FLASH REPORT

FEMSA (FEMSAUBD) 4Q15 RESULTS: FEMSA'S REVENUES INCREASE, BUT ACQUISITIONS AND NEW STORES HURT MARGINS

- **In 4Q15, FEMSA Comercio split its fuel and retail divisions into two separate businesses. FEMSA Consolidated reported a 27.5% increase in revenue to MXN 89.5 billion and an 8.8% increase in operating income to MXN 10.6 billion in 4Q15. Organic growth was 7.6% and 4.1%, respectively.**
- **FEMSA's Retail Division reported a 40.2% increase in 4Q15 revenues to MXN 40.4 billion, and operating income grew 32.2% to MXN 4.2 billion. Organic growth was 13.0% and 19.4%, respectively.**
- **The Retail Division continued to expand in 2015, opening 1,208 new OXXO stores and integrating Grupo Socofar. The company rotated its top talent in the beginning of 2016 to prepare for the difficulties it may face in the coming year with declining consumer demand in Brazil and the volatile foreign-exchange environment.**

Figure 1. FEMSA Comercio—Retail Division Key Metrics

	4Q15	4Q14	YoY Change
Revenue (MXN Bil.)	$40.4	$28.8	40.2%
Gross Margin	37.8%	39.2%	(135) b.p.
Operating Expenses/Sales	27.3%	28.0%	(73) b.p.
Operating Margin	10.4%	11.0%	(63) b.p.
Adjusted EPS (MXN)	$1.54	$2.03	(24.1)%

Source: Company reports and Bloomberg

4Q15 RESULTS

FEMSA Consolidated revenue growth was aided by the integration of Grupo Socofar and the addition of OXXO Gas Stations to the company's fuel division. These acquisitions, combined with higher operating costs associated with opening new stores, generated a net loss. Revenues grew 7.6% organically.

FEMSA Comercio's Retail Division increased revenues aided by the integration of Grupo Socofar, in which FEMSA made a controlling investment, and from the addition of 520 new OXXO stores.

Comps grew 8.6% for the quarter, and 6.9% for 2015 overall, reflecting a 6.0% increase in average purchase-price-per-customer and a 2.4% increase in store traffic overall.

FEMSA Consolidated's EPS increased to MXN 1.54 in the quarter, but fell short of the MXN 2.15 consensus estimate.

2015 RESULTS

In 2015, FEMSA's retail division added 1,208 new OXXO stores and reported a 6.9% increase in same-store sales. As of December 31, 2015, FEMSA Comercio's Retail

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Division had a total of 14,061 OXXO stores, along with additional drug stores. Both the Fuel Division and Coca-Cola FEMSA experienced growth in 2015 as well.

FEMSA announced that the company had celebrated its 125th anniversary, surpassed 14,000 stores, and acquired Farmacon Mexico. The company shifted its top talent within the company, making changes to its senior management team in the first days of 2016 in order to prepare for expected headwinds due to the strong dollar and the weakening Brazilian economy.

EPS for FEMSA Consolidated was MXN 5.04 in 2015 versus MXN 4.67 in the prior year.

GUIDANCE

The company expects continued growth in 2016 owing to growth across new store formats including drug stores and fuel. Mexico's consumer landscape continues to recover, and the company accordingly plans to offer more volume and options across its stores.

Consensus estimates are for revenues of MXN 355.3 billion and EPS of MXN 5.96 in 2016.

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