



*Calidad en Carnes*

**Consolidated Results Report 2019**

**Asunción, May 2020**



# Frigorífico Concepción S.A. reports full years 2019 consolidated Financial Results

The financial information presented in this section as of and for the years ended December 31, 2019, and 2018 derived from and should be read in conjunction with our audited consolidated annual financial statement. Our Consolidated Financial Statements have been prepared in accordance with Py-GAAP, which differs in significant respects U.S. GAAP and IFRS.

## Overview

We are the leading beef processing company in Paraguay. In addition to our operations in Paraguay, we have a 51% ownership interest in a Bolivian beef processing facility, which began full operations in October 2019. Our principal activities are the industrial refrigeration, slaughtering, deboning, processing, marketing and distribution of beef products and by-products.

Most of our sales are made to the international market. For the years ended December 31, 2019 and 2018, exports represented 82.0% and 84.9%, respectively, of our gross revenue.

We are the leading company in Grupo Concepción (the “Concepción Group”), a conglomerate of companies in Paraguay that cover the entire beef production process. We benefit from our relationship with these companies, which supply us with cattle, provide us with logistics services and sell and market our products.

## Results of Operations for the Year Ended December 31, 2019 Compared to the Year Ended December 31, 2018

### Consolidated Income Statement

The following table sets forth components of the Company’s consolidated income statement for the years ended December 31, 2019 and 2018

	<b>Year Ended December 31,</b>	
	<b>2,019</b>	<b>2,018</b>
	<i>(US\$ thousands)</i>	
Local sales	53,815	51,904
External sales	244,468	292,198
<b>GROSS REVENUE</b>	<b>298,283</b>	<b>344,102</b>
Cost of sales	(256,928)	(311,638)
<b>GROSS PROFIT</b>	<b>41,355</b>	<b>32,464</b>
Operations and commerce expenses	(6,003)	(6,713)

Salaries and other employee benefits	(4,856)	(3,086)
Administrative expenses	(1,948)	(3,199)
Depreciation	(2,964)	(3,196)
<b>TOTAL SELLING AND ADMINISTRATIVE EXPENSES</b>	<b>(15,771)</b>	<b>(16,194)</b>
<b>RESULTS OF OPERATING ACTIVITIES</b>	<b>25,584</b>	<b>16,270</b>
<b>Financial results</b>		
Interest expenses	(7,031)	(8,284)
Interest on bond issue	(2,271)	(2,231)
Bank expenses	(6)	(1)
Other net income and expenses	243	1,301
<b>TOTAL FINANCIAL RESULT</b>	<b>(9,065)</b>	<b>(9,215)</b>
Exchange difference	(1,712)	(405)
<b>RESULT BEFORE INCOME TAX</b>	<b>14,807</b>	<b>6,650</b>
Income tax	(1,735)	(976)
<b>RESULT BEFORE LEGAL RESERVE</b>	<b>13,072</b>	<b>5,674</b>
Legal reserve	(587)	(282)
<b>NET INCOME</b>	<b>12,485</b>	<b>5,392</b>

### Revenues

Our gross sales revenue is composed of local and external revenues from our sales of boneless beef, bone beef, ribs, hamburgers, steaks, sausages and cold-cut products, cowhide leather, bone meal, blood and meat meal tallow, among other beef products and by-products

Revenue decreased from US\$344.1 million for the year ended December 31, 2018 to US\$298.2 million for the year ended December 31, 2019, a decrease of US\$45.8 million, or 13.3%.

The reduction is mainly due to a decrease in our exports in Paraguay for the temporary restrictions imposed on exports by us, that were regularized in October 2019. The reduction in export sales was 16.3% while there was an increase in local sales of 3.7% compared to 2018.

A total of 80,729 tons were sold during 2019, of which 72,348 tons were exported.

### Cost of Sales

Cost of sales decreased from US\$311.6 million for the year ended December 31, 2018 to US\$256.9 million for the year ended December 31, 2019, a decrease of US\$54.7 million, or 17.6%. This decrease is directly related to the decrease in total sales.

A significant portion (approximately 81.9% in the year ended December 31, 2019) of our cost of sales consists of the cost of purchasing raw materials, primarily cattle. In 2019, the average price of cattle was US\$ 2.73 per kilo.

### Gross Profit

Gross profit increase from US\$32.4 million for the year ended December 31, 2018 to US\$41.3 million for the year ended December 31, 2019, an increase of US\$8.8 million, or 27.4%. Gross margin

consolidated increase at 9.4% of total sales for the year ended December 31, 2018 to 13.8% of total sales for the year ended December 31, 2019

### Selling and Administrative Expenses

Selling and administrative expenses decreased from US\$16.1 million for the year ended December 31, 2018 to US\$15.7 million for the year ended December 31, 2019. The decrease was generally attributable to a decrease in expenses related to export and local sales by 10.6%, as sales volumes decreased between the two years. The lower operating level of 2019 led to a decrease in administrative expenses by 39.1%, in depreciation expenses by 7.2%. In salaries and other employee benefits we have an increase by 57.4% for the increase in administrative salaries.

### Operating Profit

As a result of the foregoing factors, mainly due to the decrease in the price of livestock in Paraguay, and a better efficiency in the operations operating profit increase from US\$16.2 million for the year ended December 31, 2018 to US\$ 25.5 million for the year ended December 31, 2019, an increase of US\$ 9.3 million, or 57.2%. The operating margin improves considerably from one year to the next at 8.6% and 4.7% of total sales in 2019 and 2018.

### EBITDA

Annual EBITDA increased from US\$ 19.4 million for the year December 31, 2018 to US\$ 28.5 million for the year ended December 31, 2019, an increase of 46.7% compared to the previous year. This increase is due to the improvement in the gross margin.

The EBITDA margin of 9.6% shows a strong correlation with the gross margin.

### Financial Expense, Net

The net financial result was US\$ 9.2 million for the year ended December 31, 2019, and 9.2 million for the year ended December 31, 2018. Within financial expenses, there was a decrease in interest paid of US\$1.2 million, or 15.1%, due to a decrease in the level of short-term financing as a result of the general decrease in the level of our operating activity in 2019. We had a small increase in interest paid on bonds, because in 2019 we had a local short-term issue to raise funds for operating capital. The increase in interest paid was 1.8%. The decrease in interest paid was offset in part by a decrease in other net income and expenses from US\$ 1.3 million in 2018 to US\$ 0.2 million in 2019, which was mainly attributable to a decrease in the sale of fixed assets and other income not related to the main activity.

### Income Tax Expense

Income tax increase from US\$ 0.9 million for the year ended December 31, 2018 to US\$1.7 million for the year ended December 31, 2019, an increase of 77.8%. This increase was due to the increase in result before income tax.

### Net Income

As a result of the foregoing factors, net income increase from US\$5.4 million for the year ended December 31, 2018 to US\$12.4 million for the year ended December 31, 2018, a increase of US\$7.0 million or 131.5%, This increase was mainly due to the improvement in our gross margin and the decrease in our expenses, this improvement in performance was achieved from the third quarter onwards with the decline in raw material prices and the opening of the Russian market to our main plant in Paraguay as well as the start of exports to China from the Subsidiary in Bolivia.

## **Consolidated Cash Flows**

The following table presents our cash flow data for the periods presented.

	<b>Year Ended December 31,</b>	
	<b>2,019</b>	<b>2,018</b>
	<i>(US\$ thousands)</i>	
Net cash flows from operating activities	23,914	7,212
Net cash flows used in investing activities	(464)	(2,844)
Net cash flows from used in financing activities	(21,488)	(9,928)
Exchange rate difference <sup>(1)</sup>	(1,712)	(405)
Increase in cash and cash equivalents	250	(5,964)
Cash and equivalents at the beginning of the period	1,425	7,390
<b>Cash and cash equivalents at end of the period</b>	<b>1,675</b>	<b>1,425</b>

*(1) Exchange rate difference reflects the changes in the values of our assets and liabilities due to the effect of variations in exchange rates on accounts with balances in foreign currency at the close of each accounting period, based on the exchange rates established by SET. Due to the fact that our functional currency for the financial statements is the Guaraní, and accounts receivable from foreign clients, accounts payable to foreign suppliers, financial debts and bonds in foreign currency are originally expressed in U.S. dollars, at the close of each accounting period the closing balance must be converted Guaraní based on the applicable exchange rate, which may result in a gain or loss on the income statement.*

For the year ended December 31, 2019, we had net cash flow generated from operating activities of US\$23.9 million, compared to net cash flow used in operating activities of US\$7.2 year ended December 31, 2018. In the year ended December 31, 2019 suppliers and employees were paid in an amount of US\$238.6 million, while our collections from clients in such period were US\$269.9 million.

For the year ended December 31, 2019, net cash flows used in investment activities were US\$0.4 million, compared to net cash flows used in investment activities of US\$2.8 million in the year ended.

December 31, 2018. The decrease was due to the decrease in revenue between the two years, as a result of which we had a lower level of cash to invest in 2019.

For the year ended December 31, 2019, net cash flows used in financing activities were US\$21.4 million, compared to net cash flows generated from financing activities of US\$9.9 million in the year ended December 31, 2018. The change was due to the fact that in 2019 we repaid more borrowings than we incurred, which was in turn due to the fact that financial institutions reduced their credit lines to us in 2019. Borrowings repaid in 2019 were repaid at their respective maturity dates

## Indebtedness

We have various lines of credit with first-tier banks and are not dependent on any single financial institution. We have also been successful in obtaining funding in the domestic capital markets.

The following table sets forth information on our outstanding short and long-term principal debt obligations as of December 31, 2019 and December 31, 2018:

	As at December 31, 2019	As at December 31, 2018
	<i>(US\$ thousands, except percentages and ratios)</i>	
Short-term debt	72,215	74,294
Short-term debt as a percentage of total debt	68.1%	62.9%
Long-term debt	33,751	43,858
Long-term debt as a percentage of total debt	31.9%	37.1%
<b>Total debt</b>	<b>105,966</b>	<b>118,152</b>

## Borrowings from Financial Institutions

The following table sets forth information on our outstanding financial institution debt obligations as of December 31, 2019 and 2018

	As of December 31, 2019	As of December 31, 2018	Interest rate per annum
	<i>(US\$ thousands)</i>		<i>(%)</i>
Sudameris Bank S.A.E.C.A.	32,502	30,589	9.1
Banco Continental S.A.E.C.A.	17,394	17,864	9.3
Banco Nacional de Fomento	12,610	10,890	5.8
Banco BASA S.A.	6,434	6,829	11.0
Multibank-Panama	2,918	4,008	7.8
Citibank S.A.	2,001	3,664	10.0
Interfisa S.A.	1,872	2,520	12.0
Bancop S.A.	2,318	2,505	9.8
Banco Atlas S.A.	5,464	6,200	9.5
Banco GNB Paraguay S.A.	1,121	2,315	9.5
Banco Regional S.A.E.C.A.	1,813	2,057	11.0
Finexpar S.A.	868	1,084	18.0
Banco Itapúa S.A.E.C.A.	-	2,656	10.0
Visión Banco S.A.E.C.A.	236	274	12.7
BBVA S.A.	-	979	7.5
Banco Rio S.A.E.C.A.	2,177	-	10.3
Bank overdrafts	4,765	7,989	14.0
Less: Interest not yet accrued <sup>(1)</sup>	(9,747)	(10,212)	
<b>Total borrowings from financial institutions<sup>(2)</sup></b>	<b>84,746</b>	<b>92,211</b>	

(1) Balances in table include outstanding principal plus the total interest payable through the maturity date. Interest not yet accrued has been subtracted in order to present total borrowings including accrued interest.  
 (2) Including accrued interest.

After the issue of the international bonds (January 2020), bank loans for US\$ 61.7 million were cancelled with the following banks:

Banco Sudameris S.A.E.C.A  
 Banco Continental S.A.E.C.A  
 Banco BASA S.A  
 Citibank S.A

After the payment of the loans with the issue of the international bonds, we maintain a debt with the financial system for US\$ 21.1 million

### Domestic Bonds

We have outstanding domestic bonds in several series which were issued between January 2015 and January 2019 with maturities ranging from January 2020 to May 2022. These outstanding domestic bonds include bonds denominated in Guaraníes and bonds denominated in U.S. dollars. As of December 31, 2019, the balance corresponding to issues denominated in Guaraníes was the equivalent of US\$6.5 million, of which US\$4.4 million was short term, and US\$2.1 million was long term, and the balance corresponding to issues in U.S. dollars was US\$14.3 million, of which US\$9.6 million was short term and US\$4.7 million was long term.

The following table sets forth information on our outstanding domestic bond obligations as of December 31, 2019 and December 31, 2018:

	As of December 31, 2019	As of December 31, 2018
	<i>(US\$ thousands)</i>	
<b>Current portion</b>		
Outstanding principal	14,009	6,185
Interest payable on bonds issued	1,331	2,225
Interest not yet accrued on bonds <sup>(1)</sup>	(970)	(2,156)
<b>Total current portion of bonds<sup>(2)</sup></b>	<b>14,370</b>	<b>6,254</b>
<b>Non-current portion</b>		
Outstanding principal	6,850	19,323
Interest payable on bonds issued	467	1,742
Interest not yet accrued on bonds <sup>(1)</sup>	(466)	(1,379)
<b>Total non-current portion of bonds<sup>(2)</sup></b>	<b>6,851</b>	<b>19,686</b>
<b>Total domestic bonds<sup>(2)</sup></b>	<b>21,221</b>	<b>25,940</b>

(1) Balances in table include outstanding principal plus accrued interest plus the total interest payable through the maturity date. Interest not yet accrued has been subtracted in order to present total borrowings including accrued interest.

(2) Including accrued interest.

On October 8, 2019, we issued domestic bonds in respective principal amounts of Gs. 6.5 billion and US\$1.1 million (the “October Domestic Bonds”), of which the Gs.-denominated bonds bear interest at a rate of 11.75% per annum and the US\$-denominated bonds bear interest at a rate of 7.75% per annum. The October Domestic Bonds mature on July 3, 2020. On January 6, 2020, we issued domestic bonds in respective principal amounts of Gs. 6.5 billion and US\$1.1 million (the “January Domestic Bonds” and, together with the October Domestic Bonds, the “Short-Term Domestic Bonds”), of which the Gs.-denominated bonds bear interest at a rate of 12% per annum and the US\$-denominated

bonds bear interest at a rate of 8% per annum. The January Domestic Bonds mature on September 26, 2020.

Our domestic bonds other than the Short-Term Domestic Bonds are secured by our export revenues. The Short-Term Domestic Bonds are unsecured.

With the issue of the international bonds we have paid the domestic bonds for US\$ 16.6 million, except for the Short-Term Domestic Bonds that will be cancelled when they mature.

## **Commitments and Other Contractual Obligations**

We enter into various commitments and contractual obligations that may require future cash payments. The following table summarizes the contractual obligations of Frigorífico Concepción on an consolidated basis as of December 31, 2019, showing the undiscounted cash flows of financial liabilities based on the earliest date on which we can be required to pay.

	<b>Payments Due by Period</b>				
	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1 to 3 Years</b>	<b>3 to 5 Years</b>	<b>More than 5 Years</b>
	<i>(US\$ thousands)</i>				
Operating lease payments	9,263	2,672	4,645	1,278	668
Borrowings from financial institutions <sup>(1)</sup>	76,822	50,438	11,917	11,001	3,465
Domestic bonds obligations <sup>(1)</sup>	20,859	14,009	6,850	-	-
Financial sector debt <sup>(2)</sup>	4,512	4,512	-	-	-
<b>Total contractual obligations</b>	<b>111,455</b>	<b>71,631</b>	<b>23,413</b>	<b>12,279</b>	<b>4,133</b>

(1) Amounts include repayments of principal only and do not include accrued interest.

(2) Guarantees issued by banks in favor of the Company used in the process of recovering VAT tax credit from the Ministry of Finance of Paraguay, in accordance with the normal procedure in Paraguay as stipulated in applicable tax legislation.

## **Critical Accounting Policies**

Our preparation of our consolidated financial statements in accordance with Py-GAAP generally requires our management to make certain assumptions and estimates in connection with matters relating to the value of our assets, liabilities, revenues and expenses. Our actual results may differ materially from such estimates and assumptions. We regularly revise these estimates and assumptions and any related revisions are recognized in the same period and in any future periods affected by these estimates and assumptions. Certain of our main estimates and assumptions are described below.

The main areas on which management has made estimates and assumptions that have a significant impact on the amounts recognized in the Financial Statements relate to the allowance for doubtful debts and obsolescence, depreciation and income tax charge.



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