



Sigma reports 4Q16 EBITDA of U.S. \$166 million, up 3% 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 67 plants in 17 countries across its four key regions: Mexico, Europe, the United States, and Latam.

Operations

During 4Q16, Sigma sold approximately 426,000 tons of food products, up 4% from 4Q15. The main reason behind the increase was better results in Europe and Mexico. On a cumulative basis, Sigma's sales volume was 1'679,000 tons, up 1% from the same period in 2015. With respect to pricing during 4Q16, Sigma reported a 7% year-on-year average decline in dollars, mainly due to the stronger U.S. Dollar exchange rate.

Financial results

4Q16 Revenues totaled U.S. \$1,438 million, down 3% year-on-year, affected by the stronger U.S. Dollar exchange rate, which rose 18% in the period against the Mexican Peso. Excluding the FX impact, revenues increased 5%. 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 4Q15 driven by higher sales volume. In the U.S., sales were down 7% on account of lower volumes. On a cumulative basis, revenues amounted U.S. \$5,698 million, down 3% when compared to the same year-ago period, mainly due to the stronger U.S. Dollar exchange rate already explained.

Sales in Mexico accounted for 41% of the quarter's total, while Europe represented 38%, the U.S. 14%, and Latin America 7%.

Operating Income and EBITDA were U.S. \$106 million and U.S. \$166 million in 4Q16, down 55% and 42% year-on-year, respectively. Excluding the non-recurring gains of U.S. \$88 million from property damage and U.S. \$38 million from business interruption insurance proceeds, reported in 4Q15, related to the Burgos plant fire, Sigma's 4Q16 Operating Income and EBITDA were down 5% and up 3% year-on-year, respectively. The decrease in comparable operating income is mainly attributable to the effect of the depreciation of the Peso. On a currency-neutral basis, EBITDA would have been up 12% year-on-year. On a cumulative basis, Operating Income and EBITDA amounted to U.S. \$458 million and U.S. \$663 million, down 33% and 24% 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 recently completed plant, nor having the benefit of business interruption insurance coverage as in 2015. In Mexico, EBITDA measured in U.S. dollars decreased 8% year-on-year attributed to the 18% peso depreciation recorded on that period, but improved 9% on a currency-neutral basis.

Capital expenditures and acquisitions; net debt

During 4Q16, capital expenditures totaled U.S. \$157 million. This includes U.S. \$95 million for the construction of the new plant in Burgos, Spain, which began operations in November 2016. The remainder was invested in 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 condition. At the end of 4Q16, Net Debt was U.S. \$1,724 million, down U.S. \$201 million from 4Q15. Financial ratios at the end of 4Q16 were: Net Debt to EBITDA, 2.6 times; Interest Coverage, 5.5 times. These ratios compare with those reported in 4Q15, of 2.2 times and 8.5 times, respectively.

On February 2nd, 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. The proceeds from this operation will be used to refinance debt.

Industry comments

During 4Q16, 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 8% year-on-year. As a result, 4Q16 supermarket same-store sales reported by the National Association of Supermarkets and Department Stores (ANTAD) grew only 6% year-on-year in nominal pesos. In Europe, the European Commission released the average consumer confidence index for 4Q16, which was 1% higher than in 4Q15. In the U.S., the index increased to 113.7 in 4Q16 as reported by The Conference Board, reaching a 15-year high. Food retail sales reported by the U.S. Census Bureau increased 3% year-on-year, above the 2% year-on-year growth in 4Q15.

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 4Q15 levels. Specifically, turkey thighs were 5% lower, while pork hams were at similar levels. By contrast, fresh and powder milk were 7% and 11%, respectively, higher, although they were still below high levels observed in 2013 and 2014. In Europe, pork prices slightly increased, when compared to the same year-ago period.

However, 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 most industry participants import raw materials.

TABLE 1 | VOLUME AND PRICE CHANGES (%)

	4Q16 vs.		YTD. '16 vs.
	3Q16	4Q15	YTD. '15
Total Volume	0.4	4.0	0.5
Avg. U.S. \$ Prices	(1.9)	(6.7)	(4.0)

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

	4Q16	3Q16	4Q15	(% 4Q16 vs.)			YTD. '15	Ch. %
				3Q16	4Q15	YTD. '16		
REVENUES	1,438	1,461	1,482	(2)	(3)	5,698	5,901	(3)
OPERATING INCOME	106	114	237	(7)	(55)	458	680	(33)
EBITDA	166	166	287	-	(42)	663	869	(24)

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

	4Q16	3Q16	4Q15	YTD. '16	YTD. '15
Assets	4,876	4,935	4,835	4,876	4,835
Liabilities	4,051	4,051	4,001	4,051	4,001
Stockholders' Equity	825	885	834	825	834
Majority Equity	795	854	805	795	805
Net Debt	1,724	1,843	1,925	1,724	1,925
Net Debt/EBITDA*	2.6	2.4	2.2	2.6	2.2
Interest Coverage*	5.5	7.0	8.5	5.5	8.5

* Times: LTM = Last 12 months

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