



Sigma is a leading multinational company in the refrigerated food industry, focused on the production, marketing and distribution of quality branded foods, including packaged meats, cheese, yogurt and other refrigerated and frozen foods. Sigma has a diversified portfolio of leading brands and operates in 17 countries, with 67 plants across its four key regions: Mexico, Europe, the United States, and Latam.

Operations

During 1Q17, Sigma sold approximately 413,000 tons of food products, up 3% from 1Q16, supported by growth across all regions, with Mexico a notable standout.

Financial results

1Q17 Revenues totaled U.S. \$1,350 million, in line with 1Q16, affected by the strong U.S. Dollar average exchange rate, which rose 13% year-on-year against the Mexican Peso. Excluding the FX impact, revenues increased 3%. In Mexico, sales in pesos were 12% 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 1Q16 driven by higher sales volume. In the U.S., sales were comparable to last year.

Sales in Mexico accounted for 41% of the quarter's total, while Europe represented 36%, the U.S. 15%, and Latin America 8%.

In line with guidance, Operating Income and EBITDA were U.S. \$85 million and U.S. \$135 million in 1Q17, down 28% and 17% year-on-year, respectively, when compared to a particularly strong 1Q16. In Mexico, results were impacted by the conversion effect when translated into U.S. dollars, and a lag between price adjustments and continuous cost increases on raw materials related to exchange rates. In the U.S., we incurred ramp-up costs of a new bacon facility in addition to short term impacts on margins related to fast increases of bacon costs. In Europe, start-up costs of the new Burgos plant in Spain also contributed to lower results.

Capital expenditures and acquisitions; net debt

During 1Q17, capital expenditures totaled U.S. \$33 million. Funds were utilized for the finalization of the new plant in Burgos, Spain, other fixed assets and minor projects across the company.

Sigma's consistent cash flow generation has allowed it to finance capital expenditures and to maintain a solid financial position. At the end of 1Q17, Net Debt was U.S. \$1,838 million, down U.S. \$117 million from 1Q16. Financial ratios at the end of 1Q17 were: Net Debt to EBITDA, 2.9 times; Interest Coverage, 4.2 times. These ratios compare with those reported in 1Q16, of 2.2 times and 8.9 times, respectively. Interest coverage includes a onetime U.S. 20 million fee attributable to the U.S. 450 million bond prepayment. Excluding these effects, and considering Sigma's new cost of debt, interest coverage would be 6.6 times.

On February 2, 2017, Sigma issued a 144^a, Regulation S bond in the European market for 600 million Euros. The security has a 2.625% coupon and a maturity of seven years. Proceeds from this transaction were mainly used to refinance debt.

Industry comments

During 1Q17, 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 17% year-on-year. As a result, 1Q17 same-store sales reported by the National Association of Supermarkets and Department Stores (ANTAD) grew only 4% year-on-year in nominal pesos. In Europe, the European Commission released the average consumer confidence index for 1Q17 in negative 5.3, 35% higher than in 1Q16. In the U.S., the index increased to 125.6 in 1Q17 as reported by The Conference Board, the highest since 2000. Food retail sales reported by the U.S. Census Bureau increased 3% year-on-year, above the 1% year-on-year growth in 1Q16.

Key raw material prices were mixed during the quarter and varied by region. In the Americas, the price of some of Sigma's key raw materials remained below 1Q16 levels. Specifically, turkey breast was 60% lower, while pork hams remained at similar levels, when compared to 1Q16. By contrast, turkey thigh and milk prices were up 26% and 19%, respectively, although they were still below the levels observed in 2013 and 2014. In Europe, pork prices increased during the second half of 2016 and have stay flat since, causing 1Q17 prices to be 13% above when compared to the same year-ago period. In Mexico the strengthening of the U.S. Dollar vis-a-vis the Peso has offset much of the potential cost savings from such favorable commodity price environment, as the industry participants import most of its meats from the U.S.

TABLE 1 | VOLUME AND PRICE CHANGES (%)

	1Q17 vs.	
	4Q16	1Q16
Total Volume	(2.9)	2.9
Avg. U.S. \$ Prices	(3.4)	(3.1)

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

	1Q17 vs.				
	1Q17	4Q16	1Q16	4Q16	1Q16
REVENUES	1,350	1,438	1,354	(6)	0
OPERATING INCOME	85	106	118	(20)	(28)
EBITDA	135	166	163	(19)	(17)

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

	1Q17	4Q16	1Q16
Assets	4,951	4,876	4,976
Liabilities	4,161	4,051	4,028
Stockholders' Equity	790	825	949
Majority Equity	760	795	918
Net Debt	1,838	1,724	1,955
Net Debt/EBITDA*	2.9	2.6	2.25
Interest Coverage*	4.2	5.5	8.9

* Times: LTM = Last 12 months

MANUEL RIVERA

manuel.rivera@sigma-alimentos.com

GERARDO GUERRA

gguerraq@sigma-alimentos.com

