.0
Inventories	2,517.6	3,087.3	3,535.4	4,111.4	4,729.1	5,350.5	5,973.1	6,564.8	7,183.3
Suppliers	(1,815.7)	(2,141.3)	(2,525.9)	(3,003.9)	(3,535.0)	(4,093.9)	(4,676.8)	(5,262.8)	(5,847.3)
Anticipated Expenses	78.8	84.9	100.6	119.8	141.2	163.7	187.3	210.8	234.3
Salaries and social charges	17.9	21.9	26.0	30.9	36.4	42.2	48.3	54.4	60.5
Tax effect	(202.8)	(237.5)	(279.8)	(341.0)	(410.9)	(487.0)	(555.9)	(625.2)	(694.1)
Other net ST assets and liabilities	(325.2)	(322.1)	(367.6)	(461.6)	(574.3)	(703.0)	(797.7)	(892.0)	(986.2)
Working Capital	**1,200.7**	**1,430.5**	**1,672.7**	**1,852.4**	**2,024.7**	**2,171.3**	**2,350.7**	**2,495.5**	**2,668.4**
Property, Plant and Equipment	1,276.3	1,547.0	1,820.6	2,096.4	2,381.0	2,651.8	2,869.8	3,096.8	3,252.5
Intangible	1,191.0	1,202.4	1,205.8	1,216.3	1,219.0	1,221.6	1,224.3	1,227.0	1,229.7
Fixed Assets	**2,467.3**	**2,749.3**	**3,026.4**	**3,312.7**	**3,600.0**	**3,873.5**	**4,094.1**	**4,323.8**	**4,482.2**
Core Capital Employed	**3,668.0**	**4,179.9**	**4,699.1**	**5,165.2**	**5,624.7**	**6,044.7**	**6,444.8**	**6,819.3**	**7,150.6**
Judicial deposits and other credits	29.2	25.8	26.0	26.0	26.0	26.0	26.0	26.0	26.0
LT Other accounts payable	(63.3)	(44.5)	(42.5)	(42.5)	(42.5)	(42.5)	(42.5)	(42.5)	(42.5)
Surplus Assets	**(34.0)**	**(18.7)**	**(16.5)**	**(16.5)**	**(16.5)**	**(16.5)**	**(16.5)**	**(16.5)**	**(16.5)**
Net Capital Employed	**3,633.9**	**4,161.2**	**4,682.6**	**5,148.7**	**5,608.2**	**6,028.3**	**6,428.4**	**6,802.8**	**7,134.1**
ST Loans and financing	196.2	272.9	274.7	274.7	243.1	168.7	119.2	243.0	393.0
Dividend and Interest on Equity	37.5	24.8	132.3	158.4	210.0	270.1	344.0	414.9	489.7
ST Financial Leases	–	–	–	–	–	–	–	–	–
LT Loans and financing	414.7	570.2	927.2	771.6	987.7	1,248.1	1,493.1	1,619.3	1,725.5
LT Financial Leases	–	–	–	–	–	–	–	–	–
Gross Financial Debt	**648.4**	**868.0**	**1,334.2**	**1,204.7**	**1,440.8**	**1,687.0**	**1,956.3**	**2,277.2**	**2,608.2**
Cash and cash equivalents	(264.9)	(241.6)	(402.1)	(350.8)	(783.0)	(1,324.8)	(2,015.7)	(2,956.1)	(4,010.3)
Net Debt	**383.6**	**626.4**	**932.1**	**853.9**	**657.8**	**362.1**	**(59.4)**	**(678.9)**	**(1,402.1)**
Group Equity	**3,222.5**	**3,499.9**	**3,711.3**	**4,255.5**	**4,911.1**	**5,626.9**	**6,448.5**	**7,442.4**	**8,497.0**
Non-controlling Interest	27.9	34.9	39.2	39.2	39.2	39.2	39.2	39.2	39.2
Total Equity	**3,250.4**	**3,534.8**	**3,750.5**	**4,294.8**	**4,950.3**	**5,666.1**	**6,487.7**	**7,481.7**	**8,536.2**
Total Funds Invested	**3,633.9**	**4,161.2**	**4,682.6**	**5,148.7**	**5,608.2**	**6,028.3**	**6,428.3**	**6,802.8**	**7,134.1**

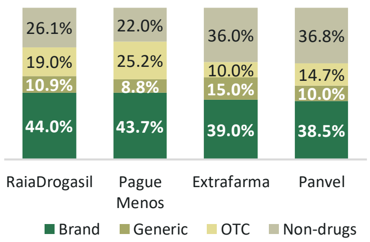
APPENDIX 7
Sales mix

Exhibit 56: Prescription sales mix (Units)



Source: IQVIA; In terms of boxes

Exhibit 57: Sales mix of the largest chains



Source: IQVIA; As of 2018

Exhibit 58: Gross margin breakdown

Source: RaiaDrogasil's IR

Positive outlook for high margin segments

RaiaDrogasil's mix of sales is unique. As the company targets premium customers, its vast portfolio of Rx branded medicines accounted for 44% of its total sales in 2018. We expect, however, high margin segments to become more representative on top of **i)** less restricted regulatory framework for OTC products, **ii)** private label strategy supporting HPC sales and **iii)** recent efforts to increase entry price generics penetration in RD's stores.

When it comes to competition, challenging dynamics on generics experienced during 2017 and 2018 seem to have reached an inflection point. Amid a harsh recession in Brazil, RD implemented an aggressive strategy on generics by reducing tickets and expanding its portfolio of products in this segment. At first, margins and SSS figures were sharply pressured. We note, however, that RD is already reaping the rewards of its strategy, as posted market share gains in every segment.

Exhibit 59: Market Share – Branded Drugs

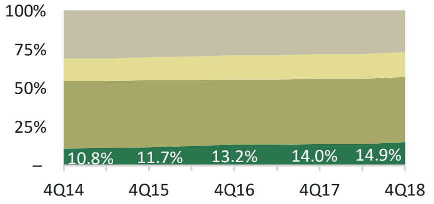


Exhibit 60: Market Share – Generics

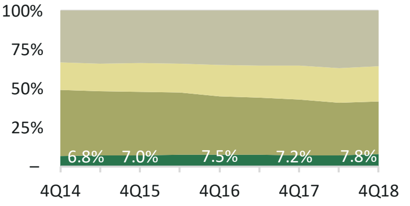
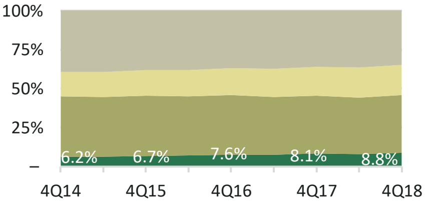


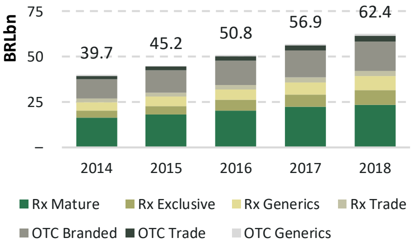
Exhibit 61: Market Share – OTC



Source: IQVIA; In terms of PMB

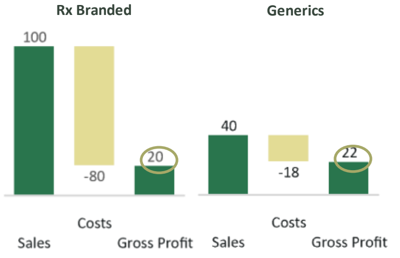
APPENDIX 8
Rx Branded

Exhibit 62: Retail pharmaceutical industry



Source: IQVIA; In terms of PPP

Exhibit 63: Rx Branded vs Generic contrib.



Source: Team 19 analysis

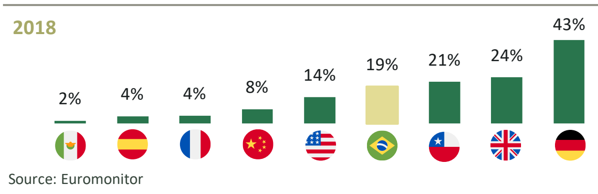
Higher tickets, but thin margin

CAGR *'04-'18* ***11%***

Rx branded is related to medicines and drugs that require medical prescription to be sold. It can be segregated into Rx Exclusive (patented) and Rx Mature (patent expired). This segment includes expensive medications for complex diseases. On the other hand, costs per unit are substantially higher due to solid bargaining power imposed by pharmaceutical companies. In this sense, Generic drugs, on average ~60% cheaper than Rx Branded, provide better profitability for retailers.

APPENDIX 9
Hygiene & Personal Care (HPC)

Exhibit 64: % of H&B products sold by drugstores



Source: Euromonitor

Valuable to retain customers

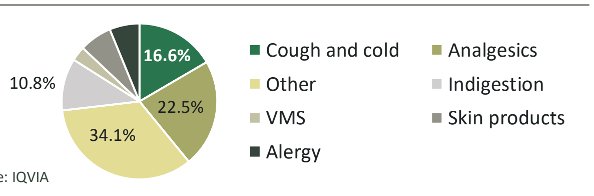
CAGR *'04-'18* ***10%***

HPC is related to toiletries and beauty products available directly to the customer in stores, such as cosmetics, sunscreens, deodorants, soaps and diapers. This segment is more representative in premium drugstores chains, mainly located in large cities and high-income areas.

On the supply side, multinational companies, such as Nivea and Johnson & Johnson, still hold the most significant position, although owned brands of drugstores are becoming more relevant.

APPENDIX 10
Over the Counter (OTC)

Exhibit 65: Over the Counter (OTC) market breakdown



Source: IQVIA

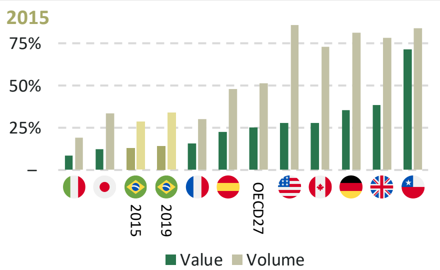
First-line treatment for minor illnesses

CAGR *'04-'18* ***12%***

OTC medicines comprises drugs that can be sold directly to the general customer, as do not require prescription. It is usually associated with low complexity drugs used to relieve pain or as a first-line treatment for minor illnesses. Also, part of the sales on this segment can be attributed to self-medication of a considerable portion of the Brazilian families. According to IQVIA, cough and cold, analgesics and vitamins & supplements were the main categories in terms of sales in 2018.

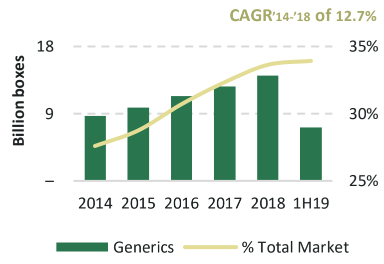
APPENDIX 11
Generics

Exhibit 66: Share of Generics in pharma market



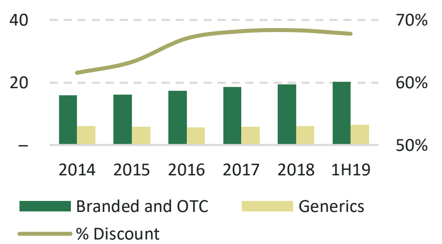
Source: OECD, IQVIA

Exhibit 67: Generic sales (boxes)



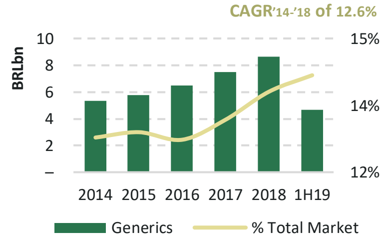
Source: IQVIA

Exhibit 68: Avg. px. per box – Rx/OTC vs Generics



Source: IQVIA

Exhibit 69: Generic sales (PPP)



Source: IQVIA

Still underpenetrated, but the fastest growing segment
CAGR'14-'18 13%

A generic is defined as a pharmaceutical product which has the same qualitative and quantitative composition in active substances and the same pharmaceutical form as the reference product, and whose bioequivalence with the reference product has been approved by a regulator.

In Brazil, generic drug registrations started in 2000 with the law 9.787/99. This regulatory change expanded the pharmaceutical market in Brazil, mainly for low income families, as it provided more affordable prices on medicines.

In 2018, generic sales accounted for roughly 46% of the prescribed market and 34% of total pharmaceutical sales, in terms of boxes. Relative to other countries, Brazil still lags behind in generics penetration. When it comes to average discount per box, each unit of generic medicines is 68% and 60% cheaper when compared to other drugs (Branded + OTC) and Rx Branded, respectively.

APPENDIX 12
Farmasil

- Store size: 45 m² - 55 m²
- High assortment of Generics
- Focus on lower-income households
- Less employees and lower opening hours

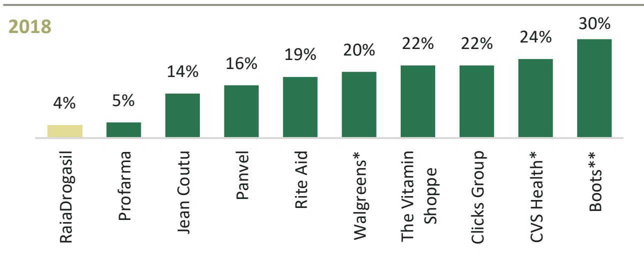
Not always a bed of roses

In order to expand its market share in low-end segments, RD launched a new brand called Farmasil. The company was created in 2013 and its 22 stores were operated under a completely different business model when compared to Droga Raia or Drogasil. Its compact and simpler stores located in places with high traffic were primarily focused on offering a high assortment of generics.

Despite lower CAPEX requirements and reduced staff, Farmasil's stores lacked operational leverage and competitive pricing when compared to main popular players, chiefly independent drugstores and associations. Stablishing a new brand had proven to be more challenging than initially expected. In this sense, RD opted to review its strategy with the closure of selected stores and rebranding of the remaining ones to Droga Raia and Drogasil.

APPENDIX 13
Private label

Exhibit 70: Front store penetration of private label products



Source: Companies 20-F and 10-K's Annual reports; * 2017; ** 2013

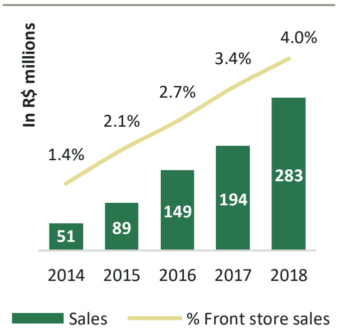
RD Marcas: RaiaDrogasil own brands

nutri good · needs · lePop · TRISS · caretech · b.well

Private label to support better margin dynar

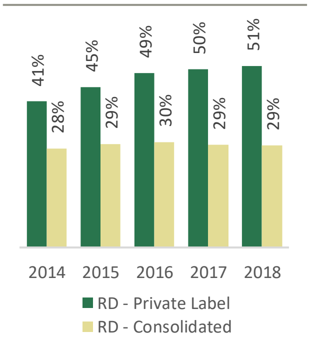
By strengthening the competitive positioning of its brands, the management seeks to double private label penetration in front store sales within 4-5 years. The execution of the strategy involves designing Private Label plans by category, integrating elements such as assortment, exhibition and pricing.

Exhibit 71: RD's PL performance



Source: RaiaDrogasil's IR

Exhibit 72: Gross mg comparison



Source: RaiaDrogasil's IR

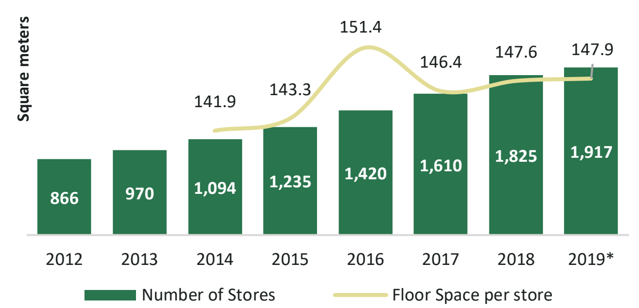
APPENDIX 14
RD's most relevant suppliers

Company	Type	2018
Santa Cruz	Distributor	9.20%
Hypera	Pharmaceutical Company	7.09%
Panpharma	Distributor	4.74%
Johnson & Johnson	HPC Company	4.36%
Sanofi Aventis	Pharmaceutical Company	3.82%
Biolab Sanus	Pharmaceutical Company	2.60%
Takeda	Distributor	2.48%
Nivea	HPC Company	2.35%
L'Oreal Brasil	HPC Company	2.30%
Other	-	61.06%

APPENDIX 15

Raia and Drogasil: strong brand equity with standard store formats

Exhibit 72: Average size of stores range from 130m² to 170m²



Source: RaiaDrogasil's IR

Exhibit 73: Employee per store (2018)

Location	Number of Stores	Store Employees	Employee per store
Southeast	**1241**	**21,834**	**17.6**
São Paulo	952	16,726	17.6
Rio de Janeiro	127	2,353	18.5
Minas Gerais	125	2,105	16.8
Espírito Santo	37	650	17.6
South	**178**	**2,906**	**16.3**
Paraná	103	1,687	16.4
Santa Catarina	43	677	15.7
Rio Grande do Sul	32	542	16.9
Midwest	**175**	**3,054**	**17.5**
Distrito Federal	68	1,123	16.5
Goiás	68	1,173	17.3
Mato Grosso	16	303	18.9
Mato Grosso do Sul	23	455	19.8

Location	Number of Stores	Store Employees	Employee per store
North	**24**	**411**	**17.1**
Pará	19	346	18.2
Tocantins	5	65	13.0
Northeast	**207**	**3552**	**17.2**
Pernambuco	52	928	17.8
Bahia	59	1,089	18.5
Ceará	21	317	15.1
Paraíba	15	231	15.4
Sergipe	15	248	16.5
Alagoas	14	231	16.5
Rio Grande do Norte	15	263	17.5
Maranhão	9	149	16.6
Piauí	7	96	13.7
Brazil	**1,825**	**31,757**	**17.4**

Premium brand with over 100 years of experience

Droga Raia was founded in 1905 in Araraquara-SP. In 2008, a stake of the company was sold to private equity funds which enabled the IPO two years later. Raia is generally perceived as a premium and sophisticated brand, offering a comprehensive portfolio of products in both drugs and HPC segments. The company had 348 stores at the time of the merger with Drogasil. Additionally, it posted an impressive Gross Revenue CAGR of 29% between 2007 and 2011.

Traditional stores with a wide range mix of RX and OTC

Drogasil began its operations in 1935 with a merger of two small drugstores. Drogasil opted for a more traditional store layout, which led to a higher participation of RX drugs on its sale mix. Right after the consolidation with Raia, part of the 369 stores the company held at the time of the merger with Raia was revitalized. Moreover, Drogasil reported a solid Gross Revenue CAGR of 24.5% from 2007 to 2010.

APPENDIX 16

Raia + Drogasil = the largest drugstore chain in Brazil

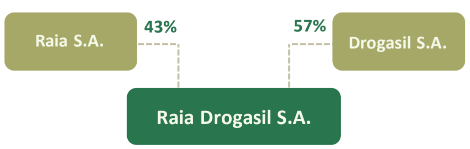
The birth of a Giant

Raia and Drogasil announced the merger in 2011. At the time, Drogasil was the 2nd largest drugstore chain in Brazil, followed by Raia. The marriage was arranged to seize the health market momentum, due to the potential steep growth projected caused by demographic shift. The movement was in line with other big players at the time such as the merger between Drogaria São Paulo and Pacheco, and BR Pharma, group created by BTG Pactual that consolidated various drugstore chain across the country.

A difficult honeymoon with a happy ending

The synergies were obvious. The businesses were complementary in both customer profile and geographic distribution. Elders preferred Drogasil, which had drugstore on key states such as MG, ES and GO. On the other hand, Raia has better appealing amongst the public under 40 and good penetration in the South region. But the first two years were tough. The differences in corporate culture were getting in the way to consolidate the merger. The solution was to bring an outsider to take control of the situation. Marcílio Pousada was hired as CEO to combine the clock work Drogasil with the innovative Raia.

Exhibit 74: Deal structure



Raia's shareholders received 2,29 voting shares issued by Drogasil for each share they held

Controlling shareholders and founding families signed a 10-year lock-up of 40% of RD's share, with this stake being reduced to 30% after 5 years

APPENDIX 17

Onofre

Strengthening its digital strategy

On February 26th, 2019, RaiaDrogasil acquired 100% of Onofre, a leading e-commerce brand in Brazil, from CVS Health for no cash disbursement. Onofre reported sales of R$480 Mn in 2018 (3% of RD sales in the same period), of which 45% were online, but with negative figures for EBITDA, Net Income and cash generation. At the time of the acquisition the company operates with 50 stores.

The plan is to operate Onofre as a pure-play digital brand. On top of that, 8 of the original 50 stores were closed, and the remaining 42 are being converted into Raia or Drogasil stores. The company expects to extract synergies and boost its digital transformation by integrating the Onofre's strong competitive positioning in the e-commerce with RD enhanced scale, capillarity and national reach.

The integration of Onofre from August 1st might add some margin pressure in 2H19, but RD expects that the negative EBITDA will be reverted by the end of 2019. By November, RD expects to shut down of Onofre's sites, systems and operation.

One step back: CVS and a failed turnaround

Onofre was acquired by CVS in 2013, which reportedly paid R$670 million. Conversely, EBITDA for the end of 2019 is expected to be R$100 negative. This reflects a turbulent turnaround of CVS, which had difficulties to establish its operations in Brazil.

Even with no payments to be received, the deal was positive for CVS, since Onofre's operations have been burning cash for years. Moreover, it enables CVS to focus on its most relevant markets.

APPENDIX 18

Univers

Propietary PBM boosts in-store sales

In 2015, RD launched Univers, its proprietary PBM that integrates the institutional sales programs of both Raia and Drogasil. Establishing partnerships with more than 1.2K institutional clients, namely companies and HMOs, Univers supports a higher sales as these customers tend to present greater loyalty, spend and frequency.

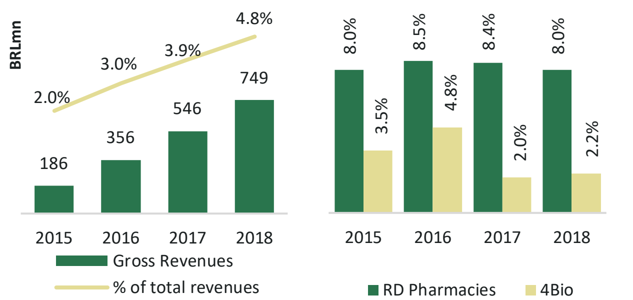
What is a PBM?

Pharmacy Benefit Management (PBM) is a program that offers costumer discounts from pharmaceutical companies or other partners on medicines. The discount is reimbursed by HMOs, companies and pharmaceutical groups either by financial transfer or through rebates on inventory replacement.

APPENDIX 19

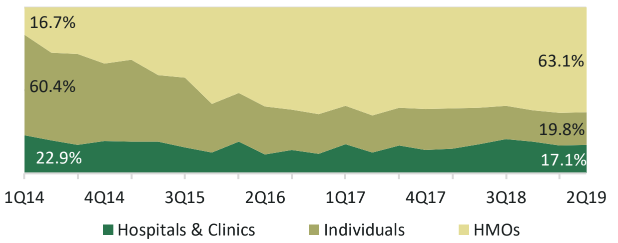
4Bio: Leading the company into specialty segment

Exhibit 75: 4Bio financial figures and EBITDA margin comparison



Source: RaiaDrogasil's IR

Exhibit 76: 4Bio's sales by channel



Source: RaiaDrogasil's IR

The entry of RD into the Specialty Retailing

On October 1st, 2015 RaiaDrogasil completed the acquisition of 55% equity stake of 4Bio, Brazil's second largest specialty pharmacy at that time. The acquisition was the first-step of RD into the fastest growing pharmaceutical market in Brazil (CAGR$_{'14-'17}$ of 20%).

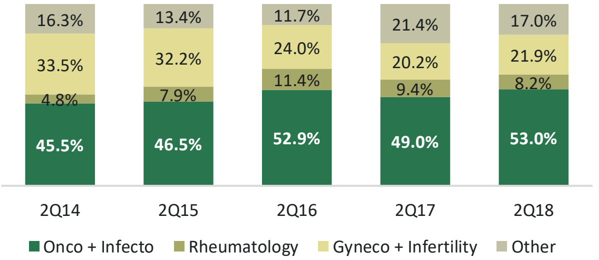
4-Bio operates an asset-light structure with three stores and provides delivery services for the entire country. The company remains under the leadership of André Kina, founding shareholder. With RD's capillarity and scale, the company managed to expand through HMOs, becoming the market leader in Brazil with a distinctive portfolio in the segments of oncology, immunobiology and gynecology. Besides that, it has started to offer 4Bio Care, a clinic follow-up program for patients to ensure full adherence to the treatment prescribed by physicians.

Despite the significantly lower margin when compared to the traditional retail segment, 4-Bio brings a powerful combination of growth, as it reported a Gross Revenues CAGR$_{'15-'18}$ of roughly 60%, and returns, driven by virtually no Capex and low working capital needs.

Deal structure: call/put options for the remaining shares

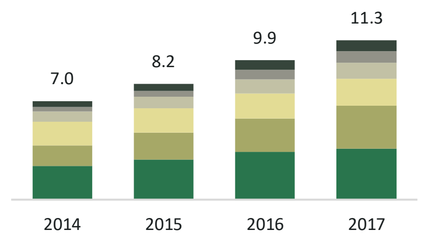
RD paid a total of R$24 Mn for a 55% stake of 4-Bio (implied EV/EBITDA of 7.9x). Additionally, Raia Drogasil holds a call and André Kina holds a put option for the purchase and sale of the remaining shares, which may be exercised between January 1st and June 30th (30% stake), 2021, and 15% exercisable after January 1st, 2024. For the pricing of the options, it will be considered the average EBITDA between 2018-20 and net debt of 2020.

Exhibit 77: 4Bio's sales by category



Source: RaiaDrogasil's IR

Exhibit 78: Specialty medicine sales by channel



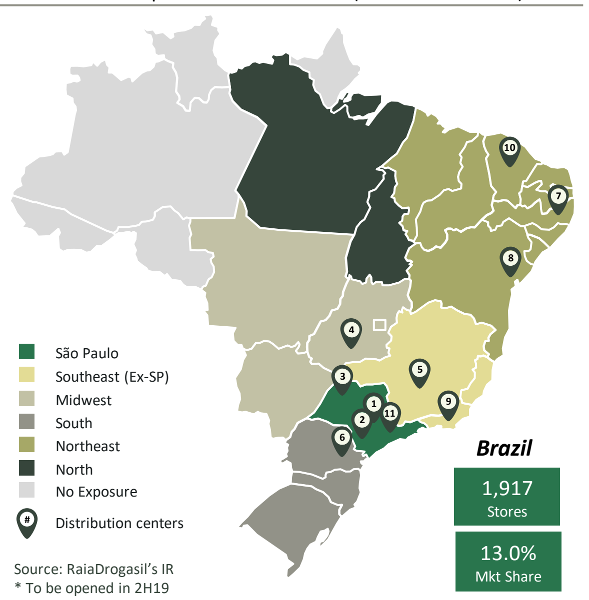
Segment	CAGR '14-'17
Other	31%
Delivery	29%
Pharmacy	18%
Government	4%
Clinics	27%
Hospitals	14%

Source: IMS Data

APPENDIX 20

Geographic footprint

Exhibit 79: RD is positioned in 22 states (98% of the market)



Source: RaiaDrogasil's IR
* To be opened in 2H19

Exhibit 80: Current geographic footprint of stores and market share

	São Paulo	*Southeast (Ex-SP)*	*Midwest*	*South*	*Northeast*	*North*
Stores	975	301	185	188	233	35
Market Share	24.7%	8.9%	14.8%	7.9%	5.8%	3.0%

Market share In terms of Gross Revenues

Exhibit 81: Distribution Centers: Locations, floor space and employees

#	Location	Floor Space ('000 sqr meters)
1	São Paulo - SP	18.0
2	Embu - SP	22.7
3	Ribeirão Preto - SP	18.5
4	Aparecida - GO	15.0
5	Contagem - MG	8.5
6	S. J. dos Pinhais - PR	12.9
7	Jaboatão - PE	10.3
8	Salvador - BA	8.5
9	Duque de Caxias - RJ	12.1
10	Fortaleza - CE*	10.5
11	Guarulhos - SP*	28.0

State	Operating DC in 2018 ('000 sqr meter)	DC Employees	Employee per '000 sqr meter
São Paulo	59.2	1,714	29.0
Minas Gerais	8.5	223	26.2
Bahia	8.5	234	27.5
Pernambuco	10.3	205	19.9
Goiás	15	362	24.1
Paraná	12.9	270	20.9
Average	**114.4**	**3,008**	**24.6**

APPENDIX 21
Regional competition

Exhibit 82: Regional footprint of the largest drugstore chains

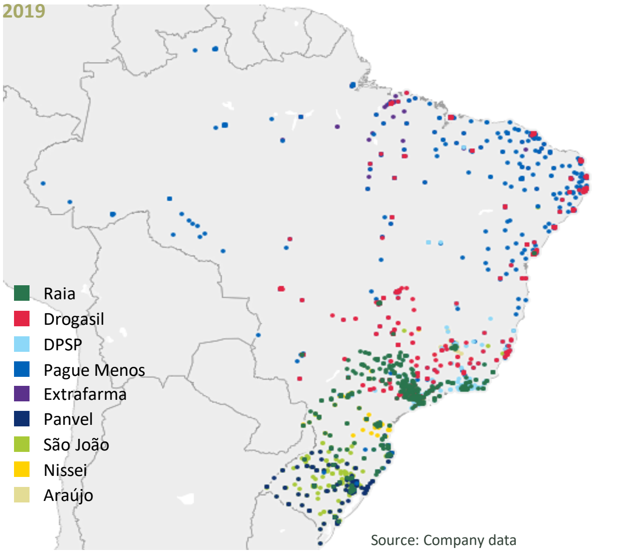
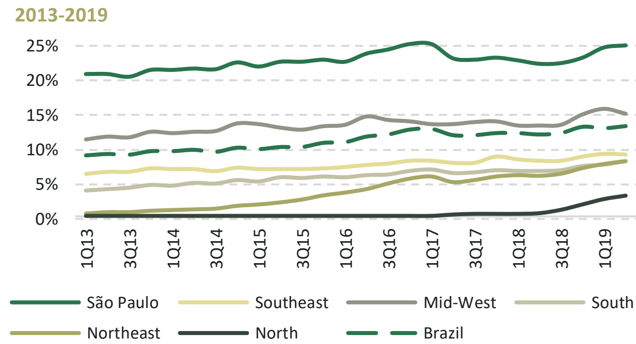


Exhibit 83: Sales market share evolution per region



Source: IQVIA, Company's data

Exhibit 84: Demographic ratios for the Brazilian main regions

2018	Pop. density	Drugstores /000 hab.	Drugstores /000 km2	Income PC (wtd. avg)	% pop. older than 60
North	5	0.36	1.72	899	8.3%
Northeast	37	0.37	13.56	858	12.1%
Mid-West	10	0.54	5.38	1,567	11.2%
Southeast	95	0.43	40.49	1,692	15.1%
South	52	0.47	24.34	1,657	15.6%
Brazil	**24**	**0.42**	**10.32**	**1,373**	**13.4%**

Source: IBGE, Brazilian Federal Council of Pharmaceutists, Team 19 calculations

The large extent of the Brazilian territory is one of the main factors entailing its lower drugstore market concentration. That is also why regional competition outstands overall market share, as distance and different demographics create barriers dividing markets.

Most part of **Raia**'s stores, more premium segment, are concentrated in the South and Southeast regions, where population is older, more concentrated and with higher income. Competition in those regions is fiercer and the company's main peers are **DPSP** and **Pague Menos** in the Southeast and **Panvel** and **São João** in the South.

As of **Drogasil**, most of its stores are both in the Northeast and Southeast. The Northeast-located stores face a lower-income and younger population, but softer competition, with a lesser density of drugstores. The main competitors there are **Pague Menos** and **Extrafarma**.

RD's strategy is to get in regional markets with precise execution to attract customers from regional drugstore chains, more than just from independents.

APPENDIX 22
Herfindahl-Hirschman Index (HHI)

The Herfindahl-Hirshman Index is a statistic measure of market concentration commonly used in the analysis of the competitive effects of mergers and acquisitions. It can be calculated as the sum of the squares of the market share of each of the firms in a sector. It can range from close to zero to 10,000 (100^2) and markets with HHI above 2,500 are considered highly concentrated.

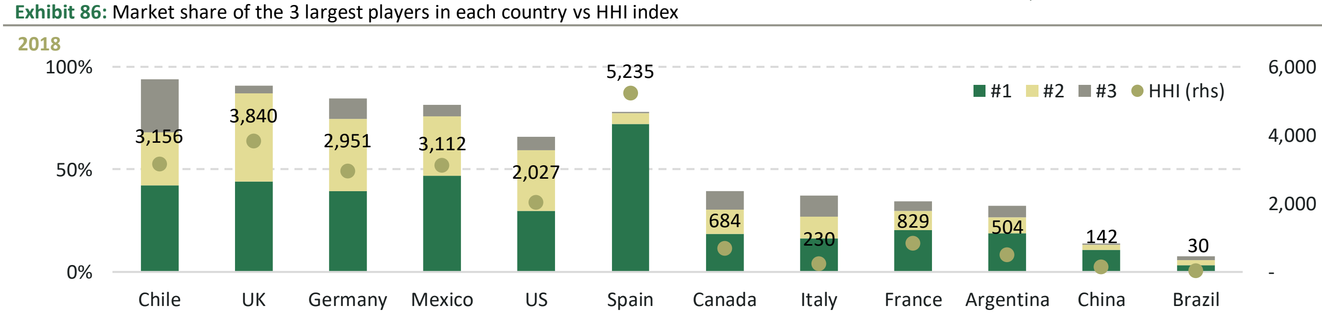
In our calculations, we considered the market share of the independent drugstores as equal to that of the smallest drugstore chain.

Exhibit 85: HHI concentration degrees

HHI	Concentration
≤ 1500	No concentration
1500 < HHI < 2500	Moderate concentration
≥ 2500	Strong concentration

Source: US Department of Justice

Exhibit 86: Market share of the 3 largest players in each country vs HHI index



Source: Euromonitor, Team 19 analysis

APPENDIX 23
Independent drugstore associations

Better together

Associations of drugstores are groups of independents united (sometimes under the same brand) to create bargaining power on suppliers and operational improvement. Usually working on lower income segments, mix is dominated by generics resulting in higher margins, which offsets fixed costs over lower revenues. The focus is also different: independents use the margin gain of being associated to reduce prices further and increase sales attracting more customers.

Although associations do not represent a direct threat to major drugstore chains where their focus is higher-income customers, they can make expansion to lower-income markets (such as North and Northeast) harder. In those places, associations play with aggressive prices and the right mix allowing a sustainable maintenance of consumers, which so far has been proven difficult to major chains such as RD (see Farmasil).

APPENDIX 23
Independent drugstore associations

The largest of them: Febrafar

The most important is **Febrafar** which integrates almost 10k stores over the country under 57 associations and small chains. The focus is to make viable the operation of independents in smaller cities where major chains still find it hard to operate: ~65% of the stores are located in cities with less than 50k inhabitants.

Febrafar also includes **Farmarcas**, an administrator of associations that operates under a franchise model. A central office manages ~1000 drugstores from the marketing campaign to the negotiation with suppliers, which creates scale to allow aggressive prices. Its largest brands include: **Ultra Popular** (with 737 stores), **Super Popular** (with 40 stores) and **Maxi Popular** (with 51 stores).

Exhibit 87: Febrafar major associations

Name	State	# of stores
Auge Farma	CE	1466
Farmácias Associadas	RS	870
Ultra Popular	SP	737
Unifarma	RN	599
Multmais	BA	579
Inova Drogarias	MG	545
Drogaria Total	SP	477
Others		4268
Total		**9996**

Source: Febrafar

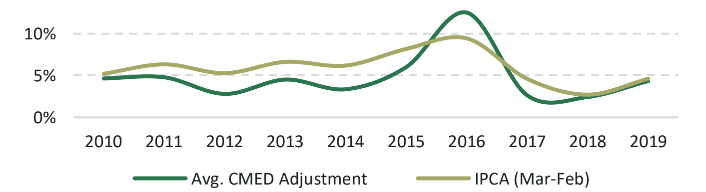
APPENDIX 24
Regulatory framework

How does price adjustments work?

Prices for drugs in the Brazilian market are regulated and centralized under the federal government. There is a price cap for more than 9k products, although some OTC, homeopathic and herbal products are not subject to this regulation.

Every March 31, the Drug Market Regulation Chamber (CMED) defines price caps and adjustment criteria for each of the three groups based on the competition level: non-concentrated, moderately concentrated and highly concentrated.

Exhibit 88: Drug price adjustments vs. inflation



Source: Health Ministry and Fiocruz

Moving towards liberalization of OTCs

The govt. announced in March a resolution easing the price cap for OTC, homeopathic and herbal products. Until then, only about 30% of those products were free of price regulation. According to this new determination, there will be a gradual transition with three groups: **(1)** drugs totally free of price regulation; **(2)** intermediate group, which do not face price caps on the manufacturer side, but keep regulated in the retailers (at least in the ST); and **(3)** a few products that will remain under price regulation.

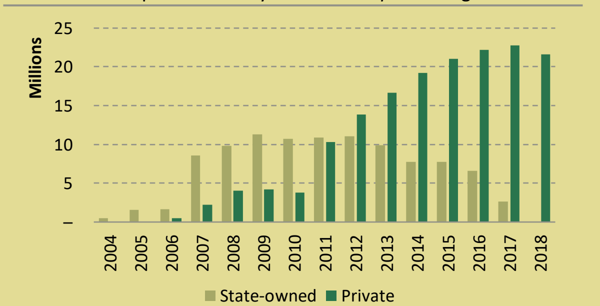
We believe the competitive environment could limit RD's benefit from price liberalization, although we see this as a positive signal from the government.

Government to support demand: *Farmácia Popular do Brasil*

The government launched in 2004 an initiative to expand access of low-income population to drugs. It started as a network of state-run drugstores until 2006, when private drugstores were allowed to participate. The program offers a variety of drugs and birth control products with up to 90% discount subsidized by the government. This is the main public initiative to expand drug access, which received up to BRL 2.5bn funding in 2018.

The percentage of population attended by private drugstores through the program has increased since 2006. In 2018, the 400 public drugstores were closed, leaving the program to the private initiative. This year, 56.4% of RD's drugstores were authorized by the program.

Exhibit 89: Pop. attended by *Farmácia Popular* drugstores



Source: Health Ministry and Fiocruz

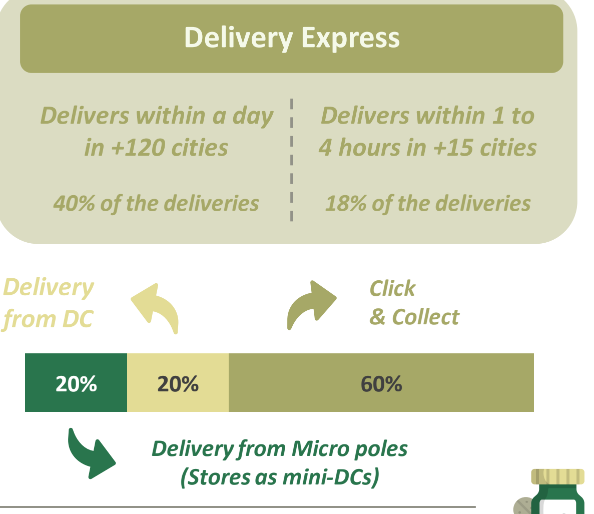
APPENDIX 25
Digital transformation

Data analytics, loyalty and omnichannel journey

RD has one of the largest customer databases in the Brazilian retail segment. The company was able to map about 96% of its sales for +35k active customers in the last twelve months. This provides RD with data about average ticket, frequency of purchase and preferred category for each specific customer. Furthermore, the company can provide the most efficient market campaigns and customized offers to the different customers' profile.

Additionally, it is implementing an omnichannel strategy aiming to improve customer experience in and outside the stores. Without any friction, the customer can choose multiple delivery and purchase options between mobile apps and stores. In this sense, click and collect strategy, which already accounts for ~60% of RD's digital sales, boosts in-store sales about 20% of the customers buy more products in the collecting moment.

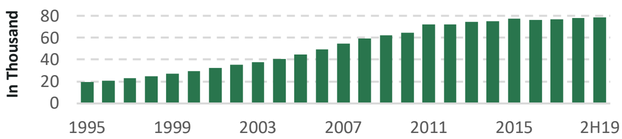
With a national network of well-located stores, RaiaDrogasil takes advantage in the usage of these stores as mini-DCs for the last mile delivery or as hubs to reach the end-customer in the context of click & collect strategy.



APPENDIX 26

Where to place a drugstore: a thorough analysis on store locations

Exhibit 90: Drugstores evolution in Brazil



Source: IQVIA

Exhibit 91: Number of stores mapped, by region

	North	Northeast	Mid-West	Southeast	South	Brazil
Total of Drugstores	5,946	18,882	33,582	12,595	7,761	78,766
Mapped Drugstores	336	1,289	3,499	2,173	578	7,875
% of total	5.7%	6.8%	10.4%	17.3%	7.4%	10.0%

Source: IQVIA

Strong regional positioning is one of the key factors to establish a successful strategy in the drug retail industry, as different demographics and customer profiles can be found in each state in Brazil. The dispersion of stores usually creates a powerful combination of increasing brand awareness, capillarity and scalability, should the stores be placed in the right location. On top of that, we mapped over 7,800 drugstores (10% of total drugstores), including major chains and associations, and calculated, through the geographical coordinates of each pharmacy, the average distance between stores. In most capitals, RD has indeed the closest average distance between its peers and across its brands.

Exhibit 92: Average distance between drugstores, in kilometers

Mid-West Region

Goiânia	DPSP	Drogasil	Pague Menos	Santa Marta
DPSP	4.7	4.4	4.6	5.2
Drogasil	4.4	4.4	4.6	5.2
Pague Menos	4.6	4.6	4.9	5.4
Santa Marta	5.2	5.2	5.4	6.0

Brasília	DPSP	Drogasil	Pague Menos	Santa Marta
DPSP	12.2	11.5	12.2	12.8
Drogasil	11.5	10.2	11.7	12.6
Pague Menos	12.2	11.7	13.1	13.2
Santa Marta	12.8	12.6	13.2	14.0

South Region

Porto Alegre	Droga Raia	Pague Menos	Panvel	São João
Droga Raia	4.5	3.6	4.7	6.0
Pague Menos	3.6	2.7	4.0	5.4
Panvel	4.7	4.0	5.1	6.2
São João	6.0	5.4	6.2	7.1

Florianópolis	Droga Raia	Pague Menos	Panvel	São João
Droga Raia	5.1	7.1	9.1	9.6
Pague Menos	7.1	10.2	10.3	10.9
Panvel	9.1	10.3	11.8	12.0
São João	9.6	10.9	12.0	13.3

Southeast and North Regions

Belo Horizonte	Araújo	DPSP	Droga Raia	Pague Menos
Araújo	6.6	6.1	6.1	6.8
DPSP	6.1	5.6	5.6	6.3
Droga Raia	6.1	5.6	5.5	6.4
Pague Menos	6.8	6.3	6.4	7.1

Belém	Maxi Popular	Drogasil	Extra farma	Pague Menos
Maxi Popular	4.2	3.8	5.1	4.2
Drogasil	3.8	2.5	5.1	3.5
Extrafarma	5.1	5.1	6.2	5.3
Pague Menos	4.2	3.5	5.3	5.1

APPENDIX 27

Case Studies: stores placement in São Paulo

Exhibit 93: Demographic and flow profile in the zone of each store in São Paulo

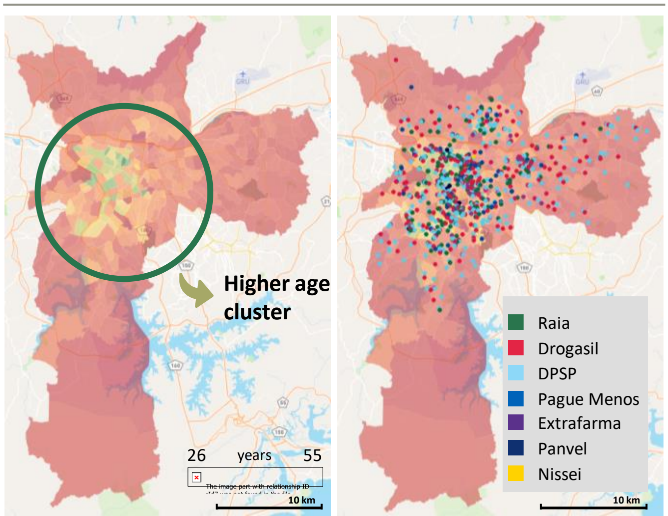
		Age		Income levels			Generated trips					Received trips				
Brand	Count	Avg. Age	% above 60	Total Income	Avg. Family Income	Median Family Income	% by car	% on foot	% for health reasons	% for shopping reasons	Total	% by car	% on foot	% for health reasons	% for shopping reasons	Total
Pague Menos	77	41.5	21.2%	57,045,216	5,937	4,941	29.7%	24.1%	4.7%	5.5%	95,483	29.8%	23.9%	4.7%	5.5%	95,645
Droga Raia	161	42.0	22.1%	60,898,817	6,541	5,428	32.0%	22.4%	5.4%	4.7%	88,033	32.1%	22.5%	5.5%	4.5%	88,324
Drogasil	234	41.0	20.7%	60,173,517	5,751	4,830	30.4%	25.4%	4.8%	5.1%	89,283	30.4%	25.4%	4.8%	4.9%	89,387
DPSP	300	41.0	20.5%	62,063,302	5,760	4,783	30.9%	25.4%	4.8%	4.9%	91,679	31.0%	25.4%	4.8%	4.9%	91,774

Source: IBGE, Pesquisa Origem e Destino São Paulo 2017, Team 19 calculations

Using the positioning of stores and the last Origin and Destination research done in São Paulo (2017), the largest city of the country, we analyzed how RaiaDrogasil behaves and places stores inside cities. Methodologically speaking, the city was divided in 517 zones, similarly to the actual neighborhoods and then data about age, income and routine trips are collected. The idea is to get the amount of flows (and its demographic profile) inside the city during business days.

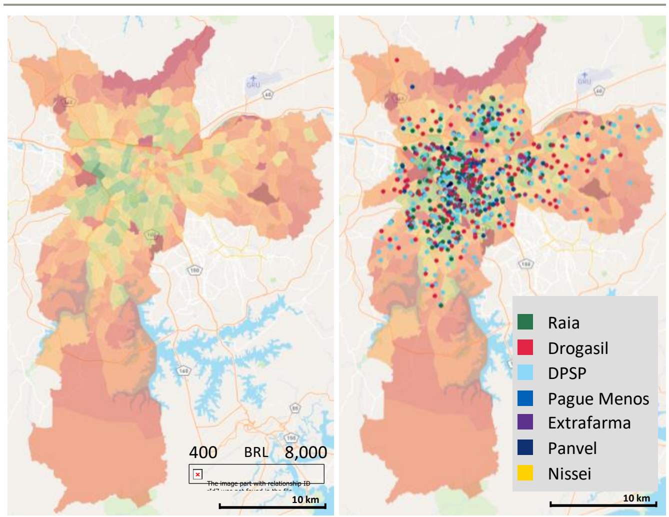
Most part of drugstores are placed in the central zone of the city, where population density is higher, and which concentrates most part of income. Inside this concentration cluster (see Exhibit 94) Raia's stores are the best placed between peers, concentrated where income and age are higher, and where the incidence of car trips (more relevant for premium drugstores) and trips motivated by health reasons (which can led to higher drug consumption: the person leaves the doctor and purchases the prescribed drug). This means RaiaDrogasil not only places its stores better between cities, but also does it remarkably inside of them.

Exhibit 94: Average age per zone vs. stores in São Paulo city



Source: IBGE, Pesquisa Origem e Destino São Paulo 2017, Team 19 calculations

Exhibit 95: Average individual income vs. stores in São Paulo city



Source: IBGE, Pesquisa Origem e Destino São Paulo 2017, Team 19 calculations

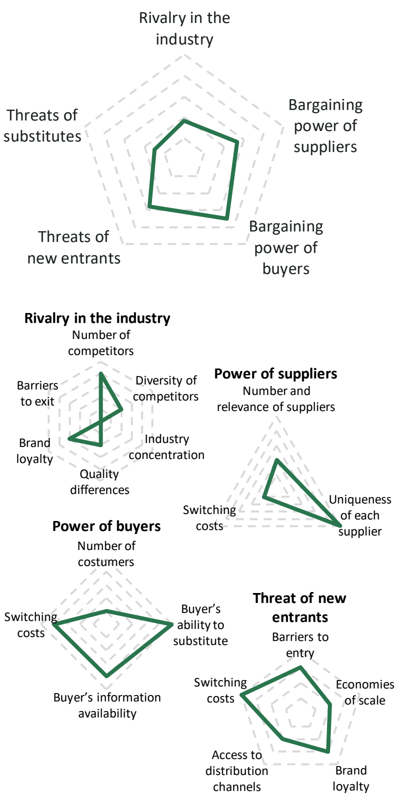
APPENDIX 28
SWOT analysis

	HELPFUL	HARMFUL
INTERNAL	**S** High-quality management providing consistent execution Sustainable SSS growth of mature stores along time Strong brand equity and costumer perception Robust cash balance and controlled leverage levels Data-oriented analysis to improve sales and efficiency	**W** Difficulties operating lower-income segments and small/mid-sized cities Lower bargain power over HPC manufacturers Lower penetration of generics vs. independents
EXTERNAL	**O** Digital transformation to enhance sales Market fragmentation as opportunity to share expansion Drug patent expiration to increase generic availability Secular long-term growth drivers Specialty demand on R&D development Entrance in healthcare services (vaccines and radiology)	**T** Associations' aggressive pricing Strengthening in price regulation Supermarkets' entrance in the drug segment Elevated tax burden on drugs

APPENDIX 29
Porter's five forces analysis

Force	Criteria	Justification
Rivalry in the industry	Number of competitors	There was in 2018 more than 78k drugstores in the country, which faces an overservice of pharmacies.
	Diversity of competitors	Niche operations are not common, diversity between drugstore networks come from income-level focus.
	Industry concentration	The Brazilian drugstore market has an HHI index of 30, sharply below the < 1500 no concentration threshold. This is an opportunity for market leaders (with still very low shares) such as RD to consolidate market share.
	Quality differences	The main difference between drugstore is the income-level focus, as mentioned before. Among different income levels, quality differences come especially from service, consumer experience and mix diversity, especially when it comes from HPC.
	Brand loyalty	Looking at the drugstore as an almost daily-need service, brand loyalty is important, but convenience matters the most: especially when it comes to locations (higher car/people flow) and parking availability.
	Barriers to exit	There are no significant barriers to exit as there are low-levels of capital intensity in the industry.
Power of suppliers	Number and relevance of suppliers	The 3 largest suppliers of RD in 2018, Santa Cruz, Hypera and Pan Pharma, accounted for ~21% of supply. The rest is divided between smaller suppliers with less than 4.5% share.
	Uniqueness of each supplier	RaiaDrogasil can switch between distributors, but not when it comes to manufacturers, the only producers of branded drugs and specially on HPC.
	Switching costs	There are only contractual and relationship costs on switching suppliers.
Bargaining power of buyers	Number of customers	Each drugstore can attend entire cities or neighborhoods, with each individual having small importance.
	Buyer's ability to substitute	The avg. distance between stores (to the closest store) in Brazil is ~ 7.9km. Consumers can just change of store.
	Buyer's information availability	Online shopping makes price research easier.
	Switching costs	The drugstores develop fidelity programs based on discounts, there are some switching costs for consumers. Moreover, there is the convenience cost of moving to an away store.
Threat of new entrants	Barriers to entry	There are no major legal or capital requirements for the opening of drugstores but for the requirement of a pharmacist available all times. However, geographic positioning is determinant for the success of a drugstore and better spots tend to be more costly.
	Economies of scale	Mainly distribution centers and a network that provides brand awareness.
	Brand loyalty	Looking at the drugstore as an almost daily-need service, brand loyalty is important, but convenience matters the most: especially when it comes to locations (higher car/people flow) and parking availability.
	Access to distribution channels	Access to pharmaceutical companies and, especially, bargain power tends to be lower for new small players.
	Switching costs	The drugstores develop fidelity programs based on discounts, there are some switching costs for consumers. Moreover, there is the convenience cost of moving to an away store.
Threat of substitutes	# of substitute products/services	There is the possibility of the liberalization of the sale of drugs in other types of businesses. However, we do not consider it likely to happen in the short-to-mid term.
	Buyer propensity to substitute	Buyers looking for convenience can choose to buy online, so RD has already started its digital transformation.
	Perceived level of differentiation	-
	Switching costs	The drugstores develop fidelity programs based on discounts, there are some switching costs for consumers. Moreover, there is the convenience cost of moving to an away store.

Exhibit 96: RD's Porter analysis



Source: Team 19 analysis

APPENDIX 30
Executive Committee

Member	Role	Year of Entrance	Years at RD*	Background
Marcílio D'Amico Pousada	Chief Executive Officer	2013	6	Over 26 years of multi-industry retail experience in large Brazilian and global organizations, such as Sams Club (Walmart Group) and Submarino Served as CEO at Livrarias Saraiva and Office Net Graduated from the Fundação Armando Álvares Penteado (FAAP) with a degree in Business Administration
Antonio Carlos Coelho	Finance and Administrative VP	2013	23	He has held multiple positions in finance previously at Drogasil and now at RaiaDrogasil Graduated from the Faculdades Integradas de Guarulhos (FIG) with a degree in B.S. accountancy
Eugênio de Zagottis	Corporate Planning and Investor Relations VP	2011	19	Served as a consultant for McKinsey in Brazil and in Italy and for Arthur Andersen in Brazil Eugênio de Zagottis is also chairman of ABRAFARMA (Brazilian Association of Chain Drugstores) Responsible for investor relations, corporate planning of RD and strategic planning of RD private label segment Graduated from the Fundação Getúlio Vargas (EAESP) with a degree in Business Administration Holds a Master's degree from the University of Michigan Business School
Fernando Kozel Varela	Supply Chain, Omnichannel and IT VP	2011	23	He has held a position in Arthur Andersen consulting Company for three years Graduated from the Escola Politécnica (POLI-USP) with a degree in Electrical Engineering Holds a Master's degree from the University of Pittsburgh
Marcello De Zagottis	Sales and Marketing VP	2011	18	Served as a consultant at Arthur D. Little and Accenture Graduated from the Fundação Getúlio Vargas (FGV-SP) with a degree in Business Administration Holds a Master's degree from the University of Michigan Business School
Maria Susana de Souza	Human Resources VP	2014	5	Over 27 years of professional experience in Human Resources Served as HR Director at large retail companies such as Makro and Walmart Graduated from the Universidade Católica de Pernambuco with a degree in Psychology
Renato Cepollina Raduan	Retail Operations Vice President:	2013	6	Over 20 years of professional experience in retail Former VP and Director at Walmart and retail consultant at Accenture in Brazil and Mexico Graduated from the Escola Politécnica (POLI-USP) with a degree in Naval Engineering Holds a Master's degree from the INSEAD

Source: RaiaDrogasil's IR; * Including years at Raia S.A and Drogasil S.A

APPENDIX 31

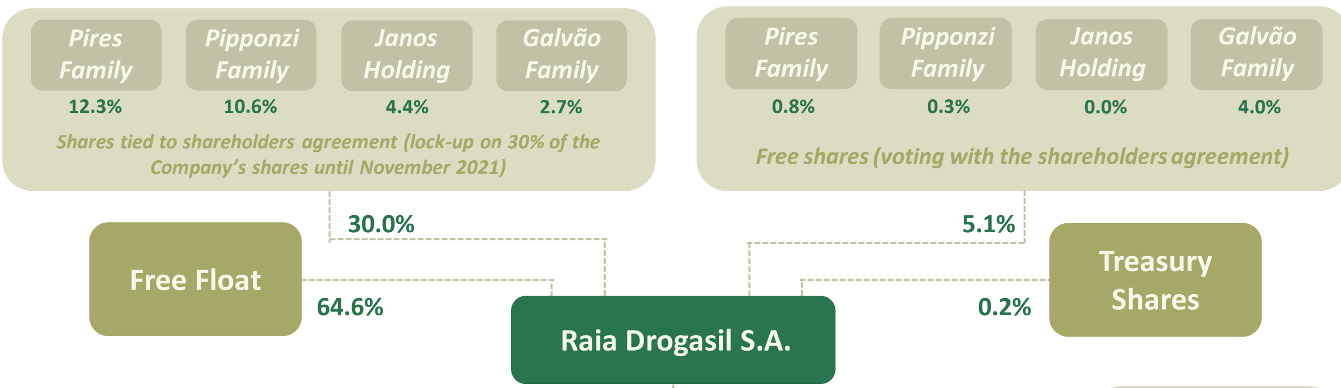
Permanent Committees

Exhibit 97: List of permanent committees

Committee	Description
Expansion	Assist the Board in planning the company's growth, evaluate and recommend any mergers and acquisitions, supports administration in the analysis and opening of new business points, monitors and supervises compliance with the planning.
Strategic	Develops and proposes to the Board policies related to business strategy and improvement of operations, makes recommendations to the Board and monitors the implementation of policies, strategies and actions aimed at increasing the company's competitiveness, monitors and reports to the Board of Directors the development of the approved Strategic Guidelines.
Finance and Risk	Monitors compliance with budget and results, assists the Board in analyzing the Brazilian and world economic conjuncture and its potential effects on the company's financial position. Discusses and makes recommendations to the Board on the financial policy proposed by the board, proposes operational mechanisms related to risk management and the coherence of financial policies with strategic guidelines, evaluates performance and approves the hiring of the independent auditor, reviews the financial statements and oversees all aspects of internal control on behalf of the Board of Directors.
People	Aligns projects and processes related to people and the company's strategic vision, discusses and proposes compensation and incentive policies for employees and managers, as well as share compensation plans for managers, proposes performance and competency evaluation criteria for employees and managers, formulates and monitors performance, productivity and company management indicators and controls the organization's succession plan.
Digital Strategy	Develops and proposes to the Board of Directors strategies related to digital transformation and the transformation of a consumer-focused company, monitors the implementation of the operational model, considering technology guidelines, data analytics, agile company, customer insight, follows the governance and transformation management model, considering processes, people and innovation culture and develops and proposes success indicators to follow the new strategy.
Sustainability	Develops and proposes to the Board of Directors guidelines and commitments related to the sustainable development of the company and its subsidiaries, considering risks and opportunities to create value for society, objectives and targets, monitors the elaboration and implementation of short, medium and long term social and environmental programs and actions, as well as generated impacts and develops and proposes to the Board of Directors sustainability targets for the Executive Board's variable compensation.

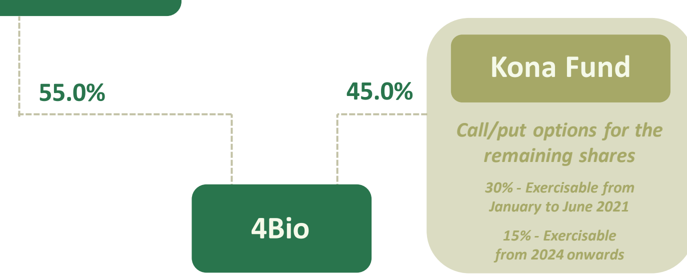
APPENDIX 32

Shareholder Structure



10-Year lock-up agreement between families

At the time of the merger, in Nov/11, the founding families and controlling shareholders of Raia and Drogasil included a 10-year lock-up into the shareholders agreement. On top of that, 40% of RD's shares was initially tied for a 10-year period, but with a reduction of this limit to a minimum stake of 30% after five years of the merger. Those stakes will remain unchanged until Nov/21.



APPENDIX 33

Beneish's M-Score analysis

Exhibit 98: M-Score Analysis Summary

	2012	2013	2014	2015	2016	2017	2018
Net Sales	5358.3	6207.2	7472.1	9022.0	11256.6	13212.5	14801.4
Cost of Goods Sold (COGS)	3854.4	4471.3	5307.7	6286.2	7752.4	9224.5	10355.9
Net Receivables	335.8	373.3	482.8	601.8	772.2	930.1	937.4
Current Assets (CA)	1693.9	1903.6	2272.5	2685.8	3427.8	3928.2	4529.6
Property Plant and Equipment	454.3	536.6	648.4	802.0	1006.6	1276.3	4959.6
Depreciation	124.3	158.7	187.8	227.1	274.4	337.9	899.3
Total Assets (TA)	3340.2	3614.1	4079.5	4699.2	5659.3	6464.2	10763.8
SGA Expenses	1173.8	1364.5	1619.9	1992.2	2516.5	2857.7	2734.4
Net Income	104.9	101.0	223.4	341.8	451.3	512.7	462.6
Cash Flow from operations (CFO)	135.6	319.9	404.3	583.8	681.1	778.9	840.7
Current Liabilities	863.3	1020.0	1298.6	1648.8	2184.7	2493.8	3398.6
Long-term Debt	131.5	160.9	188.2	188.2	281.4	414.7	570.2
Working Capital - Cash - Depreciation	407.8	322.1	316.4	355.7	410.7	416.9	-580.1

Exhibit 100: Variables to calculate M Score

	2012	2013	2014	2015	2016	2017	2018
DSRI = Day's Sales Receivables Index		0.96	1.07	1.03	1.03	1.03	0.90
GMI = Gross Margin Index		1.00	0.97	0.96	0.97	1.03	1.00
AQI = Asset Quality Index		0.91	0.87	0.91	0.84	0.90	0.61
SGI = Sales Growth Index		1.16	1.20	1.21	1.25	1.17	1.12
DEPI = Depreciation Index		0.94	1.02	1.02	1.03	1.02	1.36
SGAI = SGA expenses Index		1.00	0.99	1.02	1.01	0.97	0.85
LVGI = Leverage Index		1.10	1.12	1.07	1.11	1.03	0.82
Total Accruals / Total Assets		0.00	-0.02	-0.05	-0.05	-0.06	-0.13
M-Score		**-2.45**	**-2.43**	**-2.58**	**-2.57**	**-2.59**	**-3.11**

Exhibit 99: M-Score Analysis Summary

Formula

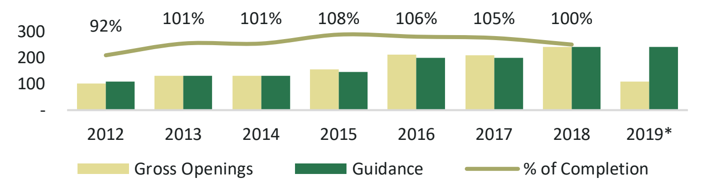
M-Score = -4,84 + (0,92*DSRI) + (0,528*GMI) + (0,404*AQI) + (0,892*SGI) + (0,115*DEPI) - (0,172*SGAI) - (0,327*LVGI) + (4,679*Accrual to TA)

The Beneish's M-score analysis was created by Dr Messod Beineish in 1999 to capture if a firm is likely to manipulate earnings. It uses different variables to detect distortions and/or manipulations on financial statements. For interpretation purposes, if M-score is lower than -2,2 the firm is not likely to manipulate earnings, but if it is greater than -2,2 it indicates that the firm is likely manipulating earnings.

RD is not likely to be manipulating earnings

APPENDIX 34
Guidance execution

Exhibit 101: RaiaDrogasil's guidance completion

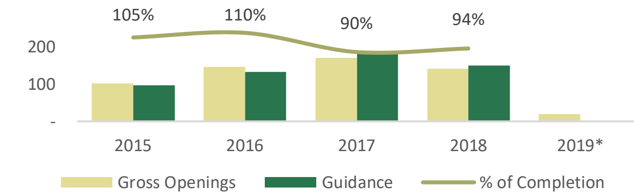


Source: RaiaDrogasil's IR; * Gross openings of 1H19

Premium organic expansion execution

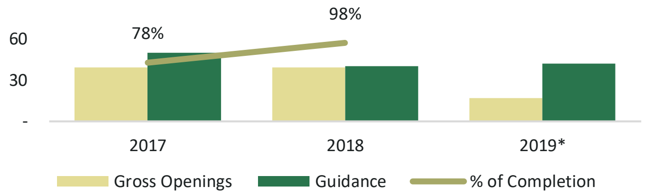
RaiaDrogasil's management had consistently delivered its guidance of store openings. With a highly experienced team, the completion level stood above 100%, despite the recent economic turmoil and challenging competitive environment. In comparison, other players, such as Pague Menos and Panvel, were unable to overcome the risen of regional associations. Besides, they decided to review their growth strategy ultimately reducing the pace of store openings.

Exhibit 102: Pague Menos' guidance completion



Source: Pague Menos's IR; * Gross openings of 1H19

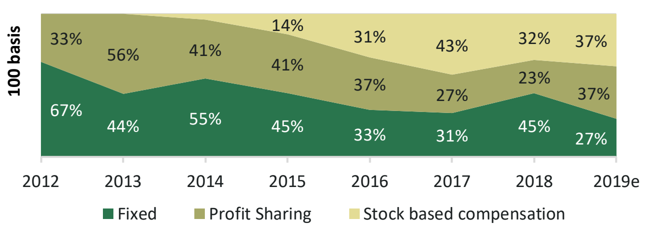
Exhibit 103: Panvel's guidance completion



Source: Panvel's IR; * Gross openings of 1H19

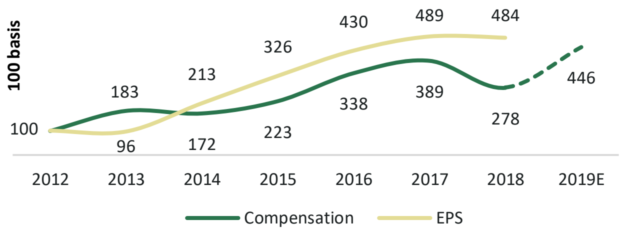
APPENDIX 35
Compensation

Exhibit 104: EPS vs Compensation evolution



Source: RaiaDrogasil's IR

Exhibit 105: EPS vs Compensation evolution (100 basis)



Source: RaiaDrogasil's IR

Stock option plan and performance metrics

The company approved in April 2014, a stock option compensation plan in order to align statutory and non-statutory directors, both eligible to the plan, interests with those of the stockholders. Annually, the Board of Directors approves the granting of restricted shares, electing the beneficiaries and establishing the terms and conditions for the acquisition of rights related to those shares. Additionally, the beneficiaries are only allowed to proportionally exercise their granted shares after 2, 3 and 4 years.

The maximum number of shares granted under the Plan cannot exceed 2% of shares representing the total capital stock. The company did not issue stock or dilute any stockholder with this plan, as it opted to grant the beneficiaries with the shares already held by the company (treasury). Even though the Company can increase its capital up to 400 Mn shares, we see a change on its current policy as unlikely.

Apart from the equity-based compensation, the company also designed performance-based incentives. The main metrics used to evaluate each executive performance are divided into goals of the company (EBITDA and expansion) and goals for each area. Board of directors, Fiscal Council and other Committees are paid with fixed compensation.

Shares committed to equity-based plan

2014	56,238
2015	77,527
2016	83,891
2017	101,414
2018	33,088
2019	92,527

APPENDIX 36
Board of Directors

Member	Role	Year of Entrance	Years at RD*	Background
Antonio Carlos Pipponzi	Chairman	2011	42	Served as former CEO of Raia S.A from 2003 to 2011 Graduated from the Escola Politécnica (POLI-USP) with a degree in Civil Engeneering
Carlos Pires Oliveira Dias	Board Member	2011	25	Served as former CEO of Drogasil S.A from 2005 to 2011 He acted as Board Member at multiple renowned companies, such as Camargo Correa and Alpargatas. Currently holds the CEO position of Fazenda Guariroba SA, Regimar Agropecuária Ltda. and Regimar Comercial SA. Graduated from the Mackenzie University with a degree in Economics
Cristiana Almeida Pipponzi	Board Member	2011	14	Served as former Marketing Director of Raia S.A from 2005 to 2009 Graduated from the School of Economics, Business and Accounting (FEA-USP) with a degree in Business Administration Holds a Master's degree in Business Administration from the INSEAD
Plínio V. Musetti	Board Member	2011	9	Partner at Pragma and Janos Holding, the former private equity fund that invested in Raia S.A Served as CEO of Satipel and coordinated the merger process with Duratex Plínio Musetti is also a Board Member at Natura and Cacau Show. Graduated from the Mackenzie University with a degree in Civil Engineering
Renato Pires Oliveira Dias	Board Member	2011	21	Advisor to the Board of Drogasil SA Graduated from the Faculdades Metropolitanas Unidas Educacionais
Paulo Sérgio Coutinho Galvão Filho	Board Member	2011	25	Paulo Filho is currently Partner at GL Asset and at Klabin He is also on the Board of Directors at GEPEL Rural Ltda., GL Agropecuaria, Klabin SA, Tantra Participaçoes Ltda. and GL Holdings Received his undergraduate degree from Pontifícia Universidade Católica (PUC-SP), a graduate degree from Harvard University and from the University of California
Jairo Eduardo Loureiro	Independent Member	2011	12	Presently holds the CEO position at Planibanc Investimentos, Planibanc Participações and Planihold Jairo Loureiro is also on the board of Hypera S.A
Marcelo José Ferreira e Silva	Independent Member	2018	1	Experienced in the retail industry, as he has acted as CEO at Magazine Luiza from 2009 to 2015. Currently, Marcelo Silva is Vice-Chairman at Magazine Luiza Board member at Movida Rent a Car, Grupo Avenida, among others Graduated from the Federal University of Pernambuco (UFPE) with a degree in Economics
Marco Ambrogio Crespi Bonomi	Independent Member	2018	1	Served as executive director at Itaú Unibanco. Currently board member at Itaú Unibanco Graduated from the Fundação Armando Álvares Penteado (FAAP) with a degree in Economics

Source: RaiaDrogasil's IR; * Including years at Raia S.A and Drogasil S.A

Corporate Governance assessment

Gauging Corporate Governance

We performed an assessment to quantify the engagement degree of RaiaDrogasil to corporate governance instruments. The parameters were set based on CFA Institute Corporate Governance Manual for Investors.

The scorecard was adapted from the Society of Investment Professionals in Germany (DVFA) scorecard model. According to our view, RD rated 81.3%, which placed the company with the excellent corporate governance, just below the "outstanding" range of 90% - 100%.

	Score	Max. Points	Rating	Weight	Weighted Avg.
Board of Directors	5.75	8	72%	30%	22%
Management	5.5	5.5	100%	12%	12%
Committees	3.5	5.5	64%	15%	10%
Compensation Policies	5	5.5	91%	18%	16%
Shareholder Rights	5.25	6	88%	25%	22%
Total	**25**	**30.5**		**100%**	**81.3%**

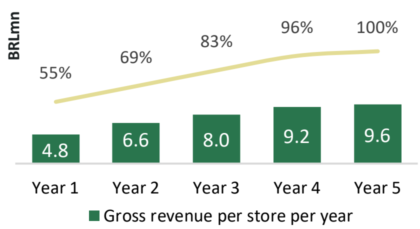
	CFA Guidance	Company's Policy	Degree of fulfillment			Standard Weighting	Rating
BOARD			**1.0**	**0.5**	**0.0**	**30%**	**71.9%**
Independence	Independent board members constitute, at a minimum, a majority of the board. A board with this makeup is more likely to limit undue influence of management and shareowners over the affairs of the board;	3 out of 9 of all members are independent.		x		2.00	1.00
Experience	Board members who have appropriate experience, skills, and expertise relevant to the company's business are best able to evaluate what is in the best interests of the company and its shareowners.	The Committee members shall be elected by the Board of Directors at the Meeting of the Board, for a 2-year term, to be chosen among such Directions and professionals with proven knowledge in the field.		x		1.50	0.75
Diversity	Diversity among board members in terms of gender, educational background, and professional qualifications also may promote constructive debate in the boardroom.	Gender: 1 out of 9 of all members are women. Educational background: 4 administrators, 3 economists and 2 engineers.		x		1.00	0.50
Attendance	Frequency of attendance in meetings during the previous year.	8 out of 9 of all board members have 100% attendance in meetings a long the year.	x			1.50	1.50
Combined Positions	Combining the board chair and chief executive position may give undue influence on executive board members and impair the ability and willingness of board members to exercise their independent judgment.	Marcílio D'Amico Pousada is the CEO and Antonio Carlos Pipponzi is the chairman. There are no intersections between Board and Executive Comitee.	x			1.00	1.00
Elections	An annually elected board may provide more flexibility to nominate new board members to meet changes in the marketplace, if needed, than a staggered board.	RaiaDrogasil conducts annual election.	x			1.00	1.00
MANAGEMENT			**1.0**	**0.5**	**0.0**	**12%**	**100.0%**
Code of Ethics	This code provides personnel with a framework for behavior while conducting the company's business, and guidance for addressing ethical dilemmas and conflicts of interest personnel may face in the workplace.	Company has established an Integrity Program to promote an ethical and transparent work. Also, developed measures to prevent, detect and correct possible acts of fraud and corruption. The program have reporting channels, disciplinary measures and remediation actions.	x			1.50	1.50
Enforcement	Has designated someone who is responsible for corporate ethics	Governance, Risk and Compliance has oversight power over all company's hierarchical levels.	x			1.00	1.00
Communication with shareholders	Provide frequent and meaningful communications about strategy and long-term vision, including transparent financial and nonfinancial reporting that reflects a company's progress toward its strategic goals.	Periodically, the company discloses investment and strategic guidance through quarterly releases.	x			1.00	1.00
Financial Reporting	Financial reporting practices are in keeping with international best practices.	The financial statements are elaborated according to Brazilian's accounting standards, which complies with International Reporting Standards (IFRS).	x			2.00	2.00
COMMITTEES			**1.0**	**0.5**	**0.0**	**15%**	**63.6%**
Audit Committee	The audit committee's primary objective is to ensure that the financial information reported by the company is complete, accurate, reliable, relevant, and timely.	RaiaDrogasil is planning to create an audit committee. Up to this moment this role is being filled with internal controls and the board.		x		2.00	1.00
Compensation Committee	Responsible for ensuring that compensation and other awards encourage the board and management to act in ways that enhance the company's long-term profitability and value.	The People Committee is responsible for discussing and proposing compensation and incentive policies for employees and executives, as well as equity compensation.	x			1.50	1.50
Nominations Committee	Responsible for recruiting board members.	The company does not have an independent committee to supervise board nominees.			x	1.00	0.00
Other Committees	A board may have other specialized committees designed to deal with issues pertinent to their industry, line of business, or current circumstances that are not standard committees that most companies have.	RaiaDrogasil has 6 committees: Expansion Committee, Strategy Committee, People Committee, Finance and Risk Committee, Digital Committee and Sustainability Committee.	x			1.00	1.00
COMPENSATION POLICIES			**1.0**	**0.5**	**0.0**	**18%**	**90.9%**
Alignment	Link executive compensation to the long-term profitability of the company and long-term increases in share value relative to competitors and other comparably situated companies.	RaiaDrogasil has a stock option compensation plan, in which beneficiaries are only allowed to proportionally exercise their granted shares after 2, 3 and 4 years.	x			2.00	2.00
Compensation Program	The company and the board are required to receive shareowner approval for any sharebased remuneration plans.	The Board of Directors determines the sums allocated to the increases of compensation for management services rendered, based on the financial status of RaiaDrogasil and the Compensation Policy in effect.		x		1.00	0.50
Transparency	Disclosures of how much, in what manner, and on what basis executive management is paid shed light on a board's stewardship of company assets.	All compensation information is available in the Reference Form.	x			1.00	1.00
Compensation Metrics	Remuneration policies aligned with a company's strategy, risk appetite, and corporate culture.	Variable remuneration is based on the company's targets, such as revenues, EBITDA, clients and expansion.	x			1.50	1.50
SHAREHOLDER'S RIGHTS			**1.0**	**0.5**	**0.0**	**25%**	**87.5%**
Voting rights	A company that assigns one vote to each share is more likely to have a board that considers and acts in the best interests of an alignment among all shareowners.	Absence of dual-class share structure, with one-share, one-vote standard.	x			2.00	2.00
Corporate Changes	Shareowners should review their ability to effect changes to certain corporate structures that have the ability to impact the value, ownership percentage, and rights associated with the company's securities.	In case of majority shareholders sell their stakes in the company, RaiaDrogasil will guarantee 100% tag along right to minority shareholders.	x			1.50	1.50
Board Nominations	When a board and management fail to remedy existing problems and improve the company's performance, shareowners may use this power to nominate their own candidate to the board to ensure that at least one nominee is independent of the existing board.	Shareholders with ownership above certain thresholds, such as Raia founders, have the right to appoint one or two board members on the annual general meeting ballot.		x		1.50	0.75
Information	Accessibility to relevant and sensible information for investors.	The company has a Relevant Act and Fact Disclosure Policy to ensure information flow to stakeholders. There is nan online access to bylaws and corporate policies.	x			1.00	1.00

Source: Team 19 analysis

APPENDIX 38

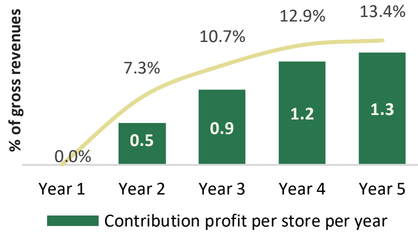
Maturation of Stores: a relevant embedded source of growth

Exhibit 106: Maturation curve for new stores



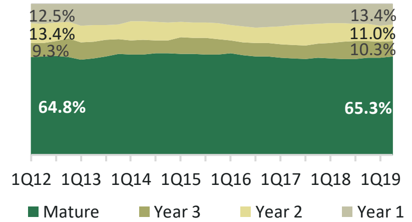
Source: RaiaDrogasil's IR

Exhibit 107: Gross margin comparison



Source: RaiaDrogasil's IR

Exhibit 108: Age structure of store portfolio



Source: RaiaDrogasil's IR

Exhibit 109: Main assumptions and results

Main Assumptions	
Initial CAPEX	**1,800**
Pre-Operational Expenses	**220**
5-Y renovation (1/4 initial Capex)	**600**
Maintenance Capex (x D&A)	**0.7x**
Weighted Average Depreciation Rate	**14%**
Effective Tax Rate (% of EBT)	**34%**
Working Capital needs (% Gross Revenues)	**10%**
Implied IRR (Unlevered, nominal terms)	**25.4%**
Implied IRR (Unlevered, real terms)	**21.9%**

Young portfolio brings future growth

RD's store portfolio is relatively young, as roughly 35% of its stores are yet not fully matured. This reflects RD's strategy in the latest years of boosting openings in new markets. We do not see that pace reducing in the short-term, as the company expects to open 2 new DCs in 2H19 (~30k sqr. meters of area) and continue to consolidate in those new regions. Moreover, according to the management, a fully mature base of stores would be translated into 150bps expansion in EBITDA margin.

We estimate an unlevered IRR of 21.9% from new investments

As already mentioned by the management team, each store opening is based on a threshold of +20% IRR. On top of that, we built a model with a few assumptions in order assess the potential IRR of a mature store. As a result, we estimate that RD store can effectively reach a real IRR of 21.9% once fully mature, with a discounted payback of 6 years. Note that new stores in São Paulo tend to have higher returns due to a faster ramp-up period.

Exhibit 110: Store maturation: IRR model

In R$ Thousands	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Potential Gross Revenue per Mature Store	**9,600**	**9,984**	**10,383**	**10,799**	**11,231**	**11,680**	**12,147**	**12,633**	**13,138**	**13,664**
SSS Mature Stores (1% Real Terms)	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Potential Gross Revenue per Mature Store	**5,280**	**6,889**	**8,618**	**10,367**	**11,231**	**11,680**	**12,147**	**12,633**	**13,138**	**13,664**
Ramp-up Factor	55.0%	69.0%	83.0%	96.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Contribution Profit	**222**	**503**	**922**	**1,337**	**1,505**	**1,565**	**1,628**	**1,693**	**1,761**	**1,831**
Contribution Margin	4.2%	7.3%	10.7%	12.9%	13.4%	13.4%	13.4%	13.4%	13.4%	13.4%
(-) Pre-Operational Expenses	(220)	–	–	–	–	–	–	–	–	–
Adj. Contribution Profit	**2**	**503**	**922**	**1,337**	**1,505**	**1,565**	**1,628**	**1,693**	**1,761**	**1,831**
Contribution Margin	0.0%	7.3%	10.7%	12.9%	13.4%	13.4%	13.4%	13.4%	13.4%	13.4%
IRR Calculation										
Operating Cash Flow	**(527)**	**171**	**436**	**708**	**907**	**988**	**1,028**	**1,069**	**1,111**	**1,156**
(+) Operating Income	2	503	922	1,337	1,505	1,565	1,628	1,693	1,761	1,831
(-) Taxes - EBIT * (1 - Tax)	(1)	(171)	(314)	(455)	(512)	(532)	(553)	(576)	(599)	(623)
(+ / -) Change Working Capital	(528)	(161)	(173)	(175)	(86)	(45)	(47)	(49)	(51)	(53)
Cash Flow from Investment Act.	**(1,800)**	**76**	**72**	**69**	**66**	**(536)**	**86**	**83**	**79**	**76**
(-) Capital Expenditures	(1,800)	(176)	(169)	(162)	(155)	(749)	(201)	(193)	(185)	(177)
(+) Depreciation	–	252	241	231	222	212	287	275	264	253
Free Cash Flow to Firm	**(2,327)**	**247**	**508**	**777**	**973**	**452**	**1,114**	**1,151**	**1,191**	**1,232**

APPENDIX 39

Price assessment: HPC in drugstores vs. supermarkets

Exhibit 111: Average prices in major drugstores and supermarket chains

		Products	Raia	Drogasil	Drugstores	Supermarkets*	Drugstore premium
Basic							
Toothpaste	Basic	Creme dental Colgate Tripla Ação Menta Original 90g	2.79	2.79	3.45	2.70	11.7%
	Premium	Creme dental Sensodyne Alivio Rápido 90g	14.19	13.89	14.58	13.76	3.4%
Toothbrush	Basic	Escova dental Colgate Classic Clean	2.95	2.95	4.38	3.73	-8.1%
	Premium	Escova dental Curaprox 5460 Ultra Soft	24.90	24.90	27.06	26.65	-3.9%
Deodorant	Basic	Desodorante antritranspirante Dove Aerosol Original 150ml	16.99	16.99	16.99	15.67	8.4%
	Premium	Desodorante antritranspirante Rexona Clinical 150ml	15.90	15.90	15.96	15.90	0.1%
Bath soap	Basic	Sabonete em barra Lux 85g	1.89	1.89	1.98	1.63	18.1%
	Premium	Sabonete em barra Nivea Aveia 85g	1.89	1.89	1.78	1.61	15.4%
Shampoo	Basic	Shampoo Pantene Micelar 200ml	10.29	10.29	10.82	11.52	-9.1%
	Premium	Shampoo Aussie Moist 180ml	22.90	22.90	22.37	17.99	26.3%
Diapers	Basic	Fralda Huggies Supreme Care P 48 tiras	39.99	39.99	39.44	36.19	10.0%
	Premium	Fralda Pampers Premium Care Pants P 40 tiras	49.90	49.90	49.90	51.69	-3.5%
Discretionary							
Razor blade	Basic	Aparelho de barbear Gillette Mach 3	23.89	23.89	22.52	19.63	19.4%
	Premium	Gillette Venus Breeze	22.34	22.49	25.17	17.27	35.1%
Sunscreen	Basic	Protetor solar Sundown Praia e Piscina FPS30 200ml	37.69	34.99	46.05	37.57	5.3%
	Premium	Protetor solar Neutrogena Sun Fresh FPS50 200ml	58.19	58.19	59.96	59.40	-1.0%
Mouthwash	Basic	Enxaguante bucal Colgate Total 12 1L	22.91	22.76	29.24	24.90	0.3%
	Premium	Antisséptico bucal Listerine Cool Mint 1,5L	36.69	36.69	39.74	27.79	35.7%
Nail polish	Basic	Esmalte cremoso Risqué Bianco Purissimo 8ml	4.79	4.79	4.64	3.89	21.9%
	Premium	Colorama esmalte gel 8ml	7.90	7.90	8.62	7.99	1.9%
Wet wipe	Basic	Toalhas umedecidas Huggies Classic 96 toalhas	20.23	20.23	20.26	16.85	20.1%
	Premium	Lenços umedecidos Johnsons Baby Hora de Brincar	8.75	8.74	14.99	13.14	-17.6%

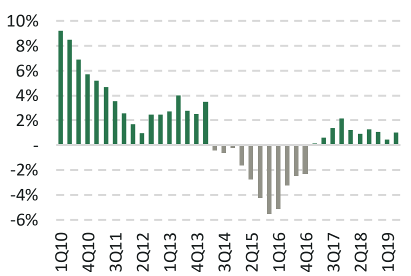
Source: Team 19 calculations, JHF, companies' websites

(*)Drugstores include Panvel, Pague Menos e Drogaria São Paulo and Supermarkets include Extra, Pão de Açúcar and Carrefour

APPENDIX 40

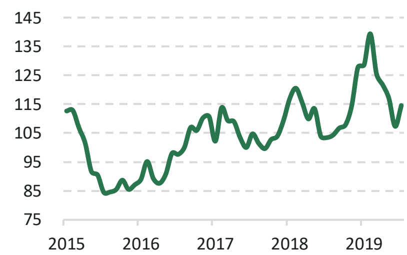
Brazil 101: where to now?

Exhibit 112: GDP QoQ real growth



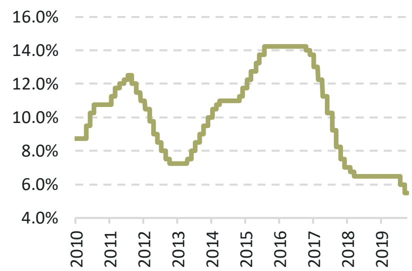
Source: Ipeadata

Exhibit 113: Consumer Confidence Index



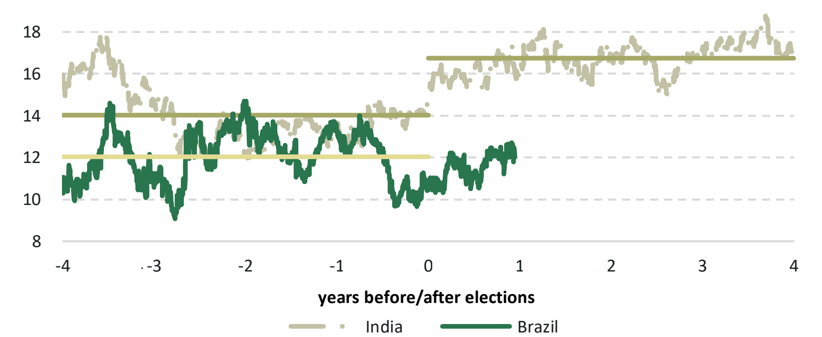
Source: Ipeadata

Exhibit 114: Selic goal fixed by COPOM



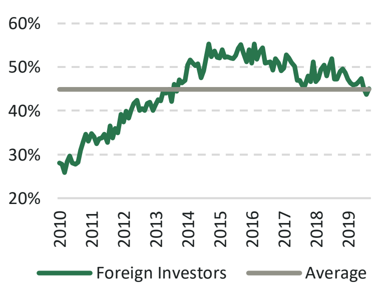
Source: Ipeadata, BCB

Exhibit 115: India re-rated after liberal elections: Brazil's is yet to come



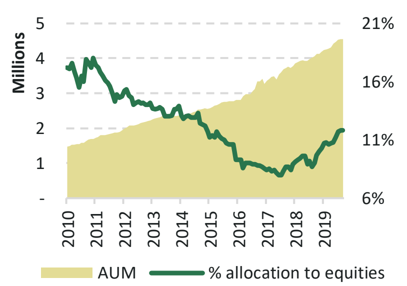
Source: Bloomberg, Team 19 calculations (*) MSCI Country P/E Index

Exhibit 116: Foreign part. in Ibovespa



Source: B3

Exhibit 117: Assets under management in Brazil*



Source: Anbima

*Mutual funds

On the macro side

Market expects (according to BCB's Focus report) GDP to grow 0.87% this year, yet we have seen some soft signs of recovery on the reform agenda progress and improving confidence levels. Then, we should see some pick-up in activity by 2020 as GDP gains momentum and reaches growth of ~2% (also as Focus reports).

We are constructive on the economy's reaction to structural reforms (such as the pension one, expected to be approved in the Senate by the end of the year) and the progress of projects focused on removing bottlenecks in topics such as credit and taxes. The expected cuts in interest rates to 4.75% (on market expectations) by the end of the year should also support growth in 2020.

Looking from a strategy perspective

As rates decline, also do opportunity costs of investing in equities, which should boost the allocation into equities in total AUM in as it has already been happening for some time. Yet, this has been on the back of local capital as foreign participation in the stock exchange has consistently decreased in the same period. As soon as foreign flow comes, valuation should also be pushed up.

We expect overall Brazil P/E to re-rate on liberal elections similarly to what happened in India in 2014. Multiples have already been showing some mild signs of recovery returning to historical levels.

APPENDIX 41

Stock screening perspective: methodology and some thoughts

We analyzed RADL3 and IBX100's stocks to see if they fit under two possible categories (with the possibility of not fitting into any) and to identify multiple pattern behaviors. The criteria are shown in the table below:

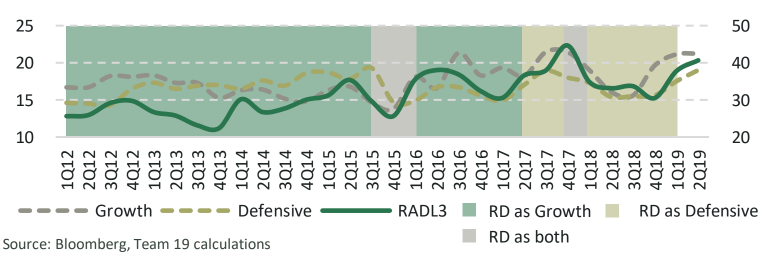
Growth	Net debt to EBITDA < 2.5x 12m dividend yield < IBX100 12m div. yield EPS growth > IBX100 median
Defensive	Net debt to EBITDA < 2.5x 2yr beta < 1 Avg. 360D volatility in the first quartile of IBX100

For each quarter, we identified the companies qualified for the two baskets and then calculated the average multiples.

RD's PE adherence to those groups' is considerably higher (~64% correlation with growth since 2012 and ~83 correlation with defensive since 1Q17) in comparison with their qualitative peer groups: Health Care (~35% correlation since 2012) and Retail companies (~29% correlation in the same period).

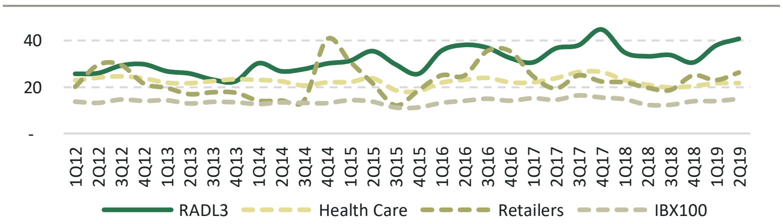
Between the companies which qualified as **defensive** in the 2Q19 are: WEGE3, CESP6, HYPE3, VIVT4, BBSE5, CRFB3 and ODPV3. As for **growth** companies, we screened CSAN3, EZTC3, GNDI3, LREN3, POMO4, RAPT 4 and TOTS3.

Exhibit 118: RADL3 vs. stock screening peers forward PE (RD's profile in the back)



Source: Bloomberg, Team 19 calculations

Exhibit 119: RADL3 vs. sector peers forward PE



Source: Bloomberg, Team 19 calculations

APPENDIX 42
Beta calculation

	Currency	Market Cap (Mn)	5-Year Beta	Statutory Tax Rate	Debt / Equity	Unlevered Beta
Brazilian Retailers						
Renner	BRL	41,218	0.90	34%	49%	0.68
Lojas Americanas	BRL	31,224	1.15	34%	249%	0.43
Natura	BRL	27,793	0.91	34%	328%	0.29
Pão de Açúcar	BRL	22,023	0.82	34%	74%	0.55
Carrefour	BRL	38,631	0.85	34%	14%	0.78
Brazilian Healthcare and Drug Retailers						
Hypera	BRL	22,065	0.70	34%	7%	0.67
Panvel	BRL	1,951	0.36	34%	30%	0.30
Profarma	BRL	510	0.75	34%	62%	0.53
Odontoprev	BRL	8,586	0.72	34%	0%	0.72
Qualicorp	BRL	9,699	1.06	34%	26%	0.91
Fleury	BRL	7,919	0.78	34%	72%	0.53
Hermes Pardini	BRL	3,065	0.78	34%	39%	0.62
Global Healthcare and Drug Retailers						
CVS	USD	85,065	1.16	21%	125%	0.58
Walgreens	USD	49,366	1.01	21%	54%	0.71
Cardinal Health	USD	14,348	1.23	21%	127%	0.62
Rite Aid	USD	487	1.41	21%	294%	0.42

Source: Bloomberg, Team Analysis

Bottom-up Beta

To reduce errors in the estimation of the cost of capital, it is preferable to use data selected from a sample of comparable companies. Therefore, to find a better beta, we chose a pool of companies in the industries that RaiaDrogasil is related to.

Our beta was based on simple average of 16 companies in the retail and healthcare industry. unlevered betas are better to eliminate volatility derived from capital structures' differences.

We tested the adherence of our assumptions by cross-checking with 5Y Adjusted Beta from Bloomberg. The difference is irrelevant (0.681 vs. 0.647).

RaiaDrogasil	
Peer-average Unlevered Beta	0.584
RD Target Debt/Equity	25%
Implied Beta	0.681
RD Cov. Adjusted Beta	0.647

APPENDIX 43
Cost of Debt

RD has an underlevered capital structure with a relatively low weighted cost of debt. As a AAA.bra company (Fitch 2019) with a healthy cash balance, we expect that RD's cost of debt remains at 110% of CDI.

Cost of Debt as % of CDI	2013	2014	2015	2016	2017	2018	2Q19
Bank Loans	103.2%	81.0%	89.4%	96.6%	109.4%	129.9%	135.6%
Debentures					104.8%	104.6%	102.7%
Bank Loans & Debentures					**107.1%**	**110.3%**	**107.3%**
Nominal Cost of Debt	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2Q19**
Bank Loans	8.6%	8.9%	12.0%	13.7%	11.1%	8.6%	8.8%
Debentures					10.6%	6.9%	6.7%
Bank Loans & Debentures					**10.8%**	**7.3%**	**7.0%**

Source: Team 19 analysis. *CDI - Brazil's Interbank interest rate

APPENDIX 44
WACC breakdown

Assumption	Rate	Methodology
Risk-free rate	1.73%	10Y U.S. Treasury bond
Equity risk premium	6.30%	S&P 500 excess return from 1928 to 2018
Unlevered beta	0.584	Average of comparable companies
Levered beta	0.681	Re-levered based on 25% leverage target
Country risk	2.50%	EMBI+ Brazil 12 months median
Inflation differential	1.50%	Spread between U.S. and Brazil target inflation
Cost of equity	**10.12%**	**Derived from CAPM model**
Cost of Debt	7.70%	110% CDI*, in line with the company's weighted cost of debt
Tax rate	34.00%	Brazil statutory tax rate
WACC	9.11%	**Based on a target leverage of 25%**

Source: Bloomberg, Team 19 analysis. *CDI stands for Brazil's Interbank interest rate

APPENDIX 45
Discounted Cash Flow to Firm

Free Cash Flow to Firm	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Operating Cash Flow	**605.8**	**837.7**	**1,136.5**	**1,436.3**	**1,780.6**	**2,081.4**	**2,419.1**	**2,738.6**	**3,082.5**	**3,434.3**	**3,499.6**
(+) Operating Income	1,133.1	1,459.2	1,852.0	2,299.0	2,736.7	3,184.4	3,619.8	4,038.1	4,482.3	4,964.2	5,442.8
(-) Taxes	(267.5)	(344.5)	(437.3)	(542.8)	(646.2)	(751.9)	(854.7)	(953.4)	(1,058.3)	(1,172.1)	(1,578.4)
(+ / -) Change in Working Capital	(186.9)	(191.3)	(178.7)	(206.1)	(181.3)	(207.9)	(188.0)	(172.9)	(153.3)	(154.7)	(146.5)
(+ / -) Present Value Adjustment (PVA), net	(72.8)	(85.6)	(99.5)	(113.8)	(128.6)	(143.3)	(158.0)	(173.2)	(188.2)	(203.0)	(218.3)
Cash Flow from Investment Activities	**(286.4)**	**(287.2)**	**(273.5)**	**(220.7)**	**(229.6)**	**(158.4)**	**(168.7)**	**(179.5)**	**(52.6)**	**(59.5)**	**(66.7)**
(-) Capital Expenditures	(845.1)	(920.1)	(979.9)	(993.8)	(1,061.4)	(1,043.3)	(1,095.8)	(1,151.7)	(1,059.8)	(1,081.3)	(1,103.6)
(+) Depreciation	558.7	632.9	706.4	773.1	831.8	884.9	927.1	972.1	1,007.1	1,021.8	1,036.9
Free Cash Flow To Firm	**319.4**	**550.4**	**863.0**	**1,215.6**	**1,551.0**	**1,923.0**	**2,250.4**	**2,559.0**	**3,029.8**	**3,374.8**	**3,432.8**

Source: Team 19 estimates

Net Present Value of Free Cash Flow to Firm	
WACC	9.1%
Growth in Perpetuity	4.0%
Explicit period NPV	12,029.5
Terminal Value at 2030E	70,107.3
NPV of Terminal Value	29,314.8
Total Enterprise Value	41,344.3
(-) Net Debt (Cash)	695.6
Total Equity Value	**40,648.7**
Shares Outstanding	330.4
Implied value per share (BRL)	**123.0**

We opted to include in our Free Cash Flow to Firm the Present Value Adjustment (PVA), which is related to the effects of the adjustment on net revenues and COGS of the net present value of accounts payable and accounts receivable, accounted as interest income and expenses, respectively.

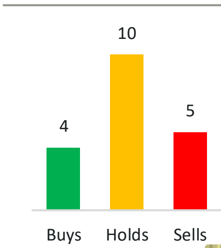
APPENDIX 46
Where we stand against consensus

Exhibit 120: Bloomberg consensus overview

	2019			2020			2021		
	Team 19	**Consensus**	***% Δ***	**Team 19**	**Consensus**	***% Δ***	**Team 19**	**Consensus**	***% Δ***
Net Revenues	17,337	17,314	*0.1%*	20,662	20,118	*2.7%*	24,437	22,956	*6.5%*
EBIT	728	803	*-9.4%*	1,133	1,086	*4.4%*	1,459	1,377	*5.9%*
EBITDA	1,223	1,324	*-7.6%*	1,692	1,634	*3.5%*	2,092	1,969	*6.3%*
% EBITDA margin	7.1%	7.6%		8.2%	8.1%		8.6%	8.6%	
Net Income	501	541	*-7.4%*	777	713	*9.0%*	1,009	898	*12.3%*
ROE	17.1%	14.9%	*224bps*	19.2%	17.7%	*147bps*	21.7%	20.4%	*125bps*

Source: Bloomberg, Team 19 estimates

Exhibit 121: Analyst recommendations



APPENDIX 47

Adjusted Present Value Methodology and Altman Z Score

The unlevered value adjustment method is used to assess a company as the sum of the value of the tax benefits and its unlevered value, calculated using the unlevered cost of equity as the proper discount rate.

The APV valuation method was introduced by MIT Professor Stewart Myers. This approach has the advantage for the adjustment of the profile of tax shields, which capture the linear relationship between debt and the inflation rate, and the presence of tax shields based on the tax rate.

Since the APV main assumption on debt issuing is the tax benefit, we should consider the most significant cost of borrowing, which is the added risk of bankruptcy. To assess this risk, the Altman Z score was used to predict the chances of bankruptcy of RD.

APV Net Present Value (BRLmn)

Keu – Unlevered cost of equity	9.4%
Kd – Cost of debt	7.7%
Tax shields - Theoretical tax rate	23.6%
Perpetual growth	4.0%
Tax shields - Perpetuity growth (TV growth in net debt)	0.0%
Unlevered Value	43,560.5
Value of tax shields	(921.7)
Enterprise Value	**42,638.7**
(-) Net Debt (Cash)	(853.9)
Surplus assets (inc. associates & pensions)	(16.5)
(Minorities)	(39.2)
Total Equity Value	**41,729.1**
Shares Outstanding (mn)	330.4
Implied value per share (BRL)	**126.0**

Exhibit 122: Altman Z Score

	2012	2013	2014	2015	2016	2017	2018
Current Assets	1,694	1,904	2,272	2,686	3,428	3,928	4,530
Current Liabilities	863	1,020	1,299	1,649	2,185	2,494	2,913
Total Liabilities	1,076	1,287	1,621	2,042	2,723	3,214	3,817
Total Assets	3,340	3,614	4,080	4,699	5,659	6,464	7,352
Retained Earnings	295	357	475	666	919	1,228	1,522
Revenues	5,358	6,207	7,472	9,022	11,257	13,213	14,801
EBIT	202	198	357	516	713	792	781
Market Capitalization	7,622	4,883	8,347	11,683	20,164	30,268	18,822
Working Capital	831	884	974	1,037	1,243	1,434	1,616
	2012	2013	2014	2015	2016	2017	2018
A: Working Capital/Total Assets	0.25	0.24	0.24	0.22	0.22	0.22	0.22
B: Retained Earnings/Total Assets	0.09	0.10	0.12	0.14	0.16	0.19	0.21
C: EBIT/Total Assets	0.06	0.05	0.09	0.11	0.13	0.12	0.11
D: Market Capitalization/Total Liabilities	7.09	3.79	5.15	5.72	7.40	9.42	4.93
E: Revenues/Total Assets	1.60	1.72	1.83	1.92	1.99	2.04	2.01
Z Score	**6.48**	**4.61**	**5.66**	**6.18**	**7.34**	**8.63**	**5.88**

Formula

Z Score = (1,2*A) + (1,4*B) + (3,3*C) + (0,6*D) + (1*E)

The Z Score formula was created by Edward I. Altman in 1968 to predict the chances of a firm going bankruptcy within two years. If Z Score is lower than 1.8 it means that the firm is under the chance of getting into bankruptcy. On the other hand, a Z Score higher than 3 denotes that the firm is less likely to go bankrupt.

RD is not likely to go bankrupt

Source: Team 19 analysis

APPENDIX 48

Monte Carlo simulation

Exhibit 123: Parameters used in Monte Carlo

Stressed variable	Mean	Standard deviation
SSS performance	5.0%	0.5%
Stores opening	50	12
Stores closing	-5	2
Sales and marketing expenses (times Inflation)	1.4x	0.2x
Sales mix		
Δ Brand	-60bps	15bps
Δ Generic	20bps	10bps
Δ OTC	35bps	10bps
Working Capital needs		
Accounts receivables	21.6	1.6
Days of inventories	87.2	7.0
Days of suppliers	54.1	5.0
WACC		
Spread on debt	110%	8%
Leverage	25%	4%
Risk free rate	1.73%	0.17%
Country risk	2.50%	0.25%

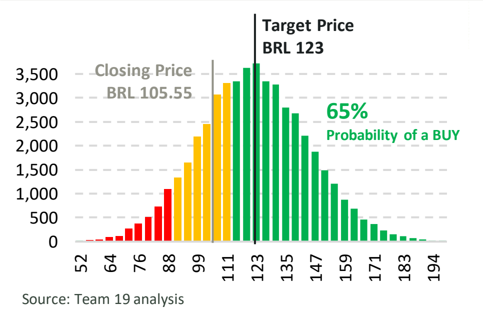
A Monte Carlo Simulation was performed to test the sensitivity of our model to some of the key assumptions. We stressed operational variables (SSS performance, net store additions, changes on sales mix, operational expenses and working capital needs) and WACC components (spread on debt, leverage, risk free rate and country risk).

After running the simulation 50.000 times, we observed a 65% probability of obtaining a target price above 10% upside while only 7% of the scenarios would yield a sell recommendation.

Exhibit 124: Main statistics

Trials	50,000
Base Case	119
Mean	122.02
Median	122
Standard deviation	21.93
Variance	**480.72**
Coeff. of variation	0.18
Minimum	35
20% Percentile	104
80% Percentile	140
Maximum	249

Exhibit 125: Monte Carlo simulation

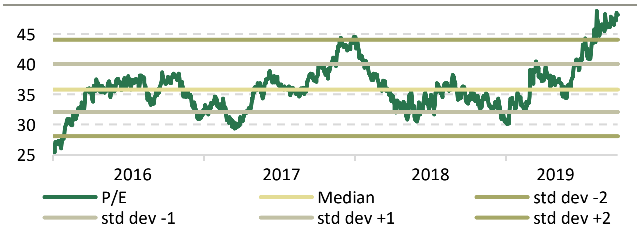


Source: Team 19 analysis

APPENDIX 49

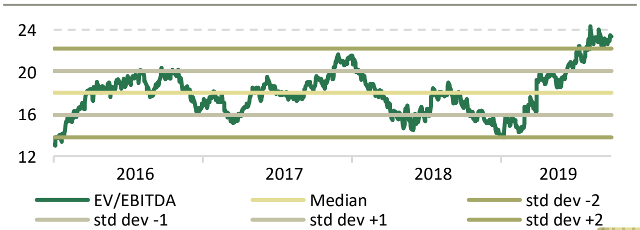
Historical 12m forward multiples

Exhibit 126: Historical 12m forward PE



Source: Team 19 analysis

Exhibit 127: Historical 12m forward EV to EBITDA



Source: Team 19 analysis

APPENDIX 50

IFRS 16 impacts

In 2019, companies started to recognize future payments of leases in their balance sheet to comply with IFRS 16. The new accounting standard considers the right-of-use of leased assets as fixed assets and their corresponding liabilities. The idea is to get a better sense of the companies' real operating obligations. However, the restatement has only been made until the prior year, which compromised comparability of financial statements during a broader time series analysis. Besides that, the cash flows of the company do not change due to the adoption of IFRS 16, which means that the accounting change has minimum impact on DCF valuation method.

Therefore, we decided to use IAS 17 standard instead of IFRS 16 in our valuation and financial analysis. Using the previous accounting standard allowed us to mitigate distortions in leverage and profitability indicators, as we could compare forecasted numbers with available historical figures. Furthermore, the improvement of IFRS 16 is limited. According to CFA, the new measurement method does not consider the impact of current market conditions (e.g., current market rents and current discount rates) on such obligations beyond the inception of the lease.

Exhibit 128: Impact of IFRS 16 on key ratios

Financial ratio in 2018	IAS 17	IFRS 16
Asset turnover	2,11x	1,44x
Leverage	0,24x	1,25x
Net Debt/EBITDA	0,50x	2,40x
Interet burden	89,4%	77,3%
EBITDA Margin	7,7%	11,0%
EBIT Margin	5,0%	5,2%

Source: RaiaDrogasil's IR, Team 19 calculations

APPENDIX 51

Comparable analysis

Ticker	Company	Currency	Market Cap	P / E			PEG			EV / EBITDA			Price to Book			EPS Growth		ROE		ADTV (mn)	Px Change (%)		
			In Millions	2020	2021	5Y Avg.	2020	2021	5Y Avg.	2020	2021	5Y Avg.	2020	2021	5Y Avg.	15'-18'	19'-21'	19Y	20Y	6m	3m	6m	ytd
Brazilian Retailers																							
LREN3	Renner	BRL	41,218	27.9x	23.4x	20.0x	1.3x	1.2x	1.7x	17.2x	14.7x	10.8x	7.2x	6.1x	5.3x	71%	46%	27%	28%	186.4	7.4%	39.4%	34.5%
LAME4	Americanas	BRL	31,224	35.9x	36.7x	33.1x	0.9x	na	na	11.2x	10.7x	9.6x	5.8x	5.4x	8.8x	62%	36%	11%	14%	82.3	24.9%	42.4%	8.2%
NATU3	Natura	BRL	27,793	31.3x	25.4x	18.4x	0.9x	1.1x	-1.2x	14.3x	12.6x	9.8x	7.9x	6.8x	11.1x	7%	64%	22%	28%	137.9	14.3%	40.8%	42.7%
HGTX3	Hering	BRL	5,403	19.2x	19.0x	12.4x	1.3x	na	0.3x	15.4x	14.7x	9.2x	3.6x	3.5x	3.4x	-15%	15%	17%	19%	49.9	4.6%	19.4%	14.0%
ARZZ3	Arezzo	BRL	5,014	22.5x	20.1x	18.6x	1.0x	1.7x	1.3x	15.9x	14.1x	12.4x	5.8x	5.0x	4.0x	18%	36%	25%	28%	17.8	5.4%	19.3%	0.1%
PCAR4	Pão de Açúcar	BRL	22,023	16.2x	13.9x	20.9x	0.8x	0.8x	0.3x	6.1x	5.4x	6.6x	1.9x	1.7x	2.0x	9%	41%	9%	9%	154.7	-10.8%	-9.6%	2.1%
CRFB3	Carrefour	BRL	38,631	16.8x	14.7x	18.6x	0.4x	1.1x	2.5x	8.0x	7.0x	8.8x	2.5x	2.3x	2.4x	-99%	59%	11%	15%	59.7	-15.4%	-2.2%	7.6%
Average				**24.3x**	**21.9x**	**20.3x**	**0.9x**	**1.2x**	**0.8x**	**12.6x**	**11.3x**	**9.6x**	**5.0x**	**4.4x**	**5.3x**	**8%**	**42%**	**18%**	**20%**		**4.3%**	**21.4%**	**15.6%**
Brazilian Healthcare and Drug Retailers																							
HYPE3	Hypera	BRL	22,065	17.6x	16.1x	21.3x	4.5x	1.7x	1.2x	14.7x	13.2x	13.1x	2.4x	2.2x	1.6x	230%	14%	14%	14%	58.4	20.8%	39.0%	15.6%
PNVL3	Panvel	BRL	1,951	na	na	na	na	na	na	na	na	na	na	na	na	66%	na	na	na	0.6	18.6%	11.7%	41.9%
PFRM3	Profarma	BRL	510	na	na	15.0x	na	na	1.0x	6.8x	na	6.4x	na	na	0.7x	-83%	na	na	na	1.3	-6.4%	0.5%	4.8%
QUAL3	Qualicorp	BRL	9,699	17.2x	15.7x	16.8x	1.4x	1.6x	0.3x	9.4x	8.9x	8.9x	5.5x	5.3x	2.7x	68%	23%	27%	41%	63.4	50.1%	116.5%	165.6%
ODPV3	Odontoprev	BRL	8,586	23.4x	20.6x	23.8x	1.7x	1.5x	2.0x	15.6x	13.9x	16.0x	7.2x	6.8x	8.2x	29%	30%	29%	32%	22.5	-12.0%	-1.7%	17.5%
FLRY3	Fleury	BRL	7,919	19.2x	17.3x	19.5x	1.3x	1.6x	0.9x	11.7x	10.6x	9.5x	4.2x	4.1x	2.3x	206%	28%	20%	23%	41.1	5.0%	16.4%	26.4%
PARD3	Hermes Pardini	BRL	3,065	18.4x	16.1x	22.0x	1.2x	1.1x	1.2x	10.5x	9.4x	12.4x	4.0x	3.3x	5.7x	na	32%	22%	23%	8.1	11.6%	16.9%	25.1%
Average				**19.2x**	**17.2x**	**19.7x**	**2.0x**	**1.5x**	**1.1x**	**11.5x**	**11.2x**	**11.1x**	**4.7x**	**4.3x**	**3.5x**	**86%**	**25%**	**23%**	**27%**		**12.5%**	**28.5%**	**42.4%**
Global Healthcare and Drug Retailers																							
CVS	CVS	USD	85,065	9.1x	8.6x	15.3x	2.8x	1.4x	1.1x	9.3x	8.8x	9.0x	1.1x	1.1x	2.4x	9%	10%	15%	14%	487.7	16.3%	24.5%	-0.2%
WBA	Walgreens	USD	49,366	9.2x	8.7x	16.5x	Na	1.8x	1.3x	7.9x	8.1x	10.0x	1.9x	1.7x	2.6x	31%	5%	20%	19%	271.9	0.3%	-0.9%	-20.0%
CAH	Cardinal Health	USD	14,348	9.3x	8.6x	15.0x	2.0x	1.1x	1.7x	7.2x	7.1x	8.7x	2.2x	2.3x	3.4x	-17%	13%	23%	24%	130.0	8.9%	9.3%	10.0%
RAD	Rite Aid	USD	487	na	na	na	na	na	na	15.1x	16.4x	9.2x	0.6x	0.7x	9.8x	-136%	-108%	-10%	-7%	20.7	13.9%	-8.4%	-37.4%
Average				**9.2x**	**8.6x**	**15.3x**	**2.4x**	**1.4x**	**1.4x**	**9.9x**	**10.1x**	**9.2x**	**1.5x**	**1.5x**	**4.6x**	**-28%**	**-20%**	**12%**	**13%**		**9.9%**	**6.1%**	**-11.9%**
RADL3	RaiaDrogasil	BRL	34,872	52.3x	40.3x	31.2x	2.2x	1.6x	1.6x	24.4x	19.7x	15.7x	8.2x	7.3x	4.5x	48%	61%	17%	19%	99.2	32.7%	58.9%	80.0%

Source: Bloomberg, Team 19 estimates

APPENDIX 52

Comparison with Peers: Operational Metrics

Exhibit 129: Number of drugstores

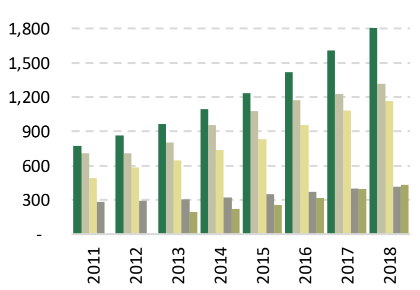
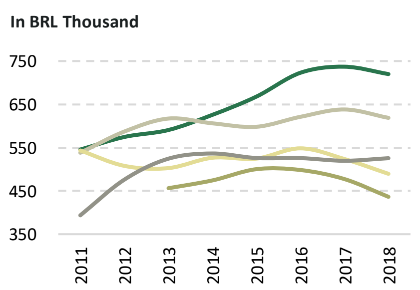


Exhibit 130: Monthly sales per store



Unique operational execution

Through its two brands, RaiaDrogasil targets a premium profile of consumers by offering a wide assortment of products in standardized stores. This is reflected in higher sales per stores when compared to the main Brazilian players, but also additional costs on a store basis related to greater investments in store look and feel and visual identity. We note, however, an increasing margin gap between RD and its peers prompted by better cost management and asset utilization.

Exhibit 131: Monthly COGS per store

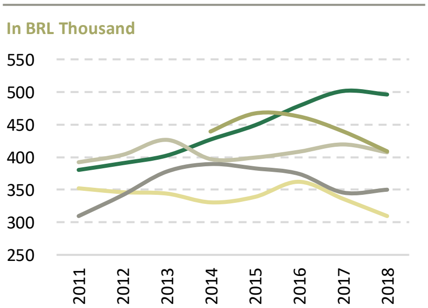


Exhibit 132: Monthly cash SG&A per store

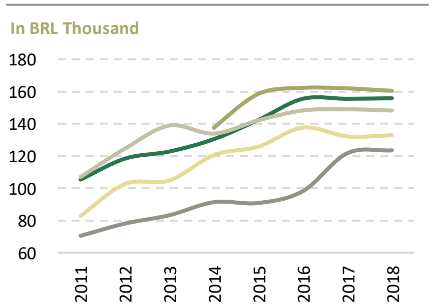
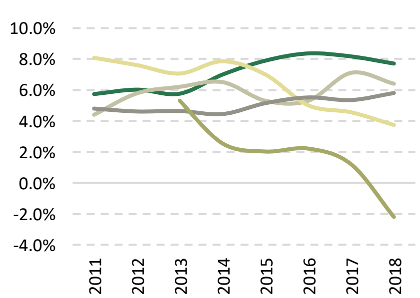


Exhibit 133: Adj. EBITDA margin



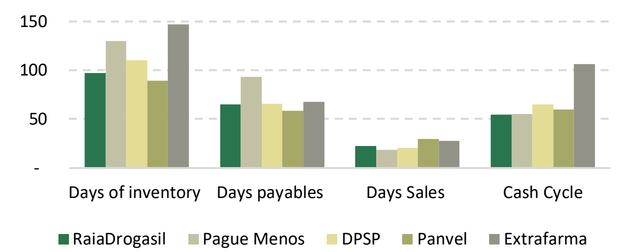
Source: Companies' IR, Team 19 analysis

RaiaDrogasil DPSP Pague Menos Panvel Extrafarma

APPENDIX 53

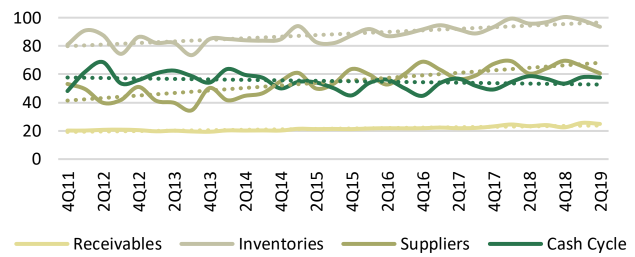
Cash Cycle analysis

Exhibit 134: Cash Cycle: RaiaDrogasil vs. Brazilian drugstores



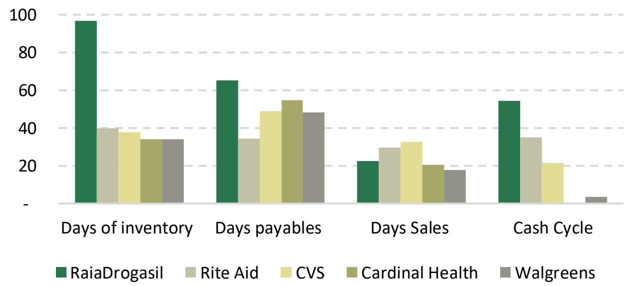
Source: Companies' IR, Team 19 analysis

Exhibit X: Historical Cash Cycle: RaiaDrogasil



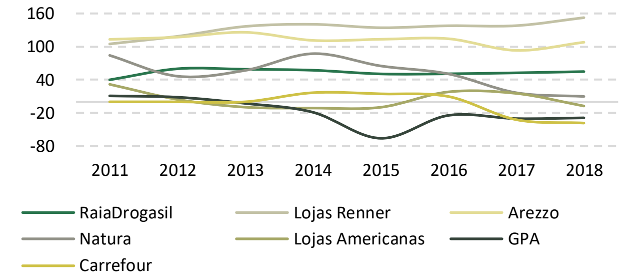
Source: RaiaDrogasil IR, Team 19 analysis

Exhibit 136: Cash Cycle: RaiaDrogasil vs. global peers



Source: Companies' IR, Team 19 analysis

Exhibit 137: Cash Cycle: RaiaDrogasil vs. retail peers

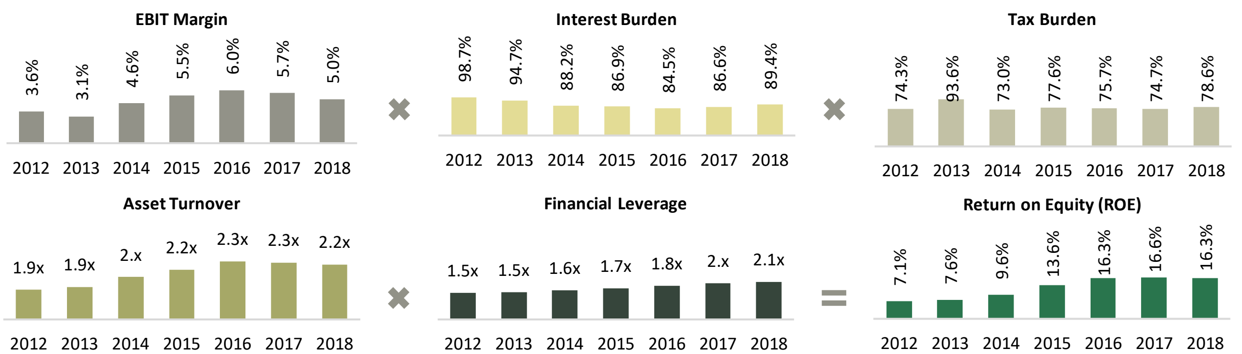


Source: Companies' IR, Team 19 analysis

APPENDIX 54

Dupont analysis

Exhibit 138: Historical Dupont



Source: Team 19 analysis

APPENDIX 55

Key financial metrics: RaiaDrogasil vs. peers

		Pharmacies - BR			Global Peers			Retail - BR						
2018	RD	Drogaria São Paulo	Pague Menos	PanVel	CVS pharmacy	Walgreens	CardinalHealth	natura	LOJAS AMERICANAS	RENNER	AREZZO	Hering	GPA	Carrefour
Performance Ratios														
ROE	16.3%	14.2%	9.4%	16.8%	-1.2%	18.3%	-10.2%	26.1%	3.7%	28.4%	20.7%	18.8%	8.7%	13.7%
Gross Margin	28.6%	30.2%	31.5%	27.8%	19.6%	23.4%	5.2%	71.8%	34.3%	61.0%	46.6%	42.6%	23.4%	21.0%
Expenses/Revenues	21.3%	24.0%	27.1%	23.0%	17.5%	18.5%	5.2%	62.4%	24.5%	44.1%	34.0%	29.8%	19.0%	15.2%
D&A/Revenues	2.7%	1.9%	1.6%	1.1%	1.4%	1.3%	0.4%	4.4%	5.3%	3.7%	2.7%	2.0%	1.7%	1.4%
Tax Rate	20.6%	29.8%	0.0%	17.0%	142.4%	16.7%	0.0%	18.6%	25.5%	25.5%	16.1%	0.0%	26.4%	32.4%
WK/Revenues	9.7%	11.8%	9.9%	11.8%	5.7%	1.9%	7.9%	6.6%	6.6%	29.0%	24.3%	40.6%	-6.4%	-8.4%
Fixed Assets/Revenues	16.8%	8.1%	11.8%	9.5%	52.6%	36.1%	9.4%	52.0%	40.8%	29.5%	9.7%	27.5%	23.7%	22.7%
ROIC	**13.9%**	**15.6%**	**12.5%**	**14.4%**	**-0.5%**	**7.7%**	**-1.9%**	**6.9%**	**7.0%**	**16.8%**	**24.3%**	**16.0%**	**11.6%**	**20.8%**
Fixed Assets/Revenues (ex-goodwill)	11.5%	7.1%	11.8%	9.5%	22.5%	23.7%	3.8%	41.9%	35.6%	28.1%	9.7%	27.5%	23.7%	19.3%
ROIC (ex-goodwill)	**17.4%**	**16.5%**	**12.5%**	**14.4%**	**-1.0%**	**11.5%**	**-2.8%**	**8.4%**	**7.9%**	**17.2%**	**24.3%**	**16.0%**	**11.6%**	**27.2%**
ROCE	9.0%	7.5%	5.7%	10.4%	-1.2%	8.0%	1.0%	6.7%	4.6%	13.0%	15.3%	12.2%	3.2%	6.0%
CFROI	15.3%	-8.0%	0.4%	19.4%	0.1%	17.8%	16.2%	14.3%	12.5%	18.0%	15.8%	27.1%	12.9%	15.6%
Liquidity Ratios														
Current Ratio	155.5%	147.5%	118.6%	154.6%	102.8%	82.4%	107.3%	141.4%	208.4%	137.1%	329.0%	326.0%	110.7%	106.9%
Acid Test	51.1%	56.7%	36.8%	64.4%	65.4%	38.2%	53.5%	111.5%	166.7%	111.5%	270.1%	238.2%	92.7%	76.2%
Financing Ratios														
Leverage (D/E)	0.2x	0.6x	1.0x	0.3x	1.3x	0.5x	1.5x	3.1x	2.5x	0.5x	0.2x	0.0x	0.4x	0.1x
Debt Coverage	0.6x	1.4x	3.2x	0.7x	9.9x	1.7x	10.4x	3.0x	2.1x	0.3x	-0.5x	-1.4x	0.4x	-0.7x
Interest Coverage	8.7x	3.1x	0.4x	5.8x	1.5x	10.4x	0.4x	0.5x	0.8x	13.9x	4.3x	6.2x	3.1x	5.8x

Source: Companies' IR, Team 19 analysis