



## GRUPO POCHTECA REPORTS ITS RESULTS FOR THE THIRD QUARTER OF 2016

Mexico City, October 27, 2016 – Grupo Pochteca, S.A.B. de C.V. (“Pochteca” or “the Company”) (BMV: POCHTEC) announced today its unaudited results for the quarter ended September 30, 2016 (“3Q16”).

### Third Quarter Report Highlights

- **Sales -2%** year on year to Ps 1.56 billion
- **Gross margin 17.5%**, -90 bp compared to 3Q15
- **Operating profit -49%** to Ps 35 million
- **Consolidated EBITDA -27%** to Ps 69 million
- **Consolidated EBITDA margin 4.5%**, -160 bp below that of 3Q15
- **Net loss of Ps 12 million** was 30% less than the loss reported for 3Q15.
- **Net Debt to EBITDA of 2.6 times** was above our internal policy of not surpassing 2 times.

Our 3Q16 results were not satisfactory and came in below our own expectations. Armando Santacruz, Grupo Pochteca’s Chief Executive Officer commented that, “The main challenge we faced during the third quarter of 2016 within a highly complicated business environment was a deteriorating economy that was especially pronounced in the case of industrial activity in Brazil. The decrease in Brazil’s GDP, which after contracting 3.8% in 2015 is expected to fall another 3.1% 2016, according to consensus estimates, has served as a stiff headwind. Consensus estimates also anticipate that industrial output in that country will decrease 6% in 2016, which adds to the sharp 8% decline seen in 2015.”

### SELECTED FINANCIAL INFORMATION (MILLIONS OF PESOS)

	3Q16	3Q15	(%) 3Q16 vs 3Q15	YTD 16	YTD 15	(%) YTD 16 vs YTD 15
Sales	1,555	1,578	-2%	4,580	4,544	1%
Gross Profit	271	291	-7%	807	826	-2%
Gross Margin (%)	17.5%	18.4%	-90pb	17.6%	18.2%	-60pb
Operating Profit	35	69	-49%	105	182	-42%
Operating Margin (%)	2.3%	4.4%	-210pb	2.3%	4.0%	-170pb
Depreciation	34	27	28%	97	81	20%
EBITDA	69	95	-27%	202	263	-23%
EBITDA Margin (%)	4.5%	6.1%	-160pb	4.4%	5.8%	-140pb
Interest Expense	22	21	4%	59	71	-17%
Foreign Exchange Loss	(25)	(67)	-63%	(22)	(101)	-78%
Income Before Tax	(12)	(20)	-39%	24	10	127%
Net Income / (Loss)	(12)	(17)	-30%	24	9	170%
Net Debt / EBITDA 12 M	2.6x	1.8x		2.6x	1.8x	
Interest Coverage	3.1x	3.6x		3.1x	3.6x	

EBITDA = operating income before depreciation and amortization; NC = non comparable

“Moreover, a number of industries that are vital for the products we distribute remain locked in a deflationary and recessionary environment. We at long last observed a firming of oil prices, which increased 7% between 3Q15 and 3Q16, rising from USD45.09 to USD48.24 per barrel. Nevertheless, we are yet to perceive any significant or broad firming of oil derivative prices.

**West Texas Oil (WTI) Prices  
(September 2013 = 100)**



Source: Bloomberg

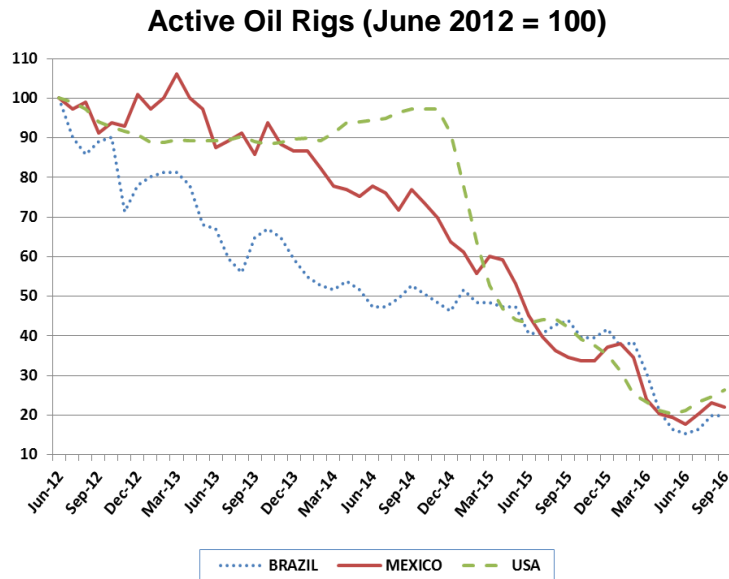
“Client and product diversification, in which our top five customers account for less than 6% of revenues and none of our five main products account for as much as 7% of sales, with no single product or client representing as much as 2% of sales, has proven very valuable in a deflationary environment. This diversification has allowed us to defend margins and sales amid the complex environment we have experienced in recent years.”

### Highlights from the most recent quarter

#### **Oil industry slowdown**

- We have seen no signs of a recovery in the number of active oilrigs, and available information continues to show the oil industry in a profoundly recessive environment. According to data published online by Baker Hughes, the number of active rigs in the United States, Mexico and Brazil continued to fall significantly in the past 12 months with declines of 43%, 41% and 56%, respectively (see graph on page 3). Those reductions in activity came on top of the collapse experienced during 2015, when the number of active rigs fell by 61% in the United States, 42% in Mexico, and 10% in Brazil. The number of active rigs in Mexico has fallen by more than 80% from the industry peak of 120 in early 2013; only 25 rigs were reported as active at the end of September 2016. The contraction in Brazil and the United States was slightly less pronounced during the quarter, but in both countries the reduction in the number of active oilrigs continues

to surpass 70%. Oil exploration and drilling are activities of great importance to Pochteca and we do not foresee a recovery in the near or medium terms.



Source: Baker Hughes ([www.bakerhughes.com/rig-count](http://www.bakerhughes.com/rig-count))

- **Sales were lower than in 3Q15.** Consolidated sales fell 2%. We continue to see a declining trend in Brazil. The poor performance of the country's industrial sector, the main source of our Brazilian revenues, has severely affected our sales.
- The lack of liquidity prevailing in the oil and gas industry has greatly reduced the ability of participants in that sector to make payments as they encounter major obstacles and long delays for collecting on their sales portfolios. In this sector we have decided to prioritize a strategy of risk reduction and protection of working capital in response to this situation, which has negatively affected sales. This has led to a reduction in our sales to oil and gas companies by a greater degree than what was already implied by the contraction in demand.
- **Gross income fell 7%, from Ps 291 million in 3Q15 to Ps 271 million in the most recent quarter,** primarily as a result of the negative margin effects in Brazil.
- **Our gross margin narrowed 90 basis points to 17.5% principally as a result of the revaluation in Brazil,** where the gross margin decreased 150 basis points compared to that of 3Q15. The real's 7.5% revaluation to the dollar in 3Q16 adversely pressured our gross margin in Brazil as inventories that were purchased at higher exchange rates were sold at lower exchange rates. We expect our Brazil gross margin to gradually recover to its historical highs assuming that the exchange rate remains stable going forward.

3Q15		3Q16
18.4%	Gross margin	17.5%

- **Operating income decreased 49% in 3Q16, falling from Ps 69 million in 3Q15 to Ps 35 million.** The 2.3% operating margin was 210 basis points lower than in 3Q15. The tighter margins in Brazil during the quarter eroded operating profit.
- **EBITDA decreased 27% compared to 3Q15** at the same time as the EBITDA margin narrowed 160 basis points to 4.5%.
- **Operating expenses (excluding depreciation) increased 3.5% compared to 3Q15.** Expenses as a percentage of sales increased from 12.4% in 3Q15 to 13.0% in 3Q16. The main impact was generated by inflation in Brazil as a considerable part of expenses in the Brazilian economy are indexed and, as a result, are driven higher by inflation. Unfortunately, sales in Brazil have undergone a contraction thus leading to an increase in expenses as a percentage of sales.

3Q15		3Q16
12.4%	Expenses / Sales	13.0%

- **Net interest expense increased 4% year on year during 3Q16.** The main factor underpinning the higher expense was the rise in interest rates in Mexico, where the central bank's reference rate has been raised 175 basis points since December 2015.
- **The company recorded a Ps 12 million net loss for 3Q16, 30% below the loss we registered for 3Q15.** This result was due to lower foreign exchange losses in 3Q16.
- **Net debt at the end of 3Q16 totaled Ps 714 million, Ps 84 million or 13% more than during 3Q15.** The revaluation of the Brazilian real in relation to Mexico's currency explains part of the increase in debt, which we report in Mexican pesos.
  - Between 3Q15 and 3Q16, Coremal's net debt decreased 19% in reais, falling from 53.8 million to 43.6 million reais.
  - The peso/real exchange rate depreciated 40% during the same period, from 4.26 to 5.97 pesos per real.
  - As a result of that shift, the increase in Coremal's net debt in pesos was 14%, from Ps 229 million to Ps 260 million.

- **Working capital remained relatively stable**, an especially positive achievement given the lack of liquidity in the petroleum sector as well as the growth and solvency problems prevailing in the Brazilian economy. The consolidated portfolio at the end of September 2016 stood at 49 days, just a day lower than the 50 days at the end of September 2015, a result that speaks to our resilience in light of the complicated prospects for recovery in Mexico and especially in Brazil. Inventories grew from 62 to 64 days during that same period while those of suppliers fell from 86 to 83 days. We have privileged liquidity and risk reduction over sales, especially in Brazil given just how complicated the economic environment remains.
- **Net Debt to EBITDA increased from 1.8 times at the end of 3Q15 to 2.6 times in 3Q16**, a level above our internal policy of not surpassing 2 times. The latter was caused by a lower than expected EBITDA and by an increase in our Brazilian subsidiary's debt in peso terms, due to the real's appreciation.
- **In 3Q16 interest coverage (EBITDA / interest) was 3.1 times.** This indicator is lower than the level of 3.6 times reported for 3Q15.

	<b>3Q16</b>	<b>3Q15</b>
Net Debt (Ps millions)	714	630
Net Debt / EBITDA 12 M	2.6x	1.8x
Interest Coverage	3.1x	3.6x
Outstanding Shares	130,522,049	130,522,049

### Organizational changes

Mr. Rafael Dávalos Sandoval, who has served as Chief Operating Officer since July 2014, will leave the company for health reasons effective October 31 of the current year. He will be replaced by Francisco Martínez García, who currently serves as Director of Sales and Branch Offices and has more than a decade of experience with Pochteca. The company's Board of Directors and General Management thank Mr. Rafael Dávalos Sandoval for the contribution he has made to the company's development.

### Stock buyback fund

The managers of Grupo Pochteca's fund for repurchasing shares are:

- 1) Punto Casa de Bolsa, S.A. de C.V.
- 2) GBM Grupo Bursátil Mexicano, S.A. de C.V., Casa de Bolsa (GBM)



### **Independent analysis and brokerage coverage**

Grupo Pochteca, S.A.B. de C.V., is registered with the independent analysis program, and the Selection Subcommittee agreed to assign the company to the firm Consultora 414, S.A. de C.V., “CONSULTORA 414”, to assume responsibility for providing analysis of POCHTECA stock. At present, Casa de Bolsa Interacciones has Pochteca under coverage.

### **About Grupo Pochteca**

Grupo Pochteca specializes in the sale and distribution of a broad array of industrial raw materials, catering to more than 40 industrial sectors including water treatment, mining, the food and automotive industries, oil exploration and drilling, personal care, cleaning and sanitation products, metalworking and dozens of other industries. In order to better attend to those industries, the company is organized into five major business segments:

1. Solvents and blends
2. Lubricants and greases
3. Chemicals for the food industry
4. Inorganic chemicals
5. Paper and board

The Company manages more than 5,500 products in its catalogue that consist of both generic and specialized products with which to cater to each segment of the industries it serves. Through our 33 distribution centers in Mexico, three in Central America, and seven in Brazil, we serve each year more than 19,000 customers in over 500 cities with support provided by specialists in each sector who in turn rely on seven quality control laboratories, and five specializing in research and application development. The company also enjoys the support of domestic and foreign suppliers that are internationally regarded as industry leaders.

## GRUPO POCHTECA, S.A.B. DE C.V. BALANCE SHEET

Information in thousands of Mexican Pesos

	Sep-16	Jun-16	Sep-15	(% Sep-16 vs.)	
				Jun-16	Sep-15
<b>ASSETS</b>					
CASH AND CASH EQUIVALENTS	149,264	282,866	250,048	(47.2)	(40.3)
TRADE ACCOUNTS RECEIVABLE	959,456	1,009,277	995,483	(4.9)	(3.6)
OTHER ACCOUNTS RECEIVABLE	266,484	214,525	102,558	24.2	159.8
INVENTORIES	899,815	854,388	881,077	5.3	2.1
ASSETS HELD FOR SALE	-	-	12,727	NC	NC
<b>TOTAL CURRENT ASSETS</b>	<b>2,275,018</b>	<b>2,361,055</b>	<b>2,241,893</b>	<b>(3.6)</b>	<b>1.5</b>
PROPERTY, PLANT & EQUIPMENT, NET	821,337	834,491	803,453	(1.6)	2.2
DEFERRED ASSETS	560,676	612,948	598,810	(8.5)	(6.4)
<b>TOTAL ASSETS</b>	<b>3,657,031</b>	<b>3,808,494</b>	<b>3,644,155</b>	<b>(4.0)</b>	<b>0.4</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
TRADE ACCOUNTS PAYABLE	1,173,116	1,286,317	1,137,071	(8.8)	3.2
BANK LOANS	402,553	366,404	130,881	9.9	207.6
OTHER ACCOUNTS PAYABLE	200,041	176,147	132,845	13.6	50.6
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,775,710</b>	<b>1,828,869</b>	<b>1,400,796</b>	<b>(2.9)</b>	<b>26.8</b>
OTHER LONG-TERM ACCOUNTS PAYABLE	174,623	186,819	343,814	(6.5)	(49.2)
LONG-TERM DEBT	461,022	545,401	749,597	(15.5)	(38.5)
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>635,644</b>	<b>732,220</b>	<b>1,093,411</b>	<b>(13.2)</b>	<b>(41.9)</b>
<b>TOTAL LIABILITIES</b>	<b>2,411,354</b>	<b>2,561,088</b>	<b>2,494,207</b>	<b>(5.8)</b>	<b>(3.3)</b>
CONTRIBUTED CAPITAL	1,174,289	1,178,638	1,193,922	(0.4)	(1.6)
PROFIT (LOSS) FOR THE PERIOD	23,625	35,283	8,752	(33.0)	169.9
ACCUMULATED PROFIT	73,250	74,113	11,264	(1.2)	550.3
TRANSLATION EFFECT OF FOREIGN OPERATIONS	(25,486)	(40,629)	(63,990)	(37.3)	(60.2)
<b>TOTAL EQUITY</b>	<b>1,245,677</b>	<b>1,247,405</b>	<b>1,149,948</b>	<b>(0.1)</b>	<b>8.3</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>3,657,031</b>	<b>3,808,494</b>	<b>3,644,155</b>	<b>(4.0)</b>	<b>0.4</b>

NC= not comparable

**GRUPO POCHTECA, S.A.B. DE C.V.**  
**STATEMENT OF COMPREHENSIVE INCOME**

Information in thousands of Mexican Pesos

	3Q16	2Q16	3Q15	(% ) 3Q16 vs 2Q16 3Q15		YTD 16	YTD 15	(%) YTD 16 vs. YTD 15
Sales	1,554,647	1,542,506	1,578,085	0.8	(1.5)	4,580,299	4,543,967	0.8
Cost of Sales	(1,283,293)	(1,277,972)	(1,287,360)	0.4	(0.3)	(3,772,822)	(3,718,123)	1.5
<b>Gross profit</b>	<b>271,354</b>	<b>264,534</b>	<b>290,726</b>	2.6	(6.7)	<b>807,477</b>	<b>825,844</b>	(2.2)
	17.5%	17.1%	18.4%			17.6%	18.2%	
Operating expenses	(202,057)	(208,826)	(195,245)	(3.2)	3.5	(605,075)	(562,400)	7.6
	-13.0%	-13.5%	-12.4%			-13.2%	-12.4%	
Depreciation	(34,307)	(32,403)	(26,705)	5.9	28.5	(97,324)	(81,112)	20.0
Operating profit	34,991	23,305	68,775	50.1	(49.1)	105,078	182,332	(42.4)
	2.3%	1.5%	4.4%			2.3%	4.0%	
Depreciation	34,307	32,403	26,705	5.9	28.5	97,324	81,112	20.0
<b>EBITDA</b>	<b>69,298</b>	<b>55,708</b>	<b>95,481</b>	24.4	(27.4)	<b>202,402</b>	<b>263,444</b>	(23.2)
	4.5%	3.6%	6.1%			4.4%	5.8%	
Interest expense	(22,263)	(19,191)	(21,438)	16.0	3.9	(59,409)	(71,196)	(16.6)
Foreign exchange gain (loss)	(24,588)	(9,716)	(66,848)	153.1	(63.2)	(22,073)	(100,764)	(78.1)
Financing costs	(46,850)	(28,906)	(88,286)	62.1	(46.9)	(81,483)	(171,960)	(52.6)
	-3.0%	-1.9%	-5.6%			-1.8%	-3.8%	
<b>Income before tax</b>	<b>(11,859)</b>	<b>(5,601)</b>	<b>(19,511)</b>	111.7	(39.2)	<b>23,595</b>	<b>10,372</b>	127.5
Income taxes	4,221	3,474	2,922	21.5	44.5	(4,060)	(11,260)	(63.9)
Deferred taxes	(4,021)	7,119	40	NC	NC	4,090	9,640	(57.6)
<b>NET INCOME (LOSS)</b>	<b>(11,659)</b>	<b>4,992</b>	<b>(16,549)</b>	(333.5)	(29.5)	<b>23,625</b>	<b>8,752</b>	169.9
NC= not comparable	-0.7%	0.3%	-1.0%			0.5%	0.2%	





## INFORMATION FOR INVESTORS

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*Note: This report may contain forward-looking statements regarding the Company's performance. They should be regarded as good-faith estimates made by the Company. These forward-looking statements reflect management's point of view and expectations and are based on information that is currently available. They suppose risks and uncertainties, including economic conditions prevailing in Mexico and abroad, as well as fluctuations in the value of the Mexican peso against other currencies and the prices of our products and inputs.*

*All figures contained in this report are expressed in nominal Mexican pesos and the financial results are presented in compliance with the recognition, measurement, presentation and disclosure requirements set out in IFRS.*

*All comparisons for 2016 contained in this report have been made against the figures for the comparable period of 2015 except where indicated.*



## **Grupo Pochteca**

### **Conference Call on Third Quarter on Our 3Q 2016 Results**

**Speaking on behalf of the company:**

**Armando Santacruz, CEO**

**Juan Carlos Mateos, CFO**

**Date:** Thursday, November 3, 2016

**Time:** 10:00 am Mexico City Time / 12:00 pm US EDT

**Dial-in-numbers:** + 1 (201) – 689 – 8471 from any part of the world  
+ 1 (877) – 407 – 4018 from the US and Canada

Those who are unable to listen to the conference call as it is happening may call the numbers listed below to hear a replay that will be available from 3:00 pm, Thursday, November 3 until 11:59 pm Friday, November 4 (both times US EDT).

**Replay:** + 1 (412) – 317 – 6671 from any part of the world  
+ 1 (844) – 512 – 2921 from the US and Canada

**Code (PIN) for replay:** 13649200