

## SECOND QUARTER 2016 FINANCIAL REPORT

**SIGMA reports 2Q16 EBITDA of U.S. \$169 million**



### Operations

During 2Q16, Sigma sold approximately 430 thousand tons of food products, up 1% from 2Q15. The increase was mainly due to higher sales volumes in Europe, while volumes in Mexico and the U.S. were similar to the same period of the prior year. Sigma's 2Q16 average sales prices in dollars decreased 3% when compared to 2Q15, mainly due to the stronger U.S. Dollar exchange rate against the Mexican Peso. Excluding this effect, average prices increased 4%.

### Financial results

2Q16 Revenues totaled U.S. \$1,445 million, down 2% year-on-year. The main reason for the decline was the 18% depreciation of the Mexican peso during the period, as it negatively affected peso revenues when translated into U.S. dollars. Excluding this factor, Sigma's 2Q16 revenues increased 5% year-on-year. Sales in Mexico accounted for 41% of the quarter's total, while Europe represented 37%, the U.S. 15%, and Latin America 7%. During the first half of 2016, revenues amounted to U.S. \$2,799 million, down 4% when compared to 1H2015, primarily for the same reason.

2Q16 Operating Income and EBITDA were U.S. \$120 million and U.S. \$169 million, down 27% and 20% year-on-year, respectively. There were two reasons behind the decrease: first, the absence of a U.S. \$28 million non recurring gain reported in 2Q15, which related to insurance proceeds on the Burgos plant fire; second, the 18% peso depreciation already mentioned. Excluding these factors, Sigma's 2Q16 Operating Income and EBITDA would have been down 4% but up 2% year-on-year, respectively. While the Mexican results measured in U.S. dollars were negatively impacted by the peso depreciation, the European business showed improvements despite not enjoying the flexibility and cost competitiveness the new plant being built is expected to bring to the operations, nor having the business interruption insurance coverage in place as in 2015. Without this effect, EBITDA increased 11%. Year-to-date, Operating Income and EBITDA amounted to U.S. \$238 million and U.S. \$331 million, down 15% and 11%, respectively, for the same reasons.

### Capital expenditures and acquisitions; net debt

During 2Q16, capital expenditures totaled U.S. \$55 million. This includes U.S. \$18 million for construction of the new plant in Burgos, Spain, which is scheduled to begin operations in November. The rest was invested in other fixed assets and minor projects throughout the company.

At the end of 2Q16, Net Debt was U.S. \$1,935 million, down U.S. \$117 million from 2Q15. Strong cash flow generation in the period more than offset dividend payments and M&A investments which totaled U.S. \$185 million from 2Q15 to 2Q16. Financial ratios at the end of 2Q16 were: Net Debt to EBITDA, 2.3 times; Interest Coverage, 7.8 times. These ratios compare favorably with those reported in 2Q15, which were 2.7 times and 6.6 times, respectively.

### Industry comments

In the U.S., average consumer confidence during 2Q16 was 1% lower than both 2Q15 and 1Q16, as reported by The Conference Board. Food retail sales reported by the U.S. Census Bureau, increased 2% year-on-year, a figure lower than the 3% growth in 2Q15 year-on-year. In Mexico, according to INEGI, the average consumer confidence index during 2Q16 was 2% lower when compared with 2Q15 but 1% up when compared to 1Q16. By contrast, according to the National Association of Supermarkets and Department Stores (ANTAD), 2Q16 supermarket same store sales grew 6% year-on-year in nominal pesos, a figure higher than the 4% growth in 2Q15 year-on-year, but lower than the 7% growth in 1Q16 year-on-year. Lastly, Europe's average consumer confidence index reported in 2Q16 by the European Commission changed from -5.1 to -7.9 year-on-year.

During 2Q16, the price of some of Sigma's key raw materials remained below 2Q15 levels in the Americas. Specifically, turkey breasts and thighs were 38% and 24% lower, respectively, while milk was approximately 13% lower. By contrast, pork prices were 13% higher, although they still were below record high levels in 2013 and 2014. In Europe, pork prices, Sigma's most relevant raw material in the region, were 4% lower year-on-year.

While Mexican packaged food producers such as Sigma have been enjoying this favorable environment, the strengthening of the U.S. Dollar vis-a-vis the Mexican Peso has offset much of the potential cost savings as an important part of raw materials are sourced outside Mexico.

**TABLE 1 | VOLUME AND PRICE CHANGES (%)**

	2Q16 vs.		YTD. '16 vs.
	1Q16	2Q15	YTD. '15
Total Volume	6.6	1.0	0.5
Avg. U.S. \$ Prices	0.1	(3.5)	(4.7)

**TABLE 2 | SELECTED FINANCIAL INFORMATION (U.S. \$ MILLIONS)**

	(% ) 2Q16 VS.							
	2Q16	1Q16	2Q15	1Q16	2Q15	YTD. '16	YTD. '15	Ch. %
REVENUES	1,445	1,354	1,481	7	(2)	2,799	2,920	(4)
OPERATING INCOME	120	118	165	2	(27)	238	280	(15)
EBITDA	169	163	211	4	(20)	331	373	(11)

**TABLE 3 | SELECTED BALANCE SHEET INFORMATION & FINANCIAL RATIOS (U.S. \$ MILLIONS)**

	2Q16	1Q16	2Q15	YTD. '16	YTD. '15
Assets	4,794	4,977	4,658	4,794	4,658
Liabilities	3,971	4,028	4,054	3,971	4,054
Stockholders' Equity	823	949	604	823	604
Majority Equity	793	918	581	793	581
Net Debt	1,935	1,955	2,052	1,935	2,052
Net Debt/EBITDA*	2.3	2.2	2.7	2.3	2.7
Interest Coverage*	7.8	8.9	6.6	7.8	6.6

\* Times: LTM = Last 12 months

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