# GRUPO POCHTECA REPORTS ITS RESULTS FOR THE THIRD QUARTER OF 2015

**Mexico City, October 26, 2015 – 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, 2015 ("3Q15").

## Report Highlights

***It is important to note that all 3Q15 results are fully comparable with those of 3Q14 as the consolidation of Coremal in Brazil dates to 1Q14.***

- **Sales +1%** year on year to Ps 1.58 billion
- **Gross margin 18.4%,** +130 bp compared to 3Q14
- **Operating profit +39%** to Ps 69 million
- **Consolidated EBITDA +23%** to Ps 95 million
- **EBITDA margin 6.1%, +110 bp** above that of 3Q14
- **Mexico EBITDA +18% and Brazil EBITDA +39%**
- **Mexico EBITDA margin 6.1%, +90 bp and Brazil EBITDA margin 5.9%, +140 bp**
- **Net loss of Ps 17 million due to foreign exchange losses of Ps 67milion.** The latter were almost three times the foreign exchange losses posted in 3Q14. They wiped out the positive effect of higher EBITDA and lower interest expense achieved in 3Q15.
- **Net Debt to EBITDA decreased to 1.8 times from 2.6 times in 3Q14**, and remained in line with our internal policy of not surpassing 2 times. This indicator had risen from 1.8 times prior to the Coremal acquisition to a peak of 2.8 times in 2Q14.

Armando Santacruz, Pochteca's Chief Executive Officer commented on 3Q15 results: "As was the case during the first half of 2015, we were able to overcome the adversities imposed by the recessionary and deflationary environment affecting industries that are of key importance to the products we distribute. As in previous quarters we managed to overcome the difficulties that accompanied the sharp drop in oil prices. Between September 30, 2014 and the end of the most recent quarter the price of West Texas Intermediate (WTI) fell 51% from USD91.16 to USD45.09. This caused the prices of the oil derivatives that Grupo Pochteca distributes to fall between 10% and 30% in pesos during this period. Part of the drop in price in dollars was partially offset by the weakening of the Mexican peso to the dollar. Moreover, the reduction in the number of active oilrigs reflects the recessive environment that has engulfed the oil industry. According to data published on line by Baker Hughes, the number of active rigs in the United States, Mexico and Brazil collapsed in the past 12 months with declines of 57%, 55% and 17%, respectively (please see graph on page 3).

"In light of the highly adverse context we have faced during 2015, we are very pleased with the results we achieved in 3Q15. We view the double digit operating profit and EBITDA growth posted during this quarter as a major achievement. We believe that the January-September numbers show that we will be able to reach the Ps 345 million EBITDA target we included in the 2015 guidance that we first

published along with our 4Q14 earnings results. We also believe our latest results are a sign of just how solid our one-stop-shop proposal and company management model based on a broad diversification of products and clients, sales with strong technical support, as well as a growing emphasis on value added blends, have proven to be. Client and product diversification have been very valuable in a business environment marked by double digit price deflation in several key products. Our top five clients account for less than 6.5% of revenues and no single product or client represents as much as 2% of revenues. In addition, some of our clients have seen a double-digit contraction in demand for their products that in some cases has climbed above 50% such as those in the oil and gas sector. This diversification has allowed us to preserve margins and sales by recomposing the mix of products and clients in order to keep growing our operating profit in the new environment."

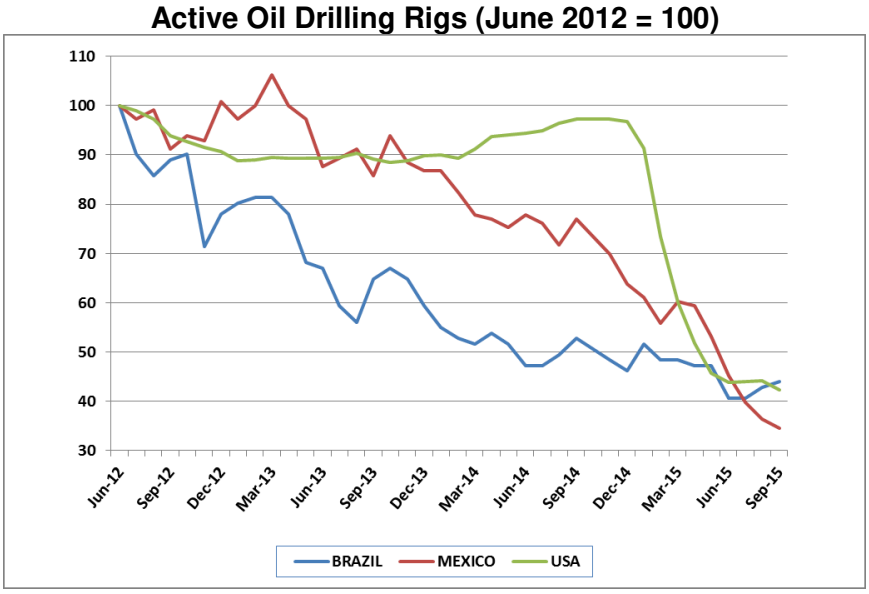
**SELECTED FINANCIAL INFORMATION (MILLIONS OF PESOS)**

| | 3Q15 | 3Q14 | (%) 2Q15 vs 2Q14 | YTD 15 | YTD 14 | (%) YTD 15 vs YTD 14 |
|---|---|---|---|---|---|---|
| Sales | 1,578 | 1,556 | 1% | 4,544 | 4,533 | 0% |
| Gross Profit | 291 | 266 | 9% | 826 | 774 | 7% |
| Gross Margin (%) | 18.4% | 17.1% | 130pb | 18.2% | 17.1% | 110pb |
| Operating Profit | 69 | 49 | 39% | 182 | 140 | 31% |
| Operating Margin (%) | 4.4% | 3.2% | 118pb | 4.0% | 3.1% | 93pb |
| Depreciation | 27 | 28 | -5% | 81 | 79 | 3% |
| EBITDA | 95 | 78 | 23% | 263 | 218 | 21% |
| EBITDA Margin (%) | 6.1% | 5.0% | 106pb | 5.8% | 4.8% | 98pb |
| Interest Expense | 21 | 28 | -23% | 71 | 85 | -16% |
| Foreign Exchange Loss | (67) | (25) | 167% | (101) | (23) | 332% |
| Income Before Tax | (20) | (3) | 479% | 10 | 32 | -67% |
| Net Income / (Loss) | (17) | (5) | 206% | 9 | 18 | -50% |
| Net Debt / EBITDA 12 M | 1.8x | 2.6x | | 1.8x | 2.6x | |
| Interest Coverage | 3.6x | 2.3x | | 3.6x | 2.3x | |

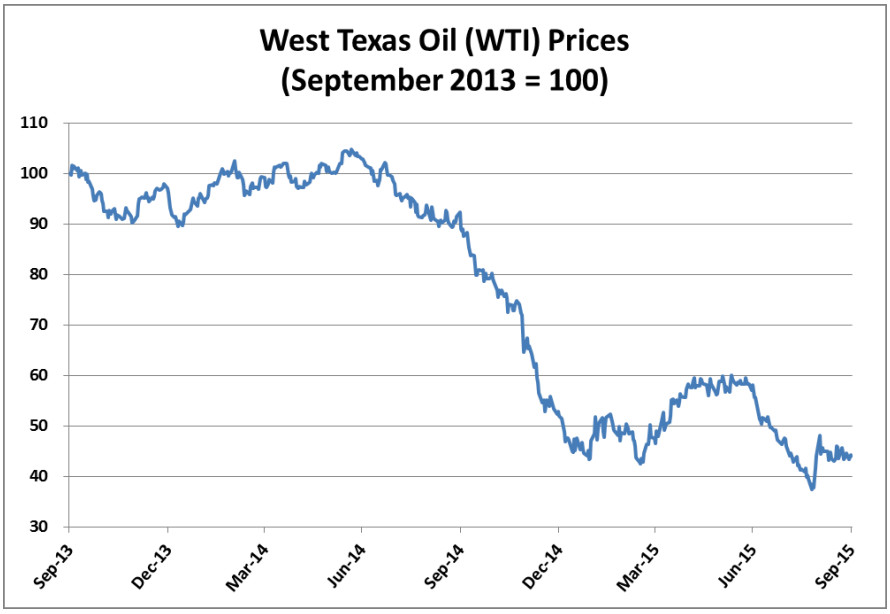
*EBITDA = operating income before depreciation and amortization; NC = non comparable*

## Graphs that show the deflationary and recessive environment

As in previous quarters, we include some charts that illustrate the sharp decline in the prices of oil, steel and other important metals such as gold, silver, copper, iron and aluminum. We also include one graph that illustrates the sharp decrease over the past three years in the number active oilrigs including offshore platforms in Brazil, Mexico and the United States. Pochteca has been able to increase revenues despite the sharp contraction in prices of products that we distribute. We have also succeeded in posting sustained operating profit increases despite significant losses incurred on inventory holdings and the lower margins achieved, in absolute numbers, from selling today one ton of a product whose price has collapsed, compared with one ton of the same product a year ago.

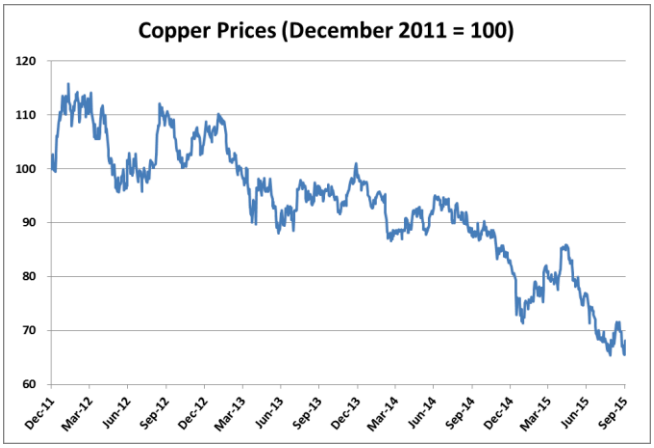



Source: Baker Hughes (www.bakerhughes.com/rig-count)



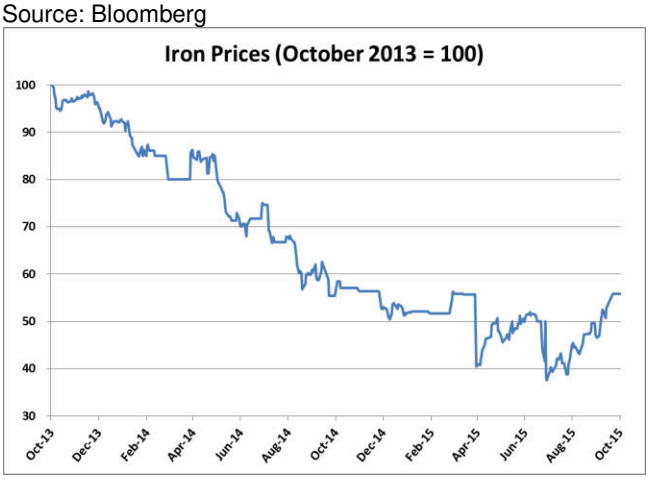

Source: Bloomberg







Source: Bloomberg





Source: Bloomberg

## Highlights from the most recent quarter

- **Pochteca continues to navigate headwinds successfully**
  - Once again we managed to grow our gross, operating and EBITDA margins despite greatly reduced prices for oil and related products. Approximately 27% of our sales in Mexico consist of petroleum based solvents, coatings and blends. We also suffered significant deflation on important product lines such as dairy derivatives, corn derivatives, and mining inputs.
  - As in 2Q15, some of our major products experienced significant price deflation year on year such as:
    - dairy derivatives, whose prices fell between 47% and 62% and,
    - corn derivatives whose prices were between 30% and 56% lower.
      - Current prices for these two product lines are the lowest seen in the past four years.
    - Mining inputs fell by close to 30%.
  - Activity remains depressed in other sectors that are key for Pochteca such as mining and construction.
  - Manufacturing and energy reform are likely to remain key growth drivers. Our exposure to manufacturing, one of the most dynamic components of the economy, remains a point of strength of Pochteca.
  - The business climate in Brazil remains highly complex and major challenges emerge day to day. Nevertheless, our promotion of cross selling with our Brazil unit and the transfer from Mexico to Brazil and vice versa of best practices and product and market know-how, continue to produce encouraging results.
  - We have begun to successfully penetrate in Brazil sectors in which Coremal had lacked any participation such as oil exploration and drilling. It is a gradual process, but one that we are confident will produce results.
  - We continue to strengthen Coremal's operations, processes and management model. We are confident it will continue to register growth in both sales and EBITDA in the coming years.
  - We will remain focused in all of our operations on two strategies that have allowed us to mitigate the impact of falling sales prices and continue to grow our gross margins:
    - reinforce and promote our one-stop-shop service proposal
    - diversification into blends and products with greater value added

***As we indicated at the beginning of this statement, 3Q15 results are fully comparable with those of 3Q14 as the consolidation of Coremal in Brazil dates to 1Q14.***

- **Sales slightly above 3Q14.** Consolidated sales increased 1.4%. The negative effect of falling prices was significantly larger than the positive effect of a weaker peso. The peso averaged 13.11 to the dollar in 3Q14, and 16.42 to the dollar in 3Q15, a 12 month depreciation of 25%.

- **Gross income grew 9%, from Ps 266 million in 3Q14 to Ps 291 million in the most recent quarter.** Just as we saw in the three previous quarters, we managed to post gross profit and margin growth even though prices declined for key products such as solvents, dairy derivatives, corn derivatives and mining inputs.

- **The consolidated gross margin increased 130 basis points to 18.4%.** Our effective cost controls and increasing focus on higher margin products such as blends and chemicals for the food industry had a favorable effect. The 25% weakening of the peso in relation to the US dollar (USD) between 3Q14 and 3Q15 partially cancelled out the effect of the contraction in raw material prices, particularly those of oil derivatives as the prices of these products have decreased between 30% and 60% in USD.

| 3Q14 | | 3Q15 |
|---|---|---|
| 17.1% | Gross margin | 18.4% |

- **Operating income grew 39% in 3Q15, from Ps 49 million in 3Q14 to Ps69 million.** Operating margin was 4.4%, 120 basis points higher than in 3Q14. Our solid operating performance was achieved through stronger emphasis on sales of value added products. **EBITDA increased 23% compared to 3Q14 while EBITDA margin expanded 110 basis points to 6.1%**.

- **Operating expenses (excluding depreciation) increased 3% compared to 3Q14.** Expenses as a percentage of sales increased slightly from 12.1% in 3Q14 to 12.4% in 3Q15.

| 3Q14 | | 3Q15 |
|---|---|---|
| 12.1% | Expenses / Sales | 12.4% |

- **Net interest expense decreased 23% year on year.** The declining trend in financial expenses that has been seen during several quarters continues. During 3Q15 we were able to reduce consolidated net interest expense by close to 25% compared with 3Q14.

- **The Ps 17 million net loss of 3Q15 was equivalent to three times the net loss posted in 3Q14.** Foreign exchange losses of Ps 67 million in 3Q15 more than offset the positive effect of higher operating profit and EBITDA and lower interest expense achieved during this quarter. On the positive side, we consider that the company has had a structural change during the past seven quarters, which has allowed it to achieve sustained EBITDA and operating profit growth. In contrast with foreign exchange losses, which are temporary and which at any point in time

may cease to have a negative effect (and could provide a positive impact), improvements in operating profitability are here to stay. And under a relatively stable foreign exchange scenario, these improvements in operating profitability could immediately result in a larger net profit, significantly above any level reported in the past.

- **Net debt at the end of 3Q15 was Ps630 million, 14% or Ps 106 million less than at the end of 3Q14**. It is important to mention that, as we informed the public at the time, on December 4, we concluded our refinancing of a Ps610 million, syndicated credit with HSBC México, S.A., Institución de Banca Múltiple, and Grupo Financiero Inbursa, S.A. The original credit had been scheduled to come due in June 2015. The new loan is for four years with a one-year grace period. As we informed market participants when we acquired Coremal, we had a clearly defined road map for returning to our 2.0 times target no later than December 2014. We met that goal.

- **Net Debt to EBITDA decreased to 1.8 times in 3Q15 from 2.6 times in 3Q14**, a level in line with our internal policy of not surpassing 2 times**.** It is important to point out that this indicator had risen from 1.8 times prior to the Coremal acquisition, which concluded December 31, 2013, to a more than two year high of 2.8 times in 2Q14. This was a result of the consolidation of the Brazilian debt of Coremal (equivalent to Ps 285 million), and the PS 170 million in credit Pochteca assumed to finance the acquisition.

- **As we have indicated previously**, we remain focused on generating cash flow through an energetic management of working capital and both cost and expense controls as a way to increase EBITDA.

- **In 3Q15 interest coverage (EBITDA / interest) was 3.6 times**. This indicator is higher than the 2.3 times level of 3Q14.

| | **3Q15** | **3Q14** |
|---|---|---|
| Net Debt (Ps millions) | 630 | 736 |
| Net Debt / EBITDA 12 M | 1.8x | 2.6x |
| Interest Coverage | 3.6x | 2.3x |
| Outstanding Shares | 130,522,049 | 130,522,049 |

## Guidance for 2015

We are confirming the 2015 guidance we first published in our report for 4Q14:

| | |
|---|---|
| Sales: | Ps 6.30 billion, +4% yoy |
| EBITDA: | Ps 345 million +14% yoy |
| EBITDA margin: | 5.5%, +50 bp yoy |

## 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)

On October 7 we informed market participants that as of that date we began to manage our share repurchase fund with GBM. This share repurchase fund had been managed by Punto Casa de Bolsa, S.A. de C.V., which will continue managing it jointly with GBM. With this initiative, Pochteca aims to increase the liquidity of its shares in the stock market with the support of these two financial institutions.

## Market maker

As we informed market participants on October 22, we ended the contract for market maker services we had with UBS Casa de Bolsa, S.A. de C.V., UBS, Grupo Financiero (UBS). Pochteca thanks UBS for the services it provided during the time it acted as market maker.

## Independent analysis and brokerage coverage

Grupo Pochteca, S.A.B. de C.V., 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 BBVA Bancomer, Casa de Bolsa Interacciones and Vector Casa de Bolsa have 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 includes 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 34 distribution centers in Mexico, three in Central America, and seven in Brazil, we serve over 20,000 customers each year in more than 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.

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# GRUPO POCHTECA, S.A.B. DE C.V.
# BALANCE SHEET
## Information in thousands of Mexican Pesos

| | sep-15 | jun-15 | sep-14 | (%) sep-15 vs. jun-15 | (%) sep-15 vs. sep-14 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| CASH AND CASH EQUIVALENTS | 250,048 | 295,798 | 211,181 | (15.5) | 18.4 |
| TRADE ACCOUNTS RECEIVABLE | 995,483 | 957,313 | 1,048,566 | 4.0 | (5.1) |
| OTHER ACCOUNTS RECEIVABLE | 102,558 | 106,122 | 21,598 | (3.4) | 374.9 |
| INVENTORIES | 881,077 | 925,366 | 1,010,095 | (4.8) | (12.8) |
| ASSETS HELD FOR SALE | 12,727 | 12,727 | - | 0.0 | NC |
| **TOTAL CURRENT ASSETS** | **2,241,893** | **2,297,325** | **2,291,439** | (2.4) | (2.2) |
| PROPERTY, PLANT & EQUIPMENT, NET | 803,453 | 825,778 | 905,550 | (2.7) | (11.3) |
| DEFERRED ASSETS | 598,810 | 626,382 | 693,309 | (4.4) | (13.6) |
| **TOTAL ASSETS** | **3,644,155** | **3,749,485** | **3,890,298** | (2.8) | (6.3) |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | | |
| TRADE ACCOUNTS PAYABLE | 1,137,071 | 1,121,584 | 1,287,882 | 1.4 | (11.7) |
| BANK LOANS | 130,881 | 103,636 | 696,071 | 26.3 | (81.2) |
| OTHER ACCOUNTS PAYABLE | 132,845 | 174,694 | 244,374 | (24.0) | (45.6) |
| **TOTAL CURRENT LIABILITIES** | **1,400,796** | **1,399,914** | **2,228,327** | 0.1 | (37.1) |
| OTHER LONG-TERM ACCOUNTS PAYABLE | 343,814 | 373,895 | 211,455 | (8.0) | 62.6 |
| LONG-TERM DEBT | 749,597 | 789,722 | 251,151 | (5.1) | 198.5 |
| **TOTAL LONG-TERM LIABILITIES** | **1,093,411** | **1,163,617** | **462,606** | (6.0) | 136.4 |
| **TOTAL LIABILITIES** | **2,494,207** | **2,563,531** | **2,690,933** | (2.7) | (7.3) |
| CONTRIBUTED CAPITAL | 1,193,922 | 1,214,083 | 1,174,240 | (1.7) | 1.7 |
| PROFIT (LOSS) FOR THE PERIOD | 8,752 | 25,301 | 17,561 | (65.4) | (50.2) |
| ACCUMULATED PROFIT | 11,264 | 11,264 | 40,481 | (0.0) | (72.2) |
| TRANSLATION EFFECT OF FOREIGN OPERATIONS | (63,990) | (64,695) | (32,916) | (1.1) | 94.4 |
| **TOTAL EQUITY** | **1,149,948** | **1,185,954** | **1,199,365** | (3.0) | (4.1) |
| **TOTAL LIABILITIES AND EQUITY** | **3,644,155** | **3,749,485** | **3,890,298** | (2.8) | (6.3) |

**NC= not comparable**

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## GRUPO POCHTECA, S.A.B. DE C.V.
## STATEMENT OF COMPREHENSIVE INCOME
**Information in thousands of Mexican Pesos**

| | 3Q15 | 2Q15 | 3Q14 | (%) 3Q15 vs 2Q15 | (%) 3Q15 vs 3Q14 | YTD 15 | YTD 14 | (%) YTD 15 vs. YTD 14 |
|---|---|---|---|---|---|---|---|---|
| Sales | 1,578,085 | 1,493,734 | 1,555,661 | 5.6 | 1.4 | 4,543,967 | 4,532,993 | 0.2 |
| Cost of Sales | (1,287,360) | (1,226,657) | (1,289,262) | 4.9 | (0.1) | (3,718,123) | (3,758,862) | (1.1) |
| **Gross profit** | 290,726 | 267,077 | 266,400 | 8.9 | 9.1 | 825,844 | 774,132 | 6.7 |
| Operating expenses | (195,245) | (180,439) | (188,833) | 8.2 | 3.4 | (562,400) | (555,666) | 1.2 |
| Depreciation | (26,705) | (27,096) | (28,088) | (1.4) | (4.9) | (81,112) | (78,868) | 2.8 |
| Operating profit | 68,775 | 59,542 | 49,479 | 15.5 | 39.0 | 182,332 | 139,597 | 30.6 |
| Depreciation | 26,705 | 27,096 | 28,088 | (1.4) | (4.9) | 81,112 | 78,868 | 2.8 |
| **EBITDA** | **95,481** | **86,638** | **77,567** | 10.2 | 23.1 | **263,444** | **218,466** | 20.6 |
| Interest expense | (21,438) | (21,627) | (27,859) | (0.9) | (23.0) | (71,196) | (84,678) | (15.9) |
| Foreign exchange gain (loss) | (66,848) | (19,163) | (24,992) | 248.8 | 167.5 | (100,764) | (23,302) | 332.4 |
| Financing costs | (88,286) | (40,791) | (52,850) | 116.4 | 67.0 | (171,960) | (107,980) | 59.3 |
| **Income before tax** | **(19,511)** | **18,752** | **(3,371)** | NC | 478.7 | **10,372** | **31,617** | (67.2) |
| Income taxes | 2,922 | (3,768) | (4,071) | NC | NC | (11,260) | (10,724) | 5.0 |
| Deferred taxes | 40 | 3,524 | 2,032 | (98.9) | (98.0) | 9,640 | (3,331) | NC |
| **NET INCOME (LOSS)** | **(16,549)** | **18,508** | **(5,411)** | NC | 205.9 | **8,752** | **17,561** | (50.2) |

**NC= not comparable**

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*Note: This report may contain forward-looking statements regarding the Company's performance. They must be seen as good faith estimations 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 under IFRS.*

*All comparisons for 2015 contained in this report have been made against the figures for the comparable period of 2014 except where indicated.*

# Grupo Pochteca

# Third Quarter 2015 Results Conference Call

## Speaking on behalf of the company:

## Armando Santacruz, CEO

## Juan Carlos Mateos, CFO

**Date:** Thursday, October 29, 2015

**Time:** 9:00 am Mexico City Time (CST) / 11:00 am 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 1:00 pm, Thursday, October 29 until 11:59 pm Friday, October 30 (all times US EDT).

**Replay:** + 1 (858) – 384 – 5517 from any part of the world
+ 1 (877) – 870 – 5176 from the US and Canada

**Code (PIN) for replay:** 13623366