



Sigma reports 3Q16 EBITDA of U.S. \$166 million, up 1% year-on-year on a comparable basis

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 66 plants in 17 countries across its four key regions: Mexico, Europe, the United States, and Latam.

Operations

During 3Q16, Sigma sold approximately 425,000 tons of food products, down 1% from 3Q15. The main reason behind the decline was a voluntary product recall for corn dogs and certain hot dogs sold in the U.S. On a cumulative basis, Sigma's sales volume was 1'258,000 tons, similar to the same period in 2015. With respect to pricing during 3Q16, Sigma reported a 1% year-on-year average decline in dollars, mainly due to the stronger U.S. Dollar exchange rate. Excluding this effect, average prices increased by 6% year-on-year.

Financial results

3Q16 Revenues totaled U.S. \$1,461 million, down 3% year-on-year, affected by the stronger U.S. Dollar exchange rate, which rose 14% in the period against the Mexican Peso. Excluding the FX impact, revenues increased 5%. In Mexico, sales in pesos were 9% higher year-on-year, reflecting slightly higher sales volumes and price adjustments to absorb higher raw material costs. In the U.S., revenues were affected by lower sales volume as already explained. In Europe, sales in Euros were similar to 3Q15.

Sales in Mexico accounted for 41% of the quarter's total, while Europe represented 38%, the U.S. 14%, and Latin America 7%. On a cumulative basis, revenues amounted U.S. \$4,259 million, down 4% when compared to the same year-ago period, mainly due to the stronger U.S. Dollar exchange rate already explained.

Excluding the U.S. \$45 million non-recurring gain reported in 3Q15, resulting from insurance proceeds related to the Burgos plant fire, 3Q16 Operating Income and EBITDA were U.S. \$114 million and U.S. \$166 million, down 3% and up 1% year-on-year, respectively. On a currency neutral basis, EBITDA would have been up 8% year-on-year. The decrease in operating income is attributable to lower sales volumes and the effect of the stronger U.S. Dollar. On a reported basis, Sigma's 3Q16 Operating Income and EBITDA were down 30% and 20% year-on-year. Year-to-date, Operating Income and EBITDA amounted to U.S. \$352 million and U.S. \$497 million, down 21% and 15% than 2015, respectively, for the same reasons.

In Europe, operations continued to show improvements despite not yet enjoying the flexibility and cost competitiveness expected from the new plant under construction, nor having the benefit of business interruption insurance coverage as in 2015. In Mexico, EBITDA measured in U.S. dollars increased 1% year-on-year despite the 14% peso depreciation recorded on that period.

Capital expenditures and acquisitions; net debt

During 3Q16, capital expenditures totaled U.S. \$75 million. This includes U.S. \$34 million for the ongoing construction of the new plant in Burgos, Spain, which is scheduled to begin operations in November. The remainder was invested in other fixed assets and minor projects across the company.

Sigma's strong cash flow generation coupled with the collection of insurance proceeds on the Burgos plant destroyed by fire, have allowed it to finance capital expenditures and to continue to strengthen its financial condition. At the end of 3Q16, Net Debt was U.S. \$1,843 million, down U.S. \$262 million from 3Q15. Financial ratios at the end of 3Q16 were: Net Debt to EBITDA, 2.4 times; Interest Coverage, 7.0 times. These ratios compare with those reported in 3Q15, of 2.7 times and 7.5 times, respectively.

Industry comments

During 3Q16, the consumer markets weakened 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) fell to 86.5 in 3Q16, its lowest level since 1Q14. As a result, 3Q16 supermarket same-store sales reported by the National Association of Supermarkets and Department Stores (ANTAD) grew only 5% year-on-year in nominal pesos. In Europe, the European Commission released the average consumer confidence index for 3Q16, which was negative 8.2, higher than the negative 6.9 reported in 3Q15. By contrast, in the U.S., the index increased to 100.9 in 3Q16 as reported by The Conference Board, its highest level since 1Q15. Food retail sales reported by the U.S. Census Bureau increased 2% year-on-year, lower than the 3% year-on-year growth in 3Q15.

On the positive side, during 3Q16, the price of some of Sigma's key raw materials remained below 3Q15 levels in the Americas. Specifically, turkey breasts and thighs were 61% and 25% lower, respectively, while milk prices were at similar levels. By contrast, pork prices were 13% higher, although they were still below record high levels observed in 2013 and 2014. In Europe, pork prices performed similar to prices in the Americas during 3Q16.

In Mexico, packaged food producers such as Sigma have been enjoying such favorable commodity price environment. However, the strengthening of the U.S. Dollar vis-a-vis the Mexican Peso has offset much of the potential cost savings as most industry participants import raw materials.

TABLE 1 | VOLUME AND PRICE CHANGES (%)

	3Q16 vs.		YTD. '16 vs.
	2Q16	3Q15	YTD. '15
Total Volume	(1.0)	(1.5)	(0.2)
Avg. U.S. \$ Prices	2.1	(1.1)	(3.5)

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

	(% 3Q16 VS.)							
	3Q16	2Q16	3Q15	2Q16	3Q15	YTD. '16	YTD. '15	Ch.%
REVENUES	1,461	1,445	1,499	1	(3)	4,259	4,419	(4)
OPERATING INCOME	114	120	163	(5)	(30)	352	443	(21)
EBITDA	166	169	208	(2)	(20)	497	582	(15)

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

	3Q16	2Q16	3Q15	YTD. '16	YTD. '15
Assets	4,935	4,794	4,722	4,935	4,722
Liabilities	4,051	3,971	4,043	4,051	4,043
Stockholders' Equity	885	823	679	885	679
Majority Equity	854	793	654	854	654
Net Debt	1,843	1,935	2,105	1,843	2,105
Net Debt/EBITDA*	2.4	2.3	2.7	2.4	2.7
Interest Coverage*	7.0	7.8	7.5	7.0	7.5

* Times: LTM = Last 12 months

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