EARNINGS

RELEASE 1Q23

PagueMenos

extrafarma

Fortaleza, Ceará, May 8, 2023.

Empreendimentos Pague Menos S.A. (“Company” or “Pague Menos”), the main Health Hub of the Brazilian middle class, present in every state in Brazil and more than 380 municipalities, announces its results for the 1st quarter of 2023.

HIGHLIGHTS **1Q23**

SALES GROWTH
Gross revenue expansion of 9.7% in Pague Menos standalone

SAME STORE SALES
SSS of 7.2% for Pague Menos and 6.5% for Extrafarma (ex-Covid tests)

OMNICHANNEL SALES
Growth of 66.0%, reaching 12.5% of Pague Menos sales and 5.0% for Extrafarma

CUSTOMER BASE
Consolidated active base of 19.9 million customers, 28.4% increase

MARKET SHARE
Organic growth above the market in all regions except North

PRODUCTIVITY
Growth in average sales per employee of 10.2% in Pague Menos standalone

EXTRAFARMA SYNERGIES
Actions already executed resulted in BRL 12.2 million in 1Q23 (BRL 48.6 million on an annualized basis)

ADJUSTED EBITDA
Consolidated growth of 3.8% and reduction of 5.9% in Pague Menos standalone

DISCLOSURE CRITERIA

On August 1, 2022, the acquisition process of Imifarma Produtos Farmacêuticos e Cosméticos S.A. (Extrafarma) with Ultrapar Participações S.A. (Ultrapar) was completed. With the completion of the precedent conditions and incorporation of the equity balances, Extrafarma was consolidated and became part of the consolidated financial statements of Empreendimentos Pague Menos S.A. (The Company) that same month.

In order to facilitate the analysis of the results, we will present the segregated operational data of Pague Menos and Extrafarma in this release, while the financial information is presented as Pague Menos "standalone" (ex-Extrafarma) and Consolidated (Pague Menos plus Extrafarma).

Since 2019, our financial statements have been prepared in accordance with IFRS 16, which changed the criteria for recognition of rental contracts. To demonstrate the effects of implementing this standard and facilitate comparability between periods, we present on page 18 of this release the Income Statement for the Year excluding the effects of IFRS 16.

FINANCIAL HIGHLIGHTS PAGUE MENOS STANDALONE

in BRL million and % of Gross Revenue	1Q22	1Q23	Δ
Gross Revenue	**2,111.5**	**2,315.9**	**9.7%**
Gross profit	**625.2**	**669.4**	**7.1%**
% Gross Margin	*29.6%*	*28.9%*	*(0.7 p.p.)*
Contribution Margin	**227.1**	**218.7**	**(3.7%)**
Contribution Margin %	*10.8%*	*9.4%*	*(1.4 p.p.)*
Adjusted EBITDA	**162.4**	**152.8**	**(5.9%)**
Adjusted EBITDA Margin %	*7.7%*	*6.6%*	*(1.1 p.p.)*
Adjusted Net Profit	**24.4**	**(43.2)**	**-**
Adjusted Net Margin %	*1.2%*	*(1.9%)*	*(3.1 p.p)*

CONSOLIDATED FINANCIAL HIGHLIGHTS

in BRL million and % of Gross Revenue	1Q22	1Q23	Δ
Gross Revenue	**2,111.5**	**2,813.2**	**33.2%**
Gross profit	**625.2**	**817.5**	**30.8%**
% Gross Margin	*29.6%*	*29.1%*	*(0.5 p.p.)*
Contribution Margin	**227.1**	**256.5**	**13.0%**
Contribution Margin %	*10.8%*	*9.1%*	*(1.7 p.p.)*
Adjusted EBITDA	**162.4**	**168.5**	**3.8%**
Adjusted EBITDA Margin %	*7.7%*	*6.0%*	*(1.7 p.p.)*
Adjusted Net Profit	**24.4**	**(55.3)**	**-**
Adjusted Net Margin %	*1.2%*	*(2.0%)*	*(3.2 p.p.)*

OPERATIONAL HIGHLIGHTS

	PagueMenos			extrafarma
Operation / Indicator	1Q22	1Q23	Δ	1Q23
Stores (units)	1,169	1,271	8.7%	376
Average Sale/store/month (BRL thousand)	603	608	0.8%	441
Average Ticket (BRL)	72.75	78.49	7.9%	69.16
Employees (quantity)	20,055	19,673	(1.9%)	5,700
Employees/store (quantity)	17.2	15.5	(9.8%)	15.2
Avg. Sale/Employee/Month (BRL thousand)	35.2	38.7	10.2%	29.6
Omnichannel Share (% revenue)	9.0%	12.5%	*3.5 p.p.*	5.0%
Private Labels (% revenue)	6.4%	6.7%	*0.3 p.p.*	4.5%
Pharmaceutical Clinics (units)	893	991	11.0%	68

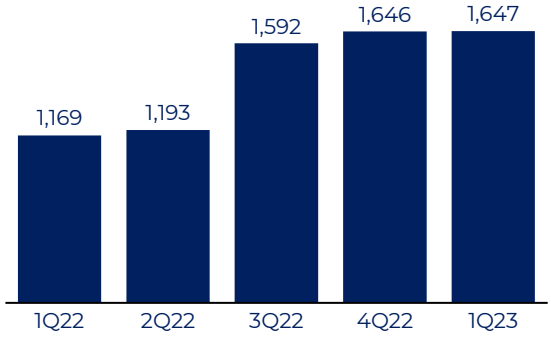
STORE PORTFOLIO

We closed 1Q23 with 1,647 stores, 4 of which opened and 3 closed in the quarter. As planned, we will concentrate the company's capital allocation in the first half of the year on inventory building, principally for the stocking of Extrafarma stores.

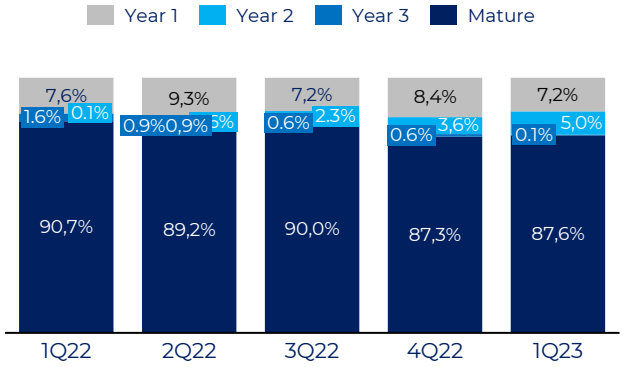
The maturation of the new stores has advanced in a very promising way. The 2022 openings have achieved higher than planned sales performance, with monthly average sales above the new 2021 stores. In addition, they have shown good profitability performance, signaling a potential for 4-wall margins, when mature, above the current portfolio.

At the end of 1Q23, we converted 11 Extrafarma stores to the Pague Menos brand. The initial performance of these converted stores has been very promising, with growth in average sales twice as high as that observed in the control group. These stores will continue to be considered as part of the Extrafarma portfolio, for the purpose of monitoring integration indicators and capturing synergies.

EVOLUTION OF STORE BASE

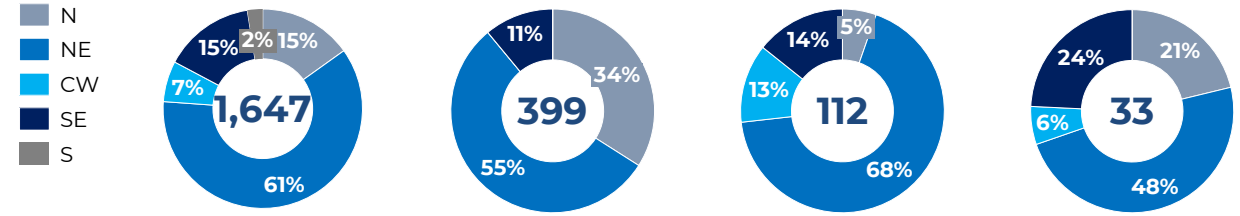


AGE PROFILE OF STORES

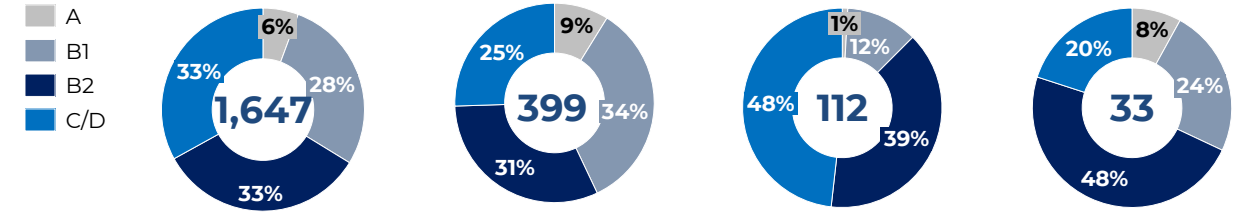


STORE BASE 1Q23 | INORGANIC EXPANSION (EXTRAFARMA) | ORGANIC EXPANSION (LTM) | STORE CLOSINGS[2] LTM

BY REGION



BY SOCIAL CLASS[1]



[1] Predominant social class in the vicinity of each store (isochronous for 5 minutes travelling by car). Segmentation follows the IBGE criteria, where Class A comprises households with an average monthly family income above BRL 16.6 thousand, B1 above BRL 7.9 thousand, B2 above BRL 4.2 thousand and C and D below BRL 4.2 thousand

[2] Includes the divestment of 8 stores as part of the pre conditions defined by CADE regarding the acquisition of Extrafarma.

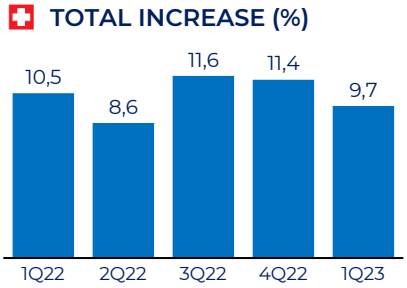
For the year 2023, we reduced the initial projection of 60 new stores to 20 openings, due to high interest rates scenario and capital allocation beyond what was planned in inventories at Extrafarma. Considering the organic and inorganic expansion carried out in 2021 and 2022 and the new projection for 2023, we will add 617 stores to the portfolio, representing growth of 56% over the 2020 store base (1,105 stores) and 59% higher than the growth planned at the time of the IPO of the company for the three-year period (388 stores). Therefore, we continue with a healthy pace of growth and good prospects for creating value for shareholders.

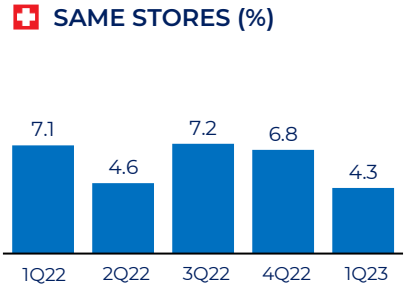
SALES PERFORMANCE

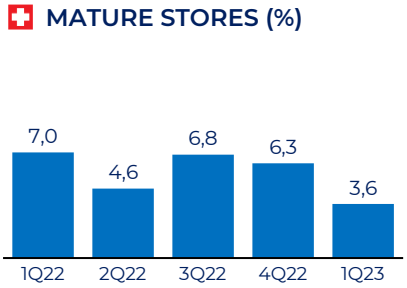
The dynamics of sales growth in 1Q23 was directly impacted by the strong base of comparison of the previous year, when there was the peak demand for Covid-19 tests throughout the pandemic, concentrated in January 2022, with the advancement of the omicron variant and influenza outbreak at that time.

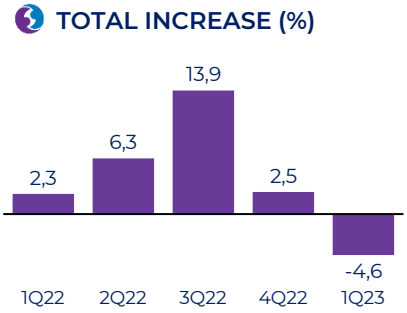
For Pague Menos, we recorded same stores growth of 4.3% in the quarter and 7.2% ex covid tests, with strong acceleration between months, being 2.1% negative in January and 16.0% positive in March. Total sales grew 9.7%, with a contribution of 3.6% from mature stores, 6.7% from maturing stores and 0.6% negative from stores closed in the period.

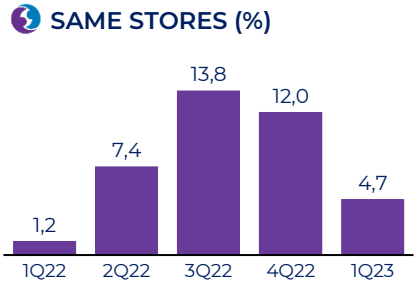
For Extrafarma, total sales decreased by 4.6% in the period, mainly due to the closing of the wholesale operation (5.5%) and the reduction in the store base due to closings and CADE's imposed remedies (3.8%). Same-store growth was 4.7% in the quarter and 6.5%, excluding covid tests. In Extrafarma, 1Q23 was also impacted by system migrations and changes in the logistics network caused by integration. It is important to note that the process of logistics and technological integration of Extrafarma stores and CDs was completed in 1Q23, so that from 2Q23 onwards the operation and pace of growth will be normalized.

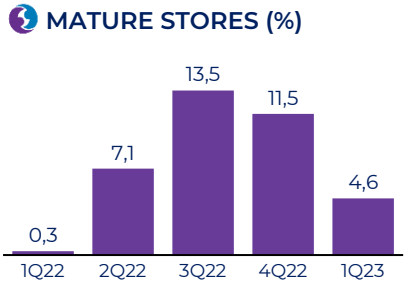










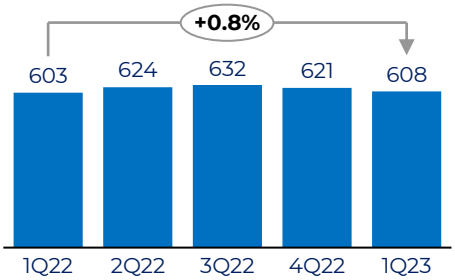


We continue to observe a discrepancy in the pace of growth between regions. For the Pague Menos brand, we registered growth in the same stores, excluding the effect of covid-19 tests, of 16.3% in the South/Southeast, and of 5.1% in the North/Northeast.

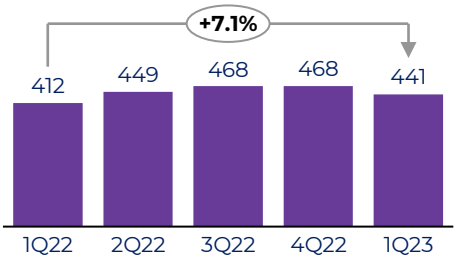
The average monthly sale per store in the Pague Menos portfolio was BRL 608 thousand in 1Q23, BRL 651 thousand when considering only mature stores, representing growth of 3.4% compared to the same period of the previous year. Compared to 4Q22, the average monthly sales of mature stores decreased by 2.2%, due to the "calendar effect" (fewer business days).

For Extrafarma, the average monthly sales per store was BRL 441 in 1Q23, growing 7.1% compared to the same period of the previous year. As mentioned above, system migrations and store Inventories impacted 1Q23 sales performance. In March, when these effects were practically complete, the average sale per store was BRL 495 thousand, an increase of 18.0% compared to the same period of the previous year.

AVERAGE SALE/STORE/MONTH
(BRL thousands)

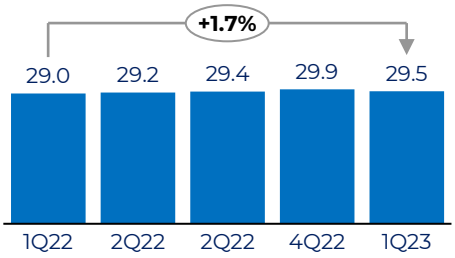


AVERAGE SALE/STORE/MONTH
(BRL thousands)

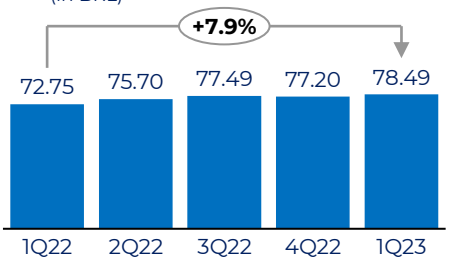


The 9.7% growth in sales in Pague Menos is traceable to an increase of 1.7% in the volume of services and 7.9% in the average ticket. The growth dynamics in volume of consultations illustrate well the impact of how the basis of comparison was distorted due to the influenza outbreak and advancement of the Omicron variant, which generated strong in-store customer traffic in January 2022. Considering only the months of February and March, with a more "normalized" base, the volume growth was 10.4%, 6.7% due to the growth in the store base and 4.0% in the "same stores" concept. The 7.9% growth in the average ticket, in turn, reflects the positive impact of weighted product inflation of 8.9% partially offset by a reduction in the customer basket and mix effect.

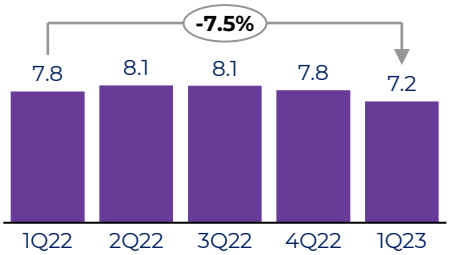
CONSULTATIONS
(In millions)



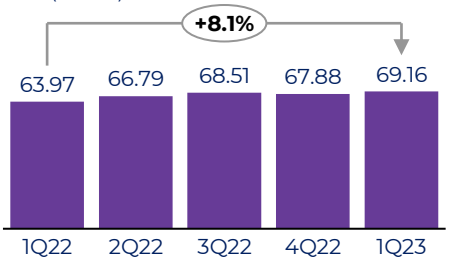
AVERAGE TICKET
(in BRL)



CONSULTATIONS
(In millions)



AVERAGE TICKET
(in BRL)



For Extrafarma, we observed similar behavior in the average ticket, which grew 8.1% in the quarter, while the volume of consultations decreased 7.5% compared to the previous period, mainly due to the reduction in the store base in the period and the negative impacts of migration in the system of store inventory supply.

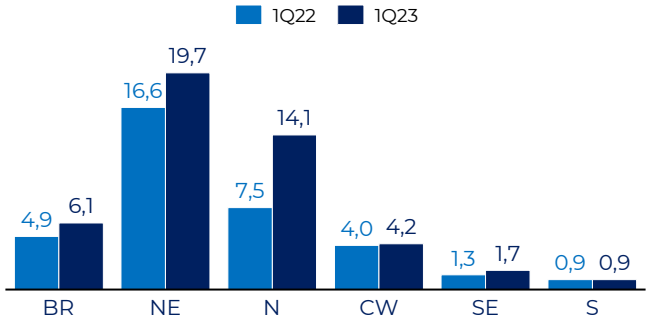
In 1Q23, we presented superlative numbers in the acquisition of new customers, boosted by the growth of digital channels and CRM and marketing actions. At the end of 1Q23, the Pague Menos brand had 17.5 million active customers, an increase of 9.8% compared to the same period of the previous year. Considering both brands, the Company reached the mark of 19.9 million active customers.

MARKET **SHARE**

We recorded gains in market share in 1Q23 in all regions of the country. Our organic growth, not considering the acquisition of Extrafarma, exceeded the market average by 2.5 p.p., with an increase in market share in all regions, except the North. We ended the quarter with a market share of 6.1% nationally, an increase of 1.2 p.p. compared to 1Q22.

The market share dynamic in the quarter was the most positive since 3Q21 and is the result of a more favorable competitive scenario, especially in relation to smaller players. While the contribution of new stores in our growth rate is increasing, with the maturation of new stores opened in recent years, the number of store openings by competitors has decreased and the number of competitor store closings has increased.

MARKET SHARE BY REGION



Source: IQVIA

CATEGORY AND SUPPLY MANAGEMENT

We continue to improve category assortment and management, with consistent growth in share for focus categories such as generics, private labels, and hygiene, nutrition and beauty items.

For the Pague Menos brand – standalone, generic drugs reached a record level of 10.9% of sales in 1Q23, growing 25.9% compared to the same period in the previous year, a growth of more than double the market average. The category of hygiene, nutrition and beauty reached 26.7% of sales, growing by 27.8% When compared to the same period of the previous year, with emphasis on the subcategories of children's world and dermocosmetics, which grew 41% and 26% respectively compared to the same period of the previous year, leveraged by actions in e-commerce.

Private label items grew by 14.5% in 1Q23, reaching 6.7% of total sales, an increase of 0.3 p.p. compared to the same period of the previous year.

The stock out rate for Pague Menos stores improved When compared to the previous period (4Q22), despite remaining at a high level when compared to 1Q22. For Extrafarma, we continue to increase the availability of products, with the rebalancing of inventories and relevant reduction in the stock out rate. At the end of 1Q23, the gap between the stock out rates of the two brands was 19.9%, well below pre-acquisition levels, when Extrafarma operated with a rate twice as high as that of Pague Menos.

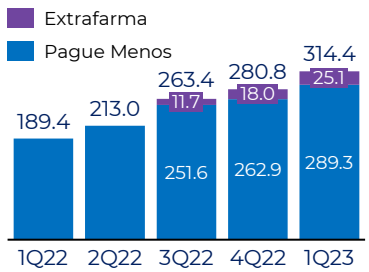
Operation / Indicator	1Q22	4Q22	1Q23	YoY	△QoQ	1Q23	△ vs PM
SALES MIX							
Branded Drugs	41.0%	40.1%	**40.0%**	*(1.0 p.p.)*	*(0.1 p.p.)*	**36.0%**	*(4.1 p.p.)*
Generic Medications	9.5%	10.7%	**10.9%**	*1.4 p.p.*	*0.2 p.p.*	**12.7%**	*1.8 p.p.*
Hygiene, Nutrition and Beauty	22.9%	26.1%	**26.7%**	*3.8 p.p.*	*0.6 p.p.*	**29.0%**	*2.3p.p.*
Over the Counter (OTC)	23.1%	22.4%	**21.9%**	*(1.2 p.p.)*	*(0.6 p.p.)*	**22.2%**	*0.4 p.p.*
Services	3.4%	0.6%	**0.4%**	*(3.0 p.p.)*	*(0.2 p.p.)*	**0.1%**	*(0.3 p.p.)*
PRIVATE LABELS							
Total Sales (BRL million)	134.7	164.6	**154.2**	*14.5%*	*-6.3%*	**22.6**	*-85.4%*
Total Sales Share (% of Gross Revenue)	6.4%	7.1%	**6.7%**	*0.3 p.p.*	*(0.5 p.p.)*	**4.5%**	*(2.1 p.p.)*
Self-Service Participation (% of Gross Revenue)	13.9%	14.7%	**13.7%**	*(0.2 p.p.)*	*(1.0 p.p.)*	**8.9%**	*(4.8 p.p.)*
SUPPLY CHAIN							
Average SKUs/store (#thousands)	9.8	10.4	**10.6**	*8.0%*	*1.7%*	**10.5**	*(0.9%)*
Stock Out (4Q21 = base 100)	100	130	**128**	*28.1%*	*(1.1%)*	**154**	*19.9%*
Availability (4Q21 = base 100)	100	106	**107**	*6.8%*	*0.6%*	**104**	*(2.4%)*

OMNICHANNEL PLATFORM

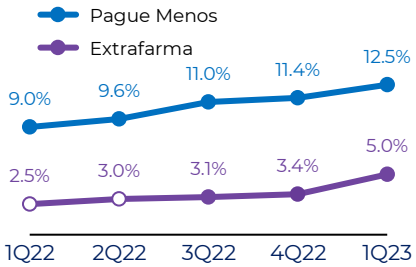
We significantly accelerated our growth in digital channels in 1Q23, following the successful activation of new customers, sponsorship campaigns and integration with Extrafarma, which significantly expands the service capillarity of our omnichannel platform.

In 1Q23, digital channels recorded growth of 66.0%, totaling revenue of BRL 314.4 million, with a 12.5% share in Pague Menos sales (+3.5 p.p. vs. 1Q22) and 5.0% in Extrafarma (+1.6 p.p. vs. 4Q22). The outstanding channel in the quarter was e-commerce, reaching 58% of digital sales in the period, and growing 95% when compared to 1Q22 (considering the Pague Menos site/app only). The good performance was the result of a significant increase in organic traffic, generated by commercial actions carried out on Big Brother Brazil and the acceleration of the social commerce channel.

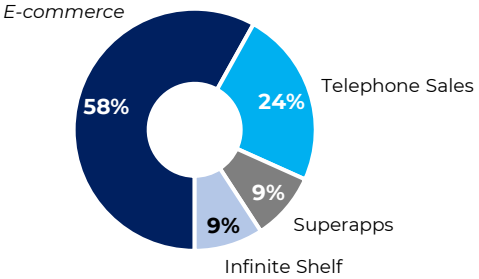
OMNICHANNEL SALES
(BRL million)



OMNICHANNEL SALES
(% of retail revenue)



SALES BY CHANNEL
(% of digital sales 1Q23)



As a result of the strong pace of growth, we expanded our market share of sales among digital pharma channels closing 1Q23 with 12.1% market share. According to IQVIA measurements, the Pague Menos growth rate reached 67% in the quarter, almost double the market average of 36%.

The increased share of e-commerce puts pressure on gross margins, due to the promotional nature of the channel, more dependent on large commercial actions, and its mix of categories. However, the channel has proven to be an efficient lever to increase the customer base, especially in the South and Southeast regions. Given that the retention rate of new customers historically fluctuates at aproximately 60% and that digitized customers in general have a high rate of omnichannel usage, that is, they consume in more than one channel, we consider the growth of e-commerce to be strategic in order to enhance the lifetime value of customers while increasing the active customer base and brand relevance.

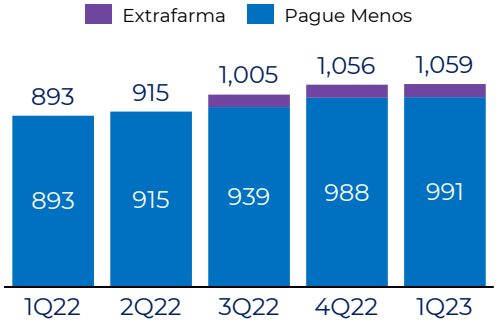
The digital channel participation gap between Pague Menos and Extrafarma was reduced in the quarter, in line with integration planning. The Click and Collect functionality was 100% integrated between the brands in the quarter, so that orders placed on the Pague Menos site/app can already be picked up in Extrafarma stores, and vice versa. In addition, we launched the new Extrafarma website, enabling a convergent user experience for both brands. Within a few weeks after launch, we have already seen a significant increase in order conversion.

HEALTH HUB

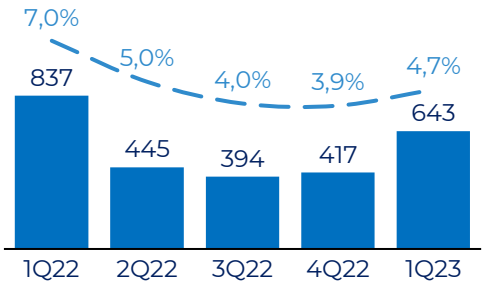
We finished 1Q23 with 1,059 Clinic Farma units, 991 Pague Menos and 68 Extrafarma, which is consolidated as one of the basic health services in Brazil with the greatest capillarity. With the control of the Covid-19 pandemic, Clinic Farma gradually returns to its original purpose of being an important complement to our core business, ceasing to contribute directly to revenue as a business unit and becoming an important lever for loyalty and na increase in average customer spending.

In the quarter, more than 643 thousand visits were made at Clinic Farma, a significant 54% increase compared to 4Q22. The increase is related to the inclusion of low complexity services (blood pressure measurement, blood glucose test, bioimpedance and application of injectables) as benefits for "gold" customers of the *Sempre Bem* (Always Well) loyalty program. Thus, the increase in the volume of services does not generate direct growth in service revenues, but contributes to strengthen our business model. It is important to highlight that, in 1Q23, the average spending of customers who moved through Clinic Farma was approximately 4 times higher than that of other customers, and the conversion rate, measured by the percentage that customers who consumed products on the same day they made came in for visits, reached 80%.

PHARMACEUTICAL CLINICS

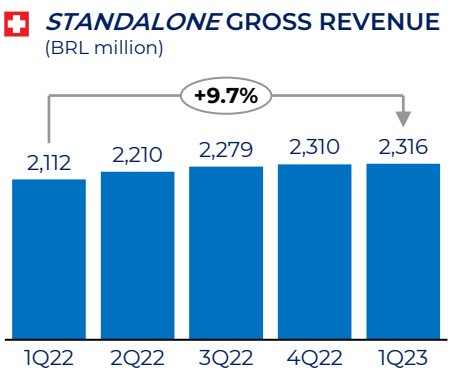


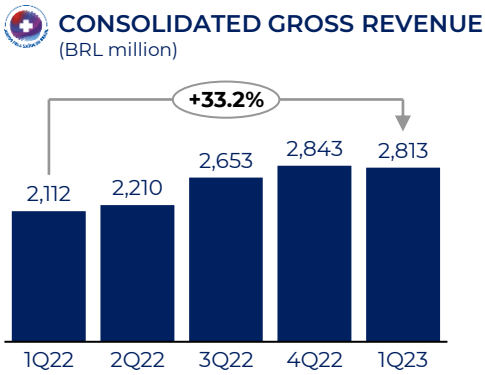
ADHESION TO HEALTH SERVICES
(in thousands of visits and % of total customers)



GROSS **REVENUE**

Consolidated gross revenue reached R$2.8 billion in 1Q23. For Pague Menos standalone, revenue was R$2.3 billion, an increase of 9.7% compared to 1Q22.



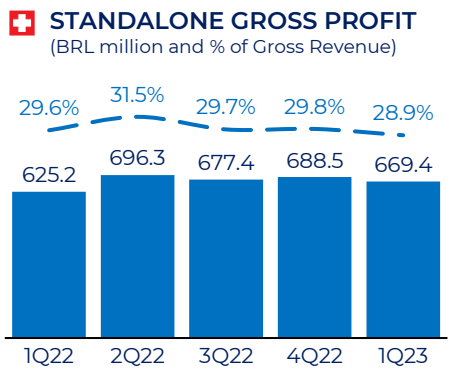


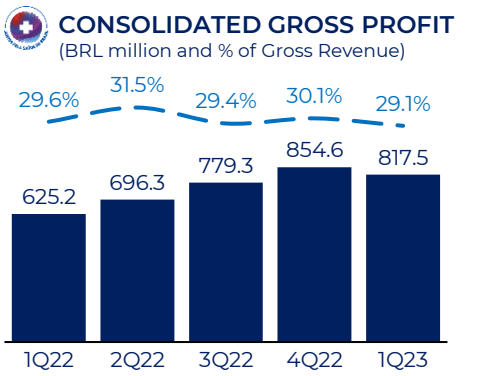
GROSS **PROFIT**

Consolidated gross income totaled BRL 817.5 million in 1Q23. Consolidated gross margin was 29.1%, down 0.5 p.p. year-over-year. In the quarter, we observed distinct margin dynamics in the two brands, with pressure on Pague Menos and improvement for Extrafarma.

The gross margin of Pague Menos standalone was 28.9% in 1Q23, a reduction of 0.7 p.p. compared to 1Q22, the main effects were: 1) a reduction of 0.8 p.p. caused by the reduction in the sale of products and services related to the pandemic, 2) a reduction of 0.4 p.p. caused by the increased participation of digital channels, 3) a growth of 0.2 p.p. due to the increase in the share of generic categories and private labels, and 4) the positive impact of a 0.4 p.p. APV – Adjusted Present Value.

Compared to 4Q22, the gross margin for 1Q23 decreased 0.9 p.p., the main effects were: 1) an increase in the rate of inventory losses of 0.4 p.p. as a result of the concentration of physical inventories in all distribution centers in the period, 2) reduction of 0.3 p.p. due to product mix, and 3) reduction of 0.1 p.p. due to the growth of the participation of the digital channels.





Extrafarma reached a gross margin of 29.8%, up 0.3 p.p. compared to 1Q22. Compared to 4Q22, there was a decrease of 0.7 p.p., the main effects were: 1) reduction of 0.4 p.p. caused by the increase in the participation of the partnerships and agreements *(Convênios)* channel, 2) reduction of 0.3 p.p. due to the growth in participation of the digital channel, 3) increase in the inventory loss rate of 0.3 p.p. due to the seasonal effect of the concentration of physical inventories in distribution centers in the period; and 4) positive effect of the capture of synergies of 0.4 p.p.

The positive signs of margin growth at Extrafarma reinforce our conviction that the brand should stabilize at a level of gross profitability above that of Pague Menos, mainly due to its geographical exposure in regions with better margins.

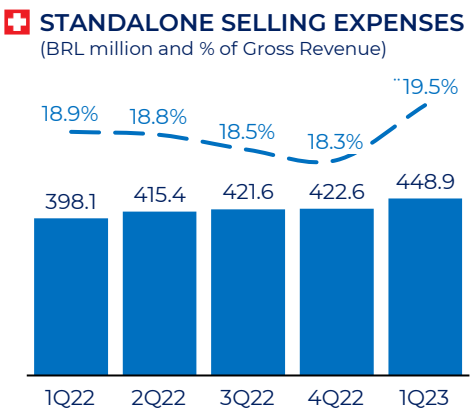
SELLING EXPENSES

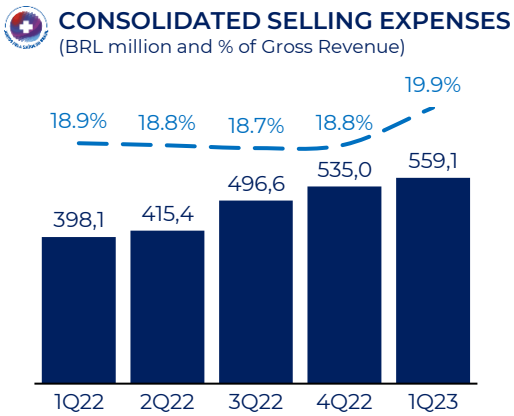
Consolidated selling expenses in the totaled BRL 560.9 million in 1Q23, reflecting the growth in the store base in the period (41.3%) and accumulated inflation. As a percentage of revenue, selling expenses reached 19.9%, an increase of 1.0 p.p. compared to the previous year.

For Pague Menos standalone, selling expenses totaled BRL 450.7 million for the quarter, 13.2% increase compared to 1Q22. As a percentage of revenue, they reached 19.5%, an increase of 0.6 p.p. compared to 1Q22. The growth The growth is mainly related to i) concentration of marketing expenses in 1Q23 due to campaigns carried out in Big Brother Brasil, the main sponsorship event in the current year, contributing with 0.3p.p. compared to 1Q22, which will be compensated over the next quarters; ii) a significant increase in the base of stores in maturation, and iii) partially offset by the significant improvement in store productivity, with an increase in average expenses per store of only 4.3%, below the accumulated inflation in the period.

Compared to 4Q22, the growth in selling expenses was 1.2pp. caused by i) calendar effect of 0.2p.p. with fewer working days of sales; ii) higher investments in marketing; iii) opening of 65 stores in 4Q22 and 1Q23; iv) wage readjustments in relevant locations, especially in Fortaleza, where a significant part of the store portfolio and the Company's main distribution center are concentrated; and v) positive effects with improved productivity and reduced expenses with in-store services.

For Extrafarma, selling expenses were 22.2% of revenue, impacted by sales performance pressured by the logistics and technology integration mentioned above. In March, sales expenses represented 19.3% of revenue, a level that should decrease in the coming quarters with the progressive capture of sales synergies and expense optimization.



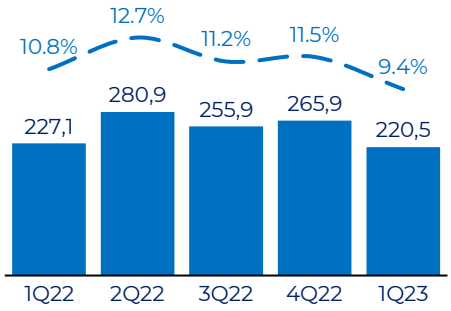


CONTRIBUTION MARGIN

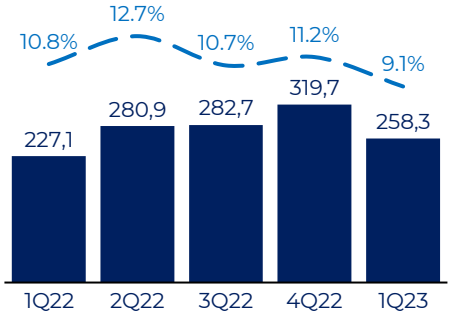
The consolidated contribution margin was 9.1% in the period, down 1.7 p.p. compared to 1Q22 due to pressures on gross margins and selling expenses. For Pague Menos, this margin was 9.4%, while in Extrafarma it was 7.6%.

Aside from seasonality, we consider that the level of operational profitability was impacted by other non-recurring events in the quarter, such as the technological and logistical integration with Extrafarma, mismatch of marketing expenses and the strong growth of digital channels, which should slow down in the coming quarters. As a result, in 2Q23 the operation is expected to return to profitability levels more aligned with our recent track-record.

STANDALONE CONTRIBUTION MARGIN
(BRL million and % of Gross Revenue)



CONSOLIDATED CONTRIBUTION MARGIN
(BRL million and % of Gross Revenue)

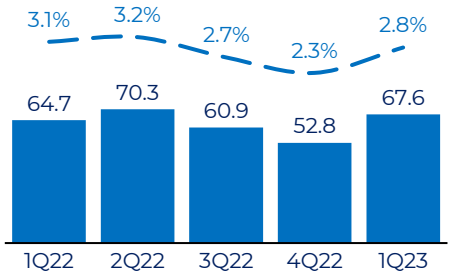


GENERAL AND ADMINISTRATIVE (G&A) EXPENSES

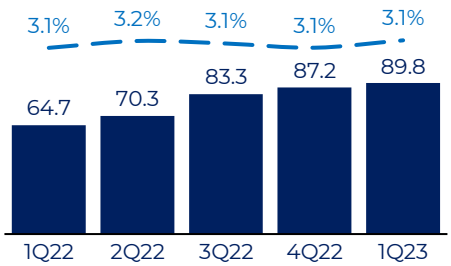
Consolidated general and administrative expenses (G&A) totaled BRL 88.0 million in 1Q23, equivalent to 3.1% of gross revenue, stable when compared to 1Q22. In 1Q23, we recognized a volume of BRL 6.2 million in G&A synergies within the scope of the integration with Extrafarma, related to the integration of Extrafarma's corporate structure, Restructuring of teams and renegotiation of some contracts with suppliers of indirect expenses.

For Pague Menos standalone, G&A expenses totaled BRL 65.8 million in the quarter, equivalent to 2.8% of gross revenue, a reduction of 0.3p.p. compared to 1Q22. The efficiency gain reflects efforts in controlling expenses, intensified since the second half of 2022, partially offset by increasing spending on technological infrastructure, supporting the strong digitalization of our business. Compared to 4Q22, growth of 0.5p.p. is related to the annual wages adjustment in the headquarters, increases with IT expenses and the calendar effect, with fewer working days in the quarter.

STANDALONE G&A EXPENSES
(BRL million and % of Gross Revenue)

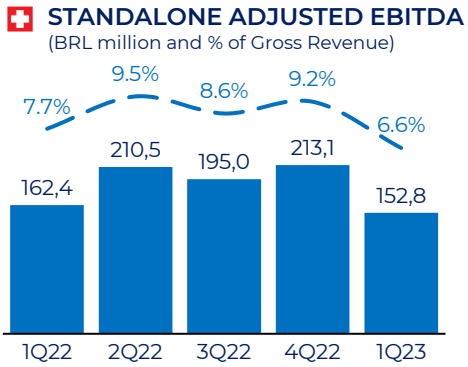


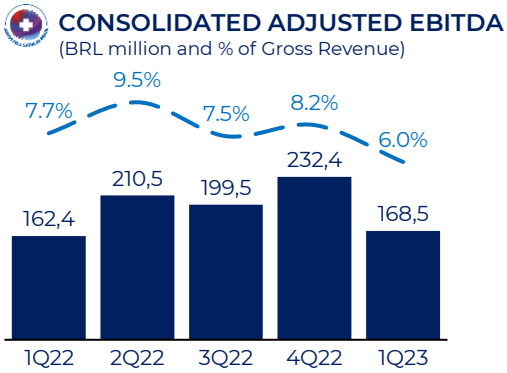
CONSOLIDATED G&A EXPENSES
(BRL million and % of Gross Revenue)



ADJUSTED **EBITDA**

Consolidated adjusted EBITDA in 1Q23 totaled BRL 168.5 million. Adjusted EBITDA margin reached 6.0%, down 1.7 p.p. compared to 1Q22. Excluding the effects of the Extrafarma integration, the standalone adjusted EBITDA margin was 6.6%, down 1.1 p.p. compared to 1Q22.





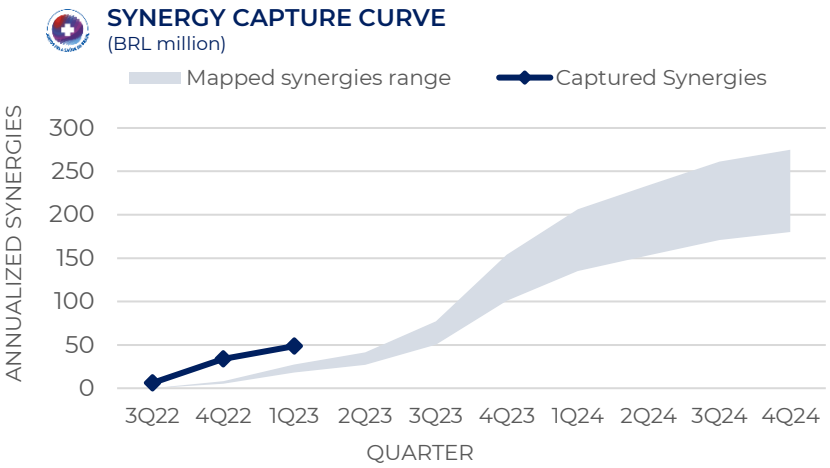
EXTRAFARMA INTEGRATION AND CAPTURE OF SYNERGIES

The integration process with Extrafarma has evolved ahead of projections, with the capture of synergies and operational results of the brand surprising positively.

In 1Q23, we concluded the most critical and complex phase of the integration plan, which involved the migration of systems (takeovers), the redesign of the logistics network for supplying stores and the reorganization of corporate organizational structures. As with any M&A process, the most acute phase of technological transition generates one-off impacts on the operational performance of the business. Considering supply interruptions, learning curves and adaptation of teams and inventory replacement algorithms, we estimate a negative impact on EBITDA for the quarter of BRL 6.4 million caused by integration.

Despite this, Extrafarma's adjusted EBITDA continued to improve, totaling BRL 15.7 million in 1Q23, with a margin of 3.2% of revenue, up 0.2p.p. compared to 4Q22. In the quarter, we recorded a volume of R$ 19.2 million in synergies, partially offset by dyssynergies of BRL 7.1 million, which tend to be substantially reduced from 2Q23 onwards with the post-takeover operational stabilization.

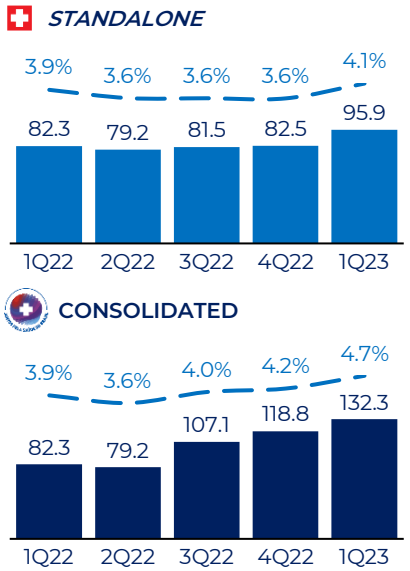
It is also important to highlight that, in March, Extrafarma presented first-time positive EBITDA ex-IFRS16, thus reaching its operational breakeven point.



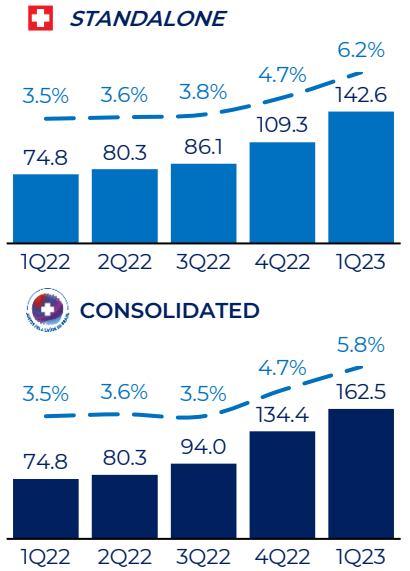
DEPRECIATION, FINANCIAL RESULTS AND INCOME TAX / SOCIAL CONTRIBUTION

Depreciation and amortization totaled BRL 132.3 million in 1Q23, an increase of 60.7% compared to the same period of the previous year (16.5% for Pague Menos standalone), following the growth in the store base due to the acquisition of Extrafarma and the acceleration of investments made throughout 2022. As a percentage of revenue, this expense group reached 4.7% in 1Q23 (4.1% in Pague Menos standalone), pressuring the net margin by 0.8 p.p. in the period (0.2 p.p. in Pague Menos standalone).

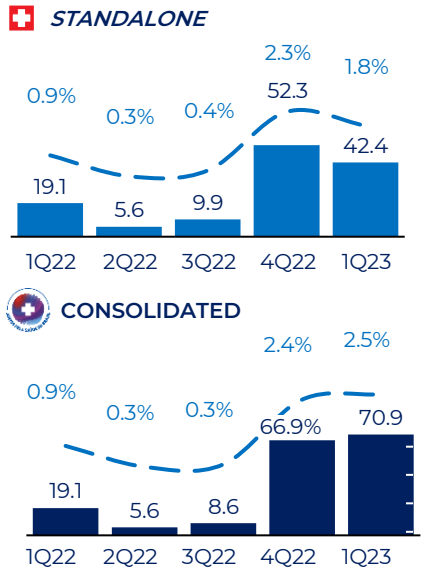
DEPRECIATION AND AMORTIZATION
(BRL million and % of Gross Revenue)



FINANCIAL RESULT
(BRL million and % of Gross Revenue)



INCOME TAX
(BRL million and % of Gross Revenue)



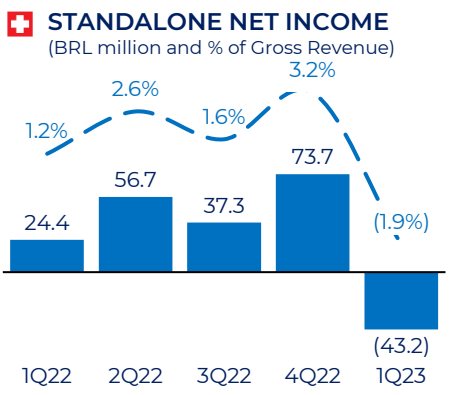
Financial results reached BRL 162.5 million in 1Q23, equivalent to 5.8% of consolidated gross revenue. In relation to the previous year, there was important growth of R$ 87.7 million, due to the increase in financial leverage and the basic interest rate in the period, higher volume of expenses with anticipation of receivables to finance investments in inventories, adjustment to present value of assets and liabilities and increases in recognition of lease interest, in line with the growth of the store base in the period. Starting in 2Q23, we project the beginning of the financial deleveraging cycle, with a significant reduction in the average days of inventory, a decrease in the volume of anticipations of receivables and the beginning of the process of reducing gross debt.

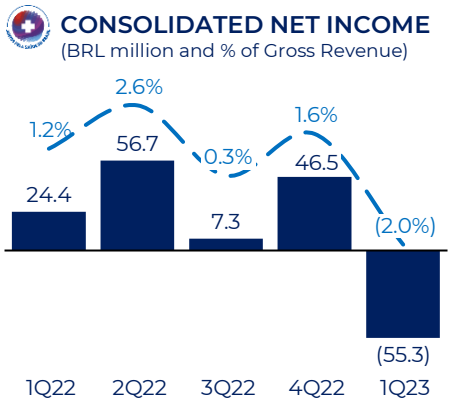
In 1Q23, we recorded a deferred income tax of BRL 70.9 million, due to the Reduction of taxable income recorded by Pague Menos in the period and the eginning of recognition of deferred taxes for Extrafarma, due to the improvement in the Company's future income prospects.

ADJUSTED NET **INCOME**

In 1Q23, we recorded an adjusted negative net result of BRL 55.3 million, with a negative net margin of 2.0%, which represents a decrease of 3.2 p.p. When compared to 1Q22.

As previously mentioned, we consider the operating result for the quarter as atypical due to events concentrated in the weakest seasonal period of the year, that tend to be compensated in coming quarters. Starting in 2Q23 we expect a normalization of the cash cycle, with important reductions in inventories and the beginning of a Cycle of financial deleveraging, which should continue to reduce the pressure of financial expenses on earnings.





ADJUSTED INCOME **RECONCILIATION**

For a better understanding and comparability with previous periods, the results for 4Q22 were adjusted in order to purge non-recurring events related to the acquisition of Extrafarma. We present below the details of the adjustments made, as well as their respective impacts on earnings. The complete reconciliation of the accounting and adjusted result is presented in Annex 1 of this release.

Description of Adjustment	Net effect on standalone result		Net effect on consolidated result	
	1Q22	1Q23	1Q22	1Q23
Net Accounting Income	**23.4**	**(62.8)**	**23.4**	**(62.8)**
Non-recurring expenses related to closing of the transaction	1.4	1.8	1.4	2.9
Organizational restructuring	-	-	-	1.6
Provisions for interest on installments payable for the transaction	-	12.4	-	12.4
Revenue from the sale owned fleet of vehicles	-	-	-	(5.6)
Exclusion of Extrafarma equity method from standalone result	-	10.2	-	-
Effect on IRPJ and CSLL taxes of adjustments	(0.5)	(4.8)	(0.5)	(3.9)
Total - Effect on Net Income	**0.9**	**19.6**	**0.9**	**7.5**
Adjusted Net Income	**24.4**	**(43.2)**	**24.4**	**(55.3)**

CASH CYCLE

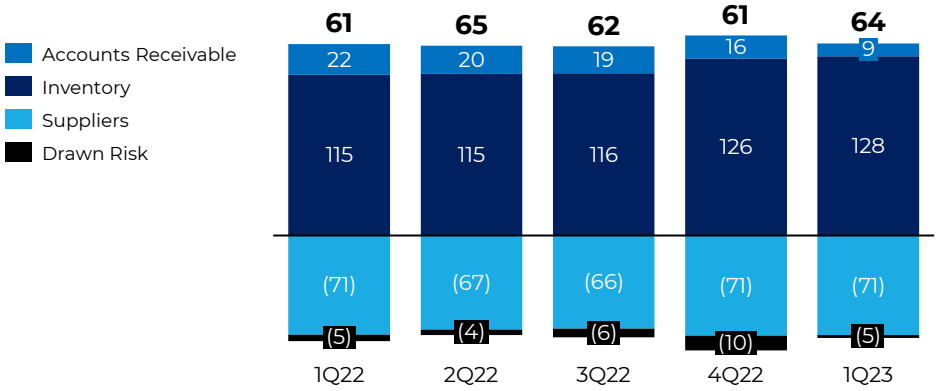
In 1Q23, the Company's operating cash cycle stood at 65 days, an increase of 4 days when compared to both 1Q22 and 4Q22. The level of inventories reached 129 days, as a result of the logistics integration process with Extrafarma. During the past few quarters, approximately 340 stores in 10 different states have undergone supply network changes, which have led to "temporary doubling" of guaranteed inventories among the DCs involved. In addition, the logistics transition process occasionally affects inventory turnover, which tends to normalize in subsequent months.

Considering that the logistics integration process was completed in March, the expectation is that starting in the second quarter there will be a relevant normalization in the level of inventories, contributing to the deleveraging of the cash cycle. It is important to note that the temporary pressure on working capital in 4Q22 and 1Q23 had been foreseen in the integration schedule.

Another important movement in 1Q23 was the significant reduction in the share of drawn risk operations by suppliers, a reduction from 10 days of participation in 4Q22 to 5 days in 1Q23.

The increase of 2 days in the inventories and the reduction of 8 days in the PMP/ Drawn Risk operations was financed with the reduction of 7 days in the PMR, through anticipation of receivables. As mentioned above, we project a reduction in the SME staring in 2Q23 and the consequent partial recomposition of the receivables balance.

CONSOLIDATED CASH CYCLE [6]
(in days of COGS and days of Gross Revenue)

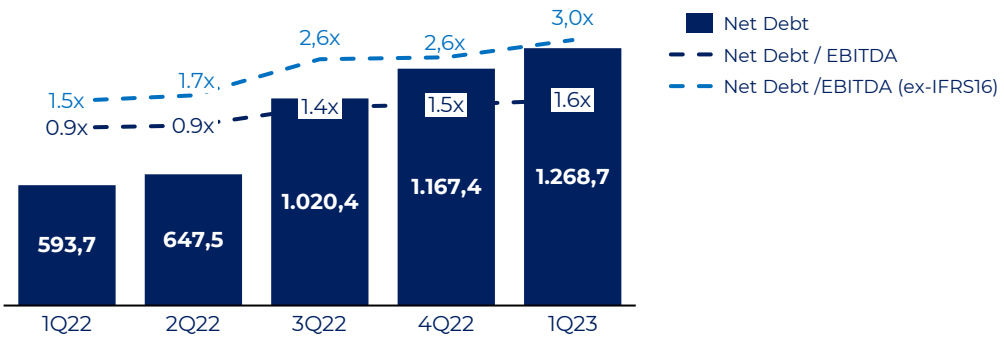


DEBT

Consolidated net debt totaled BRL 1,268.7 million at the end of 1Q23, equivalent to 1.6x the adjusted EBITDA of the last 12 months (3.0x when the effects of IFRS 16 are disregarded). Within the context of the integration with Extrafarma, the increase in leverage in the period was already planned and should be gradually reduced starting in 2Q23.

Over the coming quarters, multiple levers will be worked to contribute to the generation of cash and consequent reduction in the debt ratio, here we highlight: i) normalization of the operating cash cycle; ii) capture of Extrafarma synergies; iii) monetization of tax credits; and iv) reduction in capex investments.

CONSOLIDATED NET DEBT [7]
(in BRL million and multiple of EBITDA)



[6] The calculation of the Average Term of Inventories and the Average Term of Payment of Suppliers disregards the effects of Adjustment to Current Value, commercial agreements and recoverable taxes.

[7] Forfait operations, shown in Note 15 to the Financial Statements, are being considered as suppliers and disregarded from the debt calculations, for the purposes of this release

CASH FLOW

In 1Q23, we recorded negative free cash flow of BRL 17.2 million, due to the reduction in operating cash generation and maintenance of the high level of inventories. As of 2Q23, with the normalization of the operating cash cycle, we project a progressive growth in cash generation and, consequently, financial deleveraging.

Cash Flow Management (BRL milhões)	1Q22	1Q23
Consolidated EBITDA	**161.0**	**169.3**
(-) Lease Payments (IFRS 16)	(79.0)	(113.9)
(Δ) Accounts receivable	14.5	220.6
(Δ) Inventory	(11.0)	(15.0)
(Δ) Suppliers	(26.3)	0.8
(Δ) Drawn Risk Operations	(26.5)	(130.9)
(Δ) Recoverable Taxes	(15.3)	(44.0)
(+/-) Variation of other Assets and Liabilities / Non Cash	15.6	(66.2)
(=) Cash Flow from Operations	**33.0**	**20.8**
(-) Capital Investiments	(55.6)	(38.0)
(=) Cash Flow from Investments	**(55.6)**	**(38.0)**
Free Cash Flow	**(22.6)**	**(17.2)**
(+) Gross debt raised	-	123.1
(-) Payment on Gross Debt	(123.4)	(58.2)
(-) Debt Service	(16.3)	(75.1)
(-) Share Repurchases / Payment of capital	(5.4)	68.6
(+) Dividends and JCP (Interest on Capital) paid (received)	-	(79.1)
(=) Cash Flow from Financing	**(145.1)**	**(20.7)**
Opening Balance, Cash, Equivalents and Financial Investments	654.1	168.1
Closing Balance, Cash, Equivalents and Financial Investments	486.5	130.2
Variation of Cash and Equivalents	**(167.7)**	**(37.9)**

INVESTMENTS

In 1Q23, we recorded capex of BRL 38 million, mainly destined to investment needs related to stores opened at the end of the previous quarter. The volume of investments represented a reduction of 32% compared to the same period of the previous year, reflecting the prioritization of capital allocation for integration with Extrafarma, especially investments in inventories.

Capex (BRL million)	1Q22	%	1Q23	%
Expansion	22.1	40%	20.0	53%
Store Renovations	10.8	19%	6.6	17%
Technology	18.8	34%	5.4	14%
Store Infrastructure, DCs and offices	3.9	7%	6.0	16%
Total	**55.6**	**100%**	**38.0**	**100%**

APPENDIX 1: **INCOME STATEMENT**

On January 1, 2019, CPC 6-R2 (IFRS 16), which changed the accounting recognition model of lease agreements, went into effect. To preserve historical comparability, below is the reconciliation according to the previous standard (IAS 17/CPC 06).

PAGUE MENOS STANDALONE FINANCIAL STATEMENT

Income Statement (BRL million)	IAS 17			IFRS16		
	1Q22	1Q23	Δ	1Q22	1Q23	Δ
Gross Revenue	**2,111.5**	**2,315.9**	**9.7%**	**2,111.5**	**2,315.9**	**9.7%**
Deductions	(138.7)	(149.4)	7.7%	(138.7)	(149.4)	7.7%
Net Revenue	**1,972.9**	**2,166.5**	**9.8%**	**1,972.9**	**2,166.5**	**9.8%**
Cost of Goods Sold	(1,347.7)	(1,497.1)	11.1%	(1,347.7)	(1,497.1)	11.1%
Gross Profit	**625.2**	**669.4**	**7.1%**	**625.2**	**669.4**	**7.1%**
Gross Margin	*29.6%*	*28.9%*	*(0.7p.p.)*	*29.6%*	*28.9%*	*(0.7p.p.)*
Sales Expenses	(477.1)	(538.1)	12.8%	(398.1)	(450.7)	13.2%
Contribution Margin	**148.1**	**131.3**	**(11.4%)**	**227.1**	**218.7**	**(3.7%)**
Contribution Margin (%)	*7.0%*	*5.7%*	*(1.3p.p.)*	*10.8%*	*9.4%*	*(1.4p.p.)*
General and administrative expenses	(64.7)	(65.8)	1.8%	(64.7)	(65.8)	1.8%
Adjusted EBITDA	**83.4**	**65.4**	**(21.5%)**	**162.4**	**152.8**	**(5.9%)**
Adjusted EBITDA Margin	*3.9%*	*2.8%*	*(1.1p.p.)*	*7.7%*	*6.6%*	*(1.1p.p.)*
Depreciation and amortization	(28.2)	(33.9)	20.0%	(82.3)	(95.9)	16.5%
Financial Earnings	(40.5)	(103.7)	156.0%	(74.8)	(142.6)	90.7%
Earnings before Income Tax	**14.6**	**(72.2)**	**-**	**5.2**	**(85.7)**	**-**
Income Tax and Social Contribution	15.9	37.9	137.7%	19.1	42.4	122.0%
Adjusted Net Income	**30.5**	**(34.4)**	**-**	**24.4**	**(43.2)**	**-**
Adjusted Net margin	*1.4%*	*(1.5%)*	*(2.9p.p.)*	*1.2%*	*(1.9%)*	*(3.1p.p.)*

PAGUE MENOS CONSOLIDATED FINANCIAL STATEMENT

Income Statement (BRL million)	IAS 17			IFRS16		
	1Q22	1Q23	Δ	1Q22	1Q23	Δ
Gross Revenue	**2,111.5**	**2,813.2**	**33.2%**	**2,111.5**	**2,813.2**	**33.2%**
Deductions	(138.7)	(177.2)	27.8%	(138.7)	(177.2)	27.8%
Net Revenue	**1,972.9**	**2,636.1**	**33.6%**	**1,972.9**	**2,636.1**	**33.6%**
Cost of Goods Sold	(1,347.7)	(1,818.6)	34.9%	(1,347.7)	(1,818.6)	34.9%
Gross Profit	**625.2**	**817.5**	**30.8%**	**625.2**	**817.5**	**30.8%**
Gross Margin	*29.6%*	*29.1%*	*(0.5p.p.)*	*29.6%*	*29.1%*	*(0.5p.p.)*
Selling Expenses	(477.1)	(674.8)	41.4%	(398.1)	(560.9)	40.9%
Contribution Margin	**148.1**	**142.6**	**(3.7%)**	**227.1**	**256.5**	**13.0%**
Contribution Margin (%)	*7.0%*	*5.1%*	*(1.9p.p.)*	*10.8%*	*9.1%*	*(1.7p.p.)*
General and administrative expenses	(64.7)	(88.0)	36.0%	(64.7)	(88.0)	36.0%
Adjusted EBITDA	**83.4**	**54.6**	**(34.5%)**	**162.4**	**168.5**	**3.8%**
Adjusted EBITDA Margin	*3.9%*	*1.9%*	*(2.0p.p.)*	*7.7%*	*6.0%*	*(1.7p.p.)*
Depreciation and amortization	(28.2)	(50.6)	79.3%	(82.3)	(132.3)	60.7%
Financial Earnings	(40.5)	(115.0)	183.9%	(74.8)	(162.5)	117.3%
Earnings before Income Tax	**14.6**	**(111.1)**	**-**	**5.2**	**(126.3)**	**-**
Income Tax and Social Contribution	15.9	65.7	312.8%	19.1	70.9	271.0%
Minority Interest	0.0	0.1	-	0.0	0.1	-
Adjusted Net Income	**30.5**	**(45.3)**	**-**	**24.4**	**(55.3)**	**-**
Adjusted Net margin	*1.4%*	*(1.6%)*	*(3.0p.p.)*	*1.2%*	*(2.0%)*	*(3.2p.p.)*

APPENDIX 2: **BALANCE SHEET**

CONSOLIDATED BALANCE SHEET

Balance	IFRS16		
(BRL million)	12/31/2021	12/31/2022	Δ
Total Assets	**8,597.4**	**8,439.1**	**-1.8%**
Current Assets	**4,127.9**	**3,959.5**	**-4.1%**
Cash and Cash Equivalents	168.1	130.2	-22.6%
Accounts receivable from Clients	505.5	288.5	-42.9%
Inventory	3,029.2	3,029.6	0.0%
Recoverable Taxes	244.0	264.2	8.3%
Other Current Assets	181.1	246.9	36.3%
Non-Current Assets	**4,469.5**	**4,479.7**	**0.2%**
Long-term receivables	1,073.7	1,174.8	9.4%
Investments	76.3	75.1	-1.5%
Fixed Assets	1,044.8	1,032.7	-1.2%
Rights of use under lease	2,054.5	1,981.3	-3.6%
Intangible	220.2	215.8	-2.0%
Total Liabilities	**8,597.4**	**8,439.1**	**-1.8%**
Current Liabilities	**2,935.8**	**2,798.0**	**-4.7%**
Social and Labor Obligations	158.5	171.0	7.9%
Suppliers	1,590.4	1,590.9	0.0%
Forfait Operations	237.9	107.0	-55.0%
Tax Obligations	167.2	172.7	3.2%
Loans, financing and debentures	234.9	224.0	-4.6%
Other Obligations	233.6	234.6	0.4%
Commercial leasing	313.3	297.9	-4.9%
Non-Current Liabilities	**3,318.6**	**3,354.7**	**1.1%**
Loans, financing and debentures	1,100.6	1,174.9	6.8%
Tax Obligations	6.0	5.7	-4.7%
Commercial leasing	1,926.2	1,883.5	-2.2%
Provisions	90.9	89.9	-1.1%
Other Bills Payable	194.9	200.6	2.9%
Equity	**2,343.0**	**2,286.4**	**-2.4%**
Paid-up Share Capital	1,199.2	1,199.2	0.0%
Capital Reserves	391.9	456.0	16.4%
Profit Reserves	764.4	702.9	-8.0%
Treasury Shares	-21.0	-17.3	-17.7%
Non-controlling interests	8.4	8.3	-1.1%

APPENDIX 3: **RECONCILIATION OF ADJUSTED EARNINGS**

Adjusted Financial Statement Reconciliation (BRL million)	STANDALONE			CONSOLIDATED		
	1Q23 Accounting	Non-Recurring Adjustments	1Q23 Adjusted	1Q23 Accounting	Non-Recurring Adjustments	1Q23 Adjusted
Gross Revenue	**2,376.7**	**(60.8)**	**2,315.9**	**2,813.2**	**-**	**2,813.2**
Deductions	(155.6)	6.3	(149.4)	(192.9)	15.7	(177.2)
Net Revenue	**2,221.0**	**(54.5)**	**2,166.5**	**2,620.4**	**15.7**	**2,636.1**
Cost of Goods Sold	(1,551.7)	54.5	(1,497.1)	(1,803.0)	(15.6)	(1,818.6)
Gross Profit	**669.4**	**0.0**	**669.4**	**817.4**	**0.0**	**817.5**
Selling Expenses	(449.3)	(1.4)	(450.7)	(555.2)	(5.7)	(560.9)
General and Administrative Expenses	(79.5)	13.6	(65.8)	(92.9)	4.9	(88.0)
Depreciation and amortization	(95.9)	-	(95.9)	(132.3)	-	(132.3)
Operating Results	**44.7**	**12.2**	**57.0**	**37.0**	**(0.8)**	**36.3**
Financial Earnings	(154.8)	12.2	(142.6)	(174.7)	12.2	(162.5)
Income Before Income Tax	**(110.1)**	**24.4**	**(85.7)**	**(137.7)**	**11.4**	**(126.3)**
Income Tax and Social Contribution Tax	47.3	(4.8)	42.4	74.8	(3.9)	70.9
Minority Interest	-	-	-	0.1	-	0.1
Net Income	**(62.8)**	**19.6**	**(43.2)**	**(62.8)**	**7.6**	**(55.3)**

APPENDIX 4: **EBITDA RECONCILIATION**

Adjusted Financial Statement Reconciliation (BRL million)	STANDALONE			CONSOLIDATED		
	1Q23 Accounting	Non-Recurring Adjustments	1Q23 Adjusted	1Q23 Accounting	Non-Recurring Adjustments	1Q23 Adjusted
Net Income	**(62.8)**	**19.6**	**(43.2)**	**(62.8)**	**7.6**	**(55.3)**
(+) Financial Earnings	154.8	(12.2)	142.6	174.7	(12.2)	162.5
(+) Income Tax and Social Contribution Tax	(47.3)	4.8	(42.4)	(74.8)	3.9	(70.9)
(+) Depreciation and Amortization	95.9	-	95.9	132.3	-	132.3
Minority Interest	-	-	-	(0.1)	-	(0.1)
EBITDA	**140.6**	**12.2**	**152.8**	**169.3**	**(0.8)**	**168.5**

APPENDIX 5: REGIONAL **DISTRIBUTION OF STORES**

State / Region (# Stores)	1Q22	Organic expansion	Inorganic expansion	Closings	1Q23
Total	**1,169**	**112**	**399**	**33**	**1,647**
Northeast	**723**	**76**	**222**	**16**	**1,005**
Alagoas	33	4	-	-	37
Bahia	129	12	20	1	160
Ceará	184	17	91	9	283
Maranhão	70	9	57	3	133
Paraíba	54	5	4	-	63
Pernambuco	127	16	34	1	176
Piauí	39	4	-	-	43
Rio Grande Do Norte	50	4	16	2	68
Sergipe	37	5	-	-	42
North	**115**	**6**	**135**	**7**	**249**
Acre	14	1	-	-	15
Amapá	7	-	11	-	18
Amazonas	22	-	-	1	21
Pará	34	2	121	6	151
Rondônia	13	-	-	-	13
Roraima	11	1	-	-	12
Tocantins	14	2	3	-	19
Southeast	**193**	**16**	**42**	**8**	**243**
Espírito Santo	25	-	-	1	24
Minas Gerais	61	8	-	1	68
Rio De Janeiro	19	-	-	1	18
São Paulo	88	8	42	5	133
Center-West	**97**	**14**	**-**	**2**	**109**
Distrito Federal	16	-	-	1	15
Goiás	28	1	-	-	29
Mato Grosso	25	10	-	-	35
Mato Grosso do Sul	28	3	-	1	30
South	**41**	**-**	**-**	**-**	**41**
Paraná	15	-	-	-	15
Rio Grande Do Sul	7	-	-	-	7
Santa Catarina	19	-	-	-	19

JUNTOS PELA SAÚDE DO BRASIL

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CONFERENCE CALL
May 09, 2023
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