

SECOND QUARTER 2017 REPORT



Sigma is a leading global company in the refrigerated food industry, focused on the production, marketing and distribution of packaged meats, cheese, yogurt and other refrigerated and frozen foods. Sigma has a diversified portfolio of leading brands and operates in 17 countries, with 68 plants across its four key regions: Mexico, Europe, the United States, and Latam.

Operations

During 2Q17, Sigma sold approximately 436 thousand tons of food products, up 2% from 2Q16, supported by growth in Mexico and USA. In dollar terms, average prices increased 2% year-on-year average mainly due to higher prices in Mexico and Europe.

Financial results

2Q17 Revenues totaled U.S. \$1,503 million, 4% higher than 2Q16, driven by higher sales volume and prices. In Mexico, sales in pesos were 10% higher year-on-year, reflecting higher sales volumes and price adjustments to absorb higher raw material costs. In Europe, sales in euros were 3% above 2Q16 driven by higher prices. In the U.S., sales increased 3% year-on-year.

Sales in Mexico accounted for 42% of the quarter's total, while Europe represented 34%, the U.S. 17%, and Latin America 7%. During the first half of 2017, revenues were U.S. \$2,853 million, up 2% when compared to the same period of 2016.

In line with full year guidance, Operating Income and EBITDA were U.S. \$116 million and U.S. \$167 million in 2Q17, down 3% and 1% year-on-year, respectively. This was primarily due to a strong performance from Mexican operations which benefitted from a more favorable currency environment and positive results in Europe, despite start-up costs of the new Burgos plant in Spain. In the U.S., results were affected by a lag between price adjustments and the recent cost increases on raw materials.

Capital expenditures and acquisitions; net debt

During 2Q17, capital expenditures totaled U.S. \$50 million, funds were utilized for the new plant in Burgos, Spain, other fixed assets and minor projects across the company.

On June 28, 2017 Sigma announced the acquisition of Sociedad Suizo Peruana de Embutidos, S.A. (SUPEMSA), a Peruvian company engaged in the production and sale of packaged meats and dairy products. With 2016 revenue of U.S. \$ 54 million, SUPEMSA is a leader in the production of premium packaged meats, with more than 25 years of successfully marketing its products under highly recognized local brands such as Otto Kunz and La Segoviana. The acquisition was effective July 1st, 2017.

Sigma's consistent cash flow generation enables the company to finance capital expenditures and to maintain a solid financial position. At the end of 2Q17, Net Debt was U.S. \$1,940 million, similar to 2Q16. Financial ratios at the end of 2Q17 were: Net Debt to EBITDA, 3.1 times; Interest Coverage, 4.4 times. These ratios compare with those reported in 2Q16, of 2.3 times and 7.8 times, respectively, which includes insurance income in EBITDA from the Bureba Fire.

Industry comments

During 2Q17, the consumer markets were mixed across Sigma's main regions of operations. In Mexico, the average consumer confidence index reported by INEGI (Instituto Nacional de Estadística y Geografía – National Institute for Statistics and Geography) was down 6% year-on-year, but up 15% when compared to 1Q17. On the other hand, 2Q17 same-store sales reported by the National Association of Supermarkets and Department Stores (ANTAD) increased 5.7% year-on-year in nominal pesos. In Europe, according to the European Commission, the average consumer confidence index for 2Q17 improved to negative 2.7, reaching a 10-year high. In the U.S., the index increased to 118.6 in 2Q17 as reported by The Conference Board, the highest since 2000. Food retail sales reported by the U.S. Census Bureau increased 2% year-on-year, below the 3% year-on-year growth in 1Q17.

Key raw material prices were mixed during the quarter and varied by region. In the Americas, the price of Sigma's raw materials increased when compared to 2Q16 levels. Turkey thigh and milk prices were up 14% and 11%, respectively, although they were still below the record-high levels observed in 2013 and 2014. Conversely, turkey breast was 34% lower, while pork hams were slightly lower than last year. In Mexico, the recent appreciation of the Peso vis-a-vis the U.S. Dollar has eased the pressure in the cost of raw materials, as the industry participants import most of its meats from the U.S. In Europe, pork prices have increased since second half of 2016, which resulted in 2Q17 prices 26% above the same year-ago period.

TABLE 1 | VOLUME AND PRICE CHANGES (%)

	2Q17 vs.		YTD. '17 vs.
	1Q17	2Q16	YTD. '16
Total Volume	5.2	2.0	2.6
Avg. U.S. \$ Prices	5.9	2.1	(0.6)

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

	(% 2Q17 VS.)							
	2Q17	1Q17	2Q16	1Q17	2Q16	YTD.17	YTD.16	Ch.%
REVENUES	1,503	1,350	1,445	11	4	2,853	2,799	2
OPERATING INCOME	116	85	120	37	(3)	201	238	(15)
EBITDA	167	135	169	23	(1)	302	331	(9)

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

	2Q17	1Q17	2Q16
Assets	5,207	4,951	4,794
Liabilities	4,328	4,161	3,971
Stockholders' Equity	879	790	823
Majority Equity	847	760	793
Net Debt	1,940	1,838	1,935
Net Debt/EBITDA*	3.1	2.9	2.3
Interest Coverage*	4.4	4.2	7.8

* Times: LTM = Last 12 months

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